



Office of Internal Audit

November 10, 2017

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Dr. Calhoun,

We have completed the Medicare Bad Debts Audit that was included in our Fiscal Year (FY) 2017 Audit Plan. The objectives of this audit were to review UT Health Northeast's Medicare Bad Debt policies to determine if the policies are consistent with Medicare regulations and guidelines, and to determine if the institution's policies and procedures are adequate to ensure that UT Health Northeast receives all payments due for Medicare Bad Debts. The scope of the audit was FY 2017 (September 1, 2016 through August 31, 2017).

This audit was conducted in accordance with guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,

Stephen Ford
AVP, Chief Audit Executive

Enclosure

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Medicare Bad Debts Audit

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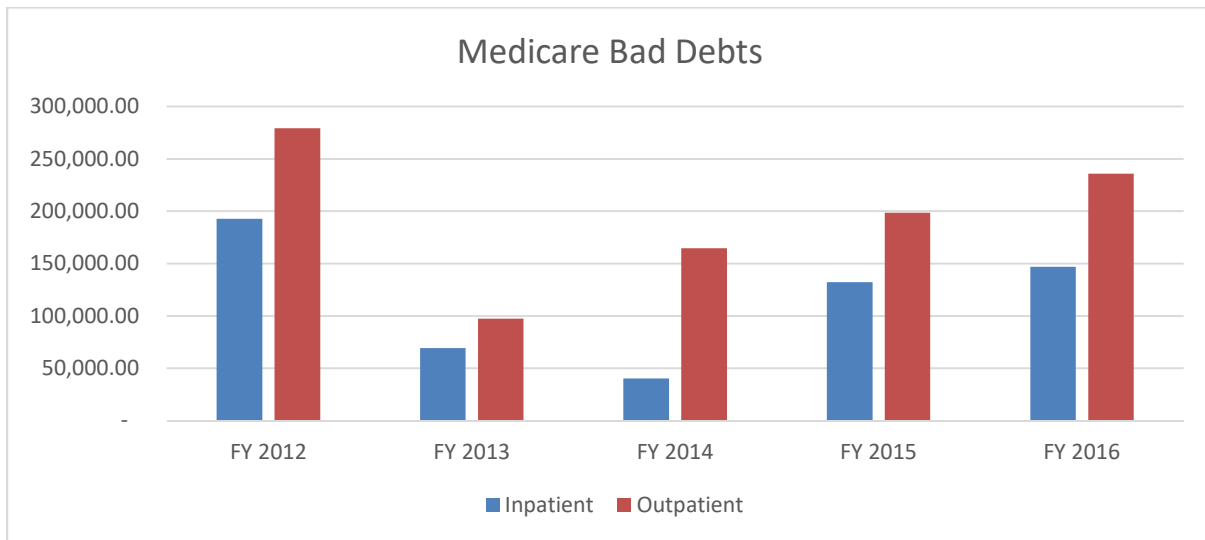
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Report

Background

This engagement was completed as part of the Fiscal Year (FY) 2017 Audit Plan, as a risk-based audit of patient revenue. This engagement was focused on Medicare Bad Debt reimbursements, with this being an area of upper-management’s interest, and where Medicare Bad Debt reimbursement amounts claimed annually have fluctuated over the past few years, indicating there could be opportunities for improving processes to ultimately increase reimbursements.

During the past 5 years the Medicare Bad Debts dollars claimed in the Medicare cost reports have ranged between \$166,780 and \$471,874 for inpatient and outpatient services combined. The lowest reimbursements in the past 5 years was in FY 2013, after UT Health Northeast (UTHNE) brought back in-house early out collections. This decreased the allowable bad debts because for many accounts the collection efforts were not deemed to meet requirements for claiming amounts in the annual cost report. Since FY 2013, the amounts claimed in the cost reports and resulting reimbursements have been trending upwards. Although there is no expected dollar amount, the goal is to claim all Medicare Bad Debts that meet the requirements. For FY 2017, UTHNE is eligible for reimbursement of 65% of the allowable unpaid coinsurance and deductibles for Medicare beneficiaries when all requirements are met for hospital inpatient and outpatient services.



Final reimbursement for allowable Medicare Bad Debts is determined at year-end through the Medicare cost report settlement. The Code of Federal Regulations (CFR) at 42 CFR 413.89 (e) defines the criteria for an allowable Medicare Bad Debt as follows:

- Debt must be related to covered services and derived from deductible and coinsurance amounts;
- Provider must be able to establish reasonable collection efforts were made;

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- 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.

Other criteria for bad debts that was relied upon included The Centers for Medicare and Medicaid Services (CMS): “The Provider Reimbursement Manual 15-1”, Chapter 3 – “Bad Debts, Charity, and Courtesy Allowances”, which includes the following key requirements:

The uncollectible Medicare deductible and coinsurance must be charged off as bad debts in the accounting period when the bad debt is determined to be worthless.

To be considered reasonable collection efforts, the provider’s effort to collect Medicare deductible and coinsurance amounts must be similar to the effort the provider puts forth to collect comparable amounts from non-Medicare patients. Timely billing standards require that:

- Providers issue the first bill within 90 days of the last processed Medicare remit;
- When secondary insurance is involved, providers must issue the first bill to the beneficiary within two (2) months of receiving the remittance advice from the secondary insurance; and
- Collection efforts should include other actions such as subsequent billings, collection letters, telephone calls or personal contacts that constitute a genuine, rather than a token, collection effort.

When a collection agency is used, Medicare expects the provider to refer all uncollected patient charges of like amounts to the agency without regard to class of patient. When a collection agency obtains payment the full amount must be credited to the patient’s account and the collection fee charged to administrative costs.

If after reasonable and customary attempts to collect a bill the debt remains unpaid more than 120 days from the date the first bill is mailed to the beneficiary, the debt may be deemed uncollectible. Any payments received from the beneficiary will re-start the 120 day uncollectible timeframe.

Objectives

The objectives of the audit were to review UTHNE’s Medicare Bad Debt policies in order to determine if the policies are consistent with Medicare regulations and guidelines, and to determine if the institution’s policies and procedures are adequate to ensure that UTHNE receives all payments due for Medicare Bad Debts.

Scope and Methodology

The scope of the audit was FY 2017 (September 1, 2016 through August 31, 2017).

To achieve the audit objectives we reviewed:

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- Applicable regulations, guidance, institutional bad debt policies and procedures, and consulted with Cost Report experts from CampbellWilson and another UT System Institution for assistance in clarifying rules;
- The Meditech query criteria for identifying unpaid coinsurance and deductibles relative to Medicare beneficiaries;
- The timing of bad debts claimed in the cost reports for appropriateness of accounting period for write-off;
- Processes for placement and return of patient files from the collection vendors; and
- Processes for referring all charges of like amount, posting payments and collection charges.

We tested a sample of 25 accounts initially identified for inclusion in the 2017 Medicare Bad Debts Log.

The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*.

Audit Results

Processes in place at UTHNE for identifying and claiming unpaid coinsurance and deductibles for Medicare beneficiaries in the annual Medicare cost report are appropriate to ensure adherence with Medicare regulations and guidelines. Current processes, which include a review of 100% of amounts included in the Medicare Bad Debts Log, help to ensure that only amounts meeting all applicable rules are included for reimbursement. However, misinterpretation of the 120 Day Rule has inappropriately excluded certain amounts that are allowable for reimbursement as long as all other requirements are met. Certain practices with collection vendors increase the risk that documentation to support reasonable collection efforts may be unavailable to support amounts claimed. Without processes in place for ensuring prompt return of accounts when requirements are met, there is an unnecessary delay in the institution's ability to claim allowable amounts for bad debts reimbursement in the annual cost report and results in non-compliance with the stipulations of the agreements with the collection vendors. Detailed issues and recommendations are listed below.

120 Day Rule

Issue #1: The Center for Medicare and Medicaid Services (CMS) "Provider Resource Manual 15-1", Section 310.2, is referred to as the 120 day rule. It provides that if after reasonable and customary attempts to collect a bill the debt remains unpaid for more than 120 days from the date the first bill is mailed to the beneficiary, the debt may be deemed uncollectible. Any payments received from the beneficiary will re-start the 120 day uncollectible timeframe. UTHNE has procedures in place for reviewing all Medicare beneficiary unpaid coinsurance and deductible amounts to be claimed for reimbursement in the annual Medicare Cost Report to ensure reasonable collection efforts have been performed for at least 120 days before including the allowable amounts for reimbursement in the Medicare Bad Debts log. For the accounts reviewed for inclusion by the Accounting Department, we did not identify any Medicare Bad Debt amounts identified for

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inclusion for reimbursement in the 2017 Medicare Cost Report that were unallowable. However, upon consultation with 3 Medicare Cost Report experts concerning the interpretation of the 120 day rule, we found that UTHNE's processes do not ensure that all allowable Medicare Bad Debt reimbursements are claimed due to misinterpretation of the 120 day rule. UTHNE currently and historically has interpreted the timeframe for the 120 day rule as the number of days between the date of the first statement to the beneficiary and the transfer of the account to the bad debt collection vendors. The correct interpretation should have been the number of days between the date the first statement was sent to the beneficiary and the date all collection efforts ceased and the amounts were deemed uncollectible and eligible for inclusion in the Medicare Bad Debts Log. The current UTHNE interpretation has inappropriately excluded the time period of collection efforts performed by the collection vendors and only included in-house collection efforts. In FY 2017, as of August 24, 2017, there were 1,111 patient accounts initially identified for exclusion due to transfer to the collection vendors in less than 120 days in which unpaid deductibles and coinsurance for Medicare beneficiaries amounted to approximately \$131,000. By excluding these accounts for review, the institution is foregoing an estimated reimbursement due of approximately \$85,000, as long as all other requirements, outside of the 120 day rule, are met.

Recommendation #1: The Sr. Executive Director of Revenue Cycle Management (RCM) Operations should collaborate with the Director of Reimbursement to revise processes for identifying Medicare Bad Debts for inclusion in the annual cost report, to include the time period of internal and external collection efforts between the date of the first statement to the beneficiary and the date that collection efforts cease and the account is deemed uncollectible.

Ranking: Medium

Management's Response: Agreed. The Sr. Executive Director of RCM Operations will collaborate with the Director of Reimbursement on the 120 day rule and ensure all managers in this area are provided training for compliance immediately.

Implementation Date: December 1, 2017

Policies and Procedures

Issue #2: Written policies and procedures provide guidance to ensure compliance with requirements, timeliness of processing, consistency in application, proper monitoring, sufficient documentation retention, and appropriate approvals. We identified the following as areas for improvement over policies and procedures:

- a. UTHNE does not have written policies to address Medicare Bad Debt requirements and processes to ensure compliance with the Centers for Medicare and Medicaid Services requirements for reimbursement of unpaid coinsurance and deductibles related to services provided to Medicare beneficiaries;
- b. Patient Financial Services (PFS) has several departmental policies and operating procedures that address certain bad debt related topics such as placement and return of files from collection agencies. However, these current departmental policies and operating procedures timeframes for returning patient accounts deemed uncollectible conflict with

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each other and with the current agreements between UTHNE and the third party collection agencies; and

- c. The Accounting Department's procedures for reviewing and approving unpaid Medicare beneficiary deductibles and coinsurance deemed uncollectible for inclusion in the Medicare Bad Debts Log are not documented.

Recommendation #2:

- a. The Sr. Executive Director of RCM Operations should collaborate with the Director of Reimbursement to develop written policies to address Medicare Bad Debt requirements and processes to ensure compliance with the CMS requirements for reimbursement of unpaid coinsurance and deductibles related to services provided to Medicare beneficiaries;
- b. The Sr. Executive Director of RCM Operations should revise and update PFS departmental policies and operating procedures that address certain bad debt related topics, such as placement and return of files from collection agencies, to ensure these policies are in agreement with other policies/procedures and the contracts with the third party collection vendors; and
- c. The Sr. Executive Director of RCM Operations should collaborate with the Director of Reimbursement to ensure procedures are documented for reviewing and approving unpaid Medicare beneficiary deductibles and coinsurance deemed uncollectible for inclusion in the Medicare Bad Debts Log.

Ranking: Medium

Management's Response: Agreed. The Sr. Executive Director of RCM Operations is currently re-working the department policies and procedures and will incorporate the recommendations into the policy. The Bad Debt policies will be incorporated into one standing policy for the PFS Department. The Director of Reimbursement's guidance will be solicited and applied.

Implementation Dates: December 1, 2017

Supporting Documentation

Issue #3: When patient accounts that have been placed with collection agencies are returned to UTHNE as uncollectible, these agencies are not routinely providing their collection notes. Collection notes are important documentation to support that reasonable collection efforts were performed. The only information included within the retrievable files when the accounts are deemed uncollectible, is the agency's first statement date and the account return date. UTHNE has in the past several years only relied upon in-house collection effort documentation to support reasonable collection efforts; however, both in-house and external collection efforts should be utilized.

Recommendation #3: To ensure adequate documentation is maintained to support the reasonableness of collection efforts made, the Sr. Executive Director of RCM Operations should

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require and ensure that the collection agencies provide their associated collection effort notes to UTHNE when the accounts are deemed uncollectible and returned to the institution.

Ranking: Medium

Management's Response: Agreed. The Sr. Executive Director of RCM Operations has discussed this with the department managers and the vendors and has amended their agreements to show we request all notes be forwarded along with accounts worked for collections.

Implementation Date: December 1, 2017

Timely Return of Accounts

Issue #4: PFS management is not enforcing the collection agency agreement stipulations which require the collection vendors to return patient files when there is no patient payment made within six (6) months. Upon review of the report (dated July 24, 2017) of patient accounts that have been placed with the collection vendors in excess of 180 days, we found that as of July 24, 2017, there were 1,016 accounts for all payers placed with the collection vendors with balances totaling approximately \$588,301. There were 764 accounts placed with FMA, with balances of \$489,431, and 252 accounts placed with PCM, with balances totaling \$98,870. Of the 1,016 accounts, there are 351 accounts in which Medicare is the primary insurance, with remaining account balances of \$67,664 comprised of unpaid patient deductibles and coinsurance amounts. These 351 accounts were transferred to the collection agencies between April 2016 and January 2017, resulting in placement with the agency between 182 - 458 days, and no patient payments have been made on these accounts in at least 6 months. The 351 patient accounts, with balances totaling approximately \$67,664, are potentially allowable for bad debts reimbursement at 65% if all CMS guidelines have been met for each account and the files are returned from these agencies as uncollectible.

Recommendation #4: The Sr. Executive Director of RCM Operations should ensure processes are implemented for enforcing the timeframe when collection vendors are required, in accordance with their agreement, to return patient accounts to UTHNE.

Ranking: Medium

Management's Response: Agreed. The Sr. Executive Director of RCM Operations has spoken with internal Information Technology staff to ensure all bad debt accounts returned are posted appropriately so we may work them. Sr. Executive Director also communicated and confirmed that all vendors are aware of the current agency agreement requirement for the timing of accounts to be held no greater than 150 days.

Implementation Date: December 1, 2017

Issue #5: PFS does not have processes in place to consistently ensure that patient accounts returned from the collection agencies as uncollectible are promptly scripted back to the institution. For some patient accounts returned to UTHNE as uncollectible, there was up to five

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(5) months between when the collection agencies placed the files on the server for pick up and the dates the files were scripted back to the institution.

Recommendation #5: The Sr. Executive Director of RCM Operations, in collaboration with the Vice President for Information Technology, should ensure processes are implemented for promptly scripting files back to UTHNE when accounts are deemed uncollectible.

Ranking: Medium

Management's Response: Agreed. The Vice President for Information Technology has already enforced this with their staff and the process of control and management of accounts returned has been built and is being reviewed for issues. Scripting back the accounts is monitored by PFS Managers and they have been instructed to monitor this monthly for compliance.

Implementation Date: December 1, 2017

Conclusion

Processes in place at UTHNE for identifying and claiming unpaid coinsurance and deductibles in the annual Medicare cost report for Medicare beneficiaries are appropriate to ensure adherence with Medicare regulations and guidelines, and procedures are appropriate for ensuring that UTHNE receives all payments due for Medicare Bad Debts, except as noted above.



Stephen Ford
AVP, Chief Audit Executive