UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

PERSONNEL AND
READINESS

JUL 16 2015

The Honorable John McCain
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The enclosed report is in response to section 725 of the Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act (NDAA) for Fiscal Year 2015 (Public Law 113-291), which requires the Secretary of Defense to submit a report outlining the status of the Department's plan to develop and carry out an acquisition strategy for entering into contracts for services of health care professional staff at military medical treatment facilities.

The report provides information on the Department's implementation status along with methods to analyze existing data and develop metrics to evaluate the success of the resultant strategy. The Defense Health Agency (DHA) will exercise management responsibility and serve as the lead agency for development of the acquisition strategy. DHA will use the Department's seven-step strategic sourcing model to create an acquisition strategy for health care staffing at military medical treatment facilities. An Integrated Product Team was chartered with DHA leadership and representation by Army, Navy and Air Force. An acquisition milestone schedule is included in the report that estimates award of strategic contracts in Fall 2017.

The report anticipates a requirement for a new analysis method to calculate specified cost savings data in the NDAA because there is no current methodology to directly compare costs of care by contractors in military treatment facilities with anticipated network care costs. The DHA is exploring the feasibility and cost of developing a new analysis function to calculate these metrics.

Thank you for your interest in the health and well-being of our Service members, veterans, and their families. A similar letter has been sent to the other congressional defense committees.

Sincerely,

Brad Carson
Acting

Enclosure:
As stated

cc:
The Honorable Jack Reed
Ranking Member

UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

PERSONNEL AND READINESS

JUL 16 2015

The Honorable William M. "Mac" Thornberry
Chairman
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

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Brad Carson
Acting

Enclosure:
As stated

cc:
The Honorable Adam Smith
Ranking Member

UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

PERSONNEL AND
READINESS

JUL 16 2015

The Honorable Thad Cochran
Chairman
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

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Sincerely,

Brad Carson
Acting

Enclosure:
As stated

cc:
The Honorable Barbara A. Mikulski
Vice Chairwoman

UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

PERSONNEL AND
READINESS

JUL 16 2015

The Honorable Harold Rogers
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

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Sincerely,

Brad Carson
Acting

Enclosure:
As stated

cc:
The Honorable Nita M. Lowey
Ranking Member

Report Required by Section 725 of the Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015 (Public Law 113-291), Status of Implementing the Acquisition Strategy for the Services of Health Care Professional Staff at Military Medical Treatment Facilities

Office of the Assistant Secretary of Defense Health Affairs

June 2015

The estimated cost of report or study for the Department of Defense is approximately $1,900 for FY14. This includes $0 in expenses and $1,900 in DoD labor.

Generated on March 5, 2105

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EXECUTIVE SUMMARY

Section 725 of the Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2015 (Public Law 113-291), which requires the Secretary of Defense to submit a report to the congressional defense committees on the status of the implementation of an acquisition strategy for health care professional staffing services that includes:

A. Identification of the responsibilities of the military departments and elements of the Department of Defense in carrying out such strategy
B. Methods to analyze, using reliable and detailed data covering the entire Department, the amount of funds expended on contracts for the services of health care professional staff
C. Methods to identify opportunities to consolidate requirements for such services and reduce cost
D. Methods to measure cost savings that are realized by using such contracts instead of purchased care
E. Metrics to determine the effectiveness of such strategy
F. Metrics to evaluate the success of the strategy in achieving its objectives, including metrics to assess the effects of the strategy on the timeliness of beneficiary access to professional heath care services in military medical treatment facilities
G. Such other matters as the Secretary considers appropriate

This report to Congress includes an approach, timeline and metrics associated with the strategy. The Department will have difficulty calculating the savings (at D) and metrics (at F) because there are no direct metrics relating contract health care staffing internal to a military treatment facility (MTF) to purchased care savings or access to care. This is because, with the exception of the TRICARE Outpatient Clinics that are completely staffed by contractors, all MTF locations are staffed by a combination of military, civilian and contractor personnel working to provide care to the same group of beneficiaries.

DEPARTMENT OF DEFENSE

REPORT REQUIRED BY THE CARL LEVIN AND HOWARD P. "BUCK" MCKEON NATIONAL DEFENSE AUTHORIZATION ACT FOR 2015, SECTION 725

STATUS OF IMPLEMENTING THE ACQUISITION STRATEGY FOR THE SERVICES OF HEALTH CARE PROFESSIONAL STAFF AT MILITARY MEDICAL TREATMENT FACILITIES

A) Identification of the responsibilities of the military departments and elements of the Department of Defense in carrying out such strategy.[1]

In accordance with Department of Defense (DoD) Directive 5136.13, paragraphs 3.d. and 3.f., the Defense Health Agency (DHA) exercises management responsibility for identified shared services and supports effective execution of the DoD medical mission. On January 15, 2014, the Director, DHA and the three Service Surgeons General signed a coordinated concept of operations that established an acquisition function within the DHA to "Award strategic contract vehicles to meet professional and clinical requirements for the DHA to enable Service execution by FY18." Under this concept, DHA serves as the lead agency for developing the acquisition strategy, with Service representation on each strategic sourcing team. One of the first DHA strategic sourcing initiatives focuses on Product Service Code "Q" services (Medical Services), which include health care professional staffing services of the type required by Military Treatment Facilities (MTFs).

DHA will carry out the Office of Management and Budget's (OMB) mandate to maximize the use of strategic sourcing while building sustainable business models. Strategic sourcing is a process that moves an organization away from numerous individual procurements for the same or similar products or services toward a broader aggregate approach. OMB established a government-wide strategic sourcing program known as the Federal Strategic Sourcing Initiative (FSSI) in 2005. FSSI was created to address government-wide opportunities to strategically source commonly purchased products and services and eliminate duplication of efforts across agencies. The mission of the FSSI program is to encourage agencies to aggregate contract requirements, streamline processes, and coordinate purchases of like products and services to leverage spending to the maximum extent possible. Similarly, the DHA strategy for health care professional staffing will directly address Government Accountability Office (GAO) findings (GAO-13-322) that the DoD does not have a consolidated agency-wide acquisition strategy for medical services and that, in the absence of such a strategy, contracting for health care professionals is largely fragmented.

Using the seven-step strategic sourcing acquisition model described in the "DoD-Wide Strategic Sourcing Program Concept of Operations" (June 2013) (see Appendix A of this report), DHA will create and administer a centralized strategy for the acquisition of health care professional staff for the MTFs. After development and deployment of the centralized strategy, the Military Services will be responsible for strategy execution (i.e., ordering and administration of task or delivery orders), gathering contractor performance data, and reporting exceptions for use of the

[1] Bold, lettered paragraphs in this report are quoted from corresponding lettered subparagraphs in paragraph (a)(2) of NDAA 2015, Section 725.

strategy to DHA. DHA will compile and analyze performance and exceptions data for use in identifying the best performing contractors and improving the next generation of centralized strategic contracts. DHA will also monitor use of the strategies as described below.

On June 13, 2013, DHA formed and chartered an integrated product team made up of DHA and Service representatives (Appendix B). The charter was coordinated through the Medical Deputies Advisory Group (MDAG), a general officer/flag officer/Senior Executive Service governance council responsible for advice and assistance among the senior leadership of key Military Health System (MHS) stakeholders on execution matters that affect the entirety of the MHS. Acquisition and acquisition standardization issues for consideration by the MDAG are first presented to the Medical Operations Group (MOG), the senior leadership council tasked with centralized, coordinated policy execution and guidance for delivering health services to all beneficiaries as authorized by law. The MOG approves the team membership, assesses outcomes, and monitors the Integrated Product Team's (IPT) performance as compared to the schedule specified in its charter.

Approved integrated product team responsibilities are:

- Determination and validation of Q-coded performance requirements
- Development of internal and external reporting processes
- Development of acquisition documents for strategically acquiring medical Q-coded services across the MHS
- Establishing performance evaluation criteria
- Development of a medical Q-services (MQS) strategic sourcing contract vehicle

The strategy will be reviewed by the Director of Defense Procurement and Acquisition Policy (DPAP) pursuant to DPAP Memoranda dated February 18, 2009, entitled "Review Criteria for the Acquisition of Services," as implemented in accordance with Enclosure 9 of DoD Instruction 5000.02. Once the strategy is created, a mandatory use policy will require the Military Services to either use the strategic sourcing contract or obtain a waiver, based upon a documented rationale for non-use, to employ another contracting vehicle.

The MQS strategic sourcing milestones as approved in the charter are:

Milestones	Date
Market Research Report	Mar 2015
HCP Standardization	Jun 2015
Requirements Approval	Sep 2015
Acquisition Plan Approval	Jun 2016
Issue Draft RFP	Aug 2016
Industry Day	Aug 2016
Source Selection Plan Approval	Oct 2016
Issue RFP	Nov 2016
Source Selection	Mar 2017
Award Contracts	Sep 2017
Post Award Conference	Oct 2017
Administer/Manage Contracts	Nov 2017

The team is currently ahead of schedule and is on track for approval of the Acquisition Plan in May 2016.

B) Methods to analyze, using reliable and detailed data covering the entire Department, the amount of funds expended on contracts for the services of health care professional staff.

While executing the second step of the Department's seven-step strategic sourcing model, the IPT reviewed the MHS's current strategy for acquiring MQS. It conducted a spend analysis using available tools to determine the baseline for funds expended on contracts for health care professional staff services. The IPT used the Federal Procurement Data System (FPDS) as the primary tool for collecting these data. Data analysis included comparing FPDS data to DHA and Military Services data to remove inconsistencies such as miscoded data and data for other Q-services contracts that are not for health care staff (e.g., TRICARE managed care support contracts and US Family Health Plan contracts).

Although the total amount of funds expended on contracts for the Q-coded services can be determined for the entire department, FPDS does not contain detailed data such as individual labor rates, labor categories, and place of performance. Because of these limitations, the MHS acquisition strategy to be developed by the IPT will include provisions to accurately collect and report this information for analysis during performance. Exceptions to mandatory use of the strategy will require similar reporting to DHA by the Military Services for non-DHA contracts.

C) Methods to identify opportunities to consolidate requirements for such services and reduce cost.

The DHA Business Case Analysis identified three methods to consolidate requirements and reduce costs for professional health care services. Currently each Military Service maintains its own set of multiple award contracts to meet individual Service mission needs for health care professional staff. The acquisition strategy under development by the IPT will consolidate these contracts to reduce costs. Consolidation of professional health care staffing requirements is expected to result in[2]:

a. $21.46M in savings between FY 2014 and FY 2019 due to consolidation of contracts.
b. The MHS will obtain additional savings through economy of scale efforts of establishing "ordering windows" to further consolidate smaller requirements into larger orders and through strategic management of the vendor base (i.e., standardizing performance metrics to a smaller group of pre-qualified vendors)[3].

[2] BCA savings estimates from FY11 spending will be updated to reflect FY12, FY13 and FY14 spending.
[3] GAO-13-417: Leading Commercial Practices Can Help Federal Agencies Increase Savings when Acquiring Services.

D) Methods to measure cost savings that are realized by using such contracts instead of purchased care.

The MHS is responsible for providing care either through the Direct Care System (MTFs) or purchased care through the TRICARE contracts. The purpose of contracting for health care professional services in the Direct Care System is to provide care capabilities and capacity that are unfilled due to civilian provider recruiting shortfalls or deployment of military providers to support military forces positioned for or engaged in combat operations. Consequently, contracting for medical professional services is done as a "last resort" by the MTFs in lieu of being able to fill staffing requirements with either military providers or Government civilian employee providers. While ensuring readiness of the MHS's medical force to provide care for U.S. combat forces provides ample justification for increasing MTF workload, historical cost performance data for the MTFs, as compared to cost of care obtained by beneficiaries in the private sector, does not provide a standalone rationale for MTFs to contract for medical professional services. From data presented on pages 20-24 of the FY 2014 Report to Congress, *Evaluation of the TRICARE Program: Access, Cost, and Quality*[4], it can be deduced that direct care costs the MHS more than does private sector care on a per event basis when the total of all events is defined as the sum of all inpatient dispositions and outpatient encounters. This has been the case even while the MHS has contracted for more than $1B per year of MQS for the MTFs.

Currently, the MHS has no effective means for automatically and consistently measuring and comparing, to private sector care cost, the cost of care given in an MTF by an individual medical professional working there under contract. Determining the latter would require having data on the cost of personnel and associated marginal costs and comparing those data to the cost of purchasing the workload in the private sector in the area where the particular MTF is located. However, even if such data were available, the cost calculation would have to take account of such things as whether contracted personnel take workload away from military and government civilian employees in the MTF, whether workload by those military and government civilian providers could reasonably be increased, and whether the contracted providers "churned" workload by providing unnecessary care.

The DHA is exploring the feasibility and cost of developing a new analysis process to calculate the net cost of care provided in MTFs by contracted medical professionals. To be effective, such a process would need to be capable of the following:

a) Integrate information resident in DoD financial, manpower, contracting, and clinical systems to determine the "billable encounter" value of work produced specifically by a contracted health care professional.
b) Reach into the managed care support contractor's database to determine the negotiated cost of care for procedures performed in the geographic region surrounding the MTF.
c) Calculate the difference between the total value of billable encounters and the presumed price of the care in the purchased care system to provide the value of the savings.
d) Account for the "caveats" listed in the previous paragraph.

[4] http://www.health.mil/Reference-Center/Reports/2014/02/25/Evaluation-of-the-TRICARE-Program

E) Metrics to determine the effectiveness of such strategy.

Two types of metrics will determine the effectiveness of the strategy:

a) Internal metrics, such as on-time fill rates, overall fill rates, and turnover rates will determine how well the contractors perform in key staffing areas. These metrics will provide the basis for determining the degree to which contracted health care workers are on-site and performing.
b) External metrics will determine the MHS's compliance with the mandatory sourcing strategy and achievement of small business goals. In addition, savings attributable to consolidation efforts — including rate, demand, and process — will provide feedback for comparison with the DHA Business Case Analysis.

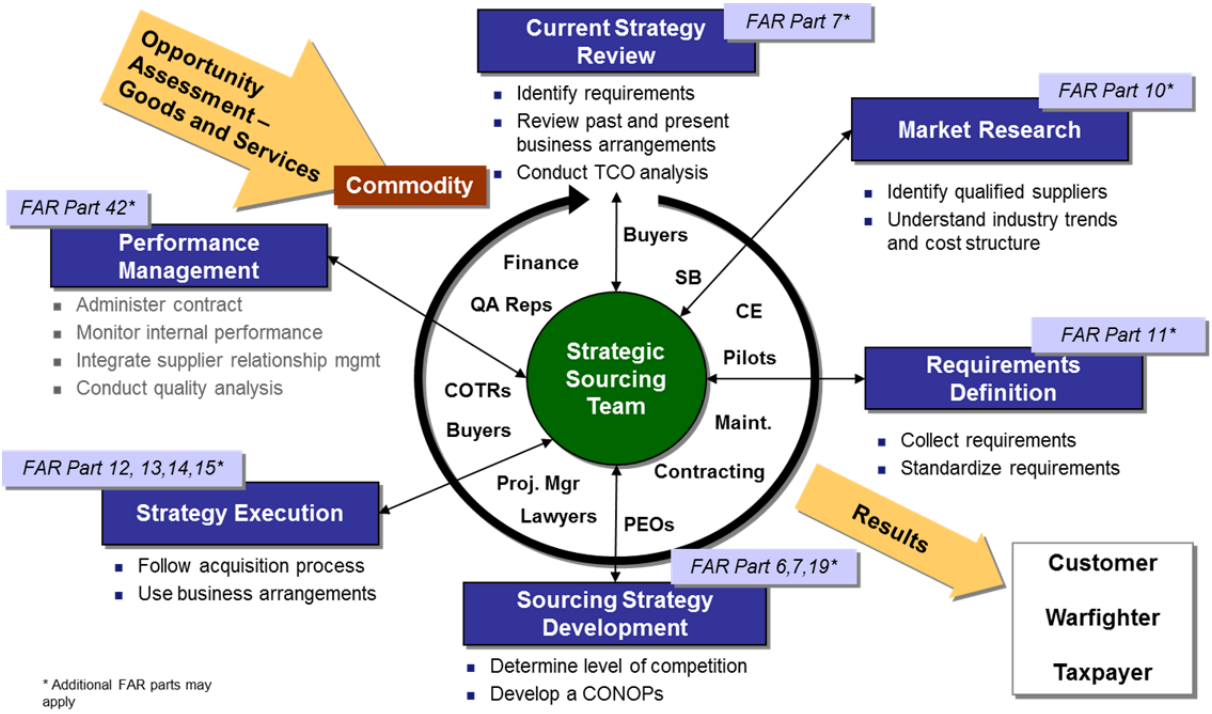
F) Metrics to evaluate the success of the strategy in achieving its objectives, including metrics to assess the effects of the strategy on the timeliness of beneficiary access to professional heath care services in military medical treatment facilities.

There is currently no specific correlation between contracted health professional staffing and beneficiary access. Timeliness of beneficiary access to professional health care services in MTFs is an overarching MHS goal, and the availability of contracted services can impact the timeliness of access. An indirect metric that shows the overall end strength of military, Government civilian, and contractor manning as compared to authorized manning and then correlated with beneficiary access to care metrics could contribute to these goals. In order to create a direct metric, data from the proposed cost savings calculation analysis, discussed above, would have to be correlated directly with MTF access standards.

G) Such other matters as the Secretary considers appropriate.

To date there are no additional matters on which to report.

Appendix A: Department of Defense Strategic Sourcing Model
Department of Defense Strategic Sourcing Framework *



*** Defense Procurement and Acquisition Policy, DoD-Wide Strategic Sourcing Program, Jun 13, p. 9**

Sourcing Model Steps

1- **Form the Team: Leadership involved; charter; stakeholder analysis; communication plan**
2- **Current Strategy Review: Detailed profile; current contracts & performance; risk analysis; document current processes; capture projected requirements; review current policies; spend analysis; define high level desired results**
3- **Market Research: Determine data sources; RFIs; review reports (IBIS World); understand industry trends and market segments; document research**
4- **Requirements Development: Risk analysis; develop objectives; standardize requirements; build requirements roadmap (AART); Develop PWS or SOW; create IGCE; industry days; obtain consensus**
5- **Sourcing Strategy Development: Acquisition strategy; acquisition plan; SSP; draft RFP**
6- **Strategy Execution: Issue RFP; source selection; finalize QASP; award contract; post award conference**
7- **Performance Management: Ordering guide; transition plan; manage program; quarterly reviews**

Appendix B – IPT Structure

Medical Q-coded Services (MQS) Integrated Product Team (IPT)