Testimony
Of
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Domestic Policy Subcommittee
Oversight and Government Reform Committee

Department of Veterans Affairs Retroactive Payment (VA Retro)
Project

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Chairman Kucinich, Ranking Member Issa and distinguished Members of the Sub-Committee:

Thank you for the opportunity to discuss the VA Retro Project. I am here today before this Sub-Committee to talk about what the Lockheed Martin Team has done, in conjunction with our customer, the Defense Finance and Accounting Service (DFAS), to accomplish the VA Retro Project's important goal of paying eligible military retirees any retroactive compensation they are due. I look forward to sharing the progress our Lockheed Martin Team has achieved on this important project. Specifically, the VA Retro Project has completed the processing and payment of the original 133,057 retiree's cases, as well as all the new and returning cases identified. All retirees who are identified on an ongoing basis as eligible for a retroactive payment are currently being paid in less than thirty days after we receive their casework.

Background

Prior to June 1, 2003, a veteran was required to waive the full amount of any VA disability compensation from any retired pay entitlement, in compliance with 38 U.S.C. With the enactment of Combat Related Special Compensation (CRSC) and Concurrent Retirement Disability Payments (CRDP) effective June 1, 2003, and January 1, 2004, respectively, retirees and veterans became entitled to concurrent receipt of retired pay and disability compensation in varying amounts and percentages, depending upon which type of compensation a retiree is eligible to receive. Although this change occurred, the DFAS and Department of

Veterans Affairs (DVA) pay systems were designed to comply with the statutory prohibition on concurrent receipt.

Lockheed Martin's involvement in the VA Retro project began in 2005 as a joint DFAS and DVA effort to properly pay eligible retirees and veterans all entitlements that are payable by either agency in the form of retired pay, CRDP, CRSC, or VA compensation after the enactment of the CRSC and CRDP laws The VA Retro project is temporary, focusing on making each retiree/veteran whole for the period prior to DFAS notification of a retroactive VA award, creating an additional entitlement to CRDP, CRSC or additional VA compensation.

To accurately compute whether a retiree/veteran is due an additional payment, the retiree's retired pay and VA disability compensation must be reconciled for the entire retroactive period. This reconciliation requires the sharing of data from the separate and distinct pay systems of DFAS and the DVA.

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Roles and Responsibilities

Lockheed Martin began working with DFAS in 2003 following our acquisition of most of the federal government business of Affiliated Computer Services. We are proud to support the Department of Defense in its important mission of paying our nation's military retirees. Under our DFAS contract, we perform complete payroll and customer service functions for 2.5 million customers, including the disbursement of $3.4 billon each month. On an annual basis, we process 2 million transactions, respond to 3 million customer calls, issue 5 million pay statements and establish 70,000 new accounts. This program demands accurate, timely, personalized business process services for a very special customer base. We have successfully executed on this program since we took it over and take pride in supporting those who have defended our country's freedoms.

In 2006, we began working with DFAS on the VA Retro project as a Task Order under our larger DFAS contract. Under our VA Retro Task Order, we are tasked with processing cases from the original population, as well as the new and returning cases, once we received the data to do so. The original VA Retro Project established a baseline of 133,057 cases. I am pleased to report that all of the original eligible retirees have been paid as of June 6, 2008, and we currently have a backlog of only two weeks for retirees who are identified on an ongoing basis as eligible for a retroactive payment.

The processing entails computing the members' retroactive entitlements in accordance with the business rules set forth by DFAS. We also provide a quality assurance (QA) function necessary to help ensure compliance with government requirements.

The initial phase of the VA Retro project required Lockheed Martin to develop an interim solution to process many of the VA Retro cases. This phase was successfully completed on time and approved by DFAS. A twelve month plan

was then put in place with nine initiatives to complete the 133,057 original cases by November 2007. A key initiative was the use of VA's SLC06 file as the source for disability rating decisions and dates. As part of that plan, we set a goal of processing 66,529 cases by the end of March 2007; this was completed two weeks early. The majority of these cases however did not require combat related disability rating data. By August 2007, we had processed over 102,000 cases. In September 2007 we notified DFAS of a four to six month slip in schedule if we were not able to use the SLC06 file as the source for rating decision data. In December 2007, we determined our plans to automate the process would not work, as data quality did not support automation. Together with our customer, we recognized that most cases would have to be processed manually, and we began an accelerated hiring initiative with a goal of completing the original cases by the end of April 2008. We were successful in completing all original cases on June 6, 2008.

While no one wanted to delay the payments and we were disappointed not to meet our completion targets, we needed to ensure that we met DFAS' important fiscal responsibilities to the American taxpayers by properly and accurately accounting for all payments and meeting the strict guidelines set forth in the law.

The process to determine accurate payments for some of the final cases proved more difficult than anyone anticipated. These cases had multiple conditions and dependencies that had to be processed manually. Many required time-consuming reconstruction of account history using VA and DFAS data and involved factors such as changes to previous years' taxes, deceased retirees, former spouses and other unique characteristics. Identification on May 1, 2008 of a single authoritative data source for each data element greatly simplified the process and supported increased productivity.

Case processing is people intensive, so we doubled and subsequently tripled the workforce originally assigned to the task. The government supported our staffing efforts by moving a portion of the call volume coming into our customer call center to a call center managed by DFAS. This change allowed us to re-allocate some of our staff to meet everyone's top priority of paying the retirees. DFAS took the overflow calls mid-March, and stopped taking them in June 2008. It was done in accordance with federal law and documented in a contracts letter between DFAS and Lockheed Martin. Additionally during this time, we made significant improvements to our reconciliation processes that contributed to decreased processing time and improved quality.

While we provided our best estimate of when we could complete the cases, those estimates were based on dependencies. The dependencies ranged from receiving the data required to support automated processing of cases and finalizing business rules that governed the way cases were adjudicated to obtaining space and equipment for our personnel. Those dependencies, combined with the complexity of the cases, meant we did not finish in November

as we anticipated. Once we were able to resolve all the dependencies, however, we completed the backlog in less than four months.

Throughout this entire project, we followed the quality assurance requirements set forth by DFAS in our contract.   Lockheed Martin's quality processes are documented in specific VA Retro standard operating procedures. They are reviewed by DFAS' quality assurance officer randomly and regularly for appropriateness, ensuring the process supports accurate payroll production. These procedures require us to use authoritative sources of data in adjudicating cases. The decision to begin utilizing Authoritative Data Sources was jointly made between Lockheed Martin and DFAS and with advice from the Department of Veteran Affairs. Subject matter experts from both organizations participated in assessing each data source.

Each payroll is also certified by Lockheed Martin's program manager and both the DFAS assurance officer and certifying officer. DFAS continuously reviews Lockheed Martin processes as one of their inherently governmental responsibilities.

Conclusion

We are proud to be able to work on a project of such critical importance to the Fighting Men and Women of our Nation. Though we have completed the outstanding cases, we are not slowing down improvements in processes, training or technology. We will continue to work with DFAS to provide timely payments to our nation's military retirees and we will apply best practices from lessons learned.

Mr. Chairman, thank you for the opportunity to submit this testimony for the record.