United States General Accounting Office

GAO

Report to the Honorable
Frank H. Murkowski, U.S. Senate

September 1992

VA HEALTH CARE

Verifying Veterans' Reported Income Could Generate Millions in Copayment Revenues

147658

GAO/HRD-92-159

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-250168

September 15, 1992

The Honorable Frank H. Murkowski
United States Senate

Dear Senator Murkowski:

Each year, the Department of Veterans Affairs (VA) provides medical care to about 1 million veterans who do not have disabilities related to military service. When these veterans apply for care, VA must classify them into one of two income level groups and require those placed in the higher income level group to copay for care they receive. These threshold income levels for the groups are established by law. In November 1990, the Congress authorized VA to use tax records to verify veterans' income.

In fiscal year 1991, VA charged copayments totaling $9 million to about 53,000 veterans. Copayment billings have declined significantly, since reaching $26 million in fiscal year 1987. In view of this trend, you asked us to determine whether VA was accurately classifying veterans who should copay for VA health care and, if not, estimate the potential lost copayments from misclassified veterans. As agreed with your office, we also assessed VA's use of tax records in determining veterans' copayment status.

We discussed VA's policies and procedures for making copayment decisions with VA officials. We used VA patient treatment records to identify veterans whom VA had classified into the two income groups during 1990, the most recent year for which complete data were available. To identify potentially misclassified veterans, we used tax records [1] to identify veterans who had incomes commensurate with the higher group and compared them with veterans whom VA had placed in that group. We used patient records to identify the types of medical care veterans received and applied the appropriate copayment billing rates to calculate potential missed copayments in 1990, 1991, and 1992. We did not independently verify the income information we received from tax records, nor did we give veterans an opportunity to respond to this income information. Although users of these tax data have found them to be generally very accurate, our results must be considered as potential misclassified veterans and missed copayments. (See app. I for additional information on our scope and methodology.)

[1]We obtained tax records from the Internal Revenue Service that contained income information reported by third-party payers, such as interest payments reported by banks and wages reported by employers.

Results in Brief

In 1990, VA may have incorrectly determined the copayment status of as many as 109,230 veterans who received medical care for conditions unrelated to military service. Tax records for these veterans showed that they had incomes above the threshold levels, but VA did not require them to make copayments. Unreported income was likely a major factor in VA misclassifying these veterans. VA relied solely on veteran-reported income without using alternative verification procedures. VA could have billed as much as $27 million for care provided to these veterans.

Although VA had authority to access tax records from November 5, 1990, to September 30, 1992, it did not use tax data to verify veteran-reported income. VA officials cited database and staffing limitations as major factors for not using tax records. VA may have lost as much as $120 million in copayment revenues because it will not be able to implement an income-verification system before its tax record authorization expires on September 30, 1992. Copayment losses in 1991 and 1992 may greatly exceed the estimated 1990 losses because of significantly lower income thresholds and higher copayment rates in those years.

Although VA has wasted its current opportunity to verify veterans' incomes for its medical care programs, the Congress should extend VA's authority to use tax records. [2] VA has recently drafted a preliminary plan that provides a general framework for an income-verification system using tax records. Although many critical policies and procedures must still be developed, VA expects the planned system to be fully operational within 2 years. VA should move as quickly as possible to implement a verification system so as to minimize the copayment revenue lost due to veterans' misreporting incomes.

Background

The Veterans Health Administration (VHA) operates VA's health care system, which consists of 171 hospitals, 240 outpatient clinics, and 126 nursing homes; most are organized into 159 medical centers. These centers provided medical care to about 2.5 million veterans in fiscal year 1991. Of these veterans, about 1.3 million had disabilities relating to their military service (service-connected) and 1.2 million had no service-related disabilities (nonservice-connected).

[2]VA's Veterans Benefits Administration did access tax records to verify income data for its beneficiaries in 1991. See Veterans' Benefits: Millions in Savings Possible from VA's Matching Program With IRS and SSA (GAO/HRD-92-37, Dec. 23, 1991).

VHA's Authority to Collect Copayments

The Veterans' Health-Care Amendments of 1986 (P.L. 99-272) require nonservice-connected veterans who have incomes above prescribed amounts and are not otherwise exempted to copay for VA health care. These veterans are to pay a fixed rate for prescribed lengths of inpatient care and for each outpatient care visit. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508), enacted November 5, 1990, expanded VA's copayment authority to include additional charges, such as per-diem fees for inpatient hospital care and nursing home care. The act also significantly lowered the income thresholds for single and married veterans by about 25 percent.

For 1992, the income threshold for a veteran without dependents is $18,844, increasing by $3,769 for the first dependent and $1,258 for each additional dependent. Copayment rates in 1992 are $652 for the first 90 days of inpatient hospital care, $326 for each additional 90 days of care, and $30 per visit for outpatient care. In addition, a daily fee of $10 for inpatient care and $5 for nursing home care is charged, as well as a $2 charge for each 30-day-or-less supply of prescription drugs that VA dispenses.

VHA's Authority to Verify Veteran-Reported Income

The 1990 act also provided VA with the discretionary authority to use federal tax records to verify veterans' incomes; VA's authority extended from November 5, 1990, to September 30, 1992. The act requires VA to notify applicants for benefits that reported income information may be compared with income information obtained from the Internal Revenue Service (IRS) and Social Security Administration (SSA). Before VA can deny or reduce benefits, the Secretary must take appropriate steps to independently verify the income information received from IRS and SSA and must give veterans an opportunity to contest VA's findings.

The Congress is considering several bills to extend VA's authority to use tax records for verifying veterans' incomes. The bills propose various authorization periods, ranging from 1 to 5 years. [3]

VHA's Process for Determining Veterans' Copayment Liability

When veterans apply for care at a VHA medical center, the center's admissions staff decides whether they have a disability resulting from military service or other special circumstances that would exempt them from the copayment requirement. In addition to veterans with a

[3]Bills were introduced in the Senate on March 5, 1992 (S. 2323), and in the House of Representatives on April 29, 1992 (H.R. 5008), June 4, 1992 (H.R. 776), and August 3, 1992 (H.R. 5679).

service-connected disability, veterans are exempt from the copayment requirements if they served in World War I or during the Mexican Border period, are former prisoners of war, are eligible for a VA pension or Medicaid, or have medical conditions possibly related to exposure to Agent Orange or ionizing radiation. [4]

All nonexempt veterans are required to complete a financial disclosure form, which includes such information as wages, pensions, and interest and dividend income. Veterans are to report their own income as well as all income of their spouse and dependents. VHA classifies veterans for copayment purposes based on their reported income for the calendar year preceding application for care. For example, a single veteran with no dependents who receives care in 1992 would owe a copayment if his or her income exceeded $18,844 in 1991. These veterans have to agree to make a copayment before VHA can provide other than emergency care to them.

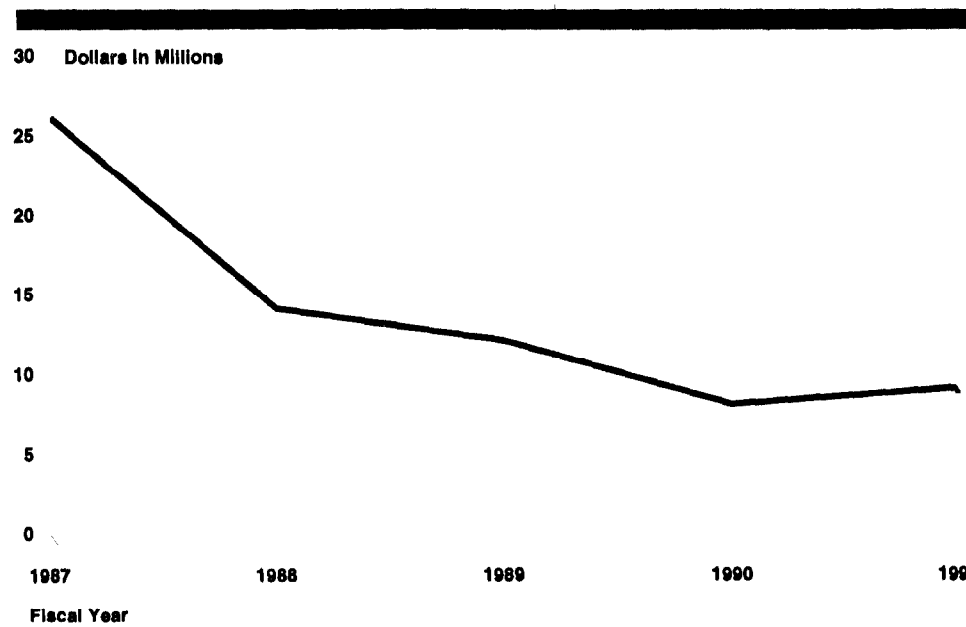
VHA policy is to rely solely on veterans' self-reported income, as provided on the disclosure forms, to determine whether they must make a copayment, provided there is no contradictory or obviously incorrect information. VHA officials said that this process requires extensive interviewing regarding veterans' incomes. During this process, VHA officials are to inform veterans that any information they provide is subject to verification and that adjustment may be made in their health care benefits if discrepancies are found. VHA policy does not require admissions staff to use alternative income-verification procedures, such as contacting employers or banks.

VHA's Copayment Experience

During fiscal year 1991, VHA admissions staff determined that about 53,000 veterans had incomes above the threshold amounts. The 159 medical centers charged these veterans about $9 million for the health care that they received. VA's copayment billings have generally declined in recent years, as shown in figure 1.

[4]In June 1992, we reported that VA medical centers were not adequately evaluating the copayment exemption status of veterans claiming exposure to Agent Orange, which was one of the most widely used herbicides in Vietnam. See VA Health Care: Exemption Procedures Should Be Improved (GAO/HRD-92-77, June 24, 1992).

Figure 1: VA's Copayment Billings During Fiscal Years 1987 to 1991



Note: Appendix II contains supporting data for this figure.

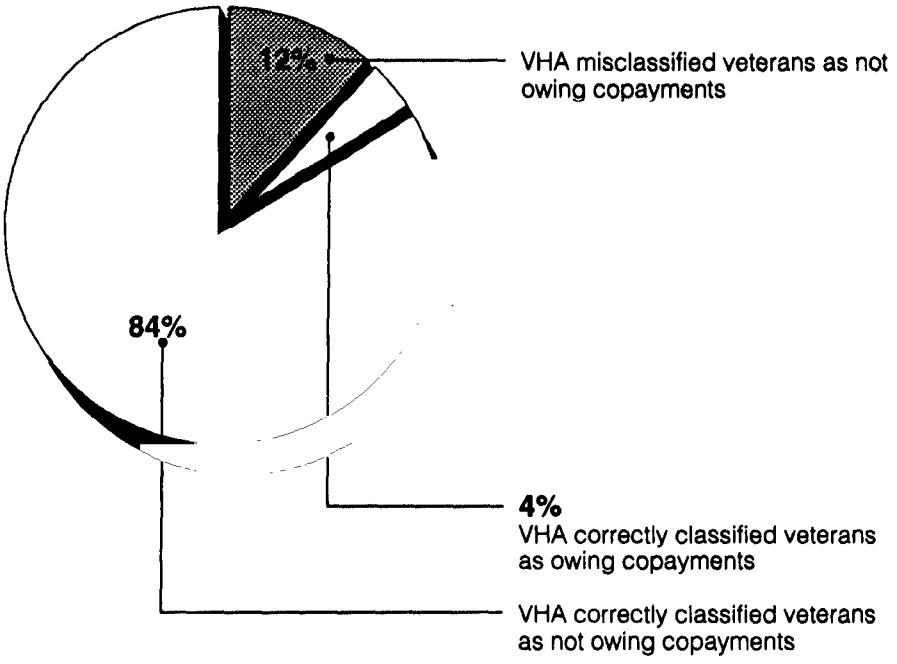
VHA Frequently Misclassified Veterans' Copayment Status

Using VHA's patient treatment records for 1990, we identified 932,093 nonservice-connected veterans whom VHA had classified into one of the two income groups for copayment purposes. [5] These veterans were not approved for an exempt status and, thus, would owe copayments if their incomes exceeded threshold levels. Over 25 percent of these veterans had inpatient stays in VHA hospitals or nursing homes, while the rest received only outpatient care in VHA clinics.

Using veterans' self-reported incomes, VHA correctly classified 781,458 of the 932,093 veterans as not owing copayments and 41,405 as owing copayments. By contrast, VHA misclassified 109,230, almost 12 percent, as not owing copayments; tax records we reviewed show incomes that exceeded income thresholds (see figure 2).

[5]We identified an additional 223 nonservice-connected veterans who were subject to VHA's copayment requirements, but we had to exclude these veterans from our analysis because we were unable to obtain federal tax records for them.

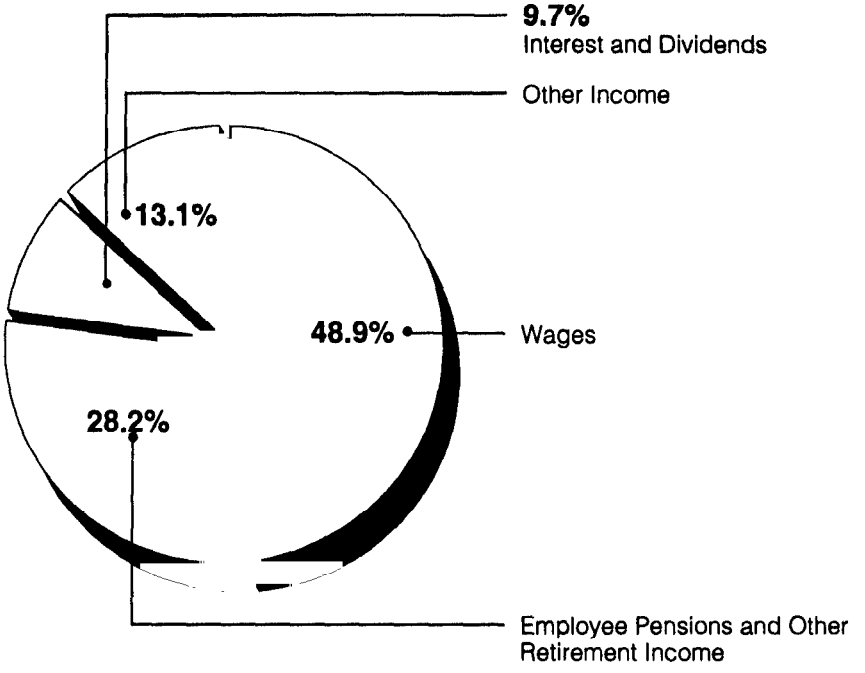
Figure 2: VHA Misclassified Almost 12 Percent of Veterans' Copayment Status in 1990



Wages Are an Important Component of Misclassified Veterans' Income

The 109,230 misclassified veterans had incomes totaling over $4.7 billion, according to federal tax records. Veterans' income sources included employment, pensions, investments, and other miscellaneous sources. Of these, employees' wages accounted for the majority of this income, as shown in figure 3. (See app. III for additional income information on veterans subject to copayment requirements.)

Figure 3: Wages Accounted for Majority of Misclassified Veterans' Income in 1990

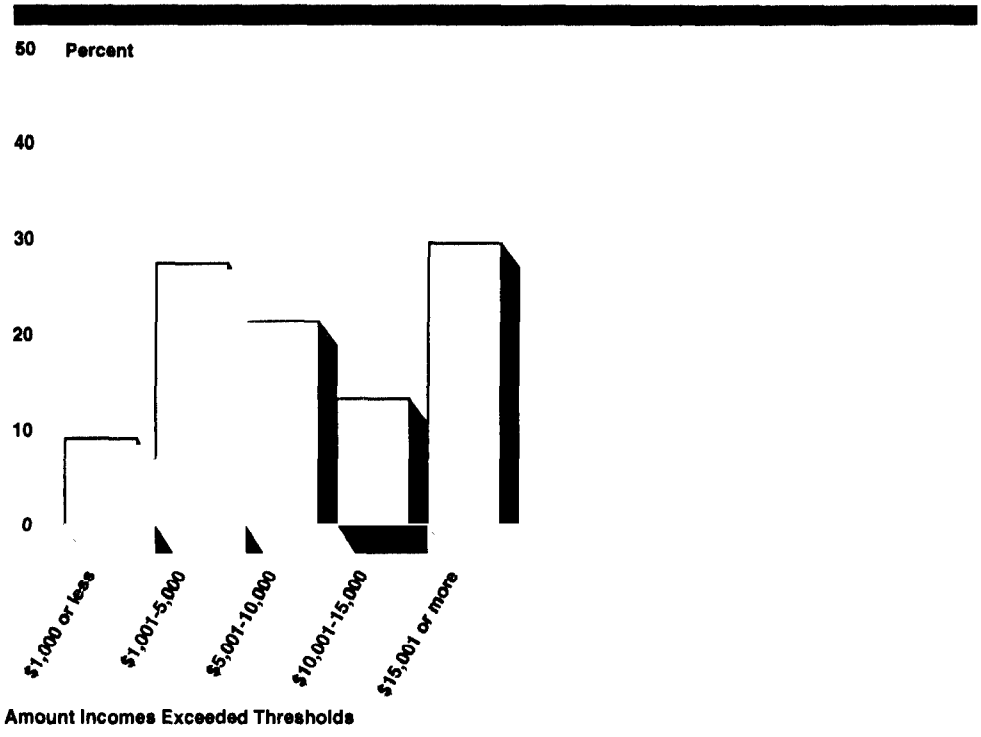


Note: Percentages do not add to 100 due to rounding.

Most Incomes of Misclassified Veterans Greatly Exceeded Copayment Thresholds

The 109,230 misclassified veterans significantly underreported their incomes to VHA. Although almost 10,000 veterans had incomes that were within $1,000 of the thresholds, most veterans had incomes that exceeded copayment threshold levels by $5,000 or more, including over 2,500 veterans who had total incomes of $100,000 or more. Most veterans' incomes exceeded the thresholds by more than $5,000, as figure 4 shows.

Figure 4: Most Misclassified Veterans' Incomes Exceeded Copayment Thresholds by $5,000 or More



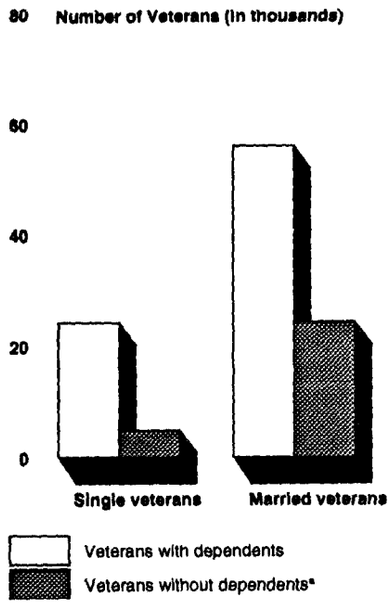
Appendix IV contains supporting data for this figure.

Given the relatively low dollar values of the copayment thresholds, the variances between incomes that veterans reported to VHA and incomes on federal tax records represent potentially high percentages of unreported income. The minimum copayment thresholds for single and married veterans who received care in 1990 were $22,987 and $27,444, respectively. Most of the 109,230 veterans had incomes that exceeded the copayment thresholds by 25 percent. (App. V contains additional information on the differences between unreported incomes and income thresholds for the misclassified veterans.)

Spouses' Wages Are Important Component of Misclassified Veterans' Incomes

The majority of the 109,230 misclassified veterans were married but had no dependents other than their spouses (see figure 5). The incomes of the married veterans' spouses often placed the veterans over the income thresholds in 1990; about 55 percent of the 109,230 veterans had individual incomes above the threshold levels.

Figure 5: Most Misclassified Veterans Were Married and Had No Dependents Other Than Spouses



Note: Appendix VI contains supporting data for this figure.

[a]Excludes spouses for married veterans.

Copayments Significantly Reduced by Misclassifying Veterans

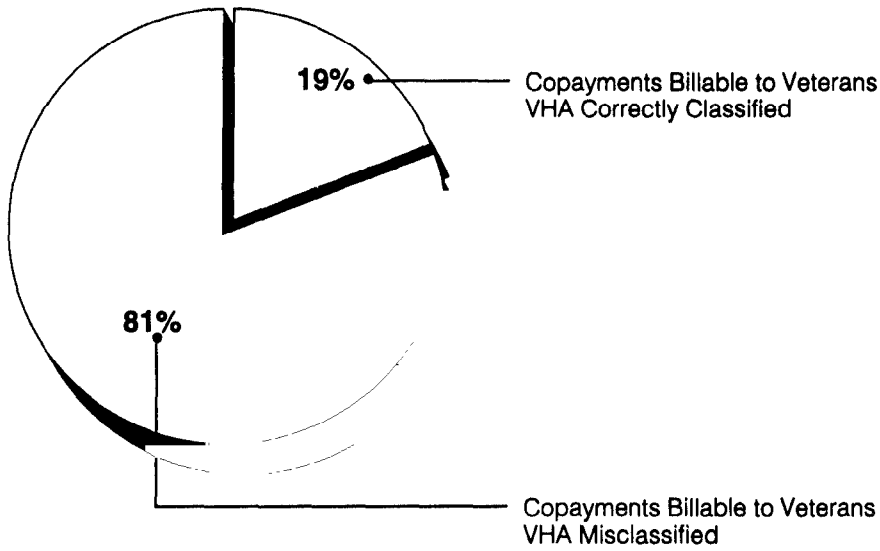
VHA's misclassification of veterans' copayment status greatly reduced potential copayment revenues in 1990. Moreover, missed copayment revenues may be significantly higher for 1991 and 1992 than they were in 1990, because income thresholds were lowered and copayment rates were raised in those years.

Misclassified Veterans Could Have Been Billed Millions in Copayment Revenues for 1990 VHA Health Care

We estimate that VHA could have billed as much as $27 million in copayments for care provided to the 109,230 veterans that it misclassified as not owing copayments in 1990. During that year, VHA billed $6.5 million to the 41,405 veterans that it correctly classified as owing copayments, using self-reported income. As a result, VHA missed 4 of 5 copayment revenue dollars potentially billable in 1990, as figure 6 shows. [6]

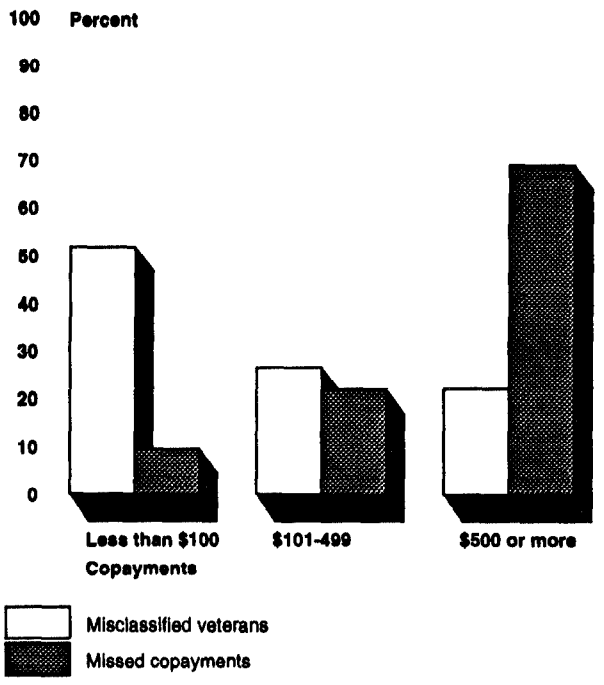
[6]Appendix VII discusses our methodology for estimating potential missed copayments.

Figure 6: Misclassified Veterans Accounted for 4 of 5 Potential Copayment Dollars Forgone in 1990



Misclassified veterans appear to have used VHA health care more frequently than those correctly classified. The 109,230 misclassified veterans could have been billed about $251, on average, compared to about $158, on average, billed to the 41,405 veterans that VHA correctly classified. The copayments billable to misclassified veterans ranged from $23 to $2,256. Our analysis indicated that most misclassified veterans would have been billed small amounts. However, 22 percent of the 109,230 veterans accounted for almost 70 percent of the missed copayments, indicating the potential for minimizing VHA's recovery costs. (See figure 7.)

Figure 7: A Few Misclassified Veterans Account for Most Missed Copayments



Note: Appendix VIII contains supporting data for this figure.

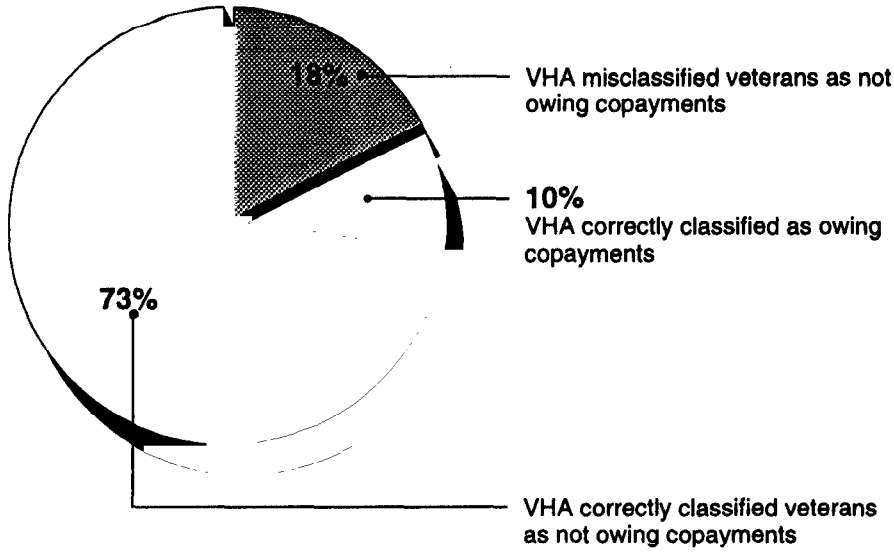
Misclassified Veterans Could Have Been Billed Significantly Higher Copayments for Care Received in 1991 and 1992

As previously discussed, the Omnibus Budget Reconciliation Act of 1990 expanded VHA's authority to collect copayments by lowering income threshold levels for single and married veterans by about 25 percent and raising copayment billing rates in 1991. [7] To estimate the potential effect of these changes on VHA's missed copayments, we applied the new income thresholds and billing rates to the same universe of veterans (932,093) that we had previously analyzed using 1990 copayment requirements. This analysis showed that VHA's missed copayment billings could have increased from $27 million to $63 million.

VHA would have correctly classified 88,847 veterans as owing copayments, under the new threshold levels, using the 932,093 veterans' self-reported incomes. By contrast, VHA would have misclassified 163,667, or about 18 percent, as not owing copayments; tax records show incomes for these veterans that exceeded income thresholds. (See figure 8).

[7]Appendix IX compares VHA's copayment income thresholds and billing rates in 1990 and 1991.

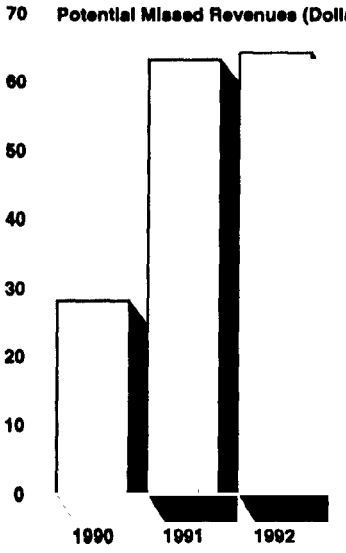
Figure 8: Potential Impact of New Income Thresholds on VHA's Classification of Veterans' Copayment Status



Note: Percentages do not add to 100 due to rounding.

To estimate the dollar value of potentially missed copayments, we applied the 1991 rates to the VHA health care received by the 163,667 veterans whom VHA may have misclassified. Using the new rates, VHA could have recovered about $63 million. Figure 9 shows the differences in missed copayments under the previous (1990) and current (1991) copayment liability rules, assuming that the health care received by misclassified veterans in 1991 and 1992 approximated the health care received in 1990.

Figure 9: Potential Copayments Forgone in 1990-92



VHA Missed an Opportunity to Reduce Copayment Losses

VHA missed an opportunity to reduce copayment losses because it did not implement an income-verification system, using tax records. VHA could have implemented a process comparable to the one we used. They could have started notifying veterans in January 1991 (about 2 months after receiving authority to use tax records), collected spouses' social security numbers during 1991, negotiated matching agreements with IRS and SSA and obtained tax records during that year.

Timely Notification to Health Care Recipients Might Have Reduced Copayment Losses

VHA missed an opportunity to reduce copayment losses because it failed to notify veterans that tax records would be used to verify reported income information. The Omnibus Budget Reconciliation Act of 1990 required VHA to notify veterans applying for medical care that tax records may be used to verify income they reported in 1991 and 1992.

Timely notification might have provided veterans an incentive to voluntarily improve their compliance with VHA's income-reporting requirements. For example, VA's Veterans Benefits Administration notified its pension beneficiaries in January 1991 that it intended to use tax records to verify veteran-reported income. [8] By August 1991, the number of persons receiving pension benefits had declined by more than 13,000, and total pension benefits had declined by over $9 million per month. Veterans Benefits Administration officials attributed this decline, in part, to

[8] Veterans' Benefits (GAO/HRD-92-37, Dec. 23, 1991), p. 5.

beneficiaries voluntarily informing them of unreported income before the verification process began.

VHA officials told us that they do not plan to start notifying veterans until November 1992 that tax records may be used to verify income reported on financial disclosure forms. Initially, VHA plans to send letters to those veterans already receiving medical care stating that their reported incomes are subject to verification. Beginning in January 1993, new applicants will be informed when they complete the medical care financial disclosure form. If VHA had provided similar notification to veterans applying for medical care in 1991 or 1992, some part of the copayment losses may have been reduced.

VHA Efforts to Develop an Income-Verification System

Although VHA is designing an income-verification system, it will not be able to match veteran-reported income information with tax records before its access authority expires on September 30, 1992. VHA's preliminary plan was approved by the Deputy Chief Medical Director in March 1992. The plan provides for a center to be established in Atlanta that will handle all income-verification activities systemwide. VHA has appointed an acting director for the center and is recruiting staff. VHA officials told us that the total staffing level will be about 60. VHA estimates the fiscal year 1992 start-up costs for the project at $1.5 million; fiscal year 1993 and 1994 budgets are estimated at between $7 million and $12 million.

VHA officials also told us that by January 1993, medical centers will begin collecting social security numbers and income information for spouses and dependents. This information is needed to ensure that all appropriate tax records are used to verify veterans' incomes. VHA is currently developing new software programs to support the collection and processing of these data. VHA officials told us that the lack of these data was a major factor that delayed its use of tax records.

VHA is developing computer matching agreements with IRS and SSA to obtain unearned income and earnings information, respectively. Such data, kept in readily accessible computerized files, represent income information reported by third-party payers, such as interest payments reported by banks and wages reported by employers. This information is comparable to the tax records that we used in our work. VHA expects the agencies to approve the matching agreements by December 1992.

VHA plans to identify the universe of nonservice-connected veterans who receive VHA health care in 1993. All veterans' names and social security numbers are to be verified with SSA. Such verification is necessary because the IRS will not match veteran records with its third-party income reports if more than 5 percent of the VHA information is incorrect. VHA will then send the veterans' identifying information to IRS, which will match it with its tax records and send back computer tapes listing income and its sources for each veteran matched. VHA plans to compare these data with information in its files and produce a prioritized discrepancy list, based on the discrepant amount and recovery potential.

To ensure that veterans' due process rights are not compromised, the veterans on the discrepancy list will be notified by letter and asked if they agree or disagree. If the veterans agree, they are to pay the bill. If they disagree, VHA must verify that the information they received from SSA and IRS is accurate. VHA expects to begin the verification process in early 1994. Veterans will be given the opportunity to explain why a discrepancy might exist, and they will be able to appeal. A VHA official also told us that no copayment will be charged until this verification process has been completed.

VA's Veterans Benefits Administration has recently implemented an income-verification process for pension beneficiaries and found that incomes reported on tax records were very accurate. Administration officials told us that, as of July 1992, they had terminated benefits for over 9,000 persons because of income underreporting and reduced benefits for over 1,000 others. Dollar savings have exceeded $70 million.

Conclusions

VHA cannot adequately administer its statutory copayment responsibilities without effective income-verification procedures. Our work shows that VHA's use of tax records to independently verify veterans' income could (1) result in large monetary benefits annually, and (2) likely increase veterans' compliance with VHA income-reporting requirements, which should ultimately improve the efficiency and effectiveness of VA's copayment determination process. Also, Veterans Benefits Administration verification work indicates that significant underreporting problems existed in veterans' pension programs.

VHA has wasted its current opportunity to use tax records. Had VHA implemented a process like ours, it could now be well on the way to verifying underreported incomes and collecting missed copayments. VHA

now appears to be moving in the right direction, but its pace remains slow. We believe that VHA's access to tax records should be extended and that VHA should move faster to minimize losses. Yet a period of about 2 years may be needed to fully implement an income-verification system, VHA officials estimate.

In our opinion, VA's use of tax records would represent a minimally intrusive way of verifying veterans' income. This use of tax records should not have a major effect on taxpayers' filing behavior because the tax information that VA would use comes from information returns filed by third-party sources, not from tax returns filed by taxpayers.

Recommendations to the Congress

We recommend that the Congress extend VA's authority to use tax records to verify veterans' self-reported incomes for determining copayment liability. As part of this reauthorization, we recommend that the Congress require VA to

- notify veterans, as soon as possible, that VA intends to verify veteran-reported income information using federal tax records,
- use federal tax records to identify veterans who should make copayments for VA health care, and
- take appropriate steps to charge these veterans for all copayments owed for health care that VA provides.

Recommendation to the Secretary of Veterans Affairs

We recommend that the Secretary direct the chief medical director to ensure that sufficient policies, procedures, and resources are available to implement an income-verification system as soon as possible after VA's tax-records-access authority is extended.

Agency Comments

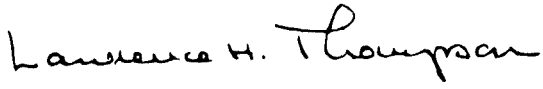
We did not provide a draft of this report to the Secretary of Veterans Affairs for review and comment. However, on August 28, 1992, we discussed its contents with the Secretary's designated representatives from VHA's Medical Administration Service and Regional Operations. These officials generally concurred with our conclusions and recommendations.

VHA officials pointed out that veterans' notifications were delayed because the officials believed such notifications would be inappropriate before VHA had the capability to use the tax records for verification purposes. In this regard, they said that it took some time to find the funds needed to finance the development and implementation of an income-verification system.

The officials also indicated that VHA may be currently misclassifying fewer veterans than it was in 1990 because of improvements made to the application process relating to insurance recoveries. As part of an effort to improve medical care cost recoveries from insurance companies, VHA officials said that admissions staff were instructed to use improved interviewing techniques in obtaining potential insurance information from veterans. The officials told us that VHA had increased its insurance recoveries from $200 million a year to $400 million a year over the last 2 years. They also pointed out, and we agree, that there may be some marginal improvement in veterans' income reporting on financial disclosure forms, given that this information is obtained at the same time in the application process as insurance information.

We are sending copies of this report to the Secretary of Veterans Affairs; the Director, Office of Management and Budget; the Chairmen and Ranking Minority Members of the House and Senate Committees on Veterans' Affairs; the Joint Committee on Taxation; and other interested congressional committees. We will also make copies available to others upon request. If you have any questions regarding this report, please contact David P. Baine, Director, Federal Health Care Delivery Issues, on (202) 512-7101. Other major contributors to this report are listed in appendix X.

Sincerely yours,



Lawrence H. Thompson
Assistant Comptroller General

Scope and Methodology

We reviewed VHA's policies and procedures for evaluating veteran-reported income data and making copayment decisions. We also interviewed VHA headquarters officials in its Medical Administration Service to determine how medical centers were expected to implement the copayment determination requirements. These officials also provided information on the changes required in VHA's copayment determination process as a result of the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508).

To assess the accuracy of VHA's copayment classification process, we used VHA patient treatment records for 1990 to identify veterans who received medical care for conditions unrelated to military service. We selected 1990 because it was the latest year for which federal tax records were available when we started our field work. VHA's records showed that 932,093 veterans had received either VHA inpatient care, outpatient care, or both types of care for conditions unrelated to military service in 1990. Almost 75 percent of these veterans received only outpatient care, while over 25 percent had an inpatient hospital or nursing home stay, as shown in table I.1.

Table I.1: Medical Care Provided to Nonservice-Connected Veterans in 1990

Type of VHA medical care	Number	Percent
Inpatient hospital or nursing home	237,273	26
Outpatient clinic only	694,820	74
Total	**932,093**	**100**

Using federal tax records, we identified veterans who had recorded income amounts that exceeded the income thresholds for copayment liability, then compared these cases to the veterans VHA identified as having incomes above copayment threshold levels. We obtained tax records from the Internal Revenue Service that contained income information reported by third-party payers. This tax information covered earnings, retirement benefits, interest, and dividends. We did not obtain tax data representing potentially nonrecurring unearned income (for example, rents, royalties, prizes, and awards). We recognize that excluding such income may potentially understate our estimates of the number of veterans whom VHA misclassified as well as the potential lost copayment revenues. Our review relied almost entirely on computerized data in VHA and federal tax records; we were unable to independently verify the data. The Internal Revenue Code does not permit us to disclose tax data in a form that would identify an individual taxpayer. Without such disclosures, it is not possible to verify the number of veterans misclassified or copayment revenues lost. However, the Veterans Benefits Administration

has used the same types of tax records to verify pension beneficiaries' reported incomes and has found the records to be very accurate based on interviews with individual veterans.

VHA determines veterans' copayment status based on income received during the calendar year preceding a veteran's application for VHA health care. Thus, we used income reported on 1989 tax records to verify the income that veterans reported to VHA when they applied for care in 1990. We then calculated the potential lost revenues for veterans whom VHA did not properly identify as owing copayments. To do this, we first determined the type of medical care provided, using VHA patient treatment data, and then applied the appropriate medical care copayment billing rates. (For more detailed information on our estimating methodology, see app. VII.)

To verify that the veterans listed in VHA patient treatment records as receiving care in 1990 were the same veterans for whom we had obtained federal tax records, we compared their social security numbers, names, and other personal identifying information with data maintained in SSA's Wire Third-Party Query (verification) system. This system provides social security number verification as well as retirement and disability benefit information. Although the IRS verifies the identifying numbers associated with federal tax records, SSA verification provides additional assurance that we have correctly matched VHA patient treatment data with the appropriate federal tax records.

As part of our assessment, we also obtained from tax data the incomes for veterans that VHA had classified as owing copayments. By using veterans' self-reported incomes, VHA had identified 14,218 veterans as having incomes above copayment thresholds. But our review of tax records showed that these veterans had incomes below the threshold levels. This likely occurred because VHA, in making copayment decisions, would include income information not available to us in our analysis, such as,

- nonrecurring unearned income, such as rents, royalties, and capital gains;
- income attributable to children or other dependents; and
- value of other assets, except the veteran's personal residence, that are also considered in assessing veterans' ability to make copayments.

As previously discussed, we did not include in our analysis tax data representing potentially nonrecurring unearned income or dependents' income information.

We used the same methodology to estimate the potential copayment revenues VHA lost in 1991 and 1992 by not using federal tax records to verify veteran-reported income. However, we applied VHA's 1991 and 1992 income thresholds and billing rates to estimate the potential lost copayment revenue. We assumed that care provided to veterans in 1991 and 1992 would be comparable to 1990 levels and that income levels would remain constant.

To assess VA's efforts to use tax records in determining veterans' copayment status we reviewed legislation that authorized VA access to federal tax record information. We reviewed several versions of VHA's plan to implement an income-verification system to match veteran-reported income with tax records. We also interviewed VHA headquarters officials in its Medical Administration Service to determine how VHA planned to verify veteran-reported income with third-party reported information on earned and unearned income.

Our review was performed from November 1991 to August 1992 in accordance with generally accepted government auditing standards.

VHA Copayment Billings and Collections (Fiscal Years 1987-91)

Fiscal year	Amount billed	Amount collected	Percent collected
1987	$26,090,052	$6,653,381	26
1988	14,305,547	11,825,914	83
1989	11,702,234	8,403,341	72
1990	7,534,505	5,208,633	69
1991	9,003,958	4,815,903	54

Income Levels for Nonservice-Connected Veterans Subject to Copayment Requirements

Table III.1: Income Sources for Veterans Subject to Copayment Requirements in 1990

Type of income	Amount	Percent of total
Wages	$6,689,339,489	47
Social Security retirement	3,214,118,347	22
Pension	1,782,208,298	12
Interest and dividends	1,068,573,367	8
Nonemployee compensation	765,009,467	5
Other retirement benefits	429,616,957	3
Business income	377,309,203	3
Total	**$14,326,175,128**	**100**

Table III.2: Income Sources for Single Veterans Subject to Copayment Requirements in 1990

Type of income	Amount	Percent of total
Wages	$2,315,952,940	45
Social Security retirement	1,546,411,143	30
Pension	581,572,560	11
Interest and dividends	309,595,574	6
Nonemployee compensation	274,152,734	5
Other retirement benefits	90,008,762	2
Business income	75,213,207	1
Total	**$5,192,906,920**	**100**

Table III.3: Income Sources for Married Veterans Subject to Copayment Requirements in 1990

Type of income	Amount	Percent of total
Wages	$4,373,386,549	47.9
Social Security retirement	1,667,707,204	18.3
Pension	1,200,635,738	13.1
Interest and Dividends	758,977,793	8.3
Nonemployee compensation	490,856,733	5.4
Other retirement benefits	339,608,195	3.7
Business income	302,095,996	3.3
Totals	**$9,133,268,208**	**100.0**

Table III.4: Income Ranges for Veterans Subject to Copayment Requirements in 1990

	Veterans		Income	
Range of income	**Number**	**Percent**	**Amount**	**Percent**
Less than $10,000	418,277	44.9	$1,732,632,641	12.1
$10,000-$19,999	266,500	28.6	3,848,076,909	26.9
$20,000-$29,999	133,069	14.3	3,240,414,205	22.5
$30,000-$39,999	58,458	6.3	2,004,980,597	14.0
$40,000-$49,999	26,408	2.8	1,171,629,153	8.2
$50,000-$59,999	12,549	1.3	683,263,835	4.8
$60,000-$69,999	6,357	0.7	409,566,424	2.9
$70,000-$79,999	3,588	0.4	267,275,279	1.9
$80,000-$89,999	2,066	0.2	174,902,631	1.2
$90,000-$99,999	1,280	0.1	120,980,402	0.8
$100,000 or more	3,541	0.4	672,453,052	4.7
Total	**932,093**	**100.0**	**$14,326,175,128**	**100.0**

Table III.5: Income Sources for Veterans Misclassified by VHA as Not Owing Copayments in 1990

Type of income	Amount	Percent of total
Wages	$2,328,619,186	48.9
Pension	554,446,488	11.6
Interest and dividends	463,376,131	9.7
Social Security retirement	478,629,334	10.1
Nonemployee compensation	434,903,062	9.1
Other retirement benefits	312,209,925	6.6
Business income	191,475,338	4.0
Total	**$4,763,659,464**	**100.0**

Table III.6: Income Sources for Single Veterans Misclassified by VHA as Not Owing Copayments in 1990

Type of income	Amount	Percent of total
Wages	$533,607,282	52.1
Nonemployee compensation	131,310,996	12.8
Pension	101,315,735	9.9
Interest & dividends	99,328,904	9.7
Social Security retirement	68,024,404	6.6
Other retirement benefits	54,782,445	5.4
Business income	36,191,524	3.5
Total	**$1,024,561,290**	**100.0**

Table III.7: Income Sources for Married Veterans Misclassified by VHA as Not Owing Copayments in 1990

Type of income	Amount	Percent of total
Wages	$1,795,011,904	48.0
Pension	453,130,753	12.1
Social Security retirement	410,604,930	11.0
Interest & dividends	364,047,227	9.7
Nonemployee compensation	303,592,066	8.1
Other retirement benefits	257,427,480	6.9
Business income	155,283,814	4.2
Total	**$3,739,098,174**	**100.0**

Table III.8: Income Ranges for Veterans Misclassified by VHA as Not Owing Copayments in 1990

	Veterans		Income	
Range of income	Number	Percent	Amount	Percent
$20,000 to $29,999	21,297	19.5	$ 574,808,116	12.1
$30,000 to $39,999	47,270	43.3	1,620,918,483	34.0
$40,000 to $49,999	19,810	18.1	877,562,388	18.4
$50,000 to $59,999	8,899	8.1	484,210,702	10.2
$60,000 to $69,999	4,437	4.1	285,964,516	6.0
$70,000 to $79,999	2,542	2.3	189,350,613	4.0
$80,000 to $89,999	1,475	1.4	124,797,080	2.6
$90,000 to $99,999	898	0.8	84,853,188	1.8
$100,000 or more	2,602	2.4	521,194,378	10.9
Total	**109,230**	**100.0**	**$4,763,659,464**	**100.0**

Table III.9: Income Ranges for Veterans Required by VHA to Make Copayments in 1990

	Veterans		Income	
Range of income	Number	Percent	Amount	Percent
Less than $10,000	3,642	8.8	$ 13,469,562	0.9
$10,000-$19,999	5,226	12.6	79,645,797	5.1
$20,000-$29,999	7,898	19.1	200,525,266	12.9
$30,000-$39,999	9,513	23.0	331,920,289	21.3
$40,000-$49,999	6,598	15.9	294,066,765	18.9
$50,000-$59,999	3,650	8.8	199,053,133	12.8
$60,000-$69,999	1,920	4.6	123,601,908	7.9
$70,000-$79,999	1,046	2.5	77,924,666	5.0
$80,000-$89,999	591	1.4	50,105,551	3.2
$90,000-$99,999	382	0.9	36,127,214	2.3
$100,000 or more	939	2.3	151,258,674	9.7
Total	**41,405**	**100.0**	**$1,557,698,825**	**100.0**

Table III.10: Income Ranges for Veterans Not Required by VHA to Make Copayments in 1990

	Veterans		Income	
Range of income	Number	Percent	Amount	Percent
Less than $10,000	414,635	53.1	$1,719,163,079	21.5
$10,000 to $19,999	261,274	33.4	3,768,431,112	47.1
$20,000 to $29,999	103,874	13.3	2,465,080,823	30.8
$30,000 to $39,999	1,675	0.2	52,141,825	0.6
Total	**781,458**	**100.0**	**$8,004,816,839**	**100.0**

Range of Amounts Misclassified Veterans' Incomes Exceeded Copayment Threshold Levels (1990)

Range of amounts veterans' incomes exceeded copayment thresholds	Veterans	
	Number	Percent
$1,000 or less	9,866	9.0
$1,001-$5,000	29,669	27.2
$5,001-$10,000	23,283	21.3
$10,001-$15,000	14,313	13.1
$15,001 or more	32,099	29.4
Total	**109,230**	**100.0**

Extent of Unreported Incomes for Veterans Misclassified by VHA (1990)

The minimum copayment thresholds for single and married veterans were $22,987 and $27,444, respectively, in 1990. Given these relatively low dollar thresholds, the variances between incomes that veterans reported to VHA and incomes on federal tax records represent potentially high percentages of unreported income. Most of the 109,230 veterans misclassified by VHA had incomes that exceeded copayment thresholds by at least 25 percent.

Table V.1: Percentage Income Difference for VHA's Misclassified Veterans' Incomes Exceeding Copayment Thresholds in 1990

Percentage difference that incomes exceeded thresholds	Veterans	
	Number	Percent
Less Than 25	49,586	45.4
25-50	24,788	22.7
51-75	13,174	12.1
76-100	7,214	6.6
More than 100	14,468	13.2
Total	**109,230**	**100.0**

Potential Lost Copayments for VHA's Misclassified Veterans by Number of Dependents (1990)

Table VI.1: Potential Lost Copayments for Single Veterans

Single veterans	Veterans		Potential copayments	
Number of dependents	Number	Percent	Amount	Percent
0	24,198	83.4	$6,491,667	85.9
1	3,041	10.5	682,260	9.0
2	1,222	4.2	271,191	3.6
3	388	1.3	77,925	1.0
4	143	0.5	28,528	0.4
5 or more	41	0.1	10,195	0.1
Total	**29,033**	**100.0**	**$7,561,766**	**100.0**

Table VI.2: Potential Lost Copayments for Married Veterans

Married veterans	Veterans		Potential copayments	
Number of dependents	Number	Percent	Amount	Percent
0	55,938	69.8	$14,565,818	73.2
1	11,774	14.7	2,765,595	13.9
2	7,784	9.7	1,615,013	8.1
3	3,261	4.1	664,230	3.3
4	1,040	1.3	215,873	1.1
5 or more	400	0.4	80,529	0.4
Total	**80,197**	**100.0**	**$19,907,058**	**100.0**

Table VI.3: Potential Lost Copayments for All Veterans

Total veterans	Veterans		Potential copayments	
Number of dependents	Number	Percent	Amount	Percent
0	80,136	73.4	$21,057,485	76.7
1	14,815	13.6	3,447,855	12.5
2	9,006	8.2	1,886,204	6.9
3	3,649	3.3	742,155	2.7
4	1,183	1.1	244,401	0.9
5 or more	441	0.4	100,724	0.3
Total	**109,230**	**100.0**	**$27,468,824**	**100.0**

Methodology for Estimating Lost Copayment Revenue for VHA's Misclassified Veterans

To estimate the potential lost copayment revenues, we generally followed VHA's standard copayment calculation procedures, except as discussed below. Veterans are to be charged the copayment rates in effect when they apply for care; this rate is to remain in effect for up to 365 days of care. However, we could not identify the starting date for each veteran's 365-day period of care using VHA inpatient hospital care records. Because veterans who received medical care in 1990 might be entitled to care at the lower 1989 rates, we used VHA's copayment billing rates for 1989, rather than those in effect for 1990. We used the first date the veteran received either VHA inpatient or outpatient care in 1990 for determining the first 90-day billing cycle. We aggregated potential copayment revenues, based on 90 days of hospital or nursing home care, into a maximum of four 90-day billing cycles for each veteran. Thus, our estimate of potential lost copayment revenues is probably conservative because some veterans should have been charged the higher 1990 rates because they applied for care in that year.

To verify that we had correctly identified the veterans who received care in 1990, according to VHA medical records, we compared their social security numbers and other identifying information with similar data maintained in SSA's Wire Third-Party Query (verification) system. SSA uses this system to provide number verification, as well as retirement and disability benefit information. To the extent that SSA verifies the social security number, name, and date of birth for the veterans we identify, we have reasonable assurance that the veteran received VHA medical care and another person did not receive care using the veteran's number. Furthermore, this approach also helps to ensure that we correctly match veterans' federal tax records with their VHA medical care records.

In 1990, VHA provided medical care to 932,093 veterans who applied for treatment of nonservice-connected conditions. We submitted for SSA verification 237,273 of these records for veterans who received inpatient hospital or nursing home care in 1990. We did not submit for verification 694,820 records (about 75 percent) for veterans who received only outpatient care, because the VHA outpatient care file contained inadequate personal identifiers.

We were able to verify the personal identifying information for 228,204 (about 96 percent) of the 237,273 veterans. Matching these veterans' medical records against federal tax records for 1989, we determined that the maximum potential copayment liability for 22,826 veterans (about 10 percent), whose 1989 incomes exceeded the copayment thresholds, may

have been as much as $16.8 million. Because we were able to successfully verify the identifying data for about 96 percent of the veterans who received VHA hospital or nursing home care, we had no reason to believe that the personal identifiers used on VHA's outpatient care file were not equally accurate. Therefore, we matched the 694,820 veterans' records against federal tax records for veterans who received outpatient care and found that 112,185 (about 16 percent) had incomes that exceeded the copayment limits. Their maximum potential copayment liability could have been as much as $13.8 million. In total, 135,011 veterans had incomes exceeding the copayment limits. Thus, the maximum potential copayment revenues could have been as much as $31.6 million. [1] Because we also estimated that VHA likely billed 27,187 of these veterans about $4.1 million in copayments, VHA could have billed as much as $27.5 million more for care it provided to veterans whose incomes exceeded threshold levels.

Table VII.1: Potential Lost Copayments Based on VHA Improperly Classifying Veterans in 1990

	Copayment revenue for veterans with incomes exceeding threshold limits		Potential lost copayments
Classification of veteran	GAO estimate	VHA billings	Difference
Single			
Number	35,088	6,055	29,033
Amount	$8,574,331	$1,012,565	$7,561,766
Married			
Number	101,329	21,132	80,197
Amount	$23,002,454	$3,095,396	$19,907,058
Total			
Number	136,417	27,187	109,230
Amount	$31,576,785	$4,107,961	$27,468,824

To estimate the potential lost copayment revenues for 1991 and 1992, we followed VHA's standard copayment calculation procedures, as revised by the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508). This law changed the way VHA determined veterans' copayment status by redefining certain veterans who were not previously required to pay for care as liable for copayments. For example, the copayment threshold for a single veteran was lowered from $22,987 to $18,171 for 1991, while the threshold for a married veteran was lowered from $27,444 to $21,805. Thus, the income thresholds for determining copayment liability were effectively

[1] We could not verify the personal identifying information for the remaining 9,069 veterans. Of these, 1,406 veterans (about 16 percent) had incomes above the copayment thresholds, and their potential copayment liability could have been as much as $964,527.

lowered by about 18 to 21 percent for single and married veterans, respectively.

We also used the law's new copayment per-diem fees of $10 for hospital care and $5 for nursing home care, which are to be charged in addition to the existing flat charges. Finally, the law changed the computation of the copayment for outpatient care; that is; the outpatient copayment will be applied to each outpatient visit during the 365-day billing cycle, and there is no limit on the total billable amount. Also, outpatient copayments no longer were applied as a credit toward inpatient copayment requirements.

To develop a more realistic estimate of the copayment revenues VHA might expect to achieve from its planned income-verification system, we used VHA's copayment billing rates for 1991 and 1992, rather than those in effect for 1990. We used the first date the veteran received either VHA inpatient or outpatient care in 1990 as the starting date for determining the first 90-day billing cycle. We aggregated potential inpatient copayment revenues, based on 90 days of hospital or nursing home care, into a maximum of four 90-day billing cycles for each veteran, and added the applicable per-diem charge. Then we separately calculated the outpatient copayments for 1991 and 1992 at either $26 or $30 per visit, respectively, for each veteran, combining this amount with the inpatient copayments to determine the total potential copayment billings.

Percentage of VHA Misclassified Veterans and Missed Copayments by Dollar Amount of Copayments Owed

Range of copayments forgone in 1990	Veterans misclassified		Copayments forgone	
	Number	Percent	Amount	Percent
Less than $100	56,477	51.7	$2,571,377	9.4
$101-$499	28,836	26.4	5,986,764	21.8
$500 or more	23,917	21.9	18,910,683	68.8
Total	**109,230**	**100.0**	**$27,468,824**	**100.0**

Comparison of VHA Copayment Income Thresholds and Billing Rates (1990 and 1991)

1990 copayment requirement	1991 copayment requirement
Income threshold for veterans without dependents was $22,987, increasing by $5,747 for the first dependent and $1,150 for each additional dependent.	Income threshold for veterans without dependents was $18,171, increasing by $3,634 for the first dependent and $1,213 for each additional dependent.
A copayment of $592 for the first 90 days of hospital inpatient care and $296 for each additional 90 days of care.	A copayment of $628 for the first 90 days of inpatient hospital care and $314 for each additional 90 days of care.
A copayment of $23 for each outpatient visit, but the maximum copayment charges may not exceed $592.	A copayment of $26 for each outpatient visit, with no limit on maximum copayments charged.
Outpatient copayments are credited against inpatient copayment charges for each 90-day billing period.	Outpatient copayments are not credited against inpatient copayment charges for any billing periods.
No per-diem charge for inpatient care.	A per-diem charge of $10 for inpatient care.
No per-diem charge for nursing home care.	A per-diem charge of $5 for nursing home care.
No prescription drug charges.	Prescription drug charges of $2 for each 30-day-or-less supply of prescription drugs VHA dispensed.

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