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

Health, Education, and
Human Services Division

B-282879

July 20, 1999

The Honorable Dick Armey
Majority Leader
House of Representatives

The Honorable Dan Burton
Chairman, Committee on Government Reform
House of Representatives

The Honorable Fred Thompson
Chairman, Committee on Governmental Affairs
United States Senate

Subject: Observations on the Department of Veterans Affairs' Fiscal Year 2000 Performance Plan

As you requested, we have reviewed and evaluated the fiscal year 2000 performance plans for the 24 Chief Financial Officers (CFO) Act agencies that were submitted to Congress as required by the Government Performance and Results Act of 1993 (Results Act). Enclosure I to this letter provides our observations on the fiscal year 2000 performance plan for the Department of Veterans Affairs (VA). Enclosure II lists management challenges we and VA's Inspector General identified that the agency faces and the applicable goals and measures in the fiscal year 2000 annual performance plan.

Our objectives were to (1) assess the usefulness of the agency's plan for decisionmaking and (2) identify the degree of improvement the agency's fiscal year 2000 performance plan represents over the fiscal year 1999 plan. Our observations were generally based on the requirements of the Results Act, guidance to agencies from the Office of Management and Budget (OMB) for developing the plan (OMB Circular A-11, Part 2), our previous reports and knowledge of VA's operations and programs, and our observations on VA's fiscal year 1999 performance plan. Our summary report on the CFO Act agencies' fiscal year 2000 plans contains a complete discussion of our objectives, scope, and methodology.¹

¹ Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

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As agreed, unless you announce the contents of this letter earlier, we plan no further distribution until 30 days from the date of the letter. If you have any questions regarding this correspondence, please contact me on (202) 512-7101. Key contributors to this assignment were Shelia Drake, Ira Spears, Gregory Whitney, and Paul Wright.

A handwritten signature in black ink that reads "Stephen P. Backhus". The signature is written in a cursive style with a large, prominent 'S' at the beginning.

Stephen P. Backhus
Director, Veterans' Affairs and
Military Health Care Issues

Enclosures - 2

Observations of the Department of Veterans Affairs' Performance Plan for Fiscal Year 2000

The Department of Veterans Affairs' (VA) fiscal year 2000 annual performance plan provides a general picture of intended performance across VA, a generally complete discussion of strategies and resources that VA will use to achieve its goals, and limited confidence that VA's performance information will be credible. The plan (1) presents performance goals and measures, along with baseline and trend data, that cover all of VA's major programs, except that there are no results-oriented goals for fiscal year 2000 for three programs; (2) explicitly links specific strategies and initiatives to each of VA's key performance goals and also summarizes these strategies and initiatives for each major program; and (3) discusses performance information weaknesses that will not be corrected until future years.

Figure 1 highlights the plan's major strengths and key weaknesses as VA seeks to make additional improvements to its plan for programs operated by the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), and National Cemetery Administration (NCA).

Figure 1: Major Strengths and Key Weaknesses of VA's Fiscal Year 2000 Performance Plan

Major Strengths

- Contains quantified fiscal year 2000 performance goals and measures for all of VA's major programs and the program activities in VA's budget request.
- Explicitly links strategies, crosscutting activities, mission-critical management problems, and data sources to each of VA's key performance goals.
- Provides an indepth discussion of performance data reliability problems and VA's initiatives for addressing these problems.

Key Weaknesses

- Contains process-oriented, but no results-oriented, performance goals for fiscal year 2000 for VBA's compensation, pension, and insurance programs. For these programs, the plan defines some interim outcome goals and measures, without target performance levels, that will be used as the basis for developing results-oriented goals and measures.
- Discusses data verification and validation procedures for some, but not all, key performance goals and measures.

VA's fiscal year 2000 performance plan represents moderate improvement in addressing weaknesses that we identified in its fiscal year 1999 performance plan. For example, the fiscal year 1999 plan included no results-oriented performance goals or measures for VBA's

compensation, pension, or insurance programs. By contrast, while the fiscal year 2000 plan still does not include results-oriented goals for these three programs, it does provide interim outcome performance goals and measures, although the target level of performance to be achieved for the coming year is not defined. For instance, to ensure that veterans are compensated for their loss in earning capacity due to service-connected disabilities, the plan includes an interim goal that would measure the percentage of veterans receiving compensation whose total income exceeds that of like-circumstanced non-veterans. However, the plan does not provide a performance target level for fiscal year 2000.

Another area of improvement is the discussion of crosscutting activities of other federal agencies, state and local governments, and the private sector. While the fiscal year 1999 plan basically was limited to a listing of other entities with crosscutting interests, the fiscal year 2000 plan briefly describes an extensive array of crosscutting activities and explicitly associates applicable crosscutting activities with each key performance goal. It also provides details on how VA and other agencies with similar or related responsibilities are cooperating. For example, VA's vocational rehabilitation program has a goal of placing more disabled veterans in jobs. Toward this end, VA and the Department of Labor have established a cooperative training program designed to increase the efficiency and effectiveness of staff from both agencies in preparing disabled veterans for the job market.

In another area of improvement, the fiscal year 1999 plan did not provide plans and time frames for completing the conversion of VA's computer systems to avoid Year 2000 computer problems. By contrast, the fiscal year 2000 plan states that VA is on target to have all computer system conversions completed and tested by March 1999 and that VA had already renovated 99.7 percent of its mission-critical computer software applications, including all payment-related applications and those supporting health care.

Also, compared with last year's plan, the fiscal year 2000 plan provides an in-depth discussion of VA's actions to begin addressing weaknesses in data systems and performance information. For example, at the request of the Under Secretary for Health, VHA held a Data Validation Summit in December 1998 to develop strategies for eliminating problems that contribute to data validity deficiencies, such as a lack of standard definitions, decentralized approaches to data collection and implementation of automated systems, local modification of systems, lack of knowledge or understanding about systems, and difficulty in coordinating more than 140 VHA databases.

VA's Performance Plan Provides a General Picture of Intended Performance Across VA

VA's fiscal year 2000 performance plan provides a general picture of intended performance across the agency. The plan presents performance goals and measures that cover all of VA's 10 major programs in VHA, VBA, and NCA and the program activities in VA's budget request. Also, for each key performance goal, the plan provides baseline and trend data for comparison of actual and anticipated performance. For example, with fiscal year 1997 as the baseline, VHA has a performance goal of increasing the number of unique patients treated in the health care system by 16 percent by fiscal year 2000. VHA's strategic goal is to increase this percentage by 20 percent by fiscal year 2002.

Some performance goals directly address or incorporate strategies designed to help resolve mission-critical management problems. In addition, VA's plan includes a discussion of the current status of resolution of each problem and the expected completion date for some problems. For example, VA's plan identifies long processing times for compensation and pension claims as a mission-critical management problem, and VA has established a performance goal to reduce the time required to process these claims to an average of 95 days for fiscal year 2000. However, VA has not set performance goals for resolving all mission-critical management problems. For example, VA's annual performance plan does not include performance goals or measures for correcting the material weaknesses identified in the VA Inspector General's (IG) audit of VA's fiscal year 1998 financial statements or goals for achieving unqualified opinions on subsequent financial statements. The plan does state that plans are in place to resolve all issues and obtain an unqualified audit opinion for fiscal year 1999.

By major program, the plan lists and briefly describes an extensive array of crosscutting activities that VA is conducting in cooperation with other federal agencies, state and local governments, and the private sector. Furthermore, the plan explicitly associates applicable crosscutting activities with each key performance goal and provides details on how VA and other agencies with similar or related responsibilities are cooperating. For example, VA's vocational rehabilitation program has a goal of placing more disabled veterans in jobs. Toward this end, VA and the Department of Labor have established a cooperative training program designed to increase the efficiency and effectiveness of staff from both agencies in preparing disabled veterans for the job market. In another instance, to help meet the goal of improving timeliness in processing disability compensation claims, VA is working with the Department of Defense (DOD) to reduce the time required to obtain military medical records and military service verification from DOD. To do this, VA and DOD are creating a local area network that will allow VA to obtain such information electronically.

VA's plan contains goals that are complementary and mutually reinforcing of each other. For instance, VHA's primary health care strategy is composed of three complementary, mutually reinforcing performance goals, to be achieved by fiscal year 2002, referred to as the 30-20-10 strategy. With fiscal year 1997 as the baseline, VHA has separate goals that focus on (1) reducing cost per patient by 30 percent, (2) increasing the number of patients served by 20 percent, and (3) increasing to 10 percent the portion of the medical care budget derived from alternative revenue sources. VHA's ability to fund the costs associated with serving 20 percent more patients than in the past will depend in large part on VHA's success in meeting its goals to decrease cost per patient and increase revenues from alternative sources.

VA's fiscal year 2000 performance plan represents moderate improvement in addressing weaknesses that we identified in its fiscal year 1999 performance plan as it relates to providing a picture of intended performance across VA. For example, while the fiscal year 1999 plan included no results-oriented performance goals or measures for VBA's compensation, pension, or insurance programs, the fiscal year 2000 plan provides interim—although unquantified—outcome performance goals and measures. For instance, to ensure that veterans are compensated for their loss in earning capacity as a result of service-connected disabilities, the plan includes an interim goal that focuses on the percentage of veterans receiving compensation whose total income exceeds that of like-circumstanced nonveterans. However, this interim goal is not yet quantified. According to the plan, the interim goals and measures for the compensation, pension, and insurance programs will help VA, in consultation with its stakeholders, to fully develop results-oriented performance goals and measures for these programs.

Unlike the fiscal year 1999 plan, the fiscal year 2000 plan explicitly links crosscutting activities of other federal and state agencies to VA's key goals and performance measures. In some instances, the plan provides details on how VA is coordinating crosscutting activities and how such coordination will enhance VA's ability to meet its goals. For example, VA's vocational rehabilitation program has a goal of placing more disabled veterans in jobs. Toward this end, VA and the Department of Labor have established a cooperative training program designed to increase the efficiency and effectiveness of staff from both agencies in preparing disabled veterans for the job market. In another instance, to help meet the goal of improving timeliness in processing disability compensation claims, VA is working with DOD to reduce the time required to obtain military medical records and military service verification from DOD. To do this, VA and DOD are creating a local area network that will allow VA to obtain such information electronically.

VA's Performance Plan Provides a General Discussion of the Strategies and Resources VA Will Use to Achieve Its Goals

VA's fiscal year 2000 performance plan provides a general discussion of strategies and resources the agency will use to achieve performance goals. In doing so, the plan explicitly links specific strategies and initiatives to each of VA's key performance goals and also summarizes these strategies and initiatives for each major program. For example, a key fiscal year 2000 performance goal for VBA's Housing program is to improve the extent to which VA helps veterans avoid foreclosures when they are delinquent in making payments on guaranteed home loans. To do this, according to the plan, VBA will implement a new foreclosure management system that will automate routine administrative tasks, thereby enabling VBA staff to spend more time helping veterans avoid foreclosure. The system also will provide the staff with better information on available alternatives to foreclosure.

However, in some instances, the plan's discussion of strategies does not clearly explain how the goal will be achieved. For example, one of VHA's goals is to increase to 10 percent the portion of medical care funding that comes from alternative sources such as third-party insurers and Medicare. While the plan discusses a proposal that would allow VA to bill Medicare for medical costs incurred to treat Medicare-eligible veterans, the plan does not discuss strategies for improving VA's ability to recover medical care costs from third-party insurers.

The plan discusses external factors that may have an impact on VA's ability to achieve certain performance goals; however, the plan provides little or no discussion of how VA plans to mitigate the effects of these factors. For example, the plan includes a fiscal year 2000 performance goal to increase to 77 percent the proportion of veterans served by a burial option in a national or state veterans' cemetery within a reasonable distance (75 miles) of their residence. The plan states that part of VA's strategy for ensuring that it meets the burial needs of veterans is to establish and expand state veterans' cemeteries to complement VA's system of national cemeteries. NCA administers the State Cemetery Grants Program, which provides grants to states of up to 100 percent of the cost of establishing, expanding, or improving state cemeteries in areas where NCA has no plans to operate and maintain a national cemetery. However, before a state cemetery can be established, the state must enact its own legislation to commit funding to a project that will serve a clearly defined population, and state funds are required for ongoing maintenance. VA does not discuss how it will encourage states to take needed actions or how it will meet its goal if states do not enact such legislation.

Regarding the use of human capital, VA has fiscal year 2000 performance goals to increase compensation claims processing accuracy to 81 percent and to reduce claims processing time to an average of 95 days. In discussing means and strategies related to accuracy and timeliness, VA's performance plan acknowledges that VBA will need to hire and train additional employees to replace a sizeable portion of the compensation and pension claims processing workforce who will become eligible for retirement within 5 years. To train these new employees, as well as existing employees, VBA is developing training packages using instructional systems development methodology and will measure training effectiveness through performance-based testing, which is intended to lead to certification of employees.

VA's fiscal year 2000 performance plan represents moderate improvement in addressing weaknesses that we identified in its fiscal year 1999 performance plan as it relates to providing a specific discussion of strategies and resources that VA will use to achieve performance goals. For example, we stated in our report on VA's fiscal year 1999 plan that VA's budget structure does not facilitate making clear linkages between performance goals and program activities. While the same difficulty continues to exist, the fiscal year 2000 plan, in contrast with last year's plan, provides the requested fiscal year 2000 funding amounts and the associated staffing levels for 9 of its 10 programs. The remaining program, Medical Education, is basically funded through the Medical Care account, for which funding and staffing levels are provided. In its plan, VA states it is working with the Office of Management and Budget to develop a budget account restructuring proposal, but any such proposal would require congressional approval before implementation.

The fiscal year 1999 plan did not provide plans and time frames for completing the conversion of VA's computer systems to avoid Year 2000 computer problems. The fiscal year 2000 plan states that VA is on target to have all computer system conversions completed and tested by March 1999 and that VA had already renovated 99.7 percent of its mission-critical computer software applications, including all payment-related applications and those supporting health care.

VA's Performance Plan Provides Limited Confidence That VA Performance Information Will Be Credible

From an overall perspective, the plan provides limited confidence that VA's performance information will be credible for measuring fiscal year 2000 performance; however, the plan does provide some confidence that the credibility of performance information will improve in future years. VA's plan acknowledges the existence of significant data limitations and discusses actions aimed toward correcting these deficiencies. For example, at the request of the Under Secretary for Health, VHA held a Data Validation Summit in December 1998. The

purpose of the summit was to develop strategies for eliminating problems contributing to data validity deficiencies, such as a lack of standard definitions, decentralized approaches to data collection and implementation of automated systems, local modification of systems, lack of knowledge or understanding about systems, and difficulty in coordinating more than 140 VHA databases.

Although it does not do so for all individual performance goals, the plan discusses VA's efforts to verify and validate performance information. For example, to audit the validity, reliability, and integrity of performance measures, VA's IG met with VA managers and staff to determine the most critical data elements for examination. From this collaboration, 36 data elements were identified as essential for reporting on VA's performance measures, and 11 of these 36 were judged as the most critical on the basis of importance to VA's operational mission and susceptibility to manipulation or erroneous reporting in VHA, VBA, and NCA. For example, among the 11 are (1) average days for VBA to complete original compensation claims, (2) number of unique patients served by VHA, and (3) percentage of veteran population served by the existence of a burial option within a reasonable distance of their residence. The audit of the 11 data elements is being done in phases, but all will be completed during fiscal year 1999. Upon completion, the IG will meet with VA officials to determine whether the remaining 25 data elements are still considered critical and warrant further audits.

The plan's discussion of specific performance goals identifies actions to compensate for unavailable or low-quality data for some goals. The plan also includes a discussion of verification and validity issues that identifies opportunities and strategies for addressing low-quality data. For example, the IG found in its audit of VBA performance measures on timeliness of claims processing that timeliness data were unreliable because inaccurate data had been entered in the system, and these data reflected shorter than actual processing times. The IG concluded that VBA can improve the reliability and integrity of its timeliness performance measures by improved management review and oversight. VBA responded to the IG's findings by, for example, reviewing recent transactions to determine whether the system was being manipulated or errors were going undetected, communicating specific guidance to field offices listing unacceptable practices, and initiating reviews in field offices. On a continuing basis, VBA periodically requests data extracts from the Data Processing Centers to identify any field offices that appear to be manipulating data, and VBA's Compensation and Pension Service decided to reinstitute the practice of on-site field office surveys.

In addition, according to the plan, VA is taking steps to validate measurement systems; develop processes for staff and independent consultants to examine methodologies; have models reviewed by expert panels; and obtain independent evaluations from nationally

recognized experts to review methods of data collection, statistical analysis, and reporting. The plan states that external reviews are essential in order to help depoliticize issues related to data validity and reliability. Also, the plan states that initiating a data verification policy will increase the level of confidence that there is a high level of data validity and reliability and help to ensure that there is a lack of evidence for systematic bias.

VA's fiscal year 2000 performance plan represents moderate improvement in addressing weaknesses that we identified in its fiscal year 1999 performance plan as it relates to inspiring confidence that performance information will be credible. For example, VA's fiscal year 2000 plan explicitly identifies for each key performance goal the data sources VA will use to measure performance. However, while the plan clearly explains how VA will verify and validate data reliability for some performance goals, it does not do so for others. For example, to measure VHA's success in increasing the number of patients in the health care system, VA will use data from the Veterans Equitable Resource Allocation Patient Database. The plan states that internal controls are in place to ensure that Social Security numbers are not duplicated and records are valid. Also, the IG will report during the current fiscal year on the IG's assessment of the reliability and validity of data on patients treated. By contrast, to measure VBA's success in assisting veterans to avoid foreclosure when they become delinquent in making payments on guaranteed home loans, VA will use data from the Loan Service and Claims System and the Distribution of Operational Resources, but the plan provides no discussion of how data from these systems are verified and validated.

In September 1998, we reported on VA's information security weaknesses. These weaknesses make VA vulnerable to the inadvertent or deliberate misuse, fraudulent use, or destruction of data. As a result, financial and other management information, including cost information, produced for and provided to VA program managers and congressional decisionmakers, could be inaccurate. VA's fiscal year 1999 plan did not address this issue. By contrast, the fiscal year 2000 plan identifies computer security as a mission-critical management problem and lists the recommendations made by GAO and the IG regarding computer security. However, the plan does not include action plans or a time line for addressing the computer security issue. The performance plan states VA will prepare by the end of fiscal year 1999 a milestone chart with a targeted correction plan.

In addition, from an overall perspective, VA does not yet have all of the information sources and the capacity needed—through its accounting and information systems—to generate reliable data to support its performance plan and to produce credible performance reports. In March 1999, the IG gave VA a qualified opinion on its fiscal year 1998 financial statements due in part to material weaknesses in accounting in the Housing Credit Assistance program. A similar concern was reported on VA's fiscal year 1997 financial statements. The auditors were unable to satisfy themselves as to the recorded balances in this program's accounts

because accounting procedures were not being consistently followed or internal controls were not operating effectively. VBA staff is in the process of correcting a number of weaknesses in the financial reporting process, and VA's fiscal year 2000 plan identifies as a mission-critical management problem the need to have an unqualified opinion for VA's fiscal year 1999 financial statements. However, the plan does not include performance goals or measures for achieving this objective.

The IG's qualified opinion on the fiscal year 1998 financial statements also resulted in part from material weaknesses in VA-wide information system security controls, which had been identified as a concern in the audit of VA's fiscal year 1997 financial statements. While VA's fiscal year 1999 plan did not address information system security problems, VA's fiscal year 2000 plan identifies this issue as a mission-critical management problem and lists recommendations made by GAO and the IG regarding this issue. However, as mentioned, the plan does not include action plans or a time line for addressing the information systems security issue. The plan states only that VA will prepare a milestone chart with a targeted correction plan by the end of fiscal year 1999.

In its Federal Managers Financial Integrity Act report for fiscal year 1998, VA reported loan guaranty financial modernization, loan service and claims, and loan sale program management as material weaknesses. VA's performance plan identifies each of these issues as a mission-critical management problem. According to the plan, to resolve the loan service and claims issue, VA is implementing an automated loan servicing system that is scheduled to be completed in fiscal year 2000. Also, the plan describes actions to correct the loan sale program management problem by the end of fiscal year 1999. In addressing loan guaranty financial modernization, the plan describes intended corrective actions but does not provide a target completion date.

According to VA's fiscal year 1998 audit report, cost accounting systems were not in place during the fiscal year to accumulate activity-level cost data. Thus, VA cannot accumulate and report the full cost of its programs, activities, and outputs on a regular and consistent basis, as required by federal financial accounting standards. The plan states VBA will implement a cost accounting system for administrative activities in late fiscal year 1999. In fiscal year 2000, according to the plan, VHA will implement a new cost allocation system, and NCA will implement an activity-based cost accounting/management system.

Other Observations on VA's Implementation of Performance-Based Management

On the basis of information discussed in the fiscal year 2000 plan, VA has made progress in instilling performance-based management into its daily operations. In the past, the performance of VHA executives was evaluated on the basis of a wide variety of inconsistent standards that were difficult to measure. As a result, over 2 years ago, VHA initiated a performance contract system whereby the Under Secretary for Health negotiates performance agreements with all senior executives in VHA. These performance agreements focus on about 15 quantifiable performance targets. In addition, executives are held accountable for achieving goals pertaining to workforce diversity, labor-management partnerships, and staff education and training. Plans are under way to extend the performance contract approach throughout VHA.

At the beginning of fiscal year 1999, VBA began implementing the "balanced scorecard" approach as a tool to measure performance and ensure that VBA keeps proper focus on its strategic vision. For each of VBA's programs, the balanced scorecard uses five performance measures: accuracy, speed, customer satisfaction, cost, and employee development and satisfaction. This combination of measures creates a picture of service delivery and demonstrates how VBA is translating its strategic objectives into action.

Also, VA has developed Internet-based tools for executives, managers, and analysts to use in assessing program performance information throughout the fiscal year. These tools provide easy access to critical performance data and are available to VA employees around the country.

Agency Comments

VA commented on a draft summary of our assessment of its fiscal year 2000 performance plan. VA found our assessment, on the whole, to be fair and accurate and stated that our observations will be helpful in identifying enhancements to its future plans. However, VA concluded that we apparently expected the plan to provide a greater level of detail than VA believed was required. This comment related particularly to the performance plan's treatment of management problems.

In our summary, we stated that VA's plan did not include performance goals for resolving all the management problems identified in VA's plan as mission-critical or for resolving other issues previously identified as management challenges by us and/or VA's IG. In its comments, VA stated its view that the purpose of the performance plan is to report on key

performance measures representing VA's highest priorities for its major programs. Moreover, VA stated that it is not necessary to include performance goals for each mission-critical management problem in addition to program performance goals.

While we agree that the plan's primary focus should be the key performance measures for VA's highest priorities for its major programs, the plan should also describe the actions being taken to address management problems, particularly those that are mission critical, as suggested by Office of Management and Budget (OMB) Circular A-11.¹ This circular also recommends that plans include performance goals for management problems that could potentially impede achievement of program goals. As mentioned, VA's plan does not include performance goals for all mission-critical management problems and other management challenges.

VA also provided technical comments and suggestions, which we have incorporated where appropriate.

¹OMB encourages agencies to describe the actions being taken to address management problems. OMB, Preparation and Submission of Budget Estimates, OMB Circular A-11 (Washington, D.C.: OMB/Executive Office of the President, 1998), section 220.11(e), p. 314. OMB Circular A-11 states: "Performance goals for management problems should be included in the annual plan, particularly for problems whose resolution is mission-critical, or which could potentially impede achievement of program goals. Often, such performance goals will be expressed as milestone events for specific remedial steps." (Section 220.9(e), p. 311.)

Management Challenges

GAO and VA's IG have identified numerous management challenges VA will face in the future. VA faces challenges in its efforts to restructure its health care system—for example, the need to align its health care infrastructure with the needs of VA health care users. In the nonmedical benefits area, a major challenge for VA is to improve the efficiency and accuracy of processing veterans' claims for compensation. VA also faces challenges in improving the management of its information and financial systems, and in improving the accuracy and reliability of its management data. Table II.1 below summarizes the management challenges identified by us and VA's IG, and identifies any applicable performance goals and measures in VA's fiscal year 2000 performance plan.

Table II.1 Management Challenges in VA's Fiscal Year 2000 Performance Plan

GAO identified management challenge	Applicable references in the fiscal year 2000 annual performance plan
<p>VA's health care infrastructure does not meet its current and future needs. Specifically:</p> <ul style="list-style-type: none"> • VA's facilities are deteriorating, inappropriately configured, or no longer needed because of their age and VA's shift from providing specialized inpatient services to providing primary care in an outpatient setting. • Unneeded vacant space creates a financial drain on VA and maintaining unproductive assets siphons valuable resources away from providing direct medical services. 	<p>None. While the plan acknowledges the continued need to shift resources toward outpatient care, it does not directly provide goals or measures for reconfiguring its infrastructure to meet its needs.</p> <ul style="list-style-type: none"> • None, however, one of VA's general goals is to reduce costs, which will be achieved in part by minimizing hospital use and converting inpatient services to outpatient services, when possible, and increasing the proportion of resources devoted to direct patient care. The associated performance goal is to reduce the average cost per patient by 18 percent between FY 1997 and FY 2000. • There is no goal or measure for eliminating vacant space and unproductive assets. However, the general goal calls for the "right sizing" of facilities. VA plans to implement that goal by consolidating and realigning services and facilities where there are costly redundancy and opportunities to achieve economies of scale, or when service or workload measures fall below minimum levels, to ensure cost effectiveness and clinical quality. However, the plan does not describe quantifiable goals or performance measures for these activities.
<p>VA lacks adequate information to ensure that veterans have access to needed health care services. Specifically, VA lacks accurate, reliable, and consistent information for measuring the extent to which:</p> <ul style="list-style-type: none"> • Veterans receive equitable access to care across the country. 	<p>None</p> <ul style="list-style-type: none"> • None. However, the plan contains two related performance goals addressing expanding access. Performance measures include (1) the number of unique patients treated in the healthcare system will increase by 16 percent between FY 1997 and FY 2000, and (2) the number of Community-Based Outpatient Clinics (CBOCs) will increase to 622 by

Enclosure II
Management Challenges

GAO identified management challenge	Applicable references in the fiscal year 2000 annual performance plan
<ul style="list-style-type: none"> All veterans enrolled in VA's health care system are receiving the care they need. VA is maintaining its capacity to care for special populations, such as veterans with spinal cord injuries, amputations, or traumatic brain injuries, or who are blind. <p>(The IG also identified resource allocation in the VA's health care system as a management challenge. The IG will continue to monitor VHA's progress in improving the balance of distribution of staffing and other resources.)</p>	<p>FY 2000 will be expanded. (Fewer than 300 existed in FY 1997.) The plan also lists as a mission-critical management problem the disparities in clinical and administrative staffing levels in VA facilities. VA is addressing the disparities by using its Veterans Equitable Resource Allocation (VERA) model, by which VA is to allocate funding to local facilities based on workload (e.g. patients treated), rather than the traditional incremental increases to prior year allocations.</p> <ul style="list-style-type: none"> None. However, the plan includes performance goals addressing customer satisfaction, prevention, and coordination of care: Performance indicators include the following: First, the percentage of patients rating VA healthcare as very good or excellent will increase to 83 percent by FY 2000. (2) to improve the overall health care of veterans, VA's scores on the chronic disease and prevention indices will increase to 93 and 89 percent, respectively, by fiscal year 2000; and (3) to improve clinicians' accountability for coordinating and providing veterans' health care needs, the percentage of patients who know there is one provider or team in charge of their care will increase to 89 percent by FY 2000. None. However, the plan contains several goals related to special populations. For example, the plan has a goal for increasing the number of community-based beds for homeless veterans to 4,673 in FY 2000.
<p>VA lacks outcome measures and data to assess the impact of managed care initiatives. Specifically, VA does not know how its rapid move toward managed care is affecting the health status of veterans because measures of the effects of its service delivery changes on patient outcomes have not been established.</p>	<p>None. While the plan does not explicitly address the impact of managed care initiatives, the plan lists health care quality management as a mission-critical management problem.</p>
<p>VA needs to overcome difficulties in managing its non-health-care benefit programs. Specifically:</p> <ul style="list-style-type: none"> VA cannot adequately ensure that its veterans disability compensation benefits are appropriately and equitably distributed because its disability rating schedule does not accurately reflect veterans' economic losses resulting from their disabilities. 	<ul style="list-style-type: none"> None. However, the plan includes an interim outcome goal of offsetting the average loss of earning capacity due to service-connected disability.

Enclosure II
Management Challenges

GAO identified management challenge	Applicable references in the fiscal year 2000 annual performance plan
<ul style="list-style-type: none"> • Claims processing in the compensation and pension programs continues to be slow. • The vocational rehabilitation program has yielded limited results in finding jobs for veterans. • VA has inadequate control and accountability over the direct loan and loan sales activities within VA's Housing Credit Assistance program. 	<ul style="list-style-type: none"> • The plan contains performance goals to reduce processing time for rating-related compensation and pension (C&P) claims and appeals resolution to an average of 95 days and 545 days, respectively, by fiscal year 2000. Timeliness is listed as a mission-critical management problem, and the plan lists several proposed actions including adding staff to the claims processing operation, providing better staff training, and predischARGE examinations and information exchange between VA and DOD. • The plan includes a performance goal that, by FY 2000, at least 50 percent of veterans who exit the program will be rehabilitated. • None. The plan does not include goals that address the direct loan program. However, the plan identifies loan sales as a mission-critical management problem and discusses actions to improve accounting for the loan sales and loans sold program. The target completion date for correcting this problem is FY 1999.
<p>(The IG also identified as management challenges (1) the timeliness of C&P claims processing, and (2) debts from defaults on home loan guaranties and direct home loans. In March 1999, the IG gave VA a qualified opinion on its fiscal year 1998 financial statements due, in part, to material weaknesses in accounting in the loan guaranty program.)</p>	
<p>VA needs to manage its information systems more effectively. Specifically:</p> <ul style="list-style-type: none"> • VA has made progress in addressing Year 2000 challenges, but still has some issues to address. • VA lacks adequate control and oversight of access to its computer systems. • VA has not yet clearly linked its process for selecting, controlling, and evaluating information technology investments to any specific performance measures in its annual performance plan. 	<ul style="list-style-type: none"> • None. However, the plan identifies it as a mission-critical management problem and discusses the status of efforts to correct this problem. • None. However, the plan identifies computer security as a mission-critical management problem and indicates that, by the end of fiscal year 1999, VA will prepare a milestone chart with a targeted correction plan for this issue. • None. However, the plan describes the mechanism VA established, in fiscal year 1997, for making information technology investment decisions that support departmental goals and objectives--the VA Capital Investment Board.

Enclosure II
Management Challenges

GAO identified management challenge	Applicable references in the fiscal year 2000 annual performance plan
(The IG also identified the Year 2000 computer problem and computer security as management challenges.)	
Inspector General's areas of concern	Applicable references in the fiscal year 2000 annual performance plan
Health care quality management is one of the most serious and potentially volatile challenges facing VA. Specifically, the IG is concerned about the following:	
The potential for serious errors to increase as VA moves into the more rapid pace of patient care in the ambulatory care setting.	None. The plan acknowledges that ambulatory care settings are more fast-paced, which increases the potential for serious errors. As a result, the plan states that the health care quality management program must be modified.
The caliber of leaders who are able to manage a "full service" VA operation and processes for monitoring and tracking quality of care in the 22 Veterans Integrated Service Networks (VISNs). VHA's inability to determine the role, staffing, and interactive relationships within VHA of the Office of Medical Inspector.	None.
Debt prevention and collection practices are deficient for compensation and pension payments, education payments, and medical care cost recovery (MCCR). The IG recommends that:	None. However, the plan identifies debt management as a mission-critical management problem.
<ul style="list-style-type: none"> • Delinquent MCCR debts be referred to VBA for collection. 	<ul style="list-style-type: none"> • The plan states that in FY 1999 VA implemented the practice of referring medical care debts that are delinquent beyond 90 days to VA's Debt Management Center, which will collect debts by offsetting payments to VA beneficiaries.
<ul style="list-style-type: none"> • VBA and VHA increase collaboration in the Income Verification Match program. 	<ul style="list-style-type: none"> • None.
<ul style="list-style-type: none"> • VBA improve the quality and uniformity of its debt waiver decisions. 	<ul style="list-style-type: none"> • None.
The timeliness and quality of medical examinations conducted for the purposes of deciding C&P claims need to be improved. Untimely or poor-quality examinations lead to repeat examinations, resulting in remands of appealed cases and significant processing delays.	None. However, the plan discusses various initiatives now underway to improve both timeliness and quality of examinations. In discussing the strategy for reducing claims processing time, the plan states that VA is implementing the Automated Medical Information Exchange (AMIE) II system that will allow VBA's regional claim processors to receive clinical and treatment records electronically from VHA. Staff of the Board of Veterans Appeals will expedite answers to medical questions in appealed cases by getting direct input from VHA, rather than

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	<p>remanding cases and asking regional staff to obtain and forward such information to the Board. VA's budget submission states that pilot testing of private contractor medical examinations began in May 1998 in eight VBA regional offices. The plan also describes its continuing work with the Department of Defense to conduct pre-discharge physical examinations, which will allow VA to develop claims and prepare ratings, if appropriate, for service members prior to discharge. VA estimates that approximately 25 percent of all original claims will be completed prior to a service member's separation from active duty.</p>
<p>VA is not effectively managing its Federal Employees' Compensation Act (FECA) program.</p>	<p>None. However, the plan identifies this challenge as a mission-critical management problem.</p>
<p>A pilot effort by the IG and VHA found VA employees who were fraudulently receiving workers' compensation benefits under FECA, and private health providers who aided and abetted them.</p>	<p>None. However, the plan describes various actions taken in fiscal year 1998 to correct this problem.</p>
<p>VA could reduce future workers' compensation payments by returning current claimants to work if they are no longer disabled.</p>	<p>None. However, the plan states that VA plans to sponsor a National Federal Workers' Compensation Conference in August 1999 that will provide VA's compensation claims managers additional training in risk management, injury prevention, and return-to-work programs.</p>
<p>VA needs to develop and implement a more effective method to identify inappropriate benefit payments. Specifically:</p> <ul style="list-style-type: none"> • VA needs to offset disability compensation payments from active military reservists' training and drill pay, but this has not occurred since at least FY 1993. • VA needs to implement a more effective method to identify deceased and incarcerated beneficiaries and to terminate their C&P benefits in a timely manner. 	<p>None. However, the plan identifies debt management as a mission-critical management problem.</p> <ul style="list-style-type: none"> • None. • None. The plan's discussion of debt management mentions only C&P overpayments.
<p>VA has numerous automated data collection systems that are needed to support Results Act objectives. IG has found erroneous data in many of these systems, including those involved in the following programs:</p>	<p>None. However, the plan notes that with over 5,000 major databases, VA is faced with a formidable challenge to verify and validate data. VA will continue to work with the IG to communicate the importance of internal controls and monitor ongoing efforts to improve data reliability, validity, and integrity. The plan mentions several ongoing and future actions to audit data and improve internal controls over data. Among the 11 most critical data elements chosen for the first round of IG performance auditing are:</p>
<ul style="list-style-type: none"> • Medical care 	<ul style="list-style-type: none"> • VHA's data on the number of unique patients,

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<ul style="list-style-type: none">• Compensation and pension • Education	prevention index, chronic disease care index, bed days, and addiction severity index. <ul style="list-style-type: none">• VBA's data on the average days to complete original compensation claims, original disability pension claims, and reopened compensation claims. • No education data were identified among the top 11 most critical data elements.

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