



Office of Inspector General

EVALUATION OF ACCOUNTS RECEIVABLE MANAGEMENT VAMC WASHINGTON, DC.

*Progress has been made in improving
the effectiveness of accounts
receivable management.*

Report No. 99-00155-66
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Office of Inspector General
Washington DC 20420



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Director VAMC Washington, DC

Evaluation of Accounts Receivable Management

1. The Office of the Inspector General (OIG) conducted an evaluation of the Department of Veterans Affairs (VA) Veterans Health Administration's (VHA) management of accounts receivable at VA Medical Center (VAMC) Washington, DC. The purpose of this evaluation was to determine the effectiveness of VHA's accounts receivable management, the appropriateness of Medical Care Collection Fund (MCCF) debt write-offs and adjustments, and to identify opportunities to enhance collections.
2. Our scope included 74,468 active accounts receivable valued at \$7.6 million as of September 30, 1998. We focused on third-party MCCF debts as well as other categories of VHA debts such as employee and vendor debts. To accomplish our objective, we analyzed VAMC Washington debt collection policies and procedures. We reviewed five samples of accounts receivable that included: (1) third-party accounts receivable as of September 30, 1998, (2) employee and vendor accounts receivable as of September 30, 1998, (3) first party accounts receivable as of September 30, 1998, (4) third-party accounts receivable established in the first quarter of Fiscal Year (FY) 1999, and (5) accounts receivable written off during FY 1998. We reviewed these debts for compliance with debt collection requirements, and propriety of decisions to write-off and adjust debts. We discussed the scope, evaluation process, and our observations throughout the site visit with VAMC Washington officials.
3. We found that management has generally made progress in improving the effectiveness of accounts receivable management. This included pursuing collection of delinquent third-party accounts with insurance carriers, contractually adjusting accounts receivable balances, and documenting accounts receivable write-offs. We identified three areas needing management attention, (i) timely billing insurance carriers, (ii) follow-up of first party accounts receivable, and (iii) enhanced collection efforts of employee and vendor debts.

4. We previously discussed these conditions with you and your staff and you agreed to take corrective actions. As a result, we are not making any formal recommendations. However, we may follow-up on the implementation of planned actions during future audits. We appreciate the assistance of your staff.

For the Assistant Inspector General for Auditing,

(Original signed by:)

THOMAS L. CARGILL, JR.
Director, Bedford Audit Operations Division

Enclosure

cc: Veterans Integrated Service Network Director (10N5)
Assistant Secretary for Financial Management (004)
Chief Financial Officer, Veterans Health Administration (17)

OBSERVATIONS

We found that management has generally made progress in improving the effectiveness of accounts receivable management. This included pursuing collection of delinquent third-party accounts with insurance carriers, contractually adjusting accounts receivable balances, and documenting accounts receivable write-offs. We identified the following three areas as needing management attention and you agreed to take corrective action.

- **Third-Party Accounts Receivable**
- **First Party Accounts Receivable**
- **Employee and Vendor Accounts Receivable**

Third-Party Accounts Receivable

MP-4, Part VIII authorizes VA to collect from third-party health insurers to offset the cost of medical care furnished to a veteran for the treatment of a nonservice-connected condition. VHA medical facilities generate bills to notify insurance carriers of accounts receivable established for patients discharged after receiving VA provided reimbursable medical care.

In order to determine the effectiveness of accounts receivable management, we reviewed two samples of third-party accounts receivable (AR). The samples included 50 third-party ARs valued at \$976,080 as of September 30, 1998 and 30 third-party ARs established in the first quarter of FY 1999 valued at \$505,409.

We found that 18 (36 percent) of 50 third-party ARs valued at \$354,489 had billing lag times ranging from 3 months to 23 months. The billing lag time was measured from date of care to date bill prepared. Collections from insurance carriers on these bills totaled only \$11,954 (3 percent). The average number of days elapsed for these bills totaled 313 days. Many of these bills were denied by insurance carriers due to the untimely billing and have been written off because of the inability to collect.

MCCF personnel stated these delays occurred due to the Autobiller function being turned off for approximately 2 years which required the manual preparation of bills.

We also reviewed a second sample of 30 third-party accounts receivable totaling \$505,409 that were established in the first quarter of FY 1999. We found the billing lag time substantially improved, ranging from 1 to 184 days, with 7 bills (23 percent) valued at \$126,632 exceeding 30 days from date of care to date bill prepared. A recent national audit of the MCCF program found that private sector hospitals took an average of 9 days to issue bills to insurance carriers.

Conclusion: We noted that MCCF staff demonstrated improvement in FY 1999 by billing insurance carriers on a more timely basis. MCCF staff should continue to reduce billing lag time to enhance collections.

First Party Accounts Receivable

First party MCCF receivables are established at all VHA medical facilities. VA refers delinquent debt over \$25 to the IRS for collection by offset of tax refunds. According to VA policy, a debt is classified as delinquent when it is unpaid for 30 days. Agencies are required to exhaust administrative collection procedures prior to referring debts to the IRS.

To determine the effectiveness of accounts receivable management, we reviewed 27 accounts valued at \$53,429. We found 13 first party debts totaling \$1,853 had not been appropriately followed-up after the issuance of 3 demand letters. Further, collection action that should have been taken included referral to the IRS for tax offset.

Conclusion: We concluded that MCCF staff need to follow-up on first party debts to include referral to the IRS for tax offset. Fiscal management indicated that corrective action would be initiated on these debts.

Employee and Vendor Accounts Receivable

VA Manual MP-4, Part VIII, Chapter 8 provides that erroneous payment of pay or allowance debts or other non-benefit debts owed by federal employees to VA and other federal agencies may be collected by offset from current salary, final salary, lump sum payment, Civil Service Retirement System or Federal Employees Retirement System. It also provides that a former government employee debt may be referred to the Internal Revenue Service (IRS) for tax refund offset collection when certain conditions are met.

Further, non-benefit debts with a balance of \$600, exclusive of interest, administrative costs, penalties and other charges, that meet the criteria for enforced collection will be referred to the U.S. Attorney in whose judicial district the debtor can be found.

To assess the collection efforts of current, ex-employee and vendor debts, we reviewed a sample of 50 accounts valued at \$259,254 as of September 30, 1998. We determined that collection efforts could be improved in 17 (34 percent) of 50 accounts reviewed totaling \$37,596. We found the reasons for these debts remaining uncollected could be attributed to the lack of knowledge of collection options available (i.e. IRS Offset, Vendor Payment Offset) and a lack of follow-up with the debtor.

Current Employees

We identified 4 debts valued at \$2,435, established due to overpayments of travel, salary, use of a government credit card, and/or the receipt of uniforms and uniform allowance. To illustrate:

- An employee, who transferred to a Florida VA facility with a salary overpayment of \$1,773.13, has no record of follow-up or of offset to recover the overpayment. Follow-up with the Florida facility is to be initiated.

Ex-Employees

We identified 9 debts, valued at \$5,797, established due to overpayments of salary; negative leave balances, uniform allowance, and/or bad checks. To illustrate:

- Three employees, left the VA with negative leave balances, incurring debts valued at \$3,969. Other than the required computer generated letters, no follow-up action had been taken.

Vendor

VA Manual MP-4, Part VIII, Chapter 11 provides for the collection of vendor debts resulting from overpayments, duplicate payments, return of merchandise, contract defaults and other activities whereby a vendor may become indebted to VA. Upon discovery of the debt a letter is sent to the vendor stating that payment must be received no later than 30 days from the date of the collection letter. Second and third follow-up letters will be sent at 30-day intervals if payment is not received unless offset is initiated.

Further, if payment is not made timely, the amount owed, plus interest and other charges will be offset from future payments owed the vendor by VA.

We identified 4 debts valued at \$29,015, established due to duplicate payments where further follow-up action had not been taken. To illustrate:

- The vendor, a subsidiary of a national corporation, received a duplicate payment creating a debt of \$18,895 in March 1997. The third computer generated letter on this account was sent in May 1997. No further actions had been taken.

Conclusion: We concluded that fiscal staff need to ensure the collection of debts owed VA by current, ex-employees and vendors through available collection options and follow-up actions. Fiscal management stated corrective action would be initiated on these debts.