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Better Management Control Needed
Over The Processing Of Claims
Under The Civilian Health And Medical
Program Of The Uniformed Services
In California B-133142

Department Of Defense

UNITED STATES
GENERAL ACCOUNTING OFFICE

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SEPT. 14, 1972



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

MANPOWER AND WELFARE
DIVISION

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B-133142

Dear Mr. Secretary:

This is our report on the need for better management control over the processing of claims under the Civilian Health and Medical Program of the Uniformed Services in California. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

This report deals with the erroneous payment of claims, erroneous reports on payments made to physicians, errors in computer programming, lack of test and evaluation procedures over computer operations, and lack of reviews by responsible agencies over computer operations.

The Deputy Assistant Secretary of the Army (Manpower and Reserve Affairs) concurred with our proposals and stated that corrective actions either had been or were being taken. If the actions cited by the Assistant Secretary are properly implemented, improved management with accompanying savings should result.

Copies of this report are being sent today to the Chairmen, House and Senate Committees on Appropriations; the Chairmen, House and Senate Committees on Government Operations; the Chairmen, House and Senate Committees on Post Office and Civil Service; the Chairman, Joint Committee on Reduction of Federal Expenditures; and the Chairmen, House Subcommittee on Government Activities and the House Subcommittee on Intergovernmental Relations, Committee on Government Operations.

Copies are also being sent to the Director, Office of Management and Budget; the Secretary of the Army; the Secretary of Health, Education, and Welfare; and the California Physicians' Service.

Sincerely yours,

Gregory J. Hart
Director

The Honorable
The Secretary of Defense

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ABBREVIATIONS

CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CPS	California Physicians' Service
GAO	General Accounting Office
IRS	Internal Revenue Service
OCHAMPUS	Office for the Civilian Health and Medical Program of the Uniformed Services
EDSF	Electronic Data Systems Federal Corporation

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) reviewed the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) in California. Under this program civilian physicians and hospitals provide medical assistance to dependent spouses and children of active duty members of the uniformed services, retired members and their dependents, and dependents of deceased members.

GAO found that overpayments for obstetrical care claims had been made and wanted to identify the reasons for the overpayments and the underlying management weaknesses so that action could be taken to correct the situation.

FINDINGS AND CONCLUSIONS

There were no procedures by which the fiscal agent for the program in California--the California Physicians' Service (CPS)--could routinely test and evaluate whether the payments to physicians were accurate or determine whether controls over computer processing operations were effective. (See p. 7.)

More than 16,000, or about 17 percent, of the nearly 96,000 claims in two categories paid by CPS were

incorrect. Overpayments of claims totaled about \$123,800 and underpayments totaled about \$5,300. (See pp. 12 and 13.)

Errors in computer programming caused the 1970 earnings statements sent to the Internal Revenue Service (IRS) for California physicians to be overstated by \$15.5 million. These earnings statements covered payments made under CHAMPUS and the Medicare and Medicaid programs. (See p. 16.) Corrected data was furnished to the physicians and IRS in March 1971. (See p. 16.)

Responsible review agencies had not determined whether the controls over computer operations were adequate. (See pp. 17 and 18.)

Many changes are being made to make computer programs comply with new and revised regulations, special projects, and new reporting requirements. Therefore it is necessary to continually test and evaluate the accuracy of payments of medical claims processed by computers.

Lack of clearly defined procedures for computer operations which would provide for effective internal controls has contributed to the inadequate surveillance over payments and reports processed by computers. (See p. 9.)

RECOMMENDATIONS OR SUGGESTIONS

The Executive Director, Office for the Civilian Health and Medical Program of the Uniformed Services, should:

- Require CPS, when economical and practical, to recover all overpayments and adjust all underpayments of claims against CHAMPUS resulting from the computer programming errors. (See p. 16.)
- Require CPS to develop effective internal control procedures which would provide for systematic and continual testing of the computer system and for surveillance over the processing of medical claims. (See p. 10.)
- Establish an electronic data processing committee to monitor the computer systems which process medical claims and make appropriate recommendations for improving computer processing techniques and claims processing. (See p. 10.)
- Arrange for responsible organizations to expand audits to evaluate management controls over, and performance of, computer systems used to process physicians' claims and related reports. (See p. 18.)

CONTRACTOR ACTIONS

CPS has:

- Taken action to correct the computer errors which caused the overpayments to physicians and the erroneous earnings statements. (See p. 13.)
- Agreed to consider recovering

overpayments and adjusting underpayments from the computer programming errors when economical and practical. (See p. 16.)

- Informed GAO that the functions of its Quality Improvement and Training Department are being broadened to encompass some surveillance of payments, reports, and systems efficiency. (See p. 11.)

AGENCY ACTIONS

The Department of the Army concurred in GAO's recommendations and stated that several have already been implemented.

- The program office has approved the CPS surveillance procedures. (See p. 11.)
- The Department of Defense is studying in detail the present and future use of computer systems in the program, including continuous program surveillance by persons independent from the fiscal agents' organizations. (See p. 11.)
- The program office annually reviews contract performance, with primary emphasis on timely and accurate claims payment. Also, contract performance review teams will now evaluate the fiscal agents' automatic data processing control and surveillance procedures. (See p. 19.)

The Army also agreed that, when economical and practical, CPS should recover all overpayments and adjust all underpayments of CHAMPUS claims resulting from computer programming errors. (See p. 16.)

CHAPTER 1

INTRODUCTION

The Civilian Health and Medical Program of the Uniformed Services¹ (CHAMPUS) provides medical benefits to dependents of service members for care received from civilian physicians and hospitals. The Dependents' Medical Care Act of 1956, which became effective on December 7, 1956, authorized care from civilian sources for spouses and children of active duty members. The Military Medical Benefits Amendments of 1966 (Pub. L. 89-614) extended this coverage, along with additional medical benefits, to retired members and their dependents and to dependents of deceased service members.

During fiscal year 1972, CHAMPUS expenditures were about \$395 million, of which about \$130 million was paid to physicians for inpatient and outpatient services.

PROGRAM ADMINISTRATION

The Executive Director, Office for the Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS), under the jurisdiction of the Assistant Secretary of Defense (Health and Environment), administers CHAMPUS in the United States, Puerto Rico, Canada, and Mexico. The Secretaries of the uniformed services have authorized major overseas commanders to administer health benefits in other areas, independently of OCHAMPUS.

OCHAMPUS has contracted with Blue Shield agencies, medical societies, and private insurance companies, commonly known as fiscal agents, to process and pay claims for drugs, equipment, and care furnished to beneficiaries. To process and pay hospital claims, OCHAMPUS has contracted with the Blue Cross Association and Mutual of Omaha.

¹The term "uniformed services" includes the Army, Navy, Air Force, Marine Corps, and Coast Guard and the commissioned corps of the Public Health Service and of the National Oceanic and Atmospheric Agency (formerly the Environmental Science Services Administration).

The fiscal agents receive, process, and pay claims for authorized care to eligible beneficiaries. They also educate those who provide care about the program's nature, scope, and special features and assemble cost and statistical information.

As of February 1972 there were 45 fiscal agents processing physicians' claims for CHAMPUS throughout the 50 states, the District of Columbia, and Puerto Rico. Blue Shield agencies pay physicians' claims in 35 states and the District of Columbia.

OCHAMPUS has contracted with California Physicians' Service (CPS), a Blue Shield agency, to process physicians' claims in California. CPS, the largest CHAMPUS fiscal agent, used a computer to pay about \$24 million for physician and drug claims under CHAMPUS in 1970. CPS and four other fiscal agents have subcontracted for computer services with Electronic Data Systems Federal Corporation (EDSF). This corporation now processes nearly 30 percent of CHAMPUS claims.

During 1970, EDSF received more than \$14 million to process claims under the Federal medical programs administered by CPS, including Medicare, Medicaid, and the Federal Employee Health Benefits Program. About \$11 million, or 80 percent, of the \$14 million represents Federal funds.

Although 13 fiscal agents have subcontracted for computer services, they remain responsible for paying for physician services. These payments must comply with the reasonable charge concept required by OCHAMPUS. Under this concept a physician receives his customary charge for each service rendered if it is within the prevailing level of charges for the same service performed by other physicians in the same locality. Therefore CHAMPUS will pay no more than the prevailing charge. Payments of CHAMPUS claims are made on the basis of physician profiles¹ which are used to determine an individual physician's customary charge for a service and the prevailing charge of other physicians practicing in the same locality.

¹Histories of each physician's past charges for a specific medical service.

SCOPE OF REVIEW

We primarily reviewed claims made for obstetrical care under CHAMPUS from February 1968 to February 1971 and reports CPS issued to the Internal Revenue Service (IRS) which showed amounts paid to physicians under CHAMPUS, Medicare, and Medicaid programs in 1970. We reviewed the enabling legislation; the procedures, records, and documents which pertained to paying physicians' claims and preparing related reports; and the work of the organizations responsible for reviewing the activities of CHAMPUS fiscal agents.

CHAPTER 2

WEAKNESSES IN THE MANAGEMENT OF COMPUTER SYSTEM USED FOR PROCESSING CHAMPUS CLAIMS AND DEVELOPING REPORTS

Because computer systems process CHAMPUS claims, adequate controls over the computer systems are needed to insure that these payments are accurate. During calendar year 1970, CPS used a computer to pay CHAMPUS claims amounting to more than \$24 million. We reviewed CPS administration of the claims processing function and found that:

- Continuing system analysis was not being performed.
- Procedures and controls for the computer system were not adequately developed or reviewed.
- The accuracy of computer payments was not verified on a routine basis.

The computer system contained programing errors which caused erroneous payments and inaccurate reports to IRS. Further, because of weaknesses in the management and controls over the computer system, these errors were undetected until our review. (See ch. 3.)

CONTINUOUS REVIEW OF COMPUTER SYSTEM PERFORMANCE NEEDED

CPS had not established effective procedures and controls to continually evaluate the accuracy of its computer claims processing operations, although many minor adjustments--such as changes necessitated by new regulations and revisions in existing regulations, special requests, and new reporting requirements--were made to its basic computer program which could have affected the accuracy of claim payments.

The Social Security Administration recognized the need for continually testing computer programs as early as 1968. Because many erroneous payments had been made, it placed computer system technicians in each of its regional offices to continually determine whether Medicare claims were accurate.

Until April 1971¹ CPS used a computer system which contained nearly 100 built-in controls to prevent improper payments. For example, when claims have erroneous vendor numbers, the computer rejects the claims. Due to the complex interrelationship of programs within a computer system, the effectiveness of existing controls can be inadvertently reduced or eliminated by changing the system. No matter how many controls are built into a computer system, it is difficult to foresee all the controls needed to insure accurate payments, particularly when the system is being changed. Therefore built-in computer controls must be continually evaluated.

LACK OF ADEQUATE PROCEDURES AND CONTROLS
FOR EVALUATING PERFORMANCE OF
THE COMPUTER PAYMENTS AND REPORTING FUNCTIONS

The contract between CPS and EDSF calls for two principal services; namely, paying claims and developing related reports. Although EDSF processes and pays CHAMPUS claims, CPS is responsible for the accuracy of the payments and therefore it must notify EDSF when its services are unsatisfactory.

CPS had no continuous testing program to verify CHAMPUS payments. We reviewed a sample of CHAMPUS claims paid for obstetrical care and found that several were erroneous. CPS personnel found that, because of a computer error, certain types of claims paid since February 1968 for obstetrical care had been incorrect. CPS was unable to show that the computer program which processed these claims was tested before it was used. The effect of this error is discussed in chapter 3.

CPS was not fully aware of the computer control procedures EDSF followed, although it relied on EDSF to make accurate payments and reports. CPS must have a clear and comprehensive understanding of the control operations performed by EDSF in order to develop adequate procedures to insure that EDSF's service is reliable. Because claims are continually

¹In April 1971 a new computer system was developed to process CHAMPUS claims.

being paid, CPS should frequently test and evaluate the computer process to assess EDSF's performance.

OCHAMPUS officials agreed that CPS should continually verify the accuracy of computer payments. They were unaware that the CPS quality control program for processing CHAMPUS claims did not include such testing. They also informed us that they limited their review of claim payments made by CHAMPUS fiscal agents to evaluating trends in medical costs and they did not review the accuracy of payments.

The CPS Quality Control Group plans to verify the accuracy of payments. To date they have been primarily concerned with improving the performance of claim examiners.

Under the terms of the contract, EDSF also is to improve the computer system. CPS should therefore furnish EDSF with data on areas in the system which require improvement and should request that such improvements be made. At the time of our review, however, there were no clearly defined procedures for the CPS operating departments to report potential computer system deficiencies.

The various CHAMPUS departments within CPS receive approximately 200 letters, 70 telephone calls, and 350 computer-rejected claims daily. Whereas the primary function of the computer reject and correspondence departments is to dispose of individual problems, management should have insured that suspected system deficiencies noted by these departments were reported to higher levels of CPS. By reviewing and analyzing daily the information received by these departments, management could have obtained useful feedback on computer system problems. Although some system deficiencies that these departments identified were reported to CPS management, there were no criteria for determining which problems should be brought to management's attention.

Further, CPS generally makes oral requests to the contractor to analyze computer system deficiencies. Failure to properly document such requests increases the possibility of misinterpretation and hinders followup to see that the subcontractor responds promptly.

CPS officials agreed that control procedures over computer operations needed improvement and in February 1971 established a special committee to better monitor its computer subcontractor's activities. Although this should provide better surveillance over the computer system used to process CHAMPUS claims, testing the system on a systematic and continuing basis is not one of the committee's functions. Until either CPS or OCHAMPUS tests the system, erroneous payments caused by programing errors will not be fully prevented.

The weaknesses noted in the management and control over the computer system pertained to the computer system used until April 1971. CPS officials stated that it was extremely difficult to test computer programs under that system but that the new system would make it easier to test computer programs and would result in more efficient and effective processing of CHAMPUS claims. At the time of our fieldwork, the new system was not fully operational; however, installing a new system does not diminish the need for management surveillance of computer performance.

CONCLUSIONS

The programing errors identified at CPS illustrate the need for continuous evaluation of the computer system. It is extremely difficult to foresee all the control features needed for a computer payment system. Because such a system is often modified, the effectiveness of the computer controls programed in it can be inadvertently diminished or eliminated. Only by continually testing the computer system can problems be detected before substantial incorrect payments occur.

In our opinion, CPS should have been aware of the internal control procedures used in the computer operations and should have established procedures to test their effectiveness. Procedures should have been established to promptly notify responsible management officials of system deficiencies.

RECOMMENDATIONS

We recommended that the Executive Officer, OCHAMPUS:

- Require CPS to develop effective internal control procedures for systematically and continually testing the computer system and for surveillance over the processing of medical claims.
- Establish an electronic data processing committee to oversee the effectiveness of computer systems currently processing CHAMPUS medical claims and make appropriate recommendations to improve computer processing techniques.

CONTRACTOR'S COMMENTS AND ACTIONS

By letter dated March 20, 1972, CPS commented on our findings and recommendations. (See app. II.) They stated that the new CHAMPUS computer system, effective April 1971, was more conducive to testing programing changes than the old system and that an ongoing quality review by systems- and claims-oriented personnel now required information from the computer system for testing and evaluation of current claims data and experience.

In addition, the CPS Quality Improvement and Training Department now encompasses surveillance of payments, reports, and system efficiency. Among this department's revised objectives are:

- Acquiring skills to competently appraise claims administration activities at the management level and to effectively test the efficiency of the claims processing system.
- Performing scheduled and unscheduled (special) frequent and detailed appraisals and tests to insure that administrative and functional deficiencies which could seriously impair the program are detected.

AGENCY COMMENTS AND ACTIONS

By letter of February 15, 1972, the Department of the Army commented on our report (see app. I), and, in general, it concurred with our comments, criticisms, and recommendations. It said that the new computer system established in April 1971 had produced excellent results and that OCHAMPUS had approved CPS surveillance procedures.

The Army also stated that the Department of Defense was going to study in detail CHAMPUS present and future use of computer systems, including continuous program surveillance by persons independent of the fiscal agents' organizations.

CHAPTER 3

ERRONEOUS PAYMENTS AND REPORTS

In 1967 OCHAMPUS directed fiscal agents to pay physicians' claims under the reasonable charge concept, by which the billed fee is compared with both the customary fee charged by the physician and the prevailing local fee for similar service. The reasonable charge is the lowest of the billed, customary, or prevailing fees.

Some physician claims under CHAMPUS were more than and some were less than the customary and prevailing fees. These erroneous payments, which totaled \$123,812 more and \$5,317 less than the customary and prevailing fees, occurred because certain computer programming errors affected (1) the amount paid for less than total obstetrical care and (2) the accuracy of payments of claims from physicians who had more than one office location in the same locality.

At our request CPS developed a computer program to reprice all claims paid in the two categories from February 1968 through February 1971. Of the 95,792 payments repriced, 16,451, or 17 percent, were incorrect. Overpayments and underpayments were made, as shown below by type of claim.

<u>Type of claim</u>	<u>Over-payments</u>	<u>Under-payments</u>	<u>Net over-payments</u>	<u>Estimated Federal share of over-payments</u>
Obstetrical care	\$113,176	\$5,317	\$107,859	\$105,702
Claims from physicians with multiple offices (note a)	<u>10,636</u>	<u>-</u>	<u>10,636</u>	(b)
Totals	<u>\$123,812</u>	<u>\$5,317</u>	<u>\$118,495</u>	

^aExcludes claims for obstetrical care.

^bFederal share of these payments was not readily identifiable because of types of claims and beneficiaries involved.

The computer errors which caused these incorrect payments were corrected, but no action has yet been taken to recover the overpayments or to adjust the underpayments.

CPS and all other prepayment organizations and health insurance carriers must, by law, report to IRS the amounts they paid each year to individual physicians. We found that CPS issued erroneous earnings reports for 1970 to physicians and IRS because of the computer programming errors. Payments to physicians were overstated by \$15.5 million on these reports. The computer errors were corrected, and CPS issued corrected reports.

ERRONEOUS PAYMENTS TO PHYSICIANS FOR OBSTETRICAL CLAIMS

CPS developed the customary and the prevailing fees for medical procedures and maintains them in a computerized system. If neither a customary nor a prevailing fee has been developed for a particular procedure, the physician's fee is compared against a predetermined fee for the locality in which the physician has his practice.

Customary and prevailing fees were not always considered in determining whether the charges were reasonable when only partial obstetrical care¹ was provided. Instead, because of a computer programming error, the physician's charge was compared with the predetermined fee, which usually was higher than the customary or prevailing fee.

We brought this matter to the attention of CPS in September 1970, and they promptly corrected the error. We sampled claims paid after this change and found two deficiencies that still caused erroneous payments. First, no controls

¹Total obstetrical care includes prenatal care, delivery, and postnatal care. A physician who provides a part of the total obstetrical care is paid a percentage of the fee which would apply to total obstetrical care.

were established and incorporated into the computer system to reject claims when partial obstetrical care was provided so that the percentage of the reasonable fee could be inserted on a computer coding sheet. During the 3-year period ended January 1971, CPS processed over 27,600 claims for obstetrical care requiring the entry of a percentage figure to insure that the proper amount was paid. About 1,400, or 5 percent, of these claims did not show a percentage figure, and this caused incorrect payments.

The second deficiency concerned erroneous payment of obstetrical care claims received from physicians with multiple office locations.

OVERPAYMENTS TO PHYSICIANS HAVING
MULTIPLE OFFICE LOCATIONS

Because of an error in the computer program for processing claims, fees billed by physicians with multiple office locations were not always compared with the physician's customary payment profile to determine the amount payable.

We found that claims from physicians with multiple locations were sorted by computer in numerical sequence for each office location, instead of for all the offices of that physician. This incorrect sorting caused the customary payment profile to be compared with billings made by only one of the physician's locations. Billings made by the physician's other locations were not compared with the customary payments profile--because for computer processing the profile was used only when billings of one office were being processed. Therefore in many instances the physician received the prevailing fee which was higher than the physician's customary payment profile.

For example, a physician with two office locations had a customary payment profile for obstetrical care of \$210 at his primary office location. However, the physician billed \$275 for total obstetrical care from his second office location. In processing the claim the computer did not compare the customary payment fee of the physician's primary office with the billing made by his second office and, as a result, paid the prevailing fee of \$250, for an overpayment of \$40.

This programming error caused erroneous payments for other types of claims in addition to those for obstetrical care. We brought this to the attention of CPS in February 1971, and CPS promptly developed separate customary payment profiles for each office location of a physician. It also repriced all nonobstetrical care claims submitted between February 1969 and February 1971 by physicians with multiple office locations and identified overpayments of \$10,636.

ERRONEOUS PAYMENT REPORTS ISSUED
TO IRS AND PHYSICIANS

We reviewed data provided to IRS concerning payments to selected CHAMPUS physicians for 1970 and found that incorrect

information had been reported. CPS subsequently discovered that computer programing errors had caused overstatements of \$15.5 million in the payments reported to IRS for physicians' services under the CHAMPUS, Medicare, and Medicaid programs. CPS immediately corrected the computer programing errors and issued corrected data for the nearly 4,000 physicians whose payments data had been incorrectly reported.

CONCLUSIONS

The incorrect payments and reports illustrate the need for (1) CPS to intensify its efforts to assure that payments made and reports processed by computer systems are accurate and (2) OCHAMPUS to take steps to insure that the payments and reports processed by computer for CPS are correct.

The contracting officer and other OCHAMPUS officials told us that, because the erroneous payments had been identified and net overpayment figures for individual physicians had been developed, recovery of the overpayments was feasible and that adjustments should be made for the underpayments.

RECOMMENDATION

We recommended that the Executive Director, OCHAMPUS, require that CPS, when economical and practical, recover all overpayments and adjust all underpayments of claims against CHAMPUS resulting from computer programing errors.

CONTRACTOR'S COMMENTS AND ACTIONS

CPS agreed that recovery attempts would be made when economical and practical, that it would compare the projected cost of recovery against the amounts recoverable, and that it would consider the probable public relations problems associated with the age of some of the transactions. (See app. II.)

AGENCY COMMENT

The Department of the Army concurred that OCHAMPUS should require CPS to recover all overpayments and adjust all underpayments when economical and practical. (See app. I.)

CHAPTER 4

AUDITS AND EVALUATIONS

BY REVIEW AGENCIES

Three organizations are responsible for reviewing activities of CHAMPUS fiscal agents: (1) the Department of Health, Education, and Welfare Audit Agency under an agreement with the Defense Contract Audit Agency, (2) the Contract Performance Review Branch of OCHAMPUS, and (3) the Inspector General, Office of the Surgeon General, Department of the Army. Although all three organizations review CPS regularly, we found no indication that they reviewed the overall management of the computer systems that process payments to physicians and related reports.

AUDITS BY THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE AUDIT AGENCY

The Department of Health, Education, and Welfare Audit Agency has conducted two audits for contract compliance at CPS for periods covering the 3 years ending June 30, 1970. Both audits identified weaknesses in CPS claims processing operations, but neither reviewed CPS controls over the computer system used to pay CHAMPUS claims.

REVIEWS BY THE CONTRACT PERFORMANCE REVIEW BRANCH

The Contract Performance Review Branch of OCHAMPUS schedules its reviews of CHAMPUS fiscal agents every 2 years and, when possible, coordinates these reviews with those made by the Inspector General, Office of the Surgeon General, so that the two organizations visit the fiscal agents in alternate years. The purpose of the reviews is to evaluate the performance of fiscal agents, including activities related to the reasonable charge concept. Onsite reviews, including issuing the report, are to be completed in about 7 days. Ordinarily the reviews involve about 3 days of fieldwork at the sites.

The last three review team visits to CPS were conducted in January and September 1970 and January 1971. The teams were primarily concerned with high claims processing costs and the high inventories of unpaid claims and unanswered correspondence. The reports did not mention any review or evaluate the adequacy of the controls over the computer system used to process CHAMPUS claims. The short visits made by the performance review teams, in our opinion, do not allow sufficient time for a comprehensive evaluation of the computer system.

REVIEWS BY THE INSPECTOR GENERAL

The Inspector General, Office of the Surgeon General, Department of the Army, performs contract compliance inspections of the activities of CHAMPUS fiscal agents approximately once every 2 years. We did not review inspection reports on CPS prepared by the Inspector General, but, because the Inspector General's reviews are usually completed in 1 day, an adequate review of the computer system could not be performed in such a limited time.

An OCHAMPUS official acknowledged that reviews of CPS had not evaluated controls over the computer system.

CONCLUSIONS

None of the organizations responsible for reviewing the activities of CHAMPUS fiscal agents had evaluated the performance of CPS computer system overall for handling physician claims and related reports. Because of the number and nature of the errors found, these organizations should evaluate the computer system by using test claims, such as those that the Social Security Administration uses for the Medicare Program, or some other technique, such as reviewing claims selected by statistical sampling techniques.

RECOMMENDATION

We recommended that the Executive Director, OCHAMPUS, arrange for responsible organizations to expand audits to evaluate management controls over the computer systems used to process physician claims and related reports.

AGENCY COMMENTS AND ACTIONS

In concurring with our recommendation (see app. I), the Department of the Army said that the OCHAMPUS contract performance review team would be responsible for evaluating the fiscal agents' automatic data processing control and surveillance procedures. The Army also said that OCHAMPUS would determine the extent to which CPS was monitoring the automatic data processing activity by reviewing the application of its testing routines and by continuing to use the results to assist in evaluating the timeliness and accuracy of the CPS claims processing function.

The Army also said that future HEW Audit Agency reviews of CHAMPUS contracts would evaluate management controls over computer systems used to process physician claims and related reports.



DEPARTMENT OF THE ARMY
 OFFICE OF THE ASSISTANT SECRETARY
 WASHINGTON, D.C. 20310

15 FEB 1972

Mr. R. G. Rothwell
 Associate Director, Defense Division
 U. S. General Accounting Office
 Washington, D. C. 20548

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Dear Mr. Rothwell:

This letter is in response to your letter of 15 December 1971 to the Secretary of Defense requesting comments with respect to recommendations contained in Draft Report to The Congress titled "Better Management Control Needed Over the Processing of Claims Under the Civilian Health and Medical Program of the Uniformed Services in California" (OSD Case #3387).

Generally, comments, criticisms and recommendations concerning the need for better management control over the processing of claims under the Civilian Health and Medical Program of the Uniformed Services in California, appear to be justified as they are described in the subject report. The data processing program used by California Physicians' Service (CPS) prior to 1 April 1971 was developed and operated by CPS prior to September 1969 when they contracted with Electronic Data Systems Federal (EDSF) for complete Automatic Data Processing (ADP) support for all of their claims operations. The CHAMPUS program was inadequate in many ways, a few affected payments, but the major deficiencies concerned claims identification and history files. As payment errors were discovered in the program, the program was patched, but significant improvement was still required. In November 1970, authorization was given CPS to have EDSF provide an updated and effective program. The new program was implemented 1 April 1971 and the results have been excellent. A committee was formed by CPS to review and test ADP operations to include monitorship of CHAMPUS claims processing. OCHAMPUS will determine the extent to which CPS is monitoring ADP activity by reviewing the application of their ADP testing routines and by

Mr. R. G. Rothwell

continuing to use their sample results to assist in evaluating the timeliness and accurateness of CPS claims processing activity.

Although the report indicates that there are presently 45 CHAMPUS fiscal agents processing physicians' claims, and of these, 38 (including CPS) are also medicare carriers, OCHAMPUS records indicate that only 22 CHAMPUS carriers also process Medicare claims.

With respect to the verification of the accuracy of computer payments on a continual test basis, the review of claims by OCHAMPUS is now based on a scientific sampling of claims paid each month by each Fiscal Administrator. This allows OCHAMPUS to evaluate the propriety of claims computation and payment.

Four recommendations were contained in this report. Department of the Army concurs in concept with the recommendations. Comments are made on the recommendations in the order in which presented:

1. Page 13, Recommendations:

a. Concur. Since the audit OCHAMPUS has approved CPS surveillance procedures in line with the audit recommendation.

b. Concur in the need for continuous evaluation of the computer systems currently used to process CHAMPUS claims. The Department of Defense is instituting a detailed study of present and future use of computer systems by CHAMPUS, including the matter of continuous program surveillance by persons external to the fiscal agents' organizations.

2. Page 21, Recommendation: Concur.

3. Page 25, Recommendations: Concur. OCHAMPUS Contract Performance Reviews are now performed annually. Fiscal Administrators' processing systems are reviewed with primary emphasis on timely and accurate claims payment as well as the handling of correspondence. These activities are essential to program effectiveness and usefulness to sponsors, beneficiaries, and their providers. While the OCHAMPUS Contract Performance Review Team mission does not

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Mr. R. G. Rothwell

include a comprehensive evaluation of the computer system, it will now be charged with evaluating the Fiscal Administrators' ADP control and surveillance procedures. The scope of audits of CHAMPUS contracts will be reviewed and discussed with HEWAA towards inclusion of evaluations of management controls over computer systems used to process physician claims and related reports.

The Army recognizes the need for continual monitorship of claims processing activities under the CHAMPUS program, to include review of computer support systems, and believes that the actions initiated by California Physicians' Service and OCHAMPUS will provide adequate control in the future.

This reply is made on behalf of the Secretary of Defense.

Sincerely,



John G. Kester
Deputy Assistant Secretary of the Army
(Manpower and Reserve Affairs)

GAO note: The page numbers in this report refer to pages in the original draft.



CALIFORNIA
BLUE SHIELD

720 California Street, San Francisco, California 94108 (415) 391-2720

March 20, 1972

Mr. R. G. Rothwell
Associate Director
Facilities and Support Services
441 G Street, N.W. - Room 6476
Washington, D.C. 20548

Dear Mr. Rothwell:

As a part of our follow-up review of your draft audit Code 88017 of CHAMPUS claims processing, we have now had the opportunity to review some additional data and wish to file this amended response in lieu of our previous position.

The first recommendation is that "O'CHAMPUS require California Physicians' Service to develop effective internal control procedures, including testing the computer system on a systematic and continuing basis, for surveillance over the processing of medical claims by computer." With the conversion to the new computer system, we believe we now have procedures in effect which will accomplish this end. We have in operation in the claims area an on-going quality review activity which has among its objectives the monitoring of reasonable charge patterns, quality of input data, systems and manual adherence to program benefits, and cost sharing requirements.

This activity, which is staffed with systems and claims oriented personnel reporting to Department Management, requires periodic and systematic run-offs of information from the computer system for testing and evaluation of current claims experience. Reports of unfavorable occurrences are acted upon by Department Management in concert with Division, Executive and Systems Management. Additionally, there is in operation a Division level Quality Improvement and Training program activity which previously has been directed more toward the clerical end of our operation, but which now is being further broadened to encompass some surveillance of payments, reports and systems efficiency. Attached is a description of that unit's responsibilities.

Quality evaluation by this Department insures impartial review by virtue of its being placed at an organizational level outside of the control and interest of the day-to-day claims operation. Further, we feel that we have achieved a high level of objective analysis when the findings of this Department are

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integrated with the results of the Claims Department's quality review activities. This activity will be closely coordinated with the corporate-wide data processing control activity alluded to in your report.

With regard to your auditors' findings of erroneous payments on obstetric claims, and their recommendation that recovery and/or adjustment be effected where economical and practical, let me recap the situation.

In early September 1970, the GAO auditors advised us of a pricing irregularity involving obstetric procedure codes 4821 through 4824, and 4871 through 4873. This irregularity was confirmed as an error in the system's pricing routines and necessary corrections were effected on September 28, 1970.

The upgraded CHAMPUS system will prevent errors in the coding of OB procedure multiple factors in that the system will supply the correct multiple (e.g., 4821 - 100%; 4822 - 56%, etc.). Erroneously coded or missing multiple factors cannot now result in incorrectly priced OB procedures.

The multiple billing location problem is prevented in the upgraded system by a nine character vendor number sort, coupled with the fact that the presently used Level I file contains profiles for each location for which a vendor has established a profile.

We will consider the following factors in reaching a decision on this recovery project:

1. The current Provider File would have to be used. Therefore, differences in locality (providers who have moved, but maintain their old numbers) would in itself cause differences in Level II and Level III pricing. For those providers who have changed numbers, or for other reasons are no longer on our Master Provider File, no match will be found.
2. In all cases claims are paid at or below the billed amount; therefore, if refunds are sought, they would be requested for refunds on line items that were in the majority of cases already cut.
3. For most cases, where the amount paid was cut excessively, adjustments could already have been made.
4. The manual execution of this project brings into play several factors to which an additional price tag must be given: a) research; b) adjudication of each pricing deviation; c) coding and processing of correspondence as a result of the foregoing. Our experience with recoupment projects shows that whenever we go into the field, we become engaged in dialog which en-

APPENDIX II

Mr. R. G. Rothwell

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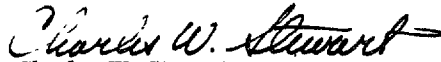
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compasses all aspects and nuances of the program, which usually adds costs which cannot be pre-determined. We would place a conservative price tag of about \$20,000 on the manual phase of the project.

In summary, we will compare our projected cost of recovery against the amounts recoverable according to the audit report and its supporting documentation with the factors of research, adjudication and additional costs indicated in item 4 above. The consideration of probable public relations problems for the program associated with the extreme age of some of the transactions which would be readjudicated will also be considered in making our decisions on recoveries.

In closing, we wish to express our appreciation for the many beneficial aspects of your findings, conclusions and recommendations. These have enabled us, where practical and economically feasible, to initiate programs designed to prevent recurrences in many of the problem areas noted. We believe that in working together we have accomplished a substantial increase in the efficiency of our services to the Government, to the provider, and to the beneficiary.

Sincerely,



Charles W. Stewart
Executive Vice President
Government Programs

pe

cc - Mr. George H. Hartmann
Mr. James N. Geiger

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PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF DEFENSE
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE:		
Melvin R. Laird	Jan. 1969	Present
ASSISTANT SECRETARY OF DEFENSE (HEALTH AND ENVIRONMENT) (note a):		
Dr. Richard S. Wilbur	Aug. 1971	Present
Dr. Louis H. Rousselot	Jan. 1968	July 1971
<u>DEPARTMENT OF THE ARMY</u>		
SECRETARY OF THE ARMY:		
Robert F. Froehlke	July 1971	Present
Stanley R. Resor	July 1965	June 1971
THE SURGEON GENERAL:		
Lt. Gen. H. B. Jennings, Jr.	Oct. 1969	Present
EXECUTIVE DIRECTOR, OFFICE FOR THE CIVILIAN HEALTH AND MEDICAL PROGRAM OF THE UNIFORMED SERVICES:		
Col. Grover C. Kistler	July 1970	Present
Brig. Gen. Louis J. Hackett, Jr.	Aug. 1968	June 1970

^aThis position was formerly entitled "Deputy Assistant Secretary of Defense (Health and Medical)" under the Assistant Secretary of Defense (Manpower and Reserve Affairs). The change was effective in June 1970. Dr. Rousselot occupied the position under both titles

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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