

## DOCUMENT RESUME

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[Review of the VA Internal Audit Service Report on the Midwest Organ Bank]. HRD-78-30; B-133044. January 17, 1978. 3 pp. + enclosure (9 pp.).

Report to Rep. Ray Roberts, Chairman, House Committee on Veterans' Affairs; by Elmer B. Staats, Comptroller General.

Issue Area: Health Programs: Federal Government Control of Costs Through Direct Delivery Programs (1216).

Contact: Human Resources Div.

Budget Function: Veterans Benefits and Services: Hospital and Medical Care for Veterans (703).

Organization Concerned: Veterans Administration.

Congressional Relevance: House Committee on Veterans' Affairs.

Methods used by the Veterans Administration's (VA's) Internal Audit Service (IAS) to measure the costs incurred by the Kansas City VA hospital in support of the Midwest Organ Bank were reviewed as to their appropriateness. In addition, a review was made of the VA's Investigation and Security Service summary reports on the organ bank; interviews were conducted with the Internal Audit Service team responsible for the final VA internal and audit report; and a review of some of the Internal Audit Service auditors' documentation was carried out.

Findings/Conclusions: For the most part, the VA's Internal Audit Service had used appropriate methodologies to measure the costs incurred by the Government in support of the organ bank operation. Due to the lack of complete documentation, IAS auditors were unable to identify all of the costs incurred by the VA in support of the organ bank for the period July 1, 1972, through December 31, 1976. The VA hospital's costs in support of the organ bank were reported to be \$476,853. Specific lacks in documentation were found in hospital records relating to staff overtime and compensatory time and to costs incurred to repair equipment used by the organ bank. Because of an oversight by VA auditors, other expendable supply costs for July 1 to September 21, 1976, were absent from the VA's calculation. IAS calculated this amount to be \$335.

Recommendations: The Administrator of Veterans Affairs should direct the Kansas City VA hospital to insure that future hospital operating information is recorded accurately and completely, with particular attention to staff compensatory time reports and equipment service records. The Administrator should also direct the IAS to correct the computation of other expendable supplies in its final report.

(DB)



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WASHINGTON, D.C. 20548

17 JAN 1978

B-133044

The Honorable Ray Roberts  
Chairman, Committee on Veterans' Affairs  
House of Representatives

Dear Mr. Chairman:

Your January 14, 1977, letter requested that we review the arrangement between the Midwest Organ Bank and the Veterans Administration (VA) hospital in Kansas City, Missouri, to assess what costs may have been incurred illegally by the Government in support of the organ bank's operations. Because VA's Internal Audit Service and Investigation and Security Service were reviewing the activities and costs incurred by VA under this arrangement, we agreed to review their work to assess the adequacy of support obtained for their final conclusions.

The enclosures present the details of our findings, conclusions, and recommendations regarding the methods used by VA's Internal Audit Service in developing the financial information for its final report. VA's final internal audit report reflects certain modifications its auditors made as a result of our review. We have not audited the Internal Audit Service's figures and, therefore, cannot attest to their accuracy. We have, however, reviewed the methodologies the auditors used in making their calculations. For the most part, VA's Internal Audit Service has used appropriate methodologies to measure the cost incurred by the Kansas City VA hospital in support of the organ bank.

Although it is apparent that the Internal Audit Service's cost data involve estimates based on incomplete documentation, we believe it would not be worthwhile for VA to expend additional time and resources to try to identify all the costs.

HRD-78-30  
(40149)

The Internal Audit Service concluded that the organ bank's operations at the VA hospital were illegal and should be removed, and that costs incurred in support of the organ bank should be recovered by VA. On July 21, 1977, VA rendered a bill to the organ bank, after its removal from the hospital, amounting to \$485,859. This figure was based on the total cost of the VA hospital's support of the organ bank as identified by the Internal Audit Service. The organ bank, through its attorney, has since advised VA that it will not pay this bill. According to a VA deputy assistant general counsel, VA gave the Midwest Organ Bank an opportunity to participate in the formulation of the cost figures. The Midwest Organ Bank refused when first approached on this matter. In a subsequent letter to VA from the Midwest Organ Bank's lawyers, dated August 25, 1977, however, the organ bank indicated that it might agree to a discussion of VA's cost figures although it insists that the organ bank bears no liability for its operations at the VA hospital.

It is our understanding that VA is planning to send another bill to the organ bank which will reflect a net reduction in other expendable supply costs of \$8,671. This reduction is due to a \$9,006 adjustment to these costs and a \$335 oversight the Internal Audit Service made as detailed in this report.

Because of the data collection problems experienced by the Internal Audit Service, we recommend that the Administrator of Veterans Affairs direct the Kansas City VA hospital to insure that future hospital operating information is recorded accurately and completely. Particular attention should be given to staff compensatory time reports and equipment service records. Furthermore, the Administrator should direct the Internal Audit Service to correct the computation of other expendable supplies in its final report.

In addition to examining VA's internal audit report, we also reviewed VA's Investigation and Security Service summary reports on the organ bank, interviewed the Internal Audit Service team responsible for the final VA internal audit report, and reviewed some of the Internal Audit Service auditors' documentation. Because the Investigation and Security Service report was under review by VA's Department of Medicine and Surgery at the time of our review, we were unable to gain timely access to the supporting documentation for the report and, therefore, did not determine the adequacy of that investigation and the appropriateness of the report's

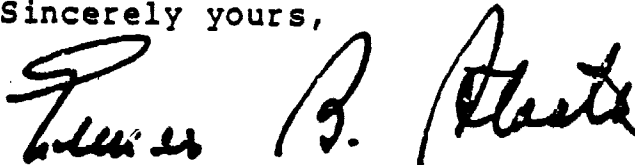
recommendations. We understand that in August 1977, VA initiated disciplinary personnel actions against certain hospital employees in response to the recommendations presented in the investigative report. These actions included one termination of employment, two reprimands, one proposed suspension, and five admonishments. As of October 1977, three of the employees had formally challenged the actions initiated against them.

As directed by your office, we have not obtained written agency comments on the matters discussed in the report. However, we have discussed these matters with agency officials and have considered their comments where appropriate in preparing this report. Since our review has been limited to the data VA has provided us, the Midwest Organ Bank has neither seen nor commented on our report.

As requested by your office, we are making no distribution of this report at this time. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Accordingly, we will be in touch with your office in the near future to arrange for at least limited release of the report so that the requirements of section 236 can be set in motion.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Turner B. Smith". The signature is fluid and cursive, with the first name "Turner" written in a larger, more prominent script than the last name "Smith".

Comptroller General  
of the United States

Enclosures - 2

REVIEW OF THE VA INTERNAL AUDIT SERVICE  
REPORT ON THE FINANCIAL SUPPORT OF THE  
MIDWEST ORGAN BANK BY THE VA HOSPITAL,  
KANSAS CITY, MISSOURI

BACKGROUND

According to VA's Internal Audit Service (IAS) report dated May 5, 1977, the director of the Kansas City VA hospital, supported by the hospital's Chief of Nephrology, 1/ submitted plans for a renal (kidney) transplant program to VA's central office for approval in June 1972. The plans were subsequently approved, with funding for the program to come from existing hospital funds.

A month later, the hospital proposed to VA's central office that a sharing agreement be initiated between the VA hospital and the Kidney Foundation of Greater Kansas City and Western Missouri. The hospital was to provide space and personnel support in return for perfusion 2/ and tissue typing 3/ services. Hospital management had already entered into an informal sharing agreement with the kidney foundation. In July 1972, VA's central office rejected the sharing proposal on the basis that VA regulations prohibit a hospital from sharing with organizations other than medical institutions.

When VA's central office disapproved the sharing agreement, the hospital director and his Chief of Nephrology sought another formal vehicle for keeping the hospital's kidney laboratories in operation. The vehicle used was a research proposal.

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1/Nephrology is the scientific study of the kidney and its diseases.

2/Perfusion is a method of maintaining the viability of a donor's organ after removal from the donor's body and before transplant, using a machine which pumps appropriate fluid to the organ.

3/Tissue typing is an immunological technology whereby the ability of a recipient to tolerate the tissue of a prospective donor is determined.

In June 1973, the hospital's Associate Chief of Staff for Research and Development presented a research project called "Histocompatibility and Organ Preservation" to the hospital's Research and Education Committee for approval. The committee approved the project in November 1973. By this time, the title had been changed to "Tissue Typing and Perfusion." The research proposal for this project was not sent to VA's central office for review. It should be noted that at the time, VA research policies did not require central office reviews of hospital-initiated research projects.

In subsequent years, funding requests and statistical information on the Tissue Typing and Perfusion project were sent to VA's central office with an identification code assigned to the Chief of Nephrology Service as the principal investigator for the project. According to IAS, this led VA's central office officials to perceive the Tissue Typing and Perfusion effort as part of another research project entitled "Aluminum Toxicity in Uremia," which was being funded by VA's central office and conducted by the Chief of Nephrology. With this understanding, VA's central office funded the Tissue Typing and Perfusion project.

In May 1975, the Aluminum Toxicity in Uremia project was terminated by the hospital's Research and Education Committee because of the project's slow progress. VA's central office, however, was not advised of this action and continued funding the project into the transition quarter of 1976.

Under the research effort which was finally entitled "Tissue Typing and Perfusion," hospital resources were used to carry out the activities of the kidney laboratories. In October 1973, these activities were formalized as the Midwest Organ Bank (MOB), which was established at the Kansas City VA hospital as a subsidiary of the local kidney foundation. This was required to facilitate a sharing arrangement with the National Kidney Foundation, whose bylaws prohibit it from providing direct patient care. The proposal for MOB indicated that a portion of the organization's funding would come from the local kidney foundation.

MOB's operations continued at the VA hospital for more than 3 years. After conducting an onsite audit from September 15 to October 1, 1976, IAS concluded that MOB's operations in affiliation with the VA hospital were illegal, and recommended that MOB be removed from the hospital. MOB left the VA hospital in February 1977. IAS also recommended that VA try to recover the cost incurred by the hospital in support of MOB under this illegal arrangement.

COSTS INCURRED BY VA IN SUPPORT OF  
MOB'S OPERATIONS

Due to a lack of complete documentation, IAS auditors were not able to identify all of the costs incurred by VA in support of MOB. Actual costs were compiled when available. Certain other costs were estimated, for the most part, on the basis of what we believed to be reasonable assumptions.

Efforts were made by VA's internal auditors to document the VA hospital's costs in support of MOB (and previous related activity) for the period July 1, 1972, through December 31, 1976. Those costs, as finally reported by VA, totaled \$485,859. The Associate Chief of Staff for Research and Development at the VA hospital supplied VA's central office with documentation in response to a personnel action initiated against him by VA as a result of its investigation. VA concluded that this documentation reduced other expendable supply costs as reported by IAS by \$9,006, making total support costs \$476,853. (See encl. II.)

IAS auditors reported that the Kansas City VA hospital purchased 54 kidneys from MOB during the July 1, 1972, to December 31, 1976, period at a total purchase price of \$142,123, including discounts given the hospital in exchange for its support of MOB. Other VA hospitals received 29 kidneys during this period at nondiscounted purchase prices, according to VA auditors. The IAS report noted, however, that despite the discounts and services provided free to the hospital by MOB, the Kansas City VA hospital paid considerably more per kidney--\$9,450--than the standard purchase price MOB established for all other hospitals, considering the VA Kansas City hospital's financial support of MOB in the acquisition cost calculation. MOB's standard purchase price of \$3,500 was established by using the July 1974 Medicare and Medicaid guidelines of the Department of Health, Education, and Welfare.

VA has submitted two bills to MOB for the reimbursement of costs VA incurred in support of MOB operations. For the period January 1 to February 9, 1977 (when MOB vacated the hospital), the Kansas City hospital submitted a bill for process and distribution supplies, laboratory fees, equipment and space rental, and utilities. The bill, totaling \$3,438.55, was paid by MOB on February 24, 1977. A second bill, dated July 20, 1977, was submitted by VA's central office and covered the period July 1, 1972, through December 31, 1976. This bill was for \$485,859, the total identified support costs presented in the final VA internal audit report. MOB has notified VA that it will not pay the bill.

According to IAS, the total costs VA incurred from July 1, 1972, through December 31, 1976, in support of MOB could not be determined. IAS auditors said they had a major problem in compiling cost data because records did not always distinguish between MOB's activities and those of the hospital's Nephrology Service. Also, in some cases records were incomplete and IAS auditors could only estimate some of these costs.

Although it is apparent that the IAS cost data involve estimates based on less than complete documentation, we believe it would not be worthwhile for VA to expend additional time and resources to try to identify all the costs. Most of VA's assumptions supporting its cost estimates appear reasonable.

### Staffing costs

Staffing costs reported by IAS represented the costs incurred by VA employees performing work for MOB activities. Staffing costs, reported at \$163,819, represented salary, overtime, and fringe benefits (including lump sum payments to terminated employees) received by VA's tissue typing and clerical staff. In addition, \$31,339 of VA's research funds were used to compensate VA perfusion technicians who were working for MOB. These employees represented the full-time equivalent employment of between 3 and 6 persons per year from fiscal year 1973 through the transition quarter of 1976. According to IAS auditors, the salaries of VA physicians who work for MOB are not included in their calculations because the VA hospital was able to document that these physicians provided the clinical services required of them. It should be noted, however, that these physicians spent considerable administrative leave time, out of their total required VA clinical time, on MOB activities. IAS auditors know that these physicians worked overtime for VA on non-MOB activities, but due to a lack of adequate hospital documentation, could not quantify this overtime. Therefore, no determination could be made as to whether the physicians provided sufficient clinical services to VA to offset the administrative leave time spent on MOB activities.

Some compensatory time off VA technicians received was not recorded by the hospital; therefore, it could not be determined and reported by VA internal auditors. Because of this lack of appropriate records, no determination can be made as to whether the compensatory time taken was consistent with overtime which was worked but not financially compensated. These costs should have been documented as part of the hospital's internal operating information.



Supply costs

Due to gaps in the documentation available at the hospital, the supply costs developed by IAS were based on both actual and estimated figures, and totaled \$146,607. None of the reported supply cost categories covered the entire period of the hospital's involvement with MOB.

The Kansas City VA hospital's fiscal officer told VA auditors that no unrecovered supply costs were incurred by VA in support of MOB beyond the dates identified in VA's internal audit report.

Process and distribution costs--pharmacy costs

Process and distribution costs were reported at \$4,476 for the period October 3, 1972, to December 31, 1976. Pharmacy costs were reported at \$66,796 for the period October 3, 1972, to September 30, 1976. Both categories of cost were estimated on the basis of kidney transplant activities during the respective periods. The cost estimates were developed by applying the ratio of recent workloads and corresponding actual supply unit costs to workloads during periods for which no supply costs records were kept.

Pharmacy costs incurred for training and kidney evaluation purposes in the hospital's perfusion laboratory were not documented by the hospital, and therefore, were not reported by VA auditors. If these costs could be developed, they would be recoverable from MOB.

Radioisotope costs

These costs, reported at \$2,250, were figures taken from the radiation safety officer's records for the period July 1, 1972, to December 31, 1976.

Other expendables

The costs VA incurred for other expendable items used by MOB, such as chemicals, and laboratory and minor building supplies, were compiled from a variety of sources and reported at \$82,091. Estimates based on transplant activities were made by the auditors, and documentation was compiled from actual cost records for those limited periods of time for which records were available. The \$9,006 adjustment to other expendable supplies discussed earlier reduces the

reported figure to \$73,085. This adjustment was made by IAS because the Associate Chief of Staff for Research and Development provided VA, after the IAS audit, with additional records which were more detailed than the information utilized by IAS auditors. We have no cause to believe that these detailed records are inaccurate, therefore the IAS adjustment appears reasonable.

Due to an oversight by VA auditors, other expendable supply costs for July 1 to September 21, 1976, are absent from VA's calculation. IAS has calculated this amount to be \$335.

#### Space rental costs

VA auditors calculated these costs--totaling \$42,192--based on hospital floor plans, available square footage data, and General Services Administration (GSA) rental rates. To their knowledge, organ bank operations were not a physically separate entity until July 1, 1973; their cost calculations, therefore, did not cover the period of operation prior to that date. Space rental costs were compiled for the period July 1, 1973, through December 31, 1976.

The hospital space MOB occupied was remodeled by VA. However, the auditors advised us that they did not use the limited cost documentation available on this remodeling project to assess the magnitude of this expense. The reason was that the auditors could not determine to what extent any of the remodeling was done specifically for or at the request of MOB. VA's Director, Operations Review and Analysis, Department of Medicine and Surgery (DM&S) has informed us that the space once utilized by MOB at the Kansas City VA hospital is presently being well utilized by the hospital.

#### Telephone costs

Separate telephone lines for MOB were not identifiable until December 7, 1973. From that date until November 5, 1976, when VA discontinued telephone services to MOB, the auditors reported total costs of \$1,889 based on actual billings for the period.

#### Laboratory costs

Laboratory costs of \$22,388 were estimated on the basis of actual tests documented by the Chief of Nephrology for the last 6 months of fiscal year 1975 and all of fiscal year 1976.

Using the ratio of actual laboratory tests performed during these periods to actual transplant activity, the auditors developed cost estimates 1/ for the entire period of July 1, 1972, through December 31, 1976. The auditors informed us that the records compiled by the Chief of Nephrology for the 18-month period, in their opinion, were complete. In the absence of data to the contrary, the auditors' cost estimates appear reasonable.

### Research costs

As discussed earlier, MOB was established at the VA hospital in Kansas City under a research effort involving a sharing agreement which was not approved by VA's central office. According to IAS, \$87,931 has been incurred by the hospital under this effort. The independent research costs were documented by the hospital. The core support costs, for the most part, were estimated by IAS as a percentage of independent research costs for those periods during which actual core support cost data were not available. The methodologies used to develop the research costs in the IAS final report seem to be reasonable.

### Equipment usage

MOB's use of VA equipment was costed by the auditors at \$10,818 using the straight-line depreciation method on the basis of total equipment in use as of September 27, 1976, at an acquisition value of \$40,085. This equipment had been used solely by MOB during the period audited, but according to VA's Director, Operations Review and Analysis, DM&S, the equipment is now being well utilized within the VA system.

### Identified nonexpendable repair costs

Complete records were not kept by the hospital of costs incurred to repair equipment used by MOB. VA's internal audit report included actual documented costs of only \$111. Additional repair costs, if identifiable, would also be recoverable from MOB.

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1/Laboratory staff salaries were part of the estimated costs of laboratory tests. An average salary rate was used in the calculation and, therefore, did not include fringe benefits. Materials were also factored into these cost calculations.

Transportation costs

Hospital personnel informed VA auditors that, until MOB acquired its own van for transportation in February 1974, it had used VA automobiles to transport kidneys. The auditors, therefore, estimated the transportation costs on the basis of identified kidney transplant activity, which began on October 3, 1972. The reported costs of \$1,098 included estimates for driver salaries prorated on the basis of the time spent on kidney transportation, <sup>1/</sup> and direct travel costs using mileage calculations and GSA mileage reimbursement rates. Under the circumstances, we believe this cost-estimating method to be reasonable.

RECOMMENDATIONS TO THE ADMINISTRATOR  
OF VETERANS AFFAIRS

We recommend that the Administrator:

- Direct the Kansas City VA hospital director to insure that future hospital operating information be recorded accurately and completely. Particular attention should be given to staff compensatory time reports and equipment service records.
- Direct IAS to correct the computation of other expendable supplies in its final report.

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<sup>1/</sup>An average salary was used in this calculation. The calculation did not include fringe benefits.

IDENTIFIED COSTS IN SUPPORT OF THE MIDWEST ORGAN  
BANK BY KANSAS CITY VA HOSPITAL AS DEVELOPED BY VA  
INTERNAL AUDIT SERVICE (note a)

| <u>Cost items</u>                     | <u>Period</u>       | <u>Total identified costs</u> |
|---------------------------------------|---------------------|-------------------------------|
| Staffing                              | 7-1-72 to 9-30-76   | \$163,818                     |
| Supplies:                             |                     |                               |
| Process and distribution costs        | 10-3-72 to 12-31-76 | \$ 4,476                      |
| Pharmacy                              | 10-3-72 to 9-18-76  | <u>66,796</u>                 |
| Subtotal                              |                     | <u>71,272</u>                 |
| Other expendables                     | 11-23-73 to 9-30-76 | 82,091                        |
| Adjustments (note b)                  |                     | <u>-9,006</u>                 |
| Subtotal                              |                     | <u>73,085</u>                 |
| Radioisotopes                         | 8-31-72 to 4-16-76  | <u>2,250</u>                  |
| Total supplies                        |                     | 146,607                       |
| Space rental                          | 7-1-73 to 12-31-76  | 42,192                        |
| Telephone                             | 12-7-73 to 11-5-76  | 1,889                         |
| Laboratory                            | 7-1-72 to 12-31-76  | 22,388                        |
| Research:                             |                     |                               |
| Core support (note c)                 | 7-1-72 to 9-21-76   | 22,230                        |
| Independent research project (note d) | 7-1-72 to 9-21-76   | <u>65,701</u>                 |
| Total research costs                  |                     | <u>87,931</u>                 |
| Equipment:                            |                     |                               |
| Use cost (depreciation)               | 7-1-72 to 12-31-76  | 10,818                        |
| Nonexpendable repairs                 |                     | <u>111</u>                    |
| Total                                 |                     | <u>10,929</u>                 |
| Transportation                        | 10-3-72 to 2-11-74  | <u>1,098</u>                  |
| Total                                 |                     | <u>e/\$476,853</u>            |

a/Kidney acquisition costs not included.

b/Reduction from IAS recalculation of other expendable supply costs.

c/Core support includes cost of administration and common resources at the facility. The percentage of administrative costs and common resources used by the investigator is determined by the local research service. There are sixteen categories of common resources, including such items as biomedical engineering, maintenance and repair, manuscript preparation, and animal facility usage.

d/Independent research project funding is research funding for a merit-approved project which is recommended to be earmarked for a specific research investigator. This cost includes perfusion technician salaries of \$31,339 paid from independent research funds.

e/Amount billed by VA on July 20, 1977, was \$485,859. VA plans to render a revised bill to MOB in the amount of \$477,188, reflecting a change in total other expendable supply costs.