

**Memorandum**

Date MAY 4 1995

From June Gibbs Brown  
Inspector General *June G Brown*

Subject Quarterly Credit Balance Reporting Requirements for Medicaid (A-05-93-00107)

To Bruce C. Vladeck  
Administrator  
Health Care Financing Administration

Attached are two copies of the Department of Health and Human Services, Office of Inspector General's report entitled, "**Quarterly Credit Balance Reporting Requirements for Medicaid.**" The objectives of our review were to assess the Health Care Financing Administration's (HCFA) monitoring of State agencies' efforts to recover Medicaid overpayments and the feasibility of establishing a nationwide Medicaid credit balance monitoring mechanism through the Medicaid State agencies.

This review focused on Medicaid State agency procedures for monitoring credit balances and recovering overpayments. Our review disclosed that the States are not adequately monitoring Medicaid overpayments at providers. We found that 19 State agencies (39 percent) do not have any method to identify Medicaid credit balances and recover overpayments. Only eight States nationwide have established monitoring procedures that address the identification of Medicaid credit balances in providers' patient accounts. We concluded that, without a national reporting mechanism monitored by HCFA, both the HCFA regional offices (RO) and the State Medicaid agencies will continue to have varying and relatively low levels of intensity in their oversight of Medicaid credit balances.

We recommended that HCFA establish a national Medicaid credit balance reporting mechanism similar to the Medicare Part A credit balance reporting procedures. The HCFA should consider modifying the Medicare procedures to make them viable for the Medicaid program. Further, HCFA should allow individual States the option of an exemption from or adjustment to the basic reporting system, if such an exemption or adjustment can be justified by the State agency presenting a feasible alternative that will accomplish the same goals as the national Medicaid credit balance reporting system. We also recommended that the HCFA ROs actively monitor the national Medicaid credit balance reporting mechanism.

Page 2 - Bruce C. Vladeck

Officials in your office have generally concurred with our recommendations and have taken, or agreed to take, corrective action. We appreciate the cooperation given us in this audit.

We would appreciate your views and the status of any further action taken or contemplated on our recommendations within the next 60 days. 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.

To facilitate identification, please refer to Common Identification Number A-05-93-00107 in all correspondence relating to this report.

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**QUARTERLY CREDIT BALANCE  
REPORTING REQUIREMENTS FOR  
MEDICAID**



**JUNE GIBBS BROWN**  
**Inspector General**

**MAY 1995**  
**A-05-93-00107**

## SUMMARY

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There is a need for a national procedure requiring the quarterly reporting of Medicaid credit balances to ensure that, nationwide, the majority of Medicaid overpayments are identified and recovered in a consistent and timely manner. A Medicaid credit balance often represents an overpayment to a provider of medical services. The overpayments can result from situations when a third party and Medicaid pay for the same services. In such situations, Medicaid is liable for only the portion of the services not covered by the third party. Overpayments may also result from Medicaid payments in excess of the amount due and duplicate Medicaid payments for the same services.

Federal regulations require both the providers of medical services and the State Medicaid agencies to make timely recoveries of the overpayments when they are identified. However, previous Office of Inspector General (OIG) reviews of Medicaid credit balances in eight States disclosed that hospital providers are not identifying Medicaid credit balances on their records in a timely manner. As a result, Medicaid overpayments can remain unrecovered for excessive periods of time. In general, the providers' accounting systems were capable of identifying Medicaid credit balances but the providers did not routinely review their credit balance listings. The reports also disclosed that the eight Medicaid State agencies did not routinely monitor the providers' procedures for identifying and refunding Medicaid overpayments. The OIG recommended that the eight State agencies establish procedures to monitor Medicaid providers.

Currently, there is no nationwide reporting mechanism to consistently identify and recover Medicaid overpayments; however, the Health Care Financing Administration (HCFA) has established such procedures for the Medicare Part A program. Like Medicaid, Medicare credit balances generally represent overpayments to providers of medical services. Under HCFA's policy, Medicare providers must review their patient accounts and prepare a quarterly report of credit balances. The reports are submitted to the fiscal intermediaries (FI) which administer the Medicare program under contracts with HCFA.

The objectives of our review were to assess HCFA's monitoring of State agencies' efforts to recover Medicaid overpayments and the feasibility of establishing a nationwide Medicaid credit balance monitoring mechanism through the Medicaid State agencies. To accomplish our objectives, we interviewed HCFA officials from Regions II, IV, and V. In addition, we contacted all 50 Medicaid State agencies to determine (1) whether the individual State agencies have taken any initiatives relative to Medicaid credit balance monitoring and (2) if a particular State agency has established an effective Medicaid credit balance monitoring procedure that we could use as an example for developing a nationwide reporting mechanism.

The previous OIG audits of Medicaid credit balances in eight States established the widespread existence of unrefunded Medicaid overpayments. Our summary report on these hospital audits estimated that outstanding Medicaid overpayments totaled \$73.3 million (\$41.9 million Federal share) for hospitals nationwide.

We noted that, in 1988, HCFA prepared a financial management guide for use by its regional offices when conducting reviews of Medicaid credit balances. However, the three HCFA regional offices (RO) we contacted have not conducted routine and scheduled Medicaid credit balance reviews nor have they used the guide consistently in each region. As a result, there is no uniform approach towards consistent corrective actions among all 50 States. Essentially, the State Medicaid agencies are left to their own discretion as to the extent they monitor providers' Medicaid credit balance procedures within their States.

Our review disclosed that the States are not adequately monitoring Medicaid overpayments at providers. We found that 19 State agencies (39 percent) do not have any written procedures to identify credit balances or an audit unit which reviews Medicaid providers. These 19 States also have not undertaken any special initiatives in the past 3 years to recover credit balance overpayments. Only eight States nationwide have established monitoring procedures that address the identification of Medicaid credit balances in providers' patient accounts. We concluded that, without a HCFA mandated national reporting procedure, the State Medicaid agencies will continue to monitor the identification and recovery of Medicaid credit balances with varying and relatively low levels of intensity.

We noted that North Carolina has implemented a Medicaid reporting system similar to HCFA's Medicare Part A quarterly credit balance reporting requirement--a process which has proven to be an excellent mechanism for identifying and recovering Medicare credit balances. On a quarterly basis, North Carolina's Medicaid providers review their accounting records to identify Medicaid credit balances and submit a pro-forma credit balance report to the State's fiscal agent. North Carolina requires that only hospital and long-term care facilities comply with the requirement; all other types of providers report on a voluntary basis.

We believe that North Carolina's action is a good example of a reporting procedure that can be used in developing a national Medicaid credit balance reporting mechanism. The State agency informed us that they did not increase their staffing to implement this procedure and, in the last quarter of 1993, the State recovered \$490,000 of Medicaid overpayments.

We are recommending that HCFA's central office establish a national Medicaid credit balance reporting mechanism similar to the Medicare Part A credit balance reporting procedures. The HCFA should consider modifying the Medicare procedures to make them viable for the Medicaid program. Further, HCFA should allow individual States the option of an exemption from or adjustment to the basic reporting system, if such an exemption or adjustment can be justified by the State agency presenting a feasible alternative that will accomplish the same goals as the national Medicaid credit balance reporting system. We also recommend that the HCFA ROs actively monitor the national Medicaid credit balance

reporting mechanism by (1) reviewing respective State agency requests for an exemption or adjustment to the basic reporting system and documenting the RO's justification for the alternative method; (2) maintaining a list of the State agencies and the reporting system agreed to; and (3) updating the State agency list on an annual basis and submitting it to the HCFA Medicaid Bureau.

The HCFA concurred with all recommendations and has already taken preliminary steps to set up a Medicaid credit balance reporting mechanism. They expect to have proposed national procedures in place by the end of this Calendar Year (CY) 1995. The HCFA expects to use the Medicare Part A reporting system as a model but is still finalizing details for implementation. Although States will be encouraged to adopt the national credit balance reporting system, HCFA may allow States the option of retaining a system they have already developed. The HCFA concurs with the recommended RO monitoring procedures, assuming they allow for alternative reporting systems. The full text of HCFA's response to the draft report is presented in APPENDIX B.

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# INTRODUCTION

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## BACKGROUND

The Medicaid program, authorized by title XIX of the Social Security Act, as amended, provides grants to States for furnishing medical assistance to eligible low-income persons. The Medicaid grants are a cost-sharing effort between the Federal Government and the States.

Under the Medicaid grants, the States arrange with medical service providers such as physicians, pharmacies, hospitals, nursing homes, medical laboratories, and other organizations to provide eligible individuals with needed medical assistance.

The individual States establish or designate an agency within the State government (hereafter referred to as State agencies) to administer the State's Medicaid program, which includes processing and paying vendor claims. Some States contract with a fiscal agent to process or pay vendor claims for services and items covered by Medicaid.

Medicaid credit balances in providers' patient accounts often represent overpayments. The overpayments can result from several different situations. One overpayment situation involves Medicaid claims where a third party has liability for payment. In most cases, the Medicaid program has payment liability for only 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. 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.

The HCFA national policy regarding overpayments is expressed in the Medicaid regulations at 42 CFR 433.300 subpart F, "Refunding of the Federal Share of Overpayments to Providers." The regulation is based on the statutory requirements contained in the Omnibus Budget Reconciliation Act of 1985, section 9512, which mandated that States adjust any outstanding Medicaid credit balances within 60 days after notification by a provider that a credit balance exists. Accordingly, the provider must request an adjustment or refund the amount of the overpayment to the State agency within a reasonable time after its identification. Subsequently, the State agency must adjust the applicable claim or recover the amount of the overpayment in a timely manner. Whenever Medicaid credit balances are not identified and recovered, both the Federal and State portions of the program incur losses.

Although the HCFA policy (as expressed in the aforementioned regulations) requires providers to identify and refund overpayments, the policy does not establish a reporting structure whereby the State agencies can quantify existing overpayments and monitor recovery. Conversely, HCFA has established a quarterly credit balance reporting requirement for the Medicare Part A program to effectively implement the Medicare overpayment policy which is quite similar to HCFA's Medicaid overpayment policy. Medicare providers are required to submit quarterly credit balance reports to their respective FIs. The quarterly reports contain an attestation statement which an officer or administrator of the provider must sign, certifying the report's accuracy. The FIs also have provider audit

units that periodically conduct on-site audits of a limited number of providers. These audits generally include reviews of the provider's accounts receivable to determine if credit balances exist.

The Medicare credit balance reporting requirement has successfully resulted in the identification and recovery of a significant amount of unrefunded overpayments at Medicare providers. Based on HCFA's data, for the quarters ending June 30, 1992 (the first quarter that the Medicare reporting requirement was effective) through September 30, 1993, Medicare FIs have recovered over \$584 million of Medicare overpayments from providers.

The success of the Medicare reporting requirements, in terms of overpayment recoveries, prompted our concern as to whether a similar national reporting mechanism is needed for the Medicaid program.

## SCOPE

Our review was conducted in accordance with generally accepted government auditing standards. The objectives of our review were to assess HCFA's monitoring of State agencies' efforts to recover Medicaid overpayments and the feasibility of establishing a nationwide credit balance monitoring procedure through Medicaid State agencies.

To assess HCFA's monitoring efforts, we interviewed representatives from HCFA's ROs in Regions II, IV, and V. Since we previously determined that several States in Region V had taken some initiative to identify and recover Medicaid credit balances, we decided to contact the 50 State agencies to determine, on a nationwide basis: (1) whether the individual State agencies have taken any initiatives relative to Medicaid credit balance monitoring and (2) if a particular State agency has established an effective Medicaid credit balance monitoring procedure that we could use as an example for developing a nationwide reporting mechanism.

To accomplish our objective, we sent a questionnaire to the 50 State agencies inquiring:

- o Whether the State Medicaid agency had established written procedures for identifying and recovering outstanding Medicaid overpayments at providers and, if so, whether those procedures address credit balances in patient account records at providers.
- o Whether any special projects were initiated within the past 3 years to identify and recover outstanding overpayments and, if so, to explain the scope of the projects and quantify cost recoveries.
- o Whether the State agency's provider audit programs include audit steps to identify and review provider credit balances.

- o Whether the State agency had any comments on the feasibility or difficulty of establishing Medicaid credit balance monitoring procedures.

Although we requested a 30-day response time, we had to make follow-up requests with the majority of the States. The follow-up requests were handled through telephone conversations. We received either written or verbal responses to the questionnaire from all the States except Hawaii. After repeated attempts to obtain a response, we ceased follow-up actions with the Hawaii State agency; therefore, our report is based on responses from the other 49 States.

During Fiscal Year 1992, the OIG conducted audits of Medicaid credit balances in eight States. Between May 1992 and March 1993, separate reports were issued to each of the eight State agencies and the results of the eight State reports were summarized in a single nationwide report. We reviewed the 9 OIG reports and included the findings and recommendations in a comparative analysis with the responses we received from the 49 State agencies.

The response from North Carolina disclosed that the State agency has implemented a system similar to the Medicare credit balance reporting requirement for its Medicaid program. We considered North Carolina's system to be a good example for use in developing a nationwide reporting mechanism. Through telephone interviews with a representative from North Carolina's State agency, we obtained detailed information about the procedures implemented and the impact on the State agency.

We discussed the issue of a nationwide credit balance monitoring mechanism with HCFA representatives from the Office of Medicaid Management in Baltimore, Maryland.

Based on information in the OIG Medicaid data bank maintained by Region VI staff, we ranked the 50 States according to their respective Medicaid expenditures for the period October 1, 1990 to March 31, 1993 (see APPENDIX A). The 10 States with the largest Medicaid expenditures were each sent a follow-up questionnaire requesting comments on the feasibility of implementing a credit balance reporting procedure in their State that was similar to North Carolina's system. In this questionnaire, we asked the State agencies:

- o to estimate the cost of implementing the reporting mechanism,
- o if the reporting mechanism should apply to all types of providers,
- o whether minimum volume limits, such as number of claims or reimbursement amounts, should be established for required reporting,
- o if an attestation statement would serve as a means of ensuring compliance without verification,

- o if State laws permit the State agency to impose fines or penalties for noncompliance with the reporting requirements, and
- o to provide any other comments on implementing the procedures.

Due to the nature of our performance audit, an internal control review was not applicable. In addition, the information obtained through our questionnaires and telephone contacts with State agency and HCFA officials was taken as is without further verification. The field work, which included developing the questionnaires, analyzing and summarizing the responses, and conducting the telephone follow-ups and interviews, was conducted in the Wisconsin field office during the period November 1, 1993 through May 20, 1994.

# FINDINGS AND RECOMMENDATIONS

## **NEED FOR A NATIONAL MEDICAID CREDIT BALANCE REPORTING PROCEDURE**

Based on the results of our review, we believe a nationwide Medicaid credit balance reporting procedure is needed to ensure that Medicaid credit balances are properly identified and overpayments recovered in an efficient, effective, and consistent manner in all 50 States. Our conclusion is based on three interrelated factors, namely: (1) the OIG has

reported that significant amounts of outstanding Medicaid credit balances exist nationwide; (2) HCFA ROs do not routinely monitor States' efforts to identify credit balances and recover Medicaid overpayments; and (3) collectively, the State agencies' efforts are inadequate to ensure that, nationwide, the majority of Medicaid credit balances are being identified by providers and overpayments recovered in a timely manner.

### **Existence Of Medicaid Credit Balances Established In Previous OIG Reports**

Between May 1992 and March 1993, the OIG issued 8 reports on reviews of Medicaid credit balances at selected hospital providers (with 200 or more beds) in 8 States. The reports disclosed that providers in each of the eight States had Medicaid credit balances on their accounting records that were outstanding for significant lengths of time (some as long as 3 years) and were not refunded in accordance with applicable Federal regulations. The reports identified outstanding Medicaid overpayments totaling \$1.7 million at the providers reviewed in the eight States. Using statistical sampling techniques, the OIG projected that outstanding Medicaid overpayments in the 8 States would total \$9.1 million for hospitals with 200 or more beds.

States Reviewed By OIG And Related Audit Report Control Number	
Arkansas	A-06-92-00026
Illinois	A-05-92-00032
Iowa	A-07-92-00516
New Jersey	A-02-92-01004
North Carolina	A-04-92-01022
Rhode Island	A-01-92-00003
South Carolina	A-04-92-01026
Virginia	A-03-92-00201

In general, the reports disclosed that the provider accounting systems were adequate to identify Medicaid credit balances at the patient level. However, the credit balances remained outstanding because, for the most part, the hospitals did not review their credit balances in a timely manner to determine if overpayments existed or to assure that the overpayments were returned to the State agencies. Once the hospitals identified overpayments, actions were usually taken to return the overpayments.

The reports generally indicated that the respective State agencies were not properly monitoring the hospitals relative to the identification of Medicaid credit balances and

refunding of overpayments. Consequently, each report contained a recommendation that the respective State agencies establish procedures requiring that hospitals identify and refund Medicaid overpayments in a timely manner.

The OIG subsequently issued a nationwide report (A-04-92-01023) summarizing the results of the eight State reports. Based on the results of the eight reports, the OIG projected that hospitals may have outstanding Medicaid overpayments amounting to \$73.3 million nationwide. The report recommended that HCFA formally evaluate the State agencies' oversight of hospitals' procedures for Medicaid credit balances and the timely refunding of overpayments.

We believe these OIG reports firmly establish that significant amounts of outstanding Medicaid credit balances exist at hospital providers. However, as mentioned previously, the reports also disclosed that hospital providers generally have accounting systems that can identify Medicaid credit balances at the patient level. While the hospital providers have the means to identify Medicaid credit balances, they are not utilizing these means because, in general: (1) the State agencies are not requiring them to do so and (2) HCFA, by not systematically reviewing the individual State agencies' efforts to recover Medicaid overpayments, is not effectively encouraging the States to take aggressive actions to recoup Medicaid overpayments at providers.

### **HCFA Regional Offices' Monitoring Of State Agencies Efforts Regarding The Recovery Of Medicaid Overpayments**

Our interviews with representatives from three HCFA ROs disclosed that HCFA's monitoring of State agencies varies among regions in both form and substance. Although we noted that each region has previously performed some monitoring, testing, or other work at either the State agency or provider level, they do not routinely and uniformly monitor the efforts of all the State agencies within their regions regarding the identification of credit balances at providers and recovery of Medicaid overpayments.

The three ROs indicated that they have received HCFA's Financial Management Review Guide for Provider Maintained Credit Balances in Medicaid Accounts Receivable (Guide) dated September 1988. The Guide provides review procedures that the RO should perform at the State agencies when the RO conducts reviews of Medicaid credit balances. One of these procedures is to determine to what extent the State agency monitors providers with credit balances in their patient accounts. Further, the Guide indicates that if the RO determines that the State has a provider credit balance monitoring mechanism in place, the RO can evaluate the effectiveness of the mechanism rather than conduct provider specific reviews. However, if no monitoring mechanism exists at the State agency, the Guide suggests a review of selected providers.

This Guide for the ROs seems to address the Medicaid credit balance problems disclosed in the OIG reports. However, we noted that the ROs have not conducted reviews under this

guidance at all the State agencies within their regions, nor have they established a schedule to ensure that all State agencies within the region will eventually be subject to such a review. Further, it appears the ROs are not using this guidance in a consistent manner; thus, HCFA's efforts do not represent a uniform approach that would result in consistent corrective actions among all 50 States. For example, the HCFA RO in Region II visited two New York City hospitals to determine if the hospitals were following the State agency's policies for identifying and recovering Medicaid credit balances. In 1989 and 1990, HCFA Region IV contracted with 2 CPA firms for credit balance audits at 43 hospitals in 5 of the region's 8 States. In 1992, the HCFA Region V officials sent letters to the six State agencies requesting they follow-up on Medicaid credit balances at skilled nursing facilities.

For the three regions contacted, we noted that many of the HCFA RO initiatives occurred 2 to 6 years ago and we were told there are no plans for more current reviews at either the State agency or provider level. In our opinion, HCFA's ROs are monitoring State agencies' efforts to identify and recover Medicaid overpayments with varying and relatively low levels of intensity. We concluded that, for the most part, the State agencies have been left to their own discretion as to the extent they monitor providers' Medicaid credit balance procedures within their States.

### **Inadequate State Agency Monitoring Of Medicaid Overpayments At Providers**

Based on the responses to the questionnaire we sent to each State, we consider the State agencies' monitoring of providers' Medicaid overpayments to be inadequate to ensure that, nationwide, the majority of Medicaid overpayments are being consistently identified and returned in a timely manner.

Of the 49 States responding to our questionnaire, 19 State agencies (39 percent) have no method to identify credit balances. These 19 States have not implemented written procedures to identify credit balances at providers, have not conducted any special projects to recover overpayments, and they do not perform provider audits which review for credit balances.

We determined that currently only 18 States have established written procedures for the identification and recovery of Medicaid overpayments. Of the 18 States with written procedures, only 8 States have procedures that relate to credit balances in providers' patient accounts. Consequently, only eight States nationwide currently have written procedures that, in some manner, deal with the problems of identifying and recovering Medicaid overpayments that were noted in the OIG reports.

Ironically, we noted that 16 States initiated special projects to recover Medicaid overpayments at providers. The types of efforts varied among the States but over half of the projects appeared to represent one-time initiatives rather than actions that would continue to identify credit balances on an ongoing basis. As a result, there is a lack of continuity in the States' efforts to consistently recover Medicaid overpayments. However, we did note that

nine of the States conducting special projects were also States with established written procedures to identify and recover Medicaid overpayments.

Although we did not verify the States' methodologies or estimating techniques, the 16 States reported recoveries of Medicaid overpayments that collectively amounted to an estimated \$20 million (Federal and State share). We believe these recoveries reiterate the widespread existence of Medicaid credit balances among the States and demonstrate that, whenever the State agencies direct a concentrated effort at Medicaid credit balances, they are able to recover significant amounts of outstanding Medicaid overpayments. ✓

In summation, we believe our review has disclosed that the monitoring of Medicaid credit balances nationwide has been an inconsistent and uncoordinated effort by both the HCFA ROs and the State agencies. However, we feel both the HCFA ROs and the State agencies could mutually benefit from a coordinated effort in the recovery of Medicaid overpayments. In the current environment of budget cuts at both the Federal and State levels, the recovery of Medicaid overpayments results in the recouping of much needed Federal and State monies. Therefore, in our opinion, a national Medicaid credit balance reporting mechanism would offer a method for the HCFA ROs and State agencies to work together towards a common goal.

**EXAMPLE FOR  
DEVELOPING  
A NATIONAL  
PROCEDURE**

North Carolina has implemented a quarterly Medicaid credit balance reporting procedure that emulates the procedure HCFA has established for the Medicare Part A program. We believe North Carolina has shown the aforementioned procedures can be used to develop a national Medicaid credit balance reporting mechanism that would ensure the majority of Medicaid overpayments nationwide are being consistently identified and recovered in a timely manner. To determine the feasibility of such a national procedure, we requested that the 10 States with the largest Medicaid expenditures provide us with some feedback on implementing the reporting mechanism in their respective States.

### **North Carolina's Reporting System**

Effective with the quarter ending December 31, 1992, North Carolina established a provider self-reporting system for Medicaid overpayments. On a quarterly basis, all providers review their credit balances to identify those applicable to Medicaid and complete a pro-forma report that is sent to the fiscal agent along with supporting documentation. A copy of the report is also sent to the State agency. If the provider determines that Medicaid refunds are due the State agency, a refund check or adjustment request is sent along with the credit balance report.

Although North Carolina requests reports from all providers, only hospitals and long-term care facilities are required to submit a report. The reports must be submitted each quarter even if the provider does not have any credit balances to report.

Currently, the State has about 180 general hospitals and 300 to 400 long-term care facilities that are required to submit quarterly reports. Within the State agency, the third party recovery (TPR) section maintains a log of the facilities required to report. The log is essentially the only means the State uses to monitor compliance although they were considering a follow-up letter for those providers which did not submit a quarterly report. North Carolina does not have an audit function assigned to conduct on-site provider reviews nor does it require that provider officials sign an attestation statement certifying the integrity of the quarterly reports. If provider audits were used to monitor compliance, the State agency estimates that six auditors would be needed to conduct annual credit balance reviews at hospitals and long-term care facilities.

The Chief of North Carolina's TPR section informed us that the State has not added any additional staff to implement this reporting procedure. Consequently, the State has not incurred any significant incremental expense relating to the procedure's implementation. At the time of our questionnaire, North Carolina had not established a reporting system to quantify the recoveries achieved through this procedure. However, at our request, the State agency tracked the recoveries for the quarter ending December 31, 1993. The recovered amount for this one quarter amounted to approximately \$490,000.

We believe North Carolina's procedure is a good example to use in developing a national Medicaid credit balance reporting mechanism because:

- o By limiting the facilities required to submit reports to hospitals and long-term care facilities, the procedures address the types of facilities that account for most of the Medicaid expenditures while at the same time, limits the number of reports that must be processed by the State agency.
- o As indicated in the OIG Medicaid credit balance reports, most of the facilities required to submit reports have accounting systems that can identify Medicaid credit balances.
- o Most hospitals and long-term care facilities serving Medicaid patients also serve Medicare patients, thus, these facilities are already completing quarterly credit balance reports for the Medicare program.
- o It is a relatively simple reporting procedure that can ensure a uniform overpayment recovery approach in all States.

North Carolina has achieved provider cooperation in effectuating the identification and recovery of Medicaid overpayments without the persuasiveness that comes from provider audits. This is a significant point relative to implementing a national procedure since many

States either do not have a provider audit staff, the staff is not large, or the scope of the provider audits are very limited. As a result, we believe that rather than making provider audits a requirement of the national procedure, the reviews should be voluntary and based on the respective State agency's procedures.

Although North Carolina has demonstrated that provider audits are not always needed to obtain provider compliance, we believe that providers should be held responsible for the integrity of the reported data. We noted the Medicare credit balance reporting form contains an attestation statement which is to be signed by an administrator or official of the provider, certifying that the reported credit balances are accurate. North Carolina, which used the Medicare reporting format in establishing its Medicaid policy, elected not to include the attestation statement on their Medicaid credit balance reports.

### **Feedback Regarding North Carolina's System From The Ten States With The Largest Medicaid Expenditures**

To obtain a perspective of potential problems in implementing North Carolina's policy, we sought feedback from the 10 States with the largest Medicaid expenditures. All 10 States responded. The responses varied but generally provided thoughtful suggestions directed at making the policy more workable in large States, considering their large numbers of providers and State budgetary cutbacks.

Five States expressed negative responses. The States of New York, New Jersey, Pennsylvania, and Texas felt their current procedures were adequately monitoring Medicaid overpayments. In general, these four States felt any new policy would duplicate their current efforts and would not be cost-effective. Ohio is changing the delivery of Medicaid services to a managed care system, thus, they believe the policy would not be cost-effective for their State.

- |                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Top Ten States<br>Based On<br>Medicaid<br><u>Expenditures</u><br>1. New York<br>2. California<br>3. Texas<br>4. Pennsylvania<br>5. Ohio<br>6. Massachusetts<br>7. Florida<br>8. New Jersey<br>9. Michigan<br>10. Illinois |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

The two largest States (New York and California) indicated that by virtue of the size of their respective States, the number of reporting facilities may be overwhelming for quarterly reporting requirements. They were concerned about limiting the extent of the policy.

The 10 States provided the following suggestions and comments:

- o Since some States are experimenting with alternative means of delivering Medicaid services, limit the policy to fee-for-service providers.
- o Consider semiannual or annual reporting requirements rather than quarterly reporting to accommodate States with large numbers of facilities.

- o Limit the policy to hospitals and long-term care facilities.
- o Additional personnel will be needed to process the provider reports; estimates ranged from three to five staff.

## **CONCLUSIONS AND RECOMMENDATIONS**

In our opinion, the previous OIG Medicaid credit balance reports and the Medicaid overpayment recovery efforts by 16 State agencies demonstrate (1) the high probability that outstanding Medicaid overpayments exist at providers nationwide, (2) the amounts of the outstanding overpayments are significant, and (3) the overpayments are readily recoverable if the State agencies initiate provider monitoring efforts. However, because only eight States have established procedures to identify and recover Medicaid credit balances at the provider patient level, most State agencies are not addressing outstanding Medicaid overpayments very effectively. Consequently, it is highly unlikely that the estimated \$73.3 million of nationwide Medicaid overpayments to hospitals will be identified and recovered in a timely manner.

Since the \$73.3 million involves \$41.9 million of Federal dollars, we believe HCFA needs to address Medicaid overpayments with a national reporting mechanism. We feel HCFA needs to take this action because of the nature of the Medicaid program. Grants are given to the individual States which establish State plans for operating the program in the respective States. Although the State plans are established under HCFA guidelines and must be approved by HCFA, the Medicaid program is essentially operating under 50 different sets of policies and procedures. While this approach provides flexibility, a problem arises when a generic issue, such as outstanding Medicaid overpayments, exists for all States.

As the OIG reports demonstrated, the problems relating to the identification of Medicaid credit balances and recovery of overpayments were generally the same in each of the eight States audited. However, without a national procedure aimed at correcting the related cause of the problems, each State Medicaid agency will continue to approach the issue with varying degrees of interest and corrective actions.

We believe HCFA needs to establish a national Medicaid reporting mechanism to ensure that, on a continuing basis, the majority of Medicaid credit balances nationwide are identified and overpayments are recovered in a timely manner. Based on a credit balance growth factor specified in the previous OIG nationwide report, we estimate a national Medicaid reporting mechanism could result in future savings of approximately \$44 million per annum, with a Federal share of about \$25 million.

Our review disclosed that North Carolina has successfully implemented HCFA's Medicare quarterly credit balance requirement into its Medicaid program. We believe North Carolina's action is a good example of how the aforementioned Medicare requirement can be used to address the Medicaid credit balance problem. Responses from the States of Delaware, Virginia, and Massachusetts indicated that these State agencies are also considering a quarterly reporting system similar to Medicare. In our opinion, HCFA can use its Medicare quarterly credit balance requirement as a basis for a national Medicaid credit balance reporting mechanism.

We recommend that HCFA central office:

- o Establish a national Medicaid credit balance reporting mechanism similar to HCFA's Medicare Part A credit balance reporting procedures.
- o Consider modifying the Medicare Part A quarterly reporting procedures to make it viable for Medicaid by doing the following:
  - Utilize HCFA's current Medicare Credit Balance Report (Form HCFA 838) but add a separate section for reporting Medicaid credit balances.
  - Include a separate attestation statement for Medicaid which sets forth the Medicaid authority for the Credit Balance Report and the consequences of misrepresenting the reported information.
  - Instruct providers to forward the Medicaid section of the Credit Balance Report (including the Medicaid attestation statement and appropriate supporting documentation) to the respective State agencies.
  - Require State agencies to follow-up on providers which fail to submit the quarterly reports.
  - Limit the required reporting to hospitals and long-term care facilities that are reimbursed on a fee-for-service basis.
- o Allow individual States the option of an exemption from or adjustment to the reporting mechanism, if such exemption or adjustment can be justified by the State agency presenting a viable alternative system that will accomplish the same goals as the national Medicaid credit balance reporting mechanism.
- o Require the HCFA ROs to actively monitor the national Medicaid credit balance reporting mechanism by:
  - Reviewing respective State agency requests for an exemption or adjustment to the mechanism and documenting the RO's justification

that the State agency's alternative system meets the overall reporting mechanism's goals.

- Maintaining a list of the State agencies within the region and the reporting system (i.e., national mechanism system, adjusted national mechanism, or justified alternative) used by each State agency.
- Updating the State agency list on an annual basis and submitting the list to the HCFA Medicaid Bureau.

## **HCFA's Response**

The HCFA concurs with all recommendations and has already taken preliminary steps to set up a Medicaid credit balance reporting mechanism. They expect to have proposed national procedures in place by the end of this CY 1995.

The HCFA expects to use the Medicare Part A reporting system as a model but is still finalizing the details for implementation. They agree an attestation statement will ensure the data has been reviewed and concurred with, and that the appropriate official takes responsibility for what is being submitted. State agencies will be directed to follow-up with providers which fail to submit quarterly reports. The system will apply to hospitals and long-term care facilities with fee-for-service reimbursement arrangements because credit balance accounts are more likely in those facilities.

Although States will be encouraged to adopt the national credit balance reporting system, HCFA may allow States the option of retaining a system they have already developed. The HCFA concurs with the recommended RO monitoring procedures, assuming they allow for alternative reporting systems. The full text of HCFA's response to the draft report is presented in APPENDIX B.

## **APPENDICES**

## STATE RANKINGS BY MEDICAID TOTAL EXPENDITURES

<u>OVERALL RANK</u>	<u>STATE</u>	<u>TOTAL 10/1/90 - 3/31/93</u>
1	New York	\$42,469,975,944
2	California	25,659,723,103
3	Texas	14,094,689,815
4	Pennsylvania	12,724,125,867
5	Ohio	10,907,871,127
6	Massachusetts	10,705,199,433
7	Florida	9,864,421,981
8	New Jersey	9,644,429,988
9	Michigan	9,266,651,441
10	Illinois	8,968,124,357
11	Louisiana	6,267,235,887
12	Georgia	5,948,964,337
13	North Carolina	5,936,373,062
14	Tennessee	5,679,479,217
15	Indiana	5,677,940,190
16	Missouri	4,934,935,461
17	Wisconsin	4,772,300,986
18	Connecticut	4,757,977,296
19	Washington	4,712,216,944
20	Minnesota	4,696,210,031
21	Maryland	4,308,580,753
22	Kentucky	4,221,654,420
23	South Carolina	3,651,098,314
24	Virginia	3,640,770,611
25	Alabama	3,342,190,939
26	Arizona	2,519,625,159
27	Mississippi	2,477,698,533
28	Oklahoma	2,444,380,150
29	Colorado	2,244,838,792
30	Iowa	2,165,986,525
31	Arkansas	2,163,313,284
32	West Virginia	2,130,054,404
33	Oregon	1,921,000,524
34	Rhode Island	1,848,525,529
35	Kansas	1,821,377,770
36	Maine	1,749,228,567
37	New Hampshire	1,679,689,058
38	Nebraska	1,154,182,589
39	New Mexico	1,147,181,298
40	Utah	996,863,766
41	Nevada	770,266,042
42	Hawaii	739,236,010
43	Montana	650,081,230
44	Idaho	624,952,452
45	North Dakota	605,813,074
46	South Dakota	570,887,080
47	Vermont	552,692,438
48	Alaska	540,115,400
49	Delaware	518,624,953
50	Wyoming	279,263,619



## Memorandum

DATE FEB 24 1995

FROM Bruce C. Vladeck  
Administrator 

SUBJECT Office of Inspector General Draft Report "Quarterly Credit Balance  
Reporting Requirements for Medicaid" (A-05-93-00107)

TO June Gibbs Brown  
Inspector General

We reviewed the subject draft report which assesses the Health Care Financing Administration's (HCFA) monitoring of State agencies' efforts to recover Medicaid overpayments, and the feasibility of establishing a nationwide Medicaid credit balance monitoring mechanism through the Medicaid State agencies.

HCFA agrees with the facts presented in the draft report and concurs with all the recommendations. Comments on the recommendations and the preliminary steps we have taken to implement a national Medicaid credit balance reporting system are attached.

Thank you for the insights that were provided in the report. Please let me know if you or your staff would like to further discuss our comments.

Attachment

Health Care Financing Administration (HCFA) Comments  
on Office of Inspector General (OIG) Draft Report: Quarterly  
Credit Balance Reporting Requirements for Medicaid (A-05-93-00107)

OIG Recommendation

Establish a national Medicaid credit balance reporting mechanism similar to HCFA's Medicare Part A credit balance reporting procedures.

HCFA Response

We concur. In fact, we have already taken preliminary steps to set up such a reporting mechanism, including meetings with the OIG.

OIG Recommendation

Consider modifying the Medicare Part A quarterly reporting procedures to make it viable for Medicaid by doing the following:

- Utilize HCFA's current Medicare Credit Balance Report (Form HCFA-838), but add a separate section for reporting Medicaid credit balances.

HCFA Response

We concur. We have already begun to take a look at this approach. This is the heart of the proposed reporting mechanism, and the details still have to be worked out.

OIG Recommendation

Include a separate attestation statement for Medicaid which sets forth the Medicaid authority for the Credit Balance Report, and the consequences of misrepresenting the reported information.

HCFA Response

We concur. This requirement will have the effect of ensuring that the data have been reviewed and concurred with, and that the appropriate official takes responsibility for what is being submitted.

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OIG Recommendation

Instruct providers to forward the Medicaid section of the Credit Balance Report (including the Medicaid attestation statement and appropriate supporting documentation) to the respective State agencies.

HCFA Response

We concur. In addition, we are looking into the fact that Medicare providers enclose a check for any outstanding credit balances identified. Medicaid providers could do the same, although they can take up to 60 days to return an overpayment.

OIG Recommendation

Require State agencies to followup on providers which fail to submit the quarterly reports.

HCFA Response

We concur. Followup requirements are already being instituted by some State agencies. We expect to have proposed national procedures in place by the end of this calendar year.

OIG Recommendation

Limit the required reporting to hospitals and long-term care facilities that are reimbursed on a fee-for-service basis.

HCFA Response

We concur. This recommendation is reasonable since credit balance accounts are more likely to be found in these facilities, and in fee-for-service reimbursement arrangements, than in clinics which are reimbursed in a capitated, all-inclusive rate.

OIG Recommendation

Allow individual States the option of an exemption from, or adjustment to, the reporting mechanism, if such exemption or adjustment can be justified by the State agency presenting a viable alternative system that will accomplish the same goals as the national Medicaid credit balance reporting mechanism.

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HCFA Response

We concur. We will develop a national reporting system. We will encourage States to adopt our system. However, we are mindful that some States have moved ahead with putting a mechanism in place, most notably North Carolina. We may wish to allow States the option of retaining the system that they have already developed.

OIG Recommendation

Require the HCFA Regional Offices (ROs) to actively monitor the national Medicaid credit balance reporting mechanism by:

- Reviewing respective State agency requests for an exemption or adjustment to the mechanism, and documenting the ROs' justification that the State agency's alternative system meets the overall reporting mechanism's goals.
- Maintaining a list of the State agencies within the region and the reporting system (i.e., national mechanism system, adjusted national mechanism or justified alternative) used by each State agency.
- Updating the State agency list on an annual basis and submitting the list to the HCFA Medicaid Bureau.

HCFA Response

We concur, assuming that we allow for alternative systems.