



United States  
General Accounting Office  
Washington, D.C. 20548

Health, Education and Human Services Division

B-266172

September 19, 1995

The Honorable Christopher S. Bond  
Chairman, Subcommittee on VA, HUD,  
and Independent Agencies  
Committee on Appropriations  
United States Senate

Dear Mr. Chairman:

Last February, the Department of Veterans Affairs (VA) encouraged its medical centers to employ all means at their disposal to improve the geographic accessibility of VA medical care for veterans. Subsequently, VA notified you that nine medical centers planned to establish several new access points--primary care clinics located apart from existing facilities.

As requested by your office and the Chairman of the House Committee on Veterans' Affairs, we are currently examining VA policies and procedures, including legal authority on the establishment of such clinics and medical centers' implementation of them. To date, we have visited medical centers in Big Spring and Amarillo, Texas, to obtain information on four newly established clinics.

This letter responds to a request from your office for preliminary information on one aspect of our ongoing work: namely, how the two medical centers financed the new clinics. During our visits to these medical centers, we interviewed VA officials and reviewed records, including clinic budgets and utilization data. We discussed the information we collected with your staff on August 23, 1995.

In summary, the Big Spring and Amarillo Medical Centers are financing their four new clinics using funds made available through local management initiatives that allow the centers to operate more efficiently. In addition, VA officials anticipate opening another ten clinics over the next several years that will also be financed from other cost-saving initiatives.

GAO/HEHS-95-273R VA Clinic Funding

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AMARILLO MEDICAL CENTER

The Amarillo Medical Center plans to spend an estimated \$773,100 to serve veterans at seven primary care clinics. The center has awarded contracts to two rural health care clinics at an annual cost of approximately \$157,400. They expect to award contracts to five additional clinics over the next 3 years at an estimated cost of \$615,700 a year.

Amarillo officials told us that the clinics are primarily financed from cost savings unrelated to clinic operations. They attributed cost savings to

- consolidating underused hospital wards,
- reviewing patient medication utilization, and
- modifying medical service contracts.

Inpatient Ward Consolidations

Amarillo officials provided documents showing that an estimated \$250,000 was saved by consolidating inpatient wards in December 1994. Specifically, they consolidated two medical wards with 54 beds into a single 46-bed ward. In addition, they reduced the number of surgical beds from 44 to 29. Because of these consolidations, the center eliminated nine nursing positions, achieving a savings in salaries and related benefits. Officials said that the consolidations were a result of declining workloads, attributable to lower admissions and lengths of stay, and as such would not affect the availability or quality of care that the center provides.

Patient Medication Utilization Reviews

Amarillo officials expect to save up to \$400,000 by reviewing patients' use of prescription medications. These reviews have resulted in a reduced number of medications provided, achieving cost savings in procuring, storing, and dispensing of the drugs.

In February 1995, clinical pharmacists began working with primary care teams to review patients' medications and identify potential drug interaction problems. In cases in which patients are taking multiple medications that may not be compatible or the optimal combination, the pharmacists

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recommend changes to the attending physicians. Officials estimate that such reviews could reduce future pharmacy costs by \$150,000 a year.

In April 1995, physicians began trying to change patients' life-styles to reduce their cholesterol. To do this, they established health education classes to teach correct diet and exercise techniques. Before this, physicians had routinely prescribed lipid-reducing drugs to lower cholesterol levels. Center officials estimate that the new approach can reduce the use of lipid-reducing drugs by half, which could reduce annual pharmacy costs by \$250,000. Officials are planning to establish similar health clinics for patients with high blood pressure and other common conditions that may be effectively treated without prescription drugs.

#### Service Contract Modifications

Amarillo officials expect to save \$200,000 or more annually by using a managed care contract to purchase radiation therapy services. Radiation therapy involves a series of treatments that the center has historically paid for on a fee-for-service basis. The center has recently signed a contract with a hospital to provide each series of radiation treatments at a capitated rate based on Medicare's reimbursement schedule. Officials are currently negotiating similar contracts for other medical services.

#### BIG SPRING MEDICAL CENTER

The Big Spring Medical Center plans to spend about \$1.3 million to serve veterans at seven new primary care clinics. The center awarded contracts to a rural health care clinic and a private provider at an annual cost of approximately \$450,000. Big Spring officials expect to award contracts to five additional providers over the next 3 years at an estimated cost of \$827,000 a year.

Big Spring officials are financing their new clinics by using funds saved through staffing reductions in their hospital. They estimated savings of \$920,167 by eliminating the equivalent of 15.5 positions, as follows:

-- 3.1 physicians,

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- 2.9 registered nurses,
- 4.0 practical nurses and assistants,
- 1.1 health technicians, and
- 4.4 administrative support staff.

COST SAVINGS ATTRIBUTABLE  
TO NEW CLINICS

Big Spring and Amarillo officials also anticipate that the new clinics will help realize savings in other operating areas. Such areas include reducing veterans' use of private care that the centers purchase on a fee-for-service basis and reimbursements for travel costs to VA medical centers for care.

Fee-for-Service Care

Medical centers may purchase care for certain veterans from private providers when needed care is unavailable in VA facilities or cannot be economically provided in VA facilities due to a veteran's geographic inaccessibility to a VA facility. Eligible veterans include those who need outpatient care for (1) a disability incurred or aggravated during active military duty or (2) a condition that was treated during a VA hospital stay. Veterans may choose their own provider.

Big Spring and Amarillo officials expect many veterans who are receiving care from private providers on a fee-for-service basis to now use the new clinics. For example, the Amarillo center reduced the number of veterans receiving such care by 59 percent in those geographic areas served by a new clinic, resulting in an estimated savings of \$4,700. Big Spring officials also plan to reduce the number of veterans receiving this care because care is available at new clinics. Although they have not estimated the potential savings yet, it seems likely that they could realize greater savings than Amarillo because the Big Spring center spent approximately \$141,340 for 496 patients last year, compared with Amarillo's expenditure of \$12,836 for 56 patients.

Travel Cost Reimbursements

Medical centers may reimburse veterans for the travel costs to VA facilities for scheduled appointments. Generally,

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veterans are reimbursed at a fixed rate per mile traveled. Big Spring and Amarillo officials expect reduced payments to veterans for travel costs as veterans use the new clinics.

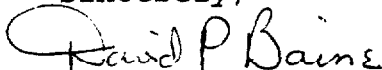
Big Spring officials anticipate saving a significant portion of the more than \$100,000 now spent for travel cost reimbursements. They recognize, however, that the amount saved will depend greatly on the extent to which veterans are referred to the medical center for services and continue to receive travel cost reimbursements. In this regard, an Amarillo official expects that veterans will continue to travel to the medical center to use specialty clinics in the short term, and, as such, estimates little or no travel cost savings.

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Copies of this letter are being sent to the Ranking Minority Member, Subcommittee on VA, HUD, and Independent Agencies; Chairmen and Ranking Minority Members, House and Senate Veterans' Affairs Committee; Chairman and Ranking Minority Member, House Appropriations Subcommittee on VA, HUD, and Independent Agencies; and the Secretary of Veterans Affairs. Copies will be made available to others on request.

If you have any questions, please call me or Paul Reynolds, Assistant Director, at (202) 512-7109.

Sincerely,



David P. Baine  
Director, Health Care Delivery  
and Quality Issues

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