Office of Audit Services
Region I
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OCT 3 1 2008

Report Number: A-01-08-00531

JudyAnn Bigby, M.D.
Secretary
Executive Office of Health and Human Services
One Ashburton Place, 11th floor
Boston, Massachusetts 02108

Dear Dr. Bigby:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Medicare and Medicaid Credit Balances at Merrimack Valley Hospital for the Period Ending December 31, 2007." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination. We provided Merrimack Valley Hospital with a copy of our draft report, and its comments are included in the enclosed final report.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act 45 CFR part 5). Accordingly, this report will be posted on the Internet at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me, or contact David Lamir, Audit Manager, at 617-565-2704 or through e-mail at David.Lamir@oig.hhs.gov. Please refer to report number A-01-08-00531 in all correspondence.

Sincerely,

Michael J Armstrong

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management and Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

cc:
Mr. Robert Crosby
Chief Financial Officer
Merrimack Valley Hospital

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF MEDICARE AND MEDICAID CREDIT BALANCES AT MERRIMACK VALLEY HOSPITAL FOR THE PERIOD ENDING DECEMBER 31, 2007

Daniel R. Levinson
Inspector General

October 2008
A-01-08-00531

Office of Inspector General

http://oig.hhs.gov

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Medicare and Medicaid credit balances generally occur when a provider receives a duplicate payment from the Medicare or Medicaid program or receives a payment from another payer after the provider has been reimbursed by Medicare or Medicaid.

Credit balances in the accounts of Medicare and Medicaid beneficiaries generally represent overpayments that must be returned to the Medicare or Medicaid programs. For Medicare overpayments, 42 CFR 489, subpart B, states that providers must send a refund to the Medicare fiscal intermediary within 60 days of receiving an overpayment. For Medicaid overpayments, 42 CFR 433, subpart F, stipulates that a State has 60 days from the discovery of an overpayment for Medicaid services to recover the overpayment from the provider before Medicaid adjusts Federal Medicaid payments to the State.

MassHealth, the Massachusetts Medicaid program, is administered by the Massachusetts Executive Office of Health and Human Services (the State agency). Merrimack Valley Hospital (the Hospital) is a full service, 125 bed acute-care hospital in Haverhill, Massachusetts.

OBJECTIVE

Our objective was to determine whether the credit balances in the Hospital's accounting records for inpatient and outpatient services for Medicare or Medicaid beneficiaries represented overpayments more than 60 days old that the hospital should have been returned to the Medicare or Medicaid program.

SUMMARY OF FINDINGS

As of December 31, 2007, the Hospital's accounting records for Medicaid beneficiaries contained 35 credit balances more than 60 days old. Thus the Hospital did not promptly return Medicaid overpayments of $11, 218 ($5,609 Federal share) to the State agency, in accordance with State Medicaid requirements. These errors occurred because the Hospital did not follow its internal procedures for processing and returning Medicaid overpayments.

As of December 31, 2007, the Hospital's accounting records for Medicare beneficiaries contained no outstanding credit balances more than 60 days old.

RECOMMENDATIONS

We recommend that the State Agency ensure that the Hospital:

- return overpayments totaling $11,218 ($5,609 Federal share) to the State agency and

- continue efforts to identify and return all overpayments in accordance with State Medicaid requirements.

MERRIMACK VALLEY HOSPITAL COMMENTS

The Hospital concurred with our finding of outstanding credit balances but disagreed that the credit balances had occurred because the Hospital had not followed its procedures for resolving Medicaid credit balances. The Hospital stated that the actual cause of the outstanding credit balances was inherent problems with the State agency's system for recovering Medicaid overpayments. The Hospital requested that we recommend that the State agency review its procedures to ensure timely and proper recovery of overpayments.

OFFICE OF INSPECTOR GENERAL RESPONSE

We recognize that problems with the State agency's system for recovering Medicaid overpayments contributed to the Hospital's failure to return Medicaid funds within 60 days. However, according to State regulations, the Hospital is ultimately responsible for returning the overpayments. In response to the Hospital's request that we recommend that the State agency review its procedures for recovering overpayments, we have provided the State agency with examples of the problems that the Hospital encountered in trying to refund the overpayments.

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INTRODUCTION

BACKGROUND

Medicare and Medicaid Credit Balances

Medicare and Medicaid credit balances generally occur when a provider receives a duplicate payment from the Medicare or Medicaid program or receives a payment from another payer after the provider has been reimbursed by Medicare or Medicaid. Credit balances in the accounts of Medicare and Medicaid beneficiaries generally represent overpayments that must be returned to the Medicare or Medicaid program.

For Medicare overpayments, 42 CFR 489, subpart B, states that providers must send a refund to the Medicare fiscal intermediary within 60 days of receiving an overpayment. For Medicaid overpayments, 42 CFR 433, subpart F, stipulates that a State has 60 days from the discovery of an overpayment for Medicaid services to recover the overpayment from the provider before Medicaid adjusts Federal Medicaid payments to the State.

MassHealth, the Massachusetts Medicaid program, is administered by the Massachusetts Executive Office of Health and Human Services (the State agency). The State agency requires providers to return overpayments classified as credit balances within 60 days of their receipt. It reinforced this regulation in November 2004, when it issued a Bulletin to providers stating that it may impose administrative fines against providers who do not return overpayments classified as credit balances within 60 days of their receipt.

Merrimack Valley Hospital (the Hospital) is a full service, 125 bed acute-care hospital in Haverhill, Massachusetts.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the credit balances in the Hospital's accounting records for inpatient and outpatient services for Medicare or Medicaid beneficiaries represented overpayments more than 60 days old that the hospital should have returned to the State agency.

Scope:

We reviewed the Hospital's accounting records as of December 31, 2007. The Hospital's accounts related to Medicaid beneficiaries contained 150 credit balances totaling $29,397, and those related to Medicare beneficiaries contained 2 credit balances totaling $1,443.

We limited our review of internal controls to obtaining an understanding of the Hospital's controls related to reviewing credit balances and reimbursing Medicare and Medicaid for overpayments.

We performed our field work in May 2008 at Merrimack Valley Hospital in Haverhill, Massachusetts.

Methodology:

To accomplish our objectives, we:

- reviewed Federal and State regulations pertaining to Medicare and Medicaid credit balances;

- conducted interviews with Hospital officials to obtain an understanding of the controls in place for reporting and reimbursing Medicare and Medicaid credit balances;

- conducted discussions with the fiscal intermediary;

- reconciled the Hospital's Medicare credit balances for the quarter ending December 31, 2007, to those reported to the fiscal intermediary;

- obtained a Medicaid credit balance listing from the Hospital's accounting records for the quarter ending December 31, 2007, and reviewed the 50 accounts with balances over $300 totaling $16,774 to determine whether Medicaid overpayments had occurred; and

- reviewed Medicare and Medicaid remittance advises, patient accounts receivable detail, and adjustment forms.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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FINDINGS AND RECOMMENDATIONS

As of December 31, 2007, the Hospital's accounting records for Medicaid beneficiaries contained 35 credit balances more than 60 days old. As a result, the Hospital did not promptly return Medicaid overpayments of $11, 218 ($5,609 Federal share) to the State agency, in accordance with State Medicaid requirements. These errors occurred because the Hospital did not follow its internal procedures for processing and returning Medicaid overpayments.

As of December 31, 2007, the Hospital's accounting records for Medicare beneficiaries contained no outstanding credit balances more than 60 days old.

STATE MEDICAID REQUIREMENTS

Pursuant to 130 Code of Massachusetts Regulations (CMR) 450.235, provider overpayments include, but are not limited to, payments to a provider for services not actually provided or duplicate payments for the same service from other health insurers, worker's compensation insurers, or other third-party payers. Pursuant to 130 CMR 450.238 (B)(7), providers who do not return overpayments within 60 days of receipt may be subject to sanctions, including administrative fines and suspension or termination from participating in MassHealth.

The State agency reinforced this requirement in November 2004, when it issued a Bulletin to providers stating that it may impose administrative fines against providers who do not return overpayments classified as credit balances within 60 days of their receipt.

OUTSTANDING CREDIT BALANCES CONTAINING OVERPAYMENTS

The Hospital did not always return Medicaid overpayments within 60 days, as specified by State Medicaid requirements. Of the 50 claims that we reviewed with credit balances over $300, thirty-five (35) contained Medicaid credit balances more than 60 days old that the Hospital should have returned to the State agency. The ages of the credit balances ranged from 61 to 749 days, as the following table summarizes.

Ages of Credit Balances and Amounts of Unrefunded Overpayments

Days	Claims	Refund Amount
61 – 90	5	$1,515
91 -120	5	$1,515
121-200	4	$1,252
201-300	5	$1,518
301-749	16	$5,418
TOTAL	**35**	**$11,218**

AMOUNT OF UNREFUNDED OVERPAYMENTS

As a result of not promptly resolving its credit balances and reporting overpayments, the Hospital did not return overpayments of $11,218 ($5,609 Federal share) to the State agency within 60 days of their receipt.

CAUSE OF UNREFUNDED OVERPAYMENTS

These errors occurred because the Hospital did not follow its internal procedures for resolving Medicaid credit balances.

RECOMMENDATIONS

We recommend that the State agency ensure that the Hospital:

- return overpayments totaling $11,218 ($5,609 Federal share) to the State agency and

- continue its efforts to identify and return all overpayments in accordance with State Medicaid requirements.

MERRIMACK VALLEY HOSPITAL COMMENTS

The Hospital concurred with our finding of outstanding credit balances but disagreed that the credit balances had occurred because the Hospital had not followed its procedures for resolving Medicaid credit balances. The Hospital stated that the actual cause of the outstanding credit balances was inherent problems with the State agency's system for recovering Medicaid overpayments. The Hospital cited examples of claims for which it sent voids requesting the recovery of Medicaid overpayments and the State agency either (1) failed to collect the Medicaid overpayment or (2) retracted the payment on one line of the claim but reestablished the overpayment on another line of the claim. The Hospital requested that we recommend that the State agency review its procedures to ensure timely and proper recovery of overpayments.

OFFICE OF INSPECTOR GENERAL RESPONSE

We recognize that problems with the State agency's system for recovering Medicaid overpayments contributed to the Hospital's failure to return Medicaid funds within 60 days. However, according to State regulations, the Hospital is ultimately responsible for returning the overpayments. The hospital failed to send void notifications to the State agency for 13 of the 50 Medicaid credit balances that we reviewed and did not follow up on 7 additional credit balances after it sent the initial void letter. In response to the Hospital's request that we recommend that the State agency review its procedures for recovering overpayments, we have provided the State agency with examples of the problems that the Hospital encountered in trying to refund the overpayments.

APPENDIX

Merrimack Valley Hospital
An Affiliate of Essent Healthcare

September 18, 2008

Michael J. Armstrong
Regional Inspector General for Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203

RE: Report # A-01-08-00531

Dear Mr. Armstrong:

The purpose of this letter is to respond to Merrimack Valley Hospital's recent Credit Balance Audit conducted by the OIG for the period ending December 31, 2007. The overall findings of this audit are accurate; however what the hospital does not agree with is the cause of unreturned overpayments. It is indicated in the report that "These errors occurred because the Hospital did not follow its internal procedures for resolving Medicaid credit balances". In the opinion of the hospital, this is an inaccurate statement. The hospital noted to the OIG representatives that credit balances were not all due to the lack of follow up by the hospital but despite the hospital trying to return money the State's system could not take money back. Merrimack Valley Hospital showed several examples of claims that were voided and Mass Health never took money back. The hospital also showed several examples of claims that voids were sent, Mass Health retracted their payment and then paid again on different lines. Several of these accounts were even voided up to three times. This results in a lot of excess, unnecessary administrative time on the hospital's part when Mass Health does not process voids correctly. It appears the hospital was not following up with Medicaid credit balances.

A recommendation should be made that the State reviews its recovery procedures to ensure timely and proper recovery. In summary, the hospital has modified some of its internal procedures to ensure the timely return of credits for the process it controls. If the State does not change its procedures, the process will continue to be broken.

If you have any questions or require additional information, please feel free to contact me at the number listed below.

Sincerely,

Darlene Lavin

Darlene Lavin
Director of Patient Financial Services
978-521-8730