

DEPARTMENT OF VETERANS AFFAIRS

Weak Management and Poor Internal Controls Have Prevented the Department From Establishing an Effective Cash Collection System

Audit Highlights . . .

Our review of the Department of Veterans Affairs' (department) cash management for itself and its three homes for veterans revealed that:

- Since the Department of Health Services decertified the department's Barstow home, the department estimates that this home lost \$5.7 million in federal and state funds through June 2001.*
 - Despite its cash flow difficulties, the department has not taken full advantage of all cash sources available to it, and has been slow to bill a substantial number of Medicare claims.*
 - The department lacks an understanding of the data in its system, in addition to adequate tools and resources, to allow it to effectively manage the fiscal operations of its veterans homes.*
 - The department's August 2001 report of its cash flow needs for fiscal year 2001-02 does not meet the requirements in the Legislature's request, and its December report may also be insufficient.*
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REPORT NUMBER 2001-113, DECEMBER 2001

Department of Veterans Affairs' response as of December 2002

The Joint Legislative Audit Committee asked us to examine the Department of Veterans Affairs' (department) management of cash flow for its veterans homes and the central headquarters operations supporting these homes. We found the department has poorly managed its cash and that of its three veterans homes, and it has failed to pursue some reimbursements to which it is entitled. In addition, we noted that the department lacks the tools to manage and control effectively the fiscal operations of its veterans homes, and that its attempts to alleviate its cash flow problems have not been successful. Finally, the department's August 2001 report on its cash flow needs did not meet the requirements in the Legislature's request. Specifically, we found:

Finding #1: The department does not bill for all the services that its homes provide.

The department faced significant cash shortages because one of its veterans homes has suffered from substandard level of care and because it has not been billing for all of the services that its homes supply to veterans. Specific areas our audit identified include:

- The Department of Health Services (Health Services) withdrew the certification for the Veterans Home of California, Barstow (Barstow home) in July 2000 because of the home's substandard level of care of residents. This decertification prevented the Barstow home from qualifying for federal payments for its daily care of residents and for Medicare and Medi-Cal reimbursements. Consequently, the department estimates that it lost \$5.7 million in federal and state funds from June 13, 2000, through June 2001. To compensate for the loss of these reimbursements, the Legislature authorized additional appropriations totaling \$5.5 million from the State's General Fund.

- The department has not tried to collect the total amount of secondary insurance charges for which it could bill. The department has a policy that directs staff to not spend time billing secondary insurers directly or following up on claims billed automatically by Medicare. Our review indicated that the department's investment of time to perform these additional billings would be negligible, although we did not find that the department would recover large amounts of money from these secondary insurers. Nevertheless, this additional billing does represent a source of reimbursements that the department has not adequately explored.
- Billing errors and lack of adequate documentation may be costing the department additional reimbursements. Of a 100-chart sample of patient charts and their corresponding bills, department consultants noted that 50 charts had no corresponding bills. In the remaining 50 charts for which they could find bills, the consultants noted 158 errors, including 73 cases where the department had not billed or had underbilled for some services and 85 instances in which the department may have billed services erroneously. Neither we nor the department can say with certainty the amount of reimbursements that it may have lost, but given the error rate in the consultant's sample, this number may be significant.
- Staffing issues have contributed to the department's billing problems. Headquarters staff stated that a major contributor to the department's delays in filing claims was the shortage of utilization review nurses and health records technicians. During the period of November 2000 to May 2001, the Veterans Home of California, Yountville (Yountville home) had staff for only one of two budgeted positions for utilization review nurses, and four of six approved positions for health records technicians. The department estimates that these staffing shortages caused the Yountville home to lose \$217,000 in possible reimbursements for skilled nursing care from July 2000 through July 2001. Although the home unsuccessfully tried to hire utilization review nurses on a temporary basis, it did not consider other ways to alleviate its staffing shortage. We also noted that salaries for these positions are lower than the average market wages for similar classifications in state and local government in the San Francisco area where the Yountville home is located.

- The department may have lost additional funds by failing to follow through on recommendations from auditors and consultants. As of October 24, 2001, the department has resolved only 15 of 40 outstanding issues brought to its attention by its billing consultant in calendar year 2000 and again in January 2001. The consultant had noted that the open issues were affecting the department's ability to collect reimbursements for the services provided by the homes.

To ensure that it is billing for all services provided by its three homes for veterans, we recommended the department do the following:

- Continue to seek recertification for its Barstow home so that this home can bill for Medicare and Medi-Cal reimbursements.
- Notify Health Services when the department believes that the Barstow home is ready to undergo a new survey that will lead to recertification.
- Follow up on claims submitted to secondary insurance providers to ensure that it has received reimbursements and that staff reworks rejected or denied claims promptly. In addition, to recover additional reimbursements, the department should submit claims to secondary insurance providers that it has not usually billed.
- Correct the information system and process deficiencies noted by its consulting group in the 100-chart sample. If time limits have not expired, the department should also resubmit claims for the items that it underbilled.
- Consider options to fill utilization review nurse shortages, such as transferring qualified staff to the utilization review section and hiring from nursing registries to replace these staff until the Yountville home can hire and train permanent utilization review nurses and health records technicians.
- Investigate the salary levels and classifications for trained utilization review nurses and health records technicians to determine whether it needs to work with the State Personnel Board to change salary levels for these positions.
- Assign to a department staff member the responsibility for implementing consultant and auditor recommendations. This employee should have sufficient authority to ensure that units in the department complete recommended tasks.

Department Action: Corrective action taken.

The department's one-year response indicated that it had taken the following actions:

- The department notified Health Services that the Barstow home was ready to undergo a new survey on October 25, 2001. Health Services completed its final survey of the home and recertified the Barstow home effective January 17, 2002. The department has resumed billing for service dates from January 17, 2002, forward.
- The department implemented a newer version of its information system on May 7, 2002, to enhance the department's ability to bill secondary payers. In addition, the department retained a consultant to act as its billing intermediary. The department's consultant electronically bills nearly all secondary insurance claims, and is in the process of implementing paper claims billing for those secondary insurers not electronically billed. Moreover, the department is evaluating the value of its contract with its billing intermediary.
- The department corrected the procedural deficiencies noted by its consulting group in the 100-chart sample. Additionally, the department was able to provide valid documentation to bill 42 of the 50 accounts with possible information system and/or process deficiencies for a total amount received of \$100,321.
- After its two utilization review nurses left the department during the first week of October 2002, the Yountville home interviewed several candidates and made a commitment to hire one of the applicants. The Yountville home continues to advertise to fill the remaining vacant utilization nurse position. To reduce the risk of this situation occurring in the future, the department is developing a training plan, pending fiscal support, utilizing outside resources to educate and proctor the new employee. In addition, the department plans to cross-train three in-house employees simultaneously to ensure that experienced back-up staff is available.
- Based on its recently completed audit and salary comparison, the department believes that current salary levels for utilization review nurses are adequate, and that salary

levels for health record technicians will be adequate after the 5 percent salary increase in July 2003. Therefore, the department does not plan to forward salary adjustment requests to the Department of Personnel Administration or the State Personnel Board.

- The department assigned responsibility for implementing consultant and auditor recommendations for financial management to the chief of the financial services division. Other findings are routinely assigned to appropriate staff, as determined by the findings, for follow-up. Also, the implementation of recommendations is tracked by the financial management section and reported to the chief of the financial services division. The department is evaluating how to reestablish an independent internal audit function outside the financial services division as a result of the passage of Senate Bill 1858 (Chapter 977, Statutes of 2002).

Finding #2: The department does not bill promptly for its services.

The department has further compounded its cash flow difficulties by failing to submit promptly its claims for certain reimbursements. The department failed to bill Medicare for outpatient services provided by one of its homes between August 2000 and June 2001 until June 2001 because, in part, its employees did not understand how policy changes made by the federal government would affect the department's billing procedures. However, we did not find this 10-month delay to be reasonable because the department had sufficient notice of the federal government's planned policy revisions to begin making changes to its billing system. Our testing of a sample of 44 claims generated during fiscal year 2000–01 revealed that the department averaged 207 days from the last date of service to the date that it submitted the claims to Medicare for the 25 claims that it billed. For these 25 claims, Medicare averaged 27 days from the date the department submitted the bills to the date that the federal agency either paid or rejected them.

We recommended that the department continue to focus on clearing its backlog of claims and ensuring that staff perform all tasks related to billing to ensure that it is billing claims promptly.

Department Action: Corrective action taken.

The department transferred 1,503 accounts, with an accounts receivable of \$3.6 million, to its consultant. The department's consultant collected \$787,058 on behalf of the department, with the remainder written off as insurance contractual adjustments, noncovered services, or self-pay. The department paid its consultant \$138,266 for its services.

Further, the department reported that it cleared its coding backlog for 2000 and 2001 on December 1, 2001. Currently, the department reports that it has approximately 1,000 claims in the system that will need further documentation or clarification from the service areas before final coding can be completed.

With regard to ensuring that staff perform all tasks related to billing to ensure that it bills claims promptly, the Yountville home reports that all utilization review notices are current, and all approved stays with accounts finalized by its medical administrative services unit have been billed up to September 2002. Because the two utilization review nurse positions have been vacant since the first week of October 2002, billing on new accounts are being held in reimbursements while the new utilization review nurse is fully trained.

Finding #3: Insufficient information hampers the department's management of reimbursements.

The department lacks sufficient knowledge of the data in its billing management information system (information system), which has caused the department to overestimate the total reimbursements that it believes it can recover. In July 2001 the department retained a consultant to assist in billing outstanding charges, estimating that the consultant could recover up to \$6 million. However, as of September 30, 2001, the department's consultant has been able to recover only between \$350,000 and \$450,000. Erroneous accounts in its system prevent the department from accurately determining how many accounts remain that it can bill. For example, as of August 31, 2001, the Yountville home had 3,076 outpatient clinical accounts with no charges from fiscal year 2000–01. Our testing of 309 of these accounts revealed that 22 accounts had actual charges totaling almost \$4,800 that should have been entered and processed for billing. We also found charge slips for 19 accounts for which the

home provided services but that were not billable to an insurance provider. We could not find charge slips for the remaining 268 accounts.

To ensure that it has a sufficient understanding of the accounts and data in its information system, the department should do the following:

- Analyze costs and benefits of continuing to hire consultants to bill for prior-year charges to determine whether reimbursements will adequately cover costs for hiring consultants. Further, if the department decides to keep its current information system, it should hire a consultant knowledgeable in the department's current information system to assist the department in cleaning up erroneous data, applying credits to accounts for which payments have been received, and processing all unbilled charges in the system, in addition to assisting the department in developing written business policies and practices and training staff.
- Finish implementing a system of numbered charge slips to ensure that all staff at its veterans homes have entered all data.
- Investigate accounts with no charges to determine whether the department can submit claims or should delete these accounts.

Department Action: Partial corrective action taken.

The department's one-year response indicated that it had taken the following actions:

- The department reports that it is continuing to contract with outside consultants in order to recoup prior- and current-year funds until it conducts a feasibility study to identify the true costs of moving from its current information system to a different one. In the meantime, the department stated it has installed upgrades to its current system, which has improved the system's functionality. Further, the department reported that its Information Technology Council is in the process of evaluating off-the-shelf information system capabilities within the same operational environment as the homes.
- The department reported that since November 2001, it has assigned a full-time staff member as a charge slip coordinator to number and track all charge slips and ensure that all registered appointments have a corresponding

charge slip that is ready to be processed for billing. The department reported that since March 2002, it has been actively tracking charge slips. Additionally, the department plans to implement a new process for tracking and billing physician visits for long-term care patients by the end of the first quarter of 2003.

- The department continues to purge all accounts for services before October 2000, as these accounts are no longer collectible. It also plans to continue producing selection reports to determine if any zero charge accounts are duplicate or incorrectly set-up accounts and will delete these accounts as uncollectible, erroneous accounts.

Finding #4: The department does not prepare management reports or fully access its information system.

The department cannot accurately estimate the amount of unbilled charges in its information system because the system includes erroneous amounts. Without sufficient knowledge of the amounts available to it for billing, the department cannot effectively monitor and manage its billing and collection process, nor can it prepare useful management reports. Our review of cash position reports prepared by the department's reimbursements unit from data in the department's information system noted significant differences between totals in this report and totals in the department's accounting system. Because the department's accounting system cannot track unbilled charges, the department may be missing opportunities to collect reimbursements because it cannot evaluate its effectiveness in billing claims using data from that system. Further, the department's information system has tools and reports that can assist management in controlling cash flow; however, management at the department and at the veterans homes appears not to be using many of these. Although the veterans homes use only 41 of 76 modules purchased by the department for their use, the department estimates it will pay \$81,000 to \$251,000 per home to maintain all the modules in fiscal year 2001-02.

We recommended that the department develop periodic management reports, and regularly reconcile these reports with the department's accounting records in order to evaluate the cash flow at headquarters and at all three homes with respect to reimbursements, expenditures, accounts receivable, and unbilled claims.

Department Action: Corrective action taken.

The department has developed a series of reports including cash collections per week by source of revenue, cash flow analysis for each home, and monthly expenditure analysis for each home. These reports are presented to its Home Executive Council, which meets monthly.

Finding #5: The department's internal controls lack adequate oversight.

The department's oversight of internal controls has serious shortcomings. Despite its awareness that its internal controls, including its business policies and practices, exhibit consistent deficiencies, the department has not made sufficient effort to correct known problems. In addition, the department has not had an external audit or internal review of its internal controls since 1994. According to our limited review of the department's operations, the department exhibits to some degree most of the warning signs that appear on the State Administrative Manual's list characterizing poor maintenance of an internal control system. For example, the department did not keep current its policies and procedures manuals, and it does not produce accurate operational reports it could use as management tools.

In addition, although the Legislature transferred the responsibility for internal audits to the Inspector General for Veterans Affairs (inspector general), it did not give the inspector general access to all departmental records. Without access to many confidential records, the inspector general is unable to review many of the department's controls.

We recommended that the department ensure that regularly scheduled reviews of its internal controls are performed to provide assurance that the department's mission is carried out and that the department is maintaining effective control over assets, liabilities, reimbursements, and expenditures.

In addition, if the Legislature believes that the intent of its legislation creating the position of inspector general is not being met, it should consider clarifying state law governing the inspector general so that the inspector general has appropriate access to all department records.

Department Action: Partial corrective action taken.

The department conducts regularly scheduled reviews separately and in conjunction with the inspector general. Furthermore, the results and recommendations of prior reviews will be submitted to the Executive Council of the Veterans Homes or the secretary's office, as appropriate, for implementation.

Legislative Action: Legislation passed.

In September 2002, the Legislature passed and the governor signed Senate Bill 1858 (Chapter 977, Statutes of 2002), which gave the California Veterans Board and the inspector general access to all documents and employees of the department.

Finding #6: The department has demonstrated an inconsistent approach to fiscal management.

In August 2001 the department proposed a reorganization for the oversight of its homes. Nevertheless, the department has used an inconsistent approach to fiscal management. The department recently returned some tasks to the homes with the goal of enabling each veterans home to better manage its budget, however, it did not ensure that the homes had access to current, accurate data or to a functional information system. Additionally, the department did not give the homes adequate written guidance or performance measures, nor did it enter budget data into its accounting system or list budget targets for the veterans homes until October 2001, three months after the start of the fiscal year.

We recommended that the department continue to define and clarify in writing the division of responsibilities between headquarters and the veterans homes to make certain that expenditure and reimbursement activities have appropriate oversight.

Department Action: Partial corrective action taken.

The department reports that it has developed an official mission, vision, and value statement, along with goals and objectives for reorganizing its veterans homes division. The department has also developed measures and metrics for staff performance at its homes. The department expects to make substantial progress on the development of the division's scorecard later in the year, which will include a prototype report as part of the home's executive board

operations. Finally, the department is developing an administrative manual for its division concurrently with an overall review of its policies and procedures. Although, as stated in its response to finding 8, it has delayed development of this manual due to lack of resources. As the department develops standardized procedures, it plans to incorporate them into its administrative manual.

Finding #7: Lack of appropriate training continues to hamper claims processing.

In general, the department may not have optimized its use of its training dollars for its billing staff. In fiscal year 2000–01, the department spent at least \$66,040 for training, of which only \$1,000 went to training for medical billing. This training was general in nature and did not significantly increase staff’s knowledge of billing procedures. An additional \$935 of the \$66,040 training funds went to lost registration costs due to last-minute cancellations by department staff. Moreover, of the 68 training classes offered to Barstow home staff, and 118 hours of training provided to Yountville home medical billing staff, none applied to medical billing. Recent changes in Medicare filing requirements make training critical for the department. Partly because of its staff’s lack of billing expertise and knowledge, the department hired a consultant in July 2001 to assist it in processing backlogged claims for October 1, 1999, through June 30, 2001. The contract will cost up to \$400,000, and the department has budgeted \$810,000 for another consultant to assist it in processing claims for fiscal year 2001–02.

The department should provide training opportunities for department staff, particularly staff involved in processing claims, to ensure that they stay informed about current developments in Medicare regulations and policies.

Department Action: Corrective action taken.

The department has provided training classes for its headquarters and home reimbursement staff. Further, a reimbursement staff member continues the task of reviewing all Medicare bulletins and disseminating current policies, procedures, and new regulations to the headquarters billing staff, and to the support and clinical staff at the homes. The department continues to seek training opportunities and funding for both the headquarters and home reimbursement staff.

Finding #8: Poor management has caused deficiencies in the department's information system.

The department has not provided adequate leadership to ensure that the veterans homes have a usable information system. Poor management, lack of executive sponsorship, and insufficient training have all contributed to deficiencies and errors in the data recorded in the department's information system. The department has not made certain that staff and management accept the system, nor has it provided sufficient resources, including adequate training, to implement the information system successfully. Finally, the department has failed to fulfill its own as well as its consultants' recommendations for resolving information system issues. These weaknesses have resulted in an information system that does not assist the homes in tracking services provided to patients and in collecting reimbursements for services provided.

The department should decide how it will satisfy its three veterans homes' conflicting needs for an information system, and implement a decision fully supported by management. If it retains its current information system, the department should ensure that it fully develops and completes the data dictionaries and that staff receives adequate training to maintain and operate the information system. We also recommended that the department perform business process reengineering, including developing written business policies and practices that require staff to carry out necessary tasks and to receive adequate training. If it deems it cost-beneficial, the department should consider hiring a consultant to assist it in these tasks and to help the department develop its business solution.

Department Action: Partial corrective action taken.

The department successfully upgraded its current information system in May 2002. However, the department's Veteran's Home Executive Board concluded, based on input from staff, that a more modern system is required. The department has formed several teams to develop requests for proposal and to determine what limited action must continue with its current system until the department can select and implement a new system.

The department continues to seek funding for business process reengineering, but has not been successful due to the current fiscal environment. The department's efforts in

updating both its reimbursement procedure manual and administrative manual have been delayed, however, the department intends to ensure that as resources become available, it updates its written policies and procedures. Further, the department intends to continue seeking funding for business process reengineering.

Finding #9: Limiting expenditures was not as effective as the department had anticipated.

The department has attempted to control its cash flow by limiting expenditures at the homes and at headquarters. However, this has not solved the department's problems with cash management. In fact, the department has actually increased its expenditures since implementing cost-cutting measures in January 2001. The department increased its use of consultants because it has had difficulties obtaining reimbursements from insurers and it signed contracts totaling \$4.7 million for consultant services begun or continued in fiscal year 2000–01. Because the department has decreased its collections of reimbursements from insurers and has been unsuccessful in decreasing expenditures, the State has supplied additional funding for the department. However, this draws on state funds that could be available for other uses.

To better ensure that it meets its cash flow needs, the department should examine its use of consultants to consider how best to allocate resources to obtain needed services. In addition, the department should analyze the costs and benefits of contracting out its billing and collections functions and eliminating excess positions, to determine whether it can avoid paying both consultants and staff to perform similar functions.

Department Action: Partial corrective action taken.

The department reported that it continued its contract with outside consultants in order to realize all available cash from the accounts receivables. Further, the department contracted with an outside consultant in the fiscal year 2002–03 to become its fiscal intermediary. Based on this contract, the department plans to implement a reorganization plan for its current staff.

Finding #10: The August report on cash flow does not supply the information requested by the Legislature, and the department's December report may also fall short of legislative requirements.

The Legislature directed the department to provide a report as of August 31, 2001, that details the department's needs for cash. However, the department did not fulfill this request adequately. Specifically, the department report omits the department's starting cash position, and it does not show expected reimbursement collections or expenditures by month. Our review also noted that rather than offering a cash flow forecast, the department's report merely repeats material from the department's budget from the 2001-02 Final Budget Summary. Although it is working on a new format for the next report, due in December 2001, it has not yet finalized the methodology to estimate accurately its accounts receivable. Additionally, deficiencies in the August 2001 report will render the next report useless for making comparisons. Therefore, the department and the Legislature will be unable to use these reports to determine the causes and fiscal implications of the differences between the reports.

To support and improve its process for developing analyses of its future cash flow needs, the department should continue to prepare the detailed estimates and supporting schedules that it needs for its December 2001 and February 2002 reports to the Legislature.

Department Action: Partial corrective action taken.

The department reports that it has agreed to continue furnishing the cash flow reports to the Legislature in the current budget year.