

**TESTIMONY OF  
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HEALTH CARE FINANCING ADMINISTRATION  
ON  
ENSURING MEDICARE PAYMENTS ARE APPROPRIATE  
BEFORE THE  
SENATE FINANCE COMMITTEE  
APRIL 25, 2001**

Senator Grassley, Senator Baucus, distinguished Committee members, thank you for inviting me here today to discuss the Health Care Financing Administration's (HCFA) efforts to ensure that Medicare does not make improper payments for services provided to incarcerated beneficiaries. I would also like to thank the Office of Inspector General (OIG) for their valuable assistance in helping us to identify improper payments and ensure the integrity of the Medicare Trust Fund.

We have made substantial progress over the last several years in reducing errors and eliminating fraud from the Medicare program through a variety of methods. As reported by the OIG in their recent Chief Financial Officer's Audit, we have reduced Medicare's fee-for-service payment error rate by half, from 14 percent in fiscal year 1996 to 6.8 percent, meeting our 2000 Government Performance Review Act goal. Moreover, for the second year in a row, we received a clean opinion from the OIG. We also independently identify improper payments or irregularities, through our own detection efforts, and, when appropriate, refer these anomalies to the OIG and law enforcement for further investigation. In addition, we have taken steps to address and eliminate improper payments identified through reviews by the OIG and others, such as those highlighted by the OIG in their recent report, *"Review of Medicare Payments for Services Provided to*

*Incarcerated Beneficiaries*” that I will discuss today. These reviews serve as important roadmaps in directing us to needed improvements in many different areas of our programs.

We acknowledge, that despite these collective efforts, improper payments still occur and that there is room for improvement. I assure you we remain committed to taking appropriate action to address these areas of concern and ensure that we continue to meet our fiduciary responsibilities of protecting the Medicare trust funds from errors and fraud.

## **BACKGROUND**

Medicare pays for the health care of nearly 40 million beneficiaries, involving the processing of nearly one billion claims from more than one million physicians, hospitals, and other health care providers. As the administrator of the Medicare program, we must strive to ensure that Medicare pays only for the services allowed by law and that we remain accountable for more than \$210 billion in Medicare payments we make each year.

In their report, the OIG identified \$32 million in Medicare fee-for-service payments, by our claims processing contractors, to providers on behalf of 7,438 incarcerated beneficiaries from 1997 through 1999. The OIG has not yet determined how much of this \$32 million was improperly paid, so our actual liability for these monies is not known. Although these payments, if improper, represent only a small fraction of the total Medicare dollars paid out each year, they are nonetheless significant. Make no mistake.

We take these irregularities seriously, have carefully reviewed the OIG's findings, and we are taking steps to correct these weaknesses.

Under the law, Medicare has no obligation to pay for health care services provided to incarcerated beneficiaries in Federal facilities. Medicare pays for health care services for beneficiaries incarcerated in State or local facilities under special conditions. First, the State or local law must require all individuals (Medicare and non-Medicare) to repay the cost of medical services they receive while they are incarcerated. Second, the State or local government must enforce the requirement to pay by billing individuals. We have instructed our contractors to presume that a claim from, or on behalf of, a prisoner in a State or local facility falls under this general exclusion and should be denied. It is the responsibility of the provider or the beneficiary to demonstrate that the State met the conditions and the claim should be paid. It is also important to note that Medicare is required under the statute to pay for health care services provided to incarcerated beneficiaries in Federally Qualified Health Centers.

Historically, HCFA has relied on the Social Security Administration (SSA) as the primary source of data and information on all Medicare beneficiaries. SSA provides us with information through a database called the Master Beneficiary Record (MBR). We exchange data with the MBR database on a daily basis and use the MBR's data to update our own Enrollment Database (EDB). We then use the EDB data to update our Common Working File (CWF). The CWF contains information about all Medicare beneficiaries

and our claims processing contractors use the CWF to verify beneficiaries' entitlement to Medicare, among other things.

The MBR database, which the OIG used in their report, is maintained and updated daily by SSA and contains essential information for administering the Medicare program and for determining a beneficiary's enrollment in Medicare. It includes information such as the date or period of a particular beneficiary's entitlement to Medicare, why a beneficiary is entitled to Medicare, as well as changes of address. The database also includes information indicating whether an individual's monthly Social Security cash benefits are suspended because of incarceration.

The MBR database does not, however, contain information critical for determining whether Medicare payment for health care services provided to incarcerated beneficiaries is appropriate, such as the specific date an individual became incarcerated or was released from prison. Without the precise days of incarceration, Medicare may wrongly deny payment to a physician, hospital, ESRD facility, or other provider when a beneficiary is still entitled to Medicare services. Moreover, the data may incorrectly list individuals as incarcerated, who have been released from prison and, as a consequence, Medicare may wrongly deny payment for services provided to beneficiaries who are, in fact, legally entitled.

## **ENSURING PROPER PAYMENTS**

The OIG has identified several weaknesses in our processes for identifying incarcerated beneficiaries. They recommend that we take several procedural and systematic measures to obtain additional data from SSA in our daily transmissions of enrollment information. Although we are aware of the inherent limitations with the MBR data, we are working on solutions to this problem.

The OIG specifically recommends, as part of our daily data exchange with SSA, that we modify our existing data systems to accept the existing MBR data indicating whether a beneficiary is incarcerated. As an interim step, we are following the OIG's recommendation and creating an additional data field indicator in the EDB so that it can accept the current MBR data that indicate the beneficiary is incarcerated. We expect to have this and other necessary systems changes in place by March 2002 to access other data sources that may contain more comprehensive information, including more reliable information about the dates of incarceration. This is a critical element for determining whether Medicare payment is appropriate.

The OIG also recommends that we design and implement systems controls in our EDB and CWF, so that our contractors know when an improper claim is submitted for an incarcerated beneficiary and can reject the claim. We support the underlying concept of identifying claims submitted for incarcerated beneficiaries once a data source that meets our needs is obtained, and we are optimistic that this additional data source will allow us to determine whether payment is appropriate. However, this data is held in a database

separate from the MBR and we will have to make complex changes to our systems and those of our contractors in order to use this data on a “pre-payment” basis. For example, we must work closely with SSA to plan the exchange between the new database and the EDB, establish the actual data exchange with SSA, as well as restructure our EDB, the CWF, and our contractor systems so that they can accept the new data. We anticipate that these changes will take 12 – 18 months to accomplish.

In addition to retooling our automated applications, there are a variety of legal and administrative tasks associated with the collection of the additional data. For example, interagency agreements, data use agreements, computer matching agreements, and memoranda of agreement between our Agency, SSA, and each of our contractors, must be established and are integral parts for collaborative administration of this, or any other, cross-entity data initiative.

It is important to note that the introduction of this additional data still may not be sufficient for determining, based on the data alone, whether Medicare should pay an individual claim. As a consequence, manual claims review by our contractors may be necessary. For example, if we do not have dates of incarceration, our contractors would have to manually review claims to accurately determine whether a claim for a certain service on a certain day is valid and should be paid. This is a time-intensive and costly way to decide whether a claim should be paid. Nevertheless, we are moving forward and will continue to thoroughly examine how we can obtain information on incarcerated

beneficiaries and provide this information to our contractors so that we can minimize the possibility of improper payments in the future.

## **CONCLUSION**

We appreciate the opportunity to share our response to the recommendations of the OIG regarding improper Medicare payments for services provided to incarcerated beneficiaries and we are moving forward to implement the changes they have recommended. We share your concern regarding this issue and the need to ensure that the Medicare Trust Fund is protected against errors and fraud. We have made substantial progress over the past several years in this regard. We appreciate the assistance of the OIG in helping us to target our efforts through their careful audits and reviews. As requested by the Committee, my testimony only touches on the work of the OIG regarding improper payments related to incarcerated beneficiaries. However, as you are aware, the OIG has done similar work in other areas of the Medicare and Medicaid programs, and I am happy to answer the Committee's questions regarding all of these reviews.

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