



**Palmetto GBA**  
PARTNERS IN EXCELLENCE™

A/B MAC Jurisdiction 1  
Provider Audit and Reimbursement Department

California, Nevada, Hawaii,  
Guam, American Samoa,  
Northern Mariana Islands

January 27, 2012

Mr. [REDACTED]

*Subject: Crossover Bad Debts and the 2% Adjustment for Patients' Share of Costs*

*Provider: [REDACTED]*

Dear Administrator:

We are writing this letter to inform you of a change in the way crossover Medicare Bad Debts must be determined. This change is a direct result of a review made by representatives of the Center for Medicare and Medicaid Services (CMS).

Since October 1999, the Medicare Fiscal Intermediary/MAC has allowed providers in California to eliminate 2% of deductible and coinsurance amounts applicable to crossover claims with RAD codes 442 and 401 to determine the allowable Medicare bad debt amount. This was done in lieu of the provider reviewing individual patient accounts to determine the exact share of costs (SOC) the patient was required to pay. Based on a review of this policy, CMS has determined that the process is incorrectly disallowing Medicare crossover bad debts based on an arbitrary percentage instead of reviewing individual patient accounts. We have been instructed to stop applying the 2% SOC adjustment effective immediately and to follow the requirements found in Chapter 3 of the Provider Reimbursement Manual Part 1 [PRM 15-1] which requires that actual payments be used to reduce deductible and coinsurance. In addition, CMS has determined that SOC may be reimbursed by Medicare as a bad debt, but we must ensure that providers are applying adequate collection efforts to collect the SOC as required by 42 CFR 413.89(e) and Chapter 3 of PRM 15-1.

42 USC 1396o [Section 1916 of the Social Security Act] explains enrollment fees, premiums, deductions, and cost sharing that States can impose on Medicaid individuals. Certain Medicaid individuals in California are subject to a share of costs (SOC). These individuals must pay, or agree to pay, a monthly dollar amount towards their medical expenses before they qualify for Medi-Cal benefits. Upon admission, providers verify whether or not a dual eligible patient has a Medicaid SOC by use of the Automated Eligibility Verification System, state-approved vendor software or the California Medicaid website. Providers can collect the SOC payment from a Medicaid enrollee on the date of service or allow a Medicaid enrollee to obligate payment by paying at a later date [via a signed promissory note or through an installment plan]. According to the Medi-Cal website, even though providers cannot bill dual eligible individuals for Medicare deductible and coinsurance, providers can bill dual eligible patients for the Medicaid SOC.

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We can no longer apply the 2% adjustment to eliminate SOC. Providers must ensure that bad debt listings submitted for Medicare reimbursement are net of SOC amounts as well as any payments received from other payors. Providers must utilize their records in order to identify and exclude SOC amounts and other payor payments from Medicare deductible and coinsurance amounts prior to claiming these as Medicare bad debts. The amounts Providers identify as SOC must be supported by documentation received from the State when determining Medicaid eligibility. Without this documentation to support both Medicaid eligibility and the SOC amount, the bad debt will be disallowed.

### **Implementation**

CMS has directed FCSO to begin implementing this policy immediately for all open cost reports, appeals, and reopenings. If you have submitted any bad debt listings which have not been prepared net of actual SOC or other payments, you should correct these listings, using the provider's records and be prepared to submit them to your applicable audit manager before the start of your desk review. An auditor or audit manager will contact providers identifying which current year is under review. Submission of corrected listings for appeals and reopenings should be coordinated with your assigned Audit Manager.

If you have any questions, please contact the Audit Manager assigned to your provider.

Sincerely,

Martin Lothes,  
Director