Memorandum

Date MAR 31 1993

From Bryan B. Mitchell
Principal Deputy Inspector General

Subject Nationwide Audit of Medicaid Credit Balances (A-04-92-01023)

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

The attached audit report summarizes the results of our review entitled, "Nationwide Audit of Medicaid Credit Balances." A Medicaid credit balance occurs when reimbursement for services provided to a Medicaid recipient exceeds the charges billed according to the provider's accounting records. The purpose of our review was to determine if hospitals were maintaining credit balances in Medicaid recipient accounts that represented unrecovered Medicaid program overpayments.

Our review at 64 hospitals in 8 States showed that many hospitals reviewed their Medicaid credit balances to identify Medicaid overpayments and assured that overpayments were returned to the State Medicaid agency (State agency). However, we found that some of the credit balances were not reviewed in a timely manner resulting in Medicaid overpayments that should have been returned to the State agency. Based on our review, we estimate that the 64 hospitals had received Medicaid overpayments totaling $1.79 million, $1.01 million Federal financial participation (FFP), which should have been refunded prior to our review. Projecting the results of our review nationwide, we estimate that hospitals have received and retained an estimated $73.3 million ($41.9 million FFP) in Medicaid overpayments.

In separate reports to the 64 hospitals reviewed, we recommended that they establish procedures to assure that Medicaid credit balances are reviewed and that overpayments are refunded in a timely manner. We have also issued reports to the eight Medicaid State agencies recommending that procedures be implemented for monitoring Medicaid credit balances at hospitals to ensure Medicaid overpayments are returned.

We recommend that the Health Care Financing Administration (HCFA): (1) perform a formal evaluation of the State agencies' oversight activities of hospitals' procedures over Medicaid credit balances and the timely refunding of overpayments and (2) increase its monitoring of State

agencies' activities to reduce overpayments in the areas of third party liability (TPL) and duplicate payments. If these strengthened controls are properly implemented, we believe that future savings will be realized since the Medicaid program will receive its pro rata share of the monies recovered from the hospitals. Using our credit balance growth factor of .596 we believe that these future savings will be approximately $43.7 million (about $25 million FFP) per annum.

We are going to pursue with State audit organizations the potential for them to increase their audit efforts at medical providers, such as hospitals, to help identify overpayments within the Medicaid program. We envision one prime audit area being the identification of credit balance situations. Joint audit efforts between the Office of Inspector General and State auditors in reviewing health providers could result in an increase in overpayment recoveries and improved efficiencies in their Medicaid programs.

The HCFA agreed with our recommendation to perform an evaluation of State agencies' oversight activities. However, the HCFA disagreed with our recommendation to increase its monitoring of State agencies' activities to reduce overpayments in the areas of TPL and duplicate payments. Based on the results of our review, we continue to believe that implementation of this recommendation would significantly reduce credit balances.

Please advise us, within 60 days, on actions taken or planned on our recommendations. If you have any questions, please call me or have your staff contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits at (410) 966-7104. Copies of this report are being sent to other interested top Department officials.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

NATIONWIDE AUDIT OF MEDICAID CREDIT BALANCES

MARCH 1993 A-04-92-01023

Memorandum

Date MAR 31 1993

From Bryan B. Mitchell
Principal Deputy Inspector General

Subject Nationwide Audit of Medicaid Credit Balances (A-04-92-01023)

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

This report provides you with the results of our nationwide audit of Medicaid credit balances. A Medicaid credit balance occurs when reimbursements for services provided to a Medicaid recipient exceed the charges billed according to the provider's accounting records. The purpose of our review was to determine if hospitals were maintaining credit balances in Medicaid recipient accounts that represented unrecovered Medicaid program overpayments.

Collecting credit balance overpayments could result in a $73.3 million total refund--$41.9 million to the Federal Government and $31.4 million to State governments.

Our review at 64 hospitals in 8 states showed that many hospitals reviewed their Medicaid credit balances to identify Medicaid overpayments and assured that overpayments were returned to the State Medicaid agency (State agency). However, we found that some of the credit balances were not reviewed in a timely manner resulting in Medicaid overpayments that should have been returned to the State agency. Based on our review, we estimated that the 64 hospitals had received Medicaid overpayments totaling $1.79 million, $1.01 million Federal financial participation (FFP), which should have been refunded prior to our review. Projecting the results of our review nationwide, we estimate that hospitals have received and retained an estimated $73.3 million ($41.9 million FFP) in Medicaid overpayments.

In separate reports to the 64 hospitals reviewed, we recommended that they establish procedures to assure that Medicaid credit balances were reviewed and that overpayments were refunded in a timely manner. We have also issued reports to the eight State agencies recommending that procedures be implemented for monitoring Medicaid credit balances at hospitals to ensure Medicaid overpayments are returned.

We recommend that the Health Care Financing Administration (HCFA): (1) perform a formal evaluation of the State agencies' oversight activities of hospitals' procedures over Medicaid credit balances and the timely refunding of overpayments and (2) increase its monitoring of State agencies' activities to reduce overpayments in the areas of third party liability (TPL) and duplicate payments. If these strengthened controls are properly implemented, we believe that future savings will be realized since the Medicaid program will receive its pro rata share of the monies recovered from the hospitals. During our review of Medicare credit balances (CIN A-04-92-00010) we established a credit balance growth factor of .596. Using the credit balance growth factor of .596 we believe that these future savings will be approximately $43.7 million (73.3 x .596) per annum, with an FFP of about $25 million.

The HCFA agreed with our recommendation to perform an evaluation of State agencies' oversight activities. However, the HCFA disagreed with our recommendation to increase its monitoring of State agencies' activities to reduce overpayments in the areas of TPL and duplicate payments. Based on the results of our review, we continue to believe that implementation of this recommendation would significantly reduce credit balances.

The HCFA included additional comments which we believe are already addressed in various sections of the report. The HCFA's response has been included in its entirety in Appendix C.

BACKGROUND

The Social Security Act (the Act) provides for payments to States, on the basis of a Federal medical assistance percentage, for part of their expenditures for services under an approved Medicaid State plan. The Federal-State match is computed by a formula taking into consideration the relationship of a State's per capita income to the national average per capita income. Under the formula, the Federal portion of the match cannot be less than 50 percent or more than 83 percent. These Federal medical assistance percentages are recalculated on an annual basis.

Section 1902(a)(25) of the Act provides that the State or local agency administering the Medicaid program will take all

reasonable measures to ascertain the legal liability of third parties to pay for care and services available under the plan. A State agency is defined as the entity established or designated to administer the State's Medicaid program, which includes processing and paying vendor claims. A fiscal agent is defined as an entity under contract with the State agency to process or pay vendor claims for services and items covered by Medicaid.

Federal regulation 42 CFR 433.139 outlines provisions the State agencies must follow in paying claims where a third party has liability for payment. In most cases, the Medicaid program has payment liability only for that portion of the patient's bill not covered by third party resources, such as health or accident insurance, workers' compensation, Veterans Administration, Medicare, or other primary coverage. When a third party and the Medicaid program both pay for the same services, a Medicaid credit balance is created, which is reflected on the patient's ledger account at the hospital. Among the other causes of Medicaid credit balances are Medicaid payments in excess of the amount due and duplicate Medicaid payments for the same services.

Either the State agency or its fiscal agent, and the hospital have responsibilities when credit balances (which represent overpayments) are created and identified. The agency or agent must recover or adjust future hospital payments in the amount of the overpayment in a timely manner. Additionally, the hospital should refund the amount of the credit balance representing overpayments to the agency or agent after its identification. It is essential that credit balances be identified and that associated overpayments be returned to the State agency. When those responsibilities are not met, both the Federal and State governments incur losses.

SCOPE

The purpose of our review was to determine if hospitals were maintaining credit balances in Medicaid recipient accounts that represented unrecovered Medicaid program overpayments.

This nationwide audit of Medicaid credit balances was performed by Region IV Office of Audit Services. Region IV randomly selected eight States nationwide and each region randomly selected eight hospitals (see Appendix A for a list of regions and States included in the review).

To estimate the overpayments due to Medicaid, we used a multistage variable appraisal to project the results of our samples at the 64 hospitals reviewed. The primary sampling unit was a State, the first secondary sampling unit was a hospital, and the second secondary sampling unit was a Medicaid credit balance.

Our review was limited to Medicaid inpatient and outpatient credit balances $101 or greater at the 64 hospitals. We used four separate universes including: (1) inpatient credit balances between $101 and $10,000, (2) inpatient credit balances greater than $10,000, (3) outpatient credit balances between $101 and $10,000, and (4) outpatient credit balances greater than $10,000. If a hospital had less than 100 inpatient or outpatient credit balances between $101 and $10,000 in a universe, we included all the credit balances in our review. For hospitals with more than 100 inpatient or outpatient credit balances between $101 and $10,000 in the universe, we randomly selected 100 credit balances for review. We reviewed all credit balances greater than $10,000.

Our review was also limited to hospitals with 200 or more beds. There were 1,819 such hospitals in our universe. We projected the results of our 64 hospital reviews to the universe of 1,819 hospitals using the difference estimator. Our established multistage software programs were used to make the projections.

We analyzed Medicaid credit balances at the 64 hospitals to determine if overpayments had occurred. We did this through review of such records as credit balance runs, patient files, remittance advices, and hospital payment histories.

Our audit was performed in accordance with generally accepted government auditing standards, except that we did not assess the internal controls of any Federal or State agency because an assessment was not required to satisfy the audit objectives.

The objective of our review was to test compliance with laws and regulations applicable to Medicaid credit balances. Our findings are presented in the results of review section below.

Our field work was performed at the 64 hospitals and at the 8 State Medicaid agencies during the period December 1991 through May 1992.

RESULTS OF REVIEW

Our review showed that many hospitals reviewed their credit balances to determine if Medicaid overpayments occurred, and notified the State agencies of the overpayments. Some of the hospitals, however, did not take steps to ensure that the identified overpayments were refunded to the State agencies.

We reviewed 3,147 Medicaid credit balances at the hospitals and found that 1,441 represented Medicaid overpayments totaling $1.79 million that should have been returned to the State agencies. Projecting the results of our hospital reviews, we estimate that $73.3 million ($41.9 million FFP) in credit balances are owed to the State Medicaid agencies by the hospitals in our universe. The $73.3 million represents the point estimate of our sample projections. For details of the projection results see Appendix B. We are making recommendations to strengthen HCFA's controls over the adjudication of credit balances. If these strengthened controls are properly implemented, we believe that future savings will be realized since the Medicaid program will receive its pro rata share of the monies recovered from the hospitals. During our review of Medicare credit balances (CIN A-04-92-00010) we established a credit balance growth factor of .596. Using the credit balance growth factor of .596 we believe that these future savings will be approximately $43.7 million (73.3 x .596) per annum, with an FFP of about $25 million.

There were two primary causes for the Medicaid overpayments. In most cases, the causes for the actual overpayments could be traced to the hospitals rather than to the State agencies.

Services Reimbursed by Another Insurer

The majority of the Medicaid overpayments resulted from hospitals billing Medicaid and a third party such as a commercial insurer or Medicare for the same services and receiving primary payments from both. Of the

1,441 overpayments, 776 were due to third party payments. Medicaid should not be the primary payer for services covered by another insurer. When the hospitals received payments from both insurers, the hospitals established credit balances for the excess reimbursements, but did not always resolve the credit balances. In these cases, we found that the other insurer was primary and that the Medicaid payments were overpayments to the hospitals.

Duplicate Medicaid Payments

The second largest cause of Medicaid overpayments was duplicate payments that resulted from hospitals submitting duplicate claims for services which were both paid by the State agencies. Most of the claims went undetected because hospitals submitted duplicate claims using different procedure codes or dates of service for the same service. We attributed 336 of the 1,441 overpayments found at the hospitals to duplicate billings.

Other

The remaining Medicaid overpayments resulted from various reasons such as billing errors, payments for services not performed, and other hospital accounting errors. Of the 1,441 overpayments, 329 were due to these reasons.

STATE MEDICAID AGENCY REVIEW

In most cases, we found that the State agencies do not have written procedures for monitoring Medicaid credit balances at hospitals to ensure that Medicaid overpayments are returned. Also, in most cases, State Medicaid agencies had not performed reviews of hospital practices for resolving credit balances nor had they issued written refund procedures to the hospitals.

CONCLUSIONS AND RECOMMENDATIONS

Based on our review, we estimate that the 64 hospitals had received Medicaid overpayments totaling $1.79 million ($1.01 million FFP) which should have been returned to the State agencies prior to our review. Projecting our results, we estimate that hospitals have retained as much as $73.3 million ($41.9 million FFP) of Medicaid overpayments in recipient accounts with credit balances.

For the most part, the overpayments existed because the hospitals did not always review their credit balances in a timely manner to determine if overpayments existed and to assure that the overpayments were returned to the State agencies. When the hospitals identified overpayments, actions were usually taken to return the overpayments.

Our review also found that, in most cases, the State agency does not have written procedures for monitoring Medicaid credit balances at hospitals to ensure that Medicaid overpayments are returned.

Based on the point estimates of our samples of inpatient and outpatient Medicaid credit balances between $101 and $10,000 plus inpatient and outpatient Medicaid credit balances greater than $10,000, we estimate $73.3 million ($41.9 million FFP) in credit balances in Medicaid patient accounts are owed to the Medicaid program.

We believe procedural improvements are needed at the hospitals and at State Medicaid agencies if Medicaid overpayments are to be identified and refunded timely. We recommend that the HCFA: (1) perform a formal evaluation of the State agencies' oversight activities of hospitals' procedures over Medicaid credit balances and the timely refunding of overpayments and (2) increase its monitoring of State agencies' activities to reduce overpayments in the areas of TPL and duplicate payments.

HCFA Comments

The HCFA agreed with our recommendation to perform an evaluation of the State agencies' oversight activities of hospitals' procedures over Medicaid credit balances and the

timely refunding of overpayments. In addition, the HCFA has issued a review guide for reviews of provider-maintained credit balances in Medicaid accounts and has also issued a directive to its regional offices to emphasize to the State agencies the need for identifying and adjusting credit balances on a continuing basis. The regional offices were directed to conduct reviews, as circumstances warrant and resources permit, to determine the extent and quality of States' efforts in meeting their oversight responsibilities.

The HCFA disagreed with our recommendation to increase its monitoring of State agencies' activities to reduce overpayments in the areas of TPL and duplicate payments. The HCFA does not believe that TPL overpayments are a widespread problem which would justify making regional offices review provider credit balances on a more comprehensive basis. The HCFA contends that it emphasizes front-end identification of TPL and cost avoidance of claims as the best way to realize TPL savings.

OIG Response

We agree with the corrective actions taken by the HCFA in response to our recommendation to perform a formal evaluation of the State agencies' oversight activities of hospitals' procedures over Medicaid credit balances and the timely refunding of overpayments. However, based on the results of our review, we continue to believe that the HCFA should increase its monitoring of State agencies' activities to reduce overpayments in the areas of TPL and duplicate payments.

APPENDICES

APPENDIX A

REGIONS AND STATES INCLUDED IN NATIONWIDE AUDIT OF MEDICAID CREDIT BALANCES

Region	State
I	Rhode Island
II	New Jersey
III	Virginia
IV	North Carolina
IV	South Carolina
V	Illinois
VI	Arkansas
VII	Iowa

APPENDIX B

SAMPLE RESULTS

Sample Population:

States	50
Hospitals	1,819

Sample Size:

States	8
Hospitals	64

	Inpatient		Outpatient		
	$101-$10,000	>$10,000	$101-$10,000	>$10,000	Total
Overpayments:					
Error Amount					
Point Estimate	31,134,173	26,089,807	15,823,428	272,672	73,320,080
Precision[1]	39.04%	96.94%	52.36%	162.37%	
FFP:					
Error Amount					
Point Estimate	18,224,053	14,006,412	9,578,560	136,336	41,945,361
Precision[1]	33.34%	89.49%	50.18%	162.37%	

[1] Precision shown at the 90% confidence level

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care
Financing Administration

Memorandum

ate NOV 3 1992

rom William Toby, Jr.
Acting Administrator

ubject Office of Inspector General (OIG) Draft Report: "Nationwide Audit of Medicaid Credit Balances," A-04-92-01023

o Bryan B. Mitchell
Principal Deputy Inspector General

We have reviewed the above-referenced report which provides preliminary results of OIG's review of Medicaid credit balances in hospitals.

OIG reviewed 64 hospitals in 8 States to determine if Medicaid credit balances in patient accounts were reviewed timely to identify Medicaid program overpayments. OIG found that some of the credit balances were not reviewed in a timely manner resulting in Medicaid overpayments that should have been returned to the State agency. Based on this review, OIG estimates that the hospitals received Medicaid overpayments totaling $1.79 million ($1.01 million Federal share), which should have been refunded to the State agencies. National projections based on these findings result in an estimated $73.4 million ($42 million Federal share) in Medicaid overpayments.

OIG recommends that the Health Care Financing Administration (HCFA):

> Perform a formal evaluation of the State agencies' oversight activities of hospitals' procedures over Medicaid credit balances and the timely refunding of overpayments, and
>
> Increase its monitoring of State agencies' activities to reduce overpayments in the areas of third party liability and duplicate payments.

We agree that the audit findings indicate a need to improve compliance with the Consolidated Omnibus Budget Reconciliation Act of 1985 which mandates that States adjust any outstanding Medicaid credit balances within 60 days after notification by a provider that a credit balance exists. We also believe it should be noted that HCFA has taken substantial corrective actions in response to prior OIG reports relating to this issue, specifically: OAI-07-88-00470, Medicaid Credit Balances in Hospital Accounts, issued April 6, 1989, and OEI-07-90-00911, Medicaid Credit Balances in Nursing Facility Patient Accounts, issued July 28. Our detailed comments are attached for your consideration.

Thank you for the opportunity to review and comment on this report. Please advise us if you agree with our position on the report's recommendations at your earliest convenience.

Attachment

Comments of the Health Care Financing Administration (HCFA)
on Office of Inspector General (OIG) Draft Report:
"Nationwide Audit of Medicaid Credit Balances,"
A-04-92-01023

Recommendation 1

HCFA should perform a formal evaluation of the State agencies' oversight activities of hospitals' procedures over Medicaid credit balances and the timely refunding of overpayments.

HCFA Response

HCFA concurs with the recommendation. On September 29, 1988, we issued a Financial Management Review Guide for provider-maintained credit balances in Medicaid. This guide describes third party liability (TPL), overpayment, and cost reimbursement policy affecting this issue and provides procedures for the Regional Offices (ROs) to conduct financial reviews of State agencies.

As part of our State Performance Evaluation and Comprehensive Test of Reimbursement Under Medicaid (SPECTRUM) program, we monitor the collection efforts of the States in recovering known Medicaid credit balances.

We also issued a directive on February 18 to the ROs to emphasize to the State agencies the need for identifying and adjusting credit balances on a continuing basis. The ROs were directed to conduct reviews, as circumstances warrant and resources permit, to determine the extent and quality of the States' efforts in meeting their oversight responsibilities. The ROs sent notices to each State Medicaid agency advising them of OIG findings and emphasizing the need for prompt collection of provider overpayments. The States were asked to reassess current policies and practices to ensure that all providers were notified of their responsibility to timely identify and remit any credit balances to the State agency.

Recommendation 2

HCFA should increase its monitoring of State agencies' activities to reduce overpayments in the areas of TPL and duplicate payments.

HCFA Response

HCFA does not concur with the recommendation. The mere presence of a credit balance does not necessarily indicate there is an overpayment requiring the return of Federal financial participation by the State. Payment policies of the States and accounting practices of individual providers determine the extent of the credit

balance problem in any particular State. However, we agree that where provider-maintained credit balances are held in interim or suspense accounts, action should be taken to adjust these credit balances and other properly identified credit balances, especially when the specific individual for whom the payment has been made is unknown.

Over the past 10 years, HCFA has performed studies in large public hospitals to ascertain whether credit balances exist due to TPL payments. In some situations, liability is established after Medicaid pays the initial claim, usually in accident cases. In these instances, the State agencies learn of the overpayments through followup of trauma code editing or other activities that yield accident information. HCFA is currently involved in the oversight of these areas through our management review.

We do not believe TPL overpayments are a widespread problem which would justify making the ROs review provider credit balances on a more comprehensive basis. HCFA emphasizes front-end identification of TPL and cost avoidance of claims as the best way to realize TPL savings. Additionally, our RO personnel will continue to perform financial management and SPECTRUM reviews on an ongoing basis.

Additional Comments

1. The report is not specific enough in some of the references to the identified credit balances. For example, the report states that ". . . many hospitals reviewed their Medicaid credit balances . . . however, some of the credit balances were not reviewed in a timely manner . . . ." The reference may have occurred in only a few hospitals or a large number of hospitals. Also, without specific reference to the number of credit balances, it is possible that the credit balances noted may have represented monies paid for only a few large casualty cases. In addition, the age of the credit balances and the relationship of the amount of credit balances identified when compared to the overall Medicaid billing examined would be helpful in assessing the extent of this problem. We are requesting that more specific information be included in the final of this report.

2. Appendix B shows the details of OIG's projection and includes sample strata precision levels that range from 33 percent to more than 162 percent. These percentage precision specifications are not defined. Consequently, we cannot readily determine from the information provided if the $74.3 million point estimate of the nationwide sample projection is a true indicator of the size of the problem. Therefore, we are requesting that OIG provide the necessary information in the final report.

3. We are also requesting that OIG provide HCFA with the following information concerning the audit:

- the steps OIG took to ensure the homogeneity of the sample;
- a description of the distribution of the overpayments (e.g. were they concentrated in just a few of the 64 hospitals audited?);
- any information OIG has that would explain why the hospitals did not report the credit balances; and
- any information concerning possible differences in payment policies between States in which the hospitals with credit balances were located.