

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
(AHCCCS)**

**EVALUATION OF THE FEASIBILITY AND THE FISCAL IMPACT OF REQUIRING
AHCCCS APPLICANTS TO PRODUCE PHOTO IDENTIFICATION OR SUBMIT TO
IMAGING TECHNOLOGY**

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I. Reporting Requirement

Arizona Session Laws 2006, Chapter 191, § 3 requires the Arizona Health Care Cost Containment System (AHCCCS) to submit a report on eligibility verification measures and fraud prevention to the Governor, the Speaker of the House of Representatives, the President of the Senate and the Director of the Arizona State Library, Archives and Public Records. The report must include:

1. An evaluation of the feasibility and the fiscal impact, including potential savings, of requiring applicants who wish to receive services pursuant to title 36, chapter 29, Arizona Revised Statutes, to produce photo identification that has been issued by either the Arizona Department of Transportation, a federally recognized tribe, the Arizona Department of Economic Security (DES) or the AHCCCS Administration.
2. An evaluation of the feasibility and the fiscal impact, including potential savings, of using imaging technology to verify the identity of an applicant at the time of application, on redetermination of eligibility and when an enrollee is receiving services pursuant to title 36, chapter 29, Arizona Revised Statutes.
3. A list of the information that a request for qualifications to develop fraud protection and identity verification systems should include.
4. An evaluation of whether certain eligibility groups or programs may be required to undergo identity verification procedures and a recommendation of which groups or programs should be subject to the procedures.
5. A review of the identification procedures used by other states.
6. The methodology and processes used to develop the findings in the report.

II. Identity Verification and Fraud Prevention Efforts Currently in Place

AHCCCS verifies citizenship and identity at initial application and re-determination. The federal Deficit Reduction Act of 2005 (DRA) prohibits federal matching funds for non-emergency Medicaid services unless each individual presents satisfactory documentary evidence of identity. In accordance with the DRA, AHCCCS requires all applicants and existing members to provide documentation to prove identity.¹ Persons who are unable to produce the appropriate documentation are deemed ineligible for the program. In accordance with state law, AHCCCS also applies these provisions to the KidsCare program.

The implementation of the DRA has validated previous quality control studies by AHCCCS that found the vast majority (over 99%) of members met citizenship and identity requirements. DES has processed hundreds of thousands of redeterminations. At this point in time, no members have lost coverage for citizenship or identity issues. For new applications, the program has denied six new applicants out of hundreds of thousands of applications who were unable to provide the appropriate citizenship or identity documents.

AHCCCS performs many reviews of eligibility determinations and re-determinations to ensure that all verification procedures, including identity, are being applied correctly and to ensure the integrity of the AHCCCS eligibility system. Those reviews include:

- Supervisory Reviews: AHCCCS conducts a supervisory review of all new eligibility worker case determinations for up to six months or until the supervisor feels that the worker knows eligibility policy and can work independently.

¹ The DRA accepts various documents to prove identity, including a driver's license, government issued photo identification, Tribal government documents, day care or nursery record (minors only), school record or report card (under 16 only), school photo identification, U.S. military identification, dependent identification or drat record, U.S. Coast Guard Merchant Mariner Card, or affidavit.

- Quality Assurance: Each month, AHCCCS reviews a sample of two to four percent (or a specific number) of case determinations for each eligibility worker. Results are used to identify error trends, training needs and to conduct performance evaluations.
- Pre-determination Quality Control: AHCCCS conducts a Pre-Determination Quality Control (PDQC) program for applicants whose application meets a pre-established profile indicating that a case may be prone to error or fraud. After the investigation is completed, the results are shared with the eligibility worker and a final eligibility determination is made. For the fourth quarter SFY 2006, the costs avoided by the PDQC program totaled approximately \$4.4 million.
- Management Evaluation Reviews – A unit of four to six management evaluation workers visits a DES eligibility office to review office operations and read eligibility case files to determine whether Medicaid law and policy were applied correctly.
- Quality Control: AHCCCS reviews a statistically valid sample of eligibility cases every six months. The quality control officer reviews the eligibility determination, usually visiting visits the member's home, and makes an independent determination of the member's eligibility.

In addition, the AHCCCS Office of Program Integrity (OPI) is responsible for conducting criminal investigations and investigative audits for all AHCCCS programs involving state or federal tax dollars. As the criminal justice agency for AHCCCS, OPI is authorized by the Federal Bureau of Investigations and Arizona Department of Public Safety to assess criminal justice records, issue subpoenas and place persons under oath to obtain evidence for investigations into fraud and abuse of the AHCCCS program. OPI works closely with federal, state and local law enforcement agencies to detect, investigate and prosecute any provider, subcontractor or member when fraudulent activity is suspected. Any member of the public may use a statewide fraud hotline and a publicly accessible web site to report AHCCCS fraud or abuse. OPI also conducts internal employee investigations and assesses civil monetary penalties.

For the SFY 2000-2006 OPI averaged \$4.88 million per year for fraud recoveries and cost avoidance. In FY 2006, the OPI unit recovered over \$4.0 million in total fund costs. To put these recoveries in perspective, for SFY 2006, AHCCCS recovered \$310,000 per investigator, and OPI recovered \$3.43 for every dollar expended. A recent CMS Audit found that “it is evident by the outcomes of investigations (convictions, recoupments, exclusions, etc.) by both the state and the MFCU that Arizona has invested a lot in its efforts to identify fraud and abuse.”

III. Verifying Identity through Photo Identification

A. Feasibility

A valid driver's license is one of the most commonly used forms of photo identification for many Arizona residents. Requiring individuals to present this form of identification is cost effective and feasible under ordinary circumstances. However, most AHCCCS members do not drive. Approximately fifty two percent of AHCCCS members are children, while six percent are elderly and eight percent are disabled. Of the remaining thirty nine percent, it is estimated that half do not drive. Thus, eighty percent of AHCCCS members represent a very vulnerable segment of Arizona's population for which AHCCCS would be required to provide photo identification.

There are unique and difficult challenges that must be considered with respect to providing photo identification to this group. For instance, many of the elderly and disabled are in nursing facilities or other such facilities. AHCCCS would be required to visit these members to obtain their photo, which not only increases costs, but raises privacy concerns for our most vulnerable Arizona residents. In addition, members would be required to present their photo identification regularly. The incidence of lost cards among this population could be high. Issuing replacement cards further would increase costs. Another important issue facing the AHCCCS long-term care and minor child population is that very few of these

members are able to pick up their own prescriptions. Thus, parents and guardians would be required to present an AHCCCS identification as well.

Consequently, requiring members and applicants to report to AHCCCS offices to obtain photographic identification would be feasible for only a few coverage groups. Requiring the groups for whom it potentially is feasible to obtain a photo identification card would create confusion and pose an administrative burden to the Agency to establish an entirely different identification system for this small population. Pursuant to state and federal law, AHCCCS has worked to develop streamlined eligibility systems, maximizing state and federal funds by removing administrative inefficiency. Adding administrative burdens could adversely impact these positive gains.

B. Fiscal Impact

The fiscal impact of requiring AHCCCS members to obtain photographic identification cards could be significant. Below are some issues to consider when examining the fiscal impact of this proposal.

- Currently, AHCCCS produces 40,000 to 45,000 benefit cards monthly.
- Adding a photo to the card would add at least \$0.30 per card to the overall cost, not including costs associated with personnel time, equipment, and data systems management.
- AHCCCS would incur significant costs associated with actually taking photos of each member, including hiring staff and obtaining equipment and supplies.
- Systems changes would need to be made, including developing a program for sending and receiving data, maintaining a database and purchasing and maintaining equipment.
- Additional costs for staff time and other needs would also be incurred.

IV. Verifying Identity through Fingerprint Imaging

A. Feasibility

The Centers for Medicare and Medicaid Services (CMS) will not approve or finance the development or implementation a fingerprint imaging system as a tool for eligibility verification or fraud prevention or detection in the Medicaid system. CMS has cited legal and policy reasons in explaining its position to AHCCCS. Specifically, in a letter from Dennis G. Smith, Director, Center for Medicaid and State Operations, CMS, to Phyllis Biedess, former Director, AHCCCS in September 26, 2001, CMS concluded that fingerprint imaging

procedures are generally not necessary for the proper and efficient administration of state Medicaid plans. Additionally, finger imaging may violate Federal requirements that the process for determining eligibility be consistent with the simplicity of administration and the best interests of recipients. [CMS] reached this conclusion because intrusive procedures can discourage Medicaid enrollment and ongoing coverage. States can use other procedures to protect program integrity without deterring enrollment.

Texas is the only state CMS has permitted to use fingerprint imaging in its Medicaid program. CMS permitted Texas to conduct the program only if member and provider participation was *voluntary*. Therefore, fingerprint imaging is not feasible because it is unlikely CMS would approve it. If CMS does not approve the program, Arizona would not receive matching federal dollars.

In addition, implementing a fingerprint imaging system is not feasible because fingerprint imaging technology has not proven sufficiently accurate to detect and deter fraud in a Medicaid system. Texas

implemented a demonstration to test fingerprint imaging at point of service and contracted with New York based International Biometric Group (IBG) to conduct an independent evaluation.

IBG's November 2005 Final Report indicates that fingerprint imaging technology is not ready for mandatory use in a Medicaid system, particularly at the point of service. Key findings include:

- While fingerprint image matches should be greater than 99 percent accurate, the accuracy of Texas' fingerprint imaging systems ranged from 50 to 90 percent, and only one system could be said to have performed sufficiently well to detect fraudulent activity.
- Even in a controlled testing environment, IBG found that Texas' fingerprint imaging systems falsely rejected up to 7.9 percent of eligible members, and systems required as many as seven attempts to match prints successfully, with as few as 62.8 percent matching accurately on the first attempt.
- Results indicate that 10 to 50 percent of point-of-service transactions failed to match genuinely eligible Medicaid members.
- "Regardless of the quality of the biometric solution fielded, a percentage of individuals are unable to enroll biometric data, and a percentage of enrolled users are unable to match their data for reasons unrelated to fraud or malfeasance. Therefore absence of a biometric match should never be used as the sole basis on which services are denied or claims not paid."²
- Many providers participating in Texas' Medicaid Integrity Pilot (MIP) said the systems were burdensome or time-consuming. IBG concluded that without tangible benefits associated with participation, providers would view fingerprint imaging technology as an imposition. This could slow the delivery of services and have a chilling effect on provider participation in the Medicaid program.

B. Fiscal Impact

The Texas results offer useful information in examining the potential fiscal impact to Arizona. Of particular importance is the finding that 10 to 50 percent of point-of-service transactions in Texas failed to match genuinely eligible Medicaid members. The point-of-service transactions are particularly important because AHCCCS would be required to investigate each failed point-of-service transaction. Failed matches at the point of service would require providers to either a) deny services for those eligible members who fail to match or b) deliver services, with payment dependent on the outcome of AHCCCS' investigation into every failed match. Either alternative means substantial administrative cost increases and significant financial burdens to providers. These are identified below.

- AHCCCS would be forced to investigate the failed matches, which would require additional staff, training and data systems improvement.³

² International Biometric Group, Medicaid Integrity Pilot Independent Evaluation Final Report, Update with Extension Phase Deliverables and Materials, V1.1 (New York, November 2005).

³ California's experience provides startling statistics. In California, the State Auditor evaluated California's fingerprint imaging system for TANF, food stamps, and general assistance, and found that in a 31 month period the system identified 25,202 failed or duplicate matches. Of the 18,157 transactions that had a final determination, investigators identified only 45 cases, or 0.2 percent, as fraudulent. The system identified so many transactions that about 3,000 were pending resolution for 100 days or more, and another 1,100 were pending resolution for at least a year. The Auditor questioned whether the system was cost effective for the state in light of the substantial administrative costs of maintaining the system. The only comparable Arizona statistic relates to DES' experience with finger imaging of clients receiving Temporary Assistance for Needy Families (TANF). Out of 708,530 applications, DES found 18 that were fraudulent, which is 0.0025%.

- Anytime medical assistance is denied or not acted upon with reasonable promptness, AHCCCS must provide an opportunity for a fair hearing. Therefore, if providers deny services based on failure to match fingerprint images, the member must be afforded a fair hearing as to that denial.
- If providers are required to deliver services pending investigation, payment to the provider would be substantially delayed.

Thus, the potential fiscal cost to the State of Arizona would be millions of dollars, particularly since the system would be entirely state funded. Moreover, the fiscal impact would not only impact the AHCCCS Administration, but providers as well. Failure to provide timely reimbursement to providers could also impact provider willingness to offer services to AHCCCS members and will contribute to increases in uncompensated care. All of these costs and burdens would be imposed when all the data indicates the current processes are working.

V. Request for Qualifications

A request for qualifications for a fraud protection and identity verification system should include at least the information highlighted below.

- General information: the purpose and objectives of the fraud protection and identity verification system and information about the AHCCCS Administration and its programs.
- Essential contract terms: the contract term, pricing, general contractual terms, legal and regulatory constraints, liquidated damages or bond provisions and a project timeline.
- Systems requirements: collect, store, and transmit data; interface with or use AHCCCS Administration systems (or to build such interfaces); meet reporting requirements; maintain security and integrity of information; maintain and enhance systems; and meet needs associated with continued program growth.
- Quality procedures: plans for internal controls, quality assurance, and procedures for ensuring integrity and security of data and information.
- Standards: performance standards, such as timeliness, recovery rates, and availability; hiring preferences for state employees.
- Staffing requirements: minimum hours of operation and minimum staffing and training.
- Deliverables: systems components, data collection and reporting requirements, customer service, documentation, systems testing and referrals for investigation or prosecution.
- Evaluation: procedures and criteria used in evaluating proposals.

VI. Eligibility Groups and Recommendations

The AHCCCS Administration is required to conduct an evaluation of whether certain eligibility groups or programs may be required to undergo identity verification procedures and a recommendation of which groups or programs should be subject to the procedures.

A. Photographic Identification

The AHCCCS Administration finds that obtaining a photo identification card for most groups (children, elderly, disabled) should not be required. While a small number of groups (e.g., adults in 1931 related groups, Transitional Medical Assistance, and AHCCCS Care) may be required to undergo photographic identity verification, AHCCCS Administration recommends no group be subject to photographic identification requirements for the reasons listed below.

- Applicants for enrollment and re-determination in AHCCCS and KidsCare already are required to provide documentary evidence of citizenship and identity. AHCCCS performs extensive reviews of eligibility determinations and re-determinations to protect program integrity.
- Requiring AHCCCS photo identification cards would add to administrative expenditures and thwart existing gains in streamlining eligibility systems and removing administrative inefficiencies.
- Accurately determining cost effectiveness is not possible because there is no data regarding the extent of imposter fraud in Medicaid or that current procedures are not adequate to address the problem. There is no empirical evidence regarding the impact of photo identification on fraud deterrence.

B. Fingerprint Imaging

The AHCCCS Administration finds that no group or program may be required to undergo fingerprint imaging as a means of identification at eligibility determination or point of service for these reasons:

- Medicaid groups should be excluded. CMS has refused to authorize the use of fingerprint imaging and will not contribute federal matching funds.
- KidsCare should be excluded. Fingerprint imaging systems do not work for children because fingers are smaller so that there is less surface area and because they are continuing to grow, increasing the likelihood of an inaccurate match.
- Healthcare Group should be excluded. Eligibility is determined by insurance brokers, so there is no direct contact with AHCCCS or DES. Also, members are paying for the program costs with premiums.

VII. Identification Procedures Used by Other States

The AHCCCS Administration is required to include a review of the identification procedures used by other states.

- As discussed in Section IV of this report, Texas is the only state that has used fingerprint imaging (or other biometric techniques) and photographic identification in its Medicaid program. The Medicaid Integrity Pilot tests the use of fingerprint imaging at the point of service. Participation in the Texas program is voluntary for both members and providers and has not yet been expanded statewide.
- Pennsylvania and North Carolina planned to implement fingerprint imaging for their Medicaid programs, but these plans are still pending after several years.
- All states, including Arizona, follow eligibility verification and fraud prevention measures as outlined in the federal Deficit Reduction Act of 2005 (DRA). The DRA prohibits federal matching funds for Medicaid services unless all applicants and existing members present satisfactory documentary evidence of citizenship and identity.

VIII. Methodology and processes

In preparing this report, AHCCCS reviewed:

- *State of Arizona Fingerprint Imaging Feasibility Study for AHCCCS Clients* prepared by EDS, under contract with DES, released on January 14, 2000, pursuant to Laws 1999, Ch. 313, § 37. The study performed a cost benefit analysis and provided recommendations regarding the feasibility of requiring certain groups of AHCCCS members to undergo fingerprint imaging and photo identification at application and point of service. AHCCCS files and CMS correspondence regarding implementation of fingerprint imaging system.
- Request for proposals for fraud systems in other states.

- Relevant literature, including evaluations of fingerprint imaging programs in other states.
- Interview with the contractor for AHCCCS membership cards.
- Laws governing biometrics in Medicaid and assistance programs in other states.
- State surveys regarding identity requirements.