
Office of Inspector General

Audit Report

Recovery of Medical Care Cost

U.S. Coast Guard

Report Number MA-1998-158

Date Issued: June 16, 1998





Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Subject: **ACTION:** Report on Recovery of Medical
Care Cost, U.S. Coast Guard
Report Number: MA-1998-158

Date: June 16, 1998

From:

Lawrence H. Weintrob
Assistant Inspector General for Auditing

Reply to
Attn of: JA-1

To:

Chief of Staff
U.S. Coast Guard

This report presents the results of our audit on the U.S. Coast Guard's (Coast Guard) program for recovery of medical care cost. The audit objective was to evaluate the effectiveness of Coast Guard's efforts to recover, from third parties, the cost of medical care provided to active duty personnel, retirees, and dependents.

BACKGROUND

The Federal Government provides medical care to qualified members (active duty personnel, retirees, and dependents) of the Coast Guard. Active duty personnel receive health care at military medical facilities and, in some instances, at civilian facilities. Retirees and dependents receive medical care either at military facilities or through the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS).

The Federal Medical Care Recovery Act of 1962 (Public Law 87-693), as amended, and the Comprehensive Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272), as amended, establish the Government's right to recover the cost of medical care from third parties. The Federal Government can recover the reasonable cost of medical care provided to (1) active duty personnel, retirees, and dependents injured under circumstances creating a tort liability upon a third party; and (2) retirees and dependents covered under other health insurance plans (i.e., private sector health care insurers or work-related medical plans). Amendments to the 1962 Act allow recoveries to be retained by the organization incurring the medical cost, commencing on or after September 23, 1996.

Coast Guard spent about \$179 million in FY 1996 for medical care provided at Coast Guard clinics, military treatment facilities, or through CHAMPUS. During FYs 1994 through 1996, Coast Guard recovered a total of about \$1.6 million from liable third parties.

SCOPE AND METHODOLOGY

The audit primarily covered activities during Fiscal Years (FY) 1994 through 1996, and the first part of 1997. During the audit, we visited Coast Guard Clinics, Department of Defense (DoD) medical centers, and the Office of CHAMPUS.

The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. We reviewed laws, regulations, manuals, and other instructions related to recovery of medical care cost; and evaluated management controls for identifying, reporting, and recovering medical care cost from third parties. We interviewed program officials, medical administration personnel, and legal staff in the Coast Guard, DoD, and Office of CHAMPUS. We reviewed a judgmentally selected sample of medical records for the fiscal years covered in the audit.

RESULTS-IN-BRIEF

Coast Guard needs to establish a program to recover the cost of medical care provided at its clinics for retirees and dependents that have private health insurance, and the Coast Guard could improve its recovery of medical care cost from liable third parties. We estimate cost recovery opportunities of about \$1 million annually if these improvements are implemented. The Coast Guard also underbilled DoD at least \$81,000 for medical care cost during the first 6 months of FY 1997.

Collection from Private Health Insurance Providers

Coast Guard was not collecting for medical care provided at Coast Guard clinics to retirees and dependents with private health insurance. Coast Guard officials initially told us such collections were not cost effective. However, Coast Guard had not performed a formal cost-benefit analysis, as required. In contrast, DoD had an active program to collect from insurance providers for medical care provided at military treatment facilities. DoD collects about \$125 million annually. After we discussed DoD's collection practices with Coast Guard officials, they expressed an interest in developing a mechanism to recoup medical care cost from private health insurance providers.

We estimate Coast Guard could recover about \$900,000 annually for Coast Guard and DoD out-patients treated at Coast Guard clinics by implementing a program to recover medical care cost from private health insurance providers. We developed

this estimate by multiplying (1) the number of dependent and retiree visits to Coast Guard clinics during FY 1996 (80,575 Coast Guard visits and 41,529 DoD visits) by the average cost of \$115.42 for DoD outpatient visits to Coast Guard clinics, (2) multiplying the result of step 1 by the estimated percentage of retirees and dependents with private health insurance based on CHAMPUS figures (12.8 percent for Coast Guard and 17.9 percent for DoD), and (3) multiplying the results of step 2 by the estimated recovery rate of 45 percent (according to DoD) for cost billed to private health insurance companies.

Recovery from Liable Third Parties

The Coast Guard cannot pursue claims from liable third parties unless health service personnel identify and report cases with recovery potential. We found Coast Guard Headquarters did not have record of 68 of 133 potential cases identified by field units. Further, before a claim can be pursued, Coast Guard must first determine the claim amount. The audit disclosed Coast Guard had not established the claim amount for 472 of 761 potential claims reported as of May 1997. For example:

CHAMPUS notified the Coast Guard of treatment provided to a Coast Guard dependent who was hit by an automobile while riding his bicycle. The Coast Guard notified, by letter, the negligent party's insurance company. In this letter, Coast Guard stated it would contact the insurance company when treatment was complete, and the claim had a final amount. There was nothing in the Coast Guard's files showing a claim amount was determined, that a claim was filed with the insurance company, or that the cost was recovered.

Coast Guard records of established third party claims were not reliable. Based on our audit of May 1997 data, program and accounting records differed by \$794,000. We identified 118 potential claims recorded as receivables in the official accounting records at the Finance Center in Chesapeake, Virginia, but not recorded in program office records at Coast Guard Headquarters. Also, 41 claims in program office records were not recorded as receivables in the accounting records. Financial statements will not be accurate if all claims and payments are not recorded as receivables in the Finance Center records.

Coast Guard Billings to DoD

Coast Guard incorrectly used FY 1996 reimbursement rates when billing DoD for medical care provided at Coast Guard clinics during part of FY 1997. This occurred because the computer system that generates the bills was not updated to reflect FY 1997 rates. As a result, Coast Guard underbilled DoD by at least \$81,000 for the first 6 months of FY 1997. When we brought this to the attention of Coast Guard officials, they immediately began billing DoD the FY 1997 rates, and were planning to recover the funds from DoD.

RECOMMENDATIONS

We recommend the Chief of Staff:

1. Develop a program to recover the cost of medical care provided, at Coast Guard clinics, to retirees and dependents with private health insurance.
2. Initiate action to improve the identification, reporting, and pursuit of third party claims.
3. Require comparison of program and accounting records on a quarterly basis, and resolve any discrepancies.
4. Recover underbilled amounts from DoD.
5. Ensure yearly reimbursement rates are updated timely.

Management Comments

This report was discussed with the Coast Guard Chief, Office of Health Services, the Attorney for Office of Claims and Litigation, and other Coast Guard officials on April 28, 1998. The Coast Guard representatives agreed with the recommendations. For Recommendation 4, Coast Guard recovered \$119,000 from DoD for FY 1997 underbilled amounts.

Office of Inspector General Comments

Actions taken and planned are reasonable. Please provide a formal reply, within 30 days, on specific actions taken or planned for each recommendation.

We appreciate the courtesies and cooperation of Coast Guard representatives. Please call me at (202) 366-1992, or John Meche at (202) 366-1496, if you have questions concerning this report.

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