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United States Government Accountability Office  
Washington, DC 20548

February 28, 2005

Congressional Committees

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

Combined, the Department of Defense (DOD) and the Department of Veterans Affairs (VA) provide health care services to about 16.8 million beneficiaries at an estimated cost of \$58 billion for fiscal year 2005—\$30.4 billion for DOD and \$27.7 billion for VA.<sup>1</sup> In 1982, the Congress passed the Veterans' Administration and Department of Defense 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.<sup>2</sup> Specifically, the Congress authorized DOD and VA to enter into sharing agreements with each other to buy, sell, and barter medical and support services.

To further encourage ongoing collaboration, the Congress passed the Bob Stump National Defense Authorization Act (NDAA) for Fiscal Year 2003,<sup>3</sup> which 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. Under the program, DOD and VA are to solicit proposals from their program offices, DOD military treatment facilities, or VA medical facilities for project initiatives at least annually. DOD and VA health care officials are to develop program guidelines and establish project evaluation and selection criteria. 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. Treasury<sup>4</sup> for each fiscal year from 2004 through 2007. The Financial Management Workgroup<sup>5</sup> (FMWG) under the Health Executive Council<sup>6</sup> (HEC) administers the Incentive Fund program.

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<sup>1</sup>DOD estimates the number of its eligible beneficiaries for fiscal year 2005 to be 9.1 million. VA estimates the number of enrolled beneficiaries to be 7.7 million.

<sup>2</sup>Pub. L. No. 97-174, 96 Stat. 70.

<sup>3</sup>Pub. L. No. 107-314, §721(a)(1), 116 Stat. 2458, 2589-2595 (2002).

<sup>4</sup>DOD-VA Health Care Sharing Incentive Fund.

<sup>5</sup>FMWG membership includes representatives from the Veterans Health Administration Office of Finance, the Office of Patient Care Services, the Office of the Deputy Under Secretary for Health for Operations and Management, and the Office of Health Informatics. DOD membership includes representatives from the Departments of the Army, Navy, and Air Force; Health Affairs; and the TRICARE Management Activity (TMA).

<sup>6</sup>HEC 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 DOD's Assistant Secretary of Defense for Health Affairs and VA's Under Secretary for Health.

The NDAA also requires that we submit a report on the implementation<sup>7</sup> of the program by February 28 of each fiscal year the program is in effect.<sup>8</sup>

We reviewed 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 department officials from DOD and VA involved in the oversight of the program and those facility or program office officials responsible for the projects that were selected for funding during fiscal year 2004. Our work was conducted from April 2004 through February 2005 in accordance with generally accepted government auditing standards.

## **Results in Brief**

From December 2002 through January 2005, DOD and VA developed program guidelines and solicited, reviewed, selected, and funded projects. During that time DOD and VA officials completed their review of 58 concept proposals that were submitted, selected 12 projects for implementation, and funded 9 of them. Three projects were awaiting funds as of February 3, 2005. Project selection took place in August 2004, and the departments began funding projects in November 2004. According to the departments, funding could not be provided until project officials and the Surgeons General for DOD's Departments of the Army, Navy, and Air Force completed certain administrative actions. These actions included project officials ensuring that the project would be self-sustaining within 2 years and the Surgeons General ensuring that service-specific department protocols for disbursing funds were followed. DOD and VA officials generally concurred with the information presented in this report.

## **Project Review and Selection Was Completed in August 2004; Project Funding Began in November 2004**

From the NDAA's enactment in December 2002 through February 2004, DOD and VA developed program guidelines, solicited proposals, reviewed them, and established an account within the U.S. Treasury for funding projects. A Memorandum of Agreement entered into by DOD and VA assigned FMWG as the administrator of the Incentive Fund under the direction of the HEC. DOD and VA developed the following criteria to be used for evaluating the concept proposals and selecting the final projects:

- support DOD and VA's joint long-term approach to meeting the health care needs of their beneficiary populations;
- improve beneficiary access;
- ensure exportability to other facilities;
- maximize the number of beneficiaries that would benefit from the initiative;
- result in cost savings or cost avoidance;

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<sup>7</sup>The NDAA requires us to report on the program's effectiveness. As of January 2005, however, the projects had not been under way for a sufficient period for us to evaluate their results.

<sup>8</sup>See also U.S. GAO, *DOD and VA Health Care: Incentives Program for Sharing Resources*, GAO-04-495R (Washington, D.C.: Feb. 27, 2004).

- develop in-house capability at a lesser cost for services now obtained by contract; and
- demonstrate that the project will be self-sustaining after incentive funds are no longer supporting the project—that is, if funding is needed beyond 2 years, the local facility, or the Surgeon General’s office, or the Veterans Integrated Service Network<sup>9</sup> must agree to provide it.

In February 2004, the departments began review of the 58 concept proposals that were submitted. In May 2004, DOD and VA officials completed their initial review and selected 29 proposals for a more detailed second review. Officials at each location whose concept proposals were selected were asked to submit a more detailed final proposal with a business case analysis for review by the FMWG. FMWG officials evaluated and ranked the proposals and submitted their recommendations for final approval to the HEC.

In August 2004, 12 projects from the 29 final proposals were selected by the FMWG and approved by the HEC for implementation. A project cannot receive funding until project officials submit a letter of certification that the project would be self-sustaining within 2 years, or if not, that it would have other funding to cover costs in future years. Disbursement of funds must follow department-funding protocols and new accounts are created to track the funding. For DOD, the transfer of funds involves four sequential steps to move money from the Incentive Fund to DOD’s Under Secretary of Defense (Comptroller); to TMA; to departments’ Surgeon General offices’ health care resource managers; and to military treatment facilities responsible for the project. For VA, the transfer is made from the Incentive Fund to the VA medical center or program office responsible for the project.

Three projects were awaiting funds as of February 3, 2005. VA has delayed funding for the project at McConnell Air Force Base/Robert J. Dole Veterans Affairs Medical Center located in Wichita, Kansas, until it receives approval to proceed with building construction from VA headquarters. DOD also has delayed funding for two projects at Naval Hospital Great Lakes/North Chicago Veterans Affairs Medical Center located in Chicago, Illinois. The delay in Chicago occurred because the Navy Surgeon General’s office was waiting for final agreements from each facility outlining the specific responsibilities of each facility for implementing the project and the use of the funds. The Navy Surgeon General’s office received the final agreements on January 31, 2005, and is in the process of approving the transfer of funds.

For each of the 12 approved projects, table 1 shows the DOD and VA partner, the project description, the amount funded, and the date funds were provided to the projects for implementation.

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<sup>9</sup>The management of VA’s hospitals and other health care facilities is decentralized to 21 regional networks referred to as Veterans Integrated Service Networks.

**Table 1: Incentive Fund Projects**

<b>DOD partner</b>	<b>VA partner</b>	<b>Project name and description</b>	<b>Total amount of project (dollars)</b>	<b>Project funding<sup>a</sup> received date:</b>
DOD TRICARE Management Activity	VA Chief Business Office	F-Stop-Third Party Obligation Program: This national initiative is intended to provide DOD and VA with a repository of beneficiary insurance information to allow for increased third party collections—similar to a system utilized by the Centers for Medicare & Medicaid Services.	\$14,929,000	Nov. 1, 2004
Tripler Army Medical Center, Hawaii	VA Pacific Islands Health Care System, Hawaii	Delta Systems II-Cad/Cam System: This is a fabrication technology system that produces molds for prosthetics and orthotics from lightweight foam through use of a laser scanner and mill. Installing this device at Tripler is intended to allow for greater beneficiary access; reduce clinic visits for casting, adjustments, and fittings; and allow for an increase in VA beneficiary access.	515,300	Jan. 13, 2005
319th Medical Group, Grand Forks Air Force Base, N. Dak.	Fargo Veterans Affairs Medical Center, N. Dak.	Joint TeleMental System: Acquiring videoconferencing technology is intended to allow VA to provide mental health services to DOD beneficiaries approximately 80 miles away.	13,535	Jan. 4, 2005
60th Medical Group, Travis Air Force Base, Calif.	VA Northern California Health Care System, Calif.	Joint Dialysis Unit: Through upgrading equipment and increased staffing, Travis Air Force Base's dialysis unit is expected to be able to accommodate VA beneficiaries.	1,343,780	Jan. 5, 2005
Naval Hospital Great Lakes, Ill.	North Chicago Veterans Affairs Medical Center, Ill.	Mammography Unit Expansion: The purchase of new digital mammography equipment, a stereotactic unit, and hiring of support staff are intended to reduce wait times for DOD beneficiaries and allow for VA beneficiary access.	655,000	Awaiting funds
92nd Medical Group, Fairchild Air Force Base, Wash.	Spokane Veterans Affairs Medical Center, Wash.	Teleradiology Initiative: This will upgrade DOD's system so it can download images from VA for radiological interpretation and is intended to allow VA to provide computed tomography scans for DOD beneficiaries.	333,537	Nov. 18, 2004
Naval Hospital Great Lakes, Ill.	North Chicago Veterans Affairs Medical Center, Ill.	Women's Health Center: This project proposes to create a comprehensive women's health center for DOD and VA beneficiaries by coordinating women's services and includes hiring gynecology, wellness, and case management staff.	1,314,000	Awaiting funds

<b>DOD partner</b>	<b>VA partner</b>	<b>Project name and description</b>	<b>Total amount of project (dollars)</b>	<b>Project funding<sup>a</sup> received date:</b>
3rd Medical Group, Elmendorf Air Force Base, Alaska	VA Alaska Health Care System, Alaska	Enhanced Outpatient Diagnostic Services: The acquisition of diagnostic equipment is intended to provide in-house imaging services to DOD and VA beneficiaries.	535,000	Nov. 18, 2004
Fort Drum, N.Y.	Syracuse Veterans Affairs Medical Center, N.Y.	Telepsychiatry: The hiring of a full-time VA psychiatrist is intended to allow VA to provide mental health services to DOD beneficiaries via videoconferencing.	330,000	Nov. 23, 2004
22nd Medical Group, McConnell Air Force Base, Kans.	Robert J. Dole Veterans Affairs Medical Center, Kans.	Cardiac Catheterization Laboratory: Remodeling existing VA space is intended to accommodate new equipment and provide in-house cardiac services to DOD and VA beneficiaries.	3,539,722	Awaiting funds
Moncrieff Army Community Hospital and 20th Medical Group, Shaw Air Force Base, S.C.	Dorn Veterans Affairs Medical Center, S.C.	Expansion of Existing Magnetic Resonance Imaging Joint Venture: The acquisition of an Open Magnetic Resonance Imaging unit at Moncrieff Army Community Hospital and 20th Medical Group, Shaw Air Force Base is intended to provide in-house services to DOD and VA beneficiaries.	2,013,387	Dec. 9, 2004
Wilford Hall Medical Center, Lackland Air Force Base, Tex.	VA South Texas Health Care System, Tex.	North Central San Antonio Clinic: The establishment of a joint DOD/VA clinic is intended to provide greater access to DOD and VA beneficiaries.	11,973,937	Nov. 18, 2004

Sources: DOD and VA.

<sup>a</sup>Funding received on this date may not be for the entire amount of the project. In some cases, such as acquisition of equipment, the entire amount may have been provided. In other cases, such as for staffing or a technology upgrade, funding could be disbursed over a 2-year period.

In November 2004, DOD and VA issued a second request for proposals. Submissions were due by January 12, 2005, and according to DOD and VA officials, about 50 concept proposals have been submitted. DOD and VA are in the process of reviewing these concept proposals.

We provided a draft of this report to DOD and VA for comment. DOD's Assistant Secretary of Defense for Health Affairs and VA's Assistant Secretary for Congressional and Legislative Affairs provided written comments on it. (DOD's comments are reprinted in enclosure I and VA's comments are reprinted in enclosure II.) Both departments generally concurred with the information presented in the report and provided technical comments, which were included where appropriate. DOD noted that the report does not provide an assessment of the department's efforts in identifying, evaluating, and implementing joint DOD and VA resource sharing projects. Our report describes the activities DOD and VA took from December 2002 through February 2005 to identify, select, and fund projects. Project

funding began in November 2004, and three projects are still awaiting funds. As we note in the report, it is too early to assess the program's effectiveness because the projects have not been under way for a sufficient period for us to evaluate their results.

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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 was the key contributor to this report.



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

Enclosures - 2

*List of Committees*

The Honorable John Warner  
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The Honorable Carl Levin  
Ranking Minority Member  
Committee on Armed Services  
United States Senate

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Chairman  
The Honorable Daniel K. Akaka  
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The Honorable Steve Buyer  
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The Honorable Lane Evans  
Ranking Minority Member  
Committee on Veterans' Affairs  
House of Representatives

**Comments from the Department of Defense**

HEALTH AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1200

FEB 18 2005

Ms. Cynthia Bascetta  
Director, Health Care - Veterans'  
Health and Benefits Issues  
U.S. Government Accountability Office  
Washington, DC 20548

Dear Ms. Bascetta:

This is the Department of Defense (DoD) response to the draft report "DoD and Veterans Affairs Health Care: Incentives Program for Sharing Health Resources," dated February 8, 2005 (GAO Code 290367/GAO-05-310R).

The Department generally concurs with the report and offers technical comments (attached) to the document as written. However, we would like to offer several additions for your consideration that are provided in the attached technical comments. The report's facts are fundamentally correct; however, the report does not provide an assessment of the efforts to date of the Department's efforts in identifying, evaluating, and implementing joint DoD/VA resource sharing projects.

If you have any questions, please contact Ms. Connie McDonald (functional) at (703) 681-1724 and Mr. Gunther J. Zimmerman (Audit Liaison) at (703) 681-3492, ext. 4065.

A handwritten signature in cursive script, appearing to read "William Winkenwerder, Jr.", is written in black ink.

William Winkenwerder, Jr., MD

Attachment:  
As stated

## Comments from the Department of Veterans Affairs



**DEPARTMENT OF VETERANS AFFAIRS**  
 ASSISTANT SECRETARY FOR CONGRESSIONAL AND LEGISLATIVE AFFAIRS  
 WASHINGTON DC 20420

February 16, 2005

Ms. Cynthia A. Bascetta  
 Director  
 Health Care Team  
 U. S. General Accounting Office  
 441 G Street, NW  
 Washington, DC 20548

Dear Ms. Bascetta:

The Department of Veterans Affairs (VA) has reviewed your draft report, ***DOD and VA Health Care: Incentives Program for Sharing Resources*** (GAO-05-310R) and concurs as it pertains to VA. Nevertheless, we offer these technical comments that we believe will improve the overall accuracy of your report.

On page 2, lines 1 and 2: delete "DoD's TRICARE Management Activity (TMA) and VA's Medical Sharing Office administer", and replace it with "The Financial Management Workgroup under the Health Executive Council (HEC) administers..."

On page 2, 3rd line from bottom: Replace "within two years" with: "after the project is no longer supported by the incentive fund"

On page 2, Footnote # 5: Delete words "funded and"

On page 3, line 4: Change "57" to "58"

On page 3, Footnote #7: Change "VA's Resources Sharing Office" to "VHA Office of Finance"

On page 4, line 1: Change "within two years of the initial award" to "after incentive funds are no longer supporting the project"

On page 4, line 8: Replace "within two years" with "after incentive funds are no longer supporting the project"

On page 4, line 9: Replace "Disbursements" with "Disbursement"

On page 4, second paragraph, line 3: Add a comma after KS.

Ms. Cynthia A. Bascetta  
Page 2

VA appreciates the opportunity to comment on your draft report.

Sincerely yours,



P. M. Iovino

(290367)

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