September 2006

VA HEALTH CARE

Budget Formulation and Reporting on Budget Execution Need Improvement

GAO Accountability · Integrity · Reliability

Highlights

Highlights of GAO-06-958, a report to congressional requesters

Why GAO Did This Study

The Department of Veterans Affairs (VA) estimates it will serve 5.4 million patients in fiscal year 2006. Medical services for these patients are funded with appropriations, after consideration by Congress of the President's budget request. VA formulates the medical programs portion of that request. VA is also responsible for budget execution—using appropriations and monitoring their use for providing care. For fiscal years 2005 and 2006, the President requested additional funding for VA medical programs, beyond what had been originally requested.

GAO was asked to examine for fiscal years 2005 and 2006 (1) how the President's budget requests for VA medical programs were formulated, (2) how VA monitored and reported to Congress on its budget execution, and (3) which key factors in the budget formulation process contributed to requests for additional funding. To do this, GAO analyzed budget documents and interviewed VA and Office of Management and Budget (OMB) officials.

What GAO Recommends

GAO recommends that VA better explain cost savings from proposed policy changes in budget formulation and provide more comprehensive reporting on budget execution to Congress. VA stated that it substantially agreed with GAO's findings and concurred with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-958.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Laurie E. Ekstrand at (202) 512-7101 or ekstrandl@gao.gov.

What GAO Found

The formulation of the President's budget requests for VA medical programs for fiscal years 2005 and 2006 was informed by VA's comparison of its cost estimate of projected demand for medical services to its anticipated resources. VA projected about 86 percent of its costs using an actuarial model that estimated veterans' demand for health care. To project the costs of long-term care (about 10 percent of the funds for VA medical programs in each of these years) and the remaining medical care costs (about 4 percent), separate estimation approaches were used that did not rely upon an actuarial model but used other methods instead. The agency anticipated resources based on prior year appropriations, guidance from OMB, and other factors. For both fiscal years, VA officials told GAO that projected costs—calculated from the actuarial model and other approaches—exceeded anticipated resources and that they addressed the difference in budget requests for those years with cost-saving policy proposals and management efficiencies.

Although VA staff closely monitored budget execution and identified problems for fiscal years 2005 and 2006, VA did not report this information to Congress in a sufficiently informative manner. VA closely monitored the fiscal year 2005 budget as early as October 2004, anticipating challenges managing within its resources. However, Congress did not learn of these challenges until April 2005. VA initially planned to manage within its budget for fiscal year 2005 by delaying some spending on equipment and nonrecurring maintenance and drawing on funds it had planned to carry over into 2006. Instead, the President requested additional funds from Congress for both fiscal years 2005 (a $975 million supplemental appropriation in June 2005) and 2006 (a budget amendment of $1.977 billion in July 2005). Congress included in the 2006 appropriations act a requirement for VA to submit quarterly reports regarding the medical programs budget status during this fiscal year. These reports have not included some of the measures that would be useful for congressional oversight, such as patient workload measures to capture costs and the time required for new patients to be scheduled for their first primary care appointment.

Unrealistic assumptions, errors in estimation, and insufficient data were key factors in VA's budget formulation process that contributed to the requests for additional funding for fiscal years 2005 and 2006. Unrealistic assumptions about how quickly cost savings could be realized from proposed nursing home policy changes contributed to the additional requests, as did computation errors measuring the estimated effect of one of these changes. Insufficient data in VA's initial budget projections also contributed to the additional funding requests. For example, VA underestimated the cost of serving veterans returning from Iraq and Afghanistan, in part because estimates for fiscal year 2005 were based on data that largely predated the Iraq conflict and because according to VA, the agency had challenges for fiscal year 2006 in obtaining data from the Department of Defense.