DEPARTMENT OF VETERANS AFFAIRS

The President's Proposal:

- Is the largest annual increase ever requested by a President;
- Refocuses medical care resources on treating veterans with military disabilities, low-income or special needs;
- 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 Defense and Veterans Affairs; and
- Funds a major expansion in cemeteries to prepare for increased burial demands, due to the aging of veterans.

The Department's Major Challenge:

- Managing the large increase in demand for health care services.

Department of Veterans Affairs

Anthony J. Principi, Secretary

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Number of Employees: 211,764

2003 Spending: $56.9 billion

Infrastructure: VA owns 30,217 acres of land and 5,558 buildings; VA operates 163 hospitals, 850 ambulatory care and community-based outpatient clinics, and 120 national cemeteries.

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. VA also supports medical research; administers veterans' benefits including monthly disability payments, education assistance, life insurance, home loans, and vocational rehabilitation and employment services to veterans. In addition, VA runs veterans' cemeteries across the country. The President's 2004 request for VA represents more than a 30-percent increase over the 2001 level and is the largest annual increase ever requested by a President.

Overview

Today, there are 26 million veterans, but in the next 20 years this number will fall by one-third, to 17 million. Although all veterans are eligible for VA services, fewer than six million veterans

participate in its programs. A declining population eventually will mean that fewer veterans will seek medical care, monthly disability benefits, and burials at VA cemeteries. On the immediate horizon, however, veterans healthcare and other costs have continued to rise.

Refocusing Medical Care's Core Mission


VA benefits help veterans lead active lives.

In 1996, a law was passed allowing VA to treat all veterans in the most practical settings. This law permitted VA to deliver care similar to the private sector. As a result, most VA care is now provided in clinics and homes instead of hospitals. Patients have also benefited from new innovative safety and quality systems. Today, VA is recognized as a world leader in quality medical care, as described by an Institute of Medicine October 2002 report.

VA is working to ensure its facilities are located where most veterans live to support this new way of delivering services. Many veterans have moved to the South and Southwest resulting in increased waiting times for appointments. At the same time, VA maintains many underused hospitals throughout the North and East. VA needs to increase services where veterans with military disabilities or low-incomes live and convert many of its massive hospitals to more efficient clinics, where needed. To do this, in June 2001, the Department completed a review process in the first of 21 regions, the Chicago region, and is now implementing the recommendations. Work has begun in the remaining 20 regions, and a nationwide plan for change is expected this fall. The budget provides $225 million of needed construction funding.

The 1996 law also required VA to assign veterans receiving medical care to one of seven priority levels. An eighth priority level was later added. These levels are designed to prioritize the need for care among veterans, thus giving greatest preference to those with the most severe health problems and the least financial resources. Veterans with military disabilities, low incomes or special needs are given higher priority levels in line with VA's core mission. Veterans without these characteristics fall into the lowest levels (Priority Levels 7 and 8). Based on the level of funding provided by the Congress, the VA Secretary announces annually which priority levels of veterans are eligible to receive care. Each year since 1998, VA has announced that all veterans are eligible to receive care. Eligible veterans, regardless of income or the nature of their illness or injury, are entitled to receive the full basic benefits package of services. Prior to the 1996 law, veterans in the lowest two priority levels were only treated if space was available, and they were restricted as to the kind of care they could receive and where they could receive it. However, since the law passed, these veterans have grown from two percent to over 31 percent of VA enrollees in 2002. The rapidly escalating numbers of these veterans will require a growing portion of VA resources, reducing the resources available for veterans with disabilities or low incomes. As a result, 236,000 veterans now must wait six months or longer for an appointment.

The President's Budget includes a number of changes that refocus attention on VA's core medical care mission of providing needed services to veterans with military disabilities or low incomes as well as those with special needs. It assumes that, in early 2003, Priority Level 8 veterans will not be able to enroll if they are not yet using VA medical care. However, Priority Level 8 veterans currently enrolled will not lose that status. Priority Level 7 and Priority Level 8 veterans will pay an annual enrollment fee, and increased drug co-payments. Institutional long-term care will only be available

The VA Company Store

Congress created the Veterans Canteen Service in 1946 to furnish merchandise and services for the comfort of veterans in VA hospitals and nursing homes. In 57 years the Canteens have evolved from a collection of soda fountains and closet-sized hospital gift shops into a nationwide system of 148 commercial food courts and/or retail outlets—where one can even buy computers, large-screen televisions, tires, and refrigerators. The 3,000 employees that work in this "VA Company Store" provide services commonly found in local markets. Taxpayers pay since VA provides below-market rental space to more than half of the Canteens, and because purchases from the Canteen are tax-free. The Canteen Service should be open to private competition—on an equal basis with other bidders—to ensure the best use of taxpayer funds.

to veterans with disability ratings of 70 percent or greater. No veterans currently receiving care will be displaced.

Increasing Coordination between VA and the Department of Defense (DoD)

Initiative	Status	Progress
Coordination of VA and DoD Programs and Systems		

Over 700,000 veterans each year use both VA and DoD for medical care services. However, neither Department can access the other's computerized enrollment information or patient records. This causes an increased burden on veterans, an inability to manage a patient's care safely, and duplication of effort and cost. In addition, there are scores of VA and DoD facilities in the same geographic areas that would benefit from sharing services and space.

In the past year, top leadership at DoD and VA created a joint Executive Council that began to implement changes in five key areas:

Information Technology: VA has agreed to use DoD's eligibility and enrollment system—providing veterans with seamless services as they leave the military and apply for benefits at VA. The Departments also are working on computerized patient medical records that will allow instant exchange of patient information by the end of 2005. Both joint efforts will reduce costs, increase efficiency, and escalate the pace of coordination.

Common Medical Business Practices: The Departments recently agreed upon the costs of sharing specific services. In the future they will address common business processes for medical coding, billing and collection, financial management, and budget development.

Shared Hospitals and Equipment: Despite administering a combined 240 hospitals, DoD and VA operate only seven joint ventures. These existing ventures include a hospital that shares services and staff as well as sites where DoD and VA hospitals are co-located. This year, VA and DoD will test sharing arrangements that use the same business practices and medical supplies and drugs.

Coordinated Human Resources: Currently, staff coordination is limited to a few locations. The Departments have recently initiated coordinated staff training programs. As a first step, the Army is sending four cardiac surgeons to work in VA hospitals on a three-year training assignment for increasing skills, reducing costs, and providing VA with additional support.

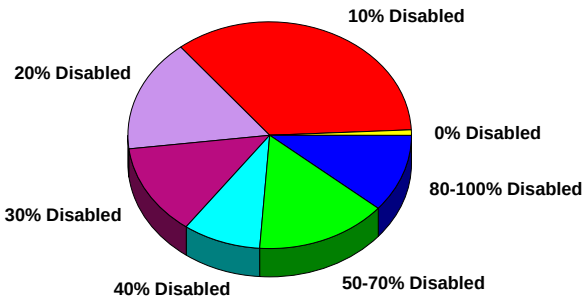
Other Cooperation: High-level DoD and VA officials have made medical care coordination a high priority. It is also one of the 14 priorities in the President's Management Agenda. In the past year, the Departments increased VA's use of DoD's patient air transport system. Early results have generated savings for VA while providing DoD with more training opportunities. The two Departments have increased joint procurement activities for medical supplies, equipment, and pharmaceuticals, and are testing whether DoD should use VA's mail order pharmacy system.

Readying Veterans' Disability Compensation for the Future

Monthly veterans' disability compensation checks are a benefit to veterans who have a disability connected to their military service. It is the workers' compensation program for the armed forces. Like other federal and state workers' compensation programs, VA's benefits complement retired pay and disability annuities provided by DoD. Currently, 2.3 million veterans are receiving these tax-free benefits from VA. The amount awarded to a veteran depends on the severity or degree of the disability. For 2003, the basic monthly benefit, set in law, ranges from $104 for a 10 percent disability rating to $2,193 for a 100 percent disability rating. Many veterans receive additional amounts for having dependents, severe disabilities, or being housebound—as much as 70 percent above the basic benefit. As the accompanying chart indicates, 65 percent of veterans receiving compensation are rated at 30 percent disabled or less—with diseases such as arthritis, diabetes, and high blood pressure.

Improving the quality of life of veterans with disabilities is a national responsibility. To this end, veterans' disability claims should be quickly processed. The processing of disability claims has been especially challenging for VA, not only because of the sheer scope and size of the program, but also because new legislation and regulation further expanded benefits and, therefore, the number of claims needing review. As such, much of VA's focus in 2002 was on reducing the backlog of claims from 644,000 to 501,000.

Over Half of Veterans Receiving Benefits Are Less Than 30% Disabled



Source: Department of Veterans Affairs, 2001 data.

Is Yesterday's Disability Today's?

Disabled veterans are assumed to earn less after military service than non-disabled veterans. Yet no study to measure the income loss associated with each specific disability has been conducted since 1945. Over the years, new types of disabilities have been added continually, but old ones are rarely removed. Many of the covered disabilities are not commonly associated with a loss of earnings today—such as acne scars, hemorrhoids, arthritis and ulcers. As such, benefit payments are unlikely to reflect actual income loss; in fact, they may be too low or too high.

VA's aggressive management and hiring of new claims examiners accounts for the reduction in the backlog. Both claims examiners and their supervisors have been subject to increased accountability and held to performance standards with real consequences. Performing offices get more resources and more work. Non-performing offices are continually monitored and challenged to improve—risking the loss of resources, work, and ultimately, their top management. VA has both timeliness and accuracy performance measures to ensure that its efforts are balanced. As a result of VA's focus, the number of days to process a claim will drop from 209 in 2002 to 100 in 2004. During this same timeframe accuracy will increase from 80 percent to 90 percent.

Having dealt effectively with a tidal wave of work, VA anticipates that both its workforce and workload will stabilize in 2004, and VA is poised to lay the groundwork for future challenges. For example, some automation has occurred at VA. The current process for reviewing claims looks very much the way it did in the 1940s, with voluminous paper files and examiners heavily dependent on retrieving

records from far-flung warehouses. Since veterans tend to apply for increased benefits decades after separation from the military, the location and quality of these records are often difficult to establish.

VA now has the opportunity to accelerate the development of a system where information is viewed on computers, thereby allowing people to work on a claim at the same time in different places around the country. This involves accepting all new claims electronically, making electronic copies of existing files, and sharing medical exams with DoD. In 2004, VA will conduct an evaluation of the disability compensation program, in part, to examine whether the program improves the quality of life of veterans with disabilities while truly replacing lost income. The evaluation will compare the income of veterans who are and those who are not receiving disability compensation payments.

Expanding the Cemetery System for Increased Burial Demands

In 2003, almost 110,000 veterans, service members, and eligible family members will be buried in 120 VA national cemeteries and 54 VA-funded state veteran's cemeteries. The veteran population continues to decline as veteran's mortality increases. VA's major challenge is determining the appropriate number, location, and mix of national and state cemeteries to address the increased need. VA seeks to ensure accessible and compassionate service, and it is succeeding. Over 90 percent of family members and funeral directors who have recently received services from a national cemetery rate the quality as excellent. For example, VA orders almost all headstones electronically to shorten the waiting times for families. And kiosks are placed in cemeteries to assist visitors in locating gravesites. VA will open four cemeteries in 2004.

The Burial Benefits program has earned a high rating using the Program Assessment Rating Tool (PART), due to the program's clear mission and effective management. Improvement, however, can be made in strategic planning. VA made great progress recently when it released an ultimate configuration of the cemetery system, which prioritized future construction efforts and defined the minimum number of veterans that national cemeteries should serve before construction is justified. Furthermore, to enhance the appearance of cemeteries to those befitting national shrines, VA has received $25 million in additional funds over the last three years. However, it lacks a way to define needs and performance measures. The Department is addressing this weakness.

Common Measures

Health Care

The federal government is developing a set of common measures for five functions performed in different departments. Such measures will allow comparisons regarding the effectiveness and efficiency of similar programs. The 2004 Budget takes the first step toward assessing the performance of federal health care systems by displaying newly developed access, quality, and efficiency common measures for VA's and DoD's health systems, as well as the Department of Health and Human Services' Community Health Centers and Indian Health Service.

When looking at the results of common measures, it is important to understand key differences in programs for a proper context. The cost and efficiency measures below have not been adjusted for differences between VA and other agencies— including risk/health status, socioeconomic status, age, gender, and benefit package differences. For example, VA's benefits package includes services such as spinal cord and traumatic brain injury care, long-term care, and care to the seriously mentally ill, which are not prevalent in all other programs and which impact resource needs.

Overview of the Veteran's Affairs Health Care System

	2004 estimate
Number of individual patients	4,836,298
Annual appropriations request (in millions of dollars)	27,547,424
Medical workers	19,318
Average age of individual patients	60.3
Male and female individual patients (percent)	91% (Male) 9% (Female)
Cost directed to in-house services, excluding contract services (percent)	95%

Health Care Common Measures

2001 and 2002

Measure/Description	Goal	2001 Actual	2002 Estimate
Cost—Average cost per unique patient (total federal and other obligations)	Under Development	$5,019	$4,928
Efficiency—Annual number of outpatient visits per medical worker	Under Development	2,487	2,719
Quality—The percentage of diabetic patients taking the HbA1c blood test in the past year	Under Development	93%	93%

Note: Research funding is excluded. Medical workers include the equivalent number of full time physicians, dentists, nurse practitioners, physician assistants, and nurse mid-wife providers, but exclude appointments by off-site contractors medical residents/interns and trainees. However, patient visit numbers include visits to medical residents, contracted employees, and trainees. Cost information includes all direct costs of military health care in the DoD budget and in the trust funds.

Job Training Common Measures

The job training measures, which will be applied to VA's Vocational Rehabilitation and Employment program, gauge program results in four areas: entered employment, retention in employment, earnings increase, and efficiency. VA has begun collecting information on these measures and will begin reporting results in 2005.

Performance Evaluation of Select Programs

The following table rates the performance effectiveness of some of VA's most important programs. Sometimes these factors fall outside a department's control, but in most instances the burden for delivering results appropriately rests on an agency's management. For further details on these programs, please see the VA chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
Disability Compensation	Results Not Demonstrated	The program provides financial benefits for income loss due to service-related disabilities. The PART revealed that VA currently provides benefits for disabilities that are not considered a barrier to productive employment, as it is based on 1945 standards.	The 2004 scheduled program evaluation should examine if the program reflects medical technology and changes in workplace conditions since 1945, if benefit amounts reflect income loss experienced by disabled veterans, and how it complements or conflicts with other programs.
Medical Care	Results Not Demonstrated	The VA provides health care to an estimated 4.4 million veterans. While the quality of care for those veterans in the system is exceptional, results cannot be demonstrated because there is no clear consensus among Congress, the Administration, and the public on who should be offered care. While all veterans are currently offered care, waiting lists are growing and VA can not easily focus on poor and disabled veterans. VA's medical care mission, its goals, and how to achieve them need to be clarified.	VA should continue to realign the infrastructure crucial to caring for veterans' needs. Services and resources should be re-focused on veterans with service-connected disabilities, those with low incomes, and those with special needs.
Burial Benefits	Moderately Effective	This program provides high quality, courteous, and responsive service to veterans and their families. Of surveyed respondents, 92 percent rate the services as excellent. However, strategic planning improvements can be made.	Areas for improvement identified in the PART are: additional performance measures for the National Shrine Commitment and monetary benefit; a management accountability system; and a cost accounting system. VA is working on these items.

Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					

Arrows indicate change in status since baseline evaluation on September 30, 2001.

VA has made significant progress in these areas. The Department will compete 52,000 jobs over the next five years (such as laundry, food and sanitation services), with an estimated cost savings of approximately $3 billion. VA initiated the first phase of its new electronic financial management system and is resolving most material weaknesses reported in its audit. The Department developed an overarching Enterprise Architecture for all its Information Technology (IT), successfully justified IT projects in the budget, and expanded its participation in E-Gov initiatives. VA not only submitted its 2004 budget on time, but also completed a comprehensive budget restructuring.

Department of Veterans Affairs

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending:			
Discretionary budget authority:			
Medical Programs	22,256	23,609	26,228
Medical Care	21,500	22,815	25,406
[Medical Care Collections] (non-add)	*985*	*1,616*	*2,141*
Research	756	794	822
Benefit Programs	1,378	1,422	1,483
Disability Compensation	603	610	621
Pension	156	155	152
Education	75	97	99
Vocational Rehabilitation and Employment	120	132	135
Housing	168	171	207
Insurance	4	4	4
Burial Benefits	252	253	265
Departmental Administration	306	327	346
General Administration	252	271	284
Inspector General	54	56	62
Total, discretionary budget authority	23,940	25,358	28,057
Mandatory outlays:			
Medical Programs	36	32	34
Benefits Programs and Receipts	27,070	31,860	34,042
Disability Compensation			
Existing Law	22,418	25,013	26,906
Legislative Proposal	—	—	−124
Pension	3,166	3,290	3,384
Education	1,440	1,957	2,144
Vocational Rehabilitation and Employment	484	529	561
Housing	754	1,119	301
Insurance	1,198	1,236	1,248
Burial Benefits	134	157	162
Other receipts and transactions	−2,524	−1,441	−540
Departmental Administration	−214	−4	13
Total, mandatory outlays	26,892	31,888	34,089
Credit activity:			
Direct loan disbursements:			
Benefits Programs			
Vocational Rehabilitation Loans	3	3	4
Native American Veteran Housing Loans	6	13	13
Vendee and Acquired Loans	1,058	311	284
Total, direct loan disbursements	1,067	327	301
Guaranteed loans:			
Benefits Programs			
Veterans Home Loans	37,071	34,800	35,247
Loan Sales	967	471	—
Total, guaranteed loans	38,038	35,271	35,247