



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

June 28, 2011

Report Number: A-09-11-02000

Mr. Toby Douglas
Director
California Department of Health Care Services
1501 Capitol Avenue, MS 0000
P.O. Box 997413
Sacramento, CA 95899-7413

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 Natividad Medical Center as of October 31, 2010*. 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 call me, or contact Gerald Illies, Audit Manager, at (206) 615-2252 or through email at Gerald.Illies@oig.hhs.gov. Please refer to report number A-09-11-02000 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 NATIVIDAD MEDICAL
CENTER AS OF OCTOBER 31, 2010**



Daniel R. Levinson
Inspector General

June 2011
A-09-11-02000

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 (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, as amended by P.L. No. 111-226, States' FMAPs are temporarily increased for the period October 1, 2008, through June 30, 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) and amended by section 6506(a)(1)(A) of the Patient Protection and Affordable Care Act (P.L. No. 111-148), states: "... when an overpayment is discovered ... the State shall have a period of 1 year 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 1-year period, 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.

Natividad Medical Center (Natividad) is a 172-bed acute-care hospital owned and operated by Monterey County, California. Natividad reported that it was reimbursed by the State agency \$19.2 million for Medicaid services that it provided during the year ended June 30, 2010.

OBJECTIVE

Our objective was to determine whether the Medicaid credit balances recorded in Natividad's accounting records as of October 31, 2010, for inpatient and outpatient services represented overpayments that Natividad should have returned to the Medicaid program.

SUMMARY OF FINDING

As of October 31, 2010, Natividad's Medicaid accounts with credit balances included 32 accounts with overpayments totaling \$31,125 (\$19,170 Federal share) that had not been returned to the Medicaid program. The Federal share consists of \$15,563 that we calculated using California's regular FMAP and \$3,607 in additional payments that we calculated using the increased FMAP. The ages of the overpayments in the 32 accounts ranged from 34 to 649 days.

For 28 of the 32 accounts, Natividad did not return the overpayments because Natividad lacked adequate policies and procedures to prevent, detect, and take proper corrective action in a timely fashion. For the remaining four accounts, Natividad took timely action to request that the State agency recoup the overpayments.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government \$19,170 (Federal share) in Medicaid overpayments to Natividad and
- work with Natividad to ensure that it develops and implements adequate policies and procedures to prevent, detect, and take proper corrective action in a timely fashion for Medicaid overpayments.

NATIVIDAD COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In its comments on our draft report, Natividad disagreed with our finding that it lacked adequate policies and procedures to prevent, detect, and take proper corrective action in a timely fashion for Medicaid overpayments. Natividad stated that for 30 of the 32 accounts with overpayments, it had submitted requests for corrective action to the State agency in November 2010 and that there were only 2 outstanding accounts with overpayments. Additionally, Natividad stated that it had a policy for patient accounts' credit balances and that its policies and procedures were consistent with State Medicaid cost report instructions. Natividad's comments are included in their entirety as Appendix A.

For 28 accounts with overpayments, Natividad did not take corrective action in a timely manner. Although Natividad had policies and procedures related to credit balances, the policies and procedures did not contain timeframes for review or taking corrective action in a timely fashion.

STATE AGENCY COMMENTS

In its comments on our draft report, the State agency agreed with our first recommendation and provided information on actions that it planned to take to address the first and second recommendations. The State agency's comments are included in their entirety as Appendix B.

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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 (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), as amended by P.L. No. 111-226, States' FMAPs are temporarily increased for the period October 1, 2008, through June 30, 2011. The regular FMAP for California's Medicaid payments was 50 percent. The FMAP increased by 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) and amended by section 6506(a)(1)(A) of the Patient Protection and Affordable Care Act (P.L. No. 111-148), states: "... when an overpayment is discovered ... the State shall have a period of 1 year 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 1-year period, 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.

Natividad Medical Center

Natividad Medical Center (Natividad) is a 172-bed acute-care hospital owned and operated by Monterey County, California. Natividad reported that it was reimbursed by the State agency \$19.2 million for Medicaid services that it provided during the year ended June 30, 2010.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Medicaid credit balances recorded in Natividad's accounting records as of October 31, 2010, for inpatient and outpatient services represented overpayments that Natividad should have returned to the Medicaid program.

Scope

Natividad's inpatient and outpatient accounting records contained 1,226 Medicaid accounts with credit balances totaling \$396,993 as of October 31, 2010. We reviewed 150 accounts with credit balances of \$600 or more, totaling \$215,510. Of these accounts, 32 accounts included 38 overpayments due to the Medicaid program: 28 accounts contained 1 overpayment, 2 accounts contained 2 overpayments, and 2 accounts contained 3 overpayments.

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

We performed our fieldwork at Natividad Medical Center in Salinas, California, from November 2010 to March 2011.

Methodology

To accomplish our objective, we:

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

- reviewed Natividad’s policies and procedures for reviewing credit balances and reporting overpayments to the State agency;
- traced Natividad’s October 31, 2010, total credit balances to the accounts receivable records and traced the accounts receivable records to the balance sheet;
- identified Natividad’s Medicaid credit balances from its accounting records and reconciled these credit balances to Natividad’s Medicaid credit balances report as of October 31, 2010;
- reviewed Natividad’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 and the additional FMAP of 11.59 percentage points; 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 October 31, 2010, Natividad’s Medicaid accounts with credit balances included 32 accounts with overpayments totaling \$31,125 (\$19,170 Federal share) that had not been returned to the Medicaid program.

OUTSTANDING CREDIT BALANCE ACCOUNTS WITH MEDICAID OVERPAYMENTS

As of October 31, 2010, Natividad’s Medicaid accounts with credit balances included 32 accounts with overpayments totaling \$31,125 (\$19,170 Federal share) that had not been returned to the Medicaid program. The Federal share consists of \$15,563 that we calculated using California’s regular FMAP and \$3,607 in additional payments that we calculated using the increased FMAP.

The ages of the overpayments in the 32 accounts ranged from 34 to 649 days, as the table on the following page summarizes.

Ages of Overpayments as of October 31, 2010

Days	No. of Accounts	Overpayment Amount	Federal Share
1-90	3	\$154	\$95
91-180	8	9,726	5,990
181-270	8	10,909	6,719
271-365	5	4,867	2,998
366-649	8	5,469	3,368
Total	32	\$31,125	\$19,170

For 28 of the 32 accounts, Natividad did not return the overpayments because Natividad lacked adequate policies and procedures to prevent, detect, and take proper corrective action in a timely fashion. For the remaining four accounts, Natividad took timely action to request that the State agency recoup the overpayments.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government \$19,170 (Federal share) in Medicaid overpayments to Natividad and
- work with Natividad to ensure that it develops and implements adequate policies and procedures to prevent, detect, and take proper corrective action in a timely fashion for Medicaid overpayments.

NATIVIDAD COMMENTS

In its comments on our draft report, Natividad disagreed with our finding that it lacked adequate policies and procedures to prevent, detect, and take proper corrective action in a timely fashion for Medicaid overpayments. Natividad stated that for 30 of the 32 accounts with overpayments, it had submitted requests for corrective action to the State agency in November 2010 and that there were only 2 outstanding accounts with overpayments. Additionally, Natividad stated that it had a policy for patient accounts' credit balances and that its policies and procedures were consistent with State Medicaid cost report instructions. Natividad's comments are included in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE

For 4 of the 32 accounts with overpayments, Natividad had submitted requests for corrective action within 60 days. (For one of these accounts, the State agency had not taken action and the credit balance had been due back to Medicaid for over 6 months.) For the remaining 28 accounts, Natividad did not take corrective action in a timely manner: 21 of these accounts were more than 6 months overdue, including 8 accounts that were more than 1 year overdue.

Although Natividad had policies and procedures related to credit balances, the policies and procedures did not contain timeframes for review or taking corrective action in a timely fashion.

STATE AGENCY COMMENTS

In its comments on our draft report, the State agency agreed with our first recommendation and provided information on actions that it planned to take to address the first and second recommendations. The State agency's comments are included in their entirety as Appendix B.

APPENDIXES

APPENDIX A: NATIVIDAD MEDICAL CENTER COMMENTS

4/22/2011



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P.O. Box 80007 ■ Salinas, California 93912-0007
831.755.4252 ■ FAX 831.755.4087
www.natividad.com

Ms. Lori A. Ahlstrand

Regional Inspector General

Office of Audit Services, Region IX

90-7th Street, Suite 3-650

San Francisco, CA 94103

Re: A-09-11-02000

Dear Ms. Ahlstrand,

This letter responds to the U.S. Department of Health & Human Services, Office of Inspector General (OIG), and entitled Review of Medicaid Credit Balances at Natividad Medical Center as of October 31, 2010 ("Draft Report")

Natividad Medical Center respectfully disagrees with the auditor's finding that for the 28 of the 32 accounts, "Natividad lacked adequate policies and procedures to prevent, detect, and take proper corrective action in a timely fashion." (Paragraph 2, Summary of Finding.)

1. Natividad Medical Center performs regular credit balance reviews as described by the Policy and Procedures for patient credit balances. Accounts identified with a refund to the State are processed by submitting a CIF to the State and payments are made once the CIF is accepted by the Medi-Cal State agency. Natividad experiences a large delay of processing CIFs by Medi-Cal which delays the credit balance being corrected timely. Of the 32 accounts found by the auditors with overpayments totaling \$31,125, NMC has submitted CIFs for 30 accounts with \$30,966 to the State during November 2010. There were two outstanding accounts with overpayments of \$159.
2. Natividad Medical Center has a Policy and Procedure for patient accounts credit balance. Such Policy was provided to the auditors during the audit review.
3. The Policy and Procedures are consistent with State's Medi-cal cost report instructions. It is Natividad Medical Center policy and practice to report outstanding credit balances as part of its annual cost report submission and refunds any overpayments when the State agency settles the cost report. Natividad followed its reporting policy and practice when it submitted its annual cost report for fiscal year 2008, which the State is currently auditing.

For the reasons stated above, Natividad Medical Center has adequate and reasonable controls to monitor and manage Medi-cal patients' credit balances.

Natividad Medical Center requests that the draft report entitled Review of Medicaid Credit Balance at Natividad Medical Center as of October 31, 2010 performed by the Office of Inspector General are modified accordingly.

Respectfully,



Daniel Leon
Chief Financial Officer
Natividad Medical Center

Cc: Stacy Saetta
Bill Litt
Harry Weis

APPENDIX B: DEPARTMENT OF HEALTH CARE SERVICES COMMENTS



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



EDMUND G. BROWN JR.
GOVERNOR

JUN 08 2011

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

Dear Ms. Ahstrand:

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 Natividad Medical Center as of October 31, 2010" (A-09-11-02000). DHCS appreciates the work performed by the OIG and the opportunity to respond to the draft report.

Please contact Ms. Alicia M. Enriquez, Chief Internal Audits, at (916) 650-0298 if you have any questions.

Sincerely,


for Toby Douglas
Director

cc: See next page

Ms. Lori A. Ahlstrand
Page 2
June 8, 2011

cc: Ms. Karen Johnson
Chief Deputy Director
1501 Capitol Avenue, MS 0005
P.O. Box 997413
Sacramento, CA 95899-7413

Mr. Bruce Lim
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Sacramento, CA 95899-7413

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

***Review of Medicaid Credit Balances at
Natividad Medical Center as of October 31, 2010***

Recommendation: We recommend that the State agency refund to the Federal Government \$19,170 (Federal share) in Medicaid overpayments to Natividad.

Response: The Department of Health Care Services (DHCS) agrees with the recommendation.

Within 15 days, DHCS will establish an accounts receivable and send a demand letter to Natividad for the amount of \$31,125 in Medicaid overpayments. Repayment must be made within 60 days from the date of the demand letter.

Recommendation: We recommend that the State agency work with Natividad to ensure that it develops and implements adequate policies and procedures to prevent, detect 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 Natividad Medical Center will include a review for credit balances. FAB will work with Natividad during these audits to ensure adequate policies and procedures are developed.