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VA HEALTH CARE

VA Is Struggling to Address Asset Realignment Challenges

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VA Health Care: VA Is Struggling to Address Asset Realignment Challenges

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss management of health care assets owned by the Department of Veterans Affairs (VA) and operated by the Veterans Health Administration (VHA). VHA has primary responsibility for capital asset planning activities, whereas VA's Capital Investment Board has primary responsibility for capital budgeting activities, including review of VHA's capital investment proposals.

Over the next few years, VHA will spend billions of dollars operating, maintaining, and improving buildings and land at health care delivery locations nationwide. Currently, VA's health care capital assets total over 4,700 buildings and 18,000 acres of land at 181 major delivery locations.

In March 1999, we reported that VHA could enhance veterans' health care benefits if it reduced the level of resources spent on underused, inefficient, or obsolete buildings and reinvested these savings in providing health care more efficiently in modern facilities at existing locations or new locations closer to where veterans live.[1]

VHA agreed in general with our evaluation and committed at that time to taking the steps needed to realign its portfolio of health care assets. In essence, VHA agreed to implement in a timely manner a strategic planning process that would systematically study all its medical care markets in order to develop capital asset realignment plans.[2] VA's Capital Investment Board will use these plans to determine the best investment opportunities.

Last July we reported that VHA had made limited progress toward implementing a realignment process and estimated the opportunity cost of delay was as high as $1 million a day.[3] VHA's efforts had focused primarily on discussions among VHA officials, VA officials, and stakeholders, such as veterans' service organizations, regarding a conceptual framework for its asset realignment process. VHA reported at that time that its

[1] *VA Health Care: Capital Asset Planning and Budgeting Need Improvement* (GAO/T-HEHS-99-83, Mar. 10, 1999).

[2] A market, for the purposes of this statement, is defined as a geographic area generally within 75 miles of an existing VHA major delivery location. VHA operates assets in 106 markets.

[3] *VA Health Care: Challenges Facing VA in Developing an Asset Realignment Process* (GAO/T-HEHS-99-173, July 22, 1999).

realignment process would be operational within 2 months (September 1999).[4]

In light of VHA's commitments, you asked us to (1) assess VHA's progress to date, (2) identify any concerns regarding VHA's realignment process as currently designed, and (3) consider the potential effects of VHA's actions on VA's capital budgeting process.

My comments this morning are based on

- discussions with officials responsible for VHA's asset realignment and VA's capital budgeting processes and
- reviews of documents, primarily those relating to VHA's proposed asset realignment procedures and VA's Capital Investment Board decisions concerning VHA investment proposals considered for funding in fiscal year 2001.

In summary, VHA has been unsuccessful over the past 13 months in its efforts to design a capital asset realignment process. VHA's efforts have focused on discussions of who should lead such a process, how stakeholders should participate, and how decisions are to be made. Moreover, VHA estimates, as it did 8 months ago, that it could be several months before its process is operational.

Our assessment of VHA's process, as currently designed, raises concerns about whether the right people are involved at the right times and in the right ways. Specifically, senior managers at headquarters may not be proactively involved in a leadership role at key decision points. In addition, stakeholders with vested interests appear to be involved in decision-making, rather than advisory, roles. And activities supporting key components, such as options development and evaluation, are not sufficiently rigorous. As a result, VHA may not be able to produce within a reasonable time frame capital asset plans that are in the best interest of veterans.

VHA's slow progress creates dilemmas for VA's capital budgeting process. In the short term, VHA and VA's Capital Investment Board face the

[4] *VA's Capital Assets Realignment Plan for Enhancing Services to Veterans*, hearing before the Subcommittee on Oversight and Investigations, House Committee on Veterans' Affairs, No. 106-20 (July 22, 1999).

challenge of maintaining and improving capital assets without sufficient information about future asset needs to ensure cost-effective capital investment decisions. By contrast, if funding for projects is delayed until capital asset plans are completed, the longer-term challenge will be how to successfully finance and implement capital realignment investments potentially totaling billions of dollars. These challenges could be ameliorated, in part, if VA effectively manages short-term investment risks and the Congress provides alternative financing arrangements for future investments.

VHA Is Struggling to Design Asset Realignment Process

The goal of an asset realignment process, in our view, is to produce within a reasonable time frame a capital asset plan that is in the best interest of veterans—namely one that provides better health care services for currently enrolled veterans while enabling more veterans to access VA care. The capital asset plan should conform to Office of Management and Budget guidelines.[5] If done successfully, the capital asset plan should provide a road map to guide investment decisions over the next decade.

Over the past 13 months, VHA has taken an inordinate amount of time trying to develop a method to achieve these objectives. In March 1999, VHA developed a broad conceptual framework to guide its design efforts. Over the next 3 months (July 1999), VHA developed a draft statement of work needed to conduct the market studies and an action plan for completing the studies. Three months later (October 1999), VHA developed a draft capital asset management policy statement that outlined a proposed design method as well as a revised statement of work and action plan. In February (4 months later), VHA provided a revised draft policy statement to a wide variety of stakeholders for their review.

These critical documents are currently being revised again. Over the next several months, VHA expects to (1) continue refining its capital asset realignment design method on the basis of stakeholder concerns and suggestions, (2) complete work needed to solicit and award a consulting contract, and (3) obtain senior management review and final approval of a method to employ.

During the same period, VHA has also struggled to develop a capital asset realignment plan for its Chicago market. This initiative,[6] started in July

[5] *Capital Programming Guide*, Office of Management and Budget (July 1997).

[6] *VA Health Care: Closing a Chicago Hospital Would Save Millions and Enhance Access to Services* (GAO/HEHS-98-68, Apr. 16, 1998) recommended that VHA develop and implement a plan that meets veterans' needs by operating fewer capital assets.

1998, produced a draft realignment plan in September 1999. VHA has spent the last 6 months obtaining and evaluating stakeholders' concerns and advice as well as reevaluating potential options. VHA expects this experience to help shape the ultimate design of its systemwide asset realignment process.

VHA's Proposed Capital Asset Realignment Process Raises Concerns

We identified three weaknesses in VHA's proposed method. First, senior managers at headquarters appear to be in reactive, rather than proactive, leadership roles. Second, stakeholders appear to have decision-making, rather than advisory, roles. Third, key components, such as development of evaluation criteria, lack rigor; that is, they do not appear to be driven by quantifiable, objective data clearly linked to well-defined measurement standards.

VHA's Senior Managers Lack Proactive Role

VHA's senior management should play a critical leadership role in the development of (1) well-defined evaluation criteria that have the measurement standards needed to guide the collection of data necessary to make capital asset realignment decisions, (2) guiding principles that consultants and others could use when developing asset realignment options for consideration, and (3) systematic procedures for scoring options in relation to each evaluation criterion.

However, VHA plans to give a consultant primary responsibility for developing options and evaluation criteria as well as for conducting the evaluation of potential options. Senior managers at headquarters are to be primarily in an oversight role, reacting to the consultant's proposed evaluation criteria, methods for evaluating potential options, and choice of the best option.

We are concerned about this arrangement. The capital asset plans that result from these market studies are expected to guide VHA's future investment initiatives for the next decade. Without strong leadership in the development of these plans, VHA risks not being able to timely implement meaningful capital asset realignments. A case in point is VHA's Chicago market realignment process. Senior managers at headquarters were not actively involved until after stakeholders and others raised significant concerns about the recommended realignment option. VHA has since convened a special review group that has spent the last 2 months assessing stakeholders' concerns and deciding how such concerns could be best resolved. Now, 20 months after the study was initiated, this review group has decided to set aside the originally recommended option and consider others, including options that had not been considered before. If senior

managers had been involved, such options might have been considered earlier. With senior managers continuing in a reactive role in its proposed systemwide asset realignment process, VHA risks replicating in other markets its struggle to make progress realigning assets in Chicago.

VHA's Stakeholders Have Decision-Making Role

Last July we expressed concern that VHA's capital asset realignment process as then proposed could rely too heavily on local stakeholders who may have vested interests in maintaining the status quo. Our assessment of VHA's proposed asset realignment process today suggests that stakeholders remain heavily involved in a decision-making role.

VHA plans to have national and local committees, which possess decision-making authority, review the consultant's products, such as its proposed evaluation criteria and data collection methods. The committees' members include representatives of veterans' service organizations, union or labor organizations, medical school affiliates, research organizations, state veterans and health associations, and local VHA staff.

We remain concerned that stakeholders' participation as decision-makers on such committees could bias the market studies and, ultimately, the capital asset plans. VHA stakeholders are a diverse group with competing interests, who, quite naturally, could oppose some changes that they believe are not in their best interests. For example, medical schools' reluctance to change long-standing business practices has sometimes been a factor inhibiting VHA's asset management. In addition, unions sometimes are reluctant to support decisions that result in a restructuring of services because operating efficiencies can result in staffing reductions.

We believe it is essential to involve stakeholders in an advisory role in the capital asset realignment process. This is because they can provide valuable perspectives on the evaluation criteria for selecting the best market study option and on procedures for scoring realignment options in relation to the criteria. Such input could enhance stakeholder understanding of VHA's capital asset realignment process and build confidence that realignment decisions are fair and fact-based.

Realignment Decision Points Lack Rigor

From our perspective, VHA's experience with the Chicago capital asset realignment study offers three valuable lessons so far that could improve VHA's systemwide asset realignment process:

- ill-defined capital asset realignment evaluation criteria lead to unsupportable decisions;

- flawed asset realignment options result in flawed decisions; and
- an unstructured, subjective evaluation process impedes stakeholder acceptance.

It does not appear, though, that VHA has taken these lessons into account for its proposed realignment process. First, VHA's systemwide evaluation criteria, when developed, could be vaguely defined. VHA's draft statement of work for its systemwide process calls for a consultant to develop evaluation criteria, but it does not require the evaluation criteria to be defined in terms of quantifiable measurement standards that are clearly linked to each criterion. The lack of well-defined criteria can lead to problems, as it did in the Chicago realignment process. There, VHA used accessibility of health care services as a criterion without adequate measurement standards that could be quantified, such as the potential effect on veterans' travel time and the number of veterans affected. Moreover, because VHA's draft statement of work for its systemwide process does not require the consultant to develop a systematic data collection approach that directly links data to individual evaluation criteria, the consultant's data collection could be incomplete. This could significantly reduce the likelihood that VHA would select the best option available.

Second, we are concerned that VHA's systemwide realignment process may not consider the best options that are potentially available. For example, VHA's Chicago process appears to have explored flawed options because VHA's steering committee and consultant limited the options evaluated to ones that would generally rearrange services among existing assets. On the basis of its assessment of stakeholders' comments pertaining to the Chicago process, we understand that VHA is reevaluating options, including ones not originally evaluated. VHA's draft statement of work for its systemwide process calls for a consultant to develop at least three alternative asset configurations. VHA plans to rely on the consultant's judgment to develop the best options for consideration. Unless options other than incremental reconfiguration of current assets are considered, the realignment process is likely to take a narrower view than is needed to identify the most efficient and effective way to meet veterans' health care needs. For example, building or leasing a replacement facility in a location closer to where veterans live might not be evaluated.

Third, we are concerned that VHA will use an unstructured process to decide which of the available capital asset realignment options best meets the evaluation criteria. For example, in its Chicago process, VHA did not

prioritize its evaluation criteria, nor did it use a systematic scoring method to reach decisions about how well each option met the evaluation criteria. Rather, its recommended realignment option was determined on the basis of the subjective consensus of a steering committee, but the draft report did not elaborate sufficiently on VHA's rationale. VHA's draft statement of work for its systemwide process calls for a consultant to develop a method for evaluating realignment options. At present, this statement of work has no requirements for the consultant to develop a systematic way to score how well each option meets the evaluation criteria, nor has anyone in VA been charged with doing this. Without a systematic method for reaching a decision about the best option, VHA's realignment decisions may be difficult to explain, support, and defend.

While VHA possibly could satisfactorily address our concerns within the coming months, its progress to date casts doubt on its ability to do so. This is because, in part, VHA may not possess the requisite financial planning skills to make the best realignment decisions. Currently, VHA is using health care professionals to make financial decisions. While such professionals have the necessary skills to make decisions about veterans' health care needs, they may not have the business skills necessary to make the best financial decisions. For example, financial experts possess knowledge and skills for analyzing life cycle costs of assets under different scenarios as well as for determining potential pay-back schedules for initial capital investments for options and potential long-term returns on those investments.

Clearly, it seems desirable to bring to bear the combined expertise of financial experts and health care professionals to evaluate potential realignment options to identify those that provide the best investment return for veterans and other taxpayers. There is a unit within VA that, in our view, has worked to develop financial expertise regarding capital asset management decision-making, namely, VA's Capital Investment Board. The Board has (1) experience developing options evaluation criteria that are more clearly defined than criteria used in VHA's Chicago realignment process, (2) a systematic data collection approach that directly links data to each evaluation criteria, (3) guidance for developing options, and (4) a systematic options evaluation process. The Board currently uses a capital budgeting model for major investments that embodies the key attributes needed to address our concerns about VHA's process. Its model has been used and refined over the past 3 years, and it gives decisionmakers, in our view, better information than they had in the past.

New Business Model Could Be Considered

There appear to be two alternative business models for completing the design and implementation of a capital asset realignment process in a timely manner, besides continuing with VHA's current efforts. First, leadership of the asset management responsibilities could be transferred to another unit within VA, but outside of VHA. A second model could involve the shifting of capital asset decision responsibility outside VA.

Transferring capital asset management responsibilities to another unit within VA, such as the Capital Investment Board, could better combine VHA's health care expertise with VA's financial experts. As previously discussed, VA's Capital Investment Board appears to have a business model that could address financial management decisions involving capital asset realignment options. This approach has appeal because the Board has a full-time dedicated group that has studied industry best practices for capital asset management and has used this knowledge to develop evaluation criteria and procedures to score capital asset investment options.

Capital asset decision-making could also be moved outside of VA. This could be accomplished through the establishment of an independent commission or comparable group to develop and evaluate options for realigning capital assets. This option could be advisable if it is determined that VA lacks the desire or wherewithal to realign capital assets or that the pressures from competing stakeholders inherent in VA's environment are deemed to be insurmountable.

Regardless, VA needs to finalize its capital asset realignment process as quickly as possible because its delay is creating dilemmas for short-term and long-term capital investment decisions, as I will discuss next.

VHA's Delays Create Capital Budgeting Dilemmas

VHA's slow progress creates dilemmas for VA's capital budgeting process. On a short-term basis, VHA, VA's Capital Investment Board, and the Office of Management and Budget must decide what level of risk they are willing to tolerate as they continue maintaining or improving capital assets without sufficient information about VA's future asset needs to ensure cost-effective investment decisions.

Appropriately, they seem unwilling to accept much risk when making high-cost capital investment decisions—those exceeding $4 million. They have significantly limited such investments over 4 fiscal years (1998 through 2001) and could continue this de facto moratorium for another 3 years

(through 2004), given VHA's struggle to realign its assets. VA's fiscal year 2001 budget[7] for high-cost capital investments, for example, requested only $25 million for one new project after VA's Capital Investment Board considered 14 VHA high-cost investment proposals totaling $350 million.

By contrast, there appears to be a greater willingness to accept more risk for less expensive capital investment decisions—those below $4 million. We find this troublesome because there have continued to be significant investments requested for less expensive capital improvements—about $400 million for each of fiscal years 2000 and 2001. These involve improvements at many locations, such as ward renovations; outpatient space reconfigurations; and enhanced heating, ventilation, and air conditioning systems. To successfully manage investment risks, VHA needs to carefully consider its less expensive construction investments at delivery locations that could ultimately be determined to be unneeded to meet veterans' health care needs once capital asset plans are completed.

In March 1999 we reported that, until an effective capital asset planning process is in place, VHA's less expensive investment decisions should be subjected to tighter scrutiny. Toward that end, we suggested that VHA ensure that the fundamental principles underlying the Capital Investment Board's evaluation process for high-cost capital investment be rigorously implemented when making less expensive capital investment decisions.[8]

An effective risk assessment process should identify health care delivery locations where, for example, there are no alternatives for providing care. This process could involve two key components: (1) risk measurement factors and (2) data to evaluate investment proposals in relation to risk factors. Low-risk factors, for example, could include noncompetitive markets, large veteran population growth, or large growth in veterans' use of VHA services.

On a longer-term basis, VA faces a different dilemma. Today VHA's high-cost capital investment needs are not known and will remain so until its capital asset plans are completed; nonetheless, VHA believes, and we agree, that they will likely require a significant investment. VHA's investment needs may not be as daunting as they now seem because, for example, investments will be spread over the next decade and each will

[8] *VA Health Care: Capital Asset Planning and Budgeting Need Improvement* (GAO/T-HEHS-99-83, Mar. 10, 1999).

require many years to implement. VHA's Chicago realignment process, for example, is expected to take 10 years to be fully implemented.

Moreover, the magnitude of the new investment resources needed could be mitigated. First, VHA should realize significant returns on these capital investments—up to 100 percent or more in the form of annual operational savings. VHA's Chicago realignment option, for example, was estimated to yield annual operating cost savings of $189 million, compared with one-time capital investment needs of $92 million. In March 1999 we suggested that some or all of these savings could be used to finance future capital investment decisions. Legislative action, for example, could authorize VA to accumulate resources (that is, savings) in a Capital Asset Fund by charging VHA delivery locations for the capital investment costs used to realign assets. Locations could return to the fund some or all of the amount invested over a prescribed number of years.[9]

Second, last year VA proposed a new funding source to help finance high-priority investments faster. In its fiscal year 2000 budget submission, VA proposed a 5-year demonstration that would allow VHA to sell, transfer, or exchange up to 30 excess or underutilized properties; deposit proceeds into a new Capital Asset Fund; and use the Fund to invest in more appropriate assets. This proposal, which we supported last year, offers a way to help finance capital investments needed to realign assets for two reasons: VA has significant unused or underused buildings, and it lacks incentives to dispose of properties because funds can, by law, be spent only to construct, alter, or acquire nursing home facilities.[10]

In addition to addressing high-priority asset needs faster, such funding sources could also provide incentives for more effective capital planning and greater accountability for investment decisions. To realize such benefits, the Congress would need to expand the types of deposits that VHA could make into its proposed Capital Asset Fund or establish a separate revolving fund for this purpose.

Concluding Observations

We are concerned that VHA's slow progress in establishing an asset realignment process needlessly delays critical decisions and the opportunity to reinvest resources to enhance veterans' future health care. Furthermore, the weaknesses we identified in VHA's realignment process,

[9]GAO/T-HEHS-99-83, Mar. 10, 1999, p. 23.

[10]GAO/T-HEHS-99-83, Mar. 10, 1999, p.23.

as currently proposed, undermine our confidence that, once implemented, it will produce within a reasonable time frame capital asset plans that are in the best interest of veterans and taxpayers. It appears that if a capital asset realignment process is patterned after the Capital Investment Board's decision-making model, the process would be less likely to replicate VHA's Chicago experience.

Because VHA is struggling to reach a sound realignment decision in Chicago and complete the design of a systemwide realignment process, and because VA's Capital Investment Board has a model that could address many of VHA's weaknesses, it seems appropriate that VA consider transferring the asset planning responsibility to the Board. The daily cost of delayed decisions is unacceptably high.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions that you or Members of the Subcommittee may have.

GAO Contact and Staff Acknowledgments

For future contacts regarding this testimony, please call Stephen P. Backhus at (202) 512-7101. Individuals who made key contributions to this testimony include Paul Reynolds and Walter Gembacz.

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