

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**MEDICAID CREDIT BALANCES IN  
NURSING FACILITY PATIENT ACCOUNTS**



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INSPECTOR GENERAL**

OEI-07-90-00911

# EXECUTIVE SUMMARY

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## 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.

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# INTRODUCTION

## 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

The Social Security Act, Section 1903 (a)(13)(A) provides for payments to eligible nursing facilities for patients certified by physicians as needing that level of medical care. Whenever such a payment for services is made to a Medicaid provider and, for various reasons the payment is in excess of the correct payment amount, a credit balance exists and monies are due back to that State Medicaid program. Also, at least half or more of these monies are federal financial participation dollars, monies from the federal government used to assist or match State Medicaid dollars. This is called the federal share of the credit balance.

When credit balances are created, certain responsibilities rest with the nursing facilities and 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 in accordance with the Social Security Act, Section 1903 (d). Subsequently, the Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272) requires the State Medicaid agency/fiscal agent to adjust future nursing facility payments in the amount of the credit balances within 60 days.

A prior OIG inspection of Medicaid credit balances in hospital inpatient accounts identified large credit balances. In March 1989, an OIG national report (#OEI-07-88-00470) noted that projected credit balances in the five States reviewed were \$16,369,967 (\$8,970,198 federal share). If similar problems existed in all States, the projected Medicaid credit balances could equal as much as \$34,104,098 (\$20,663,673 federal share). The report also indicated that the hospitals were not reporting credit balances timely or not reporting credit balances at all. The OIG found that the hospitals' procedures should enable them to make notification of a credit balance within 45 days of the date the balance occurred. This review suggested a potential for Medicaid credit balances in nursing facilities nationwide.

## 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 proportionate to size. These States are: California, Florida, Missouri, Pennsylvania, and Wisconsin.

In the second stage, a simple random sample of nursing facilities within each State was selected. In each State, 10 nursing facilities were chosen for review. One nursing facility was out of business, however, at the time our site visit was made, making a total of 49 nursing facilities.

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

We determined the existence of an actual credit balance based upon a review of the patient ledgers 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, the period of time it took the nursing facility to notify the State Medicaid agency of the existence 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.

We conducted a subsequent review several months later of all the nursing facilities which 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 those credit balances to appropriate State Medicaid agencies.

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## FINDINGS

### *Projected 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 nationally (\$18 million federal share) {See Appendix A}. As discussed in the next finding, we define a balance as overdue if it was outstanding after 45 days.

### *Credit Balances Are Not Reported Timely*

Based upon information from nursing facility personnel that they reconcile balances monthly and allowing 15 days afterwards to report credit balances, we believe 45 days is 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 after 45 days, but before 1 year had elapsed. Less than one-fifth (73 of the 416) were reported timely, according to our definition.

One-half of the credit balances due back to the State Medicaid agencies (208) had not been reported after 1 year had elapsed. The national projection for these credit balances is \$10 million (\$5.6 million federal share) {See Appendix B}.

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."

"Resolving credit balances is of lesser priority than other business and administrative operations."

Only half (208 of 416) of the credit balances were reported to the State Medicaid agencies {See Appendix C}.

As part of our follow-up review, we determined that 95 percent (197 of 208) of the credit balances outstanding at the time of our on-site review remained outstanding over 6 months later.

In only one State reviewed (Pennsylvania) was there an established State Medicaid agency incentive to timely report and resolve Medicaid credit balances. In that State, if the State does not resolve the credit balances within 180 days, the nursing facilities must go through a more stringent credit balance verification process to determine

credit balance delinquency. This takes a much greater expenditure of nursing facility staff hours than if the credits had been reported timely.

***State Medicaid Agencies Are Not Adjusting Credit Balances 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 {See Appendix C}. 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.

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## RECOMMENDATIONS

*The HCFA Should Encourage State Medicaid Agencies to Take Action to Adjust Credit Balances*

The HCFA should instruct State Medicaid agencies to adjust actual credit balance amounts 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 Require State Medicaid Agencies To Timely Process Adjustment of 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.

*The HCFA Should Work With State Medicaid Agencies to Increase the Awareness of Program Providers to Timely Identify and Report Credit Balances*

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

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 Seek Legislation To Penalize Providers which Do Not Timely Report Credit Balances*

The HCFA should seek legislation that would impose a penalty on program providers for failing to timely identify and 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 has issued a memorandum to all HCFA regional offices to direct State Medicaid agencies to identify and adjust NF credit balances on a continuing basis, and to adhere to the requirements outlined in section 9512 of COBRA.

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 achieve this. However, HCFA disagreed with our specific suggestion to consider assessing interest against State agencies on the federal share of credit balances not reported within a reasonable time. HCFA disagreed with this suggestion because it is limited by statute in assessing interest against Medicaid State agencies. 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.

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 would serve this purpose. In addressing this, we believe that HCFA could develop a legislative proposal to require State agencies to assess penalties against providers and fulfill the intent of our recommendation while remaining sensitive to the federal-State Medicaid partnership.

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.

# APPENDIX A

## ESTIMATED STATE AND NATIONAL CREDIT BALANCES

ST.	*NFS in sample	NFS with Cr. Bal.	Average Per NF	Total Projected Dollars Found
CA	9	4	\$1829.78	\$2,051,183.38
FL	10	8	\$6636.97	\$3,152,560.75
MO	10	7	\$3830.40	\$ 992,073.60
PA	10	4	\$1762.68	\$1,052,319.96
WI	10	7	\$2406.92	\$ 495,825.52
5 State Projection \$7,743,963.21				

### MEDICAID FEDERAL SHARE

ST.	*NFS in sample	NFS with Cr. Bal.	Average Per NF	Total Projected Dollars Found
CA	9	4	\$ 914.89	\$1,025,591.60
FL	10	8	\$3,630.42	\$1,724,450.70
MO	10	7	\$2,266.83	\$ 587,109.15
PA	10	4	\$1,002.26	\$ 598,299.05
WI	10	7	\$1,426.82	\$ 293,924.92
5 State federal share \$4,229,375.42				

National Estimate Total	Medicaid	Federal share
\$31,714,546	\$17,719,932	\$17,719,932
90% Confidence Interval		
(Lower)	\$10,803,369	\$10,468,699
(Upper)	\$52,625,723	\$24,971,165

\*Nursing facility

**APPENDIX B**

**CREDIT BALANCES UNTIMELY REPORTED**

State	# of Credit	Bal's Not Reported	\$ Amt. of	Credit Bal.s	Avg. Amt. per
CA	3	\$10,029			\$3,343
FL	69	\$34,452			\$ 499
MO	27	\$11,648			\$ 431
PA	14	\$12,043			\$ 860
WI	22	\$12,448			\$ 566
<b>Total</b>	<b>135</b>	<b>\$80,620</b>			<b>\$ 597</b>

State	# of Credit	Bal's Not Reported	\$ Amt. of	Credit Bal.s	Avg. Amt. per
CA	14	\$ 5,224			\$ 373
FL	102	\$22,865			\$ 224
MO	81	\$16,534			\$ 204
PA	6	\$ 2,497			\$ 416
WI	5	\$ 3,981			\$ 796
<b>Total</b>	<b>208</b>	<b>\$51,101</b>			<b>\$ 246</b>

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 (Lower) \$ 1,868,111  
 (Upper) \$18,098,193

ST.	# of Credit Balances	# of Notices Issued	# of Adjust. <60 days	\$ Amt. of Adj. <60 days	# of Adjust. >60 days	\$ Amt. of Adj. >60 days
CA	19	5	0	0	5	\$11,244
FL	187	85	23	\$15,267	62	\$27,923
MO	126	45	21	\$11,876	24	\$ 9,893
PA	45	39	30	\$ 6,029	9	\$ 9,326
WI	39	34	18	\$11,589	16	\$ 9,620
<b>TOTAL</b>	<b>416</b>	<b>208</b>	<b>92</b>	<b>\$44,761</b>	<b>116</b>	<b>\$68,006</b>

UNTIMELY ADJUSTMENT BY STATE AGENCIES

APPENDIX C

HEALTH CARE FINANCING ADMINISTRATION COMMENTS

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APPENDIX D



Memorandum

Date

APR 1 1992

From

J. Michael Hudson

Acting Administrator

Subject

OIG Draft Report: "Medicaid Credit Balances in Nursing Facility Patient Accounts" (OEI-07-90-00911)

To

Inspector General  
Office of the Secretary

We have reviewed the above-referenced report which summarizes the results of  
OIG's review of credit balances in patient accounts at nursing facilities (NF). 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. We believe a 5 State, 49 facility sample of  
NFs does not accurately reflect national NF credit balances. It also does not  
capture NF differences across the 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 at your  
earliest convenience.

Attachment

Comments of the Health Care Financing Administration (HCFA)  
on OIG's Draft Report: "Medicaid Credit Balances  
in Nursing Facility Patient Accounts"  
(OEI-07-90-00911)

OIG Recommendation

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

HCFA Response

We concur with this recommendation. In a memorandum to all HCFA regional offices (ROs) dated February 18, we directed Medicaid State agencies to identify and adjust nursing facility (NF) credit balance accounts 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. 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.

OIG Recommendation

HCFA should require State Medicaid agencies to timely process adjustment of credit balances.

HCFA Response

We concur. We issued a memorandum to the ROs on February 18 to direct Medicaid State Agencies to adhere to the requirements outlined in section 9512 of the Consolidated Omnibus Budget Reconciliation Act. This section requires States to adjust any outstanding Medicaid credit balances within 60 days after notification by the NF that a credit balance exists.

OIG Recommendation

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

HCFAs Response

On September 29, 1988, we issued a Financial Management Review Guide for provider-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 the emphasis on hospitals. However, in planning the fiscal year (FY) 1993 financial management reviews, we will consider expanding our reviews of provider-maintained credit balances to include NFs as well as hospitals if circumstances and resources warrant such expansion.

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 elects to retain funds in dispute as a result of a formal disallowance and the State loses its 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 return the Federal share of 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.

OIG Recommendation

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

HCFEA Response

The Medicaid program is jointly financed by the Federal and State Governments, but administered by the States. HCFEA'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 program.

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 statistical projections, and since the actual number of credit balances discovered and the original amount for each is relatively small in dollar value, we believe OIG's national projection (\$20.6 million) of existing credit balances may be overstated.

The attached HCFEA chart illustrates the relationship between total medical assistance payments made to NFs for FY 1990 and the credit balance amounts reported unitimey. According to our calculations, OIG figures for the average amount per credit balance represent approximately one patient-week claim per facility. As a result, it appears that the comparisons and projections shown in the report may be overestimated, and the conclusion reached may be questionable.

Appendix C indicates that States have made some adjustments due to credit balances. However, the estimates of overpayments in the report were not offset by State adjustments that were made. We recommend that the report include estimates of statewide and national adjustments to facility payments for credit balances. Further, we recommend this estimate be used to offset the estimated statewide and national credit balance projections. Also, the report does not address the extent to which the Secretary has reduced State grant awards to adjust for the Federal share of overpayments. We recommend the report include a discussion of this additional factor.

Technical Comment

The report does not cite the Medicaid statutory requirements that provide for NF payment and require the Secretary to adjust State payments to account for overpayments. This Medicaid report references the Medicare statute. The correct Medicaid cites are sections 1903(a)(13)(A) of the Social Security Act for Medicaid payment to NFs and 1903(d) for payments to States and adjustments to such payments.

Attachment

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  
 .....

State	Dollar Amt. Credit Bal.s not reported within 45 days	Dollar Amt. Credit Bal.s not reported after 1 yr. period	Medical Assistance payments for Nfs in millions	Percentage of Total*
CA	\$10,029	\$5,224	\$670.1	0.000X
FL	\$34,452	\$22,865	\$354.2	0.000X
MO	\$11,648	\$16,534	\$171.6	0.000X
PA	\$12,043	\$2,497	\$555.3	0.000X
WI	\$12,448	\$3,981	\$301.0	0.000X

\*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.