REVIEW OF MEDICAL REIMBURSEMENTS AND AUTHORIZATION OF SURGICAL REQUESTS FOR THE OFFICE OF WORKERS’ COMPENSATION PROGRAMS

U.S. Department of Labor
Office of Inspector General
Office of Analysis, Complaints and Evaluations

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# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>2</td>
</tr>
<tr>
<td>I. Purpose</td>
<td>4</td>
</tr>
<tr>
<td>II. Findings</td>
<td>6</td>
</tr>
<tr>
<td>1. Reimbursement of Claimant Out-of-Pocket Medical Expenses</td>
<td>6</td>
</tr>
<tr>
<td>2. OWCP's Timeliness in Processing Surgical Authorizations</td>
<td>9</td>
</tr>
<tr>
<td>III. Conclusions</td>
<td>12</td>
</tr>
<tr>
<td>IV. Recommendation</td>
<td>13</td>
</tr>
<tr>
<td>Appendices</td>
<td></td>
</tr>
<tr>
<td>A. Background</td>
<td>14</td>
</tr>
<tr>
<td>B. Methodology</td>
<td>16</td>
</tr>
<tr>
<td>C. Data Sources Reviewed</td>
<td>18</td>
</tr>
<tr>
<td>D. Agency Response</td>
<td>19</td>
</tr>
<tr>
<td>Acronyms</td>
<td></td>
</tr>
<tr>
<td>CPT Current Procedural Terminology</td>
<td></td>
</tr>
<tr>
<td>FECA Federal Employees Compensation Act</td>
<td></td>
</tr>
<tr>
<td>GAO General Accounting Office</td>
<td></td>
</tr>
<tr>
<td>OIG Office of Inspector General</td>
<td></td>
</tr>
<tr>
<td>OWCP Office of Workers’ Compensation Programs</td>
<td></td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) conducted this review in response to testimony presented at a July 6, 1998, Congressional hearing of the House Government Reform and Oversight Committee, Government Information and Technology Subcommittee that was critical of the Office of Workers’ Compensation Programs’ (OWCP) administration of the Federal Employees’ Compensation Act (FECA). After analyzing the hearing transcript, OWCP’s written response to allegations made by the 19 claimants during that hearing, and relevant OIG and General Accounting Office (GAO) reports, we decided to examine two issues that remained unaddressed -- timeliness of claimant reimbursement for out-of-pocket medical expenses and requests for surgical authorizations.

We found that reimbursement of claimants’ out-of-pocket expenses is not a substantial issue. OWCP data show that reimbursement of claimants represents only 3 percent of all medical bills paid by OWCP. OWCP surpasses the 95 percent 60-day performance standard by paying 96.9 percent of all claimant-submitted bills in 60 days, although it falls somewhat short of the 90 percent standard in 28 days by paying 82.1 percent of claimant-submitted bills within 28 days. However, OWCP told us that in January 1999, they implemented an automated bill review system. They expect this new system to increase the percentage of claimant-submitted bills paid in 28 days.

Pharmacy bills are the largest category of claimant reimbursements. OWCP has implemented an electronic billing system that allows pharmacies to bill OWCP directly, eliminating the need for claimant out-of-pocket expenses. OWCP records show that after only four months, the new system has reduced claimant-submitted pharmacy bills by 10 percentage points.

OWCP deals with two different types of surgeries—emergency and non-emergency. If an employee suffers a traumatic injury at work and requires emergency surgery, the
employing agency is responsible for authorizing the medical treatment within four hours of injury. Our review examined OWCP’s handling of requests for non-emergency surgery.

OWCP has not set a performance standard in this area. Although we contacted many different sources such as the Workers’ Compensation Research Institute and State Workers’ Compensation Programs, we did not find a standard with which to measure OWCP’s performance. We did not find a pattern of delays in the case files we examined. In addition, OIG complaint letters contain few complaints regarding delays in reimbursement and surgical authorizations.

We recommend that OWCP set a performance standard for responding to surgical requests to reduce claimant uncertainty about the process. OWCP’s response might be in the form of a request for additional information, an appointment to see a physician for a second opinion exam or an approval for surgery. Four of OWCP’s twelve district offices already track surgical requests and have set performance standards. The performance standards range from 7 to 10 days.

The following report contains our analysis, findings and recommendation regarding OWCP’s response to claimants’ requests for reimbursement for out-of-pocket medical expenses and surgical authorizations. We provided a draft of this report to OWCP. The agency’s response is found in the body of the report and in its entirety in Appendix D. OWCP did not agree to set a performance standard at this time. We will consider our recommendation resolved once OWCP sets a performance standard for responding to surgical requests.
I. Purpose

This review assesses the timeliness of OWCP’s response to claimants’ requests for out-of-pocket expenses and surgical authorizations. On July 6, 1998, Congressman Stephen Horn of the House Government Reform and Oversight Committee, Government Management Information and Technology Subcommittee held a hearing in Long Beach, California on OWCP’s service to injured employees under the FECA. The purpose of Congressman Horn’s hearing was to find ways to improve the federal employees’ compensation system. Nineteen claimants testified, either on a panel or from the audience. The claimants expressed a wide variety of complaints that pointed to possible anti-claimant bias on the part of OWCP, including difficulties with adjudication of claims, problems communicating with district offices, disputes with employing agencies and delays in reimbursement of claimant out-of-pocket medical expenses and surgical authorizations.

In a July 31, 1998 letter to Chairman Horn, OWCP addressed the agency’s handling of each of the 19 cases. According to OWCP, only two involved delays with surgical authorizations and none related to delays in reimbursing claimant out-of-pocket medical expenses. Of the remaining 17 cases, seven involved delays on the part of OWCP unrelated to reimbursement of claimants and surgical authorizations. The other 10 involved lack of medical evidence, claimant confusion over the process and other issues which were the responsibility of the employing agencies.

Earlier OIG and GAO reports found no evidence of anti-claimant bias in OWCP’s selection and payment of second-opinion physicians or handling of claims. In 1998, the OIG study, Review of FECA Program Administration, examined the OWCP’s acceptance of initial claims for benefits, the termination of benefits and the appeals process administered by the Branch of Hearings and Review. OIG did not find a systemic anti-claimant bias but, to the contrary, found OWCP commitment to improving the quality of service to claimants and ensuring cost-effective administration of the program.

In 1994 the GAO report, Federal Employees’ Compensation Act - Non Evidence That Labor’s Physician Selection Processes Biased Claimants’ Decisions, investigated allegations that OWCP (1) “shopped” for physicians to conduct second-opinion exams and independent medical examinations who would be predisposed against claimants and (2) took longer to reimburse claimants’ physicians than to reimburse physicians selected by OWCP. GAO found no evidence to support either allegation. OWCP’s process for selecting physicians provided a reasonable level of certainty that the physicians were selected in an unbiased manner. While GAO did not distinguish between payments made directly
to providers and reimbursements to claimants, GAO found that OWCP was meeting its overall bill payment performance standards.

After analyzing the hearing transcript, OWCP’s written response to allegations made by the 19 claimants during that hearing, and the OIG and GAO reports, we identified two issues that remained unaddressed—timeliness of claimant reimbursement for out-of-pocket medical expenses and requests for surgical authorizations.

Accordingly, the objective of this review was to determine whether OWCP was responding in a timely manner to claimants’ requests for:

- Reimbursement for out-of-pocket expenses and
- Surgical authorizations.

Our review was conducted in accordance with the Quality Standards for Inspections published by the President’s Council on Integrity and Efficiency.
II. Findings

1. Reimbursement of Claimant Out-of-Pocket Medical Expenses

As Figure 1 shows, claimant-submitted bills are only 3 percent of the 2,817,021 bills OWCP paid in fiscal year 1998.

Figure 1: Provider-Submitted vs Claimant-Submitted Bills

We found that OWCP surpasses the 95 percent 60-day performance standard by paying 96.9 percent of all claimant-submitted bills in 60 days, but falls somewhat short of the 90 percent standard for 28 days by paying 82.1 percent of claimant-submitted bills within 28 days. However, OWCP told us that in January 1999, they

\[\text{\textsuperscript{1}}\]

\[^{1}\text{At the time of this report, the agency was unable to retrieve dollar amounts to correspond with these percentages.}\]
implemented an automated bill review system. Prior to this new system, OWCP had to manually review each bill. OWCP expects this new system to shorten the time for processing bills and therefore increase the percentage of claimant-submitted bills paid in 28 days. Furthermore, an electronic billing system OWCP has put in place is expected to reduce the overall percentage of claimant-submitted bills.

As Figure 2 illustrates, pharmacy bills are 88 percent of all claimant-submitted bills, physician bills are 10 percent and outpatient bills are less than 1 percent.

Figure 2: Categories of Claimant-Submitted Bills

We found that for July 1, 1997, through July 14, 1998, OWCP exceeded the 60 day standard by paying 97 percent claimant-submitted pharmacy bills in 60 days and came very close to the 28 day standard by paying 83 percent in 28 days. In fiscal year 1998, OWCP did not meet performance standards in either claimant-submitted physician bills or claimant-submitted outpatient bills. Although pharmacy
bills are by far the largest category of claimant-submitted bills that OWCP reimburses, they represent only 2 percent of all medical services paid for by OWCP. The remaining two categories -- claimant-submitted physician bills and claimant-submitted outpatient bills -- are only .2 percent and .02 percent respectively of all medical services paid for by OWCP.

In an effort to reduce claimant-submitted bills, OWCP implemented an electronic billing system for pharmacy bills -- the bulk of all claimant-submitted bills -- in July, 1998. The system allows participating pharmacies to bill OWCP directly, thus eliminating the need for claimants to pay pharmacy bills out-of-pocket and request reimbursement from OWCP.

The year before the electronic billing system was implemented, claimant-submitted bills were 22 percent of the total pharmacy bills. Four months after the electronic billing system was in place, the percentage dropped to 12 percent. OWCP provides lists of participating pharmacies to district offices and posts them on the internet. OWCP’s efforts to reduce claimant-submitted bills appear to be on the right track and are showing early success.

Also, in August 1997, OWCP introduced a Claimant Medical Reimbursement Form. This form tells claimants what documentation OWCP requires to reimburse out-of-pocket medical expenses. By completing the form, a claimant greatly reduces the possibility of OWCP returning their bill to request additional information, thus reducing delays in claimant reimbursement.

OWCP is working on several other technological innovations to further streamline the bill payment process. OWCP plans to have the new computer system in place by July 2001. Where feasible, the new system will use imaging and electronic capture of data, instead of manual data entry. This will allow OWCP to establish more electronic billing programs like the one currently in place for pharmacies.

OWCP is also in the process of imaging all its case files and medical bill batches. Bill batch imaging gives claims examiners quicker access to specific bills. Instead of searching for the paper copy, the staff will be able to quickly access an electronic copy. OWCP expects this innovation to improve the timeliness of their responses to claimants’ needs.

2. OWCP’s Timeliness in Processing Surgical Authorizations
OWCP does not keep a record of the number of surgical authorizations denied. We contacted a wide range of sources such as the Workers’ Compensation Research Institute and State Workers’ Compensation Offices; however, we found no standard against which to benchmark OWCP’s performance.

Some OWCP district offices attempt to track the time between request and authorization manually. For example, the New York district office has dedicated a fax line to receiving medical authorization requests. Their goal is to respond in one week whenever possible. In Cleveland, each claims examiner maintains a log of incoming correspondence that includes surgical authorization requests. The claims examiners try to respond to the request within 10 working days of its receipt.

Tracking systems are left to the discretion of the district offices because OWCP’s current computer system is not capable of tracking this information. However, OWCP’s national management told us that they have directed each district office to develop a way to track telephone medical authorization requests, which includes requests for surgical authorizations. OWCP states that all district offices are currently conducting tracking of telephone requests for medical authorizations and are reporting on a quarterly basis to the national OWCP office.

In order to get an idea of OWCP’s timeliness in processing surgical authorizations, we measured the elapsed time between OWCP’s receipt of a request for surgical authorization and OWCP’s approval in 69 Philadelphia case files. We also noted the number of Congressional inquiries in an effort to determine whether there were patterns of delays in responding to these inquiries. In addition we reviewed OWCP claimant complaint letters received by the OIG.

Elapsed Time
Our random sample of 69 cases drawn from the Philadelphia case files included three high frequency surgical procedures: (1) arthroscopic knee surgery, (2) rotator cuff repair and (3) herniated disk repair. We measured the elapsed time between the surgical authorization request and OWCP’s authorization.

Although the overall range for processing surgical authorization requests was 0 to 354 days, ninety-three percent of the cases fell within the range of 0 to 85 days. Leaving the five atypical cases (354, 326, 225, 124, and 102 days) out of our calculations, we found that on average, OWCP processed surgical requests in 26 days, with the median (mid-point) being 17 days and the mode (most frequent

\[ \text{\textsuperscript{2}} \text{OWCP does not keep a record of the number of surgical authorizations denied.} \]
value), which occurred 5 times, 7 days. The range shows what program officials told us -- that the time it takes OWCP to process a surgical request varies greatly depending on the case.

**Congressional Inquiries**

Our sample from the 69 Philadelphia case files included three files containing Congressional correspondence. Each case was unique and did not appear to be part of a pattern of delays on the part of OWCP.

1. On May 6, 1998, the Philadelphia District Office received a fax from Congressman Joseph M. McDade’s office inquiring about the status of a claim. Congressman McDade was particularly concerned about delays in authorizing surgery and reimbursing pharmacy bills. The District Office responded to the fax with a May 20th letter from the District Director. The Director stated that the office had received the claims for reimbursement and the claimant should expect payment in approximately two weeks. The office never received a request for authorization of surgery.

Based on the case file, it appears that the claimant’s doctor sent the letter requesting surgery to the claimant’s employer, the U.S. Postal Service, on April 23. The Postal Service received the letter on April 29, but failed to forward it to the OWCP District office. After the District Office received the surgery request on June 9, it authorized the surgery on June 15.

2. On May 11, 1998, the Philadelphia District Office received a letter from Congressman Bud Shuster inquiring about the status of a claim. OWCP replied in a May 21 letter stating that the claim had been approved and the claimant had been informed of this by letter. OWCP received the claimant’s request for authorization on March 27, 1998. A letter to the claimant appears in the file. The letter is not dated, but its placement in the file suggests that it was sent prior to the May 11th Congressional inquiry.

3. On April 8, 1997, the Philadelphia District Office received a letter from Congressman Bud Shuster requesting information about a claim. The claimant injured his knee on July 9, 1996. The claimant waited for approval, but OWCP did not receive his claim until January 16, 1997.

The District Office responded to Congressman Shuster in a letter dated April 18, 1997. The letter explained that on January 30, 1997, OWCP sent the claimant a letter informing him that the information accompanying his claim was not sufficient
for OWCP to determine eligibility for FECA benefits. The claimant sent additional
information on February 26, 1997. OWCP approved the claim and surgery on April
11, 1997, and sent a letter informing the claimant.

**OIG Data**
Currently, claimant complaints regarding delays in reimbursement and surgical
authorizations are infrequent. Our analysis of fiscal year 1998 OIG complaint letters
shows 64 letters concerning OWCP. Of the 64 letters, 7 involved complaints about
reimbursements and/or surgical authorizations. The 7 letters contained 4
complaints about medical reimbursements and 5 about delays in processing
surgical authorizations.
III. Conclusions

We found that the timeliness of OWCP’s reimbursement to claimants for out-of-pocket medical expenses is not a substantial issue. OWCP data show that claimant-submitted bills are only 3 percent of the total number of medical services paid for by OWCP. Overall, bills are paid in a timely manner and, furthermore, OWCP has implemented an electronic billing system for pharmacy bills, which in only four months has reduced the number of claimant-submitted bills by 10 percentage points.

OWCP has not set a performance standard for responding to requests for surgical authorizations. Although our review of 69 Philadelphia case files did not reveal a pattern of delay and claimant letters received by the OIG indicate that claimant complaints regarding delays in surgical authorizations are infrequent, we recommend that OWCP set a performance standard for responding to requests for surgical authorizations.
IV. Recommendation

We recommend that OWCP set a performance standard for responding to surgical requests. OWCP’s response might be in the form of a request for additional information, an appointment to see a physician for a second opinion exam or an approval for surgery. Four of OWCP’s twelve district offices already track surgical requests and have set performance standards. The performance standards range from 7 to 10 days.

During the hearings claimants expressed confusion over OWCP’s processing of claims and surgical requests. Setting a performance standard for responding to surgical authorizations would not only enable OWCP to determine district offices’ timeliness in this area, but may also eliminate a great deal of claimant uncertainty.

OWCP Response
“OWCP plans to review its practices in responding to surgery requests given the recommendation of your study and your emphasis on identifying more precisely where and how to focus our efforts at improving customer service. However, there are several reasons that we cannot establish a performance standard at this time.”

OIG Conclusion
On the basis of this response, we do not consider this recommendation resolved.

Major Contributors to this Report:

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Appendix A

Background

The FECA [5 USC 8103(a)] requires that any civilian employee of the United States who is injured while in the performance of duty, be provided with the medical services and supplies needed to treat the injury. The rules governing reimbursements, surgical authorizations, and timeliness follow.

Reimbursements
OWCP recognizes two types of reimbursements: provider-submitted and claimant-submitted. Medical providers can directly bill OWCP for their services (provider-submitted) or a claimant can pay for medical services out of his own pocket and request reimbursement from OWCP (claimant-submitted). This study focuses on claimant-submitted reimbursements. Claimant-submitted bills fall into three categories: outpatient, physician and pharmacy.

To be reimbursed, a claimant must submit (1) a copy of an itemized standard billing form (HCFA-1500, UB-92 or for pharmacies, the Universal Billing Form) which provides the tax identification number of the vendor as well as each line item paid and (2) a copy of a canceled check or proof of payment.

Surgical Authorizations
The FECA procedures manual states that in order to ensure payment, a claimant must obtain prior authorization for surgery whenever possible. A physician must request the surgery and provide medical evidence to show its necessity. However, if an employee suffers a traumatic injury at work and requires emergency surgery, the employing agency is responsible for authorizing the medical treatment within four hours of injury by issuing a CA-16 form. The CA-16 guarantees the payment of medical treatment up to 60 days after the injury unless OWCP withdraws authorization in writing.

The time OWCP takes to authorize non-emergency cases varies depending on the complexity of the condition. For example, before OWCP will authorize back surgery, the claimant must obtain a second opinion or a consultant’s review of the medical evidence. The FECA procedures manual states that an in-house review by a consultant should occur within 21 days of receipt of the request for surgery, and any second opinion examination required should be accomplished within 40 days. On the other hand, OWCP does not require second opinion exams or a consultant’s review
for injuries such as carpal tunnel surgery. A claims examiners may be able to authorize the surgery based on the information already contained in the case file.

According to OWCP officials, many of the factors contributing to the length of processing time are beyond OWCP’s control. For example, OWCP may need additional medical information from the physician or a claimant may postpone an appointment for a second opinion. The claims examiner may request additional information regarding how the injury occurred to ascertain that the surgery is necessary and concerns a work-related injury.

Timeliness
The OWCP Operational Plan includes a Timeliness Performance Measure for processing (paying or denying) medical bills -- 90 percent are to be processed in 28 days and 95 percent in 60 days. However, OWCP does not have a timeliness standard for processing requests for surgical authorizations. OWCP officials told us that it is difficult to set a performance standard for processing surgical authorizations because the time it takes to authorize a procedure varies depending on the type of case. We contacted multiple sources such as the Workers’ Compensation Research Institute and State Workers’ Compensation Programs, but did not find a standard with which to measure OWCP’s performance.
Appendix B

Methodology

To gather background information, we examined two pertinent previous studies—OIG’s 1998 study, *Review of FECA Program Administration* and the 1994 GAO report, *Federal Employees’ Compensation Act - Non Evidence That Labor’s Physician Selection Processes Biased Claimants’ Decisions*. We then began our current review. We started with the examination of OWCP’s performance in reimbursing claimants. Subsequently, we reviewed agency performance in processing surgical authorization requests. Table 1 of Appendix C lists the data sources we reviewed.

To determine OWCP’s performance in reimbursing claimants for out-of-pocket medical expenses, we conducted interviews with OWCP senior management and obtained OWCP bill payment data. We did not verify the statistical data obtained from OWCP’s bill payment system. According to an OWCP official, OWCP defines a bill as a service or prescription and most claimant reimbursement requests involve a single bill. Outpatient and physician bill data include outpatient and physician bills paid from October 1, 1997 to September 30, 1998. Pharmacy bill data include pharmacy bills paid from July 1, 1997 to July 14, 1998. The three month difference in reporting periods is so small as to not be material to our review. The two sets of data give an informative picture of OWCP’s bill payment performance. In addition we analyzed complaint letters regarding delays in reimbursement and authorization for surgery sent to the OIG in fiscal year 1998 (October 1, 1997 through September 30, 1998).

To study OWCP’s performance in processing surgical authorizations, OWCP furnished summaries of administrative practices in district offices. To gain further insight into the details of processing surgical authorizations, we visited the Philadelphia district office and examined a random sample of case files. We selected the Philadelphia District Office because OWCP data showed its performance was in the average range among OWCP district offices.

To develop the random sample, we first reviewed a list of surgical procedures commonly billed under FECA. OWCP created a list of frequently billed Physician’ Current Procedural Terminology (CPT) codes by extrapolating from bills paid for the last quarter of fiscal year 1998. Using the CPT codes billed, we were able to identify the procedures represented by the codes and determined the most frequently billed procedures.
Two of the most frequent codes were carpal tunnel surgery and epidurals. However, we decided not to look at carpal tunnel and epidurals because neither procedure always requires a specific authorization. We chose shoulder, knee and back surgery as these procedures always require authorizations, are common and less likely to be an emergency procedure necessitating an emergency authorization. Specifically, we looked at rotator cuff repair (CPT # 23420), knee arthroscopy (CPT # 29881) and herniated disk repair (CPT # 63030). We included herniated disk repair because it represented a case that required a second-opinion exam before authorization. This requirement indicates that OWCP would take longer to authorize this procedure. We determined that these codes would provide an adequate sample to measure the number of days it takes OWCP to authorize a requested surgery.

After determining which codes we would review, we used a stratified random sampling for attributes method to select cases allocated proportionally among the three codes. This sampling method yielded 74 cases for review.

During our visit to Philadelphia we reviewed 69 case files and gathered information on selected variables including those related to identified time-frames. Five of the 74 cases we selected were not at the Philadelphia office at the time of our review. More specifically, the variables we recorded included the type of procedure and number of days between the date of request and the date of authorization.
Appendix C

Table 1
Data Sources Reviewed

Transcript of Proceedings held before Chairman Horne, July 6, 1998 in California. Reported by Bill Warren for York Stenographic Services, York, PA.

July 31, 1998 OWCP’s Response to Claimant Testimony

OWCP Bill Payment Data

- Pharmacy bills (7/1/97 - 12/15/98)
- Physician bills (Fiscal Year 1998)
- Outpatient bills (Fiscal Year 1998)

OIG Complaint Letters (Fiscal Year 1998 - January Fiscal Year 1999)

Philadelphia District Office Case Records
Appendix D

Agency Response
May 17, 1999

MEMORANDUM FOR:  AMY FRIEDLANDER
OIG

FROM:  SHELBY HALLMARK
OWCP

SUBJECT:  OIG Report No. 2E-04-431-0001

You requested our review of the draft report dated May 14 and whether OWCP is prepared to implement your recommendation for a performance standard on surgical requests. OWCP plans to review its practices in responding to surgery requests given the recommendation of your study and our emphasis on identifying more precisely where and how to focus our efforts at improving customer service. However, there are several reasons that we cannot establish a performance standard at this time.

OWCP has set numerous performance standards over the years, and has an excellent track record of managing performance to ensure that these exacting standards are met. Following the tenets of the GPRA, we believe that goals and measures should be established for those aspects of our work which are critical to our mission and which relate to areas needing real improvement.

We agree that it is essential that surgical requests be handled timely. In fact, your report indicates that it did not find a pattern of delay in the handling of these requests. Performance standards are currently in place for responses to telephone and written inquiries. Sampling in these areas, as well as automated telephone tracking systems, reveal that we are meeting these standards. To determine whether or in what areas there may be problems which warrant a new standard, in early 1999, the office began tracking telephone requests for medical authorizations and percentage of responses within three days. Once this information has been collected for a period of time, we will analyze the data and consider the need for an additional standard.

Secondly, your report notes the varied appropriate actions that can be taken on a surgical request. Depending on the specific surgery request, appropriate response can be immediate. Infrequently, it may take several months while additional examinations are being requested and performed. A standard set at a low number of days does not acknowledge those cases that appropriately require several additional actions before a decision. A standard set at a high number of days does not adequately serve those with surgeries that do not require additional review or information. A standard set at the median minimizes both situations.
Finally, it must be noted that tracking such information to the degree of precision required for a standard would be very difficult in our current ADP system. For this reason, the tracking of authorizations we recently mandated is being accomplished on a mainly manual basis. While we may determine that a standard should be set for some (or all) medical procedure requests, it may be very difficult to track performance against such a standard until our system redesign is completed in FY 2001. Simply setting a performance standard in this area may serve to allay claimant confusion, but OWCP has found that accurate and reliable measurement is essential to genuine performance improvement.