



Highlights of [GAO-05-773](#), a report to Committees on Armed Services, U.S. Senate and House of Representatives

## Why GAO Did This Study

The Department of Defense (DOD) provides health care through TRICARE—a regionally structured program that uses civilian contractors to maintain provider networks to complement health care provided at military treatment facilities (MTF). In 2004, DOD implemented extensive changes to its TRICARE contracts and regional structure. A committee report accompanying the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 directed GAO to provide information on implementation issues for (1) the new TRICARE contracts and (2) the new regional structure. This report also provides information on the new management tools used to assess (3) contractors' performance and (4) program performance at the MTF and regional levels.

## What GAO Recommends

GAO is making recommendations to DOD that are aimed at determining the costs associated with its automated system for referrals and authorizations to decide what future investments are warranted as well as clarifying responsibilities for contract oversight and establishing protocols for regional offices to collaborate with MTFs to facilitate regional oversight.

DOD concurred with each of GAO's recommendations and stated that it was actively working to manage these issues.

[www.gao.gov/cgi-bin/getrpt?GAO-05-773](http://www.gao.gov/cgi-bin/getrpt?GAO-05-773).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Marcia Crosse at (202) 512-7119 or [crossem@gao.gov](mailto:crossem@gao.gov).

## DEFENSE HEALTH CARE

# Implementation Issues for New TRICARE Contracts and Regional Structure

## What GAO Found

During implementation of the new health care delivery contracts, issues arose that affected the administration of the TRICARE program. These issues increased program costs and impacted operations but had a minimal impact on the delivery of health care to beneficiaries. In particular, DOD's automated referral and authorization system was not available for contractors and MTFs at the start of health care delivery, resulting in the need for labor-intensive manual processes. DOD could not provide comprehensive costs associated with the system's development and subsequent nonavailability, but contractors' initial estimates for implementing manual processes in response to the system's nonavailability exceed \$250 million over the 5-year contract period. DOD continues to incur costs to identify and develop solutions for managing referrals and authorizations and could not yet provide a time frame for when an automated system would be implemented.

Implementation of the new regional structure, called the governance structure, highlighted ambiguities about the roles and responsibilities of the newly established TRICARE regional offices (TRO) with respect to both contract oversight and coordination with the military services' MTFs. DOD offices, which traditionally oversee the contracts, and the TROs, which were assigned contract oversight responsibilities under the plan for the new governance structure, have had difficulties coordinating their responsibilities. In addition, while the governance plan states that TRO directors are to work with MTFs on issues such as maximizing the use of the direct care system, it does not provide the TROs with a protocol for these interactions. TRO directors do not have authority over MTFs and must rely on a collaborative approach to obtain cooperation. In some instances, military service officials have expressed concern that TROs have overstepped their authority by directly providing MTFs with guidance.

DOD has two new management tools for assessing the performance of contractors—performance guarantees and award fees. While performance guarantees serve as the basis for financial penalties, DOD's process for assessing penalties is still evolving. Nonetheless, for the first quarter of the contract year, DOD assessed all contractors with performance guarantee penalties, including penalties related to telephone wait times and the timely submission of referral reports for specialty care. In addition to penalties, DOD uses award fees to provide contractors with financial bonuses based on customer service. All contractors received an award fee for their performance during the first quarter of their contract year.

Although business plans were intended to be the management tools used to assess program performance at the MTF and regional levels, the fiscal year 2005 business plans for MTFs and TROs could not be used as intended for program oversight. Lacking clear guidance, each military service used its own approach to develop MTF business plans. The resulting inconsistencies in content and form impeded development of regional business plans, which are intended to incorporate the regions' MTF business plans. The three military services have collaborated to develop a standard MTF business planning approach—an effort that should improve both the MTF and regional plans for fiscal year 2006.