

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**CREDIT BALANCES AT  
CHILDREN'S HOSPITAL &  
RESEARCH CENTER OAKLAND  
REPRESENTED OVERPAYMENTS  
THAT HAD NOT BEEN  
RETURNED TO THE  
MEDICAID PROGRAM**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services**

**September 2014  
A-09-13-02058**

# *Office of Inspector General*

<http://oig.hhs.gov>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

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.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

Section 8M 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

*As of September 30, 2013, credit balances at Children's Hospital & Research Center Oakland represented overpayments of approximately \$71,000 (\$35,000 Federal share) that had not been returned to the Medicaid program.*

### WHY WE DID THIS REVIEW

Previous Office of Inspector General reviews found that Medicaid credit balances recorded in hospitals' accounting records represented overpayments that had not been returned to the Medicaid program. Those reviews also found that the hospitals lacked adequate policies and procedures to prevent, detect, and take proper corrective action in a timely fashion for Medicaid overpayments. For this review, we selected Children's Hospital & Research Center Oakland (the Hospital) because it reported that 67 percent of its patient population was covered by Medicaid and it had not been audited recently by the State Medicaid agency.

Our objective was to determine whether the Medicaid credit balances recorded in the Hospital's accounting records as of September 30, 2013, for inpatient and outpatient services represented overpayments that the Hospital should have returned to the Medicaid program.

### BACKGROUND

Providers of Medicaid services submit claims to States to receive compensation. The States process and pay the claims. The Federal Government pays its share (Federal share) of a State's Medicaid payments according to the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income. In California, the Department of Health Care Services (State agency) administers the Medicaid program, called Medi-Cal.

Credit balances may occur when the reimbursement that a provider, such as a hospital, 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. Additionally, credit balances may occur when reimbursements for services are recorded incorrectly. Credit balances do not always contain overpayments due back to the Medicaid program. If the provider received an overpayment, it must return the overpayment to the State Medicaid agency, which is required to refund to the Federal Government the Federal share of the overpayment.

The Hospital is a teaching hospital and a designated pediatric trauma center exclusively for children, located in Oakland, California. The Hospital is licensed for 190 beds. During fiscal year (FY) 2012, the Hospital reported receiving Medicaid payments of \$138.6 million.

### WHAT WE FOUND

As of September 30, 2013, the Hospital's accounts with credit balances included 23 accounts with overpayments totaling \$70,853 (\$35,426 Federal share) that had not been returned to the

Medicaid program. We calculated the Federal share of \$35,426 using California's FMAP of 50 percent for FYs 2012 and 2013. The ages of the overpayments in the 23 accounts ranged from 27 to 321 days.

For 14 of the 23 accounts, the Hospital took timely action to request that the State agency recoup the overpayments. However, for the remaining nine accounts, the Hospital did not return the overpayments to the State agency because it lacked adequate policies and procedures to detect and take proper corrective action in a timely fashion for Medicaid overpayments.

## **WHAT WE RECOMMEND**

We recommend that the State agency:

- refund to the Federal Government \$35,426 (Federal share) in Medicaid overpayments to the Hospital and
- work with the Hospital to ensure that it develops and implements adequate policies and procedures to detect and take proper corrective action in a timely fashion for Medicaid overpayments.

## **HOSPITAL COMMENTS**

In written comments on our draft report, the Hospital agreed with our finding and provided information on corrective actions taken.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency agreed with our recommendations and provided information on actions that it had taken or planned to take to address our recommendations.

**TABLE OF CONTENTS**

INTRODUCTION ..... 1

    Why We Did This Review ..... 1

    Objective ..... 1

    Background ..... 1

        Medicaid Program ..... 1

        Medicaid Credit Balances ..... 1

        Children’s Hospital & Research Center Oakland ..... 2

    How We Conducted This Review ..... 2

FINDING ..... 2

    Federal Requirements ..... 2

    Accounts With Credit Balances Included 23 Accounts With Overpayments  
    That Had Not Been Returned to Medicaid ..... 3

RECOMMENDATIONS ..... 3

HOSPITAL COMMENTS ..... 4

STATE AGENCY COMMENTS ..... 4

APPENDIXES

    A: Audit Scope and Methodology ..... 5

    B: Hospital Comments ..... 7

    C: State Agency Comments ..... 8

## **INTRODUCTION**

### **WHY WE DID THIS REVIEW**

Previous Office of Inspector General reviews found that Medicaid credit balances recorded in hospitals' accounting records represented overpayments that had not been returned to the Medicaid program. Those reviews also found that the hospitals lacked adequate policies and procedures to prevent, detect, and take proper corrective action in a timely fashion for Medicaid overpayments. For this review, we selected Children's Hospital & Research Center Oakland (the Hospital) because it reported that 67 percent of its patient population was covered by Medicaid and it had not been audited recently by the State Medicaid agency.

### **OBJECTIVE**

Our objective was to determine whether the Medicaid credit balances recorded in the Hospital's accounting records as of September 30, 2013, for inpatient and outpatient services represented overpayments that the Hospital should have returned to the Medicaid program.

### **BACKGROUND**

#### **Medicaid Program**

Title XIX of the Social Security Act (the Act) requires the Medicaid program to provide 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.

Providers of Medicaid services submit claims to States to receive compensation. The States process and pay the claims. The Federal Government pays its share (Federal share) of a State's Medicaid payments according to the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income (42 CFR § 433.10). In California, the Department of Health Care Services (State agency) administers the Medicaid program, called Medi-Cal.

#### **Medicaid Credit Balances**

Credit balances may occur when the reimbursement that a provider, such as a hospital, 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. Additionally, credit balances may occur when reimbursements for services are recorded incorrectly. Credit balances do not always contain overpayments due back to the Medicaid program. If the provider received an overpayment, it must return the overpayment to the State agency, which is required to refund to the Federal Government the Federal share of the overpayment.

## **Children’s Hospital & Research Center Oakland**

The Hospital is a teaching hospital and a designated pediatric trauma center exclusively for children, located in Oakland, California. The Hospital is licensed for 190 beds. During fiscal year (FY) 2012, the Hospital reported receiving Medicaid payments of \$138.6 million.

### **HOW WE CONDUCTED THIS REVIEW**

As of September 30, 2013, the Hospital’s inpatient and outpatient accounting records contained 337 Medicaid accounts with credit balances totaling \$344,924. We reviewed 47 accounts with credit balances of \$1,000 or more or credit balances of \$300 or more that the Hospital identified as credit balances that represented Medicaid overpayments, totaling \$219,580.

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.

Appendix A contains the details of our audit scope and methodology.

### **FINDING**

As of September 30, 2013, the Hospital’s accounts with credit balances included 23 accounts with overpayments totaling \$70,853 (\$35,426 Federal share) that had not been returned to the Medicaid program.

### **FEDERAL REQUIREMENTS**

Federal law states that if a provider has received an overpayment, the provider must report and refund to the State the overpayment by the later of the date that is 60 days after the date on which the overpayment was identified or the date that any corresponding cost report is due (Act § 1128J(d), added by the Patient Protection and Affordable Care Act (ACA)<sup>1</sup>).

When a State discovers an overpayment, it has a period of 1 year to recover or attempt to recover the overpayment before an adjustment is made in the Federal payment on account of the overpayment. The adjustment must be made at the end of the 1-year period, whether or not the State recovered the overpayment (Act § 1903(d)(2)(C), implemented at 42 CFR § 433.300(b) and amended by ACA § 6506(a)(1)(A)).

---

<sup>1</sup> P.L. No. 111-148 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, P.L. No. 111-152 (Mar. 30, 2010), collectively referred to as “ACA.”

**ACCOUNTS WITH CREDIT BALANCES INCLUDED 23 ACCOUNTS WITH OVERPAYMENTS THAT HAD NOT BEEN RETURNED TO MEDICAID**

As of September 30, 2013, the Hospital’s accounts with credit balances included 23 accounts with overpayments that had not been returned to the Medicaid program, totaling \$70,853 (\$35,426 Federal share). We calculated the Federal share of \$35,426 using California’s FMAP of 50 percent for FYs 2012 and 2013. The ages of the overpayments in the 23 accounts ranged from 27 to 321 days, as the following table summarizes.

**Table: Ages of Overpayments as of September 30, 2013**

<b>No. of Days</b>	<b>No. of Accounts</b>	<b>Overpayment Amount</b>	<b>Federal Share</b>
1–60	8	\$3,475	\$1,738
61–180	10	10,851	5,425
181–365	5	56,527	28,263
> 365	0	0	0
<b>Total</b>	<b>23</b>	<b>\$70,853</b>	<b>\$35,426</b>

According to the Hospital, it is in the process of returning to the State agency the overpayments for all 23 accounts. For 14 of the 23 accounts, the Hospital took timely action to request that the State agency recoup the overpayments. For 7 of the 15 accounts older than 60 days, the Hospital started the process of returning the overpayments within 60 days. For the three largest accounts (totaling \$63,812), which had credit balances between 159 and 321 days, the Hospital has been working directly with the State agency to return the overpayments since shortly after identifying them. However, for 9 of the 23 accounts, the Hospital did not return the overpayments because it lacked adequate policies and procedures to detect and take proper corrective action in a timely fashion for Medicaid overpayments.

**RECOMMENDATIONS**

We recommend that the State agency:

- refund to the Federal Government \$35,426 (Federal share) in Medicaid overpayments to the Hospital and
- work with the Hospital to ensure that it develops and implements adequate policies and procedures to detect and take proper corrective action in a timely fashion for Medicaid overpayments.

## **HOSPITAL COMMENTS**

In written comments on our draft report, the Hospital agreed with our finding and provided information on corrective actions taken. The Hospital's comments are included in their entirety as Appendix B.<sup>2</sup>

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency agreed with our recommendations and provided information on actions that it had taken or planned to take to address our recommendations. The State agency's comments are included as Appendix C. We excluded the State agency's attachment, which was a letter to the Hospital informing it of the provider's responsibilities to report credit balances and requiring the Hospital to prepare a corrective action plan.

---

<sup>2</sup> As of January 1, 2014, the Hospital is affiliated with UCSF Benioff Children's Hospital. Therefore, the letterhead for the Hospital's comments shows the Hospital's name as "UCSF Benioff Children's Hospital Oakland."

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

As of September 30, 2013, the Hospital's inpatient and outpatient accounting records contained 337 Medicaid accounts with credit balances totaling \$344,924. We reviewed 47 accounts with credit balances of \$1,000 or more or credit balances of \$300 or more that the Hospital identified as credit balances that represented Medicaid overpayments, totaling \$219,580.<sup>3</sup>

We did not review the overall internal control structure of the Hospital. We limited our internal control review to obtaining an understanding of the policies and procedures that the Hospital used to review credit balances and report overpayments to the State agency.

We performed fieldwork at the Hospital's business offices in Emeryville, California, from October 2013 to February 2014.

### METHODOLOGY

To accomplish our objective we:

- reviewed Federal law and regulations and State regulations pertaining to Medicaid overpayments;
- reviewed the Hospital's policies and procedures for reviewing credit balances and reporting overpayments to the State agency;
- traced the Hospital's September 30, 2013, total credit balances to the accounts receivable records and traced the accounts receivable records to the balance sheet;
- identified the Hospital's Medicaid credit balances from its accounting records and reconciled these credit balances with the Hospital's credit balances shown in the Medicaid overpayment credit balances report as of September 30, 2013;
- reviewed the Hospital's accounting records for all patient accounts with credit balances of \$1,000 or more or credit balances of \$300 or more that the Hospital identified as credit balances that represented Medicaid overpayments, 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 to the identified overpayments for FYs 2012 and 2013; and
- coordinated our audit with State agency officials.

---

<sup>3</sup> We initially selected for review 49 accounts, totaling \$300,678; however, we determined that 2 accounts did not contain credit balances related to patient accounts, so we did not review them.

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.

## APPENDIX B: HOSPITAL COMMENTS



July 8, 2014

Ms. Lori Ahlstrand  
Regional Inspector General  
For Audit Services  
90 Seventh Street, Suite 3-650  
San Francisco, CA 94103

Re: Report # A-09-13-02058

Dear Ms. Ahlstrand:

Thank you and your staff for your thorough review of the Medicaid credit balances. Your review presented us with an opportunity for improvement.

We agree with your findings of 23 Medicaid credit balance accounts as of 9/30/2013 with a balance owed of \$70,853. As your report notes, for 14 of these accounts totaling \$67,435 (61% of total claims and 95% of the funds), the hospital took timely action with the State to request that they recoup the overpayment. The remaining 9 accounts for \$3,418 were missed in the refund process.

Although not a valid excuse, Patient Financial Services staff was heavily impacted in September with training sessions in preparation for an imminent Electronic Medical Record "Go Live". The 9 accounts with smaller balances were overlooked.

We have since revised our credit balance review process to assure timely processing. Previously, two government payor staff routinely looked for MediCal credit balances. Our new process assigns all government payor staff to screen for overpayments monthly. We believe this new process will prevent small credit balances from being missed.

Again, thank you for your comprehensive review and the opportunity to respond.

Sincerely,

A handwritten signature in blue ink that reads "Kathleen Cain".

Kathleen Cain,  
Senior Vice President and  
Chief Financial Officer

Cc: Debashis Bhattacharya

747 52<sup>nd</sup> Street Oakland, CA 94609-1809  
510-428-3000  
[www.childrenshospitaloakland.org](http://www.childrenshospitaloakland.org)

## APPENDIX C: STATE AGENCY COMMENTS



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



EDMUND G. BROWN JR.  
GOVERNOR

August 28, 2014

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

RE: Review of Medicaid Credit Balances at Children's Hospital  
& Research Center Oakland A-09-13-02058

Dear Ms. Ahlstrand:

The Department of Health Services (DHCS) Audits and Investigations (A&I) reviewed the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled *Credit Balances at Children's Hospital & Research Center Oakland Represented Overpayments That Had Not Been Returned to the Medicaid Program*.

The report contained the following recommendations:

- Refund to the Federal Government \$35,426 (Federal share) in Medicaid overpayments to the Hospital and
- Work with the Hospital to ensure that it develops and implements adequate policies and procedures to detect and take proper action in a timely fashion for Medicaid overpayments

DHCS agrees with both recommendations and has sent a letter to Children's Hospital & Research Center Oakland (CHROC) informing them that the credit balance will be collected (Attached). In addition, the letter provides the procedures for properly identifying and reporting credit balances and requires CHROC to provide their credit balance policies and procedures. DHCS A&I will review the policies and procedures to ensure they are adequate.

---

Audits and Investigations/Department of Health Services  
1500 Capitol Avenue, MS 2000, P.O. Box 997413, Sacramento, CA 95899-7413  
(916) 440-7550, FAX (916) 650-6690  
Internet Address: [www.dhcs.ca.gov](http://www.dhcs.ca.gov)

Ms. Ahlstrand  
Page 2  
August 28, 2014

Sincerely,



Bob Sands  
Assistant Deputy Director  
Audits and Investigations Division

cc: Ms. Sarah Hollister  
Audit Coordinator, Internal Audits