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United States General Accounting Office
Washington, DC 20548

February 27, 2004

Congressional Committees

Subject: *DOD and VA Health Care: Incentives Program for Sharing Resources*

Combined, the Department of Defense (DOD) and the Department of Veterans Affairs (VA) provide health care services to about 12 million beneficiaries at an estimated cost of about \$53 billion for fiscal year 2004—\$26.7 billion for DOD and \$26.5 billion for VA. In 1982 the Congress passed the VA and DOD Health Resources Sharing and Emergency Operations Act (Sharing Act) to promote more cost-effective use of health care resources and more efficient delivery of care.¹ Specifically, the Congress authorized military treatment facilities and VA medical centers to enter into sharing agreements to buy, sell, and barter medical and support services. To further encourage on-going collaboration, the Congress, in section 721 of the Bob Stump National Defense Authorization Act (NDAA) for Fiscal Year 2003², directed the Secretary of Defense and the Secretary of Veterans Affairs to establish a joint incentives program to identify and provide incentives to implement, fund, and evaluate creative health care coordination and sharing initiatives between DOD and VA. To facilitate the program, each Secretary is required to contribute a minimum of \$15 million from each department's appropriation into an account established in the U. S. Treasury³ for each fiscal year from 2004 through 2007. DOD's TRICARE Management Activity and VA's Medical Sharing Office administer the incentive fund program. The offices have jointly issued a request for proposals from DOD and VA medical facilities around the country.

The NDAA requires that we submit a report on the implementation and effectiveness of the program by February 28, 2004, and by February 28th for each year thereafter that the program is in effect. As discussed with the committees of jurisdiction, since the program is in its initial development stage, our objective was limited to reviewing the status of the program's implementation phase—primarily the process for selecting proposals—during the first five months of fiscal year 2004. To do so, we reviewed the DOD's and VA's plans for implementing the DOD-VA Health Care Sharing Incentive Fund—including proposal submission guidelines and evaluation and selection criteria—and interviewed agency officials from DOD and VA involved

¹ Pub. L. No. 97-174, 96 Stat. 70.

² Pub. L. No. 107-314, §721(a)(1), 116 Stat. 2589, 2595 (2002).

³ DOD-VA Health Care Sharing Incentive Fund.

in the oversight of the program. Our work was conducted from October 2003 through February 2004 in accordance with generally accepted government auditing standards.

Results in Brief

During the first five months of the program DOD and VA have established criteria for evaluating proposals. As of February 25, 2004, the departments are reviewing 57 proposals that have been submitted. DOD and VA program officials have not established a firm date for final selection but anticipate it will take place during the summer of 2004. While the agencies have made progress in implementing the program, they have not made contributions to the fund; they anticipate doing so by March 31, 2004. VA has raised a concern whether services provided to veterans will have to be commensurate with its contributions to the sharing incentive fund. DOD and VA officials are discussing how the fund contributions will be used. DOD and VA officials agreed the information in this report is accurate.

Proposal Submission and Selection Process

The 57 proposals that are under review by DOD and VA are considered concept proposals—they contain a broad range of sharing activities. DOD and VA agency officials at each submitting medical facility jointly developed these concept proposals. Examples of sharing services and resources included in the concept proposals are

- magnetic resonance imaging,
- staffing,
- telemedicine,
- cardiac catheterization laboratories,
- outpatient care,
- sleep study analysis, and
- information management/information technology.

According to program officials, the two agencies will review the concept proposals and select the most promising. The selection and evaluation criteria for the concept proposals include the following:

- support DOD's and VA's joint long-term approach to meeting the health care needs of their beneficiary populations,
- improve beneficiary access,
- exportability to other facilities,
- maximize the number of beneficiaries that would benefit from the initiative,
- result in cost savings or cost avoidance,
- develop in-house capability at a lesser cost for services now obtained by contract, and
- demonstrate that the initiative will be self-sustaining—that is, a separate source of funding other than the incentive fund for recurring costs—within one or two years of the initial award.

Officials at each location whose proposals are selected will be asked to submit a more detailed final proposal with a business case analysis that will be reviewed by DOD's and VA's Chief Financial Officers and approved by the interagency Health Executive Committee⁴.

Program Funding and Use of Funds

VA has raised a concern about the extent to which restrictions on the use of its medical appropriations would continue to apply once funds from those appropriations are transferred to the DOD-VA Health Care Sharing Incentive Fund⁵. DOD and VA officials are discussing how the fund contributions will be used and plan to reach agreement before final proposals for projects are selected. DOD and VA expect to transfer funds to the DOD-VA Health Care Sharing Incentive Fund by March 31, 2004, so that money is available when selection of final proposals is made during the summer of 2004.

DOD and VA program officials as well as DOD's and VA's Offices of General Counsel reviewed a draft of this report and provided technical comments, which were included where appropriate. They agreed the information in the report is accurate.

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We are sending copies of this report to the Secretary of Defense, the Secretary of Veterans Affairs, and other interested parties. We will provide copies of this report to others upon request. In addition, the report is available at no charge on the GAO Web site at <http://www.gao.gov>. If you or your staffs have any questions, please contact me at (202) 512-7101 or Michael T. Blair, Jr., at (404) 679-1944. Aditi Archer and Helen Desaulniers made key contributions to this report.



Cynthia A. Bascetta
Director, Health Care—Veterans'
Health and Benefits Issues

⁴ The Health Executive Committee membership includes senior leaders from DOD and VA who are working to institutionalize DOD and VA sharing and collaboration to ensure the efficient use of health services and resources. The committee is co-chaired by the Assistant Secretary of Defense for Health Affairs and the Department of Veterans Affairs Under Secretary for Health.

⁵ VA's medical care appropriations are available for the expenses of medical services, medical administration, and medical facilities for VA beneficiaries. Section 1301(a) of title 31, United States Code, provides that appropriations shall be applied only to the objects for which they were made, except as otherwise authorized. In addition, section 1532 provides that, in the absence of statutory provisions to the contrary, appropriations authorized to be transferred from one account to another are available for the same purpose provided by the law appropriating the funds.

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