

Department of Veterans Affairs:

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



December 2001
2001-113

The first five copies of each California State Auditor report are free. Additional copies are \$3 each, payable by check or money order. You can obtain reports by contacting the Bureau of State Audits at the following address:

**California State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814
(916) 445-0255 or TDD (916) 445-0255 x 216**

OR

**This report may also be available
on the World Wide Web
<http://www.bsa.ca.gov/bsa/>**

The California State Auditor is pleased to announce the availability of an online subscription service. For information on how to subscribe, please visit our Web site at www.bsa.ca.gov/bsa. If you need additional information, please contact David Madrigal at (916) 445-0255, ext. 201.

Alternate format reports available upon request.

Permission is granted to reproduce reports.



CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

December 5, 2001

2001-113

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning a review of the Department of Veterans Affairs' (department) cash management for itself and its three homes for veterans.

This report concludes that the department's poor billing practices have resulted in a large decline in the reimbursements that it has collected for services provided by its veterans homes. The department has not billed for all the services that its homes provide, and has delayed for long periods before submitting claims for those services it did bill. Additionally, the department lacks adequate knowledge of the data in its billing management information system (information system), and thus cannot accurately estimate the amount of unbilled claims available for reimbursement. Because these flawed billing practices have kept it from collecting reimbursements to which it is entitled, the department has received additional funds from the General Fund to replenish cash shortfalls.

Furthermore, the department has not supplied proper oversight and controls for the fiscal operations of its homes, and it lacks key tools and resources, such as accurate management reports and budgeting tools. Poor management of the department's information system has resulted in serious data deficiencies and known errors that the department is not resolving aggressively.

Finally, the department has attempted unsuccessfully to compensate for its poor billing practices by obtaining loans from the General Fund, and by limiting expenditures at headquarters and the homes. Decreased reimbursements and the department's lack of success in decreasing expenditures have caused the department to draw on state funds that could be available for other uses. Although the Legislature requested a report as of August 31, 2001, of the department's needs for cash, the department did not fulfill this request adequately. Moreover, the next report, due in December 2001, may also fail to meet the Legislature's requirements.

Respectfully submitted,

ELAINE M. HOWLE
State Auditor

BUREAU OF STATE AUDITS

CONTENTS

<i>Summary</i>	1
<i>Introduction</i>	7
<i>Chapter 1</i>	
Poor Management and Faulty Billing Practices Have Led to Cash Shortfalls	17
Recommendations	28
<i>Chapter 2</i>	
The Department Lacks the Tools to Manage and Control Effectively the Fiscal Operations of Its Veterans Homes	31
Recommendations	43
<i>Chapter 3</i>	
The Department's Attempts to Alleviate Its Cash Flow Problems Have Not Been Successful	45
Recommendations	52
<i>Response to the Audit</i>	
Department of Veterans Affairs	53
<i>California State Auditor's Comments on the Response From the Department of Veterans Affairs</i>	61

SUMMARY

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.*
-

RESULTS IN BRIEF

The Department of Veterans Affairs (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. Most funding for the department's homes comes from the State's General Fund, but additional financial support comes from the U.S. Department of Veterans Affairs, from fees paid by residents of the homes, and from reimbursements paid by Medicare, the California Medical Assistance Program (Medi-Cal), and secondary insurance providers. The department's substandard level of care of residents prompted the Department of Health Services (Health Services) to withdraw in July 2000 the certification for the Veterans Home of California, Barstow (Barstow home), one of the department's homes that provides health care services to eligible veterans. This decertification prevented the Barstow home from qualifying for federal payments for its daily care of residents and for Medicare and Medi-Cal reimbursements. The department estimates that it lost \$5.7 million in federal and state funds from June 2000 to June 2001 because the Barstow home had become ineligible for reimbursements. Despite this loss of funds, the department has not reduced the level of services at its homes because it has obtained additional appropriations from the General Fund to replace the lost reimbursements.

Even though its cash flow from reimbursements has decreased, the department does not take full advantage of all cash sources available, and its inadequate implementation and use of its billing management information system (information system) have caused additional losses of money. For example, billing errors and inadequate documentation may be costing the department additional reimbursements for the services that its homes supply to veterans. The department has further compounded its cash flow difficulties by failing to submit promptly its claims for certain reimbursements. We noted that the department failed to bill Medicare until June 2001 for outpatient services that one of the homes furnished between August 2000 and June 2001, because, in part, its employees did not understand how the policy changes made by the federal government would affect the department's billing procedures. 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.

Not only does department staff neglect or delay billing for certain reimbursements, but it also lacks sufficient knowledge of the data in the department's information system. Staff's problems with obtaining accurate data from this information system have 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 to \$450,000.

Our audit also revealed that the department lacks the tools and resources to manage effectively the fiscal operations of its veterans homes. Specifically, the department does not prepare accurate management reports, and department management appears not to use many of the tools and reports available in its information system. The homes are not using 35 of the 76 information system modules purchased by the department for its three homes, including a cost accounting module that would give the department a valuable budgeting and tracking tool. The department estimates that in fiscal year 2001-02, it will pay yearly maintenance fees of \$81,000 to \$251,000 per home for the information system, even though the homes are using only 41 of the system's modules.

Additionally, the department conducts extremely limited reviews of its internal controls. In fact, the department has not conducted a formal evaluation of its internal controls since 1994. According to our own 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 does not keep current its policies and procedures manuals, and it does not produce accurate operational reports it could use as management tools.

The department may have aggravated its problems in collecting reimbursements because it has missed training opportunities and because both the department and the homes have used training funds ineffectively. The lack of training has caused an

absence of billing expertise and knowledge at the department. Because staff does not have the necessary skills for billing backlogged claims, the department hired consultants to assist with this task. The department signed a contract agreeing to pay consultants up to \$400,000 to assist the department in billing outstanding claims for services provided from October 1999 to June 2001, and it has budgeted another \$810,000 for fiscal year 2001–02. Finally, this insufficient training, together with poor management and a lack of sponsorship by executive management, has contributed to deficiencies and errors in the department’s information system, resulting in a system that does not perform as it should.

The department has tried to correct its cash flow problems, but these attempts have been largely unsuccessful. It has requested loans from the General Fund to cover timing differences resulting from delays in the department’s receipt of federal funds or reimbursements. However, these loans do not solve the underlying cause of the timing differences, which occur primarily when the department delays preparing and submitting bills to Medicare and Medi-Cal. The department also attempted to control its cash flow by limiting expenditures, but expenditures at two of the three homes, as well as at department headquarters in Sacramento, actually increased after the department implemented the cost-cutting measures. In fact, the cost for consultants has risen significantly because the department has increased its use of consultants hired to help overcome its poor billing practices. Decreased reimbursements and the department’s lack of success in decreasing expenditures have not led to lower levels of care in the department’s homes because the department has obtained additional money from the General Fund, but this is money that the State could potentially use for other purposes.

The Legislature asked the department to provide a report as of August 31, 2001, that details the department’s cash flow needs for fiscal year 2001–02. In addition, the Legislature directed the department to submit for comparative and analytic purposes another report on December 31, 2001, and a third report on February 28, 2002. However, the department’s August report does not meet the requirements contained in the Legislature’s request, and its December report may have limited use for the Legislature.

RECOMMENDATIONS

To ensure that it can bill for all the services provided by its three homes, the department should 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 for a new survey by Health Services.
- Follow up on claims submitted to secondary insurance providers to make certain that it has received reimbursements, and submit claims to secondary insurers that it has not billed in the past.

To ensure that it is billing charges promptly, the department should continue to focus on clearing its backlog of claims and ensuring that staff performs all tasks so that current claims are billed promptly.

To verify whether consultants who assist with delayed billing are a cost-effective solution to some of its cash flow problems, the department should use the results of its current contractor as the basis to analyze the costs and benefits of continuing to hire these consultants. The department should also determine whether the additional collections of federal reimbursements and payments from Medicare and Medi-Cal will adequately cover the consultants' costs.

To establish adequate tools and resources for controlling its fiscal operations, the department should take these steps:

- Develop periodic management reports, such as aging reports of accounts receivable, and regularly reconcile these reports with the department's accounting records so that the department can evaluate its cash flow and that of all three homes. These reports should cover reimbursements, accounts receivable, and unbilled claims.
- Review regularly its internal controls to ensure that the department fulfills its mission and that it maintains proper control over assets, liabilities, reimbursements, and expenditures.
- Provide training opportunities for department employees, particularly reimbursement staff, to inform them of current developments in Medicare regulations and policies.

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 perform a cost-benefit analysis 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.

To improve its process for estimating future cash flow, the department should continue to prepare the same types of detailed supporting schedules and management analyses that it currently needs to include in its December 2001 and February 2002 reports to the Legislature.

AGENCY COMMENTS

The department concurs with our findings and recommendations. It believes the report provides additional guidance to consider as the department corrects some long-standing procedural shortfalls in its operations. In addition, the department stated that it has been working to improve all areas of the organization to standardize procedures and policies, ensure routine audits and reviews, and quantify all areas of operations, especially reimbursement and cash flow. ■

Blank page inserted for reproduction purposes only.

INTRODUCTION

BACKGROUND

The Department of Veterans Affairs (department) for the State of California (State) assists eligible veterans with their health care needs by supplying various levels of

The Department's Veterans Homes Offer Various Levels of Care to Residents

Residential Care—Domiciliary

Care for residents who are self-sufficient and able to perform all daily living activities with minimal supervision by staff members who are not nurses.

Residential Care—Licensed

Minimal assistance and supervision for residents who can perform most of their daily living activities adequately. This level also offers a program to assist recovering alcoholics.

Intermediate Nursing Care

Care for residents who require some nursing assistance by licensed nursing staff so that they can perform daily living activities. These residents have fewer recurring needs for nursing services than do residents who qualify for skilled nursing.

Skilled Nursing Care

Round the clock nursing care given or supervised by licensed nurses and under the general direction of a doctor on an extended basis, with the degree of care varying from moderate to total according to the patient's condition. This level provides less intense care than does acute care, and it gives patients rehabilitation, nursing, pharmaceutical, and dietary services. The patient has the option of participating in activity programs.

Acute or Intensive Care

Hospital care offered only at the Yountville home. This level of health care includes 24-hour continuous life-saving services such as medical, nursing, surgical, anesthesia, laboratory, radiology, pharmacy, dietary, psychiatric, intensive care, and coronary care.

Source: Application for Admission, Veterans Homes of California.

medical care, social rehabilitation services, and residential services to those residing at veterans homes in Yountville, Barstow, and Chula Vista. The department has established these three homes to provide care in geographically diverse locations. Veterans or their spouses who are at least age 62 or who are disabled are eligible for these services. Although the department has centralized at its headquarters many of the department's functions, including legal counsel for the department and its homes, public relations, and accounting, each home has an administrator responsible for day-to-day operations at that home. Funding for all three homes comes from federal, state, and private sources.

SERVICES OFFERED BY THE THREE HOMES

Of the three homes run by the department, the Veterans Home of California, Yountville (Yountville home), provides the most comprehensive services, and it has the capacity to serve up to 1,200 veterans. In 1884 the State established the Yountville home, which has since provided health care services to California veterans. Currently, the Yountville home offers its residents five levels of care: domiciliary residential, licensed residential, intermediate nursing, skilled nursing, and acute or intensive. The Yountville home furnishes these services 24 hours a day, seven days a week.

Since it began operating in February 1996, the Veterans Home of California, Barstow (Barstow home), has offered residential, intermediate nursing, and skilled nursing care for up to 400 veterans.

However, deficiencies in its operations and staffing caused the Barstow home to lose its California Medical Assistance Program (Medi-Cal) and Medicare certifications as of July 13, 2000, after it failed an inspection by the Department of Health Services

Glossary of Common Terms

Medicare—A health program administered by the federal government's Centers for Medicare and Medicaid Services. The program serves people 65 years of age and older, some disabled people under 65 years of age, and people with permanent kidney failure treated with dialysis or a transplant.

Medi-Cal—The California Medical Assistance Program is the federal Medicaid program administered by the State's Department of Health Services. Medi-Cal provides essential medical care and services to preserve health, alleviate sickness, and mitigate handicapping conditions for individuals or families on public assistance, or for those whose income is not sufficient to meet their health care needs.

Claim—A request for payment for services and benefits received. Claims are also called bills for all services billed through fiscal intermediaries or third parties.

Remittance—The portion of the bill sent to insurance providers that the providers return with the payment. The document contains the patient's account number and the amount owed.

Fiscal Intermediary—A private company that has a contract with Medicare to invoice for medical services. Medicare has two fiscal intermediaries: United Government Services and National Heritage Insurance Company.

Secondary Payer—An insurance policy, plan, or program that pays second on a claim for medical care. The secondary payer could be Medicare, Medicaid, or another health insurance plan or program.

Cash Flow Forecast—A statement that analyzes all cash receipts and expenditures for the periods during which the transactions are expected to take place, so that management can anticipate any cash shortage and avoid liquidity crises (insolvency) before they actually arise.

Source: Medicare Glossary and Medi-Cal Web site.

(Health Services). This loss of certification means that the Barstow home cannot bill Medicare or Medi-Cal for reimbursement for services it has provided since that time. In addition, after it failed an inspection by the U.S. Department of Veterans Affairs (federal Veterans Affairs), the home temporarily lost its eligibility to receive federal payments for daily costs of care (federal per diem) for residents it served between June 1, 2000, and December 8, 2000. Since December 8, 2000, the home has been allowed to claim federal per diem only for the domiciliary level of care. In May 2001, to ensure that the Barstow home continued to provide the appropriate level of care to its residents, the Legislature allocated from the State's General Fund additional funding of \$1.8 million to compensate for the loss of federal per diem payments and Medi-Cal reimbursements for residents at the Barstow home. In addition, the Department of Finance submitted a letter to the Legislature in March 2001 requesting \$3.7 million of additional General Fund money on behalf of the Barstow home to replace lost reimbursements. The Legislature and the governor approved this request as part of the Omnibus Deficiency Bill in August 2001, which, with the earlier augmentation, gave the department a total of \$5.5 million in additional General Fund support.

The Veterans Home of California, Chula Vista (Chula Vista home), began operating in May 2000 and will serve up to 400 veterans. Like the Barstow home after which it was modeled, the Chula Vista home provides residential, intermediate nursing, and skilled nursing care. Because the Barstow home lost its Medicare and Medi-Cal certifications, Health Services has postponed the Chula Vista home's certification. Without certification, the Chula Vista home cannot bill for Medicare and Medi-Cal reimbursements for the

services it provides to its residents. Department staff members said that they cannot predict when the Chula Vista home will receive certification and the Barstow home will regain its certification because the department depends on Health Services to license veterans homes. In any case, the Chula Vista home cannot bill for services provided before its certification. In September 2001 the home received federal reimbursements for daily domiciliary care that it provided to qualifying residents from October 2000 through January 2001.

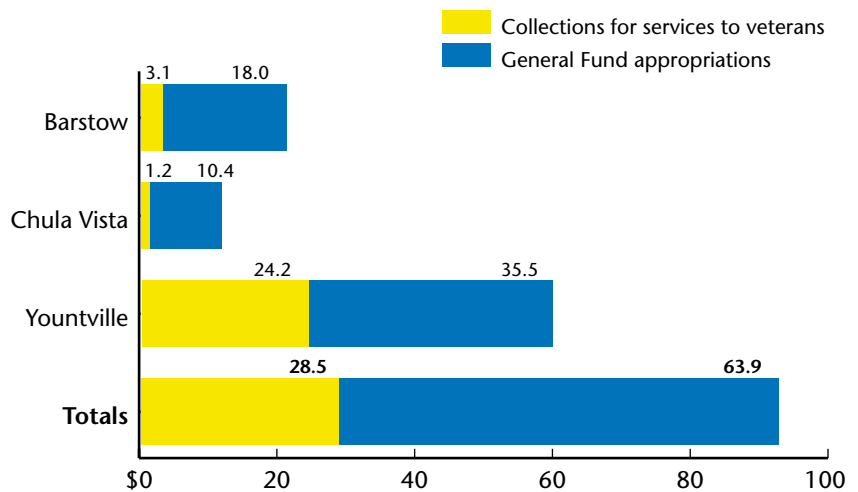
Figure 1 on the following page displays the typical process that the department follows when billing and collecting reimbursements from insurance providers for the services that the three homes provide to residents.

FUNDING FOR THE VETERANS HOMES

Funding for the veterans homes comes from two main sources: collections for the homes' services and appropriations from the General Fund. Collections for services that the homes provide for veteran residents include member fees that residents pay; federal per diem; collections of federal veterans aid benefits paid to residents; and reimbursements from Medicare, Medi-Cal, and secondary insurance providers. The State makes General Fund appropriations on a yearly basis. The portion of General Fund support that each of the homes receives varies according to the level of services it provides and the department's collections for those services. As Figure 2 on page 11 shows, the Yountville home generates a fairly large proportion of its support from collections for services, whereas the Barstow and Chula Vista homes tend to require relatively more General Fund support. In fiscal year 2000–01, the department received total funding of \$92.4 million; collections for services totaled nearly \$28.5 million, or 31 percent of all funds received by the homes; appropriations from the General Fund accounted for the remaining \$63.9 million, or 69 percent of the homes' funding sources.

FIGURE 2

The Veterans Homes Received Their Funding Primarily From the State's General Fund in Fiscal Year 2000-01 (In Millions)



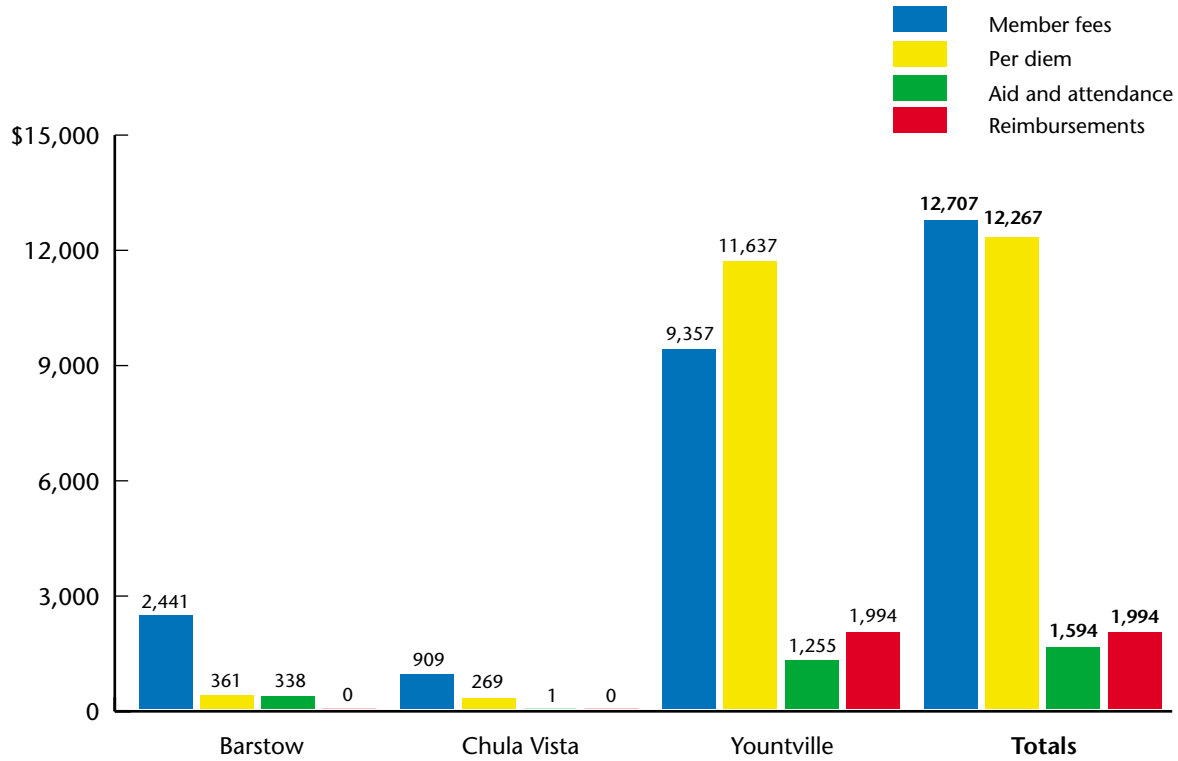
Source: Department of Veterans Affairs' accounting records, as of September 30, 2001.

Member Fees

State law requires veterans with income to pay their fair share of costs, called member fees. Costs vary depending on the type of service provided by the homes. Before July 28, 2001, monthly member fees for residential care consisted of the lesser of 55 percent of the resident's income or \$1,200. Monthly member fees for intermediate nursing care were the lesser of 65 percent of the resident's income or \$2,300, and monthly member fees for skilled nursing care were the lesser of 70 percent of the resident's income or \$2,500. As of July 28, 2001, contributions for residential care changed to 47.5 percent of the resident's income or \$1,200 per month, whichever is less. Contributions for other services remain the same. As Figure 3 on the following page shows, in fiscal year 2000-01 member fees made up 44 percent, or \$12.7 million, of all collections for services provided by the homes, and these fees constituted 14 percent of all funds received in support for the homes.

FIGURE 3

The Department Collected From Four Sources for Services That the Homes Provided in Fiscal Year 2000–01 (In Thousands)



Source: Department of Veterans Affairs' accounting records, as of September 30, 2001.

Payments From the Federal Department of Veterans Affairs

To ensure that veterans receive high-quality care in state homes, federal Veterans Affairs pays a share of the cost to provide services each day to veterans residing in each state home. To qualify for these federal per diem payments, the homes must pass an annual inspection by the federal agency. During fiscal year 2000–01, federal Veterans Affairs paid the lesser of one-half of the cost of care or \$50.55 for each day the veteran stayed at the facility. Federal per diem payments totaled nearly \$12.3 million, or 43 percent of all collections for the homes' services, and these payments constituted 13 percent of all financial support for the

homes. This amount was substantially less than the department had collected in previous years, however, because the Barstow home lost some federal per diem payments for its residents.

The department's third source of collections for its services is aid and attendance benefits, which federal Veterans Affairs pays to eligible veterans who are patients in licensed nursing homes or who are otherwise eligible for regular aid and attendance by another person. State law requires residents of the veterans homes to turn over to the department any aid and attendance payments that the veterans receive. In fiscal year 2000–01, aid and attendance payments totaled nearly \$1.6 million, or almost 6 percent of collections for the homes' services, and about 2 percent of all funds that supported the homes.

Reimbursements From Government and Private Insurers

Finally, the fourth source of collections for services provided are reimbursements from insurance providers, such as Medicare, Medi-Cal, and secondary insurers. These insurance providers reimburse the homes for services they provide to residents once the department submits claims through its reimbursements section on behalf of the homes. The department's policy is to not bill secondary insurance providers directly because the department has not fully analyzed the criteria that the homes and their services must meet for the department to do so. Some providers have provided eligibility data to Medicare, which means that Medicare will automatically send these providers a bill for the portion of the claims that Medicare will not pay. To receive Medicare reimbursements, the department must ensure that it has properly coded the charges and has verified that the claims meet all requirements for billing, including the requirement that inpatient claims have received reviews for medical necessity. As each home furnishes services, its staff enters charges into the billing management information system (information system). As Figure 1 (page 10) indicates, when services have met all requirements for billing, the headquarters reimbursements unit processes the claims and submits them to the insurance providers. In fiscal year 2000–01, reimbursements totaled \$2 million, or 7 percent of all collections for the homes' services, and 2 percent of all financial support for the homes. As Chapter 1 explains, the department is behind in billing for services provided to its residents, so the proportion of revenue from this source is lower than in previous years.

THE DEPARTMENT AND THE LEGISLATURE ATTEMPTED TO MANAGE DEPARTMENT FINANCES

In its March 2001 presentation to a senate budget and fiscal review subcommittee, the department reported that it faced a cash flow problem because it incurs costs on a monthly basis but may not receive reimbursements for these costs until up to six months later. However, evidence has shown that the department could improve its cash flow if it were to bill for all reimbursements to which it is entitled. Previous audits by the Bureau of State Audits (bureau) found that the Yountville home had not taken advantage of all opportunities to receive reimbursements from the federal government. In April 1994 the bureau found that the home had not implemented adequate procedures to recover all possible reimbursements, and in January 1997 the bureau determined that the home was not maximizing Medicare reimbursements.

The *Supplemental Report of the 2001 Budget Act* required the department to submit to the Legislature by August 31, 2001, a report disclosing the department's expenditures, reimbursements, and federal per diem. This report was to include sufficient detail to support a thorough analysis of the department's cash flow. The report also requires the department to provide similar reports by December 31, 2001, and February 28, 2002, to describe the progress that the department is making to address its cash flow problems.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (audit committee) asked the bureau to examine the department's management of cash flow for its veterans homes and the central headquarters operations supporting these homes. Specifically, the audit committee requested that the bureau review, among other things, the department's and the veterans homes' cash flow needs. We were to examine the needs identified in the department's August 2001 report to the Legislature so that we could determine whether the data supporting the report was complete and accurate.

To test the completeness and accuracy of the department's August report, we examined the department's methodology for preparing the report. We interviewed department staff responsible for preparing the report so that we could gain an understanding

of the department's process for tracking its cash flow. We reviewed the department's underlying sources of report data. In addition, we inquired about the department's proposed methodology for preparing its report due December 31, 2001.

The audit committee also directed us to evaluate causes of any shortfalls in cash flow, such as delays in reimbursement for services. To test the department's speed in billing primary and secondary insurance providers, we selected a sample of 39 claims from the Yountville home that had dates of service from July 1999 to June 2001, and we chose a sample of 5 claims from the Barstow home that had dates of service from July 1999 to July 2000. In addition, we obtained data files from the department's information system to gain an understanding of the system's file structure and of the type of information contained in the transaction files and accounts.

To examine the impact that the Barstow home's decertification has had on the department's cash flow, we analyzed the department's accounting records. We obtained the department's prepared estimates of reimbursements lost in fiscal year 2000-01 because the Barstow home had lost its certification.

To evaluate the department's ability to obtain reimbursements more promptly, we asked department staff to estimate the dollar amount of unclaimed reimbursements currently in its information system and the amount of unclaimed reimbursements that have expired and are no longer available for collection. Then, to test the validity of the department's estimate, we analyzed a sample of 309 claims from the department's Yountville home to determine the extent to which staff has not entered charges into the department's information system. Further, we reviewed the department's use of consultants to assist it in billing for services provided by the homes.

In addition, we reviewed the department's information system to determine the validity of the data in the department's management reports. We obtained and reviewed consultants' reports and department analyses covering the implementation as well as current operations of the information system. We also discussed the system with department staff to gain an understanding of any issues affecting the department's ability to collect reimbursements promptly.

To determine the impact on services resulting from the department's actions to address its cash shortfalls, we analyzed spending patterns for the three homes and headquarters both before and after the department's implementation of cost control measures. To do so, we reviewed expenditure reports from December 31, 2000, and June 30, 2001. In addition, we investigated high-risk operating expense items that showed significant increases in spending between December 2000 and June 2001.

Finally, we reviewed the department's General Fund loan history for the two homes that had taken out General Fund loans. This review helped us understand the impact of the department's borrowing to cover the full cost of delayed reimbursements. We contacted department staff and reviewed accounting records to identify the department's outstanding loans from the General Fund. ■

CHAPTER 1

Poor Management and Faulty Billing Practices Have Led to Cash Shortfalls

CHAPTER SUMMARY

In recent years, the Department of Veterans Affairs (department) has experienced a steep decline in the reimbursements that it has collected for services provided by its veterans homes. Although much has contributed to this decline, the department's poor billing practices have been the biggest reason for the decrease in reimbursements. The department has not billed for all the services that its homes provide, and it has not made sufficient attempts to use all available means to collect some reimbursements. In addition, when the department has billed for some of the homes' services, it has delayed for long periods before submitting those charges to Medicare, the California Medical Assistance Program (Medi-Cal), and secondary insurance providers. For example, our sample of 25 claims billed in fiscal year 2000–01 revealed that the department took, on average, 207 days from the last date of service to submit the claims to Medicare. Finally, the department lacks adequate knowledge of the data in its billing management information system (information system) and is therefore unaware of the number or amounts of charges that it has billed, the services for which it needs to bill, and those that it has already billed but that insurance providers have never paid. Because these flawed billing practices have kept the department from collecting reimbursements to which it is entitled, the department has received additional funds from the State's General Fund to replenish cash shortfalls.

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. For example, department staff stated that the department does not bill some secondary insurers even though these insurance providers offer additional reimbursements. Moreover, the department misses reimbursement opportunities

because it makes billing errors and lacks proper documentation. Despite its cash shortages, the department does not take advantage of available tools and options to overcome reimbursement difficulties. Finally, the department has not obtained reimbursements because it has not followed recommendations made by its auditors and consultants.

Substandard Level of Care at the Barstow Home Has Prevented the Department From Collecting Reimbursements

The department faced significant cash shortages because the Veterans Home of California, Barstow (Barstow home), lost its certification in July 2000. Since July 13, 2000, this loss has prevented the home from submitting charges to Medicare and Medi-Cal for reimbursement for any level of service. The Barstow home also lost its eligibility to bill federal payments for daily costs of care (federal per diem) from the U.S. Department of Veterans Affairs (federal Veterans Affairs) for all levels of care that the home furnished between June 1, 2000, and December 8, 2000. Since December 8, 2000, the home has been able to claim federal per diem for domiciliary residential care only. For the period from June 1, 2000, through June 30, 2001, the department estimates that it lost the ability to collect approximately \$3.3 million in federal per diem payments and \$2.4 million in Medicare and Medi-Cal reimbursements. These figures translate into a loss of more than \$430,000 per month.

The department estimates that its Barstow home lost an average of \$430,000 in reimbursements per month between June 2000 and June 2001 because of the home's decertification.

As the Introduction states, to compensate for the loss of federal per diem receipts and of Medicare and Medi-Cal reimbursements for the Barstow home, the Legislature authorized additional appropriations from the General Fund. As of August 31, 2001, the total amount of the additional appropriations was \$5.5 million.

In January 2001 the department contracted with Country Villa Health Services (Country Villa) to assist the Barstow home in regaining its certification. Country Villa has been running the Barstow home and working to correct known deficiencies so that the home will be ready for a new survey by the Department of Health Services (Health Services). Department staff stated that the department is unable to give a date when Health Services will recertify the home, because recertification depends upon Health Services' schedule. Despite its uncertainty about Health Services' timing, the department should notify Health Services when it believes it is ready to be recertified to avoid losing more revenue than necessary. Department staff members also said that they will resume billing as soon as the home receives recertification.

Failure to Follow Up on Bills to Secondary Insurance Providers Limits the Department's Collections

The department has not taken full advantage of all cash sources available to it. For example, it has not tried to collect the total amount of secondary insurance charges for which it could bill. Secondary insurers cover charges for services and fees, such as coinsurance payments, that Medicare does not pay. 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. In most instances, Medicare automatically bills secondary insurers for reimbursement; however, the department does not follow up to ensure that the secondary insurance providers have reimbursed the department for these claims. In addition, the department does not attempt to bill directly those secondary insurance providers Medicare does not bill.

By not tracking payments for claims submitted by Medicare to secondary insurers on its behalf, the department cannot accurately estimate the total number or amount of claims that insurers have paid.

The department believes that the cost of following up on claims Medicare submitted on the department's behalf to secondary insurers would exceed possible gains. Although Medicare automatically bills 80 percent of the secondary insurance providers that cover residents of the veterans homes, the department does not verify that it has received and posted payments for these billings. Consequently, the department cannot accurately estimate the total number or amount of claims that insurers have paid. According to one of the department's consultants, if the department were to assess the status of the claims that Medicare submitted to secondary insurers, the department might be able to collect additional reimbursements.

In addition, one of the department's consultants recommended that the department could begin billing directly those secondary insurance providers that Medicare does not bill automatically. The department believes that the amount of work required to bill these claims would not justify the reimbursements that it might receive. To test this opinion and to determine the amount of effort required to file a health insurance claim with a secondary insurance provider, we contacted four secondary insurance providers that currently cover residents of the Veterans Home of California, Yountville (Yountville home), but that are not insurers that Medicare automatically bills. These providers all stated that the only documentation they require is the Medicare explanation of benefits and the standard claim form, which the department already uses. Therefore, to take advantage of these reimbursements, the department would need to invest only the time already

spent when the department submits the charges to Medicare. On the other hand, our sample of 44 claims did not indicate that the department would recover large amounts of money from these secondary insurers; we noted five instances in which the department had not pursued secondary insurance claims for a total of \$201. Nevertheless, this additional billing does represent a source of reimbursements that the department has not adequately explored.

Billing Errors and Lack of Attention to Detail Have Caused the Department to Miss Billing Opportunities

Billing errors and lack of adequate documentation may be costing the department additional reimbursements. In July 2001 the department signed a contract with the Certus Corporation, a consulting group with expertise in medical billing, to assist the department in processing backlogged inpatient charges for its Yountville home. One of the consultants' tasks was to analyze 100 patient charts and each chart's corresponding bill to determine whether the Yountville home was capturing all charges for services rendered. Of the 100 charts they selected, the consultants could not find 50 bills. The chief of financial services stated that the department did not believe it would be cost-effective to look for the bills for these charts, because the bills may have expired and because the department believes that it did not bill for some services while it was installing its information system.

Nearly half of the billing errors discovered by the department's consultant were caused by the department not billing, or underbilling, for reimbursable services.

Of the remaining 50 charts for which bills existed, the consultants found only one chart that contained no billing errors. For the other 49 charts, the consultants noted 158 errors, including 73 cases in which the department had not billed or had underbilled for some services that were reimbursable. For example, the consultants noted 13 instances in which the home failed to bill for supplies it was using. In addition, the consultants found 22 instances in which laboratory tests and electrocardiograms were ordered and performed, but never billed. The consultants noted that in 14 instances the Yountville home performed electrocardiograms without billing for these services. Of these 14 instances, 4 were for electrocardiograms performed in fiscal year 2000–01. Our review of the electrocardiograms entered into the department's system by Yountville staff revealed that the home staff had not entered any of the 4 into the system. Neither the department nor we can say with certainty the amount of reimbursements that the Yountville home may have lost, but given the error rate in the consultant's sample, this number may be significant.

The consultants also noted 85 instances in which the department may have billed services erroneously. For example, the consultants found that in 36 instances the home had failed to provide adequate documentation in the patients' charts to support that the home had performed the services and that the charges were justifiable. Consequently, the department runs the risk that Medicare may ultimately deny these charges as being medically unnecessary.

The Department Has Not Used All Available Options to Overcome Billing Difficulties

Staffing issues have also contributed to the department's billing problems. For example, in fiscal year 2000–01, the department believes it missed many reimbursements for its Yountville home because it lacked an adequate number of utilization review nurses to review the inpatient charges. Registered nurses perform *utilization reviews*, detailed evaluations of the homes' services, so that the department can determine the medical necessity and allowability of those services. Under federal regulations, the department must have a utilization review plan that guides the reviews of residents covered by Medicare and Medi-Cal who are admitted to inpatient care. Without utilization reviews, the department cannot collect Medicare or Medi-Cal reimbursements.

The department reported that from November 2000 to May 2001, its Yountville home had staff for just one of two budgeted positions for utilization review nurses and that other positions remained empty. Specifically, the department stated that as of June 2001 the Yountville home had filled only four of six approved positions for health records technicians, who are responsible for ensuring that the department has properly coded charges before submitting the bills to Medicare, and employee turnover in this essential job has been high. Staff has changed in five of the six positions during the past two years.

During the period of November 2000 to May 2001, the 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.

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. These staff members are necessary if the department is to file claims correctly so that it receives the full reimbursement for which the Yountville home is eligible. Additionally, staff at the Yountville home contended that salary levels for these critical specialties are so inadequate that the homes cannot keep trained specialists. For example, the Yountville home pays its utilization review nurses between \$53,000 and \$62,000 even though average market wages for

The department estimates that staffing shortages cost its Yountville home at least \$217,000 in possible reimbursements.

registered nurses in state and local government positions in the San Francisco area in which Yountville is located, are \$63,000 per year. The department estimates that these staffing shortages have caused the Yountville home to lose \$217,000 in possible reimbursements for skilled nursing care from July 2000 through July 2001.

The department authorizes the homes to use operating expenses to hire from nursing registries the personnel that the home needs for short-term assignments. *Nursing registries* are agencies that provide supplemental nursing personnel who meet requirements of the appropriate state licensing board and the standards of the requesting agency. Yountville home staff stated that they did not hire from nursing registries because no qualified utilization review nurses were available by the time staff realized that a problem existed. However, the home did not consider moving qualified home staff into the utilization review section on a temporary basis and filling in for these staff with qualified registered nurses from nursing registries until the home could hire and train utilization review nurses. In the future, if the home is to plan effectively for its staffing needs, the department might be able to use nursing registries to avert financial losses such as those the home experienced in fiscal year 2000–01.

By Not Fully Implementing Its Consultants' Recommendations, the Department Has Reduced Its Collections

An additional factor contributing to the department's problems with collections has been its failure to implement fully the recommendations from its consultants and auditors. The department has not followed through on a recommendation made in a January 1997 report issued by the Bureau of State Audits (bureau). In that report the bureau recommended that the department require its Yountville home to determine actual costs for providing skilled nursing care in order to maximize its reimbursements. Medicare provides reimbursements based on the lesser of cost or charges. Since 1994 the department has received a waiver from Medicare's policy of paying the lesser of cost or charges. The home has not determined its actual costs, so if Medicare were to revoke the waiver, the department would not receive Medicare reimbursements for the Yountville home. Although Medicare's fiscal intermediary has strongly urged the department to determine its actual costs, the department has yet to do so.

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.

In addition, in January 2000 the department hired the Data General Corporation to assist in implementing the department's information system and provide reimbursement analysts to help the department bill outstanding claims. The consultant subcontracted with Superior Consultant Holdings Corporation to supply these services. In January 2001 the consultant issued a report stating that its ability to assist the department had been frustrated by a number of issues that it had discussed with the department throughout the year but that remained outstanding. The consultant stated that these issues were serious enough to affect the department's ability to collect reimbursements and provide adequate cash flow. Of the 40 open issues, the consultant noted that the department was fully addressing 4, that it was dealing partially with 11 issues but not acting as aggressively as it should, and that the department was not addressing 25 at all. Our review showed that as of October 24, 2001, of the 40 issues the consultants reported in January 2001, 5 remain open and were not being actively addressed, 20 were open and being addressed by department and home staff, and 15 had been resolved. The open issues include a recommendation by the consultant that the department conduct business process reengineering at the homes and develop standardized business practices, policies, and procedures. In addition, the consultant recommended that the department implement procedures for data quality control to ensure that the data in the information system is reliable. The department has not yet implemented this recommendation. Finally, among the consultants' open recommendations is one that the department develop and implement a methodology to ensure that "things get done." The consultant noted that the open issues were affecting the department's ability to collect reimbursements for the services provided by its homes.

THE DEPARTMENT DOES NOT BILL PROMPTLY FOR ITS SERVICES

In addition to cash shortfalls caused by the department's failing to bill for all services provided by its homes, it has compounded its problems by failing to submit promptly its claims for reimbursement. We found that billing delays are generally the result of the department's submitting claims months after the homes provided services to residents. These billing delays could ultimately leave the department unable to bill Medicare and Medi-Cal for some services because these programs have time limits for claims submission.

The department did not begin billing any of its backlog of outpatient claims dating from August 2000 through June 2001 until June 2001 when it started billing August and September 2000 claims. Department staff assert that delays in billing were due to the implementation of the new Medicare Outpatient Prospective Payment System (OPPS). The Health Care Financing Administration issued final regulations in April 2000 implementing the OPPS for selected services, including hospital outpatient stays. The regulations went into effect in August 2000. The Health Care Financing Administration issued these regulations in response to the federal Balanced Budget Act of 1997, which required it to replace the cost-based outpatient payment system with a prospective payment system that would pay hospitals specified predetermined rates for outpatient services. The regulations involved extensive changes to coding requirements by home staff and billing processes by the reimbursements unit. Department staff stated that the department did not begin billing August 2000 through June 2001 outpatient claims for its Yountville home until June 2001 because they had delayed implementing the OPPS. However, the Health Care Financing Administration first issued proposed regulations in September 1998, giving the department 2 years to prepare for this change. Furthermore, a Medicare fiscal intermediary offered free training opportunities related to OPPS both before and after its August 2000 implementation, which department staff did not attend. Therefore, the department's 10-month delay in billing outpatient claims, especially in light of the missed training opportunities, does not appear reasonable.

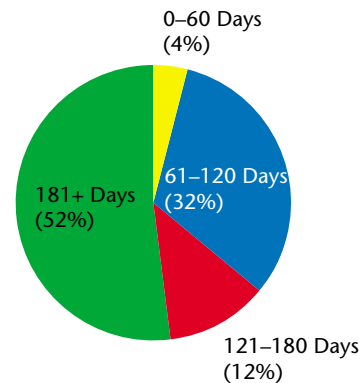
In our sample of 25 claims submitted by the department to Medicare for reimbursement, the department averaged 207 days from the last date of service to the date it submitted the claims.

The department asserts that it requires loans from the General Fund to cover cash shortfalls caused by delayed receipts of federal funds or reimbursements for medical services it provided to its residents. However, our testing showed that delays in receiving reimbursements were generally caused by the department's failure to submit its claims for services to Medicare and Medi-Cal promptly. We selected a sample of 44 claims generated during fiscal year 2000–01 to determine the number of days between the last date of service to a patient and the date it submitted claims to Medicare. Our testing revealed that the department averaged 207 days from the last date of service to the date it submitted the claims to Medicare. Of the 25 claims that the department had submitted, 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 found that of the \$43,965 in claims that the department submitted, Medicare reimbursed \$29,404, or 67 percent of the charges billed. We

also noted that the department had not yet billed another 11 claims, although it may do so in the future. We found that, on average, for these 11 claims, 286 days had elapsed between the last date of service and October 1, 2001, our last date of testing these claims. As Figure 4 shows, for more than 60 percent of the 25 items in our sample that were billed, the department had taken 121 or more days from the date the home provided services to the date it submitted the bills to Medicare. If the department were to make claim reimbursement a higher priority, the resulting reimbursements could contribute to ensuring that the department has adequate cash flows to address operational needs.

FIGURE 4

Average Number of Days the Department Took to Submit Bills to Medicare for the 25 Billed Items in Our Sample



Source: Auditor testing and department claim records.

If the department were to rework its rejected claims, it could receive additional reimbursements that it would otherwise lose. For example, our review found that during a 14-month period, Medi-Cal denied 112 claims submitted by the department's Yountville home. Of these 112 denied claims, Medi-Cal denied 94, or 84 percent, because of errors that department staff made in submitting these claims. The reasons for these denials included lack of relevant documentation, mismatches of information among documents, and incorrect coding. After the department corrected and resubmitted the claims, Medi-Cal paid reimbursements for 36 of the 94. We also noted that Medi-Cal denied 28 claims submitted by the department for its Barstow home

during the period of February 2000 through July 2000. Of these 28 claims, Medi-Cal denied 24 due to errors made by department or home staff. After the department and home staff reworked these claims, Medi-Cal subsequently paid 9 of these.

The department may also be losing reimbursements because of time limitations on submitting claims. It has up to 23 months to submit claims to Medicare and 6 months to submit claims to Medi-Cal if it intends to seek full reimbursement. After 6 months, Medi-Cal pays only a percentage of the claims submitted. Medi-Cal pays 75 percent of the amount of the claims if the department submits them 7 to 9 months after the last month of service, 50 percent of the amount for claims submitted 10 to 12 months after the last month of service, and nothing for claims submitted more than 12 months after the services were provided. As discussed in the next section, because the department lacks sufficient knowledge of the data in its information system, it cannot provide an estimate of the dollar value or amount of Medicare or Medi-Cal claims that have expired or are eligible for only partial payment. However, given the department's billing delays, the amount may be significant. For example, in October 2001 the department reported that it had accounts totaling \$771,000 that had been in its information system for its Barstow and Yountville homes for 2 years or more, but the department has not yet performed any work to determine whether these accounts were ever billed and paid or rejected.

The department has accounts totaling \$771,000 that have been in its information system for two years or more, but it has not yet investigated to determine if these accounts were ever billed and paid or rejected.

INSUFFICIENT INFORMATION HAMPERS THE DEPARTMENT'S MANAGEMENT OF REIMBURSEMENTS

The department lacks sufficient knowledge of the data in its information system. Because of inaccurate and outdated data in the information system, the department cannot accurately estimate the total charges that it has not yet billed. Although the department gave us an estimate of the balance for the unbilled charges in its system, we believe that the information system significantly overstated this amount. According to department staff, the department's balance for unbilled charges includes amounts that the department has billed but that insurance providers denied and that the department never deleted from the information system. Department staff also stated that the unbilled charges balance includes amounts for which the department has received reimbursements but has not posted remittances, amounts that have expired due to time limitations,

amounts that are payable from the homes' General Fund allocations and are not billable, and amounts billable to secondary insurance providers that the department does not intend to bill.

Because the department cannot estimate accurately the amount of unbilled charges in its information system, it cannot evaluate its effectiveness in billing claims, and it may be missing opportunities to collect reimbursements. The department's information system has the capability to produce an aging report of its accounts receivable and unbilled receivables; however, the poor quality of the data in the system limits the usefulness of this report. The department's accounting unit produces an aging of accounts receivable report from the accounting system; however, this report can track only billed charges, not charges the department has not yet billed. Consequently, the department cannot accurately determine the amount of time that these charges have remained unbilled.

The department's control over its cash flow has worsened because it is unable to determine the value of unbilled charges. In part, the department's difficulties arise from accounts with no charges in the information system. The department did not use uniquely numbered charge slips, which contain a listing of the services provided, and it has only recently implemented procedures to ensure that the homes' clinics forward all charge slips to its billing units by redesigning its charge slips to include fields for charge slip and account numbers. Therefore, without pulling all charge slips and comparing them to the account numbers, the department cannot determine whether these accounts represent opportunities for reimbursements or extraneous data that the department should remove from the system. In the former case, the department has a source of cash available to it if it locates and processes the charge slips; in the latter case, the department should delete the erroneous accounts.

The department cannot accurately estimate the amount of unbilled charges in its system and consequently may be missing opportunities for reimbursement.

Because erroneous accounts exist, the department has not been able to determine how many accounts remain that it can bill versus those that it can delete. 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 accounts for services provided from July 2000 through June 2001 revealed that 22 accounts, or 7.1 percent of our sample, 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 did not find any charge slips for

268 accounts. Because the home had misplaced some of the charge slips for the month of July 2000, we could not test for some charges in that month.

Although the department estimated that its consultants could recover up to \$6 million in outstanding charges, as of September 2001, the consultants have been able to recover only \$350,000 to \$450,000.

Moreover, problems existing in the information system have caused the department to overstate the amounts that it believes it can recover. In July 2001 the department retained consultants to assist in processing its backlog of outstanding inpatient and outpatient surgery charges. The department estimated that the consultants would be able to recover up to \$6 million in outstanding charges, allowing the department to repay its outstanding General Fund loans that total \$5.3 million. However, as of September 30, 2001, the consultants have been able to recover only \$350,000 to \$450,000. Additionally, although the department's contractual obligation is to pay up to \$400,000 to the consultant between June 2001 and December 2001 for processing claims, many of these claims may not return a measurable benefit.

The department has been dedicating staff at its Yountville home to process unbilled charges for outpatient services for fiscal year 2000–01, and the department began billing August and September 2000 charges in June 2001. It is focusing on processing the charges that it expects will have high dollar reimbursements; however, because of limitations in the way the information system has been installed, and the length of time since the patients received the services, the home is not sure that all charges are valid and reimbursable.

As we discuss further in Chapter 3, to address problems in collecting reimbursements, the department has attempted to take some steps to control cash flow deficiencies by curtailing expenditures and taking out loans from the General Fund. However, these measures have proven largely unsuccessful, and therefore the State has had to make up deficiencies in the form of increased General Fund appropriations.

RECOMMENDATIONS

To ensure that it is billing for all services provided by its three homes for veterans, the department should 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 record 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.

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

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. Additionally, if the department decides to keep its current 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. ■

CHAPTER 2

The Department Lacks the Tools to Manage and Control Effectively the Fiscal Operations of Its Veterans Homes

CHAPTER SUMMARY

The Department of Veterans Affairs (department) has not supplied proper oversight and controls for the fiscal operations of its homes, and it lacks key tools and resources, such as accurate management reports and budgeting tools. For example, the department is unable to use its billing management information system (information system) to prepare accurate management reports because this system contains irreconcilable and incorrect data. Moreover, the department cannot fully use the tools and resources it does have. It does not sufficiently oversee its internal control system and the department is not addressing serious deficiencies in its ability to collect reimbursements and control its cash flow. Finally, poor management of the department's information system that began with the system's implementation in January 1997 led to serious data deficiencies and errors that staff knows about but is not resolving aggressively. By dedicating sufficient resources and staff to fixing these problems, the department could resolve many of its difficulties and issues related to cash flow management, reimbursement collection, and expenditure control.

THE DEPARTMENT DOES NOT PREPARE MANAGEMENT REPORTS OR FULLY ACCESS ITS INFORMATION SYSTEM

As Chapter 1 shows, department staff believe the department's information system contains amounts the department has not yet written off, amounts the department has not credited, accounts that have expired due to time limitations, and amounts for which the department does not intend to bill. Consequently, the department cannot accurately estimate the amount of unbilled charges in its system. Without sufficient knowledge of 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. For example, we reviewed cash position reports prepared by the

department's reimbursements section from the department's information system and compared these to reports from the department's separate accounting system. Our review noted significant differences between reimbursement totals in the information system and the accounting system. Additionally, as Chapter 1 discusses, the department's accounting system cannot track unbilled charges and therefore the department may be missing opportunities to collect reimbursements because it cannot evaluate its effectiveness in billing claims.

Although the veterans homes use only 41 of 76 modules purchased, the department estimates it will pay \$81,000 to \$251,000 per home to maintain all modules in fiscal year 2001–02.

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. The department reported that time constraints in the installation process prevented it from activating some tools, such as the cost accounting module. More than a year after it implemented the information system in the Veterans Home of California, Yountville (Yountville home), department management stated that it still intends to activate these tools or modules but that it has been unable to do so because it believes that it has insufficient staff or resources. Of the 30 available modules for its information system, the department has purchased 30 modules for its Yountville home, and 23 modules each for the Veterans Homes of California, Barstow (Barstow home) and Chula Vista (Chula Vista home), for a total of 76 system modules for all three homes, and it is paying maintenance fees for all of them. However, the department's veterans homes have installed and are using only 41 of these modules even though the department projects that maintaining all 76 modules in fiscal year 2001–02 will cost yearly fees of \$81,000 to \$251,000 per home. The 35 modules that the department is not using include such tools as the cost accounting module, which would allow the department to create more easily and track the department's budgets including cash flow reports like those that the Legislature requested.

Although the department's information system can generate management reports on reimbursements and expenditures, these reports rely on users' entering timely and accurate data. In a report issued in January 2001 department consultants stated that inadequate data entry contributed directly to inferior or delayed data reports. The consultants concluded that poor data then led to increased workloads and lowered production as well as delayed, reduced, or uncollectible reimbursements.

Department employees stated that they have attempted to circumvent these deficiencies in the data by using other means to generate management reports; however, the department's attempts have been insufficient to ensure that it is providing proper oversight for cash flow budgeting and reimbursement collection. For example, the department tracks its reimbursements using reports from its accounting system. These reports show the total funds received as reimbursements for services supplied by the homes, but the reports cannot show the status of backlogged charges. The department's inability to prepare accurate reports that show unbilled charges has contributed to its failure to collect all reimbursements.

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 an internal review of its internal controls since 1994. Properly maintained internal controls are vital because they allow an organization to operate effectively and efficiently and thus make the best use of its resources, to produce reliable financial reports, and to comply fully with applicable laws and regulations. A vital feature of a good internal control system is an organization's self-monitoring efforts. However, department management did not ensure that either the department's internal audits unit or the Office of the Inspector General (inspector general) was performing internal control reviews before August 2001.

The department has not performed a formal review of its internal controls since 1994.

The Department Has Not Conducted Required Internal Control Reviews

The department has not conducted required reviews of its internal controls. Department management is ultimately at fault for not pursuing known deficiencies and for failing to require a review of the department's internal controls at least once every two years. Effective January 2000 the Legislature transferred the responsibilities of the department's internal audits unit to a newly created Office of the Inspector General. The department retained the internal audits unit, renaming it the Fiscal Management and Audits Section. Department management did not

formally assign to either group the responsibility for reviewing internal controls. As a result, both the inspector general and the internal auditor believed that the responsibility lay with the other party.

In August 2001 the inspector general issued an audit plan in which he detailed a planned review of the department's internal control system. However, he subsequently stated that he lacks staff and resources to perform this review. Additionally, although the Legislature transferred the responsibility for internal audits to the inspector general, it did not give the inspector general access to all department records. Without access to many confidential records, the inspector general is unable to review many of the department's controls.

Although the inspector general is responsible for performing internal control reviews, he lacks staff and resources to do so, and does not have sufficient authority to access confidential departmental records.

We reviewed the inspector general's audit plan for fiscal year 2001–02 and noted that he did in fact schedule a review of the department's internal control functions for that fiscal year. However, our discussions with him revealed that lack of resources and staff to complete the reviews remains a concern. On September 26, 2001, the department's chief of financial services told the inspector general that the department believed responsibility for auditing internal controls belongs to the inspector general.

The Department Has Not Submitted Required Reports on Its Internal Controls

Although Section 20060 of the State Administrative Manual requires state agencies to submit a report on the adequacy of their internal controls on December 31 of each odd-numbered calendar year, the department has not submitted such a report to the Department of Finance (Finance) since 1995. The department's chief of financial services stated that the department intends to submit a report to Finance in December of this year. In this report to Finance, the department must assert that an audit of its internal control system has been performed, that an internal evaluation has examined the effectiveness of its internal controls, or that no audit or evaluation was performed but that the department secretary knows that an internal control system is in place and functioning. Because of the confusion and uncertainty over responsibility for internal audits at the

department, its December 2001 report will have to assert that the internal control system is in place and functioning, or the report will have to rely on the inspector general's April 2001 review of department management, which noted serious control deficiencies.

Danger Signals Highlight the Department's Weak Internal Controls

Not only has the department failed to review its internal controls or to report on those controls, but the department and its veterans homes have shown that the controls have critical weaknesses. The State Administrative Manual, Section 20050, lists "danger signals" that indicate poorly maintained or vulnerable control systems. Of the seven danger signals the manual identifies, most are present in the department's operation to some degree. For example, the department does not maintain its policy and procedural manuals. The department's administrative manual was last updated in 1993, and an April 2001 review issued by the inspector general noted that the department appears to have abandoned standardized practices. In addition, the Barstow home did not begin developing written procedures for its operations until after it began installing the information system. As we discussed in the previous section, the department has been unable to produce accurate financial and operational reports that it can use as an effective management tool. Finally, by not evaluating its internal controls since 1994, the department has failed to identify and act upon its internal control weaknesses, thus leaving it vulnerable to the risk that it could lose resources. The presence of these issues does not automatically lead to a conclusion that the department's internal controls have failed; however, taken together, these issues point to significant problems that the department must address if it is to be properly managed, including controlling its cash flows adequately.

Danger Signals That Indicate a Poorly Maintained or Vulnerable Control System

- Policy and procedural or operational manuals are not maintained or are nonexistent.
- Lines of organizational authority and responsibility are not articulated or are nonexistent.
- Financial and operational reporting is not timely and is not used as an effective management tool.
- Line supervisors ignore or do not adequately monitor that staff is complying with internal controls.
- No procedures are in place to assure that controls in all areas of operation are evaluated on a reasonable, timely basis.
- Internal control weaknesses detected are not acted upon promptly.
- Controls or control evaluations do not address the organization's risk of loss of resources.

Source: State Administrative Manual, Section 20050.

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. In February 1997 the department attempted to streamline activities by centralizing billing and collections and by moving staff from the veterans homes to the Sacramento headquarters. However, the department recently returned some tasks to the homes with the goal of enabling each veterans home to better manage its budget. In fiscal year 2001–02, the department is requiring home administrators to prepare quarterly budgets with expenditures tied to reimbursement collections. Unfortunately, the department 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. Moreover, it did not 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. The homes are therefore unable to evaluate readily their reimbursement process, particularly their reimbursement rates and the portion of claims paid.

The department did not provide budget targets to its veterans homes until October 2001, three months after the start of the fiscal year.

In addition to lacking guidance on financial reporting, staff at the veterans homes have suffered from inadequate training. Although the department centralized billing in 1997, it did not require or provide standardized training for claims processing staff from the three homes in fiscal year 2000–01. Further, each home uses separate procedures for processing charges. If it were to provide standardized training and to create policies and procedures that apply to all three homes, the department could reduce or eliminate multiple errors caused by staff not understanding reimbursement and claim processes.

LACK OF APPROPRIATE TRAINING CONTINUES TO HAMPER CLAIMS PROCESSING

As Chapter 1 describes, the department did not take advantage of free training offered by Medicare’s fiscal intermediary for the Medicare Outpatient Prospective Payment System (OPPS). Subsequently, department staff stated that until June 2001 it was unable to begin billing outpatient claims from August 2000 to June 2001 because of delays in implementing the OPPS. We

Of the \$66,040 the department spent for training in fiscal year 2000–01, only \$1,000 was for medical billing training.

believe that the department's 10-month delay in billing the backlog of outpatient reimbursements is unreasonable partly because the department did not send staff to the free training.

In general, the department may not have optimized its use of 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, or 1.5 percent, went to training for medical billing. Furthermore, this training for medical billing was general in nature and did not significantly increase staff's knowledge of billing procedures. For example, among the objectives of the training course were statements that the training would assist staff in understanding health insurance and how it works, the different types of insurance and how to bill each one, and ways that medical billing staff can develop their skills. An additional \$935 of the \$66,040 of training funds went to lost registration costs due to last-minute cancellations of training classes by the department's staff. Moreover, from September 2000 through July 2001 the Barstow home offered an additional 68 training classes, none of which trained staff on recent changes in Medicare filing requirements. In fiscal year 2000–01, staff in the Yountville home's medical records section attended 118 hours of training, none of which applied to medical billing.

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.

Minimal training in medical billing has led to the staff's inability to process the department's large backlog of charges, and this shortcoming has led to serious deficiencies in the homes' cash flow. Department evaluations consequently cite lack of adequate training as a major factor in the department's inability to bill promptly for reimbursements. Recent changes in Medicare filing requirements make training critical for the department.

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 Lacked Executive Sponsorship of the Information System and Did Not Commit Sufficient Resources to System Implementation

Various consultants hired by the department during and after the installation of its information system at the Barstow and Yountville homes identified and agreed on problems with the department's management of the information system and its installation. These problems have existed since the department began implementing its information system in 1997. Most significant among the problems that the consultants cited is management's weak sponsorship of and commitment of resources to the system. This problem has led to a lack of acceptance by users and ultimately to an information system that does not perform as it should.

Staff Lacks Knowledge of Business Practices

Since 1998 consultants' reports have consistently cited the department for failure to ensure that staff possesses sufficient knowledge of evolving Medicare procedures and business practices. Without this knowledge, staff is unable to define adequately the information system's data dictionary. To create a sufficient data dictionary, staff must understand and know *business practices and policies*, the activities that the department's staff must perform to complete transactions such as entering patient data into the information system or processing claims. In January 2001 department consultants noted that the majority of the system's functionality issues related directly to the data dictionary's poor setup and content. The consultants also noted that inadequate data entry had resulted in increased workloads; lowered production; and delayed, reduced, or eradicated reimbursements. In May 1998 consultants reported that the Barstow home staff lacked the ability to document or define

Since 1998 consultant reports have cited the department for not ensuring that staff possesses sufficient knowledge of Medicare procedures and business practices.

basic business practices. In addition, the department's inspector general noted in an April 2001 report that the department appeared to have abandoned standardized practices.

The department requested funding for business process reengineering at the onset of its implementation of the information system, however, the department reported that Finance cut this funding early on. Business process reengineering involves the analysis and reorganization of units in a department. Organizations use reengineering, in part, to identify all the organization's processes and to integrate information processing into the services that the organizations provide. The department's consultants noted that the lack of business process reengineering, including the development of departmental policies and procedures, had contributed to the department's problems with cash flow and reimbursements. Although the business process reengineering would have allowed the department to define its business practices, among other tasks, the department has not made sufficient efforts on its own to define standard policies and procedures. For example, in March 2001 the department reported that it was addressing issues related to staff's knowledge of business practices. However, department staff reported that, as of June 2001, staff at the homes and headquarters still lacked a full understanding of the processes. A recent report by the Milton Marks Commission on California State Government Organization and Economy on the use of technology in state government concluded that a lack of correct business practices would likely result in the failure of an information system installation.

As of June 2001, department staff reported that staff at the homes and headquarters still lack a full understanding of business practices.

The Department Did Not Carefully Plan Implementation of the Information System

In its evaluation of the implementation of the information system, the department reported that proper planning and preparation, in addition to consistent commitment by upper management, have clearly been absent since the department began the implementation, and these omissions have created frustration and resistance for users. For example, in the fiscal year 1997–98 budget, the Legislature required the department to begin installing the information system at its Barstow home despite the fact that it did not need certain major features that the Yountville home would require. Additionally, consultants noted that the Barstow home required staff to create ways to work around some of the information system's limitations. As a result, staff resistance to the installation quickly increased to

such levels that consultants and headquarters staff reported difficulties in finding anyone willing to use the information system or to cooperate in the installation process. These reluctant users included staff members who had gone to Boston to attend information system training with the understanding that they would train other users upon their return. However, department evaluations show that these employees, upon their return, stated that they had no time to help build the information system or to develop data dictionaries. The Barstow home then experienced high turnover rates, and many of these trained staff left the organization without instructing replacements about how to use the system, thus leaving the home with few trained users.

High Turnover Has Resulted in System Problems

Some of the problems with executive sponsorship of the information system are due to the high turnover of staff at the homes as well as in upper management. For example, the department reported that during the system implementation at the Barstow home, the home did not fill the position of director of nursing. Instead, each month the home rotated one of three senior registered nurses through the position even though each nurse had a different idea about operations. Consequently, the home lacked continuity and strong direction from management to staff. In addition, management at the department's Sacramento headquarters also experienced high turnover. During the period from October 1996 to June 2000, while the information system was being put into place at the Barstow and Yountville homes, the department reported that it went through four chief financial officers, three chief information officers, four secretaries, four undersecretaries, in addition to five administrators for the Barstow home. This lack of continuity in leadership greatly detracted from successful implementation of the information system.

High turnover in upper management and the resulting lack of continuity has contributed to the department's information system problems.

The Department's Choice of Information System May Not Have Been Ideal

Department managers believe that some problems with staff resistance have arisen because the department has tried to fit the current information system, which is designed for acute care, to the department's business model of care for veterans over the long term. The Yountville home, which provides both acute and long-term care, selected the information system when Yountville was the only California veterans home. However, in the fiscal year 1997-98 budget, the Legislature required the department to validate that the system was working as planned at the Barstow

home, which offers long-term care only, before approving funds for the installation of the information system at the Yountville home. Department managers assert that the difficulties of fitting the information system to Barstow's needs caused that home's staff to lose confidence in the system early on.

Despite the difficulties of installing an information system designed for acute care in a long-term care environment, the department's choice of a system is not wholly responsible for the lack of user confidence or for system difficulties. As we discuss in the next section, the department knows about problems in the information system but has not solved them.

The Department Has Not Aggressively Pursued Solutions to Current Problems With Its Information System

Although the department knows about its information system's problems, it is far from solving them. The information system could give the department many options for managing cash and for budgeting. In its January 2001 report on the system's implementation, the department concluded that failure to proceed with business reengineering as well as to define business policies and procedures led to its data dictionaries' failure to work or to adequately support the information system. Consultants' reports, as well as internal documentation, reveal that users' lack of knowledge about business practices and policies had contributed to poor setup of the data dictionary. Further, a department review in April 2001 found that the department has yet to train staff fully and to create standardized policies and procedures. In addition, as of June 2001 department staff reported that users continued to lack knowledge of business practices and policies. If the department fully trained its users and created standardized policies and procedures, staff could avoid data entry errors, and the information system could better track expenditures and reimbursements by fiscal year.

An April 2001 department review noted that the department has not fully trained staff and lacks standardized business policies and practices.

The department has not resolved its deficiencies in timely completion of tasks, including ensuring that staff is willing to use the information system. In their reports issued during the installation of the information system at the Barstow home, consultants detailed numerous instances in which staff failed to submit required data or reports to the consultants. Additionally, the department reported that staff often perceived the system implementation as an intrusion into their already-heavy workloads. One of the department's consultants issued a report in January 2001 concluding that staff resistance continued to

contribute significantly to the department's problems with obtaining reimbursements. Finally, in June 2001 a department memorandum revealed that the department was having difficulty implementing upgrades to the information system because it still had insufficient user support and involvement. The memorandum also stated that some managers continue to see the implementation as a low priority and are reluctant to commit staff or resources to it.

The department continues to delay resolving issues related to the homes' use of its information system. In fiscal year 2000-01 the department hired a consulting group to assist the Barstow home in preparing for recertification. These consultants brought to the home and used their own computer information system in place of the department's current information system. Although this home is planning to use the consultants' system until at least June 30, 2002, when the consultants' contract expires, the home administrator has stated that the home has not considered which system it will use after this date. Without proper planning, the home may be caught unprepared next year when the consultant leaves and takes the system away. Additionally, because the Barstow home has had difficulties with the department's information system, the Chula Vista home has moved slowly in implementing the information system. Although it has purchased 23 modules, the home is using only 8.

Problems with the information system have existed since January 1997 when the department began implementing it. In August 2001 senior management from headquarters met with the home administrators to discuss these issues and to work toward a solution. The department issued a memorandum detailing a proposed organizational restructuring that would provide more oversight of the system by headquarters as well as more cooperation between the homes and headquarters. Additionally, the department has begun holding meetings to initiate and implement the changes to the department and its veterans homes. Although this is a step in the right direction, the department must maintain its level of commitment to fixing its information system's difficulties, either by adjusting and maintaining the current system or by purchasing a new one.

Although it has taken some steps to correct the system difficulties, the department must maintain its level of commitment to address the factors that caused the current problems.

Unless the department addresses the factors that caused the current problems, any new information system that it intends to implement will probably fail as well. Ultimately, whether it decides to keep its current system or to implement a new one,

the department will need to reengineer its business processes, manage the changes to ensure that the reengineering is successful, and train its staff to learn the new processes.

RECOMMENDATIONS

To provide for adequate tools and resources to control its fiscal operations, the department should do the following:

- Develop periodic management reports, such as the aging report of accounts receivable, 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.
- 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.
- 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.
- 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.
- Decide how the department 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.
- 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.

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. ■

CHAPTER 3

The Department's Attempts to Alleviate Its Cash Flow Problems Have Not Been Successful

CHAPTER SUMMARY

Several attempts by the Department of Veterans Affairs (department) to compensate for its poor billing practices have failed. To stem its cash flow difficulties, the department has obtained loans from the State's General Fund and tried to control expenditures. However, neither of these options has solved the department's problems with cash management. In fact, the department 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.

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. Although it is working on a new format for the next report, due in December 2001, 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 causes and fiscal implications of the differences between the reports.

THE DEPARTMENT HAS NEEDED LOANS FROM THE GENERAL FUND TO COVER CASH SHORTFALLS

To compensate for its poor billing activities, the department has obtained loans from the General Fund to cover cash shortfalls. Since fiscal year 1994–95, the department has borrowed

almost \$26 million from the General Fund, \$5.3 million of which is currently outstanding. The department asserts that the loans were necessary to compensate for timing differences resulting from delays in its receipt of federal funds or reimbursements, but our review showed that the department's failure to prepare and submit bills promptly for reimbursements was the cause of the timing differences. In addition, the department has made few attempts to determine cash flow needs for itself or for its homes. Armed with more detailed information about its financial situation, the department could identify and anticipate months in which it might experience cash deficiencies, and then it could plan appropriately for these shortages. Moreover, if the department were to place a higher priority on collecting reimbursements for its homes' services, it might not need to borrow from the General Fund as often or as much as it does currently.

EXPENDITURE RESTRICTIONS WERE NOT AS EFFECTIVE AS THE DEPARTMENT HAD ANTICIPATED

Recognizing its problems with cash management, the department attempted unsuccessfully to control its cash flow by limiting expenditures at the homes and at headquarters. The department stated that whenever reimbursements fall short of need, it reduces expenditures that do not affect patient care. Because the department faces an obligation to give its residents a certain level of service, it has focused its expenditure controls on operating expenses rather than on expenses related to patient care.

In December 2000 the department initiated measures that it hoped would serve as a solution for its cash flow problems. It issued a directive requiring homes to submit for the department's deputy secretary's approval their purchase orders for all operating expenses, including travel and training. In addition, the department froze hiring for all personnel classifications except those that provide direct patient care, such as physician and nursing classifications. Finally, beginning January 1, 2001, it denied authorization for any overtime.

Despite the department's good intentions, these measures were ineffective. Since the department implemented the measures, expenditures for operating expenses in some categories have actually increased at two of the three homes as well as at headquarters. As our audit revealed, the true source of the cash flow

Since the department implemented cost-cutting measures, expenditures at two of the three veterans homes, as well as at headquarters, have increased.

problems remains the department's inability to bill insurance providers promptly for the services that the homes provide to veterans.

The Department's Use of Consultants Has Proven Expensive

The department paid \$530,500 in fiscal year 2000–01, and has budgeted another \$400,000 in fiscal year 2001–02, for a consultant to manage its Barstow home.

One area in which the department increased its expenditures involves its use of consultants. Because of its collection difficulties, the department has increased its dependence on consultants during the past two years. For example, as part of its effort to obtain recertification of the Veterans Home of California, Barstow (Barstow home), the department retained the services of a consultant, Country Villa Health Services (Country Villa), to act as the temporary manager of that home's skilled nursing facility. The consultant's services are necessary to ensure the Barstow home's successful operation and its preparation for another survey and possible reinspection by the Department of Health Services (Health Services); however, the impact of these services on the department's cash flow is significant. For the period of January 15, 2001, through June 30, 2001, the department agreed to pay Country Villa \$530,500 for its services. Then, because Health Services had not reinspected and recertified the Barstow home by June 30, 2001, the department agreed to pay the consultants another \$400,000 for additional services from July 1, 2001, through June 30, 2002.

In addition to contracting with Country Villa, the department recently hired two other consultants. During fiscal year 2000–01 the department retained the services of Data General Corporation at a cost of \$150,000 to provide reimbursements analysts to assist the department in implementing its billing management information system (information system). In January 2001 this consultant issued a final report concluding that numerous problems prevented the department from fully realizing reimbursements for medical services to residents of its homes. The department later hired the Certus Corporation to assist the department in billing outstanding charges for medical services provided by the Veterans Home of California, Yountville (Yountville home), from October 1999 through June 2001.

Although the department hired these consultants to assist it in performing billing and managing veterans homes, the consultants' fees have greatly increased the department's costs of operating its homes. The department's staff levels have not decreased because of these consultants, and the department is paying staff and consultants to perform similar functions. The department

signed contracts totaling \$5.5 million for consultant services in fiscal year 2000–01, \$4.7 million of which applies to services provided or begun in fiscal year 2000–01. Additionally, the department is currently looking for a new consultant to assist it in billing charges for fiscal year 2001–02.

Despite the consultants' efforts to assist the department with its current cash flow difficulties, the department is still not making adequate strides to address the issues that are the root of its problems. As Chapter 1 states, the department is not benefiting from its consultants' services because it has not fully implemented their recommendations for changing policies, procedures, and collection methods. Consequently, the department will likely continue to rely on consultants to perform tasks that the department staff should handle.

The Barstow Home Is Draining Department and State Funds

The department has faced cash drains from expenses at its Barstow home, which continues to offer the required level of services to residents. After it failed an inspection by Health Services, the Barstow home lost its certification in July 2000, resulting in a loss of federal payments for daily costs of care (federal per diem) and of Medicare and California Medical Assistance Program (Medi-Cal) reimbursements for this home. Because the home has an obligation to maintain a certain level of services for its residents, it has not reduced services, and it has received additional support from the General Fund. In May 2001 the Legislature approved a General Fund augmentation of nearly \$1.8 million to maintain the home's operations, and in March 2001 the Department of Finance submitted on the department's behalf a request for \$3.7 million in additional General Fund money from the Legislature. The governor and the Legislature approved this request as part of the Omnibus Deficiency Bill in August 2001.

Although the residents of the veterans homes are not experiencing decreased care, the department's maintenance of this level of care is draining state funds that otherwise would be available for other uses. Costs that Medicare and federal per diem reimbursements should pay are requiring additional allocations from the General Fund to continue the residents' level of care.

Finally, because of the problems at the Barstow home, department staff stated that they accepted fewer residents into the home. Consequently, between April 1, 2000, and July 12, 2001, the

The Barstow home received \$5.5 million in additional funding from the State's General Fund to replace lost federal funding after it lost its certification.

Barstow home reported that its home census dropped from 287 to 217 residents, a reduction of 24 percent. Because it is paying the same level of fixed costs for fewer residents at the Barstow home, the department is using General Fund appropriations to make up for lost member fees, federal per diem reimbursements, and the veterans aid benefits paid by the U.S. Department of Veterans Affairs. Thus, the home's fixed costs are spread over fewer member fees as well as fewer aid and attendance payments, causing the State to absorb a larger amount of these charges than it did when the Barstow home was certified.

THE AUGUST REPORT ON CASH FLOW DOES NOT SUPPLY THE INFORMATION REQUESTED BY THE LEGISLATURE

The department's August 2001 report on its cash flow needs does not meet the requirements listed in the Legislature's request for information. Although it details estimated expenditures and reimbursements for the homes, the report fails to address adequately the department's needs for cash. Consequently, the Legislature cannot use this report to identify the department's need for additional funding or to determine the months in which the department expects to have cash deficiencies.

Omissions in the department's August report to the Legislature suggest that the department has not used cash forecasts in its normal operations.

The omissions in the department's August 2001 report may indicate that the department has not effectively developed or used cash forecasts in its normal operations. A proper cash flow forecast would identify those times during the year when the department could expect to have positive or negative cash balances. Advance knowledge of upcoming cash deficits or surpluses would allow the department to plan its discretionary expenditures accordingly and to minimize or eliminate its need to borrow from the General Fund.

The Legislature requested a cash flow report from the department so that the department would identify, assess, and anticipate its cash needs throughout the upcoming year. Using that information, the department could then estimate the amount, duration, and timing of its need to borrow from the General Fund and recommend to the Legislature ways to accommodate in future budgets the department's cash flow problems. One way to develop such forecasts involves combining estimates of periodic expenditures with estimates of periodic receipts. Done correctly, a cash flow forecast shows an organization's estimate of when it will collect and spend cash. The organization can then compare

this estimate to its actual receipts and disbursements so that it can identify patterns in cash movement. If the department were to complete such an analysis, it would then have an early warning system, highlighting months in which the department encounters billing or collecting slowdowns or when it will need loans from the General Fund.

Another major benefit of developing such forecasts is that they help to foster intradepartmental relationships. Because the forecasts stress the overall coordination of reimbursements and expenditures, they encourage staff in the purchasing, accounts payable, accounts receivable, and collections units to work more closely for the overall good of the organization.

Dated August 31, 2001, the department's report omits the department's starting cash position, and it does not show expected reimbursement collections or expenditures by month. Therefore, the department cannot use the report to identify those times when the department might need to borrow from the General Fund. The report summarizes only on an annual basis the department's expected reimbursements and expenditures and does not project the timing and nature of any anticipated cash decline, whether gradual over the year or resulting from one or a few sharp declines in net cash. Moreover, the report does not project anticipated cash collections and insurance reimbursements. Ultimately, our review 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.

Reimbursement schedules accompanying the report assume that billing and collections will remain the same across all months. Although the department is not current with its billings and has retained a consultant to attempt additional collections, the supporting schedules do not address the impact of these conditions. Finally, the department currently has \$5.3 million in outstanding General Fund loans. Repayment of these loans will affect the department's cash needs, but nothing indicates that the department has factored these payments into the cash flow schedule.

In its August 2001 report, the department omitted its starting cash balance and the effect repaying its General Fund loans would have on its cash.

THE DEPARTMENT'S DECEMBER REPORT MAY ALSO FALL SHORT OF LEGISLATIVE REQUIREMENTS

In contrast to the August report, the department's next report, due December 31, 2001, would show the department's starting cash position. The department plans to display with graphics each home's starting cash position and its monthly anticipated personnel and operating expenditures. When combined with estimated collections, this information should help the department to project its estimated net change in cash for each month. Without such a system of cash management, the department cannot properly plan for its cash needs and thus anticipate possible cash shortfalls.

To incorporate these elements in the December report, the department must develop a methodology to estimate accurately its accounts receivable, including reimbursements for the services that its homes provide to veterans. As of October 23, 2001, the department had not yet completed this effort. According to department management, the department is trying to identify billable claims from its information system as well as outstanding charges in the system that Medicare and Medi-Cal may already have paid. However, as Chapter 1 discusses, the department's problems with the data in its system may make these tasks difficult. Even if it succeeds in developing the data sources for the information required to prepare its December report, the department still will not be able to examine the differences between its analysis and conclusions in the December and August reports as the Legislature requested. The August report lacks data, a realistic estimate of the department's cash collection patterns, and information about the department's monthly cash position that are comparable to those that the December report may contain. Therefore, after December 2001 the Legislature may be unable to use these reports to assess the usefulness of any recommendations to accommodate the department's cash flow problems in future budgets. Additionally, the Legislature will be unable to assess the accuracy of the department's projections.

Because the August and December 2001 cash flow reports will contain different data, they will not be useful in assessing the department's cash flow problems.

RECOMMENDATIONS

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.

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.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



ELAINE M. HOWLE
State Auditor

Date: December 5, 2001

Staff: Nancy C. Woodward, CPA, Audit Principal
Suzi Ishikawa
Celina Knippling

Agency's comments provided as text only.

Department of Veterans Affairs
Office of the Secretary
Post Office Box 942895
Sacramento, California 94295-0001

November 19, 2001

Ms. Elaine M. Howle*
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814

Dear Ms. Howle:

Please find enclosed the California Department of Veterans Affairs response to your audit, Number 2001-113, dated December 2001.

Thank you for the opportunity to comment on your recommendations. I believe that your review provides us additional guidance to consider as we correct some long-standing procedural shortfalls in our operations. The rapid growth of the agency over the last five years outpaced some fundamental issues that should have been addressed. This administration will ensure that those issues are addressed.

Should you have any questions regarding our response, please contact John Hanretty, Chief, Financial Services Division, at (916) 653-1420; or, you may contact me, at (916) 653-2158.

Sincerely,

(Signed by: Bruce Thiesen)

BRUCE THIESEN
Secretary

Enclosure

*California State Auditor's comments begin on page 61.

**Department of Veterans Affairs
November 19, 2001**

**Response to Bureau of State Audits Report
2001-113**

① The department appreciates the review of its historical practices related to reimbursement collections at the three veterans homes in Yountville, Barstow and Chula Vista. The Bureau of State Audits has recapitulated and confirmed many of the problems already identified by the current management team at the Department of Veterans Affairs.

② On March 21, 2001, Governor Gray Davis appointed George Andries, Jr., as Deputy Secretary of Veterans Homes. Within the past six months, the department has strengthened its organizational oversight of the veteran homes and established routine financial reports and reviews that focus on reimbursement collections through automation improvements. Additionally, the department became aware of previous reviews lost when management rotated through the agency several years ago. These resources will be studied for applicability and recommendations will be adopted through the newly developed organization. The organization has dramatically changed with the introduction of the Baldrige method of evaluating the performance of the organization. Performance objectives have been quantified with specific dedicated resources and time-lines for completion. Key leaders who sit on functioning councils that meet at least monthly manage the objectives. The revenue council reviews all collections activities and meets bi-weekly at this time.

③ The Department respectfully submits responses to each of the recommendations made by the Bureau of State Audits. In general, we agree with the findings of the auditor and have been working aggressively in all areas of the organization to standardize procedures and policies, ensure routine audits and reviews, and quantify all areas of operation, especially reimbursement and cash flow.

1.1 Continue to seek recertification for its Barstow home so that this home can bill for Medicare and Medi-Cal reimbursements.

Response:

The California Department of Veterans Affairs (CDVA) does plan to continue the process towards certification of the Home in Barstow. The Department of Health Services (DHS) completed an initial survey on November 2, 2001. That survey was to determine if the issues, which caused decertification, have been corrected. The results of that survey should be received at the Home by Thanksgiving. If the Home satisfactorily passes that survey they will enter a reasonable assurance period for not more than 120 days at which time DHS will conduct a complete survey to determine certification.

1.2 Notify the Department of Health Services when the department believes that the Barstow home is ready to undergo a new survey that will lead to recertification.

Response:

DHS was notified on October 25, 2001.

1.3 Follow up on claims submitted to secondary insurance providers to ensure that it has received reimbursements and that staff reworks rejected or denied claims in a timely manner. In addition, to recover additional reimbursements, the department should submit claims to secondary insurance providers that it has not usually billed.

Response:

CDVA acknowledges that it had a fully staffed Reimbursements Office with detailed training in the area of secondary insurances that this source of revenue should be actively billed, monitored, followed-up and reconciled; however, with limited resources, CDVA made a business decision to allocate staffing resources toward collecting high dollar collections in the areas of Acute Services, Skilled Nursing and Outpatient Surgeries in order to optimize cash for CDVA. The billing and collection of secondary insurances held by the Home Members is generally very labor intensive with very little return.

5

1.4 Correct system and process deficiencies noted by its consultant in the consultant's 100-chart sample. If time limits have not expired, the department should also resubmit claims for the items that it underbilled.

Response:

The Chief Medical Officer (CMO) and the Utilization Review Coordinator have already implemented procedures to correct the procedural deficiencies noted in the areas of Observation Stays and Admit Order. The other clinical issues identified in the areas of chart documentation protocol and correct charge entry issues will be addressed by Home Administration and the CMO. Reimbursements staff will review the accounts identified in the consultants report to determine if sufficient data is now available to resubmit valid and compliant claims.

1.5 Transfer qualified staff to the utilization review section and hire from the nursing registry to replace these staff until the Yountville home can hire and train permanent utilization review nurses and health record technicians.

Response:

The Home has hired two qualified utilization review nurses. The Home is using a temporary help agency for key data operators and health record technicians until permanent employees may be hired.

1.6 Investigate the salary levels and classifications for trained utilization review nurses and coders to determine whether it needs to work with the State Personnel Board to change salary levels for these positions.

Response:

The Personnel Services Division, CDVA, will perform a job classification audit of those positions including a salary survey with industry comparables. The Personnel Services Division will present their findings to the Department of Personnel Administration for recommended action.

1.7 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.

Response:

CDVA has addressed this recommendation in two ways. First, the Veterans Homes organization was strengthened with the addition of a Deputy Secretary over all veteran homes and the development of a revenue council specifically committed to ensure the proper collection of all reimbursements. The council consists of staff managers in each area of the organization that generates and bills for reimbursements, including clinical managers. Second, CDVA has hired an individual with a background in Meditech who will act as a "collections manager" for CDVA. This individual is a certified information systems auditor who will be assigned to the Deputy Secretary of the Homes and the Chief of Financial Services. The collections manager will be solely responsible for billing process review from charge generation through remittance posting. The position will have no other duties assigned to it.

6

1.8 To ensure that it is billing claims in a timely manner, the department should continue to focus on clearing its backlog of claims and ensuring that staff perform all tasks so the current claims are billed promptly.

Response:

Utilization Review is current for July, August and September of this fiscal year and all approved stays with accounts finalized by Medical Administrative Services (MAS) have been billed. Utilization Review staff have been mandated to remain current on all UR Notices for this fiscal year and the MAS staff has set a goal of December 1, 2001 to clear all of the coding

backlog. Reimbursement staff will be immediately billing all backlog claims once an appropriate UR Notice has been received and all coding has been finalized.

- 1.9 Perform a cost-benefit analysis of continuing to hire consultants to bill for prior year charges to determine whether reimbursements will adequately cover consultant costs. Additionally, if the department decides to keep its current system, it should hire a consultant knowledgeable in the department's current information system to assist the department in cleaning up erroneous data, inputting 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.**

Response:

CDVA concurs with this recommendation and will perform a cost-benefit analysis of recent consultant contracts to serve as a baseline for future contracting decisions. CDVA will also document its cost-benefit analysis prior to executing future consultant contracts for collection of prior year reimbursements.

Effective use of consultant contracts to collect reimbursements has previously been identified by the newly established Revenue Council as an area of concern. Decisions to execute these types of contracts were based upon the recognition that the size of the backlog exceeded staff's ability to correct, while still maintaining current billing throughput, and resolving billing process issues. Use of consultants allows CDVA to address the backlog and provided valuable subject matter expertise to assist CDVA in addressing process issues.

The Information Technology Council is currently in the process of evaluating off-the-shelf information system capabilities within the same operational environment as the Homes. Part of that process will include a recommendation whether we should continue with Meditech, or pursue funding for a different information system. In the interim, CDVA is continuing with installation of a Meditech upgrade (Version 4.8) that will improve system functionality. Additionally, CDVA is dedicating significant travel and training funds to ensure information systems staff receive training on Meditech version 4.8 systems. This training will also address issues identified in this recommendation.

No matter which information system is ultimately chosen, business process reengineering is a necessary component of successful implementation. As discussed in recommendation 2.6, CDVA will continue efforts to fund that process. The business process reengineering will address development of written business policies and practices as well as providing additional training for system users.

- 1.10 Finish implementing a system of numbered charge slips to ensure that all staff at its veteran homes have entered all data.**

Response:

The Information Management Core Team responsible for implementing the numbered charge slips shall continue that process and assure implementation at all three homes.

1.11 Investigate accounts with no charges to determine if it can submit claims or if it should delete these accounts.

Response:

CDVA is currently purging all accounts prior to October 1, 1999, as these accounts are no longer collectable due to Medicare claim submission time limits. Selection reports have been produced to determine if any zero charge accounts are duplicate or incorrectly set up accounts and will be deleting these accounts as non collectable erroneous accounts.

2.1 Develop periodic reports, such as the aging report of accounts receivable, and regularly reconcile these reports with the department's accounts 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.

Response:

CDVA has developed a series of reports including cash collections per week by source of revenue, cash flow analysis for each Home, and monthly expenditure analyses for each Home. CDVA concurs with the auditor in developing additional reports that more discreetly predict accounts receivables and is developing lag reports and segregating billable charges from unbillable charge data in the automated system.

2.2 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 for itself and its homes.

Response:

Regularly scheduled reviews will be conducted separately and in conjunction with the Inspector General for Veterans Affairs. 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 in the next six-month period.

2.3 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.

Response:

The Veterans Homes Division is currently implementing the Baldrige Management System Criteria for organizational and management changes at all homes. A Revenue Council has been appointed to review the entire revenue and reimbursement process and provide a date when revisions to the system can begin to be implemented. The Revenue Council will develop process standards with monitors and a balanced scorecard. The Revenue Council will report monthly to the Veterans Homes Executive Board, who in turn will report to the Governing Board. Management at each level will review the report and balanced scorecard and

intervene timely when necessary. The process will be documented in the Veterans Homes Division Administrative Manual.

2.4 Provide training opportunities for department staff, particularly reimbursement staff, to ensure that they are kept informed of current developments in Medicare regulations and policies.

Response:

A Reimbursements staff member has been assigned to review all Medicare bulletins and advise staff of all regulation and policy changes that affect reimbursement activities. The Reimbursements Unit will be participating in billing training classes offered by AHIMA, Cross Country Seminars , UGS and NHIC along with any free classes occasionally offered by UGS, NHIC and Medicare.

8

2.5 Decide how it will satisfy its three veterans homes' conflicting information system needs for different facets of 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.

Response:

An essential component of the Baldrige Management System is the Homes' Information Technology Council. This Council, which is co-chaired by the Administrator of the Chula Vista Veterans Home and the Deputy Secretary responsible for information technology, is comprised of representatives and subject matter experts from throughout CDVA and is empowered to utilize additional consultants as needed.

The council has developed a two-pronged strategy. Their first objective will be to implement Meditech Version 4.8 to satisfy HIPAA requirements. Completed implementation is scheduled for April 2002, and is supposed to improve a number of the Meditech modules. More importantly, the implementation of this version of Meditech will allow us to standardize Meditech throughout the Homes' Division and will give us a clear vision of Meditech's real capabilities.

The second objective will be to determine what system would better meet the needs of the Veterans Homes both short and long term. Based upon our experience with Meditech, the division can now more appropriately evaluate what is actually needed.

The council will report monthly to the Homes Executive Board who in turn will report to the Governing Board. Management at each level will review the report and balanced scorecard and intervene timely when necessary. The process will be documented in the Veterans Homes Division Administrative Manual.

2.6 Perform business process reengineering, including developing written business policies and practices that require staff to perform necessary tasks and to receive adequate training. The department should consider hiring a consultant to assist the department in these tasks and to help the department develop its business solution.

Response:

CDVA concurs with this recommendation and has previously pursued funding for business process reengineering, most recently in the fiscal year 2001–02 budget process. The tight fiscal environment in that budget year resulted in the request not being approved by the legislature. Business process reengineering is critical to the our efforts to effect organizational change and would allow staff to receive appropriate levels of training without impacting the performance of their primary functions.

CDVA will continue to pursue funding for business process reengineering in the future.

- 3.1 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 perform a cost-benefit analysis of contracting out its billing and collections functions and eliminating excess positions, to determine if it can avoid paying both consultants and staff to perform similar functions.**

Response:

9 The consulting services retained by CDVA to date has not performed any duplicate services or functions that current CDVA staff perform. Superior Consultants' engagement involved identifying and correcting Meditech system and policy/procedure problems to enhance reimbursements for CDVA. Certus Corporations engagement involved assessing any collectable accounts receivables in the prior fiscal year and recovering these funds on behalf of CDVA while CDVA diverts its resources to collecting funds in the current fiscal year.

- 3.2 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.**

Response:

10 CDVA has begun a series of analyses reviewing prior year historical data, actual cash collections and projected expenditures to better articulate the flow of collections and expenditures. While the accrual method of accounting allows for a complete picture of funding needs by fund source, we must also ensure that cash is collected in a timely fashion due to length of time to both pay out accrued payments and collect anticipated revenues. CDVA must collect revenues within 60 days of the date of service in order to make budget projections.

11 CDVA will provide the legislature with schedules depicting potential collections, actual billings, and actual cash collected in comparison to budget. In order to estimate expenditures, all accruals and estimated payrolls will be forecast according to budget projection and actual through the most recent month. The schedules will be segregated by month in order to develop a clear picture of when cash becomes available and when it is spent. Historically, the cash collection and expenditure process has crossed beyond any given fiscal year by at least four months and, oftentimes, longer.

COMMENTS

California State Auditor's Comments on the Response From the Department of Veterans Affairs

To provide clarity and perspective, we are commenting on the Department of Veterans Affairs' (department) response to our audit report. The numbers below correspond to the numbers we placed in the margin of the department's response.

- ① The department has misstated the scope of our review. We examined the department's current practices.
- ② Although the department began a reorganization of the oversight of its homes in August 2001, it is still in the evaluation and planning phases. Thus, insufficient time has elapsed to determine whether these measures will prove effective. Moreover, the department has yet to provide proper oversight. As stated on page 36 of the report, the department did not give its veterans homes adequate guidance or performance measures after it transferred budgeting responsibility back to the homes. In addition, the department failed to provide budget data to its homes until three months after the start of the fiscal year.
- ③ The department has overstated its efforts. The department began distributing financial reports and reviews only as of October 2001. Additionally, although the department has prepared and distributed limited expenditure and reimbursement reports from its accounting system, as we discuss on page 27, these reports do not provide data on unbilled charges, and thus the department may be missing opportunities for reimbursement. Moreover, the department did not enter budget data into the accounting system until October 2001, three months after the start of the fiscal year, and therefore the veterans homes could not use these reports to evaluate their expenditure and collection activities. Finally, as discussed on page 26, inaccurate and outdated data prevent the department from producing accurate management reports from its billing management information system (information system).
- ④ We do not find this statement to be reasonable. The department states that the previous reviews were lost when management rotated through the agency several years ago. However, we

identified a more recent example. As we state on page 23 of the report, the department has not completely followed through on recommendations made by its consultant in calendar year 2000, and again in January 2001.

- ⑤ The department cannot support this statement with any analysis. As we state on page 19 of the report, the department has made no attempt to determine what would be required for it to bill secondary insurance claims. In fact, our discussions with four secondary insurers revealed that the department would need to invest only the time already used when it submits the charges to Medicare, and thus, billing these secondary insurers should not be a very labor intensive process. Moreover, the department has not performed any analyses to determine the amount of reimbursements available to it from this source, so it cannot say with any certainty that these collections would provide very little return.
- ⑥ The department's response does not adequately address our recommendation. When it receives consultant or auditor recommendations, the department should appoint a staff member to oversee the implementation of the recommendations. This person should be at a high enough level and have sufficient authority to ensure that all tasks are completed.
- ⑦ The department has overstated its progress. As we discuss in comment 3 on the previous page, the department has developed financial reports that focus on reimbursement collections only as of October 2001, and its other reports are of limited use to the department and its veterans homes.
- ⑧ Based on our review, billing staff at the homes have received little to no training in medical billing. Since the majority of claims processing work is performed by staff at the veterans homes, we believe the department should emphasize and focus on ensuring that these staff members receive adequate training. Furthermore, given the lack of training for department medical billing staff, we question whether having a reimbursements staff member at headquarters review all Medicare bulletins is sufficient to ensure that medical billing staff are aware and knowledgeable about changes in Medicare regulations and policies.
- ⑨ We disagree with the department's statement. The department retained Certus Corporation to assess collectible accounts receivables and recover these funds, because department staff had failed to perform these tasks. Although the consultant is not

processing the same claims that department staff are currently working on, processing claims is ordinarily the job responsibility of department billing staff.

- ⑩ The department states that in order to make budget projections it must collect revenues within 60 days of the date of service. However, we question how the department intends to achieve this given that our review of 25 claims billed by the department, found that, on average, 207 days elapsed between the last date of service and the date the department submitted the bills to Medicare. Our review also disclosed that Medicare reimbursed the department, on average, within 27 days of receiving the department's claim.
- ⑪ Based on prototypes of its proposed reports that the department provided to us, we are concerned that the department will not incorporate all relevant information about its cash needs in its next report to the Legislature. Providing the Legislature with schedules depicting actual billings and cash collected in comparison to budget numbers is useful only if the department can accurately project budgeted collections. To date, we have seen no evidence that the department is able to do so. Moreover, in order to provide a complete view of its cash flow, the department should take into account collections on claims for prior-year services and repayments of its outstanding General Fund loans, neither of which it is currently doing.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press