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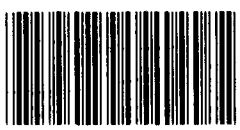
United States General Accounting Office

GAO

Transition Series

December 1992

Veterans Affairs Issues



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GAO **United States**
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

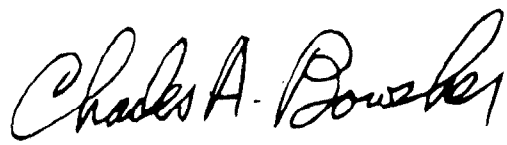
December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report discusses major policy and management issues facing the Congress and new administration in the area of veterans affairs. Since we issued our 1988 transition series report, the Department of Veterans Affairs has made progress in (1) developing a strategic management process, (2) preparing and auditing financial statements, and (3) modernizing its information resources. Further actions are needed, however, to enhance the Department's strategic and operational management. This report also discusses our view that the size of the budget deficit and the prospects for national health care reform require a comprehensive reevaluation of veterans' health and compensation benefits.

The GAO products upon which this report is based are listed at the end of the report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the Secretary-designate of Veterans Affairs.



Charles A. Bowsher

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Veterans Affairs Issues

The Department of Veterans Affairs (VA) has a profound effect on the welfare of our nation's 27 million veterans. VA's 227,000 workers—nearly 1 for every 120 veterans—deliver a wide array of medical, disability compensation, pension, housing, insurance, education, and burial services in more than 1,000 facilities at an annual cost of $34 billion.

Efforts to contain the rising federal deficit will likely mean that VA, like other government entities, will have to operate its programs and activities with increasingly constrained resources. VA has numerous opportunities to operate more cost effectively, thereby saving hundreds of millions of dollars while preserving or enhancing the quality of services it provides to veterans. For example, VA now recovers more than $400 million a year through improved billing and collection procedures for health care. Millions more dollars are lost, however, because VA has not established procedures to verify veterans' reported incomes. If VA is to take advantage of opportunities to improve its cost effectiveness, it must substantially improve its efforts to ensure the timely development and systemwide implementation of policies to correct identified operational problems.

VA and the Congress are likely to face several fundamental policy decisions about the future structure of veterans' benefits. The most significant challenge facing VA could be national health reform. For example, universal coverage could create excess capacity by reducing demand for inpatient care in VA's $15 billion health care system by almost 50 percent. This could offer the potential to (1) reduce substantially the overall size and cost of the system and (2) limit VA's approximately $500 million-a-year health facilities construction program. Similarly, decisions may need to be made on whether to provide disability compensation only to veterans whose disabilities were clearly caused by their military service. About 19 percent of the approximately $10 billion paid in disability compensation now goes to compensate veterans for diseases related to heredity or life-style rather than military service. Other challenges for VA's management include how best to serve an aging veteran population and how to fully incorporate evolving medical treatment patterns and innovative claims-processing technologies into the Department's operations. Meeting all of these challenges will require VA to complete the strategic

management process it started under the previous administration.

Enhancing Strategic Management

As we reported in August 1990, the Secretary of Veterans Affairs initiated strategic management departmentwide. He stated that the goals of this initiative would be to provide the most compassionate and highest-quality service to veterans and their families and become the best-managed federal service organization—a leader in total quality management. Implementation of strategic management is incomplete, however, and achievement of the Department's goals is in jeopardy. To complete implementation, VA will need to

- integrate the planning of its three largely autonomous components —the Veterans Health Administration, Veterans Benefits Administration, and the National Cemetery System—into the Department's overall strategic management;
- develop a more forward-looking, proactive approach to human resource management;
- integrate its information systems; and
- continue efforts to strengthen financial management through preparation of audited financial statements.

Integrating Planning Processes

Strategic management should drive other planning and unify departmental management. Strategic planning and decision-making are fragmented among VA's three components, however, with little involvement by the Secretary. For example, the Veterans Health Administration recently implemented a new planning process independent of Secretarial-level planning. Moreover, VA's annual internal budget process is largely unconnected with the strategic management process. As a result, VA's strategic management will not provide the Secretary with a framework for shaping the future direction of VA's activities. VA's top management needs to continue the previous Secretary's initiative to develop VA's strategic management, integrate the plans of the three components into that process, and periodically assess how each phase of the process can be enhanced.

Strengthening Human Resource Management

In a labor-intensive service organization such as VA, employees are key to achieving management's stated goals of providing high-quality services to its beneficiaries and making the Department the best-managed service delivery organization in the federal sector. Therefore, VA needs effective human resource management focused on such

activities as staffing, employee development, appraisal, and rewards.

VA's traditional approach to personnel management emphasizes compliance with procedural requirements. Although important, such emphasis can limit an agency's ability to develop plans for adapting to change. In recent years, VA has had difficulty dealing with emerging human resource management challenges. For example, it lagged behind the private sector in competing for nursing personnel during the severe shortage in the 1980s.

Developing a forward-looking, proactive approach to human resource management would allow VA to use human resource planning to focus attention on the personnel dimensions of its operations. For example, the trend in the medical community of shifting emphasis from inpatient to outpatient care will undoubtedly require staff with a different mix of jobs and skills. Similarly, efforts to modernize claims processing for veterans' compensation and pension benefits could create a need to retrain VA staff.

With effective human resource management, VA will be able to (1) better anticipate

emerging labor force issues before they become crises and (2) help line managers identify human resource needs and determine what actions to take so that enough employees with the right skills are available when and where they are needed to accomplish goals.

Integrating Information Systems

Major improvements in both the quality of VA's services and the efficiency with which they are provided depend, as we pointed out in our 1988 transition series report, on VA managers' ability to get the right information at the right time. VA has embarked on major systems-modernization efforts to improve its medical and benefit services.

The effectiveness of these efforts is diminished, however, because VA has not integrated currently separate information systems into a system capable of sharing and permitting access to data across all program areas. VA's recent purchase of computer hardware and software for a modernized benefits system may result in a system that requires future replacement because of limited capability, inability to perform as needed, or both.

Strengthening Financial Management

VA has been a leader in attempts to strengthen federal financial management, preparing audited financial statements for 1990 and 1991 as required under the Chief Financial Officers Act of 1990. These statements are included in an annual report assessing the overall soundness of VA's financial management and the effectiveness of its internal controls.

Through this effort, VA has identified a number of improvements needed in its financial management. For example, an audit of VA's 1991 financial statements identified several weaknesses in accounting systems, inadequate physical controls over fixed assets and inventory, and improper calculation of future liability for compensation and pension benefits. VA's new Chief Financial Officer should focus special attention on these issues as VA improves its financial management activities.

Strengthening Operational Management

Linked to strategic management is the need for VA to improve its management of departmental operations. Numerous legislative initiatives are unnecessarily delayed, and identified operational problems have gone unresolved for too long. These delays occur because VA's central office is, at times, slow to establish operational policies and ensure that such policies are carried out appropriately and consistently by field facilities.

Implementing Legislative Initiatives

Field facilities either delay implementation of new legislative initiatives or implement them inconsistently because VA's central office does not provide them with timely policy guidance. For example, VA took more than 11 years to finalize procedures to implement a 1980 legislative change. This change expanded the focus of VA's vocational rehabilitation program to emphasize assisting veterans in finding jobs as well as providing training. We found that many veterans dropped out of the program without finding suitable jobs.

Slow development of policies also cost VA an opportunity to use temporary legislative authority to strengthen its collection of copayments for medical care. The Congress

gave VA authority to use tax records to verify veterans' reported incomes during 1991 and 1992. Because VA did not develop a verification system, it lost an estimated $120 million in copayment revenues for veterans who underreported their incomes to VA. The Congress has recently extended VA's authority to use tax records for an additional 5 years. VA now needs to move quickly to develop and implement policies for using tax records to verify veterans' reported incomes.

Inadequate policy guidance has also resulted in field facilities' inappropriately purchasing millions of dollars worth of medical care from private providers. More than 15 years ago, the Congress authorized VA to make such purchases if the care could be purchased more economically than VA could provide it. Field facilities are purchasing care without making this determination because VA has not provided clear guidance on how cost comparisons are to be made. VA expects to provide the needed guidance to field facilities by early 1993.

Field facilities developed their own interpretations of how a 1986 legislative initiative should be implemented because VA did not provide adequate policy guidance. In

that year, the Congress authorized VA to exempt veterans who were exposed to Agent Orange from copayment liabilities if they were receiving medical care for a condition possibly caused by Agent Orange. Without guidance on how to make this determination, facilities followed policies that ranged from exempting all Vietnam veterans to exempting none, thus providing inequitable benefits to veterans whose cases were similar. VA has said it will correct this problem by early 1993.

Addressing Operational Problems

VA's delays in issuing policy guidance have also impeded correction of identified operating deficiencies. We and others have frequently recommended ways that VA could improve its systems for delivering medical care and processing disability claims. While VA generally responds favorably to such suggestions, its central office is sometimes slow to develop the guidance needed to realize service improvements and cost savings.

A year ago, we recommended that VA modernize its mail-service pharmacies. We found that VA operates too many pharmacies, resulting in uneconomical dispensing practices and labor-intensive processing of

veterans' prescriptions. VA has recently devised a strategy for consolidating and automating its pharmacy operations, but systemwide pharmacy modernization remains several years away. The timely implementation of this modernization offers VA a unique opportunity to substantially improve an important service to veterans while saving millions of dollars in operating costs.

In 1990, the Secretary of Veterans Affairs called for fundamental changes in the way VA provides compensation benefit services to veterans. However, VA's central office has not developed new policies, primarily because it is unsure of what inefficiencies are causing its benefit-claims processes to be burdensome for both VA and claimants. VA could enhance its efforts to improve claims processing by developing a comprehensive approach for determining veterans' service-delivery needs and eliminating barriers to speedy claims resolution. Once this was accomplished, VA would be in a position to develop policies to achieve the Secretary's objectives.

Over the last few years, we have recommended numerous ways that VA could increase its recovery of medical care costs

through improved billing and collection procedures. VA has doubled the amount it has recovered from less than $200 million to more than $400 million by developing policies to implement some of our recommended actions. However, VA can accomplish much more. For example, VA is still routinely billing too many veterans for copayments rather than collecting the payments when veterans receive care. VA also has not developed a standard form that billing clerks can use to determine veterans' copayment charges. Timely development of policies to correct these and other identified inefficiencies are needed if VA's recovery of medical care costs is to realize its full potential.

VA also faces the challenge of developing a system for verifying unreimbursed medical expenses that veterans who receive VA pensions report to VA. Veterans may use these expenses to offset income that is used to determine pension eligibility. In 1991, we reported that VA does not know whether millions of dollars in reported medical expenses are valid. VA is currently developing verification procedures, and it needs to ensure that these procedures are completed and distributed in a timely manner to field facilities.

Monitoring Policy Implementation

Under VA's decentralized management structure, as we noted in our 1988 transition series report, systems need to be in place to enable managers in VA's central office to monitor field facilities to ensure that veterans receive high-quality services.

When VA's central office has monitored field facilities' operations, it has been able to make progress in ensuring that its policies have been implemented and problems corrected. For example, systemwide improvements resulted when the central office became actively involved in ensuring that medical facilities properly validated the credentials of their physicians, controlled inventories of addictive prescription drugs, and prepared for surveys conducted by the Joint Commission on Accreditation of Healthcare Organizations.

But the above examples represent focused initiatives to follow up on specific, identified problems. They do not represent a systematic approach to policy implementation. Because VA's central office does not routinely follow up to determine whether its directives are followed, many problems remain uncorrected. For example:

- Many of VA's problems—identified in 1982—in meeting the health care needs of women veterans still exist more than 10 years later. VA's central office directed medical facilities to identify and correct physical barriers to women's access (such as lack of private rooms or separate bathroom facilities) but did not follow up to see that these barriers were removed. Similarly, facilities were directed to provide women with thorough physical examinations, but no follow-up took place to ensure that they did so.

- VA does not know whether medical facilities are setting accurate salary rates under its recently implemented location-based pay system for nurses. This is because VA has not monitored most medical facilities' implementation of the guidance provided by the central office. As a result, numerous internal control weaknesses exist in a rate-setting system that affects about 15 percent of VA's health care budget.

- As we stated in our 1988 transition series report, resident physicians are inadequately supervised at many VA facilities. VA's central office agreed with recommendations we made in 1986 to improve supervision and issued guidance to its medical facilities that

was intended to help ensure adequate supervision of residents. In 1991, however, we found that many medical centers were not following the guidance.

VA needs a monitoring system that encourages medical centers to follow up to see that identified problems are corrected. As initial steps, VA will need to (1) establish more accountability on the part of the facilities' directors for problem resolution and (2) strengthen its oversight of their corrective actions.

Assessing the Future Structure of Veterans' Benefits

The Congress and the administration will be facing two major struggles—the deficit and health care reform—that could have a dramatic effect on the structure of veterans' benefits. In developing its strategic plans, VA needs to consider such things as (1) its role under reformed national health care, (2) how VA's health care eligibility and benefits can be restructured to enable more veterans to be served with limited resources, and (3) how VA's disability compensation benefits can be reformed to ensure that VA's limited resources are targeted to the most deserving.

Planning VA's Role Under Reformed National Health Care

As the new administration's plans to reform the health care system unfold, they will undoubtedly have a significant impact on VA. Any program that would expand health insurance coverage could substantially reduce the demand for VA-sponsored care. This is because veterans without health insurance are much more likely to use VA services than veterans with other health care options. For example, we estimate that enactment of nationwide employer-mandated health insurance would lower demand for inpatient care in VA facilities by about 18 percent. Passage of universal coverage would reduce demand by almost 50 percent. Lower demand for VA care

could reduce VA's operating costs by shifting a portion of the costs of veterans' health care to employers or a new universal insurance program.

Actions that reduce the number of uninsured veterans are also likely to create excess capacity in existing facilities and reduce the need for new VA construction. In recognition of this, the Congress and VA might want to consider limiting construction of additional acute care capacity until the reformed health care system takes shape. This would (1) free up funds for deficit reduction without affecting current VA health care services, and (2) prevent construction of facilities that could quickly lead to excess capacity. VA currently spends about $500 million a year on construction and renovation of health facilities.

Although many veterans would continue to seek treatment at VA facilities, the magnitude of the likely decrease in demand for VA-sponsored care suggests that plans for restructuring the VA health care system be developed as a part of a national health care reform initiative. Restructuring could include:

- maintaining a smaller direct delivery system strictly for veterans, but focusing on those services, such as treatment of spinal cord injuries and service-connected disabilities, which may not be adequately covered under a reformed national health care system;
- maintaining the current direct delivery system but opening the system to other federal beneficiaries to maintain work loads;
- converting some existing facilities to other uses such as long-term psychiatric care, nursing home care, housing for homeless veterans, or AIDS treatment facilities;
- merging the VA system with one or more of the other federal health care systems, such as that of the Department of Defense; or
- eliminating the separate VA health care system and meeting the nation's commitment to veterans by supplementing the coverage available under a national health care reform initiative.

Restructuring Veterans' Health Care Benefits

Any restructuring of the VA system resulting from a reformed national health care system would likely necessitate changes in VA eligibility and benefits. VA would need to

restructure (1) eligibility to better target resources to veterans without other sources of care and (2) benefits to better serve veterans with VA's limited resources.

The Secretary of Veterans Affairs took an important step in this direction through appointment of a Commission on the Future Structure of Veterans Health Care. The commission, in its November 1991 report, made several recommendations for restructuring VA eligibility and benefits. Among other things, the commission recommended reforming health care eligibility to remove differences in eligibility for inpatient, outpatient, and long-term care and providing service-connected and poor veterans with a full range of needed health care services.

The commission's recommendations will likely be the subject of debate during the next year as legislative proposals are submitted. Refocusing veterans' health benefits to better serve those who need help the most and developing a standard, easily understandable "benefit package" could enable the Department to make better use of its available resources. VA's eligibility reform efforts could also position the Department to adjust veterans' benefits, as needed, to

respond to a national health care reform initiative.

Another reform measure that could enable VA to serve more veterans with available resources involves changing cost sharing. For example, states, more than the federal government, are focusing on ways to serve more nursing home patients with available resources by increasing cost sharing. Many states have implemented or increased copayments for state veterans' home residents. Similarly, many states have programs to recover a portion of their costs to provide nursing home care to Medicaid recipients from the estates of the recipients or their spouses. Application of such cost-sharing techniques to VA's long-term care program could enable VA to provide services to more veterans.

Reforming Veterans' Compensation Benefits

The federal deficit increases pressure to control entitlement expenditures. At the same time, adequate benefits must be provided to veterans and their survivors. The Congress and VA are considering ways to reform veterans' eligibility for compensation and pension benefits and the level of benefits available.

One such reform could be changing the definition of a service-connected disability to require a direct causal link to military service. About 19 percent of veterans receiving VA disability compensation, under current law, have disabilities resulting from diseases contracted during military service that were neither caused nor aggravated by military service. Many of the diseases were related to heredity or life-style rather than to military service. We estimate that VA benefits paid for these types of disabling diseases totaled about $1.7 billion in 1986. Limiting disability compensation to those veterans whose disabilities were clearly caused by their military service could enable the Congress to control entitlement expenditures without penalizing veterans disabled because of their service.

Related GAO Products

Enhancing Strategic Management

Veterans' Benefits: Acquisition of Information Resources for Modernization Is Premature (GAO/IMTEC-93-6, Nov. 4, 1992).

Financial Management: Factors VA Needs to Consider in Implementing the Chief Financial Officers Act of 1990 (GAO/AFMD-91-37, July 23, 1991).

Management of VA: Implementing Strategic Management Process Would Improve Service to Veterans (GAO/HRD-90-109, Aug. 31, 1990).

Veterans Affairs Issues (GAO/OCG-89-14TR, Nov. 1988).

Strengthening Operational Management

VA Health Care: Use of Private Providers Should Be Better Controlled (GAO/HRD-92-109, Sept. 28, 1992).

VA Health Care: Verifying Veterans' Reported Income Could Generate Millions in Copayment Revenues (GAO/HRD-92-159, Sept. 15, 1992).

Vocational Rehabilitation: Better VA Management Needed to Help Disabled Veterans Find Jobs (GAO/HRD-92-100, Sept. 4, 1992).

VA Health Care: Copayment Exemption Procedures Should Be Improved (GAO/HRD-92-77, June 24, 1992).

VA Health Care: The Quality of Care Provided by Some VA Psychiatric Hospitals Is Inadequate (GAO/HRD-92-17, Apr. 22, 1992).

VA Health Care for Women: Despite Progress, Improvements Needed (GAO/HRD-92-23, Jan. 23, 1992).

VA Health Care: Modernizing VA's Mail-Service Pharmacies Should Save Millions of Dollars (GAO/HRD-92-30, Jan. 22, 1992).

Veterans' Benefits: VA Needs to Verify Medical Expenses Claimed by Pension Beneficiaries (GAO/HRD-91-94, July 29, 1991).

VA Health Care: Better Procedures Needed to Maximize Collections From Health Insurers (GAO/HRD-90-64, Apr. 6, 1990).

Assessing the Future Structure of Veterans' Benefits

VA Health Care: Offsetting Long-Term Care Costs by Adopting State Copayment Practices (GAO/HRD-92-96, Aug. 12, 1992).

VA Health Care: Alternative Health Insurance Reduces Demand for VA Care (GAO/HRD-92-79, June 30, 1992).

VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service (GAO/HRD-89-60, July 31, 1989).

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Government Management Issues (GAO/OCG-93-3TR).

Financial Management Issues (GAO/OCG-93-4TR).

Information Management and Technology Issues (GAO/OCG-93-5TR).

Program Evaluation Issues (GAO/OCG-93-6TR).

The Public Service (GAO/OCG-93-7TR).

Program Areas

Health Care Reform (GAO/OCG-93-8TR).

National Security Issues (GAO/OCG-93-9TR).

Financial Services Industry Issues (GAO/OCG-93-10TR).

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Energy Issues (GAO/OCG-93-13TR).

Transportation Issues (GAO/OCG-93-14TR).

Food and Agriculture Issues (GAO/OCG-93-15TR).

Environmental Protection Issues (GAO/OCG-93-16TR).

Natural Resources Management Issues (GAO/OCG-93-17TR).

Education Issues (GAO/OCG-93-18TR).

Labor Issues (GAO/OCG-93-19TR).

Health and Human Services Issues (GAO/OCG-93-20TR).

Veterans Affairs Issues (GAO/OCG-93-21TR).

Housing and Community Development Issues (GAO/OCG-93-22TR).

Justice Issues (GAO/OCG-93-23TR).

Internal Revenue Service Issues (GAO/OCG-93-24TR).

Foreign Economic Assistance Issues (GAO/OCG-93-25TR).

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