DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

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

MAY 29 2009

Report Number: A-09-09-00056

Mr. Toby Douglas
Chief Deputy Director of Health Care Programs
California Department of Health Care Services
1501 Capitol Avenue, MS 0002
Sacramento, California 99859-7413

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 Scripps Memorial Hospital Encinitas as of December 31, 2008." We will forward a copy of this report to the HHS action official noted below.

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 direct them to the HHS action official. Please refer to report number A-09-09-00056 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosure

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 SCRIPPS MEMORIAL HOSPITAL ENCINITAS AS OF DECEMBER 31, 2008

Daniel R. Levinson
Inspector General

May 2009
A-09-09-00056

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:

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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 California, the Department of Health Care Services (the State agency) administers Medicaid.

Credit balances generally occur when the reimbursement that a provider receives for services provided to a Medicaid beneficiary exceeds the charges billed, resulting in an overpayment. One example is 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 require providers 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.

Scripps Memorial Hospital Encinitas (Scripps Encinitas), part of the Scripps Health system, is an acute care hospital located in Encinitas, California. Scripps Encinitas reported that it was reimbursed by the State agency approximately $4.8 million for Medicaid services during calendar year 2008.

OBJECTIVE

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

SUMMARY OF RESULTS

As of December 31, 2008, Scripps Encinitas' Medicaid credit balances included immaterial overpayments that had not been returned to the Medicaid program. As a result of our review, Scripps Encinitas returned the overpayments to the State agency as of February 13, 2009. Therefore, we are not making any recommendations to the State agency.

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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 generally occur when the reimbursement that a provider receives for services provided to a Medicaid beneficiary exceeds the charges billed, resulting in an overpayment. One example is 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 require providers 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 are required to 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.

Scripps Memorial Hospital Encinitas

Scripps Memorial Hospital Encinitas (Scripps Encinitas), part of Scripps Health system, is an acute care hospital located in Encinitas, California. Scripps Encinitas reported that it was reimbursed by the State agency approximately $4.8 million for Medicaid services during calendar year 2008.

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OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Scripps Encinitas' inpatient and outpatient accounting records contained 23 Medicaid accounts with credit balances totaling $29,353 as of December 31, 2008. We reviewed 15 outpatient accounts totaling $20,622 and 8 inpatient accounts totaling $8,731. Of the 23 accounts, 6 included Medicaid overpayments due to the State agency.

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

We performed our fieldwork at Scripps Health's corporate office in San Diego, California, from February through May 2009.

Methodology

To accomplish our objective, we:

- reviewed Federal and State requirements pertaining to Medicaid credit balances and overpayments;
- reviewed Scripps Health's policies and procedures for reviewing credit balances and reporting overpayments to the State agency;
- reconciled Scripps Encinitas' December 31, 2008, total credit balances to the accounts receivable records and reconciled the accounts receivable records to the trial balance;
- identified Scripps Encinitas' Medicaid credit balances from its accounting records and reconciled the Medicaid credit balances to Scripps Encinitas' Medicaid credit balances report as of December 31, 2008;
- reviewed Scripps Encinitas' Medicaid claim forms and remittance advices, patient accounts receivable detail, and additional supporting documentation for each credit balance account; 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

RESULTS OF REVIEW

As of December 31, 2008, Scripps Encinitas' Medicaid credit balances included immaterial overpayments that had not been returned to the Medicaid program. As a result of our review, Scripps Encinitas returned the overpayments to the State agency as of February 13, 2009. Therefore, we are not making any recommendations to the State agency.