



MAY 7 2007

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Report Number: A-01-06-00010

Ms. Christine Shirtcliff
President, Baystate Mary Lane Hospital
85 South Street
Ware, Massachusetts 01082

Dear Ms. Shirtcliff:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Medicaid Credit Balances at Baystate Mary Lane Hospital for the Period Ending June 30, 2006." A copy of this report will be forwarded to the HHS action official named 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 the HHS action 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.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Should you have any questions or comments about this report, please do not hesitate to call me, or contact George Nedder, Audit Manager, at (617) 565-3463 or through e-mail at gnedder@oig.hhs.gov. Please refer to report number A-01-06-00010.

Sincerely yours,

A handwritten signature in black ink that reads "Michael J. Armstrong".

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – as stated

Page 2 – Ms. Christine Shirtcliff

Direct Reply to HHS Action Official:

Charlotte S. Yeh, M.D.
Regional Administrator
Centers for Medicare & Medicaid – Region I
U. S. Department of Health and Human Services
JFK Federal Building - Room 2325
Boston, Massachusetts 02203

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID CREDIT
BALANCES AT BAYSTATE MARY
LANE HOSPITAL FOR THE
PERIOD ENDING JUNE 30, 2006**



Daniel R. Levinson
Inspector General

May 2007
A-01-06-00010

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

BACKGROUND

Title XIX of the Social Security Act authorizes Federal funds to States for Medicaid programs that provide medical assistance to low-income and disabled individuals. Each State Medicaid program reimburses providers for these services. Credit balances generally occur when the reimbursement that a provider receives for services provided to a Medicaid beneficiary exceeds the charges billed, such as when a provider receives a duplicate payment for the same service from the Medicaid program or another third party payer. In these cases, the provider should return the existing overpayment to the Medicaid program.

MassHealth, the Massachusetts Medicaid program, requires providers to return overpayments classified as credit balances to MassHealth within 60 days of their receipt. MassHealth reinforced this regulation in November 2004, when it issued a Bulletin to providers stating that it may impose administrative fines against providers who do not return overpayments classified as credit balances within 60 days of their receipt.

Baystate Mary Lane Hospital (the Hospital) is a nonprofit, 31-bed community hospital in Ware, Massachusetts. From July 1, 2005, through June 30, 2006, the Hospital provided almost \$5 million in health care services to 4,836 Medicaid participants. Hospital officials reported that the Hospital returned \$44,704 in Medicaid overpayments during this same period.

OBJECTIVE

Our objective was to determine whether the credit balances recorded in the Hospital's accounting records as of June 30, 2006, for inpatient and outpatient services for Medicaid beneficiaries represented overpayments more than 60 days old that the Hospital should have returned to MassHealth.

SUMMARY OF FINDINGS

We identified 122 credit balances more than 60 days old that represented overpayments that the Hospital should have returned to MassHealth. Specifically, the Hospital did not promptly return Medicaid overpayments of \$15,738 (\$7,869 Federal share), in accordance with State Medicaid requirements. These errors occurred because the Hospital did not follow its internal procedures for processing and returning Medicaid overpayments.

RECOMMENDATIONS

We recommend that Mary Lane Hospital:

- return overpayments totaling \$15,738 (\$7,869 Federal share) to MassHealth and
- continue efforts to identify and return all overpayments to Medicaid in accordance with State requirements.

AUDITEE'S COMMENTS

In its comments on our draft report, the Hospital agreed substantially with our observations and findings. The Hospital's comments are included in their entirety in the appendix.

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INTRODUCTION

BACKGROUND

Title XIX of the Social Security Act authorizes Federal funds to States for Medicaid programs that provide medical assistance to low-income and disabled individuals. Each State Medicaid program reimburses providers for these services. Credit balances generally occur when the reimbursement that a provider receives for services provided to a Medicaid beneficiary exceeds the charges billed, such as when a provider receives a duplicate payment for the same service from the Medicaid program or another third party payer. In these cases, the provider should return the existing overpayment to the Medicaid program.

MassHealth, the Massachusetts Medicaid program, requires providers to return overpayments classified as credit balances to MassHealth within 60 days of their receipt. MassHealth reinforced this regulation in November 2004, when it issued a Bulletin to providers stating that it may impose administrative fines against providers who do not return overpayments classified as credit balances within 60 days of their receipt.

Baystate Mary Lane Hospital (the Hospital) is a nonprofit, 31-bed community hospital in Ware, Massachusetts. From July 1, 2005, through June 30, 2006, the Hospital provided almost \$5 million in health care services to 4,836 Medicaid participants. Hospital officials reported that the Hospital returned \$44,704 in Medicaid overpayments during this same period.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the credit balances recorded in the Hospital's accounting records as of June 30, 2006, for inpatient and outpatient services for Medicaid beneficiaries represented overpayments more than 60 days old that the Hospital should have returned to MassHealth.

Scope

As of June 30, 2006, the Hospital's accounts contained 632 credit balances totaling \$107,251 related to Medicaid beneficiaries. Limiting our review to accounts with credit balances of \$100 or more, we reviewed 286 accounts totaling \$84,489. Of these, 271 were outpatient accounts totaling \$81,932, and 15 were inpatient accounts totaling \$2,557.

We limited our review of internal controls to obtaining an understanding of the Hospital's controls related to reviewing credit balances and reporting overpayments to MassHealth.

We performed fieldwork from September 2006 through February 2007 at Baystate Health, Inc., in Springfield, Massachusetts, and at the Centers for Medicare & Medicaid Services Regional Office and the Massachusetts Department of Transitional Assistance in Boston, Massachusetts.

Methodology

To accomplish our objective, we:

- reviewed State and Federal regulations pertaining to credit balances;
- extracted from the credit balance list all Medicaid inpatient and outpatient credit balances and reconciled these credit balances to the Hospital's accounting records as of June 30, 2006;
- reviewed Medicaid remittance advices, patient accounts receivable detail, and adjustment forms for all accounts with credit balances over \$100 to determine whether Medicaid overpayments had occurred; and
- coordinated our audit with officials from MassHealth.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATIONS

We identified 122 credit balances more than 60 days old that represented overpayments that the Hospital should have returned to MassHealth. Specifically, the Hospital did not promptly return Medicaid overpayments of \$15,738 (\$7,869 Federal share), in accordance with State Medicaid requirements. The Hospital did not report the overpayments because it did not follow its internal procedures for processing and returning Medicaid overpayments.

STATE MEDICAID REQUIREMENTS

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

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

OUTSTANDING CREDIT BALANCES CONTAINING OVERPAYMENTS

The Hospital did not always return Medicaid overpayments within 60 days, as specified by State Medicaid requirements. Of the 286 claims with credit balances greater than \$100, 122 contained Medicaid overpayments more than 60 days old that the Hospital should have returned to MassHealth. All of the 122 claims with overpayments were for outpatient services. The ages of the credit balances ranged from 92 to 2,226 days, as the following table summarizes.

Ages of Credit Balance and Amounts of Unreported Overpayments

Days	Claims	Unreported Overpayments
61 – 120	3	\$ 425
121– 365	39	4,864
366 – 730	30	4,340
731 - 1,000	17	2,625
1,001–2,000	28	2,840
Over 2,000	5	644
TOTAL	122	\$15,738

AMOUNT OF UNREFUNDED OVERPAYMENTS

As a result of not promptly resolving its credit balances and reporting overpayments, Mary Lane Hospital did not return overpayments totaling \$15,738 (Federal share \$7,869) to MassHealth within 60 days of their receipt.

CAUSE OF UNREPORTED OVERPAYMENTS

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

RECOMMENDATIONS

We recommend that Mary Lane Hospital:

- return to overpayments totaling \$15,738 (\$7,869 Federal share) to MassHealth and
- continue efforts to identify and return all overpayments to Medicaid in accordance with State requirements.

AUDITEE'S COMMENTS

In its comments on our draft report, the Hospital agreed substantially with our observations and findings. The Hospital stated that several factors had made it difficult for it to investigate and resolve the overpayments that our audit identified within the Medicaid regulatory time frame, and it provided an explanation of these factors. In regard to our recommendation that it return the \$15,738 to MassHealth, the Hospital reported that it had returned \$14,854 to the Medicaid program, and the Medicaid program had not responded to the Hospital's request to retract the remaining \$884. The Hospital's comments are included in their entirety in the appendix.

APPENDIX

Baystate Mary Lane Hospital

Ware, MA 01082

April 27, 2007

Mr. Michael J. Armstrong
Regional Inspector General for Audit Services
Department of Health and Human Services, Region I
Office of Audit Services
John F. Kennedy Federal Building
Boston, MA 02203

Report Identification No. A-01-06-00010

Dear Mr. Armstrong:

Thank you for your letter and draft report dated March 29, 2007. We appreciate the opportunity to comment on the results of your audit. We agree substantially with the observations and findings in the report. The policies and procedures of Baystate Mary Lane Hospital (the "Hospital") are generally effective in resolving Medicaid credit balances in accordance with Medicaid regulations.

The limited numbers of accounts identified by the audit were difficult to investigate and resolve within the Medicaid regulatory time frame for the following reasons:

- The Medicaid program required manual billing for any adjustments or voids and would not respond with a retraction of payment for a period of three months. The Hospital had no choice but to retain Medicaid credit balances when Medicaid did not react timely to corrected claims or void requests.
- The Medicaid program experienced pricing problems with regard to its outpatient APG payment methodology making the calculation of amounts due from the Medicaid program difficult (and at time impossible) to determine. The Hospital retained Medicaid credit balances when they were the result of retroactive corrections to Medicaid payment errors.
- During 2005 and 2006, there was a dispute between the Medicaid program and the Massachusetts Behavioral Health Partnership (MBHP) regarding behavioral health related emergency room charges. As a result, both programs paid the claims and the accounts could not be resolved until the dispute was resolved in February 2006. The Hospital retained Medicaid credit balances when it was unclear which entity was responsible for coverage of a claim.

Mr. Michael J. Armstrong
Regional Inspector General for Audit Services
Department of Health and Human Services, Region I
Office of Audit Services
April 27, 2007
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Following are Baystate Mary Lane Hospital's responses to the two recommendations provided in the report:

1. Recommendation: Return to the Massachusetts Medicaid program overpayments totaling \$15,738 (\$7,869 Federal share).

For the credit balances noted on the report \$14,854 has been returned to the Medicaid program. For the remaining \$884, the Medicaid program has not yet responded to the Hospital's requests to retract the funds.

2. Recommendation: Continue efforts to identify and return all overpayments to Medicaid in accordance with State Medicaid requirements.

Since the audit period, Baystate Mary Lane Hospital has instituted a number of steps to further strengthen its already-established policies and procedures for identifying and refunding Medicaid credit balances.

The Hospital understands that changes have now been made by the Medicaid program to enable it to accept electronic adjustments and void. These changes will expedite the resolution of credit balances. In addition, HIPAA legislation has allowed providers to post payments to the accounts receivable system electronically in a standard format which allows for increased accuracy and enhanced retrieval of claims data.

Baystate Mary Lane Hospital remains committed to maintaining compliance with the Medicaid credit balance rules and regulations. If I can be of any further assistance, please do not hesitate to contact me at (413) 794-2578.

Sincerely,



Peter Lyons
Vice President, Finance Support Services
Baystate Health, Inc.

PAL:dg