
MEDICAID CREDIT BALANCES IN HOSPITAL ACCOUNTS



OFFICE OF INSPECTOR GENERAL
OFFICE OF ANALYSIS AND INSPECTIONS

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MEDICAID CREDIT BALANCES IN HOSPITAL ACCOUNTS

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INSPECTOR GENERAL

EXECUTIVE SUMMARY

PURPOSE

The purpose of this national inspection was to determine the dollar amount of Medicaid credit balances that exist at Medicaid-participating hospitals. In addition, the inspection identified policies and procedures which may be a factor in creating these credit balances, or in delaying refunds by the hospital or recovery of these funds by Medicaid State agencies in a timely manner.

BACKGROUND

The Social Security Act and Federal regulations provide that Medicaid payments may be made only when there is no third party liable for payment of services. Where a third party makes payment in addition to Medicaid, or the Medicaid payment is in excess of the amount due the hospital or a duplicate payment, a credit balance is created. This amount must be reported or refunded in a timely manner to the Medicaid program. After being notified of a credit balance, the Medicaid program must act promptly to recover or adjust this amount.

The Inspector General has conducted inspections of hospital Medicare credit balances since 1985. This earlier work suggested a potential for substantial Medicaid credit balances nationwide.

METHODOLOGY

This national inspection included reviewing patient accounts in a randomly selected group of 50 hospitals in five States. The States selected were California, Michigan, New York, Ohio, and Texas. Forty-eight percent of Medicaid hospital inpatient payments are made to hospitals in these five States.

FINDINGS

Projected Medicaid Credit Balances are Substantial

We identified Medicaid program credit balances of \$723,800 (\$399,355 Federal share) in a total of 401 credit balance accounts reviewed. The credit balances found in the sampled hospitals in each State were then projected to the entire universe of Medicaid-participating hospitals in each sampled State, producing total projected credit balances for the five States of \$16,369,967 (\$8,970,198 Federal share).

If all the conditions existing in the 5 sample States were found to exist in all 50 States, the total projected credit balances to the Medicaid program could be as much as \$34,104,098 (\$20,663,673 Federal share).

Hospitals are not Reporting Credit Balances in a Timely Manner

Forty-five days was considered to be a reasonable time period for hospitals to notify a State agency or fiscal agent that a Medicaid credit balance exists and should be recovered. The inspection reviewed the procedures pertinent to record-keeping processes at the sampled hospitals. Based on this information, the hospitals should be able to make notification within this time period. Sampled hospitals had notified the State agencies of the patient credit balances in 267 (67 percent) of the 401 accounts reviewed. In 73 (27 percent) of these cases, the hospitals notified the State agencies within 45 days of identifying the credit balances, and in 194 (73 percent) of the cases, hospitals took in excess of 45 days to notify the State agencies. Three States had 158 credit balances (81 percent) for which notices were issued to the State agencies over 45 days after the credit balances occurred. In 3 States, the hospitals did not report 119 of the 134 credit balances (89 percent) to the State agencies.

State Agencies and Fiscal Agents are not Recovering Credit Balances in a Timely Manner

Ninety-six percent of the Medicaid credit balances reported were not recovered by the State agencies within 60 days of the hospital's notice. We established 60 days as a reasonable time period for a State agency or fiscal agent to take recovery action on a Medicaid credit balance after being notified by a hospital. The 60-day period is consistent with the time frame in section 9512, the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985, Public Law 99-272. This section of the act addresses the State agency's responsibility to recover an overpayment--once identified--from a person or entity in a 60-day period before a reduction is made in the Federal payment to that State equal to the amount of the overpayment. A review of inspection data indicated that two States made about 75 percent of the recoveries, while the other three States recovered the remaining 25 percent.

RECOMMENDATIONS

The Health Care Financing Administration (HCFA) Should Take Action to Recover or Adjust Credit Balances

- The HCFA should instruct the sampled State agencies to recover or adjust actual and projected credit balances identified by this inspection. Also, national savings in excess of \$34 million are projected if all States were directed to recover or adjust outstanding credit balances.

The HCFA Should Establish and Enforce Time Frames for Reporting and Recovering Credit Balances

- The HCFA should develop regulations and policy guidelines that provide for timely reporting of credit balances by hospitals and recovery of credit balances from State agencies. We recommend (1) that hospitals be required to report credit balances to State agencies within 45 days from their occurrence, and (2) that HCFA enforce the COBRA

requirement that State agencies refund credit balances within 60 days after being notified by hospitals.

- State agencies could detect Medicaid credit balances through review of hospital records on a special request or periodic basis. Recovery could be carried out through procedures such as utilizing the Form HCFA-64 quarterly expenditure report for credit balance information and assessing interest on the Federal share of credit balances not reported in a timely manner.

AGENCY COMMENTS

The HCFA reviewed the report and generally agreed with the Office of Inspector General. The HCFA undertook a number of initiatives to address the presence of Medicaid credit balances in hospitals. These efforts focused on conducting hospital reviews, developing regional office guides, and establishing a monitoring system for State collection efforts. The HCFA also made several observations on the report. They addressed causes of credit balances, State monitoring mechanisms, follow-up actions on specific States mentioned in the report, and reiteration of existing HCFA policy and procedures related to credit balances. Our office provided assistance to the Kansas City HCFA regional office in their efforts to conduct reviews and identify credit balances in hospitals.

In general, we agree with HCFA's comments and have modified our recommendations accordingly. However, HCFA disagreed with our recommendation to establish time frames for reporting and refunding credit balances. We continue to believe that time frames would ensure prompt recovery of these Medicaid funds.

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INTRODUCTION

PURPOSE

The purpose of this national inspection was to determine the dollar amount of Medicaid credit balances at a randomly selected sample of Medicaid-participating hospitals in five States. In addition, the inspection was conducted to identify any policy or procedural weaknesses which may be factors in the creation of credit balances. Delays by hospitals in reporting or refunding credit balance amounts, and delays by the Medicaid State agencies or fiscal agents in recovering or adjusting credit balances, were also examined.

BACKGROUND

The Social Security 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 Social Security Act provides that the State or local agency administering the Medicaid program will take all reasonable measures to determine the legal liability of third parties to pay for care and services arising from injury, disease, or disability. A Medicaid 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 and pay vendor claims for services and items covered by Medicaid.

Federal regulation 42 CFR 433.139 outlines provisions the State agencies must follow in payment of 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.

Both the State agency or fiscal agent, and the hospital, have responsibilities when credit balances are created and identified. The hospital must report or refund the amount of the credit balance to the agency or agent within a "reasonable time" after its identification. Subsequently, the agency or agent must recover or adjust future hospital payments in the amount

of the credit balance in a timely manner. It is essential that credit balances be identified and recovered. When those responsibilities are not met, both the Federal and State governments incur losses.

The Office of Inspector General (OIG) has studied this issue in the past. For example:

- A 1985 OIG regional inspection of Medicare credit balances was expanded to a national inspection (Credit Balances in Medicare Beneficiary Hospital Accounts #OPI-85-7-040). The result of this national inspection was a projected amount of Medicare credit balances in excess of \$164 million for all participating hospitals.
- More recently, a regional review of patient accounts in three large metropolitan hospitals was conducted to determine the extent and age of any existing Medicaid credit balances. The analysis of documentation and conversations with hospital personnel during this review resulted in the discovery of outstanding Medicaid credit balances in excess of \$300,000. Further, it was determined that almost two-thirds of the outstanding credit balances were over 6 months old. Since this was a preinspection or informal review, no report was issued.

These previous activities indicated that a national inspection would reveal substantial credit balances in Medicaid-participating hospitals.

METHODOLOGY

A sample of hospitals was chosen from the universe of all Medicaid-participating hospitals in each of five States selected for review. These States are: California, Michigan, New York, Ohio, and Texas.

These States were selected for review because they made a substantial amount (48 percent) of the Medicaid medical vendor payments for inpatient services in general hospitals in Fiscal Year 1986. These five States were paid \$5,004,722,371 out of the national total of \$10,369,810,730.

In each State, 10 hospitals were selected using simple random sampling stratified by bed size. The final sample was comprised of 10 hospitals with less than 100 beds, 16 hospitals with between 100 and 399 beds, and 24 hospitals which had 400 or more beds.

Each hospital in the sample was requested to provide the OIG with listings of outstanding Medicaid credit balances through October 31, 1987. Patients with Medicaid payments under \$50 were excluded. Based upon those lists, samples of up to 50 patients were selected. For each of the patients selected, the hospitals provided copies of patient ledger records for review to validate the Medicaid credit balance. Based upon the number of accounts to be reviewed, some patient ledger accounts were reviewed at the hospital and the others were provided to the OIG by mail. Analysis of the patient ledger accounts was done to determine the existence of a

valid Medicaid credit balance and the amount of the credit balance. Further review determined the date the hospital notified the State agency or fiscal agent of the existence of the Medicaid credit balance, and the length of time it took the agency or agent to recover or adjust the amount of the Medicaid credit balance.

FINDINGS

Projected Medicaid Credit Balances are Substantial

The inspection identified 401 credit balance accounts totaling \$723,800 (\$399,355 Federal share) to be hospital credits due the Medicaid program (appendix A, table I). Of the 401 accounts, the State agency was notified of the existence of a credit balance on 267 accounts. Credit balances on the other 134 accounts were identified only as part of this review. These Medicaid credit balances resulted from third-party payments, duplicate payments, and payments by the State agency or fiscal agent in excess of the amount due to the hospitals.

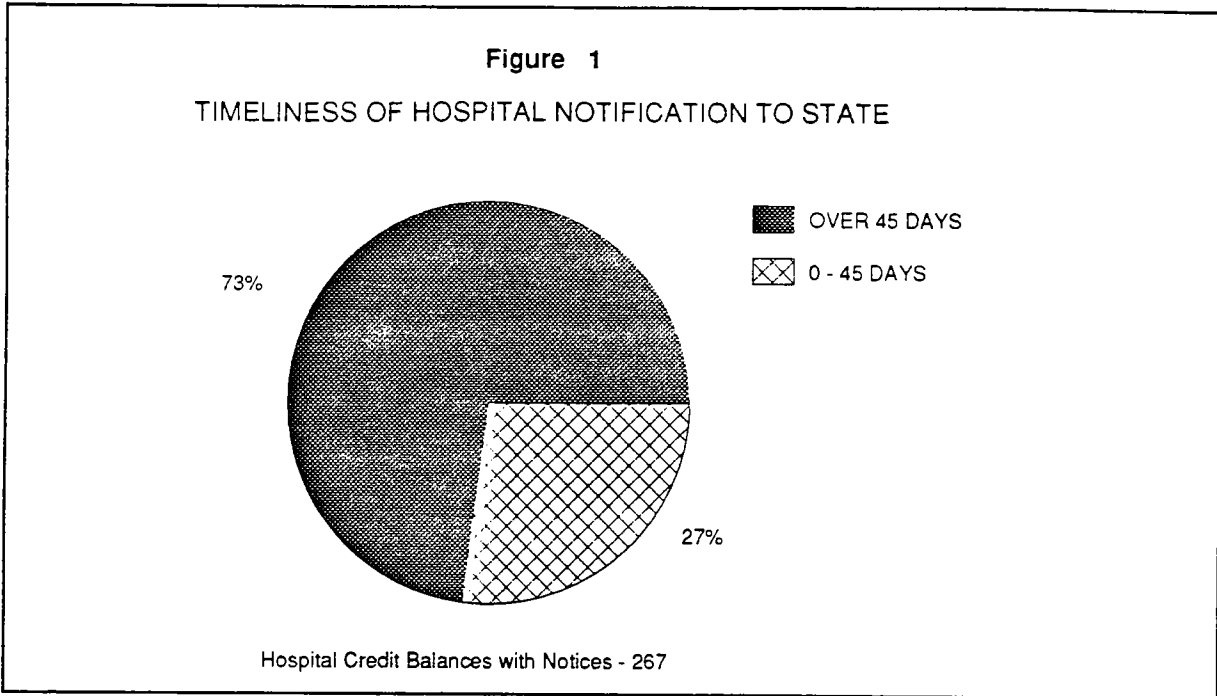
Projecting the amount of Medicaid credit balances for each sample State to all Medicaid-participating hospitals in each State resulted in total estimated credit balances in the five States of \$16,369,967 (\$8,970,198 Federal share).

Assuming all conditions relative to the five sample States exist in all the States, the projected credit balances to the Medicaid program could be as much as \$34,104,098 nationally (\$20,663,673 Federal share). See appendix A, table II.

Hospitals are not Reporting Credit Balances in a Timely Manner or Not Reporting Any Credit Balances at All

It was determined that numerous hospitals in the sample were not prompt in advising the State agency or fiscal agent when Medicaid credit balances occurred and, in many cases, had not notified the agency or agent at all.

This inspection reviewed the record-keeping processes at the sample hospitals. We found that the hospitals' procedures should enable them to make notification of a credit balance within 45 days of the date the balance occurred. This would be a reasonable time period for hospitals to notify a State agency or fiscal agent that a Medicaid credit balance had been created and recovery should be made. This inspection did not include onsite reviews at State agencies nor did it involve reviewing Form HCFA-64 quarterly expenditure reports. In 73 percent of the cases, the hospitals exceeded the 45 days (appendix A, table III). Eighty-one percent of these cases in which notices were issued more than 45 days after the credit balances occurred were found in Michigan, New York, and Ohio.



In 33 percent of the credit balances reviewed, the hospitals were found not to have notified the State agency or fiscal agent that a Medicaid credit balance ever existed (appendix A, table IV). Inspection data also indicated that in California, Michigan, and Ohio, 89 percent of credit balances (119) were never reported by the hospitals to the State agencies.

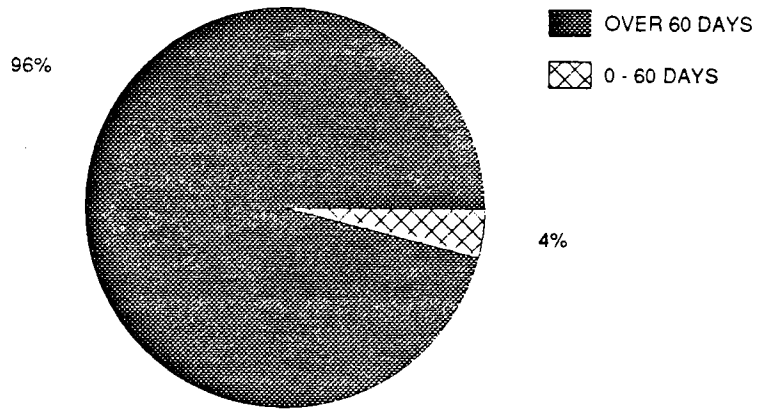
Currently, no incentive exists for hospitals to identify credit balances. Although hospitals have a responsibility to report credit balances, the inspection found that hospitals gave a low priority to this function.

State Agencies and Fiscal Agents are not Recovering Credit Balances in a Timely Manner

The inspection revealed that State agencies or fiscal agents were not diligent in recovering or adjusting the 267 credit balance accounts after notification by the hospitals. This was true even when hospitals issued several notices. A comparative time frame appears in section 9512, the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985, Public Law 99-272. The act indicates that 60 days is the time period for a State agency or fiscal agent to recover overpayments for refund to the Health Care Financing Administration (HCFA). This section of the act spells out the State's responsibility to recover an overpayment, once identified, from a person or entity in a 60-day period before a reduction is made in the Federal payment to that State equal to the amount of the overpayment. Data show that 96 percent of the credit balances were not recovered within 60 days of notice by the hospital. Inspection data indicated that California and New York made about 75 percent of the recoveries, while the other three States made the remaining 25 percent of the recoveries. Numerous cases existed where the time period for recovery far exceeded the 60-day period (appendix A, table V). The age of credit balances for all sample States is shown in appendix A, table VI.

Figure 2

TIMELINESS OF CREDIT BALANCE RECOVERY
FOR THE SAMPLED STATES



Credit Balances with Notices sent by the Hospitals
to the States - 267/401

RECOMMENDATIONS

The HCFA Should Take Action to Recover or Adjust Credit Balances

- The HCFA should instruct the sampled State agencies to recover or adjust actual and projected credit balance accounts identified by this inspection. Nationally, the projected program savings would exceed \$34 million if all States were directed to identify and recover or adjust outstanding credit balances.

The HCFA Should Establish and Enforce Time Frames for Reporting and Recovering Credit Balances

- The HCFA should enforce the COBRA provision (section 9512) which requires States to refund any outstanding credit balances. This could be more effectively accomplished by issuing regulations or guidelines setting specific time frames for action by hospitals and States. For example:
 - Hospitals could be required to report credit balances to State agencies within 45 days beginning with the date the credit balance occurs.
 - State agencies could be required to refund credit balances to HCFA within 60 days after notification by hospitals that a credit balance exists, in compliance with COBRA.
- State agencies could detect Medicaid credit balances through review of hospital records on a special request or periodic basis. (The Medicare program has effectively utilized programs of special reviews and reviews of provider records conducted during cyclical audits.)
- Procedures that HCFA could utilize to carry out recovery and reporting of program credit balances include the following examples:
 - utilizing the Form HCFA-64 quarterly expenditure reporting process as a mechanism to obtain credit balance information, and
 - assessing interest on the Federal share of credit balances not reported in a timely manner.

AGENCY COMMENTS

We solicited and received comments on the draft report from HCFA. They indicated agreement that credit balances are a problem which requires attention and indicated several initiatives begun or to be implemented to identify and recover credit balances. One of these initiatives involved the review of two States for identification of outstanding Medicaid credit balances. After a successful initial review in Region VI, several additional States have been selected for HCFA's expanded study. They have developed a guide to assist regional offices in recovering credit balances as well as expanding upon policy and procedures to focus on credit balances. The HCFA commented on the causes of credit balances and also indicated that immediate follow-up action was being taken with States identified in this report. In addition, HCFA's position on implementing current law on the collection of overpayments was referenced. A copy of HCFA's response to the draft report is included in the appendix.

The HCFA has taken initiatives to identify Medicaid credit balances in selected States. The HCFA Kansas City Regional Office requested the assistance of the OIG Regional Office of Analysis and Inspections in preparing a regional contract proposal which would be utilized to review hospital records for Medicaid credit balances. Our office provided a brief summary of the activity to identify hospital credit balances. In addition, we outlined our methodology of identifying the existence of Medicaid credit balances in a hospital in the Kansas City Region which was not part of the sample of States utilized for this inspection.

OIG RESPONSE

We are in general agreement with HCFA's comments. We have modified our recommendation to include enforcement of the recovery provisions under section 9512 of COBRA. However, we continue to believe that establishing time frames within which credit balances must be reported by hospitals and refunded by States would have the effect of ensuring timely recovery of Federal funds.

APPENDIX A

TABLES

TABLE I					
<i>Medicaid Credit Balances Identified in Hospital Inpatient Records in Sampled States</i>					
<i>State</i>	<i>Total Number of Balances</i>	<i>Third-Party Payer</i>	<i>Duplicate Payments</i>	<i>Other Payments*</i>	<i>Total State Payments</i>
CA	92	\$ 99,913	\$ 1,654	\$ 23,858	\$125,425
MI	101	268,426	9,877	12,089	290,392
NY	79	91,053	1,651	5,184	97,888
OH	105	105,593	15,274	67,262	188,129
TX	24	7,497	10,421	4,048	21,966
TOTALS	401	\$572,482	\$ 38,877	\$112,441	\$723,800
<i>*Primarily payments by the State agency or fiscal agent in excess of the amount due the hospitals.</i>					

TABLE II					
<i>Projected Credit Balances</i>					
<i>Sample States</i>	<i>State Percent</i>	<i>State Share</i>	<i>Federal Percent</i>	<i>Federal Share</i>	<i>Projected Balances</i>
CA	50.00	\$1,602,085	50.00	\$1,602,085	\$3,204,170
MI	43.52	2,744,168	56.48	3,561,366	6,305,534
NY	50.00	1,315,236	50.00	1,315,236	2,630,472
OH	40.90	1,575,058	59.10	2,275,939	3,850,997
TX	43.09	163,222	56.91	215,572	378,794
Total		\$7,399,769		\$8,970,198	\$16,369,967

Within each State, the projections were made by multiplying the average dollar amount of credit balances found in the sample times the number of hospitals in the appropriate strata. The variances have been calculated using the appropriate equations for each State and for the total of the five States.

If similar circumstances existed in all the States as were found in the five sample States, which represents 48 percent of vendor payments in Fiscal Year 1986, as much as \$34,104,098 (\$20,663,673 Federal share) in credit balances may exist nationally.

The Federal medical assistance percentages are established in conformance with criteria in section 1902(a)(2) of the Social Security Act; they vary for each State.

Note: The current rate (Fiscal Year 1989) is the basis for refund purposes. Refunds are made at the rate currently in effect, rather than the rate at the time the credit balance was created.

TABLE III

Time Period Within Which Hospitals Notified State Agency/Fiscal Agent of Medicaid Credit Balances

TOTAL NUMBER OF NOTICES ISSUED BY HOSPITALS				NOTICES CONSIDERED TIMELY (0-45 DAYS) (27% OF NOTICES ISSUED)		
<i>State</i>	<i>No. of Credit Balances</i>	<i>No. With Notices Issued</i>	<i>Percent of Notices Issued</i>	<i>Number of Notices Issued (0-45 Days)</i>	<i>Percent of Notices Issued (0-45 Days)</i>	<i>Dollar Amt. of Cr.Bal. Notices (0-45 Days)</i>
CA	92	57	62	32	56	\$31,132
MI	101	72	71	5	7	9,128
NY	79	74	94	26	35	25,472
OH	105	50	48	7	14	40,328
TX	24	14	58	3	21	880
Total	401	267			27	\$106,940
Notices Not Considered Timely (Over 45 Days) (73% of Notices Issued)						
<i>State</i>	<i>No. of Notices Over 45 Days</i>	<i>Percent of Notices Issued Over 45 Days</i>	<i>Dollar Amt. of Cr. Bal. Notices Over 45 Days</i>			
CA	25	44	\$ 62,263			
MI	67	93	216,009			
NY	48	65	70,223			
OH	43	86	91,541			
TX	11	79	6,535			
Total	194	73	\$446,571			
<i>Notices were issued by hospitals in 67 percent of the credit balances reviewed.</i>						

TABLE IV

Medicaid Credit Balances in Which No Notice Was Issued to the State Agency/Fiscal Agent by the Hospital

<i>State</i>	<i>Number of Balances</i>	<i>Balances with No Notices</i>	<i>Dollar Amount of No Notices</i>	<i>Average Dollar Amount</i>
CA	92	35	\$ 32,030	\$ 915
MI	101	29	65,255	2,250
NY	79	5	2,193	439
OH	105	55	56,260	1,023
TX	24	10	14,551	1,455
Total	401	134	\$170,289	\$1,271

No notices were issued by hospitals in 33 percent of the credit balances reviewed.

TABLE V

Time Period Within Which State Agency/Fiscal Agent Recovered/Adjusted the Medicaid Credit Balance

<i>State</i>	<i>Number of Credit Balances</i>	<i>Number of Notices Issued by Hospitals</i>	<i>Number of Recoveries Within 60 Days</i>	<i>Dollar Amount of Recovery Within 60 Days</i>	<i>Number for Recovery Over 60 Days</i>	<i>Dollar Amount for Recovery Over 60 Days</i>
CA	92	57	4	\$ 3,138	53	\$ 90,257
MI	101	72	2	21,346	70	203,790
NY	79	74	4	1,338	70	94,358
OH	105	50	1	180	49	131,689
TX	24	14	0	- 0-	14	7,415
Total	401	267	11	\$26,002	256	\$527,509

Ninety-six percent of credit balances were not recovered within 60 days after notification by the hospital.

TABLE VI

**Age of Outstanding Medicaid Credit Balances
(Dollar Amounts)**

<i>State</i>	<i>0-30 Days</i>	<i>31-60 Days</i>	<i>61-90 Days</i>	<i>91-180 Days</i>	<i>Over 180 Days*</i>	<i>Total Payments</i>
CA	\$ 8,029	\$13,715	\$ 4,872	\$ 7,350	\$ 91,459	\$125,425
MI	11,065	24,544	28,315	27,731	198,737	290,392
NY	44,500	5,710	12,531	19,357	15,790	97,888
OH	1,536	- 0 -	672	16,651	169,270	188,129
TX	2,707	1,497	4,388	3,202	10,172	21,966
	\$67,837 (9.4%)	\$45,466 (6.3%)	\$50,778 (7.0%)	\$74,291 (10.3%)	\$485,428 (67.0%)	\$723,800 (100%)

**This column represents those balances outstanding which exceed 180 days but represent a loss to the Medicaid program in that Federal and State monies have not been recovered.*

APPENDIX B

HCFA's COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Management/Control
Health Care
Financing Administration

DEC 8 1988

Memorandum

OFFICE OF INSPECTOR GENERAL

Date

From William L. Roper, M.D.
Administrator

William L. Roper

1988 DEC -8 PH 2:17

Subject OIG Draft Report: "Medicaid Credit Balances in Hospital Accounts Receivable"
OAI-07-88-00470

RECEIVED

DEC 1 - 1988

To The Inspector General
Office of the Secretary

OFFICE OF INSPECTOR GENERAL

We reviewed the draft report and agree, in principle, with the OIG. The presence of credit balances in the Medicaid accounts receivable of providers (particularly hospitals) is a problem requiring HCFA's attention. In fact, we recently undertook a substantial Medicaid financial management initiative to explore this problem. Following is a brief chronology of our efforts:

- + During Fiscal Year (FY) 1987, Region VI contracted with an accounting firm to identify and analyze Medicaid and Medicare credit balances maintained by hospitals in Oklahoma and Louisiana. Six hospitals were reviewed in each State. The reviews resulted in questioning \$388,962 in Federal financial participation (FFP) in Oklahoma, and \$519,718 FFP in Louisiana for Medicaid credit balances alone.
- + Because of the success of the Region VI contract reviews, eight more reviews of hospital credit balances are scheduled for FY 1989. The States planned for review are Maryland, Virginia, South Carolina, Texas, Missouri, California, Oregon, and the District of Columbia.
- + On September 29, 1988, HCFA issued a Financial Management Review Guide for Provider Maintained Credit Balances in Medicaid Accounts Receivable. The guide explores third party liability, overpayment, and cost reimbursement policy affecting this issue and provides procedures to the regional offices for conducting these reviews.
- + In addition, 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. During FYs 1987 and 1988, several of our SPECTRUM reviews focused on these overpayment situations.

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