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Testimony

AD-A282 301

For Release
on Delivery
Expected at
2:00 p.m. EST
Thursday
March 15, 1990

DEFENSE's ACQUISITION OF THE
COMPOSITE HEALTH CARE SYSTEM

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Statement of
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Before the
Subcommittee on Military Personnel and Compensation
Committee on Armed Services
United States House of Representatives

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94-23390

Madame Chairman and Members of the Committee:

We appreciate the opportunity to comment on Defense's on-going efforts to acquire and test the Composite Health Care System--commonly referred to as CHCS. Defense is now involved in the operational test and evaluation (OT&E) phase and expects to complete this phase and be in a position to make a deployment decision in October 1990.

My testimony today discusses some of the uncertainties Defense is facing in obtaining the information necessary to make a procurement/deployment decision. These uncertainties relate primarily to whether Defense (1) has allowed itself sufficient time to test and evaluate CHCS adequately and (2) can sufficiently justify the system's estimated $2 billion in benefits prior to its deployment decision. Today, we are issuing our report that discusses, in more detail, the results of our monitoring efforts.

CHCS is intended as a state-of-the art, integrated medical information system that is on the leading edge of technology, far exceeding the capabilities of commercially-available and current Defense hospital information systems. Defense is planning to extend CHCS to all of its 767 medical treatment facilities worldwide.

Problems related to prior Defense efforts and the high cost associated with developing an integrated, automated hospital information system prompted the Congress to direct Defense to implement measures aimed at reducing development risk and controlling costs. For CHCS, the Congress directed Defense to conduct OT&E at no fewer than six sites and submit a report that evaluates OT&E results. Defense is required to provide that report to the Senate and House Armed Services Committees along with a recommendation on how to proceed into deployment.

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I would like to focus my comments, today, on the planned test schedule, estimated benefits, life-cycle costs, and current funding.

TESTING SCHEDULE HAS BEEN COMPRESSED

CHCS has experienced delays in its development and planned OT&E schedule. Originally scheduled for completion in September 1989, OT&E is now scheduled to be finished at the 6 test sites by October 1990. Defense's current plans show that about 38 percent of system software will not be developed and deployed to the test sites by the planned completion of OT&E. This untested software includes some capabilities currently designated as high priority by the Surgeons General. Defense officials estimate that the system software, which will be tested by October 1990, will provide about 87 percent of projected dollar-valued benefits and about 79 percent of the high-priority capabilities.

Defense has reduced the time to perform and evaluate the operational tests from 8 months to 4-6 months. In February 1989, when OT&E was first extended, Defense officials estimated that they would need 8 months for system stabilization and to complete testing and evaluation. They stated that this time was needed to reduce the government's risk, allow more software to be developed and tested, and permit the system to be in routine use at more sites before a deployment decision. They also maintained that gathering data from more-experienced users would improve their ability to better demonstrate system benefits.

Compressing the time to test and evaluate CHCS system performance adds risk to Defense's ability to make a sound deployment decision and will require close Defense monitoring. While the system at Port Knox--the test-bed facility--is working well, the key question is whether this system can be successfully

deployed to the six additional OT&E sites. Defense is confident that it has sufficient time to demonstrate that CHCS can be successfully deployed to a full range of Defense medical facilities. We believe Defense's current test schedule is extremely tight and leaves little room for slippage. Defense will need to monitor the OT&E closely to ensure that adequate information is obtained and that its test and evaluation is not driven by Defense's desire to complete OT&E by October 1990.

CONCERNS ABOUT EXPECTED BENEFITS

Defense's projected dollar benefits for CHCS total more than $2 billion. The benefits are based on deployment to all 767 medical facilities and largely depend on reducing CHAMPUS referrals. Defense's CHCS-benefit study estimated that about 95 percent of the projected benefits is expected to occur in the CHAMPUS program. These projections assume that CHCS will improve the availability and timeliness of patient information, reduce unnecessary repeat visits, and eliminate duplicate tests. According to Defense, this will allow physicians and nurses more time to treat additional patients. Thus, some patients who are now referred to civilian medical facilities under CHAMPUS, would instead, be treated at a military facility.

We have concerns as to whether Defense will be able to realize the projected CHAMPUS benefits. While CHCS may allow facilities to treat more patients, current CHAMPUS regulations allow beneficiaries to get outpatient care from civilian hospitals and physicians without Defense's approval and regardless of whether the military facility has excess capacity. Additionally, the benefit study did not consider restrictions on the number of patients specialists may treat during a given period. For example, the Naval Medical Command limits obstetricians to 20 deliveries a month. In the area served by a certain Naval

hospital, this change alone increased the average monthly CHAMPUS-paid obstetrics cases from 47 to 347.

Defense agrees that estimating CHCS benefits is difficult and is in the process of refining the cost/benefit analysis that will be submitted to the Congress at the conclusion of OT&E.

ESTIMATED LIFE-CYCLE COSTS EXCEED CONGRESSIONAL CEILING

CHCS life-cycle costs for full deployment are expected to be $1.6 billion, or $500 million more than the $1.1-billion congressional ceiling. While we have not evaluated the $500-million increase, Defense states that it is, primarily, the result of a decision to extend the project's life cycle by 5 years. As part of its fiscal year 1991 budget request to the Congress, the program office is requesting that the ceiling be raised to $1.6 billion to cover the estimated life-cycle costs.

APPROVED FUNDING INADEQUATE FOR COMPLETE DEPLOYMENT

The current, congressionally-approved funding level of $740 million for CHCS is about $200 million less than Defense believes is needed to deploy CHCS to all 767 hospitals and clinics. Defense estimates that, at this funding level, CHCS can be deployed to about one-half of its medical facilities, which supports about 57 percent of the services' inpatient care and 39 percent of outpatient care.

Defense's ability to deploy CHCS is further affected by reprogramming actions of the Army and Navy. In 1989, the Defense Inspector General reported that these two services had reprogrammed into other areas about $27 million in funds that were going to be used to deploy CHCS. We have not analyzed the

appropriateness of these reprogramming actions, but will followup on this as part of our continuing review.

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In our view, the major challenges Defense faces are (1) demonstrating that CHCS can be deployed and operated at the 6 test sites, and (2) accurately estimating and demonstrating the benefits to be derived from CHCS by its planned October 1990 procurement/deployment decision date.

We will continue to monitor the progress of CHCS and will be prepared to report, as required by legislation, 30 days after the Armed Services Committees receive Defense's report on the results of OT&E.

Madame Chairman, this concludes my testimony, and we would be pleased to respond to any questions you may have.