VA HEALTH CARE

Guidance Needed for Determining the Cost to Collect from Veterans and Private Health Insurers
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Guidance Needed for Determining the Cost to Collect from Veterans and Private Health Insurers

What GAO Found

VA has not provided guidance to its Chief Business Office and Veterans Integrated Service Networks (VISN) for accounting for the costs associated with collecting payments from veterans and private health insurers. As a result, GAO found that the Chief Business Office and VISNs excluded some costs associated with collecting first- and third-party payments. In addition, GAO found inconsistencies in the way VISNs allocate these costs. Consequently, VA's reported costs to collect are inaccurate.

Inconsistencies in VISN Allocation of Costs by Revenue Cycle Activity, May 2004

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- ✔ All costs for activity allocated to field office cost center
- ⊗ Some costs for activity allocated to field office cost center
- ● No costs for activity allocated to field office cost center

Source: GAO analysis of VA VISN data.

VA's practice of satisfying—or paying for—first-party, or veterans’ copayment debt, with collections from third-party insurers has resulted in a reduction in overall collections and increased administrative expenses due to the reconciliation process. VA has taken the position that payments made from third-party insurers should be used to satisfy veterans’ first-party debt. The law and legislative history are not clear on whether third-party collections can be used for this purpose.

Why GAO Did This Study

During a May 2003 subcommittee hearing, questions were raised about the accuracy of the Department of Veterans Affairs’ (VA) reported costs for collecting payments from veterans and private health insurers for its Medical Care Collections Fund (MCCF). The subcommittee also had questions about VA's practice of using third-party collections to satisfy veterans' first-party debt. GAO's objectives were to determine: (1) the accuracy of VA’s reported cost for collecting first- and third-party payments from veterans and private health insurers, and (2) how VA’s practice of satisfying first-party debt with third-party payments affects the collections process.

What GAO Recommends

GAO recommends that the Secretary provide guidance for standardizing and consistently applying across VA the accounting of costs associated with collecting payments from veterans and private health insurers. GAO believes its previous suggestion to Congress—that it consider clarifying the cost recovery provisions of title 38 of the U.S. Code to direct VA to collect copayments from patients regardless of any amounts recovered from private health insurance except in instances where the insurer pays the full cost of VA care—is still valid. In commenting on a draft of this report, VA concurred with our recommendation.


To view the full product, including the scope and methodology, click on the link above. For more information, contact Cynthia A. Bascetta at (202) 512-7101.
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Abbreviations

MCCF  Medical Care Collections Fund
PFSS  Patient Financial Services System
VA    Department of Veterans Affairs
VISN  Veterans Integrated Service Network

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July 21, 2004

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

Dear Mr. Chairman:  

The Department of Veterans Affairs (VA) pays and provides for the service-connected and nonservice-connected health care needs of eligible veterans. In general, for nonservice-connected care, that is, for disabilities that are not a result of injuries or illnesses incurred or aggravated during military service, VA bills and collects copayments from veterans. Additionally, some veterans maintain other health insurance and VA bills and collects funds from these insurers for nonservice-connected care. Health care costs recovered from veterans (first-party collections) and insurers (third-party collections) totaled about $682 million and $804 million, respectively, in fiscal year 2003. These payments were VA’s largest source of revenue to supplement its $25.5 billion medical care appropriation in that year.

During your May 2003 hearing on VA’s third-party collection efforts you expressed concern about the accuracy of reported costs for collecting payments from veterans and private health insurers for VA’s Medical Care Collections Fund (MCCF). You also had questions about VA’s practice of using third-party collections to satisfy—or pay for—a veteran’s first-party debt. Our objectives were to determine: (1) the accuracy of VA’s reported cost for collecting first- and third-party payments from veterans and private health insurers, and (2) how VA’s practice of satisfying first-party debt with third-party payments affects the collections process.

1The Balanced Budget Act of 1997 established VA’s Medical Care Collections Fund. The fund includes veteran copayments, payments from third parties, and other funds collected in connection with the provision of care, services, or medications to veterans. Such funds may be used to provide additional care and services to veterans and to pay for costs related to the identification, billing, auditing, and collection of amounts owed for medical care and services. See 38 U.S.C. §1729A(2000).
To conduct our review, we examined VA’s collections data for fiscal year 2003; reviewed relevant VA documents, such as MCCF organizational and flow charts; interviewed financial officers for large private sector hospital systems; and consulted with the Healthcare Financial Management Association to identify industry practices for calculating the cost for collecting first- and third-party payments. We also interviewed officials in VA’s central office and all of its Veteran Integrated Service Networks (VISN) to better understand the resources expended to collect first- and third-party revenue and the use of third-party revenue to satisfy first-party debt. Our work was performed from June 2003 through June 2004 in accordance with generally accepted government auditing standards. For more details on our scope and methodology, see appendix I.

VA’s reported cost for collecting first- and third-party payments is inaccurate. VA has not provided guidance to its VISNs for accounting for the costs associated with collecting payments from veterans and private health insurers. As a result, we found inconsistencies in the way VISNs allocate these costs, which have led in some cases to the exclusion of costs in VA’s reported cost to collect first- and third-party payments. For example, VISN 2’s (Albany, New York) estimated $470,000 contract for collecting third-party payments is not included in VA’s reported cost. Also not included in VA’s reported cost is $635,000 incurred by VISN 8 (Bay Pines, Florida) to assist veterans with questions about bills they receive and, if necessary, the arrangement of payment plans.

VA’s practice of satisfying first-party debt with collections from third-party insurers has resulted in reduced overall collections and increased administrative expenses due to the reconciliation process. VA has taken the position that payments made by third-party insurers should be used to satisfy veterans’ copayment debt. However, the law and the relevant legislative history are not clear on whether third-party collections can be used for this purpose. Consequently, we believe that that the action we previously suggested to Congress—that it consider clarifying the cost-recovery provisions of title 38 of the U.S. Code to direct VA to collect copayments from patients regardless of any amounts recovered from private health insurance except in instances where the insurer pays the full cost of VA care—is still valid. We are also making a recommendation

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2 The management of VA’s 158 hospitals and other health care facilities is decentralized to 21 regional networks referred to as Veterans Integrated Service Networks.
to improve VA’s process for accounting for its cost for collecting first- and third-party payments. In commenting on a draft of this report, VA concurred with our recommendation.

Background

VA operates one of the nation’s largest health care systems to provide care to approximately 5.2 million veterans who receive health care through 158 VA medical centers (VAMC) and almost 900 outpatient clinics nationwide. The VA health care system also consists of nursing homes, residential rehabilitation treatment programs, and readjustment counseling centers.

In 1986 Congress authorized VA to collect payments from third-party health insurers for the treatment of veterans with nonservice-connected disabilities, and it also established copayments from veterans for this care. Funds collected were deposited into the U.S. Treasury as miscellaneous receipts and were not made specifically available to VA to supplement its medical care appropriations. The Balanced Budget Act of 1997 established a new fund in the U.S. Treasury, the Department of Veterans Affairs Medical Care Collections Fund, and authorized VA to use funds in this account to supplement its medical care appropriations. As part of VA’s 1997 strategic plan, VA expected that collections from first- and third-party payments would cover the majority of the cost of care provided to veterans for nonservice-connected disabilities. VA has determined that some of these veterans, about 25 percent of VA’s user population in fiscal year 2002, were required to pay a copayment because of their income levels.

In September 1999, VA adopted a fee schedule, called “reasonable charges,” which are itemized fees based on diagnoses and procedures. This schedule allows VA to more accurately bill for the care provided. To implement this, VA created additional bill-processing functions—particularly in the areas of documenting care, coding the care, and processing bills for each episode of care.

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5VA uses a financial means test that examines the income and net worth of the veteran to determine ability and requirement to pay copayments.
To collect from health insurers, VA uses a four-function process with 13 activities to manage the information needed to bill and collect third-party payments—also known as the MCCF revenue cycle (see fig. 1). First, the intake revenue cycle function involves gathering insurance information on the patient and verifying that information with the insurer as well as collecting demographic data on the veteran. Second, the utilization review function involves precertification of care in compliance with the veteran’s insurance policy, including continued stay reviews to obtain authorization from third-party insurers for payment. Third, the billing function involves properly documenting the health care provided to patients by physicians and other health care providers. Based on the physician documentation, the diagnoses and medical procedures performed are coded. VA then creates and sends bills to insurers based on the insurance and coding information obtained. Finally, the collections, or accounts receivable, function includes processing payments from insurers and following up on outstanding or denied bills. See appendix II for a description of the activities that take place within each of the four functions.
Figure 1: VA’s MCCF Revenue Cycle for Third-Party Collections

I. Intake

1. Patient registration

2. Insurance identification

3. Insurance verification

II. Utilization review

4. Precertification and certification

5. Continued stay reviews

III. Billing

6. Coding and documentation

7. Bill creation

8. Claims correspondence and inquiries

IV. Collections

9. Establishment of receivables

10. Payment processing

11. Collection correspondence and inquiries

12. Referral of indigentness

13. Appeals

Source: VA.

*Reviewing clinical information and obtaining payment authorization from third-party insurer for continuation of care.

*Reviewing outstanding claims sent to third-party insurers and identifying amount of payment due to VA for collection follow-up work.

*Referring delinquent first-party debt to the U.S. Treasury for collection against any future government payment to the veteran, such as reducing an income tax refund by the amount of the first-party debt.

*Receiving notification of partial or nonpayment from the third-party insurer, reviewing documentation, initiating an appeal to the third-party insurer for payment, and following up for appropriate payment.

VA’s Chief Business Office utilizes a performance measure—an efficiency rating it refers to as “cost to collect”—that reflects VA’s cost to collect one dollar from first- and third-parties. To calculate the efficiency rating VA divides the costs of generating a bill and collecting payments from veterans and private health insurers by the actual revenue received from these sources. To measure the cost, cost data are extracted from two

*The Chief Business Office was established in May 2002 to provide guidance for VA’s collection activity.
financial accounts, or cost centers, which are intended to capture field office costs and central office costs. Specifically, cost centers are used for classifying costs related to each of the 13 functional activities and the organizations that support these activities.

According to an official with the Healthcare Financial Management Association, because business practices differ among entities, there are many variables that entities include in their calculations of the cost for collecting funds from first and third parties. Thus, a comparison of collection efficiency—the cost to collect one dollar—between different entities would be difficult. However, according to the official, it is reasonable to expect that business practices within the same organization such as the VA can be standardized, which would facilitate such a comparison internally.

The VA health care system has unique rules and regulations governing its billing practices. For instance, VA is generally not authorized to bill Medicare or Medicaid for care provided to Medicare- or Medicaid-eligible veterans. VA must pay for all inpatient and outpatient care associated with a service-connected disability—it cannot collect copayments or bill third-party insurers for this care.

VA uses third-party collections to satisfy veterans’ first-party debt. Specifically, if VA treats an insured veteran for a nonservice-connected disability, and the veteran is also determined by VA to have copayment responsibilities, VA will apply each dollar collected from the insurer to satisfy the veteran’s copayment debt related to that treatment. As we

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7The specific cost centers that the Chief Business Office uses in its cost model are stated in VA Handbook 4671.1 as MCCF Field Stations and CBO-Business Policy. In this report we refer to the MCCF Field Stations cost center as the field office cost center and the CBO-Business Policy cost center as the central office cost center.

8The association comprises about 32,000 healthcare financial management professionals organized to improve financial management of healthcare institutions and related healthcare organizations. Its goals include increasing knowledge in financial management, establishing and promulgating principles relative to financial management, and promoting and encouraging financial management standards of performance for individuals and institutions in the various areas of financial management.

9Among the veterans receiving this benefit are certain veterans who, according to the VA, are capable of satisfying their copayment obligations.
stated in a previous report to Congress, the statutes governing VA recoveries from private health insurers and veteran copayments do not clearly specify the relationship between the two provisions. In the absence of definitive guidance in the law, VA’s General Counsel has determined that insurance recoveries should be used to satisfy veterans’ copayment debt. The law and the relevant legislative history are not clear on whether third-party collections can be used for this purpose.

VA has not provided guidance to the Chief Business Office or VISNs for accounting for the costs associated with collecting payments from veterans and private health insurers. As a result, we found that VA’s Chief Business Office and VISNs did not allocate certain costs associated with activities related to collecting first- and third-party payments to the two cost centers used in the calculation of cost to collect. In addition, we found inconsistencies in the way VISNs allocated these costs to the field office cost center. Consequently, reported costs to collect are inaccurate.

We found that some costs incurred by VA’s central office as part of its efforts for collecting first- and third-party payments were not allocated to the central office cost center. For example, the following activities are costs incurred by organizations that support the Chief Business Office, but are not included in the central office cost center:

- Staff at the Health Eligibility Center spend a portion of their time determining veterans’ copayment status.
- Staff at the Health Revenue Center processed first-party refunds resulting from a settlement with a third-party payer regarding claims submitted from January 1995 through December 2001. VA reported that about 15 full-time staff members are dedicated to this effort.
- Staff assigned to Health Informatics assisted with contractor-developed software to review third-party claims for accuracy.

Some costs incurred by field locations also were not always allocated to the field office cost center. Cost allocation differences occur because VA


11While we found costs that were excluded from the calculation, there could be costs that were allocated to the two cost centers that are not associated with collecting first- and third-party payments.
does not provide guidance to its field locations on which costs to allocate to specific cost centers. Thus, each of VA’s health care VISNs makes a determination as to which cost center to use when allocating costs for specific revenue cycle functions—such as patient intake and registration and utilization review. Figure 2 shows inconsistencies among VISNs in the way they allocate costs to some of the activities within the revenue cycle functions. For example, for precertification and certification activities within the utilization review function, 13 VISNs allocated all of the cost, 3 VISNs allocated some costs, and 5 VISNs allocated none of the cost to the field office cost center. In addition, the following are examples of costs that are related to collection activities but were not included in the costs for collecting payments:

- A veteran call center in VISN 8 (Bay Pines, Florida)—staffing resources valued at about $635,000 designed to assist veterans with questions about bills they receive and, if necessary, the arrangement of payment plans.\(^\text{12}\)
- Two service contracts in VISN 2 (Albany, New York)—approximately $470,000 in contract expenses for collecting third-party payments and a service contract estimated at $104,000 for insurance verification.
- Two service contracts in VISN 10 (Cincinnati, Ohio)—approximately $100,000 in contract expenses to use a software package that reviews claims sent to third-party insurers for technical accuracy. Also not included was an estimated $425,000 to license the use of insurance identification and verification software.

\(^{12}\)At the time of our review, this cost was allocated to a cost center other than the one used by the Chief Business Office in its calculation for the field cost center, entitled “Miscellaneous Benefits and Services, Administrative Programs.” VA Handbook 4671.1, January 16, 2003.
**Figure 2: Inconsistencies in VISN Allocation of Costs to the Field Office Cost Center for Selected Revenue Cycle Activities, May 2004**

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- ● All costs for activity allocated to field office cost center
- ○ Some costs for activity allocated to field office cost center
- ○ No costs for activity allocated to field office cost center

Source: GAO analysis of VA VISN data.
In an attempt to standardize how MCCF staff carry out the revenue cycle functions and to instill fiscal discipline throughout its entire health system, VA is piloting the Patient Financial Services System (PFSS) in VISN 10 (Cincinnati, Ohio). PFSS is a financial software package that contains individual patient accounts for billing purposes. According to the Chief Business Office, the system is a key element to standardize MCCF operations throughout the entire VA health care system. PFSS is expected to improve first- and third-party collections by capturing and consolidating inpatient and outpatient billing information. However, PFSS is not currently designed to capture the cost of staff time for these activities—a key element for assessing the efficiency of VA’s collection efforts.

VA’s practice of satisfying veterans’ copayment debt with collections from third-party insurers has reduced overall collections and increased administrative expenses. VA does not quantify the lost revenue from veterans’ copayments that is not collected and could be used to supplement its medical care appropriation. Based on interviews with network officials and site visits to individual medical facilities, we did not discover any locations that track the volume of first-party debt that is not collected and its relative dollar value. Hence, the exact dollar value of first-party revenue that was not collected is unknown.

Seventeen of the 21 network officials we interviewed stated that considerable administrative time is dedicated to the process required to satisfy first-party debt with third-party collections—resources that could be invested elsewhere if the practice did not exist. One facility official estimated that approximately 5 full-time equivalent staff are used to satisfy first-party debt. Furthermore, one VISN official estimated that its medical facilities use approximately 11 full-time equivalent staff on this process.

Collections staff routinely receive insurance payments that include voluminous reports that detail each claim. For example, one medical center provided us with a report that contained approximately 1,000 line items, each representing a pharmaceutical reimbursement. Staff at the medical center must sort through each line item and manually match it to a claim in the veteran’s file to determine if the veteran was charged a copayment for the pharmaceutical. In those cases where VA receives a reimbursement and the veteran was charged a copayment, VA will issue a credit or refund to the veteran—in the case of pharmaceuticals this amount can be up to $7.
VA will delay billing copayments to veterans with private health insurance for 90 days to allow time for the insurer to reimburse VA. However, when insurers reimburse VA after the 90-day period, VA must absorb the cost of additional staff time for processing a refund if the veteran has already paid the bill.

In our 1997 report, we discussed that VA’s practice of satisfying copayment debt with recoveries made from third-party insurers has resulted in reduced overall cost recoveries and increased administrative expense. In the report we suggested that Congress consider clarifying the cost recovery provisions of title 38 of the U.S. Code to direct VA to collect copayments from patients regardless of any amounts recovered from private health insurance except in instances where the insurer pays the full cost of VA care.

VA does not provide guidance to its Chief Business Office and VISNs for accounting for the costs associated with collecting payments from private health insurers and veterans. As a result, VA’s Chief Business Office and VISNs did not allocate certain costs associated with activities related to collecting first- and third-party payments to the two cost centers used by the Chief Business Office in its calculation of cost to collect. In addition, we found inconsistencies in the way VISNs allocated these costs to the field office cost center. Consequently, VA’s reported cost-to-collect measure is inaccurate. Furthermore, VA has determined that it should use collections from private health insurers to satisfy veteran copayment debt. The law is silent on this point. VA’s determination has resulted in increased administrative expenses and reduced overall collections, thus making fewer dollars available for veteran health care. We believe our previous suggestion to Congress—that it consider clarifying the cost recovery provisions of title 38 of the U.S. Code to direct VA to collect copayments from patients regardless of any amounts recovered from private health insurance except in instances where the insurer pays the full cost of VA care—is still valid. Such action would reduce the administrative burden on VA staff, reduce VA administrative expenses, and allow VA to maximize collections to help meet its costs for providing health care.

See GAO/HEHS-98-4.

Conclusions
Recommendation for Executive Action

To accurately determine and report the cost to collect first- and third-party payments, we recommend 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.

Agency Comments

We provided a draft of this report to VA for comment. In oral comments, an official in VA’s Office of Congressional and Legislative Affairs informed us that VA concurred with our recommendation.

We are sending copies of this report to the Secretary of Veterans Affairs, interested congressional committees, and other interested parties. We will also make copies available to others upon request. In addition, this report will be available at no charge on GAO’s Web site at http://www.gao.gov/.

If you or your staff have any questions about this report, please call me at (202) 512-7101 or Michael T. Blair, Jr., at (404) 679-1944. Michael Tropauer and Aditi Shah Archer contributed to this report.

Sincerely yours,

Cynthia A. Bascetta
Director, Health Care—Veterans’ Health and Benefits Issues
Appendix I: Scope and Methodology

To do our work, we reviewed our prior work and Department of Veterans Affairs (VA) Office of Inspector General reports on VA’s first- and third-party revenue collection for the Medical Care Collections Fund (MCCF). We obtained and reviewed copies of VA policies and regulations governing these collection activities. Also, we reviewed statements by the Federal Accounting Standards and Advisory Board on managerial cost accounting concepts and standards for the federal government.

We interviewed officials at VA’s Chief Business Office, which provides policy guidance to MCCF field staff, and obtained information on what they consider to be direct expenses of collecting first- and third-party revenue and documentation on how they calculate the cost to collect first- and third-party revenue. This information was validated through telephone interviews of key officials at each of VA’s 21 networks and site visits to 4 medical facilities. Also, we obtained information on the organizational structure for each network and its medical facilities and obtained the views of VISN and medical facility officials on the accuracy of the Chief Business Office’s cost reporting. In addition, we obtained information from the Healthcare Financial Management Association on other health care industry practices for reporting the cost to collect first- and third-party payments.

Regarding the practice of satisfying first-party debt with third-party revenue, we reviewed past opinions and decisions by VA’s Office of General Counsel, applicable laws and regulations, and existing GAO matters for consideration. We also discussed the implementation of VA’s Office of General Counsel’s decisions with staff from VA’s Chief Business Office and medical facilities.
Appendix II: Medical Care Collections Fund
Revenue Cycle Activities

In 1986, Congress authorized VA to collect payments from third-party health insurers for the treatment of veterans with nonservice-connected disabilities, and it also established copayments for this care. Funds collected were deposited into the U.S. Treasury as miscellaneous receipts and not made specifically available to the VA to supplement its medical care appropriations. The Balanced Budget Act of 1997 established a new fund in the U.S. Treasury, the Department of Veterans Affairs Medical Care Collections Fund, and authorized VA to use funds in this account to supplement its medical care appropriations. To collect from health insurers, VA uses a four-function process with the following 13 activities to bill and collect third-party payments.

1. Patient Registration: Collecting patient demographic information, determining eligibility for health care benefits, ascertaining financial status, and obtaining consent for release of medical information.

2. Insurance Identification: Obtaining insurance information from veteran, spouse, or employer.

3. Insurance Verification: Confirming patient insurance information and contacting third-party insurer for verification of coverage and benefit structure.

4. Precertification and Certification: Contacting third-party insurer to obtain payment authorization for VA-provided care.

5. Continued Stay Reviews: Reviewing clinical information and obtaining payment authorization from third-party insurer for continuation of care.

6. Coding and Documentation: Reviewing and assigning appropriate codes to document diagnosis of patient ailment and treatment procedures and validating information documented by the physician.

7. Bill Creation: Gathering pertinent data for bills; authorizing and generating bills; and submitting bills to payers.

8. Claims Correspondence and Inquiries: Providing customer service for veterans, payers, Congress, and VA Regional Counsel.

9. Establishment of Receivables: Reviewing outstanding claims sent to third-party insurers and identifying amount of payment due to VA for collection follow-up work.
10. **Payment Processing**: Reviewing, posting, and reconciling payment received.

11. **Collection Correspondence and Inquiries**: Following up with payers; resolving first-party bankruptcies, hardships and waivers; processing refund requests, repayment plans, and returned checks; referring claims to utilization review; and generating probate action.

12. **Referral of Indebtedness**: Referring delinquent first-party debt to the U.S. Treasury for collection against any future government payment to the veteran, such as reducing an income tax refund by the amount of the first-party debt.

13. **Appeals**: Receiving notification of partial or nonpayment from the third-party insurer, reviewing documentation, initiating an appeal to the third-party insurer for payment, and following up for appropriate payment.
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