EXECUTIVE SUMMARY

PURPOSE

The purpose of this national inspection is to determine the dollar amount of Medicaid credit balances that exist at Medicaid-participating nursing facilities, and the time used by nursing facilities and State Medicaid agencies in reporting and adjusting credit balances.

BACKGROUND

Whenever a Medicaid payment is made to a provider (e.g., nursing facility) in excess of the amount of payment that is due, a credit balance is created. The nursing facilities, as well as the State Medicaid agencies, have a responsibility to resolve these credit balances.

In a previous OIG review of hospitals conducted in 1989, we found substantial amounts of Medicaid credit balances in hospitals. The Medicaid credit balances in the five sampled States projected to a total of $16 million ($8,970,198 federal share). The review allowed the Health Care Financing Administration (HCFA) to pursue and recover most of the overpayments. This earlier review suggested a potential also for Medicaid credit balances in nursing facilities nationwide.

METHODOLOGY

We selected a random sample of 50 nursing facilities in two stages. In the first stage, five States were sampled. Subsequently, 10 nursing facilities were sampled within each State for an on-site examination of patient account records.

We requested the 50 nursing facilities to provide a listing of all credit balances as of March 31, 1990. We determined the existence of an actual credit balance based upon a review of the patient ledgers maintained at the facility. Our review determined the amount of the credit balance, the date the nursing facility notified the State agency of the existence of the credit balance, and the length of time it took the State agency to adjust the amount of the credit balance.

FINDINGS

Projected Medicaid Credit Balances are Substantial  We estimate nationwide that overdue credit balances could be as much as $32 million ($18 million federal share) as of March 31, 1990.

Credit Balances Are Not Reported Timely  Ten million dollars in identified Medicaid credit balances were not reported after 1 year had elapsed (as of March 31, 1990).
State Medicaid Agencies Are Not Adjusting Credit Balances Timely

Fifty-six percent of the Medicaid credit balances were not adjusted by the State Medicaid agencies within 60 days of notice by the nursing facilities.

RECOMMENDATIONS

The HCFA Should:

- Encourage State Medicaid Agencies to Take Action to Adjust Credit Balances;
- Require State Medicaid Agencies to Timely Process Adjustment of Credit Balances;
- Work With State Medicaid Agencies to Increase the Awareness of Program Providers to Timely Identify and Report Credit Balances; and
- Seek Legislation to Penalize Providers which Do Not Timely Report Credit Balances.

AGENCY COMMENTS

The HCFA concurred with our recommendations to encourage State Medicaid agencies to take action to adjust credit balances and to require State agencies to process adjustments in a timely manner. The HCFA identified actions it is taking towards these ends. The HCFA also agreed with our overall recommendation to work with State Medicaid agencies to increase the awareness of program providers to identify and report credit balances in a timely manner, and identified actions it is taking to address this.

However, HCFA disagreed with our recommendation to penalize providers who do not timely report credit balances because they deal primarily with States rather than with individual providers. We have elected to retain this recommendation since we believe that a penalty placed on program providers would be a potent incentive to report credit balances, and there are ways HCFA can achieve this through the States.

Finally, the HCFA questioned the accuracy of our savings estimate. While we agree that our estimate has a wide confidence interval, there is no doubt that the problem of credit balances is serious and warrants enhanced action to collect them.
The purpose of this national inspection is to determine the dollar amount of Medicaid credit balances that exist at Medicaid-participating nursing facilities nationwide. This review suggested the hospitals’ procedures should enable them to make notification of a reporting credit balances timely or not reporting credit balances at all. The OIG found that the hospitals’ procedure is not timely or not reporting credit balances. If similar problems existed in all States, the projected Medicaid credit balances could equal as much as $34,104,098. A prior OIG inspection of Medicaid credit balances in hospital inpatient accounts were $16,369,467 ($8,970,198 federal share) noted that reported credit balances in the five States revised according to the Social Security Act, Section 1903 (d). Subsequently, the consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272) requires the State Medicaid agencies to adjust future nursing facility payments in the amount of the credit balances within 60 days. Subsequently, the State Medicaid agencies, even though a formal time frame does not exist, the nursing facilities must notify the State Medicaid agency of credit balances. When credit balances are created, certain responsibilities rest with the nursing facilities. The federal share of the credit balance is paid or matched by the Federal government. Any overpayment is returned to the State Medicaid program. The purpose of this national inspection is to determine the dollar amount of Medicaid credit balances.
METHODOLOGY

We selected a random sample of nursing facilities from the universe of all Medicaid-participating nursing facilities using a modified Rao, Hartly, Cochran method. A two-stage cluster sample was selected where States were chosen in the first stage with probability proportional to size. These States were: California, Florida, Missouri, Pennsylvania, and Wisconsin.

In the second stage, a simple random sample of nursing facilities within each State was selected, where States were chosen in the first stage with probability proportional to size. The two-stage cluster sample was selected where States were chosen in the first stage with probability proportional to size. The two-stage cluster sample was selected where States were chosen in the first stage with probability proportional to size.

We requested each nursing facility in the sample to provide the OIG with listings of outstanding Medicaid credit balances as of March 31, 1990. If there were no credit balances identified by the facility, all patient balances as of March 31, 1990 for each resident were examined. If there were outstanding Medicaid credit balances as of March 31, 1990, we requested the facilities to verify the existence of each credit balance.

We determined the existence of an actual credit balance based upon a review of the patient ledger and other documentation maintained at the facility. To ensure validity of the credit balances, we requested the facilities to verify the existence of each credit balance and credit balance amount. Our review determined the amount of the credit balance and credit balance amount. Our review determined the amount of the credit balance and credit balance amount. Our review determined the amount of the credit balance and credit balance amount. Our review determined the amount of the credit balance and credit balance amount.

We conducted a subsequent review several months later of all the nursing facilities that had outstanding credit balances at the time of our site visits. This follow-up review was performed to verify dollar amounts and the current disposition of the credit balances. We also determined which nursing facilities still had not reported credit balances. The period of time it took the nursing facility to notify the State Medicaid agency to adjust its payments for the amount of the credit balance, and the length of time it took the State Medicaid agency to adjust its payments for the amount of the credit balance, was recorded. We requested each nursing facility in the sample to provide the OIG with listings of outstanding credit balances.
FINDINGS

Project Medicaid Credit Balances are Substantial

Projecting the amount of Medicaid credit balances for each sampled State to all Medicaid-participating nursing facilities in each State resulted in total estimated credit balances overdue in the five States of approximately $8 million ($4 million federal share). Assuming all conditions relative to the five States exist in the other States, the projected credit balances to the Medicaid program could be as much as $32 million ($18 million federal share). See Appendix B.

As part of our follow-up review, we determined that 95 percent (197 of 208) of the credit balances were reported to the State Medicaid agencies after 45 days. Based upon information from nursing facility personnel that they reconcile credit balances monthly and allowing 15 days afterwards to report credit balances, we believe 45 days to be a reasonable time frame for reporting credit balances to the State Medicaid agencies. We found that 135 of the 416 credit balances in our sample were reported within 45 days of the due date. Less than one-fifth (73 of the 416) were reported within 45 days of the due date but before 1 year had elapsed. The national projection for these credit balances is $10 million ($5.6 million federal share).

Credit balances due back to the State Medicaid agencies that were not reported timely, according to our definition, of less priority than other business and operations. We are only concerned with debit balances.

When asked why these credit balances were not reported timely, typical comments from staff at nursing facilities were: "We are only concerned with debit balances." "We are only concerned with debit balances."

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Credit balances due back to the State Medicaid agencies that were not reported timely, according to our definition, of less priority than other business and operations. We are only concerned with debit balances.
Credit balance delinquency. This takes a much greater expenditure of nursing facility staff hours than if the credits had been reported timely.

The review showed that 56 percent (116 of 208) of the Medicaid credit balances reported were not adjusted by the State Medicaid agencies within 60 days of notice by the nursing facility. In various instances, the State Medicaid agencies were not always in compliance with the 60-day provision of the Consolidated Omnibus Budget Reconciliation Act of 1985. (See Appendix C).
The HCFA should instruct State Medicaid agencies to adjust actual credit balances identified by this inspection and to adjust credit balances on an ongoing basis.

Nationally, the projected Medicaid program overdue credit balances could be as much as $32 million ($18 million federal share); see Appendix A.

The HCFA should encourage State Medicaid agencies to take action to adjust credit balances.

The HCFA should seek legislation that would impose a penalty on program providers whose credit balances are not reported within a reasonable time.

The HCFA should seek legislation to mandate providers which do not timely report credit balances.

The HCFA should require State Medicaid agencies to adhere to the Consolidated Omnibus Budget Reconciliation Act provision (Section 9512) requiring States to adjust any outstanding Medicaid credit balances within 60 days after notification by the nursing facility that a credit balance exists.

Program Providers to Timely Identify and Report Credit Balances

The HCFA should work with State Medicaid agencies to increase the awareness of credit balances among providers.

Efforts to encourage provider awareness could include newsletters, training sessions, or on-site visits and/or reviews that establish a priority emphasis to this provider responsibility. The HCFA might also consider assessing interest on the federal share of credit balances not reported within a reasonable time.

The HCFA should work with State Medicaid agencies to emphasize to providers that credit balances should be identified within a reasonable time.

The HCFA should seek legislation to penalize providers that do not timely report credit balances.

The HCFA should require State Medicaid agencies to report credit balances within 60 days after notification by the nursing facility that a credit balance exists.

Nationally, the projected Medicaid program overdue credit balances could be as much as $32 million ($18 million federal share); see Appendix A.

The HCFA should encourage State Medicaid agencies to take action to adjust credit balances.

RECOMMENDATIONS
Finally, the HCFA questioned the accuracy of our savings estimate. While we agree that our estimate has a wide confidence interval, there is no doubt that the problem of credit balances is serious and warrants enhanced action to collect them.

Federal-State Medicaid Partnership.

Section 9512 of COBRA requires all State Medicaid agencies to adjust credit balances and to require State agencies to process adjustments in a timely manner. The HCFA has issued a memorandum to all State Medicaid agencies to adjust credit balances on a continuing basis and to adhere to the requirements outlined in section 9512 of COBRA.

The HCFA also disagreed with our recommendation to penalize providers which do not report credit balances in a timely manner, because their role deals primarily with States rather than with individual providers. We have elected to retain this recommendation in our final report since our findings demonstrate a potent incentive is needed to report credit balances, and we believe that a penalty placed on program providers which do not report credit balances in a timely manner, would serve this purpose. Nevertheless, we believe this approach has merit and hope HCFA will consider it again as part of an overall strategy to increase State efforts in this area.

HCFA disagreed with this suggestion because it is limited by statute in assessing interest against Medicaid State agencies. Nevertheless, we believe this approach is more effective than HCFA regional offices to direct State Medicaid agencies to identify and adjust credit balances and to require State agencies to increase the awareness of program providers to identify and report credit balances. The HCFA also agreed with our overall recommendation to work with State Medicaid agencies to increase the awareness of program providers to identify and report credit balances.

HCFA has issued a memorandum to all State Medicaid agencies to adjust credit balances on a continuing basis and to adhere to the requirements outlined in section 9512 of COBRA.
### Nursing Facility

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<th>State</th>
<th>5 State Projection</th>
<th>5 State Federal Share</th>
<th>Average Total Projected Sample in NFs with Cr. Bal. Per NF</th>
<th>90% Confidence Interval</th>
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### Medicaid

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<td>State</td>
<td># of Credit Bal.’s Not Reported</td>
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<td>CA</td>
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Medicaid National Estimate: $9,983,152 ($5,571,365 fed. share) for the 208 credit balances which were not reported until after one year had elapsed.

90% Confidence Interval:

(upper) $18,098,193
(lower) $1,868,111

Credit Balances Untimely Reported

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<th>State</th>
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## Unluly Adjustment by State Agencies

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<th>Credit Notices</th>
<th>Issued Notices</th>
<th># of Amt.</th>
<th>Amt.</th>
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Memorandum

DEPARTMENT OF HEALTH & HUMAN SERVICES

To:

From:

Date:

Subject:

Medicaid Credit Balances in Nursing Facility Patient Accounts

We have reviewed the above-referenced report which summarizes the results of OIG's review of credit balances in patient accounts at nursing facilities (NFs). Based on the review, OIG projects that as much as $32 million ($18 million Federal share) could be outstanding in NF credit balance accounts.

We agree with the majority of OIG's recommendations. However, we are concerned that the sampling methodology used by OIG has not produced a reliable estimate of total NF credit balances. It also does not capture NF differences across States (e.g., number of individuals served) as the report assumes all conditions are the same across other States. Therefore, we are requesting that OIG describe both the methodology and the actuarial projections used to generalize the findings from sampled NFs to all NFs in the State and nationally. Our detailed comments are attached.

Thank you for the opportunity to comment on this draft report. Please advise us whether you agree with our position on the report's recommendations as your earliest convenience.

Attachment

[Signature]
J. Michael Hudson
Acting Administrator

Office of the Secretary
Inspector General

(03-07-00-00911)
We issued a memorandum to the ROs on February 18 to direct State Medicaid agencies to identify and adjust credit balances on a continuing basis. Where provider-maintained credit balances are held in interim or suspense accounts, action should be taken to adjust these credit balances and other properly identified credit balances surveyed did not remit the credit balance or notify the State Medicaid agencies of their existence. If this information were provided in the final report, it would assist us in implementing the necessary corrective action. However, the mere presence of a credit balance does not necessarily indicate there is an overpayment requiring the return of Federal financial participation by the State. Reimbursement policies of the States and the accounting practices of individual providers determine the extent of the credit balance problem in any particular State. We are requesting that OIG provide the reasons why the providers surveyed did not remit the credit balances or notify the State Medicaid agencies of their existence. If this information were provided in the final report, it would assist us in implementing the necessary corrective action.

HCF A should encourage State Medicaid agencies to identify and adjust credit balances on a continuing basis.
OIG Recommendation

HCF A should work with State Medicaid agencies to encourage the awareness of program providers to timely identify and report credit balances.

HCF A Response

On September 29, 1988, we issued a Financial Management Review Guide for providers-maintained credit balances in Medicaid. This guide explores third-party liability, overpayment, and cost-reimbursement policy affecting this issue and provides procedures to the ROs for conducting these reviews. As part of the State Performance Evaluation and Comprehensive Test of Reimbursement Under Medicaid program, we monitor the collection efforts of the States in recovering known Medicaid credit balances. In the past, we have placed special emphasis on hospitals. However, in planning the fiscal year (FY) 1993 financial management reviews, we will consider expanding our reviews of providers-maintained credit balances to include NFs as well as hospitals if circumstances warrant such expansion.

HCFA should seek legislation to penalize providers which do not timely report credit balances.

OIG Recommendation

The report does not identify the existence of interest-bearing accounts. In addition, the small amount of dollars involved is not significant enough to require a legislative change to permit the imposition of interest on credit balances.

HCF A Response

Except for certain exceptions not applicable here, HCF A is limited by statute in assessing interest against Medicaid State agencies. We assess interest only if a State agency is required to retain funds in dispute as a result of a formal disallowance and the State loses in an appeal before the Departmental Appeals Board (section 1903(d)(5) of the Social Security Act and 42 CFR 433.38). If the NFs were to earn interest on the Federal share of credit balances, then the State agency must retain the Federal share of the interest earned in addition to the Federal share of the credit balances.

The report does not identify the existence of interest-bearing accounts. In addition, the small amount of dollars involved is not significant enough to require a legislative change to permit the imposition of interest on credit balances.

We disagree with OIG's comment that HCFA consider assessing interest on the Federal share of credit balances not reported within a reasonable time. Except for certain exceptions not applicable here, HCFA is limited by statute in assessing interest against Medicaid State agencies. We assess interest only if a State agency is required to retain funds in dispute as a result of a formal disallowance and the State loses in an appeal before the Departmental Appeals Board (section 1903(d)(5) of the Social Security Act and 42 CFR 433.38). If the NFs were to earn interest on the Federal share of credit balances, then the State agency must retain the Federal share of the interest earned in addition to the Federal share of the credit balances.

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Appendix A

payment to NFs and 1903(d) for payments to States and adjustments to such Medicaid cases are sections 1903(a)(13)(A) of the Social Security Act for Medicaid overpayments. This Medicaid report focuses on the recovery of overpayments. HCFA's relationship is with the State, not with individual providers. Consequently, we believe it would be inappropriate to

consider this recommendation during the formulation of our legislative development.

payments. The Medicaid program is jointly financed by the Federal and State Governments.

The report does not cite the Medicaid statutory requirements that provide for NF

General Comments:

We agree that the findings in this report indicate a need to address the deficiencies

in the population which was sampled, but we have some reservations with regard to

the validity of the actuarial projections. Since we are unable to verify OIG's

estimates of overpayments, we have some reservations with regard to

the comparisons and projections shown in the report. The appendix illustrates the relationships between total medical assistance payments made to NFs for FY 1990 and the credit balance amounts reported untimely. According to our calculations, OIG figures for the average amount per credit balance represent approximately one patient-week claim per adjusted credit balance. Since we are unable to verify OIG's

estimates of overpayments, we believe OIG's

statistical projections, and since the actual number of credit balances discovered and

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Comparison of Credit Balances Untimely Reported with Total Medical Assistance Payments (Federal Share) - FY 1990

OIG Draft Report: Medicaid Credit Balances in Nursing Facility Patient Accounts

<table>
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<th>State</th>
<th>Dollar Amt. Credit Bal.s not reported within 45 days</th>
<th>Dollar Amt. Credit Bal.s not reported after 1 yr. period</th>
<th>Medical Assistance payments for NFs in millions</th>
<th>Percentage of Total*</th>
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*Applies to 45-day and 1-yr figures, separately and taken together.
Note that the credit balances reported by the OIG are less than 1/1000X of the total medical assistance payments for each State, and approximate zero.