

GAO Highlights

Highlights of [GAO-14-396T](#), a testimony before the Subcommittee on Military Personnel, Committee on Armed Services, House of Representatives

Why GAO Did This Study

DOD's MHS costs almost \$50 billion annually and is expected to grow to \$70 billion by 2028. The MHS governance structure has been the subject of many studies, some recommending major changes. In 2006, DOD considered potential governance structure changes but left its existing structure in place, approving instead a shared-services directorate to consolidate common MHS functions (e.g., shared information-technology services) that ultimately was never developed. In 2012, DOD announced the creation of the DHA by October 1, 2013, with seven main goals: (1) consolidate functions (shared services) common to DOD, (2) deliver more-integrated health care in areas with more than one military service, (3) establish more-standardized processes, (4) more-closely align financial incentives with health and readiness outcomes, (5) match other resources with missions, (6) deliver more primary care and other health services, and (7) better coordinate care over time and across treatment settings. Section 731 of the National Defense Authorization Act for Fiscal Year 2013 required DOD to provide three submissions in March, June, and September 2013, detailing its plan to reform the MHS.

This testimony addresses the additional actions that would increase transparency and enhance accountability of DOD's reform plans. It is based primarily on (1) GAO's November 2013 report which assessed DOD's first two submissions of its reform plans to Congress and (2) selected updates. For the updates, GAO analyzed DOD's third reform plan and interviewed a DOD representative.

View [GAO-14-396T](#). For more information, contact Brenda S. Farrell at (202) 512-3604 or farrellb@gao.gov.

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MILITARY HEALTH SYSTEM

Sustained Senior Leadership Needed to Fully Develop Plans for Achieving Cost Savings

What GAO Found

Department of Defense (DOD) senior leadership has demonstrated a commitment to oversee implementation of its military health system's (MHS) reform and has taken a number of actions to enhance the reform efforts. For example, in March 2013, DOD chartered the MHS Governance Transition Organization to provide oversight, management, and support for the implementation. This entity is chartered to exist until October 2015, when the Defense Health Agency (DHA) is expected to reach full operating capability. Formation of this entity addresses an issue GAO reported on in April 2012—that DOD did not form such a team to oversee its 2006 MHS reform effort.

GAO's November 2013 report identified several areas in DOD's implementation plan where sustained senior leadership attention is needed to help ensure the reform achieves its goals including:

- **Undetermined staffing requirements:** DOD did not have the data to determine how the creation of the DHA will affect the total number of MHS headquarters staff because it had not conducted an accurate baseline assessment of current staffing levels. Notwithstanding, using data that service officials later believed were inaccurate, in 2011, DOD identified anticipated annual personnel savings of \$46.5 million as part of the rationale for creating the DHA.
- **Unclear cost estimates:** DOD's cost savings estimates were missing key details such as the source of the savings. DOD aggregated the separate functions of its shared services, which obscures the size and cost of planned efficiencies for each function. A business case analysis requires detailed information to convince customers and stakeholders that the selected business process is the appropriate means for achieving performance. In addition, business-case analyses should demonstrate the sensitivity of the outcome to changes in assumptions. However, DOD did not assess the risk that implementation costs could increase.
- **Incomplete performance measures:** DOD did not develop explanations for how each measure relates to the goals of the reform effort, did not define the specific measure to be developed; did not provide a baseline assessment of the current performance that is to be measured; and, most importantly, did not identify quantifiable targets for assessing progress. In its third submission, DOD provided some additional information, but did not provide fully developed performance measures for any of its seven reform goals.

DOD concurred with all of GAO's recommendations, including: (1) develop a baseline assessment of the number of personnel currently working within the MHS headquarters and an estimate for the DHA at full operating capability; (2) develop a more thorough explanation of the potential sources of cost savings from DOD's implementation of shared services; and (3) develop performance measures that are clear, quantifiable, objective, and include a baseline assessment of current performance. In February 2014, a DOD representative said that DOD has taken action to address the recommendations, but it has not completed implementation. GAO continues to believe that it is imperative for DOD to complete these actions so decision makers will have complete information to gauge reform progress.