Department of Veterans Affairs

Office of Inspector General

MANAGEMENT LETTER: ACCURACY OF FISCAL YEAR 1998 MEDICAL FACILITY ACCOUNTS RECEIVABLE FINANCIAL INFORMATION

Continued management emphasis and oversight are needed to correct control issues over medical facility accounts receivable.

Report No. 9AF-G10-067
Date: March 31, 1999

Office of Inspector General
Washington DC 20420

DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

March 31, 1999

Memorandum to:
Chief Financial Officer, Veterans Health Administration (17)
Deputy Assistant Secretary for Finance (047)

Management Letter: Accuracy of Fiscal Year 1998 Medical Facility Accounts Receivable Financial Information, Report No. 9AF-G10-067

1. As part of our audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements for Fiscal Year (FY) 1998, we assessed the accuracy of the medical facility accounts receivable balances and evaluated internal accounting controls over medical receivables. Specifically, we compared subsidiary accounts receivable amounts to the general ledger amounts, evaluated internal controls, tested two national samples of outstanding receivables and related transactions, visited selected medical facilities, and interviewed appropriate Veterans Health Administration (VHA) and VA Central Office staff.

2. As of September 30, 1998, medical public accounts receivable totaled $909.6 million, the allowance accounts for uncollectible receivables and contractual adjustments totaled $510.0 million, and net medical receivables totaled $399.6 million. In addition, intragovernmental medical receivables totaled $41 million. The Veterans Integrated Systems Technology Architecture (VISTA) is VHA's primary hospital information system, and is used to record and track individual medical receivables at each VHA facility.

3. Historically, internal controls over medical receivables have been weak. We qualified our audit opinion on VA's FY 1997 Consolidated Financial Statements because receivable amounts in the general ledger were significantly different from the amounts of outstanding receivables in the subsidiary VISTA system files at medical facilities, and there were significant errors in estimating the collectibility of the receivables. In response to our prior audits, VHA staff made software changes and issued guidance that substantially corrected the previous errors in estimating the collectibility of receivables.

4. Our report of audit[1] of VA's FY 1998 Consolidated Financial Statements discussed reportable conditions pertaining to medical facility receivable account reconciliations and accounts receivable review and follow-up practices. The report made several recommendations for improving the account reconciliation process and accounts receivable review practices. The purpose of this report is to provide VHA and VA financial management staff details of our audit observations to facilitate initiating corrective actions.

5. Our audit of FY 1998 facility medical receivables disclosed a number of errors and internal control weaknesses. Medical receivable balances remained susceptible to significant errors because:

- An automated reconciliation process had not been implemented. Our comparison of the VISTA subsidiary file and general ledger amounts showed significant differences still exist. As of September 30, 1998, the plus and minus differences between the subsidiary records and general ledger totaled $63.6 million for VHA facilities.

- Medical facilities frequently had not reconciled accounts receivable subsidiary records to the general ledger control accounts. Our audit tests at 16 facilities showed that 5 facilities did not perform any accounts receivable reconciliations for FY 1998.

- Medical facilities did not adequately review and follow-up on long outstanding bills. Our review of 569 medical receivables disclosed a number of outstanding bills that had inaccurate balances or were no longer valid. Based on the results of our statistical sample, we estimated that receivable balances were overstated by about $64.6 million as of September 30, 1998.

6. VHA has made improvements in the process for estimating the collectibility of receivables. However, during the audit, we observed that further refinement and controls are needed over calculating the allowances for estimated uncollectibles.

7. A separate review requested by the Under Secretary for Health identified cases of improper medical billing practices that resulted in VA refunding some collections to one insurance carrier. We believe that similar improper billings for medical services could occur at other medical facilities unless controls are strengthened.

[1] "Report of Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Year 1998," Report No. 9AF-G10-062, March 10, 1999.

8. Although improvements have been made, the number of errors and internal control weaknesses noted during the audit could result in future financial statement qualifications, if they are not corrected. Details of our observations are discussed in Appendix II of this report. We believe that VHA financial managers need to continue emphasis and oversight of medical receivables to ensure facility staff:

- Reconcile subsidiary ledger VISTA medical receivable amounts with amounts recorded in the FMS general ledger each month and make appropriate adjustments.

- Follow-up and review long outstanding receivables and take action to collect, adjust, or write-off receivables, as appropriate.

- Implement procedures for calculating and recording allowances for estimated uncollectibles.

9. You are not required to provide an official response to this management letter. However, we would appreciate receiving any written comments you desire to make. We will continue to monitor and follow-up on the issues in this report during future financial statement audits.

10. We are available to provide assistance to your staff on these issues. If you wish to discuss this report or if you need additional information, please contact Mr. Jack Shigetomi at (310) 268-4336 or me at (202) 565-7013.

For the Assistant Inspector General for Auditing

(Original signed by)

John E. Jonson
Director, Financial Statement Audit
Operations Division (52CF)

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PURPOSE, BACKGROUND, AND SCOPE

PURPOSE

As part of our audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements for Fiscal Year (FY) 1998, we assessed the reasonableness of the medical facility accounts receivable balances, and evaluated internal controls over medical receivables.

BACKGROUND

Chief Financial Officers Act. The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576) requires VA to issue annual reports on its Consolidated Financial Statements. The act also requires that the financial statements be audited each year to help ensure financial data is accurate, reliable, and useful in making decisions and improving accountability.

VA Policies. VA policies state that the accounting system should provide for effective internal controls. The internal control structure should provide reasonable assurance that: (i) accounting operations and transactions are in accordance with applicable laws, regulations, and agency policies; (ii) assets are safeguarded against waste, loss, and unauthorized use; and (iii) assets, expenditures, and revenues applicable to agency operations are properly recorded and accounted for to permit accurate and reliable financial reports.

VA Financial System. The Financial Management System (FMS) is a comprehensive, agency-wide system that supports a full range of activities. The system was designed to (i) increase accounting controls, (ii) enhance internal controls, (iii) implement the standard general ledger, and (iv) comply with the Joint Financial Management Improvement Program Core Financial Systems Requirements.

Facility Accounts Receivable System. The Veterans Integrated Systems Technology Architecture (VISTA) is the successor program to the Decentralized Hospital Computer Program, and is the Veterans Health Administration's (VHA's) primary hospital information system. The VISTA/Accounts Receivable (AR) application is used to record and track individual receivables. The billing process begins when a patient receives care, or a debt is incurred. Billing documents are entered into the computer application, and after supervisory approval, a new record is added to the AR file. VISTA/AR maintains detailed records for each receivable. For Medical Care Collection Fund (MCCF) receivables, summary transactions are processed monthly through an automatic interface with FMS. These summary transactions adjust the accounts receivable amounts in the general ledger for each medical facility. FMS does

not maintain a subsidiary record of individual MCCF receivables. Other non-patient bills reside in both VISTA/AR and FMS, such as receivables from vendors, employees, and sharing agreements.

Prior Financial Statement Audits. Our prior financial statement audits have identified numerous problems with internal controls over medical facility receivables. We have noted continuing problems related to reconciling receivable general ledger balances with subsidiary records, reviewing and following up on long outstanding receivables, and calculating estimated allowances for uncollectibles. In response to our prior audits, VA has initiated corrective actions such as making application changes, issuing guidance that substantially corrected previous errors in estimating the collectibility of receivables, and having facilities prepare special account reconciliations.

Medical Receivables. As of September 30, 1998, medical public accounts receivable totaled $909.6 million, the allowance accounts for uncollectible receivables and contractual adjustments totaled $510.0 million, and net medical receivables totaled $399.6 million. In addition, intragovernmental medical receivables totaled $41 million. As of September 30, 1998, VISTA/AR had 4.5 million outstanding receivables totaling $847.6 million. Most of the medical receivables were bills to insurance carriers for medical services. Other non-patient bills include receivables from vendors, veterans, other government agencies, and employees.

SCOPE

To assess the accuracy and reliability of medical receivable balances, we compared the subsidiary accounts receivable amounts to the general ledger amounts, evaluated internal controls, reviewed two national samples of outstanding receivables and related transactions, visited selected medical facilities, and interviewed appropriate VHA and VA Central Office staff.

Analyses of Financial Information. We compared the medical receivables amount in the FMS general ledger to the amount in VISTA/AR.[2] During the audit, we provided VHA staff with the results of our comparisons.

National Samples. We statistically selected and tested two national samples of receivable transactions. The first sample consisted of 569 outstanding receivables as of September 30, 1998. The second sample consisted of 210 receivable transactions that were processed during the 4th quarter of FY 1998. For each sample item, we sent

[2] The VA Office of Inspector General developed an extract of data from the VISTA system in an attempt to reconcile amounts with the general ledger.

questionnaires to the applicable medical facility. We followed up on the medical facility responses to the questionnaires, as needed.

Medical Facility Visits. We visited 16 medical facilities to evaluate internal controls over medical receivables. The 16 facilities visited provided financial management support to 11 additional medical facilities. (See Appendix III for a list of facilities visited.) At the medical facilities, we assessed controls over receivables, allowances for uncollectible receivables, and unbilled amounts.

Central Office Visits and Contacts. We discussed medical receivable policies and procedures with applicable staff of the VHA CFO Financial Management Office, VHA MCCF Office, and VA Office of Finance.

The audit was conducted in accordance with generally accepted government auditing standards.

OBSERVATIONS

A. Medical Facility Receivable Balances Should Be Reconciled to the General Ledger

Reconciling medical receivable balances in the general ledger to subsidiary record balances has been a continuing problem. The medical receivable reconciliations are difficult to perform because the VISTA system does not automatically reconcile the individual receivable amounts to the related FMS general ledger amounts. The individual records supporting medical facility receivables are maintained in the VISTA system at each medical facility. Transactions processed to record, reduce, and adjust individual receivable records in VISTA are summarized monthly in VISTA and transmitted, in summary totals, through an automated interface to update the FMS general ledger. Under the current process, medical facility staff had to perform the reconciliations manually and frequently did not have the detail information needed to identify discrepancies. This made reconciliations difficult and time consuming.

We tested the accuracy and completeness of each medical facility accounts receivable balances by comparing the accounts receivable amount in the VISTA subsidiary files to the VA general ledger amounts. We found that the amount of medical receivables in the general ledger was significantly different from the amount of outstanding receivables in VISTA/AR system files. As of September 30, 1998, the FMS general ledger medical accounts receivable totaled $843.1 million and the VISTA facility balances totaled $847.6 million. The $4.5 million net difference represents about .5 percent of the gross general ledger balance. However, our comparison of general ledger amounts by each facility to VISTA facility totals disclosed plus and minus differences totaling about $63.6 million. We provided VHA staff with the results of our comparison. They asked 52 facilities with the largest differences (those greater than 4 percent) to analyze and determine the causes for the differences. These 52 facilities accounted for $45.6 million of the $63.6 million difference. The facility reviews identified the reasons for $39.2 million (86 percent) of the $45.6 million difference, as discussed below:

- About $5.3 million were errors in the FMS general ledger, which resulted in a net understatement of $2.7 million.

- Approximately $20.4 million were attributed to recent integration of medical facilities. In these cases, receivables in FMS for the legacy facility were combined to the host facility, but the subsidiary records had not been combined, resulting in a plus difference at one facility and an offsetting minus difference at the other facility.

- Another $13.5 million were situations where errors existed in the VISTA subsidiary records or the data extract, but the FMS general ledger account was correct. These situations included several transactions recorded into FMS that did not get recorded in the VISTA subsidiary records. For example, two collections (processed by the Online Payment and Collection system) totaling $1.9 million from another Federal agency were recorded in FMS on September 24, 1998, but were not recorded in VISTA until October 19, 1998. In other instances, (i) several transactions recorded into FMS did not get recorded in the VISTA subsidiary records, and (ii) at one facility, the data collector used in the extract did not pick up all accounts.

VA policy requires medical facilities to reconcile general ledger and subsidiary accounts each month. Our visits to seven facilities during the 1st quarter of FY 1999 showed three facilities did not perform any reconciliations and two other facilities did not perform all required reconciliations. In addition, our visits to nine facilities during the 4th quarter FY 1998 showed two facilities had not performed any account reconciliations and five other facilities had not performed all required reconciliations at the time of our visits. Complete reconciliations of VISTA subsidiary accounts receivable amounts to FMS general ledger amounts are essential to ensure that the receivable balances are complete and accurate.

During the audit, VHA MCCF staff requested automatic data processing programming support to make software changes so that the data extracted and provided for the Office of Inspector General for use in our audit analysis is refined to facilitate reconciliation of subsidiary accounts receivable amounts with the general ledger amounts. We believe that this is a step in the right direction, and urge VHA staff to continue their efforts to automate the accounts receivable reconciliation process and to emphasize to medical facilities the importance of completing monthly accounts receivable reconciliations.

B. Additional Emphasis Is Needed to Strengthen Accounts Receivable Follow-up and Review Practices

To determine the validity of individual accounts receivable, we statistically selected a sample of 569 outstanding receivables totaling $22.3 million (from a universe of 4.5 million receivables totaling $847.6 million) in VISTA/AR as of September 30, 1998. Through questionnaires, follow-up telephone calls and visits, we determined that 44 (totaling $1.6 million) of the 569 receivables reviewed had inaccurate dollar amounts or were no longer valid receivables. Based on the results of our sample, we estimated that the medical receivable balances in the general ledger were overstated by about $64.6 million. Examples of the errors are:

- A bill for $205 was prepared on December 20, 1995. Subsequently, the amount of the bill was adjusted to zero. However, on May 8, 1998, facility staff reestablished the bill for an incorrect amount of $613,074. This error occurred because the accounts receivable bill number (K613074) was inadvertently entered instead of $205. Facility staff did not adjust the bill amount to $205 until October 29, 1998. Therefore, the medical receivable general ledger amount was overstated by $612,869 as of September 30, 1998.

- Medical facility staff made two errors on a bill to a local university. VA contracted with the university for the services of a doctor to participate in a research study at $40.87 an hour. The bill, established on September 1, 1998, included 27 excess hours totaling $1,103. On September 11, 1998, facility staff incorrectly reduced the bill by $3,964 (97 hours X $40.87) in an attempt to correct for the 27 excess hours originally over billed. Facility staff did not correct the bill amount until October 5, 1998. Therefore, the year-end medical receivables general ledger amount was understated by $2,861 at the end of FY 1998.

- A veteran was erroneously billed for a Category C[3] co-payment totaling $716 for services provided during a hospital stay from January 19, 1996, through February 23, 1996. The veteran was rated 100 percent for a service-connected disability on February 28, 1996. Therefore, the veteran was exempt from any co-payment. Nevertheless, the bill was posted to the subsidiary ledger on August 8, 1996, and the veteran made a $165 payment on August 15, 1996. The $609 balance of the bill was not canceled until October 8, 1998. As a result, the FY 1998 year-end medical receivables general ledger amount was overstated by $609 as of September 30, 1998.

- An insurance carrier was billed $587 for medical services provided in 1994. The bill was referred to VA Regional Counsel who opined that the bill should have been closed on November 22, 1994. However, medical facility staff was unaware of the Regional Counsel's decision. The bill remained outstanding for 4 years, until it was closed on October 29, 1998. Therefore, the medical receivables general ledger amount was overstated by $587 as of September 30, 1998.

- A bill for $63,333 was prepared for medical care provided from March 3, 1988, through June 26, 1988. The patient expired on June 26, 1988. The bill was cancelled in the integrated billing package on September 20, 1989. However, the bill was not cancelled from VISTA/AR and FMS until November 5, 1998. Therefore, the medical receivables general ledger amount was overstated by $63,333 at the end of FY 1998.

[3] Under this category, veterans are not entitled to free medical care and are billed for co-payments.

Many of the errors found in the sample were neither detected nor corrected because medical facility staff did not adequately review and follow-up on long outstanding bills. Our reviews at 16 medical facilities showed that 11 of the facilities did not adequately review and follow-up on long outstanding accounts receivable. One of the eleven facilities did not perform any aging of accounts receivable; two other facilities did not perform any aging reviews for medical facilities for which they provided accounting support; and two other facilities had no documentation to support that any aging reviews were performed. The remaining six facilities either did not perform any aging reviews for non-MCCF receivables (three facilities) or performed limited aging reviews of non-MCCF receivables (three facilities). Adequate and timely reviews and follow-ups are needed to ensure that recorded receivable amounts are accurate, valid, and current.

C. Refinements Are Needed for Estimating Allowances for Uncollectible Receivables

To properly record amounts in the general ledger for the value of accounts receivable, adjustments are made to the accounts to estimate reductions for amounts that will not be collected (bad debts and contractual adjustments). VHA has developed guidelines to measure the reasonableness of these estimates. The accuracy of the receivables balance at each medical facility is an important component of these calculations. As previously discussed, amounts recorded at a number of medical facilities may be in error because of the lack of effective reconciliations, limited reviews, and untimely follow-ups of old receivables. Although medical facilities have improved the accuracy of estimated allowances for uncollectible receivables, we observed two areas where additional emphasis is needed:

- At 2 of the 16 facilities reviewed, allowances for contractual adjustments omitted key components. Fiscal Service staff at two facilities overlooked the unbilled workload estimate, and did not include that estimate with the accounts receivable balance in calculating the allowance for contractual adjustments. At one of the two facilities, staff also did not include any allowance amounts for its legacy station. Under these conditions, the accuracy of the allowance for the contractual adjustment is questionable.

- At two medical facilities, documentation was not available to support the calculations for the amount of the Allowance for Tort Feasor Adjustments (Account 1338). To determine the allowance for this account, facility staff should calculate the tort feasor unbilled amount. They should then multiply the calculated tort feasor unbilled amount by the write-off percentage to determine the allowance estimate. Since tort feasors usually have a high dollar value, it is important that the allowance accounts are correctly calculated and documentation is maintained.

Calculating and applying a determined write-off percentage will ensure a more reasonable collectible tort feasor amount.

D. Increased Management Attention Is Needed to Ensure Accurate Medical Service Billings

The Under Secretary for Health requested the Office of Inspector General to perform a review of medical insurance billing practices at a medical facility to determine the validity of allegations of improper billings to an insurance carrier. In a separate review, we found that the facility made improper billings and resulted in some collections refunded to the insurance carrier. Improper billings were made for:

- Medical services not documented in the medical records.
- Services incorrectly coded.
- Services involving "upcoded" bills to indicate a higher level of service than actually provided.
- Services not covered by insurance.

One of the bills in our sample to the same insurance carrier was overstated by $32,769. The bill was invalid and should not have been processed because the insurance was an indemnity policy, which does not cover payment for health care.

We believe that improper billings for medical services could occur at other medical facilities. In response to an Office of Inspector General briefing and recommendations, VHA management took immediate action to correct and prevent inappropriate billings by VHA facilities. If not corrected, improper billings could adversely impact future collections and the accuracy of the accounts receivable amounts.

E. Conclusion – Continued Management Emphasis and Oversight Are Needed to Correct Control Issues Over Medical Receivables

VHA continues to make progress in improving internal controls over medical receivables. However, our audit disclosed a number of errors and internal control weaknesses. Medical receivable balances remained susceptible to significant errors because of deficiencies in (i) reconciling medical receivables subsidiary amounts to general ledger amounts, and (ii) reviewing and following up on long outstanding receivables. We also observed that additional refinements were needed to ensure that estimated allowances for uncollectibles are correctly calculated. In addition, a separate review at one medical facility disclosed improper billings. We reaffirm the recommendations we made in our report of VA's FY 1998 Consolidated Financial Statements to (i) automate the medical receivables reconciliation process, (ii) reconcile the subsidiary and general ledger receivable accounts, and (iii) review outstanding receivables. Continued management emphasis and oversight are needed to ensure that medical receivable amounts are accurate and complete. Specifically, we suggest that VHA CFO staff increase emphasis to ensure facility staff:

- Reconcile subsidiary ledger VISTA medical receivable amounts with amounts recorded in the FMS general ledger each month, and make appropriate adjustments.

- Follow-up and review long outstanding receivables and take action to collect, adjust, or write-off receivables, as appropriate.

- Implement procedures for calculating and recording allowances for estimated uncollectibles.

FACILITIES VISITED

VAMC Atlanta, GA (508)
VA Maryland Health Care System (512/566/641)
VAMC Boston, MA (523/750)
VA Western New York Health Care System (528/513)
VA Chicago Health Care System (535/537)
VA North Texas Health Care System (549/522)
VA Greater Nebraska Health Care System (597/574)
VAMC Long Beach, CA (600)
VAMC Loma Linda, CA (605)
VA Northern Indiana Health Care System (610/569)
VAMC Memphis, TN (614)
VA Pittsburgh Health Care System (646/645)
VAMC San Francisco, CA (662)
VA Puget Sound Health Care System (663/505)
VAMC San Diego, CA (664)
VA South Texas Veterans Health Care System (671/591)

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