DOCUMENT RESUME

05986 - [B1386412]

The New Orleans Naval Hospital Should Be Closed and Alternative Uses Evaluated. HRD-78-71; B-133044. May 15, 1978. 19 pp. + 3 appendices (4 pp.).

Report to the Congress; by Robert F. Keller, Acting Comptroller General.

Issue Area: Health Programs (1200); Health Programs: Early Diagnosis and Disease Control (1201).
Contact: Human Resources Div.
Budget Function: National Defense: Department of Defense - Military (except procurement & contracts) (051); Health: Health Planning and Construction (554).
Organization Concerned: Department of Defense; Department of the Navy; Office of Management and Budget; Veterans Administration; Public Health Service.
Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services; Congress.
Authority: 10 U.S.C. 1074. 10 U.S.C. 1076. 42 U.S.C. 249. 42 U.S.C. 253. 38 U.S.C. 610. 38 U.S.C. 613.

The Naval Regional Medical Center in New Orleans, Louisiana, is a 250-bed general medical and surgical hospital which was built to serve the health care needs of active duty personnel and other military beneficiaries in the area. New Orleans also has two other Federal hospitals -- the Public Health Service (PHS) hospital and the Veterans Administration hospital. The New Orleans metropolitan area also has two medical schools and several regional, national, and international medical referral centers. In all, the area has 30 non-Federal hospitals and a total of 7,650 beds. Findings/Conclusions: The New Orleans naval hospital is greatly underused. Although it was constructed to accommodate 250 patients, its average daily patient load in 1977 was about 23, less than 10% of its capacity. The potential for increasing the hospital's military workload is virtually nonexistent. The Navy plans to discontinue inpatient services at the hospital. It should discontinue both inpatient and outpatient services; such action would save annual operating costs of about $4 million and permit transfer of military physicians and support personnel whose pay totals $3.1 million. The Navy could continue to provide outpatient care at its New Orleans Naval Air Station dispensary. Neither the Department of Defense nor the Veterans Administration could identify any inpatient medical needs that could be filled by the facility. The disadvantages of transferring the operations of the Public Health Service hospital to the Naval hospital would outweigh the advantages. The hospital could be used for two non-Federal activities: the Louisiana Department of Health and Human Resources could use it as an adolescent mental health care facility, or a lease could be negotiated with a private for-profit hospital. Recommendations: The Secretary of Defense

should: discontinue both inpatient and outpatient medical services at the New Orleans naval hospital, take the necessary action to provide outpatient care at the New Orleans Naval Air Station dispensary, and evaluate thoroughly the two potential medical uses for the hospital and take action to pursue one of these if it is deemed acceptable. (RBS)

6712

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

The New Orleans Naval Hospital Should Be Closed And Alternative Uses Evaluated

The New Orleans naval hospital is greatly underused. The potential for increasing its military use to a viable level is virtually nonexistent because of the small number of military beneficiaries in New Orleans. The Department of Defense should discontinue both inpatient and outpatient services at the naval hospital. Care is available to military beneficiaries at other Federal and non-Federal facilities in New Orleans. Defense agrees.

Although there were no beneficial alternative medical uses for the naval hospital in the Federal sector, there are two potential non-Federal medical uses. One would meet a State need for an adolescent mental health care facility. The other involves leasing the hospital to a private medical group. Defense should evaluate these two potential medical uses and pursue one if it is deemed acceptable and no other higher priority or better use can be found. Defense said it will thoroughly evaluate the alternative uses.

HRD-78-71

MAY 15, 1978

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

B-133044

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the low utilization of the New Orleans naval hospital and potential alternative uses for the facility.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and the Secretary of Defense.

R.F. Keller

ACTING Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

THE NEW ORLEANS NAVAL HOSPITAL SHOULD BE CLOSED AND ALTERNATIVE USES EVALUATED

D I G E S T

The New Orleans naval hospital is a greatly underused facility. The hospital was constructed to accommodate 250 patients, but its average daily patient load in 1977 was about 23, less than 10 percent of its capacity. (See p. 8.)

The potential for increasing the hospital's military workload is virtually nonexistent. Even if all of the area's military beneficiaries now being served by other Federal and nonFederal facilities could be directed to the naval hospital, workload could only be increased to about 64 patients a day--less than 30 percent of its capacity. (See p. 9.)

The Navy plans to discontinue inpatient services at the New Orleans naval hospital. GAO believes the Navy should discontinue both inpatient and outpatient services. Such action would save annual operating costs of about $4.0 million and permit military physicians and medical support personnel, whose pay totals about $3.1 million, to be transferred to other hospitals. The Navy could continue to provide outpatient care at its New Orleans Naval Air Station dispensary. Both inpatient and outpatient care would be available to military beneficiaries at other Federal and non-Federal hospitals in New Orleans. The savings achieved would be offset to some extent by the costs of modifying and operating the dispensary and the costs of obtaining some services for military beneficiaries in the private sector. (See p. 17.)

GAO identified and evaluated alternative Federal and non-Federal medical uses for the naval hospital which could appropriately increase its use. Neither Department of Defense nor the Veterans Administration identified any inpatient medical needs that could be filled by the naval hospital. The Public Health Service hospital could possibly transfer its operation to the

HRD-78-71

naval hospital if modifications totaling about $6 million were undertaken. However, GAO believes the disadvantages of such a transfer outweigh the advantages and little overall benefit would accrue to the Public Health Service. (See pp. 9 to 14.)

GAO believes the naval hospital could be used for two non-Federal uses. One involves the Louisiana Department of Health and Human Resources using the naval hospital as an adolescent mental health care facility. The State currently plans to build a $15 million facility in the New Orleans area to meet this need. State officials have toured the naval hospital and indicated that with some modifications, estimated to cost between $8 and $10 million, it could meet their needs. Use of the naval hospital for this purpose would meet a medical need in the community and could reduce the State and taxpayers' cost of meeting this need. This alternative would require that the naval hospital be declared excess by Department of Defense and go through the Federal Government's excess property disposal process. (See pp. 14 and 15.)

The other involves negotiating a long-term lease to a private corporation which operates a for-profit hospital located about 2 miles from the naval hospital. The private hospital proposes to split its operation and offer different services at its existing facility and th naval hospital. Active duty personnel and other beneficiaries could receive medical care at both facilities. This proposal would permit the Navy to retain control of the hospital for contingency purposes and to evaluate whether this type of an arrangement could be applied at other locations. The Navy could pursue this alternative without declaring the hospital excess to its needs. However, such a lease arrangement might require specific legislative authority if active duty personnel were to routinely receive care at the leased facility. (See pp. 15 to 17.)

RECOMMENDATIONS AND AGENCY COMMENTS

GAO recommends that the Secretary of Defense:

--Discontinue both inpatient and outpatient medical services at the New Orleans naval hospital.

--Take the necessary action to provide outpatient care at the New Orleans Naval Air Station dispensary.

--Evaluate thoroughly the two potential medical uses for the naval hospital that GAO has identified and take action to pursue one of these if it is deemed acceptable and no other higher priority or better use can be identified. (See p. 18.)

Defense agreed that inpatient and outpatient medical services should be discontinued at the New Orleans naval hospital. Defense stated that, in conjunction with the Navy, it will begin planning to close the facility and to provide medical care for eligible beneficiaries at other Federal facilities in the area.

Defense said it would begin a thorough evaluation of the alternative uses for the hospital and inform GAO when a decision was reached on this matter. (See p. 19.)

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ABBPEVIATIONS

CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
DOD	Department of Defense
GAO	General Accounting Office
PHS	Public Health Service
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

The Naval Regional Medical Center in New Orleans is a 250-bed general medical and surgical hospital which was built to serve the health care needs of active duty personnel and other military beneficiaries in the area. The hospital was opened in December 1976 and is located on a 20-acre site at the New Orleans Naval Support Activity on the west bank of the Mississippi River. This 217,000 square foot hospital was designed, constructed, and equipped at a cost of more than $22 million. A picture of the naval hospital is on page 2.

The first floor of the facility houses the medical and dental outpatient clinics, major diagnostic units, dietary services, stora[illegible], staff support, and emergency facilities. The second floor contains a 20,000 square foot administrative area and a 14,000 square foot surgical wing consisting of four operating rooms and their support activities.

The nursing units are on the upper four floors and contain one-, two-, and four-patient rooms. Nearly all of these rooms have private baths. These four floors also have an obstetrical suite, pediatric unit, medical and coronary intensive care units, and a neuropsychiatric convalescent unit.

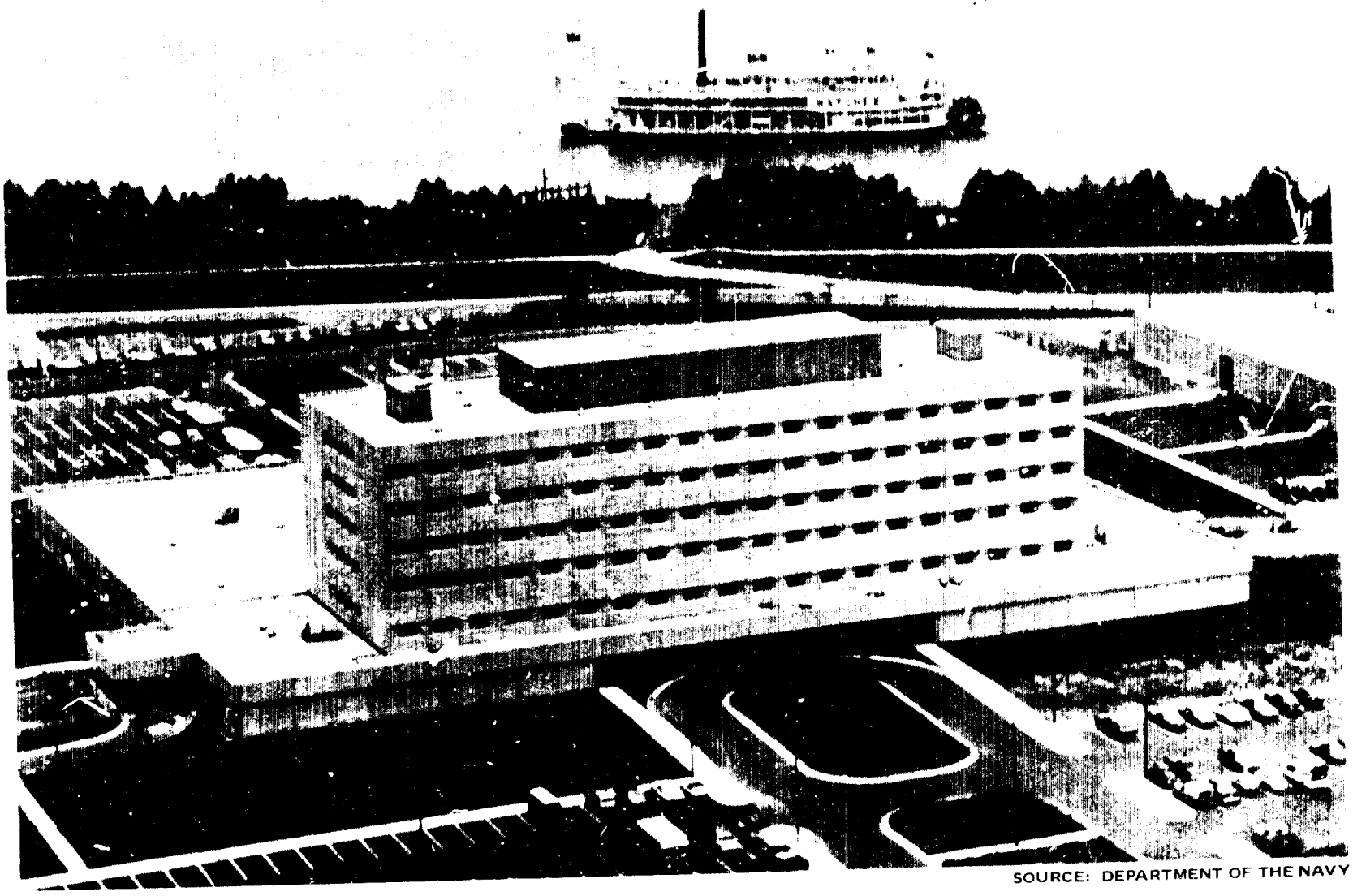
OTHER FEDERAL HOSPITALS IN NEW ORLEANS

New Orleans also has two other Federal hospitals--the Public Health Service (PHS) hospital and the Veterans Administration (VA) hospital--on the east bank of the Mississippi River.

Veterans Administration

VA operates a 581-bed general medical and surgical teaching hospital to serve the health care needs of its beneficiaries in New Orleans. The VA hospital was dedicated in 1952. It is located on a 5.6-acre site in the heart of New Orleans and consists of a 10-story main building and several auxiliary buildings.

The hospital provides inpatient and outpatient care, and in fiscal year 1977 it had an average daily inpatient workload of about 450 and outpatient visits totaling about 207,000. The hospital conducts research and training



SOURCE: DEPARTMENT OF THE NAVY

NEW ORLEANS NAVAL HOSPITAL

activities and has residency training programs in 9 specialties and 10 subspecialties.

Although the hospital has enough inpatient beds to meet existing needs, VA officials stated the outpatient, research, teaching, and support activities should be expanded. To meet this need, VA plans to acquire an additional 1.1 acres adjacent to the existing site and to begin constructing a new multistory facility in 1980.

Public Health Service

PHS operates a teaching hospital in New Orleans for its primary beneficiaries--American seamen; and active duty PHS, Coast Guard, and National Oceanic and Atmospheric Administration personnel. The 300-bed general medical and surgical hospital was constructed in 1931 and is located on 17 acres on the east bank of the river. Besides the main hospital building, the complex has eight residential buildings and six hospital support buildings.

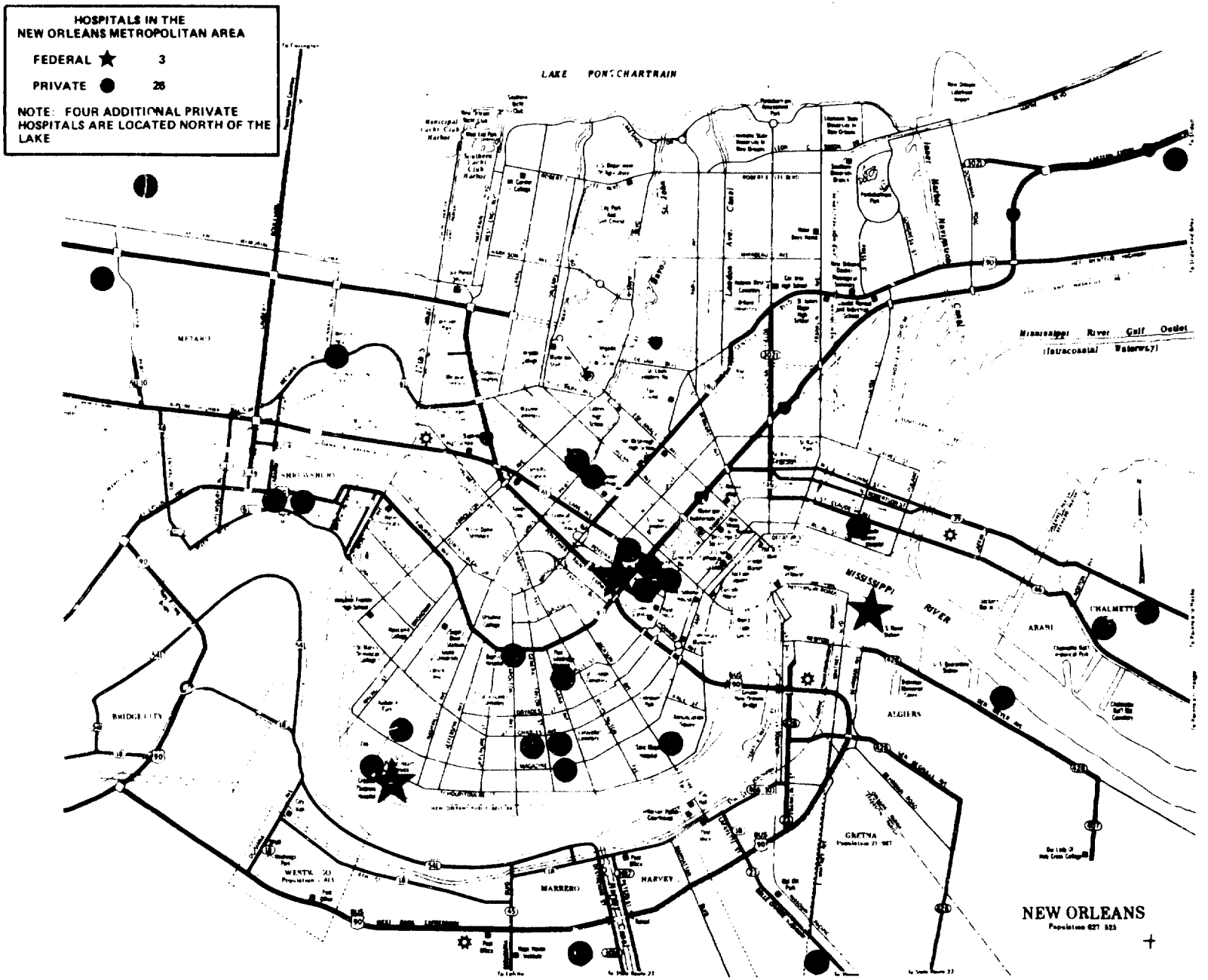
The PHS hospital provides inpatient and outpatient care and in fiscal year 1977 it had an average daily inpatient workload of about 210 and outpatient visits totaling about 132,000. The hospital has approved residency programs in seven specialties.

The hospital was recently renovated at a cost of about $5 million. The Joint Commission on Accreditation of Hospitals gave the hospital a 2-year accreditation in 1977. However, a PHS report to the Congress states that an additional $12.5 million is needed for renovations to meet fire, health, and safety codes and for urgent repairs.

NON-FEDERAL HEALTH CARE CAPABILITY IN NEW ORLEANS

The New Orleans metropolitan area has two medical schools and several regional, national, and international medical referral centers. In all, the area has 39 non-Federal hospitals and a total of about 7,650 beds. (See app. II.)

The health systems agency for the New Orleans area reported in its 1978 health system plan that the ratio of non-Federal short-term general beds per 1,000 people exceeded the national recommended guidelines of 4.0 beds per 1,000 people. The New Orleans metropolitan area has a ratio of 6.4 beds per 1,000, while the city of New Orleans has a ratio of 8.8 beds per 1,000--more than 200 percent above the recommended national guidelines. The map on page 4 shows the location of Federal and civilian hospitals in the city.


HOSPITALS IN THE
NEW ORLEANS METROPOLITAN AREA
FEDERAL 3
PRIVATE 26
NOTE: FOUR ADDITIONAL PRIVATE HOSPITALS ARE LOCATED NORTH OF THE LAKE
LAKE PONTCHARTRAIN
METAIRIE
MISSISSIPPI RIVER
ALGIERS
MARRERO
HARVEY
GRETNA
NEW ORLEANS

ELIGIBILITY FOR CARE IN DOD, VA, AND PHS HOSPITALS

Care in Department of Defense (DOD) medical facilities is provided for active duty military personnel and is subject to availability of space, facilities, and staff for dependents of active duty personnel, retirees, and dependents of retired and deceased personnel (10 U.S.C., sec. 1074, 1076).

PHS is authorized to provide care for American seamen, active duty PHS personnel, Coast Guard and National Oceanic and Atmospheric Administration personnel, and other individuals under certain circumstances (42 U.S.C., sec. 249-251, 253).

Both DOD and PHS hospital systems provide medical care for uniformed services beneficiaries. Although each system is operated to serve the principal beneficiaries referred to above, uniformed services beneficiaries are allowed to use both systems.

VA is authorized to provide medical care to (1) veterans with service-connected disabilities, (2) veterans with any other disabilities if they are unable to pay for necessary hospital care, (3) veterans who meet certain other eligibility criteria, and (4) dependents and survivors of certain veterans (38 U.S.C., sec. 610, 613).

Uniformed services beneficiaries, other than active duty personnel, may also receive medical care from civilian sources under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). Before obtaining inpatient care from civilian sources, eligible military beneficiaries who live within 40 miles of a uniformed services hospital must obtain a nonavailability statement from an official at that hospital certifying that it is not practical, or the hospital is unable, to furnish the required care. Uniformed services hospitals include those in the PHS system.

The Government pays most of the cost of medical care provided to eligible beneficiaries from civilian sources. All retirees and dependents of retired and deceased personnel who are eligible for Medicare lose their CHAMPUS benefits upon reaching the age of 65. However, these beneficiaries are still eligible for care in military facilities, and some are also eligible for VA care.

VA also operates a program similar to CHAMPUS for some of its beneficiaries.

PLANNING THE NEW ORLEANS NAVAL HOSPITAL

During World War II the Navy constructed a 140-bed infirmary where the New Orleans Naval Support Activity is now. In recent years the facility has been used as a dispensary to provide outpatient care to active duty and retired military personnel and military dependents in the New Orleans area. In 1971 the Navy considered the facility to be obsolete.

In May 1971 a naval medical official visited New Orleans to evaluate the area's health care requirements. As a result of this onsite evaluation, a new 10-bed outpatient dispensary was recommended to the Navy Surgeon General.

In July 1971 the Navy considered the possibility of constructing a 100-bed hospital instead of a dispensary, based on the assumption that all military and Coast Guard beneficiaries in the New Orleans area would obtain inpatient care at a new naval hospital. At that time, the PHS hospital was providing inpatient care to military and Coast Guard beneficiaries.

The Navy, in an October 1971 report, expressed concern that a 100-bed hospital could not be justified in view of the military mission and the small number of active duty personnel in the New Orleans area. Another October 1971 report, prepared by a consultant, gave the following three construction alternatives

--a 15-bed dispensary if the military mission or personnel would not increase,

--a 100-bed acute care hospital, or another appropriate size, if the military mission were increased, or

--a 250-bed acute care hospital if the PHS hospital were to be phased out of operation. 1/

In November 1971 the Navy justified a 100-bed hospital to the Office of Management and Budget. During congressional hearings in March 1972, Navy officials said that the 100-bed facility would support the estimated 35,600 beneficiaries --including 2,264 active duty personnel--and that a larger

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1/The President's budget for fiscal year 1972 provided for the closing of the PHS hospital.

hospital would not be needed unless the military mission and number of personnel in New Orleans would increase greatly. In June 1973, Navy officials informed the Congress that certain organizational realinements and other personnel actions would increase the beneficiary population in New Orleans to 42,700 by 1976, including 3,665 active duty personnel. According to Navy documents, unless 150 beds were added to the originally proposed 100-bed facility the hospital would be too small to meet the needs of the beneficiaries.

The information provided to the Congress showed that the proposed 250-bed hospital would have provided 13 beds per 1,000 active duty personnel and 8 beds per 1,000 dependents of active duty personnel. The proposal also included 75 beds to be used by VA. We were unable to obtain documentation which described how VA would use these beds and no agreement existed between VA and the Navy on the current or future use of the naval hospital.

In November 1973 the Congress passed legislation which mandated that the New Orleans and other PHS hospitals remain open and continue to provide the same level and range of services that existed in January 1973. In August 1974 the Navy awarded the contract for the construction of the 250-bed hospital.

The Navy dedicated the hospital in December 1976 and named it the F. Edward Hébert Naval Hospital.

SCOPE OF REVIEW

We made our review at

--the Office of the Assistant Secretary of Defense for Health Affairs,

--the Navy's Bureau of Medicine and Surgery and Facilities Engineering Command,

--VA and PHS headquarters in Washington, D.C., and

--naval, VA, and PHS hospitals in New Orleans.

We also contacted State and local government health organizations and private hospitals.

The purpose of our review was to evaluate whether the New Orleans naval hospital should remain open in view of its low workload and to identify other potential alternative medical uses for the facility.

CHAPTER 2

NEED TO CONSIDER ALTERNATIVE USES OF NEW ORLEANS NAVAL HOSPITAL

The New Orleans naval hospital is greatly underused. The average daily inpatient workload during the first 10 months of inpatient operations in 1977 1/ was 23--less than 10 percent of its constructed capacity. Also, operating costs were about $6.5 million--$3.1 million in military personnel costs and $3.4 million in operation and maintenance costs. The potential for substantially increasing the hospital's workload is limited because of the small number of active duty military personnel in New Orleans. Alternative Federal and non-Federal sources are available to military beneficiaries in New Orleans for obtaining both inpatient and outpatient care.

We believe the Navy should discontinue both inpatient and outpatient services at the naval hospital and explore other potential Federal and non-Federal uses for the entire hospital. We did not find a Federal medical use for the hospital which could be firmly recommended as advantageous. However, we did identify two non-Federal medical uses which we believe should be thoroughly evaluated and seriously considered.

LIMITED POTENTIAL WITHIN DOD FOR USING NAVAL HOSPITAL AS A MEDICAL FACILITY

The New Orleans naval hospital is greatly underused and the potential to increase its use as a medical facility within DOD is limited. The Navy plans to close the inpatient services at the hospital and neither the Navy nor DOD has identified any valid inpatient need that could be filled by the naval hospital.

Use of the naval hospital

Less than 10 percent of the naval hospital's inpatient capabilities was used from March to December 1977. During that period, approximately 1,400 patients were admitted and given about 7,150 days of inpatient care (an average daily patient load of 23). The hospital had about 91,000 outpatient visits during 1977.

1/Inpatient services were not available prior to March 1977.

According to local Navy officials, the low average daily inpatient workload is a result of physician shortages which have restricted the naval hospital's capability to provide specialized medical services. The staff assigned to the hospital as of November 1977 included 17 physicians, 3 dentists, 51 nurses, and 293 other support personnel. The naval hospital does not provide care in all medical specialties. However, the Navy estimates that in 1977 New Orleans had only 28,300 eligible beneficiaries (about 3,200 were active duty personnel) which also contributed to the low workload.

Potential for increasing workload at the naval hospital

In calendar year 1977, eligible military beneficiaries received health care at the naval hospital, PHS hospital, and civilian hospitals. The total demand for care resulted in about 2,960 hospital admissions and 21,980 days of inpatient care. Of the total inpatient days, about 7,150 were provided at the naval hospital and 11,580 at the PHS hospital. Approximately 3,250 inpatient days were provided at civilian hospitals under the CHAMPUS program because the required care was not available at the naval or PHS hospital.

The total demand for inpatient care for all eligible military beneficiaries, as reflected in the above data, equates to an average daily patient load of about 64. Therefore, if all inpatient care for military beneficiaries were provided at the naval hospital, its use could not be increased above 30 percent. Further, sending inpatients to the naval hospital to increase its workload may not be desirable because the hospital would then need a broad range of medical specialists to provide the same types of care now available at the PHS hospital or private hospitals. Such comprehensive staffing would require transferring physicians from other Navy hospitals to the New Orleans hospital at a time when the Navy is experiencing physician shortages at other locations. Also, providing the naval hospital with all the needed medical specialties could cause two Federal hospitals to have duplicate staffs and to be underused. The naval hospital's inpatient use could not be increased above 30 percent, while the loss of military beneficiaries at the PHS hospital would decrease its inpatient use to about 60 percent.

Action being considered by the Navy

The Navy plans to discontinue providing inpatient care at its New Orleans hospital. Navy headquarters officials

estimate that about $2 million of the $4 million expected annual operations and maintenance costs could be saved and some physicians could be transferred to other facilities to relieve physician shortage problems.

Terminating inpatient care and transferring physicians would affect greatly the range of outpatient services available at the naval hospital because only six physicians would remain to provide outpatient care. Outpatient care at the naval hospital in 1977 included optometry, physical therapy, general practice, general medicine, and general surgery, plus 10 additional medical specialties. The Navy's proposal to provide only outpatient care would reduce the activity from about 360 to an estimated 180 visits a day and would include pediatrics, optometry, general practice, and internal medicine. Officials at the naval hospital believed it was inappropriate to continue providing this reduced level of outpatient care at the nava hospital, considering its size and capability.

No inpatient use seen by Navy and DOD

Both Navy and DOD officials said that they had considered various alternatives for the New Orleans naval hospital which would appropriately meet valid medical requirements. The Navy Surgeon General said the hospital was not needed to meet any specialized or other medical inpatient requirements in the Navy. The Principal Deputy Assistant Secretary of Defense for Health Affairs said that he was not aware of any medical requirement for the hospital within DOD.

ALTERNATIVES FOR INPATIENT AND OUTPATIENT CARE

Both outpatient and inpatient care are available to military beneficiaries from several Federal and non-Federal sources in the New Orleans area. The Navy has an outpatient dispensary at the New Orleans Naval Air Station. This facility was completed in 1976 and is about 12 miles south of the naval hospital. It contains about 18,000 square feet and houses components of the Navy, Air Force Reserve, and Air National Guard. The Reserve and National Guard components provide medical administrative support services for the dispensary. Local Navy officials said that these two activities could be moved to other facilities.

One physician is currently detailed from the naval hospital to the dispensary to provide outpatient care to the small number of beneficiaries that use the facility. The workload at the dispensary is about 25 outpatient visits

per day. Local Navy officials informed us that the dispensary is underused as a medical facility because the Navy provides most beneficiaries' outpatient care at the naval hospital.

The dispensary has four doctors' offices and eight examination rooms. If the Air Force Reserve and the Air National Guard were to move their activities, sufficient space would be available to add two doctors' offices and four examination rooms. The dispensary could then accommodate six physicians--the number the Navy plans to assign to the naval hospital if it were to operate solely as an outpatient clinic. Some minor modifications, such as additional storage space, would be required to handle the workload. According to Navy officials, the dispensary would be large enough to provide the outpatient services which would be provided at the naval hospital once the inpatient activity at the hospital is closed.

Both the VA and PHS hospitals would be available to provide some inpatient and outpatient care to military beneficiaries. The PHS hospital would be the first alternative for most military beneficiaries because under DOD regulations they would have to seek care at PHS before using CHAMPUS. The PHS hospital is staffed with a wide range of specialists and, based on 1977 data, should be able to accommodate inpatient care for an additional average daily patient load of 30. PHS hospital officials said that they could absorb some of the outpatient workload from the naval hospital.

In 1977 the VA hospital operated at 82 percent of its inpatient capacity; therefore, it would be able to provide some care to those beneficiaries eligible to use the VA hospital system. VA officials said they could not absorb much additional outpatient work.

As indicated in chapter 1, New Orleans has about 8 beds per 1,000 population (twice the number of beds needed according to Department of Health, Education, and Welfare guidelines). Therefore, the outpatient care the Navy could not provide to other than active duty beneficiaries would be available through CHAMPUS. An official of a local hospital said that the civilian physicians in the New Orleans area are sufficient to provide outpatient care to military beneficiaries even if the Navy did not provide outpatient care. A 1976 New Orleans health systems agency report shows that the physician to population ratio in New Orleans is substantially higher than the national average.

POTENTIAL FOR USE OF NAVAL HOSPITAL BY VA OR PHS LIMITED

VA officials said they did not have any medical requirements in the New Orleans area that could be filled by the naval hospital. Our evaluation of the feasibility and desirability of transferring the PHS hospital activity to the naval hospital showed that it could possibly be done if the naval hospital were modified. However, the disadvantages of such a move outweigh the advantages and little overall benefit would accrue to PHS.

VA

We met with local and headquarters VA officials to determine if the naval hospital could fulfill any of their health care needs. VA officials informed us that the naval hospital is not needed to provide health care to VA beneficiaries. The New Orleans VA hospital has enough acute care beds to meet existing needs; however, the outpatient, research, teaching, and support service activities should be extended. As indicated in chapter 1, this need will be met by constructing an addition at the existing VA hospital site. The addition is being planned and construction is expected to begin in fiscal year 1980. According to VA officials, conducting their activities at two locations is neither feasible nor desirable.

VA officials indicated a possible need for a 120-bed acute nursing care facility around 1983. However, this requirement is not firm.

PHS

As part of our review, we evaluated the possibility of PHS operating the naval hospital and providing both inpatient and outpatient care to the beneficiaries of both agencies using the Navy facility. The combined average daily inpatient workload for the naval and PHS hospitals in 1977 totaled about 230 or about 90 percent of the bed capacity of the naval facility. If the two hospitals' activities were combined at the Navy facility, PHS would then have a new physical plant which could be fully used, and future renovation costs of about $9 million for upgrading the medical care areas of the PHS hospital could be avoided. However, several factors, including space constraints and access problems, diminish the desirability of transferring the PHS operation to the naval hospital.

Space constraints

Using historical workload data for the PHS hospital and a Navy computer model which determines the suggested size of various hospital departments, we analyzed whether the current space configuration of the naval hospital could accommodate the PHS workload. We found that additional space would be required for physical and occupational therapy, outpatient services, food service, medical education, and research and administrative activities. Some of these departments would have to be expanded primarily because of the different types of medical problems associated with the predominately older age groups currently receiving care at the PHS hospital. Also, space and capability would have to be added to a number of hospital areas to accommodate PHS's extensive teaching programs.

We talked to Navy medical and construction officials about the nature and extent of the modifications suggested by the computer model. Based upon projected 1979 construction and modification costs, we estimate that the modifications and construction could cost as much as $6 million.

Access to the naval hospital

The PHS hospital, most of its beneficiary population, and the medical and educational institutions with which PHS is affiliated are located on the east bank of the Mississippi River. The naval hospital is located on the west bank of the river.

PHS beneficiary access to the PHS hospital is virtually unrestricted. Public transportation to the hospital is excellent and many PHS hospital staff and beneficiaries use it. Many beneficiaries also use private automobiles.

On the other hand, public transportation to the naval hospital is very limited at this time. City officials stated that better public transportation could be provided to the naval hospital if there were sufficient demand for the service. Also, access to the naval hospital by automobile can be difficult because it involves crossing the Mississippi River bridge which is often congested with traffic or using a ferry with limited automobile capacity.

According to PHS officials, a shift in location could also disrupt affiliations PHS has established with several educational and medical institutions in that area because professional staff and students have to travel between PHS and these institutions on a daily basis.

Observations

VA could not identify any medical needs that could be filled by the naval hospital. Transferring the PHS hospital operations to the naval hospital is possible, and it could provide PHS with a new modern physical plant for conducting its health care activities if modifications totaling about $6 million were undertaken. However, such a move would decrease PHS beneficiary access to medical care and possibly disrupt PHS's affiliations with educational and medical institutions. In our opinion, even though such a transfer is possible, it does not offer any clear advantages to PHS in providing medical care to beneficiaries. PHS officials at both the headquarters and local level also believe the move would be undesirable.

In commenting informally on our report, both VA and PHS officials said that it accurately reflected their position on the feasibility of using the New Orleans naval hospital to provide medical care to their beneficiaries.

POTENTIAL NON-FEDERAL USES FOR NAVAL HOSPITAL

We identified two potential non-Federal medical uses for the naval hospital which we believe the Navy and DOD should evaluate thoroughly.

Louisiana Department of Health and Human Resources

One potential non-Federal use for the hospital would meet a State of Louisiana need for an adolescent mental health care facility. The Louisiana Department of Health and Human Resources--an executive State agency--provides medical treatment and health care services for the medically indigent and mentally and emotionally ill individuals. It also administers several programs to meet the needs of low income and disabled citizens, provides care and training for the mentally retarded, and provides services for delinquent children and special groups, such as the handicapped and aged. In 1973, the Louisiana legislature recognized the need for a hospital for disturbed adolescents who manifest their emotional problems by difficulties in school, conflicts with the law, or low productivity. In 1975, a State-appointed advisory committee made a study for the Department of Health and Human Resources and recommended such a facility.

The recommended facility will cost about $15 million and will provide beds for 30 children, 100 adolescents, and 100 adults. The facility must be able to support physical and neurological examinations, laboratory tests, radiological and nuclear medicine studies, and various treatment plans.

Bond authorizations for 1977, as passed by the State legislature, included a bond issue to fund the construction of an appropriate facility. In keeping with the recommendation in the study report, the hospital is to be built in New Orleans, near available professional expertise and rehabilitative services.

After a tour of the naval hospital, State officials believed that, with modifications estimated to cost between $8 and $10 million, it could be used as the proposed adolescent mental health hospital in New Orleans.

Observations

The use of the naval hospital as a State adolescent mental health care facility would appear to meet a community medical need and would use most of the hospital's bed capacity and some of its ancillary service capability. This alternative could also (1) reduce the cost to the State and its taxpayers in meeting this need and (2) eliminate the need for a State bond issue to fund the construction of a new facility. However, the State would incur some costs in modifying the naval hospital.

In order for the naval hospital to be transferred to the State, the Navy and DOD would have to declare the hospital excess to their needs. In accordance with the Federal excess property disposal procedures, a determination would have to be made that it is excess to all Federal needs, both medical and nonmedical.

We did not fully evaluate the details of this alternative because we believe that such an evaluation would best be made by the Navy and DOD in the context of all other potential uses.

Westbank Medical Center, Limited

The other potential non-Federal use we identified would involve negotiating a long-term lease with Westbank Medical Center, Limited. This organization currently owns and operates Jo Ellen Smith Memorial Hospital, a 127-bed for-profit facility, which is about 2 miles from the naval

hospital. The State of Louisiana has approved a 54-bed expansion for this hospital and construction is expected to begin in the spring of 1978.

Westbank Medical Center officials have proposed to lease the naval hospital and forego their planned expansion. Officials said they would seek State approval to operate 190 beds (about 70 percent occupancy) at the naval hospital. Specialties would be divided between the two hospitals; the naval hospital would offer rehabilitation, orthopedics, psychiatry, obstetrics, gynecology, and pediatrics. All other specialty care would be offered at the Memorial hospital. Patients would be admitted to either the leased naval facility or the Memorial hospital, depending on their diagnoses and requirements for care.

Medical services would be available to active duty personnel under contract with the Navy and to other military beneficiaries through CHAMPUS. Medical Center officials propose to negotiate a long-term lease with the Navy at an agreed to rental rate. Hospital charges for all patients at the Medical Center's two locations would be calculated in the same manner. These charges for military beneficiaries would be offset against the agreed upon rent.

Westbank Medical Center officials said that Navy physicians could participate in patient care but it is not necessary. However, they believe some Navy nurses may be needed because nurses are in short supply in New Orleans.

Observations

The Westbank Medical Center proposal is an innovative approach to increasing the use of the naval hospital. Westbank Medical Center could benefit greatly because it could expand its operation with little capital investment. On the other hand, the proposal offers benefits to the Navy because it could retain ownership for military contingency purposes and military beneficiaries could continue to receive care at the naval facility. Also, this proposal would permit the Navy and DOD to evaluate whether this type of an arrangement could be applied at other locations or under other circumstances, such as the advent of a National Health Insurance program which may provide comprehensive medical coverage to many military beneficiaries. The Navy also could pursue this alternative without declaring the facility excess to its needs.

We believe the Navy and DOD should evaluate thoroughly the merits of this proposed arrangement. If, the Navy

after its evaluation, wishes to pursue a lease arrangement, specific legislative authority may be required if the arrangement involved extensive mixing of civilian and military patients on a routine basis. However, if active duty personnel in the New Orleans area were provided care at the PHS hospital, no specific legislative authority would be needed.

CONCLUSIONS

The New Orleans naval hospital is a greatly underused acute care medical facility. The hospital was constructed to accommodate 250 patients, but its average daily patient load in 1977 was about 23--less than 10 percent of its capacity. The potential for increasing the hospital's military workload is virtually nonexistent because of the small number of military beneficiaries in the area. Even if all of the area's military beneficiaries now being served by other Federal and non-Federal facilities could be directed to the naval hospital, inpatient use could only be increased to about 30 percent of its capacity. A serious adverse effect of such an action would be to decrease the use level of the PHS hospital to 60 percent, thereby, creating two underused facilities. Neither the Navy nor DOD could identify any inpatient medical requirements which the naval hospital could fill.

The Navy plans to discontinue inpatient services at the New Orleans naval hospital. We believe the Navy should discontinue both inpatient and outpatient services. Such action would save annual operating costs of about $4.0 million and permit military physicians and medical support personnel, whose pay totals about $3.1 million, to be used at other medical facilities. The Navy could provide outpatient medical care at the New Orleans Naval Air Station dispensary and both inpatient and outpatient care would be available to military beneficiaries at other Federal and non-Federal medical facilities in New Orleans.

The savings achieved by discontinuing both inpatient and outpatient services at the naval hospital would be offset to some extent by costs incurred for providing care to military beneficiaries formerly treated at the naval hospital. The extent of these offsetting costs would depend on such factors as (1) the cost of modifying and operating the expanded dispensary at the New Orleans Naval Air Station, (2) the extent of CHAMPUS usage by military beneficiaries, and (3) whether DOD decides to pursue one of the alternative uses for the naval hospital discussed in this report.

We identified and evaluated alternative medical uses in the Federal and non-Federal community which could possibly increase the use of the naval hospital. VA did not have any medical needs which the naval hospital could meet. The PHS hospital could possibly transfer its operation to the naval hospital if modifications totaling about $6 million were undertaken. However, based on our assessment of the advantages and disadvantages of such a transfer, we believe that little or no overall benefit would accrue to PHS.

There are two potential uses for the hospital in the non-Federal sector. One potential use involves the Louisiana Department of Health and Human Resources using the naval hospital as an adolescent mental health care facility. The State currently plans to build a $15 million facility in the New Orleans area to meet this need. State officials have toured the naval hospital and indicated that if modified it could meet their needs. Use of the naval hospital for this purpose would meet a medical need in the community and reduce the State and taxpayers' cost of meeting this need. It would also require that the hospital be declared excess by DOD and go through the Federal Government's excess property process.

The other use involves the negotiation of a long-term lease to a private corporation which operates a for-profit hospital located about 2 miles from the naval facility. Under the proposed arrangement, the private hospital would essentially split its operation and offer different services at its existing facility and the naval hospital. Care would be available at both facilities to active duty personnel and other beneficiaries.

This proposal would permit the Navy to retain control of the hospital for contingency purposes and to evaluate whether this type of an arrangement could be applied at other locations. The Navy could pursue this alternative without declaring the hospital excess to its needs. However, if the Navy were to pursue such a lease arrangement, specific legislative authority may be required if active duty personnel were to receive care at the leased facility on a routine basis.

RECOMMENDATIONS

We recommend that the Secretary of Defense:

--Discontinue both inpatient and outpatient medical services at the New Orleans naval hospital.

--Take the necessary action to provide outpatient care at the New Orleans Naval Air Station dispensary.

--Evaluate thoroughly the two potential medical uses for the naval hospital that we have identified and take action to pursue one of them if it is deemed acceptable, and no other higher priority or better use can be identified.

AGENCY COMMENTS

In a letter dated, April 21, 1978 (see app. I), DOD agreed that inpatient and outpatient medical services should be discontinued at the New Orleans naval hospital. DOD also said that, in conjunction with the Navy, it will begin planning to close the facility and to provide medical care for eligible beneficiaries at other Federal facilities in the area.

Finally, DOD said that it would begin a thorough evaluation of the alternative uses for the hospital and inform us when a decision was reached on this matter.

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

HEALTH AFFAIRS

21 APR 1978

Mr. Gregory J. Ahart
Director, Human Resources Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Ahart:

This is in reply to your letter to the Secretary of Defense regarding your report dated March 9, 1978 on "The New Orleans Naval Hospital Should be Closed and Alternative Uses Evaluated," OSD Case #4843 (GAO Code 10199).

The Department has reviewed the GAO report and it concurs in the report's recommendation that inpatient and outpatient medical services should be discontinued at the New Orleans Naval Hospital. The OSD staff in conjunction with the Department of the Navy will initiate planning for the closure of this facility and for the provision of medical care to eligible beneficiaries at other Federal facilities in the area.

The Department will also begin a thorough evaluation of alternative uses for the New Orleans Naval Hospital and will apprise GAO of the decision reached on this matter. We found the analysis performed by the GAO to be quite thorough and precise. We are particularly interested in the concept of leasing the hospital to the Westbank Medical Center. Following a preliminary review this concept appears to have considerable merit and we intend to explore these ideas further.

We found your analysis of this issue to be most helpful and appreciate the useful insights your report has provided us.

Sincerely,

Vernon McKenzie
Principal Deputy Assistant Secretary

APPENDIX II

CIVILIAN HOSPITALS

IN NEW ORLEANS AREA

Non-Federal hospitals	Location	Beds licensed as of 2/77
Jefferson Parish		
East Jefferson General	Metairie	245
Lakeside Hospital for Women	Metairie	186
Metairie Foundation Hospital	Metairie	84
Ochsner Foundation Hospital	Jefferson	388
River Oaks	Jefferson	100
South Jefferson General	Gretna	75
West Jefferson General	Marrero	365
	7	1,443
Orleans Parish		
Charity Hospital of New Orleans	New Orleans	1,642
Children's Hospital	New Orleans	112
Coliseum House	New Orleans	100
Eye, Ear, Nose, and Throat	New Orleans	102
Flint-Goodridge Hospital	New Orleans	128
Hotel Dieu Hospital	New Orleans	461
Jo Ellen Smith Hospital	New Orleans	127
Mercy Hospital	New Orleans	225
Methodist Hospital	New Orleans	281
Montelepre Memorial	New Orleans	64
New Orleans Mental Health	New Orleans	189
St. Charles General	New Orleans	153
St. Claude General	New Orleans	129
Sara Mayo Hospital	New Orleans	176
Southern Baptist Hospital	New Orleans	602
Touro Infirmary	New Orleans	525
Tulane Medical Center	New Orleans	154
	17	5,170
St. Bernard Parish		
Chalmette General Hospital	Chalmette	109
St. Bernard General	Chalmette	39
	2	148

APPENDIX II

Non-Federal hospitals	Location	Beds licensed as of 2/77
St. Tammany Parish		
Highland Park Hospital	Covington	96
St. Tammany Parish Hospital	Covington	137
Slidell Memorial	Slidell	132
Southeast Louisiana State Hospital	Mandeville	520
	4	885
Total	30	7,646

APPENDIX III

PRINCIPAL OFFICIALS RESPONSIBLE FOR ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF DEFENSE		
SECRETARY OF DEFENSE:		
Harold Brown	Jan. 1977	Present
Donald H. Rumsfeld	Nov. 1975	Jan. 1977
ASSISTANT SECRETARY (HEALTH AFFAIRS) (note a):		
Vernon McKenzie (acting)	Jan. 1978	Present
Robert N. Smith, M.D.	Sept. 1976	Jan. 1978
Vernon McKenzie (acting)	Mar. 1976	Sept. 1976
James R. Cowan, M.D.	Feb. 1974	Mar. 1976
DEPARTMENT OF THE NAVY		
SECRETARY OF THE NAVY:		
W. Graham Claytor, Jr.	Feb. 1977	Present
J. William Middendorf II	June 1974	Feb. 1977
J. William Middendorf II (acting)	Apr. 1974	June 1974
THE SURGEON GENERAL		
Vice Adm. Willard P. Arentzen	Aug. 1976	Present
Vice Adm. Donald L. Custis	Mar. 1973	July 1976
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE		
SECRETARY OF HEALTH, EDUCATION, AND WELFARE:		
Joseph A. Califano, Jr.	Jan. 1977	Present
David Mathews	Aug. 1975	Jan. 1977
ASSISTANT SECRETARY FOR HEALTH:		
Julius Richmond, M.D.	July 1977	Present
James Dickson, M.D. (acting)	Jan. 1977	July 1977
Theodore Cooper, M.D.	May 1975	Jan. 1977
Theodore Cooper, M.D. (acting)	Feb. 1975	Apr. 1975

a/In March 1976 this title was changed from Assistant Secretary (Health and Environment).

(10199)