Memorandum of Agreement
For
DoD-VA Health Care Sharing Incentive Fund

Title of Fund: DoD-VA Health Care Sharing Incentive Fund (Incentive Fund)

Authority: Section 721(d), FY 2003 National Defense Authorization Act (NDAA), P.L. 107-314, and VA/DoD Joint Strategic Plan, Objective 2.3.3. under Goal 2 – High Quality Health Care.

Purpose: Carry out a program to identify, provide incentives to, implement, fund, and evaluate creative coordination and sharing initiatives at the facility, intra-regional, and nationwide level.

Duration of the Fund: Starts October 1, 2003, and ends September 30, 2007, or four fiscal years (i.e., FY 2004 through FY 2007).

Administration of Fund: The Joint Executive Council has delegated the implementation of the Fund to the Health Executive Council (HEC). The Veterans Health Administration (VHA) will administer the fund under the policy guidance and direction of the HEC. VHA will execute funding transfers for projects approved by the HEC or its designee. The VHA Chief Financial Officer (CFO) will provide periodic status reports of the financial balance of the Fund to the Department of Defense (DoD) TRICARE Management Activity (TMA) CFO and to the HEC.

Amount of Annual Contributions: There will be a minimum contribution of $15 million by each Department each year for four years. Total minimum contributions from each Department will be $60 million, with a combined total of $120 million over the four years. Although the authorization legislation only specifies a minimum annual contribution of $15 million by each Department and does not specify a maximum contribution, to ensure equity and consistency between the Departments, neither will exceed the minimum annual contribution unless a higher amount is mutually agreeable to both Departments. The annual contribution of $15 million will be due on October 1, 2003 (and the first day of each fiscal year through October 1, 2006), and the transfer into the Incentive Fund must be completed no later than March 31 of each fiscal year. Both Departments acknowledge that movement of funds into this Treasury account is treated as an appropriation transfer.

Composition of Annual Contributions: The authorizing legislation states that the contribution will come from funds appropriated to the two Departments. Because the legislation does not impose any exclusionary restriction on the source of the contribution, this document will impose no added restriction except as noted in Attachment No. 1, which contains a listing of the funds appropriated to support the medical programs of the two Departments.

Allocations from the Incentive Fund: In accordance with the authorizing legislation, allocations from the Incentive Fund shall remain available until expended. This means that the funds contributed by each Department are not subject to the same time

limitations or restrictions as their donor appropriations, e.g., one-year or two-year funds become no-year funds when placed in the Incentive Fund. Allocations from the Incentive Fund will be used to fund creative coordination and sharing initiatives at the facility, intraregional, and nationwide levels to facilitate the mutually beneficial coordination, use, or exchange of use of the health care resources of the two Departments, with the goal of improving the access to, and quality and cost effectiveness of, the health care provided by VHA and the Military Health System to beneficiaries of both departments. These initiatives must comply with requirements of separate legislation that require separate Congressional approval. The Incentive Fund cannot fund an initiative that would cause either Department to exceed a separately-imposed Congressional ceiling. Attachment No. 2 contains a list of permissible and impermissible uses of the Incentive Fund. The proportion of Incentive Fund allocations to each Department will be dictated by the requirements of each initiative approved by the HEC. This agreement recognizes that each initiative may not benefit both Departments equally. It also recognizes that some benefits to the Departments and its beneficiaries will not be readily measurable or quantifiable, i.e., shorter beneficiary travel times and waiting times, good will, etc. However, over the lifetime of the Incentive Fund, it is understood that, to the extent feasible, allocations made from the Incentive Fund will benefit each Department in a manner reasonably proportionate to that Department's contribution to the Incentive Fund.

Process: There will be formal calls for Incentive Fund initiatives at least annually. Departments and facilities are required to submit mutually agreed upon proposals. DoD submissions will be forwarded through the appropriate intermediate headquarters and Service Surgeons General to the DoD Co-Chair of the Financial Management Work Group (FMWG). VA submissions will be forwarded through the appropriate Network Director or Chief Officer to the VA FMWG Co-Chair. Proposals from joint VA/DoD Committees will be submitted to the FMWG Co-Chairs by the applicable co-chairs. The FMWG will review proposals, as well as other appropriate staff from each Department, to ensure compliance with established Incentive Fund proposal requirements. Other program offices will also review these, depending on the nature of the submission (i.e., capital equipment).

Incentive fund proposals will be initially reviewed to determine how well they meet the criteria listed below. Those meeting initial screening requirements will be asked to submit more detailed information, including a cost benefit analysis, for review by the CFOs. Final proposals will then be forwarded to the HEC for approval by the co-chairs. All final proposal recommendations that have a capital component will be forwarded to the Capital Asset Planning and Coordination Steering Committee (CAPC) for review and input prior to approval by the HEC.

The sites and programs that are funded by the Incentive Fund will be required to submit to the FMWG a brief evaluation/report on their initiative after completion or when fund have been fully expended for the purpose of determining if their goals were met.

Criteria: The following are examples of criteria that will be used to evaluate Incentive Fund proposals:

- New projects/initiatives

- Supports VA/DoD Joint Strategic Plan initiatives
- Improved access to beneficiaries
- Number of beneficiaries impacted by initiative
- Congruent with corporate direction
- Exportable to other facilities
- Total cost savings/avoidance supported by a standard business case analysis format that will be used by DoD and VA (to be provided in a separate document)
- Developing in-house capability for requirement that one or both Departments currently obtain by contract
- Seed money to develop or continue a joint capability that will improve access to healthcare services, improve quality of healthcare services, or improve efficiency and effectiveness of the delivery of healthcare services to each Departments' beneficiaries over the long term
- Initiatives that impact more than one Service within DoD
- Cannot include requests for uses not authorized (see Attachment No. 2)

Annual Recurring Costs: Proposals that include annual recurring costs must become self-sustaining within one or two years as documented by the standard business case analysis format (which will be included in the call for proposals). This means that there would have to be a separate source of funding for the recurring costs other than the Incentive Fund at the end of the approved period. Proposals with a documented one-year or two-year pay back would be evaluated six months prior to the end of the one-year or two-year period to validate that the anticipated pay back is being achieved. If this evaluation shows that the anticipated pay back is not being achieved, then a formal six-month notification of termination will be issued to ensure that the Incentive Fund resources are not encumbered beyond the approved period.

Limitations on the Use of Incentive Funds: Attachment No. 2 identifies the broad categories of potential uses of the Incentive Fund. There are no limitations other than these broad categories. For example, allocated Incentive Funds can be used for one-time investments and/or recurring operations. To ensure continuity of operations of projects involving recurring operations, the Incentive Fund allocations can be used for more than the first year, but not more than two years, of operation unless approved by the HEC (limited by the business case pay back analysis described in the criteria section). The reason for limiting the use of the Incentive Fund for recurring requirements is to ensure that the Fund resources are available to achieve the purposes envisioned by the authorizing legislation.

William Winkenwerder, Jr. 3 June 2004
William Winkenwerder, Jr., MD Date
Assistant Secretary of Defense for Health Affairs

Jonathan B. Perlin 28 June 04
Jonathan B. Perlin, MD, PhD, MSHA, FACP Date
Acting Under Secretary for Health

David S. C. Chu 7 June 04
Honorable David S. C. Chu Date
Under Secretary of Defense, Personnel & Readiness
Department of Defense

Honorable Gordon H. Mansfield Date
Deputy Secretary
Department for Veterans Affairs

Attachment No. 1

Potential Sources of Contributions to the Incentive Fund

Sources of Contributions	Authorized	Not Authorized
DoD Funds		
Defense Health Program (DHP) Appropriation		
One-Year Operation & Maintenance Funds	X	
Three-Year Investment Equipment Funds	X	
Two-Year Research & Development Funds		X
DoD Military Construction (Medical)		X
VA Funds		
Medical Services Appropriation		
One-Year Operating Funds	X	
Two-Year Operating Funds	X	
No-Year Operating Funds	X	
Medical Administration Appropriation		
One-Year Operating Funds	X	
Two-Year Operating Funds	X	
Medical Facilities Appropriation		
One-Year Operating Funds	X	
Two-Year Operating Funds	X	
Major Construction Appropriation		X
Minor Construction Appropriation		X

Attachment No. 2

Potential Uses for Incentive Fund Requests / Allocations

Potential Uses	Authorized	Not Authorized
Major Capital Equipment	X	
Minor Capital Equipment	X	
Salary & Benefits - Civilian Personnel	X	
Salary & Benefits - Military Personnel		X
Major Construction Projects		X
Minor Construction	X	
Major Information Technology Systems		X
Joint VA/DoD Major Construction Planning	X	
Capital Leases	X	
Operating Leases	X	
One-time Investment Costs (other than above)	X	
Recurring Operating Costs	X	
Any Other Activities / Functions approved by the HEC	X	
Any Other Activities / Functions disapproved by the HEC		X