



Report to the Committee on Armed  
Services, U.S. Senate

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June 2014

# DEFENSE HEALTH CARE

## TRICARE Dental Services Contracts' Requirements and Structure

## Why GAO Did This Study

DOD offers comprehensive health care coverage to millions of beneficiaries through TRICARE, a system of health care that DOD purchases from private insurers to supplement the health care that DOD provides through its military and dental treatment facilities (DTF). Purchased dental services are provided through separate programs for different groups of beneficiaries: (1) the ADDP provides dental care to active duty servicemembers who do not have ready access to a DTF; (2) the TDP provides dental insurance to eligible dependents of active duty servicemembers, and to National Guard and Reserve members and their dependents; and (3) the TRDP provides dental insurance to retired uniformed service members and their dependents. DHA is responsible for awarding, administering, and overseeing contracts with private insurers for these programs.

Senate Report 112-173, which accompanied the Senate Committee on Armed Services' version of the National Defense Authorization Act for fiscal year 2013, mandated that GAO review DOD's private sector care contracts, including its contracts for dental services. GAO examined (1) how DHA developed the requirements for its current dental services contracts and (2) the reasons for DHA's use of separate contracts for different beneficiary groups. GAO reviewed relevant laws, regulations, and DOD contracts and acquisition planning documents. GAO also interviewed DHA officials and other stakeholders.

GAO made no recommendations.

View [GAO-14-497](#). For more information, contact Vijay A. D'Souza at (202) 512-7114 or [dsouzav@gao.gov](mailto:dsouzav@gao.gov).

## DEFENSE HEALTH CARE

### TRICARE Dental Services Contracts' Requirements and Structure

## What GAO Found

To develop requirements for its current dental services contracts, officials from the Department of Defense's (DOD) Defense Health Agency (DHA) analyzed market research, data from contractors' past performance, legislation, independent cost estimates, and other information. DHA officials used this information to align the contracts' requirements with contract goals to deliver high quality dental services in a cost effective manner and to facilitate access to care.

- **Market research:** DHA officials gathered information through market research and analyzed it to determine the capabilities within the dental services market to satisfy the agency's needs.
- **Performance monitoring:** DHA officials analyzed information about contractors' past performance, including claims payment data, to assess and revise contract requirements.
- **Legal requirements:** DHA officials reviewed laws relevant to each dental services contract to identify changes required by statute.
- **Independent cost estimates:** DHA officials reviewed cost estimates for new benefit requirements they were considering for the TRICARE Retiree Dental Program (TRDP) and TRICARE Dental Program (TDP) contracts to assess cost efficiency.
- **Other sources of information:** DHA officials reviewed lessons learned from previous procurements, current dental services contract requirements, and dental best practices and changes in the professional practice of dentistry.

DHA uses separate contracts for different beneficiary groups in part because the programs that serve them are funded differently. The TRDP contract is separate from the TRICARE Active Duty Dental Program (ADDP) and the TDP contracts because the government does not contribute any funds for the TRDP, but does contribute funds for the ADDP and TDP. To provide assurance that government funds are not expended for the TRDP, contractors said they would have to operate the programs separately. As a result, DHA officials determined that there would be minimal cost savings from combining contracts. Differences in how the ADDP and TDP programs are funded also influenced DHA's decision to use separate contracts for these programs. DOD pays all costs for necessary care provided to active duty servicemembers through the ADDP. In contrast, the TDP is an insurance program: DOD and TDP beneficiaries share in the costs of premiums, which are paid to the contractor; the contractor is at risk for payment to providers. DHA officials concluded that the disadvantages of combining these two contracts outweighed the potential advantages. Other factors that contributed to DHA's decision to use separate contracts for different beneficiary groups included differences in program purposes, dental services, and network access standards.

In comments on a draft of this report, DOD agreed with its findings and provided a technical comment, which was incorporated.

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## Abbreviations

ADDP	Active Duty Dental Program
DFARS	Defense Federal Acquisition Regulation Supplement
DHA	Defense Health Agency
DOD	Department of Defense
DTF	dental treatment facility
FAR	Federal Acquisition Regulation
FEDVIP	Federal Employee Dental and Vision Insurance Program
NDAA	National Defense Authorization Act
OPM	Office of Personnel Management
RFI	request for information
RFP	request for proposals
TDP	TRICARE Dental Program
TRDP	TRICARE Retiree Dental Program
VA	Department of Veterans Affairs

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June 13, 2014

The Honorable Carl Levin  
Chairman  
The Honorable James M. Inhofe  
Ranking Member  
Committee on Armed Services  
United States Senate

In fiscal year 2012, the Department of Defense's (DOD) military health system offered comprehensive health care coverage to nearly 9.7 million eligible beneficiaries through its TRICARE programs, with more than 4.6 million beneficiaries enrolled for TRICARE dental services. TRICARE is a system of health care that DOD purchases from private insurers to supplement the health care that DOD provides through its military treatment facilities and dental treatment facilities (DTF). The purchased dental services are provided through separate programs for different groups of beneficiaries: (1) the TRICARE Active Duty Dental Program (ADDP), which provides dental care to active duty servicemembers who require care not available from a DTF or who do not have ready access to a DTF; (2) the TRICARE Dental Program (TDP), which provides dental insurance to eligible dependents of active duty servicemembers, and to National Guard and Reserve members and their dependents;<sup>1</sup> and (3) the TRICARE Retiree Dental Program (TRDP), which provides dental insurance to retired uniformed servicemembers and their dependents. DOD's Defense Health Agency (DHA) is responsible for awarding, administering, and overseeing contracts with private insurers for these programs.<sup>2</sup>

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<sup>1</sup>The units and members of the Army National Guard of the United States and of the Air National Guard of the United States are in the Ready Reserve of the Army and the Ready Reserve of the Air Force, respectively. 10 U.S.C. § 10145(b).

<sup>2</sup>Beginning on Oct. 1, 2013, responsibilities for the TRICARE program were transitioned from the TRICARE Management Activity, which was terminated on that date, to the DHA. In this report, we use the term DHA to cover both its current responsibilities and those that were previously assigned to TRICARE Management Activity. For additional information about the establishment of DHA, see GAO, *Defense Health Care Reform: Additional Implementation Details Would Increase Transparency of DOD's Plans and Enhance Accountability*, [GAO-14-49](#) (Washington, D.C.: November 2013).

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Senate Report No. 112-173, which accompanied the Senate Committee on Armed Services' version of the National Defense Authorization Act (NDAA) for fiscal year 2013, mandated that we review DOD's private sector health care contracts, including its contracts for dental services.<sup>3</sup> This report describes:

1. How DHA developed the requirements for its current dental services contracts.
2. The reasons for DHA's use of separate contracts for different beneficiary groups.

To address these objectives, we reviewed relevant laws, regulations, and DOD documents. Specifically, we reviewed DOD documents related to the acquisition of dental services—including the TRICARE dental services contracts, acquisition plans and strategies, documentation of market research, and requests for proposals (RFP)<sup>4</sup>—and compared them to requirements for acquisition planning included in the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS).<sup>5</sup> In addition, we interviewed DHA officials to learn more about these programs. We also interviewed dental service contractors and other stakeholders including the American Dental Association, the Military Officers Association of America, the Reserve Officers Association, and the National Military Family Association, to

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<sup>3</sup>S. Rep. No. 112-173, at 131-32 (2012). For our work on TRICARE pharmacy service contracts, see GAO, *Defense Health Care: Evaluation of TRICARE Pharmacy Services Contract Structure Is Warranted*, [GAO-13-808](#) (Washington, D.C.: September 2013). For our work on TRICARE managed care support contracts, see GAO, *Defense Health Care: Acquisition Process for TRICARE's Third Generation of Managed Care Support Contracts*, [GAO-14-195](#) (Washington, D.C.: March 2014).

<sup>4</sup>RFPs include descriptions of the contract requirements, the anticipated terms and conditions that will be contained in the contract, the information that the prospective offerors must include in their proposal, and the factors that will be used to evaluate the proposal.

<sup>5</sup>The FAR defines uniform policies for the acquisition of supplies and services across the federal government. The FAR System is codified in title 48 of the Code of Federal Regulations. The DFARS defines uniform policies for the acquisition of supplies and services for DOD that supplement the FAR, and delegates authorities for deviations from the FAR requirements. In general, agencies may grant deviations from the FAR when necessary to meet the specific needs and requirements of each agency, unless precluded by law, executive order, or regulation. See FAR § 1.402.

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obtain their perspectives on DOD's approach to the acquisition of dental services.

We conducted this performance audit from August 2013 to June 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

Dental care is a key component of the health care services provided by the military to active duty servicemembers, and a key benefit provided to those who are eligible to enroll for health care coverage through TRICARE. DHA's TRICARE Dental Care Office administers and oversees the TRICARE dental care programs.

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## TRICARE Dental Care Programs

### The TRICARE Active Duty Dental Program

The ADDP supplements the dental services available to active duty servicemembers through DTFs with the goal of maintaining readiness for deployment.<sup>6</sup> Active duty servicemembers are required to have a dental examination annually, during which their dental readiness is assessed. Dental readiness is a prerequisite for deployment and must be maintained among servicemembers who have been deployed.

Active duty servicemembers may obtain necessary dental care at no cost to them at a DTF or through the ADDP. The majority of active duty servicemembers' dental care is provided in DTFs, which are staffed with

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<sup>6</sup>Active duty servicemembers who are on continuous active duty orders for more than 30 days are eligible to receive ADDP dental coverage, subject to certain requirements and limitations provided in the ADDP. The ADDP serves active duty servicemembers of the Army, the Navy, the Air Force, the Marine Corps, the Coast Guard, and the Commissioned Corps of the National Oceanic and Atmospheric Administration. Others who are eligible for the ADDP include members of the Reserves and National Guard who serve on continuous active duty for more than 30 days, Reserve Component members discharged after serving more than 30 days on active duty in support of a contingency operation, and others as specified in statute. See 10 USC § 1074(c)(1).

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general dentists and, in some cases, dental specialists.<sup>7</sup> If a necessary service cannot be provided in a timely way through an accessible DTF, the servicemember may obtain dental care from a private dentist through the ADDP.<sup>8</sup> To facilitate reasonable access to care, the ADDP includes a network of dental care providers throughout the United States and its territories.<sup>9</sup>

ADDP is not an insurance program, and active duty servicemembers do not pay premiums for their dental care, do not share in the costs of the care, and do not face any annual or lifetime maximums on the cost of that care. Prior to establishing the ADDP, DOD paid the full cost of necessary dental care provided to active duty servicemembers who were referred to private dentists, and the prices for such privately provided dental services were uncontrolled. By negotiating standard prices for dental services with a private insurance carrier, the ADDP was intended to contain the costs of providing necessary care to active duty servicemembers.

#### The TRICARE Dental Program

The TDP is a dental insurance program that is available to dependents of active duty servicemembers, and to members of the National Guard and

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<sup>7</sup>DOD officials told us that as of April 2014, DOD had 403 DTFs worldwide. DHA officials told us that the number fluctuates from month to month and has been declining due, in part, to a reduction in forces.

<sup>8</sup>Active duty servicemembers may be referred for treatment through the ADDP if a nearby DTF cannot provide routine dental care within 21 days or specialty dental care within 28 days. Active duty servicemembers with a duty location and residence greater than 50 miles from a DTF are automatically eligible for the ADDP and may obtain care through the ADDP without a referral from a DTF, although pre-treatment authorization is required under certain circumstances. Authorization is required for non-emergency treatments costing more than \$750 per procedure or appointment, for treatment plans that are expected to cost \$1,500 or more within a consecutive 12-month period, and for certain specialty procedures.

<sup>9</sup>The contractor's network of providers covers the United States, District of Columbia, U.S. Virgin Islands, Guam, Puerto Rico, American Samoa, and the Northern Mariana Islands. Active duty servicemembers who are deployed in other locations around the world may obtain dental care services through a separate program, the TRICARE Overseas Program, which is the broad DOD health care program that supplements care provided by military and dental treatment facilities outside of the United States and its territories. Because the TRICARE Overseas Program is primarily a health care program, rather than a dental services program, it was not within the scope of our work.



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Reserve and their dependents.<sup>10</sup> Enrollees are responsible for cost-sharing premiums, certain procedure fees, and costs above annual and lifetime maximums. Enrollees' share of premiums varies with the status of the enrollee. For example, DOD pays:

- 100 percent of the premiums of survivors of active duty servicemembers who died while on active duty and to eligible dependents of certain Reserve members;
- Up to 60 percent of the premiums of the dependents of active duty service members and of certain Reserve members; and
- 0 percent of the premiums of certain Reserve members who are not on active duty and their dependents.

#### The TRICARE Retiree Dental Program

The TRDP is a dental insurance program that is available to retired uniformed service members and their dependents.<sup>11</sup> DOD does not contribute to paying the costs of this program. Enrollees are responsible for the full premium, any cost-sharing fees, and costs above the annual and lifetime maximums.

For information about the contracts for these programs, see table 1.

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<sup>10</sup>The TDP offers coverage to eligible dependents of uniformed service active duty personnel, and to members of the Selected Reserve and Individual Ready Reserve and their eligible dependents. Active duty servicemembers, disabled veterans, foreign personnel, and retirees and their families are not eligible for the TDP. See 10 USC §§ 1076a, 10143, 10144(a), and 10144(b). The TDP provides worldwide coverage.

<sup>11</sup>The TRDP offers coverage to eligible personnel who retired from the uniformed services, certain unremarried surviving spouses, certain dependents of retirees, and former members of the armed forces who are Medal of Honor recipients and their immediate dependents. See 10 USC § 1076c. The TRDP currently includes two programs: a basic program, which is closed to new enrollees (except for the addition of a dependent), and a more expensive enhanced program. The basic program offers coverage within the U.S. and its territories and in Canada; the enhanced program offers coverage worldwide.

In addition, eligible veterans may qualify for certain dental care services through the Department of Veterans Affairs (VA). For example, veterans who have certain dental conditions that are connected to their military service and veterans who were prisoners of war are eligible to receive any dental care they need from the VA. In addition, veterans who have a dental condition that aggravates a medical condition that resulted from their military service are eligible for treatment of that dental condition. Eligible veterans may also enroll in a dental insurance program through the VA.

**Table 1: TRICARE Dental Services Contracts**

Contract information	TRICARE Program		
	ADDP	TDP	TRDP
Contractor	United Concordia Companies, Inc.	Metropolitan Life Insurance Company, Inc.	Delta Dental of California
Approximate number of beneficiaries as of March 2014	1.4 million <sup>a</sup>	1.8 million	1.4 million
Effective date	Dec. 2, 2013	Feb. 1, 2011	Jan. 2, 2013
End date <sup>b</sup>	July 31, 2019	Jan. 31, 2017	Dec. 31, 2018
Estimated cost to DOD <sup>c</sup>	\$728 million	\$1.9 billion	\$0
Estimated value for the contractor <sup>c</sup>	\$728 million	\$3.1 billion	\$2.6 billion

Source: GAO analysis of information from the Defense Health Agency (DHA). | GAO-14-497

Note: The TRICARE dental programs include the Active Duty Dental Program (ADDP), the TRICARE Dental Program (TDP), and the TRICARE Retiree Dental Program (TRDP).

<sup>a</sup>The approximate number of ADDP beneficiaries is the entire active duty force.

<sup>b</sup>Each contract includes a base interval and five option periods. End dates assume that all option periods will be executed.

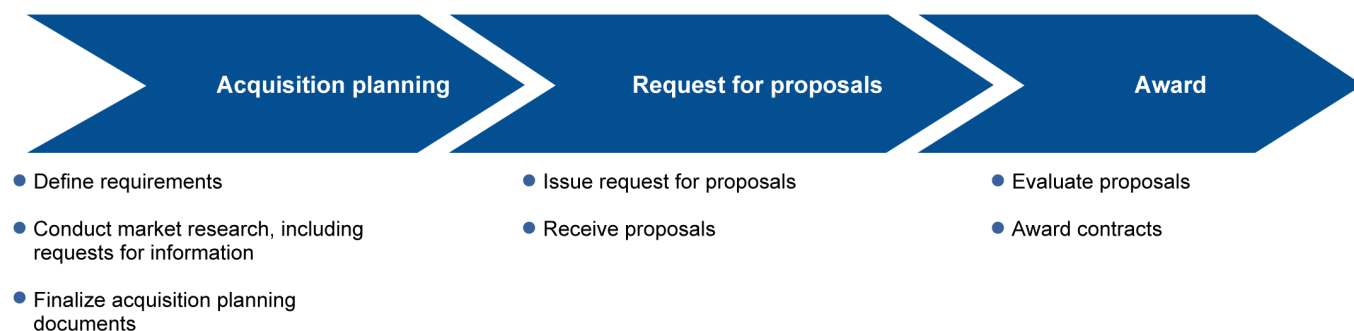
<sup>c</sup>The estimated costs and values are those at the time the contract was awarded, assuming that all option periods would be executed. Differences between the estimated cost to the Department of Defense (DOD) and the estimated value for the contractor reflect contributions from beneficiaries.

## Dental Services Acquisition Process

The acquisition process for DHA's dental services contracts includes three main phases, each of which are governed by federal and department-level requirements.<sup>12</sup> The phases include (1) acquisition planning, (2) RFP, and (3) award. (See fig. 1.)

<sup>12</sup>In addition to federal regulations (including the FAR and DFARS), DOD and DHA issue other manuals, policies, and guidance to assist in the acquisition process.

**Figure 1: Selected Phases and Activities in the Defense Health Agency's Acquisition Process**



Source: GAO analysis of DOD information. | GAO-14-497.

**Acquisition Planning.** Federal regulations require agencies to perform acquisition planning activities for all contracts to ensure that the government meets its needs in the most effective, economical, and timely manner possible. In the acquisition planning phase, DHA officials are to develop a strategy and plan to define and fulfill contract requirements in a timely manner and at a reasonable cost. Federal regulations also require that acquisition planning include market research, which can involve the development and use of requests for information (RFI).<sup>13</sup> An internal working group consisting of a dental program manager, contracting officer, contracting officer's representatives, and a requirements specialist review information gathered during the acquisition planning process to determine contract requirements, according to DHA officials.<sup>14</sup>

**RFP.** In the RFP phase, DHA officials issue the RFP and receive proposals.

**Award.** In the award phase, DHA officials are responsible for evaluating the proposals and awarding the contract to the offeror presenting the best

<sup>13</sup>Market research is the collection and analysis of information about capabilities within the market to satisfy the agency's needs. See FAR § 10.001(a) and DFARS § 210.001(a). RFIs are publically released documents that allow the government to obtain feedback from potential contractors on various acquisition elements, such as the terms and conditions of the contract and the feasibility of potential new contract requirements.

<sup>14</sup>Contracting officer's representatives are senior technical experts designated by the contracting officer to serve as a liaison between the contracting officer and contractors.

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value to the government based on a combination of technical, cost, and performance-based factors.

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## Performance Monitoring

After the contract is awarded, the contracting officer's representative is responsible for the day-to-day monitoring of contractor activities to ensure that the services are delivered in accordance with the contract's performance standards. Each dental service contract includes quality assurance standards for provider access, claims processing, and customer service (telephone coverage and correspondence timeliness) against which the contractor's performance is assessed. Contractors are required to meet these standards. Although DHA officials use a variety of methods to monitor contractors' performance, the primary method of monitoring performance is through monthly reports submitted by each contractor to DHA.<sup>15</sup>

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<sup>15</sup>Each contract includes a contract data requirements list that describes the type of data the contractor must submit to DHA and the frequency with which it must be submitted. In addition, each dental services contract specifies that the contractor is accountable for assuring that reports submitted to DHA contain accurate and complete data. Moreover, the contractor must describe its procedures for collecting and preparing the data, and all reports must be supported with sufficient documentation. In addition to reviewing monthly reports, DHA officials may monitor contractor performance through contractor on-site observations; review of data reported by the contractor; and audits of contractor records, such as processed claims data.

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## DHA Analyzed Market Research, Performance Data, and Other Information in Developing Dental Services Contract Requirements

To develop requirements for each of its current dental services contracts, DHA officials analyzed market research, data from contractors' past performance, legislation, independent cost estimates, and other information.<sup>16</sup> DHA officials used this information to align the contracts' requirements with contract goals to deliver high quality dental services in a cost effective manner, and to facilitate access to care.<sup>17</sup>

**Market Research.** As part of its development of contract requirements, DHA officials gathered information through market research and analyzed it to determine the capabilities within the dental services market to satisfy the agency's needs. DHA's market research included soliciting information from current and potential dental services contractors. To do this, DHA officials issued RFIs and draft RFPs for comment.<sup>18</sup> These documents included questions related to potential benefit changes—such as how the offeror would implement a specific benefit—and potential data requirements—such as how the offeror would submit required data to DHA. In addition to RFIs and draft RFPs, DHA's market research

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<sup>16</sup>These activities were detailed in DHA's acquisition plans for each contract. The FAR requires that the acquisition plan address all the technical, business, management, and other significant considerations that will control the acquisition, but the specific content of a plan will vary. FAR §7.105. The acquisition plans also described the need for dental services and the goals of each contract, among other things.

<sup>17</sup>As required by 10 U.S.C. § 1073a, award of TRICARE contracts is done on the basis of best value to the United States to the maximum extent consistent with furnishing high quality health care in a manner that protects the fiscal and other interests of the United States. All of the contracts included these goals, but varied somewhat in how they were stated in the acquisition plan or final contract. For example, the acquisition plan for TRDP and the final contract for TDP stated that the objectives of the contract were to deliver high quality dental services in a cost effective manner, while the acquisition plan for the ADDP stated that the goals of the contract were to provide needed care to maintain dental readiness and deployability within a reasonable cost structure.

<sup>18</sup>Although DHA is not required to use them, RFIs are considered a best practice for service acquisition in the federal government. RFIs allowed DHA to assess the capability of the market to meet requirements that DHA was considering for each new contract. See, for example, Office of Management and Budget, Office of Federal Procurement Policy, *"Myth-Busting": Addressing Misconceptions to Improve Communication with Industry During the Acquisition Process*, Memorandum for Chief Acquisition Officers, Senior Procurement Representatives, Chief Information Officers (Washington, D.C.: Feb. 2, 2011), and Office of Management and Budget, Office of Federal Procurement Policy, *"Myth-Busting 2": Addressing Misconceptions and Further Improving Communication During the Acquisition Process*, Memorandum for Chief Acquisition Officers, Senior Procurement Representatives, Chief Information Officers (Washington, D.C.: May 7, 2012).

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activities included one-on-one meetings with dental services contractors.<sup>19</sup>

DHA officials used information from these market research activities to revise contract requirements. For example, according to DHA officials, feedback from contractors indicated that DOD's contract requirements related to information security were costing dental contractors (and DOD) a substantial amount of money. Partly as a result of contractors' feedback, DHA determined that it would be more economical for contractors to comply with the information security standards used in the commercial sector, according to these officials. In all three new contracts, DHA officials therefore required contractors to comply with commercial information security requirements instead of those developed by DOD.

DHA officials also used market research to determine the technical feasibility of potential contract requirements. For example, after encountering delays in treatment preauthorization decisions due to poor quality radiographs (commonly known as x-rays), the RFI that DHA issued for the ADDP contract included questions to determine the feasibility of the electronic submission of radiographs. According to DHA officials, dental technology has progressed to allow for easy electronic submission of this data, resulting in better radiograph quality. Partly as a result of information collected through the RFI, DHA officials incorporated a requirement into the new ADDP contract for the contractor to submit radiographs electronically when requesting pretreatment authorization from DHA. This requirement was intended to increase the quality of the diagnostic information and thus DHA's efficiency in making preauthorization decisions.

**Performance Monitoring.** DHA officials analyzed information about contractors' past performance, including contractors' monthly reports and claims payment data, to assess and revise contract requirements for future contractors. DHA uses a variety of methods to monitor performance, primarily relying on their review of monthly reports submitted by each contractor to DHA, which reflect how well the contractor is performing against the performance standards. They use

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<sup>19</sup>Dental services contractors told us that, in comparison to industry forums conducted by DHA and attended by multiple contractors, one-on-one meetings with DHA officials during the market research process resulted in a greater willingness among contractors to discuss their concerns and ideas.

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this information to assess and revise requirements for each future dental services contract. For example, according to DHA officials, before issuing the RFP for the current TRDP contract, DHA officials' review of the then current TRDP contractor's performance against the existing contract's network access standard indicated that the contractor consistently exceeded the standard. As a result, DHA raised the network access standard in the new TRDP contract from 90 to 99 percent, thus requiring that 99 percent of enrollees living within the United States, District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands have access to a network general dentist within a specified distance of their primary residence.<sup>20</sup>

DHA officials also used other performance monitoring information, such as claims payment data submitted by contractors, when developing contract requirements. For example, DHA officials' review of the ADDP contractor's claims payment data confirmed reports they received from DTFs that some servicemembers were being treated twice (and DHA paid more than they would have otherwise) for the same dental problem because they were treated by general dentists, not dental specialists, and the initial treatment was not successful, according to DHA officials. Partly as a result of their review of this information, DHA officials incorporated a new requirement in the new ADDP contract that requires that 90 percent of all DTF-referred endodontic procedures (such as root canals) or oral surgeries be completed by an endodontist or oral surgeon, respectively.<sup>21</sup>

**Legal requirements.** DHA officials reviewed laws relevant to each dental services contract to identify changes required by statute. DHA officials used the information to determine whether any changes to the benefit or eligibility structures of the contracts would be required. For example, DHA added a survivor benefit to the TDP contract as a result of a legislative change. In addition, the Transition Assistance Management Program,

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<sup>20</sup>DHA included a 95 percent network access standard in the RFP; however, the successful offeror proposed a higher network access standard in response to the RFP and that higher standard was incorporated into the final contract. The TRDP network access standard does not apply to all areas in which dental services are covered.

<sup>21</sup>In the RFP, DHA included a requirement that 85 percent of all DTF-referred endodontic procedures be completed by endodontists and 80 percent of all DTF-referred oral surgeries be completed by oral surgeons; however, the successful offeror proposed a higher standard in response to the RFP and that higher standard was incorporated into the final contract.

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which provides 180 days of premium-free transitional health care benefits after regular TRICARE benefits end, was added to the ADDP contract as a result of a legislative change.

**Independent Cost Estimates.** DHA officials reviewed independent cost estimates for new benefit requirements they were considering to assess cost efficiency. Specifically, prior to incorporating new benefit requirements into the TRDP and TDP contracts, DHA obtained and reviewed cost estimates from a private consulting firm to determine the impact of these benefits on enrollees' monthly premiums. For example, DHA requested cost estimates for increasing the TDP contract's maximum lifetime orthodontic benefit requirement from \$1,500 to \$1,750 and from \$1,500 to \$2,000.<sup>22</sup> The estimates indicated that monthly premiums would increase 65 cents and \$1.30, respectively. Based in part on the cost estimate, DHA increased the benefit requirement in the final TDP contract so that the contractor must provide coverage for benefits up to \$1,750. According to DHA officials, they do not incorporate benefits if doing so would result in large increases in monthly premiums.

**Other Sources of Information.** Other sources of information DHA officials reviewed prior to determining whether to add, change, or eliminate requirements from their dental service contracts included

- Lessons learned from previous procurements for other health services. We previously reported that DHA incorporated lessons learned into the RFP for the dental services contracts as a result of challenges to DHA's contract award decisions for certain managed care support contracts.<sup>23</sup> Specifically, in drafting the RFP for the TDP contract, officials more clearly defined how DHA officials planned to assess the evaluation factors when awarding the contract.<sup>24</sup>

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<sup>22</sup>Senate Armed Services Committee Report No.111-035, which accompanied NDAA for fiscal year 2010, directed the Secretary of Defense to examine the costs and levels of coverage available through the TDP, and to consult with beneficiary organizations on needed improvements; in particular, for coverage for orthodontics.

<sup>23</sup>An offeror that was not awarded a contract may challenge a federal agency's award or proposed award of a contract based on an alleged violation of statute or regulation. Such a challenge is known as a post-award bid protest.

<sup>24</sup>See [GAO-14-195](#).



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- Current dental services contract requirements. DHA officials told us that they review current contract requirements and solicit feedback on them from stakeholders, including officials from various branches of the military and organizations representing beneficiaries, before each new solicitation.<sup>25</sup> For example, DHA officials conducted a forum with military services officials through which they identified potential new requirements for the ADDP contract, including a referral tracking system that would indicate authorized care that was not completed and thereby allow military commanders ready access to information about servicemembers' dental readiness. As a result of this and other information they reviewed, the new ADDP contract required the contractor to develop a referral tracking system and train DHA staff on its use.
  - Dental best practices and changes in the professional practice of dentistry. DHA officials review industry best practices and changes in the practice of dentistry to determine new contract requirements. For example, when developing new benefits for the current TDP contract, DHA officials researched common dental insurance benefits and best practices and solicited feedback from the American Dental Association's Council on Government Affairs. In addition, DHA officials told us that they used their knowledge of changes in the field of dentistry, including dentistry's increased use of digital technology, to help them identify the electronic submission of radiographs as a potential solution to the previously discussed problem of poor radiograph quality.

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## DHA Uses Separate Contracts Because of Funding Differences and Other Factors

DHA uses separate contracts for different beneficiary groups, in part, because the programs that serve them are funded differently. For example, the TRDP contract is separate from the ADDP and the TDP contracts because the government does not contribute any funds for the TRDP, but does contribute funds for the ADDP and TDP. Other factors that contributed to DHA's decision to use separate contracts for its different beneficiary groups included differences between programs, such as differences in their purposes, covered dental services, and network access standards.

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<sup>25</sup>Beneficiary groups with whom we spoke told us that DHA had made changes to program benefits that were responsive to beneficiaries' needs.

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## TRDP Contract

To provide assurance that government funds are not expended for the TRDP, the administrative costs associated with the TRDP must be kept separate from the administrative costs associated with government-funded programs. DHA officials told us that they discussed this issue with potential contractors, who said that they would have to operate the programs separately. DHA officials determined that there would be minimal cost savings or efficiencies from combining contracts under these circumstances.<sup>26</sup>

Because the TRDP is not directly supported by DOD funds, DHA is exploring the possibility of shifting the option for military retirees to purchase dental insurance, which is currently provided through the TRDP, to the Federal Employee Dental and Vision Insurance Program (FEDVIP), which is administered by the Office of Personnel Management (OPM).<sup>27</sup> Unlike the TRDP, the FEDVIP allows enrollees to select from among several plan options. DHA and OPM are in the preliminary process of determining the viability of this plan. DHA officials said that this option has both advantages and disadvantages. The primary advantages would include:

- lowering the workload of staff within the TRICARE Dental Care Office, thereby allowing them to devote more of their time to administering and overseeing the remaining two programs; and
- allowing retirees greater flexibility to choose among insurance plans that differ in their premiums and coverage options.

The primary disadvantages of shifting the option to purchase dental insurance to the FEDVIP would include:

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<sup>26</sup>We previously reported that sound acquisition planning includes an assessment of lessons learned to identify improvements, as well as a comparative evaluation of the costs and benefits of alternatives. See GAO, *Acquisition Planning: Opportunities to Build Strong Foundations for Better Services Contracts*, [GAO-11-672](#) (Washington, D.C.: August 2011), and GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, [GAO-09-3SP](#) (Washington, D.C.: March 2009).

<sup>27</sup>The Federal Employee Dental and Vision Benefits Enhancement Act of 2004 provided OPM with the opportunity to establish arrangements under which dental and vision benefits are made available to federal employees, retirees, and their dependents. Eligible employees and annuitants can choose among four nationwide and three regional dental insurance plans. These benefits are available on an enrollee-pay-all basis. This program allows dental insurance to be purchased on a group basis, which means competitive premiums and no pre-existing condition limitations for enrollment.

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- the loss, for retirees, of the increased ease in use that results from similarities that have been built into the various TRICARE programs, such as similarities across programs in educational materials;
  - potentially higher premiums if the enrollee selects a plan with more extensive dental benefits; and
  - potential resistance to the change among military retirees.

DHA officials told us that it is too soon to determine whether it would be possible to shift the TRDP to the FEDVIP. If it is found to be a viable option, legislative action would be necessary for OPM to open the FEDVIP to military retirees and for DOD to terminate the TRDP.

## ADDP and TDP Contracts

Among other factors, differences in how the ADDP and TDP programs are funded also influenced DHA's decision to use separate contracts for these programs. For example, DOD pays all costs for necessary care provided to active duty servicemembers through the ADDP upon receipt of invoices for individually priced services. In contrast, the TDP is an insurance program: DOD and TDP beneficiaries share in the costs of premiums, which are paid to the contractor; and the contractor is at risk for payment to providers. Thus, unlike the ADDP contractor, the TDP contractor bears the risk of loss if total costs through the program are greater than predicted. (If total costs are lower than predicted, the contractor would earn a larger profit than expected.)

DHA officials told us that they consulted with potential contractors to identify advantages and disadvantages of merging the ADDP and TDP contracts and they concluded that the disadvantages of combining these two contracts, which are largely due to the differences in funding, outweighed the potential advantages.<sup>28</sup> The potential advantages of

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<sup>28</sup>The TDP developed out of a program called the Basic Active Duty Dependents Dental Benefit Plan, which was implemented in 1987. When the ADDP was established in 2008, DHA officials decided to keep it separate from the previously established TDP to avoid extending the TDP contract on a sole-source basis until the agency was ready to procure ADDP services. While federal statute and acquisition regulations generally require that contracts be awarded on the basis of full and open competition, they also permit federal agencies to award noncompetitive contracts in certain circumstances, for example, when only one vendor can supply the requirements or when a sole-source award is made under specified small business programs. Generally, noncompetitive contracts must be supported by written justifications and approvals that address the specific exception to full and open competition that is being applied to the procurement. See, for example, GAO, *Defense Contracting: Actions Needed to Increase Competition*, [GAO-13-325](#) (Washington, D.C.: March 2013).

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combining the contracts that DHA officials and contractors identified included:

- enhanced continuity of care when individuals switch from reserve to active duty;
- fewer instances in which two contractors would need to work together to reconcile payments when an error has been made about whether someone is on active or reserve duty because a single contractor would be responsible for both programs;
- greater leverage in fee negotiations because the pool of potential enrollees would be larger; and
- slight gains in the efficiency of contract administration, particularly for monitoring contractors' performance, thereby allowing TRICARE Dental Care Office staff more time to devote to their other responsibilities.

The potential disadvantages of combining the contracts that DHA officials and contractors identified included:

- a reduction in competition if carriers do not want to participate in one or the other program, do not want to manage two different programs simultaneously under the same contract, or do not want to undertake a contract of the resultant size;
- greater difficulty in selecting the best contractor to award the contract, as one offer may be a better match for the ADDP requirements and another offer a better match for the TDP requirements;
- the potential for confusion among beneficiaries, dentists, and contractor staff because of differences between the programs (such as different benefits and payment requirements); and
- the potential for a compromise on quality if the contractor is not able to meet the requirements of both programs simultaneously and well. In the past, there was an interval during which a single contractor held both the ADDP and TDP contracts, and DHA officials told us that there were problems with this arrangement, including obstacles to care; operational challenges; and confusion among beneficiaries, the contractor, and the military DTFs. They said that these problems negatively affected both the delivery of dental care and the reputation of the military health system.

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Having just awarded the ADDP contract, DHA officials stated that they are not exploring options for combining these contracts. They noted that the government would have to either terminate the ADDP contract early or sole-source the TDP contract to extend it until the ADDP contract expires. They also stated that having to re-solicit a contract would be inefficient.

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## Agency Comments

We requested comments on a draft of this product from DOD. In its written comments, reproduced in appendix I, DOD concurred with the findings of the report and stated that the review provided a critical examination of DOD's contracting initiatives supporting the ADDP, TDP, and TRDP. DOD also provided a technical comment, which was incorporated.

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We are sending copies of this report to appropriate congressional committees, the Secretary of Defense, the Assistant Secretary of Defense (Health Affairs), and other interested parties. The report also will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-7114 or [dsouzav@gao.gov](mailto:dsouzav@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix II.



Vijay A. D'Souza  
Acting Director, Health Care

# Appendix I: Comments from the Department of Defense



## HEALTH AFFAIRS

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WASHINGTON, DC 20301-1200

MAY 16 2014

Mr. Vijay D'Souza  
Acting Director, Health Care  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. D'Souza:

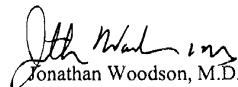
This is the Department of Defense's response to the United States Government Accountability Office (GAO) Draft Report, GAO-14-497, "DEFENSE HEALTH CARE: TRICARE Dental Services Contracts' Requirements and Structure," dated April 25, 2014, (GAO Code 291148). Thank you for the opportunity to review the GAO #291148 Draft Report.

I concur with the report's findings and conclusion and appreciate the GAO's efforts in reviewing this subject. The review provided a critical examination of our contracting initiatives supporting the TRICARE Active Duty Dental Program, the TRICARE Dental Program, and the TRICARE Retiree Dental Program.

Again, thank you for your informative review and the opportunity to comment on the Draft Report. Your support of the Military Health System is appreciated.

My points of contact are Colonel (Col) Gary Martin (Functional), and Mr. Gunther Zimmerman (Audit Liaison). Col Martin may be reached at (703) 681-8862, or Gary.Martin@dha.mil. Mr. Zimmerman may be reached at (703) 681-4360, or Gunther.Zimmerman@dha.mil.

Sincerely,

  
Jonathan Woodson, M.D.

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# Appendix II: GAO Contact and Staff Acknowledgments

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## GAO Contact

Vijay A. D'Souza, (202) 512-7114 or [dsouzav@gao.gov](mailto:dsouzav@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, key contributors to this report were Kristi Peterson, Assistant Director; Kristen Joan Anderson; Jacquelyn Hamilton; Jennel Lockley; and Drew Long.

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