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REPORT
NO. 91-079

May 14, 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)

SUBJECT: Summary Report on the FY 1989 Evaluation of the Alternate Use of CHAMPUS Funds (Project No. 0FC-0002)

This final report summarizes four audits. We audited the alternate use of funds from the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) for medical and surgical test projects at medical treatment facilities (MTF's) in FY 1989. The overall objective of our audits was to evaluate whether medical test projects initiated by military hospitals would, if fully implemented, reduce CHAMPUS costs. The audits were made from September 1989 through July 1990 at the direction of Congress. Enclosure 3 lists the activities we visited or contacted during the audits. The audits covered nine projects in operation from January through September 1989. A representative from the Office of the Assistant Secretary of Defense (Health Affairs) (ASD[HA]) assisted the IG, DoD, team in monitoring the nine projects.

Discussion

Overall, the medical test projects that were operational during FY 1989 reduced CHAMPUS costs, and management initiated actions to correct common problems that we identified. The audits of three medical test projects showed that CHAMPUS costs were reduced by $895,000, and that if the projects were operational for a year, CHAMPUS costs could be reduced by about $4.2 million. CHAMPUS funds were generally accounted for and used for their approved purposes. Military hospitals accurately reported data on patients treated during the medical test projects. Internal controls established to document and monitor costs were adequate.

The ASD(HA) did not give MTF's thorough guidance for preparing cost proposals for medical test projects. As a result, MTF's submitted proposals that did not reasonably identify patient work loads or account for all project costs, so management did not have a sound basis for approving the projects.

Scope of Audit

We judgmentally selected 9 of 17 medical test projects that were operational in FY 1989. Our audits were conducted at two Army and two Air Force MTF's. It was estimated that the

nine projects, when fully implemented by the MTF's, would reduce CHAMPUS costs by $5.0 million annually. The medical test projects included the following services: coronary care, including admissions, open-heart surgery, and angioplasty; psychiatric; residential rehabilitation treatment; nuclear medicine; gynecological; high-risk obstetrical testing; obstetrical/gynecological; and surgical procedures.

The audits included an evaluation of accounting records, management reports, workload data, and statistics supporting medical and surgical test projects. We held discussions with hospital commanders, contracting and resource management officials, and project personnel at MTF's. Audit results for the projects reviewed were documented in separate reports issued to the commanders of the four MTF's we audited. Enclosure 1 lists those audit reports.

These performance audits were 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. CHAMPUS does not cover active duty service members and Medicare eligibles. 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. CHAMPUS costs for FY 1991 are projected to be about $2.7 billion, a 93-percent increase over 1985 costs. MTF's have reduced the services they provide; as a result, eligible persons have obtained commercial medical care paid by CHAMPUS. In 1988, Congress authorized the Military Departments to use CHAMPUS funds for purposes other than payment of claims for medical treatment obtained from civilian sources. Congress wanted the Military Departments to reduce CHAMPUS costs and improve the quality of care at MTF's. CHAMPUS funds were authorized for innovative health care projects to provide in-house medical care to CHAMPUS eligibles at lower costs than commercial medical care. Each Military Department was authorized to use up to $50 million of CHAMPUS funds on test projects.

In September 1988, the ASD(HA) proposed to Congress its plan for the alternate use of CHAMPUS funds. The proposal contained two review mechanisms: the Military Departments would be required to submit quarterly status reports to the ASD(HA), 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 the fiscal and workload auditing of the projects. On November 10, 1988, the ASD(HA) issued the Alternate Use of CHAMPUS Funds Test Implementation Plan to the Military Departments.

During FY 1989, the ASD(HA) approved 40 projects: 20 in the Army, 19 in the Air Force, and 1 in the Navy. The Military Departments estimated that CHAMPUS costs would have been reduced by about $17.9 million in FY 1989 if the proposed 40 projects had been fully implemented. The Army canceled 8 projects or deferred them for further study; the Air Force canceled or deferred 15 projects. Combined savings for these 23 projects were estimated at $9.8 million. The remaining 17 projects (12 Army, 4 Air Force, and 1 Navy), with projected savings of $8.1 million, were operational in FY 1989.

Results of Audits

Using CHAMPUS funds for medical test projects reduced CHAMPUS costs by providing in-house medical care to CHAMPUS eligibles at lower costs than commercial health care. Costs can be further reduced by implementing more alternate-use projects at MTF's; the monetary benefits of implementing these projects justify alternate uses of CHAMPUS funds.

Six of the nine medical test projects that we audited at four MTF's were operational. The Military Departments estimated that CHAMPUS costs could be reduced by about $4.6 million annually when the six projects were implemented. We were able to verify the savings reported for only three of the projects; we could not verify the savings reported for three other projects. The remaining three projects selected for review were canceled before or during our audits (see table on page 7).

Our audits showed that CHAMPUS costs were reduced by about $895,000. We estimated that the three projects, when fully operational, could reduce costs by about $4.2 million annually. At the time of our review, none of the projects had been in operation for a year. Details of the three projects are shown in the following table.

Projects with Verified Savings

Project Number	Project	Location	Verified Savings	Potential Annual Savings (Millions)
AR001	Open-heart surgery	Fort Gordon, GA	$ 21,635	$1.6
AF003	Obstetrics/gynecology	Tinker AFB,* OK	445,345	1.3
AF015	Expanded surgery capability	Eglin AFB, FL	427,627	1.3
Totals			$894,607	$4.2

*AFB - Air Force Base

The Army project (AR001) was operational for only 9 months in FY 1989. The Army proposal stated that during the test project, 271 coronary care patients would be admitted (121 in Phase I, 100 in Phase II, and 50 in Phase III). At the time of our review, 228 patients had been admitted to the coronary care unit (Phase I), and 2 open-heart surgeries had been performed (Phase II). During our review, only Phase I and Phase II were operational. Phase III was for angioplasty, the replacement or repair of damaged blood vessels; it had not been implemented at the time of the audit. As a result, 98 open-heart surgeries and 50 angioplasties had not been performed. During the 9-month period when the project was operational, we were able to verify $21,635 in reported savings. We estimated that when fully implemented, the project would result in CHAMPUS savings of at least $1.6 million. We were told that the project was fully operational on May 1, 1990.

The U.S. Air Force Hospital at Tinker Air Force Base proposed the obstetrics/gynecology (OB/GYN) test project (AF003) for the CHAMPUS-eligible population in the Tinker Air Force Base, Oklahoma, area. A contractor would provide full OB/GYN services so that the MTF could treat inpatients and outpatients who would otherwise visit civilian hospitals at CHAMPUS expense. The MTF estimated that in a year's time, the OB/GYN project would reduce CHAMPUS costs by about $656,000 and would bring in 1,000 patient admissions and 16,000 outpatient visits. The project also included hiring anesthesia personnel under local partnership agreements.

During the 4 months ended September 30, 1989, the OB/GYN clinic had 296 patient admissions and 1,504 outpatient visits. We verified operating costs of $676,111 for civilian pay, contract physician services, supplies, and equipment. CHAMPUS costs for the same services would have been $1,121,456, so the project saved $445,345 for the 4 months ended September 30, 1989.

We determined that the proposed annual savings of $656,000 were understated. Although the actual number of patient admissions (296) and outpatient visits (1,504) in the first 4 months did not equal the projected annual work load (1,000 patient admissions and 16,000 outpatient visits), the savings of $445,345 were almost three-quarters of the savings estimated for the year. Documentation was not available to verify the proposal. Hospital personnel could not explain the differences between the proposed and actual work load and savings. We attributed this condition to a lack of guidance as to what should be included in the proposal. If the work load continued at the same rate as the first 4 months, we estimated that the project would save over $1.3 million annually.

The U.S. Air Force Systems Command Regional Hospital at Eglin Air Force Base, Florida, initially proposed two test projects: a mental health project and a surgery project 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 the project was no longer feasible.

The surgery project (AF015) would allow the hospital to increase its operating room hours by 48 hours per week and perform a wide range of surgical procedures. Hospital officials expected 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 year. The Air Force funded the surgery project at $249,000, the amount of CHAMPUS funds authorized for release by the ASD(HA).

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, including civilian pay, professional services, custodial services, and supplies (physicians' and surgeons' fees were paid by CHAMPUS under the partnership program). We verified the costs and estimated recaptured costs of $571,701, based on the diagnosis-related

group 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 a 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 the understatement did not have much effect on the proposed savings. Although the 282 surgical procedures performed in the first 4 months exceeded the estimated 156 surgical admissions (39 admissions per month times 4), the savings of $427,627 were almost 97 percent of the estimated savings for the period. The proposal was based on historical data from area hospitals that participated in the CHAMPUS program. Hospital personnel could not explain the increased work load. If the work load continued at the same rate, we estimated that the project could save over $1.2 million annually.

We could not verify CHAMPUS savings of about $396,000 for three projects (shown below) at Ireland Army Community Hospital, Fort Knox, Kentucky.

Projects at Ireland Army Community Hospital

Project Number	Project	Location	Proposed Annual Savings
AR010	Nuclear medicine	Fort Knox, KY	$ 40,853
AR011	Gynecology	Fort Knox, KY	163,231
AR020	High-risk obstetrics	Fort Knox, KY	191,808
Total			$395,892

The Army project for nuclear medicine services (AR010) required a nuclear medicine physician and a technician to perform approximately 1,850 diagnostic nuclear images (pictures of the problem area) and 15,260 radioimmunoassay laboratory procedures (nuclear blood tests) per year. Proposed savings of $40,853 annually were not verified, 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 current at the time of the audit.

The gynecological services project (AR011) was to establish a local contract to expand inpatient and outpatient services. The project, which began in March 1989, was expected to bring in

62 inpatient admissions and 316 outpatient visits annually. Proposed savings for this project were about $163,231. Under the high-risk obstetrical testing project (AR020), 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 obstetrical patients over age 35 were designated high-risk and were given nonavailability statements so they could obtain care from civilian sources. This project was expected to bring in 72 patient admissions and reduce CHAMPUS costs by about $191,808 per year. Neither project included costs for items such as linens and laboratory and X-ray support. Project personnel informed us that because the guidance in the implementation plan was not clear, they did not know what costs to report.

Canceled Projects

Project Number	Project	Location	Proposed Savings
AR012	Psychiatric services	Fort Knox, KY	$ 754,146
AR021	Residential rehabilitation treatment	Fort Knox, KY	201,498
NV001	Community counseling center	Camp Lejeune, NC	97,850
Total			$1,053,494

The U.S. Army Health Services Command canceled the Army's projects for psychiatric services (AR012) and residential rehabilitation treatment (AR021) because bids for the proposed contracts were higher than expected. The psychiatric services project was expected to recapture about 184 psychiatric admissions and 3,519 mental health outpatient visits by hiring additional staff and expanding psychiatric services. The residential rehabilitation treatment project was to provide alcohol and drug abuse rehabilitation for CHAMPUS-eligible patients and recapture about 58 patient admissions and 1,213 outpatient visits in FY 1989.

The Navy's project for a community counseling center (NV001) was suspended because the hospital had difficulty hiring essential personnel. The project was to provide inpatient counseling and outpatient mental health services to the CHAMPUS-eligible population in the Camp Lejeune, North Carolina, area. The project was expected to recapture 16 patient admissions and 2,997 outpatient visits in FY 1989. This test project was the Navy's only proposal for reducing CHAMPUS costs. We believe the Navy could participate more actively in the program by submitting

additional test projects that would provide in-house medical care to CHAMPUS eligibles at lower cost than commercial health care.

CHAMPUS funds used for the medical and surgical projects were generally accounted for and used for their approved purposes. We also determined that the MTF's accurately reported data on CHAMPUS-eligible patients treated during the projects. Internal controls established to document and monitor project costs were adequate. Further, project office and resource management personnel conscientiously managed their projects to ensure that the projects generated CHAMPUS savings.

Inaccurate Data in Proposals. Our review showed that proposals the Military Departments submitted to ASD(HA) often did not contain reasonable estimates of work loads. Inaccurate workload data could have had a significant impact on the Military Departments' projected cost savings. For example, one hospital estimated 16,000 outpatient visits and 1,000 admissions annually, and had 1,504 outpatient visits and 296 patient admissions during 4 months of operation. The actual work load in the first 4 months did not equal the proposed annual work load; however, the savings of $445,000 were almost three-quarters of the savings projected for the year ($656,000). We could not verify the data in the proposal because documentation was not available, and hospital personnel could not explain the difference between the proposed and actual work load and savings. Also, project personnel informed us that guidance used to prepare the proposal was vague and confusing.

Because projects with inaccurate data were approved, there was less assurance that the projects would succeed. This condition had two causes: the MTF's did not receive enough guidance as to what they should include in their proposals, and the Military Departments did not adequately review proposals to ensure that they contained accurate data.

A representative from the ASD(HA) advised us that a project management guide was being developed to assist personnel at MTF's in accurately identifying patient work loads and accounting for all project costs. In addition, General Accounting Office Report No. HRD-90-131, "Potential for Savings by Treating CHAMPUS Patients in Military Hospitals," September 1990, developed and recommended a cost methodology for use by military hospitals in identifying CHAMPUS project costs. Implementation of this methodology or a similar one should result in full identification of all costs for future medical test projects.

This report contains no recommendations, claims no monetary benefits, and requires no comments.

We provided a draft of this report to the addressees on March 6, 1991. There were no recommendations, and management comments were not required. However, on May 2, 1991, we received comments from the Chief, Bureau of Medicine and Surgery, Department of the Navy. The complete text of his comments is at Enclosure 2.

The courtesies extended to the audit staff (listed at Enclosure 4) are appreciated. Copies of this summary report are being distributed to the activities listed at Enclosure 5. If you have any questions about these audits, 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
Assistant Inspector General
for Auditing

Enclosures

cc:
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Surgeon General, U.S. Army
Director of Naval Medicine/Surgeon General of the Navy
Surgeon General, U.S. Air Force

AUDITS OF ALTERNATE USE OF CHAMPUS FUNDS

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 (Report No. 91-020, December 14, 1990).

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 (Report No. 91-019, December 14, 1990).

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 Air Force Base, Florida (Report No. 91-051, February 25, 1991).

Report on the Fiscal Year 1989 Evaluation of the Alternate Use of CHAMPUS Funds at the U.S. Air Force Hospital, Tinker Air Force Base, Oklahoma (Report No. 91-052, February 25, 1991).

DEPARTMENT OF THE NAVY

BUREAU OF MEDICINE AND SURGERY
WASHINGTON, D.C. 20372-5120

IN REPLY REFER TO

7500
Ser MED-09CE/1U231484
29 Apr 91

From: Chief, Bureau of Medicine and Surgery
To: Inspector General, Department of Defense

Subj: DRAFT SUMMARY REPORT ON THE FY 89 EVALUATION OF THE ALTERNATE USE OF CHAMPUS FUNDS (PROJECT NO. 0FC-0002)

Ref: (a) Your memo of 06 Mar 91; Subject as Above

1. I have reviewed the draft report issued by reference (a) and feel compelled to set the record straight regarding the extent of the Navy's efforts to reduce CHAMPUS costs. While the Camp Lejeune Community Counseling Center referred to in the draft report was the only semi-operational project during your January through September 1989 project operations period, it certainly was not the only project planned. During the period of your audit, September 1989 through July 1990, extensive coordination was conducted between Navy offices and the Secretary of Defense for Health Affairs which has culminated in approval for the initiation of 33 projects in 14 medical treatment facilities in FY 91 designed to reduce CHAMPUS expenditures. These proposals include a full range of inpatient and outpatient services which are estimated to produce a savings in excess of eight million dollars.

2. There are, however, very real conditions which impact negatively on the implementation of any proposal. In order to take advantage of the alternate use of CHAMPUS program, it is necessary to reprogram funding from the CHAMPUS budget line into the direct care lines. Navy financial managers are reluctant to reduce the CHAMPUS funding line at the time when OCHAMPUS estimates of funding requirements exceed funds available. There have been major reprogramming actions for CHAMPUS over the last three years. While there is Congressional committee language permitting reprogramming of CHAMPUS funds for alternate use projects which meet the economic criteria, there is no legislative authority in general provisions. In our opinion, reprogramming of funding for alternate use projects would benefit greatly from legislative authority other than the existing committee language. This committee language, while showing the intent of Congress, is difficult to track from year to year.

3. Your acknowledgement of these efforts in the final report will be appreciated and will reflect the extent of the Navy's continuing effort to reduce expenditures in the CHAMPUS program.

JAMES A. ZIMBLE

Copy to: (See next page)

ENCLOSURE 2

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Health Affairs), Washington, DC
Comptroller of the Department of Defense, Washington, DC

Department of the Army

Assistant Secretary of the Army (Financial Management), Washington, DC
Office of the Surgeon General, Washington, DC
Headquarters, U.S. Army Health Services Command, Fort Sam Houston, TX
- William Beaumont Army Medical Center, Fort Bliss, TX
- Dwight David Eisenhower Army Medical Center, Fort Gordon, GA
- U.S. Army Medical Department Activity, Ireland Army Community Hospital, Fort Knox, KY
- U.S. Army Medical Department Activity, Winn Army Community Hospital, Fort Stewart, GA

Department of the Navy

Assistant Secretary of the Navy (Financial Management), Washington, DC
Office of the Comptroller of the Navy, Washington, DC
Director of Naval Medicine/Surgeon General, Washington, DC
U.S. Naval Hospital, Camp Lejeune, NC

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
Headquarters, U.S. Air Force Logistics Command, Wright-Patterson Air Force Base, OH
Headquarters, U.S. Air Force Systems Command, Andrews Air Force Base, MD
Headquarters, U.S. Air Force Strategic Air Command, Offutt Air Force Base, NE
Headquarters, U.S. Air Force Tactical Air Command, Langley Air Force Base, VA
Office of the Surgeon General, Washington, DC
U.S. Air Force Systems Command Regional Hospital, Eglin Air Force Base, FL
U.S. Air Force Hospital, Hill Air Force Base, UT
U.S. Air Force Hospital, Tinker Air Force Base, OK

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Non-DoD Activities

Office of Management and Budget
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Congressional Committees

Senate Subcommittee on Defense, Committee on Appropriations
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