

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ACUTE-CARE HOSPITALS IN TEXAS
DID NOT ALWAYS RECONCILE
INVOICE RECORDS WITH
CREDIT BALANCES AND
REFUND TO THE STATE AGENCY
THE ASSOCIATED
MEDICAID OVERPAYMENTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General

May 2014
A-06-11-00060

Office of Inspector General

<https://oig.hhs.gov>

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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

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the 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 Texas, the Texas Health and Human Services Commission (State agency) supervises the administration of the Medicaid program.

The State agency contracts with the Texas Medicaid and Healthcare Partnership (TMHP) to process claims and financial adjustments. Providers submit claims to TMHP and notify TMHP of financial adjustments. The Federal Government reimburses the State for its share (Federal share) of State medical assistance expenditures according to a defined formula.

Credit balances may occur within patient accounts when a provider's reimbursement for services it provides exceeds the allowable amount or when the reimbursement is for unallowable costs. Credit balances may also occur when a provider receives payments from Medicaid and another third-party payer for the same services. Additionally, credit balances may occur when providers record reimbursements for services incorrectly. Credit balances do not always result in overpayments due back to the Medicaid program. For example, a credit balance may occur when money is due back to the patient.

Effective March 23, 2010, States have up to 1 year from the date of discovery of an overpayment for Medicaid services to recover, or attempt to recover, the overpayment before making an adjustment to refund the Federal share. Except for overpayments resulting from fraud, the State must make the adjustment no later than the deadline for filing the quarterly expenditure report (Form CMS-64) for the quarter in which the 1-year period ends, regardless of whether the State recovers the overpayment.

In general, an overpayment is discovered when a State either (1) notifies a provider in writing of an overpayment and specifies a dollar amount subject to recovery or (2) initiates a formal recoupment action. Discovery may also occur when the provider initially acknowledges a specific overpaid amount in writing to the State. If a Federal review (such as an audit) indicates that a State has failed to identify an overpayment, the overpayment is considered discovered on the date the Federal official first notifies the State in writing of the overpayment and specifies a dollar amount subject to recovery.

Texas regulations require providers to repay or make arrangements to repay identified overpayments or other erroneous payments as identified by the State agency. However, Texas regulations do not require providers to refund Medicaid overpayments within a specified time period.

This audit is part of a multistate review of credit balances at acute-care hospitals, nursing facilities, and certain noninstitutional providers. This audit focused on acute-care hospitals in Texas.

OBJECTIVES

Our objectives were to determine whether acute-care hospitals reconciled Medicaid credit balances in patient accounts and refunded Medicaid overpayments to the State agency.

SUMMARY OF FINDINGS

Of the eight acute-care hospitals in our sample, one hospital always reconciled patient accounts and refunded associated Medicaid overpayments to the State agency. However, the seven remaining hospitals in our sample did not always reconcile patient account credit balances and refund to the State agency the associated Medicaid overpayments. One of these seven hospitals reported most of its overpayments, but the State agency had not recovered the overpayments during our fieldwork. For these seven hospitals, we sampled a total of 148 patient accounts with both Medicaid payments and credit balances and found that 81 contained Medicaid overpayments and 67 did not. The Medicaid overpayments associated with the 81 patient accounts totaled \$30,057 (\$18,472 Federal share).

On the basis of these sample results, we estimated that the State agency could recover an additional \$15,299,033 (\$10,538,912 Federal share) from hospitals and obtain future savings if it enhanced its efforts to recover Medicaid overpayments in hospitals' accounts.

The hospitals did not identify and refund Medicaid overpayments because the State agency did not require them to exercise reasonable diligence in reconciling patient account credit balances to determine whether overpayments had been made. Also, the State agency did not require hospitals to submit reports that showed all identified Medicaid overpayments recorded as credit balances in the hospitals' accounting systems.

RECOMMENDATIONS

We recommend that the State agency:

- refund the \$18,472 Federal share to the Federal Government for overpayments paid to the selected hospitals and
- enhance its efforts to recover additional overpayments, estimated at \$15,299,033 (\$10,538,912 Federal share), from hospitals and realize future savings by requiring and ensuring that hospitals exercise reasonable diligence in reconciling patient account credit balances and refunding the associated Medicaid overpayments within a specified time period.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with our recommendations. The State agency described corrective actions that it had taken or planned to take in response to our recommendations.

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INTRODUCTION

BACKGROUND

Medicaid Program

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities (Title XIX of the Social Security Act (the Act)). The Federal and State Governments jointly fund and administer the 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 Texas, the Texas Health and Human Services Commission (State agency) supervises the administration of the Medicaid program.

The State agency contracts with the Texas Medicaid and Healthcare Partnership (TMHP) to process claims and financial adjustments. Providers submit claims to TMHP and notify TMHP of financial adjustments. The Federal Government reimburses the State for its share (Federal share) of State medical assistance expenditures according to a defined formula (42 CFR § 433.10).

Medicaid Credit Balances

Credit balances may occur within patient accounts when a provider's reimbursement for services it provides exceeds the allowable amount or when the reimbursement is for unallowable costs. Credit balances may also occur when a provider receives payments from Medicaid and another third-party payer for the same services. Additionally, credit balances may occur when providers record reimbursements for services incorrectly. Credit balances do not always result in overpayments due back to the Medicaid program. For example, a credit balance may occur when money is due back to the patient.

Providers record and accumulate charges and reimbursements for services in patient accounts. Providers should reconcile patient account credit balances and, if the reconciliation identifies a Medicaid overpayment, the provider should refund the overpayment to the State. The State must refund to CMS the Federal share of the overpayment (the Act, § 1903(d)(2)(C), and 42 CFR part 433, subpart F).

Federal and State Requirements Related to Medicaid Overpayments

States are responsible for recovering from providers any amounts paid in excess of allowable Medicaid amounts and for refunding to CMS the Federal share (42 CFR § 433.312). Effective March 23, 2010, States have up to 1 year from the date of discovery of an overpayment for Medicaid services to recover, or attempt to recover, the overpayment before making an adjustment to refund the Federal share.¹ Except for overpayments resulting from fraud, the

¹ See the Act, § 1903(d)(2)(C), and the Patient Protection and Affordable Care Act, P.L. No.111-148, section 6506(a)(1)(A).

State must make the adjustment no later than the deadline for filing the quarterly expenditure report (Form CMS-64) for the quarter in which the 1-year period ends, regardless of whether the State recovers the overpayment (42 CFR § 433.320).

In general, an overpayment is discovered when a State either (1) notifies a provider in writing of an overpayment and specifies a dollar amount subject to recovery or (2) initiates a formal recoupment action. Discovery may also occur when the provider initially acknowledges a specific overpaid amount in writing to the State. If a Federal review (such as an audit) indicates that a State has failed to identify an overpayment, the overpayment is considered discovered on the date the Federal official first notifies the State in writing of the overpayment and specifies a dollar amount subject to recovery (42 CFR § 433.316).

Texas regulations require providers to repay or make arrangements to repay identified overpayments or other erroneous payments as identified by the State agency (Texas Administrative Code, Program Violation, § 371.1617(5)(K) and *Texas Medicaid Provider Procedures Manual*, Volume 1, § 1.7(5)(K)). However, Texas regulations do not require providers to refund Medicaid overpayments within a specified time period.

Acute-Care Hospitals

This audit is part of a multistate review of credit balances at acute-care hospitals, nursing facilities, and certain noninstitutional providers. This audit focused on acute-care hospitals in Texas.²

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether acute-care hospitals reconciled Medicaid credit balances in patient accounts and refunded Medicaid overpayments to the State agency.

Scope

Of the 244 acute-care hospitals with payments as of the quarter ended September 30, 2010, totaling \$598,240,434, we randomly sampled 8 hospitals. We reviewed the hospitals' patient accounts as of the quarter ended June 30, 2012. The 8 hospitals had 4,148 patient accounts containing Medicaid payments with credit balances, totaling \$796,093. One of the eight hospitals had no patient accounts containing credit balances that were unresolved for 60 days.³ The sampling frames for the remaining 7 hospitals had 3,876 patient accounts with unresolved credit balances totaling \$575,029, as shown in the following table.

² Our audit did not include long-term-care or specialized-care hospitals.

³ Credit balances in our sampling frames were unresolved for at least 60 days.

Table: Patient Accounts With Unresolved Credit Balances

Length of Time Unresolved	Number of Patient Accounts	Amount of Unresolved Credit Balances
60–180 days	322	\$116,577
181–365 days	759	138,978
366 days–2 years	1,422	165,912
More than 2 years	1,373	153,562
Total	3,876	\$575,029

Of the 3,876 patient accounts, we reviewed a sample of 148 accounts totaling \$48,116.

We did not review the overall internal control structure of the State agency or the hospitals. We limited our internal control review to obtaining an understanding of the policies and procedures that the hospitals used to review and reconcile patient account credit balances and refund to the State agency any Medicaid overpayments.

We conducted our audit from July 2012 through September 2013 and performed fieldwork at the State agency’s offices in Austin, Texas, and at the eight hospitals or offsite locations.

Methodology

To accomplish our objectives, we:

- reviewed applicable Federal laws and regulations and State agency policy guidelines pertaining to Medicaid overpayments;
- discussed with State agency personnel the State agency’s policies and procedures for identifying and recovering Medicaid overpayments for hospitals;
- created a sampling frame for the first stage of our sample design, consisting of 244 hospitals, from which we randomly selected 8 (Appendix A);
- reviewed the selected hospitals’ policies and procedures for reviewing and reconciling credit balances and refunding Medicaid overpayments to the State agency;
- determined the hospitals’ total number and associated dollar amount of all patient account credit balances and reconciled the patient accounts with the hospitals’ accounting records to identify total credit balances with Medicaid payments;
- created sampling frames of patient accounts for 7 of the 8 selected hospitals for the second stage of our sample design;
- selected a random sample of 30 patient accounts from each of the 3 hospitals that had more than 30 patient accounts with credit balances (Appendix A);

- reviewed all the patient accounts from 4 hospitals (Appendix A);
- reviewed patient payment records, patient account details, and additional support for each of the selected patient accounts to determine whether there were overpayments that should be refunded to the State agency;
- calculated the Federal share for the patient accounts with overpayments due back to the State agency;
- estimated the statewide unrecovered Medicaid overpayments associated with unresolved credit balances that should be refunded to the State agency; and
- discussed the results of our review with the selected hospitals and the State agency.

See Appendix A for details on our sample design and methodology and Appendix B for our sample results and estimates.

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 findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

Of the eight hospitals in our sample, one hospital always reconciled patient accounts and refunded associated Medicaid overpayments to the State agency. However, the seven remaining hospitals in our sample did not always reconcile patient account credit balances and refund to the State agency the associated Medicaid overpayments. One of these seven hospitals reported most of its overpayments, but the State agency had not recovered the overpayments during our fieldwork. For these seven hospitals, we sampled a total of 148 patient accounts with both Medicaid payments and credit balances and found that 81 contained Medicaid overpayments and 67 did not. The Medicaid overpayments associated with the 81 patient accounts totaled \$30,057 (\$18,472 Federal share).

On the basis of these sample results, we estimated that the State agency could recover an additional \$15,299,033 (\$10,538,912 Federal share) from hospitals and obtain future savings if it enhanced its efforts to recover Medicaid overpayments in hospitals' accounts.

The hospitals did not identify and refund Medicaid overpayments because the State agency did not require them to exercise reasonable diligence in reconciling patient account credit balances to determine whether overpayments had been made. Also, the State agency did not

require hospitals to submit reports that showed all identified Medicaid overpayments recorded as credit balances in the hospitals' accounting systems.⁴

MEDICAID OVERPAYMENTS NOT REFUNDED

The Texas Administrative Code defines an overpayment as the amount received in excess of the amount to which the provider is entitled, whether obtained through error, misunderstanding, or misapplication. The Texas Administrative Code, Program Violation, § 371.1617(5)(K), and the *Texas Medicaid Provider Procedures Manual*, Volume 1, § 1.7(5)(K), require providers to repay or make arrangements to repay identified overpayments or other erroneous payments as identified by the State agency.

Of the 148 patient accounts in our sample, 81 contained Medicaid overpayments totaling \$30,057 (\$18,472 Federal share) that had not been refunded to the State agency before our audit. The overpayments were caused by duplicate payments, which occurred when Medicaid paid more than once for the same service; billing errors, which included overstated billed amounts; the discovery that other insurance was the primary payer on the account; and previous payments being denied because of subsequent audits.

INADEQUATE OVERSIGHT AND LACK OF REVIEW AND REPORTING REQUIREMENTS

The hospitals did not identify and refund Medicaid overpayments because the State agency did not require them to exercise reasonable diligence in reconciling patient account credit balances to determine whether overpayments had been made. For example, the State agency did not require hospitals to inform the State agency of the Medicaid credit balances in their accounts or to return identified overpayments within a specified time period.

MEDICAID OVERPAYMENTS AND ESTIMATED STATEWIDE RECOVERY

Of the 148 patient accounts with both Medicaid payments and credit balances in our sample, 81 contained overpayments totaling \$30,057 (\$18,472 Federal share) paid to 7 hospitals. (See Appendix B for details of our sample results.) Also, we estimated that the State agency could recover an additional \$15,299,033 (\$10,538,912 Federal share) from hospitals and obtain future savings by requiring and ensuring that all hospitals exercise reasonable diligence in reconciling patient account credit balances and refund the associated Medicaid overpayments. (See Appendix B for details of our statewide estimate.)

RECOMMENDATIONS

We recommend that the State agency:

- refund the \$18,472 Federal share to the Federal Government for overpayments paid to the selected hospitals and

⁴ A Federal requirement that providers must report and repay overpayments within a certain time period was added to section 1128J of the Act by section 6402(a) of the Patient Protection and Affordable Care Act, P.L. No. 111-148. CMS will issue Medicaid regulations in the future to establish Federal policies and procedures to implement the law.

- enhance its efforts to recover additional overpayments, estimated at \$15,299,033 (\$10,538,912 Federal share), from hospitals and realize future savings by requiring and ensuring that hospitals exercise reasonable diligence in reconciling patient account credit balances and refunding the associated Medicaid overpayments within a specified time period.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with our recommendations. The State agency described corrective actions that it had taken or planned to take in response to our recommendations. The State agency's comments are included in their entirety as Appendix C.

APPENDIXES

APPENDIX A: SAMPLE DESIGN AND METHODOLOGY

POPULATION

The population consisted of certain acute-care hospitals¹ in Texas that received a Medicaid payment during the quarter ended September 30, 2010.

SAMPLING FRAME

The State agency provided a database of Texas Medicaid payments for all acute-care services for Federal fiscal year 2010. This database consisted of 49,372,493 claims totaling \$8,147,747,591. We extracted claims having the provider type code 61, representing acute-care hospitals, and created a table. From this table, we extracted all hospital claims for the quarter ended September 30, 2010, and summarized the table by provider number, which resulted in 587 hospitals with 1,003,877 claims totaling \$607,060,642. We eliminated hospitals with provider specialty codes 93 and 82, and we eliminated all hospitals with less than \$100,000 in paid claims. The resulting table consisted of 246 hospitals with 979,814 claims totaling \$600,325,863 for the quarter ended September 30, 2010. The State officials identified two hospitals that were inactive because of sanctions, and we removed them from the table. The resulting sampling frame consisted of 244 hospitals with 977,488 claims totaling \$598,240,434.

SAMPLE UNIT

The primary sample unit was a Medicaid hospital. The secondary sample unit was a patient account with a Medicaid payment and a credit balance that was at least 60 days old as of June 30, 2012.

SAMPLE DESIGN

We used a two-stage sample design. The first stage consisted of hospitals, and the second stage consisted of patient accounts with Medicaid payments and credit balances.

SAMPLE SIZE

We selected a random sample of eight hospitals as the primary units. For the secondary units, we selected a random sample of 30 patient accounts from each of 3 hospitals (90 patient accounts) and all patient accounts with Medicaid credit balances from 4 hospitals (58 patient accounts) for a total of 148 patient accounts in the amount of \$48,116.² We did not select secondary units from one hospital because the hospital had no patient accounts with unresolved Medicaid credit balances of 60 days or more.

¹ As described below, our audit did not include hospitals with provider specialty codes 93 (“Hospital – Other/Out of State”) and 82 (“Hospital – Long Term or Specialized Care”).

² For one hospital, we reviewed all patient accounts because the sampling frame was slightly larger than our sample size of 30.

SOURCE OF RANDOM NUMBERS

We generated the random numbers with Office of Inspector General, Office of Audit Services (OIG/OAS), statistical software.

METHOD OF SELECTING SAMPLE ITEMS

For the primary units, we consecutively numbered the hospitals in our sampling frame from 1 to 244. After generating the eight random numbers, we selected the corresponding sampling frame items. For the three hospitals from which we selected a secondary random sample, we consecutively numbered the patient accounts in each of the three sampling frames. After generating the 30 random numbers, we selected the corresponding frame items.

ESTIMATION METHODOLOGY

We used OIG/OAS statistical software to estimate the amount of Medicaid overpayments.

APPENDIX B: SAMPLE RESULTS AND ESTIMATES
SAMPLE RESULTS OF MEDICAID OVERPAYMENTS

Hospital	Amount of Actual Overpayments	Federal Share of Overpayments
Hospital 1	\$248	\$165
Hospital 2	548	373
Hospital 3	1,278	879
Hospital 4	0	0
Hospital 5	762	474
Hospital 6	22,064	13,020
Hospital 7	521	322
Hospital 8	4,636	3,239
Total	\$30,057	\$18,472

STATEWIDE ESTIMATE OF POTENTIAL SAVINGS¹

Frame Size	Value of Frame	Sample Size	Value of Sample	Number of Overpayments in Sample	Value of Overpayments in Sample	Value of Overpayments in Sample (Federal Share)
3,876	\$575,029	148	\$48,116	81	\$30,057	\$18,472

Estimated Value of Overpayments

(Limits Calculated for a 90-Percent Confidence Interval)

Point estimate	\$15,329,090
Lower limit	(6,340,716)
Upper limit	36,998,896

Estimated Value of Overpayments (Federal Share)

(Limits Calculated for a 90-Percent Confidence Interval)

Point estimate	\$10,557,384
Lower limit	(4,602,867)
Upper limit	25,717,634

¹ The estimated value of the overpayments includes the value of overpayments in the sample.

APPENDIX C: STATE AGENCY COMMENTS



TEXAS HEALTH AND HUMAN SERVICES COMMISSION

KYLE L. JANEK, M.D.
EXECUTIVE COMMISSIONER

April 4, 2014

Ms. Patricia Wheeler
Regional Inspector General for Audit Services
Office of Inspector General, Office of Audit Services
1100 Commerce, Room 632
Dallas, Texas 75242

Reference Report Number A-06-11-00060

Dear Ms. Wheeler:

The Texas Health and Human Services Commission (HHSC) received a draft audit report entitled "Acute-Care Hospitals in Texas Did Not Always Reconcile Invoice Records With Credit Balances and Refund to the State Agency the Associated Medicaid Overpayments" from the Department of Health and Human Services Office of Inspector General. The cover letter, dated March 5, 2014, requested that HHSC provide written comments, including the status of actions taken or planned in response to report recommendations.

I appreciate the opportunity to respond. Please find the attached HHSC management response which: (a) includes comments related to the content of the findings and recommendations; and (b) details actions HHSC has completed or planned.

If you have any questions or require additional information, please contact David M. Griffith, HHS Risk and Compliance Officer. Mr. Griffith may be reached by telephone at (512) 424-6998 or by e-mail at David.Griffith@hhsc.state.tx.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Kyle L. Janek".

Kyle L. Janek, M.D.

Attachment

HHSC Management Response – Credit Balances Associated with Medicaid Overpayments
April 4, 2014
Page 2

DHHS - OIG Recommendation: *We recommend that the State agency enhance its efforts to recover additional overpayments, estimated at \$15,299,033 (\$10,538,912 Federal share), from hospitals and realize future savings by requiring and ensuring that hospitals exercise reasonable diligence in reconciling patient account credit balances and refunding the associated Medicaid overpayments within a specified time period.*

HHSC Management Response:

Actions Planned: HHSC will work with TMHP to strengthen provider education and outreach to ensure hospitals exercise reasonable diligence in reconciling patient account balances and refunding associated Medicaid overpayments within a specified time period. HHSC will evaluate existing Texas Administrative Code (TAC) Rules and Medicaid Managed Care Contract requirements for possible revision.

Estimated Completion Date: Within 90 days of receipt of the final report

Title of Responsible Person: Third Party Liability Manager

**Texas Health and Human Services Commission
Management Response to the
U.S. Department of Health and Human Services Office of Inspector General Report:**

**Acute-Care Hospitals in Texas Did Not Always Reconcile Invoice Records
With Credit Balances and Refund to the State Agency the Associated
Medicaid Overpayments**

Summary of Management Response

The Texas Medicaid and Healthcare Partnership (TMHP), the Texas Medicaid Claims Administrator, is contractually required to conduct credit balance audits of Medicaid providers as part of the third party liability (TPL) function. Credit balance audits are regularly conducted at hospital and other provider facilities. As part of the audit process, HHSC has and continues to recover overpayments related to provider credit balances. In state fiscal year 2012, auditors conducted 249 facility audits that resulted in credit balance recoveries of \$16,505,145. In state fiscal year 2013, credit balance auditors conducted 217 facility audits that resulted in recoveries of \$12,982,043. The decrease from state fiscal year 2013 to state fiscal year 2012 resulted from the transition of a majority of the Texas Medicaid client population into managed care beginning on March 1, 2012. Given the transition and acceleration of the Medicaid client population into managed care, HHSC anticipates that future Medicaid fee for service TPL recovery categories, including credit balance recoveries, will continue to decrease significantly.

In October 2013, HHSC provided documentation to the auditors indicating that \$14,811 of the \$18,472 identified by the auditors as patient account credit balances containing Medicaid overpayments, had been collected. This left a balance, as of October 2013, of \$3,661 to be collected and refunded to CMS. Since October 2013, TMHP has recovered and refunded to CMS all but \$1,924.

Detailed responses to each of the recommendations included in the report follow.

DHHS - OIG Recommendation: *We recommend that the State agency refund the \$18,472 Federal share to the Federal Government for overpayments paid to the selected hospitals.*

Actions Planned: HHSC will refund the federal share of \$3,051, the remaining credit balance not recovered as of the date of the draft report.

Estimated Completion Date: Within 60 days of receipt of the final report

Title of Responsible Person: Third Party Liability Manager