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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

December 16, 1980

HUMAN RESOURCES
DIVISION

B-200211



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The Honorable Charles Rangel
Chairman, Subcommittee on Health
Ways and Means Committee
House of Representatives

Dear Mr. Chairman:

Subject: Review of [Alleged Questionable Actions by
EDSF to Reduce its Claims and Correspondence
Backlogs Under its Medicare Contract in
Illinois] (HRD-81-45)

This is in response to your request for a report on several allegations of questionable actions by Electronic Data Systems Federal Corporation (EDSF), the Illinois Medicare part B carrier, to reduce backlogs of pending claims and correspondence. We are continuing to examine other aspects of EDSF's operations as part of our broader review of Medicare's firm fixed-price contracting experiments, which includes a review of the experimental contract in Illinois as well as two other experimental contracts in New York and Maine. A report to you on all three experiments is now planned for June 1981.

The allegations, which appeared in the Chicago newspapers beginning on August 19, 1980, pertained primarily to actions by EDSF managers to deal with large backlogs of Medicare claims and correspondence. The details of the allegations were obtained through lengthy interviews and signed statements from several former employees.

The allegations presented to us by the former employees basically fall into two categories. One category of allegations involves the actions taken by EDSF during the last quarter of 1979 to deal with the problem of a large backlog

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of pending claims. The second category of allegations principally involves the actions taken by EDSF during the first several months of 1980 to dispose of a significant backlog of unanswered correspondence.

With respect to the claims backlog issue the allegations are as follows.

1. The contract between the Health Care Financing Administration (HCFA) and EDSF states that carrier operations are to be performed in Illinois, and that only computer processing will be permitted outside the State. It was alleged that EDSF sent claims outside the State for clerical processing during the last quarter of 1979 to reduce the claims backlog-- specifically to Texas for procedure coding 1/ and then to California for data entry.

2. Also, to reduce the claims backlog during the last quarter of 1979, EDSF supervisors allegedly instructed claims entry clerks to override computer system edit controls which allowed claims to be entered despite identified errors.

3. An EDSF employee, acting on instructions from his supervisor, controlled the 1979 year-end reported pending inventory by removing mail (primarily claims) from the mailroom where it could not be recorded in December receipts nor counted by employees of HCFA, and thus not be included in the EDSF backlog statistics. According to the allegation, EDSF management had set a goal for the reduction of the year-end inventory of pending claims to about 150,000 claims.

The second category of allegations which pertains to the correspondence backlog problem are as follows.

1. EDSF employees, acting on instructions from their supervisors, reduced the large correspondence backlog by removing thousands of old letters from the pending inventory and destroying them without developing responses. It was

1/Procedure coding refers to the selection of the proper terminology, including a four digit numerical reference, used by EDSF to describe the type of medical service provided and to serve as a basis for medical coverage and payment determinations.

alleged that two such "purges" involving letters older than 90 days occurred between March and May 1980.

2. EDSF was using one of its company locations in North Carolina to help reduce the Illinois correspondence backlog. Because the temporary personnel hired were not as experienced as the Des Plaines staff, responses to all items of correspondence could not be completed in North Carolina. It was alleged, however, that all items were counted as completed and removed from the system's pending inventory before shipping them back to Illinois for additional work. Thousands of these returned items were allegedly destroyed in Des Plaines without the needed additional work being performed.

3. Requests from beneficiaries and providers to have their initial claim determinations reviewed and reconsidered by EDSF allegedly were returned to the mailroom from the unit that handles review requests, and were recycled as original claims. No reasons or motives for these alleged actions were given to us.

4. Medicare beneficiaries are sent explanations of benefits paid to them or to physicians on their behalf. When these notices--called "Explanation of Medicare Benefits" (EOMBs)--are not deliverable, the Postal Service returns them to EDSF. It was alleged that at least one EDSF employee destroyed thousands of these returned notices without taking the actions required by HCFA on such undeliverables.

EDSF management initially denied most of these allegations. They subsequently conducted their own investigation concurrent with ours and have acknowledged that certain aspects of the above allegations were true. They stated, however, that there were several mitigating circumstances during the time periods involved which made the actions taken reasonable. They stated further that the alleged magnitude, motives, and effects of these actions on the EDSF workload statistics and on the beneficiaries in Illinois were exaggerated.

We were able to substantiate most of the facts surrounding the above allegations. While some of these actions may have been inconsistent with the contract requirements,

EDSF did not evade contract penalties 1/, as was reported by the news media.

We believe that EDSF employees were acting in a high pressure environment brought on by workload crises, that arose partly because of EDSF's inexperience as a Medicare carrier. Similar problems are likely to occur in the future if HCFA continues to limit its contract monitoring to a pre-set evaluation plan without regard to the potential problems raised by a contractor's actions when it is forced to deviate from its normal procedures to handle crisis situations.

Our findings pertaining to the allegations are discussed below and are grouped under the two main categories of backlogs experienced by EDSF. We also have added a third issue which is not directly related to the allegations. EDSF now has a backlog of fair hearing requests. 2/ Although we only recently examined this area, we have a number of concerns over the qualifications of EDSF's fair hearing officers, the backlog of unresolved hearings, and the apparent inadequate attention given this area by HCFA.

EDSF'S ACTIONS TO REDUCE
ITS CLAIMS BACKLOG

EDSF began processing Medicare claims in Illinois in April 1979. During the Illinois contract's initial months, EDSF experienced problems which caused a backlog in its claims processing. By September 1979 this backlog reached its peak

1/EDSF's contract provides for financial penalties if EDSF fails to satisfy, on a quarterly basis, certain performance standards. The total price paid to EDSF is reduced by \$52,250 for each standard failed. There are 12 standards, so the maximum penalty in any quarter would be \$627,000.

2/Fair hearings are the final step in Medicare's appeal process. Individuals dissatisfied with the decisions rendered by the carriers on the initial claims and on their requests for a review can request a hearing by the carrier involved if the amount being questioned is more than 100 dollars. Claims may be combined to reach the 100 dollar limitation.

with close to 454,000 claims pending. The resulting beneficiary and provider complaints generated Congressional and HCFA pressure to reduce the backlog of unprocessed claims.

EDSF's staff confirmed that a number of actions were taken to reduce the claims backlog, some of which were done without HCFA's knowledge or approval. These actions were taken under the direction of a three man management task force brought in by EDSF to deal with the claims backlog.

Claims Were Processed Outside Illinois

With HCFA's approval EDSF opened two downstate Illinois claims processing facilities to increase its claims processing capacity. It also sent 100,000 claims to Dallas for procedure coding without HCFA's knowledge or approval. These claims were next sent to an EDSF facility in Los Angeles for data entry and then electronically transmitted to Dallas for processing.

The HCFA contract with EDSF incorporates by reference a request for proposal requirement that does not permit clerical processing outside of Illinois. Although the Dallas and Los Angeles claims processing activities were not consistent with this contract requirement, and were done without HCFA knowledge and approval, HCFA officials believe that it was a reasonable action for EDSF to take given the large backlog that existed.

Computer Edit Controls Were Overridden

During the last quarter of 1979, EDSF set up a separate coding group in Des Plaines. The clerks entering this data into the computer from Des Plaines were instructed by EDSF supervisors to use an override feature 1/ of the computer system if the claim could not be entered normally.

1/This feature allows data entry personnel to continue entering data into the computer which would otherwise be rejected under the built-in controls or edits designed to assure that only accurate data is entered.

We could not determine if the use of overrides or force codes 1/ allowed claims to go through the system to payment, however. EDSF officials explained to us that the override feature was used to expedite claims processing, since the data entry clerks were using worksheets and did not have the actual claims needed to research the data items preventing computer entry and make corrections. The officials pointed out that even though the input edits were overridden, the claims would later suspend for further analyses by clerical personnel.

We cannot be certain that all claims forced into the system were later suspended. HCFA's functional standards require the computer system to document the system overrides, including the use of force codes. EDSF's system does not presently produce such documentation, however, and HCFA has not enforced this requirement. EDSF's documentation on the edits in effect for the last quarter of 1979 also was not available to us. HCFA's functional standards require these edits to be documented as well, but HCFA has not enforced this requirement either.

The former employees we interviewed told us that they had no direct knowledge of claims being forced through the system to payment. It was speculation on their part that this could have occurred. Despite our concerns over the lack of required documentation, we found no indication that claims were forced through to payment, nor has HCFA found any evidence of it.

HCFA's monitoring staff pointed out however, and we agree, that incorrect claims could have been manually forced through to payment without HCFA's detection. They explained that the clerks responsible for resolving suspended claims could have entered a pay or deny determination into the computer without adequately reviewing the claim. HCFA's quality assurance program, which has cited EDSF for failure to adequately develop suspended claims before paying or denying them, categorizes such undeveloped claims as payment errors with no attempt to determine the causes.

1/A sign which instructs the computer to disregard certain existing edits.

Claims Were Removed from Mailroom
During December 1979

Some of EDSF's employees admitted that claims were removed from EDSF's mailroom at the end of December 1979 without HCFA's knowledge. A task force manager said that he had directed a former employee, who was operations manager at the time, to remove claims from the mailroom because of the crowded conditions produced by the backlog. The manager told us he wanted no more than 30 trays of mail (about 30,000 claims) removed whereas the former employee estimated that about 100,000 pieces of mail (correspondence, as well as claims) were removed.

EDSF failed all workload-related standards for the last quarter of 1979, as well as the first quarter of 1980, so these actions did not prevent EDSF from incurring penalties under the contract. 1/ On the other hand, EDSF management had told HCFA officials and our staff in December 1979 that they had a goal to reduce their year-end pending claims inventory to 150,000 claims. EDSF reported 173,000 claims pending at year end. HCFA, based on its observations, estimated the inventory balance at 213,000. We now estimate, based on our discussions with current employees and examination of EDSF's internal records, that the actual year-end inventory balance was between 248,000 and 268,000 claims.

EDSF'S ACTIONS TO REDUCE ITS
CORRESPONDENCE BACKLOG

EDSF's claims backlog and its high error rate produced a high volume of correspondence from beneficiaries and providers ultimately leading to a backlog of unanswered correspondence in early 1980. By the end of March 1980 its pending correspondence inventory was about 110,000.

1/EDSF has only met one workload-related standard to date, and that was during the quarter ending September 30, 1980. It has been assessed over \$1.1 million in contract penalties.

Old Letters Were Purged

EDSF supervisors confirmed that old unanswered letters were purged from the system's pending inventory and subsequently destroyed 1/ without developing responses. They said it was concluded, based on an internal EDSF study, that many of these old letters had been resolved by other transactions EDSF had processed and that many others duplicated more recent letters in the backlog. The supervisors stated that answering the old correspondence would have hampered their efforts to respond to the more recent correspondence. They were uncertain as to the number of purges and total correspondence items purged, since records were not kept.

At our request EDSF was able to partially reconstruct a listing of the letters that had been purged from the system. We are analyzing a small random sample of letters from this list. Our preliminary findings show that 44 percent of the letters in our sample required a response, either because they requested reviews or submitted additional information to support a claim, and were not subsequently resolved.

We believe EDSF should have sent each correspondent some reply before purging the letters. A more prudent approach, in our opinion, would have been to explain the backlog situation in a letter, perhaps explaining the assumption being made, and offering an opportunity for the individuals to respond if still unsatisfied.

Pending Correspondence--Mostly Review
Requests--Were Destroyed Upon
Return from North Carolina

EDSF officials informed HCFA, in early March 1980, of their plans to reduce the correspondence backlog by processing the correspondence at an unspecified remote site. HCFA officials told us they assumed EDSF was referring to a remote site in Illinois, thus they did not know EDSF planned to process this correspondence outside the State.

1/Although the letters were destroyed, EDSF retains copies of incoming correspondence on microfilm.

As was the case with the claims processing outside of Illinois, HCFA officials told us they did not consider this to be a contract violation. They said something needed to be done with the correspondence backlog; and the contract, in their opinion, was written under the assumption that the critical workload situations which subsequently developed in Illinois would not arise.

Over 130,000 items of correspondence were processed by the North Carolina staff from the last week of March 1980 to the first week of July 1980. EDSF supervisors acknowledged that most of the correspondence was counted in its workload reports as responded to or otherwise completed, and removed from the pending inventory before it left North Carolina. They further acknowledged that some, in fact, was not completed and that some of the unanswered mail was discarded when it was returned to Illinois. They pointed out, however, that the unfinished correspondence was sorted upon its return to Illinois, and only the mail not needing a response or other additional development was discarded. The supervisors denied that any prematurely finalized 1/ mail was discarded.

The supervisors did not know how much uncompleted North Carolina correspondence had been discarded. EDSF routinely discarded correspondence after it was reviewed and answered by the correspondence clerks because it retained copies on microfilm. This practice of discarding original correspondence stopped in August 1980, however, when HCFA notified EDSF that it violated HCFA's record retention requirements.

Based on the definitions for the computer locations 2/ used by the EDSF staff in North Carolina and our sample of correspondence items, we estimate that about 90 percent of the correspondence was requests for reviews or reconsiderations of the amounts paid or not paid on previous claims. The large

1/We use the term "prematurely finalized" to mean actions taken by EDSF staff to report that an item of correspondence has been responded to or otherwise as having completed processing, when, in fact, additional work was needed.

2/This refers to designated places in the computer's memory where certain data relating to correspondence are stored.

number of review requests were from beneficiaries and providers who had been dissatisfied with EDSF's initial claim decisions-- decisions made generally by inexperienced claims examiners during EDSF's first year of operation.

We identified 55,000 items of correspondence which the North Carolina staff finalized in a computer location which involved neither a pay nor deny decision. Because of the preponderance of review requests, we believe this indicated that the 55,000 items may not have been reviewed or at least not worked to completion in North Carolina.

EDSF provided us with a list of over 30,000 correspondence control numbers for the correspondence finalized in this location during the first 2 months (March and April 1980) of the North Carolina operation. We are analyzing a random sample of this correspondence to determine if it was processed completely. Because of the difficulty of determining the exact disposition of the correspondence in question, we are limiting our analysis to review requests, and to those few claims that were inadvertently routed to North Carolina as correspondence. The disposition of these items, if processed completely, should be shown in the beneficiary history file which is supposed to show all transactions applicable to a particular beneficiary.

We found that about 90 percent of this sampled correspondence shown as finalized during March 1980 was either a claim or review request. EDSF supervisors said that most of this correspondence was finalized by sending form letters asking for more detailed information, without creating any record of the letters awaiting replies.

Approximately 50 percent of the small sample we have reviewed to date showed no evidence of any action taken. We asked EDSF supervisors for copies of the letters that were sent out. EDSF normally microfilms all letters before they are sent out. They told us, however, they have no microfilm records of these form letters, nor any other records of what was mailed.

Even if the North Carolina staff sent out the form letters, we believe that the action of reporting such correspondence items as completed is highly questionable. EDSF's normal practice should not be to finalize a review request for inventory control purposes while awaiting a reply needed to complete its review.

We believe HCFA should have exercised greater control over the correspondence backlog. Although HCFA officials stated they did not know EDSF was using a site in North Carolina until after it was operational, they did know a remote site with temporary personnel was going to be used. HCFA's monitoring does not include any tests to determine if all correspondence is answered before being counted and reported as completed on EDSF workload reports. It does examine a sample of the carrier's replies for compliance with HCFA rules, but does not test for unanswered correspondence. HCFA did not modify its procedures to assure that all of the correspondence shipped to North Carolina for handling was appropriately responded to.

Review Requests Were Sometimes
Recycled As Claims

EDSF supervisors acknowledged that sometimes requests for review are returned to the mailroom and recycled as original claims. This only happens, according to the supervisors, when a claimant requests a review of a claim and the claim is not identified in the beneficiary history file. EDSF's claims control system uses different control numbers for claims and correspondence, thus necessitating the re-cycling. The supervisors also stated that occasionally claims are mistakenly routed as review requests and then have to be returned to the mailroom for reentry as claims.

HCFA's onsite representative at EDSF said that, acting on information from an EDSF employee, he found over 200 review requests that had been returned to the mailroom for entry as new claims. Although some, in his opinion, were probably bonafide claims, others were benefit payment explanations with questioned amounts circled by the claimant, which is strong evidence that a review of a prior claim was being requested. No records of this incident were kept by EDSF or the HCFA representative, however. This did not occur in subsequent HCFA mailroom inspections.

Other than what we were told by the HCFA representative, we found no indication of any irregularity by EDSF in this area. It is probable that the situations described above were those referred to by the former employees in meetings with us.

Undeliverable EOMBs Were Discarded

Two of EDSF's present employees, including the current claims control manager, acknowledged that they discarded undeliverable payment explanations without performing the tasks required by the HCFA carriers' manual. We could not determine the number discarded, although EDSF employees estimated that the undeliverable EOMBs were returned during EDSF's first year of operation in Illinois at the rate of from 800 to a couple of thousand per day. A recent count, completed by EDSF at our request, shows an average of at least 500 such returns per day.

HCFA requires several actions on these returned items including determining reasons for their return, re-sending them, and pursuing possible program integrity problems. 1/ None of the required actions were taken.

Since mid-July 1980 EDSF has retained the returned EOMBs. On October 29, 1980, we asked EDSF to examine the mail sacks that had accumulated up through that period. In addition to the EOMBs, there were returned checks, returned letters EDSF had mailed out, and general correspondence addressed to EDSF. The following types and amounts of correspondence were identified in the 33,973 items sorted:

Undeliverable EOMBs	29,082
Undeliverable EDSF letters for additional information	4,160
Undeliverable provider newsletters	323
Undeliverable EDSF replies to correspondence	142
Undeliverable checks	42
Correspondence addressed to EDSF	224

1/Much of the fraud and abuse found in the Medicare program in the past has been identified by beneficiaries, upon receipt of an EOMB for services paid on their behalf, notifying program officials that no such services had been rendered.

Thus, it is possible that, along with EOMBs, EDSF staff may have discarded other items of correspondence as identified above through the first part of July 1980.

EDSF's general manager for Illinois told us on December 12, 1980, that EDSF now sends the returned EOMBs to its office in Marion, Illinois. He said that since November 17, 1980, the Marion staff have been reviewing the returned EOMBs and taking the action required by the HCFA carriers' manual.

EDSF'S FAIR HEARINGS BACKLOG

We did not receive any allegations concerning EDSF's handling of fair hearing requests. We did, however, receive several complaints from beneficiaries about this area. Because of our concerns which surfaced over EDSF's handling of review requests (the first step in Medicare's appeal process), we decided to see if there were problems with the fair hearing process in Illinois. Presently, the fair hearing is the beneficiary or provider's last chance for a decision reversal. 1/

EDSF's fair hearings requests nearly tripled in May 1980 over the previous month and have remained consistently high. By the end of November 1980 EDSF's pending fair hearings cases totalled 995. EDSF began increasing the size of its fair hearings staff in September 1980 to deal with the hearings backlog.

HCFA's instructions to carriers on the appeals process contain references to the qualifications required of a fair hearing officer (HO). In Section 12016B, Part 3, of the Medicare Part B Carriers Manual, the qualifications are described as follows:

"The carrier should designate as a HO an attorney or other qualified individual with the

1/This may change. A recent United States District Court decision in California requires the Secretary of the Department of Health and Human Services to make certain changes in the administration of the fair hearing program. A final decision on what these changes may be has not been made, however.

ability to conduct formal hearings and with a general understanding of medical matters and terminology. The HO must have a thorough knowledge of the Medicare program and the statutory authority and regulations upon which it is based, as well as rulings, policy statements, and general instructions pertinent to the Medicare Bureau."

Other Medicare notices to carriers over the years have cited the need for high professional quality, not just in the conduct of the hearing, but in preparation of the related decision, as well.

EDSF, in its technical proposal incorporated as part of the Illinois contract, recognized the need for high professionalism and legal backgrounds for its hearing officers. EDSF stated in its proposal that

"Individuals selected as fair hearing officers will be attorneys-at-law, fully qualified to practice law in the state of Illinois. The hearing officers will be qualified to conduct hearings and will either possess a detailed knowledge of or be thoroughly trained in medical terminology and program regulations."

A survey conducted in January 1979 by HCFA showed that the majority of the carriers' fair hearing officers around the country were attorneys. Those that were not generally possessed several years of experience with health insurance claim adjudication.

The EDSF general manager for Illinois told us on November 4, 1980, that they had 9 fair hearing officers, none of whom are attorneys. The department is managed by an attorney, however. We inquired about the backgrounds and qualifications of the hearing officers and were given the resumes or applications submitted by the nine officers when they were hired.

These documents showed that none were attorneys and only three had college degrees--one had a degree in journalism, one in public administration, and the third in home economics.

We believe this aspect of EDSF's operations needs immediate attention by HCFA. Not only is EDSF's staff qualifications in this area far below what it stated in its technical proposal, but the staff qualifications have serious potential ramifications for the beneficiaries and providers in Illinois. Considering the high error rate on initial claim determinations, and the reported findings on EDSF's handling of the backlogs of review requests, HCFA should assess the large backlog problem, as well as review the normal workload (currently over 300 a month) of fair hearing requests.

HCFA has given scant coverage to this aspect of EDSF's operations to date. HCFA has not evaluated the hearing officers' qualifications. HCFA headquarters' staff have responsibility for evaluating the quality of carriers' fair hearings, but they were not sure how many of EDSF's decisions they may have looked at. At our request, the HCFA staff said they would examine 13 cases submitted by EDSF for the quarter ending September 30, 1980.

HCFA reviewed 6 of the 13 cases, and reported that proper decisions were rendered in each case. However, the HCFA reviewer faulted the quality of all six, citing the use of poor rationale, poor literary composition, and the incompleteness of the files. Of the six cases reviewed, four were handled by two of the hearing officers and the other two cases were handled by the fair hearings manager. According to the HCFA reviewer, the other seven cases had been lost.

EDSF reportedly closed 1,351 fair hearings through September 1980. Considering the requirements of the carriers' manual for submission of sample case files to HCFA for review, we conservatively estimate that HCFA should have evaluated the quality of at least 60 cases since EDSF began operations in Illinois. While the HCFA reviewer stated that he had reviewed more in other quarters, he did not recall his findings and he only had evidence that 6 of the 1,351 fair hearing cases had been reviewed.

SUMMARY

Most of the facts surrounding the allegations presented to us by former employees of EDSF were substantiated. In no case, however, did these actions enable EDSF to avoid financial penalties under the contract.

Generally, the actions described above occurred during backlogged situations. With an increased level of on-site monitoring, particularly over the handling of review requests in North Carolina and Illinois, HCFA may have been able to prevent the discarding of unfinished correspondence, the premature finalizing of requests for review, and the loss of adequate controls over the inventory of pending correspondence. HCFA would also have been better able to evaluate the effects of forcing claims into the system if it had provided more on-site monitoring of EDSF in the fall of 1979, when the Congressional and public pressures began to build over the claims backlog.

We believe HCFA needs to give this contractor more attention than it has to date. We recognize that HCFA's Chicago Regional Office is using more resources on EDSF than any other contractor in the region. However, EDSF's performance to date is far worse than any other contractor and requires continual monitoring.

HCFA needs to take action to bring EDSF into compliance with the standards on documentation for system overrides and system edits. HCFA also needs to identify and evaluate the reason for EDSF's high volume of undeliverable mail.


EDSF's handling of the appeal process also requires HCFA's attention. HCFA needs to assess the fair hearing situation. The backlog of cases is continuing to grow and the quality of the hearings and the related decisions should be evaluated. The qualifications of EDSF's hearing officers are not in compliance with its technical proposal, nor, in our opinion, the requirements of the carriers' manual.

We believe HCFA also needs to provide continual oversight of EDSF's handling of reviews. HCFA's present evaluation process examines the quality of replies sent out by EDSF, but does not ensure that all review requests are processed completely. HCFA should add this element to its monitoring tasks.

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This report covers only the issues surrounding the allegations, with the exception of the fair hearings problem. We are sending a similar report today to Congressman Paul Simon.

Sincerely yours,


Gregory J. Anart
Director