Memorandum

Date MAY 28 1993

From Bryan B. Mitchell
Principal Deputy Inspector General

Subject Review of Medicare Credit Balances--Blue Cross Blue Shield of Maryland (A-03-92-00007)

To William Toby, Jr.
Acting Administrator
Health Care Financing Administration

This memorandum alerts you to the issuance on June 2, 1993, of our final audit report. A copy is attached.

The report summarizes the results of our review of Medicare accounts receivable with credit balances at eight hospitals serviced by Blue Cross Blue Shield of Maryland (BCBSM). Our objectives were to: (1) determine if hospitals were reviewing Medicare accounts receivable with credit balances and refunding identified Medicare overpayments to BCBSM and (2) evaluate BCBSM's monitoring of hospitals' procedures for refunding Medicare overpayments.

Our review showed that hospitals were not routinely reviewing Medicare credit balance accounts to identify Medicare overpayments that should be refunded to BCBSM. As a result, we estimate that the eight hospitals received and retained Medicare overpayments of $1,323,071. Projecting the results to 39 of the 40 hospitals serviced by BCBSM, we estimate that the 39 hospitals received and retained Medicare overpayments of $6,908,403.

Our review also identified certain weaknesses in BCBSM's monitoring of hospitals' procedures for refunding Medicare overpayments included in credit balance accounts. The most serious of these weaknesses related to BCBSM's audit policies and procedures. The BCBSM did not require its auditors to evaluate hospitals' policies and procedures for reviewing Medicare credit balances, nor were auditors required to follow up on the recovery of identified Medicare overpayments other than those involving Medicare secondary payor issues. This policy effectively excluded from BCBSM's follow-up review 77 percent ($5.3 million) of the overpayments identified in our review.

The Health Care Financing Administration (HCFA) has recognized the need for improvements at both hospitals and intermediaries. Effective June 30, 1992, hospitals are

required to report all Medicare credit balances quarterly to their intermediary. Using these quarterly reports, intermediaries will be able to identify and track all Medicare overpayments and ensure that all Medicare overpayments are recovered from the hospitals. We believe that HCFA's reporting requirements should lead to significant improvements in the recovery of Medicare overpayments, but only if hospitals fully implement them and intermediaries closely monitor the implementation.

We have issued individual audit reports to each of the eight hospitals included in this review. As appropriate, we have recommended procedural improvements aimed at ensuring that the hospitals review Medicare credit balances timely and refund all Medicare overpayments to BCBSM. We have also recommended that the eight hospitals refund to BCBSM $1,323,071 in Medicare overpayments that we identified during our field reviews.

In this report, we recommended that BCBSM expand its audit coverage to ensure that hospitals comply with HCFA's reporting requirements, and identify and repay all Medicare overpayments. We also recommended that BCBSM require the eight hospitals identified in our review to refund Medicare overpayments totaling $1,323,071, and monitor the reporting of overpayments by the other hospitals.

In a response to our draft report, dated November 13, 1992, BCBSM described the actions taken in response to our audit recommendations. We believe these actions, coupled with HCFA's credit balance reporting requirements, will improve BCBSM's controls over Medicare overpayments to hospitals. In this regard, we noted that the hospitals serviced by BCBSM reported $10.6 million of Medicare overpayments as of the September 30, 1992 reporting period.

For further information, contact:

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Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF MEDICARE CREDIT BALANCES BLUE CROSS BLUE SHIELD OF MARYLAND

MAY 1993 A-03-92-00007

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SUMMARY

We have completed our review of Medicare accounts receivable with credit balances at 8 of the 40[1] hospitals serviced by Blue Cross Blue Shield of Maryland (BCBSM) of Timonium, Maryland. Our primary objective was to determine if hospitals were reviewing Medicare accounts receivable with credit balances (hereafter referred to as Medicare credit balance accounts), and refunding identified Medicare overpayments to BCBSM. Our secondary objective was to evaluate BCBSM's monitoring of hospitals' procedures for refunding Medicare overpayments.

Our review showed that hospitals were not routinely reviewing Medicare credit balance accounts to identify Medicare overpayments that should be refunded to BCBSM. As a result, we estimate that the eight hospitals (Appendix A) received and retained Medicare overpayments (inpatient and outpatient) of $1,323,071. Projecting the results to 39 hospitals serviced by BCBSM, we estimate that the 39 hospitals received and retained Medicare overpayments of $6,908,403 (Appendix B).

Hospitals in our sample retained Medicare overpayments an average of 449 days for outpatient services and 386 days for inpatient services from the establishment of the credit balance to the close of our reviews.

There appears to be no valid reason why the hospitals did not routinely review all of their Medicare credit balance accounts to identify Medicare overpayments. The number of these accounts--3 of the 8 hospitals had less than 100 credit balance accounts--indicates that the workload was not excessive. The projected amount of Medicare overpayments involved--estimated at over $6.9 million--indicates that such reviews are warranted.

We have issued audit reports to the eight hospitals included in our review. As appropriate, we have recommended procedural improvements aimed at ensuring that Medicare credit balances are reviewed timely and that all Medicare overpayments are refunded to BCBSM. We have also recommended that the eight hospitals refund to BCBSM $1,323,071 in Medicare overpayments that we identified during our field reviews.

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[1] A review of Medicare credit balances was also performed at Georgetown University Hospital, Washington, D.C. That review was performed outside of the sample and the results will be reported separately to BCBSM. Therefore, the results of our review at the 8 hospitals were projected to 39 of the 40 hospitals serviced by BCBSM.

In this report, we summarize the results of our review at the eight hospitals and point out a need for BCBSM to improve its monitoring of hospitals' procedures for refunding Medicare overpayments. While hospitals are primarily responsible for refunding Medicare overpayments to their intermediary, BCBSM shares in this responsibility to the extent that it is responsible for ensuring that hospitals comply with Medicare guidelines, identify Medicare overpayments, and refund the overpayments.

The BCBSM needs to improve its oversight procedures over hospitals' handling of Medicare credit balances.

Our review identified certain weaknesses in BCBSM's processing of overpayment notifications prepared by hospitals. As a result, seven of the eight hospitals had reported overpayments but were not successful in their efforts to refund them to BCBSM in a timely manner.

We also identified certain weaknesses in BCBSM's audit policies and procedures. During hospital audits, BCBSM auditors were required to sample credit balance accounts and obtain an explanation of the credit balances. The auditors were not required to evaluate the hospitals' policies and procedures for reviewing Medicare credit balances, nor was there any follow-up of identified Medicare overpayments other than those involving Medicare Secondary Payor (MSP) issues. This policy, in effect, excluded from follow-up the majority of overpayments since about $5.3 million (77 percent) of the overpayments identified in this review were not related to MSP issues.

The Health Care Financing Administration (HCFA) has recognized the need for improvements at both hospitals and intermediaries. Effective June 30, 1992, hospitals are required to report all Medicare credit balances quarterly to their intermediary. Using these quarterly reports, intermediaries will be able to identify and track all Medicare overpayments and ensure that all Medicare overpayments are recovered from the hospitals. We believe that HCFA's reporting requirements should lead to significant improvements in the recovery of Medicare overpayments, but only if hospitals fully implement them and intermediaries closely monitor the implementation.

We are, therefore, recommending that BCBSM expand its audit coverage to ensure hospitals' compliance with HCFA's reporting requirements and the identification and repayment of all Medicare overpayments. We are also recommending that BCBSM require the eight hospitals identified in our review to refund Medicare overpayments totaling $1,323,071, and monitor the reporting of overpayments by the other hospitals that it serves.

INTRODUCTION

BACKGROUND

The Health Insurance for the Aged and Disabled program (Medicare), Title XVIII of the Social Security Act, provides for a hospital insurance program (Part A) and a related medical insurance program (Part B) to eligible beneficiaries. The Health Care Financing Administration (HCFA) administers the Medicare program at the Federal level. Under an agreement with the Secretary of the Department of Health and Human Services (HHS), Blue Cross Association (BCA) participates in the administration of the Medicare Part A program. Blue Cross Blue Shield of Maryland (BCBSM), under a sub-contract with BCA, is responsible for the receipt, review, audit, and payment of Medicare Part A claims submitted by the providers it services.

The BCBSM services 40 hospitals in Maryland and the District of Columbia and reimburses these hospitals for both inpatient and outpatient services provided to Medicare beneficiaries. One of BCBSM's responsibilities is to identify and collect Medicare overpayments made to these 40 hospitals.

A credit balance in a Medicare account receivable occurs when a hospital records a higher reimbursement than the amount charged for a specific Medicare beneficiary. A credit balance in a Medicare account receivable does not necessarily mean that a Medicare overpayment has occurred.

Hospitals must review each Medicare credit balance account to identify an overpayment for refund to the intermediary.

Some Medicare credit balances result from accounting errors and errors in calculating coinsurance amounts. In these instances, a Medicare overpayment is unlikely to have occurred. Other Medicare credit balances result from duplicate payments made by an intermediary, from payments made by an intermediary and another insurer for the same service provided to the same patient, and from payment made for an anticipated service that was not actually provided. In these cases, a Medicare overpayment exists and should be refunded to the intermediary. Since BCBSM is responsible for identifying overpayments, it also shares responsibility with hospitals for ensuring that Medicare credit balances caused by Medicare overpayments are refunded to the Medicare program.

SCOPE OF AUDIT

Our audit was made in accordance with generally accepted government auditing standards. Our primary objective was to

At BCBSM our review was limited to evaluating its monitoring of hospitals' procedures for refunding Medicare overpayments that were included in Medicare credit balance accounts. We reviewed BCBSM's procedures for receipt and control of hospitals' notification of overpayments and attempted to trace some of the notifications allegedly sent by the hospitals to BCBSM. We also reviewed BCBSM's hospital audit policies and procedures regarding the review of Medicare credit balances.

Other than the issues discussed in the FINDINGS AND RECOMMENDATIONS section of this report, we found no instances of noncompliance with applicable laws and regulations. With respect to those items not tested, nothing came to our attention to cause us to believe that the untested items were not in compliance with applicable laws and regulations.

Our field work was performed at the eight hospitals and at BCBSM from May 1991 to February 1992.

FINDINGS AND RECOMMENDATIONS

MEDICARE OVERPAYMENTS IN HOSPITAL CREDIT BALANCE ACCOUNTS

Hospitals serviced by BCBSM kept an estimated $6.9 million in Medicare overpayments.

Based on the results of our review at 8 hospitals, we estimate that 39 hospitals serviced by BCBSM kept $6,908,403 in Medicare overpayments. There were two primary reasons why these overpayments were not refunded to BCBSM. One, the hospitals did not routinely review Medicare credit balances to identify overpayments for refund to BCBSM. Two, the hospitals attempted to refund some overpayments but BCBSM did not respond timely, thus allowing the hospitals to retain the overpayments.

The BCBSM services 40 Medicare participating hospitals. We reviewed eight of the hospitals to determine if they were reviewing Medicare credit balances timely and refunding overpayments to BCBSM. The summary results of our review are shown below.

MEDICARE OVERPAYMENTS NOT REFUNDED

Hospitals	Number Reviewed	Overpayments Number	Overpayments Amount
Johns Hopkins Hospital	202	70	$ 563,684
Harbor Hospital	162	97	266,163
Washington Hospital Ctr.	154	51	166,857
Liberty Medical Center	122	65	157,910
Washington Cty Hospital	96	35	63,593
Frederick Mem. Hospital	130	31	60,261
Suburban Hospital	88	35	36,433
Anne Arundel Medical Ctr.	53	12	8,170
Total	1,007	396[1]	$1,323,071

As shown above, all eight hospitals had overpayments totaling $1,323,071 that were not refunded to BCBSM. The overpayments

[1] The $1,323,071 is the amount of the projected overpayment. The overpayment associated with the 396 cases amounted to $1,184,424. This was the amount used to project the overpayment to the universe.

determine if hospitals serviced by BCBSM were reviewing Medicare credit balances to identify Medicare overpayments, and refunding the overpayments to BCBSM. A secondary objective was to evaluate BCBSM's monitoring of hospitals' procedures for refunding Medicare overpayments.

We randomly selected 8 of 39 hospitals serviced by BCBSM (Appendix A) so that we could statistically project the results of our review to the 39 hospitals. As mentioned previously, one hospital serviced by BCBSM was not included in this review and will be reported on separately.

The hospitals generally categorized credit balances first by the type of service provided, that is, outpatient and inpatient service, and then by the reimbursement sources, that is, Medicare, Medicaid and commercial insurance. We limited our review to Medicare credit balances. We reviewed the credit balances to determine if Medicare overpayments had occurred that were not refunded to BCBSM. We did this through use of such records as credit balance runs, patient files, remittance advice, hospital payment histories and BCBSM's payment histories.

We independently reviewed both Medicare inpatient and outpatient credit balance accounts at each of the eight hospitals. We limited our review to inpatient accounts which exceeded $1,000 and outpatient accounts which exceeded $100.

At the 3 hospitals where the universe of Medicare inpatient and/or outpatient credit balances was less than 100 accounts, we reviewed all Medicare credit balances. At the 5 hospitals where the universe of Medicare inpatient and/or outpatient credit balances exceeded 100 accounts, we randomly selected 100 accounts for review and projected the results to the hospitals' universe of Medicare inpatient and/or outpatient credit balances using standard Office of Audit Services software programs. Using the same software programs, we projected the results of our reviews at the 8 randomly selected hospitals to 39 hospitals serviced by BCBSM (Appendix B).

Our review was limited to Medicare credit balances recorded on the hospitals' accounting records. We did not review the hospitals' policies and procedures for establishing credit balances, for identifying primary insurers, or for processing Medicare claims to the intermediary. We also did not review either the hospitals' or BCBSM's compliance with HCFA's reporting requirements for Medicare credit balances. These requirements became effective after the close of our reviews. We have issued audit reports to the eight hospitals included in this review.

were associated with both inpatient accounts (142 of the 308 inpatient accounts reviewed had overpayments) and outpatient accounts (254 of the 699 outpatient accounts reviewed had overpayments). Projecting the results of our reviews at the eight randomly selected hospitals to 39 Medicare participating hospitals serviced by BCBSM, we estimate that the hospitals retained $6,908,403 in Medicare overpayments.

Causes for Medicare Overpayments

We determined the causes for the 396 Medicare overpayments that we identified at the 8 hospitals. For the most part, the causes for the overpayments were generally traceable to hospitals' billing practices.

CAUSES OF OVERPAYMENTS

- $3,665,397 in duplicate billing
- $1,615,105 for services reimbursed by a primary insurer
- $893,854 for services not performed
- $734,047 for various errors

As shown below, about 89 percent of the overpayments were caused by hospitals: (1) submitting duplicate bills to BCBSM; (2) billing Medicare and a primary insurer for the same service and keeping both payments; and (3) billing Medicare for services not performed. The remaining 11 percent of the overpayments were caused by miscellaneous errors.

Duplicate Billing of Services

We determined that 207 of the 396 overpayments resulted from hospitals billing Medicare twice for the same service. We reviewed BCBSM and hospital records applicable to the 207 duplicate payments to determine why BCBSM did not detect the duplicate claims. We were able to determine the cause for 188 of the 207 duplicate payments as follows:

- 67 duplicate payments resulted from hospitals submitting claims for individual services and then resubmitting the same claim for all services received by the Medicare beneficiary during a given period of time such as a week or month.

- 54 duplicate payments resulted from hospitals submitting claims for an outpatient service that was also included in a beneficiary's inpatient claim. Medicare regulations require that any outpatient

service performed within 72 hours (within 24 hours prior to February 1991) of an inpatient admission is to be included as part of inpatient services.

- 52 duplicate payments resulted from hospitals submitting duplicate claims using different health insurance claim numbers, revenue codes and charges, or service dates for the same service.

- 15 duplicate payments resulted from BCBSM processing incorrect charge adjustments.

We were not able to determine a cause for 19 of the duplicate payments. However, our review of BCBSM payment histories showed that some of the duplicate payments were paid without the claims being subject to processing edits. According to BCBSM officials, claims processing problems were encountered that sometimes identified legitimate first time claims as duplicates, thereby denying payment. To remedy this problem, BCBSM periodically released duplicate claims through the processing system without subjecting the claims to the systems duplicate edits. As a result, some claims were allowed to process that should have been denied as duplicates.

Projecting the results of our review at 8 hospitals to 39 hospitals serviced by BCBSM, we estimate that, as of the close of our hospital audits, the hospitals had kept Medicare overpayments totaling $3,665,397 ($2,511,044 inpatient; $1,154,353 outpatient) that resulted from their submitting duplicate claims that went undetected by BCBSM. This error accounts for about 53 percent of the estimated overpayments.

Services Reimbursed by Another Insurer

We determined that 108 of the 396 overpayments resulted from hospitals billing Medicare and a primary commercial insurer for the same service, receiving payment from both, and keeping the Medicare overpayment. The provisions of the Medicare Secondary Payer (MSP) program state that Medicare will not reimburse for services if the services are covered by another insurer. The hospitals established a credit balance for the excess reimbursements but did not refund them to BCBSM as of the close of our hospital audits.

Projecting the results of our review to 39 hospitals, we estimate that, as of the close of our hospital audits, hospitals had kept Medicare overpayments totaling $1,615,105 ($1,326,600 inpatient; $288,505 outpatient) that resulted from billing Medicare and a primary commercial insurer. This error accounts for about 23 percent of the estimated overpayments.

Services Not Performed

We determined that 22 of the 396 overpayments resulted from hospitals billing for services not performed. Usually this occurred when hospitals anticipated that a service would be performed but was not because of some unforeseen circumstance. Subsequent to submitting the claims to BCBSM, the hospitals became aware that the service was not performed and canceled the charges. Since the Medicare reimbursements exceeded the hospitals' charges, the hospitals established Medicare credit balances but did not refund the overpayments to BCBSM as of the close of our hospital audits.

Projecting the results of our review to 39 hospitals, we estimate that, as of the close of our hospital audits, hospitals had kept Medicare overpayments totaling $893,854 ($832,993 inpatient; $60,861 outpatient) that resulted from billing Medicare for services not performed. This error accounts for about 13 percent of the estimated overpayments.

Miscellaneous

We determined that 59 of the 396 overpayments were caused by various errors. These errors included 25 overpayments related to accounts for which the hospitals did not maintain sufficient documentation to determine if an overpayment occurred. In accordance with acceptable statistical procedures, we considered these accounts as overpayments using the average overpayment of all cases in the sample. The remaining 34 overpayments were the result of payment errors by BCBSM.

Projecting the results of our review to 39 hospitals, we estimate that, as of the close of our hospital audits, hospitals had kept Medicare overpayments totaling $734,047 ($574,912 inpatient; $159,135 outpatient) that resulted from miscellaneous errors. These errors account for about 11 percent of the estimated overpayments.

Causes of Overpayments Not Being Recovered

The 396 overpayments that we identified in our review were recorded on the hospitals' accounting records an average of 449 days for outpatient services, and 386 days for inpatient services as of the close of our review. We determined that there were two primary reasons why Medicare overpayments were not refunded to BCBSM timely.

The most prevalent reason was that the hospitals did not identify the Medicare overpayments, generally because they were not routinely reviewing Medicare credit balance accounts.

Consequently the hospitals could not notify BCBSM of the overpayments and request that refund action be initiated. We determined that the hospitals had not identified at least 287 of the 396 overpayments as of the close of our hospital audits.

The second reason was that BCBSM did not respond timely to hospitals' notifications of overpayments. During the period of our review, hospitals were required to manually submit withdrawal requests that revised the original claim in order to repay a Medicare overpayment. We were able to determine that 7 of the 8 hospitals had prepared such requests for 109 of the 396 overpayments, but that BCBSM had not recovered the overpayments prior to the close of our hospital audits.

We judgementally selected 45 of the 109 withdrawal requests and attempted to determine why BCBSM had not recovered the overpayments. We were able to trace only 21 of the 45 requests to BCBSM. The BCBSM did not maintain an inventory of withdrawal requests nor did it record the withdrawal requests that were returned to the hospital for additional information. As a result, we could not determine if BCBSM had received the 24 withdrawal requests that were prepared by the hospitals but unaccounted for at BCBSM. In the same vein, BCBSM had no assurance that withdrawal requests received from hospitals were properly accounted for and processed to recover Medicare overpayments.

With regard to the 21 withdrawal notices that we traced to BCBSM, we determined that BCBSM eventually recovered 19 of the overpayments from the hospitals (2 recoveries were still in process). In every case, the recovery was after the close of our hospital audits and, on average, required 215 days from the date of the withdrawal notice to recovery of the overpayment.

Contributing to the significant amount of Medicare overpayments not being refunded was BCBSM's limited monitoring of hospital credit balances during its field audits of hospital Medicare cost reports. The BCBSM does not audit every hospital every year. Therefore, the audit process itself cannot be relied upon to detect all Medicare overpayments that were not refunded by the hospitals. Nevertheless, periodic audits can provide a degree of assurance that hospitals have, at the very least, procedures to review Medicare credit balance accounts to identify overpayments. Additional testing could determine if these procedures were being complied with.

During their field reviews of Medicare cost reports, BCBSM auditors were instructed to obtain the current listing of Medicare credit balance accounts, take a representative sample of these accounts and obtain an explanation for the credit balance. The results were then forwarded to the MSP section for resolution. We were informed by BCBSM personnel staff that

if an overpayment did not involve MSP related matters, no further action was taken to ensure that the overpayment was refunded by the hospital.

In our opinion, BCBSM's audit process needed improvement in two areas. One, BCBSM's audit program did not include a review of hospital procedures for reviewing Medicare credit balance accounts. Thus, auditors may not have become aware that hospitals were not routinely reviewing these accounts. Two, BCBSM followed up only on MSP related overpayments. Based on the results of our review, BCBSM's policy would exclude from follow up Medicare overpayments of about $5.3 million, or 77 percent of the overpayments that we identified. In other words, recovery of the $5.3 million would be left up to the hospitals and, as we have shown in this report, hospitals did not always identify all Medicare overpayments.

Conclusions and Recommendations

Based on our review of 8 hospitals, we believe that the majority of the 39 hospitals serviced by BCBSM did not generally review all Medicare credit balances to identify overpayments for refund to BCBSM. As a result, the hospitals kept Medicare overpayments estimated at over $6.9 million rather than refund them to BCBSM.

We have issued individual audit reports to the eight hospitals included in this review. As warranted, we have made appropriate procedural recommendations aimed at ensuring timely refunds of Medicare overpayments. We have also recommended that 8 hospitals refund $1,323,071 to BCBSM. The hospitals that responded to our reports agreed with our findings and recommendations, and agreed to take the necessary corrective action.

We believe that additional action is also needed on the part of BCBSM if all Medicare overpayments are to be identified and refunded timely. The BCBSM did not specifically review hospitals' policies and procedures on Medicare credit balances during hospital audits, and did not follow up on all Medicare credit balances that were selected for review during these audits.

The HCFA also recognized the need for procedural improvements at both hospitals and intermediaries. As a result, HCFA has established quarterly reporting requirements for Medicare credit balances. Effective June 30, 1992, each hospital is required to submit to its intermediary a quarterly listing of all Medicare credit balances involving Medicare overpayments. Hospitals can also submit refunds directly to BCBSM which must reconcile them quarterly. The implementation of HCFA's

quarterly reporting requirements should, in our opinion, lead to significant improvements in the recovery of Medicare overpayments, but only if hospitals fully implement them and intermediaries closely monitor the implementation.

We, therefore, recommend that BCBSM:

1. Expand its hospital audit coverage to include an evaluation of the hospitals' compliance with HCFA reporting requirements. Credit balances should be reviewed to determine if the hospitals identified all Medicare overpayments and made timely repayment.

2. Require the eight hospitals identified in our review to refund Medicare overpayments totaling $1,323,071.

3. Monitor the reporting of Medicare credit balances at the 31 other hospitals included in our review. We estimate the overpayments at these hospitals should amount to approximately $5.6 million. ($6.9 million for 39 hospitals minus $1.3 million for 8 hospitals).

BCBSM Response and Office of Audit Services Comments

The BCBSM responded to the recommendations in our draft report and provided other comments (Appendix C). The BCBSM stated that HCFA's reporting requirements will force hospitals to review their credit balances timely and refund monies owed to the Medicare program. In compliance with HCFA's credit balance reporting requirements, BCBSM's audit staff will render limited reviews of the hospitals' credit balance reports to assess provider compliance with the reporting requirements and to determine the reasonableness and accuracy of the data. The reviews will be expanded to include both MSP and claims processing overpayment situations.

The BCBSM stated that the eight hospitals identified in the report have either refunded the Medicare overpayments or have reported their requests for withdrawals via the credit balance report. The BCBSM did not comment on our recommendation to monitor the reporting process at the 31 other hospitals, and declined to perform a special review of these hospitals if reported Medicare overpayments were significantly less than our estimate of $5.6 million. The BCBSM stated that lack of funding from HCFA precluded any special reviews.

We have reviewed BCBSM's response and have made certain changes to this report. For example, we deleted that portion of the last recommendation that dealt with special reviews of the 31 hospitals because the strengthening of audit procedures as stated in BCBSM's response should negate the need for the special reviews. We believe that the actions taken by BCBSM in response to our report, coupled with HCFA's reporting requirements, will improve controls over Medicare overpayments. In this regard, we noted that the hospitals serviced by BCBSM reported $10.6 million of Medicare overpayments as of the September 30, 1992 reporting period.

Regarding BCBSM's general comments, we would like to provide further clarification in response to two of the comments.

> The BCBSM stated that our finding relating to the amount of time needed to process an overpayment recovery provided an inaccurate view of the current processing of overpayments. The audit reported stated that BCBSM required 215 days to recover an overpayment from the date of the withdrawal notice to recovery of the overpayment. The BCBSM stated this was due to conversion to a new processing system. By August 1991, recovery took only 30 or less days.

We are pleased to highlight this portion of BCBSM's response in this report. Reducing the time needed for overpayment recovery from 215 days to 30 days or less is certainly an improvement. This improvement, however, was made after the 19 withdrawal notices that we refer to in the report were processed.

> The BCBSM stated that it retains copies of all withdrawal requests received from providers along with its response to them. However, it was neither a contractor requirement nor a HCFA funded activity to control these requests in the form of a log or tracking system. On October 1, 1992, BCBSM implemented an adjustment control tracking system as part of HCFA's Core requirements. This system requires intermediaries to formally control the withdrawal request process from mail room receipt to closure.

Again we are pleased to highlight this improvement. In our report we stated that we could not locate 24 withdrawal notices at BCBSM that, according to the hospitals, were sent to BCBSM. As a result, we could not determine whether BCBSM received the notices. Under the new controls placed in effect, tracing a withdrawal notice from hospitals to BCBSM should no longer be a problem.

APPENDICES

SAMPLE HOSPITALS

Randomly Selected for Review	OAS Common Identification Number
The Johns Hopkins Hospital	A-03-91-00020
Washington Hospital Center	A-03-91-00021
Harbor Hospital Center	A-03-91-00022
Suburban Hospital	A-03-91-00023
Anne Arundel General Hospital	A-03-91-00024
Washington County Hospital	A-03-91-00025
Liberty Medical Center	A-03-91-00026
Frederick Memorial Hospital	A-03-91-00027

STATISTICAL
PROJECTION OF FINDINGS

OUTPATIENT MEDICARE OVERPAYMENTS

HOSPITAL	MEDICARE OVERPAYMENTS REPORTED	POINT ESTIMATE	DUPLICATE PAYMENTS	MEDICARE SECONDARY PAYOR	SERVICE NOT PERFORMED	MISC. REIMBURSEMENT ERRORS
JOHNS HOPKINS HOSPITAL	$8,833	$17,653	$0	$0	$0	$17,653
WASHINGTON HOSPITAL CENTER	$125,744	$186,352	$149,755	$34,498	$0	$2,099
HARBOR HOSPITAL CENTER	$49,367	$67,228	$47,141	$14,004	$0	$6,083
SUBURBAN HOSPITAL ASSOCIATION	$13,362	$13,362	$8,230	$4,569	$563	$0
ANNE ARUNDEL GENERAL HOSPITAL	$2,807	$2,807	$514	$903	$1,390	$0
WASHINGTON COUNTY HOSPITAL	$17,173	$17,173	$3,055	$5,206	$8,912	$0
LIBERTY MEDICAL CENTER	$23,470	$27,646	$21,155	$0	$1,620	$4,871
FREDERICK MEMORIAL HOSPITAL	$6,305	$8,878	$6,935	$0	$0	$1,943
SUBTOTAL	$247,061	$341,099	$236,785	$59,180	$12,485	$32,649
PERCENTAGE OF TOTAL FINDINGS		100.00%	69.42%	17.35%	3.66%	9.57%
ALLOCATION OF PROJECTION TO 39 HOSPITALS		$1,662,854	$1,154,353	$288,505	$60,861	$159,135

INPATIENT MEDICARE OVERPAYMENTS

HOSPITAL	MEDICARE OVERPAYMENTS REPORTED	POINT ESTIMATE	DUPLICATE PAYMENTS	MEDICARE SECONDARY PAYOR	SERVICE NOT PERFORMED	MISC. REIMBURSEMENT ERRORS
JOHNS HOPKINS HOSPITAL	$554,851	$554,851	$200,716	$127,528	$159,793	$66,814
WASHINGTON HOSPITAL CENTER	$41,113	$41,113	$8,122	$32,991	$0	$0
HARBOR HOSPITAL CENTER	$216,796	$216,796	$124,775	$45,958	$6,793	$39,270
SUBURBAN HOSPITAL ASSOCIATION	$23,071	$23,071	$16,377	$6,694	$0	$0
ANNE ARUNDEL GENERAL HOSPITAL	$5,363	$5,363	$0	$1,085	$4,278	$0
WASHINGTON COUNTY HOSPITAL	$46,420	$46,420	$12,873	$33,547	$0	$0
LIBERTY MEDICAL CENTER	$134,440	$134,440	$121,927	$7,944	$0	$4,569
FREDERICK MEMORIAL HOSPITAL	$53,956	$53,956	$30,284	$16,388	$0	$7,284
SUBTOTAL	$1,076,010	$1,076,010	$515,074	$272,135	$170,864	$117,937
OVERPAYMENTS : 8 HOSPITALS	$1,323,071					
PERCENTAGE OF TOTAL FINDINGS		100.00%	47.87%	25.29%	15.88%	10.96%
ALLOCATION OF PROJECTION TO 39 HOSPITALS		$5,245,549	$2,511,044	$1,326,600	$832,993	$574,912
TOTAL PROJECTION TO 39 HOSPITALS:		$6,908,403	$3,665,397	$1,615,105	$893,854	$734,047
PERCENTAGE OF EACH FINDING:		100.00%	53.06%	23.38%	12.94%	10.63%

STATISTICAL PROJECTIONS
AT THE 90 PERCENT CONFIDENCE LEVEL

HOSPITAL	INPATIENT CREDIT BALANCES		OUTPATIENT CREDIT BALANCES		TOTAL
	< $10,000	> $10,000	< $10,000	> $10,000	
POINT ESTIMATE	$1,805,091	$3,440,458	$1,662,854	$0	$6,908,403
LOWER LIMIT	$532,056	$951,063	$414,626	$0	
UPPER LIMIT	$3,078,126	$5,929,853	$2,911,083	$0	
STANDARD ERROR	$773,952	$1,513,448	$758,871	$0	

COMPUTATION OF MEDICARE OVERPAYMENT COMPUTED AT POINT ESTIMATES

PROJECTED OVERPAYMENTS TO 39 HOSPITALS INCLUDED IN THE SAMPLE UNIVERSE (POINT ESTIMATES)	$6,908,403

BlueCross BlueShield of Maryland

Medicare

1946 Greenspring Drive
Timonium, Maryland 21093-4141

November 13, 1992

G.A. Rafalko
Regional Inspector General
for Audit Services
Office of Audit Services
P.O. Box 13716, Mail Stop 9
Philadelphia, PA 19101

Common Identification Number A-03-92-00007

Dear Mr. Rafalko:

We have reviewed the OIG draft audit report entitled Review of Medicare Credit Balances Blue Cross and Blue Shield of Maryland and offer the comments outlined below.

RECOMMENDATION 1

Require hospitals to establish procedures to review Medicare credit balances timely and refund all identified Medicare overpayments.

RESPONSE

As noted in the OIG draft audit report, effective June 30, 1992, hospitals are required by HCFA to submit a quarterly listing of all Medicare credit balances to their intermediaries. This regulation will force hospitals to review their credit balances timely and refund monies owed to the Medicare Program. In addition, all BCBSM Medicare Part A claims examiners, MSP examiners, and Professional Relations representatives resolve and monitor credit balance reports on a daily basis. In addition, two professional level employees devote 20% of their time to this process.

COMMENT

While hospitals are primarily responsible for refunding Medicare overpayments to their intermediary, BCBSM shares in this responsibility to the extent that it is responsible for ensuring that hospitals comply with Medicare guidelines, identify Medicare overpayments, and refund the overpayments (p.ii).

RESPONSE

BCBSM ensures that hospitals comply with Medicare guidelines through various system edits, Medical Review procedures, and extensive employee training. When an overpayment is identified, BCBSM immediately requests a refund from the hospital. However, generally it is not possible to identify overpayments through the routine processing of claims.

FINDING

There were two primary reasons why these overpayments were not refunded to BCBSM. One, the hospitals did not routinely review Medicare credit balances to identify overpayments for refund to BCBSM. Two, the hospitals attempted to refund the overpayments but BCBSM did not respond timely, thus allowing the hospitals to retain the overpayments. With regard to the 21 withdrawal notices that we traced to BCBSM, we determined that BCBSM eventually recovered 19 of the overpayments from the hospitals (2 recoveries were still in process). In every case, the recovery was after the close of our hospital audits and, on average, required 215 days from the date of the withdrawal notice to recovery of the overpayment.

RESPONSE

The above finding provides an inaccurate view of the processing of overpayments at BCBSM today. We converted to the Arkansas Standard System in July, 1990. At that time, our first priority was to process initial claims timely. Our next step was to focus on completing adjustment requests while still maintaining timeliness in our initial claims processing. Although our adjustment inventory grew during the conversion period, by August 1991, we were able to reduce that inventory to a 30 day level. It has remained at or below 30 days ever since. In fact, BCBSM has maintained a 30 day pending inventory for all withdrawal requests since August 1991. We were able to achieve this reduction by increasing employee performance expectations and devoting numerous hours to employee training.

FINDING

The BCBSM did not maintain an inventory of withdrawal requests nor did it record the withdrawal requests that were returned to the hospital for additional information.

RESPONSE

BCBSM retains copies of all withdrawal requests received from providers along with the intermediary's response. However, it was not a contractor requirement nor a HCFA funded activity to control these requests in the form of a log or tracking system.

On October 1, 1992, BCBSM implemented an adjustment control tracking system as part of HCFA's Financial Core requirements. This system requires intermediaries to formally control the withdrawal request process from mailroom receipt to closure. Each withdrawal request is assigned a control number to allow for easy identification.

RECOMMENDATION 2

BCBSM should expand its hospital audit coverage to include an evaluation of the above procedures and the testing of hospitals' compliance with them. All credit balances selected for audit should be followed-up to ensure timely repayment by the hospitals. This expanded coverage should enable BCBSM to monitor hospitals' compliance with HCFA's reporting procedures.

RESPONSE

BCBSM was instructed by HCFA to allocate audit resources towards activities which had the highest reimbursement potential in the cost report settlement process. In addition, HCFA directed the focus of our credit balance reviews to be limited to MSP related matters.

In compliance with HCFA's June 30, 1992 Credit Balance reporting requirements, BCBSM's audit staff will render limited reviews of the provider's quarterly Credit Balance reports. The reviews will be expanded to include both MSP and claims processing overpayment situations. In addition, we will review the Credit Balance reports to assess provider compliance with the reporting requirements and to determine the reasonableness and accuracy of the data.

RECOMMENDATION 3

BCBSM should require the eight hospitals identified in our review to refund Medicare overpayments totaling $1,323,070.

RESPONSE

The eight hospitals identified in OIG's review have either refunded the Medicare overpayments to BCBSM or have reported their requests for withdrawals via the Credit Balance reports.

RECOMMENDATION 4

BCBSM should monitor the reporting of Medicare credit balances at the 31 other hospitals. If Medicare overpayments refunded by these hospitals is significantly less than our estimate of about $5.6 million ($6.9 million for 39 hospitals minus $1.3 million for 8 hospitals), BCBSM should perform a special review to determine the causes for the variance.

RESPONSE

BCBSM is not funded by HCFA to render a special review of Medicare credit balances at the 31 other hospitals. This is a very labor intensive process, and we are currently staffed at a minimum level. We would be happy to perform this function with adequate funding.

Thank you for allowing us to review and comment on the draft of the Review of Medicare Credit Balances Blue Cross and Blue Shield of Maryland. If you have any questions, please contact me at (410) 561-4034.

Sincerely,

Bettye Newton

Bettye Newton
Director
Medicare A Operations

BN:cwl