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Report to the Chairman, Subcommittee on Hospitals and Health Care, Committee on Veterans' Affairs, House of Representatives

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VA HEALTH CARE

Inadequate Planning in the Chesapeake Network

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GAO

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Health, Education, and
Human Services Division

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December 22, 1994

The Honorable J. Roy Rowland
Chairman
Subcommittee on Hospitals and Health Care
Committee on Veterans' Affairs
House of Representatives

Dear Mr. Chairman:

The Department of Veterans Affairs (VA) requested $14.5 million in its fiscal year 1994 budget for construction of a 120-bed nursing home on the site of its former Baltimore (Loch Raven) Medical Center.[1] In August 1993, in response to VA's request, the Congress authorized construction of a nursing home in VA's Chesapeake Network. The Congress, however, required VA to (1) reconsider the location of the new nursing home in the context of the entire Chesapeake Network and (2) determine the need to expand and modernize the nursing home at the Fort Howard, Maryland, Medical Center, approximately 15 miles southeast of Baltimore. The Secretary of Veterans Affairs reported to the Congress in September 1993 that he had chosen the Loch Raven site for construction of a new nursing home and that the Fort Howard nursing home required replacement. The Congress' fiscal year 1994 appropriation for VA major construction, enacted in October 1993, included the $14.5 million that VA requested for the Loch Raven nursing home.

This report responds to your request that we determine whether VA used sound planning criteria in choosing Loch Raven as a new nursing home site and in developing its plans to replace the Fort Howard Medical Center's hospital building and nursing home. Our objectives, scope, and methodology are discussed in more detail in appendix I.

Results in Brief

VA plans to add 133 nursing home beds in the Baltimore area at 2 separate locations (Loch Raven and Fort Howard). While VA is demolishing its former Loch Raven hospital to make room for a new nursing home, it plans to construct a replacement hospital building and nursing home at nearby Fort Howard. These construction projects are not based on sound planning. In part, this is because VA's Veterans Health Administration (VHA) Central Office did not issue adequate guidance to its regional offices and

[1]The former Baltimore Medical Center was closed in January 1993 after VA opened a new medical center in downtown Baltimore.

medical centers on how to change VA's facility-by-facility construction planning process into an integrated network planning process. In addition, VHA's Eastern Region did not always follow the guidance VHA provided.

Specifically, Chesapeake Network planning

- inadequately considered the future availability of community nursing home beds in determining the need for new VA nursing homes in the Network's service area;
- misallocated state veterans' nursing home bed availability in assessing the need for VA nursing home beds at various Chesapeake Network sites; and
- did not thoroughly explore renovating and converting existing capacity to extended-care space as an alternative to new construction.

As a result of the weaknesses in its network planning, VA may have overstated its need to build additional extended-care capacity in the Chesapeake Network.[2] Also, because of the planning deficiencies noted above, we question whether VA's plans to build two nursing homes, and build a new hospital while demolishing a nearby existing hospital, are the best way to improve extended-care services for veterans throughout the entire Chesapeake Network service area. Finally, because of the misallocation of state veterans' nursing home beds, we question whether Loch Raven was the best site for construction of a new VA nursing home in the Chesapeake Network.

Background

VA provides health care services through a direct delivery system of 171 hospitals, 240 outpatient clinics, 126 nursing homes, and 35 domiciliaries.[3] In addition to operating its own nursing homes, VA helps pay for nursing care provided to veterans by community and state veterans' nursing homes. VA reimburses community nursing homes for care provided to eligible veterans and provides per diem payments to state veterans' nursing homes.[4]

[2]"Extended care" refers to nursing home care and long-term (intermediate and rehabilitation) medical care.

[3]In its direct delivery system, VA owns, staffs, and operates its own medical facilities. Domiciliaries provide services on an ambulatory self-care basis to indigent veterans disabled by age or disease who do not need the level of services available in hospitals or nursing homes.

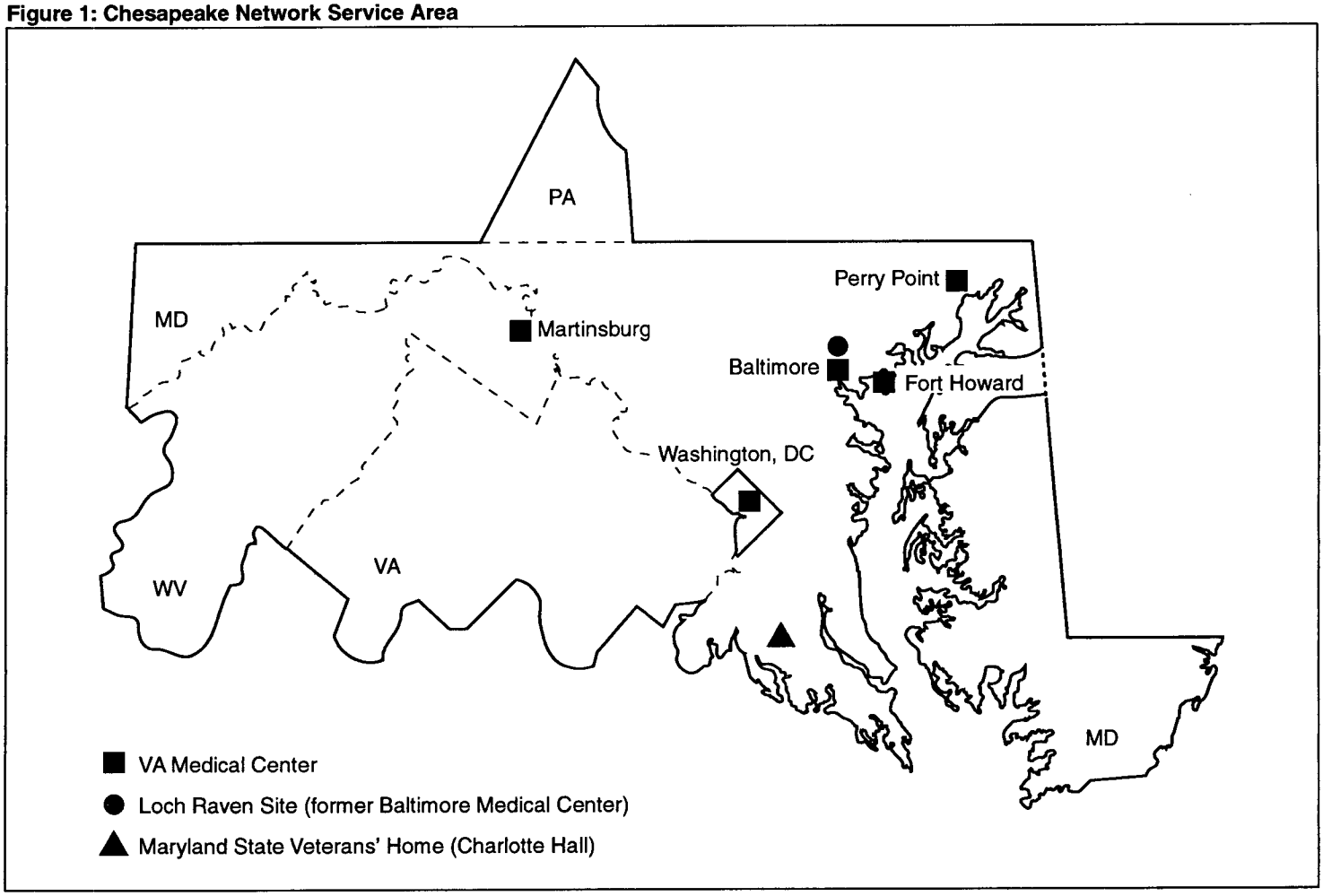
[4]A "community nursing home" is a nursing home not owned by VA or a state. VA may contract to reimburse community nursing homes to care for veterans. State veterans' homes are state-owned and -operated nursing homes and domiciliaries; VA makes per diem payments to offset part of the cost of care for veterans residing in state homes, and pays up to 65 percent of the costs of constructing or renovating state homes.

VA operates 393 nursing home beds in the Chesapeake Network at its medical centers at Fort Howard and Perry Point, Maryland; Washington, D.C.; and Martinsburg, West Virginia. In addition, VA provides per diem payments for veterans residing at the state veterans' nursing home in Charlotte Hall, Maryland, which operates 278 nursing home beds. On an average day in fiscal year 1993, VA cared for, or provided funds for other providers to care for, 718 nursing home residents in the Chesapeake Network.

VA's decision in March 1992 to divide its medical care system into networks was one of its early steps in transforming the VA health care system into a managed care system capable of competing with private sector health plans. Networks were intended to plan and coordinate the provision of medical services among two or more nearby medical centers. Working through a network council consisting of medical center officials and coordinated through the appropriate VHA regional office, each network was expected to develop local health care systems designed to reduce overlap in medical center services and facilitate resource sharing and referrals among participating medical centers.

The Chesapeake Network, one of nine networks established in VHA's Eastern Region, was created in July 1992 to coordinate the services provided by five medical centers. The Network's service area includes the District of Columbia; all of Maryland (except Kent and Worcester counties); northern Virginia; northeastern West Virginia; and Franklin County, Pennsylvania. An estimated 922,000 veterans lived in the Network's service area in 1990; by 2005, VA estimates that the veteran population will decline by about 14 percent, to 794,000. Figure 1 shows the Chesapeake Network service area and the locations of the Network's medical centers. However, VA estimates that the veteran population aged 65 or older will increase.

Figure 1: Chesapeake Network Service Area



Before VA established networks, each medical center assessed its own construction and renovation needs, and proposed specific construction projects, through its VHA regional office, to VHA's Central Office. Approved projects were included in VA's annual Five Year Medical Facility Development Plan and prioritized for inclusion in VA's annual major construction budget requests to the Congress. VA made little effort, however, to coordinate construction plans at nearby facilities. For example, the Baltimore and Fort Howard medical centers developed separate plans for nursing homes after the Congress funded construction of a new Baltimore Medical Center in 1986. The Baltimore Medical Center developed plans for the use of the Loch Raven site as a nursing home after

the Medical Center was relocated to its new downtown Baltimore site, while the Fort Howard Medical Center developed plans to replace its existing hospital building and nursing home. (See app. II for a chronology of the planning for these projects.)

VA's Five Year Medical Facility Development Plan for fiscal years 1994-1998, issued in April 1993, included plans for a 120-bed nursing home on the Loch Raven site. The plan mentioned no planned major construction projects at Fort Howard, although VA had previously identified the Fort Howard hospital building as one of the 10 hospitals in the VA system most in need of construction, replacement, or major modernization; and the Fort Howard Medical Center was continuing to develop plans to build a replacement hospital and nursing home. Meanwhile, VA requested funding for the Loch Raven project.

VA's September 8, 1993, report to the Congress, in response to the congressional mandate to reconsider the proposed Loch Raven nursing home project, was VA's first attempt to broaden Baltimore-area major construction planning to include the entire Chesapeake Network. However, the leadership of the House Committee on Veterans' Affairs and its Subcommittee on Hospitals and Health Care criticized VA's report as inadequate justification for the Secretary of Veterans Affairs' decision to reconfirm Loch Raven as the site for construction of a new nursing home. In response to the Committee's criticisms, VA attempted another Chesapeake Network nursing home site selection study in October 1993. This study, which compared nursing home construction at Loch Raven with construction of additional nursing home beds at the Fort Howard, Perry Point, Washington, and Martinsburg medical centers, again concluded that Loch Raven was the most appropriate place to build the nursing home.

In October 1993, the Congress appropriated $369 million in fiscal year 1994 funds for VA major construction, including $14.5 million for the Loch Raven nursing home project. VA has not yet requested funding for the replacement hospital and nursing home at Fort Howard.

Network Planning Guidance Is Inadequate

Neither the VHA Central Office nor VHA's Eastern Region developed adequate guidance on how to change VA's facility-by-facility planning process into an integrated network planning process. As a result, the Chesapeake Network continues to plan construction projects largely on a facility-by-facility basis.

VHA's 1993 annual strategic planning guidance, issued in June 1993, was designed to help VA convert VHA's medical care system into a managed care system. The 1993 strategic planning guidance required that VHA regions

- identify and validate the range of existing medical programs at each facility within a network;
- analyze the capabilities at the facility, network, and regional levels to provide certain services, including rehabilitation for the blind, pacemaker implants, cancer treatment, treatment for acquired immunodeficiency syndrome, and treatment for traumatic brain injuries;
- review and update each facility's clinical inventory;
- review workload projections and allocations for hospital, outpatient, nursing home, and domiciliary care for each facility for fiscal year 2005, as prepared by the VHA Central Office, and justify any deviations from these projections and allocations; and
- conduct a nursing home needs assessment for each facility.

While this guidance mentioned the need for regions to assess their current programs and future needs on a networkwide basis, the basic emphasis was on facility-by-facility planning. The VHA Central Office did not require regions to take a number of steps toward developing integrated network plans, such as

- assessing current and projected needs for each type of medical care (including nursing home care) on a network-by-network basis;
- assessing the current ability of VA facilities (both inside and outside each network) to meet the needs identified by each network, including an assessment of the accessibility of VA services throughout the network;
- assessing the private sector's current and future ability to meet the needs of each network that VA is currently unable to meet;
- exploring the cost-effectiveness of various options (such as contracting, conversion of existing bed space, and new construction) for meeting each network's needs; and
- identifying and prioritizing VA construction projects (new construction, renovation, and conversion) within each network based on projected needs for the entire network.

For example, Central Office guidance required assessments of the need for new VA nursing home beds, including surveys of community nursing home availability. However, these assessments were to be done on a facility basis instead of a network basis. Also, while each facility was expected to assess the potential for converting its unused hospital space into nursing

home beds, facilities were not expected to assess the potential of conversions throughout their network before identifying a need for new nursing home construction. The Eastern Region relied on VHA Central Office guidance in preparing its 1993 strategic plan, providing little supplementary guidance to its networks and facilities on how to implement the Central Office guidance.

Based on the Central Office planning guidance, the Eastern Region produced a Chesapeake Network plan that was primarily a compilation of the plans of each of the Network's five medical centers, with comments from the regional office. The plan reflected little consideration of the health care needs of veterans throughout the Network or of how VA planned to coordinate the services of the Network's five medical centers to meet those needs. Also, the plan did not provide a networkwide assessment of the need for new construction in the Chesapeake Network. Thus, VA does not have an integrated Chesapeake Network plan to help meet VA's goal of developing the Network into a competitive managed care system.

VA Inadequately Considered Community Nursing Home Availability in the Chesapeake Network

The community nursing home surveys VA used to support its decision to build a new nursing home on the Loch Raven site, and to support its subsequent studies that reconfirmed that decision, were flawed and may have inaccurately estimated the availability of less costly community nursing home beds in the Chesapeake Network. Specifically, VA's surveys

- excluded nursing homes with occupancy rates of 95 percent or higher, even though they might be able to provide some beds to VA;
- did not examine projections of future supply of, and demand for, community nursing home care by nonveterans; and
- relied on unverified data on community nursing home availability, including data collected by a medical center that was proposing construction of a new VA nursing home.

Community nursing home surveys are an important part of the process of determining the need for new VA nursing homes. VA guidance requires that local VA officials, before requesting construction of a new nursing home, must identify all alternatives to the construction of new VA beds—including the use of community nursing homes. VA's goal is to provide nursing home care to 16 percent of veterans who require such care, with the remaining 84 percent of veterans receiving care without VA assistance. Of those veterans VA plans to provide assistance for, VA expects

about 40 percent to receive care through contracts with community nursing homes.[5]

VHA's Eastern Region conducted two community nursing home surveys as parts of assessments of the need for new VA nursing home beds in the Chesapeake Network. The first assessment, completed in January 1993, was used to support the need to build a new nursing home on the Loch Raven site and was also used in VA's September 1993 Chesapeake Network study. The community nursing home survey used in this assessment, however, was limited to nursing homes in the Maryland portions of the Baltimore, Fort Howard, Perry Point, and Washington service areas, which operate a total of almost 20,000 licensed nursing home beds. Of these beds, VA estimated that it could obtain only 40 additional available and suitable beds toward its 40-percent community share.[6] VA then estimated that the number of community nursing home beds would grow in proportion to the increase in the number of elderly veterans. Hence, VA estimated that community nursing homes could provide 50 beds by fiscal year 2005 in addition to the 118 community nursing home beds currently used by VA in the Maryland portions of the four medical centers' service areas.

Using these estimated community beds, plus existing VA beds and existing and additional state nursing home beds, VA estimated in its January 1993 assessment that it could provide 511 of the 792 additional nursing home beds needed in the area VA assessed by fiscal year 2005 without new VA construction. VA's community nursing home estimate of 168 beds by fiscal year 2005, however, fell below VA's planned 40-percent share of total nursing home need (317 beds); this, in turn, increased the number of beds VA estimated it will need to build in Maryland by fiscal year 2005. VA estimated that, to provide a total of 792 nursing home beds, it will need to construct 296 beds by fiscal year 2005.[7]

The second community nursing home survey was conducted in September 1993 as part of VA's overall strategic planning process. Data

[5]VA divides the remaining 60 percent of its nursing home bed needs equally between VA and state veterans' nursing homes.

[6]In conducting a community nursing home survey, VA may classify some beds as available but not suitable for VA use because (1) the nursing home declines to accept VA patients or (2) the nursing home does not meet VA standards.

[7]VA estimated that it needed to provide 281 additional VA nursing home beds in Maryland by fiscal year 2005. VA increased the number of beds to be constructed by 5 percent, to 296 beds, because it assumed that the new beds would have a 95-percent occupancy rate. Our check of VA's calculations yielded 295 beds, rather than 296.

from this survey were used in VA's October 1993 Chesapeake Network nursing home site selection study to provide indicators of the need for additional VA nursing home beds in each medical center's service area. The September 1993 needs assessment identified a need for VA to provide 1,387 nursing home beds in the Chesapeake Network in fiscal year 2005. The September 1993 community nursing home survey covered nursing homes throughout the Network, a total of 269 community nursing homes with about 37,000 licensed beds.

By contacting community nursing homes in the Chesapeake Network that VA believed might have available beds, VA identified 233 beds that it considered both available and suitable. These beds were in addition to 211 community nursing home beds that VA was already using. VA then estimated that the number of Chesapeake Network veterans aged 65 and older will increase by 20 percent by fiscal year 2005, which increased VA's projection of the number of additional available and suitable community beds to 280 by fiscal year 2005. Counting VA and state beds, VA estimated that it could provide 1,123 of the 1,387 nursing home beds it will need in the Chesapeake Network by fiscal year 2005 without additional VA construction. As with the January 1993 needs assessment, however, VA's September 1993 estimate of community nursing home availability (491 beds—211 currently in use plus 280 available in the future) fell below its 40-percent community bed goal (555 beds), increasing the estimated need for VA-built beds. VA estimated that it would require an additional 273 VA-built beds by fiscal year 2005 (260 needed beds, inflated to allow for a 95-percent occupancy rate).

VA's projections of future need for VA-built nursing home beds are questionable, however, because of its community nursing home survey methodology. For example, VA guidance assumes that a nursing home with an occupancy rate of 95 percent or more, based on data provided by state health agencies, has no beds available for VA patients and will not have any beds available for VA patients in the future. Under VA's guidance, community nursing homes with 95-percent or higher occupancy rates do not have to be contacted to determine if they have available and suitable beds for VA referrals. Meanwhile, community nursing homes with occupancy rates below 95 percent are to be surveyed by VA to determine if their available beds are suitable for VA referrals and not whether they could provide more or fewer suitable beds in the future. Thus, VA may miss potentially available and suitable nursing home beds because it is not contacting all community nursing homes. Also, VA is obtaining only

information on current availability, not future availability, of community nursing home beds.

Because of the 95-percent occupancy rate cutoff, VA's September 1993 Chesapeake Network community nursing home survey assumed that only 54 of the 269 community nursing homes in the Network's service area (20 percent) had available beds. VA officials contacted 52 of the 54 nursing homes and found, as noted above, 233 available and suitable beds. VA, however, may have missed additional available and suitable beds by not contacting the remaining 215 community nursing homes. For example, we found 30 community nursing homes in the Chesapeake Network that had at least 200 beds each but were not contacted by VA because they reported occupancy rates of 95 percent or higher.[8] On the basis of their reported numbers of beds and occupancy rates, we estimate that these nursing homes had almost 200 empty beds at the time VA conducted its survey. Consequently, VA may have been able to obtain additional suitable beds if it had contacted these nursing homes.

VA's community nursing home bed projections also assume that the supply of community beds will grow based on estimates of the increase of the elderly veteran population. This assumption does not account for trends in the supply of community nursing home beds in the Network or the demand for community nursing home beds in the future. For example, VA did not ask community nursing homes if they planned to increase or decrease their numbers of beds in the future, or whether they would be willing to provide additional beds to VA (for example, if the nursing homes anticipate going below a 95-percent occupancy rate in the future). Also, VA relied only on estimates of the increase in elderly veteran population by fiscal year 2005, not on the change in total elderly population. The latter would provide a better indication of future demand for community nursing home care and, thus, a better indicator of future community nursing home supply.

Furthermore, VA relied on data from the 1993 community nursing home surveys without independently verifying that the surveys were prepared correctly. Thus, VA could not be assured that these surveys accurately portrayed the future availability of community nursing home beds. Under VA guidance, medical centers both propose and assess the need for new VA nursing home construction. This could create an incentive for medical centers to underestimate the availability of community nursing home beds,

[8]We limited our analysis to relatively large nursing homes because they would provide a relatively large number of unused beds. For example, a 200-bed nursing home operating at 95-percent occupancy would have 10 unused beds on any given day.

which could lead to overestimation of the need for VA-built beds. Portions of the January and September 1993 nursing home needs assessments were done by the Baltimore Medical Center, which had proposed construction of a new extended-care facility at Loch Raven.

VHA Central Office officials in Washington, D.C., who are responsible for reviewing needs assessments for major construction projects stated that they normally do not review the accuracy of data on community nursing home availability provided by medical centers and regional offices or the manner in which the data were obtained because they lack staff to perform such reviews. These officials stated that they attempt verification only if data appear to be obviously erroneous, but that this was not the case with the January and September 1993 assessments.

VA Misallocated State Nursing Home Beds

VA misallocated its projected available state veterans' nursing home beds among the Chesapeake Network's four service areas in its September 1993 Network nursing home needs assessment.[9] Instead of following VA guidance, which recommends allocating state nursing home beds for veterans among medical centers' service areas, the Chesapeake Network assessment allocated all projected beds at the Charlotte Hall state veterans' nursing home only to the Washington Medical Center service area. As a result, VA understated the need for additional VA nursing home capacity in the Washington area and overstated the need for additional VA capacity in other parts of the Chesapeake Network, especially the Baltimore area. These overstatements and understatements of nursing home need may have affected the ranking of the top site alternatives for construction of a 120-bed nursing home in VA's October 1993 nursing home site selection study—Loch Raven and Washington. Thus, Loch Raven may not be a better site for construction of a 120-bed nursing home than the Washington Medical Center.

For purposes of reporting data on state veterans' home usage, VA assigns all residents of a state veterans' home for whom VA provides payments to one medical center. VA assigned all Charlotte Hall residents to the Washington Medical Center because Charlotte Hall is in Washington's service area. However, Charlotte Hall nursing home residents come from throughout Maryland, not just from that portion of the state included in the Washington service area. Of all veterans using the Charlotte Hall nursing home during 1992, 58 percent came from the Washington service

[9]For purposes of VA's nursing home needs assessment, the Chesapeake Network had four service areas: the service areas of the Washington, Martinsburg, and Perry Point medical centers; and a joint service area for the Baltimore and Fort Howard medical centers.

area, compared with 32 percent from the Baltimore/Fort Howard service area. Table 1 shows the distribution by service area of veterans using Charlotte Hall's nursing home during calendar year 1992.

Table 1: Distribution of Charlotte Hall Residents by VA Service Area, 1992

VA service area	Percent
Washington	58.4
Baltimore/Fort Howard	32.2
Perry Point	6.7
Martinsburg	2.0
Outside Chesapeake Network[a]	0.7
Total	**100.0**

[a]Resident from Worcester County, Maryland.

Source: Charlotte Hall Veterans Home.

VA's guidance recommends that regions, in preparing nursing home needs assessments, analyze the distribution of state nursing home users among medical center service areas when calculating the projected need for new VA nursing home beds. The Eastern Region did not perform such an analysis for the September 1993 Chesapeake Network nursing home needs assessment. The region projected 255 Charlotte Hall nursing home beds to be available to VA by 2005—129 beds currently available and 126 beds to be added in the future. VA allocated all 255 beds to the Washington service area. If VA had distributed the Charlotte Hall beds based on where Charlotte Hall residents come from, it would have significantly reduced VA's projection of nursing home beds available in the Washington service area while raising the estimate of beds available in the other service areas, as shown in table 2.

Table 2: Effect of Misallocation of Charlotte Hall Beds on VA's September 1993 Projections of Nursing Home Bed Availability

	Allocation of projected Charlotte Hall beds		
VA service area	VA allocation	GAO estimate	Net change
Washington	255	149	-106
Baltimore/Fort Howard	0	82	+82
Perry Point	0	17	+17
Martinsburg	0	5	+5
Outside Chesapeake Network	0	2	+2
Total	**255**	**255**	**0**

Sources: Department of Veterans Affairs and Charlotte Hall Veterans Home.

Using these revised counts and VA's methodology for calculating the numbers of new VA nursing home beds needed at each medical center, we found that Washington's projected need for additional nursing home beds in 2005 rose from 30 to 142 beds, while Baltimore/Fort Howard's projected need declined from 261 to 175 beds. VA's October 1993 site selection study rated Loch Raven slightly ahead of Washington because Loch Raven was rated well above any other site in terms of the need for new VA nursing home capacity. As demonstrated, however, VA overstated the need for new nursing home capacity at Loch Raven and understated the need in Washington because it misallocated Charlotte Hall beds. Correcting for this misallocation narrows the gap in projected additional VA bed needs between Loch Raven and Washington from 231 beds to 33 beds, as shown in table 3.

Table 3: Effect of Misallocation of Charlotte Hall Beds on Projected Need for New VA Nursing Home Beds, September 1993

	Projected need for new beds		
VA service area	**VA estimate**	**GAO estimate**	**Net change[a]**
Washington	30	142	+111
Baltimore/Fort Howard	261	175	–86
Perry Point	–45	–63	–18
Martinsburg	26	21	–5
Outside Chesapeake Network[b]	0	–2	–2
Total[a]	**272**	**273**	**0**

[a]Discrepancies in the net change for Washington and the VA estimate total are due to rounding errors.

[b]Reflects the allocation of Charlotte Hall residents who reside in Maryland but not in the Chesapeake Network, as shown in table 2.

Sources: VA estimates from Department of Veterans Affairs; GAO estimates calculated from data in tables 1 and 2.

If our estimated allocation had been translated into revisions of VA's evaluation of each site's need for new VA-built nursing home beds, the Washington site could have outscored Loch Raven.

Alternative Uses for Excess Hospital Capacity Were Not Adequately Considered

VA inadequately considered the conversion of its excess hospital capacity in the Chesapeake Network to nursing home and long-term medical care uses as alternatives to building new facilities at Loch Raven and Fort Howard. Contrary to VA guidance, the January and September 1993 nursing home needs assessments did not evaluate the potential to convert excess space at Network medical centers into nursing home capacity. Also, VA's decisions to demolish the Loch Raven hospital, build a new nursing home in its place, and build replacement facilities at Fort Howard were made without thoroughly exploring alternatives for renovating the Loch Raven hospital into a nursing home and extended medical care facility. Thus, VA may have missed opportunities to increase its capacity to provide nursing and long-term medical care to more Chesapeake Network veterans in a less costly manner than through new construction.

As noted in our February 1993 report on VA's major construction program, conversion of excess hospital capacity can help VA meet its goal of increasing its long-term care capacity at a lower cost than building new nursing homes.[10] VA plans to convert about 2,000 hospital beds to nursing home beds by fiscal year 2000. VA is pursuing this strategy at many medical centers through projects in its minor construction budget.[11] None of the Chesapeake Network hospitals, however, has a planned conversion project.

Although VA's January and September 1993 nursing home needs assessments did not include analyses of the potential for converting excess hospital capacity at Chesapeake Network medical centers into nursing home capacity or the costs of performing such conversions, such excess capacity appears to exist. A medical center may have excess capacity if it (1) reduces its authorized bed capacity without closing actual buildings or (2) does not operate all of the beds it is authorized to operate. For example, the Washington, Perry Point, and Martinsburg medical centers have reduced their authorized beds by over 300 since 1990. Also, the new Baltimore Medical Center has already reduced its authorized beds by 43 (from 324 to 281) since it opened in late 1992. Furthermore, Washington, Perry Point, and Martinsburg have also reduced their operating beds by about 180 since 1990.

[10]VA Health Care: Actions Needed to Control Major Construction Costs (GAO/HRD-93-75, Feb. 26, 1993).

[11]VA's minor construction budget funds individual projects estimated to cost less than $3 million. A portion of this account is dedicated to nursing home renovation projects, including conversions of hospital space.

VA officials told us that the excess capacity in Chesapeake Network medical centers is not suitable for conversion to nursing home space, primarily because the space is in old buildings that are not worth renovating. Under VA's nursing home needs assessment procedures, such information should have been included in the January and September 1993 needs assessments but was not.

In addition to the excess capacity at Chesapeake Network medical centers, the closure of the old Baltimore (Loch Raven) Medical Center left VA with an entire hospital that could have been renovated and converted into an extended-care facility. This facility could not only have accommodated the 180 nursing home beds VA plans to build in the Baltimore area, but might have accommodated the Fort Howard Medical Center's extended-care medical mission.

According to VA officials, the hospital was structurally sound and could have been renovated by removing asbestos and installing new utilities. In fact, VA considered renovation of the Loch Raven hospital as an extended-care facility in the past. For example, it was one of the options considered in 1986 when the possibility of closing the Loch Raven hospital in favor of a new downtown Baltimore medical center was being considered. Also, VA's February 1992 solicitation of bids for an enhanced-use project at Loch Raven left open the possibility that the enhanced-use contractor could renovate the existing hospital into a nursing home.[12]

When VA abandoned the Loch Raven enhanced-use plan in December 1992, it did not sufficiently analyze the costs of renovating the hospital into an extended-care facility. According to VA officials, conversion into a 200-bed nursing home was considered but rejected because it would have been too expensive (at least $36 million). VA did not, however, analyze the costs of renovating the Loch Raven hospital into an extended-care facility and closing the Fort Howard Medical Center compared with the costs of demolishing the hospital, building an extended-care facility on the same site, and building replacement facilities at Fort Howard. At that time, the Baltimore Medical Center proposed building a new 160-bed extended-care facility at Loch Raven for approximately $40 million, while the Fort Howard Medical Center was developing a scaled-down replacement project estimated to cost $39 million.

[12]Under its enhanced-use plan, VA would have leased the Loch Raven site to a private developer, who would have developed the site into a nursing home and related facilities. VA would have leased back up to 107 nursing home beds from the developer for its use.

VA's September and October 1993 site selection studies did not consider renovation of the Loch Raven hospital as an option. In these studies, VA assumed that, if a new nursing home were built at Loch Raven, the existing hospital would be demolished.

Conclusions

Since the creation of the Chesapeake Network, VA has not taken advantage of opportunities to reexamine its construction planning to better coordinate new projects or to ensure that they help meet the needs of veterans across the entire Network.

In spite of the stated goals behind creation of the Chesapeake Network, and a congressionally mandated study, VA has not developed an adequate plan that describes the future medical care needs of veterans throughout the Chesapeake Network and the best means to meet those needs. VA has not thoroughly assessed medical care needs of all Chesapeake Network veterans and has not thoroughly explored alternatives to constructing two nursing homes in the Baltimore area and constructing a new hospital at Fort Howard. Thus, VA could not assure the Congress that Loch Raven was the best site for a new nursing home in the Chesapeake Network. Also, VA will not be able to assure the Congress that replacement of Fort Howard's hospital and nursing home is the best way to upgrade the nursing home and long-term medical care that Fort Howard provides.

The lack of a networkwide focus in the Chesapeake Network is due in part to inadequacies in VA's strategic planning guidance. VA's guidance continues to rely on facility-by-facility assessments of future medical care needs rather than on an assessment of the needs of the entire network. Thus, VA's guidance is inadequate to support the shift from facility-based to network-based planning that will be needed if VA is to develop its networks into managed care systems.

When VA actually assessed the need for new VA nursing home construction in the Chesapeake Network, its methodology for conducting the needs assessments was flawed. VA's community nursing home survey methodology does not lead to an accurate assessment of future community bed availability because (1) many community nursing homes are not contacted to assess their bed availability; (2) projections of current to future community bed availability are based on incomplete data; and (3) the survey data do not have to be verified by the VHA Central Office. VA could ensure more accurate assessments of the need for new VA nursing

homes by changing its community nursing home survey methodology to correct these flaws.

Also, VA's assessment of the relative needs for new nursing home beds among Chesapeake Network facilities was skewed because VA did not follow its guidance and assumed that all Charlotte Hall residents were from the Washington Medical Center service area. In this instance, VA's methodology, which recommends that state nursing home beds for veterans be apportioned among medical center service areas according to where state nursing home residents come from, was not followed. Had the VHA Central Office verified the September 1993 needs assessment, it might have identified and corrected this problem.

Recommendations

We recommend that before requesting funding of any future Chesapeake Network construction projects, such as the Fort Howard replacement hospital and nursing home, the Secretary of Veterans Affairs provide the Congress with a revised plan for meeting the future medical care needs of Chesapeake Network veterans. This plan should include

- a thorough assessment of the needs for all types of care throughout the Network, rather than assessments made on a facility-by-facility basis;
- a thorough assessment of alternatives to new VA construction, including renovation and conversion of unused space at VA facilities; and
- identification of planned VA construction and renovation projects that the Secretary considers necessary after need has been determined and alternatives explored, prioritized according to need.

The Secretary should also consider requiring completion of similar plans for all other VA medical care networks.

Also, the Secretary should direct the Undersecretary for Health to revise VA's strategic planning guidance to (1) better support networkwide, rather than facility-based, planning and (2) improve the methodology for conducting community nursing home surveys.

Agency Comments

We requested written comments from VA but did not receive them in time to incorporate them in this report.

We are sending copies of this report to the Secretary of Veterans Affairs; the House and Senate Committees on Veterans' Affairs; the House and Senate Committees on Appropriations; and other interested parties. We will also make copies available to others on request.

This report was prepared under the direction of James R. Linz, Assistant Director, who was assisted by Gregory Whitney and David Lewis. Please call me on (202) 512-7101 if you or your staff have any questions.

Sincerely yours,

David P. Baine

David P. Baine
Director, Federal Health Care
Delivery Issues

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Abbreviations

VA	Department of Veterans Affairs
VHA	Veterans Health Administration

Objectives, Scope, and Methodology

Our objectives in conducting this review were to identify criteria applicable to VA's nursing home planning in the Chesapeake Network and assess the extent to which VA followed these criteria in planning its major construction projects in the Network—the Loch Raven nursing home and the Fort Howard replacement nursing home and hospital. To identify applicable criteria, we relied on the planning factors stated by the Congress in Public Law 103-79 and on our previous reviews of VA nursing home and major construction planning.

The planning factors mandated by the Congress emphasized the need for VA to consider the impact of new nursing home construction on the demand for VA nursing home care in the entire Chesapeake Network and the need to reduce overlap and duplication of medical services among Network facilities. Our reports, meanwhile, addressed the need for VA to thoroughly consider alternatives to building new nursing homes and other medical facilities.

To determine the extent to which VA followed the identified criteria, we reviewed the following:

- the history of VA's consideration of alternative uses for the Loch Raven site, including (1) the enhanced-use project VA attempted to develop prior to December 1992 and (2) the nursing home construction project VA included in its fiscal year 1994 budget request in April 1993, which was funded by the Congress in October 1993;
- VA's assessments of the need for additional VA-built nursing home capacity in the Chesapeake Network, including (1) the availability of community and state nursing home beds, and (2) the potential availability of excess hospital beds for conversion to nursing home beds;
- the Chesapeake Network nursing home site selection studies of September and October 1993 to assess the adequacy of VA's support for its selection of the Loch Raven site; and
- the history of the Fort Howard modernization project and the current status of VA planning for replacement facilities at Fort Howard.

Our work included interviews and record reviews at the VHA Central Office in Washington, D.C.; VHA's Eastern Region office at the Fort Howard Medical Center; and the Baltimore and Fort Howard Medical Centers. We also visited the Fort Howard hospital and nursing home and the Loch Raven site with VA officials. In addition, we reviewed relevant reports by VA's Office of Inspector General.

We conducted our review from September 1993 to July 1994 in accordance with generally accepted government auditing standards.

Chronology of VA Development Plans for the Loch Raven Medical Center Site and the Fort Howard Medical Center

1975

A VA plan recommended construction of a new medical center in downtown Baltimore, next to the University of Maryland School of Medicine. The existing Baltimore (Loch Raven) Medical Center would be renovated and converted into a nursing home and extended-care facility. Services provided at the Fort Howard Medical Center would be moved to Loch Raven, and Fort Howard would be closed.

1982

VA added two options to those it was considering to improve medical facilities in the Baltimore area:

- Renovate and expand the Baltimore (Loch Raven) Medical Center, move Fort Howard's extended-care services to Loch Raven, close the Fort Howard Medical Center, and build a new 60-bed nursing home at the Perry Point Medical Center.
- Renovate and upgrade the existing Baltimore, Fort Howard, and Perry Point medical centers.

Under these options, a new medical center would not be built in downtown Baltimore.

1984

VA considered additional options for improving Baltimore-area medical facilities. VA presented three new options:

- Modernize and expand the Baltimore (Loch Raven) and Fort Howard medical centers.
- Build a new medical center in downtown Baltimore, close the Baltimore (Loch Raven) Medical Center, and modernize and expand the Fort Howard Medical Center.
- Build a new medical center in downtown Baltimore, renovate the Baltimore (Loch Raven) Medical Center into an extended-care facility, and close the Fort Howard Medical Center.

1986

VA requested funding from the Congress for a new medical center to be constructed in downtown Baltimore. VA recommended that once the new medical center was completed, the existing Loch Raven hospital be demolished. VA would then sell the site. Meanwhile, the Fort Howard Medical Center would remain open. The Congress provided funding for construction of the new medical center in October 1986 and directed that

Loch Raven be closed once the new downtown medical center was completed.

August 1987

VA's Inspector General criticized VA for making insufficient efforts to find other uses for the Loch Raven site before deciding to sell it once the new Baltimore Medical Center was completed. The Inspector General recommended that VA attempt to identify alternative uses for a renovated Loch Raven hospital building, including use as a nursing home, a medical research facility, and office space.

December 1989

After consultations with various VA offices in Baltimore and Washington, and an appraisal of the Loch Raven site, a VA study concluded that the most cost-effective use of the Loch Raven site would be to sell it, unless a way could be found to involve the private sector in development of an extended-care facility at the site.

January 1990

A supplement to VA's study recommended that VA lease the Loch Raven site to a private developer, who would renovate the hospital into a nursing home, then lease back a portion of the nursing home to VA at reduced rates.

November 1990

VA obtained legislative authorization to pursue private development of the Loch Raven site into a nursing home as an enhanced-use project.

February 1992

VA advertised for bidders for the Loch Raven enhanced-use project but received only one bid. VA officials attributed the lack of bids to poor economic conditions.

VA's fiscal year 1992-1996 Five Year Medical Facility Modernization Plan no longer included the Fort Howard modernization and expansion project, and did not include Fort Howard on the list of the 10 hospitals most in need of replacement. Instead, VA's plan stated that no major construction projects were planned at Fort Howard during the fiscal 1992-1996 period.

March 1992

VA's Inspector General recommended that instead of building a new bed tower at Fort Howard, the existing hospital be renovated, with fewer beds

than planned. The Inspector General found that VA had overstated Fort Howard's inpatient bed needs because it failed to account for the capacity of the new Baltimore Medical Center, which was under construction at the time. The Inspector General also questioned the need to replace Fort Howard's 47-bed nursing home with a new 120-bed nursing home because at the time, VA was attempting to obtain an additional 107 beds through the enhanced-use project at the Loch Raven site.

July 1992

VA created the Chesapeake Network.

December 1992

After several months of negotiations with the enhanced-use bidder, VA concluded that the bid was not acceptable because the bidder was unable to offer adequate financial assurances that he could complete the project. At this point, VA abandoned the enhanced-use project.

VA then began developing a project to demolish the Loch Raven hospital and replace it with a new extended-care facility. The Baltimore Medical Center proposed a $40 million, 160-bed extended-care facility, including nursing home, intermediate medical care, and domiciliary beds.

January 1993

VA completed a nursing home needs assessment covering the Baltimore, Fort Howard, and Perry Point medical centers' service areas, and the Maryland portion of the Washington Medical Center's service area. This assessment identified a need for 296 new VA nursing home beds in the surveyed areas by fiscal year 2005.

VA closed the Baltimore (Loch Raven) Medical Center.

March 1993

The Fort Howard Medical Center applied for approval of a smaller project to replace its hospital building and nursing home. The new bed tower would have 151 beds instead of the 208 beds VA previously proposed. In addition, the replacement nursing home's capacity would be reduced from 120 to 60 beds. Support facilities would be moved from quonset huts to the new bed tower. According to Fort Howard's application, the cost of the modernization project would total $39 million.

April 1993

VA's fiscal year 1994 construction budget request included $14.5 million for construction of a 120-bed nursing home on the site of the Loch Raven hospital, which was scheduled for demolition.

VA's fiscal year 1994-1998 Five Year Medical Facility Development Plan included the Loch Raven nursing home project but stated that VA had no major construction projects planned at Fort Howard in the fiscal year 1994-1998 period. According to a VA official, the VHA Central Office received Fort Howard's application too late to include it in this plan.

August 1993

The 1993 VA major construction authorization did not provide a specific authorization for the Loch Raven project.[13] Such an authorization is required before the Congress can appropriate funds for a new VA major construction project or lease, or before VA can spend any design or construction funds on the project.[14]

The House Committee on Veterans' Affairs expressed concerns that the Loch Raven project was not ready to be authorized in 1993 or funded in fiscal year 1994. The Committee was concerned that the project was "hurriedly conceived," having not gone through VA's normal advance planning and design development procedures; was not developed with consideration of the nursing home care needs of veterans in the entire Chesapeake Network; and did not account for the need to expand and modernize the Fort Howard nursing home.

Instead of a specific authorization for the Loch Raven nursing home, the Congress authorized the Secretary of Veterans Affairs to select a site for a 120-bed nursing home. The Secretary could elect to construct a new nursing home or expand an existing VA nursing home. Before the Secretary could select a site, however, VA was required to conduct a study to identify the best nursing home site within the Chesapeake Network. This study was to include

- an assessment of the mission of each Chesapeake Network medical center to achieve reduced duplication of services, improved resource distribution, and more efficient service delivery within the Network;
- a determination of the need for expansion and modernization of the Fort Howard nursing home; and

[13]P.L. 103-79, August 1993.

[14]P.L. 102-405, title III, October 1992.

- an assessment of the effects on the missions of other Chesapeake Network facilities of constructing a nursing home at the Loch Raven site.

The House Committee on Veterans' Affairs expressed concerns that VA proposed the Loch Raven nursing home project without considering the need to replace the Fort Howard nursing home.

September 1993

The Secretary of Veterans Affairs sent VA's report on the congressionally mandated study of Chesapeake Network nursing home site selection to the Congress. He concluded that Loch Raven was the best site for a new Chesapeake Network nursing home, reaffirming the need for the project. He also determined that because of its deteriorating condition, the Fort Howard nursing home needed replacement.

The Chairman and other leaders of the House Committee on Veterans' Affairs expressed displeasure with the report, stating that it provided inadequate justification for the Secretary's selection of the Loch Raven site. In particular, they questioned whether VA considered modernization and expansion of the Fort Howard nursing home as an alternative to a new nursing home at Loch Raven.

VA conducted a nursing home needs assessment of the Chesapeake Network as part of its annual strategic planning process. This assessment identified a need for 273 additional VA nursing home beds in the Network by 2005.

October 1993

In response to the concerns of the House Committee on Veterans' Affairs, VA performed a more detailed Chesapeake Network nursing home site selection study. This study considered five options—new construction at Loch Raven plus expansion of the Fort Howard, Perry Point, Martinsburg, and Washington nursing homes.

VA's report concluded that the Loch Raven site was the best site by a narrow margin over expansion of the Washington Medical Center's nursing home. Construction of a 120-bed nursing home at Fort Howard ranked third, significantly behind Loch Raven and Washington. In evaluating the need for new VA nursing home beds in the Network, VA assumed that the planned 60-bed nursing home at Fort Howard would be built by fiscal year 2005.

The Congress appropriated $369 million in fiscal year 1994 funding for VA major construction, including the $14.5 million that VA requested for construction of the Loch Raven nursing home.

February 1994

Demolition work began on the Loch Raven hospital building.

April 1994

A memorandum of agreement on the Loch Raven nursing home was completed by the Baltimore Medical Center, the VHA Eastern Region, and the VHA Central Office. This agreement included specifications of the programs to be provided and the space requirements for those programs.

December 1994

VA has not yet requested funding for the Fort Howard project. VA's fiscal year 1995-1999 Five Year Medical Facility Development Plan stated that no major construction projects are planned for the Fort Howard Medical Center during the 5-year planning period. Also, Fort Howard does not appear on VA's list of the 10 medical centers most in need of construction, replacement, or major modernization. According to VA officials, negotiations are continuing on the scope of the Fort Howard modernization project.