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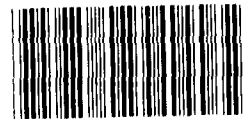
United States General Accounting Office  
Report to Congressional Requesters

GAO

January 1988

# MEDICARE

## Physician-Sponsored Organizations Receive Priority for Peer Review Contracts



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Human Resources Division

B-229169

January 21, 1988

The Honorable Lindy (Mrs. Hale) Boggs  
House of Representatives

The Honorable J. Bennett Johnston  
United States Senate

The Honorable John B. Breaux  
United States Senate

The Honorable Dave Durenberger  
United States Senate

Your March 20, 1987, letter asked us to assess whether, as envisaged by law, organizations sponsored by physicians were receiving preference in the award of Medicare contracts for Peer Review Organizations (PROs). PROs are responsible for assessing the appropriateness and quality of services provided to Medicare beneficiaries by hospitals and some other types of health care providers.

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## Background

As part of the Tax Equity and Fiscal Responsibility Act of 1982, the Congress amended part B of title XI of the Social Security Act to establish the utilization and quality control peer review organization program as the successor to the professional standards review program. The program is intended to assure that Medicare beneficiaries received appropriate, high-quality medical care.

The legislation designated two categories of PROs, called "physician-sponsored" and "physician-access." Physician-sponsored organizations must be composed of a substantial number of the licensed physicians in the area served by the PRO who are representative of the practicing physicians in that area. Physician-access organizations are required to have available a sufficient number of physicians to assure adequate peer review of the services provided by the various medical specialties and subspecialties. The act required the Health Care Financing Administration (HCFA), within the Department of Health and Human Services, to give physician-sponsored organizations priority in the award of PRO contracts.

HCFA is responsible for administering the Medicare and PRO programs. HCFA evaluation criteria defined an eligible physician-sponsored organization as one composed of at least 20 percent of the physicians in the

area or, if composed of between 10 and 20 percent, possessing letters of support from physicians or physician organizations demonstrating that it is representative of area physicians. HCFA evaluation criteria defined an eligible physician-access organization as one that could demonstrate that it had available at least one physician in every generally recognized specialty and had arrangements under which these physicians would conduct reviews for the organization.

As a means of achieving the physician-sponsored organization preference requirement, HCFA's procedures for evaluating proposals for PRO contracts during the 1986 contracting cycle specified that such organizations would receive 100 bonus points. The maximum possible points for all other evaluation factors was 1,500, so the 100 bonus points represented about 7 percent of the base score.<sup>1</sup>

## Objectives, Scope, and Methodology

As requested, our objective was to assess whether HCFA had complied with the requirement that physician-sponsored organizations be given preference in the award of PRO contracts.

To address this question, we first looked at the organizations that were considered for PRO contracts awarded in 1986 to ascertain whether they were physician-sponsored or physician-access organizations. The primary source for this information was a document maintained by HCFA designating the organization's physician status. This document, in turn, generally reflects the status that the organization itself claimed. In a few cases, after evaluating the proposals, HCFA did not accept the self-designation and reclassified the organization's physician status.

We then reviewed the detailed evaluation materials for the 12 PRO contract awards where one or more physician-sponsored organizations competed against one or more physician-access organizations.

We also discussed the 12 contract awards with HCFA.

As requested, we did not obtain official agency comments on this report. However, we discussed the issues presented with agency officials, and their comments were considered in preparing the report. Our work was

<sup>1</sup>The request for proposal indicated that the bidders' proposals would be evaluated using a scoring system totaling 1,800 points. However, the proposals were actually evaluated using a 1,500-point scoring system. A HCFA official told us that the change had been made to align the evaluation process more closely with PRO contract responsibilities.

done in accordance with generally accepted government auditing standards.

## HCFA Gives Physician-Sponsored Organizations Priority in Contracting Process

HCFA gave physician-sponsored organizations priority over physician-access organizations in awarding contracts in 1986. HCFA documentation shows that currently most PROs are physician-sponsored organizations. In cases in which physician-sponsored organizations competed with physician-access organizations for PRO contracts during the 1986 contracting cycle, physician-sponsored organizations were awarded contracts about 75 percent of the time. In three instances, physician-access organizations were awarded PRO contracts over physician-sponsored organizations because HCFA found the physician-access organizations' contract proposals sufficiently superior to be rated higher despite the 100 bonus points awarded to physician-sponsored organizations.

HCFA documentation shows that of the current 54 PROs, 44 are physician-sponsored and 10 are physician-access organizations. These designations reflect generally the status claimed by PROs in their technical proposals submitted as part of their bids for the contract. In two instances, HCFA officials reviewing the technical proposals did not accept the PRO's self-designation as a physician-sponsored organization and used the physician-access status in evaluating the contract proposal. One of the organizations for which HCFA did not accept its self-designation did not obtain a PRO contract. The other organization obtained a contract in the current contract cycle because HCFA considered that it had performed well enough to renew its contract without competition.

Of the 54 contracts, 31 were opened for competitive bidding during the 1986 contract cycle or, in four cases, awarded during the 1984-86 contract period to replace PROs that had been terminated. (The remainder were renewed noncompetitively.) Of these 31 competitive renewals, 15 had only one bidder.

Among the 16 cases with two or more bidders were 12 in which both physician-sponsored and physician-access organizations competed. In one instance, HCFA officials told us that all bidders were physician-access organizations. However, documentation in HCFA's files was insufficient to permit us to verify this. In the remaining three instances, all bidders were physician-sponsored organizations.

In 9 of the 12 cases (75 percent) in which both physician-sponsored and physician-access organizations competed, HCFA awarded the contract to

the physician-sponsored organization. In two of the other three cases, HCFA's technical evaluation panel, even with the 100 bonus points, gave the physician-sponsored organization a lower contract evaluation score than the physician-access organization. In the remaining case, that of the Louisiana contract, the physician-sponsored organization failed to make its technical proposal technically acceptable to the HCFA review panel, while the physician-access organization did so.<sup>2</sup>

Of the 10 PROs that are physician-access organizations, 3 obtained contracts in 1986 in competition with physician-sponsored organizations. HCFA adjudged four to have performed well enough during the previous contract period to be offered noncompetitive contract renewal, and two others were the only bidders. In the remaining case, HCFA officials told us that all bidders in the competitive contract range were physician-access organizations, although, as noted above, we were unable to locate documentation to confirm this.

We are sending copies of this report to the Secretary of Health and Human Services and other interested congressional committees, and will make copies available to others on request.



Michael Zimmerman  
Senior Associate Director

<sup>2</sup>This contract award was protested to GAO. We found that only two of the five members of HCFA's technical evaluation panel had given the physician-sponsored organization the 100 points to which it was entitled. However, we found that this error did not injure the protestor because its proposal was reasonably found to be unacceptable because of deficiencies in treatment of objectives. (Louisiana Foundation for Medical Care/B-225576, Apr. 29, 1987.)

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