United States General Accounting Office

GAO

Testimony

For Release
on Delivery
Expected at
11:00 a.m. EDT
Thursday
June 1, 1989

MEDICARE:
Referring Physicians' Ownership of Laboratories and Imaging Centers

Statement of
Michael Zimmerman, Director
of Medicare and Medicaid Issues
Human Resources Division

Before the
Subcommittee on Health
Committee on Ways and Means
House of Representatives

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our ongoing work for you analyzing patterns of physician referrals to clinical diagnostic laboratories and diagnostic imaging centers. Specifically, you asked that we obtain information for Maryland and Pennsylvania on (1) the extent of physician ownership of the two types of facilities, (2) the relationship between utilization rates and referral patterns of physicians who have ownership interests and those of other physicians, and (3) the terms under which investment opportunities were made available in such facilities and the return gained on the investments. You expressed concern that physician ownership could provide a financial incentive to order unnecessary services and increase Medicare and beneficiary costs. Our work is ongoing in all three areas, but we are able to provide you some preliminary information today.

Overall, it appears that physician ownership of laboratories and imaging centers is growing. Most of the physician-owned facilities were established during the last 3 or 4 years.

METHODOLOGY USED

We identified providers who had been paid for laboratory and imaging services from computer files containing information on all claims paid for these services during the 18-month period

January 1, 1987, through June 30, 1988, from the carriers serving the two states. Pennsylvania Blue Cross/Blue Shield furnished information for Pennsylvania and Montgomery and Prince Georges Counties in Maryland. Maryland Blue Cross/Blue Shield furnished information for the rest of Maryland. We obtained ownership data by sending questionnaires (1) to all providers with specialty codes indicating that they might be laboratories or imaging centers and (2) to all other providers that had been paid $20,000 or more during the 18-month period. We used the relatively low threshold of $20,000 so that we could obtain information on recently opened facilities.

The questionnaire was designed to elicit information on type of ownership and the identity of owners. We contacted many of the providers to obtain information for incomplete and inconsistent responses and we sent two follow-up letters to providers who did not respond. As of May 22, we had received responses from 87 percent of the 1,000 questionnaires sent to Maryland providers and 86 percent of the 2,068 questionnaires sent to Pennsylvania providers. We are continuing our efforts to obtain responses from the remaining providers.

We evaluated the information obtained from the responses to identify situations in which a physician is referring patients to a facility that the physician owns. We were primarily interested in facilities owned by a number of physicians, each of

whom could refer their patients to the facility. We were not looking for physicians who practiced in the specialty applicable to the type of facility--pathologists for laboratories and radiologists for imaging centers. Physicians in these specialties normally provide services on a referral or consultation basis and, therefore, generally would not be in a position to refer patients to their own facilities.

We had asked in the questionnaires that all of the Medicare provider numbers used by physician owners be listed. However, this information was often missing or incomplete because the facility did not know. Therefore, we searched the carrier computer files listing information on all provider numbers to identify additional numbers that physician owners could be billing under when they refer patients for laboratory or imaging services.

We obtained from the carriers computer tapes containing records for all claims paid in 1988. These tapes included information on some claims for which the services were provided before 1988 but were processed and paid during 1988, and would not include services performed near the end of 1988 because claims would not have been submitted and/or processed.

Because carriers did not record the identity of the physician who referred a patient for a laboratory or imaging

service, we had to analyze the tapes to determine who the referring physician was. The basic algorithm we used was to assume that the most recent nonhospital physician visit before the date of the laboratory or imaging service was to the physician who made the referral. We limited the time period before the service to 2 weeks for imaging services and 1 week for laboratory services because both types of services would usually be performed relatively close to a physician visit. Table 1 lists by state the total number of outpatient physician visits, laboratory services, and imaging services paid during 1988 and the number of services for which a referring physician could be assigned using this algorithm.

Table 1: Total Services and Number for Which Referring Physicians Could Be Assigned

Area/service	Total services	Referring physician assigned		Physician claim not within time window		No physician service	
		Number	Percent	Number	Percent	Number	Percent
Maryland physician visits	2,856,318						
Maryland imaging	1,062,774	837,227	79	86,828	8	138,719	13
Maryland laboratory	1,280,867	793,219	62	232,307	18	255,341	20
Pennsylvania physician visits	4,325,743						
Pennsylvania imaging	2,133,871	1,342,174	63	268,623	12	523,074	25
Pennsylvania laboratory	1,647,903	409,047	25	491,946	30	746,910	45

There are two main reasons why a laboratory or imaging service could have been paid without a corresponding physician visit. First, the laboratory or imaging service could have been provided in one state while the physician visit was made in another

state and the claim for the visit processed by a different carrier. We believe this is the main reason for the high percentage of laboratory claims paid in Pennsylvania without a physician visit by the beneficiary. Several national laboratory companies have large facilities in Pennsylvania that perform tests on specimens from many states. Also in metropolitan areas near state borders, such as Philadelphia and Washington, D.C., many services are ordered by physicians in one jurisdiction but provided in another.

The second reason for there not being a physician visit corresponding to a laboratory or imaging service is that, in the early and late months of a year, the laboratory or imaging claim was paid but the physician claim had been processed in the previous year or not processed until the next year.

Excluding those laboratory and imaging services without any physician visit for the beneficiary, our data show an average of Ø.32 imaging services and Ø.36 laboratory services were paid for each time a Medicare beneficiary visits a Maryland physician. The corresponding numbers for Pennsylvania were Ø.37 imaging and Ø.21 laboratory services per physician visit.

RESULTS FROM THE QUESTIONNAIRE

Table 2 summarizes the responses received from laboratories and imaging centers.

Table 2: Summary of Responses to Laboratory and Imaging Center Questionnaires Sent to Maryland and Pennsylvania Providers

Category of response	Number of responses Maryland	Pennsylvania
Multiple physician owners who are not in the applicable specialty[a]	30	142
Multiple physician owners who are in the applicable specialty[a]	67	127
One physician owner	34	98
No physician owners[b]	33	115
Subtotal laboratories/imaging centers	164	482
Hospital-based physician(s) or not-for-profit facility	96	346
Physician office laboratory or imaging	331	519
Other[c]	283	442
Subtotal not laboratories/imaging centers	710	1,307
No response as of May 22, 1989	126	279
Total questionnaires sent	1,000	2,068

[a]Applicable specialty for clinical diagnostic laboratories is pathology and for diagnostic imaging centers is radiology.

[b]Includes corporations with publicly traded stock.

[c]No longer in business, member of a group counted elsewhere, sent both questionnaires and counted elsewhere for the one representing primary type of service, an employee of a facility, or wrong type of facility.

Of the responses received, 164 from Maryland and 482 from Pennsylvania were from laboratories or imaging centers that were not part of a hospital and not used primarily as a physician office laboratory or imaging location. Of these facilities, 30 (or 18 percent) in Maryland and 142 (or 29 percent) in Pennsylvania were owned by more than one physician not in the specialty related to

the facility. These 172 facilities were the ones of interest in our study because the physician owners could refer their patients to the facility for services. Of the 30 facilities in Maryland, 29 were in the immediate vicinity of Washington, D.C., or Baltimore. For Pennsylvania 60 of the 142 facilities were in the vicinity of Philadelphia, Pittsburgh, or Scranton-Wilkes-Barre.

The 30 facilities in Maryland were owned by physicians who had 460 different provider numbers. Overall, in Maryland 5,353 different provider numbers received payments for outpatient physician visits in 1988, which means that about 8.6 percent of the provider numbers had an ownership interest. We have not completed identification of physician provider numbers for owners in Pennsylvania, so I cannot give you this breakdown for the state.

While examining the questionnaires, we noted that the establishment of laboratories and imaging centers with multiple physician owners was a relatively recent phenomenon in both states. Of the 22 facilities in Maryland for which we know when they were established, 18 (or 82 percent) had been set up within the past 4 years; of the 128 in Pennsylvania, 84 (66 percent) were set up within this period.

UTILIZATION OF SERVICES

We have completed our preliminary analysis of service utilization rates for laboratories and imaging centers in Maryland and are continuing our analysis of the Pennsylvania data.

Overall for Maryland there were .28 laboratory services per physician visit, and the average cost per service was $8.74. Physician owners tended to order more, and more costly, laboratory services. The comparable figures for physicians who have an ownership interest in laboratories are .53 services per physician visit and $9.93 per service while those for nonowners are .27 services per visit and $8.68 per service. For imaging services, physician owners tended to order fewer services, but they ordered more costly services. The overall averages were .29 services per physician visit at a cost of $53.82. Physician owners averaged .21 services per visit at a cost of $96.51, whereas physician nonowners averaged .29 services per visit at a cost of $52.92.

Table 3 shows a number of statistics by physician specialty for the costs and performance location of laboratory and imaging services ordered by owner and nonowner physicians. The top half of the table includes data related to laboratory services for the three specialties with the largest volume of physician visits and both owners and nonowners. The three specialties represent over 45 percent of the total physician visits in Maryland. Physician

owners in each of the specialties were paid for at least 2,000 visits.

Physicians specializing in cardiovascular disease who owned laboratories had a 14 percent lower use of services per visit than nonowners. In contrast, family practitioner owners had 49 percent higher rates and internal medicine owners had 65 percent higher rates. Nonowners consistently performed more tests in their offices than did owners. While our data are preliminary, they indicate a tendency for physicians who own laboratories to order more laboratory tests.

I will turn now to the data on imaging services presented in the lower half of table 3. The four specialties listed are those for which physician owners ordered at least 1,000 total imaging services. There was little difference in the number of imaging services ordered by owners and nonowners in the family practice and internal medicine specialties. Obstetrician/gynecologist owners ordered 37 percent more services per visit than nonowners, but neurologist owners ordered 48 percent fewer services than nonowners. However, across all four specialties, owners tended to order more expensive imaging services than nonowners. This was especially true for referrals to the owned facilities. We plan further analyses of the variations in cost per service.

Table 3: Laboratory Services and Allowed Amounts per Patient Visit for Owner and Nonowner Physicians by Physician Specialty, Maryland, 1988

Specialty	Total services per visit		Percentage of referrals to	Percentage done in office		Average cost per service				
						Owners			Nonowners	
	Owners	Nonowners	owned facility	Owners	Nonowners	Owned	Not owned	Office	Referred	Office
Laboratory Services										
Cardiovascular	.130	.148	61.9	0	37.7	$10.56	$9.68	N/A	$10.94	$7.11
Family practice	.602	.405	25.1	57.2	61.2	12.54	12.47	8.50	11.11	6.11
Internal medicine	.709	.429	51.7	29.3	54.3	11.48	12.46	5.58	11.44	6.59
Imaging Services										
Family practice	.118	.129	12.5	6.4	9.1	117.74	68.72	40.45	52.55	34.01
Internal medicine	.181	.196	12.0	0.9	8.6	84.83	68.17	33.41	57.10	39.49
Neurology	.259	.384	60.0	3.7	.7	427.05	99.35	77.10	90.00	144.88
OB/GYN	.365	.266	19.1	1.2	2.1	77.90	73.38	106.80	64.31	91.85

MARKETING OF INVESTMENT OPPORTUNITIES

AND RETURN ON INVESTMENT

We are visiting selected laboratories and imaging centers that have multiple physician owners, and we have gone to five facilities in the Philadelphia area so far. We selected these five because they received large amounts of payments from Medicare and had a substantial number of physician owners. The five facilities consist of one laboratory and four imaging centers. Because of the manner in which the facilities were selected, they may not be representative of physician owned facilities in general.

Investment opportunities in the five facilities were not made available to the general public, and for three of the five, only physicians were offered the opportunity to invest. None of the facilities required investors to refer patients as a condition of investing or as a condition for continued ownership. One of the facilities was organized in 1984, three in 1985, and one in 1987.

Three of the facilities are owned exclusively by physicians, and in each case only one physician owner is involved in the direct management of the facility. One of these facilities had 34 physician owners, another 36, and the third 39. The fourth facility had 60 physician investors who collectively owned 65 percent. None of the physicians was involved in managing the facility. The fifth facility was owned 50 percent by a management

company that had a physician as a part owner and 50 percent by 44 physicians, none of whom are involved in management.

The initial investments in three of the facilities were made exclusively in cash. Some investors in the fourth facility used promissory notes for their initial investments, but all notes had been removed from the books by the time we made our visit. All physician investments in the fifth facility, a 1987 partnership, were in the form of notes to the facility which the facility in turn pledged as collateral to secure a loan used for equipment and working capital.

At this time, we have sufficient information to calculate return on owner investment for three of the five facilities. The calendar year 1988 results of operation for a diagnostic imaging center organized in 1985 showed that the physician owners share of income was equal to 43 percent of their initial investment. Physician owners withdrawals during the year were equal to 21 percent of initial investment.

The laboratory that began operations in 1987 had a net loss during that year. In 1988, the facility had a net profit large enough to offset the loss from the previous year and also permit a distribution to the partners equal to 38 percent of their initial investment, which in this case had been promissory notes rather than cash.

Another imaging center made no distribution of profits to owners in 1987. However, distributions during 1988 amounted to 48 percent of the owners' initial investment. Moreover, the facility had retained earnings at the end of 1988 that were almost twice the owners' initial investment.

- - -

As I mentioned before, our work is continuing and the information I presented today is preliminary. We will make our final results available to the Subcommittee when we complete our analyses.

This concludes my prepared statement. I will be happy to answer any questions you may have.