Department of Veterans Affairs

Office of Inspector General

MANAGEMENT LETTER:

MEDICAL FACILITY RECEIVABLES

VHA significantly improved the reconciliation process, but facilities still need to strengthen their account receivable follow-up and review practices.

Report No. 99-00008-77

Date: June 1, 2000

Office of Inspector General
Washington DC 20420

Department of Veterans Affairs

Memorandum

Date: June 1, 2000

From: Director, Financial Audits Division (52CF)

Subj: Management Letter – Medical Facility Receivables (Report No. 99-00008-77)

To: Deputy Assistant Secretary for Finance (047)
Chief Financial Officer, Veterans Health Administration (17)
Under Secretary for Health (105)

1. Introduction

As part of our audit of the Department of Veterans Affairs (VA) Fiscal Year (FY) 1999 Consolidated Financial Statements (CFS), we assessed the reasonableness of the medical facility receivable account balances, evaluated internal controls over medical receivables and tested two national samples of outstanding receivables and related transactions.

Our report of audit[1] of VA's FY 1998 Consolidated Financial Statements reported significant internal control weaknesses pertaining to medical facility account receivable reconciliations and accounts receivable review and follow up practices.

Our testing of medical receivables confirmed significant improvement in reconciliations accomplished at the end of FY 1999. However, we still found weaknesses in account receivable follow-up and review practices at many facilities. These weaknesses have resulted in the following types of errors not being corrected:

- Individual accounts receivable amounts that should have been cancelled, reduced or corrected before the audit.

- Individual allowance accounts should have been adjusted and were not. Allowances were incorrect at some stations because they did not include key components in their calculation.

[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.

These errors did not cause a material misstatement on the VA's FY 1999 Consolidated Financial Statements. However, the errors reduce the reliability of facility level accounting information and could materially affect facility level financial statements and reports.

2. Background and Scope

As of September 30, 1999, the medical receivables general ledger accounts totaled $921.9 million, the allowance accounts for uncollectible receivables and contractual adjustments totaled $503.8 million, and net medical receivables totaled $418.1 million. Most medical receivables were bills to insurance carriers for medical services. Other non-patient bills include receivables from vendors, veterans, other government agencies, and employees.

The Financial Management System (FMS) is VA's core financial management system. The Veterans Integrated Systems Technology Architecture (VISTA) is the Veterans Health Administration's (VHA) primary hospital information system. VISTA/Accounts Receivable (AR) is used to record and track individual medical receivables. The billing process begins when a patient receives care. VISTA contains the detailed subsidiary records that support the FMS general ledger control accounts. Billing documents are entered in the computer, and after supervisory approval, a new record is added to the AR file. VISTA/AR maintains the detailed records for each receivable. Monthly, a summary transaction is processed through an automatic interface with FMS. The summary transaction adjusts the accounts receivable amounts in the general ledger for each medical facility. FMS does not maintain a subsidiary record of individual medical receivables. Other non-patient bills, such as receivables from vendors, reside in both VISTA/AR and FMS.

In our audit report on the FY 1998 CFS we disclosed 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 software changes, issuing guidance that substantially corrected previous errors in estimating the collectability of receivables, and having facilities prepare special account reconciliations.

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. To determine the validity of individual accounts receivable, we statistically selected a sample of 374

outstanding receivables that dated back to 1988 totaling $16.3 million (from a universe of 5.4 million receivables totaling $891.9 million) in VISTA/AR as of June 30, 1999. Through questionnaires, follow-up telephone calls and visits, we determined that 39 (totaling $1.3 million) of the 374 receivables reviewed had inaccurate dollar amounts or were no longer valid receivables.

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

3. AUDIT OBSERVATIONS

a. Changes Made By VHA During FY 1999 Enabled Facilities to Improve Their Reconciliations

Our report of audit[2] of VA's FY 1998 Consolidated Financial Statements reported significant internal control weaknesses pertaining to medical facility account receivable reconciliations. The reconciliations at VHA facilities were difficult to perform because the VISTA system does not automatically reconcile the individual receivable amounts to the related FMS general ledger control accounts. 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. Staff had to perform the reconciliations manually and frequently did not have the detailed information needed to identify discrepancies.

During Fiscal Year 1999 VHA Medical Care Collection Fund (MCCF) staff, VA system programmers, and the OIG staff, developed a software patch that, starting in August 1999, provided each facility detailed information needed to reconcile accounts receivable.

Our testing confirmed significant improvement in reconciliations accomplished at the end of FY 1999.

- Of eight facilities we tested during the 2nd and 3rd quarters FY 1999, before the software patch was installed, two facilities had not perform any reconciliations during FY 1999 and the other six facilities had not performed one or more required monthly reconciliations.

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

- In our test at six facilities after the software patch was installed, one facility had not performed reconciliations for the last two months of the FY 1999 and a second facility had not performed one required reconciliation.

Reconciliations are generally accepted accounting practices that provide important internal controls to make sure all receivables are accurately recorded in the general ledger. However, because the reconciliation process is not fully automated, it still requires significant station level effort to do the reconciliations.

Therefore, VHA CFO staff should continue efforts to emphasize to local facilities the importance to reconcile subsidiary ledger VISTA medical receivable amounts with amounts recorded in the FMS general ledger each month, and make appropriate adjustments. In addition, they should continue oversight and monitoring of reconciliations and ensure that any new financial management systems incorporate automated reconciliation capability.

b. <u>Follow-up and Review Practices</u>

Medical facilities did not adequately review and follow-up on long outstanding bills. Based on the results of our sample, we estimated that the recorded medical receivable balances in the general ledger were overstated by about $70.3 million. Of the 374 outstanding receivable sampled, 39 cases were either invalid or inaccurate.

The following 30 invalid receivables should have been cancelled, contractually adjusted or written off:

- Cases were not billable in 9 instances (3 had been outstanding between 1 and 3 years while two had been outstanding over 5 years). For example, a patient was service connected for the billed episode of care; while in another case insurance was not billable because it was a Medicare replacement policy.

- In 6 cases, staff failed to process the contractual adjustment after final payment was received (these outstanding receivables dated back to 1988). For example, one open receivable should have been contractually adjusted in 1997 when the IRS made payment on March 21,1997.

- In another 6 cases, staff failed to write off the open receivable at the appropriate time.

- In 5 cases, Fiscal Service was not informed by Regional Counsel staff that the cases were closed (3 of these had been outstanding over 5 years). Regional Counsel staff concluded that the cases were uncollectable yet did not inform

Fiscal until they inquired based on our audit. For example, an insurance carrier was billed $127,010 for medical services provided in 1997. The bill was referred to VA Regional Counsel who opined that the bill should have been closed August 13, 1998 due to a $30,000 settlement. However, medical facility staff was unaware of the Regional Counsel's decision. The bill remained outstanding until it was closed on August 13, 1999. Therefore, the medical receivables general ledger amount was overstated by $127,010 as of June 30,1999.

- In the remaining 4 cases which had been outstanding over 3 years there had been no activity in several years. For example, follow-up documentation for one bill established in November 1992 showed the most recent activity as May 1996. As a result of the audit, facility staff discovered that the insurance company had purged the records from 1992 and to resubmit would exceed the filing deadline. Thus, facility staff deemed this receivable uncollectable and decreased the full amount of $10,075.

The remaining nine inaccurate balances were caused by clerical errors and untimely contractual adjustments.

- In two cases, clerical errors were made. For example, a bill for $13,480 was prepared on July 13, 1993. Four months later, $9,670.941 was paid on the bill. Subsequently, the balance ($3,809.06) was adjusted to zero. However, on April 7, 1999, facility staff reestablished the bill amount for an incorrect amount of $380,906. This error occurred because the decimal was inadvertently omitted. Facility staff did not adjust the bill amount balance to $3,809.06 until August 17, 1999. Therefore, the medical receivable general ledger balance was overstated by $377,096.94 as of June 30, 1999.

- In two other cases, open receivable balances less than a year old were not timely contractually adjusted. For example, payment was received on May 7, 1999, but the contractual adjustment was not until August 23, 1999 (after our cut-off date of June 30, 1999).

- In the last five cases, one of which was outstanding more than 5 years, the inaccurate receivables balances were caused by the billed amount being computed incorrectly.

The errors found in the sample should have been found during medical facility review and follow-up on long outstanding bills. Our internal control tests at 14 facilities corroborated that review and follow-up on receivables were inadequate, in particular receivables that were several years old. At the 14 facilities, we tested 280 large value receivables (total $12.9 million) dating back to 1990 revealed that

50 receivables valued at $2.3 million were invalid. Also during these site visits, we found that 3 of 14 facilities did not perform any follow-up aging of accounts receivable. Three other facilities performed limited reviews; however, these reviews and follow-ups were not systematically and consistently performed. This was an improvement from last year's audit result as eleven of the sixteen facilities tested did not adequately review and follow-up on long outstanding receivables.

Adequate and timely reviews and follow-up are needed to ensure that the recorded receivable amounts are accurate, current, and valid. VHA should ensure that stations follow-up and review long outstanding receivables and take action to collect, adjust, or write-off receivables, as appropriate.

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 and tools to monitor facilities allowance estimates. One tool, the Financial Indicator Report for November 1999 showed thirty-seven (26.4%) of 140 facilities reported undesirable levels. 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 14 facilities tested, documentation was not available to support the calculations for the amount of the Allowance for Tort Feasors (Account 1338).

- At 1 of the 14 facilities reviewed, contractual adjustment allowance calculations omitted key components. Fiscal Service at this facility overlooked the unbilled workload estimate, and did not include that estimate with the accounts receivable balance in calculating the allowance for contractual adjustments.

It is important that the allowance accounts are correctly calculated and documentation is maintained. VHA should Adequate and timely reviews and follow-up are needed to ensure that the recorded receivable amounts are accurate, current, and valid. VHA should ensure that stations follow-up and review long outstanding receivables and take action to collect, adjust, or write-off receivables, as appropriate.

.

4. CONCLUSION - AREAS NEEDING CONTINUING EMPHASIS

VHA CFO staff should:

a. Continue to emphasize to local facilities the importance of reconciling subsidiary ledger VISTA medical receivable amounts with amounts recorded in the FMS general ledger each month, and make appropriate adjustments; and continue their oversight and monitoring of reconciliations and ensure that any new financial management systems incorporate automated reconciliation capability.

b. Ensure that stations follow-up and review long outstanding receivables and take action to collect, adjust, or write-off receivables, as appropriate.

c. Continue to emphasize to facilities the need to implement procedures to calculate and record allowances for estimated uncollectible amounts.

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

If you wish to discuss this report or need additional information, please contact Larry Fordham at (202) 565-5042, or me at (202) 565-7013.

For the Assistant Inspector General for Auditing

(Original signed by:)

JOHN E. JONSON
Director, Financial Audits Division

FACILITIES VISITED

VAMC Wichita, KS (452)
VAMC Albuquerque, NM (501)
VAMC Ann Arbor, MI (506)
VAMC Cincinnati, OH (539)
VAMC Durham, NC (558)
VA Central Texas Healthcare System (674/685/611)
VAMC Portland, OR (648)
VAMC Syracuse, NY (670)
VA Greater Los Angeles Healthcare System (691/665/752)
VA Central Alabama Veterans Healthcare System (619/680)
VAMC Salt Lake City, UT (660)
VAMC Washington, DC (688)
VAMC Milwaukee, WI (695)
VA Connecticut Healthcare System (689/627)

FINAL REPORT DISTRIBUTION

VA Distribution

Under Secretary for Health (105E)
Chief Network Officer (10N)
Chief Financial Officer, Veterans Health Administration (17)
Assistant Secretary for Public and Intergovernmental Affairs (002)
Assistant Secretary for Financial Management (004)
Assistant Secretary for Policy and Planning (008)
Assistant Secretary for Congressional Affairs (009)
Deputy Assistant Secretary for Finance (047)
Deputy Assistant Secretary for Congressional Affairs (60)
Deputy Assistant Secretary for Public Affairs (80)
Director, Management and Financial Reports Service (047GB)
Director, Accounting/Payroll Policy Service (047GA)
Director, Veterans Integrated Services Networks 1-22

Non-VA Distribution

General Accounting Office

This report will be available in the near future on the VA Office of Audit web site at http//www.va.gov/oig/52/reports/mainlist.htm. This report will remain on the OIG web site for 2 fiscal years after it is issued.