

GAO

Report to the Chairman, Subcommittee  
on Military Forces and Personnel,  
Committee on Armed Services,  
House of Representatives

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October 1994

# VA/DOD HEALTH CARE

## More Guidance Needed to Implement CHAMPUS-Funded Sharing Agreements







United States  
General Accounting Office  
Washington, D.C. 20548

**Health, Education, and  
Human Services Division**

B-254207

October 28, 1994

The Honorable Ike Skelton  
Chairman, Subcommittee on Military  
Forces and Personnel  
Committee on Armed Services  
U.S. House of Representatives

Dear Mr. Chairman:

By its enactment of Public Law 97-174 in 1982, the Congress authorized and encouraged the Department of Defense (DOD) and the Department of Veterans Affairs (VA) to enter into resource-sharing agreements to exchange hospital and other services. As of the end of fiscal year 1993, 332 military and VA hospitals, using hospital operating funds, had entered into about 600 agreements representing about 3,500 shared services.

To improve efficiency and access to care in the DOD and VA health care systems, the Congress also enacted additional legislation in 1989 and 1992. This legislation authorizes the use of Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) funds to reimburse the VA for providing health care services to CHAMPUS beneficiaries. It also authorizes VA to treat all categories of CHAMPUS beneficiaries.<sup>1</sup> This report responds to your request that we determine the extent to which CHAMPUS funds are being used for health care resource-sharing agreements both inside and outside catchment areas.<sup>2</sup>

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## Results in Brief

In February 1994, after nearly 3 years of negotiation, VA and DOD agreed on a framework for VA to treat CHAMPUS-eligible beneficiaries and receive reimbursement from CHAMPUS funds. Implementation of CHAMPUS/VA sharing agreements has been delayed because of disagreements between DOD and VA over VA hospital requirements. DOD wanted VA hospitals to be subject to the same requirements as civilian hospitals under CHAMPUS. Disagreements continued until the Chairman, House Committee on Veterans' Affairs, intervened. As a result of this intervention, the first sharing agreement using CHAMPUS funds to buy VA services in noncatchment areas was signed

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<sup>1</sup>CHAMPUS helps pay for medical care provided its beneficiaries by civilian hospitals, physicians, and other civilian providers. Beneficiaries are dependents of active-duty members, retirees and their dependents, and dependents of deceased members of the Air Force, Army, Marine Corps, Navy, Coast Guard, and Commissioned Corps of the Public Health Service and the National Oceanic and Atmospheric Administration.

<sup>2</sup>A catchment area comprises generally a 40-mile radius around a military treatment facility.

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by DOD and the Asheville, North Carolina, Veterans Affairs Medical Center (VAMC) officials. Although the Asheville VAMC began treating CHAMPUS patients in February 1994, neither DOD nor VA has conducted a systemwide search to identify other opportunities for sharing agreements.

Within catchment areas, we found that DOD hospital commanders have not used CHAMPUS funds for sharing agreements between their hospitals and VA hospitals and, consequently, potential sharing opportunities have been missed. According to Defense health officials, this situation exists because the commanders are unclear about their authority to do so. To correct this situation, DOD needs to clarify the authority of DOD hospital commanders to propose sharing agreements using CHAMPUS funds, and it needs to provide instructions on developing and implementing such agreements.

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## Background

In 1982, the Congress enacted The Veterans' Administration and Department of Defense Health Resources Sharing and Emergency Operations Act (Public Law 97-174) to promote greater sharing of health care resources and thus achieve greater efficiencies in the DOD and VA health care systems. One of the main objectives of this legislation was to reduce the costs of operating those systems by minimizing duplication and underuse of health care resources. Under this legislation, the DOD and VA entered into health care resource-sharing agreements, which allowed active-duty and eligible former service members to receive care in VA hospitals and vice versa. However, legislation did not provide for the use of CHAMPUS funds to reimburse VA under sharing agreements nor permit VA to treat dependents of active-duty and eligible former members.

In a 1988 GAO report,<sup>3</sup> we recommended that the Congress enact legislation specifically authorizing (1) the use of CHAMPUS funds to purchase care for CHAMPUS beneficiaries from VA medical centers and (2) the treatment of all categories of dependents at VA hospitals. Legislation accomplishing these two purposes was passed in 1989 and 1992, respectively.

Under health resource-sharing agreements using CHAMPUS funds, CHAMPUS beneficiaries can receive services from the VA in noncatchment areas through authority provided in sharing agreements between DOD and VA headquarters officials and in catchment areas through local agreements between military hospital commanders and the VA medical center directors subject to headquarters approval. These agreements offer DOD the

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<sup>3</sup>VA/DOD Health Care: Further Opportunities to Increase the Sharing of Medical Resources (GAO/HRD-88-51, Mar. 1, 1988).

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potential for (1) saving CHAMPUS funds because DOD will reimburse VA less than what it pays the private sector for similar services and (2) improving access to services for their beneficiaries. The VA can benefit by using the extra revenue generated from CHAMPUS funds to improve services to veterans.

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## Scope and Methodology

The information we developed for this report came from three sources: (1) a review of sharing legislation; (2) an examination of the various drafts of the CHAMPUS/Asheville VAMC sharing agreement, the DOD/VA memorandum of understanding, and related documents; and (3) discussions with DOD and VA officials responsible for the sharing program. The discussions focused on the reasons for delays in developing CHAMPUS/VA sharing agreements and in using CHAMPUS funds for sharing agreements between military hospitals and VA hospitals.

We performed this work at the Office of the Assistant Secretary of Defense (Health Affairs) and VA headquarters in Washington, D.C.; the U.S. Army Medical Command (a component of the Army Surgeon General's office) in San Antonio, Texas; CHAMPUS headquarters in Aurora, Colorado; and the Asheville VAMC (because it was negotiating the first CHAMPUS/VA sharing agreement). We supplemented these visits with telephone discussions with officials from the Air Force Surgeon General's office and the Navy Bureau of Medicine (Surgeon General's office) in Washington, D.C.

We did our work from August 1993 to September 1994 in accordance with generally accepted government auditing standards.

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## Disagreements Between DOD and VA Delayed Noncatchment Area CHAMPUS/VA Sharing Implementation

Differences between DOD and VA over provisions of a memorandum of understanding and the CHAMPUS/Asheville VAMC sharing agreement prevented CHAMPUS beneficiaries from receiving services in VA hospitals in noncatchment areas through the use of CHAMPUS funds. The differences over sharing provisions arose shortly after the passage of the 1989 legislation authorizing the use of CHAMPUS funds for treatment in VA hospitals and they continued throughout most of 1993.

Due in large part to the intervention of the Chairman, House Committee on Veterans' Affairs in October 1993, DOD and VA resolved their differences. Both parties signed (1) a sharing agreement in December 1993 to treat CHAMPUS-eligible beneficiaries in the Asheville VAMC and (2) a memorandum of understanding in February 1994 providing an overall framework for

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future CHAMPUS/VA health care resource-sharing agreements. The differences between DOD and VA centered mainly on whether VA's hospitals would be treated more as military hospitals or as CHAMPUS civilian providers. These differences led to many revisions of the agreement.

More specifically, according to VA officials, DOD wanted VA hospitals to follow CHAMPUS procedures for seeking reimbursement by filing claims with CHAMPUS fiscal intermediaries and collecting copayments and deductibles from beneficiaries. Also, DOD wanted to use its own payment methodology, the diagnosis related group system, for reimbursing VA hospitals for the care they provided. Further, DOD wanted VA to adhere to CHAMPUS standards for utilization review and quality assurance.

VA, on the other hand, wanted its hospitals to be treated as military hospitals, which have no copayments and deductibles. VA also wanted to bill the military services directly and not use fiscal intermediaries, and it wanted to bill CHAMPUS on a per diem system rather than the diagnosis related group system. In addition, VA wanted to use its own utilization management and quality review systems.

During 1993, the two agencies exchanged several proposals, and, at one point, it appeared that they had reached an agreement. In fact, representatives from the Asheville VAMC and DOD signed a sharing agreement in July 1993. However, DOD subsequently rescinded the agreement because, according to DOD health officials, the person signing for DOD did not have the authority to do so. It was not until the Chairman, House Committee on Veterans' Affairs, called a meeting of DOD and VA officials in October 1993 and expressed frustration with the delays that any substantive progress occurred.

By December 23, 1993, both DOD and VA had signed the CHAMPUS/Asheville VAMC sharing agreement, and the Asheville VAMC began treating CHAMPUS patients in February 1994. Under the agreement, the Asheville VAMC is treated as a CHAMPUS provider instead of a direct care provider; it collects CHAMPUS copayments and deductibles, and it bills through CHAMPUS fiscal intermediaries. CHAMPUS reimburses claims submitted by the Asheville VAMC for hospital inpatient charges at a 5-percent discount off the amount payable to civilian providers under the CHAMPUS diagnosis related group-based payment system; it will reimburse professional services claims at a 5-percent discount off the CHAMPUS maximum allowable charge. Although the Asheville VAMC will maintain a utilization review and quality

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assurance system, it will also be subject to CHAMPUS utilization review and quality assurance requirements.

By February 3, 1994, both DOD and VA had signed a memorandum of understanding establishing a general policy and framework for subsequent CHAMPUS/VA health care resource-sharing agreements. To date, however, neither DOD nor VA has conducted a systemwide search to identify noncatchment areas with VA hospitals where sharing agreements can be implemented. Although a July 1994 VA directive encouraged its medical centers to take advantage of the opportunity to treat CHAMPUS beneficiaries, DOD officials told us that they will wait and see how the CHAMPUS/Asheville VAMC agreement fares before entering into additional sharing agreements.

As of July 1994, DOD and VA were also developing a memorandum of understanding to establish policies and guidelines for VA to provide services to CHAMPUS beneficiaries in areas of the country where DOD has contracted with private companies to manage CHAMPUS beneficiaries' health care. This particular memorandum of understanding would permit DOD contractors to contract with VA health care facilities. VA signed the memorandum of understanding in May 1994 and sent it to DOD for review. As of July 1994, the Office of the Assistant Secretary of Defense (Health Affairs) was reviewing it.

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## CHAMPUS Funds Have Not Been Used for Catchment Area Sharing Agreements Between Military Hospitals and VA Hospitals

In addition to the delay in implementing CHAMPUS/VA sharing agreements in noncatchment areas, such as Asheville, North Carolina, military hospital commanders in DOD catchment areas have not proposed using CHAMPUS funds for sharing agreements between their hospitals and VA hospitals. The commanders have not proposed using CHAMPUS funds for buying VA services through sharing agreements because they have been unclear about the interagency sharing program and their roles and authorities under it.

The military services allocate CHAMPUS funds to military hospital commanders who are responsible for managing the care of all CHAMPUS beneficiaries in their catchment areas. The Army began allocating CHAMPUS funds to its hospitals in fiscal year 1992 and, in fiscal year 1993, expanded the allocations to all its U.S. hospitals except for three in California and one in Hawaii.<sup>4</sup>

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<sup>4</sup>These hospitals were participating in a managed care demonstration project, known as the CHAMPUS Reform Initiative, that DOD conducted in the two states.

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In fiscal year 1994, Army hospitals were allocated about \$540 million in CHAMPUS funds. The Air Force and Navy began allocating CHAMPUS funds to their hospitals in fiscal year 1994 when the Air Force allocated \$476 million and the Navy allocated \$356 million.

Hospital commanders may use these funds to enhance and expand services available to CHAMPUS beneficiaries in their hospitals or to purchase services from outside providers, including sharing with VA.<sup>5</sup> The intent is to use CHAMPUS money in the most cost-effective manner. However, all three services told us that their hospital commanders have not used any CHAMPUS funds for sharing agreements with VA. Further, as in noncatchment areas, DOD and VA have not done a comprehensive search of locations where sharing agreements using CHAMPUS funds can be implemented.

Officials from the military services and the Office of the Assistant Secretary of Defense (Health Affairs) stated that military hospital commanders have the authority to submit proposals for using CHAMPUS funds for sharing agreements between their hospitals and VA hospitals if they so choose. However, these officials also said that, while no restrictions exist against using CHAMPUS funds for such sharing, neither do instructions exist for using CHAMPUS funds for such sharing. Further, these officials stated that military hospital commanders do not understand that they can propose using CHAMPUS funds for sharing agreements.

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## Conclusions

Both DOD and VA can benefit from sharing agreements between CHAMPUS and VA hospitals and also between military and VA hospitals. Implementation of the sharing agreements, however, was delayed by the inability of DOD and VA officials to agree on sharing provisions and procedures. Also, DOD and VA have not engaged in a systemwide identification of sharing opportunities using CHAMPUS funds.

With the overall memorandum of understanding in place and the first CHAMPUS/VA sharing agreement signed, the necessary structure now exists for further sharing agreements. To take advantage of sharing benefits, we believe DOD must make its hospital commanders more aware of their authority to propose using CHAMPUS funds to buy VA services. Additionally, DOD should provide guidance to military hospital commanders on how to develop and implement sharing agreements.

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<sup>5</sup>For example, in fiscal year 1993, the Army used about \$38 million in CHAMPUS funds for projects to treat more CHAMPUS beneficiaries in their hospitals.

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## Recommendations

We recommend that the Secretary of Defense direct the Assistant Secretary of Defense (Health Affairs) and the military services

- to fully inform and explain to military hospital commanders the authority to propose using CHAMPUS funds for sharing agreements with VA and their roles and authorities under this program,
- to provide specific instructions on developing and implementing such agreements, and
- to identify sharing opportunities in which CHAMPUS funds can be used to buy available VA services.

Similarly, we recommend that the Secretary of Veterans Affairs direct VA medical center directors to actively identify available VA services that may be candidates for sharing agreements with DOD and to communicate such information to the relevant DOD hospital commander.

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## Agency Comments

DOD and VA provided written comments on a draft of this report (apps. I and II). DOD agrees that the sharing of health care resources between the DOD and VA is a worthwhile approach that can result in overall efficiencies for both agencies. DOD does not agree, however, that disagreements between DOD and VA have delayed the implementation of sharing agreements. Following are other DOD comments:

- The progress of the Asheville agreement will be reviewed and possible additional sharing opportunities will be discussed in October 1994 by the VA/DOD Health Care Resources Sharing Policy and Operations Subcommittee;<sup>6</sup>
- Guidance is being developed for issuance to the military services to evaluate the possibility and feasibility of using and sharing medical resources when it is cost-effective to do so; and
- A new DOD Instruction on the VA/DOD Health Care Resources Sharing Program is being developed, and its issuance is anticipated by the end of fiscal year 1995.

In our view, the disagreements between DOD and VA did delay the implementation of sharing agreements using CHAMPUS funds. These disagreements, as described in our report, are well documented and did

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<sup>6</sup>The VA/DOD Policy and Operations Subcommittee is part of the VA/DOD Health Care Resources Sharing Committee, which was established by P.L. 97-174 in 1982 to oversee and promote sharing. The Subcommittee, which consists of representatives from DOD and VA and deals with all facets of sharing, has met quarterly since May 1992; its most recent meeting was in July 1994.

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not get resolved until after the Chairman of the House Committee on Veterans' Affairs intervened.

We believe that the DOD actions listed above are good steps. However, until they are fully implemented, we believe our recommendations remain valid. To date, neither military hospital commanders nor regional lead agents<sup>7</sup> have been actively pursuing sharing agreements because, as they stated to us, they are uncertain about their roles and authorities under the CHAMPUS sharing program. They believe they need guidance on the requirements pertaining to CHAMPUS sharing agreements.

VA agreed with our overall conclusion that VA and DOD would benefit from sharing agreements using CHAMPUS funds. However, VA disagreed with our draft report recommendation that the VA Secretary direct VA medical center directors to identify sharing agreements in which CHAMPUS funds can be used to buy available VA services. In VA's view, it should be DOD's—not VA's—responsibility to prioritize the needs of CHAMPUS beneficiaries. Further, VA stated that its July 1994 policy directive strongly encourages its medical centers to take advantage of the opportunity to treat CHAMPUS beneficiaries under sharing authority in situations where capacity is available and service to veterans can be enhanced.

We recognize that DOD has responsibility for determining CHAMPUS priorities and needs. Similarly, we recognize that the recent VA policy directive is a strong positive indicator of its commitment toward encouraging sharing with DOD using CHAMPUS funds. The intent of our recommendation was to have medical center directors actively identify services that are available to DOD and to communicate such information to the relevant DOD hospital commander. We have clarified our recommendation along these lines.

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<sup>7</sup>DOD has begun implementing managed health care nationwide. Referred to as TRICARE, DOD has divided the country into 12 regions, with each region's health care managed by a "lead agent," who is one of the region's hospital commanders. Under TRICARE, CHAMPUS expenditures will be under the guidance of the regional lead agent; and guidance to hospital commanders will come from the lead agent based on regional plans and priorities.

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As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this report until 7 days after its issue date. At that time, we will send copies to the Secretary of Defense; the Secretary of Veterans Affairs; the Director, Office of Management and Budget; and interested congressional committees. We will also make copies available to others upon request. If you have any questions concerning the contents of this report, please call me at (202) 512-7101. Other major contributors to this report were Stephen P. Backhus, Assistant Director, Robert P. Pickering, Senior Analyst, and Donald C. Hahn, Advisor.

Sincerely yours,

A handwritten signature in cursive script that reads "David P. Baine".

David P. Baine  
Director, Federal Health Care  
Delivery Issues

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# Contents

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Letter	1
Appendix I Comments From the Department of Defense	12
Appendix II Comments From the Department of Veterans Affairs	18

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## Abbreviations

DOD	Department of Defense
VA	Department of Veterans Affairs
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
VAMC	Veterans Affairs Medical Center

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# Comments From the Department of Defense



HEALTH AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-1200

SEP 23 1994

Mr. David P. Baine  
Director, Federal Health Care Delivery Issues  
Health, Education and Human Services Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Baine:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "VA/DoD HEALTH CARE: More Guidance is Needed to Implement CHAMPUS-Funded Sharing Agreements," dated August 8, 1994 (GAO Code 101438/OSD Case 9756). The DoD partially concurs with the report.

The DoD agrees that the sharing of health care resources between the DoD and the Department of Veterans Affairs (VA) is a worthwhile approach that can result in overall efficiencies for both agencies. A memorandum of understanding has been developed and the first agreement between the VA Medical Center in Asheville, North Carolina, and the DoD has been implemented. The progress of that project will be reviewed at the next VA/DoD Health Care Resources Sharing Policy and Operations Subcommittee meeting in October 1994, at which time possible additional sharing opportunities will be discussed.

The DoD does not agree, however, that disagreements between the DoD and the VA have delayed the implementation of the sharing arrangements. Rather, it was the VA position that the earlier FY 1989 legislation did not clearly authorize the VA to treat Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) beneficiaries. Subsequently, in December 1993, following additional FY 1992 legislation, the DoD and the VA signed a sharing agreement to treat CHAMPUS-eligible beneficiaries in the Asheville VA Medical Center as a pilot project.

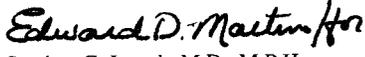
The DoD is currently developing guidance to be issued to the Military Services to evaluate the possibility and feasibility of utilizing and sharing medical resources where it is cost effective to do so. The DoD is also developing a new DoD Instruction covering the VA/DoD Health Care Resources Sharing Program. Issuance of the new guidelines and instruction is anticipated by the end of FY 1995.

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**Appendix I**  
**Comments From the Department of Defense**

The detailed DoD comments on the report findings and recommendations are enclosed  
The Department appreciates the opportunity to comment on the draft report.

Sincerely,

  
Stephen C. Joseph, M.D., M.P.H.

Enclosure:  
As stated

GAO DRAFT REPORT - DATED AUGUST 8, 1994  
(GAO CODE 101438) OSD CASE 9756

"VA/DOD HEALTH CARE:  
MORE GUIDANCE IS NEEDED TO IMPLEMENT  
CHAMPUS-FUNDED SHARING AGREEMENTS"

DEPARTMENT OF DEFENSE COMMENTS

\* \* \* \* \*

*FINDINGS*

**FINDING A: Health Care Resource Sharing Agreements.** The GAO observed that, in 1982, the Congress enacted the Veteran's Administration and Department of Defense (DoD) Health Resources Sharing and Emergency Operations Act (Public Law 97-174) to promote greater sharing of health care resources and, therefore, achieve greater sharing efficiencies in the DoD and the Department of Veterans Affairs (VA) health care systems. The GAO explained that under the legislation, the DoD and the VA entered into health care resource sharing agreements -- which allowed active duty and eligible former members to receive services in VA facilities and vice versa. The GAO further observed that, in 1989 and 1992, the Congress enacted legislation specifically authorizing: (1) the use of Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) funds to purchase care for CHAMPUS beneficiaries from VA medical centers, and (2) treatment of all categories of dependents at VA hospitals. (pp. 1-5/GAO Draft Report)

**DOD RESPONSE:** Concur.

**FINDING B: Disagreements Between the DoD and the VA Delayed Noncatchment Area CHAMPUS/VA Sharing Implementation.** The GAO reported that, by February 1994, the DoD and the VA signed a memorandum of understanding establishing a general framework for CHAMPUS/VA health care resources sharing agreements. However, the GAO noted that neither the DoD, nor the VA, have conducted a system-wide search to identify noncatchment areas having VA facilities where sharing agreements can be implemented. The GAO also pointed out that, as of July 1994, the Office of the Assistant Secretary of Defense was reviewing a memorandum of understanding to allow the VA to provide services to CHAMPUS beneficiaries in areas of the country where the DoD has contracted with private companies to manage CHAMPUS beneficiaries' health care. (pp. 6-9/GAO Draft Report)

**DOD RESPONSE:** Nonconcur. The Department does not agree that differences in sharing provisions between the DoD and the VA have prevented CHAMPUS-eligible beneficiaries from receiving services in noncatchment areas. Although the FY1989 legislation authorized the DoD to use CHAMPUS money to pay for care provided to CHAMPUS-eligible beneficiaries, the VA

did not feel that the FY1989 legislation clearly authorized them to treat CHAMPUS-eligibles. Instead, the VA felt more specific legislation, as in the FY 1992 legislation, was required to clearly state the VA could treat CHAMPUS-eligible beneficiaries. In December 1993, following the passage of the Veterans Health Care Act of 1992, the DoD and the VA signed a sharing agreement to treat CHAMPUS-eligible beneficiaries in the Asheville Veterans Affairs Medical Center. In February 1994, the Secretary of Veterans Affairs and the Secretary of Defense signed the memorandum of understanding to enable the VA to provide health care to DoD CHAMPUS-eligible beneficiaries and be reimbursed by the CHAMPUS. At the March 22, 1994, VA/DoD Health Care Resources Sharing Policy and Operation Subcommittee meeting, the members requested a comprehensive workload report from Asheville. The subcommittee members agreed that at the next quarterly meeting the group would evaluate the Asheville agreement before moving forward with other Asheville type agreements. The subcommittee members also concurred with the recommendation to evaluate potential arrangements at other VA facilities within Base Realignment and Closure areas first, before expanding the Asheville program, and to discuss assigning the approval authority for those sharing agreements to a local, regional, or Service level.

The memorandum of understanding between the DoD and the VA that identifies the VA in the role of a subcontractor, is being reviewed at both the CHAMPUS General Counsel and the DoD Office of General Counsel concerning the impact of Title II of the Veterans Health Care Act of 1992 (Public Law 102-585) on existing acquisition and procurement legislation.

**FINDING C: CHAMPUS Funds Have Not Been Used for Catchment Area Sharing Agreements Between Military Treatment Facilities and VA Facilities.** The GAO found that military treatment facility commanders in DoD catchment areas have not proposed using CHAMPUS funds for sharing agreements between the DoD facilities and the VA hospitals because the commanders have been unclear about the interagency sharing program and the roles and authorities under it. The GAO also found that, as with noncatchment areas, the DoD and the VA have not done a comprehensive search of locations where sharing agreements using CHAMPUS funds can be implemented. The GAO concluded that, to take advantage of sharing benefits, the DoD must make its hospital commanders more aware of their authority to propose using CHAMPUS funds to buy VA services. (pp. 10-12/GAO Draft Report)

**DOD RESPONSE:** Concur. The DoD agrees that CHAMPUS funds have not been used. The Office of the Secretary of Defense (OSD), however, is presently working with the Services to develop guidelines for establishing VA/DoD medical resource sharing agreements for the treatment of DoD CHAMPUS-eligible beneficiaries. Those guidelines will in turn be incorporated into a DoD Instruction for the VA/DoD Health Care Resources Sharing Program. Completion of the DoD Instruction is also anticipated by the end of FY 1995. The guidelines addressing that aspect of sharing are being developed within the proposed TRICARE Policy Guidelines. Under TRICARE, CHAMPUS expenditures will be under the guidance of the Regional Medical Lead Agents. Therefore, individual sharing agreements must be part of a comprehensive Regional plan. Guidance to military treatment facility commanders will come from the Lead Agent, based on regional plan and priorities. Under this paradigm, the VA would

be considered under the network development. The Department anticipates completion of the TRICARE Policy Guidelines during FY1995.

### **RECOMMENDATIONS**

**RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Assistant Secretary of Defense (Health Affairs) and the Military Services to fully inform and explain to military treatment facilities commanders the authority to propose using CHAMPUS funds for sharing agreements with the VA and their roles and authorities under this program. (p. 13/GAO Draft Report)

**DOD RESPONSE:** Concur. The Assistant Secretary of Defense (Health Affairs) already has initiated this process within an overall business plan. As explained in the DoD response to Finding C, under TRICARE, CHAMPUS expenditures will be under the guidance and direction of Regional Medical Lead Agents. Individual sharing agreements will be part of a comprehensive regional plan. Guidance to military facility commanders will come from the Lead Agent, based on regional plans and priorities. The OSD has started working with the Military Services to develop guidelines for establishing the Lead Agent role in VA/DoD medical sharing agreement approval. The guidelines will encourage the Military Services to evaluate the possibility and feasibility of utilizing Federal capabilities, where and when it is mutually cost effective. The guidelines will be incorporated into a DoD Instruction for the VA/DoD Health Care Resources Sharing Program. Both the guidelines and the DoD Instruction will be completed in FY1995.

**RECOMMENDATION 2:** The GAO also recommended that the Secretary of Defense direct the Assistant Secretary of Defense (Health Affairs) and the Military Services to provide specific instructions on how to develop and implement such agreements. (p. 13/GAO Draft Report)

**DOD RESPONSE:** Concur. Under TRICARE, the Department of Defense is building a network of preferred providers through managed care support contracts. The DoD will require all participating providers to meet uniform standards of cost, quality, and access. Additionally, the DoD Instruction for the VA/DoD Health Care Resources Sharing Program, now under development, assigns responsibilities and prescribes procedures to implement an aggressive program between the DoD and the VA that will result in greater efficiencies, while supporting the provision of enhanced health care services to DoD beneficiaries. (See also the DoD response to Recommendation 1.)

**RECOMMENDATION 3:** The GAO further recommended that the Secretary of Defense direct the Assistant Secretary of Defense (Health Affairs) and the Military Services to identify sharing opportunities in which CHAMPUS funds can be used to buy available VA services (p.13/GAO Draft Report)

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**Appendix I**  
**Comments From the Department of Defense**

**DOD RESPONSE:** Concur. The VA Medical Center, Asheville, North Carolina began treating CHAMPUS eligible beneficiaries as a pilot project in February 1994. A report of the progress of the project will be presented at the next VA/DoD Health Care Resources Sharing Policy and Operations Subcommittee meeting in October 1994. Some of the issues and possible sharing opportunities being discussed include information system issues, reimbursement rates and methodologies, specifically, billing procedures which apply to the care purchased by the DoD, and its application to any external provider of care, including the Department of Veterans' Affairs.

**RECOMMENDATION 4:** The GAO recommended that the Secretary of Veterans Affairs direct the VA medical center directors to identify sharing opportunities in which CHAMPUS funds can be used to buy available VA services. (p.13/GAO Draft Report)

**DOD RESPONSE:** The DoD defers comment to the Secretary of Veterans Affairs.

# Comments From the Department of Veterans Affairs



THE SECRETARY OF VETERANS AFFAIRS

WASHINGTON

SEP 12 1994

Mr. David P. Baine  
Director, Federal Health Care  
Delivery Issues  
U. S. General Accounting Office  
441 G Street, Northwest  
Washington, DC 20548

Dear Mr. Baine:

I have received your draft report, **VA/DOD HEALTH CARE: More Guidance Is Needed to Implement CHAMPUS-Funded Sharing Agreements** (GAO/HEHS-94-198) and agree with GAO's overall conclusion that both VA and DoD would benefit from a sharing arrangement. The success of the pilot initiative at Department of Veterans Affairs Medical Center (VAMC) Asheville, North Carolina, in treating CHAMPUS beneficiaries bears this out.

As the report states, VAMC Asheville began to treat CHAMPUS beneficiaries as a pilot initiative in February 1994. This effort has been positively received by all involved, and as a result of this initial success, a number of other medical center directors have expressed strong interest in entering into similar agreements with DoD facilities within their respective areas. I fully encourage expansion of this sharing arrangement, which has excellent potential for enhancing the quality of patient care. Accordingly, I believe that DoD's timely implementation of your recommendations will allow us to extend Asheville's success nationwide--increasing the health care alternatives for service members and their dependents.

However, the wording of the draft report's recommendation to the Department of Veterans Affairs (VA) compels me to qualify my concurrence. It is the responsibility of the Department of Defense (DoD) to prioritize the needs of CHAMPUS beneficiaries. By means of a recent

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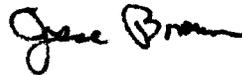
**Appendix II**  
**Comments From the Department of**  
**Veterans Affairs**

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policy directive (copy enclosed), the Acting Under Secretary for Health has strongly encouraged Veterans Health Administration (VHA) facility directors to work closely with DoD field directors in identifying services available in VA medical facilities that might best meet the needs of those beneficiaries.

The enclosure details VHA's actions that will implement the intent of the report's recommendation. I appreciate the opportunity to comment on your draft report.

Sincerely yours,



Jesse Brown

Enclosures  
JB:vz

Enclosure

DEPARTMENT OF VETERANS AFFAIRS COMMENTS  
TO GAO DRAFT REPORT, VA/DOD HEALTH CARE:  
More Guidance is Needed to Implement CHAMPUS-  
Funded Sharing Agreements

GAO recommends that I direct VA medical center directors to identify sharing opportunities in which CHAMPUS funds can be used to buy available VA services.

Concur with qualification - Although the recommendation's underlying message is recognized and supported, it is DoD's responsibility to prioritize the needs of CHAMPUS beneficiaries. Expenditure of CHAMPUS funds should be directly related to the identified needs of DoD--and it is DoD's responsibility to identify those needs. VHA certainly encourages medical center management to work closely with counterpart DoD officials in matching those needs with services that VA is capable of providing when capacity is available and service to veterans is enhanced. I recommend that the final report reflect the wording contained in the enclosed VHA directive, "Treatment of CHAMPUS Beneficiaries at VA Medical Centers," dated July 15, 1994, that states VA Medical Centers are strongly encouraged to take advantage of the opportunity to treat CHAMPUS beneficiaries, including dependents, under expanded sharing authority."

VHA program offices will reemphasize the guidance provided in this Directive to the field facilities. Beginning in October 1994, for example, the Office of Operations will include a reminder about the importance of close communication between VA and DoD in identifying sharing opportunities involving CHAMPUS beneficiaries in one of its weekly hotline conferences with all top field facility management staff. Medical center directors will be encouraged to take the initiative in strengthening such communication with DoD facilities that might be located within their service areas. Such announcements and reporting of "success" stories can be regularly reported during hotline conferences.

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