



PERSONNEL AND
READINESS

UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

JAN 11 2018

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 727 of the National Defense Authorization Act for Fiscal Year 2017 (Public Law 114-328), which requires the Secretary of Defense to report on the status of the acquisition strategy for health care services at military treatment facilities (MTF). The Defense Health Agency and Military Departments are committed to implementing the acquisition strategy; establishing policy for use and MTF waivers.

The enclosed report documents the progress of implementing the acquisition strategy and discusses how the strategy can be used to meet key objectives of the statute. The report explains how the acquisition strategy is impacted by workload gaps and details the systems that will be used to analyze the amount of funds expended on contracts for the services of health care professional staff. Finally, the report discusses methods and measures that will be used to assess the acquisition strategy's effectiveness on beneficiary access.

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 Chairman of the House Armed Services Committee.

Sincerely,

A handwritten signature in cursive script that reads "Robert L. Wilkie".

Robert L. Wilkie

Enclosure:
As stated

cc:
The Honorable Jack Reed
Ranking Member



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

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Robert L. Wilkie

Enclosure:
As stated

cc:
The Honorable Adam Smith
Ranking Member

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*



Report on Section 727 of the National Defense Authorization Act for Fiscal Year 2017 (Public Law 114-328)

Status of Implementing the Acquisition Strategy for Health Care Professional Staffing Services

The estimated cost of this report or study for the Department of Defense (DoD) is approximately \$15,000.00 for Fiscal Year 2017. This includes \$0.00 in expenses and \$15,000.00 in DoD labor.

**Report on the Status of Implementing the Acquisition Strategy for
Health Care Professional Staffing Services**

CONTENTS

INTRODUCTION	1
EXECUTIVE SUMMARY	1
BACKGROUND	1
REQUIREMENTS FOR THE STRATEGY	3
IMPLEMENTATION ELEMENTS ADDRESSED BY THE MQS ACQUISITION STRATEGY	5
CONCLUSION	8
APPENDICES	9
APPENDIX A. REFERENCES	A-1
APPENDIX B. ACRONYMS	B-1
APPENDIX C. DEFINITIONS	C-1

INTRODUCTION

This report is in response to section 727 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2017 (Public Law 114–328), which requires the Secretary of Defense to submit to the Committees on Armed Services of the House of Representatives and the Senate the status of implementing a “performance-based, strategic sourcing acquisition strategy” with respect to entering into contracts for the services of health care professional staff at military medical treatment facilities (MTFs). This report is submitted in fulfillment of that requirement, with the participation of the Military Departments (MILDEPs), Office of the Secretary of Defense, the Defense Health Agency (DHA), and other elements of the Department of Defense (DoD).

EXECUTIVE SUMMARY

This report documents the Department’s progress on developing an overarching strategy for managing the utilization of health care professional staffing services contracts as well as its progress in implementing the acquisition strategy that is specific to establishing a strategic contract vehicle for the acquisition of such services (called the “Medical Q Services,” or MQS, acquisition).¹ The report discusses how the overarching strategy and the MQS acquisition strategy will be used to meet key objectives of the statute. The report explains how the MQS acquisition strategy is impacted by workload gaps, including those introduced by section 704 of the NDAA for FY 2017, primary, and expanded-hours urgent care services. The report details systems that will be used to analyze the amount of funds expended on contracts for the services of health care professional staff and how the new acquisition strategy (and the MQS contract vehicle) intends to improve the level of detail of these data. The report also specifies a method to assess whether using internal contracts (versus purchased care) results in cost savings. Finally, the report documents metrics that will be used to measure the acquisition strategy’s effectiveness on improving beneficiary access to care in the MTFs.

BACKGROUND

Section 727 of the NDAA for FY 2017 follows recommendations for improvements to the acquisition of health care professional staff in MTFs. As identified by the Government Accountability Office (GAO), the DoD does not have a consolidated, Military Health System (MHS)-wide strategy for contracted professional medical services inside MTFs. Contracting for health care professional staffing services is fragmented, and differences in processes and requirements make cost comparisons problematic.

This report fulfills the requirement to report on the status of implementing an MHS enterprise acquisition strategy for acquiring health care professional staffing services in U.S.-based (and territories) facilities. The Department considers the section 727 requirement to be broader than developing an “acquisition strategy,” as that term is used in the Federal Acquisition Regulation, to govern how the MHS contracts for health care professional staffing services. Rather, the Department understands its task of developing an overarching strategy for managing all aspects

¹ Category Management in the Federal Government places medical services under Product Service Code (PSC) Q. MQS includes PSCs Q201 General Health Care, Q401 Nursing and Q501-527 Medical/Dental/Surgical services.

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*

of the direct care system's utilization of health care professional staffing services. This task is consistent with the authorities granted to the DHA under Department of Defense Directive (DoDD) 5136.13, *Defense Health Agency*,² and with the DHA's increased management responsibilities outlined in section 702 of the NDAA for FY 2017 (which takes effect no later than October 1, 2018). Notably, among the authorities granted under DoDD 5136.13 was the authority to exercise "management responsibility for shared services, functions, and activities in the MHS," which includes "acquisitions" and "other common business [processes]."

Accordingly, this report addresses both the Department's on-going efforts to develop and implement an acquisition strategy for acquiring health care professional staffing services via contract, as well as its efforts to establish an overarching strategic approach for managing the direct care utilization of these services (as a function of managing acquisitions and common business processes within the MHS). Overseas facilities are not included in this report due to unique host-country agreements and laws governing contractors overseas, which do not allow for comparison costs of U.S.-based services contracts.

Over the past several years, the DHA and the MILDEPs have spent significant time and effort to develop an acquisition strategy tailored to establishing strategic contract vehicles for acquiring health care professional staffing services. As reported to Congress and the GAO, DHA formed an integrated product team (IPT) in June 2014, made up of DHA and MILDEP medical service representatives. The team reviewed requirements from current and previous staffing services contracts and awarded a single clinical services strategic contract vehicle (multiple-award Indefinite Delivery, Indefinite Quantity contract) from which the DHA and the MILDEPs will staff health care professionals in MTFs. In accordance with the IPT charter, the requirements were reviewed by the appropriate MHS senior leadership councils before the DHA initiated the contract solicitation process.

The IPT conducted exhaustive market research, which included issuing three industry surveys. Industry comments on the requirements were favorable, resulting in an acquisition program set aside for small business valued at \$7.5 billion over five years. Additionally, the IPT worked with The Joint Commission (TJC), the MTF accrediting agency, to integrate 23 standards from the TJC Health Care Staffing Services Certification into the requirement in accordance section 732 of the NDAA for FY 2007.

The acquisition strategy for MQS, which provides services within the 50 United States, the District of Columbia, Guam, and Puerto Rico, was approved by the Under Secretary of Defense for Acquisition, Technology, and Logistics' office of Defense Procurement and Acquisition Policy (DPAP) on August 5, 2016. The goals of the strategy, which align with section 727 of the NDAA's aim of establishing an enterprise approach for managing the utilization of contracted healthcare professional services in the direct care setting are to: a) standardize requirements based on commonality across the MILDEPs, i.e., skills, certifications, etc.; b) adopt best business processes, i.e., standardize full-time equivalent (FTE) hours; and c) gain cost efficiencies, i.e., reduce redundant task orders requirements in multi-service markets. The Department recognizes the development of a contract does not change MHS buying behaviors, and enterprise-wide

² The Deputy Secretary of Defense issued DoDD 5136.13 on September 30, 2013.

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*

policies for managing the utilization of these services will be required to drive further market-oriented business efficiencies into the system. Elements of the DHA's efforts to implement such an approach are discussed below.

The MQS acquisition strategy is performance-based in that it requires staffing vendors to meet critical performance objectives. The IPT identified four performance measures, called key performance parameters (KPPs), which are critical for the MQS acquisition to succeed: 1) overall fill rate; 2) on-time fill rate; 3) turnover rate; and 4) replenish rate. The IPT created minimum acceptable quality levels for performance of each of the metrics.

After obtaining DPAP approval of the acquisition strategy, the IPT designed a request for proposal (RFP) that is anticipated to award to the best vendors in each of four market segments: physician, nurse, dental and ancillary. The RFP was designed using an innovative, best value technique pioneered by the General Services Administration to award the One Acquisition Solution for Integrated Services and Alliant 2 acquisitions, adapted for medical use. The IPT conducted an industry day and again received favorable comments on the draft RFP. The final RFP was peer reviewed by the DPAP and released January 10, 2017, and the contract was awarded October 23, 2017. Contract performance metrics will start immediately after award of subsequent orders for services; however, effectiveness metrics associated with potential cost savings are not estimated to be available until the first quarter FY 2019.

REQUIREMENTS FOR THE STRATEGY

The DoD is committed to improving how it manages and acquires health care professional staffing services for its MTFs. Section 727 of the NDAA for FY 2017 requires the DoD to establish a common set of mandatory-use professional staffing contracts for all MTFs that provide direct care, and a process by which the MILDEPs may request a waiver in order to use an alternate strategy. The DoD is progressing toward satisfying these requirements with its MQS contract. Moreover, the MQS contract will satisfy, in part, other required high-level strategy elements described in section 727(a)(2) --- for example, by providing a mechanism to analyze the amount of funds expended on contracts for professional staff (section 727(a)(2)(F)) and a method for identifying opportunities to consolidate requirements and reduce costs (section 727(a)(2)(G)). Further examples are addressed below. The DoD will more fully satisfy section 727's strategic elements upon implementing its overarching strategy/construct for managing the direct care system's utilization of health care professional staffing services.

The DHA's approach for strategically managing the utilization of contracted health care professional staffing services, at an enterprise level, will include the following elements:

(1) Modifying the existing DHA Procedural Instruction 6025.05³ to require the MILDEPs to use DHA contracts to satisfy all personal service contract requirements for healthcare professionals.

³ Personal Services Contracts (PSCs) for Health Care Providers (HCPs), dated October 11, 2016.

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*

(2) Gaining/maintaining visibility of contracted health care professional staffing across the MHS.

Currently, MTFs obtain the services of contracted health care professionals, on both a personal services and non-personal services⁴ basis, through a variety of contract vehicles. Although implementation of the MQS Acquisition Strategy will ultimately drive most contract actions for healthcare provider services to the DHA's contract vehicle, as noted above, this will take time. The DHA has not established a management process to obtain visibility over all contracted professional medical services used by the MILDEPs. The DHA has visibility of (and execution authority over) all Clinical Support Agreements (CSA)⁵ actions as well as visibility of all contract actions in support of MTFs in the National Capital Region (NCR). The DHA will use its existing authority to collect detailed utilization data regarding personal services contracts from the MILDEPs.

(3) Assessing the current level of contractor staffing at the MTFs and using business processes and demand management practices to level contract support across the MTFs:

The DHA intends to employ a market-based approach⁶ wherever practicable, while also accounting for MILDEP readiness requirements, to identify the most appropriate means of satisfying the demand for healthcare services within a market. The market manager can then allocate contracted health care provider positions by practice area and skill set in a manner consistent with the market plan. This would entail shifting responsibility of contracted healthcare providers from the MTFs to market managers who will also have visibility over military (readiness) and civilian (enduring) professional medical services assets. For example, within a market, the DHA might contract for nursing or physician services on a consolidated basis which would allow the market manager to allocate health care professionals to the MTFs where their services would best be integrated with available Government staff based on patient demand. Alternatively, the DHA, through a market manager, may determine that directing beneficiaries with certain types of health care needs to the managed care network (rather than meeting the need with contracted healthcare providers) may be the most cost effective and appropriate means of providing care.

⁴ Although obtaining professional healthcare staff on a personal services basis is the DoD's preferred approach, MTFs are authorized to obtain such services on a non-personal services basis. This practice is often employed when MTFs need the services of specialists (orthopedists, cardiologists, etc.) who typically demand salaries exceeding the compensation cap provided at 3 U.S.C. §102. Pursuant to 10 U.S.C. §1091, compensation paid to individuals working under personal services contracts may not exceed the 3 USC §102 compensation cap. Therefore, absent a legislative change to title 10 U.S.C. §1091, contracting for certain healthcare provider services will occur outside of the DHA's MQS contracts.

⁵ MTFs currently utilize Clinical Support Agreements issued under the umbrella of the TRICARE Managed Care Support Contracts to obtain staffing services.

⁶ In order for the DHA to most effectively manage the markets to satisfy the demand for healthcare services through the proper allocation of health care professional services (military, civilian, and contractor), it will collaborate closely with the Military Departments to establish an objective, workable methodology for quantifying and measuring "readiness."

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*

(4) Limiting use of CSAs as a means of satisfying requirements for personal services healthcare providers:

CSAs offer the ability, through the Managed Care Support Contractors (MCSCs), to provide services internal or external to MTFs. CSAs that directly compete with the MQS requirements for personal services healthcare providers will be phased out.

Implementation of these strategy elements will give the DHA the tools it needs to analyze the funds expended on contracts for the services of health care professional staff (section 727(a)(2)(G)), identify opportunities to consolidate requirements for such services (section 727(a)(2)(H)), assess whether cost savings are realized by using such contracts rather than purchased care (section 727(a)(2)(I)), and develop metrics to evaluate the success of the strategy in achieving the objectives relating to improving beneficiary access to professional health care services at MTFs (section 727(a)(2)(J)).

IMPLEMENTATION ELEMENTS ADDRESSED BY THE MQS ACQUISITION STRATEGY

- (A) MTF use of the contract process: The requirement for directed use of the MQS contracts for professional medical services will be issued by the DHA. The DHA, using its authority for personal services contracts pursuant to DHA Procedural Instruction 6025.05, will require all MTFs to use the new MQS contract unless a waiver is obtained. The MTFs will not immediately convert existing work to the new contract because changing service contracts may cause disruption to patient care. Accordingly, the policy(s) will require the MTFs/MILDEPs to convert to using the new contract within three years. Therefore, the DoD anticipates that the majority of contracted health care professional staff will be awarded using the MQS contract, except those that have waivers, within the next three years. The DHA will pilot an approach in the NCR that will consolidate the professional staffing services at the market level to obtain lessons learned and to inform the policies needed to execute an integrated staffing model across the MHS. The DHA will update its procedural instruction to reflect this strategy by incorporating language requiring the use of DHA contracts to satisfy all personal services healthcare provider requirements.
- (B) MTF Waiver process: Waiver processes will be issued by the DHA. The DHA Director will delegate waiver authority to the Component Acquisition Executive. Tracking of waivers will enable the Department to measure and report the cost and impact of alternative business arrangements and to meet the requirements in paragraph (F) below. The MHS will use the waived contract data to process reports to stakeholders and improve the strategy in accordance with High Reliability Organization (HRO) processes.
- (C) Responsibilities of the MILDEPs: The MILDEPs will order services and conduct business operations through their Service contracting offices with the DHA providing access to contract data and comparison data from purchased care.

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*

The DHA will provide ordering guides and tools to collect data resulting from the orders under the MQS contract to consolidate into reports to stakeholders. The DHA will use these data, along with data from the purchased care system, to compare the workload from providers to costs of care in the local markets (see (H)) and calculate other required metrics.

- (D) Projection of the demand by covered beneficiaries: The transition on January 1, 2018, to TRICARE Select will provide a complete view of both prime enrollees to the MTF or MCSC and TRICARE Select enrollees. This view allows the DHA, working through the Component Commands and with the MTFs, to determine the population demand for clinical services in their respective markets. Historical enrollee utilization in that market would inform the planning for specific demands in primary care accounting for demographic differences. The expanded hours for urgent care services, nurse advice line, and access to commercial urgent care clinics should offset some of the demand, and will differ between markets. Market and MTF performance plans focusing on readiness, quality, access and productivity will determine the optimal methods to meet the enrolled population's demand.
- (E) Estimation of the workload gaps at MTFs: The market and MTF performance plans are based on the medical readiness requirements defined by the MILDEPs. The Services will assign military medical forces to the MTFs based on those requirements. The DHA will identify the specific patient case mix required to maintain medical skills based on the readiness requirements. MTF performance plans will determine the proper mix of military, civilian, and contract staff based on enduring versus short-term requirements. Contract staff are best utilized to address short-term workload gaps that vary over time as defined by the market and MTF performance plans. Contract staff also address MTF gaps due to Active Duty deployments or hard to fill staffing requirements. The DHA will integrate the direct care (MTF) and purchased care (MCSC) capabilities to best balance readiness requirements of the Services with the enrollees access to care and patient experience requirements, while meeting both. MTF performance plans will identify primary care workload gaps based on the medical forces and civilian staff assigned to the MTF. Gaps may be covered by contract staff or through the MCSC.
- (F) Methods to analyze funds expended on direct care contracts for the services of health care professional staff: The Federal Procurement Data System (FPDS) is a reliable method for measuring the funds expended on contracts for the entire direct care component of the MHS including MQS and waived contracts. Additional cost data for individual labor categories are available to the MILDEPs through various databases or through the contracts themselves.

To improve the efficiency of gathering pricing and other data, on orders under the MQS contract, the IPT designed a deliverable to collect more detailed data than available in FPDS. The data will be collected and processed by the MQS program management office and shared with stakeholders to ensure KPPs are met, identify where contract labor is used, and what it costs.

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*

- (G) Methods to identify opportunities to consolidate requirements and reduce cost: The DHA has an active Enterprise Support Activity that works together to provide oversight of the health care professional services market. Opportunities exist to work collaboratively across the 12 multi-service health care markets to consolidate requirements. If the market-based order on the MQS contract is less expensive or more efficient than individual contracts, the individual contracts may be replaced at the end of their option periods.

Specific to the MQS contract, the DHA plans to employ an ordering portal to initiate, standardize and, when appropriate and possible, consolidate orders in markets. The ordering portal will promote standardization and help to reduce costs by providing ordering offices with access to the contract requirements in a standardized format.

- (H) Methods to measure cost savings by using contracts instead of purchased care: There is currently no direct comparison between the cost of an individual provider in an MTF and the price paid for the same service through purchased care. The DHA will begin developing tools to make such a comparison by developing break-even costs by specialty, such as the maximum fully-loaded contract cost/FTE⁷ that would be likely to yield, on average, a positive return on investment. This method has some flaws, e.g., variation in regional pricing for contract providers and availability of military physicians. It also assumes a similar utilization of high cost diagnostics and therapeutics and subsequent clinical outcomes. However, it provides a reasonable starting point to measure cost savings and is part of a broader picture supporting the requirements in other sections of the NDAA for FY 2017 (such as 725 and 703).

- (I) Metrics to determine the effectiveness of the strategy: The DHA and the MILDEPs developed four KPPs to assess the effectiveness of the acquisition strategy, such as overall fill rate, on-time fill rate, turnover rate, and replenish rate. Filling positions with qualified individuals is of critical importance to the MILDEPs. No calculations, cost savings, access or otherwise, can be completed if positions are vacant.

Another metric is the percentage of spending using the MQS contract as compared to Q services not on the MQS contract. This metric will be calculated by the DHA using the FPDS. As stated in paragraph (A), the relative success of the acquisition strategy will depend on ongoing transition of existing work into the MQS contract and avoiding impact to patient care.

The acquisition strategy for health care professional staffing services in MTFs requires a close integration between contracted and government personnel. Therefore, the contract uses authority for personal services as authorized under title 10, U.S. Code, section 1091. Contracted health care workers (HCWs) are required to meet productivity standards and are measured against similarly performing personnel at the MTF-level at the task order level. Similarly, quality metrics of individual HCWs are authorized to be included in each order for services.

⁷ A fully-loaded contract cost includes direct costs directly related to execution of a function (e.g., salary, materials, facility, or infrastructure), plus the application of indirect costs that are not directly related to the execution of the function but generally support the function (e.g., administration, overhead, supporting personnel, or security).

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*

Waivers to using the MQS contract will not be seen as exemptions or excuses for non-use but rather opportunities to improve the program. Data collected from any waiver in paragraph (B) will inform the DHA where the acquisition strategy needs to be continuously improved.

- (J) Metrics to evaluate the success of the strategy including access to care: The DHA produces reports through the TRICARE Operations Center (TOC) that enable the MTFs to assess the effects of the strategy on the timeliness of beneficiary access to health care services. The “3rd next available appointment” is a nationally recognized metric that measures the ability of patients to access a clinic. The TOC provides the 3rd next available metric to MTFs daily for primary care on multiple appointment types.

A second metric is the number of specialty referrals to purchased care. The TOC provides this metric through the Access to Care Summary. Adding qualified contracted physicians to MTFs decreases the number of referrals to purchased care. New metrics to measure beneficiary access to care continue to evolve through the MHS Partnership for Improvement dashboard.

The DHA produces reports through the MHS dashboard that may enable the MHS to assess the effects of the acquisition strategy on patient satisfaction. The “Outpatient Get Care Where Needed” metric is a quarterly report that assesses whether a patient is able to see his/her provider when needed. Out of all the questions on the satisfaction survey, this metric has the strongest relationship to overall patient satisfaction and satisfaction with access to care. The data, reported at the MTF level, would indirectly include the impact of contracted health care professional staff. The “Inpatient Recommend Hospital” metric measures patients’ perception of the quality of care provided in the MTFs. The DoD uses the same questions and methodology as the Centers for Medicare and Medicaid Services’ Hospital Consumer Assessment for Healthcare Providers and Systems tool. The metric is also at the MTF level and is indirectly affected by use of contracted health care staff.

The success of the acquisition strategy may be evaluated by comparing the differences in these and other available access to care measures pre- and post-implementation.

- (K) Such other matters as the Secretary considers appropriate: There are no additional matters to report at this time.

CONCLUSION

The implementation process of a performance-based strategic sourcing acquisition strategy for health care professional staffing services in MTFs, and an overarching strategic approach for utilizing these contracted services, is ongoing. The goal of the acquisition strategy is to improve contracted staffing services with subsequent improvements in critical outcomes within the MHS. The DHA is committed to implementing the new MQS contract; establishing policy for use and MTF waivers. The acquisition strategy will continue to improve through measures aimed to provide feedback as a function of the MHS journey toward becoming an HRO.

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*

APPENDICES

Appendix A. References

Appendix B. Acronyms

Appendix C. Definitions

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*

APPENDIX A. REFERENCES

DoDD 5136.13 “Defense Health Agency (DHA),” September 30, 2013

DHA Procedural Instruction 6025.05 “Personal Services Contracts for Health Care Providers (HCP),” October 11, 2016

General Accountability Office, “Department of Defense Needs a Strategic Approach to Contracting for Health Care Professionals,” GAO-13-322, May 2013

General Services Administration, “Product and Service Code Manual,” August 9, 2015

*Acquisition Strategy for Health Care Professional Staffing Services,
as Directed by the Fiscal Year 2017 NDAA Section 727*

APPENDIX B. ACRONYMS

CSA	Clinical Support Agreement
DHA	Defense Health Agency
DoD	Department of Defense
DoDD	Department of Defense Directive
DPAP	Defense Procurement and Acquisition Policy
FPDS	Federal Procurement Data System
FTE	Full Time Equivalent
FY	Fiscal Year
GAO	General Accountability Office
HCW	Health Care Worker
HRO	High Reliability Organization
IPT	Integrated Product Team
KPP	Key Performance Parameter
MCSC	Managed Care Support Contractor
MHS	Military Health System
MILDEP	Military Department
MTF	Military Treatment Facility
MQS	Medical Q Services
NCR	National Capital Region
NDAA	National Defense Authorization Act
PSC	Product Service Code
RFP	Request for Proposal
TJC	The Joint Commission
TOC	TRICARE Operations Center

APPENDIX C. DEFINITIONS

On-Time Fill Rate: The on-time fill rate measures the percentage of FTEs filled by the required start date.

Overall Fill Rate: The overall fill rate measures the percentage of positions staffed.

Replenish Rate: The replenish rate is a measure of how well assigned positions remain filled.

Turnover Rate: The turnover rate measures the percentage FTEs that left a position requiring another fill by the contractor.