# SAVINGS: PROGRAM INTEGRITY INITIATIVE - CUT WASTE, FRAUD, AND ABUSE IN MEDICARE, MEDICAID, AND CHIP

*Department of Health and Human Services*

In this fiscal environment, the Nation cannot tolerate waste, fraud, and abuse in Medicare, Medicaid, and the Children's Health Insurance Program (CHIP) – or any Government program. That is why the Administration has made this a priority through its Campaign to Cut Waste, together with long-standing efforts to boost program integrity and reduce improper payments (that is, payments made to the wrong person, in the wrong amount, or at the wrong time). The Administration is proposing a series of policies to build on these efforts that will save nearly $4 billion over the next 10 years.

**Funding Summary**
(In millions of dollars)

| . | 2013 | 2014 | 2015 | 2016 | 2017 | 2013-2017 | 2013-2022 |
|---|---|---|---|---|---|---|---|
| Baseline Outlays | 810,817 | 902,972 | 958,393 | 1,041,686 | 1,089,376 | 4,803,245 | 11,492,619 |
| Proposed Changes from Current Law, Total | -161 | -236 | -306 | -336 | -376 | -1,416 | -3,616 |
| MEDICARE | | | | | | | |
| Increase scrutiny of providers using higher-risk banking arrangements to receive Medicare payments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Allow civil monetary penalties or intermediate sanctions for providers who do not update enrollment information | 0 | -10 | -10 | -10 | -10 | -40 | -90 |
| Authorize the Secretary to create a system to validate physicians and practitioners orders for high risk items and services | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Require Pre-Payment or Earlier Review for Power Mobility Devices | -10 | -10 | -10 | -10 | -10 | -50 | -140 |
| Require prior authorization for advanced imaging | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| MEDICAID | | | | | | | |
| Strengthen Medicaid third-party liability | -110 | -115 | -125 | -135 | -145 | -630 | -1,525 |
| Track high prescribers and utilizers of prescription drugs in Medicaid | -40 | -100 | -150 | -160 | -170 | -620 | -1,550 |
| Require manufacturers that improperly report items for Medicaid drug coverage to fully repay States | -1 | -1 | -1 | -1 | -1 | -6 | -12 |
| Enforce manufacturer compliance with drug rebate requirements | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Increase penalties for fraudulent noncompliance on rebate agreements | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Require drugs to be electronically listed with the FDA to receive Medicaid coverage | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prevent use of federal funds to pay state share of Medicaid or CHIP | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Consolidate redundant error rate measurement programs | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| MEDICARE/MEDICAID | | | | | | | |
| Retain a portion of Medicare and Medicaid RAC recoveries to implement actions that prevent fraud and abuse | 0 | 0 | -10 | -20 | -30 | -60 | -240 |
| Expand authority for permissive exclusion from federal health care programs to individuals and entities affiliated with sanctioned entities | 0 | 0 | 0 | 0 | -10 | -10 | -60 |
| Strengthen penalties for illegal distribution of beneficiary identification numbers | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

*Note: The savings estimates for these proposals may not include all interactions.*

**Justification**

Strengthening program integrity is an important part of restraining spending growth and providing quality service delivery to beneficiaries. The Affordable Care Act includes significant new authorities to fight fraud, waste, and abuse, including enhanced screening requirements; improved data analysis capabilities; expansion of Recovery Audit Contractors; enhanced authorities for the Department of Health and Human Services' (HHS's) Office of Inspector General to exclude providers from the programs; and new law enforcement authorities for the Department of Justice. In June 2010, the President announced a goal of reducing the

Medicare fee-for-service error rate by half by 2012. The proposals in the Budget will strengthen Medicare, Medicaid, and CHIP program integrity by preventing fraud, abuse, and improper payments before they occur, detecting them as early as possible when they do and vigorously enforcing all penalties and recourse available when fraud is identified. Specific proposals are listed below.

**Medicare Proposals**

**Increase scrutiny of providers using higher-risk banking arrangements to receive Medicare payments**. This proposal would require providers to report use of "sweep accounts" (accounts that automatically transfer funds to separate accounts, which have been linked to fraudulent providers) for receipt of Medicare payments. Providers with such accounts would be targeted for enhanced scrutiny.

**Allow civil monetary penalties for providers who do not update enrollment information**. Unreported changes in provider enrollment information leave room for fraud to take place. This proposal would increase the Centers for Medicare and Medicaid Services' (CMS') authority to enforce appropriate reporting of changes in provider enrollment information through civil monetary penalties or other intermediate sanctions to mitigate associated risk.

**Authorize the Secretary to create a system to validate physicians and practitioners orders for high risk items and services**. This proposal would give the Secretary an explicit program integrity tool that could help fill gaps that may emerge or may be identified in the future for certain high-risk products and services such as imaging services, durable medical equipment, and home health services. Such a system could help ensure that Medicare could verify the service was ordered by a qualified physician or practitioner before issuing payment.

**Require prepayment or earlier review for all power mobility devices**. Preliminary data suggest that the error rate for power mobility devices is excessively high. Payment for equipment that does not meet existing rules for Medicare coverage increases costs for the Medicare program and for taxpayers. As part of the Administration's goal to reduce the improper payment rate, the Administration proposes to require prepayment or earlier review for all power mobility devices, helping to assure that payment is only made for covered equipment.

**Require prior authorization for advanced imaging**. The Budget proposes implementation of a prior authorization program for the most expensive imaging services to encourage more appropriate utilization of these services. This proposal is expected to protect the Medicare program and its beneficiaries from unwarranted, and potentially harmful, imaging use.

**Medicaid Proposals**

**Strengthen Medicaid third-party liability**. This proposal would affirm Medicaid's position as a payer of last resort by removing exceptions to the requirement that State Medicaid agencies reject medical claims when another entity is legally liable to pay the claim and by allowing Medicaid to recover costs from beneficiary liability settlements.

**Track high prescribers and utilizers of prescription drugs in Medicaid**. States already have the capability to implement monitoring systems for prescription drugs, but are not currently taking full advantage of these systems' potential benefits. This proposal requires States to track drug claims for indications of fraud, waste, or abuse by providers or beneficiaries and to take steps to reduce wasteful or abusive prescribing practices.

**Require manufacturers that improperly report items for Medicaid drug coverage to fully repay States**. Federal law requires manufacturers to report a list of their "covered outpatient drugs" to CMS for Medicaid drug coverage, but some manufacturers improperly report items that do not belong (e.g., syringes). This proposal would recoup costs of covering improperly-reported items discovered after Medicaid reimbursement has occurred; the proposal leverages the Medicaid drug rebate program by requiring manufacturers to pay a "rebate" equal to the amount the State paid for these items.

**Enforce manufacturer compliance with drug rebate agreements**. This proposal requires HHS, as cost-effective, to conduct regular audits and surveys of Medicaid drug rebate agreements to ensure the Medicaid program is receiving proper rebate amounts.

**Increase penalties for fraudulent noncompliance on drug rebate agreements**. This proposal would increase the statutory civil monetary penalties on manufacturers that knowingly report false information under their drug rebate agreements for calculation of Medicaid rebates.

**Require drugs be electronically listed with the FDA to receive Medicaid coverage**. Though Food and Drug Administration (FDA) law requires manufacturers to list their drugs with FDA, compliance is inconsistent. Recently, Medicare imposed a requirement that drugs must be listed under FDA law to receive Part D coverage; this proposal would impose the same requirement in Medicaid.

**Prevent use of Federal funds to pay States share of Medicaid or CHIP**. This proposal would prohibit States from using Federal funds as the State share of Medicaid or CHIP unless funds are specifically provided for that purpose under law.

**Consolidate redundant error rate measurement programs**. This proposal will alleviate State program integrity reporting requirements by consolidating redundant error rate measurement programs to create a streamlined audit program with meaningful outcomes, while maintaining the Federal and State's government ability to identify and address improper Medicaid payments.

**Medicare/Medicaid Proposals**

**Retain a portion of Medicare and Medicaid Recovery Audit Contractor (RAC) recoveries to implement actions that prevent fraud and abuse**. This proposal would allow CMS to use up to 25 percent of RAC recoveries that would otherwise be returned to the Trust Funds and the Department of the Treasury to prevent improper payments and fraud, thus helping to avoid costs associated with pursuing recoupment after payments have been made.

**Expand authority for permissive exclusion from federal health care programs to individuals and entities affiliated with sanctioned entities**. This proposal would close a loophole that currently prevents the Office of Inspector General from excluding certain individuals from programs such as Medicare, Medicaid, and CHIP.

**Strengthen penalties for illegal distribution of beneficiary identification numbers**. This proposal establishes penalties to help fight fraud rings that purchase, sell or distribute Medicare, Medicaid, or CHIP beneficiary identification numbers or billing privileges.