

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

69 SCOMM 6 : SENATE SPECIAL COMM. ON ALCOHOLISM 1977-78

At the risk of overcomplicating the matter of rate policy decisions, it is important to consider the impact of one additional factor on rate structures: the third-party purchaser. In principle, third-party purchasers should pay essentially the same rate as any other user. In practice, however, they often do not pay on the same basis. Accordingly, to the extent that some third-party purchasers pay less than or more than other patients, rate structures applicable to other patients must be adjusted to absorb the difference. Prime examples are Medicare and Medicaid, which reimburse at "cost" (by their definition of cost).

#### The Process

Once the costs are accumulated, inflation considered and a philosophical stance assumed, all total estimated costs can be spread to the cost centers.

Since we have accumulated units of service from past activity and projected the next year's activity through a proper planning process, we can now reduce our units of service indicators as follows:

Total Units of Service
Less
Nonbillable Units of Service
Less
Uncollected Bills Expressed as Units of Service
Equals
Net Units of Service to be Scheduled

By applying net units of service to total costs, each service unit then becomes scheduled for client billing.

Important Comments

1. Regarding Costs. Cost are to be adjusted with the "plus factors" of "funded depreciation," etc.
2. Those adjusted costs are priced out via the net units of chargeable service.
3. Philosophies of billing do change. Unless precluded from certain activities by third party payors, "reasonable charges" include all monies necessary to make an effective, or reasonably effective program stand on its own.
4. Some form of utilization review and/or efficiency studies should be used to preclude runaway costs.
5. Controls must be maintained over a) intake to screen out clients who should not be in the system, and b) that all potential third-party reimbursement is discovered.
6. Controls must be rigorously followed on client billing to: a) request payment immediately from clients, or b) make timely billings and follow-up of third-party payments.

## E. Other Important Considerations

### Assignment of Interest

Under commercial insurance company plans (including Blue Cross), it is the responsibility of the insurer company to reimburse the insured client for the costs of covered services, up to the policy limits, less deductibles and co-insurance amounts.

Payment to the client, however, is independent from payment to the program -- that is, the client may present either a paid or an unpaid bill to the insurance company in order to receive reimbursement; the program is left to conclude all financial business directly with the client. If the client does not pay his bill, even though he has been reimbursed by the insurance company, there is little the program can do short of taking legal action which, in turn, may prove to be both costly and non-rewarding. In this situation, the fact that the client may or may not have insurance is irrelevant, other than as a factor in deciding whether to extend credit to the client for services or to make him pay an estimated bill, or substantial portion thereof, as a deposit in advance.

A partial alternative to reliance on direct patient payment is for the program to accept an assignment of insurance benefits. Under this arrangement the client assigns his rights to reimbursement to the program which, in turn, serves as the client's agent in making the claim for, and collecting, the benefit

payments from the third-party payor. Assignment of benefits is commonly used to reduce reliance on the patient for payment and guarantee that the program will receive all payment for services made by the client's insurance company. Assuming that it properly estimates this payment, the program's only financial concern will be to collect, either as an advance deposit, or after services are rendered, the portion of the patient's bill not covered by the insurance company's payments.

#### Accounts Receivable and Payment Mechanisms

Each provider will need to extend its receivables management system to include the expected increase in managing patient payments and third-party billings. Since this report has been written to address cost-finding and rate setting in alcohol and drug abuse programs that are on-going operations, some degree of familiarity with receivables management has been assumed. It may be well worth the time if the following are added or reemphasized in your program:

1. Maintain a discrete carrier index for each insurance company you deal with.
  
2. Maintain a discrete cross-tracking system, by patient:
  - a. A discrete number for each patient. We suggest a "month-incidence" number. This number, e.g.,

03-113, represents a patient seen initially in March ("03"-third month), and is the 113th patient admitted for some treatment in the system in March. Add a ".1" to the number if a second episode occurs the same month. Subsequent incidences should note the previous patient number.

- b. An alpha cross-reference should correlate the patient name with the discrete number listed in "a." above. Nothing may be more embarrassing than having a former patient or insurance carrier call to find out treatment information and having the program find out that it has "lost" a patient.
3. Bill patients/carriers with a statement showing at least:
    - a. day/date(s) of treatment
    - b. treatment rendered
    - c. professional staff or treatment mode.

Copies of commonly used carrier claims forms are included as Attachment I to this report.

4. Maintain proper controls over billings to include:
  - a. when billed
  - b. "aging" of receivables by patient and by carrier

- c. an agressive collection policy
  - d. complete monthly reconciliations to the general ledger control totals for receivables.
5. Maintain a file of carrier "acceptances." These "acceptances" show that a carrier has examined or had a chance to examine your program. Maintain a copy of all correspondence showing that the carrier has agreed to pay for patient services. A sample application for "acceptance" is included as Attachment J.
6. Maintain and improve the existing accounting system. A sample flow of accounting functions is included as Attachment K.

ATTACHMENT A

Acceptable Allocations

<u>Allocation</u>	<u>Bases for Allocation</u>
Provider Accounting	1. Hours of service 2. Number of employees served 3. Other acceptable method
Heat, light, Power, etc.	1. Utilization, e.g., wattage 2. Square footage 3. Repairs needed
Physician & Nursing (Administrative)	1. Number of patients 2. Estimated time spent
Employee Benefits	1. Ratio of benefits/general payroll 2. Average number of employees 3. Other acceptable method
Depreciation	1. Square footage 2. Formula basis
Telephone	1. Direct for long-distance, common charges by number of telephones 2. Direct for long-distance, common charges by number of patients 3. Other acceptable method
Etc.	Etc.



WORKSHEET AA  
Direct Costs  
Outpatient Methadone Cost Center

	Initials	Date
Prepared By		
Approved By		

Expense	Direct Costs		From General Allocation	Total Direct Costs
	A/C No.	From G/L		
Salaries & Wages	400	\$3,000		\$ 3,000
Employee Benefits	401	300		300
Heat	501	200	100	300
Lighting	502	150		150
General Electricity	503	100	50	150
Medical Supplies	504.01	300		300
Food Supplies	504.02	700		700
Methadone	504.03	400		400
Office Supplies	504.04	500	50	550
Travel	505	200		200
Telephone	506	75		75
Depreciation	705		200	200
Totals		<u>\$9,500</u>	<u>\$800</u>	<u>\$10,300</u>
		To A	To A	

Form H357 Buff - Form 05/57 Green

WORKSHEET BB  
 Indirect Allocation  
 Outpatient Methadone Cost Center

	Initials	Date
Prepared By		
Approved By		

		(12)	(13)	(14)	(15)	(16)	(17)
		FYE			Allocation	Indirect Allocation	
Expense Category					Amount	Basic	
1							
2	Heat			XXX	Patient Ratio	200	
3	General Electricity			XXX	Patient Ratio	150	
4	Office Supplies			XXX	Usage Ratio	75	
5	Depreciation			XXX	Sq. Footage	100	
6	Payroll-Administrative Salaries			XXX	Supervisory Time	700	
7							
8							\$1,225
9							To A
10							
11							
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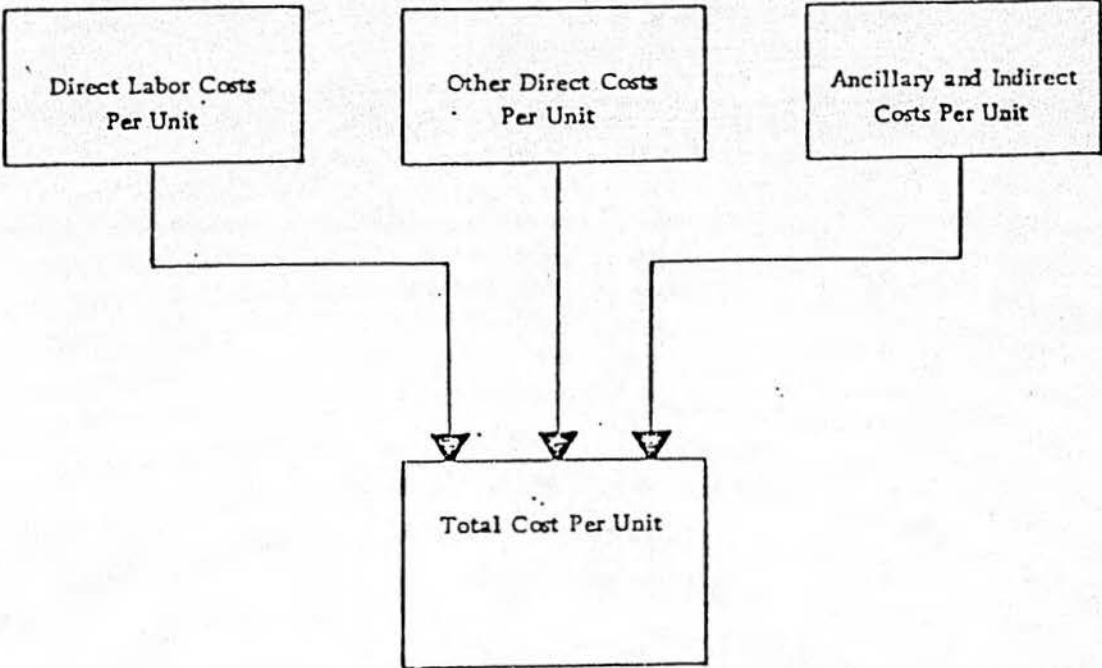
Barrington County  
 Form H557 Buff - Form C557 Green

WORKSHEET CC  
 Schedule of Direct Labor Costs  
 X Program

	Initials	Date
Prepared By		
Approved By		

	Name of Employee	Direct Labor Cost			
		Outpatient Methadone	Outpatient Drug-Free	Residential Drug-Free	
1					
2	Calhoun-Salary	800	XXX	X	
3	Benefits	75			
4	Jones-Salary	700	XXX	XXX	
5	Benefits	65			
6	Trent-Salary	600	XXX	XXX	
7	Benefits	60			
8	Purvis Salary	900	XXX	XXX	
9	Benefits	100			
10					
11		<u>300</u>	<u>3000</u>	X	X
12				X	X
13		ToAA	To AA		
14					
15					
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40					

REPRODUCIBLES  
 Form H557 Buff - Form G557 Green



X TREATMENT PROGRAM

EMPLOYEE NAME

EMPLOYEE NUMBER

PAY PERIOD ENDING

SERVICE GROUP	SERVICE CODE	DATE																TOTAL
		16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	

ATTACHMENT G

EMPLOYEE SIGNATURE/DATE

SUPERVISOR SIGNATURE/DATE

NOTES: Employee number contains employee job classification, e.g. Physician, Counselor, etc.  
 Service Group contains the treatment service mode, e.g. inpatient, intermediate care, etc.  
 Service Code contains the treatment itself, e.g. individual counseling, detox, etc., and  
 the designation of direct service or indirect.


BANK OF TIME SHEET CONTAINS ALL RELEVANT CODES TO BE USED ABOVE

ATTACHMENT H

X Program  
Sample Unit Cost Report

May XX, 19XX

<u>Cost Center</u>	<u>Patient Census or Service Count</u>	<u>Cost Per Unit of Service</u>
Outpatient Methadone:		
Individual Counseling	337 units	\$42.17
Group Counseling	187 units	33.14
Medical Review	40 units	45.18



HOSPITAL INSURANCE FORM

HIF (69)

GROUP OR INDIVIDUAL

Spaced for Typewriter - Marks for Tabulator Appear on this Line

INSURED'S NAME AND ADDRESS	DATE OF BIRTH
INSURED'S NAME IF PATIENT IS A DEPENDENT	INSURED'S SOC. SEC. NUMBER
NAME OF INSURANCE COMPANY	POLICY NUMBER
IF GROUP INSURANCE, NAME OF POLICYHOLDER (i.e. Employer, Union or Association through whom insured)	

I HEREBY AUTHORIZE PAYMENT directly to the below named hospital of the hospital insurance benefits otherwise payable to me but not to exceed the balance due of the hospital's regular charges for this period of hospitalization. I understand I am financially responsible to the hospital for charges not covered by this authorization.

SIGNED (INSURED PERSON) \_\_\_\_\_  
DATE \_\_\_\_\_

I HEREBY AUTHORIZE RELEASE OF INFORMATION, requested on this form, by the below named hospital.

SIGNED (PATIENT, OR PARENT IF MINOR) \_\_\_\_\_  
DATE \_\_\_\_\_

DATE ADMITTED	TIME ADMITTED	AM PM	DATE DISCHARGED	TIME DISCHARGED	AM PM
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COMPLAINT

DATE OF FIRST SYMPTOMS

DIAGNOSIS FROM RECORDS (IF INJURY GIVE DATE, PLACE OF ACCIDENT)

IS CONDITION DUE TO INJURY OR SICKNESS ARISING OUT OF PATIENT'S EMPLOYMENT? Yes  No


OPERATIONS OR OBSTETRICAL PROCEDURES PERFORMED (NATURE AND DATE)

OTHER HOSPITAL COVERAGE: YES  NO  (IF "YES" NAME OF CARRIER) \_\_\_\_\_ IF PATIENT HAD OTHER THAN SEMI-PRIVATE ROOM, INDICATE MOST COMMON SEMI-PRIVATE DAILY RATE \$.....

HOSPITAL CHARGES: (COMPLETE THIS SECTION OR ATTACH COPY OF BILL WITH A DETAILED BREAKDOWN OF CHARGES)

ROOM AND BOARD	Ward	_____ Days at \$ _____	Total \$ _____	TOTAL CHARGES \$ _____ PAYMENT CREDITS-PATIENT \$ _____ PAYMENT CREDITS-OTHER CARRIER (S) \$ _____ BALANCE DUE \$ _____
	Semi-Private	_____ Days at \$ _____	Total _____	
	Private	_____ Days at \$ _____	Total _____	
	Intensive Care Unit	_____ Days at \$ _____	Total _____	
	Extended Care Facility	_____ Days at \$ _____	Total _____	
	Operating or Delivery Room			
CHARGES	Anesthesia			_____
	X-Ray			_____
	Laboratory			_____
	EKG BMR			_____
	Physical Therapy			_____
	Medical and Surgical Supplies			_____
	Pharmacy (Except Take-Home Drugs)			_____
	Inhalation Therapy			_____
	Intravenous Solutions			_____
	TOTAL			_____

THIS FORM APPROVED BY THE HEALTH INSURANCE COUNCIL AND ACCEPTED FOR USE BY HOSPITALS BY THE AMERICAN HOSPITAL ASSOCIATION.



HOSPITAL \_\_\_\_\_  
ADDRESS \_\_\_\_\_

TAKEN FROM RECORDS \_\_\_\_\_ SIGNED BY \_\_\_\_\_  
ON: 19 \_\_\_\_\_

Most insurance companies provide their insured persons with simplified and standardized claim forms approved by the American Hospital Association and the Health Insurance Council. Such forms can be identified by the HIC symbol:



The HOSPITAL INSURANCE FORM — GROUP OR INDIVIDUAL — HIF (69), may be stocked and used by hospitals in those instances when other approved forms are not submitted by insured patients. When the HIF (69) form is completed instead of an insurance company form, the two should be attached together inasmuch as parts of the company form may have already been completed by the insured person and/or the employer. This will facilitate the handling of the patient's claim.

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The Health Insurance Council is a division of the Health Insurance Association of America. As such it represents the member companies of the Association which provide a majority of the protection against the costs of health care in the United States. Additionally, representatives of other insurance organizations act in advisory capacities and their member companies may and do participate in Council programs. In this way, the Health Insurance Council is representative of the business as a whole in its endeavors to maintain and strengthen relationships between providers of health care and the business which helps finance its costs.





**Blue Cross**  
of Washington and Alaska

**ATTACHMENT I-3**

P.O. Box 327  
Seattle, Washington 98111  
206/361-3232

**Provider's Service  
Billing Form**

Fill out Parts 1 and 2 below and send to the Blue Cross Plan Claims Department. Please type or print. See reverse side for complete instructions on how to submit to the Blue Cross Plan.

**PART 1/PATIENT INFORMATION**

PATIENT'S NAME First Last			BIRTHDATE Mo Day Year			IS THIS CLAIM DUE TO AN ACCIDENT OR INJURY? YES <input type="checkbox"/> NO <input type="checkbox"/>	
RELATION TO SUBSCRIBER <input type="checkbox"/> SELF <input type="checkbox"/> SPOUSE <input type="checkbox"/> CHILD			GROUP NUMBER			DATE _____ TIME _____ AM <input type="checkbox"/> PM <input type="checkbox"/>	
SUBSCRIBER'S IDENTIFICATION NUMBER			SUBSCRIBER'S NAME, ADDRESS, CITY, STATE, ZIP			AT WORK <input type="checkbox"/> AT HOME <input type="checkbox"/> AUTO <input type="checkbox"/> OTHER <input type="checkbox"/>	
ZIP CODE			DO YOU OR ANY OF YOUR DEPENDENTS HAVE OTHER GROUP MEDICAL OR DENTAL COVERAGE? (THIS INCLUDES OTHER BLUE CROSS COVERAGE)			EXPLANATION	
PLEASE INDICATE IF ADDRESS IS TEMPORARY <input type="checkbox"/> PERMANENT <input type="checkbox"/>			IF ACCIDENT OCCURRED AT WORK IS CARE COVERED UNDER WORKMEN'S COMPENSATION? YES <input type="checkbox"/> NO <input type="checkbox"/>			WAS ANOTHER PARTY RESPONSIBLE FOR THIS ACCIDENT? YES <input type="checkbox"/> NO <input type="checkbox"/>	
EMPLOYER'S NAME			NAME AND ADDRESS OF OTHER CARRIER			DO YOU OR ANY OF YOUR DEPENDENTS HAVE OTHER GROUP MEDICAL OR DENTAL COVERAGE? (THIS INCLUDES OTHER BLUE CROSS COVERAGE) YES <input type="checkbox"/> NO <input type="checkbox"/>	
			COVERAGE IS FOR: PATIENT <input type="checkbox"/> SPOUSE <input type="checkbox"/> CHILDREN <input type="checkbox"/>			ID NUMBER GROUP NUMBER	

**PART 2/MEDICAL INFORMATION**

PROVIDER'S NAME, ADDRESS, CITY, STATE, ZIP	DATE OF SERVICE	RVS OR CPT CODE	DESCRIPTION OF SERVICES	CHARGE
PROVIDER'S TAX NUMBER				
WERE THESE CHARGES BEEN PAID? <input type="checkbox"/> YES <input type="checkbox"/> NO				
IS THIS ILLNESS PREGNANCY RELATED? YES <input type="checkbox"/> NO <input type="checkbox"/>				
HAND OF HOSPITAL (IF HOSPITAL HEADQUARTERS) NEW <input type="checkbox"/> CONT <input type="checkbox"/>	ADMISSION DATE	DISCHARGE DATE		
DIAGNOSIS (including complications)	ICDA CODE			
TYPE OF OPERATION? (if unusual or complicated, attach operative report)				
			<b>Total Charge</b>	

**FOR BLUE CROSS PLAN USE ONLY**

SERVICE DATES FROM & TO MO - DAY MO - DAY - YEAR	GROUP NUMBER	CLASS	REL	DESH	REJECT COOF	CLAIM NO	AGE	SHRCD	WLC	
F C O K T I N D E S R E M D I S P O T T Y P E I M C M I S S C	PROCEDURE CODE	STANDARDIZED REMARKS OR PROVIDER'S NAME			PAYE	PAYMENT AMOUNT	CGV CHG 1 ONLY	T S	R R O V C O B	
MEDICAL COMPUTATION										
AMOUNT FORWARDED MAJOR MED CLAIM	MAJOR MEDICAL DEDUCTIBLE (S only)	AMOUNT OF DEDUCTIBLE PREVIOUSLY SATISFIED	REMAINING DEDUCTIBLE	BALANCE APPLICABLE TO MAJOR MEDICAL	% OF G	ACCUMULATIVE MAJOR MEDICAL PAYMENTS (S only)	CURRENT YEAR	LIFETIME	MAJOR MEDICAL AGG. DEDUCTIBLE (S only)	
WAITING PERIOD WAIVED YES <input type="checkbox"/> NO <input type="checkbox"/>	PAID TO DATE	EMPLOYEE NUMBER	APPR DATE	TRUST ELIGIBILITY CODING	GROUP NUMBER	CLASS / RELATION	EFFECTIVE DATE			

## How To Submit This Billing Form\*

The Blue Cross Plan claims processing system allows for direct payment for covered services to the provider of services. This system operates at greatest efficiency when the Blue Cross Plan is billed directly by the provider. When payment is made directly to the provider, the subscriber will receive an Explanation of Benefits which describes how the claim was processed.

### To The Provider Submitting This Form:

In order to speed payment to you, please complete Part 1 (Patient Information) and Part 2 (Medical Information). Please be sure to enter your correct IRS Tax Number in box 11. The IRS Tax Number is essential for correct and timely payment to you.

### To The Subscriber Submitting This Form:

Payment for covered services can be made faster when your provider of services bills the Plan directly on this form. *Please encourage your provider to bill the Plan directly.*

Should your provider not bill direct, please complete Part 1 and attach the itemized bill received from your provider.

### Please note:

- Please submit a separate form for each patient.
- Please submit a separate form for each calendar year.
- If the provider has already been paid, please be sure that box 12, "Have these charges been paid?" is completed.
- If the subscriber has coverage under more than one Blue Cross group program, please submit a billing form for each group.
- All completed forms must be sent to the Blue Cross Plan home office in Seattle, Washington:

Blue Cross of Washington and Alaska  
P.O. Box 327  
Seattle, Washington 98111

If you need additional forms, please contact your Blue Cross Plan office.

\*The Provider's Service Billing Form is to be used for Doctor, Vision, Nursing, Appliance, Ambulance and other special bills as explained in your Blue Cross benefit booklet. This billing form replaces the Physician's Service Report (form #9).

## THE TRAVELERS INTEROFFICE MEMORANDUM

TO Examiner Smith, LAG/RAM Div., LAG Unit, 7 PB

FROM

SUBJECT Hospital Survey (Personal visit required. If not possible, explain under comments)

Name of Institution \_\_\_\_\_

Address \_\_\_\_\_

Check mark and/or fill in 'cks

1. Date institution began operation \_\_\_\_\_.
2. Is this institution *primarily* engaged in treating sick or injured persons on an in-patient basis?  
Yes \_\_\_\_\_ No \_\_\_\_\_
3. Does this institution provide room and board confinements extending at least 24 hours? Yes \_\_\_\_\_ No \_\_\_\_\_
4. Is room and board provided at patient's expense? *For example, are patients who do not have insurance required to pay some portion of the bill?* Yes \_\_\_\_\_ No \_\_\_\_\_
5. How many in-patient beds? \_\_\_\_\_
6. Are orders for care written by physicians? Yes \_\_\_\_\_ No \_\_\_\_\_
7. What is the primary or most appropriate classification of this institution?

\_\_\_\_\_ Short-Term General Hospital

\_\_\_\_\_ Long-Term General Hospital

\_\_\_\_\_ Children's General Hospital

\_\_\_\_\_ Chronic Disease Hospital

\_\_\_\_\_ TB or Respiratory Disease Hospital

\_\_\_\_\_ Short Stay Psychiatric Hospital

\_\_\_\_\_ Long Stay Psychiatric Hospital

\_\_\_\_\_ Children's Psychiatric Hospital

\_\_\_\_\_ Alcoholism Treatment Facility

\_\_\_\_\_ Residential Treatment Facility

\_\_\_\_\_ a. For Emotionally Disturbed Adults

\_\_\_\_\_ b. For Emotionally Disturbed Children or Adolescents

\_\_\_\_\_ c. Other, Explain \_\_\_\_\_

\_\_\_\_\_ Drug Addiction Treatment Center

\_\_\_\_\_ Extended Care Facility

\_\_\_\_\_ Skilled Nursing Facility

\_\_\_\_\_ School

\_\_\_\_\_ Convalescent Facility

\_\_\_\_\_ Other, Explain (e.g., part of a hospital) \_\_\_\_\_

8. Diagnostic X-Ray and Laboratory Facilities

- None Provided or Readily Available
- On the Premises
- Arrangement with Another Facility, Explain \_\_\_\_\_

9. Therapeutic Facilities for Medical and Surgical Treatment of In-Patients, e.g., Drugs, Medicines, Surgical Dressings, Equipment for Administering Oxygen and Other Durable Equipment for Therapeutic Treatment.

- None Provided or Readily Available
- On the Premises
- Arrangement with Another Facility, Explain \_\_\_\_\_
- Other, Explain \_\_\_\_\_

10. Nursing Services

- 24 Hour Nursing by or Under the *Direct Supervision\** of Registered Graduate Nurses (*\*Registered Nurse on Premises at all times*)
- Nursing Rendered by LPN's, LVN's, and/or Nurses Aids with no Registered Nurse on Premises at all times
- Other, Explain \_\_\_\_\_

11. Surgical Facilities

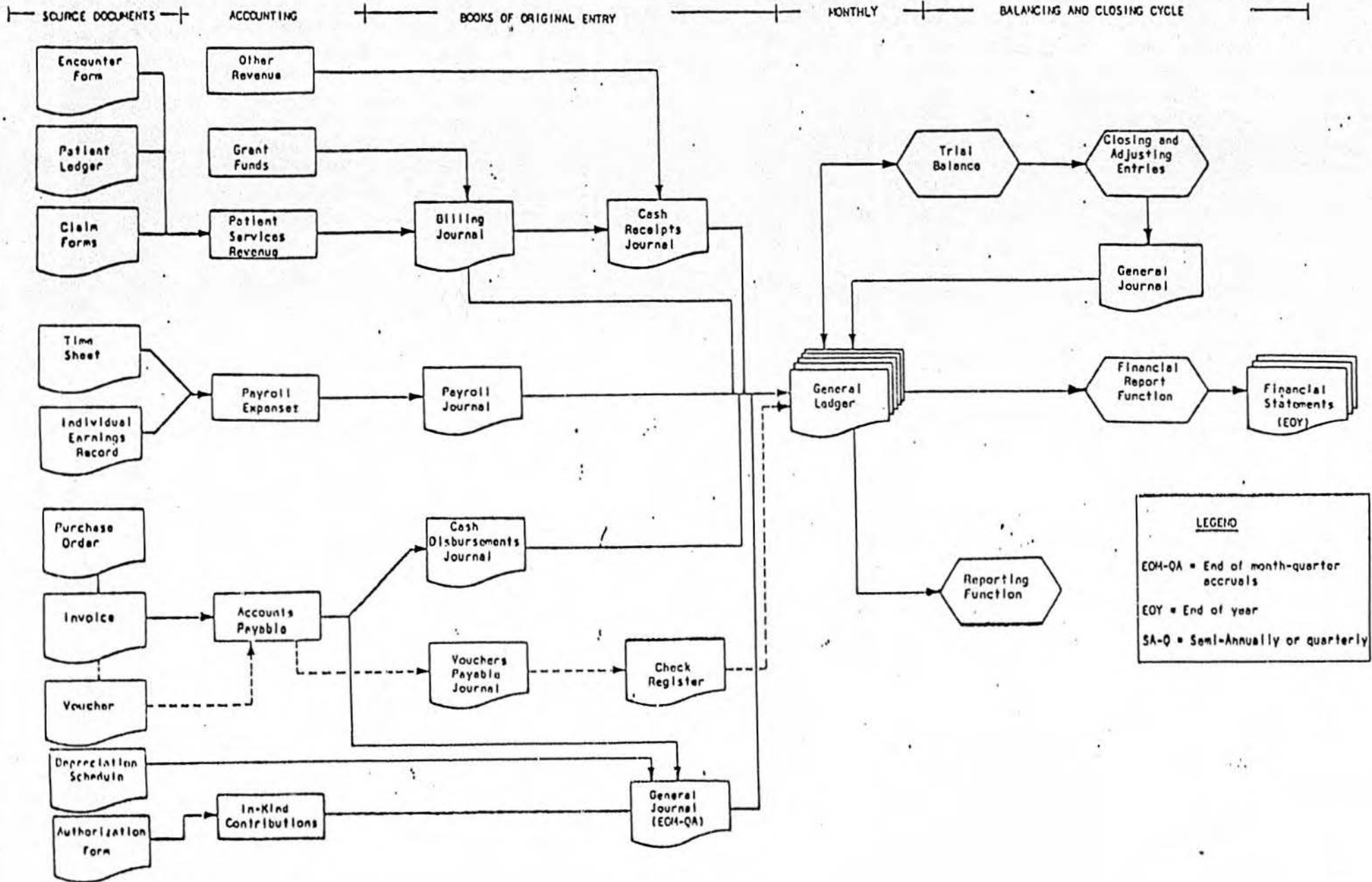
- Major Operative Surgery (*One or More Operating Rooms and a Post-Op Recovery Room*)
- Minor Surgery Only
- Emergency Facilities Only
- No Surgical Facilities on Premises, Arrangement with \_\_\_\_\_
- Other, Explain \_\_\_\_\_

12. Medicare

- Institution Does Not Participate in Medicare
- Applied for Medicare Participation - Date \_\_\_\_\_
- Participates in Medicare
  - a. Provided Number \_\_\_ - \_\_\_ - \_\_\_ - \_\_\_
  - b. Effective Date of Participation \_\_\_\_\_
- Other, Explain \_\_\_\_\_



# ACCOUNTING SYSTEM FLOW



LEGEND

EOM-QA = End of month-quarter accruals  
 EOY = End of year  
 SA-Q = Semi-Annually or quarterly

ATTACHMENT K



*Lawn & Associates*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 1586  
JUNEAU, ALASKA 99802.



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REPORT ON A DEMONSTRATION PROJECT:

A STUDY TO DETERMINE COST COMPONENTS AND DEVELOP  
FEE SCHEDULES (INCLUDING PAYMENT MECHANISMS) IN  
THE FAIRBANKS NATIVE ASSOCIATION'S COMPREHENSIVE  
ALCOHOLISM PROGRAM AND FAIRBANKS  
DRUG TREATMENT CENTER

Prepared for:

Robert L. Cole, Coordinator  
State Office of Alcoholism  
and Drug Abuse  
Department of Health and  
Social Services

Spring 1978

## CONTENTS

- I. INTRODUCTION
- II. COST COMPONENTS FOR THE FAIRBANKS NATIVE ASSOCIATION'S  
COMPREHENSIVE ALCOHOLISM PROGRAM (FNACAP) AND IN THE  
FAIRBANKS DRUG TREATMENT CENTER (FDTC)
- III. FEE SCHEDULES IN THE FNACAP AND FDTC PROGRAMS
- IV. CONCLUSION

## I. INTRODUCTION

This Demonstration Project, commissioned by the State Office of Alcoholism and Drug Abuse (SOADA), was designed to explore the potential for funding alternative sources of revenue (beyond grants) for alcoholism and drug abuse programs in Alaska. This project recognizes the following facts:

1. That alcoholism and drug abuse programs, extensively grant-funded in the past, are facing a leveling off of grant funds for programs. This leveling off means that, in a period of rising costs and increasing demand, alcoholism and drug abuse programs are experiencing a shortfall of the revenues needed to operate their programs at adequate levels.
2. That a major source of revenue, previously ignored, needs to be pursued as an essential and feasible part of paying for alcoholism and drug abuse treatment. That source is the "third party payor," whether private (insurance companies) or "public carriers" (Medicaid, etc.).

With the premise that alcoholism and drug abuse are now accepted as an illness, more and more insurance companies are being

billed for their treatment. There has been considerable resistance to this from these third-party payors. The National Institutes on Alcohol Abuse and Alcoholism (NIAAA) has published excerpts from a study by the National Underwriters group showing that of 278 insurance policies studied, over 80% either exclude or limit payment benefits for alcoholism treatment (NIAAA publication "Alcohol Topics in Brief," Volume 1, Number 2). A study of the insurance coverage available to Alaskans, a companion to this report (Exhibit A) shows the same situation for both alcoholism and drug abuse treatment in Alaska ("A Report on Health Insurance Coverage of Alcoholism and Drug Abuse Treatment in Alaska," Lawn and Associates, Spring 1978).

The rationale for non-coverage of alcoholism and drug abuse treatment ranges from the emotional to the very practical. For example, the emotional reaction: "It can't be cured, so why treat and pay for it" can almost be heard from the executive board rooms of insurance carriers whose business is to "pay for it." The practical resistance is two-fold: 1) standards of practice, utilization (peer) review, certification or licensure of counselors, etc., are just beginning to be defined; 2) fiscal management, budgeting, cost accounting, rate setting, etc., have not been emphasized to respond to the requirements for accounting data to support billings to third party payors. It is the fiscal part of the above that will be addressed in this paper.

With the completion of an outline of a uniform accounting and financial reporting system completed (Exhibit B, Lawn and Associates, Spring 1978), the following questions need answered:

1. Can cost components, by treatment service, be produced from the fiscal records of two typical Alaska programs, one treating alcoholism and one treating drug abuse?
2. Can these programs generate fee schedules (and payment mechanisms) to provide the basis for establishing reimbursement from third-party payors?

II. COST COMPONENTS FOR THE FAIRBANKS NATIVE  
ASSOCIATION'S COMPREHENSIVE ALCOHOLISM PROGRAM  
AND THE FAIRBANKS DRUG TREATMENT CENTER

A. Financial Controls Review

The subject programs were examined for their ability to meet certain standards of financial controls. Those standards are accepted in the general business community and form the basis for the extent of testing that an auditor (generally a Certified Public Accountant (C.P.A.)) would perform in rendering an opinion on the "fairness of presentation" of financial statements issued to third parties. These standards are often called internal controls.

The potential of third-party payment is predicated on acceptance, by those payors, of the competency of the treatment organization to control its operations and to produce high quality care at a reasonable cost. Where third party reimbursement is available, those payors reserve the right, among other rights, to assess the adequacy of the program's fee schedules and the financial reporting system are the elements or characteristics which comprise internal controls. These elements are:

1. The proper functioning of competent personnel, performing duties in an atmosphere where clear lines of authority and responsibility are established;

2. The adequate segregation of duties;
3. The presence of proper procedures for authorizations;
4. The presence of adequate documents and records;
5. The presence of proper procedures for recordkeeping;
6. Physical control over the assets and records; and,
7. Independent checks on performance.

The results, summarized below, are by agency (a complete report on the study is on file with the SOADA):

1. Comprehensive Alcoholism Program: The examination disclosed that the CAP had adequate controls to produce financial reports, unit costing of services, and be able to support fees charged for services. Current personnel appear adequate to supervise the reporting and control systems. One additional coordinating accountant position, mid-level range, will be required to amass and code transactions into a unit of service mode. Also recommended is a financial audit of records and a separate specific program audit. Such program audits should produce a statement of assurance that the chargeability provisions of major third party payors have been reasonably attained, giving due recognition to such items as pre-cost charges and other items funded for future replacement or utilization.

2. The Fairbanks Drug Treatment Center: The examination disclosed that, similar to any small operation, there tends to be a dramatic overlapping of program management, program services delivery, and program accountability and reporting. In this report, we recommend the addition of an independent recording and record keeping entity, although still under the general approval and control of the Program Director. Also recommended is a financial audit and program audit as suggested for the FNACAP.

B. Producing Cost components.

Concurrent with the review of controls discussed in the previous section, the availability of baseline data for unit of service charges was explored. The general results were as anticipated: There is no current reporting on a cost center approach, nor are records directed toward patient flow.

A review of the existing programs can, however, produce information according to these generally acceptable service categories:

1. For Alcoholism Services:
  - Joint Commission on Accreditation of Hospitals (JCAH)
  - a. Emergency care
  - b. Inpatient care
  - c. Intermediate care

- d. Outpatient care
- e. Outreach
- f. Aftercare
- g. Consultation and education
- h. General administration/support services

- 2. For Drug Treatment Services:
  - a. Methadone Program Treatment
  - b. Outpatient Counseling

Since we had available general service categories but no way to produce cost components directly from the accounting records, we decided on the following indirect method, using estimations:

- 1. Using the principles outlined in Exhibit B, an estimate of the distribution of expenses (expired costs) was used to produce the cost components.
- 2. Based on "1", then the services rendered, by cost component, were applied to available statistics on patient services. This produced an interim unit cost for each service.

The results were the cost-findings shown as Exhibits C and D for the FNACAP and FDTC programs respectively.

These analyses (Exhibits C and D), are actually listed as an "interim rate" for the services listed. The fact that they represent both the cost and the rate per service unit is explained in the next section.

### III. ESTABLISHING FEE SCHEDULES IN THE FNACAP AND FDTC PROGRAMS

#### A. Philosophical Considerations in Fee Scheduling

Concurrent with or before establishing cost components, the program assembles data on program requirements above pure accounting cost. Toward this, certain philosophical questions must be addressed. For example:

1. What is to be the position of the program in regards to indigents, especially those marginal indigents who do not fully, or perhaps even partially, have economic means to pay for services. Are they accepted for treatment? Must they be treated under contractual requirements with a funding source, e.g., the Federal Government?
2. "Funded replacement" costs are generally those future costs of constructing or purchasing major assets. Should they be funded in advance (according to a plan) to meet the cash requirements of an asset purchase, or should long-term financing be obtained, with the finance costs included in the rate structure?

3. What offset to costs can be expected of private philanthropy or of grants from government? What special costs are required to maintain these funding sources? Is it worth the money received?
  
4. What is the position of the "good" program in regards to "bad debts" write-offs? How liberal a position on bad debts is acceptable to the program?

Neither the FNACAP nor FDTC programs have addressed these issues (Since philosophical issues are explored in more detail in Exhibit B, they are not discussed further in this section).

#### B. Fee Scheduling for FNACAP and FDTC

Since the subject programs have no defensible adjustment to cost at this time, their cost-finding becomes rate-setting at this point, as noted in Exhibits C and D.

#### C. Other Comments

The analysis of cost-finding and rate setting, while under-developed at FNACAP and FDTC, can offer several insights into the programs:

1. The question can be asked why "Transportation Services" (per trip) are so relatively expensive at FNACAP. Since transportation is not in an emergency vehicle, fully staffed with paramedics, etc., and involving expensive equipment, the figures point out the need for a review of this service. Perhaps the program can provide acceptable contract transportation services at a lower cost.
  
2. At FNACAP, the question can be asked why "Emergency Detoxification" (per day) appears so relatively high cost. Since our review showed that detoxification services were not on the same critical plane as those found in a general hospital setting, perhaps contracting for this service, as an alternative to in-house detox, may prove acceptable to the program and less expensive to the patient.

#### IV. CONCLUSION

This report shows the subject programs as capable of a transition (whole or in part) to free-standing programs capable of managing third-party payment systems. As outlined in Exhibit B, both programs need accounting and financial reporting systems more sophisticated than currently available. Also noted are the necessary philosophical stands to be taken by program management and boards of directors toward setting rates.

Given that the subject programs are representative of alcoholism or drug abuse programs statewide, the various statewide programs should be capable of third-party payment as a source of revenue.

The keys to success are commitment and training.

EXHIBIT A

(SEE INDEX FOR FULL COPY)

*Lamm & Associates*

CERTIFIED PUBLIC ACCOUNTANTS

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JUNEAU, ALASKA 99802



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A REPORT ON HEALTH INSURANCE  
COVERAGE OF ALCOHOLISM AND  
DRUG ABUSE TREATMENT  
IN ALASKA

Prepared for:

Robert L. Cole, Coordinator  
State Office of Alcoholism  
and Drug Abuse  
Department of Health and  
Social Services  
State of Alaska

EXHIBIT B

(SEE INDEX FOR FULL COPY)

*Lawn & Associates*

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AN OUTLINE OF A UNIFORM ACCOUNTING  
AND FINANCIAL REPORTING SYSTEM  
FOR ALCOHOLISM AND/OR  
DRUG ABUSE TREATMENT  
PROGRAMS IN ALASKA

Prepared for:

Robert L. Cole, Coordinator  
State Office of Alcoholism  
and Drug Abuse  
Department of Health and  
Social Services  
State of Alaska

FNA - CAP  
 Interim Rate  
 3/31/78

EXHIBIT C

Prepared By	Date
Approved By	

Form 1057 Blif - Form CSS7 Green

Component / Subcomponent	Basis for Charge	Charge	Comment
Emergency Services:			
Transportation Services	Occasion of Service	\$212	Per trip
Emergency Detox	Patient Days	556	Per Day
Consultation/Education	Occasion of Service	91	Per Visit
Intermediate Care:			
Short Term Facility	Patient Day	30	Per Pat. Da
Long-Term Facility	Patient Day	25	Per Pat. Da
Outpatient Care	Patient Visits	49	Per Visit
Aftercare	Patient Visits	68	Per Visit

FDTG

EXHIBIT D

Interim Rate  
3/31/78

	Initials	Date
Prepared By		
Approved By		

Albermarle  
Form H557 Buff - Form G557 Green

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Component / Subcomponent		Basis for Charge		Charge	Comment
1						
2	Outpatient Care:					
3						
4	Methadone Program:					
5	Medical Diagnosis		Occasion of Service		\$496	Per Diagnosis
6	Methadone Dispensing		Occasion of Service		5	Per Visit
7						
8	Outpatient Counseling		Occasion of Service		48	Per Session
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