

INCREASED MEDICARE COMPLIANCE AUDITS BUSINESS COST CALCULATOR REPORT

INTRODUCTION

The Increased Medicare Benefits Schedule Compliance Audits (IMCA) initiative was announced in the 2008-09 Budget as part of the Responsible Economic Management package. The IMCA initiative has two components:

- an increase in the number of compliance audits undertaken by Medicare Australia each year from 500 to 2,500;
- amendments to legislation to require practitioners to produce evidence when audited by Medicare Australia; and to apply a financial penalty when a practitioner is unable to substantiate a Medicare benefit for a service.

The first component of the IMCA initiative took effect from 1 January 2009 when the number of compliance audits conducted by Medicare Australia increased from 500 to 2500 per annum (or about 4% of the practitioner population per annum). The second component of the IMCA initiative is subject to the passage of legislation.

The IMCA initiative enhances the compliance program for the Medicare scheme by providing a mechanism to enable the medicare benefits which are paid in respect of professional services to be substantiated.

PROBLEM

Expenditure on the Medicare Benefits scheme was over \$15 billion in 2009-10, having grown by more than \$1 billion per annum in each of the last three years. Compliance audits are conducted to ensure that taxpayers' money is spent appropriately. The Medicare benefits program experienced substantial growth between 2004-05 to 2008-09 with 23% more MBS items, 15% more providers, 17% more MBS transactions and a 43% increase in the value of MBS claims. However despite this growth, there was no increased investment in compliance activity.

In 2008-09, when the IMCA initiative was announced, the audit program only covered services provided by 0.7% of the practitioner population, and did not include newer item groups provided by allied health practitioners.

Another major barrier to ensuring the integrity of the Medicare benefits program is that practitioners are not required to produce documents to substantiate the Medicare services they provide if the evidence is contained in the clinical record. However, on average 20% of practitioners contacted by Medicare Australia do not respond to, or refuse to cooperate with, a request to substantiate a Medicare benefit paid for a service. When this occurs, Medicare Australia does not have any authority to require compliance with the request. This means that there is no way to confirm that the Medicare payment is correct.

Administrative sanctions provide a useful incentive to people to comply with legislative requirements. At present, Medicare Australia cannot impose sanctions in relation to services that cannot be substantiated, even where the sums are substantial and the billing behaviour has occurred over a lengthy period of time. The IMCA

initiative will authorise Medicare Australia to impose a financial sanction when a practitioner is not able to substantiate a Medicare service.

A Business Cost Calculator (BCC) has been prepared for the IMCA initiative. The following explains the objective of using the BCC and provides a report on the resulting cost estimate.

OBJECTIVE

This initiative addresses weaknesses in the current process for managing the risks associated with incorrect Medicare payments. The IMCA initiative will impact on business because of the significant increase in the number of compliance audits being conducted each year. It will be necessary to cost an entity's administrative costs in complying with an audit request.

The IMCA initiative has two parts – Part 1 (an increase in the number of audits) commenced on 1 January 2009 and Part 2 (legislative amendments to the Health Insurance Act 1973) is subject to the passage of legislation.

COST OPTIONS

We considered the different cost categories used in the OBPR BCC against the compliance tasks and selected the following applicable cost categories:

1. PURCHASE COST

This cost category involves the costs of all materials, equipment, etc, purchased in order to comply with the IMCA initiative. For example, during an audit a business may be required to provide copies of certain records to Medicare Australia. This may involve purchase of paper, photocopying and postage. The purchase costs were estimated as an on going cost.

2. ENFORCEMENT

This Cost category involves cooperating with audits, inspections and enforcement activities. For example, businesses are required to spend time collecting and analysing documents for the purpose of an audit or inspection. The enforcement costs were estimated as an ongoing cost.

IMCA INITIATIVE

An additional 2000 organisations will be affected by the increase in the number of compliance audits being conducted each year (from 500 to 2,500).

The assumptions in the BCC are based on general practice costs. Two levels of personnel are assumed for this assessment – Medical Practitioners and Administrative Staff.

The labour costs are estimated to be \$102 per hour for Medical Practitioners (based on a salary of \$240,000 for 45 patient contact hours per week) and \$30 per hour for Administrative Staff. This reflects the different salary scales of the position holders who may be involved in the different tasks of complying with an audit request.

BCC SUMMARY REPORT

Type	Cost per business	Total cost
Start-up	\$0	\$0
Ongoing	\$343.29	\$686,580.00

INFORMATION GATHERING

The salary scales for Medical Practitioners are based on an Australian Doctor investigation in June 2007 which indicated average GP earnings of \$240,000-\$275,000 per annum for 40-50 patient contact hours per week after expenses¹. The cost of labour was calculated on average income of \$240,000 pa for 45 patient contact hours per week.

The salary scales for Administrative Staff are based on the NSW Health Professionals and Support Services Award, level 3, pay point 5.

Generally, Medicare Australia initially audits 20-50 services. This costing assumes that, in response to a compliance audit request, a general practitioner will spend up to 2 hours supervising one administrative staff in compiling documents. It is estimated that the administrative staff member will spend up to 4 hours compiling documents.

UNCERTAINTIES

The BCC is well informed but is an estimate. As it is based on an audit of a general practitioner, the costs for allied health practitioners are likely to be less. In particular, the time required for each audit and the cost of labour may vary.

WHAT REGULATION IS ALREADY IN PLACE?

Most medical and health practitioners are required to keep medical records under State and Territory Laws (for example, the Health Practitioner Regulation (NSW) Regulation 2010 - PART 4 and Health Practitioner Regulation (NSW) Regulation 2010 SCHED 2 - Records kept by medical practitioners and medical corporations in relation to patients).

The Australian Medical Council's *Good Medical Practice: A Code of Conduct for Doctors in Australia* (July 2009) describes what is expected of all doctors registered to practice medicine in Australia. It sets out the principles that characterise good medical practice and makes explicit the standards of ethical and professional conduct expected of doctors by their professional peers and the community.

¹ <http://www.australiandoctor.com.au/news/3a/0c04d33a.asp>