



Human Resources Division

B-251635

February 28, 1994

Mr. Bruce C. Vladeck, Administrator
Health Care Financing Administration
HHH Building, Room 314G
200 Independence Avenue SW
Washington, DC 20201

Dear Mr. Vladeck:

At the request of the Senate Special Committee on Aging, we are evaluating Blue Cross and Blue Shield of Maryland's conversion to a shared part B Medicare claims processing system. During this evaluation, we learned that the contractor's medical review savings had decreased significantly between fiscal years 1991 and 1992 (the year of the system conversion). Specifically, Maryland's reported medical review savings were \$24.3 million in 1992--in sharp contrast to reported savings of \$51.2 million for 1991.

Maryland and HCFA regional officials explained that the savings decrease primarily related to fiscal year 1992 program changes: a new physician fee schedule and a decrease in the percentage of claims receiving medical review. However, in our review, the actual effect of these changes on medical review savings is unclear. Programwide, part B contractors' total savings decreased only 8.1 percent from fiscal years 1991 to 1992 (although savings at individual contractors varied widely, ranging from a decrease of 52.5 percent to an increase of 227.4 percent). Maryland experienced the greatest percentage decrease--52.5 percent--of any Medicare part B contractor. This suggests that factors additional to the program changes were responsible for the significant savings decline at Maryland.

Maryland officials also suggested that fiscal year 1992 savings were low, in part, because of the low volume of claims processed in the beginning of the year due to problems with the new system. We find this explanation to be questionable because workload reports indicate that the contractor processed more claims overall in fiscal year 1992 (7.2 million) than 1991 (6.1 million). Yet,

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1,110,835 services were suspended for medical review in 1991 versus only 308,605 services in 1992.

We believe a reduction in medical review savings of more than \$25 million at a small contractor signals a potential significant management problem that warrants investigation by your staff.

We are willing to provide assistance or additional information to support your investigation and would appreciate being advised of your results. If you have any questions, please contact Edwin Stropko of my staff or me at (202) 512-7118.

Sincerely yours,



Leslie G. Aronovitz
Associate Director
Health Financing Issues

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