



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

AUG 21 2009

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

Report Number: A-09-09-00072

Ms. Lillian B. Koller  
Director  
Department of Human Services  
1390 Miller Street, Room 209  
Honolulu, Hawaii 96813-2936

Dear Ms. Koller:

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 Kuakini Medical Center 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 call me at (415) 437-8360, or contact Doug Preussler, Audit Manager, at (415) 437-8360 or through email at [Doug.Preussler@oig.hhs.gov](mailto:Doug.Preussler@oig.hhs.gov). Please refer to report number A-09-09-00072 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori 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  
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 KUAKINI MEDICAL CENTER  
AS OF DECEMBER 31, 2008**



Daniel R. Levinson  
Inspector General

August 2009  
A-09-09-00072

# ***Office of Inspector General***

<http://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**

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 Hawaii, the Department of Human 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.”

Although the State agency does not have any regulations requiring providers to refund Medicaid credit balances within a specific timeframe, the Hawaii “Medicaid Provider Manual” contains instructions related to overpayments. Specifically, section 4.4.6.1 states: “Overpayments discovered by providers must be promptly reported to Medicaid for appropriate adjustments.”

Kuakini Medical Center (Kuakini), part of the Kuakini Health System, is a nonprofit acute-care facility located in Honolulu, Hawaii. Kuakini reported that it was reimbursed by the State agency approximately \$1.3 million for Medicaid services during calendar year 2008.

### **OBJECTIVE**

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

### **SUMMARY OF FINDING**

As of December 31, 2008, Kuakini’s 59 Medicaid accounts with credit balances included 21 overpayments totaling \$3,151 (\$1,825 Federal share) that had not been returned to the Medicaid program. The ages of the overpayments ranged from 1 day to over 730 days. Kuakini

representatives stated that Kuakini had not promptly refunded overpayments because of confusion over the State's Medicaid claims reimbursement policies and a shortage of staff.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund to the Federal Government \$1,825 (Federal share) in Medicaid overpayments to Kuakini for inpatient and outpatient services and
- work with Kuakini to ensure that Medicaid credit balances are reviewed and that overpayments are promptly returned to the Medicaid program.

## **STATE AGENCY COMMENTS**

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

# TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTION</b> .....	1
<b>BACKGROUND</b> .....	1
Medicaid Program.....	1
Federal and State Requirements.....	1
Kuakini Medical Center.....	1
<b>OBJECTIVE, SCOPE, AND METHODOLOGY</b> .....	2
Objective.....	2
Scope.....	2
Methodology.....	2
<b>FINDING AND RECOMMENDATIONS</b> .....	3
<b>OUTSTANDING CREDIT BALANCE ACCOUNTS WITH MEDICAID     OVERPAYMENTS</b> .....	3
<b>RECOMMENDATIONS</b> .....	3
<b>STATE AGENCY COMMENTS</b> .....	4
<b>APPENDIX</b>	
<b>STATE AGENCY COMMENTS</b>	



## **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 Hawaii, the Department of Human 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.”

Although the State agency does not have any regulations requiring providers to refund Medicaid credit balances within a specific timeframe, the Hawaii “Medicaid Provider Manual” contains instructions related to overpayments. Specifically, section 4.4.6.1 states: “Overpayments discovered by providers must be promptly reported to Medicaid for appropriate adjustments.”

#### **Kuakini Medical Center**

Kuakini Medical Center (Kuakini), part of the Kuakini Health System, is a nonprofit acute-care facility located in Honolulu, Hawaii. Kuakini reported that it was reimbursed by the State agency approximately \$1.3 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 Kuakini's accounting records as of December 31, 2008, for inpatient and outpatient services represented overpayments that Kuakini should have returned to the Medicaid program.

### **Scope**

As of December 31, 2008, Kuakini's inpatient and outpatient accounting records contained 59 credit balance accounts that listed Medicaid as a payer, totaling \$36,865. We reviewed 43 outpatient accounts totaling \$7,749 and 16 inpatient accounts totaling \$29,116.

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

We performed fieldwork at Kuakini's facilities in Honolulu, Hawaii, from February through June 2009.

### **Methodology**

To accomplish our objective, we:

- reviewed Federal and State requirements pertaining to Medicaid credit balances and overpayments;
- reviewed Kuakini's policies and procedures for reviewing credit balances and reporting overpayments to the State agency;
- reconciled Kuakini's December 31, 2008, total credit balances to the accounts receivable records and reconciled the accounts receivable records to the trial balance;
- identified Kuakini's Medicaid credit balances from its accounting records and reconciled the Medicaid credit balances to Kuakini's Medicaid credit balances overpayment report as of December 31, 2008;
- reviewed Kuakini's accounting records, including patient payment data, Medicaid claim forms and remittance advices, patient accounts receivable detail, and additional supporting documentation;
- calculated the Federal share of overpayments based on Hawaii's Federal medical assistance percentage rates, which ranged from 55.11 percent to 58.90 percent; and

- interviewed Kuakini representatives 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 December 31, 2008, Kuakini’s 59 Medicaid accounts with credit balances included 21 overpayments totaling \$3,151 (\$1,825 Federal share) that had not been returned to the Medicaid program.

#### **OUTSTANDING CREDIT BALANCE ACCOUNTS WITH MEDICAID OVERPAYMENTS**

As of December 31, 2008, Kuakini’s 59 Medicaid accounts with credit balances included 21 overpayments totaling \$3,151 (\$1,825 Federal share) that had not been returned to the Medicaid program. 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**

Days	No. of Accounts	Overpayment Amount	Federal Share
1–60	3	\$55	\$30
61–180	8	542	304
181–365	6	524	296
366–730	1	40	23
> 730	3	1,990	1,172
<b>Total</b>	<b>21</b>	<b>\$3,151</b>	<b>\$1,825</b>

Kuakini representatives stated that Kuakini had not promptly refunded overpayments because of confusion over the State’s Medicaid claims reimbursement policies and a shortage of staff.

#### **RECOMMENDATIONS**

We recommend that the State agency:

- refund to the Federal Government \$1,825 (Federal share) in Medicaid overpayments to Kuakini for inpatient and outpatient services and
- work with Kuakini to ensure that Medicaid credit balances are reviewed and that overpayments are promptly returned to the Medicaid program.

## **STATE AGENCY COMMENTS**

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

# **APPENDIX**

LINDA LINGLE  
GOVERNOR



LILLIAN B. KOLLER  
DIRECTOR

HENRY OLIVA  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF HUMAN SERVICES  
Med-QUEST Division-Finance Office  
1001 Kamokila Boulevard, Suite 317  
Kapolei, Hawaii 96707  
July 29, 2009

Ms. Lori Ahlstrand  
Regional Inspector General for Audit Services  
Department of Health & Human Services  
Office of the Inspector General  
Region IX  
Office of Audit Services  
90 7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103

Dear Ms. Ahlstrand:

**RE: U.S. Department of Health and Human Services, Office of the Inspector General (OIG), Report Number: A-09-09-00072**

This is to respond to your June 30, 2009 correspondence in which we received the draft report entitled "Review of Medicaid Credit Balances at Kuakini Medical Center as of December 31, 2008." As requested, our written comments are provided below.

**Recommendation 1. The State agency refund to the Federal Government \$1,825 (Federal share) in Medicaid overpayments to Kuakini for inpatient and outpatient services.**

The State fully agrees with this recommendation and will refund the \$1,825 in our CMS 64 report for quarter ending June 30, 2009.

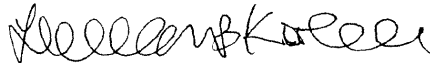
**Recommendation 2. The State agency is to work with Kuakini Hospital to ensure that Medicaid credit balances are reviewed and that overpayments are promptly returned to the Medicaid program.**

The State agrees to work with Kuakini Hospital to ensure that Medicaid credit balances are reviewed and that overpayments are promptly returned to the Medicaid program. The State and its fiscal agent will contact Kuakini Hospital within a month's time to present Provider Education on any issues for which Kuakini requires assistance.

Ms. Lori Ahlstrand  
July 29, 2009  
Page 2

Please contact Dr. Kenneth Fink, Med-QUEST Division Administrator at (808) 692-8050 if there are any questions or if additional information is required. Thank you for your support and assistance in this matter.

Sincerely,



Lillian B. Koller  
Director

c: Albert Tadakuma, Region IX Accountant  
Jeanie Chan, Region IX Accountant  
Ann H. Kinningham, MQD Finance Officer  
Dr. Kenneth Fink, MQD Administrator