

## DEFENSE HEALTH CARE

### Additional Analysis of Costs and Benefits of Potential Governance Structures Is Needed

#### Why GAO Did This Study

Over the past decade, the cost of the MHS has grown substantially and is projected to reach nearly \$95 billion by 2030 according to the Congressional Budget Office. As health care costs consume an increasingly large portion of the defense budget, current DOD leadership and Congress have recognized the need to better control these costs. Section 716 of the National Defense Authorization Act for Fiscal Year 2012 required DOD to submit a report analyzing potential MHS governance options under consideration, and also required GAO to submit an analysis of these options. In response to this mandate, GAO determined the extent to which DOD's assessment provides complete information on cost implications and the strengths and weaknesses of potential MHS governance options. To conduct this review, GAO analyzed DOD's governance report along with supporting documents, and interviewed Task Force members.

#### What GAO Recommends

GAO recommends that DOD develop (1) a comprehensive cost analysis for its potential MHS governance options, (2) a business case analysis and strategy for implementing its shared services concept, and (3) more complete analyses of the options' strengths and weaknesses. DOD concurred with developing a business case analysis for its shared services concept. DOD did not concur with the other 2 recommendations, stating that further analysis would not alter its conclusions. GAO disagrees and believes that more comprehensive analysis will help to distinguish the differences among the costs and benefits of the options.

View [GAO-12-911](#). For more information, contact Brenda S. Farrell at (202) 512-3604 or [farrellb@gao.gov](mailto:farrellb@gao.gov).

#### What GAO Found

The Department of Defense's (DOD) assessment of potential governance options for its Military Health System (MHS) did not provide complete information on the options' total cost impact and their strengths and weaknesses. As part of DOD's assessment, it identified 13 potential governance options for the MHS and included a limited analysis of the options' estimated costs savings and their strengths and weaknesses. All of the options would create a shared services concept to consolidate common services, such as medical logistics, acquisition, and facility planning, under the control of a single entity. DOD selected an option that would create a defense health agency to, among other things, assume the responsibility for creating and managing shared services, and leave the long-standing military chain of command intact with the services in control of the military hospitals. The National Defense Authorization Act (Act) for Fiscal Year 2012 required DOD to submit a report to congressional committees that would, among other things, estimate the cost savings and analyze the strengths and weaknesses of each option. Using key principles derived from federal guidance, including cost estimating and economic analysis documents, GAO determined that DOD could have provided more information on cost implications and strengths and weaknesses in its report to Congress. Specifically, DOD did not (1) estimate implementation costs and comprehensive cost savings; (2) include a business case to support consolidating common services; or (3) include supporting quantitative data in its analysis of the options' strengths and weaknesses.

- DOD's cost analysis for its potential MHS governance options was limited in that it did not include implementation costs and only estimated personnel costs savings based on some potentially flawed assumptions, such as not using representative salaries to estimate personnel savings.
- DOD did not develop a business case analysis and an implementation strategy for its proposed shared services concept. A business case analysis would, among other things, define the services to be consolidated, cost to implement and efficiencies to be achieved and could support DOD's assertion that implementing shared services could achieve efficiencies. DOD approved a shared services concept two other times since 2006, but it has yet to develop a business case analysis that would provide a data-driven rationale for implementing the concept.
- DOD used a qualitative process with input from internal experts to assess the strengths and weaknesses of the potential governance structures. However, it did not balance this support with quantitative data as its criteria for assessing the strengths and weaknesses specified.

DOD officials stated that they did not provide comprehensive cost estimates or quantitative analysis of the options because an internal 90-day deadline to report back to the Deputy Secretary of Defense did not allow enough time. However, the act requiring DOD to report to Congress was enacted subsequent to DOD's own internal assessment and did not establish a specific deadline. As a result, DOD could have taken time to conduct a more comprehensive analysis before submitting its report.