



# Office of Inspector General

## **EVALUATION OF ALLEGATIONS CONCERNING SELECTED FEE SERVICES ACTIVITIES AT THE JERRY L. PETTIS MEMORIAL VA MEDICAL CENTER, LOMA LINDA, CALIFORNIA**

*Fee services costs for skin cancer surgery could be reduced by contracting for services and by referring patients to nearby VA medical centers.*

**Report No. 9R8-A06-021  
Date: December 31, 1998**

**Office of Inspector General  
Washington DC 20420**



DEPARTMENT OF VETERANS AFFAIRS  
Office of Inspector General  
Washington DC 20420

**Memorandum to the VA Medical Center Chief Executive Officer**

**Evaluation of Allegations Concerning Selected Fee Services Activities at the  
Jerry L. Pettis Memorial VA Medical Center, Loma Linda, California**

1. **Introduction.** The Office of Inspector General performed an evaluation to determine the validity of a complainant's allegations that:

a. Overpayments may have occurred because the Fee Services Section (FSS) at the Jerry L. Pettis Memorial VA Medical Center (VAMC) did not properly review claims that the Veterans Home of California at Barstow had submitted to request VA reimbursement for care provided to veterans.

b. The VAMC referred patients needing Mohs surgery (a specialized technique for removing skin cancer) to the affiliated medical school practice group and paid full price for the surgery when it could have been done for less cost at the VAMC, at other nearby VAMCs, or under contract with the medical school or other providers.

2. **Summary of Results.** The allegation about Veterans Home claims was not substantiated. The Veterans Home opened in February 1996. During Fiscal Years 1996 and 1997, the Veterans Home submitted multiple claims for some months and some of the claims had errors. This problem occurred because the inexperienced Veterans Home staff did not fully understand VA requirements. The VAMC and the Veterans Home worked together to reconcile records and make necessary claims adjustments. Our review of recent claims did not identify any significant errors. We concluded that the claims payment process was generally effective and therefore we did not make any recommendations on this issue.

We concluded that the allegation pertaining to Mohs surgery was substantiated. Before our evaluation, the VAMC had referred all Mohs surgeries to the medical school practice group and had paid the group's standard price. The VAMC probably could have reduced costs by transferring patients to other VAMCs or by negotiating contracts to obtain Mohs surgeries at discounted prices from the practice group or from other providers. Based on FY 1998 costs, we estimated that a well-negotiated contract based on Medicare rates could reduce costs by about \$47,300 a year. The VAMC recently initiated action to develop an in-house Mohs surgery program. We recommended that until this program is operational, the VAMC (a) develop procedures to transfer Mohs surgery patients to other VAMCs whenever clinically feasible and cost-effective and (b) negotiate a contract to obtain Mohs surgery at lower cost.

### 3. Details of Evaluation

**Payments to Veterans Home of California at Barstow.** According to the allegation, the VAMC may have overpaid the Veterans Home because the FSS did not adequately review claims before certifying them for payment and because the Home did not provide full documentation to support the days of care claimed.

The Barstow Veterans Home opened in February 1996. In October 1996, VA approved the Home as a provider of VA-paid nursing home and domiciliary care to eligible veterans. VAMC Loma Linda was named as the VAMC of jurisdiction, which meant that it was responsible for determining veterans' eligibility for care and for approving payments for care provided. The VAMC was given authority to approve payments retroactively to March 29, 1996. In July 1997, the VAMC made the first payments to the Veterans Home. For the period March 1996 through August 1998, the VAMC made payments totaling \$4.97 million.

VA is authorized to pay for care provided to eligible veterans by approved State veterans homes. VA policy provides specific instructions for payments. State veterans homes are required to maintain records supporting the number of days of care claimed. Veterans homes submit claims for payment on VA Form 10-5588, State Home Report and Statement of Federal Aid Claimed. The form includes space for data on the number of days of care provided, the per diem rate, and the total amount claimed. A veterans home official certifies that the information on the claim is correct. When the claim is received, the FSS reviews it for accuracy and then certifies the claim for payment. If the review finds errors, the approved claim amount is adjusted accordingly.

We performed a limited review of claims submitted and payments made from March 1996, shortly after the Veterans Home opened, through August 1998. We found that there were deficiencies in the early claims submitted by the Home, probably because the new staff did not fully understand VA policies. The main problem was that instead of submitting only one claim each month, the Veterans Home submitted multiple claims, an original and subsequent corrections. The FSS mistakenly certified some of these multiple claims for payment. In our opinion, it is likely that the multiple claims gave the complainant the impression that significant overpayments may have occurred. However, we found that the multiple claims did not result in overpayments. To illustrate, for the month of June 1996 the Veterans Home submitted and the FSS certified three claims, but payment records showed that only one claim was paid and the amount paid was correct.

During 1997, VAMC staff worked with Veterans Home staff to clarify procedures and to improve the accuracy of claims submitted. In addition, the Veterans Home established an improved reporting system that provided more detailed documentation to support claims. We concluded that these actions had effectively resolved the problems with the claims submitted by the Veterans Home. Our review of selected claims submitted after September 1997 found only minor errors, both small overpayments and small underpayments. To illustrate, for the month of June 1998 the VAMC overpaid \$80 on a \$257,000 claim.

**Mohs Surgery Referrals.** According to the allegation, the VAMC referred all Mohs surgeries to Loma Linda University Medical Center (LLUMC) and paid the full cost fee

instead of seeking lower cost alternatives. Mohs surgery is recognized as the most effective method available for the treatment of skin cancer. The procedure involves microscopic examination of excised tissue to ensure that all the cancer is removed. Mohs surgery is an outpatient procedure that is usually performed by dermatologists.

VA policy is to provide care in VA facilities whenever feasible and cost-effective. If a VAMC cannot provide a particular service, it may refer patients to another VAMC if this is clinically feasible or it may purchase the services through a contract or on a fee for services basis. Services purchased from an affiliated medical school should generally be covered by a clinical services contract or a sharing agreement under which the VAMC has negotiated the best possible price. Because VAMCs and their affiliates are partners, VAMCs can usually obtain discounts from full prices. Typically, the prices paid by a VAMC should be in line with Medicare rates, the benchmark for procedure-based contracts.

We confirmed that the VAMC had routinely referred Mohs surgery patients to LLUMC and had paid full price for the services provided. The VAMC had not attempted to negotiate a contract at a reduced rate. In addition, responsible staff did not make determinations on whether individual patients could be referred to nearby VAMCs for the surgery. In FY 1998, the VAMC referred 57 Mohs cases to LLUMC at a cost of \$137,540.

We reviewed consultation sheets that physicians had prepared for 71 Mohs surgery patients (all the consultations that the FSS could find for Mohs surgeries authorized in FYs 1997 and 1998). Our review found that patients were routinely referred to LLUMC, even when information on the consultation sheet indicated that it might be possible to refer the patient to another VAMC. To illustrate, the FSS approved 10 cases for LLUMC even though the consultation sheets showed that the requesting physicians had answered "Yes" to the question: "Can the patient be transferred to another VA facility for the procedure?" The consultations for the other 61 cases did not show a justification for not transferring patients. For 33 of the 61 cases no justification was given, and the consultations for the other 28 cases had nonresponsive comments such as "no need" or "Mohs not available." In addition, VAMC staff told us that one reason they had not referred patients to other VAMCs was concern about the cost of transportation. However, 68 of the 71 consultation sheets indicated that the patients could have provided their own transportation.

We concluded that the VAMC could have referred some patients to other VAMCs. This was evident not only from the consultation sheets but also from the fact that patients needing other outpatient services were frequently referred to nearby VAMCs. (For example, in June 1998 there were 58 referrals, of which 56 were to VAMC San Diego.)

We also concluded that the VAMC probably could have reduced Mohs surgery costs by negotiating a contract with LLUMC (or with another provider if LLUMC did not offer lower prices). For the basic Mohs procedure LLUMC charged the VAMC \$800 but charged Medicare only \$525, or 34.4 percent less. This indicates that a well-negotiated contract could reduce overall Mohs surgery costs by about 34.4 percent. Based on FY 1998 costs, such a contract could save about \$47,300 a year (34.4 percent of \$137,540 FY 1998 costs).

As of October 1998, VAMC Loma Linda was in the process of developing an in-house Mohs surgery capability. The VAMC had recently hired a plastic surgeon and was recruiting for a dermatologist to operate a lesion clinic. The clinic will perform Mohs surgery as well as other procedures. In addition, as a result of our review, the VAMC began referring some Mohs surgeries to other VAMCs, with two patients being sent to VAMC San Diego in October 1998.

If the development of an in-house Mohs capability is successful, it will resolve the issues discussed in this report. However, until the in-house program is operational the VAMC should take two actions to reduce Mohs surgery costs. First, procedures should be developed to insure that patients are referred to other VAMCs whenever clinically feasible and cost-effective. Second, the VAMC should pursue a clinical services contract to obtain Mohs surgery at the best possible price.

4. **Recommendation 1.** We recommend that, until the in-house Mohs surgery program is operational, the VAMC Chief Executive Officer insure that:

- a. Procedures are developed to transfer Mohs surgery patients to other VAMCs whenever clinically feasible and cost-effective.
- b. A contract using Medicare rates as the benchmark is negotiated with LLUMC or another provider to obtain Mohs surgery at lower cost.

5. **VAMC Chief Executive Officer Comments and Implementation Plan.** The Chief Executive Officer agreed with our findings and recommendation on the Veterans Home and Mohs surgery issues. To implement the recommendation the VAMC will: (a) develop a standard operating procedure on Mohs surgery referrals by January 31, 1999, and (b) negotiate a Mohs surgery contract by May 1, 1999.

6. **Office of Inspector General Comments.** The VAMC Chief Executive Officer concurred with the recommendation and provided an acceptable implementation plan. We consider all evaluation issues resolved and we will follow up on the completion of planned corrective actions.

For the Assistant Inspector General for Auditing

*(Original signed by:)*

DAVID SUMRALL

Director, Seattle Audit Operations Division

## **APPENDICES**

**I -- VAMC Chief Executive Officer's Comments**

**II -- Final Report Distribution**

## VAMC Chief Executive Officer's Comments

Department of  
Veterans Affairs

# Memorandum

Date: DEC 11 1998

From: Chief Executive Officer, VA Medical Center Loma Linda (605/00)

Subj: Draft Memorandum Report – Evaluation of Allegations Concerning Selected Fee Services Activities at VA Medical Center Loma Linda, California (Project No. 8R8-239)

To: Director, Seattle Audit Operations Division (52SE)

1. We have reviewed the draft memorandum report of your Evaluation of Allegations Concerning Selected Fee Services Activities at VAMC Loma Linda.
2. We agree with your findings and recommendations pertaining to the Veterans State Home and the Mohs surgery referrals.
3. Our proposed implementation plan regarding your recommendations is as follows:
  - a. Recommendation: Procedures are developed to transfer Mohs surgery patients to other VAMCs whenever clinically feasible and cost-effective.  
Implementation Plan: A Standard Operating Procedure will be developed by January 31, 1999.
  - b. Recommendation: A contract using Medicare rates as the benchmark is negotiated with LLUMC or another provider to obtain Mohs surgery at lower cost.  
Implementation Plan: A contract will be negotiated by May 1, 1999.
4. We appreciate the opportunity to review your draft report. If you need any additional information, please contact me or Lisa Previte, the Operations Manager for Medical Affairs, at (909) 422-3072.

*(Original signed by:)*  
Dean R. Stordahl

## **Final Report Distribution**

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