DEPARTMENT OF HEALTH & HUMAN SERVICES **Office of Inspector General**

Office of Audit Services, Region IX
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

April 21, 2010

Report Number: A-09-09-00107

Mr. Toby Douglas
Chief Deputy Director of Health Care Programs
California Department of Health Care Services
1501 Capitol Avenue, MS 0002
Sacramento, CA 95814

Dear Mr. Douglas:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Medicaid Credit Balances at Mercy San Juan Medical Center as of July 31, 2009.* 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to contact Doug Preussler, Audit Manager, at (415) 437-8360 or through email at Doug.Preussler@oig.hhs.gov. Please refer to report number A-09-09-00107 in all correspondence.

Sincerely,

/Lori A. Ahlstrand/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Consortium Administrator
Consortium for Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, IL 60601

Department of Health & Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF MEDICAID CREDIT BALANCES AT MERCY SAN JUAN MEDICAL CENTER AS OF JULY 31, 2009

Daniel R. Levinson
Inspector General

April 2010
A-09-09-00107

Office of Inspector General

http://oig.hhs.gov

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In California, the Department of Health Care Services (the State agency) administers Medicaid.

The Federal Government pays its share of a State's Medicaid payments based on the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income. Pursuant to the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5, States' FMAPs are temporarily increased for Federal fiscal year (FY) 2009, FY 2010, and the first quarter of FY 2011.

Credit balances may occur when the reimbursement that a provider receives for services provided to a Medicaid beneficiary exceeds the program payment ceiling or allowable costs, resulting in an overpayment. Credit balances may also occur when a provider receives payments for the same services from the Medicaid program and another third-party payer. In such cases, the provider should return the overpayment to the Medicaid program, which is the payer of last resort.

Section 1903(d)(2)(C) of the Act, implemented at 42 CFR § 433.300(b), states: "… when an overpayment is discovered … the State shall have a period of 60 days in which to recover or attempt to recover such overpayment before adjustment is made in the Federal payment to such State on account of such overpayment. … [T]he adjustment in the Federal payment shall be made at the end of the 60 days, whether or not recovery was made."

The State agency does not have any regulations requiring providers to refund Medicaid credit balances within a specific timeframe. However, State Medicaid cost report instructions state that it is the provider's responsibility to maintain an effective system to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments. In addition, providers must report outstanding credit balances as part of their annual cost report submissions and refund any overpayments when the State agency settles the cost reports.

Mercy San Juan Medical Center (Mercy) is an acute-care hospital located in Carmichael, California. Mercy reported that it was reimbursed by the State agency approximately $25.5 million for Medicaid services for the FY ended June 30, 2009.

OBJECTIVE

Our objective was to determine whether the Medicaid credit balances recorded in Mercy's accounting records as of July 31, 2009, for inpatient and outpatient services represented overpayments that Mercy should have returned to the Medicaid program.

SUMMARY OF FINDING

As of July 31, 2009, Mercy's Medicaid accounts with credit balances included 23 overpayments totaling $121,574 ($73,681 Federal share) that had not been returned to the Medicaid program. The Federal share consists of $60,787 that we calculated using the regular FMAP for FYs 2006 through 2009 and $12,894 in additional payments that we calculated using the increased FMAP for FY 2009. The ages of the 23 overpayments ranged from 8 to 556 days.

Mercy did not return 19 of the 23 overpayments totaling $118,632 ($72,210 Federal share) to the State agency because Mercy lacked adequate policies and procedures to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments. Mercy did not return the remaining four overpayments totaling $2,942 ($1,471 Federal share) because Mercy received letters from the State agency indicating that the State agency would retract the overpayments and that Mercy should not refund them.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government $73,681 (Federal share) in Medicaid overpayments to Mercy and

- work with Mercy to ensure that it develops adequate policies and procedures to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments.

STATE AGENCY COMMENTS

In its comments on our draft report, the State agency agreed with our recommendations. The State agency's comments are included in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In California, the Department of Health Care Services (the State agency) administers Medicaid.

The Federal Government pays its share of a State's Medicaid payments based on the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income. Pursuant to the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), States' FMAPs are temporarily increased for Federal fiscal year (FY) 2009, FY 2010, and the first quarter of FY 2011. The regular FMAP for California's Medicaid payments for FYs 2006 through 2009 was 50 percent. For FY 2009, the FMAP increased 11.59 percentage points to 61.59 percent because of the Recovery Act.

Medicaid Credit Balances

Credit balances may occur when the reimbursement that a provider receives for services provided to a Medicaid beneficiary exceeds the program payment ceiling or allowable costs, resulting in an overpayment. Credit balances may also occur when a provider receives payments for the same services from the Medicaid program and another third-party payer. In such cases, the provider should return the overpayment to the Medicaid program, which is the payer of last resort.

Federal and State Requirements

Section 1903(d)(2)(C) of the Act, implemented at 42 CFR § 433.300(b), states: "… when an overpayment is discovered … the State shall have a period of 60 days in which to recover or attempt to recover such overpayment before adjustment is made in the Federal payment to such State on account of such overpayment. … [T]he adjustment in the Federal payment shall be made at the end of the 60 days, whether or not recovery was made."

The State agency does not have any regulations requiring providers to refund Medicaid credit balances within a specific timeframe. However, State Medicaid cost report instructions state that it is the provider's responsibility to maintain an effective system to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments. In addition, providers must report outstanding credit balances as part of their annual cost report submissions and refund any overpayments when the State agency settles the cost reports.

Providers must submit their annual Medicaid cost reports within 150 days after the end of the provider fiscal year. Pursuant to section 14170(a)(1) of the California Welfare and Institutions Code, the State agency has 3 years after the provider's fiscal year or the date of the submission, whichever is later, to audit or review the cost report.

Mercy San Juan Medical Center

Mercy San Juan Medical Center (Mercy) is an acute-care hospital located in Carmichael, California. Mercy reported that it was reimbursed by the State agency approximately $25.5 million for Medicaid services for the FY ended June 30, 2009.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Medicaid credit balances recorded in Mercy's accounting records as of July 31, 2009, for inpatient and outpatient services represented overpayments that Mercy should have returned to the Medicaid program.

Scope

Mercy's inpatient and outpatient accounting records contained 1,059 Medicaid accounts with credit balances totaling $581,661 as of July 31, 2009. We reviewed 151 accounts with credit balances of $600 or more, totaling $506,172. Of these accounts, 23 included Medicaid overpayments due to the State agency.

Our objective did not require an understanding or assessment of the complete internal control system at Mercy. We limited our review of internal controls to obtaining an understanding of the policies and procedures that Mercy used to review credit balances and report overpayments to the State Medicaid program.

We performed our fieldwork at Mercy's corporate offices in Rancho Cordova, California, from August 2009 to January 2010.

Methodology

To accomplish our objective, we:

- reviewed Federal and State requirements pertaining to Medicaid credit balances and overpayments;

- reviewed Mercy's policies and procedures for reviewing credit balances and reporting overpayments to the State agency;

- traced Mercy's July 31, 2009, total credit balances to the accounts receivable records and traced the accounts receivable records to the balance sheet;

- identified Mercy's Medicaid credit balances from its accounting records and reconciled these credit balances to Mercy's Medicaid credit balances report as of July 31, 2009;

- reviewed Mercy's accounting records for accounts with credit balances of $600 or more, including patient payment data, Medicaid claim forms and remittance advices, patient accounts receivable detail, and additional supporting documentation;

- calculated the Federal share of overpayments by applying the regular FMAP of 50 percent for FYs 2006 through 2009 and the additional FMAP of 11.59 percent for FY 2009; and

- coordinated our audit with State agency officials.

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 finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATIONS

As of July 31, 2009, Mercy's Medicaid accounts with credit balances included 23 overpayments totaling $121,574 ($73,681 Federal share) that had not been returned to the Medicaid program.

OUTSTANDING CREDIT BALANCE ACCOUNTS WITH MEDICAID OVERPAYMENTS

As of July 31, 2009, Mercy's Medicaid accounts with credit balances included 23 overpayments totaling $121,574 ($73,681 Federal share) that had not been returned to the Medicaid program. The Federal share consists of $60,787 that we calculated using the regular FMAP of 50 percent for FYs 2006 through 2009 and $12,894 in additional payments that we calculated using the additional FMAP of 11.59 percent for FY 2009. The ages of the 23 overpayments ranged from 8 to 556 days, as the following table summarizes.

Ages of Overpayments as of July 31, 2009

Days	No. of Accounts	Overpayment Amount	Federal Share
1–60	8	$96,941	$59,511
61–180	9	11,815	6,561
181–365	5	11,830	7,115
366–730	1	988	494
> 730	0	0	0
Total	**23**	**$121,574**	**$73,681**

Mercy did not return 19 of the 23 overpayments totaling $118,632 ($72,210 Federal share) to the State agency because Mercy lacked adequate policies and procedures to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments. Mercy did not return the remaining four overpayments totaling $2,942 ($1,471 Federal share) because Mercy received letters from the State agency indicating that the State agency would retract the overpayments and that Mercy should not refund them.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government $73,681 (Federal share) in Medicaid overpayments to Mercy and

- work with Mercy to ensure that it develops adequate policies and procedures to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments.

STATE AGENCY COMMENTS

In its comments on our draft report, the State agency agreed with our recommendations. The State agency's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: DEPARTMENT OF HEALTH CARE SERVICES COMMENTS

DHCS
DAVID MAXWELL-JOLLY
Director

State of California—Health and Human Services Agency
Department of Health Care Services

ARNOLD SCHWARZENEGGER
Governor

March 25, 2010

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
Office of Inspector General
90 7th Street, Suite 3-650
San Francisco, CA 94103

Dear Ms. Ahlstrand:

The California Department of Health Care Services (DHCS) has prepared its response to the U.S. Department of Health and Human Services, Office of Inspector General (OIG), draft report entitled "Review of Medicaid Credit Balances at Mercy San Juan Medical Center as of July 31, 2009" (A-09-09-00107). DHCS appreciates the work performed by the OIG and the opportunity to respond to the draft report.

Please contact Ms. Traci Walter, Audit Coordinator, at (916) 650-0298 if you have any questions.

Sincerely,

Original signed by

Toby Douglas
Chief Deputy Director
Health Care Programs

cc: See next page

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Department of Health Care Services
Response to the Office of Inspector General's Draft Report Entitled

Review of Medicaid Credit Balances at
Mercy San Juan Medical Center as of July 31, 2009

Recommendation: We recommend that the State agency refund to the Federal Government $73,681 (Federal share) in Medicaid overpayments to Mercy.

Response: The Department of Health Care Services (DHCS) agrees with the recommendation and will 1) seek recovery of $121,574 ($73,681 Federal share) in Medicaid overpayments made to Mercy San Juan Medical Center and 2) refund $73,681 to the Federal Government.

Documentation provided by the Office of Inspector (OIG) indicates that Mercy San Juan had cleared $118,377 ($72,114 Federal share) of Medicaid overpayments as of December 28, 2009. DHCS' Audit Review and Analysis Section will review the documentation provided by the OIG and will work with Mercy San Juan to resolve the remaining credit balances.

Recommendation: We recommend that the State agency work with Mercy to ensure that it develops adequate policies and procedures to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments.

Response: The DHCS Financial Audits Branch (FAB) conducts annual Medi-Cal cost report audits of all acute care facilities. These audits include steps to review for credit balances. The audit of future cost reports for Mercy San Juan Medical Center will include a review for credit balances. FAB will work with Mercy San Juan during these audits to ensure adequate policies and procedures are developed.