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February 20, 2004

The Honorable Dennis J. Kucinich
Ranking Minority Member
Subcommittee on National Security, Emerging Threats
and International Relations
Committee on Government Reform
House of Representatives

The Honorable Janice D. Schakowsky
House of Representatives

Subject: *Military Treatment Facilities: Improvements Needed to Increase DOD Third-Party Collections*

Like the private health care industry, the cost of providing health care services to the Department of Defense's (DOD) active duty personnel, their dependents, retirees, and survivors and their dependents has increased dramatically over the past decade. In fiscal year 2003, DOD reported that more than 8.7 million Military Health System beneficiaries were eligible to receive health care at a cost of about \$27.2 billion per year—up from a reported 8.2 million eligible beneficiaries at a cost of \$15.6 billion in fiscal year 1997. To the extent that DOD beneficiaries have private health insurance coverage, DOD is authorized to bill insurance companies under the Third Party Collections Program.¹ As such, DOD has the opportunity to defray the rising cost of providing health care to an increasing number of eligible beneficiaries.

In October 2002, we reported to you that the three military treatment facilities (MTFs) we visited did not always bill and collect from private insurers for care that was reimbursable to the government.² At all three facilities, we identified control weaknesses that resulted in instances where these MTFs had not identified all patients with third-party insurance and sometimes did not bill those insurers even when they were aware such coverage existed. Consequently, opportunities to collect millions of dollars of reimbursements from insurers for medical services provided were forgone.

¹The statutory underpinning for the program is 10 U.S.C. §1095.

²U.S. General Accounting Office, *Military Treatment Facilities: Internal Control Activities Need Improvement*, GAO-03-168 (Washington, D.C.: Oct. 25, 2002). The three facilities we visited were Eisenhower Army Medical Center, Augusta, Georgia; Naval Medical Center-Portsmouth, Portsmouth, Virginia; and Wilford Hall Air Force Medical Center, San Antonio, Texas.

Concerned that there were additional MTFs that also did not effectively bill and collect for reimbursable services, you requested that we expand our audit to provide some perspective on the amount of such services that were not billed and collected across all of DOD's MTFs. However, after determining that it was not feasible to develop a DOD-wide estimate of missed collection opportunities, as agreed to with your offices and explained in more detail later, we are providing a perspective on the amount of services not billed and collected across all of DOD's MTFs based on work performed by DOD's service auditors at 35 of the largest MTFs reporting collections. This report also provides information on (1) specific control weaknesses and other issues that impair DOD's ability to increase collections, (2) the department's ongoing efforts to improve the third-party billings and collection function, and (3) our assessment of DOD's use of performance metrics to manage third-party collections at its MTFs.

We performed our work from April 2003 through December 2003 in accordance with generally accepted government auditing standards. Details on our objectives, scope and methodology are included in enclosure 1.

Results in Brief

Based on our previous audit work and our analysis of reports issued by the military service auditors, conservatively, tens of millions of dollars are not being collected each year because key information required to effectively bill and collect from third-party insurers is often not properly collected, recorded, or used by the MTFs. DOD's failure to effectively bill and collect from third-party insurers, in effect, reduces the amount third-party private sector insurance companies must pay out in benefits and unnecessarily adds to DOD's increasing health care budget—financed by taxpayers. While DOD has limited control over the burgeoning cost of providing health care benefits to DOD retirees and their dependents and active duty dependents, DOD has an opportunity to offset the impact of its rising health care costs by collecting amounts due from its Third Party Collections Program.

For fiscal years 2000 through 2002, DOD's Third Party Collections Program generated on average about \$122 million annually. However, the Army, Navy, and Air Force service auditors at 35 of the largest 132 MTFs found that collections from reimbursable health care costs could be increased by approximately \$44 million a year at these 35 facilities alone. These findings along with our past and current work suggest that the billing and collections problems we reported on previously are pervasive throughout DOD. However, because DOD does not maintain a reliable central database containing patient insurance information, which would facilitate sampling and thus the development of a statistically based projection across the entire universe of care provided by MTFs, neither the service auditors nor we could feasibly provide a comprehensive estimate of the total third-party collections shortfall across all MTFs. Further, DOD's current transition to a new billing methodology made it impractical for us to perform even limited sampling and testing at this time.

Weaknesses throughout DOD's third-party billing and collection process, such as incomplete medical documentation and coding of care provided, insufficient monitoring of accounts receivable, and ineffective follow-up to collect accounts receivable, have all contributed to

collection shortfalls. The single biggest obstacle to increasing collections, however, is inadequate identification of patients with third-party insurance. DOD does not have effective systems or processes for obtaining and updating insurance information for patients that have other health insurance coverage. This weakness dramatically reduces the possibility of collecting from third-party insurers and recouping the cost of providing reimbursable care.

According to DOD officials, they have several process and system improvement initiatives planned or underway that are intended to address the weaknesses identified. Central to DOD's effort to improve the Third Party Collections Program overall and conform to industry best practices, DOD recently initiated a new itemized billing methodology for outpatient care. However, the new billing system resulted in significant start-up issues that, according to DOD officials, seriously affected third-party outpatient billings and collections in the short term. Consequently, total collections, including inpatient, outpatient, and ancillary reimbursements, in fiscal year 2003 were only about \$92 million—down from previous years by about \$30 million or 25 percent. DOD officials said that this is a temporary decline due to implementation issues with outpatient itemized billing and the impact of the Iraq mobilization on MTF operations. Officials expect collections to increase and exceed earlier levels as problems are resolved and new system enhancements are implemented. However, according to DOD officials, many of the system enhancements will not be fully operational until fiscal year 2005 and beyond.

Although DOD monitors certain performance information related to MTF workload and third-party collections, little is done with this information in terms of managing DOD's Third Party Collections Program. Presently, the department lacks key information needed to establish performance goals for billings and collections functions to assess individual MTFs.

This letter includes recommendations to the Secretary of Defense to implement a corrective action plan to address start-up problems with DOD's outpatient itemized billing methodology and establish an effective performance management system that establishes realistic collection goals by MTF.

In its written comments, reprinted in enclosure II, DOD concurred with our recommendations and acknowledged that additional funds could have been recovered. DOD also included in its comments a comprehensive discussion of its current and future initiatives aimed at improving its Third Party Collections Program. However, DOD (1) took exception with our position that additional collections could be used to offset the rising cost of health care and (2) questioned our reliance on the work of other auditors to provide some perspective on how much more could be collected annually from third-party insurers. First, we recognize that there is a statutory prohibition against DOD using third-party collections to reduce an individual MTF's operating budget, and, as noted in this letter, that DOD may use the collections to support the operations of the MTF instead of depositing the collections in the General Fund of the Treasury. However, our point, taking a broader view, is that every dollar recovered from third-party insurers is one more dollar for the Congress to consider in funding the government's operations. We reaffirm our position that DOD has the opportunity, as well as a fiduciary responsibility to taxpayers, to maximize its collection efforts under this program.

Second, the information in our letter on the potential amount of lost collections is adequately supported. As detailed in this letter, DOD's incomplete or flawed data prevented us from providing a more comprehensive estimate of third-party collections shortfalls across all MTFs. Consistent with generally accepted government auditing standards, we relied on prior work performed by military service auditors at 35 MTFs, as well as our own more recent assessments, to provide an estimate of lost collections.

Background

The military health system has three missions: (1) maintaining the health of active-duty service personnel, (2) medically supporting military operations, and (3) providing care to the dependents of active-duty personnel, retirees and their families, and survivors and their dependents. The military health care system has changed significantly during the past decade. Along with substantial active duty force and infrastructure reductions, medical personnel strength has decreased by 15 percent, and one-third of all military hospitals have been closed. Further, the 1980s doubling of military health costs and increasing beneficiary concerns about care access in military hospitals led DOD to establish its nationwide managed care program, called TRICARE. In recent years, the defense authorization act for fiscal year 2001³ greatly expanded the health care benefits available through DOD for Medicare-eligible military retirees. In the past, these retirees were not eligible for the TRICARE health care program and were able to get care from MTFs only when space was available.

TRICARE covers inpatient services, outpatient services such as physician visits and lab tests, and skilled nursing facility and other postacute care. It also covers prescription drugs, which are available at MTFs, through DOD's TRICARE Mail Order Pharmacy, and at civilian pharmacies. TRICARE delivers care through (1) Army, Navy, and Air Force operated medical centers, (2) community hospitals, (3) major clinics, known as MTFs, that serve military installations, and (4) a network of civilian providers managed by DOD's managed care support contractors. Eligible beneficiaries can access care at the MTFs for free or at minimal cost. However, if a beneficiary has other health insurance coverage, then the care provided by the MTF may be reimbursable by private health insurers. The government is authorized to collect the reimbursable amounts from insurance companies under the Third Party Collections Program authorized by 10 U.S.C. §1095.⁴ Instead of depositing the collections in the Treasury, DOD may use the collections to support the operations of the MTF.

DOD's Third Party Collections Program is led by the TRICARE Management Activity (TMA) in coordination with the Army Medical Command (MEDCOM), the Navy's Bureau of Medicine and Surgery (BUMED), and the Air Force Medical Service. TMA sets policy and provides program oversight and issue resolution, and develops reimbursement rates. Service managers at each of the service medical commands develop and execute service-specific guidelines and provide oversight within their service for third-party collection

³Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Pub. L. No. 106-398, § 712, 114 Stat. 1654, 1654A-176 (2000).

⁴The program was established pursuant to Public Law Number 99-272, 100 Stat. 82, 100 (1986).

operations. However, individual MTFs are responsible for executing policy, training personnel, developing marketing plans, operating within compliance guidelines, implementing best practice solutions, and establishing internal controls. Consequently, individual MTFs have great flexibility to determine how they will implement DOD policy and manage their Third Party Collections Program.

Tens of Millions of Dollars Are Not Collected Each Year

Based on work performed by Army, Navy, and Air Force service auditors at 35 of the 132 largest MTFs, collections from reimbursable health care costs could be increased substantially. Their audit work, some of which is recent and fairly comprehensive and some of which is more limited in scope and not completed recently, could be used to suggest that approximately \$44 million a year more could be collected at these 35 facilities. While some MTFs are performing better than others, service auditors found collection shortfalls at all the MTFs visited. Because DOD does not maintain a reliable central database containing patient insurance information, which could facilitate sampling, neither the service auditors nor we could feasibly provide a comprehensive estimate of third-party collection shortfalls across all MTFs. In addition, DOD's current transition to a new itemized billing methodology, which significantly disrupted collections in fiscal year 2003, made it impractical for us to perform even limit sampling and testing at this time because these estimates would not be reflective of future years collections. Therefore, even though there are differences in the service auditors' sampling periods, scope of work, and sampling approaches that preclude us from comparing the relative performance among Army, Navy, and Air Force MTFs, these estimates provide the most comprehensive and current information with respect to DOD's third-party collection shortfall.

- In March 2003, based on work performed at five of the Army's largest MTFs, the Army Audit Agency reported that these five facilities could have collected an additional \$24.5 million more annually—doubling current collections at those sites.⁵ Of all the service auditors, the Army auditors provided the most recent and comprehensive assessment of collections—providing audit coverage for all workloads or types of care provided including inpatient, outpatient, ancillary services, pharmacy, and ambulatory visits.
- Focusing only on reimbursable pharmaceutical collections, the Air Force Audit Agency reported⁶ that for the 13 Air Force MTFs audited, these facilities could have collected an additional \$15.7 million annually.
- Based on work performed in 1996 at 17 Navy facilities and focusing strictly on outpatient workload, the Naval Audit Service reported⁷ that these MTFs could have collected an additional \$3.4 million annually.

⁵U.S. Army Audit Agency, *Third party Collection Program, U.S. Army Medical Command*, Audit Report A-2003-0185-IMH (Mar. 10, 2003).

⁶Air Force Audit Agency, *Third Party Collection Program—Pharmaceuticals*, Audit Report 01051015 (Aug. 8, 2001).

⁷Naval Audit Service, *Recovery of Outpatient Health Care Costs From Third Party Payers*, Audit Report 010-97 (Dec. 17, 1996).

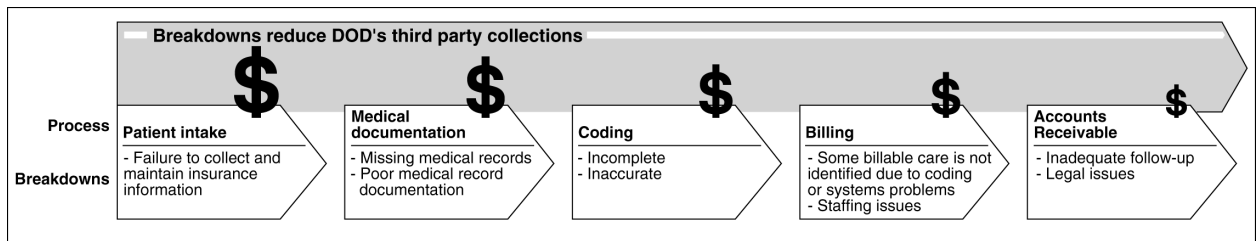
Although the service auditors looked at different workloads and used varying audit approaches, the conclusions were similar. All determined that millions of dollars in reimbursable care were not being collected. The auditors identified similar reasons for collections shortfalls: (1) medical personnel often failed to identify patients with other health insurance, (2) bills were not always prepared even when the information was available, and (3) staff did not aggressively follow up on open claims with private insurance companies. Generally, these findings are consistent with our previous audit findings for the three MTFs we visited.⁸ Across all the services, auditors have concluded that significant increases in collections are possible at every MTF examined, and this condition likely exists in varying degrees throughout DOD's MTFs.

Process Weaknesses Limit Collections

Weaknesses in DOD's third-party billing and collection processes and systems impair DOD's ability to collect tens of millions of dollars each year from third-party insurers. As shown by our prior work and confirmed by earlier or more current service auditor reports, weaknesses throughout the process, such as inadequate identification of patients with third-party insurance, incomplete medical documentation and coding of care provided, insufficient monitoring of accounts receivable, and ineffective follow-up to collect accounts receivable, have all contributed to collection shortfalls. According to DOD officials, they presently have several initiatives planned and underway that are intended to address many of the weaknesses identified. In particular, DOD is in the process of implementing automated systems improvements, including a new DOD-wide itemized billing methodology, intended to improve its billing processes and increase collections.

DOD's billing and collections process cuts across five functional areas, as shown in figure 1. In each functional area or phase of the process, DOD must obtain and document key information in order to properly bill third-party insurers and maximize collections. Each phase of the process is therefore highly dependent on the completeness and accuracy of information collected in prior phases. However, because MTFs do not always properly collect, record, or utilize key information during each phase of the process, the pool of potential third-party collections is diminished with each control breakdown during the process.

Figure 1: Breakdowns Reduce DOD's Third-Party Collections



Source: GAO analysis.

⁸GAO-03-168.

Starting with patient intake, our previous work as well as the service MTF audits have shown that DOD does not have effective systems and processes for obtaining and updating insurance information for patients who have other health insurance coverage or for verifying the accuracy of the information with the insurer. This weakness dramatically reduces the possibility of collecting from third-party insurers and recouping the cost of providing reimbursable care. For example, based on work performed by Army service auditors at five MTFs, they found that while MTF records identified 4.5 percent of the outpatients as having third-party insurance, in fact about 9.8 percent of the outpatients had insurance, more than doubling the number of patients with insurance and projected to include an additional 96,000 patients. If the MTFs had accurate insurance information for these patients, Army auditors estimated that they could have collected an additional \$8.7 million. At three MTFs where we tested internal controls, we found these MTFs also were not identifying all patients with third-party insurance coverage and frequently did not bill insurers even when they knew the patients had insurance coverage, thereby losing opportunities to collect millions of dollars in reimbursable care. According to DOD officials, they are currently exploring the possibility of outsourcing this function with the hope of establishing a comprehensive, independently validated database of beneficiaries with third-party health insurance.

During the medical documentation and coding phases, MTF physicians and other health care providers must adequately document the health care provided to the patient and medical records professionals must assign complete and accurate diagnoses and procedure codes to ensure that third-party insurers are billed appropriately. However, MTF physicians and other health care providers often do not adequately document their diagnosis or the specific procedures performed. For example, one independent study⁹ conducted at 50 MTFs found that approximately 17 percent of the records reviewed did not contain documentation for the specified date of the outpatient visit and about 34 percent to 47 percent of the time, reviewers could not find documentation in the medical record for the diagnosis or procedure performed. In addition, care is sometimes coded inaccurately, as shown in one DOD coding validation study; approximately 14 percent of the diagnosis and procedure codes reviewed were in error.¹⁰

The completeness and accuracy of insurance and medical coding information are extremely important since it is the sole basis used to identify reimbursable care and create and send bills to third-party insurers. However, because care is sometimes not coded or improperly coded, it is either not identified as billable care, overbilled, underbilled, or rejected from the billing system. In addition, as we reported previously,¹¹ even when this information was available, the staff often did not send a bill for a variety of reasons including lack of staff resources and clerical oversights. Finally, accounts receivable personnel are responsible for processing payments from insurers and following up with insurers on outstanding or denied bills. However, many MTFs do not actively monitor and manage accounts receivable to ensure prompt resolution of disputed claims and pursue collection of delinquent accounts.

⁹The Iowa Foundation for Medical Care Information Systems, *Outpatient Database Coding Validation Audits*, 2002.

¹⁰Defense Supply Service-Washington, *Region 1 Coding Validation Study, Overall Report: TRICARE Management Activity Health Program Analysis and Evaluation*, Contract Number GS-35F-4694G, Order Number DASW01-01-F-1053.

¹¹GAO-03-168.

According to some DOD officials, heavy workloads, limited staff resources, and the lack of legal support make it cost prohibitive for the MTFs to resolve and pursue low dollar value claims. Thus far, however, DOD has not performed any type of cost-benefit analysis to determine what claims it should or should not pursue.

To address collection issues, the Army has initiated a process to consolidate and document denied or disputed claims, grouping them by insurer and the reason for denial, in an effort to cost effectively resolve these claims. Specifically at 15 MTFs, after collections efforts have been unsuccessful, the Army is using a contractor to attempt collection, track accounts receivable by insurance company, and document the government's case for reimbursement with the intent of putting the Army in a better position to resolve disputed claims and demand payment or initiate legal action.

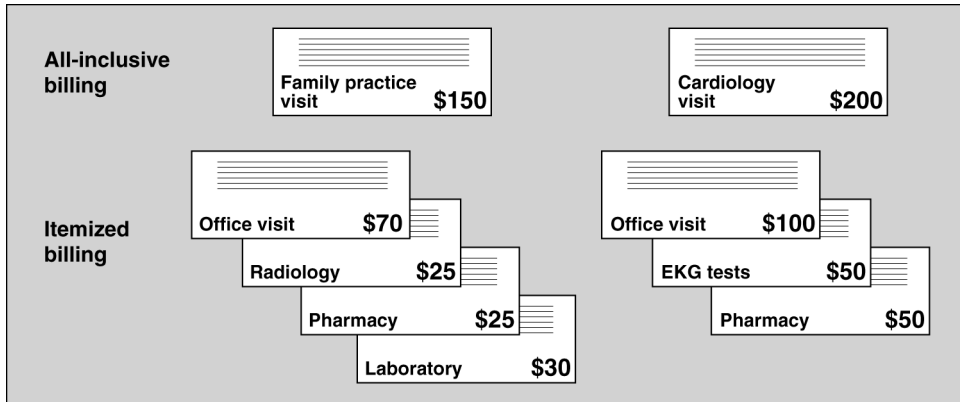
Itemized Billing Methodology Results in Decreased Collections for Fiscal Year 2003

DOD's implementation of a new outpatient itemized billing methodology intended to improve its billing processes and increase collections has led to a significant decrease in collections during fiscal year 2003. For fiscal years 2000 through 2002, DOD's Third Party Collections Program has generated an average of about \$122 million in revenues a year. However, in fiscal year 2003 total collections decreased by about \$30 million to only \$92 million. According to DOD officials, the decline is temporary and is attributable largely to start-up problems associated with the new itemized billing methodology and to a lesser degree, the Iraqi mobilization.

In October 2002, in an effort to improve the Third Party Collections Program, conform to industry best practices, and comply with standards for the protection of electronic private health information set by the Secretary of Health and Human Services,¹² DOD transitioned to an itemized billing methodology for outpatient care. Previously, DOD billed outpatient care using a standard, all-inclusive rate based on the average cost of a clinical visit. This entailed annual DOD calculations of the cost of providing care by the type of outpatient visit, including physician care, and ancillary costs such as pharmacy, laboratory, and other services, typically associated with the clinical visit type. For example, as shown in figure 2, under the all-inclusive rate, an insurer might have been billed \$150 for a visit to an MTF's family practice clinic, or \$200 for a patient visit to an MTF's cardiology clinic.

¹²The Health Insurance Portability and Accountability Act of 1996 required the Secretary to adopt standards for financial and administrative transactions to enable private health information to be exchanged electronically. Public Law No. 104-191, §262 (a), 110 Stat. 2024, 42 U.S.C. §1320d-2.

Figure 2: Comparison of Bills Under All-inclusive Rate and Itemized Billing



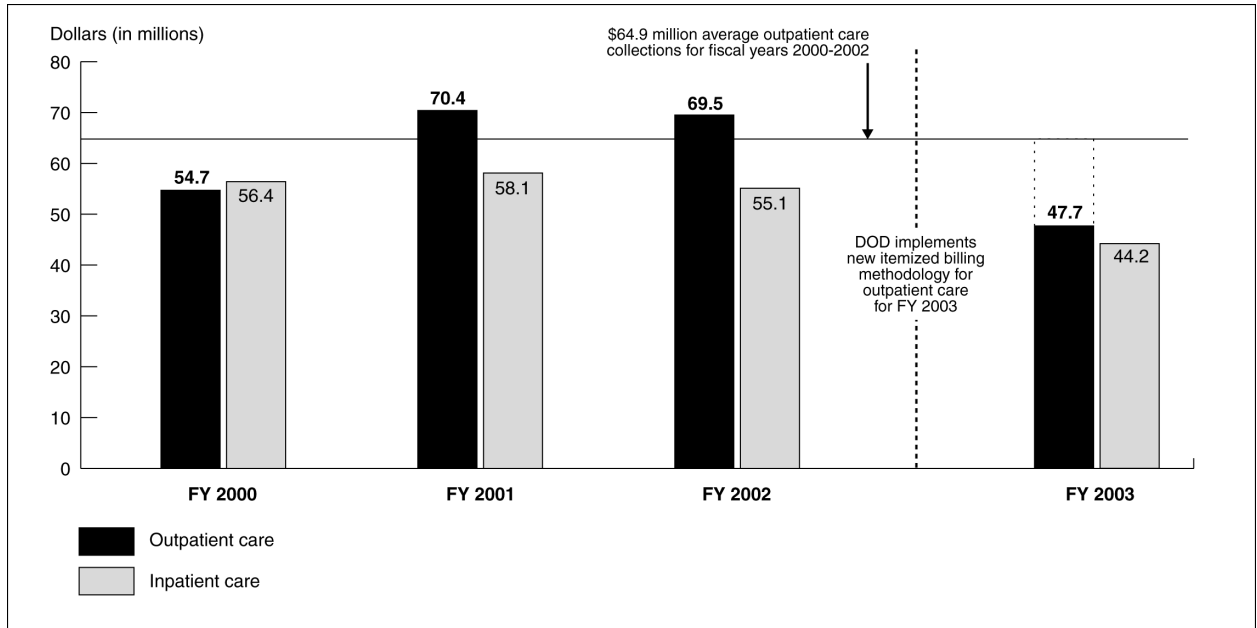
Source: GAO example, amounts shown for illustrative purposes.

However, under itemized billing, because DOD bills third-party insurers based on the specific services and procedures provided, including any medications prescribed or laboratory or other ancillary care provided for a particular clinical visit, several bills may have to be prepared.

A TMA study comparing MTF billings under the all-inclusive rate and itemized billing methods concluded that, on average, the amount of billings to insurers would be approximately the same under either billing method. However TMA projected that under itemized billing, MTFs' third-party collections should increase, as automation improvements would help to more completely identify all reimbursable care for billing. In addition, itemized billing, especially when electronic billing and other system improvements are implemented, would result in MTF claims being in a format more widely accepted by the insurers.

In implementing the new outpatient billing system, DOD officials acknowledged that collections had declined in the first 2 quarters of fiscal year 2003, but they expected that collections would catch up by the end of the fiscal year. Instead, as shown in figure 3, we found that collections did not recover by the end of fiscal year 2003.

Figure 3: MTF Inpatient and Outpatient Collections for Fiscal Year 2000 through 2003



Source: GAO analysis of DOD data.

The major reason for the collections drop off was recoveries for outpatient care. As seen in figure 3, reimbursements for outpatient care, billed under the new itemized billing system, decreased by more than 30 percent from peak collections in fiscal years 2001 and 2002 and inpatient care collections declined by more than 20 percent—from a high of about \$58 million in fiscal year 2001—to just over \$44 million in fiscal year 2003. According to DOD officials, incorrect or incomplete medical coding and other system start-up problems have resulted in an unusually high number of bills being rejected by the automated outpatient billing systems. Consequently, in fiscal year 2003, many of the MTFs did not send numerous bills to insurers for payment, and collections have fallen dramatically.

As discussed previously, MTF physicians and other health care providers must adequately document the nature of health care provided to the patient, and medical records professionals must assign complete and accurate diagnoses and procedure codes to ensure that third-party insurers are billed appropriately. Under the new itemized billing methodology, the system requires more specificity and consistency among the diagnosis and procedure codes and provider-related information in order to pass systems edit checks and automatically generate a bill. This is a significant cultural change that requires physician and other health care providers to document more precisely the care they provide. However, according to DOD officials, in some cases the cultural shift toward more complete documentation of medical care has not taken hold yet. As a result, administrative personnel are currently researching and manually correcting coding errors and other rejected transactions on a bill-by-bill basis, which is extremely labor intensive and has resulted in significant billing backlogs.

In the long term, TMA expects MTF collections to increase as automation enhancements, other systems improvements, and reengineered MTF business practices are implemented,

resulting in the improved identification of all reimbursable care for billing. For example, according to DOD officials, they plan to add enhancements to the itemized billing system that will identify incomplete or inaccurate information as the health care provider enters patient data into the system. Planned automated systems edit features would alert clinical staff when they enter inconsistent or incongruent information into the system. This will allow clinical staff, familiar with the care provided, to detect and correct missing or incorrect information at the point of entry. However, this and many other system enhancements will not be fully operational until fiscal year 2005 and beyond.

Performance Metrics Not Available

While DOD's Third Party Collections Program is led by TMA and managed by Army, Navy, and Air Force medical commands, neither TMA nor the services have an effective performance management system in place for establishing performance goals, identifying collection shortfalls, and managing the overall performance of DOD's Third Party Collections Program. TMA and the services monitor certain performance information related to MTF workload and collections. However, this information alone does not provide the context needed to establish individual MTF baselines or goals against which performance may be assessed. Key information needed to establish credible performance expectations includes both quantitative and qualitative information related to the patient population covered by other health insurance and the type and amount of care provided by each MTF to this population. Without this information, DOD is unable to determine whether a particular MTF is maximizing collections.

The amount of money collected from third-party insurers varies widely from MTF to MTF depending on the extent to which the patient population served has third-party health insurance and the type and level of care provided by the MTF. For example, a large military hospital providing specialty care in a metropolitan area and serving a large retiree population with third-party health insurance is much more likely to provide reimbursable care which in turn should generate higher collections, than a military clinic in a remote location offering basic medical care to a patient population consisting mainly of active duty personnel and their dependents. However, TMA and the services do not currently have visibility over information such as the number and percentage of patients with third-party health insurance and therefore cannot use this and other profile information to set collections performance expectations. According to DOD officials, they plan to field a new centralized database in 2004 that will provide visibility over demographic information including the beneficiary's age, gender, physical location, and whether the beneficiary has third-party health insurance.

Collections can also vary dramatically over time at a single MTF for reasons that are not readily apparent to TMA or the services. Our analysis of collections data for fiscal years 2000 through 2002 showed that collections for individual MTFs fluctuated widely from year to year for a significant number of MTFs—fluctuating upward by as much as 784 percent and downward by as much as 85 percent. Reasons provided by MTF officials for increases include identifying and billing a previously unbilled workload, hiring a new business manager, or increased support from clinical staff or the MTF commander. Reasons for declines are not as clear, but include systems problems, inadequate or inexperienced staff, or

the loss of key personnel. Although quarterly collections activity is monitored by TMA or the services, little can be done with this information in terms of managing DOD's Third Party Collections Program. Given the absence of credible performance expectations for each MTF, it is not possible to determine whether a particular MTF is maximizing its collections.

Conclusion

Managed effectively, DOD's Third Party Collections Program could collect tens of millions of dollars more each year to offset the cost of providing health care to DOD retirees and their dependents and active duty dependents. Because DOD is authorized to use revenue collected from third-party insurers to supplement its defense health care appropriation and improve MTF operations, DOD has an opportunity to reduce the budgetary impact of the rising cost of providing health care services to DOD beneficiaries. Start-up problems with DOD's new outpatient itemized billing methodology further jeopardize DOD's ability to realize its third-party collections potential in the near term and possibly into the future as it expands its itemized billing methodology to the inpatient workload. Lessons learned from DOD's current effort should provide valuable insights as it expands the use of itemized billing. However, addressing the current problems with itemized billing and maximizing third-party collections will require sustained leadership and greater visibility over individual MTF performance.

Recommendations for Executive Action

We recommend that the Secretary of Defense direct the Assistant Secretary of Defense for Health Affairs to (1) implement a corrective action plan that includes time frames for addressing the start-up problems with outpatient itemized billing that have resulted in collections decreases in fiscal year 2003, and (2) establish an effective performance management system that establishes realistic performance baselines or collections goals for each MTF and enables MTFs to identify collections shortfalls and improve their operations.

Agency Comments and Our Evaluation

In its written comments, reprinted in enclosure II, DOD concurred with our findings and recommendations and acknowledged that additional funds could have been recovered. However, DOD (1) took exception with our position that additional collections could be used to offset the rising cost of health care and (2) questioned our reliance on the work of other auditors to provide some perspective on how much more could be collected annually from third-party insurers. In addition, DOD included in its comments a comprehensive discussion of its current and future initiatives aimed at improving its Third Party Collections Program.

First, with regard to the disposition of the third-party collections, we recognize that there is a statutory prohibition against DOD using third-party collections to reduce an individual MTF's operating budget. Our letter clearly states that DOD is authorized to use the collections to support the operations of the MTF and that these funds are a revenue source that can be used to enhance the services provided by the MTFs. Our point, taking a broader view, is that every dollar recovered from third-party insurers is one more dollar for the Congress to consider in funding the government's operations. We reaffirm our position that

DOD has the opportunity, as well as a fiduciary responsibility to taxpayers, to maximize its collection efforts under this program.

Second, DOD expressed a concern that our evidence for the department's missed collections opportunities was based solely upon previous services audit reviews and that we did not provide an actual analysis to support the statement. We disagree with DOD's comment and provide our perspective based on the following three points.

- In accordance with generally accepted government auditing standards (GAGAS),¹³ in planning an audit, auditors should determine whether other auditors have previously done, or are doing, audits of the program or the entity that operates it. If other auditors have recently performed work in the area, as was the case on this audit, the availability of other auditors' work may influence the selection of methodology, since the auditors may be able to rely on that work to limit the extent of their own testing. Also in accordance with GAGAS and as discussed the methodology section of this report, we performed procedures regarding the specific work to be relied on that provided a sufficient basis for that reliance. Specifically, we obtained evidence concerning the other auditors' qualifications and independence through prior experience, inquiry, and review of the other auditors' external quality control review report. We also determined the sufficiency, relevance, and competence of other auditors' evidence by reviewing their reports and audit programs.¹⁴
- As detailed in our report, we analyzed the macro trend data on MTF inpatient and outpatient collections for fiscal years 2000 through 2003. These data showed that collections had fallen dramatically in fiscal year 2003 during its transition to a new outpatient billing system, providing additional support for our finding that DOD had missed collections opportunities. Further, our previous report¹⁵ on MTF internal control activities, as referenced in this letter, corroborated the work of the service auditors, as we reported that the three MTFs that we reviewed did not have effective controls over third-party billings and collections and therefore lost opportunities to collect millions of dollars of reimbursements for services.
- As we discussed in this report, we selected our audit methodology and decided to use the work of the service auditors for two reasons: (1) DOD does not maintain a reliable central database containing patient insurance information, which would have made providing a comprehensive estimate of third-party collections shortfalls across all MTFs possible, and (2) DOD's current transition to a new itemized billing methodology, which significantly disrupted collections in fiscal year 2003, made it impractical for us to perform even limited sampling and testing. As a result of these issues, neither DOD nor we can quantify the amount of possible collections under this program. While the total amount of collection shortfalls is also unknown, it is likely

¹³U.S. General Accounting Office, *Government Auditing Standards, 2003 Revision*, GAO-03-673G (Washington, D.C.: June 2003).

¹⁴Given the time elapsed, the audit program and quality control review report for the NAS work was unavailable.

¹⁵ GAO-03-168.

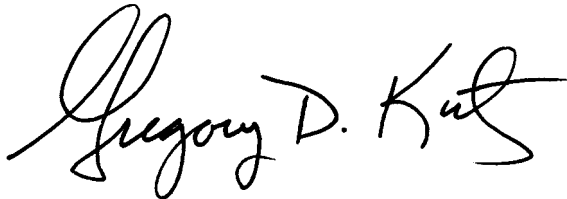
much higher than the amounts reported by the service auditors, as they each performed limited reviews of selected MTFs and/or types of services.

Thus, we maintain that our finding of at least tens of millions of dollars of forgone annual collections is adequately supported and that DOD needs to continue to work towards managing its Third Party Collections Program as efficiently and effectively as possible.

Finally, DOD cited ongoing and planned efforts in the areas of patient health insurance information, medical documentation and coding, and the billing and collections function. DOD also cited a financial study being done this fiscal year to determine what metrics could be used to establish MTF-specific revenue goals. The department expects that as milestones are achieved over the next several years in the areas of business process reengineering and other business and automated system enhancements, collections will increase over the previous year's benchmark. While we acknowledge DOD's efforts in this area, many of DOD's efforts will not be fully operational until fiscal year 2005 and beyond. As a result, we cannot assess the adequacy of DOD's planned actions and believe that it is premature for DOD to assert the success of these efforts.

Unless you publicly announce its contents earlier, we will not distribute this letter until 15 days from its date. At that time, we will send copies to the Chairman of the Subcommittee on National Security, Emerging Threats and International Relations, and the Chairman and Ranking Minority Member, Subcommittee on Government Efficiency and Financial Management, House Committee on Government Reform, as well as other congressional committees. We are also sending copies to the Secretary of Defense; the Assistant Secretary of Defense for Health Affairs; and the Surgeons General of the military services. Copies will be made available to others upon request. In addition, the letter will also be available at no charge on GAO's home page at <http://www.gao.gov>.

Please contact me at (202) 512-9095 or by e-mail at kutzg@gao.gov or Diane Handley, Assistant Director, at (404) 679-1986 or by e-mail at handleyd@gao.gov if you or your staffs have any questions concerning this letter. Major contributors to this letter were Mario Artesiano, Carl Barden, Francis Dymond, James Haynes, Julie Matta, Terry Richardson, Vanessa Taylor, and Lisa Warde.



Gregory D. Kutz
Director, Financial Management and Assurance

Enclosures

Enclosure I

Scope and Methodology

We relied on existing work of Army Audit Agency (AAA), Air Force Audit Agency (AFAA), and Naval Audit Service (NAS) to provide a perspective on the extent and amounts of reimbursable care that is not being collected by MTFs. We did not verify or retest the amounts reported by the service auditors; however, we did obtain, review, and discuss with the auditors the audit methodologies used by each of the services. We also obtained and reviewed audit programs and quality control reports for the AAA and AFAA. Given the elapsed time for the NAS work, their audit program and quality control report were not available. We interviewed staff at TRICARE Management Activity in Falls Church, Virginia; Army Medical Command (MEDCOM) in San Antonio, Texas; the Navy's Bureau of Medicine and Surgery (BUMED) in Washington, D.C.; the Air Force Medical Service (AFMS) in Washington, DC; and the National Naval Medical Center in Bethesda, Maryland.

As agreed with our requesters to provide a perspective on the amount of such services that were not billed and collected across all of DOD's MTFs, we reviewed audit reports of service auditors. While scope, timing, and methodology differences in AAA, AFAA, and NAS estimates limit using these estimates to arrive at a DOD-wide estimate, the estimates do provide a perspective of collections shortfalls at various MTFs across DOD. We also analyzed individual MTF collections from fiscal year 2001 through 2003 to assess the extent and reasons for collections variances.

To identify the status of specific control weaknesses that resulted in lost collections from third-party insurers, we reviewed the internal control weaknesses identified by service auditors, those we had identified in our earlier work, and DOD studies to identify the areas most likely to affect collections.

To assess the performance information used by TMA and the services to manage DOD's Third Party Collections Program we obtained and reviewed information currently reported to TMA and the services by the MTFs and inquired about the availability of other information not contained in the information reported and inquired how these data were used to oversee MTF billing and collections efforts. The Department of Defense provided written comments on a draft to this letter. These comments are presented and evaluated in the "Agency Comments and Our Evaluation" section of this letter and reprinted in enclosure II. Although DOD's comments also included four enclosures, their substance was generally included in the comment letter and addressed as appropriate in our agency comment response. Accordingly, we did not reprint all enclosures. We performed our work from April 2003 through December 2003 in accordance with U.S. generally accepted government auditing standards.

Enclosure II

Comments from the Department of Defense



HEALTH AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D C 20301-1200

FEB 06 2004

Mr. Gregory D Kutz, Director
Director, Financial Management
& Assurance
U.S. General Accounting Office
441 G Street, N.W
Washington, DC 20548

Dear Mr. Kutz:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report "Military Treatment Facilities Improvements Needed to Maximize DOD Third Party Collections," dated January 5, 2004 (GAO Code 192093/GAO-04-322R).

The Department appreciates the opportunity to comment on the draft report and generally concurs with the GAO findings and recommendations. The Department's response to the GAO recommendations is enclosed, along with overall comments and specific technical corrections for incorporation into the final report.

I do take exception to the GAO's statement that if "managed effectively, the DoD's Third Party Collections Program (TPCP) could collect tens of million dollars more each year to offset providing healthcare to DoD retirees and their dependents and active duty dependents." In accordance with Title 10, United States Code, Section 1095 (g), military treatment facilities (MTFs) collections received from third party payers are "credited to the appropriation supporting the maintenance and operation of the facility and shall not be taken into consideration in establishing the operating budget of the facility." Therefore, the Department cannot decrement the MTF budget by subsidizing program dollars with Third Party Collections in order to offset healthcare delivery. In regards to the stated missed collection dollars, the GAO's evidence for the Department's missed collections opportunities was based solely upon previous Service audit reviews and did not provide an actual analysis to support the statement. I acknowledge that additional funds could have been recovered; however, over the last three years, my staff has worked closely with the Military Departments to strengthen our TPCP. We had previously identified the issues outlined by the GAO and have aggressively implemented business process improvements in regards to TPCP operations and to move to commercial practices. Last fiscal year's critical transition to outpatient itemized billing exemplifies our commitment to improve TPCP. The outcome of this business process reengineering and other programmed business and automated system enhancements that

are outlined in our TPCP Improvement Plan will come to fruition over the next several years. As each milestone is achieved, I am confident that the Department will realize increases in TPCP revenue over the previous year's benchmark.

Please direct any questions to my points of contact on this matter: Lt Col JoAnn Kelsch (functional) at (703) 681-3492, ext 4068 and Mr Gunther J. Zimmerman (Audit Liaison) at (703) 681-3492, ext 4065

Sincerely,



William Winkenwerder, Jr., MD

Enclosures.

1. Response to GAO Report
2. Additional Comments
3. Technical Comments
4. Surgeons General Comments
5. DFAS Comments

**GAO DRAFT REPORT – DATED 5 JANUARY 2004
(GAO CODE-192093/GAO-04-322R)**

**“MILITARY TREATMENT FACILITIES (MTFs): IMPROVEMENTS NEEDED TO
MAXIMIZE DOD THIRD PARTY COLLECTIONS”**

DEPARTMENT OF DEFENSE COMMENTS

RECOMMENDATION 1: Implement a corrective action plan that includes timeframes for addressing the start-up problems with outpatient itemized billing that have resulted in collections decreases in Fiscal Year 2003.

DOD RESPONSE: Concur. The Department has already taken significant steps to improve outpatient itemized billing. The Department has developed and implemented its Third Party Collections Program (TPCP) improvement plan, which includes business process improvements in support of Outpatient Itemized Billing (OIB) and Military Treatment Facility (MTF) revenue cycle management to optimize TPCP billings and collections. Elements of the plan were briefed to the GAO during the entrance interview, April 8, 2003; and, a status update was provided during the exit interview on December 18, 2003. The TPCP improvement plan evolved from the improvement strategies identified during the development of the Department’s Uniform Business Office (UBO) Concept of Exploration (COE), completed in Fiscal Year 2001; and, the Business Process Reengineering (BPR) Demonstration of the Third Party Collections Program, completed March 2001. The plan has been briefed to the senior leadership within the Office of the Assistant Secretary of Defense for Health Affairs (OASD(HA)), the TRICARE Management Activity (TMA) and the Offices of the Surgeons General with subsequent status updates in July and December 2003. The plan does address the issues identified by the GAO based upon its review of prior audits conducted by the Military Departments. Elements of the plan are outlined below.

Outpatient Itemized Billing:

The Department’s transition from a flat-rate, all-inclusive reimbursement methodology to Outpatient Itemized Billing (OIB) in October 2002, completed the first phase of its strategic plan to come in line with private sector best practices in order to optimize TPCP billing and collections. In its preparation for this business process change, the Department studied the Veterans Administration’s (VA) itemized billing strategy and based on the VA’s performance outcomes, the Department anticipated decreases in collections similar to the VA’s first transition year. With the full implementation of OIB and the business process improvements outlined below, the Department expects Fiscal Year 2004 TPCP collections to exceed the previous year’s performance.

Other Health Insurance:

In support of TPCP, the Department focused its business process improvements on the identification, validation and maintenance of Other Health Insurance (OHI) files. Currently, the Department is reliant on the beneficiary's self-disclosure of OHI. The Department has issued policy that directs the Military Departments to have all DoD-eligible beneficiaries complete the DD Form 2569, Third Party Collection Program – Record of Other Health Insurance on an annual basis.

The Department has implemented a business process improvement this fiscal year that added an OHI file maintenance indicator to the monthly Data Quality Management Control (DQMC) Commander's Data Quality Statement. Each month, each MTF will review and report the percentage of medical records surveyed for the inclusion of a current DD Form 2569, Third Party Collection Program – Record of Other Health Insurance. The monthly DQMC Commander's Data Quality Statement is reported to the TMA. The goal of this initiative is to raise awareness and action by the MTF command and Military Department senior leadership; and, to provide the TMA with an effective monitoring tool to assess MTF compliance with the DoD policy. Another initiative sponsored by the OASD(HA) requested that the Military Department Assistant Secretaries for Manpower and Reserve Affairs include Uniform Business Office activities, to include the completion of DD Form 2569s, in their respective Agency Audit Service and IG reviews of MTFs.

This fiscal year, the Department will deploy an automated information system (AIS) enhancement that will provide a centralized data repository of beneficiary OHI information on the Defense Eligibility Enrollment Reporting System (DEERS). Currently, OHI files are limited to the Composite Health Care System (CHCS) at each individual MTF. Transition to the DEERS OHI central data repository will provide OHI portability across the Military Health System (MHS). The centralized data repository will also provide MTF staff, the TRICARE Management Activity (TMA) and Military Department leadership with OHI reporting indicators. The Department will have valuable information that will allow trending and analysis by healthcare plan, geographical location and beneficiary demographics and categories. This information will assist the MHS in targeting OHI identification opportunities and assess the impact of business process improvements in the capture and maintenance of beneficiary OHI information.

The new utility of the DEERS OHI centralized data repository provides the Department with another opportunity to apply new technology in its continuing efforts to improve OHI identification. The Department and VA are partnering on a project that benchmarks a system currently used by the Center for Medicare and Medicaid Services (CMS). This project will enable the DoD and VA to increase the OHI capture of their respective beneficiaries by developing an insurance identification database and outsourcing OHI validation and file maintenance. The Department anticipates that this initiative will be deployable during fiscal year 2005.

MTF Revenue Cycle Management -- Documentation and Coding:

With the Department's implementation of the itemized billing methodology, reimbursement rates are now calculated based on the medical coding of the healthcare services provided and documented in the patient record. The Department has focused significant effort on "front-end" MTF revenue cycle business process improvements to improve the capture of medical encounter documentation and medical coding accuracy. The Department issued policy memoranda during Fiscal Year 2003 that established MTF medical record availability and medical encounter coding performance standards. The Department will publish a departmental policy directive (DoDD) and instruction (DoDI) this fiscal year. The specific performance criteria are further defined under "Recommendation #2" below.

An ongoing initiative to improve the timely capture of medical encounter documentation, the CHCS II Computer-based Patient Record (CPR), will step up its deployment to an additional 35 MTFs during this fiscal year. The Department will fully implement this application within the next 30 months. An interim application, the Provider Graphic User Interface (P-GUI), which provides a CHCS II-like front-end application over the current Ambulatory Data Module (ADM), is an alternative for the Military Departments until the CHCS II application is available. Initial deployment of P-GUI (Fiscal Years 2003, 2004), has demonstrated improved documentation and coding accuracy at the Air Force and Navy MTFs currently using this application.

Over the past two years, the Department has aggressively audited MTF coding practices to identify improvement and training opportunities. The audits will continue this fiscal year. The monthly DQMC Commander's Data Quality Statement also reports MTF coding performance measures. In addition, this fiscal year the Department will begin deployment of the first application of its Patient Accounting System, the Coding Compliance Editor (CCE). The CCE will provide the MTF staff with an automated coding and auditing tool utilized in the private sector. This additional functionality will ensure greater coding accuracy and result in the submission of timely and compliant bills to third party payers.

MTF Revenue Cycle Management – Billing Operations:

The second phase of the Patient Accounting System (PAS), a billing system, was programmed and funded as part of the Fiscal Year 2002-2007 Program Objective Memorandum (POM). The Department will conduct product acquisition this fiscal year; complete configuration and testing in Fiscal Year 2005; and, implement MHS-wide deployment during Fiscal Years 2006-2007. The PAS billing system will replace the billing systems currently in use to support TPCP: the Third Party Outpatient Collections System (TPOCS) and CHCS. The PAS will implement a charge-master based billing system, a Commercial-Off-The-Shelf (COTS) application, used to support billing operations in private sector healthcare facilities. PAS requirements were identified by the UBO COE and will also include the required elements to fully operationalize the electronic transactions mandated by the Health Insurance Portability and Accountability Act (HIPAA) of 1996. The PAS COTS application will improve billing and collection operations and increase MTF revenue-generating performance. Until full deployment of PAS, maintenance of the TPOCS and CHCS billing systems will occur. System Change Requests (SCRs) will

address required functionality needed to support billing operations as needed. The Department has added an additional requirement description to its Information Management/Information Technology (IM/IT) Capital Investment Portfolio to address system enhancements in support of OIB: the Cost Recovery Refresh. This action will prioritize TPCP IM/IT needs and provide a funding vehicle to enable systems' enhancement until the full deployment of the PAS billing system.

This fiscal year the Department will fully deploy an AIS enhancement to implement the HIPAA electronic transaction that enables electronic billing in support of outpatient TPCP. In support of HIPAA, the contractor supporting TPOCS has transitioned to a new clearinghouse that has established agreements with the Department's high volume third party payers. Compliance with the HIPAA electronic billing requirements and improved connectivity to the Department's high volume third party payers, will streamline billing and collection operations and optimize the MTFs' ability to generate revenue from TPCP.

The Department is currently analyzing several initiatives to outsource MTF billing operations. This fiscal year, the UBO Working Group will forward its recommendations to the TMA and Military Department Surgeons General on its pharmacy electronic billing and outsourcing initiative. The joint DoD/VA OHI project outlined above is another outsourcing opportunity the Department is working. In addition, the Air Force Medical Service will implement its outsourcing initiative this fiscal year.

The Department hosts an annual training and education conference in support of MTF cost recovery programs, to include TPCP. The theme for this year's conference is "MTF Revenue Cycle Strategies." The UBO has partnered with the Unified Biostatistical Utility (UBU) Working Group, which has responsibility over the front-end revenue cycle processes of coding and data reporting. Six educational tracks will be offered geared towards both entry level and experienced MTF coders and billing office personnel. In addition to the annual conference, the TMA is sponsoring a new training program this fiscal year that will augment the educational activities provided at the annual conference. The curriculum will focus on billing and collection core competencies and provide the Military Departments with another training and educational forum.

Performance Measures: See comments provided under recommendation #2.

RECOMMENDATION 2: Establish an effective performance management system that establishes realistic performance baselines or collections goals for each MTF and enables MTFs to identify collection shortfalls and improve their operations.

DOD RESPONSE: Concur. The Department has been proactively involved in monitoring the TPCP and has aggressively pursued business process improvements to optimize MTF revenue cycle management in support of TPCP billing and collections. In support of TPCP, the Department has identified performance measures that target critical processes within the MTF revenue cycle. These performance indicators are captured at the MTF-level and reported and monitored up through MHS senior leadership within the Military Departments and the TMA. These performance measures include:

1. Percentage of outpatient encounters, other than APVs, coded within 3 business days of the encounter; percentage of APVs coded within 15 days of the encounter; percentage of inpatient records coded within 30 days after discharge.
Source: DQMC Commander's Data Quality Statement
Frequency: monthly
2. MTF monthly inpatient record coding audits results.
Source: DQMC Commander's Data Quality Statement
Frequency: monthly
3. MTF monthly outpatient record coding audit results to include: percentage of records on-hand or documented as checked out; percentage of E & M codes deemed correct; percentage of ICD-9 codes deemed correct; percentage of CPT codes deemed correct; and, percentage of completed and current DD Form 2569s maintained in the record (non active duty).
Source: DQMC Commander's Data Quality Statement
Frequency: monthly
4. Total TPCP outpatient and inpatient collections by Service per fiscal year.
Source: DD Form 2570, Third Party Collections Program – Report on Program Results
Frequency: quarterly
5. The following performance measures were approved by the UBO Working Group and will be implemented this fiscal year:
 - a. MHS Total TPCP Billing and Collections Comparison
 - i. TPCP Outpatient Billing and Collections Comparison
 - ii. TPCP Inpatient Billing and Collections Comparison
 - b. TPCP: Days in Accounts Receivable (A/R)
 - c. TPCP Outpatient Gross Collections/Net Collections
 - d. Top Outpatient MTFs By Service per Fiscal YearSource: DD 2570, Third Party Collections Program – Report on Program Results
Frequency: quarterly

6. Other Health Insurance beneficiary demographics: the OHI central data repository will be deployed MHS-wide this fiscal year. The Department will have performance metrics that indicate the number of beneficiaries with OHI by gender, age, geographical area and health plan coverage type. Annual analysis of OHI trends, to include gains/loss in OHI coverage will be utilized to assess impact of data capture process improvements and marketing efforts.
Source: DEERS OHI central data repository reports
Frequency: annually

Additionally, this fiscal year, the TMA is conducting a financial study to analyze the centrally-reported TPCP billings and collections data and medical encounter data; review the currently reported performance measures (noted above); review industry best practices and benchmarks; and, provide recommendations to the Department regarding 1) the applicability of appropriate TPCP performance indicators; and, 2) a reporting vehicle that will provide monitoring from the MTF-level to MHS senior leadership and facilitate process improvement and implementation of corrective measures in order to improve program performance. The study will address and recommend MTF-specific goals and corresponding metrics to gauge performance in obtaining revenue-generating goals. One standard cannot be applied throughout the enterprise. With the implementation of OIB, a clinic visit is not the same across the MHS. OIB is solely reliant on the acuity levels that are directly and indirectly accounted for in the Evaluation and Management (E&M) and Current Procedural and Terminology (CPT) coding that capture the medical encounter (visit). Smaller MTFs have lower acuity levels that attribute to lower intensity coding and therefore, the charges billed will be lower as compared to larger MTFs with higher acuity patients; and, the previous flat-rate billing methodology. For this reason, the Department cautions the comparison of previous years' billing and collections under the flat-rate billing methodology to Fiscal Year 2003 and beyond that now operate under the outpatient itemized billing methodology.

(192093)

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