# DEPARTMENT OF VETERANS AFFAIRS

**The President's Proposal**:

- Fulfills commitments to the nation's veterans by
  - guaranteeing that veterans' disability claims are processed accurately and quickly; and
  - improving health care delivery by coordinating the medical care systems of the Departments of Veterans Affairs and Defense.
- Focuses medical care resources on treating disabled and low-income veterans; and
- Funds major expansion in cemeteries to prepare for increased demands.

**Department of Veterans Affairs**

Anthony J. Principi, Secretary

*www.va.gov* 202–273–4800

**Number of Employees**: 207,028

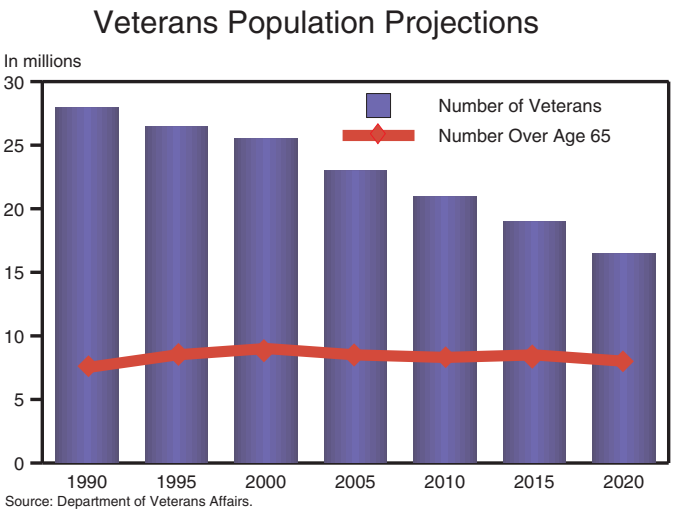
**2002 Spending**: $51.5 billion

**Organization**: Veterans Health Administration, Veterans Benefits Administration, and National Cemetery Administration.

The Department of Veterans Affairs (VA) operates the largest direct health care delivery system in the country; administers veterans' benefits, including monthly disability payments, education assistance, life insurance, home loans, and vocational rehabilitation; and runs a nationwide system of veterans' cemeteries while awarding other burial benefits.

## Overview

Today, there are 25 million veterans, but in the next 20 years this number will decline by one-third, to 17 million (as shown in the accompanying chart). Although VA is charged with providing services to the entire veteran population, fewer than one in five veterans participate in VA programs. The decline in population ultimately will mean that fewer veterans will seek medical care, monthly disability benefits, and burials at VA cemeteries. However, on the immediate horizon, there will be increased usage of some VA benefits and services, as veterans age and more women draw on them. The imperative of recognizing veterans' contributions to the nation means that VA's strategy, business plan, and infrastructure will need to adapt to ensure top-quality services and be flexible enough to handle changing dynamics and waning population.




## Status Report on Select Programs

The Administration is reviewing the management of programs throughout the government. Poor performing programs that are not mission critical will be eliminated, cut back, or reconfigured so that their funding can be redirected to be more effectively used. The accompanying table rates the performance of some of VA's most important programs. Those with ineffective ratings are targeted for rapid improvement.

| Program | Assessment | Explanation |
|---|---|---|
| Disability and Pension Claims Processing | **Ineffective** | VA systems and processes should be flexible to address an ever-changing, demand-driven environment. VA is automating its existing processes slowly but needs to identify and remedy the underlying causes of sluggish processing. It must modernize its information technology capabilities. |
| Care for Disabled and Low-Income Veterans | **Ineffective** | VA's medical care system's ability to provide timely and high-quality care to its core disabled and low-income veterans is being jeopardized by the rapid increase of other veterans receiving VA care. |
| Cemetery Benefits | **Effective** | The National Cemetery Administration strives to provide high quality, courteous, and responsive service in all of its contacts with veterans and their families. Of survey respondents, 92 percent rate the services provided by the national cemeteries as excellent. However, improvements can be made in cemetery system planning. |

| Program | Assessment | Explanation |
|---|---|---|
| Health Care Quality | **Effective** | VA is a recognized leader in health care quality and has been at the forefront of innovations such as bar coding of prescription drugs, computerized patient records, and medical error reporting. |
| Medical Care Infrastructure Assessment (CARES) | **Unknown** | VA has fallen eight months behind schedule on the first of 22 regional studies, and it is yet unclear whether future studies will benefit from correcting weaknesses identified in the first study. |

## Guarantee that Veterans' Disability Claims are Processed Accurately and Quickly

> *I must say that I think the VA has the necessary resources right now to do the job…the Agency can't justify asking for more people right now.*
>
> Vice Admiral Cooper (retired)
> *Government Executive*,
> November 8, 2001

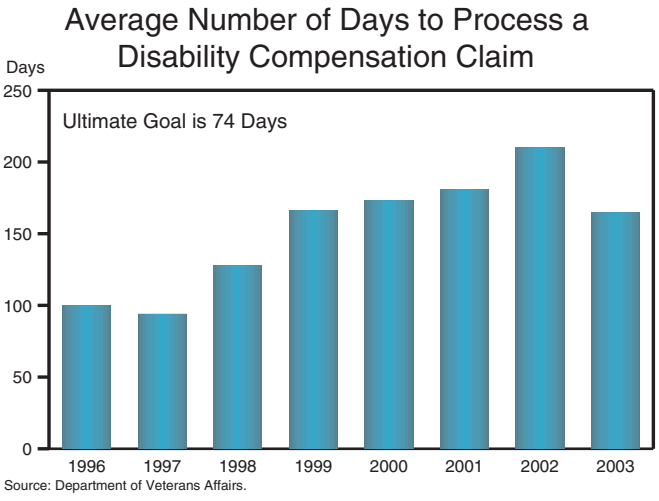
One of the President's top priorities is to make sure that when a veteran submits a claim for a disability, it is processed quickly and accurately. Disability benefits provide a monthly benefit to veterans who are disabled as a result of their military service. Currently, 2.3 million veterans receive these tax-free benefits. The amount awarded to a veteran depends on the severity of the disability. For 2002, the basic monthly benefit ranges from $103 for a 10 percent disability rating to $2,163 for a 100 percent disability rating. Roughly half of veterans receiving compensation are less than 30 percent disabled.

Improving the quality of life of the disabled is a national responsibility. And yet, the time and cost of processing disability claims have steadily increased. The average number of days to process a claim has risen from 100 days in 1996 to 181 days in 2001, and the number of claims awaiting a decision has jumped from 343,000 to over 644,000 during that same period. Meanwhile, the level of benefits paid increased by 27 percent in the past five years, while the cost of administering these benefits more than doubled.

VA benefits help veterans lead active lives.

There are three main reasons for continued poor performance. First, the complexity of the claims has increased because veterans are requesting benefits for more than one disability at a time. Second, laws and regulations are passed with immediate start dates—giving VA no lead time to handle the wave of new work required. Finally, VA has failed to effectively manage its nation-wide system of benefit offices.

To handle a growing backlog of claims, VA has repeatedly turned to hiring more and more employees. Since 1998, nearly 2,000 people have been hired to help process claims. Success, however, will ultimately depend not on hiring new employees, but on the application of modern information tools and, most of all, the establishment of true organizational accountability.




In October 2001, Vice Admiral Daniel L. Cooper (retired), who led the 14-member *Department of Veterans Affairs Claims Processing Task Force*, presented a final report to VA. The report concluded that, as a result of basic flaws in organization and communication, VA is unable to handle the effects of judicial decisions and legislative changes on workload. Productivity is poor, and so far management has proven incapable of introducing change and flexibility into the workplace.

VA should concentrate on radically changing the way it does business. These changes include identifying practices that work best at VA and enforcing their use across the country; allocating both work and funds to the best regional offices; creating specialized processing centers; and developing a computer system that allows people throughout the country to work on individual claims at the same time.

The success of these initiatives must and will be measurable. Speed should not come at the sacrifice of accuracy, or vice versa. VA will use the following two critical performance measures to ensure that its efforts are balanced:

- Process disability compensation and pension claims in an average of 165 days in 2003 (ultimate goal is 74 days—given the legal and medical complexities and VA's responsibility to help prepare claims); and
- Attain an 88 percent national accuracy rate for core rating work in 2003 (ultimate goal is 96 percent)

To deliver services quickly and effectively, it is just as important to establish a relationship between performance and resources, but VA has not done this. The Department cannot, for example, say that for every $500,000 increase in funding, timeliness and accuracy improve by measurable percentages. Until relationships like these are defined, it is impossible to figure out the optimal amount of funding for veterans' services.

## Improve Health Care Delivery by Coordinating the Medical Care Systems of the Departments of Veterans Affairs and Defense

Although VA and the Department of Defense (DoD) both operate very large medical care systems with a combined cost of over $40 billion yearly, historically there has been little cooperation between the Departments. The Departments assert that the most common barriers have been different missions, patient populations, and cultures, as well as differing opinions on who would lead the effort. However, both Departments describe sharing efforts. Only $100 million—or one-quarter of one percent—of $40 billion in expenses passes from one to the other.

**Unnecessary Paperwork**

All veterans, by definition, were members of the Armed Services. While on active duty their (and their families') information was tracked by a system that covered everything from security clearances, to health care entitlements, to commissary privileges.

In an era of rapid high-tech changes, the minute veterans want to apply for VA benefits, they must provide pages of information on paper, that was already on computers at DoD. Likewise, when these same veterans later apply for other VA benefits, they start the process all over again.

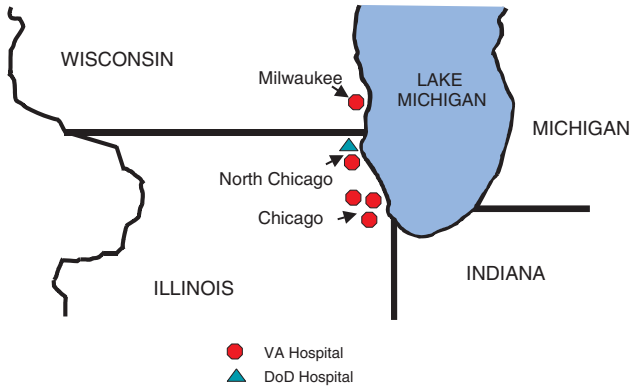
Sharing information and technology can make a world of difference to the military and veteran communities. It can speed up service, ensure veterans' safety, and inform veterans of entitlements that they are due. In addition, information sharing can transmit important knowledge through the departments' walls—replacing the myth that they have little in common.

In many communities, VA and DoD hospitals are close to each other and offer similar services (e.g., primary care, surgery, or eye care). However, traditionally neither has considered the other as an option in determining construction or health delivery needs. In light of the new emphasis on sharing, the DoD and VA are working together to solve mutual problems in the Greater Chicago area, where currently there are five VA hospitals and one DoD hospital as shown in the map. DoD needs more space and had plans to build a new hospital within walking distance of a near-empty VA hospital. Now VA and DoD are planning to jointly share this hospital and save a significant amount of money by reducing construction of new buildings.

**Failure to Communicate**

Military retirees can use both DoD and VA medical care systems. Today, many selectively use both. When a retiree goes to VA for services one week and DoD the next, serious errors can result if the doctors do not know what others have done. Despite information sharing efforts within VA, if drugs ordered in each system have adverse interactions, patients may become gravely ill or die.

Chicago Area VA/DoD Hospitals




Source: Department of Veterans Affairs.

The lack of sharing resources and information also results in a waste of the taxpayers' money. This has frustrated the Congress, which has mandated experimental programs for sharing buildings and people. In addition, the Congress has asked VA and DoD to work together to purchase drugs and other medical supplies at a lower price, resulting in savings to the government.

**Patient Transportation**

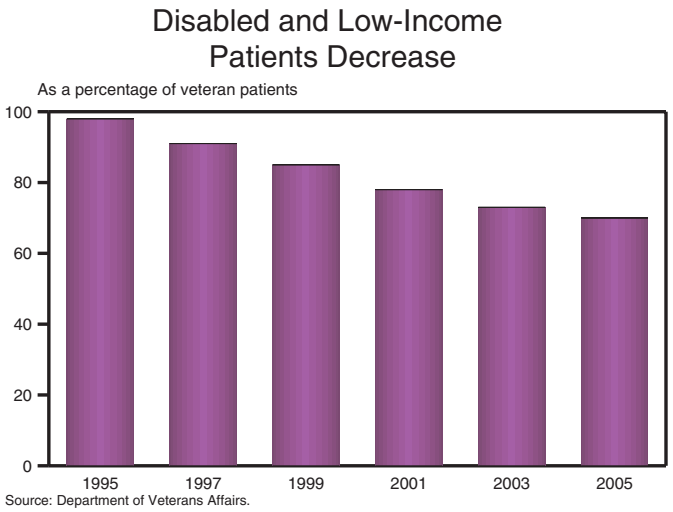
If a veteran needs to be moved long distances from one VA hospital to another, he is typically transported via commercial airline. This is very expensive. DoD routinely transports military patients in planes with unused space. VA and DoD are negotiating how to put VA patients on DoD planes, thereby lowering the cost to both departments.

President Bush made it one of his top priorities to coordinate the two systems. Four areas have been identified as high-priority for coordination: veteran enrollment; computerized patient records; cooperation on air transportation of patients; and facility sharing instead of new construction. The President established a task force that will make recommendations this year to improve the coordination between the two Departments' health care systems.

Moreover, the President's Management Agenda includes an initiative to increase coordination and delivery by VA and DoD of veterans' benefits and services. Over the past year, VA and DoD have undertaken an effort to improve cooperation and sharing in several areas by a reinvigorated VA/DoD Executive Council.

## Focuses Medical Care Resources on Treating Disabled and Low-Income Veterans

A 1996 law, allowing VA to treat patients in the most practical settings, changed the way VA delivers care to veterans in very much the same way as the private sector changed. For example, the Department now provides most of its care in clinics and homes instead of in hospitals. This shift has allowed VA to spend its resources more effectively and has provided patients with more convenient service. At the same time, patients have also benefited from new innovative safety and quality systems. Today, VA is recognized as a world leader in quality medical care.




The same 1996 law also required VA to enroll veterans for medical care in one of seven distinct priority levels. Veterans with military disabilities or low-incomes are in the higher priority levels to preserve VA's core mission. All other veterans fall into the lowest level. The enrollment process requires VA's Secretary to announce, prior to the beginning of each fiscal year, what priority levels of veterans are eligible to receive care given the level of funding enacted into law. Each year since, VA has announced that all veterans are eligible to receive care. When eligible for care, a veteran is entitled to receive the full basic benefits package of services.

Prior to the 1996 law, veterans in the lowest priority level were only treated on a space-available basis, and were restricted as to what care they could receive and where they could receive it. However, since the law took effect, these veterans have grown from two percent to over 21 percent of VA patients as shown in the chart above. They have always been required to pay for a minor portion of their care by the use of co-payments. But given their rapidly escalating numbers, these veterans will consume a critical portion of VA resources at the expense of the disabled, poorer veteran population unless they are required to pay a greater portion of their care. The budget proposes a new $1,500 annual deductible amount for these veterans, whereby they would pay 45 percent of the charge until their out-of-pocket expenses total $1,500.

Although VA has changed the way it provides care to veterans, its buildings are relics of the past. VA's buildings are not located where most veterans live. Although many veterans have moved to the South and Southwest (where waiting times for appointments have grown), VA still maintains underused hospitals throughout the North and East regions of the country (where few seek such services). The General Accounting Office (GAO) reported that VA was wasting up to $1 million a day in keeping these hospitals operating. VA should be expanding the number of clinics where disabled and low-income veterans are living and converting many of its massive hospitals to more efficient clinics, where needed. To do this, VA began a review process in the first of its 22 regions in the fall of 2000. This process is known as Capital Asset Realignment for Enhanced Services (CARES).

The contractor's recommendations were completed June 2001, but VA has not yet decided how to proceed in the other 21 regions. In addition, VA has not modified its contract methods to correct some deficiencies identified in the first study. Savings identified will be used to provide care to veterans in the same or other geographical areas.

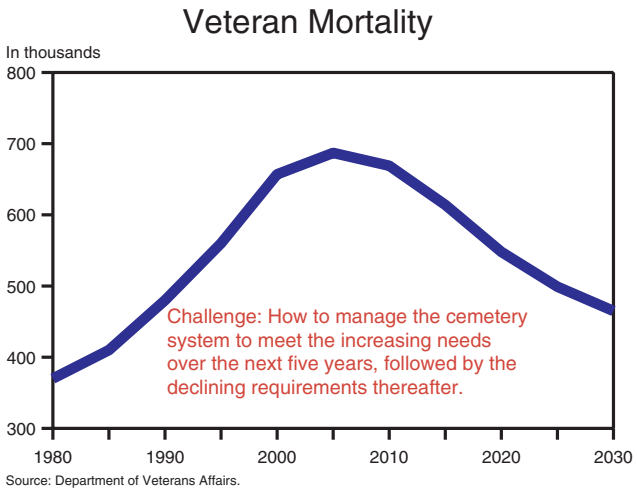
## Funds Major Expansion in Cemeteries to Prepare for Increased Burial Demands

VA cemeteries are rated excellent by almost all.

Over 90 percent of family members and funeral directors who have recently received services from a national cemetery rate the quality of VA's burial services as excellent. By the end of 2002, VA will operate 120 national cemeteries and over 40 VA-funded state cemeteries providing burial services for almost 100,000 veterans and eligible family members per year. VA's goal is to ensure compassionate and good service, while searching for more efficient ways of doing business. For example, kiosk information centers are being placed in cemeteries to assist visitors in finding exact gravesite locations. In addition, VA orders almost all headstones by computer to shorten the waiting times for families.

Soon, VA will have a major challenge in determining the appropriate number, location, and mix of national and state cemeteries as the veteran population continues to decline and as deaths peak over the next decade (see accompanying chart).

One of VA's key goals is to ensure that most veterans have a national or state veterans' cemetery within 75 miles of their home. The recent opening of several new cemeteries, with more on the way, has helped improve veteran access to burial to 73 percent in 2001. Planned performance for 2003 is 76 percent. VA will never be able to accomplish 100 percent, nor should it. It is not cost-effective to construct new national cemeteries in regions with few veterans. Therefore, VA must reevaluate how best to economically maximize caring for the largest number of deceased veterans and their families. To date, though, VA has not defined the minimum number of veterans that national and state cemeteries should serve before construction is justified. Nor has the department suggested substitute benefits that might be appropriate for veterans in under-populated areas.



## Strengthening Management

Although VA has made some progress in addressing its financial performance shortcomings, it has made little progress elsewhere. The Department is working to develop a satisfactory plan to achieve the President's goals for competitive sourcing, E-Government, and human resources. The scorecard below shows VA's 2001 status on the President's management initiatives.

| Initiative | 2001 Status |
|---|---|
| **Human Capital—**VA, like most other federal agencies, faces human capital challenges when its aging workforce retires and leaves gaps in critical skills such as disability claims adjudicators (where it takes several years to train new employees in complex medical and legal skills). The Department will revise its current plan to incorporate more detailed methods of tackling this challenge with clear deliverables and deadlines. In addition, VA will examine the different pay options it has available in order to ensure that geographic shortages of critical medical care providers can be addressed. |  |
| **Competitive Sourcing—**Nearly half of all federal employees perform tasks that are readily available in the commercial marketplace. The Department is developing a plan to meet the Administration's goal of allowing the private sector to compete commercial functions currently done by the government. |  |
| **Financial Management—**VA has persistent problems with internal controls, which include nine material weaknesses, all of which have been carried over from prior years. However, VA has developed a financial management plan to address its problems, and is now moving towards implementing an acceptable financial system. |  |
| **E-Government—**Historically, VA has made major information technology (IT) decisions without thorough analysis. For example, the Department does not coordinate its planning and investment processes, and does not fully develop its justifications for major IT projects. It also lacks an enterprise architecture to make IT investment decisions. In early 2002, VA will produce a timetable for completion of its enterprise architecture. The department also is committed to providing qualified business cases by March 2002. |  |
| **Budget/Performance Integration—**VA cannot monitor with sufficient precision the cost and effectiveness of many of its programs. For example, VA used the Hepatitis C crisis to argue for, and receive, $0.7 billion of additional funding specific to this cause for the three years beginning with 2000. However, VA has been unable to track the expenditure of this amount to Hepatitis C care, to determine how and if the funding changed performance, or report on how veterans have been served nationwide. While VA is working on a comprehensive patient Hepatitis C tracking system, no plans to link this performance with budget have been addressed. VA will present a timetable and plan to link key performance goals throughout the Department with funding levels by June 2002. |  |

## Department of Veterans Affairs

(In millions of dollars)

| | 2001 Actual | Estimate 2002 | Estimate 2003 |
|---|---|---|---|
| **Spending:** | | | |
| Discretionary budget authority: | | | |
| Medical Programs: | *21,352* | *22,529* | *24,023* |
| Medical Care | 20,920 | 22,071 | 23,537 |
| *Medical Collections (non-add)* | *771* | *1,051* | *1,489* |
| Medical Administration | 69 | 74 | 77 |
| Medical and Prosthetic Research | 363 | 384 | 409 |
| Construction: | *361* | *523* | *536* |
| Major Construction | 66 | 183 | 194 |
| Minor Construction | 170 | 211 | 211 |
| Other Construction | 125 | 129 | 132 |
| Veterans Benefits Administration: | *1,049* | *1,166* | *1,408* |
| Benefits Administration: | | | |
| Existing Law | 883 | 998 | 1,039 |
| Legislative Proposal | — | — | 20 |
| Credit Administration | 166 | 168 | 172 |
| VETS State Grant Awards: | | | |
| Existing Law | — | — | — |
| Legislative Proposal | — | — | 177 |
| Other: | *401* | *439* | *479* |
| General Administration | 235 | 253 | 278 |
| General Administration (credit) | 4 | 5 | 5 |
| Inspector General | 48 | 55 | 58 |
| National Cemetery Administration | 114 | 126 | 138 |
| Subtotal, Discretionary budget authority adjusted [1] | 23,164 | 24,657 | 26,447 |
| Remove contingent adjustments | –789 | –831 | –891 |
| Total, Discretionary budget authority | 22,375 | 23,826 | 25,556 |
| Emergency Response Fund, Budgetary resources | — | 2 | — |
| Mandatory Outlays: | | | |
| Veterans Benefits Administration: | | | |
| Compensation and Pensions | 21,420 | 24,905 | 26,421 |
| Montgomery GI Bill Benefits | 1,623 | 2,235 | 2,569 |
| Insurance | 1,231 | 1,287 | 1,315 |
| Credit | 333 | 704 | 342 |
| All other programs and receipt accounts | –1,923 | –2,181 | –368 |
| Subtotal, Mandatory outlays | 22,684 | 26,950 | 30,279 |
| **Credit activity:** | | | |
| Direct Loan Disbursements: | | | |
| Veterans Benefits Administration: | | | |
| Native American Direct Loans and Transitional Housing for Homeless Veterans Loans | 2 | 3 | 15 |

| | 2001 | Estimate | |
|---|---|---|---|
| | Actual | 2002 | 2003 |
| Vendee and Acquired Loans | 1,470 | 1,815 | 1,922 |
| Education and Vocational Rehabilitation Loans | 2 | 3 | 3 |
| Subtotal, Direct loan disbursements | 1,474 | 1,821 | 1,940 |
| Guaranteed Loans: | | | |
| Veterans Benefits Administration: | | | |
| Veterans Home Loan Program | 31,138 | 32,067 | 32,665 |
| Subtotal, Guaranteed loans | 31,138 | 32,067 | 32,665 |

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.