



# **Department of Veterans Affairs Office of Inspector General**

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## **Evaluation of VA Medical Center Use of On-Station Fee Basis Appointments**

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**DEPARTMENT OF VETERANS AFFAIRS**  
**Office of Inspector General**  
**Washington, DC 20420**

**TO:** Deputy Assistant Secretary for Human Resources Management (05)  
**SUBJECT:** Evaluation of VA Medical Center Use of On-Station Fee Basis Appointments

## **Summary**

The Office of Inspector General (OIG) evaluated VA medical center (VAMC) use of on-station fee basis appointments. VAMCs may use fee appointments to provide health services when these services are not available by normal methods, such as hiring, and when fee appointments are cost-effective. In recent years, on-station fee basis expenditures have increased substantially, from about \$177 million for 129 VAMCs in fiscal year (FY) 2002 to \$213 million for 126 VAMCs in FY 2003.

Our review of 200 fee appointments at 2 representative VAMCs found that the VAMCs properly managed appointments and generally complied with VA policy. The VAMCs used fee appointments effectively to provide services when it was not practical to hire full-time or part-time employees and in situations where there were significant differences between VA and community salaries or critical shortages in medical specialties. However, to correct two minor program administration deficiencies, we recommended that the Deputy Assistant Secretary for Human Resources Management ensure that VA policy is amended to include detailed guidance on monitoring payments to fee appointees and on documenting how fee payment rates are established. He agreed with our recommendations and provided acceptable implementation plans.

## **Introduction**

**VA Policy on Fee Basis Appointments.** The VA Office of Human Resources Management is responsible for policy on VAMC use of fee basis appointments. This policy is set forth in VA Handbook 5005, which covers appointment procedures, and VA Handbook 5007, which covers pay administration. VAMCs may appoint physicians and other health care professionals on a fee basis without regard to civil service or classification laws, rules, or regulations. Fee appointees are considered VA employees for tax withholding purposes but do not receive retirement, leave, or health insurance benefits. Generally, fee appointments may only be used when they are cost-effective and when the needed health services are not otherwise readily available. Services must be provided at a VA facility, such as a VAMC or a VA outpatient clinic. Fee appointments

may not be used when other types of appointments, including full-time or part-time appointments, are appropriate. Payments made to fee appointees may not exceed annual limitations set by the Under Secretary for Health, unless exceptions are approved.

Although VA uses fee appointments for a variety of health care professionals, the four most common uses are medical officers of the day to provide physician coverage on evenings and weekends, admitting officers of the day to provide physician coverage in the emergency room or other admitting areas, consulting physicians to provide expert advice to VA staff physicians, and attending physicians to supervise residents at VA teaching hospitals. Before FY 1996, VA obtained these services from independent contractors.

**Evaluation Methodology.** To determine if VAMCs were using fee appointments appropriately, we evaluated the use of appointments at the VA Palo Alto Health Care System and the VA Western New York Healthcare System at Buffalo (designated as VAMCs Palo Alto and Buffalo in this report). We selected VAMC Palo Alto because it was one of the largest users of fee appointments, expending \$5.6 million in FY 2003, and was highly affiliated. We selected VAMC Buffalo because it was also a large user of fee appointments, expending \$3.4 million in FY 2003, but moderately affiliated and located in a different geographic area than VAMC Palo Alto. Combined, the two VAMCs had 359 fee appointments during FY 2004. We reviewed 200 of these appointments—125 at VAMC Palo Alto and 75 at VAMC Buffalo—to determine if they were made in accordance with VA policy, were the most cost-effective option for obtaining services, and were properly monitored to ensure VA paid only for services provided.

The evaluation covered active fee appointments for FY 2004. To meet the evaluation objectives, we used on-station fee basis expenditure data from VA's automated Financial Management System, the Veterans Health Information Systems and Technology Architecture, and on-station fee basis files. The evaluation was done in accordance with generally accepted Government auditing standards for independence, professional judgment, and competence; field work standards for planning, supervision, evidence, and documentation; and reporting standards for performance audits.

## Evaluation Results

**Fee Appointments Were Appropriately Used and Cost-Effective.** The VAMCs typically used fee appointments for short-term medical coverage or emergency backup, when recruitment efforts had not been successful, or when workload was unpredictable or not suitable for regular staff appointments. The VAMCs had properly credentialed and privileged all fee physicians and other licensed independent practitioners. Fee appointments were cost-effective and generally less expensive than other alternatives, such as contracting. However, as discussed below, we found two issues that the VA Office of Human Resources Management needed to address.

## Issue 1: Improve Monitoring of Fee Payments

For some fee appointees, the VAMCs exceeded annual pay limitations because management did not monitor payments. For most fee appointees, VA Handbook 5007 limits payments to \$15,000 annually, unless the VAMC Director approves an exception. When an appointee has both fee and part-time appointments, the combined base pay and fees may not exceed the basic salary of a .875 part-time employee at the same grade and step. Exceptions to this requirement must be approved by the Assistant Deputy Under Secretary for Health for Operations and Management.

For FYs 2003–2004 through August, VAMC Palo Alto paid 18 of 125 (14 percent) and VAMC Buffalo paid 4 of 75 (5 percent) fee appointees more than the annual limitations without obtaining approval for exceptions. Management at both VAMCs acknowledged that they had not implemented controls to monitor these payments. The following examples illustrate this problem:

**Pathology and Laboratory Medicine Technicians.** VAMC Palo Alto approved a maximum annual salary of \$25,000 for Pathology and Laboratory Medicine technicians for FYs 2003–2004. In FY 2003, the VAMC paid 8 of 28 technicians between \$757 and \$13,988 more than the salary limitation. In FY 2004, as of August, the VAMC had paid four of the eight technicians between \$1,406 and \$13,402 more than the limitation.

**Physician's Assistant with Dual Appointments.** In FY 2004, VAMC Buffalo paid a physician's assistant (PA), who had both a part-time and fee appointment, more than the .875 annual pay limitation. The PA had a .8 part-time appointment with Surgical Service and a fee appointment with Ambulatory Care Service to provide compensation and pension examinations. As of July 24, 2004, Surgical Service had paid the PA \$52,198, and Ambulatory Care Service had paid him \$24,565, for a total of \$76,763. This was \$22,419 more than the annual limitation for a .875 employee at the same grade and step.

The two VAMCs did not monitor pay limitations because management had not assigned monitoring responsibilities to particular services. The Chiefs of Fiscal Service and Human Resources Service at both VAMCs believed that either the other service or the services that appointees were assigned to were monitoring fee payments. As a result of our evaluation, management at both VAMCs immediately implemented systems to monitor salary limitations.

**Recommendation 1.** We recommended that the Deputy Assistant Secretary for Human Resources Management ensure that VA Handbook 5007 is amended to include detailed guidance on how VAMCs should monitor payments to fee appointees.

The Deputy Assistant Secretary agreed and reported that his office will establish a process that will allow fee basis payments to be automatically monitored through the VA payroll system. The target date for implementing this process and updating the handbook with applicable procedures is June 30, 2005. The improvement plans are acceptable, and we will follow up on the completion of the planned actions.

## **Issue 2: Improve Documentation of Fee Basis Payment Rates**

Although VA Handbook 5007 requires that fee payment rates be based on fees for similar services in the community, it does not contain guidance on the documentation needed to support payment rates. In contrast, Federal contracting regulations have strict requirements for documenting how contract rates are established.

At both VAMCs, service chiefs and administrative staff typically established rates by surveying costs for similar positions at local hospitals, practice groups, and other VAMCs. However, because it was not required by VA policy, they generally did not maintain adequate documentation to support payment rates.

For the 200 fee appointments reviewed, payment rates for only 12 (6 percent) had sufficient supporting documentation, while rates for 56 (28 percent) had inadequate supporting documentation and 132 (66 percent) had no supporting cost survey or negotiation documentation. For the 56 positions with inadequately supported payment rates, the survey documentation did not contain significant details, such as dates of contacts, names of officials or institutions contacted, and reasons those institutions were selected. The following example illustrates the problem:

**Fee Electrophysiologist.** VAMC Buffalo used a fee electrophysiologist to implant cardiac pacemakers and defibrillators. Before the appointment of this electrophysiologist, VAMC patients requiring implants had been sent to a local community hospital, which charged retail prices for the procedure and related services. Using the fee appointment reduced the VAMC's costs by about 50 percent. However, when the VAMC Chief of Staff (COS) negotiated the electrophysiologist's pay rate, he did not document how the rate was reached. If the COS is not available the next time electrophysiologist payment rates are negotiated, the VAMC could pay more than necessary because earlier negotiations were not documented.

Although the VAMCs did not consistently maintain documentation, we concluded that for the fee appointments reviewed payment rates were at or below community rates. We based this conclusion on our interviews, reviews of available documentation, and verification through other sources, such as regional salary surveys and contracts for similar services.

In our opinion, the minimum documentation of fee payment rates should include pertinent details of surveys, such as the names of officials contacted and dates of contacts. For rates negotiated using Medicare or other fee schedules, documentation should include details on discounts and determinations of price reasonableness. Adequate documentation of payment rate determination could aid VA managers in future pay negotiations and provide more complete information for periodic rate reviews.

**Recommendation 2.** We recommended that the Deputy Assistant Secretary for Human Resources Management ensure that VA Handbook 5007 is amended to include detailed guidance on how VAMCs should document information used to establish payment rates.

The Deputy Assistant Secretary agreed and reported that VAMCs will be instructed to document and maintain all information used to establish fee basis rates in sufficient detail to aid in future pay negotiations and to assist in periodic rate reviews. The target date for updating the handbook with these instructions is June 30, 2005. The improvement plans are acceptable, and we will follow up on the completion of the planned actions.

### Office of Inspector General Comment

The Deputy Assistant Secretary for Human Resources Management agreed with our recommendations and provided acceptable implementation plans. We will follow up on the completion of the planned actions.

*(original signed by:)*

MICHAEL L. STALEY

Assistant Inspector General for Auditing

## **Deputy Assistant Secretary for Human Resources Management Comments**

**Department of  
Veterans Affairs**

**Memorandum**

Date: February 1, 2005

From: Deputy Assistant Secretary for Human Resources Management and Labor Relations (05)

Subj: Draft Report: Evaluation of VA Medical Center Use of On-Station Fee Basis Appointments (Project No. 2004-02344-R8-0393)

To: Assistant Inspector General for Auditing (52)

1. In response to your memorandum of December 20, 2004, the Office of Human Resources Management (05) concurs with the recommendations in the subject report and will take action as described below.
2. We will establish a process that will allow fee-basis payments to be automatically monitored through the PAID system. Facilities will be required to code the approved pay limitation for each fee-basis employee and will receive notification when the gross pay of a fee-basis employee approaches the applicable limitation. We expect these PAID modifications to be implemented by April 30, 2005.
3. Facilities will be instructed to document and maintain all information used to establish fee basis rates in sufficient detail to aid in future pay negotiations and to assist in periodic rate reviews.
4. It is expected that these new procedures regarding the monitoring of fee-basis payments and documenting the establishment of fee-basis rates will be incorporated into VA Handbook 5007 by June 30, 2005.
5. Thank you for the opportunity to review the draft report. If you need further information or follow-up, please contact Donna Schroeder, Director, Compensation and Classification Service (055) at (202) 273-9810.

*(original signed by:)*  
T.J. Hogan



## OIG Contact and Staff Acknowledgments

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