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# Credit Balances Spotlighting a Little-Known Area of Risk and Opportunity

Credit balances—accounts on a provider’s accounts receivable (AR) system that have payments and allowances exceeding total charges—are considered by some to be the “stealth aircraft” of hospital patient accounting. Difficult to identify and tough to resolve, credit balances were until a few years ago the kind of loose ends that hospitals might easily have ignored in the face of other pressing issues.

That’s no longer the case. Beefed-up federal regulations in the past six years and increased public scrutiny of financial practices, spurred by recent corporate accounting scandals, have combined to bring the problem of credit balances to the forefront of a CFO’s attention. The current emphasis on reengineering the revenue cycle has also made it imperative that hospitals find a way to effectively manage credit balances, which may be distorting your profitability and AR days.

The magnitude of the issue is surprisingly large. A small-to-medium-size hospital with annual revenues of \$100 million may generate \$2 million of new credit balances each year. With nearly 6,000 hospitals nationwide, more than \$8 billion in new credit balances may be created nationally each year.

Given that most hospitals today rely on manual efforts to tackle credit balances, the resources required to resolve credit balance accounts can be considerable. On average, a hospital employee can resolve 1.5 credit balance accounts per hour. That means a 300-bed facility would require a minimum of two FTEs; a larger teaching hospital would require 10 FTEs just to resolve the new credit balances created each year.

Because the credit-balance issue lies hidden in the receivable, some CFOs are unaware of the full extent, nature or magnitude of the credit-balance



problem. However, CFOs need to understand this issue because their organizations can be threatened by the associated financial risks and compliance issues. In addition, by not addressing the problem, they are likely squandering billing opportunities and wasting resources by relying on manual efforts alone to resolve credits. CFOs should develop a comprehensive, systematic approach to this ongoing issue, that includes establishing management tools and an ongoing monitoring process.

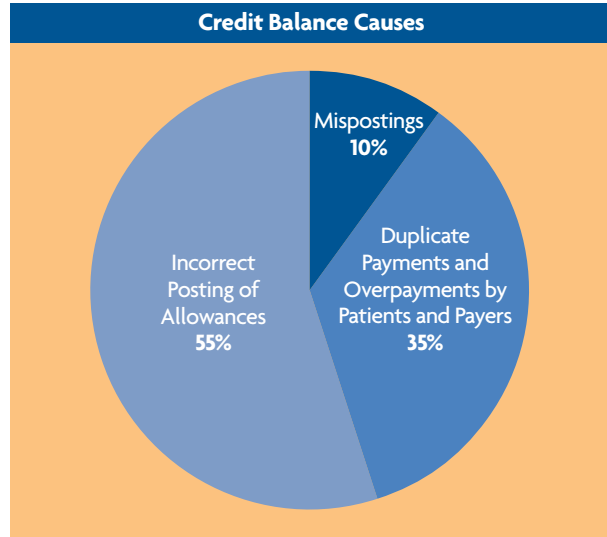
## Causes

Credit balances are created due to a variety of factors that include billing and payment errors, as well as limitations on the part of both hospital and payer systems. Major reasons include:

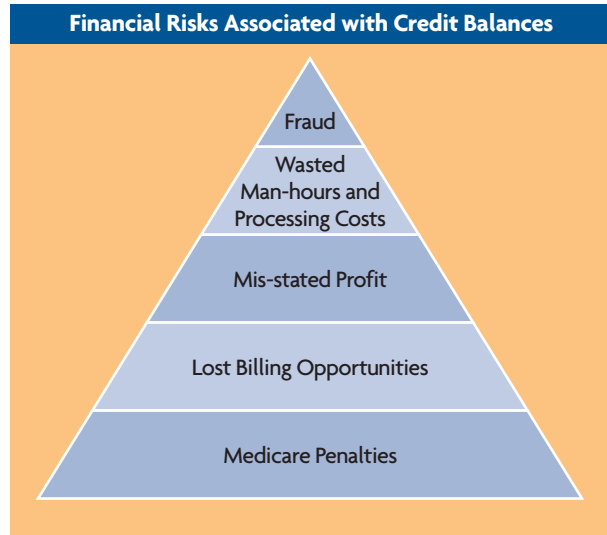
- Misposted allowances—incorrect estimates of cash amounts due
- Duplicate payments
- Charge credits subsequent to billing
- Full payments by both primary and secondary insurers
- Up-front collections—incorrect estimates of patient liability

At many hospitals, a large portion of their credit balances are not the result of overpayments. Less than a third of the credits that get resolved result in a refund to the patient or payer. Most of the rest—more than half of all credit balances—are misposted allowances that need to be reversed on the patient accounting system but which do not require any refunds. Because of the variety of individual contracts payers have with patients, it's not uncommon for hospitals to have incorrect rates and terms loaded into their systems.

“Many payers have many products and we may expect payment according to the patient’s registration. In reality, the payer paid the claim correctly,” says Suzanne Tschetter, CPA, Manager of PFS Financial Reporting at the Cleveland Clinic Foundation.



Source: CDR Associates.



### Required Reporting of Medicare Overpayments CMS-838 Form

- Providers must submit Quarterly Reports detailing *all* Medicare overpayments
- CFO must sign the report attesting to the completeness and accuracy of the data
- Failure to comply may result in:
  - Financial penalties that include interest and fines/treble damages
  - Criminal penalties
- Compliance is monitored as part of the cost report auditing process

Although such credits do not result in refunds, they do result in an understatement of a hospital's profitability and AR if not corrected in a timely manner. Of course, accurate documentation is important to indicate why refunds are not necessary.

On the payer side, errors occur when a claim is accidentally paid twice, which can happen as a result of manual mistakes, system mistakes, or a combination of both. "One of our payers had a limit on the number of lines in their system on which they could pay out," says Tschetter. The software application would bring down the first five lines of the claim, accidentally pulling in the previous claim. "They were duplicating part of the payment. That was a real challenge to muddle through" because it was so difficult to identify as a cause, she says.

Credit balances also result from better point-of-service collections. "We have a very strong up-front collections program that results in a higher volume of credit balances," says Susan Phelps, Director of Patient Financial Services at High Point Regional Health System in High Point, N.C. The 383-bed hospital registers 123,000 inpatients and outpatients a year. "Sometimes we overestimate what they owe. It's really difficult in a managed care environment."

## Risky Business

Credit balances pose real risks, ranging from serious Medicare penalties to wasted time and lost payment opportunities.

### Medicare Penalties

Perhaps the greatest risk of credit balances is suspension of Medicare payments, one of the severest threats to any organization. Non-compliance with federal regulations concerning credit balances can also result in fines and imprisonment. CMS requires that hospitals report all Medicare credit balance overpayment accounts on a quarterly basis using form CMS-838, which must be signed and attested to by an officer of the hospital—specifically, the CFO or CEO.



To be in compliance with federal regulations, providers must develop and maintain documentation that shows that each patient record with a credit balance was reviewed to determine credit balances attributable to Medicare. In many cases, however, hospitals have no effective means to ensure compliance. It is not uncommon for a hospital to have thousands of credit balance accounts for review. When the CFO signs the Medicare Credit Balance Report certification page, he or she is attesting to the fact that *all* of the hospital's credits have been reviewed.

"I was typical of CFOs," says Hank Franey, senior VP and CFO at the University of Maryland Medical System in Baltimore. "Credit balances flew just below my radar screen until the issue threatened our compliance with our federal payer." He says the federal government has gotten more aggressive in terms of retrieving refunds and assessing penalties in recent years. Tracking of Medicare credits is no easy task. Many hospitals run a series of ad hoc reports in an effort to identify potential Medicare credits. However, such a process can be cumbersome and inaccurate, and accordingly, may not totally eliminate the hospital's exposure to Medicare



penalties. In addressing Medicare credits, Franey warns, “If somebody thinks they’re going to get rich by keeping refunds, it’s not going to happen. Don’t pretend it’s a profit center, especially with the federal government,” cautions Franey.

#### **Lost Billing Opportunities**

Once credit balance accounts are analyzed and appropriately adjusted, billing opportunities to generate additional cash receipts are often revealed. Amounts due from patients and secondary payers that are camouflaged by the credit balances can be lost if not identified and billed in a timely manner. As such, the failure to analyze credit balance accounts in a timely manner can result in permanent losses of cash.

#### **Fraud**

Many larger hospitals issue thousands of refund checks each month to patients, insurance companies, and even directly to vendors auditing on behalf of insurance companies. With this volume level, it is impossible for controllers to scrutinize and verify each refund. In addition, refund checks can pass through many hands and may even end up in the hands of the originator of the refund request. Accordingly, credit balances and the refund processes in many hospitals are ripe for fraudulent activity.

Due to the existence of both weak internal controls and the fact that in most cases, the intended receiving parties (patients and insurers) are not necessarily aware that a refund is due back to them, hospitals may be exposed to significant financial losses and corporate embarrassment if refund checks are misappropriated.

#### **Negative Press**

Unresolved credit balances can also trigger management-letter comments to a hospital’s board of directors noting items of concern. Credit balances understate an organization’s profit as well as its AR. That is of concern to auditors and the board who are especially conservative these days in the wake of corporate accounting scandals. In the end, “credit balances pollute your database,” says Hank Franey of the University of Maryland Medical System.

Hospitals like High Point view unreturned refunds as a direct threat to customer relations. “When you’re a hospital emphasizing up-front collections, you better be able to refund quickly or you’ll have major customer-complaint issues,” says Phelps.

#### **Common Misconceptions**

Providers often set a dollar threshold for credit balances and then attempt to manage to this overall level. This approach often leads to hospital staff focusing most of their efforts only on analyzing and resolving high-dollar credit-balance accounts, while the lower balance accounts go unresolved, creating a time-bomb effect. Over time, this situation can leave a rapidly growing population of smaller balance credits. Although the overall dollar threshold is temporarily met, eventually the resolution of the large and growing population of smaller balance accounts will become an overwhelming problem. The hospital will ultimately be forced to allocate substantial staff hours to resolve the accounts, adding to the daily pressures and other priorities in the patient accounting department.

Another common misconception is that by allowing credit balance auditors on-site for periodic or even ongoing reviews, the hospital’s credit-balance needs are being addressed. The CFO needs to understand



that these vendors are compensated by commercial insurers to identify and recover overpayments for those specific payers. Because only about one third of a provider's credits actually result in refunds, and the largest percentage of the volume of refunds are due back to governmental payers or patients, these credit-balance vendors actually address only a very small percentage of the overall population of a hospital's credit balance accounts and do nothing to minimize other risks.

### Improving Credit-Balance Resolution

Credit balances are no different from any other process in the revenue cycle. As such, any investment in improvements should result in substantial opportunities to enhance cash flow and profitability, while reducing risks.

Most important, hospitals must establish processes that ensure adherence to Medicare requirements for refunding credit balances and the filing of

the CMS-838 form. Whether such processes are systematic or ad hoc, the CFO must ensure that all credit balances (with Medicare payments) are analyzed, monitored, and reported to CMS prior to placing his or her signature on the CMS-838, and that all accounts and reports are well documented.

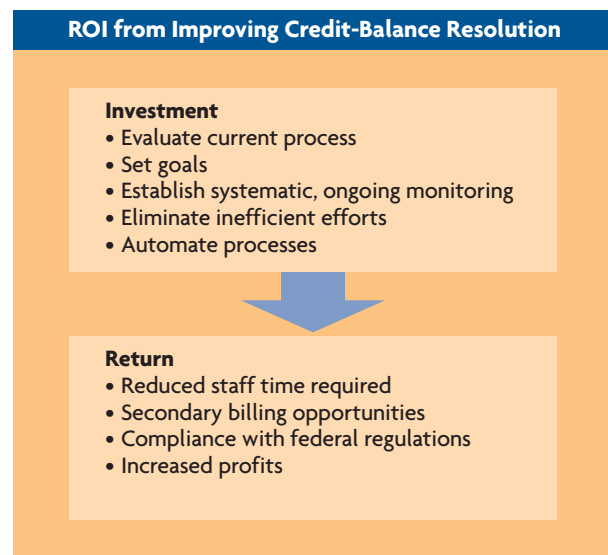
The following steps will help a hospital systematically assess and improve its management of the credit-balance function.

#### Assess Current Volumes and Backlog

Determine the current dollar amount and volume of credit balance accounts. Ascertain the volume of new credit balance accounts that are being created on a weekly or monthly basis. This information is critical to determining current exposure as well as ongoing staffing needs to address the problem.

#### Establish Goals

Determine the threshold of credit balance levels that your facility can reasonably tolerate. This target should be established not only based on total dollars, but based on the volume of accounts as well. Experts consider two days of a hospital's revenue to be an acceptable credit-balance level. So, for example, if a hospital is generating \$500,000 a day in revenue, then \$1 million in credit balances may be acceptable.



### Review Current Process

Evaluate all aspects of the hospital's current process from the identification and analysis of credit balances, to the completion of forms and documentation requirements. Eliminate any unnecessary tasks that add cost to the process with very little benefit. Consider dedicating staff exclusively to resolving credit balance accounts. Incorporating credit-balance account responsibilities into the other duties of billers and collectors is usually an ineffective alternative. With the pressures associated with collecting cash, credit processing is usually put on the back burner, resulting in growing volumes and inadequate management of the entire process.

### Automate Manual Processes

Because of the low priority that credits generally receive, many hospitals have not taken the time to streamline or automate the credit balance resolution process. However, with a little upfront attention and evaluation of internal and external automated tools available, a hospital can realize hundreds of thousands in annual cash benefits by automating various credit-balance-resolution functions.



The Cleveland Clinic uses both internally developed programs and external software to help automate credit balance processing. Its staff regularly generates “adjustments greater than charge” reports, which capture all accounts in which the total adjustments posted to the account exceed the amount of the charge. “We could receive a denial from an insurance carrier that informs us that the claim will not be paid and the patient is not responsible; once the denial is overturned and the claim is paid, a credit balance results,” says Tschetter. “We have started to use an internet-based tool for resolving hospital credits and look forward to using it for the professional side as well.” This credit-balance resolution tool automates most of the currently manual steps required to resolve credits.

### Monitoring

Monthly management reports should be established and reviewed to ensure that credit-balance targets are met and that compliance is maintained. At a minimum, management should generate and monitor the following reports:

- Unresolved Medicare credits
- Workload estimates
- Progress reports that summarize new credits created and accounts resolved as compared to goals
- Employee productivity
- Transaction summaries to determine causes of credit balances and their final disposition

### Minimize Potential Fraud and the Issuance of Refund Checks

Issuing refund checks is a contributing factor to an inefficient and costly credit-balance-resolution process, and exposes the hospital to potential fraudulent activity. Accordingly, hospitals should take advantage of payers' processes and systems that allow the reporting of overpaid accounts. Upon receipt of the notification, the payer subsequently retracts the reported overpayment on a later payment voucher thereby eliminating the need for the hospital to issue a refund check.

Many payers certainly recognize the importance of credit balances. “This is not a minor problem,” says Dave Dearth, Director of Financial Payment and Review, Medical Mutual of Ohio, a \$2-billion health insurer based in Cleveland. “Credit balances are a significant issue to us as a payer. We have three full-time people dedicated to the problem.” Medical Mutual uses a system that directly links the hospital patient accounting departments to Medical Mutual exclusively for the purpose of resolving credit balance accounts. The system enables Medical Mutual to resolve hospital-reported credits within minutes, thereby eliminating paperwork, check writing processes, and associated costs to the hospitals.

### Control Vendors

Many payers hire external auditing firms to make onsite visits at hospitals to review patient accounts. Their job is to recover any credit balances that are due back to a specific payer. If properly monitored and controlled by the hospitals, these vendors can bring added value to the process. This effort is not seen as adversarial but necessary. “Facilities want to clean up their books,” says Dearth. However, in order to minimize any potential risks associated with these vendors, the following steps should be taken:

- Require a current letter of authorization specific to your hospital for each insurance company that the vendor represents—not a generic letter listing numerous companies represented
- Only allow the vendor access to those accounts paid by the insurance company that issued the authorization letter
- Insist upon voucher recoveries by the payer—do not issue refund checks to the vendor

### Conclusion

Credit balances are an issue that should be on the radar screen of every healthcare CFO. While there’s nothing inappropriate about the presence of credit balances, their resolution will require ongoing



efforts. Problems arise when credit balance accounts and/or dollar amounts keep growing or go unresolved. A heavy volume of aging credit balances is probably a symptom of bigger issues.

After recognizing credit balances as an important issue, CFOs must develop comprehensive and systematic strategies for dealing with ongoing resolution.

Tackling credit balances must be viewed as part of the whole reengineering of the revenue cycle taking place in the healthcare industry. “If you don’t look at the whole revenue stream, you’re setting yourself up for problems,” says High Point’s Phelps.

University of Maryland’s Franey may have summed up the issue of credit balances best: “If you want to turn a small issue into a monumental problem, ignore it.”



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### About CBAS

CBAS, a division of CDR Associates, L.L.C., is the nation's leading provider of web-based technology for hospitals and payers focused exclusively on the automation of the credit balance resolution process. CBAS is helping some of the nation's premier hospitals and health systems improve productivity and profitability while insuring compliance with federal regulations. CDR is affiliated with Clifton Gunderson LLP, the 12th largest CPA and consulting firm in the United States, with a total staff exceeding 1,400 including more than 500 CPAs.

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