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Report to the Chairman, Subcommittee
on Labor, Health and Human Services,
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Committee on Appropriations

August 1989

INFORMATION TECHNOLOGY

Health Care Financing Administration's Budget Process Needs Improvement





United States
General Accounting Office
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Information Management and
Technology Division

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August 11, 1989

The Honorable Tom Harkin
Chairman, Subcommittee on Labor,
Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

On March 17, 1989, you asked us to analyze the fiscal year 1990 Health Care Financing Administration's (HCFA) budget request. Specifically, you asked us to review its Information Technology Systems' budget request¹ for fiscal year 1990 and determine if supporting documentation exists for its data processing needs. Your Subcommittee also asked us to review actions taken by HCFA to reduce the costs of automated data processing (ADP) operations of insurance companies under contract to pay Medicare claims.

On April 5, 1989, we briefed your Subcommittee on our preliminary findings. This report updates that briefing with the latest information available at the time we completed our analysis on May 26, 1989.

Our review of HCFA's Information Technology Systems' \$73.6 million budget request for fiscal year 1990 showed that it included a \$22 million cost estimate, which may not be fully supported. These funds are for a project to increase storage capacity and processing capability for HCFA headquarters to implement the Medicare Catastrophic Coverage Act of 1988. HCFA officials noted that the closeness of the budget deadlines to the passage of the Act did not enable them to fully justify the ADP costs for this initiative. As a result, they were unable to precisely estimate the cost. Also, the budget request included \$13.1 million in funding for another HCFA headquarters computer improvement program, which was to be completed in fiscal year 1990. Subsequent to preparing and submitting this request, HCFA projected an additional \$7.2 million in funding for fiscal years 1991 and 1992 to complete this program. The remainder of HCFA's request consisted primarily of operations and maintenance funds and was not included in our review.

¹This budget request refers to an Office of Management and Budget requirement that agencies submit a report on acquisition, operation, or use of automated data processing systems and telecommunications services or facilities.

claims and \$24 billion going to part B claims. Medicare program administrative costs were \$1.1 billion in fiscal year 1988, including \$259 million for ADP.

Title XIX of the Social Security Act authorizes Medicaid, under which the federal government shares with the states the costs for health services provided to low income people. The states are responsible for administering Medicaid programs. Federal Medicaid costs for fiscal year 1988 were \$29 billion for benefits and \$1.5 billion for program administration, including \$435.6 million for ADP related costs.

HCFA headquarters uses ADP systems to help administer these programs. These systems collect Medicare and Medicaid program data and perform internal agency management functions. HCFA maintains a computer center at its headquarters and also relies on support from the Social Security Administration's computer center. The HCFA computer center includes a data communication network to exchange information with Medicare contractors and state agencies, and mainframe computers and other equipment, such as computer terminals and storage devices. In fiscal year 1990, HCFA requested \$73.6 million for its headquarters information processing activities.

In their acquisition and use of ADP, federal agencies must comply with specific ADP reporting requirements. OMB Circular A-11 requires agencies to report all ADP obligations and planned acquisitions, if that total exceeds \$100,000. Reports submitted are (1) exhibit 43A, "Report on Obligations for Information Technology Systems," which lists cost data for the past, current, and budget year for capital investments; personnel; equipment rental, space, and operations; and commercial and agency services, and (2) exhibit 43B, "Major Information Technology Acquisition Plans," which lists cost data on information systems acquisitions for the current and budget year, and the 4 years following the budget year.

One ADP Project Not Adequately Documented and Another Has Cost Increases

HCFA included two major headquarters ADP initiatives in its \$73.6 million Information Technology Systems' budget. These were an increase to its ADP capacity and funding to continue its Project to Redesign Information Systems Management (PRISM). We found that HCFA (1) did not have adequate support for its estimated cost to increase ADP system capacity and (2) has increased its PRISM budget estimates since reporting the cost in the 43B exhibit. The remainder of HCFA's budget request consisted of operations and maintenance funding.

One of the purposes of the Paperwork Reduction Act, as amended, is to “ensure that automatic data processing, telecommunications, and other information technologies are acquired and used by the Federal Government in a manner which improves service delivery and program management, increases productivity, improves the quality of decisionmaking, reduces waste and fraud, and, wherever practicable and appropriate, reduces the information processing burden for the Federal Government and for persons who provide information to and for the Federal Government.”³

We recognize that the ADP costs HCFA pays to its Medicaid state agencies and Medicare contractors may not fall precisely within this section, insofar as these systems arguably are not “acquired and used by the Federal Government.” We also recognize, however, the broad policy purposes of the Act to promote the effective management of ADP resources and expenditures and question whether HCFA’s decision not to identify \$947 million of estimated ADP related costs furthers this objective. From our perspective, including these costs in HCFA’s ADP budget submissions would help to ensure the effective management and coordination of HCFA’s internal and contractor ADP activities.

In a February 1987 HCFA memorandum, HCFA’s senior information resource management (IRM) official noted that HCFA would discontinue reporting the costs of its Medicaid state agencies and Medicare contractors beginning with the fiscal year 1989 Information Technology Systems’ budget submission. The memorandum indicated that these costs obscure the internal level of effort in ADP related area. In fiscal year 1988, the last year that contractual ADP costs were reported, they amounted to 93 percent of HCFA’s ADP budget. In addition, HCFA stated it had to arbitrarily allocate them because it does not collect or use the contractor ADP costs in the form required by the Information Technology Systems’ budget. These unreported costs included amounts incurred by Medicaid state agencies, Medicare contractors, and a major Medicare ADP project.

At our request, HCFA program officials provided estimated Medicaid and Medicare planned ADP costs for fiscal year 1990. These costs, which were not reported in the Information Technology Systems’ 43A and 43B exhibits, were:

³44 U.S.C.A. 3501(5) (West Supp. 1989)

run the center, while Blue Cross of Maine, Blue Cross of New Hampshire and Vermont, and Blue Cross of Rhode Island will serve as remote sites.⁵

HCFA estimates that its current approach could save approximately \$103 million in administrative funds over the 3 years from fiscal year 1990 through fiscal year 1992. However, according to a Bureau of Program Operations official who developed the estimate, the figure is not based on detailed analysis. Instead, it is his best estimate based on 13 years in HCFA working with Medicare contractors. This estimate is based on the assumption that all contractors will be involved in either shared processing or shared maintenance arrangements by fiscal year 1992. In addition, the official assumed an annual growth in the number of claims of about 10 percent for part A and 11.7 percent for part B.

The Director of HCFA's Bureau of Program Operations does not believe HCFA can legally direct contractors to use specific systems or data centers. HCFA's Office of General Counsel agrees that HCFA lacks such legal authority. In view of this position, HCFA should consider seeking legislation giving it the authority to require system standardization and consolidation. We also recognize that to convince the Congress and the contractor community that such a change is in the best interests of the program, HCFA would need supportable evidence that savings and other benefits would result.

Conclusions

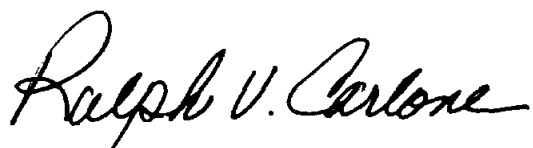
HCFA's Information Technology Systems' budget request of \$73.6 million for fiscal year 1990 may not accurately and fully estimate ADP expenditures. HCFA's budget includes a cost estimate of \$22 million for an ADP initiative to expand system capacity for the Catastrophic Coverage Act of 1988. HCFA officials indicated that this estimate was not supported by sufficient analysis because the budget deadline was too close to the passage of the Act to enable them to make a more accurate estimate. Also, although there was no impact on the fiscal year 1990 estimates, PRISM budget estimates for fiscal years 1991 and 1992 have been increased since the budget submission by about \$7.2 million.

Further, HCFA has not included in its Information Technology Systems' budget request over \$947 million it requested for Medicaid state and Medicare contractor ADP costs, and for a major Medicare project. These

⁵HCFA officials indicated additional savings would be possible if Blue Cross of Connecticut also joined the consortium. However, Blue Cross of Connecticut does not want to join, and HCFA does not believe it has the legal authority to require Connecticut's participation. Blue Cross of Connecticut, however, is joining a shared maintenance arrangement.

This report was prepared under the direction of Melroy Quasney, Associate Director, who can be reached at (202) 275-4659. Other major contributors are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink that reads "Ralph V. Carlone". The signature is written in a cursive style with a large, prominent initial "R".

Ralph V. Carlone
Assistant Comptroller General

Appendix I
Objectives, Scope, and Methodology

Regional Office and three Medicare contractors—Blue Cross of Connecticut, Blue Cross and Blue Shield of Massachusetts, and the Travelers Insurance Company. These locations were selected because they were convenient to us. Throughout our evaluation, we worked closely with senior program officials and incorporated their comments where appropriate.

As you requested, we did not obtain written agency comments on this report. Our review was conducted in accordance with generally accepted government auditing standards from March 1989 through May 1989.

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Objectives, Scope, and Methodology

The Subcommittee on Labor, Health and Human Services, Education, and Related Agencies, Senate Committee on Appropriations, asked us to review HCFA's Information Technology Systems' budget request for fiscal year 1990 and analyze HCFA's justification for its data processing needs. The Subcommittee also asked us to review the costs of ADP systems used by contractors to process Medicare claims.

Accordingly, we reviewed HCFA's Information Technology Systems' budget request and Exhibits 43A, "Report on Obligations for Information Technology Systems," and 43B, "Major Information Technology Acquisition Plans," which HCFA provided to HHS for submission to OMB. We also reviewed supporting documentation for HCFA's ADP costs and information resource management (IRM) plan. We discussed these documents with officials from HCFA's Bureau of Data Management and Strategy and Bureau of Program Operations.

To determine the requirements for preparing an Information Technology Systems' budget, we reviewed OMB Circular A-11. To evaluate the responsibilities of senior information resource management (IRM) officials, we also reviewed the Paperwork Reduction Act of 1980, the Paperwork Reduction Reauthorization Act of 1986, and Federal Information Resources Management Regulations.

To review HCFA's Medicare ADP initiatives and the contractor ADP costs for claims processing, we met with Bureau of Program Operations officials and reviewed pertinent documentation. We obtained information about HCFA's legal authority to require Medicare contractors to use specific ADP systems or processing centers, and discussed the issue with an attorney in HCFA's Office of General Counsel. We also obtained and reviewed copies of pertinent sections of the Social Security Act, HCFA regulations, and contractual documentation.

To obtain information on ADP funding for the state managed Medicaid programs, we contacted an official from HCFA's Bureau of Quality Control. To obtain information on ADP funding for contractor operated Medicare programs, we met with officials from HCFA's Bureau of Program Operations. In addition, we reviewed Medicare ADP projects documentation and the related program cost data.

To further clarify information obtained from HCFA headquarters about Medicare contractor ADP activities and initiatives, we met with, and reviewed documentation obtained from, officials from the HCFA Boston

estimated costs were included in the programmatic budget estimates, provided in a separate document, but were not identified as ADP related costs.

HCFA believes that contractors can contribute to Medicare ADP cost reduction by cutting the number of systems used and trimming maintenance costs through sharing arrangements or adopting a HCFA compatible system. HCFA, however, believes that it does not have the legal authority to direct system standardization and consolidation.

Recommendations

We recommend that the Secretary direct the HCFA Administrator to:

- report all ADP costs, including Medicare contractor and Medicaid state operations, in the Information Technology Systems' budget, and
- consider pursuing a more direct approach to cut Medicare contractor ADP systems costs through shared processing and shared maintenance. This should include preparing a well-supported analysis of the benefits of sharing and an analysis of available approaches to implementing systems standardization and consolidation, including a determination of whether specific legislative authority is necessary.

As requested by your office, we did not obtain written agency comments on this report. Our review was conducted in accordance with generally accepted government auditing standards from March 1989 through May 1989.

Before briefing your staff on April 5, 1989, we discussed the information in our report with senior HCFA officials in the Bureau of Program Operations and the Bureau of Data Management and Strategy and incorporated their comments where appropriate. Our objectives, scope, and methodology are described in appendix II to this report.

- Medicaid ADP costs, totaling about \$565.9 million, for states' ADP systems that manage and control program costs.
- Medicare ADP costs, totaling about \$338.3 million, for contractors' ADP systems that manage and control program costs.
- Acquisition costs, totaling \$42.9 million, for development of a major Medicare ADP project known as the "common working file," which is expected to better record program data and process claims.

HCFA Is Taking Action to Reduce Medicare Contractors' ADP Costs

HCFA has 54 contractors using 23 different ADP systems to administer the part A program, while 35 contractors use 12 different systems to administer part B. Hence, program changes often require changing all 23 part A systems and/or 12 part B systems. HCFA believes that the greater the number of systems that need to be changed as a result of Medicare program changes, the larger the expenditure for Medicare administrative costs. For example, in December 1988, HCFA allocated \$1.5 million for system changes needed to implement the Catastrophic Coverage Act. This included a total of \$1.3 million to revise software for the 23 different part A systems. HCFA provided most individual contractors about \$38,100 each, although some individual contractors received as much as \$57,100 to make the change.

In an effort to reduce administrative costs, HCFA instituted a policy in January 1989 which encouraged contractors to (1) share ADP systems maintenance and processing⁴ and (2) adopt HCFA standard software modules. HCFA believes that both alternatives should reduce maintenance costs. This policy limits the funding that will be provided for the acquisition and installation costs related to changes required by HCFA in contractor Medicare systems. In response to this new policy, four part A Blue Cross contractors in New England have submitted a shared processing consortium plan to HCFA. This plan estimates saving over \$530,000 in their combined fiscal year 1989 administrative budget of \$24.4 million by sharing processing. The contractors will process part A claims in one central processing center. Blue Cross of Massachusetts will

⁴Shared maintenance occurs when two or more contractors use the same systems software and maintenance procedures are developed by one contractor and shared with the other user contractors. Shared processing occurs when two or more contractors use the same data processing center, which eliminates the need for independent computer systems for each contractor.

HCFA's estimated fiscal year 1990 cost of \$22 million to increase headquarters storage and processing capacity, as reported in the Information Technology Systems' budget, may be substantially higher or lower than the actual cost. The increased capacity is necessary to meet the requirements of the Catastrophic Coverage Act. HCFA officials indicated that the closeness of the budget deadline to the passage of the Act did not enable them to fully justify the costs of this initiative. As a result, they estimated its cost less precisely than they preferred using information developed from PRISM as a guide. HCFA officials stated that the Catastrophic Coverage Act ADP system requirements are now being precisely determined. The officials believed that this will permit submission of more accurate cost estimates in future budget submissions.

PRISM is intended to provide HCFA with additional ADP and telecommunications capacity to improve program operations and supply better data to assess the impact of new health care proposals. It was scheduled to be operational by fiscal year 1991.

PRISM's Information Technology Systems' budget estimate of \$13.1 million did not include about \$7.2 million in costs which HCFA subsequently added to its estimate. HCFA's 43B exhibit, submitted in January 1989, showed no anticipated PRISM expenditures for fiscal years 1991 and 1992. However, in a May 1989 estimate for completing PRISM, HCFA included an additional \$3.8 million in fiscal year 1991 and \$3.4 million in fiscal year 1992 to develop software. Agency officials confirmed that the need for these additional funds was realized after the January 1989 budget request submission. The officials added that although it was too late to change the January request, they plan to request the money in future budgets.

HCFA Has Not Reported Substantial ADP Costs

In its fiscal year 1990 Information Technology Systems' budget request, HCFA excluded \$947 million in planned ADP acquisitions and obligations for the Medicaid state agencies and Medicare contractors.² These estimated costs were included in HCFA's programmatic budget estimates, which are provided in a separate budget document. The programmatic budget estimates do not identify these estimated costs as ADP expenditures.

²HCFA actually submits its Information Technology Systems budget request to HHS, which provides this information to OMB.

Further, we found that HCFA did not identify as ADP related costs about \$947 million it estimates it will pay states for processing Medicaid claims, contractors for processing Medicare claims, and to implement a new ADP system to process Medicare claims. These costs were included in HCFA's programmatic budget estimates, but were not identified as ADP costs. While HCFA had been including these ADP costs in its Information Technology Systems' budget request, it ceased to do so beginning in fiscal year 1989. However, considering the broad policy purposes of the Paperwork Reduction Act, as amended, which encourages the reporting of these costs to promote effective management of ADP resources, we question whether HCFA's omission of these funds from the Information Technology Systems' budget request was appropriate.

HCFA pays contractors to process Medicare claims and currently employs 89 contractors using 35 different ADP systems for this processing operation. In January 1989, however, HCFA announced a policy to minimize maintenance and enhancement costs related to Medicare ADP operations. This policy consists of limiting the funding for system changes required by HCFA to encourage contractors to (1) use shared ADP systems maintenance and processing and (2) adopt HCFA standard software packages. To avoid unreimbursed costs, HCFA anticipates contractors will enter into ADP system arrangements with resulting estimated savings of approximately \$103 million over 3 years. We believe this is a positive action. However, there may be more direct actions, such as seeking legislative authority, which HCFA could consider to obtain contractor ADP sharing arrangements in a more timely manner.

Background

HCFA administers Medicare and Medicaid. In fiscal year 1988, these programs provided a total of \$108 billion in federal funds for health benefits and \$2.6 billion for administration. About \$695 million, or 27 percent, of these administrative costs were for ADP expenses incurred in operating these programs.

Title XVIII of the Social Security Act authorizes Medicare to provide health insurance to individuals aged 65 and over, and to certain disabled people under age 65. The program consists of part A (hospital insurance) and part B (supplementary medical insurance). HCFA administers the Medicare program through contractors (generally insurance companies) that process claims, make payments, and provide other services to beneficiaries and health care providers. In fiscal year 1988, Medicare paid benefits totaling about \$79 billion, with \$55 billion going to part A

