THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-1200

HEALTH AFFAIRS

MAR 31 2006

The Honorable Jerry Lewis
Chairman, Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515-6015

Dear Mr. Chairman:

This report responds to a request in the House Conference Report 108-622 to provide a report to the defense committees on the implementation of Outpatient Itemized Billing (OIB) and the status of third-party collections.

The Government Accountability Office (GAO) issued a report, "Military Treatment Facilities: Improvements Needed to Increase Department of Defense (DoD) Third Party Collections" (#04-322R) in February 2004. The GAO noted that total collections for fiscal year 2003 were down $30 million from the previous year, and that DoD failed to collect $44 million a year from third party insurers. The GAO asserted that DoD's failure to effectively bill and collect from third-party insurers required by law precluded the military treatment facilities (MTFs) from maximizing the resources available to them. The GAO recommended the Department take action to implement a corrective action plan for OIB and issue realistic Third Party Collection Program (TPCP) collection goals.

In response to the GAO recommendations, I issued a memorandum to the Military Departments on October 1, 2004, identifying Uniform Business Office (UBO) guidance for correcting TPCP issues and establishing improvement goals (targets) for the Military Departments to reach. Subsequent follow-up with the Military Departments indicates collections are improving.

Third Party Collection Program (TPCP) Collections Summary

TPCP collections decreased with the implementation of the Department's effort to adopt commercial practices, OIB, in October 2002. Collections have increased since the first year of OIB deployment. Improvements are due to increased Military Department efforts and oversight. Additional increases are anticipated in fiscal year 2005. The following table provides inpatient and outpatient collections for fiscal years 2003-2004.

($ Millions)

	Inpatient Collections		Outpatient Collections		Total Collections	
Service	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004
Army	$20.9	$22.5	$18.5	$21.9	$39.4	$44.4
Navy	$9.5	$10.0	$11.1	$14.6	$20.6	$24.6
Air Force	$13.6	$14.3	$18.3	$29.9	$31.9	$44.2
Total	$44.0	$46.8	$47.9	$66.4	$91.9	$113.2

Outpatient Itemized Billing (OIB) Implementation

In fiscal year 2003, the Department initiated efforts to implement business process improvements to move toward commercial practices. The implementation of OIB was a major effort supported by and in conjunction with the three Military Departments' Surgeons General. TPCP collections have improved since OIB deployment. Outpatient collections are up for the fiscal year 2004 over the fiscal year 2003 experience. The Department will continue to increase TPCP collections. Towards that end, the TPCP collections goals issued to the Military Departments on October 1, 2004, are "stretch" goals. The fiscal year 2005 TPCP goals are: Army - $71.9 million; Navy - $39.6 million; and Air Force $57.2 million. These goals are attainable.

Identification of Other Health Insurance (OHI)

To make noticeable improvements in the TPCP, the Military Departments will have to increase registration of OHI patients. OHI registration is critical to be able to bill. MTFs self-report monthly OHI registrations (documentation resides in the patient health record). A review of nine large MTFs (three in each Military Department) indicates registration levels are increasing. In early fiscal year 2004, two of the nine had achieved registrations of greater than 50%; by beginning fiscal year 2005, four MTFs had exceeded 50% cited in monthly reports. The Department's UBO community is striving for improvement and demonstrating results.

I am committed to fostering business process improvements and move toward commercial practices in an effort to modernize the way we do the business of health. Thank you for your continued support of the Military Health System.

Sincerely,

William Winkenwerder Jr.

William Winkenwerder, Jr., MD

cc:
Representative David R. Obey