INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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REPORT
NO. 91-051

February 25, 1991

MEMORANDUM FOR COMMANDER, U.S. AIR FORCE SYSTEMS COMMAND REGIONAL HOSPITAL EGLIN, EGLIN AIR FORCE BASE, FLORIDA

SUBJECT: Report on the Fiscal Year 1989 Evaluation of the Alternate Use of CHAMPUS Funds at the U.S. Air Force Systems Command Regional Hospital Eglin (Project No. 0FC-0002.03)

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. Air Force Systems Command Regional Hospital Eglin (the Regional Hospital), Eglin Air Force Base, Florida. The overall objective of the audit was to determine whether the surgery project initiated by the Regional 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 proposed surgery project.

The audit was made from September 1989 through April 1990 at the direction of Congress. We visited the Assistant Secretary of Defense (Health Affairs), the Assistant Secretary of the Air Force (Financial Management and Comptroller), and the Air Force Systems Command to monitor the status of the surgery project. The audit covered the project's operations from June through September 1989. A representative from the Office of the Assistant Secretary of Defense (Health Affairs) assisted the audit team in monitoring the surgery project and in performing this audit.

Discussion

The audit determined that the surgery project reduced CHAMPUS costs by $427,627 for the 4 months of its operation. We also determined that the proposed annual savings of $1.3 million were reasonable. In addition, about $105,000 of CHAMPUS funds intended for alternate use projects had been used instead for routine operations and maintenance of the Regional Hospital. Internal controls at the Regional Hospital 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 surgery project. We held discussions with the hospital commander and with resource management and project personnel at the Regional Hospital. We verified a CHAMPUS cost reduction of $427,627, based on 282 surgical procedures performed at the Regional Hospital between June 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 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 service 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, CHAMPUS costs and work load have grown rapidly. 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 cut CHAMPUS costs and improve care in MTF's, Congress authorized the Military Departments 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 Military Department was authorized to use up to $50 million in CHAMPUS funds on test projects.

In September 1988, the Assistant Secretary of Defense (Health Affairs) proposed to Congress a plan for the alternate use of CHAMPUS funds. The proposal contained two review mechanisms: the Military Departments would have to submit quarterly status reports to the Assistant Secretary of Defense (Health Affairs), and a DoD monitoring team would visit 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

projects. On November 10, 1988, the Assistant Secretary of Defense (Health Affairs) issued the Alternate Use of CHAMPUS Funds Test Implementation Plan to the Military Departments.

The Regional Hospital at Eglin Air Force Base, Florida, initially proposed two test projects: mental health and surgery services for the CHAMPUS-eligible population in the Eglin Air Force Base, Florida, area. The mental health services project was deleted from the Air Force's implementation plan on December 21, 1988. The administrator at the Regional Hospital determined that this project was no longer feasible.

The surgery project would allow the hospital to increase its operating room hours by 48 hours per week and perform a wide range of surgical procedures. The project was expected to recapture 39 surgical admissions per month, or 234 surgical admissions, for the 6 months ended September 30, 1989. This estimate was based on data from area hospitals that participated in the CHAMPUS program. It was estimated that savings from the surgery project would reduce CHAMPUS costs by about $1.3 million over a 1-year period. The Air Force funded the surgery project at $249,000, the amount of CHAMPUS funds authorized for release by the Office of the Assistant Secretary of Defense (Health Affairs).

Audit Verification

We visited the Regional Hospital twice to accomplish our audit objectives. The first visit, in September 1989, disclosed that required project reports and records had not been prepared, and audit verification could not be accomplished. As a result, the Assistant Secretary of Defense (Health Affairs) withheld approval for the release of CHAMPUS funds to continue the project in FY 1990 pending completion of our audit. On our subsequent visit to the Regional Hospital in November 1989, we evaluated project reports and related records.

In FY 1989, the surgery project was operational for 4 months and 282 surgery procedures were performed. The cost to operate the surgery project was $144,074 and included civilian pay, professional services, custodial services, and supplies (physicians' and surgeons' fees were paid by CHAMPUS under the partnership program). We verified this cost and estimated a recaptured cost of $571,701, based on the diagnosis-related group (DRG) rates that CHAMPUS paid to local hospitals for equivalent surgery procedures during FY 1989. A comparison of total operating costs to recaptured costs for the 4 months showed savings of $427,627.

We determined that the proposed savings of $1.3 million were reasonable. We found that the work load estimated in the proposal was understated but had no significant impact on the overall proposed savings. Although the 282 surgical procedures performed in the first 4 months exceeded the estimated 156 surgical admissions (39 admissions per month x 4), the savings of $427,627 were almost 97 percent of the estimated savings for the period. The proposal was based on historical data obtained from area hospitals that participated in the CHAMPUS program. Hospital personnel could not explain the increased work load. If the work load continues at the same rate, we estimate that the project could save over $1.3 million annually.

We determined that internal controls established by the hospital were adequate to ensure that project costs were identified and properly monitored.

We also compared the project's funded amount to verified project costs and determined that about $105,000 of CHAMPUS funds had been commingled with operations and maintenance funds. These funds did not support the project. This use of CHAMPUS funds was unauthorized and was not in accordance with the approved use of the funds. Air Force Systems Command advised us that $105,000 in operations and maintenance funds was being transferred to the CHAMPUS account.

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 December 10, 1990. Because we made no recommendations, no comments were required from management, and none were received. 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

cc:
Secretary of the Air Force
Assistant Secretary of Defense (Health Affairs)

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 Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Surgeon General, U.S. Air Force
Headquarters, U.S. Air Force Systems Command
Commander, U.S. Air Force Systems Command Regional Hospital Eglin

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

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