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

REPORT
NO. 91-020

December 14, 1990

MEMORANDUM FOR COMMANDER, DWIGHT DAVID EISENHOWER ARMY MEDICAL CENTER, FORT GORDON, GA

SUBJECT: Final Report on the Fiscal Year 1989 Evaluation of the Alternate Use of CHAMPUS Funds at the Dwight David Eisenhower Army Medical Center, Fort Gordon, Georgia

Introduction

This is our final report on the audit of the FY 1989 Evaluation of the Alternate Use of CHAMPUS Funds at the Dwight David Eisenhower Army Medical Center (the Center), Fort Gordon, Georgia. The overall objective of the audit was to evaluate whether the coronary care medical test project initiated by the Center would, if implemented, reduce 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 proposed medical project.

The audit was made from September 1989 to 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 project. The audit covered the project's operations from January 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 coronary care medical test project and in performing this audit.

Discussion

The audit determined that the estimated reduction of $1.6 million in CHAMPUS costs was reasonable and could be realized by implementing all phases of the coronary care medical test project at the Center. Also, internal controls established at the Center were adequate to ensure that project costs were identified and properly monitored. The audit disclosed 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 coronary care medical test project. Discussions were held with resource and project management personnel at the Center. We verified CHAMPUS cost reductions of $21,635 based on 230 coronary care unit admissions between January and 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 health benefits payment program for all active duty 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. 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, DoD has experienced an accelerated growth in CHAMPUS costs and work load. 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 purposes other than payment of 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 of CHAMPUS funds on 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 the fiscal and workload auditing of the 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 Center proposed the coronary care medical test project for the CHAMPUS-eligible population in the Fort Gordon, Georgia, area and for referrals from other military hospitals. The project began in January 1989 to recapture coronary cases that would otherwise go to civilian hospitals at CHAMPUS expense. The project implementation plan called for three phases of progressively more complex coronary procedures. Phase I established the coronary care unit, Phase II provided the capability for open-heart surgery, and Phase III provided the capability for angioplasty (a technique for replacing or repairing damaged blood vessels). The proposal stated that the coronary care medical test project would recapture 271 patient admissions annually, including 121 coronary care patients, 100 open-heart surgery patients, and 50 angioplasty patients. Using the estimated diagnosis-related group (DRG) average rate of $10,200 for coronary care admissions, the coronary care medical test project, when fully operational, would recapture $2.8 million of CHAMPUS costs per year. The estimated cost to fully operate the coronary medical test project at the Center was $1.2 million, and estimated CHAMPUS savings would be $1.6 million. Several hospitals in the Eisenhower Health Services Region had previously provided coronary services, and the proposal included statistics from these hospitals. Investment costs included contract personnel, minor construction, nonexpendable equipment, and expendable supplies. Civilian surgeons would perform open-heart surgery, and CHAMPUS would pay their fees under the partnership program.

After project approval by the Office of the Assistant Secretary of Defense (Health Affairs), the Center was authorized to use $619,000 of CHAMPUS funds for its coronary care medical test project. Before the end of FY 1989, the Army withdrew $24,000 and funded the project at $595,000.

Audit Verification

Our evaluation included an analysis of the average DRG rates for coronary care admissions and discussions with personnel at Blue Cross/Blue Shield of South Carolina about related charges for the types of coronary care services performed. All costs of the coronary care medical test project were fairly represented in estimating the proposed $1.6 million savings. The proposed savings were reasonable and could be realized by fully implementing all phases of the project.

In FY 1989, the coronary care unit was operational for only 9 months. During this period, 228 patients were admitted to the coronary care unit (Phase I) and 2 open-heart surgeries were performed (Phase II). Phase III was not implemented. Operating the coronary care unit for the 9-month period and performing the two surgeries cost $595,405, including civilian pay, services

provided on contract, supplies, and equipment. We verified these costs and estimated that the CHAMPUS costs would have been $617,040 if these 230 patients had obtained cardiological care from commercial health care providers. The recaptured costs were based on the DRG rates that CHAMPUS paid to local hospitals for equivalent care during FY 1989. Operating costs were $21,653 less than recaptured costs.

Although the proposal estimated 121 patient admissions under Phase I, we determined that the increased number of admissions to date did not contribute significantly to savings because these admissions resulted in a low rate of savings. The proposal stated that the project would recapture 271 coronary care patient admissions (121 in Phase I, 100 in Phase II, and 50 in Phase III); however, the project was not fully implemented. As a result, 98 open-heart surgeries and 50 angioplasties had not been performed. When fully implemented, the project would result in savings of at least $1.6 million after applying the remaining investment costs of $557,000. These calculations are based on performing the projected number of open-heart surgeries (at an average DRG rate of $18,719 each) and angioplasties (at an average DRG rate of $10,341 each). We were told that the project became fully operational on May 1, 1990.

Project office personnel at the Center aggressively managed the project and effectively applied internal controls to ensure that the project generated savings to CHAMPUS. Accounting records and supporting documentation were maintained to facilitate the audit verification process.

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 1, 1990. Because there were no recommendations, no comments were required from management, and none were received. Therefore, we are publishing 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 McGuire, Program Director, at (804) 766-9108 or Mr. Michael 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, United States Army Health Services Command
Commander, Dwight David Eisenhower Army Medical Center

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