Program Memorandum
Intermediaries

Department of Health and Human Services (DHHS)

HEALTH CARE FINANCING ADMINISTRATION (HCFA)

Transmittal A-00-13 **Date: MARCH 2000**

CHANGE REQUEST 1152

SUBJECT: Procedures for Financial Reporting of Medicare Letter of Credit Draws and Collections between the Hospital Insurance (HI) and Supplemental Medical Insurance (SMI) Trust Funds

IMPLEMENTATION AND INSTRUCTIONS FOR REPORTING LETTER OF CREDIT DRAWS AND COLLECTIONS

INTRODUCTION

As part of our effort to improve financial reporting, we are issuing a policy for reporting fiscal intermediary (FI) letter of credit draws and collections. This Program Memorandum will establish a standard policy to manage and report FI letter of credit draws and collections between the Hospital Insurance (HI) and Supplemental Medicare Insurance (SMI) trust funds.

Letter of credit draws and collections will be allocated between the HI and SMI trust funds. The allocation of letter of credit draws to the Medicare trust funds will be reconciled monthly for financial reporting. Collections will be applied to accounts receivables, and reconciled (if allocated) monthly for financial reporting purposes. Since letter of credit draws and collections are reported on the financial reports, HCFA has determined that a consistent process is needed to properly manage the trust fund balances. This policy will permit HCFA to more efficiently manage and monitor trust fund activity and funding needs.

The General Accounting Office, “Standards for Internal Control in the Federal Government” requires that agencies ensure that revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of trust fund assets may be maintained.

FINANCIAL REPORTING

The Medicare Intermediary Manual (MIM) instructs FIs to report letter of credit draws on the HCFA 1521 “Contractor Draws on Letter of Credit”(MIM §1410.1), HCFA 1522 “Monthly Contractor Financial Report” (MIM §1412.1) and on the H750 “Contractor Financial Reports” (MIM §1940.5: 1100 Cash). The MIM also instructs FIs to report Collections on the HCFA 1522 “Monthly Contractor Financial Report”(MIM §1412.1), as well as the H750 “Contractor Financial Reports”(MIM §1940.5: 1100 Cash), and the H751 “Status of Accounts Receivable” (MIM § 1935.4). However, because HCFA has not issued specific instructions in this area, contractors have adopted different methodologies that in some cases have lead to incorrect reporting on Contractor Financial Reports.

Letter of Credit Draws

If the FI can identify the actual payments related to the letter of credit draws, then the actual letter of credit draws should be reported using the actual amounts allocable to HI and/or SMI. HCFA recognizes that in some instances the FI cannot readily associate the letter of credit draws with the actual benefit payments. If the FI cannot readily identify the actual payments related to the letter of credit draws and this protocol is utilized, the FI must reconcile the reporting of letter of credit draws when the FI performs its monthly bank reconciliation.

Report letter of credit draws allocable for Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) activities based on the results of the calculation below. Prorate letter of credit draws based on a 12-month rolling average as reported on the **HCFA – 1522 Monthly Contractor Financial Report**, using **Column D, Funds Expended,** for HI (Part A) and SMI (Part B). Calculate the allocation percentages monthly as follows:

Line 1. Hospital Insurance Benefits		XX	(A)
Plus Line 2. Supplementary Medical Insurance Benefits		+ XXX	(B)
Equals Total HI & SMI Funds Expended		XXX	(C)
Percentage Allocable to HI (Part A):	(A) ÷ (C)		AA%
Percentage Allocable to SMI (Part B):	(B) ÷ (C)		BB%
			100%

The FI should report letter of credit draws between the HI & SMI trust funds in accordance with these calculated percentages.

B. Collections

In accordance with the MIM §2220.4 "Timely Deposit of Overpayment Refund Checks," funds must be deposited within 24 hours of receipt. If circumstances occur where checks are received and cannot be deposited until the next business day, Medicare Contractors are required to have an established system of internal controls to safeguard Medicare assets from waste, fraud and abuse.

The FI must apply all collections against the appropriate outstanding accounts receivable balance. HCFA recognizes that in some instances the FI cannot readily associate the collection with the specific accounts receivable. In these instances, the FI must use the allocation protocol provided in this program memorandum. In accordance with the Instructions for Completing the HCFA-750A/B, Contractor Financial Reports, the FI must report all unapplied collections on the H750 as "Other Liabilities" (see MIM §1940.5: 2990.01.99 Other.) If the FI can identify the actual account(s) receivable for the collection received, then the collection should be reported using the actual amount(s) allocable to HI and/or SMI. In instances where the FI cannot readily identify the appropriate account(s) receivable and this protocol is utilized, the FI must research and reconcile the reporting of collections within 30 days of deposit.

The following protocol provides a standard method to be incorporated into fiscal intermediaries' financial management operations and reporting policies and procedures.

STEP 1:
Instructions/protocol for Prorating Fiscal Intermediary Collections/Receipts between the HI (Medicare Part A) and the SMI (Medicare Part B) Trust Funds (Based on Total Funds Expended)

Report collections allocable for Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) activities based on the results of the calculation below. Prorate collections based on a 12-month rolling average as reported on the **HCFA – 1522 Monthly Contractor Financial Report**, using **Column D, Funds Expended,** for HI (Part A) and SMI (Part B). Calculate the allocation percentages monthly as follows:

Line 1. Hospital Insurance Benefits		XX	(A)
Plus Line 2. Supplementary Medical Insurance Benefits		+ XXX	(B)
Equals Total HI & SMI Funds Expended		XXX	(C)
Percentage Allocable to HI (Part A):	(A) ÷ (C)		AA%
Percentage Allocable to SMI (Part B):	(B) ÷ (C)		BB%
			100%

The FI should report monies collected between the HI & SMI trust funds in accordance with these calculated percentages.

STEP 2:
Total deposit * AA% = HI deposit recorded in the Cash section, Benefits Account Line of the H750– HI (Part A)

Total deposit * BB% = SMI deposit recorded in the Cash section, Benefits Account Line of the H750– SMI (Part B)

These amounts should also be included in the value reported in Line 16B (Other Deposits) of the HCFA 1522.

STEP 3:
The FI should then apply all collections against the appropriate outstanding account(s) receivable balances. The FI must ensure that all collections are researched timely (within 30 days).

FI must report all unapplied collections on the H750 as "Other Liabilities," during this 30-day time frame.

STEP 4:
The FI must then reconcile and adjust the initial collection allocation (Step 2) to the actual application of funds collected to the related outstanding account(s) receivable (Step 3) on a monthly basis. This adjustment will be included in the value reported in the Cash section, Benefits Account Line of the H750, as a net value of current cash collections +/- adjustments to accurately report the actual amounts collected for Part A and Part B. The contractor must be able to provide detailed auditable support for each quarter's reporting. The contractor must be able to differentiate between actual deposits and adjustments as described above.

Additionally, the actual amounts applied to related accounts receivable as prescribed in Step 3, must also be reported on Line 4 of the H751 – Status of Accounts Receivable (HI & SMI).

The *effective date* for this Program Memorandum (PM) is March 31, 2000.

The *implementation date* for this PM is March 31, 2000.

These instructions should be implemented within your current operating budget.

This PM may be discarded after March 31, 2001.

If you have any questions, contact Maria Montilla on (410) 786-7109 or Mary Carole Anske on (410) 786-5415.