



JUN 29 2009

Region IX
Office of Audit Services
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

Report Number: A-09-09-00054

Mr. Toby Douglas
Chief Deputy Director of Health Care Programs
California Department of Health Care Services
1500 Capitol Avenue, MS 2001
Sacramento, California 95814

Dear Mr. Douglas:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled “Review of Medicaid Credit Balances at Pioneers Memorial Healthcare District as of December 31, 2008.” 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.

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to contact Alice Norwood, Audit Manager, at (415) 437-8360 or through email at Alice.Norwood@oig.hhs.gov, or contact Lorralli Herrera, Senior Auditor, at (619) 557-6131, extension 230, or through email at Lorralli.Herrera@oig.hhs.gov. Please refer to report number A-09-09-00054 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "L. A. Ahlstrand", written over a horizontal line.

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, HHS
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
MEDICAID CREDIT BALANCES
AT PIONEERS MEMORIAL
HEALTHCARE DISTRICT
AS OF DECEMBER 31, 2008**



Daniel R. Levinson
Inspector General

June 2009
A-09-09-00054

Office of Inspector General

<http://oig.hhs.gov>

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, Office of Inspector General reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act.

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 (the State agency) administers Medicaid.

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), states: “. . . when an overpayment is discovered . . . the State shall have a period of 60 days 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 60 days, 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 timely fashion, and take proper corrective action for Medicaid overpayments. In addition, providers are required to report outstanding credit balances as part of their annual cost report submissions and refund any overpayments when the State agency settles the cost reports.

Pioneers Memorial Healthcare District (Pioneers) is a public entity located in Brawley, California, and operates an acute care facility and a rural health clinic. In addition, Pioneers operated two outpatient clinics that were closed in 2008. Pioneers reported that it was reimbursed by the State agency approximately \$14.3 million for Medicaid services during calendar year 2008.

OBJECTIVE

Our objective was to determine whether the Medicaid credit balances recorded in Pioneers’ accounting records as of December 31, 2008, for inpatient and outpatient services represented overpayments that Pioneers should have returned to the Medicaid program.

SUMMARY OF FINDING

As of December 31, 2008, Pioneers' Medicaid accounts with credit balances included 151 overpayments totaling \$32,818 (\$16,409 Federal share) that had not been returned to the Medicaid program. Of the 151 accounts with Medicaid overpayments, 59 accounts had credit balances of \$100 or more. For these accounts, the ages of the overpayments ranged from 1 day to over 730 days. Pioneers did not return the majority of overpayments to the State agency because Pioneers follows State Medicaid cost report instructions. Those instructions require the provider to refund overpayments when the State agency examines credit balances and audits the cost report for final settlement, not when the provider submits the cost report.

RECOMMENDATION

We recommend that the State agency refund to the Federal Government \$16,409 (Federal share) in Medicaid overpayments to Pioneers for inpatient and outpatient services.

STATE AGENCY COMMENTS

In its comments on our draft report, the State agency agreed with our recommendation. The State agency's comments are included in their entirety as the Appendix.

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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 (the State agency) administers Medicaid.

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), states: “. . . when an overpayment is discovered . . . the State shall have a period of 60 days 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 60 days, 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 timely fashion, and take proper corrective action for Medicaid overpayments. In addition, providers are required to 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.

Pioneers Memorial Healthcare District

Pioneers Memorial Healthcare District (Pioneers) is a public entity located in Brawley, California, and operates an acute care facility and a rural health clinic. In addition, Pioneers operated two outpatient clinics that were closed in 2008. Pioneers reported that it was

reimbursed by the State agency approximately \$14.3 million for Medicaid services during calendar year 2008.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Medicaid credit balances recorded in Pioneers' accounting records as of December 31, 2008, for inpatient and outpatient services represented overpayments that Pioneers should have returned to the Medicaid program.

Scope

Pioneers' inpatient and outpatient accounting records contained 375 Medicaid accounts with credit balances totaling \$45,151 as of December 31, 2008. We reviewed 342 outpatient accounts totaling \$24,202 and 33 inpatient accounts totaling \$20,949. Of the 375 accounts, 151 included Medicaid overpayments due to the State agency.

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

We performed our fieldwork at Pioneers' facilities in Brawley, California, from January through May 2009.

Methodology

To accomplish our objective, we:

- reviewed Federal and State requirements pertaining to Medicaid credit balances and overpayments;
- reviewed Pioneers' policies and procedures for reviewing credit balances and reporting overpayments to the State agency;
- traced Pioneers' December 31, 2008, total credit balances to the accounts receivable records and traced the accounts receivable records to the trial balance;
- identified Pioneers' Medicaid credit balances from its accounting records and reconciled the Medicaid credit balances to Pioneers' Medicaid credit balances overpayment report as of December 31, 2008;
- reviewed Pioneers' accounting records for accounts with credit balances of \$100 or more, including patient payment data, Medicaid claim forms and remittance advices, patient accounts receivable detail, and additional supporting documentation;

- reviewed Pioneers’ Medicaid credit balances overpayment report for accounts with credit balances of less than \$100;
- calculated the Federal share of overpayments based on the Federal medical assistance percentage rate of 50 percent; 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 RECOMMENDATION

As of December 31, 2008, Pioneers’ Medicaid accounts with credit balances included 151 overpayments totaling \$32,818 (\$16,409 Federal share) that had not been returned to the Medicaid program.

OUTSTANDING CREDIT BALANCE ACCOUNTS WITH MEDICAID OVERPAYMENTS

As of December 31, 2008, Pioneers’ Medicaid accounts with credit balances included 151 overpayments totaling \$32,818 (\$16,409 Federal share) that had not been returned to the Medicaid program. Of the 151 accounts with Medicaid overpayments, 59 accounts had credit balances of \$100 or more. For these accounts, the ages of the overpayments ranged from 1 day to over 730 days, as the following table summarizes.

**Ages of Overpayments as of December 31, 2008
(Accounts With Credit Balances of \$100 or More)**

Days	No. of Accounts	Overpayment Amount	Federal Share
1–60	8	\$988	\$494
61–180	11	8,394	4,197
181–365	16	5,395	2,697
366–730	18	11,657	5,829
> 730	6	1,070	535
Total	59	\$27,504	\$13,752

Pioneers did not return the majority of overpayments to the State agency because Pioneers follows State Medicaid cost report instructions. Those instructions require the provider to refund overpayments when the State agency examines credit balances and audits the cost report for final settlement, not when the provider submits the cost report.

RECOMMENDATION

We recommend that the State agency refund to the Federal Government \$16,409 (Federal share) in Medicaid overpayments to Pioneers for inpatient and outpatient services.

STATE AGENCY COMMENTS

In its comments on our draft report, the State agency agreed with our recommendation. The State agency's comments are included in their entirety as the Appendix.

APPENDIX



DAVID MAXWELL-JOLLY
Director

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



ARNOLD SCHWARZENEGGER
Governor

JUN 24 2009

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

Dear Ms. Ahlstrand:

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 Pioneers Memorial Healthcare District as of December 31, 2008" (A-09-09-00054). DHCS appreciates the work performed by the OIG and the opportunity to respond to the draft report.

Please contact Ms. Traci Walter, Audit Coordinator, at (916) 650-0298 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Toby Douglas", written over a horizontal line.

Toby Douglas
Chief Deputy Director
Health Care Programs

cc: See next page

Ms. Lori A. Ahlstrand
Page 2

JUN 24 2009

cc: Ms. Karen Johnson
Chief Deputy Director
Policy and Program Support
1501 Capitol Avenue, MS 0005
P.O. Box 997413
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Mr. Frank Vanacore
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**Department of Health Care Services
Response to the Office of Inspector General Draft Report Entitled**

***Review of Medicaid Credit Balances at
Pioneers Memorial Healthcare District as of December 31, 2008***

Recommendation: We recommend that the State agency refund to the Federal Government \$16,409 (Federal share) in Medicaid overpayments to Pioneers for inpatient and outpatient services.

Response: Department of Health Care Services (DHCS) agrees with this recommendation and will issue a demand letter to Pioneers Memorial Healthcare District to refund the amount of \$32,816. An accounts receivable will be established and the \$16,409 will be returned to the Federal Government.

DHCS' Financial Audits Branch 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 Pioneers Memorial Healthcare District beyond 2008 will include a review for credit balances.