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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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DEC 20 1972

Dear Mr. Symington:

Your letter of August 28, 1972, requested that we provide you with the answers to nine questions pertaining to independent and hospital-based laboratories. You requested also that you be furnished with any part of the information as it became available. On October 19, 1972, we met with your staff to provide the information we had obtained in response to five of the nine questions. We had previously supplied the data in response to question 3. After discussing the request with your staff, questions 7 and 9 were dropped. We are attempting to obtain information in Missouri on questions 4, 5, and 8.

This interim report summarizes the information we furnished on each of your questions at the October 19, 1972, meeting.

1. Estimate of the annual cost of laboratory health work

To the best of our knowledge, there is no firm estimate on the national costs for laboratory health work. We have obtained certain statistical data which may help provide a rough estimate of the amount spent annually for laboratory work.

Estimates of business income, provided by the Internal Revenue Service, show that the business receipts of medical laboratory proprietorships and partnerships totaled about \$370 million in 1970. These statistics for the years 1966 through 1970 are shown below.

	Business receipts				
	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
	(000 omitted)				
Proprietorships	\$ 49,559	\$ 67,887	\$ 77,061	\$ 89,440	\$ 70,707
Partnerships	89,723	142,796	164,833	297,450	296,763
	<u>\$139,282</u>	<u>\$210,683</u>	<u>\$241,894</u>	<u>\$386,890</u>	<u>\$367,470</u>

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Most laboratory revenues are received by hospital-based laboratories. The national health expenditure for hospital care in fiscal year 1971 was estimated by the Social Security Administration at about \$29.6 billion. American Hospital Association (AHA) statistics--based on reports from about 2,200 hospitals participating in AHA's Hospital Administrative Services Program--for the 6-month period ended December 31, 1971, show that laboratory revenues averaged about 10.5 percent of total hospital revenues. Applying this percentage to the estimate of national expenditures for hospital care in 1971, it is possible to conclude that about \$3.1 billion was spent for hospital laboratory work in 1971. ^{p. 1500}

Assuming that the independent laboratory revenues for 1971 were about the same as the 1970 amounts reported by the Internal Revenue Service, the amounts spent for all laboratory work in 1971 could be about the \$3.4 billion mentioned in your August 28 letter. This total, however, would not include revenues received by private physicians who performed their own laboratory work; we have no data as to what these revenues might have been.

2. Number and types of laboratories

2 During the latter part of 1971, the American Society of Medical Technologists, under contract with the Center for Disease Control of the Department of Health, Education, and Welfare, made a survey to determine, among other things, the number and types of medical laboratories operating in the country. The following is an updated version of the information which we previously supplied to your staff. Please note that these figures, based on preliminary survey results, are tentative and are subject to later adjustment.

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<u>Type of laboratory</u>	<u>Number</u> <u>(as of October 1972)</u>		
Government:			
Federal:			
Hospital	457		
Outpatient clinic	114		
Other	<u>37</u>	608	
State, county and city:			
Hospital	2,136		
Outpatient clinic	85		
Health department	410		
Other	<u>124</u>	<u>2,755</u>	3,363
Non-Government:			
Hospital	4,158		
Outpatient clinic	434		
Private (independent) laboratories	2,991		
Group practice (five or more physicians)	1,305		
Industrial	132		
Other	<u>167</u>		<u>9,187</u>
Total			<u>12,550</u>

As shown by these statistics, about 6,750 of the 12,550 laboratories in the country are hospital-based.

3. Names of directors of
Medicare-approved independent laboratories

The information applicable to the 2,500 Medicare-approved independent laboratories was furnished to your staff on September 12, 1972.

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4. Cost and revenue data
for independent laboratories

We are in the process of obtaining this data for selected laboratories in Missouri.

5. Cost and revenue data
for hospital-based laboratories

To obtain cost and revenue data for hospital-based laboratories, we reviewed a sample of 48 Medicare cost reports of general short-term hospitals having 100 or more beds. These reports represented the final, audited cost settlements and generally covered hospital activities for various fiscal years ended in 1969. Our sample showed that laboratory costs averaged about 10 percent of total hospital costs and that laboratory charges averaged about 11 percent of total hospital charges. Also total laboratory costs were about 78 percent of total laboratory charges. We also determined, from the cost reports that showed the number of laboratory services provided, that the average cost for a laboratory service was \$2.48 and that the average charge for a laboratory service was \$3.21.

In addition, data reported to AHA by about 2,200 hospitals for the 6-month period ended December 31, 1971, showed that laboratory revenues averaged about 10.5 percent of total hospital revenues and that direct laboratory expenses averaged about 7 percent of total hospital expenses. The 7 percent, however, did not include certain indirect expenses, such as administration, depreciation, and housekeeping costs. Our sample of Medicare cost reports which showed laboratory expenses to be about 10 percent of total hospital expenses included the indirect expenses.

As agreed with your staff, we are obtaining comparable data for selected hospitals in Missouri and will attempt to compare the cost and charge data with similar data obtained for the selected independent laboratories.

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6. Reimbursement arrangements
of pathologists

In 1969 AHA made a survey of hospital-specialist relationships to determine the types of contracts or agreements in effect as of August 1969. AHA sent a questionnaire to 6,796 non-Federal hospitals registered with AHA. Responses from 5,745 hospitals are tabulated below.

<u>Type of contract between hospital and pathologist</u>	<u>Percent</u>
Percent of gross or net laboratory department income	40.5
Fee-for-service	30.1
Salary	18.5
Salary plus percent of gross or net income from laboratory	4.2
Lease	2.1
Fee per visit or month	1.2
Other	<u>3.4</u>
	<u>100.0</u>

7. Amount of time spent by pathologists
in hospital laboratories

As agreed with your staff, this question was dropped.

8. Number of pathologists serving
more than one hospital

During the latter part of 1970, our Chicago regional office did some preliminary survey work on the so-called circuit-rider pathologists operating in Illinois (except in the five counties in the Chicago metropolitan area). We identified 24 pathologists (or pathologist groups) each of whom served two or more hospitals. The number of separate hospitals served by these pathologists follows.

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Number of pathologists (or pathologist groups)	Number of hospitals served	Total number of hospitals served
7	2	14
7	3	21
8	4	32
1	5	5
<u>1</u>	13	<u>13</u>
<u>24</u>		<u>85</u>

The 85 hospitals served by these 24 pathologists or pathologist groups represent about 60 percent of the 141 non-metropolitan-area hospitals in Illinois.

As explained to your staff, we have not included any compensation data on these pathologists. Because the hospitals involved used different fiscal years and because the latest final cost settlements were for different years, the compensation data was not comparable. We are attempting to obtain more useful information in Missouri on both the number of circuit-rider pathologists and their total compensation from the hospitals.

9. Training costs of students
passed on to patients

As agreed with your staff, this question has been dropped.

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We trust that the foregoing information is responsive to your request. As previously stated, we are doing some further work in Missouri on three of your questions. We will provide you with a final report as soon as possible.

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We plan no further distribution of this report unless copies are specifically requested and then only after your agreement has been obtained.

Sincerely yours,


Comptroller General
of the United States

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The Honorable James W. Symington
House of Representatives