INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

REPORT
NO. 91-019

December 14, 1990

MEMORANDUM FOR COMMANDER, U.S. ARMY MEDICAL DEPARTMENT ACTIVITY, IRELAND ARMY COMMUNITY HOSPITAL, FORT KNOX, KENTUCKY

SUBJECT: Final Report on the Fiscal Year 1989 Evaluation of the Alternate Use of CHAMPUS Funds at the U.S. Army Medical Department Activity, Ireland Army Community Hospital, Fort Knox, Kentucky

Introduction

This is our final report on the audit of the FY 1989 Evaluation of the Alternate Use of CHAMPUS Funds at the U.S. Army Medical Department Activity, Ireland Army Community Hospital, Fort Knox, Kentucky (Ireland Army Community Hospital). The overall objective of our audit was to evaluate whether the medical test projects initiated by the Ireland Army Community Hospital would, if implemented, reduce the costs of the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). We also evaluated applicable internal controls established to identify, document, and monitor costs of the medical test projects.

The audit was made from October 1989 through April 1990 at the direction of Congress. We visited the Assistant Secretary of Defense (Health Affairs), the Comptroller of the Army, and the Army Health Services Command to monitor the status of the test projects. The audit covered operations of the medical test projects from March through September 1989. A representative from the Office of the Assistant Secretary of Defense (Health Affairs) assisted the DoD, IG audit team in monitoring the five projects and in performing this audit.

Discussion

The audit determined that two of the five medical test projects proposed by the Ireland Army Community Hospital were not implemented and that projected reductions of $1.3 million in CHAMPUS costs for all five projects would not be realized. Proposed savings for these two projects, psychiatric services and residential rehabilitation facilities, were about $956,000. The Army Health Services Command canceled the projects because bids from potential providers were higher than expected.

For a third project, nuclear medicine services, we could not verify the proposed savings of $40,853 because cost data were based on rates of terminated contracts rather than on actual contract costs. In addition, we could not verify the reduction of $355,039 in CHAMPUS costs that the hospital stated would be realized from implementing the two remaining test projects, gynecological services and high-risk obstetrical testing.

We also determined that internal controls needed improvement to ensure that project costs were properly identified and monitored; however, we identified no material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38.

Scope of Audit

The audit included an evaluation of accounting records, management reports, workload data, and statistics supporting the gynecological services and high-risk obstetrical testing projects. We held discussions with the hospital commander, base contracting and resource management officials, and project personnel at Ireland Army Community Hospital. We evaluated operating costs for gynecological services and high-risk obstetrical testing for March through September 1989.

This performance audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary.

Background

CHAMPUS is a DoD program that pays health benefits to all active duty members' dependents, retirees and their dependents, and survivors of deceased members of the uniformed services. Active duty members and Medicare eligibles are not covered by CHAMPUS. CHAMPUS benefits parallel those available under other major health care plans and include inpatient health services, physician and hospital charges, medical supplies, and mental health services.

Since 1985, CHAMPUS costs and work load have grown rapidly. Military medical treatment facilities (MTF's) have reduced the services they provide; as a result, eligible persons have obtained more commercial medical care paid by CHAMPUS. To decrease CHAMPUS costs and improve care in MTF's, Congress authorized the Services in 1988 to use appropriated funds for other than CHAMPUS claims. These funds were authorized for

innovative health care projects to provide in-house medical care to CHAMPUS eligibles at lower cost than commercial health care providers. Each Service was authorized to use up to $50 million in CHAMPUS funds for test projects.

In September 1988, the Office of the Assistant Secretary of Defense (Health Affairs) proposed to Congress its plan for the alternate use of CHAMPUS funds. The proposal contained two review mechanisms: a quarterly reporting requirement for the Services and visits to selected project sites. The Inspector General, DoD was included as a full partner in the monitoring process with primary responsibility for fiscal and workload auditing of the test projects. On November 10, 1988, the Office of the Assistant Secretary of Defense (Health Affairs) issued the Alternate Use of CHAMPUS Funds Test Implementation Plan to the Services.

The Ireland Army Community Hospital proposed, and the Office of the Assistant Secretary of Defense (Health Affairs) approved, five medical test projects for the CHAMPUS-eligible population in the Fort Knox, Kentucky, area. It was estimated that when these five projects were implemented, CHAMPUS costs would be reduced by $1.3 million. The Ireland Army Community Hospital was authorized to use $577,000 in CHAMPUS funds for these projects; however, before the end of FY 1989, the Army canceled two test projects, withdrew $423,000, and funded the three ongoing projects at $154,000.

The medical test projects for psychiatric services and residential rehabilitation services were canceled by the Army Health Services Command on July 21, 1989, because bids for the proposed contracts were higher than expected. The psychiatric services test project was expected to recapture about 184 psychiatric admissions and 3,519 mental health outpatient visits by hiring additional staff and expanding existing psychiatric services. The residential rehabilitation test project was to establish an in-house capability to provide alcohol and drug abuse rehabilitation for CHAMPUS-eligible patients.

The third test project, which was funded for $56,000, was to provide nuclear medicine services. The project required one nuclear medicine physician and a technician to perform approximately 1,854 diagnostic nuclear images (pictures of the problem area) and 15,260 radioimmunoassay laboratory procedures (nuclear blood tests). Annual savings of $40,853 were estimated for this project. We did not verify the proposed savings because the costs were based on a contract that had been terminated for the Government's convenience rather than on actual costs under the nuclear medicine contract that was current during our audit.

Audit Verification

We evaluated the two remaining medical test projects, gynecological services and high-risk obstetrical testing. These projects began in March and May 1989, respectively, to recapture patient admissions and outpatient visits for medical care that would otherwise go to civilian hospitals at CHAMPUS expense. It was estimated that when fully operational, these two projects would recapture CHAMPUS costs of about $614,670 per year in admissions and outpatient visits. Estimated costs to operate these projects were $259,631, for an estimated CHAMPUS savings of $355,039.

The gynecological services project was to establish a local contract to expand inpatient and outpatient services. The project was based on contracting for one full-time civilian gynecologist. The project was expected to recapture 62 inpatient admissions and 316 outpatient visits.

Project costs of $94,928 for contracted services, nursing personnel, and supplies were verified; however, other costs, such as linens, laboratory, and X-ray support, were not accounted for. Project savings could not be validated for the 6 months ended September 30, 1989, because other costs associated with the project were not identified.

Under the high-risk obstetrical testing project, the Army would contract to analyze amniotic fetal fluid and identify obstetrical patients over age 35 who could safely receive care in a military hospital. Previously, all mature obstetrical patients were designated high-risk and given a nonavailability statement to obtain care from civilian sources. Payment was made by CHAMPUS and included amounts for maternity care and hospitalization. This project was expected to recapture 72 patient admissions and reduce CHAMPUS costs by about $191,808 per year.

Project costs of $3,079 were verified; however, savings could not be validated for the 5 months ended September 30, 1989, because other costs associated with maternity and hospital care were not identifed and included with the cost of testing.

For both medical test projects, gynecological services and obstetrical testing, associated costs could not be verified. Responsible project personnel at Ireland Army Community Hospital informed us that they misinterpreted the Alternate Use of Funds Test Implementation Plan issued in November 1988 because the guidance was not clear.

We were advised by the representative from the Office of the Assistant Secretary of Defense (Health Affairs) that a Project Management Guide was being developed to assist the MTF's in refining project management controls. Refined controls are necessary to accurately identify patient workload and to determine the costs of each approved medical test project operating in FY 1990.

Prior Audit Coverage

This project was begun in FY 1989; therefore, no prior audit coverage had been accomplished.

We provided a draft of this report to the addressees on October 4, 1990. Because there were no recommendations, no comments were required from management, and none were received. Therefore, we are providing this report in final form.

Copies of this final report are being distributed to the activities listed at Enclosure 1. The courtesies extended to the audit staff (listed at Enclosure 2) are appreciated. If you have any questions about this audit, please contact Mr. James G. McGuire, Program Director, at (804) 766-9108 or Mr. Michael F. Yourey, Project Manager, at (804) 766-3268.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Comptroller of the Department of Defense
Assistant Secretary of Defense (Health Affairs)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Office of the Surgeon General, U.S. Army
Headquarters, U.S. Army Health Services Command
Commander, U.S. Army Medical Department Activity, Ireland Army Community Hospital

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office,
NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

AUDIT TEAM MEMBERS

Nancy L. Butler, Director, Financial Management Directorate
James G. McGuire, Program Director, Health and Human Resources Management
Michael F. Yourey, Project Manager
Robert J. Hanlon, Team Leader
Danny O. Hatten, Auditor
Fred W. Rossbach, Auditor
Susanne B. Allen, Editor