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United States Government Accountability Office
Washington, DC 20548

August 27, 2004

The Honorable Steve Buyer
Chairman
Subcommittee on Oversight and Investigations
Committee on Veterans' Affairs
House of Representatives

Dear Mr. Chairman:

This letter responds to your July 29, 2004, request that we provide answers to questions relating to our testimonies at your July 21, 2004, hearing on the Department of Veterans Affairs' (VA) progress in its third party collections program and implementation of the Patient Financial Services System (PFSS). At that hearing we discussed our recently reported findings on VA's third-party collections.¹ Your questions, along with our responses, follow.

- 1. GAO recommended that VA standardize the accounting and reporting of its cost to collect first- and third-party debt. Is there an industry-accepted cost to collect formula or model?*

We are not aware of any such formula or model. As part of our audit work to determine if there is an industry standard, we contacted the Healthcare Financial Management Association. The association comprises about 32,000 healthcare financial management professionals organized to improve financial management of healthcare institutions and related healthcare organizations. According to an official with the association, because business practices differ among entities, there are many variables that entities include in their calculations of the cost for collecting payments from first and third parties. Thus, a comparison of collection efficiency—the cost to collect one dollar—between different entities would be difficult and not particularly meaningful. According to the official, because of the variability there is not one industry-accepted cost to collect formula or model.

¹ U.S. GAO, *VA Health Care: Guidance Needed for Determining the Cost to Collect from Veterans and Private Health Insurers*, GAO-04-938 (Washington, D.C.: July 21, 2004) and U.S. GAO, *VA Medical Centers: Internal Control Weaknesses Impair Third-Party Collections*, GAO-04-967T (Washington, D.C.: July 21, 2004).

2. *Is GAO prescribing a method or endorsing any particular model for accounting for costs to collect?*

Our recommendation is that the Secretary of Veterans Affairs direct the Under Secretary for Health to provide guidance for standardizing and consistently applying across VA the accounting of costs associated with collecting payments from veterans and private health insurers. We are neither prescribing a model or formula, nor suggesting which cost variables should be included in VA's reported costs for collecting first- and third-party payments. This is a determination VA needs to make. Once decided, however, the formula or model should be standardized across all of VA and should be transparent to internal and external stakeholders. Importantly, a standardized cost to collect measure would facilitate comparison of business practice efficiency within the VA.

3. *GAO stated that VA has not provided guidance to standardize the accounting for costs associated with collecting payments from veterans and private health insurers. Does GAO have an assessment of how quickly VA should be able to accomplish this?*

Based on a study performed by a VA workgroup comprised of chief financial officers (CFO) throughout the Veterans Health Administration's (VHA) service networks, a preliminary model of accounting for the costs for collecting first- and third-party payments related to the networks' business practices has been developed. A request for executive approval to implement the model has been submitted by the workgroup to VA's central office. If the central office approves the model, it should be able to immediately provide guidance to the networks for implementing it.

4. *What can be done to increase the speed with which procedures are billed to the appropriate insurers?*

We identified four operational problems affecting billing timeliness including (1) delays in verifying and updating third-party insurance information, (2) incomplete or inaccurate documentation of the patient's treatment by physicians and other health care providers, (3) manual intervention required to process bills, and (4) workload. We believe that by addressing these issues, VA will be able to reduce billing times to third-party insurers. Additionally, during the course of our work we found that VA is continuing to develop the PFSS aimed at streamlining the billing process. Once implemented, the VA expects to reduce billing lag times, increase staff efficiency, and increase collections through this automated billing system. However, this system is behind scheduled implementation and there is no definitive date of rollout and completion.

5. *How are the first-party co-pays handled within the VA compared to the private sector?*

Our audit work did not identify any private sector practice that applies third-party revenue against first-party obligations, as VA does.

6. *Are there procedures or software utilized in the private sector that can be utilized by the VA, and reduce the costs associated with this reimbursement?*

We found that VA's practice of satisfying first-party debt with third-party revenue is a manual, time-intensive process. However, patient accounting software is available that can automate the information VA needs to accomplish this task. VA is in the process of piloting such a system—the PFSS. If the Congress clarifies the pertinent statutory language through legislation that specifically authorizes the use of third-party revenue to satisfy first-party obligations and if PFSS is successful, the system should help reduce the administrative effort spent on the current manual process.

7. *Why are almost none of the costs associated with coding and documentation included in the cost to collect?*

Although the CFO workgroup's recommended model is not yet approved by VA's central office, it includes costs related to coding and documenting the medical care provided. The process of accurately coding and documenting the medical care provided to veterans is necessary for billing health insurers for care related to non service-connected conditions—thus its cost that should be considered for inclusion in VA's cost for collecting calculations. However, coding and documentation is also a quality of care and a resource allocation function. As it relates to all veterans, maintaining diagnostic and treatment records is crucial to managing the care of a veteran over a period of time. Additionally, the Veterans Equitable Resource Allocation model—a national, formula-driven approach that VA uses to allocate most of its resources to its health networks—relies on medical coding of patient workload and health care needs. Since coding and documenting medical care serves these functions within the VA, and is not exclusively for the purpose of billing third parties, VA must decide whether to include these costs or a portion of them.

8. *What is the VA doing to reduce the number of claims sent back to them from the insurance companies for more documentation or other reasons?*

VHA has undertaken several initiatives to reduce the number of claims sent back from third-party insurers for more documentation or other reasons. For example, to reduce the number of claims rejected due to documentation issues, VA, in December 2001, mandated the use of the Computerized Patient Record System and the use of automated claims analyzer and encoder tools. Utilization of electronic encounter² forms and documentation templates have also been mandated to improve documentation of diagnostic codes. VA is also enhancing the Veterans Health Information Systems and Technology Architecture to collect additional data elements, which will improve its ability to correctly bill third-party insurers. VHA is continuing to work on educational programs with utilization review staff related to denials. In October 2003, VA's Employee Education System and VHA's Chief Business Office (CBO) collaborated on a release of a series of web-based training modules to orient new staff and serve as a refresher for experienced staff. The four-course series included the utilization review role in

²An encounter is defined as a single medical treatment.

the revenue cycle, pre-admission and admission process, continued stay review procedures, and the management of disputed denials.

Based on the responses we received from the CBO and the three sites we visited, Cincinnati, Ohio; Tampa, Florida; and Washington, D.C.; VHA does not currently have a system for analyzing the reasons why insurance companies deny claims. However, the CBO is currently developing an enterprise denials management system that will allow the VHA to analyze and address the reasons for claim denials from insurance companies. This program will be piloted beginning in September 2004. A national rollout schedule cannot be developed until a review of the results of the pilot has been performed.

9. What steps has/is VA taking to increase its identification of insurance from eligible patients?

Presently, VHA does not have an agency-wide system to identify third-party insurance information. Also, veterans are not required to provide third-party insurance information. Based on the results of our work, VHA continues to attempt to obtain third-party insurance information from veterans through various avenues such as pre-registration, education, and electronic Insurance Identification and Verification (e-IIV). During the pre-registration process, VHA staff attempt to obtain, verify, and update third-party information from veterans. Through information and education, VHA staff try to overcome veterans' concerns that their insurance premiums will increase if VHA submits bills for medical services rendered. For example, the Tampa medical center mails out an informational brochure prior to scheduled appointments that is geared toward educating the veteran with regard to providing third-party insurance information. The e-IIV project is an electronic tool that enables the medical centers to identify and verify third-party insurers. Officials at the three medical centers that we visited told us that the project was limited in providing verification of insurance coverage due to limited participation of third-party insurers and available information on each insured patient. According to the CBO, since September 2003, e-IIV has returned 102,442 verifications of insurance coverage to VA medical centers that assisted in the collection of approximately \$7.5 million.

10. What is the VA doing to alleviate billing staff shortages?

VHA has entered into an agreement with four vendors to code and assist with billing backlogs. For example, the Washington, D.C. medical center hired a contractor to handle a backlog of 15,000 encounters. According to the medical center revenue officer, the backlog was eliminated in May 2004. In December 2003, VHA was given authority by the Office of Personnel Management to directly hire credentialed coders at industry-compatible salaries. In a July 2004 report we suggested that workload levels might very well be a contributing factor to billing lag times.³ We recommended that VA perform a workload analysis of the medical centers' coding and billing staff and, based on the results, consider making

³ U.S. GAO, VA Medical Centers: *Further Operational Improvements Could Enhance Third-Party Collections*, GAO-04-739 (Washington, D.C.: July 19, 2004).

resource adjustments. VA concurred and is currently developing an action plan to implement these recommendations.

11. What steps are being taken to correct the pursuit of accounts receivable?

VA's Handbook 4800.14, *Medical Care Debts*, and the *Accounts Receivable Third-Party Guidebook*, detail procedures for following up on accounts receivable. We believe that compliance with these procedures along with some additional clarification will enhance the pursuit of third-party receivables. We recommended that VHA reinforce its requirement to perform the first follow-up on unpaid claims within 30 days and its requirement to enter certain pertinent information in its comments section when making follow-up calls to insurance companies. We also recommended that VHA update its policy manual by either specifying a date or providing instructions for determining an appropriate date for conducting second follow-up calls to insurance companies. VA concurred and is currently developing an action plan to implement these recommendations. Additionally, we found that VA is currently piloting the Medicare Remittance Advice project. This project is expected to improve the accuracy of VHA's claims, as it will provide Medicare payment information required by supplemental insurers to determine the correct amounts due to VA. At the time of our testimony, VA expected to begin national rollout in August 2004 with an expected completion date of November 2004.

In responding to these questions, we relied on our recent work related to our review of VHA's cost to collect and internal controls over third-party billings and collections as well as additional inquiries made to respond to these questions. We conducted our work in accordance with generally accepted government auditing standards during August 2004.

Should you or your staff have any questions on matters discussed in this letter, please contact Cynthia A. Bascetta at (202) 512-7101 or bascettac@gao.gov or McCoy Williams at (202) 512-6906 or williamsm1@gao.gov. Major contributors to this letter include Michael T. Blair, Jr., Sharon Loftin, Alana Stanfield, and Michael Tropauer.

Sincerely yours,



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