

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**CMS'S POLICIES AND PROCEDURES  
WERE GENERALLY EFFECTIVE IN  
ENSURING THAT CAPITATION  
PAYMENTS WERE NOT MADE AFTER  
BENEFICIARIES' DATES OF DEATH**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



Gloria L. Jarmon  
Deputy Inspector General  
for Audit Services

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A-07-16-05087

# *Office of Inspector General*

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## Report in Brief

Date: October 2017

Report No. A-07-16-05087

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Review

The Medicare Access and Children's Health Insurance Program Reauthorization Act of 2015 requires the Centers for Medicare & Medicaid Services (CMS) to establish policies to ensure that payments are not made for Medicare services ostensibly rendered to deceased individuals. Previous OIG reviews have identified these sorts of Medicare payments. Our objective was to determine whether CMS's policies and procedures ensured that capitation payments were not made to Medicare Advantage (MA) organizations for Medicare Parts A and B services on behalf of deceased beneficiaries after the individuals' dates of death.

### How OIG Did This Review

We evaluated the policies and procedures that CMS had in place as of November 2015 to determine whether they were effective in ensuring that these capitation payments to MA organizations for Parts A and B services were not made. We also evaluated the policies and procedures to determine whether they were effective in ensuring that improper payments were identified and recouped. Because recoupment could involve payments made in prior years, we reviewed Medicare payments for calendar years (CYs) 2012 through 2015. MA capitation payments made in this period exceeded \$616 billion.

## CMS's Policies and Procedures Were Generally Effective in Ensuring That Capitation Payments Were Not Made After Beneficiaries' Dates of Death

### What OIG Found

CMS had policies and procedures in place that were generally effective in ensuring that capitation payments to MA organizations for Medicare Parts A and B services were not made on behalf of deceased beneficiaries after the individuals' dates of death. During CYs 2012 through 2015, CMS received updated beneficiary date-of-death information and then made approximately 1.8 million adjustments to capitation payments, thereby recouping \$2.96 billion from MA organizations for Parts A and B capitation payments that had been made for beneficiaries who had died.

CMS did not, however, identify and recoup all improper capitation payments. As of March 7, 2017, CMS had not recouped \$2.4 million associated with 1,817 capitation payments that were made on behalf of 978 beneficiaries. For our audit period, these improper payments represented .0004 percent of the total capitation payments made to MA organizations and .08 percent of the total adjustments that CMS made after receiving information on beneficiaries' dates of death.

### What OIG Recommends and CMS Comments

We recommend that CMS recoup the \$2.4 million in capitation payments made to MA organizations for Medicare Parts A and B services on behalf of deceased beneficiaries and implement system enhancements to identify, adjust, and recoup improper capitation payments in the future.

CMS concurred with both of our recommendations and described corrective actions that it had implemented.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

The Medicare Access and CHIP [Children's Health Insurance Program] Reauthorization Act of 2015 (MACRA), signed into law in April 2015, requires the Centers for Medicare & Medicaid Services (CMS) to establish policies and implement claim edits to ensure that payments are not made for Medicare services ostensibly rendered to deceased individuals.<sup>1</sup> These policies and procedures should include steps to prevent such improper payments from occurring, as well as steps to detect and recoup payments that have been made (including prior-year payments) for Medicare services rendered after the individuals' dates of death. Although the MACRA does not mandate a review of capitation payments made to Medicare Advantage (MA) organizations, we evaluated CMS's policies and procedures and reviewed capitation payments made to MA organizations for Medicare Parts A and B services ostensibly rendered. Previous reviews have identified Medicare payments for services ostensibly rendered to deceased beneficiaries.<sup>2</sup>

### OBJECTIVE

Our objective was to determine whether CMS's policies and procedures ensured that capitation payments were not made to MA organizations for Medicare Parts A and B services on behalf of deceased beneficiaries after the individuals' dates of death.

### BACKGROUND

#### Medicare Advantage Program

The Balanced Budget Act of 1997, P.L. No. 105-33, established Medicare Part C to offer beneficiaries managed care options through the Medicare+Choice program. Section 201 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, revised Medicare Part C and renamed the program the MA program. The law permits beneficiaries to receive health care coverage from MA plans (such as, for example, health maintenance organizations, preferred provider organizations, and provider-sponsored organizations) offered by MA organizations. CMS, which administers the Medicare program, makes monthly capitation payments to MA organizations for beneficiaries enrolled in the MA organizations' health care plans (beneficiaries).

MA organizations use monthly capitation payments to cover services that a beneficiary would receive under Medicare Parts A and B. Medicare Part A provides inpatient hospital insurance

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<sup>1</sup> MACRA, P.L. No. 114-10 § 502, Social Security Act (the Act) § 1874(f).

<sup>2</sup> *Review of Medicare Payments to Managed Care Plans on Behalf of Deceased Enrollees* (A-07-07-01046; Mar. 4, 2009); *Medicare's Policies and Procedures Identified Almost All Improper Claims Submitted for Deceased Individuals and Recouped Almost All Improper Payments Made for These Claims for January 2013 Through October 2015* (A-07-16-05089; Oct. 6, 2016).

benefits and coverage of extended care services for patients after hospital discharge. Medicare Part B provides supplementary medical insurance for medical and other health services, including coverage of hospital outpatient services.

At the beginning of each month, CMS makes a capitation payment to each MA organization to cover any medical services provided to each beneficiary in that month. To calculate a capitation payment, CMS considers each beneficiary's most currently available demographic and health status information. If CMS receives changes to beneficiary information that would alter previous monthly payments, it adjusts the applicable capitation payment. Such adjustments are processed retroactively to the effective date of the change and reported to the MA organizations on monthly payment reports. CMS makes only one capitation payment per month for each Medicare beneficiary.

For our audit period (calendar years (CYs) 2012 through 2015), total Medicare MA program capitation payments exceeded \$616 billion.

### **Medicare Payments on Behalf of Deceased Beneficiaries Under Medicare Part C**

Federal regulations state that an MA organization must disenroll a beneficiary from his or her MA plan if the individual dies (42 CFR § 422.74(b)(2)(iii)). Disenrollment is effective the first day of the calendar month following the month of death (42 CFR § 422.74(d)(6)).

### **Obtaining and Processing Information for Individuals' Dates of Death**

In general, CMS's data systems obtain Medicare beneficiary date-of-death information from the Social Security Administration (SSA), from the Railroad Retirement Board (RRB),<sup>3</sup> or from institutional claims, which is the term used to denote Medicare claims submitted by inpatient hospitals, skilled nursing facilities, hospices, and home health agencies.

When information on a beneficiary's date of death is received, CMS's Medicare Enrollment Database (EDB) and Medicare Beneficiary Database (MBD)<sup>4</sup> are updated through the interfaces discussed below. At that time, the deceased beneficiary is disenrolled from Medicare and payments are automatically stopped or recouped, depending on when the beneficiary died. When a beneficiary is disenrolled during the course of a month, the effective date of the disenrollment is the first day of the next month. Adjustments to the EDB or MBD are reflected in the MA monthly capitation payment.

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<sup>3</sup> The RRB administers the health and welfare provisions of the Railroad Retirement Act, which provides retirement and survivor benefits for eligible railroad employees, their spouses, widows, and other survivors.

<sup>4</sup> The MBD's primary purpose is to provide CMS with a primary, authoritative database of comprehensive data on Medicare beneficiaries to support ongoing and expanded program administration, service delivery modalities, and payment coverage options.

### *Beneficiary Date-of-Death Information in the Enrollment Database*

The EDB is CMS's authoritative source of Medicare entitlement information for all beneficiaries ever entitled to Medicare. The EDB receives daily data updates from SSA. These updates notify CMS when information in a beneficiary's record at SSA changes for certain specified reasons, such as when SSA benefits payments are suspended. When CMS receives data from SSA related to the death of a beneficiary, the data populate the appropriate data fields in the EDB.

### *Medicare Advantage and Prescription Drug System*

The Medicare Advantage and Prescription Drug System (MARx) maintains information as to when Medicare beneficiaries enroll in or disenroll from MA plans and Medicare Part D prescription drug plans. The MARx also contains the related payment history, including adjustments, that shows the specific months for which CMS made payments to private prescription drug plans and MA plans (collectively known as sponsors)<sup>5</sup> for prescription drugs dispensed to beneficiaries. The MARx calculates payments and adjustments and adds or subtracts the net dollar amount to the sponsor's contract total for each month. These totals are subject to change each time a transaction is processed for a contract until the final capitation payment amount for the month is finalized.

### *Processing Date-of-Death Information Obtained From Institutional Claims*

Although most institutional claims submitted for beneficiaries who are enrolled with an MA organization are processed by the organization, it is possible for a beneficiary's institutional claims to be processed by Medicare Part A or Part B as fee-for-service claims if specific criteria are met.

Once the beneficiary's valid date of death is entered in CMS's Common Working File (CWF) from an institutional claim, the EDB is updated to reflect the new information.<sup>6</sup> If information on beneficiary date of death from an institutional claim is available and it differs from the information that CMS has obtained from SSA, CMS uses the date of death from the institutional claim in the EDB.<sup>7</sup>

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<sup>5</sup> Title I of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P.L. No. 108-173 § 101) amended Title XVIII of the Act (§ 1860D-1(a); 42 U.S.C. § 1395w-101(a)) to establish the Voluntary Prescription Drug Benefit Program, known as Medicare Part D. Under Part D, which began January 1, 2006, CMS contracts with sponsors to offer prescription drug benefits to eligible individuals.

<sup>6</sup> The CWF processes all of CMS's fee-for-service claims and, like the EDB, is updated daily.

<sup>7</sup> Every institutional claim submitted to the CWF contains a discharge status code, which indicates the beneficiary's status as of the claim's last date of service. If an institutional claim's discharge status code shows that the beneficiary has died, an edit in the CWF enters the claim's last date of Medicare service as the date of death.



## HOW WE CONDUCTED THIS REVIEW

We evaluated the policies and procedures that CMS had in place as of November 2015 to determine whether they were effective in ensuring that capitation payments for Medicare Parts A and B services were not made on behalf of deceased beneficiaries after the individuals' dates of death. We also evaluated the policies and procedures to determine whether they were effective in ensuring that improper payments were identified and recouped. Because recoupment could involve payments made in prior years, we reviewed Medicare payments for CYs 2012 through 2015. MA capitation payments made in this period exceeded \$616 billion.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

## FINDINGS

CMS had policies and procedures in place that were generally effective in ensuring that capitation payments to MA organizations for Medicare Parts A and B services were not made on behalf of deceased beneficiaries after the individuals' dates of death. These policies and procedures generally ensured that CMS did not make improper capitation payments on behalf of deceased beneficiaries when its data systems (including the EDB and the MARx) indicated at the time of a monthly capitation payment that the beneficiaries in question had died. In addition, during CYs 2012 through 2015, CMS received updated beneficiary date-of-death information (from the EDB, the MARx, or both) and then made 1,799,037 adjustments to capitation payments to MA organizations for Parts A and B services. Through these adjustments, CMS recouped approximately \$2.96 billion based on updated information that beneficiaries, on whose behalf capitation payments had been made, had died.

CMS did not, however, identify and recoup all improper capitation payments. Specifically, as of March 7, 2017, CMS had not recouped \$2,420,761 associated with 1,817 capitation payments that were made on behalf of 978 beneficiaries. For our audit period, these improper payments represented .0004 percent of the total capitation payments made to MA organizations and .08 percent of the total adjustments that CMS made after receiving information on beneficiaries' dates of death.

## FEDERAL REQUIREMENTS

Federal regulations state that an MA organization must disenroll a beneficiary from his or her MA plan if the individual dies (42 CFR § 422.74(b)(2)(iii)).

Federal regulations state: “If the [MA enrollee] dies, disenrollment is effective the first day of the calendar month following the month of death” (42 CFR § 422.74(d)(6)). Therefore, the last allowable payment on behalf of an enrollee who has died is for the month in which that individual died.

## **CMS’S POLICIES AND PROCEDURES WERE GENERALLY EFFECTIVE IN ENSURING THAT CAPITATION PAYMENTS WERE NOT MADE AFTER THE BENEFICIARIES’ DATES OF DEATH**

### **Improper Payments Were Generally Not Made When CMS’s Data Systems Had Beneficiary Date-of-Death Information at the Time of Capitation Payments**

CMS had policies and procedures in place that were generally effective in ensuring that capitation payments to MA organizations for Medicare Parts A and B services were not made on behalf of deceased beneficiaries after the individuals’ dates of death. These policies and procedures generally ensured that CMS did not make improper capitation payments on behalf of deceased beneficiaries when its data systems (including the EDB and the MARx) indicated at the time of a monthly capitation payment that the beneficiaries in question had died.

### **Almost All Improper Capitation Payments Were Adjusted and Recouped After CMS Received Updated Beneficiary Date-of-Death Information**

CMS also had policies and procedures in place to correctly identify, adjust, and recoup improper capitation payments for almost all of the cases in which CMS received updated beneficiary date-of-death information from the EDB, the MARx, or both.

As of March 7, 2017, CMS had received updated beneficiary date-of-death information and then made 1,799,037 adjustments to CYs 2012 through 2015 capitation payments made to MA organizations for Parts A and B services. Through these adjustments, CMS recouped approximately \$2.96 billion in capitation payments made during this timeframe based on updated information that beneficiaries, on whose behalf the payments had been made, had died.

### **Not All Improper Capitation Payments Were Identified and Recouped**

Although CMS’s policies and procedures were generally effective in ensuring that improper capitation payments were not made on behalf of deceased beneficiaries, CMS did not identify and recoup all improper capitation payments. Specifically, while performing our audit we identified \$2,684,521 associated with 2,013 capitation payments that were made on behalf of 1,007 beneficiaries; these capitation payments were made after the beneficiaries’ dates of death.

As part of our audit work, we used data available in the EDB and the MARx to identify potentially improper payments (Appendix A). On September 20, 2016, we provided detailed payment data on the 2,013 capitation payments, totaling \$2,684,521, to CMS for its review.

Based on comments received from CMS and updated data in the EDB and the MARx, we were able to make the following determinations as of March 7, 2017:

- CMS recouped \$3,784 in improper payments (associated with four capitation payments) after obtaining updated date-of-death information for the three deceased beneficiaries on whose behalf these payments had been made.
- Updated date-of-death information revealed that an additional \$259,976, associated with 192 capitation payments, was no longer improper. This amount consisted of:
  - 57 capitation payments made on behalf of 11 beneficiaries, totaling \$32,201, that were not in error because the beneficiaries in question were not deceased, and
  - another 135 capitation payments made on behalf of 15 beneficiaries, totaling \$227,775, were not in error because although these beneficiaries had died, their dates of death were incorrect and were subsequently updated.

After taking these adjustments into account, as of March 7, 2017, the remaining 1,817 capitation payments made on behalf of 978 beneficiaries, totaling \$2,420,761, have not been the subject of updated date-of-death information, have not been adjusted, and have not been recouped by CMS. For our audit period, these improper payments represented .0004 percent of the total capitation payments made to MA organizations and .08 percent of the total adjustments that CMS made after receiving information on beneficiaries' dates of death.

## **CONCLUSION**

During CYs 2012 through 2015, CMS had policies and procedures in place that were generally effective in ensuring that capitation payments to MA organizations for Medicare Parts A and B services were not made on behalf of deceased beneficiaries with dates of service after the individuals' dates of death. On the basis of our review, we identified 1,817 capitation payments for this period in which, according to CMS's data systems, the dates of death preceded the payment dates. Thus, more than 99.99 percent of MA payments during this period were correctly processed insofar as the requirements pertaining to Medicare payments on behalf of deceased individuals are concerned. Moreover, CMS effectively used its adjustment, recoupment, and reconciliation processes to identify and adjust approximately \$2.96 billion for payments that were made on or after the first day of the calendar month following the month of the individual's death. However, these processes did not identify and recoup \$2,420,761 in capitation payments made to MA organizations for Medicare Parts A and B services on behalf of deceased beneficiaries.

## **RECOMMENDATIONS**

We recommend that CMS:

- use the information in this report and the detailed data previously provided to recoup the \$2,420,761 in capitation payments made to MA organizations for Medicare Parts A and B services on behalf of deceased beneficiaries and
- implement system enhancements to identify, adjust, and recoup improper capitation payments in the future.

## **CMS COMMENTS**

In written comments on our draft report, CMS concurred with both of our recommendations and described corrective actions that it had implemented. CMS's comments are included in their entirety as Appendix B.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

We evaluated the policies and procedures that CMS had in place as of November 2015 to determine whether they were effective in ensuring that capitation payments for Medicare Parts A and B services were not made on behalf of deceased beneficiaries after the individuals' dates of death. We also evaluated the policies and procedures to determine whether they were effective in ensuring that improper payments were identified and recouped. Because recoupment could involve payments made in prior years, we reviewed Medicare payments for CYs 2012 through 2015. MA capitation payments made in this period totaled \$616,952,042,872.

We limited our review of internal controls to obtaining an understanding of CMS's process for identifying and recouping improper payments for monthly capitation payments for Parts A and B services on behalf of deceased beneficiaries after the individuals' dates of death.

We performed our audit work from March 2016 to March 2017.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations;
- held discussions with CMS officials to gain an understanding of CMS's policies, procedures, and guidance regarding MA capitation payments, specifically internal controls used to identify payments that involve deceased individuals;
- used computer matching, data mining, and other data analysis techniques to identify payments in which individuals' dates of death preceded the capitation payment dates;
- used beneficiary date-of-death information available in the EDB and the MARx to identify potentially improper capitation payments;
- provided detailed data on 2,013 capitation payments with potentially improper Medicare payments to CMS officials on September 20, 2016; and
- discussed our findings with CMS officials on March 22, 2017.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



## APPENDIX B: CMS COMMENTS


DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

200 Independence Avenue SW  
Washington, DC 20201

**DATE:** August 30, 2017

**TO:** Daniel R. Levinson  
Inspector General

**FROM:** Seema Verma   
Administrator

**SUBJECT:** Office of Inspector General (OIG) Draft Report: CMS's Policies and Procedures Were Generally Effective in Ensuring That Capitation Payments Were Not Made After Beneficiaries' Dates of Death, A-07-16-05087

The Centers for Medicare & Medicaid Services (CMS) appreciates the opportunity to review and comment on the Office of Inspector General's (OIG) draft report. CMS is strongly committed to robust program integrity efforts in Medicare and appreciates OIG's recognition of the success of CMS' efforts to ensure that Medicare Advantage capitation payments are not made for deceased beneficiaries. As OIG notes in its report, more than 99.99 percent of capitation payments made during the audit period were correct.

Medicare Advantage organizations receive monthly capitation payments from CMS to cover Medicare Parts A and B services and supplemental benefits for enrolled beneficiaries. When CMS receives information about a beneficiary's death, CMS enters the date of death into its data systems and disenrolls the beneficiary. The effective date of disenrollment is the first day of the next month after the beneficiary has died. CMS either stops or recoups capitation payments, depending on when it received notice of date of death.

As OIG states in its report, CMS has extensive policies and procedures in place to ensure that capitation payments are not made to Medicare Advantage organizations after a beneficiary's date of death. These procedures include regularly refreshing its data systems to collect updated date of death information and promptly initiating recoupment when these dates are received. Based on updated date of death information, CMS has made nearly 1.8 million adjustments and recouped nearly three billion dollars in capitation payments during the audit period.

OIG's recommendations and CMS' responses are below.

### **OIG Recommendation**

CMS should use the information in this report and the detailed data previously provided to recoup the \$2,420,761 in capitation payments made to Medicare Advantage organizations for Medicare Parts A and B services on behalf of deceased beneficiaries.

**CMS Response**

CMS concurs with this recommendation and has already implemented a system correction that will recoup these payments.

**OIG Recommendation**

CMS should implement system enhancements to identify, adjust, and recoup improper capitation payments in the future.

**CMS Response**

CMS concurs with this recommendation and has already implemented system enhancements that will further reduce the risk of CMS making improper capitation payments for deceased beneficiaries.