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Information Concerning The
Authority Of The Department Of
Health, Education, And Welfare To
Award Grants In Support Of Health
Maintenance Organizations B-164031(4)

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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MARCH 27, 1972



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

B-164031(4)

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Dear Mr. Goldwater:

Your letter of October 7, 1971, requested that we determine the authority and source of funds for grants made by the Department of Health, Education, and Welfare (HEW), to support and fund a number of health maintenance organizations (HMOs). As defined by HEW, an HMO is an organization which accepts the responsibility to provide or otherwise ensure the delivery of an agreed upon set of comprehensive health maintenance and treatment services for a voluntarily enrolled group of persons in a geographic area. An HMO is reimbursed through a prenegotiated and fixed periodic payment made by or on behalf of each person or family unit enrolled in the plan.

HEW officials advised us that during fiscal year 1971, the Department awarded 53 grants totaling about \$4.4 million to various organizations for the general purpose of doing research and development work on HMOs in support of the President's goals for modifying the Nation's health care delivery system. (A listing of the 53 grants showing a brief description of their purposes is included as appendix I.)

In summary, we have ascertained that HEW had general authority to make the grants in support of the HMOs; however, as indicated in our March 9, 1972, letter to you, we have a question with regard to the manner in which \$900,000 for certain grants was financed under the provisions of HEW's 1971 appropriations act. This question is still under consideration and we will furnish you with further information on this matter. A subsequent report will be furnished if the use of the \$900,000 is found not to be in accordance with the law.

In addition to the grants referred to in your October 1971 letter, HEW has been supporting the development of HMOs through certain contracts. Further information on these matters is discussed in the following sections of this report.

GENERAL BACKGROUND

In a message to the Congress in February 1971 (H. Doc. No. 92-49, 92d Cong., 1st sess.), the President set forth his proposals relative to a national health strategy. His message contained proposals for setting up a network of HMOs throughout the country as an alternative to the present health care delivery system and he

encouraged funneling an increasing share of Medicare and Medicaid funds into these organizations.¹ Consistent with this strategy, the Social Security Amendments of 1971 (House bill 1, 92d Cong.) which passed the House in June 1971, included proposals to (1) give Medicare beneficiaries an option to receive their health care through HMOs and (2) increase Federal participation under Medicaid for amounts paid by States under contracts with HMOs or other comprehensive health care facilities.² As of March 1, 1972, House bill 1 was being considered by the Senate Finance Committee.

In response to the President's strategy, HEW entered into a development program for HMOs. The Secretary of HEW delegated the primary responsibility for this program to the Health Services and Mental Health Administration (HSMHA) which awarded 38 of the 53 grants--the 38 grants totaled about \$3.3 million. The remaining 15 grants--totaling about \$1.1 million--were awarded by the Social and Rehabilitation Service (SRS) of HEW.

LEGISLATIVE AUTHORITY FOR GRANTS FOR SUPPORT OF HMOs

The basic legislative authority and sources of funding for the 53 grants made in fiscal year 1971 were as follows:

Public Health Service Act

The 38 HSMHA grants were awarded under the Authority of section 314(e) of the Public Health Service Act (42 U.S.C. 246). This section of the act authorizes the Secretary of HEW to provide grants to any public or nonprofit private agency, institution, or organization to cover part of the cost of (1) providing services to meet health needs of limited geographic scope or of specialized regional or national significance, or (2) developing and supporting for an initial period new programs for providing health services.

¹ The Medicare and Medicaid programs, titles XVIII and XIX, respectively of the Social Security Act were enacted in July 1965. The Medicare program provides health insurance for persons aged 65 and over. The Medicaid program is a grant-in-aid program under which the Federal Government pays for 50 to 83 percent of the costs incurred by the States in providing health care services to individuals who are unable to pay for such care.

² According to the Social and Rehabilitation Service, HEW, in August 1971 there were 14 HMO-type contracts in effect in eight States and the District of Columbia covering about 185,000 Medicaid patients.

Title XI of the Social Security Act

The 15 SRS grants were awarded under the authority of section 1110 of the Social Security Act (42 U.S.C. 1310). This section of the act authorizes the Secretary of HEW to make grants to States and to public and other nonprofit organizations and agencies to pay part of the cost of research or demonstration projects which will help improve the administration and effectiveness of programs carried on or assisted under the Social Security Act.

According to an SRS official, the 15 grants were initially funded under the Research and Training appropriation which included activities authorized by section 1110 of the Social Security Act. However, because SRS had requested and received funds to support similar projects under the Salaries and Expenses appropriation, \$900,000 of the \$1.1 million initially charged to the Research and Training appropriation was replenished by the Salaries and Expenses appropriation in the form of a refund.

According to the 1971 budget justification, SRS requested funds under the Salaries and Expenses appropriation to contract for projects to demonstrate new approaches to the management of medical assistance including new health financing plans. The SRS official advised us in February 1972 that, although it had been planned to use the Salaries and Expenses appropriation for support of projects on a contractual basis rather than a grant basis, SRS considered it consistent with the intent of Congress that a portion of the support for the grant projects be funded from the Salaries and Expenses appropriation.

We were further advised that SRS obtained 35 proposals involving both grants and contracts from organizations participating in the Medicaid program that would have the capability to develop HMOs. An SRS review committee recommended 20 of 35 proposals for approval, but because of fund limitations only 15 of the 20 recommended proposals were funded.

While SRS had the authority to make grants in support of HMOs under section 1110 of the Social Security Act, our question relates to the financing of such grants in fiscal year 1971 under the applicable appropriation act.

The language of HEW's fiscal year 1971 appropriation act approved January 11, 1971 (Public Law 667, 91st Cong.) which included the appropriation to SRS for Salaries and Expenses made these funds available "For expenses, not otherwise provided ***." Because funds for awarding grants under section 1110 were specifically appropriated under the Research and Training appropriation, a question arises as to whether the Salaries and Expenses appropriation could properly be used to restore the \$900,000 to the Research and Training appropriation for the grant projects.

Other HMO projects financed
through contracts

HEW funded other HMO development projects during fiscal year 1971 through the use of contracts rather than grants. HSMHA entered into 14 such contracts in the total amount of about \$2.2 million, authorized under section 304 of the Public Health Service Act (42 U.S.C. 242b). In general, this section of the act authorizes the Secretary of HEW to contract for research, experiments, or demonstration projects for the development of new methods or the improvement of existing methods of organizing, delivering, or financing of health services.

An HSMHA official told us that the agency's annual appropriation requests have generally included funds for section 304 and section 314(e) projects. This official said that HSMHA had awarded several research and development grants and contracts--under sections 304 and 314(e)--to various organizations to study group prepayment plans which are similar to HMOs.

We trust that the foregoing information is responsive to your request. As indicated earlier we will furnish you with information concerning the question of the legality of the manner in which \$900,000 for certain grants was financed under the provisions of HEW's 1971 appropriation act.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,



Comptroller General
of the United States

Enclosure

The Honorable Barry M. Goldwater, Jr.
House of Representatives

LISTING AND DESCRIPTION OF
53 GRANTS AWARDED BY HEW
FOR RESEARCH AND DEVELOPMENT OF
HEALTH MAINTENANCE ORGANIZATIONS

38 grants awarded pursuant to section 314(e) of the Public Health Service Act

<u>Recipient</u>	<u>Amount of - grant</u>	<u>Purpose</u>
1. Matthew Thornton Health Plan, Inc. Hollis, N.H.	\$ 21,000	To plan an efficient system of delivery of health care, testing of record systems, and marketing analysis for a rural HMO.
2. Harvard Community Health, Inc. Boston, Mass.	98,785	To study a network of HMOs working with an emergency hospital-based group practice. This is an urban HMO project.
3. Health Inc. Boston, Mass.	121,858	To assist in the planning phase of an organization which aims to serve 300,000 people in Massachusetts through Health Centers designed for 20,000 to 40,000 people.
4. Blue Shield of Rhode Island Providence, R.I.	23,250	To develop a statistical data base and program evaluation system for the purpose of efficient administration and effective management of a prepaid group practice experiment in an urban setting.
5. Montefiore Hospital and Medical Center New York, N.Y.	57,689	To convert a neighborhood health center to an urban HMO through (1) developing a legal framework and preliminary contracts, (2) developing a financial base, unit service costs, premium package, and servicing facilities and (3) developing marketing strategy and prepayment mechanism.
6. Hunterdon Medical Center Flemington, N.J.	99,682	To develop a comprehensive prepayment plan for Hunterdon County (open to all residents of County). This is a rural HMO activity.
7. Mt. Sinai Hospital New York, N.Y.	53,029	To facilitate the rapid development of an HMO model. The demonstration project will facilitate the immediate access to health care of an already organized group and of the potential subscribers in the East Harlem and Yorkville areas.

	<u>Recipient</u>	<u>Amount of grant</u>	<u>Purpose</u>
8.	New York City Health & Hospitals Corp. New York, N.Y.	\$100,000	To develop a number of HMOs in association with Coney Island Hospital using ambulatory family care centers as a point of entry into the delivery system.
9.	Blue Cross/Blue Shield Rochester, N.Y.	212,540	To demonstrate the rapid organization and development of an HMO in a metropolitan area.
10.	Nassau Medical Services Foundation Garden City, N.Y.	64,000	To develop a medical society foundation-based HMO.
11.	Georgetown University Washington, D.C.	130,892	To develop a University Medical School-based HMO which will provide service to 30,000 enrollees in Reston, Virginia, the University community, and a third site to be selected.
12.	American Association of Medical Colleges Washington, D.C.	127,688	To foster the development of University Medical Center-based HMOs.
13.	Florida Health Care Plan Daytona Beach, Fla.	75,000	To develop an HMO for the residents of Volusia County using the corporate structure of the Florida Health Care Plan, Inc., a nonprofit organization.
14.	State of Franklin Health Council Cullouhee, N.C.	40,000	To plan and develop an HMO to be established in the economically distressed area of southwestern North Carolina.
15.	Abraham Lincoln Memorial Hospital Lincoln, Ill.	56,000	To plan and develop a hospital-based HMO.
16.	Consumer Cooperative Group Health Plan St. Paul, Minn.	99,875	To assist and stimulate the development of community-consumer sponsored HMOs.
17.	Lovelace-Bataan Medical Center & Presbyterian Medical Services Albuquerque, N.M.	79,681	To study the feasibility of introducing a prepaid comprehensive health maintenance and health care delivery system for both the urban and rural residents of northern New Mexico.

	<u>Recipient</u>	<u>Amount of grant</u>	<u>Purpose</u>
18.	Bexar County Medical Foundation San Antonio, Tex.	\$ 63,820	To plan and develop an HMO by a medical society foundation for the urban and rural residents of Bexar County.
19.	Hillcrest Medical Center Tulsa, Okla.	72,151	To develop an HMO in a 500 bed nonprofit community hospital serving Tulsa and the surrounding area in northeast Oklahoma.
20.	Dodge City Medical Center Dodge City, Kansas	122,270	To examine the organizational structure most feasible for the development of an HMO and to study start-up costs and examine legal and marketing problems involved.
21.	Rocky Mountain-Grand Junction County Medical Society Grand Junction, Colo.	13,000	To develop a medical society foundation-based HMO in a rural area which covers 30,000 square miles with a population of 175,000.
22.	Metropolitan Denver Foundation for Medical Care Englewood, Colo.	52,550	To establish a medical society-based foundation HMO for the residents of metropolitan Denver.
23.	Missoula Comprehensive Health Planning Council Missoula, Mont.	55,985	To study the feasibility of establishing a low-cost, prepaid health delivery system for the residents of the Missoula area.
24.	Alamosa Community Hospital Alamosa, Colo.	35,385	To develop per capita costs, legal assistance and health service system design for a hospital-based HMO.
25.	Denver Health and Hospitals Denver, Colo.	80,228	To plan and develop a public hospital-based HMO.
26.	Health Services Alliance of San Jose, Inc. San Jose, Calif.	77,000	To develop a centralized HMO model from a hospital and ambulatory care center
27.	Lutheran Hospital of Southern California Los Angeles, Calif.	100,000	To develop an HMO in Los Angeles within a black disadvantaged community.

<u>Recipient</u>	<u>Amount of grant</u>	<u>Purpose</u>
28. Foundations for Medical Care of Sonoma County Santa Rosa, Calif.	\$102,750	To study and report on the operational design of an HMO for Sonoma, Mendicino, and Lake counties.
29. Medical Care Foundation of Sacramento Sacramento, Calif.	122,266	To expand the medical care foundation of Sacramento to an HMO.
30. Group Health Cooperative of Puget Sound (Olympia) Seattle, Wash.	90,500	To expand the services of the group health cooperative to the residents of Olympia.
31. Consumer Cooperative Puget Sound Seattle, Wash.	99,000	To stimulate the development of and provide assistance to developing HMOs with intent to have community-consumer sponsorship.
32. Cuyahoga County Hospital Cleveland, Ohio	80,075	To develop and assess the impact of an HMO on the present county hospital system.
33. Detroit Health Facility, Inc. Detroit, Mich.	79,650	To convert a newly formed group practice into an HMO in an inner city poverty area.
34. Carbondale Health Plan Carbondale, Ill.	77,085	To expand a model cities prepayment plan into an HMO for the residents of the greater Carbondale area.
35. Health Facilities Research, Inc. Port Charlotte, Fla.	55,000	To plan and develop an HMO to serve the residents of the Charlotte and St. Johns counties.
36. Tennessee Group Health, Foundation, Inc. Nashville, Tenn.	230,105	To plan and develop the Tennessee Group Health Foundation into an HMO.
37. University of Kentucky Research Lexington, Ky.	51,250	To determine the feasibility of and accomplish preliminary planning for an HMO in Louisville, Kentucky
38. Abnaki Health Council Claremont, N.H.	188,250	To design, promote, and implement an area-wide health system, integrating acute care services and primary medical care services.
TOTAL	<u><u>\$3,309,289</u></u>	

15 grants awarded pursuant to section 1110 of the Social Security Act

<u>Recipient</u>	<u>Amount of grant</u>	<u>Purpose</u>
1. Survey Research Center University of California Los Angeles, Calif.	\$ 86,484	To compare the health care experience of Clackamas County, Oregon. Medicaid recipients who enrolled in an HMO organized by the County Physicians' Association with the experience of a non-HMO-served Medicaid population nearby.
2. Temple University Philadelphia, Pa.	130,954	To determine whether there is a statistically significant difference between the hospital utilization records of 12,000 Medicaid recipients now enrolled in the prepaid Comprehensive Health Services Program of Temple University and records of a matched Medicaid population not enrolled in the plan, particularly in relation to length of stay, number of admissions, admitting diagnoses, and types of services received.
3. Department of Social Services and Housing Honolulu, Hawaii	144,511	To evaluate the problems and effects of integrating 500 volunteer Medicaid patients into an established prepaid comprehensive health care plan (Kaiser).
4. Harvard Community Health Plan Boston, Mass.	33,557	To evaluate the effectiveness of its outreach program, community health coordinators, child care services, and transportation arrangements, which are the efforts most related to serving its Medicaid enrollees.
5. Department of Human Resources District of Columbia	94,069	To produce data to measure (1) the quality of care provided by a health maintenance organization arrangement, (2) how costs compare with the costs of traditionally delivered services, and (3) how patients react to the new system.
6. Department of Public Welfare Columbus, Ohio	74,219	To establish an Office of Innovations in Ohio to encourage community groups to experiment with innovative health delivery systems, to provide consultation and expertise in establishing HMOs, and to work closely with Ohio's Model Cities and OEO Neighborhood Health Centers.

<u>Recipient</u>	<u>Amount of grant</u>	<u>Purpose</u>
7. Department of Public Welfare Boston, Mass.	\$72,388	To establish a Medicaid Innovation Unit in Massachusetts to plan, manage, and evaluate beneficial changes in health care delivery to Medicaid clients. The unit will develop procedures for establishing, marketing, and managing an HMO, and will develop capitation rates, performance review materials, and a model contract.
8. South Philadelphia Health Action Philadelphia, Pa.	62,530	To acquire the actuarial skills necessary for the development of a broad prepayment scheme and institute a marketing effort aimed at the residents of South Philadelphia.
9. Jefferson County Department of Health Birmingham, Ala.	69,876	To plan for the coordination and reorganization of local health resources to develop an HMO serving 20,000 to 30,000 area residents.
10. Mesa County Medical Society Grand Junction, Colo.	36,195	To develop an outpatient facility to be operated by a health service organization functioning as a group practice and consisting of 50 percent of the area's physicians. The prepaid plan will include Medicare and Medicaid programs and health programs for migrant workers.
11. The Atchison, Topeka, and Santa Fe Memorial Hospitals, Inc. Topeka, Kansas	55,800	To explore requirements in Kansas law that prevent the grant recipient a prepaid, preventive, and comprehensive health care plan for an employee group--from becoming an HMO, and to determine the feasibility of opening the plan to Medicare, Medicaid, and other consumer groups.
12. Penobscot Bay Medical Center Rockport, Maine	54,240	To market a comprehensive, prepaid health care plan to Medicaid eligibles, develop a methodology for enrolling them, and work with the State Medicaid Agency to develop a benefit package and capitation fee for enrollees.
13. Institute of Health Services Research, Tulane University New Orleans, Louisiana	81,707	To determine the feasibility of an HMO in New Orleans for specified low-income groups using an established nonprofit maternal health service, Family Health, Inc., as a nucleus, and to identify an appropriate methodology if an HMO appears feasible.

<u>Recipient</u>	<u>Amount of grant</u>	<u>Purpose</u>
14. Greater Woodlawn Assistance Corporation Chicago, Illinois	\$ 45,000	For development and costing of a services and benefit plan to be provided by this community-based, nonprofit health corporation; the development of contractual relationships with medical providers in the community, and the development and negotiation of a capitation contract for services to Medicaid recipients.
15. The Regents of the University of Michigan Ann Arbor, Michigan	58,560	To develop a group of existing inpatient comprehensive health service centers into a network of HMOs to provide services to Medicaid patients, thus facilitating the development of capitation contracts between these centers and the State Medicaid Agency.
TOTAL	<u>\$1,100,090</u>	

Source: Department of Health, Education, and Welfare