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Comparison of the Health Care Financing Administration's Medicare Bureau Claims Processing Costs for 1973 and Fiscal Year 1975. HRD-77-139; B-164031(4). December 22, 1977. 10 pp. + 7 appendices (12 pp.).

Report: to Rep. Al Ullman, Chairman, House Committee on Ways and Means; by Elmer B. Staats, Comptroller General.

Issue Area: Health Programs (1200).

Contact: Human Resources Div.

Budget Function: Health: Health Care Services (551).

Organization Concerned: Department of Health, Education, and Welfare; Health Care Financing Administration.

Congressional Relevance: House Committee on Ways and Means; Senate Committee on Finance.

A comparison was made of Government costs for processing Medicare bills for fiscal years (FYs) 1973 and 1975. Findings/Conclusions: The average costs per bill processed by the Division of Direct Reimbursement decreased by about 35% since 1973; they were reduced from \$12.39 in 1973 to \$7.27 in FY 1975. The decrease was primarily caused by: (1) a change in the relative mix of the different types of bills processed; (2) a large increase in bill volume; and (3) improvements in the Division's bill-processing system which resulted in reduced processing times. The total savings exceeded the difference between the 1973 unit cost and the FY 1975 unit cost because salaries and other costs rose during that period. With one exception, the cost per bill processed of the private intermediaries included in a September 1975 report was also reduced although generally to a lesser extent than the Division's reductions. In response to recommendations in a prior report, the Medicare Bureau has taken actions to: report cost data for its intermediary-type function, evaluate the performance of its intermediary function, and develop a methodology to help evaluate intermediaries' performance. (Author/SW)

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***HOUSE OF REPRESENTATIVES
REPORT TO THE
COMMITTEE ON WAYS AND MEANS***

***BY THE COMPTROLLER GENERAL
OF THE UNITED STATES***

**Comparison Of The Health Care
Financing Administration's
Medicare Bureau Claims
Processing Costs For 1973 And
Fiscal Year 1975**

The average cost of a claim processed by the Medicare Bureau in fiscal year 1975 decreased substantially from what it cost in 1973. This was caused primarily by a change in the relative mix of the different types of claims processed, an increase in claim volume, and improvements in the Bureau's claim processing system thus resulting in reduced processing times.





COMPTROLLER GENERAL OF THE UNITED STATES
 WASHINGTON, D.C. 20548

B-164031(4)

The Honorable Al Ullman
 Chairman, Committee on Ways
 and Means
 House of Representatives

Dear Mr. Chairman:

As you requested, we compared the fiscal year 1975 costs of the Government for processing Medicare bills with its costs for calendar year 1973. The 1973 costs were shown in our report to you entitled "Performance of the Social Security Administration Compared with that of Private Fiscal Intermediaries in Dealing with Institutional Providers of Medicare Services," (MWD-76-7, Sept. 30, 1975). 1/

The average costs per bill processed by the Division of Direct Reimbursement had decreased by about 35 percent since 1973. This decrease was primarily caused by (1) a change in the relative mix of the different types of bills processed, (2) a large increase in bill volume, and (3) improvements in the Division's bill-processing system which resulted in reduced processing times. The cost per bill processed for both years is shown below.

Costs for:	<u>Calendar year 1973</u>	<u>Fiscal year 1975</u>
All bills	\$ 9.23	\$ 6.33
All bills, excluding audit costs	7.24	4.60
All bills, excluding magnetic tape bills	15.83	10.08
All bills, excluding tape bills and audit costs	12.39	7.27

1/ In March 1977, the Secretary of Health, Education, and Welfare announced a departmental reorganization which in part removed the functions of the Bureau of Health Insurance from the Social Security Administration and placed them under a new Health Care Financing Administration. Subsequently, the Bureau of Health Insurance, which included the Division of Direct Reimbursement, was renamed the Medicare Bureau.

With one exception, the cost per bill processed of the private intermediaries included in our September 1975 report has also been reduced, although generally to a lesser extent than the Division's reductions.

Also, in response to the recommendations in our prior report, the Medicare Bureau has taken actions to (1) report cost data for its intermediary-type function similar to that of private intermediaries, (2) evaluate the performance of its intermediary function, and (3) develop a methodology to help evaluate intermediaries' performance. However, the Bureau has not developed specific weighting factors to permit better comparisons of intermediaries' costs. These matters are discussed in more detail later in this report.

DIVISION'S BILL-PROCESSING COSTS

In commenting on our prior report, the Department of Health, Education, and Welfare (HEW) stated that it cost \$4.11 to process a bill in fiscal year 1975, as compared to the \$7.24 we reported for 1973. HEW's cost was based on (1) total costs, excluding audit costs, related to its fiscal intermediary-type function of \$4,505,047 and (2) a total of 1,097,362 bills processed.

Our review showed that it cost \$4.60 to process a bill in fiscal year 1975 or \$4,888,184 for 1,062,743 bills processed. A detailed comparison of costs is included as appendix II. Most of the difference between the cost we computed and the cost the Department reported for fiscal year 1975 resulted from inaccurate data submitted to the Division of Direct Reimbursement by Social Security Administration organizations which supported the Division.

The Medicare Bureau agrees with our computation of total cost and the number of bills, so this data is used in the comparisons in this report rather than HEW's.

One element of the Division's operations is unique in comparison to other intermediaries' bill-processing operations: the Division receives about 38 percent of its bills, already on magnetic tape, from a special group of providers.

Magnetic tape bills

The Division is the intermediary for the New York City municipal hospitals but does not process their outpatient bills manually. These bills are transmitted on magnetic

tape directly to the Social Security Administration's Bureau of Data Processing. The volume of these bills increased from 210,000 in 1973 to 408,667 in fiscal year 1975. The total processing costs related to these bills was about \$130,000 or \$0.32 per bill in fiscal year 1975. This resulted in about a \$2-million savings to the Government under what it would cost if the Division received hard copy bills, as it does other outpatient bills. Other intermediaries do not receive bills on magnetic tape 1/ from providers to any appreciable extent.

As discussed in our previous report, we believe that including magnetic tape bills in the Division's average unit-cost computation distorts the inevitable comparisons with other intermediaries. Therefore, our analysis of the reasons for the differences between the Division's 1973 and fiscal year 1975 costs excludes this cost and the related number of tape bills. Also, the unit costs attributable to such bills were so small that they distorted the comparison of total unit costs for the Division between periods.

The average unit-processing cost for the Division's bills rises from \$4.60 to \$7.27 when the magnetic tape bills and their related cost are removed.

Reasons for reduced costs

We analyzed the Division's cost and workload data to determine the reasons for its reduced cost per bill, and attributed the cost reductions to three factors: (1) changes in bill mix or types of bills processed, such as inpatient hospital, outpatient, and skilled nursing facility; (2) reduced processing times resulting from bill-processing improvements, and (3) increased volume.

Due to the many variables involved, we have made the following assumptions in computing the factors affecting the reduction in unit cost.

1/ Some intermediaries do process bills automatically, but they do not receive the bills from the providers on tape. Consequently, time is spent preparing the bills for automatic processing. A further discussion of this topic is contained in our September 1975 report.

- The change in the mix of bills affected only the direct processing cost. 1/
- The change in processing time for each type of bill affected only the direct processing cost.
- The increase in bill volume required a proportionate increase in direct cost but did not affect indirect bill-processing costs.

Due to salary increases and other changes, such as using higher overhead rates since 1973, the Division's costs would have increased by fiscal year 1975 if volume, bill mix, and unit processing times had remained the same as in 1973. We made our computations based on 1975 cost data. Thus, the sum of the reductions in unit cost, which we attribute to changes in volume, bill mix, and unit processing times exceeds the difference between the \$12.39 unit cost, which we computed for 1973, and the \$7.27, which we computed for fiscal year 1975.

Bill mix

The effects of bill mix on an intermediary's average unit cost was discussed in our prior report. In essence, it is recognized that differences in bill mix account, to some extent, for differences in costs between intermediaries. However, no generally accepted methodology or "weighting factor" has been developed to quantify the differences. Because the Social Security Administration had not developed a system for weighting bills, our previous report compared the average unit costs for the Division and four private intermediaries by using a method developed by the Travelers Insurance Company to weight the relative difficulty of processing different types of bills.

In commenting on our prior report, HEW stated that the Social Security Administration did not accept the accuracy of these weighting factors and would continue efforts to develop a methodology for weighting bill mix. In September

1/ We classified the total cost of the Division's Claims Operations Branch and the portion of all other costs which we could attribute to the Claims Operations Branch as direct costs. All remaining Division costs are considered indirect.

1976, the Social Security Administration awarded a contract to do this and other work to aid in the comparative evaluation of intermediary and carrier performance.

To provide a general indication of the relative cost of processing different types of bills, we have weighted the Division's bills based on the actual minutes it took to process each type of bill during fiscal year 1975. (See app. III.)

The Division's total bill volume, excluding magnetic tape bills, more than doubled between 1973 and fiscal year 1975, and its bill mix changed substantially. (See app. IV.) Community health center bills, which accounted for 64 percent of the volume increase, increased from about 14 percent of the Division's workload in 1973 to about 42 percent in fiscal year 1975. Since community health center bills are the quickest to process, the large increase in this type of bill helped to reduce the average unit cost for all types of bills.

We estimate that the change in bill mix accounts for about \$1.31 of the reduction in average unit cost from 1973 to fiscal year 1975.

Bill-processing improvements

The Division implemented a redesigned Medicare claims-processing system in April 1974. The new system resulted in improvements which reduced the unit processing times for most types of bills. Appendix IV shows a comparison of the unit processing times for 1973 and fiscal year 1975.

We estimate that the overall reduction in processing times accounts for about \$1.23 of the reduction in unit cost from 1973 to fiscal year 1975. The three major areas of change which, according to the Division, account for about 90 percent of the decrease in its processing times, were:

--Field correction: All claims are put under electronic control upon entering the system. These claims are then reviewed electronically for errors, such as inconsistent data or duplicate bills. Rejected bills are maintained on an electronic file and can be accessed after they are corrected. Previously, questioned bills were rejected from the system and had to be completely reentered when corrected. The Division stated that field correction

accounted for 45 percent of the decrease in its processing times.

--Electronic screening: Electronic medical screening was established for all bills to permit computer evaluation of medical appropriateness of billed services. All such evaluations were previously done manually. Inpatient hospital bills are processed directly into the system after manually checking and coding for diagnosis and surgical procedures. Home health plans of treatment and skilled nursing facility level of care forms are manually reviewed for medical determinations prior to receipt of the bills. The determinations are then entered into the system to permit electronic screening of the bills when they are received. The Division stated that 30 percent of the decrease in its processing times is attributable to the electronic medical screening process.

--Four-phase system for data entry: This system allows data to be verified at the point of input, permitting immediate correction of errors. The previous method required that claims having errors and rejected from the system be rekeyed completely. The Division stated that implementation of the four-phase system accounted for 15 percent of the decrease in its processing times.

The Division appears to be making additional processing improvements which could further reduce the unit processing times and costs.

Volume increase

The Division's bill volume, excluding magnetic tape bills, increased from 288,660 in 1973 to 654,076 in fiscal year 1975. Assuming that this increase did not require any appreciable change in indirect costs, the volume increase reduced the Division's average unit cost by \$3.43.

It should be noted that the Division's indirect costs increased from \$1,331,124 in 1973 to \$1,769,291 in fiscal year 1975. This change, however, was due mostly to changes in the Social Security Administration's methods of computing overhead and to increases in Federal Government salaries.

PRIVATE INTERMEDIARIES' BILL-PROCESSING COSTS

Costs and other data relating to the private intermediaries discussed in our prior report are contained in appendixes V and VI. This information was obtained from reports prepared by the Social Security Administration, and was not verified by us.

As shown in appendix V, with one exception, the cost per bill for all of these intermediaries was less in fiscal year 1975 than it was in 1973. Also, the number of bills processed by each intermediary increased, although none of the increases approached that of the Division.

Appendix VI shows a comparison of the fiscal year 1975 bill mixes for the Division and the private intermediaries.

RECOMMENDATIONS IN PRIOR REPORT

The following are our previous report's recommendations to the Secretary of Health, Education, and Welfare and their status:

- We recommended that the Division be required to develop and report all relevant costs, including regional office costs, for performing intermediary functions, so that the Bureau of Health Insurance could evaluate the Division's cost effectiveness.

The Secretary of HEW has directed the Division to report its administrative costs quarterly in the same manner that Medicare private intermediaries do. The Division's first quarterly report covered the period July to September of 1976.

- We recommended that the Bureau of Health Insurance continuously evaluate the Division's performance as it does private contract intermediaries.

The Bureau plans to have a regional office perform continuous inspections and prepare annual evaluation reports for the Division similar to those being prepared for other intermediaries. The Bureau's Philadelphia regional office prepared the initial evaluation report covering July 1975 to September 1976.

The regional office evaluated the Division in the seven major elements of its intermediary-type operations. The Division was rated "satisfactory" in three elements, "adequate but needs improvement" in three elements, and "unsatisfactory" in one element. The report contains the Division's comments taking exception to some of the evaluations and stating its corrective actions taken on others. Copies of the evaluation report are available to the public. No decision has been made on which regional office(s) will perform succeeding inspections.

--We recommended that the Bureau of Health Insurance be required to develop weighting factors to recognize the relative difficulty in processing different types of bills, to permit better evaluation of intermediary performance.

The Social Security Administration contracted with a private firm in September 1976 to help in (1) developing weighting factors to determine the relative difficulty in processing different types of bills and (2) determining what techniques can be used to better evaluate intermediaries' and carriers' performance. The contractor developed a statistical technique to evaluate the latter but did not develop weighting factors. However, the contractor pointed out that additional refinement in modeling and in data collection is desirable before implementation.

A Medicare Bureau official stated that the Bureau will refine the methodology and continue efforts to develop weighting factors to determine the relative difficulty in processing different types of bills.

CONCLUSIONS

The Division's average unit cost of processing Medicare bills, excluding audit costs and magnetic tape bills, was reduced from \$12.39 in 1973 to \$7.27 in fiscal year 1975. The following estimated savings were effected:

- A change in the relative mix of bills saved \$1.31.
- Improvements in the claims-processing system resulted in an overall decrease in bill processing times, saving \$1.23.
- The number of bills more than doubled, saving \$3.43.

As stated on page 4, the total savings exceeds the difference between the 1973 unit cost and the fiscal year 1975 unit cost because salaries and other costs had risen during that period.

We have not attempted to make comparisons between the Division's cost and the private intermediaries' costs. We believe that there are several factors related to intermediaries' operations which would have to be considered to attempt to make comparisons of their performance on the basis of average unit cost. These factors include: bill volume, bill mix, processing methodologies, processing quality, and location of providers with respect to their intermediary. Serving only one State or region may be less expensive than operating a regional network nationwide. To date, no methodology has been fully developed which allows cost comparisons considering all of these factors.

The Medicare Bureau is currently studying new methods of evaluating intermediary performance. The results of this work should assist the Bureau and other interested parties in comparing intermediaries in the future.

HEW COMMENTS AND OUR EVALUATION

HEW disagrees with our presentation when it excludes magnetic tape bills from the Division of Direct Reimbursement's average unit cost of processing Medicare bills. (See app. VII.)

Our rationale for showing the presentation with and without magnetic tape bills is included in the "Magnetic tape bills" section of this report. (See pp. 2 and 3.) We believe that, although we are not making comparisons between the Division and the private fiscal intermediaries, such comparisons are inevitable. Consequently, not to disclose this unique element of the Division's operations and the impact on the average unit cost would be misleading. We have also enumerated various other limitations to comparing intermediaries' costs. In addition, the report recognizes that the automated processing of bills results in savings to the Government compared to what it would cost if the Division had to process them manually.

HEW pointed out that our analysis attributed the largest part of the Division's average unit cost reduction to bill volume increase and stated:

"* * * This is based on the assumption that the increase did not require an appreciable change in indirect cost and that the direct costs did not increase in proportion to the volume increase. However, had DDR [Division of Direct Reimbursement] not instituted the systems improvements, described in the audit report, the direct costs would have had to increase in proportion to the volume increase to enable DDR to fulfill its responsibility."

Our computations assume that total direct costs would have increased in direct proportion to the volume increase if the Division had not made any bill processing improvements. On page 5 we explain the reduction of \$1.23 in the direct unit-processing cost that resulted from the Division's bill processing improvements. We assumed that these improvements did not affect indirect costs.

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We trust the above information satisfies the purpose of your request.

As arranged with your office, we are sending copies to the Chairman of the Senate Finance Committee and to Senators Nunn and Packwood. We will distribute copies of this report to other interested parties 2 days after the date of the report.

Sincerely yours,



Comptroller General
of the United States

NINETY-FOURTH CONGRESS

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COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C. 20515

TELEPHONE (202) 225-3635

November 18, 1975

JOHN M. MARTIN, JR., CHIEF COUNSEL
 J. P. BAKER, ASSISTANT CHIEF COUNSEL
 JOHN K. MESSNER, MINORITY COUNSEL

The Honorable Elmer B. Staats
 Comptroller General of the
 United States
 441 G Street, N. W.
 Washington, D. C. 20548

Dear Mr. Staats:

Your recent report on the "Performance of the Social Security Administration compared with that of Private Fiscal Intermediaries in dealing with Institutional Providers of Medicare Services" has created considerable public interest. More interest can be expected as national health insurance proposals are considered and because of the general interest in the efficiency of programs conducted by the government versus the private sector.

In view of the substantial improvements in performance claimed for the Social Security Administration's Division of Direct Reimbursement since the period covered by your report, I believe it would be desirable for the General Accounting Office to study the Division's performance for fiscal year 1975.

Your study should be directed toward analyzing the extent of and reasons for the significant change in the cost per bill processed by the Division from 1973 to fiscal year 1975. It will not be necessary to evaluate the qualitative aspects of performance or to analyze in detail the costs of private intermediaries. However, we would like your office to compare the types of bills processed by the Division with the types of bills processed by other intermediaries.

The Honorable Elmer B. Staats
November 18, 1975
Page two

Your cooperation in this matter will be greatly appreciated. Please keep me advised as the study progresses.

Sincerely,

Al Ullman
Al Ullman
Chairman

AU/fv

Forward for Divisional Control to MWD	
Advance Copy to:	
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SPECIAL INSTRUCTIONS	
By: <i>[Signature]</i>	Date: 11-25-75

THE DIVISION OF DIRECT REIMBURSEMENT INTERMEDIARY
ADMINISTRATIVE COSTS FOR FISCAL YEAR 1975

	<u>Actual costs</u>	<u>Social Security Administration reported costs</u>
Total Division of Direct Reimbursement Salaries and Benefits	\$4,683,147	\$4,679,000
Travel and transportation	86,861	67,000
Rents, communications, and utilities	3,943	10,000
Other support services	27,686	27,000
Supplies and materials	1,637	2,000
Equipment	22,913	23,000
Medical consultants fees	53,765	47,000
Miscellaneous contract costs	5,085	-
Printing	76,553	76,000
Division of Management	205,170	186,000
Staff development	25,056	25,000
Social Security Administration overhead	778,772	771,300
Bureau of Data Processing services	599,850	481,300
Postal fees	86,298	56,000
Treasury fees	3,575	3,000
Audit contract costs	467,602	462,000
Regional office costs	845,460	710,367
Community health centers cost	<u>145,647</u>	<u>118,000</u>
	<u>3,435,874</u>	<u>3,066,142</u>
Division of Direct Reimbursement Administrative Costs	<u>8,119,021</u>	<u>7,745,142</u>
Cost of renal branch	413,049	452,597
Nonintermediary costs	289,811	286,137
Cost of carrier functions	<u>687,950</u>	<u>763,936</u>
	<u>-1,390,810</u>	<u>-1,502,670</u>
Administration cost, including audit	<u>6,728,211</u>	<u>6,242,472</u>
Audit costs	<u>-1,840,027</u>	<u>-1,737,425</u>
Administrative cost, excluding audit	<u>\$4,888,184</u>	<u>\$4,505,047</u>

DIVISION OF DIRECT REIMBURSEMENT BILL-PROCESSING COSTS
FOR FISCAL YEAR 1975 WEIGHTED BY UNIT PROCESSING TIMES

<u>Bill type</u>	<u>Bill volume</u> (note a)	<u>Unit processing times</u> (minutes)	<u>Estimated weighted cost</u> (note b)	<u>Estimated unit cost</u>
Inpatient hospital	149,134	40.8	\$1,490,950	\$10.00
Inpatient skilled nursing facility	22,410	75.9	364,623	16.27
Home health agency	97,774	38.4	935,383	9.57
Outpatient	109,705	16.4	618,376	5.64
Community health center	<u>275,053</u>	12.3	<u>1,348,679</u>	4.90
Total	<u>654,076</u>	-	<u>\$4,758,011</u>	7.27

a/Excluding magnetic tape bills.

b/Excluding magnetic tape and audit costs.

DIVISION OF DIRECT REIMBURSEMENT
VOLUME AND UNIT PROCESSING TIMES

<u>Bill type</u>	<u>Volume</u>		<u>Unit processing time</u>			
	<u>1973</u>	<u>Fiscal year 1975</u>	<u>1973</u>	<u>Fiscal year 1975</u>		
		<u>Increase</u>		<u>Change</u>		
Inpatient hospital	110,001	149,134	39,133	56.5	40.8	-15.7
Inpatient skilled nursing facility	15,061	22,410	7,349	59.8	75.9	+16.1
Home health agency	50,332	97,774	47,442	45.7	38.4	-7.3
Outpatient	73,377	109,705	36,328	19.8	16.4	-3.4
Community health center	39,889	275,053	235,164	15.6	12.3	-3.3
Total (excluding magnetic tape)	288,660	654,076	365,416			
Magnetic tape	210,000	408,667	198,667			
Total	498,660	1,062,743	564,083			

PERCENT OF BILLS PROCESSED IN FISCAL YEAR 1975
BY TYPE FOR THE DIVISION OF DIRECT REIMBURSEMENT
AND THE FISCAL INTERMEDIARIES INCLUDED

IN OUR REPORT ON 1973 COSTS

<u>Intermediary</u>	<u>Inpatient hospital</u>	<u>Inpatient skilled nursing facility</u>	<u>Home health agency</u>	<u>Outpatient</u>	<u>Other (note a)</u>	<u>Total</u>
Division of Direct Reimbursement:						
Including tape bills	14.03	2.11	9.20	b/74.66	-	100
Excluding tape bills	22.80	3.43	14.95	b/58.82	-	100
Travelers Insurance Company	28.98	27.96	3.78	28.54	10.74	100
Mutual of Omaha Insurance Company	21.12	31.96	13.08	25.89	7.95	100
Maryland Blue Cross Plan	23.60	0.92	5.71	68.96	0.81	100
Chicago Blue Cross Plan	37.55	0.42	4.87	57.16	-	100

a/Inpatient services paid under Medicare part B due to nonentitlement or exhaustion of benefit days under part A.

b/Includes community health center bills.



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20001

SEP 12 1977

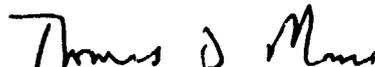
Mr. Gregory J. Ahart
Director, Human Resources
Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on our draft report entitled, "Comparison of the Health Care Financing Administration's Bureau of Health Insurance Claims Processing Costs for 1973 and Fiscal Year 1975." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,


Thomas D. Morris
Inspector General

Enclosure

[GAO note 1, p. 12.]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
COMMENTS ON A GAO DRAFT AUDIT REPORT ENTITLED,
"COMPARISON OF THE HEALTH CARE FINANCING ADMINISTRATION'S
MEDICARE BUREAU CLAIMS PROCESSING COSTS FOR 1973 AND
FISCAL YEAR 1975"

In attempting to compare the Division of Direct Reimbursement (DDR) to other intermediaries, the report states, "In the absence of accepted weighting factors for an intermediary's billing mix, we are not attempting to draw conclusions based on the differences in the intermediaries' average unit costs." (Page 9). The report goes on to state, "We believe that differences in the bill mix and volume make comparisons of intermediary performance on the basis of average unit costs of limited value." (Page 9). We wholeheartedly agree with these statements. Additionally, unless the quality of the bill processing systems of DDR and the other intermediaries is addressed, the cost figures by themselves are of limited or no value and are potentially misleading. We are, therefore, deeply concerned that, even though the report recognizes the futility of trying to make meaningful comparisons given the above and similar variables, it nevertheless proceeds to present such comparisons after giving extensive recognition to one variable, i.e., "magnetic tape billing."

We consider such emphasis totally inappropriate since it tends to give the impression that once the magnetic tape processing has been eliminated from the computation of DDR cost a meaningful comparison can be made.

Obviously no meaningful comparison of intermediaries based on average bill processing cost can be made at this time. However, the improvement in DDR's performance between 1973 and 1975, as reflected by the report, is highly significant. The report shows that there has been a 36 percent decrease in DDR's average bill processing cost between these two periods. This is the only valid comparison that can be drawn from this audit report.

In 1966, when DDR was established and became operational, its bill processing system was almost entirely manual. Over a period of several years some limited electronic data processing (EDP) was introduced. During 1971, it became obvious that increased speed, accuracy, and cost efficiency of processing could only be achieved by converting the bill processing system from a principally manual operation to a principally automated one. In addition, a continuing increase in the number of bills to be processed was

anticipated and it was determined that it would be extremely difficult and costly, if not impossible, to meet the anticipated volume utilizing the manual system. Therefore, in the latter part of 1971, the Division embarked on a major program to emphasize automated data processing and reduce to the extent possible manual involvement. This program was initiated in two phases. First, in 1974, we instituted a major redesign of our claims processing system, as described in the audit report, which greatly increased automated processing and decreased manual processing. Second, we instituted an ongoing program for the development and implementation of the automatic data processing refinements necessary to meet the anticipated increased production demands. The result of this emphasis can clearly be seen in the 36 percent decrease in the average cost per bill between 1973 and 1975.

At the time the 1975 audit was performed, DDR's ability to accept billings from its providers on magnetic tape instead of receiving paper billings was principally being used with the New York City hospitals. The continued development of this capability has led to increased implementation of this type of billing. For example, DDR recently began magnetic tape billing with a number of home health agencies in Florida and California, and is currently working with other hospitals to develop their capability to interface with DDR's system. This growth potential is only limited by the level of sophistication of the health facilities.

We believe it is totally inappropriate to eliminate a sophisticated and extremely important facet of DDR's operation in order to develop a purported basis for comparing the remaining part of DDR's operation to other intermediaries, which the report clearly recognizes as a totally futile effort while at the same time attempting to perform such an effort. This presentation penalizes DDR for being innovative and progressive in its method of operation. The material decrease in average processing cost that DDR achieved in a relatively short period of time is the result of DDR's shift in emphasis from manual to automated data processing. For this reason, the analysis of the reasons for reducing cost should only deal with the reduction from the average cost of all bills (excluding audit costs) for 1973 of \$7.24 to the cost of all bills (excluding audit costs) for 1975 of \$4.60, and we would urge that all references in the report to the deletion of tape billings in the computation of average cost be deleted.

If comparisons must be drawn between DDR and other intermediaries, it would be much more valid to compare the

relative improvement demonstrated by DDR and the other intermediaries during the same period. A comparison of this type based on Appendix 4 of the audit report follows.

<u>Intermediary</u>	<u>Percent Increase In Bills Processed From '73 to '75</u>	<u>Percent Reduction In Unit Processing Cost From '73 to '75</u>	<u>Volume/ Unit Cost Reduction Factor *</u>
Div. of Dir. Reimb.	113	36	32%
Travelers Ins. Co.	29	5	18%
Mutual of Omaha	79	19	24%
Maryland BC	25	(6)**	(24%)
Chicago BC	22	2	9%

* Ratio computed by dividing percent of decrease (increase) in average bill processing cost by the percent of increase in the number of bills processed.

** Represents increase in cost per bill.

Additional, more specific comments regarding the report are as follows:

1. [GAO note 2, p. 12.]

2. Page 6, last paragraph: This paragraph attributes the largest part of DDR's average unit cost reduction to bill volume increase. This is based on the assumption that the increase did not require an appreciable change in indirect cost and that the direct costs did not increase in proportion to the volume increase. However, had DDR not instituted the systems improvements, described in the audit report, the direct costs would have had to increase in proportion to the volume increase to enable DDR to fulfill its responsibility. [GAO note 1, p. 12.]

3. [GAO note 2, p. 12.]

of intermediary performance of limited value. We believe that processing methodologies and quality are also important and should be highlighted along with bill mix and volume.

GAO note 1: Page references in this appendix have been changed to reflect the page numbers in this report.

GAO note 2: Deleted comment relating to matters discussed in the draft report which were revised for the final report.