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

Accounting and Information
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B-261034

September 29, 1995

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

Dear Senator Harkin:

During a May 5, 1995, hearing before the Senate Appropriations Subcommittee on Labor, Health and Human Services, Education, and Related Agencies, you requested that the Health Care Financing Administration (HCFA) provide information on its assessment of savings that would be achieved with a commercial system to detect billing abuse in the Medicare program. At the hearing and in our report issued that day,[1] we estimated that $640 million could have been saved in 1994 by using available commercial systems. We recommended that, when processing Medicare claims for physician services and supplies, Medicare carriers use a commercial system to detect code manipulation. This letter is an interim response to your request that we evaluate HCFA's approach to analyzing the benefits of commercial technology in the Medicare program. As discussed with your office, we will continue to monitor HCFA's analysis.

On June 30, 1995, HCFA's Associate Administrator for Operations and Resource Management provided you with a description of HCFA's plan to determine whether commercial systems are appropriate for the Medicare program. This plan includes validating our savings estimate; implementing new "unbundling" edits to detect abuse; and, if appropriate, testing and deploying a commercial system. HCFA's methodology for verifying our savings estimate calls for Medicare carriers to indicate whether they

[1]Medicare Claims Billing Abuse: Commercial Software Could Save Hundreds of Millions Annually (GAO/T-AIMD-95-133, May 5, 1995) and Medicare Claims: Commercial Technology Could Save Billions Lost to Billing Abuse (GAO/AIMD-95-135, May 5, 1995).

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agree that the savings are possible under today's Medicare rules. Through this analysis, HCFA plans to determine whether a commercial system would be cost-effective in the Medicare environment.

Based on our review of the methodology, we believe HCFA's approach to analyzing the benefits of commercial technology has two serious shortcomings that would tend to understate savings. First, HCFA is limiting its evaluation to determining whether Medicare contractors complied with existing, less comprehensive Medicare payment controls. The conclusions and savings estimates included in our May report and testimony were predicated on Medicare's implementing both the stronger controls and improved technology embodied in these systems. As currently planned, HCFA's approach does not include an evaluation of either component. HCFA directed its Medicare contractors to determine whether they correctly paid a sample of the 1993 claims used as the basis for our study, or whether a subsequent change in Medicare rules would have captured some portion of the estimated savings. This approach will not identify the benefits of the stronger controls available through commercial systems or validate the estimated savings attributable to stronger controls possible through the commercial systems. In addition, we have concerns relating to HCFA's sampling methodology used to select claims for review by the carriers.

By using the above, HCFA is attempting to verify the savings achievable through commercial systems without considering the basis on which the vendor denied claims--in short, without understanding how the commercial systems in our study operate. To validate our estimated savings, HCFA would need to examine a sample of adjusted claims and understand how the commercial firms arrived at their decisions. Without input from these firms, however, HCFA was only able to provide its carriers with very limited information on which to judge whether the claims adjustments were appropriate. Since HCFA has postponed consideration of the companies' rationales until it completes its own analysis, HCFA officials will not know how commercial systems could benefit Medicare operations.

Regarding improved technology, commercial firms invest significant clinical and technical resources to identify the relationships among numerous codes and code combinations and to develop efficient software to detect code manipulation. In contrast, under HCFA's contract to revise its national rebundling policy, the agency has invested limited resources for clinical staff and did not include any activity to improve computer system capabilities.

HCFA states that it cannot examine commercial systems because that would require it to actually procure a system. This is inaccurate because Federal Acquisition Regulations (FAR) encourage agencies to evaluate commercial technology before engaging in a formal procurement process. FAR section 7.102 requires agencies to

perform acquisition planning and conduct market surveys to promote full and open competition. FAR section 11.004 requires that, when the government is contemplating acquiring commercially available products (such as billing abuse-detection systems), market research and analysis be performed to determine the availability of commercial products that meet the government's requirements. Finally, sections 15.404 and 15.405 of the FAR specifically provide for agencies to make use of presolicitation notices, requests for information, and formal conferences to allow all interested vendors to present detailed information to the government about their products' capabilities.

Our second concern is that HCFA's approach postpones analysis of other monetary benefits that were identified by commercial systems but not included in our savings estimate, such as potential savings from ensuring that claims processed were appropriate to the claimant's age, sex, and diagnosis code. In addition, HCFA's approach does not identify other benefits of commercial systems--benefits that, while not easily measurable, are real. They include the ability to track patterns of billing abuse over time and update the system regularly and promptly to reflect changes in the physicians' procedural terminology handbook, which provides the codes that physicians use in billing Medicare.

Many public and private insurers are today using billing abuse-detection technology to strengthen controls and prevent losses. As we reported, potential savings of over $600 million a year, compared with annual costs of up to $20 million, make commercial systems a highly cost-effective investment. Beneficiaries would also save through lower deductibles and copayments.[2] We believe that the magnitude of this potential savings requires aggressive action to accurately verify commercial system benefits and quickly implement this technology. In our opinion, such a step would follow industry best practices.

We have been meeting with HCFA officials in an attempt to sort through these issues and any differences we may have as to the use of commercial technology. We will keep you updated as our meetings with HCFA continue.

If you have any questions about the information contained in this letter, please contact me at (202) 512-6252; Patricia T. Taylor, Associate Director, at (202) 512-5539; or David B. Alston, Assistant Director, at (202) 512-6369. We are sending copies of this letter to the Chairman of the Subcommittee on Labor, Health and Human Services, Education, and Related Agencies, Senate Committee on Appropriations; the Secretary of

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[2]Of the estimated $640 million in 1994 Medicare savings, beneficiaries could have saved about $142 million, while federal outlays could have been reduced by nearly $500 million.

Health and Human Services; the Director of the Health Care Financing Administration; and the Director of the Office of Management and Budget. Copies will also be made available to others upon request.

Sincerely yours,

Frank W. Reilly
Director, Information Resources Management/
Health, Education, and Human Services

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