United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Health, Committee on Veterans' Affairs, House of Representatives

For Release on Delivery
Expected at 9:00 a.m. EDT
in Charleston, S.C.
Monday, September 26, 2005

VA HEALTH CARE

Preliminary Information on the Joint Venture Proposal for VA's Charleston Facility

Statement of Mark L. Goldstein, Director
Physical Infrastructure Issues

September 26, 2005

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Highlights

Highlights of GAO-05-1041T, a testimony before the Subcommittee on Health, Committee on Veterans' Affairs, House of Representatives

Why GAO Did This Study

The Department of Veterans Affairs (VA) maintains partnerships, or affiliations, with university medical schools to obtain medical services for veterans and provide training for medical residents. In 2002, the Medical University of South Carolina (MUSC)—which is affiliated with VA's medical facility in Charleston—proposed that VA and MUSC enter into a joint venture for a new VA facility as part of MUSC's plan to expand its medical campus. Under the proposal, MUSC and VA would jointly construct and operate a new medical center in Charleston.

In 2004, the Capital Asset Realignment for Enhanced Services (CARES) Commission, an independent body charged with assessing VA's capital asset requirements, issued its recommendations on the realignment and modernization of VA's capital assets. Although the Commission did not recommend a replacement facility for Charleston, it did recommend, among other things, that VA promptly evaluate MUSC's proposal.

This testimony discusses GAO's preliminary findings on the (1) current condition of the Charleston facility, (2) extent to which VA and MUSC collaborated on the joint venture proposal, and (3) issues for VA to consider when exploring the opportunity to participate in the joint venture.

VA concurred with GAO's preliminary findings.

www.gao.gov/cgi-bin/getrpt?GAO-05-1041T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Mark L. Goldstein (202) 512-2834 or goldsteinm@gao.gov.

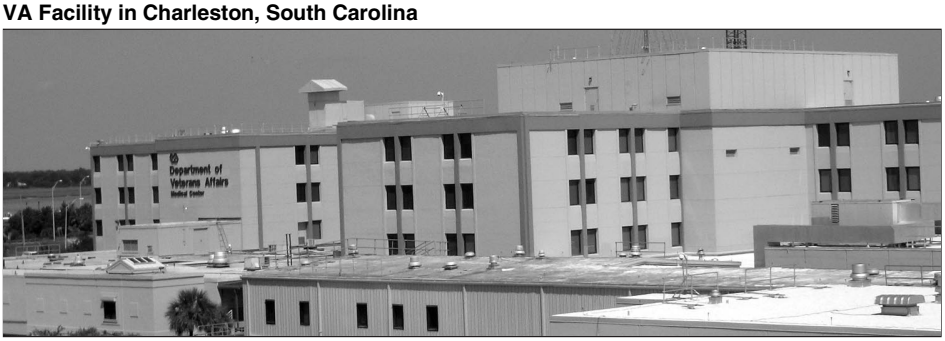
What GAO Found

The most recent VA facility assessment and the CARES Commission concluded that the Charleston medical facility is in overall good condition and, with some renovations, can continue to meet veterans' health care needs in the future. VA officials attribute this to VA's continued capital investments in the facility. For example, over the last 5 years, VA has invested approximately $11.6 million in nonrecurring maintenance projects, such as replacing the fire alarm system and roofing. To maintain the facility's condition over the next 10 years, VA officials from the Charleston facility have identified a number of planned capital maintenance and improvement projects, totaling approximately $62 million.

VA and MUSC have collaborated and communicated to a limited extent over the past 3 years on a proposal for a joint venture medical center. For example, before this summer, VA and MUSC had not exchanged critical information that would help facilitate negotiations, such as cost analyses of the proposal. As a result of the limited collaboration, negotiations over the proposal stalled. However, after a congressional delegation visit in August 2005, VA and MUSC took steps to move the negotiations forward. Specifically, VA and MUSC established four workgroups to examine critical issues related to the proposal.

The MUSC proposal for a new joint venture medical center presents an opportunity for exploring new ways of providing health care to Charleston's veterans, but it also raises a variety of complex issues for VA. These include the benefits and costs of investing in a joint facility compared with other alternatives, legal issues associated with the new facility such as leasing or transferring property, and potential concerns of stakeholders, including VA patients and employees. The workgroups established by VA and MUSC are expected to examine some, but not all, of these issues. Additionally, some issues can be addressed through collaboration between VA and MUSC, but others may require VA to seek legislative remedies.

VA Facility in Charleston, South Carolina



Source: GAO.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here in Charleston to provide our preliminary findings on the possibility of the Department of Veterans Affairs (VA) and the Medical University of South Carolina (MUSC) entering into a joint venture for a new medical center in Charleston. For decades VA has developed and maintained partnerships, or affiliations, with university medical schools to obtain medical services for veterans and provide training and education to medical residents. Today, VA has affiliations with 107 medical schools. These affiliations—one of which is with MUSC—help VA fulfill its mission of providing health care to the nation's veterans. For example, many MUSC physicians serve as residents at VA's medical facility in Charleston, the Ralph H. Johnson VA Medical Center. This medical facility is an important part of the VA health care network, providing over 4,000 inpatient stays for veterans in 2004.

To provide health care to veterans, in part through partnerships with university medical schools, VA manages a diverse inventory of real property. VA reported in February 2005 that its capital assets included more than 5,600 buildings and about 32,000 acres of land.[1] However, many of VA's facilities were built more than 50 years ago and are no longer well suited to providing accessible, high-quality, cost-effective health care in the 21st century. To address its aging infrastructure, VA, in 1999, initiated the Capital Asset Realignment for Enhanced Services (CARES) process—the first comprehensive, long-range assessment of its health care system's capital asset requirements in almost 20 years. In February 2004, the CARES Commission—an independent body charged with assessing VA's capital assets—issued its recommendations regarding the realignment and modernization of VA's capital assets necessary to meet the demand for veterans' health care services through 2022. For example, the Commission recommended replacing VA facilities in Denver and Orlando. The Commission did not recommend replacing the VA facility in Charleston, which is a primary, secondary, and tertiary care facility.[2] However, the

[1]Department of Veterans Affairs, *5-Year Capital Plan 2005-2010* (Washington, D.C.: February 2005).

[2]Primary care is defined as health care provided by a medical professional with whom a patient has initial contact and by whom the patient may be referred to a specialist for further treatment. Secondary care is provided by a specialist or facility upon referral by a primary care physician that requires more specialized knowledge, skill, or equipment. Tertiary care is highly specialized medical care, usually over an extended period of time, that involves advanced and complex procedures and treatments performed by medical specialists in state-of-the-art facilities.

Commission recommended that, among other things, VA promptly evaluate MUSC's proposal to jointly construct and operate a new medical center with VA in Charleston, noting that such an arrangement could serve as a possible framework for partnerships in the future. In responding to the Commission's recommendations, the Secretary stated that VA will continue to consider options for sharing opportunities with MUSC.[3]

My statement today will cover the (1) current condition of the Charleston facility and the actions VA has taken to implement CARES recommendations at the facility, (2) extent to which VA and MUSC collaborated on the proposal for a joint medical center, and (3) issues for VA to consider when exploring the opportunity to participate in the joint venture. My preliminary comments are based on our ongoing work for the full Committee as well as GAO's body of work on VA's management of its capital assets.[4] For our ongoing work, we interviewed VA and MUSC officials as well as other stakeholders in the Charleston area, including officials from the City of Charleston and the U.S. Navy. We also reviewed the CARES Commission's comments on and recommendations for the Charleston facility; documents relating to the MUSC proposal, including correspondence between MUSC and VA; federal statutes; and past GAO reports. We obtained comments on this testimony from VA and MUSC officials, which we incorporated as appropriate. We conducted our work from June through September 2005 in accordance with generally accepted government auditing standards.

In summary:

- The most recent VA facility assessment and the CARES Commission concluded that the Charleston facility is in overall good condition and with some renovations can continue to meet veterans' health care needs in the future. VA officials attribute the facility's condition to VA's continued capital investments. For example, over the last 5 years, VA has invested approximately $11.6 million in nonrecurring maintenance projects, such as replacing the fire alarm system and roofing. The CARES Commission did not recommend replacing the Charleston facility; however, the Commission recommended renovations of the nursing home care units as well as the inpatient wards in order to meet the needs of the projected

[3]Department of Veterans Affairs, *Secretary of Veterans Affairs: CARES Decision* (Washington, D.C.: May 2004).

[4]See "Related GAO Products" at the end of this testimony.

veterans' population in the Charleston area. The CARES projections indicate that demand for inpatient beds at VA's facility in Charleston will increase by 29 percent from 2001 to 2022, while demand for outpatient services will increase by 69 percent during the same period. To maintain the facility's condition over the next 10 years, officials from the VA facility in Charleston have identified a number of planned capital maintenance and improvement projects, including repairing expansion joints, making electrical upgrades, and adding a parking deck for patients. VA officials estimate that the costs of these planned maintenance and improvement projects will total about $62 million.

- VA and MUSC collaborated and communicated to a limited extent on a proposal for a joint venture medical center over the past 3 years. In November 2002, the President of MUSC made a proposal to the Secretary of VA to participate in a 20-year, multiphase construction plan to replace and expand its campus. Under MUSC's proposal, MUSC would acquire the site of the current VA facility in Charleston for part of its expansion project and then enter into a joint venture to construct and operate a new facility on MUSC property. The CARES Commission recommended that VA promptly evaluate MUSC's proposal to jointly construct and operate a new medical center with VA. Although there has been some discussion and correspondence between VA and MUSC since 2002 on the joint venture proposal, collaboration has been minimal. For example, before this summer, VA and MUSC had not exchanged critical information that would help facilitate negotiations, such as cost analyses of the proposal. As a result of the limited collaboration, negotiations over the proposal stalled. After a congressional delegation visited Charleston in August 2005, however, VA and MUSC took some initial steps to move the negotiations forward. Specifically, VA and MUSC established four workgroups to examine critical issues related to the proposal.

- The MUSC proposal for a new joint venture medical center presents a unique opportunity for VA to explore new ways of providing health care to Charleston's veterans now and in the future; however, it also raises a variety of complex issues for VA. These include the benefits and costs of investing in a joint facility compared with those of other alternatives, such as maintaining the existing facility or considering options with other health care providers in the area; legal issues associated with the new facility, such as leasing or transferring property, contracting, and employment; and potential concerns of stakeholders. The workgroups established by VA and MUSC are expected to examine some, but not all, of these issues. In addition, some issues can be addressed through collaboration between VA and MUSC, while others may require VA to seek legislative remedies. Until these issues are explored, it will be difficult to

make a final decision on whether a joint venture is in the best interest of the federal government and the nation's veterans.

Background

VA manages a vast medical care network for veterans, providing health care services to about 5 million beneficiaries. The estimated cost of these services in fiscal year 2004 was $29 billion. According to VA, its health care system now includes 157 medical centers, 862 ambulatory care and community-based outpatient clinics (CBOC), and 134 nursing homes. VA health care facilities provide a broad spectrum of medical, surgical, and rehabilitative care. The management of VA's facilities is decentralized to 21 regional networks referred to as Veterans Integrated Service Networks (networks). The Charleston facility is part of Network 7, or the Southeast Network.[5]

The Charleston medical facility is a part of the VA health care network and has served the medical needs of Charleston area veterans since it opened in 1966. The Charleston facility is a primary, secondary, and tertiary care facility. (See fig. 1.) The facility consists of more than 352,000 square feet with 117 medical and surgical beds and 28 nursing home care unit beds; according to VA officials, the average daily occupancy rate is about 80 percent. The outpatient workload was about 460,000 clinic visits in fiscal year 2004. VA employs about 1,100 staff at the Charleston facility, which has an annual operating budget of approximately $160 million.

[5]This network encompasses an area containing VA facilities in South Carolina, Georgia, and Alabama.

Figure 1: East Side of The Ralph H. Johnson VA Medical Center in Charleston, Adjacent to MUSC Project Construction

Source: GAO.

VA's Charleston medical facility is affiliated with MUSC. MUSC is the main source of the Charleston facility's medical residents, who rotate through all major VA clinical service areas. VA also purchases approximately $13 million in medical care services from MUSC, including gastroenterology, infectious disease, internal medicine, neurosurgery, anesthesia, pulmonary, cardiovascular perfusion, and radiology services. In addition, VA has a medical research partnership with MUSC for a mutually

supported biomedical research facility, the Thurmond Biomedical Research Center.

MUSC operates a 709 licensed bed acute care hospital in Charleston that also provides primary, secondary, and tertiary services. The services available through MUSC span the continuum of care with physician specialists and subspecialists in medicine, surgery, neurology, neurological surgery, psychiatry, radiology, and emergency medicine, among other specialties. During a 12-month period ending on June 30, 2003, MUSC admitted 28,591 patients (including newborns), representing an occupancy rate of approximately 78 percent of available beds. Outpatient activity for the same period included 6,802 same-day surgeries, 551,914 outpatient visits, and 35,375 emergency visits. MUSC's net patient service revenue for the fiscal year ending on June 30, 2003, was about $559 million.

VA Determined That the Charleston Facility Is in Good Condition and Is Currently Investing in Minor Renovations

VA and the CARES Commission concluded that the Charleston facility is in overall good condition and, with relatively minor renovations, can continue to meet veterans' health care needs in the future. VA conducts facility condition assessments (FCA) at its facilities every 3 years on a rotating basis.[6] FCAs evaluate the condition of a VA facility's essential functions—electrical and energy systems, accessibility, sanitation and water—and subsequently estimate the useful and remaining life of those systems. The Charleston facility's most recent FCA was conducted in 2003, and this assessment showed that the facility currently is in overall good condition. According to VA officials, the facility's current condition is a result of targeted capital investments. In particular, VA invested about $11.6 million in nonrecurring maintenance projects over the last 5 years. Such projects include installing a new fire alarm system, replacing roofing, painting the exterior of the building, and upgrading interior lighting.

The CARES Commission did not recommend replacing VA's facility in Charleston as it did with facilities in some other locations. In assessing the capital asset requirements for the Charleston facility, the Commission relied on the 2003 FCA and projections of inpatient and outpatient service demands through 2022, among other things. These projections indicate

[6]According to VA officials, FCAs provide VA with a professional assessment of its capital assets that facilitates and enables uniformed planning and expenditure of resources. Multidisciplinary teams of architects and engineers, in conjunction with facility staff, conduct the FCAs.

that demand for inpatient beds at VA's facility in Charleston will increase by 29 percent from 2001 to 2022, while demand for outpatient services will increase by 69 percent during the same period.[7] Although the CARES Commission did not recommend a new facility in Charleston, it did call for renovating the nursing home units and the inpatient wards. In his response to the Commission's recommendations, the Secretary agreed to make the necessary renovations at the Charleston facility.

VA officials at the Charleston medical facility have a number of ongoing and planned capital maintenance and improvement projects to address the CARES Commission recommendations and to maintain the condition of the current medical center. For example, two minor capital improvements—totaling $6.25 million—are currently under construction.[8] These projects include

- a third floor clinical addition, which will add 20,000 square feet of space to the medical center for supply processing and distribution,[9] rehabilitation medicine, and prosthetics; and
- the patient privacy project, which will renovate the surgical in-patient ward to provide private and semiprivate bathrooms for veterans.

Planned capital maintenance and improvements projects over the next 10 years include electrical upgrades, renovation of several wards to address patient privacy concerns, renovation of operating rooms and the intensive care units, and the expansion of the specialty care clinics. VA officials estimate that the total cost for all planned capital maintenance and improvement projects is approximately $62 million.

In addition to the capital improvement projects at the medical center in Charleston, VA is currently constructing a CBOC, in partnership with the Navy, at the Naval Weapons Station in Goose Creek, South Carolina. The

[7]These trends are based on the original CARES workload projections for the Charleston facility. VA recently updated the CARES workload projections and the updated projections suggest different trends. Neither the original or updated projections, however, factor in the potential impact on workload of veterans returning from Afghanistan and Iraq.

[8]According to VA, minor capital improvement projects are those costing less than $7 million.

[9]Supply processing and distribution is a section of the medical center that is dedicated to the receiving, storage, and distribution of medical supplies and the decontamination and sterilization of reusable medical supplies and equipment.

new clinic will be a joint VA-Navy facility and will help VA address the projected increase in demand for outpatient services. The new clinic—called the Goose Creek CBOC—is scheduled to open in 2008 and will serve a projected 8,000 patients who are currently served by VA's Charleston facility. VA estimates its investment in the planning, design, and construction of the Goose Creek CBOC will be about $6 million.

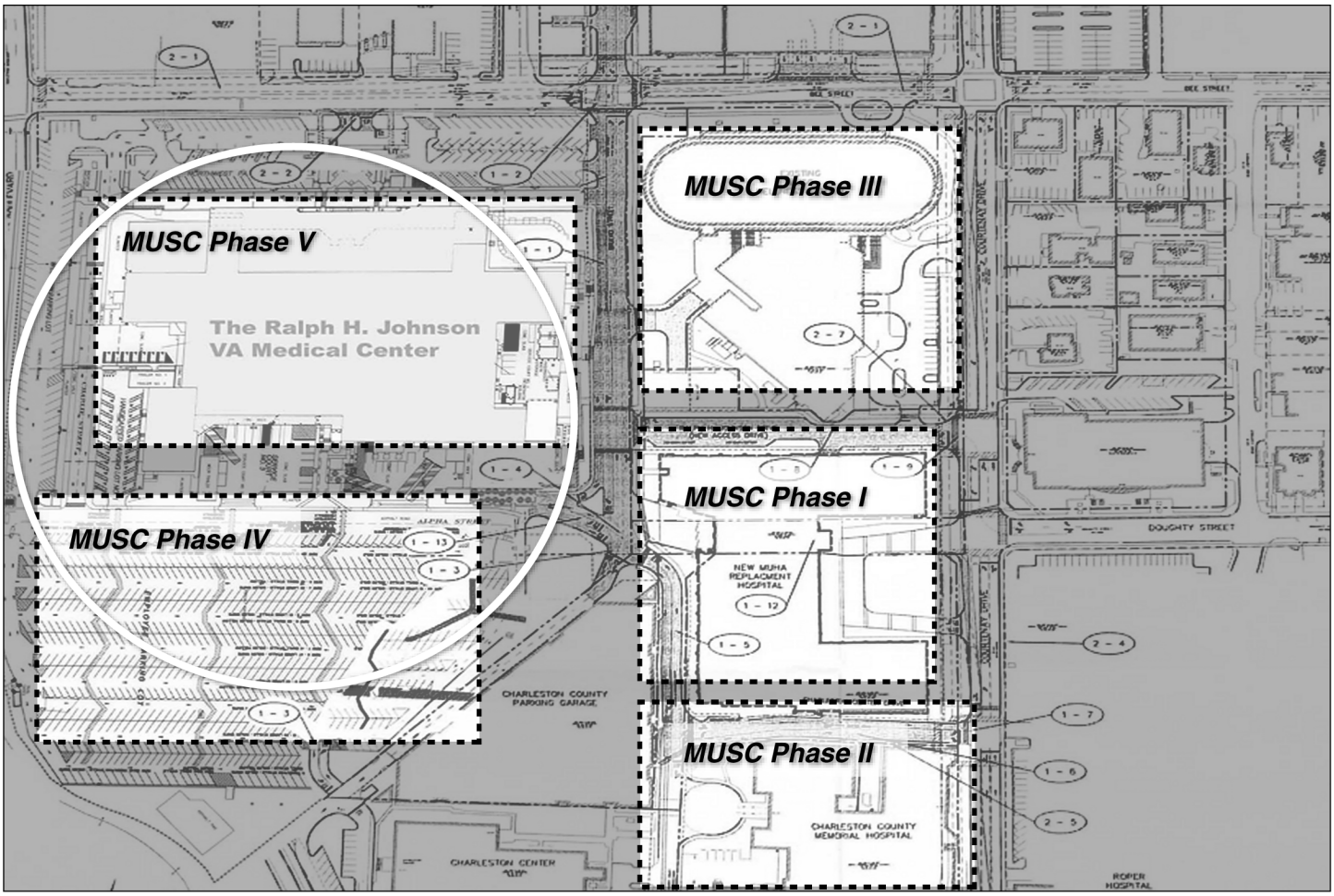
Limited Collaboration between VA and MUSC on a Joint Venture Facility Characterized Negotiations until Recently

VA and MUSC have collaborated and communicated to a limited extent on a proposal for a joint venture medical center over the past 3 years. As a result of the limited collaboration, negotiations over the proposal stalled. In August 2005, however, initial steps were taken to move the negotiations forward. Specifically, four workgroups were created—which include both VA and MUSC officials—and tasked with examining critical issues related to the proposal.

Limited Communication and Collaboration Have Hampered Negotiations over MUSC's Joint Venture Proposal

To meet the needs of a growing and aging patient population, MUSC has undertaken an ambitious five-phase construction project to replace its aging medical campus. Construction on the first phase began in October 2004. Phase I includes the development of a four-story diagnostic and treatment building and a seven-story patient hospitality tower, providing an additional 641,000 square feet in clinical and support space—156 beds for cardiovascular and digestive disease services, 9 operating rooms, outpatient clinics with a capacity of 100,000 visits, and laboratory and other ancillary support services. Phase I also includes the construction of an atrium connecting the two buildings, a parking structure, and a central energy plant. Initial plans for phases II through V include diagnostic and treatment space and patient bed towers. As shown in figure 2, phases IV and V would be built on VA property. In particular, phase V would be built on the site of VA's existing medical center. MUSC has informed VA about its proposed locations for these facilities. According to MUSC officials, there are approximately 2 years remaining for the planning of phase II.

Figure 2: MUSC Construction Plan



Source: VA.

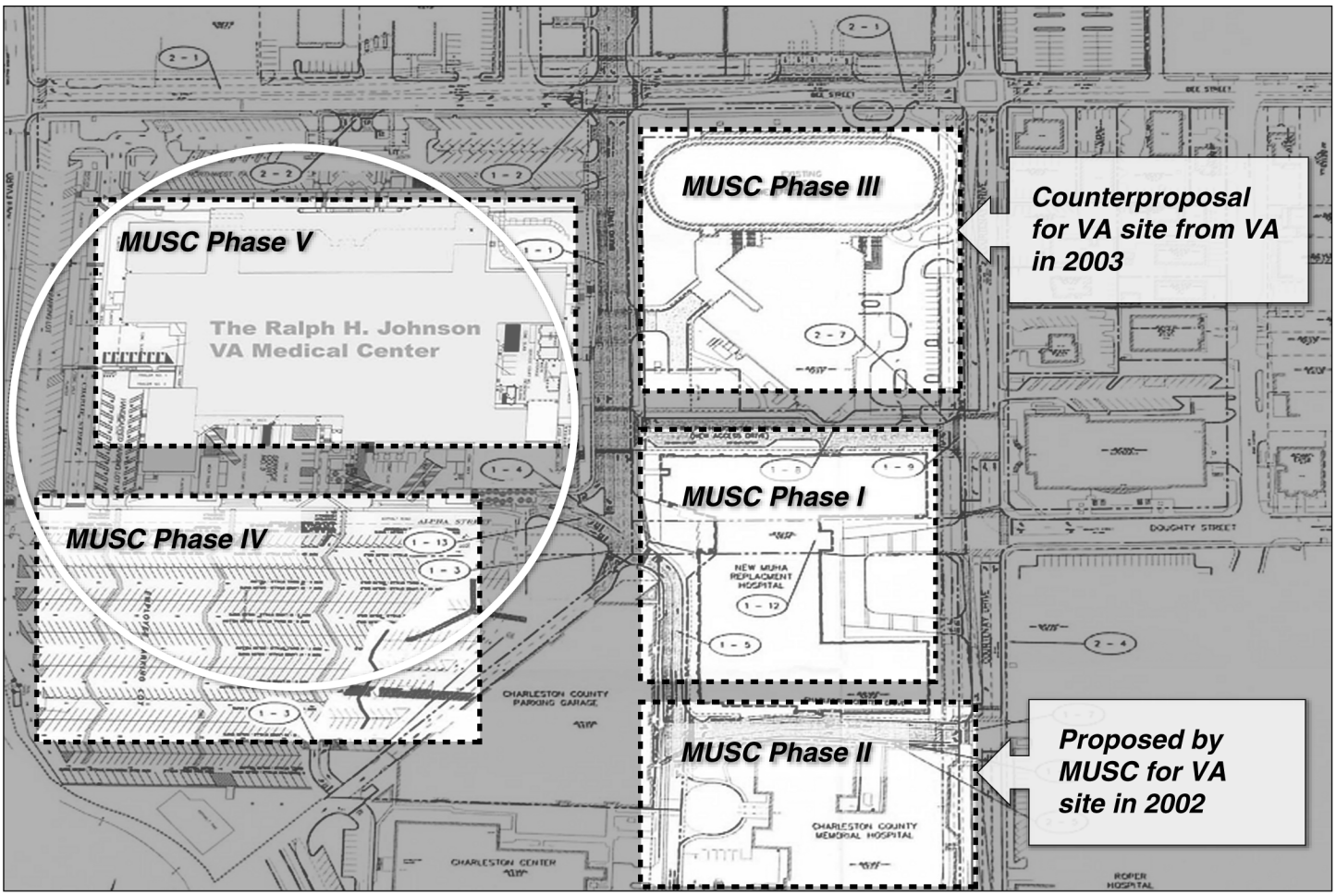
Note: The circle highlights some of VA's existing property.

In November 2002, the President of MUSC sent a proposal to the Secretary of VA about partnering with MUSC in the construction and operation of a new medical center in phase II of MUSC's construction project. Under MUSC's proposal, VA would vacate its current facility and move to a new facility located on MUSC property to the south of phase I. MUSC also indicated that sharing medical services would be a component of the joint venture—that is, VA and MUSC would enter into sharing agreements to buy, sell, or barter medical and support services. VA and MUSC currently share some services—for example, VA purchases services for gastroenterology, infectious disease, and internal medicine. According to

MUSC officials, the joint venture proposal would increase the level of sharing of medical services and equipment, which would create cost savings for both VA and MUSC. VA officials told us that the proposed joint venture between MUSC and VA is unprecedented—that is, should VA participate in the joint venture, it would be the first of its kind between VA and a medical education affiliate.

In response to MUSC's proposal, VA formed an internal workgroup composed of officials primarily from VA's Southeast Network to evaluate MUSC's proposal. The workgroup analyzed the feasibility and cost effectiveness of the proposal and issued a report in March 2003, which outlined three other options available to VA: replacing the Charleston facility at its present location, replacing the Charleston facility on land presently occupied by the Naval Hospital in Charleston, or renovating the Charleston facility. The workgroup concluded that it would be more cost effective to renovate the current Charleston facility than to replace it with a new facility. This conclusion was based, in part, on the cost estimates for constructing a new medical center. In April 2003, the Secretary of VA sent a counterproposal to the President of MUSC, which indicated that VA preferred to remain in its current facility. The Secretary indicated, however, that if VA agreed to the joint venture, it would rather place the new facility in phase III—which is north of phase I—to provide better street access for veterans. (See fig. 3 for MUSC's proposal and VA's counterproposal.) In addition, the Secretary indicated that MUSC would need to provide a financial incentive for VA to participate in the joint venture. Specifically, MUSC would need to make up the difference between the estimated life-cycle costs of renovating the Charleston facility and building a new medical center—which VA estimated to be about $85 million—through negotiations or other means.

Figure 3: MUSC's Proposal and VA's Counterproposal



Source: VA.

Note: The circle highlights some of VA's existing property.

The MUSC President responded to VA's counterproposal in an April 2003 letter to the Secretary of VA. In the letter, the MUSC President stated that MUSC was proceeding with phase I of the project and that the joint venture concept could be pursued during later phases of construction. The letter did not specifically address VA's proposal to locate the new facility in phase III, nor the suggestion that MUSC would need to provide some type of financial incentive for VA to participate in the joint venture. To move forward with phase I, the MUSC President stated that MUSC would

like to focus on executing an enhanced use lease (EUL) for Doughty Street.[10] Although MUSC owns most of the property that will be used for phases I through III, Doughty Street is owned by VA and serves as an access road to the Charleston facility and parking lots. The planned facility for phase I would encompass Doughty Street.[11] (See fig. 4.) Therefore, MUSC could not proceed with phase I—as originally planned—until MUSC secured the rights to Doughty Street. To help its medical affiliate move forward with construction, VA executed a EUL agreement with MUSC in May 2004 for use of the street.[12] According to the terms of the EUL, MUSC will pay VA $342,000 for initial use of the street and $171,000 for each of the following eight years.

[10]EUL authority allows VA to lease real property under the Secretary's jurisdiction or control to a private or public entity for a term of up to 75 years. EULs must result in a beneficial redevelopment/reuse of the affected VA property by the lessee that will include space for a VA mission-related activity and/or will provide consideration that can be applied to improve health care and services for veterans and their families in the community where the site is located.

[11]To provide access to the current VA facility, a new street—the Ralph H. Johnson Drive—will be constructed around MUSC's new facility.

[12]The Secretary of VA and the Medical University Hospital Authority (MUHA), an affiliate of MUSC, entered into a 75-year EUL agreement in May 2004 for MUHA use of VA property—a one-block segment of Doughty Street.

Figure 4: Construction of Phase One of MUSC's Project

Source: GAO.

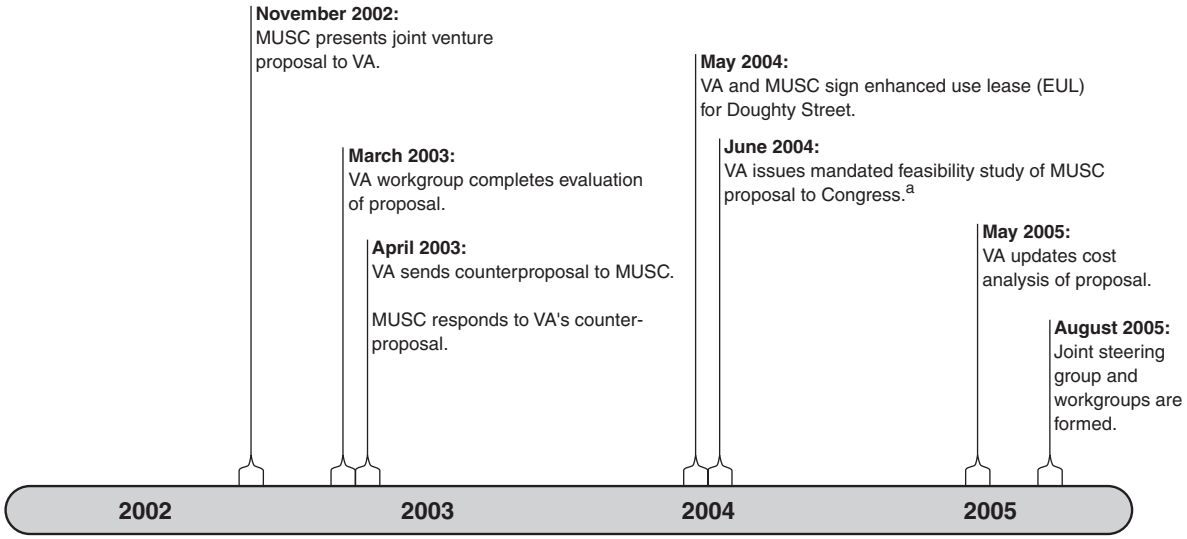
Note: The photograph shows the initial construction for phase I of MUSC's project. Doughty Street will be encompassed by MUSC's new facility.

Although both entities successfully collaborated in executing the enhanced use lease for Doughty Street, limited collaboration and communication generally characterize the negotiations between MUSC and VA over the joint venture proposal. In particular, before this summer, VA and MUSC had not exchanged critical information that would help

facilitate negotiations. For instance, MUSC did not clearly articulate to VA how replacing the Charleston facility, rather than renovating the facility, would improve the quality of health care services for veterans or benefit VA. MUSC officials had generally stated that sharing services and equipment would create efficiencies and avoid duplication, which would lead to cost savings. However, MUSC had not provided any analyses to support such claims. Similarly, as required by law, VA studied the feasibility of coordinating its health care services with MUSC, pending construction of MUSC's new medical center.[13] This study was completed in June 2004. However, VA officials did not include MUSC officials in the development of the study, nor did they share a copy of the completed study with MUSC. VA also updated its cost analysis of the potential joint venture this spring, but again, VA did not share the results with MUSC. Because MUSC was not included in the development of these analyses, there was no agreement between VA and MUSC on key input for the analyses, such as the specific price MUSC would charge VA for, or the nature of, the medical services that would be provided. As a result of the limited collaboration and communication, negotiations stalled—prior to August 2005, the last formal correspondence between VA and MUSC leadership on the joint venture was in April 2003. (See fig. 5 for a time line of key events in the negotiations between VA and MUSC.)

[13]The Veterans Health Care, Capital Asset, and Business Improvement Act of 2003, Pub. L. No. 108-170, § 232, 117 Stat. 2042, 2052-2053 (2003).

Figure 5: Time Line of Key Events in the Negotiations between VA and MUSC



Source: GAO.

[a]As required by P.L. 108-170 (2003).

Recent Events Have Spurred Discussion and Collaboration Between VA and MUSC

On August 1, 2005, a congressional delegation visited Charleston to meet with VA and MUSC officials to discuss the joint venture proposal. After this visit, VA and MUSC agreed to establish workgroups to examine key issues associated with the joint venture proposal. Specifically, VA and MUSC established the Collaborative Opportunities Steering Group (steering group). The steering group is composed of five members from VA, five members from MUSC, and a representative from the Department of Defense (DOD), which is also a stakeholder in the local health care market.[14] The steering group chartered four workgroups, and according to VA:

- The **governanc**e workgroup will examine ways of establishing organizational authority within a joint venture between VA and MUSC, including shared medical services.
- The **clinical service integration** workgroup will identify medical services provided by VA and MUSC and opportunities to integrate or share

[14]The Department of Defense currently provides medical services to a number of its beneficiaries through the Naval Hospital in Charleston.

these services.

- The **legal** workgroup will review federal and state authorities (or identify the lack thereof) and legal issues relating to a joint venture with shared medical services.

- The **finance** workgroup will provide cost estimates and analyses relating to a joint venture with shared medical services.

The workgroups will help VA and MUSC determine if the joint venture proposal is mutually beneficial.[15] The workgroups are scheduled to provide weekly reports to the steering group and a final report to the steering group by October 28, 2005. The steering group is scheduled to submit a final report by November 30, 2005, to the Deputy Under Secretary for Health for Operations and Management and to the President of MUSC.

Joint Venture Proposal Raises a Variety of Issues

The possibility of participating in the joint venture raises a number of issues for VA to consider. The proposed joint venture presents a unique opportunity for VA to reevaluate how it provides health care services to veterans in Charleston. Our ongoing work, as well as our previous work on VA's capital realignment efforts, cost-benefit analysis, organizational transformation, and performance management, however, suggests many issues to consider before making a decision about a joint venture, including governance, legal, and stakeholder issues. Some of these issues will be directly addressed by the workgroups, while others, such as the concerns of stakeholders, will not. In addition, some issues can be addressed through collaboration between VA and MUSC, while others may require VA to seek legislative remedies. Among the issues to explore are the following:

- **Comparing appropriate options and assessing the costs and benefits of all options:** According to Office of Management and Budget (OMB) guidelines on evaluating capital assets, a comparison of options, or alternatives, including the status quo, is critical for ensuring that the best alternative is selected.[16] In its guidance, OMB encourages decision makers

[15]VA's Under Secretary for Health directed the workgroups to also examine the potential for sharing services with DOD.

[16]Office of Management and Budget, Capital Programming Guide, Version 1.0 (Washington, D.C.: July 1997).

to consider the different ways in which various functions, most notably health care service delivery in this case, can be performed. OMB guidelines further state that comparisons of costs and benefits should facilitate selection among competing alternatives.[17] The finance workgroup is examining the potential costs for shared services within a joint facility. However, it is unclear whether the workgroup will weigh the benefits and costs of a new facility against those of other alternatives, including maintaining the existing medical center.

VA will also need to weigh the costs and benefits of investing in a joint venture in Charleston against the needs of other VA facilities in the network and across the nation. VA did not include the Charleston facility on its list of highest priority major medical facility construction requirements for fiscal years 2004 through 2010.[18] According to VA, the list of priorities, which includes 48 projects across the nation, aligns with existing CARES recommendations. Nevertheless, exploring the potential costs and benefits of a joint venture gives VA an opportunity to reexamine how it delivers health care services to the nation's veterans and uses its affiliations with medical universities now and in the future. As we have stated in previous reports, given the nation's long-term fiscal challenges and other challenges of the 21st Century, such reexaminations of federal programs are warranted.[19] Moreover, as the CARES Commission noted, the potential joint venture between VA and MUSC is a possible framework for future partnerships.

- **Developing a governance plan that outlines responsibilities and ensures accountability:** If VA and MUSC decide to enter into a joint venture for a new facility, they will need a plan for governing the facility. Any governance plan would have to maintain VA's direct authority over and accountability for the care of VA patients. In addition, if shared medical services are a component of a joint venture between MUSC and the VA, the entities will need a mechanism to ensure that the interests of

[17]OMB and GAO have identified benefit-cost analysis as a useful tool for integrating the social, environmental, economic, and other effects of investment alternatives and for helping decision makers identify the alternative with the greatest net benefits. In addition, the systematic process of benefit-cost analysis helps decision makers organize and evaluate information about, and determine trade-offs between, alternatives.

[18]Department of Veterans' Affairs, *CARES Major Construction Projects FY 2004 – 2010* (Washington, D.C.: May 2004).

[19]GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

the patients served by both are protected today and in the future. For instance, VA may decide to purchase operating room services from MUSC.[20] If the sharing agreement was dissolved at some point in the future, it would be difficult for VA to resume the independent provision of these services. Also, if MUSC physicians were to treat VA beneficiaries, or VA physicians were to treat MUSC patients, each entity would need a clear understanding of how to report health information to its responsible organization. Therefore, a clear plan for governance would ensure that VA and MUSC could continue to serve their patients' health care needs as well as or better than before.

- **Identifying legal issues and seeking legislative remedies**: The proposed joint venture raises a number of complex legal issues depending on the type of joint venture that is envisioned. Many of the legal issues that will need to be addressed involve real estate, construction, contracting, budgeting, and employment. The following are among some of the potential issues relating to a joint venture that VA previously identified:

  - What type of interest will VA have in the facility? If MUSC is constructing the facility on MUSC property, will VA be entering into a leasehold interest in real property or a sharing agreement for space, and what are the consequences of each? If the facility is to be located on VA property, will it involve a land transfer to MUSC or will VA lease the property to MUSC under its authority to enter into a EUL agreement? What are the advantages and disadvantages of these options?

  - Because MUSC contracting officials do not have the authority to legally bind the VA, how would contracting for the services and equipment be handled?

  The legal workgroup is currently identifying VA's and MUSC's legal authorities, or lack thereof, on numerous issues relating to entering into a joint venture. Should VA decide to participate in the joint venture, it may need to seek additional authority from the Congress.

[20]Such purchases of health care or other services from MUSC would involve contracts that VA would have to manage with oversight mechanisms, such as pre- and postaward audits, as it now does for current contracts with MUSC.

- **Involving stakeholders in the decisionmaking process:** Participating in a joint venture medical center, particularly if it includes significant service sharing between VA and MUSC, has significant implications for the medical center's stakeholders, including VA patients, VA employees, and the community. These stakeholders have various perspectives and expectations—some of which are common to the different groups, while others are unique. For example, union representatives and VA officials whom we spoke to indicated that VA patients and employees would likely be concerned about maintaining the quality of patient care at a new facility and access to the current facility during construction. Union representatives also said the employees would be concerned about the potential for the loss of jobs if VA participated in the joint venture and purchased additional services from MUSC. As VA and MUSC move forward in negotiations, it will be important for all stakeholders' concerns to be addressed.

- **Developing a system to measure performance and results:** If VA and MUSC decide to jointly build and operate a new facility in Charleston, it will become, as noted in the CARES Commission report, a possible framework for future partnerships between VA and other medical universities. As a result, a system for measuring whether the new joint venture facility is achieving the intended results would be useful.[21] In our previous work on managing for results, we have emphasized the importance of establishing meaningful, outcome-oriented performance goals.[22] In this case, potential goals could be operational cost savings and improved health care for veterans. If the goals are not stated in measurable terms, performance measures should be established that translate those goals into concrete, observable conditions.[23] Such measures would enable VA and other stakeholders to determine whether progress is being made toward achieving the goals. This information could not only shed light on the results of a joint venture in Charleston, but it could also enable VA to identify criteria for evaluating other possible joint ventures with its medical affiliates in the future. It would also help Congress to hold VA accountable for results.

[21]Under the Government Performance and Results Act of 1993 (GPRA), VA is required to develop performance goals for its major programs and activities and measures to gauge performance. VA's experience with GPRA could help them develop appropriate goals and measures for the joint venture.

[22]GAO, *Results Oriented Government: Using GPRA to Address 21st Century Challenges*, GAO-03-1166T (Washington, D.C.: September 2003).

[23]GAO, *The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans*, GAO/GGD-10.1.20 (Washington, D.C.: April 1998).

Concluding Observations

In conclusion, Mr. Chairman, we have stated over the past few years that federal agencies, including VA, need to reexamine the way they do business in order to meet the challenges of the 21st century. To address future health care needs of veterans, VA's challenge is to explore alternative ways to fulfill its mission of providing veterans with quality health care. The prospect of establishing a joint venture medical center with MUSC presents a good opportunity for VA to study the feasibility of one method—expanding its relationships with university medical school affiliates to include the sharing of medical services in an integrated facility. This is just one of several ways VA could provide care to veterans. Evaluating this option would involve VA officials, working in close collaboration with MUSC officials, weighing the benefits and costs as well as the risks involved in a joint venture against those of other alternatives, including maintaining the current medical center. Determining whether a new facility for Charleston is justified in comparison with the needs of other facilities in the VA system is also important. Until these difficult, but critical, issues are addressed, a fully-informed final decision on the joint venture proposal cannot be made.

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

Contact and Acknowledgments

For further information, please contact Mark Goldstein at (202) 512-2834. Individuals making key contributions to this testimony include Nikki Clowers, Daniel Hoy, Jennifer Kim, Edward Laughlin, Donna Leiss, James Musselwhite Jr., Terry Richardson, Susan Michal-Smith, and Michael Tropauer.

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