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STATEMENT OF
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BEFORE THE
DOMESTIC POLICY SUBCOMMITTEE
OVERSIGHT AND GOVERNMENT REFORM COMMITTEE

ON

“VA Retro Pay Entitlement”

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Chairman Kucinich, distinguished Subcommittee members, my name is Zack Gaddy, and I am the Director of the Defense Finance and Accounting Service (DFAS). Thank you for this opportunity to address the retroactive distribution of federal benefits to disabled retired veterans under the project known as VA Retro.

I want to assure the members of this subcommittee that caring for our military retirees and veterans who have served this nation is one of my top priorities. The DFAS pays more than 2.5 million military retirees and their surviving spouses approximately \$4 billion each month and pays over 283,000 eligible military retirees more than \$298 million monthly for their Combat Related Special Compensation (CRSC) or Concurrent Retirement and Disability Payments (CRDP). During the VA Retro project eligible retirees have continued to receive their current monthly entitlement to these benefits. When the DFAS receives notice from the Department of Veterans Affairs (DVA) that a retiree has a compensable disability of 50 percent, or greater, which establishes a Concurrent Retirement and Disability Payment entitlement, or receives certification from a retiree's military service that the member is eligible for a Combat Related Special Compensation entitlement based on a combat-related disability of 10 percent or greater, current and future monthly payments are initiated within 30 days.

The VA Retro project is a temporary project initiated in 2005 as a joint DFAS and DVA effort to properly pay eligible retirees and veterans all retroactive entitlements that are payable by either agency in the form of retired pay, Concurrent Retirement and Disability Payment, Combat Related Special Compensation, or VA disability compensation. The DFAS was working with the DVA to complete the original 133,057 VA Retro claims, which were identified as our initial potentially eligible claimants in September 2006. We then focused on completing all of the new and returning VA Retro claims that were incorporated into our total claims inventory after the original baseline was established.

Mr. Chairman, I am pleased to report to the Subcommittee that as of July 1, 2008, the DFAS adjudicated all of the original and new and returning claims and as of July 6, 2008, we had adjudicated over 223,000 claims and have paid out over \$145 million in entitlements. We have also created a reliable and repeatable process enabling us to adjudicate incoming claims within 30 days of receipt.

As a matter of background, the term "VA Retro" refers to the retroactive nature of DVA disability awards, which directly impacts disabled retirees' entitlements previously paid by the DFAS and the DVA. Under title 38 of the

United States Code (U.S.C.), retroactive entitlements arise because all DVA disability awards are effective retroactive to the date that a veteran first applied to the DVA. Consequently, when the DFAS is initially informed of a retiree's new or modified DVA award, there is typically a need to calculate a 4 to 6-month retroactive entitlement on the retiree's previously paid retired pay.

Prior to June 1, 2003, a veteran was required to waive the veteran's retired pay entitlement in an amount equal to the full amount of any DVA disability compensation, in compliance with 38 U.S.C. To account for the prohibition on concurrent receipt during the retroactive period of a DVA award, the DVA would not pay the veteran additional compensation for the period that the retiree had previously received retired pay. However, with the enactment of Combat Related Special Compensation and Concurrent Retirement and Disability Payment effective June 1, 2003, and January 1, 2004, respectively, retirees and veterans became entitled to concurrent receipt of retired pay and DVA disability compensation in varying amounts and percentages, depending upon which type of compensation a retiree is eligible to receive.

This fundamental change to the relationship between military retired pay and veterans' disability compensation has been extremely challenging. To determine whether a retiree/veteran is due an additional payment, a retiree's retired pay and DVA disability compensation must be reconciled for the entire retroactive period. This reconciliation requires a comparison of all amounts the disabled retiree originally received with the retiree's total entitlements from all sources after a retroactive DVA award is applied. An accurate reconciliation requires the sharing of data from the separate and distinct DFAS and DVA pay systems designed to comply with the prior statutory prohibition on concurrent receipt.

In November 2007, we missed our self-imposed targeted deadline for completing all of the original claims and had approximately 68,000 claims remaining. At that time, we reviewed our overall approach and revised our plan to complete the remaining original claims by April 2008. By February 2008, we had worked the original inventory down from 68,000 to less than 46,000 claims, but realized that we would be hard pressed to complete the remaining 46,000 claims without taking some extraordinary measures. At that time the Under Secretary of Defense (Comptroller) committed to triple the workforce dedicated to this project. Pursuant to that commitment, by the end of April 2008, the DFAS quadrupled the contractor staffing level from 51 to more than 200 personnel ensuring that there were over 185 personnel manually working claims daily.

In February 2008, the quality control process was streamlined. As the number and size of the payrolls increased and to ensure the timely processing of accurate payments, the review process was adjusted from a pre-payment to a post-payment review to remove potential delays in delivery of accurate VA Retro payments to deserving veterans.

Although process improvements had been made as of March 5, 2008, overall the performance failed to meet planned outcomes and created concern in the contractor's ability to complete the original cases by the deadline of April 2008. Consequently, the DFAS issued a letter of nonperformance. The letter required that they take immediate action to get the plan back on schedule and move the project to completion within established milestones.

During the month of March 2008, the contractor adjudicated more than 13,000 original claims. However, despite quadrupling the work force, streamlining the quality control processes and deploying additional automation, in April 2008, the resulting decreased production was further analyzed. The analysis revealed that the less complex cases had already been processed, while the remaining claims included accounts with a combination of CRSC and CRDP entitlements for veterans with multiple disability percentages and disability codes, as well as claims requiring consideration of former spouses' community property interests, prior year taxes, deaths, and other unique characteristics, requiring manual processing. In many cases, the individual's account history had to be reconstructed using various DVA databases, pdf files, and microfiche that resulted in making the manual adjudication more difficult and time consuming. At this point, we were significantly behind our revised schedule. To compound the problem, the contractor did not have an authoritative set of data sources for consistency in processing between the personnel manually calculating the claims and the quality control team responsible for reviewing and validating the calculation.

Mr. Chairman, at this stage the DFAS took steps to address these shortcomings and to expedite claim processing without sacrificing quality and accuracy.

On April 23, 2008, as a result of a lack of performance and the DFAS's eroding confidence in the contractor's ability to meet its milestones, we issued a second letter documenting the Agency's dissatisfaction and requiring the contractor to get the project back on schedule. In addition, we initiated a Contract Performance Assessment Report (CPAR) to document the unsatisfactory performance. At the same time, we initiated action to transition the cost plus fixed

fee contract modification to a performance-based contract modification that could be implemented before the end of the year for the VA Retro project.

To increase the reliability of the calculated payments and ensure consistency in quality reviews between the production floor and control team, we instituted the use of a standard set of approved data sources for the calculation of each claim. We ensured that the authoritative data sources were approved by the government oversight team for use in calculating the payment and that the data sources used to calculate a retiree's payment were included in each claim file forwarded through quality control for payment. This process minimized calculation errors, expedited reconciliations, and ensured consistency in review and validation through quality control.

To adjudicate the more complex claims, the contractor organized its workforce into teams to enhance collaboration. It realigned select quality control personnel to the production floor to ensure each team produced quality payrolls to go to the quality control team, and it retrained some of its workforce to be able to work multiple complex claim types. They also established a production dashboard to foster performance accountability at every level of the organization down to first line supervisor and employee.

While we were not able to complete the original claims by our self-imposed deadline of April 2008, we were able to adjudicate all of the original and the new and returning claims by July 1, 2008. We also institutionalized a process that enables us to process cases within 30 days of receipt.

Mr. Chairman, I clearly recognize that this subcommittee is concerned about the delays in the distribution of federal benefits to disabled retired veterans who are eligible for a one-time VA Retro payment. I want to assure you that this issue remains one of my top priorities and the DFAS will continue to work together with the DVA and our contract partners to do everything we can to pay retired service members correctly and in a timely fashion.

Thank you.