

June 1998

# MEDICARE

## HCFA's Use of Anti-Fraud-and-Abuse Funding and Authorities



---

---



**United States  
General Accounting Office  
Washington, D.C. 20548**

---

**Health, Education, and  
Human Services Division**

B-279395

June 1, 1998

The Honorable William V. Roth, Jr.  
Chairman  
The Honorable Daniel Patrick Moynihan  
Ranking Minority Member  
Committee on Finance  
United States Senate

The Honorable Thomas J. Bliley, Jr.  
Chairman  
The Honorable John D. Dingell  
Ranking Minority Member  
Committee on Commerce  
House of Representatives

The Honorable Bill Archer  
Chairman  
The Honorable Charles B. Rangel  
Ranking Minority Member  
Committee on Ways and Means  
House of Representatives

In 1997, Medicare paid more than \$191 billion for benefits provided to over 38 million beneficiaries. As we reported in our February 1997 high-risk series report, Medicare, because of its size and mission, is an attractive target for exploitation and is inherently vulnerable to fraud and abuse.<sup>1</sup> This vulnerability was also highlighted by the Department of Health and Human Services (HHS) Office of Inspector General's (OIG) recent estimate that in 1997 11 percent, or \$20 billion, of Medicare fee-for-service payments were inappropriate.

With the August 21, 1996, enactment of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the Congress provided important new resources and tools to fight health care fraud, abuse, and inappropriate payments. These new resources include increased funding for anti-fraud-and-abuse activities for the HHS OIG and the Health Care Financing Administration (HCFA), as well as for the Department of Justice and the Federal Bureau of Investigation. HIPAA also established the Medicare Integrity Program, which ensures increasing funding for HCFA's

---

<sup>1</sup>See High-Risk Series: Medicare (GAO/HR-97-10, Feb. 1997).

---

Medicare program safeguard efforts and authorizes the hiring of specialized anti-fraud contractors.

The Congress also mandated that we periodically report on such aspects of the Medicare Trust Fund as the Comptroller General considers appropriate.<sup>2</sup> Although HIPAA required us to report beginning on January 1, 2000, the Balanced Budget Act of 1997 advanced the initial reporting date to June 1, 1998. To address this requirement, we have assessed HCFA's progress in implementing the Medicare Integrity Program. Specifically, we are providing information on (1) what additional resources and authorities the Congress provided to HCFA through the Medicare Integrity Program, (2) how HCFA has made use of these resources and authorities to improve the protection of Medicare funds, and (3) how HCFA plans to use these authorities and resources in the future.

To develop our information, we reviewed budget and expenditure data for program safeguard activities for fiscal years 1994 through 1998. We also discussed with HCFA headquarters and regional officials as well as officials of two Medicare contractors how Medicare Integrity Program funding was being used. In addition, we reviewed relevant HCFA and contractor documents, including HCFA's fiscal year 1998 budget and performance requirements, the draft statement of work for program safeguard contracts, and HCFA's Government Performance and Results Act of 1993 performance plan. We conducted our work at HCFA headquarters; HCFA's region V and region VI offices; Administar Federal Inc.; and Blue Cross and Blue Shield of Texas, Inc. We performed our work between February and May 1998 in accordance with generally accepted government auditing standards. (See app. I for a description of our methodology.)

---

## Results in Brief

HIPAA established the Medicare Integrity Program to subsume the program safeguard activities of HCFA and its current claims processing contractors. Rather than fund safeguard activities as part of HCFA's annual administrative budget appropriation, HIPAA appropriates safeguard funding for each year, beginning in fiscal year 1997. The \$500 million planned for fiscal year 1998 will be increased annually up to \$720 million in 2003, with

---

<sup>2</sup>The Congress also mandated that we prepare a report that identifies (1) the amounts transferred to the Medicare Trust Fund from criminal fines, civil monetary penalties, and forfeitures, as well as gifts or bequests; (2) the amounts appropriated from the Medicare Trust Fund for the Fraud and Abuse Control Program and the use of these funds; and (3) any savings to the Trust Fund resulting from the above expenditures. This requirement is met by our report entitled Medicare: Health Care Fraud and Abuse Control Program Financial Report for Fiscal Year 1997 (GAO/AIMD-98-157, June 1, 1998).

---

no change thereafter.<sup>3</sup> HHS proposed this type of funding arrangement in 1994 so that HCFA and its contractors could better plan and manage program safeguard efforts.

The Medicare Integrity Program also provides HCFA the authority to contract with specialists in program safeguards, to separate these functions from current claims processing and payment contracts. The new contracts with program safeguard specialists are intended to make important improvements in HCFA's program safeguard efforts. These improvements will make it possible to review all of the claims for a single beneficiary in one place, reduce the number of contractor safeguard units to increase consistency and simplify HCFA's oversight, and better manage the conflicts of interest that develop when Medicare contractors expand into new health care businesses.

For fiscal year 1998, HIPAA significantly increased program safeguard funding—by 14 percent—over the fiscal year 1997 level.<sup>4</sup> Although this funding increase for 1998 was assured when HIPAA became law, HCFA did not notify contractors of their funding until one-third of fiscal year 1998 was past. Contractors reported that, because of this delayed notification, they delayed plans to increase their program safeguard staff. At the time we did our work, HCFA had no firm plans to take advantage of the assured funding by giving contractors earlier notice of their annual program safeguard budgets or establishing multiyear program safeguard budgets. However, HCFA was already taking steps to direct funding to areas of known safeguard weaknesses, and expanding its analysis of how to allocate funding to the contractors and safeguard activities where it can be used most effectively. After reviewing a draft of this report, HCFA officials told us that they would notify contractors of their fiscal year 1999 program safeguard budgets before the first day of the fiscal year.

We also found that HCFA is progressing slowly in contracting with safeguard specialists. The first contract, to be awarded by January 1999, will be limited in scope, covering only part of the work envisioned for program safeguard contracts. This first contract will therefore not provide many of the benefits ultimately expected, nor will it reduce HCFA's reliance

---

<sup>3</sup>Annual appropriations for Medicare program safeguards are expressed in HIPAA within a range of \$10 million. HHS can determine, between the minimum and maximum specified in the law, the amount to be used. For clarity, in this report we use the maximum specified in HIPAA for each year.

<sup>4</sup>In addition to the \$500 million of program safeguard funding provided by HIPAA, HHS' fiscal year 1998 appropriation provides an additional \$50 million of program administration funding to supplement Medicare program safeguards in fiscal year 1998. This brings the total increase for HCFA's program safeguard funding to 25 percent over fiscal year 1997.

---

on its current contractors for program safeguards. HCFA has no firm plans regarding when it will expand the scope of this contract or award a second safeguard specialist contract.

---

## Background

In 1997, Medicare's fee-for-service program covered about 87 percent, or 33 million, of Medicare's beneficiaries. Physicians, hospitals, and other providers submit claims to Medicare to receive payment for services they have provided to beneficiaries. HCFA administers Medicare's fee-for-service program through a network of more than 60 claims processing contractors, that is, insurance companies—like Blue Cross and Blue Shield plans, Mutual of Omaha, and CIGNA—that process and pay Medicare claims. In fiscal year 1997, contractors processed about 900 million Medicare claims.

Medicare contractors use federal funds to pay health care providers and beneficiaries and are reimbursed for the costs they incur in performing the work. They are also responsible for payment safeguard activities intended to protect Medicare from paying inappropriately. The contractors have broad discretion in conducting these activities, resulting in significant variation among contractors in implementing payment safeguards.

HCFA budgets funding for five main types of program safeguard activities carried out by Medicare contractors: (1) medical review, (2) Medicare secondary payer review, (3) audit of provider cost reports, (4) fraud unit investigations, and (5) provider education. Medical review includes automated and manual, prepayment and postpayment reviews of Medicare claims; it is intended to identify claims for noncovered or medically unnecessary services. Medicare secondary payer review focuses on identifying other primary sources of payment, such as employer-sponsored health insurance or third-party liability settlements, for claims submitted to Medicare. The audit process involves auditing cost reports submitted by providers, such as skilled nursing facilities and home health agencies. Contractor fraud units investigate potential cases of fraud or abuse identified through beneficiary complaints, other contractor safeguard units, or other sources. Provider education can include mailings to providers, briefings, and workshops to increase provider awareness of coverage and billing policies as well as coding and documentation requirements.

## Medicare Integrity Program Offers Increasing Funding

Beginning with fiscal year 1997, HIPAA stipulates that annual funding levels be appropriated from the Medicare Trust Fund to carry out HCFA's program safeguard activities. This process ensures that HCFA has funding for these important functions. Starting with the \$440 million that was available for program safeguard activities in 1997 and the \$500 million expected to be used for fiscal year 1998, HIPAA increases funding annually up to a maximum of \$720 million in 2003 and following fiscal years. Funding levels provided by HIPAA in the Medicare Integrity Program for fiscal years 1997 through 2003 are summarized in table 1.

**Table 1: Fiscal Year Medicare Integrity Program Funding Under HIPAA**

Dollars in millions

1997	1998	1999	2000	2001	2002	2003 and later years
\$440	\$500 <sup>a</sup>	\$560	\$630	\$680	\$700	\$720

<sup>a</sup>This does not include the additional \$50 million in supplemental program safeguard funding made available by HHS' fiscal year 1998 appropriation.

Before HIPAA was enacted, program safeguard activities were funded out of Medicare's general contractor program management budget, and the level of funding available for program safeguard activities could be constrained by the need to fund ongoing Medicare program functions—such as processing claims. In fact, while the number of Medicare claims grew by 70 percent between 1989 and 1996, funding for claims review grew less than 11 percent. In 1994, HHS proposed a program safeguard funding arrangement similar to that in HIPAA, saying that it would improve program safeguards by creating “a stable level of funding from year to year so that HCFA and its contractors could plan and manage the function on a multi-year basis.” HHS went on to say that “[p]ast fluctuations in funding have made it difficult [for contractors] to retain experienced staff who understand the complexities of the program.” Appendix II summarizes program safeguard funding for fiscal years 1994 through 1998, by type of program safeguard activity.

## HCFA Has Not Taken Advantage of HIPAA's Assured Safeguard Funding but Is Increasing Direction of Contractor Efforts

Although HIPAA provides significant new resources and authorities, the timing of the act—the passage of which occurred only 6 weeks before the start of fiscal year 1997—limited the opportunity for change in the first year. Then, HCFA failed to take advantage of the advance knowledge of fiscal year 1998 program safeguard funding by providing safeguard budgets to its contractors at the beginning of fiscal year 1998. That delay has hindered contractors' ability to expand their program safeguard

---

activities. However, HCFA has taken steps to direct program safeguard funding to identified weaknesses and program safeguard activities where it is most needed.

Despite Assured Funding, Allocations to Contractors for 1998 Safeguard Activities Were Not Timely

Notification of fiscal year 1998 program safeguard funding was not given to contractors until January 1998—nearly one-third of the way into the fiscal year. HCFA officials told us that they waited so that HCFA could notify contractors of their program safeguard funding at the same time as claims processing funding. As a result of this late start, it may be difficult for the contractors to complete all of the program safeguard work that HCFA expected them to accomplish with this increased funding.

Although HIPAA appropriated program safeguard funding for fiscal year 1998, HCFA officials believed that distribution of that funding needed to be delayed until funds for contractors' other activities were distributed. They stated that contractors might use Medicare Integrity Program funds for other program management purposes if these program safeguard funds were released in advance of program management funds. Despite HCFA's concerns, its contractors are required to use Medicare Integrity Program funding only for program safeguard activities. After reviewing a draft of this report, HCFA told us that it would notify contractors of their fiscal year 1999 base program safeguard funding before the first day of the fiscal year.

In addition to being late, the January 1998 funding notification to contractors did not include all of the fiscal year 1998 contractors' funding. As of the end of February, HCFA had not released more than \$40 million in program safeguard funding for various projects to be carried out by its contractors. Some of these projects were made possible by the supplemental program safeguard funding provided in November by HHS' fiscal year 1998 appropriation. The contractors told us that funding received later in the fiscal year is more difficult for them to use effectively because HCFA requires them to complete the projects by the end of September or use a subcontractor. While subcontracting allows the contractor to commit all of its fiscal year funds, contractor officials told us that it does not contribute to building valuable expertise within their own staff.

Increased Funding Has Not Significantly Increased Contractor Staffing

Despite fiscal year 1998 budget increases, neither of the contractors we visited had significantly increased their staff available to perform program safeguard activities, such as provider audit and claims review. While it is difficult to make precise comparisons because of reorganizations at both contractors, contractor officials said that there has been little or no hiring



of program safeguard staff, other than some replacements to offset attrition. In some areas, contractors have not filled all of their existing vacancies. Furthermore, contractors' staffing for some important program safeguard activities is now less than it was before HIPAA. For example, both contractors reported that as of the end of March 1998, they had fewer staff on board to audit provider cost reports than they did in September 1996, before implementation of HIPAA. One contractor currently employs 77 audit staff, down from 88 in September 1996. The other contractor currently employs 151 audit and reimbursement staff, down from 158 in 1996. The latter contractor's medical review staff has also declined, from 86 in 1996 to 83 at the time of our visit.

Because they were uncertain about their level of safeguard funding until well into the year, the contractors also indicated they were not hiring staff to carry out other HCFA-directed projects. In particular, contractors expressed reluctance to hire permanent staff to carry out special projects that are funded only for the current fiscal year. As a result, these projects can affect other program safeguard work. For example, both contractors we visited indicated that the HCFA-directed project to review claims for physician evaluation and management services will require a complex level of review that needs to be done by experienced full-time staff in their medical review units—rather than being carried out by temporary employees or subcontractors—thereby reducing the time that trained and experienced staff are available for the contractors' ongoing claims review workload.

#### HCFA Is Doing More to Direct Current Contractors' Efforts

In fiscal year 1998, HCFA has begun to direct program safeguard funding to address weaknesses identified by the HHS OIG's financial audit of HCFA for fiscal year 1996, and to expand its analysis of how funding can best be allocated among Medicare contractors and program safeguard activities. Although this does not address our concerns about the timeliness of contractor safeguard budgets, HCFA is attempting to better target the safeguard funds. To address the findings of the HHS OIG's audit of HCFA's fiscal year 1996 financial statement, HCFA is using fiscal year 1998 program safeguard funding to carry out several corrective actions to supplement regular program safeguard activities, such as the following:

- To increase the level of claims review, 28 Medicare part B contractors have been directed to conduct a special prepayment review of more than 166,000 physician claims for evaluation and management services.

- 
- All contractors are to manually perform prepayment reviews of a sample of claims that cleared their automated screens, and each may decide what types of claims it will sample and choose its sampling method.
  - HCFA and its contractors will carry out numerous other targeted efforts and special projects, such as home health agency reviews, the correct coding initiative for part B claims, and numerous information system upgrades.<sup>5</sup>

Beginning in fiscal year 1998, HCFA also required Medicare contractors to provide more information and support for their Medicare program safeguard budget requests than it had in prior years, and a HCFA official told us HCFA will continue this practice in fiscal year 1999. Also in fiscal year 1998, HCFA used a new methodology for allocating the program safeguard budget to Medicare contractors. Under this methodology, HCFA incorporates measures of contractor performance (such as return on investment) and program funds at risk in deciding how to allocate Medicare Integrity Program funding to contractors and to specific activities.

---

## HIPAA Provides New Contracting Authority

In addition to providing an assured and increasing source of funding for HCFA's program safeguard activities, HIPAA directs HHS to contract for program safeguard activities separately from claims processing and payment activities to better ensure the integrity of the Medicare benefit payments. Historically, Medicare program safeguard activities, including such things as medical review of claims, audit of provider cost reports, and investigation of beneficiary complaints, have been conducted by the same contractors who process Medicare claims. HCFA intends that these new competitively awarded contracts will establish program safeguard contractors who specialize in program integrity and have enhanced data analysis capabilities.

Although HIPAA did not set a deadline for awarding these contracts, many of the benefits of HIPAA cannot be achieved until the new safeguard contractors are in place. The benefits that can be achieved through these contracts include the following:

---

<sup>5</sup>The home health agency initiative will coordinate HCFA's six regional home health intermediaries' audit and medical review activities to address fraud and abuse in home health agencies. The correct coding initiative supports development of methodologies and computer edits to control the manipulation of service coding on claims to obtain inappropriate increased reimbursement. Systems being upgraded include HCFA's system for tracking savings from medical review, its system for monitoring contractors' focused medical reviews, and the systems that support data matches with the Internal Revenue Service and the Social Security Administration to identify instances where Medicare may be a secondary payer.

- 
- enabling the review, by a single entity, of all services to a beneficiary by centralizing program safeguard activities now divided among several types of contracts: carriers, intermediaries, durable medical equipment regional carriers, and regional home health intermediaries;
  - eliminating the competing interests of timely payment of claims and program safeguard functions;
  - achieving better price and contractor performance through competition;
  - reducing the number of program safeguard units from the current level of more than 60 to simplify oversight, achieve more consistent contractor performance, and achieve economies of scale; and
  - allowing HCFA to more aggressively mitigate conflicts of interest arising when contractors enter into new health care lines of business.

---

### Replacement of Current Contractors With Program Safeguard Specialists to Be Limited in Near Term

Despite its new authority to use program safeguard specialists, HCFA does not plan to make any major changes in who conducts program safeguard operations in the foreseeable future. HCFA plans to contract with one program safeguard specialist by January 1999. However, this contract will be very limited in scope and will not provide many of the important benefits envisioned for such a contractor. It will also not reduce HCFA's reliance on its current contractors for program safeguard activities.

While many important decisions must still be made before HCFA can award its first competitive program safeguards contract, the decision has been made to significantly limit its scope. The scope will be limited geographically, possibly to a single state. Initially, the first contract will not cover all of the tasks in HCFA's statement of work. The contract may also be limited to program safeguard functions on the claims processed by a single part A or part B contractor. This limited-scope contract will not provide the opportunity to review all services billed for a single beneficiary, nor will it reduce the number of safeguard units that HCFA must oversee. HCFA officials do not know when the scope of the first contract might be expanded or when additional specialist contracts might be awarded.

In preparing for its first new contract, HCFA published proposed rules governing the procurement and bidders' conflicts of interest as well as a draft statement of work. HCFA officials told us that they hope to award the first program safeguards contract by January 1999. However, as of April 1998, HCFA had not determined the terms of the first safeguard specialist contract, including the type of contract to be awarded, the types of services covered, the geographic jurisdiction, the program safeguard

---

activities to be included, or the method of evaluating and reimbursing the contractor.

---

## Conclusions

Many of Medicare's vulnerabilities are inherent in its size and mission, making it a perpetually attractive target for exploitation. HCFA must effectively use the funding and authorities provided by HIPAA if it is to substantially reduce future losses.

Although it requested and received an assured funding level for program safeguards from the Congress, HCFA has not administered such funding provided by HIPAA in a way that provides its contractors with increased funding stability. As a result, contractors have delayed their efforts to recruit and train staff, and the benefits anticipated from HIPAA's guaranteed program safeguard funding are being delayed. If HCFA notifies contractors of their base program safeguard funding for fiscal year 1999 before the first day of the fiscal year, as it now plans to do, these problems should be avoided in the future.

HCFA's current plans for issuing a contract for a program safeguard specialist may not provide many of the important benefits anticipated when HIPAA gave HCFA this contracting authority. Without a concerted effort to fully implement comprehensive program safeguard specialist contracts, the benefits of the authority provided by HIPAA will be delayed.

---

## Recommendations

We recommend that the Administrator of HCFA take advantage of the assured program safeguard funding provided through HIPAA by initiating planning efforts to give its contractors more timely notification of the program safeguard activities they are expected to perform and the funding they have available to carry out these activities.

---

## Agency Comments and Our Evaluation

We provided a draft of this report to the HCFA Administrator for review and comment. HCFA agreed that it should distribute program safeguard funding to contractors as early in the fiscal year as is possible and said that contractors will be notified of the allocation of base program safeguard funding for fiscal year 1999 before the first day of the fiscal year. Once they are carried out, these actions planned by HCFA should address the concerns we raise in this report.

---

HCFA also stated that its incremental approach to implementing contracts with program safeguard specialists is intended to mitigate risk and is consistent with our past recommendations on the implementation of major HCFA projects. While mitigating the risks of a major project such as this is clearly necessary, it is also important to ensure that the benefits of the project are obtained as expeditiously as possible. In this case, until the first contract is expanded or others are awarded, many of the important benefits anticipated from these contracts will not be realized. HCFA also provided technical comments, which we incorporated where appropriate. HCFA's comments appear in appendix III.

---

As agreed with your offices, we are sending copies of this report to the Secretary of HHS, the Administrator of HCFA, and other interested parties. We will also make copies available to others upon request.

Please call me at (202) 512-7114 or Paul Alcocer at (312) 220-7709 if you or your staff have any questions about this report. Other major contributors include Adrienne S. Friedman, Donald J. Kittler, and Barbara A. Mulliken.



William J. Scanlon  
Director, Health Financing and  
Systems Issues

---

# Contents

---

Letter	1
Appendix I Scope and Methodology	14
Appendix II Program Safeguard Funding for Fiscal Years 1994 Through 1998	15
Appendix III Comments From the Health Care Financing Administration	16
Tables	
Table 1: Fiscal Year Medicare Integrity Program Funding Under HIPAA	5
Table II.1: Medicare Program Integrity Expenditures by Fiscal Year	15

---

## Abbreviations

HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HIPAA	Health Insurance Portability and Accountability Act of 1996
OIG	Office of Inspector General

---

---

---

# Scope and Methodology

---

To determine what additional resources and authorities the Congress provided to the Health Care Financing Administration (HCFA) through the Medicare Integrity Program, we reviewed the Health Insurance Portability and Accountability Act of 1996 (HIPAA). We also obtained and reviewed fiscal year 1997 budget and expenditure data and fiscal year 1998 budget data for the Medicare Integrity Program, as well as expenditure data for Medicare program safeguard activities for fiscal years 1994 through 1996. Because the activities directed by HIPAA in the Medicare Integrity Program relate to the fee-for-service portion of Medicare, we did not review HCFA's program integrity efforts related to Medicare managed care plans.

To determine how HCFA has used these resources and authorities to improve the protection of Medicare funds, we reviewed HCFA data on the distribution of funding. We also visited HCFA headquarters and regional offices and two Medicare contractors to discuss how Medicare Integrity Program funding was being used. We reviewed documentation obtained from HCFA and the two contractors, including HCFA's fiscal year budget and performance requirements; the contractors' budget requests; and documentation addressing contractor program safeguard staffing, efforts, and results. We also obtained information on the current status of HCFA's efforts to use its new contracting authority.

To determine how HCFA plans to use these authorities and resources in the future, we reviewed relevant documentation, including the draft statement of work for program safeguard contracts, HCFA's Government Performance and Results Act of 1993 performance plan, and HCFA's annual work plan. We also discussed these issues with HCFA officials.

We conducted our work at HCFA headquarters in Baltimore, Maryland; HCFA region V offices; HCFA region VI offices; Adminastar Federal Inc.; and Blue Cross and Blue Shield of Texas, Inc. We performed our work between February and May 1998 in accordance with generally accepted government auditing standards.



# Program Safeguard Funding for Fiscal Years 1994 Through 1998

The first year of Medicare Integrity Program funding under HIPAA did not result in an increase in funding over the prior year. In fact, the \$437.9 million of Medicare Integrity Program funds spent in fiscal year 1997 was actually about 1 percent less than the \$441.1 million spent in fiscal year 1996—the last year before HIPAA was passed. This occurred because in 1996, HCFA's program safeguard spending benefited from transfers of funds from claims processing operations.<sup>6</sup> A breakdown of program safeguard spending in fiscal years 1994 through 1997 and the budget for fiscal year 1998 are shown in table II.1.

**Table II.1: Medicare Program Integrity Expenditures by Fiscal Year**

Dollars in millions					
Program safeguard activity	1994	1995	1996	1997 (1st year of program)	1998 (budgeted)
Medical review	\$116.4	\$111.8	\$128.3	\$118.6	\$159.5
Medicare secondary payer	115.5	118.9	109.3	102.0	100.8
Audit	146.7	150.3	152.3	143.3	169.1
Fraud units	33.8	47.3	51.2	62.7	65.1
Provider education	a	a	a	10.1	8.9
Other <sup>b</sup>				1.2	46.6
<b>Total</b>	<b>\$412.4</b>	<b>\$428.3</b>	<b>\$441.1</b>	<b>\$437.9</b>	<b>\$550.0</b>

<sup>a</sup>Provider education was funded entirely with program management funds before HIPAA. It is now supported by both program management and program safeguard funds.

<sup>b</sup>"Other" consists of centrally managed program safeguard activities and includes program integrity enhancements to a variety of data systems, a Los Alamos National Laboratory project, a nationwide contract to be awarded for statistical analysis of claims data, and a discretionary fund for the HCFA administrator's initiatives. Data provided by HCFA for fiscal years 1994 through 1996 did not break out "other" funding.

Source: HCFA. Budgeted figures as of Feb. 25, 1998.

<sup>6</sup>Since enactment of HIPAA, HCFA can no longer transfer funding between program operations, which are paid out of HCFA's operating budget, and program safeguard activities, which are paid for from the Medicare Trust Fund, unless it receives specific legislative authority.

# Comments From the Health Care Financing Administration



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

The Administrator  
Washington, D.C. 20201

**DATE:** MAY 14 1998

**TO:** William J. Scanlon  
Director, Health Financing and Systems Issues  
General Accounting Office

**FROM:** Nancy-Ann Min DeParle *NMD*  
Administrator

**SUBJECT:** GAO Draft Report, "Medicare: HCFA's Use of Anti-Fraud and Abuse Funding and Authorities"

We appreciate the opportunity to review your draft report to Congress concerning the funding of the Medicare Integrity Program. Our comments are attached. Should you have questions or require additional information, please contact Rita Reinsel of the Office of Financial Management at (410) 786-7444.

Attachment

Comments of the Health Care Financing Administration (HCFA)  
on the General Accounting Office (GAO) Draft Report  
“Medicare: HCFA’s Use of Anti-Fraud and Abuse Funding and Authorities”

Overview

During 1997 and 1998 an unprecedented number of Medicare contractors left the Medicare program, requiring HCFA and its remaining contractors to manage a smooth transition of work, including focusing on vulnerabilities during contractor transitions. The particularly vulnerable areas are medical claims review (guarding against edits being turned off or modified to expedite claims processing), poor quality of provider audits (using less experienced personnel--making fewer audit adjustments), and failure to timely continue developmental and recovery activities in open MSP cases transferred to the successor contractors. During a contractor transition there is no incentive for the outgoing contractor to be diligent in protecting the program and, therefore, we are vulnerable. During 1997 and 1998, both contractor and HCFA resources were spent trying to minimize the risk of program dollars lost.

In addition to contractor transitions, other contractor issues, such as ensuring millenium compliance and implementing standard systems, have had a large impact on the ability of contractors’ systems to handle changing workloads. Consequently, HCFA has adopted a phased approach for the Medicare Integrity Program (MIP) to ensure contractor stability and mitigate risk as we move to the use of payment safeguard contractors that focus solely on program integrity functions. This incremental approach to MIP contracting is consistent with past GAO recommendations on the implementation of major HCFA projects.

GAO Recommendation

We recommend that the Administrator of HCFA take advantage of the assured program safeguard funding provided through HIPAA by initiating planning efforts to provide more timely notification to its contractors of the program safeguard activities they are expected to perform and the budgets they have available to carry out these activities.

HCFA Comment

We agree that HCFA should distribute MIP funding as early in the fiscal year (FY) as possible. Contractors will be notified of the allocation of base MIP funding for FY 1999 before the first day of the fiscal year.

Distribution of contractor funding in FY 1998 was delayed by two unique events. Our

---

**Appendix III  
Comments From the Health Care Financing  
Administration**

---

response to these events required significant changes to contractor workload and funding assumptions very late in the FY 1998 planning process. The first event was the release of the Office of Inspector General's Chief Financial Officer (CFO) audit of HCFA in July of 1997. The results of the audit required us to implement a corrective action plan (CAP) in FY 1998. Development of the CAP required us to develop a new process to solicit and evaluate contractor proposals so as to reduce the error rate identified in the CFO audit. The second event was the appropriation of an additional \$50 million, midway through the first quarter of FY 1998, for fraud and abuse activities above the \$500 million mandatory appropriation for FY 1998. As with the development of the CFO CAP, we needed to implement a process to solicit and evaluate contractor proposals in order to efficiently allocate the additional \$50 million in FY 1999 funding.

Technical Comments

Now on p. 3.

1. Page 3--In the first sentence of the last paragraph, change the "25 percent" to "about 14 percent." NOTE: The 25 percent figure includes \$50 million in additional funding provided in HHS' FY 1998 appropriation, not solely HIPAA funds as intimated by the paragraph.

Now on p. 4.

2. Page 5--In the fourth sentence of the first paragraph, change "private insurance" to "employer-sponsored health insurance."

Now on p. 6.

3. Page 7--In the second sentence of the last paragraph beginning on this page, change the word "earmarked" to "above HIPAA levels appropriated in November." NOTE: The fact that \$40 million was undistributed in February has more to do with the lateness of the appropriation than with HCFA's ability or desire to release the funds.

---

## Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

### Orders by mail:

U.S. General Accounting Office  
P.O. Box 37050  
Washington, DC 20013

### or visit:

Room 1100  
700 4th St. NW (corner of 4th and G Sts. NW)  
U.S. General Accounting Office  
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

[info@www.gao.gov](mailto:info@www.gao.gov)

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

---

**United States  
General Accounting Office  
Washington, D.C. 20548-0001**

**Bulk Rate  
Postage & Fees Paid  
GAO  
Permit No. G100**

**Official Business  
Penalty for Private Use \$300**

**Address Correction Requested**

---

