Department of Veterans Affairs

Office of Inspector General

INTERIM REPORT

AUDIT OF PATHOLOGY AND LABORATORY MEDICINE SERVICE

Report No.: 7R3-A02-043
Date: February 7, 1997

Office of Inspector General
Washington DC 20420

Department of Veterans Affairs

Memorandum

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From: Assistant Inspector General for Auditing (52)

Subj: Interim Report -- Audit of Pathology and Laboratory Medicine Service, Report No. 7R3-A02-043

To: Under Secretary for Health (105E)

1. INTRODUCTION

We are performing a broad-based audit of Pathology and Laboratory Medicine Service (PLMS) to develop and understanding of program activities and to determine the need for further indepth audit of the PLMS program. The purpose of the broad-based audit is to provide an overall assessment as to whether pathology and laboratory services are provided in an economical and efficient manner. We are finding that management controls are generally adequate to ensure that pathology and laboratory services are provided in a satisfactory manner. However, our audit shows that additional reviews are warranted in three major program areas, (a) mobile laboratory, (b) equipment and reagent procurement, and (c) the new workload reporting system. These issues are discussed below.

This report is to provide you with information on the status of this project. No recommendations are being made at this time and, therefore, no comments are necessary. However, any suggestions you would like to make for additional areas that should be included in our continuing review of PLMS are welcome.

2. BACKGROUND

The mission of Pathology and Laboratory Medicine Service is to provide the principal medical diagnostic laboratory testing and transfusion functions at all VA medical centers (VAMCs). During fiscal year (FY) 1996, PLMS employed 7,223 full-time equivalent employees (FTEE) nationwide, spent approximately $556,000,000, and reported 107,664,921 onsite laboratory tests and 592,344 send-out tests. As of September 1, 1996, PLMS became part of the Diagnostic Services Strategic Healthcare Group (SHG), along with Radiology and Nuclear Medicine. The Acting Director, PLMS, was designated Chief Consultant for the Group.

During our audit, we are reviewing applicable Federal laws and regulations, PLMS policy, and various studies pertaining to laboratory services. We also obtained and reviewed PLMS budget and workload information, and met with top management officials at VA

Central Office (VACO), and program officials at VAMC Hines, IL. To better understand how laboratories operated at the medical center level, we visited and observed PLMS operations at four VA medical centers. During our onsite visits we interviewed laboratory managers and staff, and reviewed documents and records pertaining to laboratory activities. We also met with the Director of Veterans Integrated Service Network (VISN) 12, to discuss PLMS consolidation plans. The audit is being performed in accordance with generally accepted government auditing standards.

3. AUDIT RESULTS TO DATE

During the audit, we observed pathology, clinical laboratory, and blood bank operations, and gathered information in such PLMS areas as accreditation, autopsies, blood bank, credit card program, equipment and reagent procurement, financial reporting, inventory management, oversight, point-of-care testing, proficiency testing, quality control, quality improvement, research tests, staffing, telepathology, tests sent to commercial and VA Reference laboratories, unnecessary tests, and workload reporting. Based on the results of the audit, we plan indepth reviews of the following three major program areas: (a) mobile laboratory, (b) equipment and reagent procurement, and (c) the new workload reporting system.

a. Mobile Laboratory (Mobile Lab) -- Mobile lab is a self-contained unit designed to provide rapid delivery of point-of-care (POC) testing in such areas as outpatient clinics and emergency rooms for the 25 most commonly ordered tests. POC testing is reported to benefit both the patient and the provider by allowing streamlined caregiving, faster turnaround time for more rapid treatment, and more efficient utilization of staff. PLMS has thus far spent about $20 million for 143 mobile labs, but we found that they were not widely used by the field facilities that received them. This is because the mobile cart has limited mobility, the unit requires a dedicated operator, and the turnaround time is not much better than that provided by some main laboratory "stat labs". Additionally, costs for tests performed by the mobile lab may be much higher than those performed in the main laboratory.

The preliminary results of a survey questionnaire that we sent to each medical center with a Mobile Lab showed that much of the equipment is unused or used elsewhere, and that many facilities used the funding provided for Mobile Lab staffing for other purposes. We will share the questionnaire results with PLMS staff at VACO so that maximum utilization of unused equipment can be achieved. It also appears that funding was provided to facilities to purchase additional mobile labs that were not using units already received. An indepth audit has been initiated for this issue.

b. Equipment and Reagent Procurement -- VACO has promoted cost-per-test (CPT) leasing since 1989, whereby the vendor provides the equipment, reagents, consumable supplies, preventive maintenance, repairs, operator training, and equipment upgrades at a single "cost-per-test". CPT contracts contain a volume-dependent pricing matrix; the higher the annual volume, the lower the cost per test. CPT leasing allows facilities to acquire technically advanced, automated equipment when capital equipment funds are not available, and has resulted in some medical centers performing tests that were previously sent to commercial laboratories. PLMS estimated that savings from FY 1995 CPT contracts could total as much as $9.6 million over 5 years.

Our review is showing that when equipment is purchased, rather than leased, capital equipment funds are used for the purchase, and Engineering funds are used to purchase the maintenance contract. However, CPT leasing increases laboratory costs because the total amount is paid from PLMS operating funds, rather than from capital equipment and Engineering funds. Additionally, since the decentralization of the decision-making process for equipment acquisition to field facilities, there is no centralized repository of information on the total number of CPT contracts nationwide, nor is the cost-per-test price at each site available for comparison purposes. Therefore, VA facilities could pay different prices to lease the same equipment. We also found that additional economies may be available to VA medical centers from multi-facility contracts. The audit objectives will be to verify the cost effectiveness of CPT leasing, and determine whether VISN-level arrangements such as multi-facility agreements could maximize cost savings.

c. Laboratory Management Index Program (LMIP) -- PLMS implemented this new workload reporting program October 1, 1995 to replace the AMIS reporting system, which according to program officials, had an error rate estimated at 25 to 40 percent. LMIP, which was designed to be used as a management tool, allows for (i) trending information over a period of time, (ii) peer comparisons, and (iii) benchmarking against specific designated laboratories. One of the key requirements of LMIP is to obtain standardized, consistent data from every laboratory to ensure accurate workload measurement.

Our audit is showing that LMIP may contain areas that could be improved. For example, VAMCs may be able to report erroneous data by manually entering tests into the system that should not be counted as workload (i.e., quality control tests and retests). Additionally, PLMS is not yet obtaining consistent and accurate workload data from the facilities. These problems could be especially significant since LMIP data will be used for the Decision Support System (DSS), VA's new cost accounting

program. During the audit, we will test LMIP data validity to verify whether the workload reporting system contains accurate data that can be used to efficiently manage PLMS at both the facility and VISN levels.

We plan successive audits of the three major program areas identified. We will issue a report at the end of each audit phase, with a roll-up report at the end of the project. Methodology for each audit phase will be developed in collaboration with the PLMS Director, Resource Management, at VAMC Hines, IL, who oversees such national programs as mobile labs, cost-per-test leasing, and LMIP. We also plan an ongoing review of additional issues throughout the project (i.e., autopsies, Quality Control and Quality Improvement Programs, staffing, tests sent to commercial and VA reference laboratories, and VISN consolidations of PLMS) in order to provide an overall assessment of PLMS for the roll-up report.

If there are any additional areas within Pathology and Laboratory Medicine Service that you believe we should specifically cover, please contact Michael G. Sullivan, Assistant Inspector General for Auditing, at (202) 565-4625, or you can contact me at (404) 347-7790.

For the Assistant Inspector General for Auditing

[*Signed*]
JAMES R. HUDSON
Director, Atlanta Operations Division