INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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REPORT
NO. 91-052

February 25, 1991

MEMORANDUM FOR COMMANDER, U.S. AIR FORCE HOSPITAL, TINKER AIR FORCE BASE, OKLAHOMA

SUBJECT: 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 (Project No. 0FC-0002.04)

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 Hospital, Tinker Air Force Base, Oklahoma (Tinker Hospital). The overall objective of our audit was to determine whether the obstetrical/gynecological (OB/GYN) test project at Tinker 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 relating to the proposed medical project.

The audit was made from September 1989 through July 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 Logistics Command to monitor the status of the OB/GYN 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 OB/GYN project and in performing this audit.

Discussion

The audit determined that the OB/GYN project reduced CHAMPUS costs by $445,345 for the 4 months of its operation. We also determined that the proposed annual savings of $656,000 were understated, and that savings would exceed $1.3 million if the project had operated for 1 year. Based on available documentation, we could not determine why the projected savings were understated, and hospital personnel could not provide an explanation. Internal controls at the 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 OB/GYN project. We held discussions with contracting and comptroller personnel at Tinker Air Force Base and with resource management and project personnel at the U.S. Air Force Hospital, Tinker. We verified CHAMPUS cost reductions of $445,345 for the period June 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 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 at MTF's, Congress authorized the Military Departments 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 Military Department was authorized to use up to $50 million of 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 Office of the Assistant Secretary of Defense (Health Affairs) issued the Alternate Use of CHAMPUS Funds Test Implementation Plan to the Military Departments.

The Tinker Hospital proposed the OB/GYN project for the CHAMPUS-eligible population in the Tinker Air Force Base, Oklahoma, area. Obstetrics is the care of women before, during, and after childbirth, and gynecology is the medical and surgical treatment of women. The project established a contract for OB/GYN services to recapture admissions and outpatient visits that would otherwise go to civilian hospitals at CHAMPUS expense. It was estimated that the OB/GYN project would reduce CHAMPUS costs by about $656,000 when operational for 1 year. The project would also recapture 1,000 patient admissions and 16,000 outpatient visits. A contract would provide full OB/GYN services, and anesthesia personnel would be hired through local partnership agreements. Tinker Hospital was authorized to use $764,000 in CHAMPUS funds for the OB/GYN test project; however, before the end of FY 1989, the Air Force withdrew $139,000 and funded the project at $625,000.

Audit Verification

During the 4 months ended September 30, 1989, the OB/GYN project 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, and compared the operating costs to recaptured CHAMPUS costs of $1,121,456. Recaptured costs were based on diagnosis-related group (DRG) rates that CHAMPUS paid to local hospitals for equivalent care during FY 1989. These costs were determined by multiplying the 176 obstetrical and 120 gynecological hospital admissions and 1,504 outpatient visits by the DRG rates, which were $2,645, $4,288, and $94, respectively. Comparison of operating costs to recaptured costs resulted in savings of $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 ($656,000) estimated for the year. Documentation was not available to support 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 continues at the same rate, we estimate that the project will 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.

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 there were 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
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 Logistics Command
Commander, U.S. Air Force Hospital, Tinker Air Force Base

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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