



Department of Audits and Accounts

270 Washington Street, S.W., Suite 4-114
Atlanta, Georgia 30334-8400

Russell W. Hinton
State Auditor
(404) 656-2174

February 25, 2011

Honorable John Albers
State Senator
Legislative Office Building, Room 324-B
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
Senate Bill 63 (LC 33 3950)

Dear Senator Albers:

This bill would require the Department of Community Health to establish the Georgia Medical Assistance Fraud Prevention Program. This program is intended to reduce waste, fraud, and abuse in the Medicaid and PeachCare for Kids programs. The program would apply to Medicaid and PeachCare members enrolled in both traditional “fee for service” programs and in care management organizations. The State would issue each member a “smart card” containing benefit coverage, health information (including prescription information), and a digital photograph of the card holder. The State would also furnish each health care provider in the State with the equipment to read the smart cards and a biometric fingerprint reader to further authenticate the identity of the member receiving services. In addition, each health care provider would be required to authenticate his identity when the service was provided. This bill would also implement a 3-6 month pilot program in 6 counties prior to a statewide rollout.

The bill’s total fiscal impact on the State cannot be estimated; however, some of the costs can be identified. According to the Department of Community Health, one vendor has proposed a system of the type required by this bill. Based on cost estimates provided by this vendor, the cost of the equipment required for the 6 county pilot program (the smart cards and the provider equipment) would be approximately \$550,000. The cost to verify each recipient and provider (the transaction

costs) would be just over \$25,000 for a 3-month pilot program and just over \$50,000 for a 6-month pilot program. The total State cost payable to the vendor would, therefore, be approximately \$575,000 for a 3-month pilot program or \$600,000 for a 6-month program. These cost estimates have not been validated.

According to the Department of Community Health, if the program was expanded to the entire State, the cost of smart cards and provider equipment as estimated by the vendor would be approximately \$20.1 million. Transaction costs for verifying recipients and providers would be approximately \$3.2 million. The total cost of a Statewide rollout would, therefore, be approximately \$23.3 million for the first year and at least \$3.2 million for subsequent years. The estimate for subsequent years does not include either the costs for furnishing new healthcare providers with the necessary equipment or the costs of issuing smart cards to Georgia residents who become eligible for Medicaid or PeachCare benefits. These cost estimates have not been validated.

In addition to the vendor costs, the Department of Community Health has identified additional costs that would be incurred. These include:

- Administering a competitive procurement;
- Making necessary changes to the Medicaid Management Information System (MMIS) to facilitate information exchange with the smart cards and biometric technology;
- Shipping equipment to providers;
- Furnishing training and set-up help to providers;
- Pre-loading and updating personal health information on the smart cards
- Performing the additional analyses required by the bill to evaluate the pilot program;
- Additional DCH staffing to manage the information technology and project considerations;
- Obtaining an Independent Verification and Validation (IV&V) of the project as required by the Georgia Technology Authority.

The Department of Community Health was not able to furnish an estimate of these costs; however, they are believed to be significant.

The Department of Community Health is not aware of any federal funds available to offset the costs of implementing this technology, so the most conservative assumption would be that all of the costs associated with either the pilot program or the Statewide rollout would be borne entirely by the State.

Just as the total cost of implementing this bill cannot be estimated, the savings to the State also cannot be estimated. The National Health Care Anti-Fraud Association estimates conservatively that fraud represents 3% of healthcare expenses. According to a study by George Washington University, 80% of healthcare fraud is committed by providers; 10% by consumers; and 10% by other parties such as insurers and their employees. According to this study, "electronic data

exchange and other technological advances can create further fraud exposure. This is because electronic claims

Letter to Senator Albers
Fiscal Note: Senate Bill 63 (LC 33 3950)
February 25, 2011
Page 3

transactions both increase the volume of claims and allow large enterprises to use technology to engage in fraud while avoiding computer fraud detection systems.” It is not possible to estimate what portion of consumer/member fraud or provider fraud would be eliminated through the program implemented by this bill. It is also impossible to estimate the risk to the Medicaid program for new frauds that might be perpetrated. It should be noted that any savings would be shared with the federal government based on the federal financial participation rate of approximately 65 percent.

Respectfully,

/s/ Russell W. Hinton
State Auditor

/s/ Debbie Dlugolenski
Office of Planning and Budget

RWH/DD/ek/bb