Department of Veterans Affairs

Office of Inspector General

SUMMARY REPORT: AUDITS OF PATHOLOGY AND LABORATORY MEDICINE SERVICE

The Veterans Health Administration is improving operations of Pathology and Laboratory Medicine Service.

Report No.: 8R3-A01-149

Date: September 30, 1998

Office of Inspector General
Washington DC 20420

DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Under Secretary for Health (10)

Summary Report: Audits of Pathology and Laboratory Medicine Service

1. The Office of Inspector General conducted a series of audits of the Veterans Health Administration's (VHA's) management of Pathology and Laboratory Medicine Service (PLMS) operations during Fiscal Years (FYs) 1996-1998. The overall objective of these audits was to determine whether pathology and laboratory services were provided in an economical and efficient manner. This report summarizes our findings and conclusions.

2. The mission of PLMS is to provide the medical diagnostic laboratory testing and transfusion functions at all VHA medical centers and outpatient clinics. During FY 1997, PLMS employed 7,203 employees nationwide, had a budget of over $570 million, and reported over 105 million patient tests. Thus, PLMS represents a significant utilization of resources and has an important role in the provision of medical care to VHA's veteran population.

3. Overall, we found that PLMS functions were generally operated in a satisfactory manner. The audits showed that laboratory tests were performed timely, and that all laboratories and blood banks were accredited. Quality control tests were routinely performed to ensure accurate test results, laboratory equipment supply inventories were managed to prevent waste, and the volume of unnecessary testing had been reduced. Additionally, VHA had undertaken several new initiatives to improve PLMS operations, such as implementing a new workload reporting system, and developing new procurement strategies.

4. However, we identified some program areas in which VHA could improve operations. We issued three separate reports which addressed the need to (i) reduce procurement costs for chemistry tests by consolidating facility workloads ($32 million annually), (ii) reallocate unused laboratory instruments procured for the Mobile Laboratory initiative ($10.2 million), and (iii) capture unreported workload representing $5 million in resources. You concurred with the report recommendations contained in the reports, provided acceptable implementation plans, and have taken appropriate action to resolve the conditions found.

5. This report outlines opportunities for improvement in three other program activities that were identified during the audit. Audit results showed that PLMS needs to more closely monitor quality control testing, staffing, and send-out tests. We estimate that over $2 million might be saved annually by increasing oversight over the cost of quality control testing.

6. We recommend that the Under Secretary for Health take action to ensure that:

(a) the cost of laboratory quality control testing is more aggressively monitored,

(b) PLMS staffing is assessed by Veterans Integrated Services Network (VISN) Directors to ensure that all positions are justified, and

(c) the costs of laboratory send-out tests are analyzed to ensure that it is more cost-effective to perform them in-house.

7. You concurred with the findings, recommendations, and estimated monetary benefits in this report, and provided acceptable implementation plans. Therefore, we consider the issues discussed in the report to be resolved, based on actions taken or planned. However, we will continue to follow up on the planned actions until they are completed.

For the Assistant Inspector General for Auditing

(*Original signed by)*
JAMES R. HUDSON
Director, Atlanta Operations Division

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RESULTS AND RECOMMENDATIONS

The Veterans Health Administration Is Improving Operations of Pathology and Laboratory Medicine Service

The Office of Inspector General audited the Veterans Health Administration's (VHA's) Pathology and Laboratory Medicine Service (PLMS) during Fiscal Years (FYs) 1996-1998. The overall objective was to determine whether pathology and laboratory services were provided in an economical and efficient manner. To achieve our objective, we performed an audit of overall laboratory operations, and concluded that most program areas generally evidenced an overall satisfactory level of economy and efficiency.

The audit showed that PLMS was generally performing tests timely, and laboratories and blood banks were appropriately accredited. Quality control tests were routinely performed on laboratory instruments to ensure accurate test results, and Quality Improvement Programs had been implemented. Laboratory inventories were managed appropriately to prevent waste from outdated products, and action had been taken to reduce the volume of unnecessary testing.

However, we identified some program areas in which VHA could improve operations. We issued three reports which addressed the following major program areas: (i) reducing costs for chemistry tests ($32 million annually), (ii) reallocating unused laboratory equipment purchased for the Mobile Laboratory initiative ($10.2 million), and (iii) capturing unreported workload representing $5 million in resources.

We also concluded that there were opportunities for improvement in three other areas. Audit results showed that: (i) the costs of quality control testing should be more aggressively monitored, (ii) laboratory staffing should be assessed by Veterans Integrated Services Network (VISN) Directors to ensure that all positions are justified, and (iii) the cost of send-out tests should be analyzed to ensure that it is more cost-effective to do them in-house. We estimate that increased oversight of the cost of quality control testing could save over $2 million annually. This report summarizes our findings and conclusions concerning VHA's laboratory operations.

PLMS Initiatives To Improve Operations

The audits showed that VHA had improved the economy and efficiency of PLMS laboratory operations. Some examples are discussed below.

Workload Reporting System

PLMS implemented the Laboratory Management Index Program (LMIP), a new workload reporting system. LMIP uses information in the Veterans Health Information System and Technology Architecture (VISTA), VHA's main hospital information system, and requires very few manual entries or adjustments. The workload data is automatically captured by a software interface with the laboratory testing equipment, whereas information for the previous system was collected manually.

Procurement Strategies

PLMS program officials encouraged new procurement strategies, such as cost-per-test leasing (CPTL) to procure chemistry tests. CPTL vendors provided the equipment, supplies, maintenance, and training at an agreed upon cost-per-test. We estimated that by using multi-facility agreements, VHA was saving $8 million a year by FY 1997.

PLMS formed a committee to identify laboratory items that could be standardized, such as gloves, masks, and biohazard bags, in response to a 1995 directive by the Under Secretary for Health[1]. At the request of PLMS program officials, we collected information on 13 such items at sites visited during the audits. We found significant variances in the prices paid for similar type supply items across the country. PLMS, in conjunction with VHA's Medical Acquisition Programs Office and the National Acquisition Center (NAC), is currently in the process of negotiating vendor contracts to procure these items at the same price nationwide.

Laboratory Consolidations

A VISN planned to consolidate laboratory functions at seven VA medical centers (VAMCs) into two core laboratories. The initiative was expected to save almost $8 million through reduced staffing, group purchasing, sharing contracts, and procurement standardization. Enhanced software was being developed to provide an electronic data interchange for the transmission and receipt of laboratory test orders, order processing, and results reporting.

Telepathology

VAMC test sites were using telepathology to render pathological diagnoses on tissue specimens located at other VAMCs. A video link with a robotically-controlled microscope at the remote location provided pathology services to another VAMC that

[1] VHA Directive 10-95-065, dated July 11, 1995

lacked an onsite Pathologist. This was the first such system in the United States, and only the third in the world.

Autopsy Program

PLMS program officials issued new guidelines for the Autopsy Program in February 1998. Although the policy still required all medical centers to provide autopsy services to establish the cause of death of those veterans that die at VAMCs, the new guidelines provided VAMCs more flexibility for meeting those requirements. While the previous policy contained percentage goals, facilities are now expected to perform the number and type of autopsies in line with local needs and current practice, or to make arrangements for autopsies to be performed at another VAMC or other local hospital.

Audit Reports Issued With Recommendations For Improvements

We issued audit reports in FYs 1997-1998 with recommendations for improvements in three program areas: (a) procurement of chemistry tests by cost-per-test leases and reagent rental contracts; (b) the Mobile Laboratory initiative; and (c) the workload reporting system. A brief summary of the findings and recommendations in each of these audit reports is provided below.

Audit of Cost-Per-Test Leases and Reagent Rental Contracts in Pathology and Laboratory Medicine Service, Report No. 8R3-A01-101, dated May 13, 1998

The objective of this audit was to evaluate the cost effectiveness of using vendor-owned chemistry analyzers leased to perform laboratory tests. The audit showed that although VA was saving $8 million annually by FY 1997, opportunities existed to increase savings by over $32 million annually. Some VAMCs did not achieve maximum, volume-based discounts for routine tests, and paid a wide range of prices for non-routine tests under a variety of vendors and procurement methods. Also, VA did not take full advantage of its combined purchasing power by consolidating its workload within VISNs and Department of Defense (DoD) regions. In addition, VA was not aware of the different prices paid by VAMCs, DoD, and private healthcare organizations to ensure it was getting the lowest price. As a result, VAMCs were paying higher prices than some private hospitals for the same tests in lower volumes.

We recommended that PLMS take action to: (a) advise VISNs of the benefit of multi-facility agreements that include nearby DoD facilities to maximize volume-based discounts; (b) instruct VISNs to perform cost-studies to determine the optimal configuration of equipment necessary to perform chemistry tests VISN-wide at the lowest cost; (c) ensure that contracting officials make proposals to vendors for cost-per-test

agreements more uniform to allow meaningful price comparisons; and (d) survey prices charged VA, DoD, and private healthcare organizations to identify the lowest prices offered.

In response to our recommendations, the Chief Network Officer (10N) sent a memorandum to all VISN Directors on May 7, 1998, that directed them to participate with DoD facilities, when applicable, in establishing multi-facility CPTLs, and to conduct cost studies to establish optimal equipment configurations for all medical facilities within the network. Program officials are currently taking action, along with the NAC, to address uniform proposals during renegotiations with each vendor, and to perform the survey to identify the prices charged VA, DoD, and private healthcare organizations.

Audit of the Pathology and Laboratory Medicine Service (PLMS) Mobile Laboratory Initiative, Report No. 7R3-A01-140, dated September 30, 1997

The objective of the audit was to determine whether the Mobile Laboratory (Mobile Lab) initiative was operating in a manner that ensured optimum utilization of funding and equipment. Mobile Lab was designed to expedite the delivery of the 25 most commonly ordered tests to patients in any area of the hospital. However, the audit showed that $10.4 million of the $20.7 million spent on the initiative could have been better used. This occurred because VA Central Office developed the Mobile Lab with little input from VAMCs selected to receive them, and because VAMCs had difficulty determining the best use for Mobile Lab. As a result, VAMCs were using only 31 of 92 (34 percent) of the Mobile Labs, and no facility was using all of the equipment placed on their Mobile Lab.

We recommended that unused Mobile Lab equipment be reassigned to facilities or activities that would utilize them. As a result of the audit, a VHA task force was convened to assess options for utilizing unused equipment. After considering the task force's alternatives for disposition of unused equipment, program officials opted to use VA's Turn-in/Excess Equipment Process. VISN Director's were made responsible for assessing each facility's need for this equipment, and to provide the necessary oversight for disposition of any equipment.

Audit of Pathology and Laboratory Medicine Service's Laboratory Management Index Program (LMIP), Report No. 8R3-A01-085, dated March 25, 1998

We audited the data in LMIP, the PLMS workload reporting system, to determine whether the data reported was accurate and complete. The audit showed that while workload data reported to LMIP was generally accurate, it was not complete because not all VAMCs reported their workload every month. This occurred because there was no

formal process to ensure that all workload was reported. We also found that one of the system controls used to test the accuracy of data, the National List of Tests, was allowing inappropriate items to be reported as tests. We estimated that PLMS was underreporting workload by almost 7 million tests a year, representing resources of over $5 million in program costs.

We recommended that PLMS (i) ensure that all VAMCs reported LMIP data monthly, as required, and (ii) purge the National List of Tests of all items that were not LMIP reportable tests. In response to our audit, PLMS Program Officials were in the process of recruiting a national LMIP Coordinator to oversee the program, and have added appropriate edits to the LMIP computer database.

Program Areas Presenting Opportunities for Improvement

Although most program areas were operating satisfactorily, we noted opportunities for improvement in the program areas of quality control (QC) testing, staffing, and send-out tests. These areas are discussed below.

Quality Control Testing

QC testing, which monitors the accuracy of the analytical phase of specimen testing, is required by the College of American Pathology (CAP), a national laboratory accreditation agency. Program officials estimated that a quality control testing level of 10 – 15 percent of total tests was acceptable, but we found that VHA QC tests averaged 20 percent of tests performed nationwide. Many VAMCs averaged 30 percent or more. Although the cost of performing QC tests was a significant cost at some facilities, many laboratories did not monitor these costs because they were considered "overhead." While the PLMS workload reporting system allowed facilities to report their volume of quality testing, reporting such data was not required. Therefore, about 40 percent of all VAMCs did not report quality control data.

One site we visited paid $282,059 for patient tests and $113,454 for QC tests (40 percent) in FY 1996. This was because a laboratory might perform only one test a month of any one type on a laboratory instrument, while at the same time performing two or three QC tests a day in order to ensure the test could be run whenever needed. As a result, the facility paid the overhead costs for as many as 90 tests a month in order to accomplish one reportable patient test result. After the VISN negotiated a multi-facility CPTL for FY 1997 that included QC tests in the cost–per-test charge, the facility no longer had this "overhead" cost. Various scenarios evaluated from available data suggested that over $2 million annually might be saved by monitoring this overhead cost more aggressively.

Staffing

From FY 1992 to FY 1997, full-time PLMS staffing decreased by about 4 percent to 6,454 employees, while part-time staffing decreased by 32 percent to 749 employees. While VHA mandated staffing reductions and efforts to consolidate some laboratories in VHA have contributed to staffing reductions at some sites, many VAMCs continue to report what appears to be out-of-line staffing conditions. We identified VAMCs with a similar average daily inpatient census that had three times the PLMS staff of comparable facilities. For example:

- Visits to two large comparable facilities showed that one site had three more chemistry staff than the other, although they performed 3.5 percent fewer tests per year.

- Visits to two small facilities with similar workloads showed that one laboratory's productivity rate was 60 percent less than the other because it had three more staff to perform chemistry tests.

Since over $271 million is spent for PLMS salaries each year, VISN Directors should critically assess staffing levels to ensure that all positions are justified; especially when performing cost studies and restructuring, or consolidating laboratory operations.

Send-Out Tests

VHA laboratories had decreased the volume of send-out tests to about 1 percent of total annual workload, or 750,000 tests. This occurred because some VAMCs were performing low-volume tests that were previously sent out, and because some VISNs had designated one facility to perform certain specified low-volume tests for all VAMCs in the VISN. However, in some cases, there could be some benefit to increasing the volume of send-out tests. Review of this program area indicated that some facilities may be inappropriately decreasing their volume of send-out tests in favor of more expensive in-house testing for some non-routine tests.

For example, one facility stopped sending amphetamine tests costing $2.46 each to a private laboratory in favor of doing the testing in-house. The in-house test was $1.64 for a single patient test, but the total cost was $3.86 because of high overhead costs for quality control and repeat testing. Although some VISNs had negotiated multi-facility CPTL arrangements that included the QC tests in the cost-per-test charge, other VISNs had facilities that were paying significant overhead costs for QC testing. Therefore, VISN Directors should perform cost benefits analyses to determine the cost-effectiveness of performing a test in-house or sending it out.

Conclusion

PLMS program areas generally evidenced an overall satisfactory level of economy and efficiency, and VHA had undertaken several new initiatives to improve laboratory operations. Specifically, PLMS had implemented a new workload reporting system, developed new procurement strategies, was in the process of consolidating laboratories at the VISN level, and had pilot-tested telepathology.

We issued audit reports for three major program areas that identified monetary benefits totaling $42.2 million: (a) the Mobile Laboratory initiative ($10.2 million); (b) cost-per-test leases and reagent rental contracts ($32 million); and (c) workload reporting. VHA was responsive to our recommendations, provided acceptable action plans for each of the reports, and has taken action to resolve the conditions identified.

This report outlines opportunities for improvement in three other program activities that were identified during the audit. Audit results showed that PLMS needs to more closely monitor QC testing, staffing, and send-out tests. We estimate that over $2 million might be saved annually by increasing oversight over the cost of QC testing.

Recommendation

We recommend that the Under Secretary for Health take action to ensure that:

(a) the cost of laboratory QC testing is more aggressively monitored,

(b) PLMS staffing is assessed by VISN Directors to ensure that all positions are justified, and

(c) the costs of laboratory send-out tests are analyzed to ensure that it is more cost-effective to perform them in-house.

Comments of the Under Secretary for Health

The Under Secretary for Health concurred with our findings, recommendations, and estimated monetary benefits. According to the Under Secretary for Health, the timing of our reviews coincided with the initiation of national strategies to achieve VHA's major restructuring goals. While the Under Secretary for Health fully endorses the need for

[1] VHA Directive 10-95-065, dated July 11, 1995.

managerial flexibility to address unique situations, he also recognizes that to function as an effective system, VHA must focus on ways to strengthen uniformity and standardization of key administrative functions.

The Under Secretary for Health's comments are provided in their entirety in APPENDIX III (page 13).

Implementation Plan

Recommendation (a): The Chief Network Officer will send a cover letter along with a copy of the report to all Network Directors which identifies specific issues that require additional attention. For example, it will reiterate that LMIP has the software capability to track levels of Quality Control testing and should be used for this purpose. VISN-wide Quality Control testing patterns will be included in various cost-studies being initiated by the VISNs. The PLMS program office and the Chief Network Officer will reinforce issues needing attention during their periodic teleconference calls and meetings with Network Directors.

Recommendation (b): PLMS-related cost studies that are being initiated by the Network offices will continue to assess staffing levels, with special scrutiny given to perceived staffing disparities among facilities of similar size, mission, and complexity.

Recommendation (c): VHA will include analysis of in-house vs. fee basis testing in the VISN cost-studies of laboratory procurement and test ordering practices.

Office of Inspector General Comments

The Under Secretary for Health's implementation plans are responsive to the report recommendations and we consider the report issues resolved. We will follow up on planned actions until they are completed.

APPENDIX I

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The Office of Inspector General audited the Veterans Health Administration's (VHA's) Pathology and Laboratory Medicine Service (PLMS) during Fiscal Years (FYs) 1996-1998. The overall objective was to determine whether pathology and laboratory services were provided in the most economical and efficient manner. To achieve our objective, we performed a series of audits of specific program areas after our initial broad-based audit of overall laboratory operations.

Scope

During the initial audit of laboratory operations, we reviewed 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. We visited and observed PLMS operations at 12 VA medical centers. During our onsite visits, we interviewed laboratory managers and staff, and reviewed documents and records pertaining to laboratory activities. During the audits, we evaluated the following program areas:

- Autopsies
- Blood Bank
- Credit Card Program
- Equipment and Reagent Procurement
- Financial Reporting
- Inventory Management
- Program Oversight
- Point-of-Care Testing
- Proficiency Testing
- Quality Control
- Quality Improvement
- Reference Laboratories
- Research Tests
- Send-Out Tests
- Staffing
- Telepathology
- Unnecessary Tests
- Workload Reporting

As a result of our initial broad-based audit, we performed a series of three audits that focused on PLMS program management of (i) the Mobile Laboratory initiative, (ii) procurement methods for test instruments (i.e., cost-per-test leases and reagent rental contracts), and (iii) workload reporting (the Laboratory Management Index Program). During each of these audits, we also assessed program management over other functional areas in more detail, such as autopsy rates, blood bank operations, inventory management,

quality control, quality improvement, send-out tests, staffing, standardization of supplies, and unnecessary testing. We also reviewed compliance with the Clinical Laboratory Improvement Act of 1988, and accreditation. The audits generally covered program activities during FYs 1996-1998, when annual operating costs were about $570 million.

Methodology

The information in this report is largely a compilation of (i) information provided to VHA in four earlier published reports, (ii) feedback to PLMS managers during briefings held over the period of the previous audits, and (iii) recently completed assessments of work we performed over the course of these series of PLMS audits. The four reports previously published are listed below:

- *Interim Report – Audit of Pathology and Laboratory Medicine Service* (Report No. 7R3-A02-043, dated February 7, 1997).

- *Audit of the Pathology and Laboratory Medicine Service (PLMS) Mobile Laboratory Initiative* (Report No. 7R3-A01-140, dated September 30, 1997).

- *Audit of Pathology and Laboratory Medicine Service's Laboratory Management Index Program (LMIP)* (Report No. 8R3-A01-085, dated March 25, 1998).

- *Audit of Cost-Per-Test Leases and Reagent Rental Contracts in Pathology and Laboratory Medicine Service* (Report No. 8R3-A01-101, dated May 13, 1998).

The audits were made in accordance with generally accepted Government Auditing Standards.

APPENDIX II

BACKGROUND

The mission of Pathology and Laboratory Medicine Service (PLMS) is to provide the principal medical diagnostic laboratory testing and transfusion functions at all VA medical centers and outpatient clinics. During Fiscal Year 1997, PLMS employed 7,203 full-time employees nationwide, had a budget of over $570 million, and reported over 105 million patient test results. Thus, PLMS represents a significant utilization of resources and plays an important role in the provision of medical care to the Veterans Health Administration's (VHA's) veteran population.

Each VHA laboratory is accredited by the College of American Pathologists (CAP), and blood banks are accredited by the American Association of Blood Banks (AABB). The Food and Drug Administration (FDA) also provides oversight by unannounced, annual inspections for Blood Banks that accept and process blood from donors. CAP accreditation includes an ongoing proficiency-testing program[1], whereby each laboratory must accurately test samples of laboratory specimens supplied by CAP three times a year.

In 1992, VHA established an Enforcement Office at VA Central Office, and an Ancillary Testing Coordinator (ATC) position at each VAMC:

- The Enforcement Officer is responsible for ensuring that all VHA laboratories are in compliance with the standards of the various laboratory accrediting and oversight agencies. Thirteen Regional Commissioners (RCs) assist the Enforcement Officer in providing oversight through VA medical center site visits[2]. RCs perform mock inspections prior to CAP inspections, address such issues as failure of proficiency testing, and ensure that cited deficiencies are corrected.

- The ATC acts as the local technical supervisor for quality control testing, record control, and hospital-wide inspection and accreditation for ancillary testing.

[1] Proficiency testing is a system to evaluate the exactness of testing procedures.

[2] The Regional Commissioner positions are collateral duties performed by PLMS pathologists from VAMCs nationwide.

APPENDIX II

On September 1, 1996, PLMS became part of the Diagnostic Services Strategic Healthcare Group, along with Radiology and Nuclear Medicine. The PLMS Director was designated Chief Consultant for the Group.

DETAILS OF AUDIT
COMENTS OF THE UNDER SECRETARY FOR HEALTH

Department of Veterans Affairs

Memorandum

Date:

From: Under Secretary for Health (10/105E)

Subj: OIG Draft Report: ***Summary Report: Audits of Pathology and and Laboratory Medicine*** *Service (Project No. 7R3-133)*

To: Assistant Inspector General for Auditing (52)

1. Appropriate VHA program officials have reviewed this summary report of your comprehensive assessment of Pathology and Laboratory Medicine Service (PLMS) activities over the past several years, and we concur, as we did in previous report responses, in these final findings and recommendations. We also concur in your estimate of potential fiscal savings that might be realized through more efficient monitoring of quality control testing in the labs. The attached action plan outlines specific steps that will be taken to address each recommendation.

2. We were pleased with your conclusions that overall PLMS functions are being performed in a satisfactory manner and that you recognized many of the new initiatives that VHA has introduced to improve these operations, not the least of which is a new, state-of-the-art workload reporting system that has already significantly enhanced the reliability and accuracy of our monitoring activity.

3. The timing of your reviews coincided with the initiation of our national implementation strategies to achieve VHA's major restructuring goals. As you are aware, these efforts have significantly impacted all levels of organizational operation and management performance. Many of our actions, which have targeted such areas as facility/service consolidations, staffing realignments, enhanced sharing agreements and consolidated procurement strategies, relate directly to issues addressed in your reports. One theme that you consistently cite is the significant variability among facilities in procurement practices, staffing patterns, laboratory testing patterns (i.e., levels of quality control testing, inhouse vs. send-out tests, leasing and reagent rental agreements) and oversight monitoring of key laboratory functions. While we fully endorse the need for managerial flexibility to address unique situations, we also recognize that to function as an effective system, we must focus on ways to strengthen uniformity and standardization of key administrative functions. For example, development of a systematic procurement process is one of our primary goals and steps are being taken at both the Headquarters and Network levels to establish a foundation for future system design. PLMS will obviously be an active participant in this process. As has been reported to you, the National Acquisition Center (NAC) is already

working closely with PLMS in making vendor proposals for cost-per-test leasing agreements more uniform. NAC is also working with other contracting and purchasing specialists within the Department to identify the most effective ways to comparatively assess laboratory test pricing data from other federal and private sector healthcare operations.

4. Because the Network Directors are responsible for assuring that their facilities implement the most cost-effective administrative initiatives, they have been appropriately apprised of your report findings and recommendations. As we have advised OIG, most of the VISNs are currently conducting cost benefit studies and taking other corrective actions (which you have found acceptable) in response to your reports. Similarly, a copy of this summary report will also be distributed to each Network Director with a cover letter from the Chief Network Officer that identifies special issues requiring targeted attention. Quality control and fee basis testing patterns will be included among the ongoing Network cost studies. In addition, the Network Directors will be requested to further assess observations that you report in relation to PLMS staffing. The PLMS program office will also discuss report findings and recommendations during the September 1998 national teleconference call with laboratory chiefs and clinical managers. If indicated, follow-up discussion of identified PLMS issues will be included during Chief Network Director teleconference calls and Network Director national meetings.

5. The information that you have shared with us has been very useful as we prioritize opportunities for improvement, and we appreciate the cooperative efforts of your auditors. If additional assistance is required, please contact Paul C. Gibert, Jr., Director, Management Review and Administration, Office of Policy and Planning, at 273.8355.

Original signed by
Kenneth W. Kizer, M.D., M.P.H.

Attachment

DETAILS OF AUDIT
COMENTS OF THE UNDER SECRETARY FOR HEALTH

Action Plan in Response to OIG/GAO/MI Audits/Program Evaluations/Reviews

Name of Report: OIG Draft Report: ***Summary Report/Audits of Pathology and Laboratory Medicine Service***
Report Number: Project No. 7R3-133
Date of Report: none

Recommendations/ Actions	Status	Completion Date

Recommendation

We recommend that the Under Secretary for Health take action to ensure that:

(a) the cost of laboratory QC testing is more aggressively monitored,

Concur

VHA recognizes that the monitoring of Quality Control (QC) test volume and cost represents one of the most fundamental components of the clinical laboratory administrative review. Although there will necessarily be significant variation among our medical centers in levels of QC testing, it is important that all laboratory directors maintain adequate usage data to assist in analyzing the appropriateness of QC testing, particularly in instances where levels of testing exceed the generally accepted levels of 10-15% of total performed tests. A copy of this report will be sent to all Network Directors, along with a cover letter from the Chief Network Officer that identifies specific issues that require additional attention. For example, it will be reiterated that the LMIP (Laboratory Management Index Program) has the software capability to track levels of QC testing and should be utilized for this purpose. As OIG is aware from status reporting of VHA follow-up activity to previous report recommendations, the VISNS are initiating various cost studies of laboratory procurement and test ordering practices. VISN-wide Quality Control testing patterns will be included among these studies. The PLMS program office will also discuss issues identified in this report, including QC testing, during the September 1998 nationwide conference call with laboratory chiefs and clinical managers. When indicated, identified issues will also be reinforced during weekly Chief Network Officer teleconference calls that are attended by key management officers from all facilities, as well as during scheduled joint meetings of all Network Directors.

	Planned	October 1998 and Ongoing

DETAILS OF AUDIT
COMENTS OF THE UNDER SECRETARY FOR HEALTH

Page 2 VHA Action Plan/OIG Draft Report: **PLMS Summary**

(b) PLMS staffing is assessed by VISN Directors to ensure that all positions are justified

Concur

VHA's restructuring activities over the past several years have strongly focused on all aspects of administrative functioning, including staffing configurations. Staffing issues continue to be a focal point in our ongoing restructuring efforts. During the last several years (1996-Present), national reductions in professional and technical staffing in VHA clinical labs have been 10% and 6% respectively. PLMS-related cost studies that are being initiated by the Network Offices will continue to assess staffing levels, with special scrutiny being given to perceived staffing disparities among facilities of similar size, mission and complexity. As noted, the Chief Network Officer will personally communicate with Network Directors and facility managers about issues and recommendations identified by OIG. Follow-up progress reports on Network implementation activity will be provided to OIG in response to their routine requests for recommendation status updates.

Planned October 1998 and Ongoing

(c) the costs of laboratory send-out tests are analyzed to ensure that it is more cost-effective to perform them in-house.

Concur

VHA agrees that ongoing analysis of in-house versus fee basis testing is vital in assuring that the most cost-effective services are utilized, and our proposed actions in response to Recommendation (a) apply equally to this recommendation. All issues identified by OIG are interrelated and established VISN workgroups involved with networking/consolidation and facility clinical lab operations will be advised to carefully consider such analyses in their cost studies.

In Process October 1998 and Ongoing

APPENDIX IV

MONETARY BENEFITS SUMMARY
(IN ACCORDANCE WITH OIG ACT AMENDMENTS)

REPORT TITLE: Summary Report: Audits of Pathology and Laboratory Medicine Service

PROJECT NUMBER: 7R3-133

Recommendation Number	Category/Explanation of Benefits	Better Use Of Funds
1a	More aggressively monitor the costs of quality control testing.	$ 2 million
Total Funds That Could Have Been Better Used		$ 2 million

APPENDIX V

REPORT DISTRIBUTION

VA DISTRIBUTION

The Secretary of Veterans Affairs
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