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DRAFT August 6, 1993

THE DEPARTMENT OF VETERANS AFFAIRS AGENCY TEAM REPORT

NATIONAL PERFORMANCE REVIEW

INTERNAL WORKING DOCUMENT--NOT FOR DISTRIBUTION

September X, 1993

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Section I
Introduction

THE DEPARTMENT OF VETERANS AFFAIRS
INTRODUCTION

Military service is the most basic form of national service, and the country has always sought to honor those who have served in its armed forces. To that end, it has provided pension benefits to disabled soldiers from the very beginning in 1776, when the Continental Congress encouraged enlistments during the Revolutionary War. Other benefits were provided veterans over time. Veterans' homes were established following the Civil War, insurance and vocational rehabilitation were added as benefits following World War I, and home loan and educational benefits in the form of the G.I. Bill were provided following World War II. The Department of Veterans Affairs (VA) was established as a Cabinet-level Department in 1989.

Today, the potential number of VA beneficiaries totals approximately 70 million people, or about one-third of the entire United States' population. This includes more than 27 million veterans, their 20.4 million spouses and 12.5 million dependent children, and an additional 9.0 million parents and children over 18 who are unable to support themselves.

To serve veterans and their families, VA employs a staff of 260,000, throughout the United States and abroad. The Veterans Health Administration (VHA), one of VA's three principal components, operates one of the largest health care systems in the world, with 171 medical centers, 191 outpatient clinics, 128 nursing care units, and 35 domiciliaries. In addition to its health care mission, VHA also has responsibilities for education and training of health care professionals, medical research, and participation with the Department of Defense in times of national emergency.

Through its 58 regional offices, the Veterans Benefits Administration (VBA), the second principal component of VA, provides compensation, pension, education, burial, home loan, and survivors' benefits, as well as life insurance coverage and vocational rehabilitation for disabled veterans. Last year, VBA dispensed $18 billion in benefits to 3.5 million recipients (i.e., veterans and/or veteran family members), provided educational

benefits to over 450,000 recipients, provided burial and associated benefits to about 1 million recipients, guaranteed over 237,000 home loans, and oversaw 6 million insurance policies with a face value of $340 billion.

The third principal VA component, the National Cemetery System (NCS), provides interment of veterans, their spouses, and children in 114 VA cemeteries and provides the graves of eligible veterans in national, state and private cemeteries. Last year, NCS interred more than 64,000 veterans and provided nearly 300,000 headstones for veterans buried in national and private cemeteries.

Key Issues

There are several major issues facing VA. National health care reform and a declining and aging veteran population play an important role in VA's future in the health care arena. While VA has sponsored two Nobel Laureates and made significant contributions to medical research and technology in such areas as spinal cord injury, geriatrics, psychiatry and Post Traumatic Stress Disorder (PTSD) and prosthetics, the public perception of VA health care is uncertain. Critics argue that under health care reform, the VA health care system may not remain viable. They believe that veterans who now use the system (many of whom are indigent) would choose not to use the VA if given a choice of health providers under universal health care. In any event, VA is making significant adjustments and improvements to its services and recently participated as a contributing member of the White House Task Force on Health Care Reform.

Two fundamental operating principles are driving national health care reform. The first is *competition*, where a finite number of providers will compete for a share of enrollees and capture the revenues that go with them. Each provider would deliver a standard benefit package, and competition would be within a purchasing cooperative defined by geography and population. The second driver is that the *amount of aggregate spending* at the national level might be set periodically, and the purchasing cooperative might be held to that spending level.

If a framework similar to managed competition evolves from the health care reform task force and is enacted by the Congress, the VA health system would have to adapt to new rules, even with continued appropriations to fund service-connected care and low income veterans. In some ways the adaptation might be easy, however, because VA has long operated within tight funding constraints and has had to be creative in service delivery.

On the other hand, to compete for veterans who have not previously had ready access to the VA system would require it to manage itself in terms of price, convenience and perceived excellence of care. The existence of the VA health care system may well be based on these factors in the future. VA will succeed only it if understands that its management and service will be measured by the framework established by the national system. The VA health care system must undergo drastic change to be competitive under national health care reform. Managing this change will require a research focus, an understanding of the current system's performance, and a series of management initiatives to improve its competitiveness.

There are concerns in the area of veterans benefits as well. In 1988, the Court of Veterans Appeals (COVA) was established. COVA decisions now require VA to prepare a more detailed and comprehensive disability rating decision. Subsequent legislation was enacted which required more detailed claimant notification in claims decided after January 1990. The change in the world order is enabling the United States to reduce its military forces. As a consequence, there has been a 25 to 40 percent increase in the number of claims filed from recently discharged veterans. In addition, the number of disabilities per claim has tripled. As a result of these factors, VA had a backlog of over 530,000 claims at the end of fiscal 1992. The lack of expertise in documenting decisions under the new requirements has been cited as a major cause of the backlogs, as well as the failure to implement innovative claims processing technologies.

To resolve these issues, the National Performance Review (NPR) and the VA have developed 18 initiatives which are organized under four cross-cutting NPR themes; many of the initiatives fit easily under more than one theme. In the aggregate, the implementation

of these initiatives will enable VA to significantly improve both the perception and the reality of veteran health care and benefit service delivery as well to compete favorably in any future environment.

Shifting from Red Tape to Results

VA exists to fulfill the obligations of the United States to those who have served in its armed forces. This is both an obligation and a privilege. However, VA customers, staff and managers alike have been frustrated in their attempts to get the VA system to work. There is an incredible need to trust one another and to work together, with the common goal to better serve veterans and their families.

Building on trust and a common goal, VA will materially improve the responsiveness of its systems. An integrated approach to maintaining accurate and timely information about each veteran and his/her dependents has long eluded VA. As a consequence, service delivery has often been untimely, uncoordinated, and incomplete in both the health and the benefit programs. A beginning to the resolution to these problems is at hand.

The five initiatives in this category are targeted towards unshackling VA from a wide variety of well-intentioned constraints imposed upon their operations, so that they can respond effectively and efficiently to the changing needs of their customers. Shifting from red tape to results moves the emphasis from input-oriented controls to output-oriented service without a loss in accountability.

Implementation of the recommendations which follow will reduce frustration on the part of all participants and increase responsiveness to veterans' needs from the time they leave active military service:

- Develop the Master Veteran Record and Modernize the Departmental Information Infrastructure
- Modernize the Department of Veterans Affairs' Benefits Claims Processing

- Eliminate Legislative Budget Constraints to Promote Management Effectiveness within the Department of Veterans Affairs
- Streamline Department of Veterans Affairs Benefit Claims Processing
- Consolidate DoD Disability Retirement/VA Disability Compensation Program

In addition to these initiatives, the VA's reinvention laboratories are providing a revolutionary change in direct customer contact. The New York Regional Benefits Office has re-engineered the historical benefits claims processing activity, and customers will have an identified case manager who will stay with them until their concern is resolved. The Milwaukee and Baltimore VA Medical Centers are reinventing their patient care processes, and customers will also have someone who will stay with them until their problem is resolved. In addition, the Baltimore VA Hospital, because it is an entirely new modern facility, serves as a model for evaluating the application of advanced information technologies to patient management and care.

All of the VA reinvention laboratories have been undertaken with the support and cooperation of the Veteran Service Organizations and the labor unions involved. Shifting from red tape to results is a team effort.

Introducing Market Dynamics

VA's need for effective business practices is often overlooked when the primary mission is dealing directly with customers' medical and economic needs. However, the business and programmatic interests are not unrelated. For example, every dollar spent today in trying to collect debts owed VA is a dollar which can not be used for a veteran's education, home loan, or direct medical care.

The two initiatives in this category realign several VA business practices to support the most cost-effective use of VA resources. These initiatives ensure, among other things, that funds in the Medical Care Appropriation are not used for debt collection and that incentives are in place to foster program performance at the local level:

- Enhance Cost Recovery Capabilities of the Department of Veterans Affairs
- Establish a Working Capital Fund for the Department of Veterans Affairs

Creating a Quality Management Culture

The most basic tenets of quality management include understanding performance and continuous improvement. These tenets are also the underpinnings of the *Government Performance and Results Act of 1993* which was recently signed into law by the President.

The four initiatives identified below involve a complete refreshment of VA's approach to the service environment, from decentralizing decision-making to enable VA staff to be more responsive, to building new relationships with both the veteran and the veteran service organizations. Change is near at hand. For example, on June 30, 1993, VA unveiled the first prototype information kiosk at a shopping mall in Waldorf, Maryland, hailing a new era of service and the use of modern data processing and information management technologies to improve VA responsiveness to veterans' needs.

In addition, VA will address a concern voiced by many with regard to balancing new flexibilities with accountability. Aside from the annual financial and departmental reports which VA has historically prepared, VA will address this concern with a new initiative to design and develop of a performance-based and needs-based resource management initiative. This initiative will assure veterans, VA managers and staff, and critics alike, that VA resources are being used in the best possible manner.

- Decentralize Decision-making Authority within the Department of Veterans Affairs to Promote Management Effectiveness
- Establish a Comprehensive Department of Veterans Affairs Resource Allocation Program
- Adopt a Pro-Family Approach to Child and Spousal Support
- Serve the Veterans as Customers

Now is the Time

In addition to improving customer service and promoting competition, continuous improvement and business reinvention mean doing more now and in the future, with less. The logistics involved in operating and supplying more than 700 sites and facilities worldwide is enormous, as are the number of financial transactions to the millions of beneficiaries and vendors involved. The nine initiatives in this category take advantage of modern information technologies to enhance the responsiveness and cost-effectiveness of selected business processes.

- Phase-out and Close VA Supply Depots
- Electronic Data Interchange (EDI) Implementation: An Opportunity to Reinvent Veterans Affairs Business Practices
- Eliminate "Sunset" Dates in Omnibus Budget Reconciliation Act of 1990
- Raise the Fees for VA Guaranteed Home Loans
- Limit Multiple Use of the Veterans' Home Loan Guaranty Benefit and Restrict Refinancing Loans
- Consolidate VA Hospital Facilities
- Eliminate EVR Card Income Verification for Pensioners

The 18 NPR/VA initiatives discussed above are followed by a section on VA's own reinvention activities. As mentioned earlier, these activities are revolutionary in concept because they involve a complete change in orientation with a new emphasis on accountability to veterans and their families. Guiding these efforts is VA's own Reinvention Steering Committee. The 15-person committee is chaired by the Deputy Chief of Staff and comprised of senior executives from VA's principal administrations and staff offices who meet regularly to oversee the Department's reinvention activities and make recommendations to the VA Secretary Jesse Brown. The committee is supported by a full time staff who provide the day-to-day coordination between the committee, Departmental components and the NPR. VA has been an exceptional partner in the Vice President's National Performance Review. The final section of this report summarizes the fiscal impact

of the 18 initiatives, which have the net effect of reducing costs by $ 3.1 billion over the six-year period fiscal 1994 through 1999.

Veterans' benefits and services are entitlements granted to men and women who have served honorably in the military on behalf of their country. These entitlements have been earned through a commitment of years of service to the United States, often at great risk. As VA changes in the future, the manner in which it fulfills its mission will re-emphasize that the veteran as someone who has paid for, in advance and in a very personal way, the benefits and services the VA, in cooperation with the veteran service organizations, is privileged to administer on behalf of a grateful nation.

Section II
Issue Papers and Recommendations

Shifting From Red Tape to Results

The Department of Veterans Affairs (VA) exists to fulfill the obligations of the United States to those who have served in its armed forces. This is both an obligation and a privilege. However, VA customers, staff and managers alike have been frustrated in their attempts to get the VA system to work. There is an incredible need to trust one another and to work together, with the common goal to better serve veterans and their families. The five initiatives in this category are targeted towards unshackling VA managers from a wide variety of well-intentioned constraints imposed upon their operations, so that they can respond effectively and efficiently to the changing needs of their customers. Shifting from red tape to results moves the emphasis from input-oriented controls to output-oriented service without a loss in accountability.

DEVELOP THE MASTER VETERAN RECORD AND MODERNIZE THE DEPARTMENTAL INFORMATION INFRASTRUCTURE

Background

The delivery of the full range of health and service benefits to veterans depends upon an effective and efficient information infrastructure. While there are exemplary *pockets* of innovation across the Department of Veterans Affairs (VA), the current VA infrastructure, overall, lacks the department-wide perspective that facilitates cross-component data and information sharing. The results are unnecessary costs and delays to acquire and maintain information already available, and unnecessary demands placed on VA clients. Establishing an effective information infrastructure will enable VA to streamline operations and service customers more efficiently.

VA spends at least $600 million annually on procuring and maintaining its information resources in support of its Headquarters and field operations.[1] VA maintains client information in multiple, independent program systems and veterans see VA as multiple service providers. Multiple program systems result in a veteran or survivor being repeatedly asked the same questions by VA, which increases the likelihood of the veteran "getting the run-around" or being the victim of conflicting information. Dissatisfaction with how the VA manages its information resources is broadly based. For example: the General Accounting Office (GAO) has been critical of VA's information infrastructure and its inability to optimize its resources to deliver better services to the veteran;[2] the VA's customers, as represented by the veterans service organizations, have also made recommendations regarding the need for VA to better manage its information resources:[3] and, most recently, the ranking majority and minority members of both the Senate and House Committees on Veterans' Affairs advised VA Secretary Jesse Brown that:

> Nearly 27 million veterans and their families depend on the Department of Veterans Affairs for their benefits and services. Unfortunately, the effective and efficient delivery of veterans' services has, over the last 20 years, been severely impeded by an increasingly inadequate, expensive and worn-out information systems.[4]

Information systems' inadequacies effect every aspect of VA operations. Specific information initiatives, such as the Veterans Benefits Administration's (VBA) Modernization Program, are underway to support various mission-driven objectives of individual VA administrations and offices. Adequate incentives do not exist, however, to exploit opportunities for such individual initiatives to support the needs of other offices, and effective institutional processes are not in place to provide knowledge about other component's technologies and systems that could positively influence individual initiatives. As a consequence: no one knows the full range of benefits which a particular veteran receives; follow-up action to veterans is fractured across program lines; cost-recovery and cost-accounting mechanisms need modernization; and program operations are labor-intensive and result in high operating cost because they do not employ information technologies to exploit inefficiencies and redundancies in data and procedures.

This situation will continue to worsen unless corrective actions are taken. While the veteran population is projected to decrease over the coming decades, barring another war, the complexity of the interactions between the VA and the veterans is increasing. For example, while the institution of the Court of Veterans Appeals (COVA) has had the positive effect of increasing veterans' due process rights, it has also had a significant impact on the quantity and complexity of the VA's workload,[5] and outpatient visits at VA facilities have been increasing at the rate of 600,000 to 800,000 over the past two years.[6] Furthermore, in the likely event that future health care reform initiatives require VA to compete against others to provide services, VA will be at a great disadvantage in meeting this challenge unless it provides an information infrastructure (technology, standards, procedures, and management support) that promotes the most efficient methods for the acquisition, use and dissemination of critical VA data.

VA has already considered many of these matters and has developed plans and/or proposals for fixing individual pieces. However, an overall strategy and architecture are lacking, and there is no uniform agreement on the utility of pulling together medical and non-medical information for each veteran, i.e., creating a master veteran record (MVR). Among the actions which need to be done, are the following: technical impediments to VA-wide data sharing and information systems integration need to be identified, analyzed and incorporated into an infrastructure baseline; improvement actions need to be considered, evaluated and incorporated into an infrastructure action plan; data common across administrations and offices need to be identified and defined as part of the MVR concept along with a determination of what requirement are now unmet because of the inability to merge medical and non-medical data; and mechanisms need to be established which will not only facilitate incorporation of VA-wide considerations in information systems planning but also provide appropriate incentives for doing so.

Finally, while the interdependencies of VA's information activities with those of the Department of Defense (DoD), Health and Human Services (HHS), Treasury, and Labor are known, operations are hampered by such factors as the lack of data standards and difficulties in data access. For example, the average time associated with the transfer of medical records from DoD to VA is 65 days, and Treasury provides separate Internal Revenue Service files to individual VA components.[7]

Developing an integrated view of the wide range of VA program benefits relative to an individual veteran is embodied in VA's notion of the master veteran record (MVR), which has some origin to concepts implemented effectively in the private sector. For example, the United Services Automobile Association (USAA) undertook a program in the 1980's to integrate the data it had on customers, who typically participated in several different USAA programs, in a modern imaging environment. The overall effort took six years and cost $130 million, and the measures of its success included: reduced support costs, improved productivity, reduced staff turnover, increased market share (i.e., the percent coverage of the USAA potential customer base rose from 75 percent to 95 percent),

and vastly improved service.[8] USAA is proud of the fact that they have over 14,000 employees (about the same staffing as all of VBA) doing this kind of work but every time the client calls, he/she is talking to someone who has their file in front of them.[9] The establishment of the MVR is a concept supported by Secretary Brown as part of his initiative to strengthen VBA's modernization initiatives.[10]

The adaptation of the MVR would apply to VA's medical care programs as well as its compensation and pension, vocational rehabilitation, education, home loan, insurance and burial benefits programs. From a medical standpoint, it is fundamental to ensuring that all data acquired by the "system" are known and accessible as soon as possible across the system which provides health care and medications. Given the increasing geriatric nature of the VA patient, for example, this would seem more critical to VA hospitals than those in the private sector -- VA patient records must be as complete and accurate as possible and the patient may not be much help in this regard.

Many opportunities exist for federal agencies to share information and VA maintains data that could potentially be matched with other agencies to save federal dollars. For example, while ties with DoD are particularly critical and possible because both the DoD and VA health care systems use the same programming language and data standards. Commonalities between the DoD and VA systems are so great, that Representative G.V. (Sonny) Montgomery (D-Miss.) recently called for tieing the two systems together and providing "cradle-to-grave information on soldiers and veterans.[11] It is also worthwhile recognizing that even the 300,000 headstone distributions made annually by the National Cemetery System (NCS) could provide intelligence to HHS and others that some change in entitlements may be warranted.

The need to move forward quickly with the development of the MVR seems compelling. First, there is a great deal of evidence that the service needs of the veteran are not being met, and a more coordinated information management approach is integral to fulfilling this need. Second, the VA recognizes that there is a wide proliferation of data and that better information management is cost-effective. For example, in the Appendix to

its June 1993 draft MVR Plan, the VA identifies some 18 different systems within VA and at other federal agencies which contain a variety of data about veterans.[12] Data sharing and matching across federal agencies since 1991 has resulted in hundreds of millions of dollars of savings.[13] VA has several modernization initiatives now underway to address some of these concerns, but an agreed upon MVR design has not been defined. The sooner the MVR design is known, the less the risk of cost and schedule growth to existing modernization efforts. Finally, numerous reports of the GAO have suggested that timeliness and completeness of data have been impediments to debt collection and cost recovery.[14] Given that VA bad debts and write-offs increased from $680 million to $1,000 million between fiscal 1991 and fiscal 1992, there is strong business case for almost any effort which offered the potential to better coordinate veteran information to ensure that scarce dollars resources are most effectively used to serve veteran needs.[15]

Recommendation

VA should move expeditiously to strengthen and modernize its information infrastructure, with a principal focus on establishing the scope of the MVR. The adoption of an department-wide information infrastructure, based upon the concept of a MVR, will enable VA to shift from solely a *program-based approach* to one which also has a *veteran-based orientation*, and enable VA modernization efforts to proceed within an overall integrated framework.

As pointed out earlier, however, an overall strategy and architecture are lacking, and there is no uniform agreement on the utility of pulling together medical and non-medical information for each veteran, i.e., creating a MVR. While there is Secretarial endorsement of the MVR in concept, the business case has not been made in sufficient detail to provide VA program officials with the information they will need to make the necessary resource trade-offs within their programs to support the MVR initiative. Further, there may be limits which should be placed on the design of the MVR and these also need to be defined.

The information infrastructure must enable those who have a need to access all records for a veteran being served and/or cared for, regardless of where the data are stored, i.e., privacy and security issues must be included. Other items to be considered include:

- the use of expert, imaging and voice recognition which offer great promise for the reengineering of business processes throughout VA, and
- compatibility with the output-oriented performance measurement system discussed under National Performance Review initiative entitled: *Establish a Comprehensive Department of Veterans Affairs Resource Allocation Program.*

The June 1993 draft MVR Plan identifies the undertaking of a requirements study and economic analysis.[16] An effort of this type is a critical first step to establishing the business case for the MVR and development priorities. The next planned step is the design of the MVR itself which would also encompass the establishment of data and system interface standards for use across VA's existing modernization initiatives.

Implications

The recommendations will result in a simpler, more efficient management system for the VA with increased focus on and responsiveness to individual veterans, and directly support Secretary Brown's vision for the VA to function as a unified department delivering benefits and services in a high quality, cost-effective, and timely manner to veterans and their families.[17] The recommendations will also support government-wide goals for data matching and consequent improvement in the quality and efficiency of federal information management initiatives.

Fiscal Impact

This effort should be budget neutral if VA is allowed flexibility to transfer funds between programs and object classes as recommended in the National Performance Review initiative entitled: *Eliminate Certain Statutory Budget Constraints to Promote Management Effectiveness in the Department of Veterans Affairs*, and to operate with the increased

flexibility to recover costs associated with enhancing capabilities for cost recovery under the proposed *Federal Credit and Cash Management Act of 1993.*

Nevertheless, the most critical aspect of this effort is that its value be apparent to the program officials who will benefit from its implementation. Similarly, any savings resulting from this effort will be retained within VA programs to enhance service/benefit delivery to veterans. Strong leadership will be required to implement this recommendation in a timely manner.

Endnotes

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3. James J. Kenney, National Commander, American Veterans of World War II, Korea and Vietnam; Joseph C. Zengerle, National Commander, Disabled American Veterans; Richard F. Johnson, National President, Paralyzed Veterans of America; and, John M. Carney, Commander-in-Chief, Veterans of Foreign Wars of the United States; *The Independent Budget for Veterans Affairs, Fiscal Year 1994* (undated), p. 22.

4. Letter from John D. Rockefeller IV, Chairman, Senate Committee on Veterans' Affairs; Frank H. Murkowski, Ranking Minority Member, Senate Committee on Veterans' Affairs; G.V. (Sonny) Montgomery, House Committee on Veterans' Affairs; and, Bob Stump, Ranking Minority Member, House Committee on Veterans' Affairs; to The Honorable Jesse Brown, Secretary of Veterans Affairs, May 4, 1993.

5. Testimony of R.J. Vogel, Deputy Under Secretary for Benefits, VA, before the Subcommittee on Compensation, Pension and Insurance, Committee on Veterans' Affairs, House of Representatives, April 21, 1993.

6. U.S. Department of Veterans Affairs, *Financial Statements, Fiscal Year 1992* (Washington, D.C., March 31, 1993), pp. 2-11.

7. Interview with James Edwards, July 14, 1993.

8. Kenneth W. Graham, *Image Processing at USAA* (San Antonio, Texas: United Services Automobile Association, May 1992), p. 2.

9. Thomas Teal, *Service Comes First: An Interview with USAA's Robert F. McDermott*, Harvard Business Review (Cambridge, MA: Harvard University Press, September-October 1991).

10. Letter to The Honorable Leon Panetta, Director, Office of Management and Budget, from The Honorable Jesse Brown, Secretary of Veterans Affairs, June 24, 1993.

11. James M. Smith, "Rep. says DOD, VA should merge hospital systems," *Government Computer News* (July 19, 1993), p. 90.

12. U.S. Department of Veterans Affairs (VA), *Master Veteran Record Plan* (Washington, D.C., June 17, 1993 Draft), pp. 2-8.

13. Ibid.

14. U.S. Comptroller General, *VA Health Care: Better Procedures Needed to Maximize Collections from Health Insurers*, GAO/HRD-90-64 (Washington, D.C.: General Accounting Office, April 6, 1990).

15. VA, *Financial Statement*, p. 4-2.

16. VA, *Master Veteran Record Plan*, P. 8.

17. Public Notice from The Honorable Jesse Brown, Secretary of Veterans Affairs, *Secretary's Vision* (Washington, D.C., April 2, 1993).

MODERNIZE DEPARTMENT OF VETERANS AFFAIRS' BENEFITS CLAIMS PROCESSING

Background

The Veterans Benefits Administration (VBA) uses computer and telecommunications systems that have reached the end of their useful life cycles to process more than 280,000 daily transactions.[1] The system includes hardware acquired during the 1970s and proprietary communication protocols and software elements designed during the 1960s. Due to the age and uniqueness of the system, expertise available to maintain system components, and the components themselves, are increasingly scarce. VBA has obtained parts from the last remaining systems that were abandoned by other government agencies and private corporations.[2]

VBA's mission is to administer the Department of Veterans Affairs' (VA) non-medical programs that provide financial and other forms of assistance to veterans, their dependents, and survivors in an effective, efficient and compassionate manner. Including the 27 million veterans, over 70 million Americans, 28 percent of the U.S. population, are eligible to participate in VBA benefit programs.[3]

VBA delivers benefits and services within six basic programs: compensation and pension, education, insurance, vocational rehabilitation, home loan guaranty, and burial. In fiscal 1992, the VBA dispensed over $18 billion in benefits, including over $16 billion to 3.5 million compensation and pension recipients. VBA also provided education and training benefits to over 450,000 recipients, burial benefits to one million recipients, guaranteed or insured over 237,000 new home loans and it currently guarantees or insures over 4.2 million home loans. VBA administers six life insurance programs, with a total face value of $340 billion, providing coverage to more than seven million veterans and uniformed service personnel. VBA's insurance program is the seventh largest system in the world.[4]

The 58 VBA regional offices are connected to three centralized information centers located in Illinois, Pennsylvania, and Texas. The Illinois center processes compensation, pension, and education claims data from the regional offices. Payment data are then forwarded to the Department of the Treasury which issues the benefit payments. These payments comprise 96 percent of the total benefits disbursed by VBA. The other centers support the remaining benefit and administrative programs.[5]

Application programs are organized by benefit rather than recipient. The benefit application programs are not integrated, therefore, they duplicatively acquire and process data. Additionally, the system cannot be linked to office automation systems including word processing, electronic mail, on-line manuals, and technical support.

VBA has developed a comprehensive modernization plan to improve the speed and accuracy of benefits claims processing and reduce operating costs. This plan resulted from extensive analyses of user requirements, numerous technology feasibility studies, and an economic assessment of alternate solutions.

This project was granted "Trail Boss" status from the General Services Administration (GSA) in 1989.[6] GSA established the Trail Boss program to provide greater assistance to agencies with their selection and acquisition of large-scale computer and telecommunication systems. GSA assigned two full-time contracting officers and one attorney on an as-needed basis, to work directly with the VBA modernization staff.

In its September 1988 publication, "An Evaluation of the Grand Design Approach to Developing Computer Based Application Systems," GSA recommends a modular, evolutionary approach regarding this type of acquisition. Accordingly, the VBA divided its strategic plan into three stages.

Stage I focuses on the acquisition of computers, i.e., intelligent work stations (IWSs), for the regional offices. The IWSs will support screen management (windows) and enable the user to simultaneously access the claims subsystem, document images, on-line policies and procedures, office automation systems, and workload management applications.

During Stage II, VBA will obtain specialized imaging technology, such as scanners and optical disks, to digitize paper images. Use of digitized documents will eliminate many inefficiencies associated with the current paper-intensive environment including time wasted searching for files and performing repetitive clerical functions. This technology also enables significant workflow restructuring since the current assembly-line process can be replaced by a system that permits simultaneous file access by multiple users. VBA planners believe that without this technology, significant reinvention of its work processes is impossible.[7]

Stage III will include acquisition of computers, operating systems, and data base management systems to support centralized applications and data exchange with other VA entities (medical centers) and other government agencies (Departments of Defense and Treasury, Social Security Administration).

Over 100 formal studies were conducted by VBA concerning the modernization program.[8] These studies were closely monitored and supported by the Office of Management and Budget (OMB), GSA, and the Veterans' Affairs Committees of both Houses of Congress. These studies generally found that the implementation of the modernization plan was crucial to VBA's objective of improving service to its veteran customers at reduced costs. The contract for Stage I procurement of hardware, software and technical support was awarded in December 1992.

The modernization project and the contract award have been issues of concern for Representative Conyers, Chairman of the House Committee on Government Operations, and the General Accounting Office (GAO). GAO issued a report in November 1992 that recommended that the program be delayed pending further study.[9] Chairman Conyers, by letter to the Acting Secretary of the VA in December 1992, requested that the VA postpone contract award as recommended by GAO.

Although the contract for Stage I was awarded before Chairman Conyers' request was received by the Acting Secretary, implementation is behind schedule. The vendor has reported that VBA modernization staff has been forced to respond to the many inquiries

regarding this program.[10] VBA officials interviewed in connection with this review unanimously stated that the allegations that predicated the numerous GAO investigations have not been substantiated and valuable time and effort have been wasted responding to repetitive inquiries. These investigations have been reported in six other related GAO reports since 1986.[11]

The ranking majority and minority members of both the Senate and House Committees on Veterans' Affairs sent a letter to Secretary Brown, dated May 4, 1993, wherein they recommended that the Secretary implement the modernization plan without additional delay. Members of both committees were satisfied that the VBA had met or exceeded all requirements set forth by the congressional oversight committees, OMB, and GSA in determining its modernization procurement needs.[12]

Secretary Brown recently met personally with Chairman Conyers, The Comptroller General, and the GAO staff involved in reviewing the modernization plan. Secretary Brown apprised Director Panetta, OMB, of the results of these meetings by letter dated, June 24, 1993. Secretary Brown reported that the VA would incorporate several management changes to address the Chairman's concerns regarding the modernization project. The Secretary agreed to elevate departmental oversight of the project; formalize joint OMB/GSA oversight; establish outcome-oriented performance measures which document its effect on customer service; update the project's cost analysis in cooperation with OMB; and complete the acquisition for all three stages within the original overall budget projections. Secretary Brown cited the VBA modernization project as a "VA keystone in the reinventing government arena."

This review has determined that the issues of concern associated with the VBA modernization project are being resolved through the personal efforts of Secretary Brown and Chairman Conyers. Their mutual commitment to improving service to veterans while saving taxpayer dollars should provide the nexus for cooperatively accomplishing both objectives.

Recommendations

1. The Secretary of the VA should continue to personally ensure that the VBA modernization plan is implemented on schedule and within budget.

2. The Secretary should continue to expeditiously and cooperatively resolve issues of concern raised by other executive agencies and congressional oversight committees.

Implications

The modernization plan will result in improved quality of service to the veteran and cost savings to the taxpayer. The intelligent work stations will significantly increase the speed and accuracy of the claims process. Imaging technology will reduce expenses required to locate, process, forward, and store paper. The use of expert systems will also increase accuracy and reduce overpayment.

These systems will also provide management with the tools needed to effectively and efficiently measure workflow and output. Additionally, the need to assign personnel to large central offices will be eliminated. VBA personnel, electronically tethered to the central system, can be located in closer proximity to their veteran customers and easily relocated as necessary.

Fiscal Impact

The above recommendations are budget neutral since OMB and VA have agreed to the planning estimates for the VBA's modernization plan.

Endnotes

1. Interview with Ronald E. Crellin, Director, Information Management and Technology Assessment Service, Office of Information Technology, Veterans Benefits Administration (VBA), Department Of Veterans Affairs (VA).

2. Interview with Rhoda Mancher, Assistant Chief Benefits Director for Information Resources Management, VBA.

3. U.S. Department of Veterans Affairs, *VBA Modernization Management Plan*, (Washington, D.C., April 1991).

4. Ibid.

5. Interview with J. Gary Hickman, Director, Compensation and Pension service, VBA.

6. Interview with Ronald E. Crellin.

7. Interview with William D. Stinger, Assistant Chief Benefits Director For Planning, VBA.

8. Interview with Ronald E. Crellin.

9. U.S. Comptroller General, *Veterans Benefits: Acquisition of Information Resources for Modernization Is Premature*, Report to the Chairman, Committee on Government Operations, House of Representatives, GAO/IMTEC-93-6 (Washington, D.C.: General Accounting Office, November 1992).

10. "VBA Modernization Stall Threatens Program," *Federal Computer Week*, June 21, 1993.

11. U.S. Comptroller General, *Veterans Affairs IRM: Stronger Role Needed For Chief Information Resources Officer*, GAO/IMTEC-91-51BR (Washington, D.C.: General Accounting Office, July 24, 1991). Also see: (a) *Veterans' Benefits: VA Acts to Improve Quality Control System*, GAO/IMTEC-90-161BR (September 24, 1990), (b) *Management of VA: Implementing Strategic Management Process Would Improve Service to Veterans*, GAO-HRD-90-109 (August 31, 1991), (c) *Veterans' Compensation: Medical Reports Accurate For Initial Disability Rating but Need to Be More Timely*, GAO/HRD-90-115 (May 30, 1990), (d) *ADP Systems: Department of Veterans Affairs' Benefits Modernization Program*, GAO/IMTEC (October 30, 1987), and (e) *Computer Systems: VA's Target Project Never Achieved Redesign of Its Processing Software*, GAO/IMTEC-86-30BR (August 21, 1986).

12. Interview with Mack Fleming, Staff Director and Chief Counsel, Committee on Veterans' Affairs, U. S. House of Representatives.

ELIMINATE LEGISLATIVE BUDGET CONSTRAINTS TO PROMOTE MANAGEMENT EFFECTIVENESS WITHIN THE DEPARTMENT OF VETERANS AFFAIRS

Background

Legislative budget constraints severely obstruct the Department of Veterans Affairs' (VA) ability to reengineer/reinvent its processes for meeting the service needs of veterans. Under the current budget formulation process, VA introduces an integrated perspective of what is needed almost two years in advance of the time when it actually begins to carry out the activities. By the time the funds are appropriated, many of the elements of the once-integrated plan have been acted upon individually and/or are sectioned off from one another in the budget. As a consequence, front-line VA managers have little flexibility to respond to the real-time dynamics of the rapidly changing service environment. While those in authority up and down the chain of command and across the Executive and Legislative Branches are all willing to respond to a manager's requests for change/waiver throughout the year, the actual use of such a mechanism, except in the most extreme of cases, is logistically impractical. Because this process does not work well, VA managers can neither respond to emergent opportunities effectively nor efficiently allocate their resources to meet veterans' needs.

There are two precepts to solving this problem: *focus on output performance rather than input resources* and *empower managers to do the job they are paid to do and then hold them accountable*. First, the driving force behind establishing budgetary constraints is the need to ensure that VA addresses the concerns of its clients, and controlling the "inputs" to programs has been the historical approach to accomplishing this objective. Such an approach is particularly attractive when the existence of appropriate "output" measures is questionable. The unfortunate result of this approach, however, is that the weight of their aggregate influences stifles management and precludes attaining the very objective that they were designed to accomplish. In general the dialogue surrounding enactment of the

Government Performance and Results Act of 1993, indicates that it is time to stop focusing primarily on the resources going into programs and how they are used, and instead, focus on what the programs are doing -- the results. Providing managers with flexibility to perform cost-effectively has little to do with a reduction in accountability, because VA annually prepares both a financial report[1] which is audited by its Inspector General, and an overall departmental report.[2]

Secondly, it must be recognized that the work environment of the 1990's has been transformed by information technology well beyond the work environments of earlier years. Experience with the private sector has provided many lessons about where decisions must be made to respond effectively to the changing needs of customers and market mechanisms. For example, Jack Welsh, General Electric's Chief Executive Officer, initiated his *Work-Out Program* in 1988 around the principles of building trust, empowering employees, eliminating unnecessary work, and creating a new paradigm.[3] Work-Out is one of three key management processes being implemented by GE, which together with *Best Practices* and *Process Mapping*, are designed to keep GE competitive. Under Welsh's leadership, GE tripled its productivity, remaining significantly above the average for U.S. manufacturing, and the gap continues to widen.[4] Employee empowerment is a critical factor to any approach to quality management and continuous improvement. Consequently, there is a need to delegate greater authority and responsibility to field managers.

The range of distortions created by legislative constraints is very broad and often subtle. For example, the FY 1993 appropriation to the VA Medical Care account, Congress enacted the following restriction: "...of the sum appropriated, $9,440,000,000 is available only for expenses in the personnel compensation and benefits object classification."[5] This language precludes hospital directors from buying the services from another hospital if it can not attract competent staff to the position. In a further example, VA's own internal attempts to marshall the funds necessary to implement a comprehensive information infrastructure have been frustrated by not being able to use funds offered for the purpose by the program managers who would benefit from such a coordinated effort, because of

legislative constraints on the expenditures. Other specific examples of restrictions and regulations designed to control resource use follow:

- *Travel Limitations.* Under Public Law 102-484, the Department of Defense (DoD) will transfer $75 million to VA to fund a job training program for recently discharged veterans. DoD's transfer will fund both program and administrative costs, with the administrative costs including employee travel. It is unclear at this time, however, whether VA can increase its travel limitation to cover these costs. In other words, despite the fact that VA may receive funding for new work assigned by the Congress and additional travel dollars, VA cannot exceed the established threshold for travel in order to perform the new mission assigned by the Congress, without also receiving approval to increase its travel threshold.
- *Employment Limitations.* As the projected workload of the Medical Care Cost Recovery (MCCR) Program increases, additional staff may be necessary to carry out the collections from third party health insurers. Ceilings on employment, however, may result in not meeting the "full potential" of this program. In fiscal 1993, projected net MCCR returns to the Treasury will total over $400 million after deduction of collection costs of about 20 cents on the dollar. Reducing MCCR staffing will have a negative impact on the federal deficit.
- *Resource Transfer Restrictions.* As the Veterans Benefits Administration (VBA) faces an increasing adjudication backlog, veterans continue to wait for long periods of time to receive benefits. Limitations on reprogramming from non-payroll items in order to hire temporary personnel restrict VA from placing resources where they are needed most. Again, legislative constraints have a detrimental, rather than beneficial, impact on program implementation.
- Other *Spending Restrictions.* VA's fiscal 1990, 1991, and 1992 appropriations allowed VA to obligate only 35 percent of its construction and equipment procurement dollars in the firrst10 months of the fiscal year. While this defers budget outlays, it places an incredible limitation on program officials who need the

resources to serve veterans' eds, and on contracting officials who must ensure compliance with the time frames in the Competition in Contracting Act. The degree of impact to which this unnatural process has impacted upon VA's numerous construction-related problems is unclear, but it was likely an important factor.[6] The fiscal 1993 appropriation recognized some of these problems and extended expenditure authority into the next year. However, the revised approach has the potential for becoming an accounting quagmire when trying to identify and maintain the accounts for contract modifications. Construction concerns are further exacerbated by the fact that VA's traditional methods of acquiring medical care space have been through the Major Construction and Minor Construction appropriation accounts as well as through the Leasing line item within the Medical Care Appropriation. This division of real estate acquisition funds has forced some decisions prematurely. By having either transfer authority or a single Real Estate Acquisition appropriation, VA believes that it could respond effectively and efficiently to the changing demands for managed care and potential eligibility changes.

VA has demonstrated on a pilot basis that it can make useful decisions to impact favorably upon veteran health care and service delivery, because VA can unilaterally authorize small pilots. What it cannot do, however, is change legislatively imposed constraints which preclude the timely and effective management of public funds. For example:

1. VA's Baltimore (Maryland) Medical Center established a program which promises to provide a 12 to 15 percent productivity increase. Unfortunately, the pilot received only a portion of the needed resources and funds could not be reallocated to enable the project to be completed as planned.[7]
2. VA established a pilot program involving 5 of its (then) 172 medical centers through which it identified and approved the waiver of 177 constraints on operations following a rigorous committee review of their utility. Because some legislative

constraints require that the Department overall have $9.4 billion available only for personnel expenses, for example, VA was able to give some latitude on even legislative constraints to the small set of 5 medical facilities. Measurable, material improvements in the cost-effectiveness of operations resulted.[8]

This initiative, together with another National Performance Review (NPR) initiative discussed elsewhere in this report (i.e., *Decentralize Decision-making Authority within the Department of Veterans Affairs to Promote Management Effectiveness),* would provide VA with a much-needed flexibility to enhance the cost-effectiveness and quality of veteran health care and benefit service delivery. A question remains regarding how the issue of *cost-effectiveness* will be addressed. VA has proposed to implement a new performance management/resource allocation system to respond to this need, and it is also addressed elsewhere in this report; see *Establish a Department of Veterans Affairs Resource Allocation Program.*

Recommendation

Travel, training, and personnel restrictions, including "floors" and "ceilings," in the VA budget and authorizing legislation should be eliminated, and flexibility given to field managers to (a) transfer funds between programs and object classes, and (b) obtain multi-year funding when requested. Implementation of this recommendation will enable VA managers to respond to the changing needs of customers and market mechanisms, when implemented in coordination with the other NPR initiatives identified above. In general, the budget would be prepared as it has in the past, and VA would be given transfer authority with respect to travel, training, and personnel stipulations, and for programmatic funds subject to some programmatic restriction at which point formal authorization would be required, e.g., if variance in the amount authorized would exceed 20 percent or $200 million, whichever amount is smaller. VA accountability of what actually occurred would be contained in the Department's annual finance report, its annual report, and in the succeeding year's budget formulation

Implications

Transfer authority would be required to implement this recommendation in fiscal year 1994, and this would preclude the necessity to address individual constraints within the authorizing documents. In succeeding years, it would be preferable to eliminate the constraints from the authorizing document entirely and/or provide transfer authority.

Fiscal Impact

This recommendation is essentially budget neutral. It is not possible to determine the costs and benefits associated with effect of removing individual legislative constraints. It is suggested that concerns about gathering these net savings/costs from this initiative be offset by the recognition that this is one of several NPR recommendations which, taken together, will put into place an overall program for identifying how the performance of VA operational entities compare to each other and where resource might be used more cost-effectively.

Endnotes

1. U.S. Department of Veterans Affairs, *Financial Statements, Fiscal Year 1992* (Washington, D.C., March 31, 1993).

2. U.S. Department of Veterans Affairs, *FY 1992 Annual Report of the Secretary of Veterans Affairs* (Washington, D.C., undated).

3. Noel M. Tichty and Stratford Sherman, *Walking the Talk at GE*, Training and Development, June 1993.

4. Thomas A. Steward, *GE: Keep Those Ideas Coming*, Fortune, Volume 124, No. 4, August 12, 1991.

5. Department of Veterans Affairs, Department of Housing and Urban Development, and Independent Agencies Appropriations Act of 1993 (P.L. 102-389).

6. U.S. Comptroller General, *VA Health Care: Actions Needed to Control Major Construction Costs*, GAO/HRD 93-75 (Washington, D.C.: General Accounting Office, February 1993).

7. U.S. Department of Veterans Affairs, *Project to Increase the Efficiency and Effectiveness of Physicians and Nurses* (Washington, D.C., June 10, 1992).

8. U.S. Department of Veterans Affairs, *Management Efficiency Program: Freeing Managers to Manage* (Washington, D.C., July 1991).

STREAMLINE DEPARTMENT OF VETERANS AFFAIRS' BENEFITS CLAIMS PROCESSING

Background

The U.S. Court of Veterans Appeals (Court) was created by the Veteran's Judicial Review Act of 1988. It is comprised of seven judges and is located in Washington, D.C. Its purpose is to provide veterans with an additional level of review beyond the Board of Veterans' Appeals (Board). The Board is comprised of 67 members, 63 of whom decide cases in 21 three-member panels also located in Washington, D.C. From its inception in late 1989, the Court began issuing precedential decisions which are having a significant impact on the quantity and complexity of the workload of the Department of Veterans Affairs (VA), particularly within the Veterans Benefits Administration (VBA) which administers the VA's non-medical benefit and service programs.[1]

The Court's decisions have mandated significant changes in the VA's benefits claims adjudication process. The Court's definition of "duty to assist" requires the VA to enhance its degree of assistance to the claimant within a legalistic framework. The VA cannot merely process the specific issue raised, but must also ensure that all other issues of eligibility are identified on behalf of the claimant. The VA must obtain increased medical and legal documentation detailing the "reasons and bases" for its decisions. Additionally, the VA must furnish additional information regarding its decision to the claimant and also ensure that all documentation for appeals is forwarded to the Board.

The adjudication staff of the VA's 58 VBA regional offices render over 3.3 million appealable decisions annually. Claimants receive decision notifications which advise them that an appeal can be initiated by filing a notice of disagreement within one year. Each year, approximately 70,000 (1.9 percent) of the claimants submit such notices. Of these, nearly 30 percent are resolved at the regional office level; the remainder are appealed to the Board.[2]

The Board's current remand rate (the number of cases sent back to the regional offices for additional development) is approximately 50 percent. Historically, the Board overturned or remanded less than 25 percent of the appeals forwarded to them by the regional offices.[3] This increase is the result of the Court's mandate that completed cases processed using the previous rules be re-processed using the new rules.

The VA has rendered more than 11 million appealable decisions since the creation of the Court. Of the 142,088 decisions made by the Board during this period, approximately 6,300 have been appealed to the Court. Of these, the Court reversed 79 decisions, remanded 1,350 for re-processing, and dismissed 2,000. The remainder are still pending disposition by the Court.[4]

The Court's decisions have impacted many facets of the claims adjudication process, including the extensiveness of its decisions, and the complexity of notifications. The claims examiners and rating specialists are forced to deal with frequent changes in processing guidelines, with re-processing completed claims, and with an increased number of incoming claims. The Court's impact on the Board has extended down to the VA's regional offices through the increase in remanded appeals.[5]

VA analysis of its workload has determined that it now takes regional office personnel 25 to 40 percent longer to process a disability compensation rating decision or a detailed Statement of the Case for the veteran who appeals such decisions. The increased frequency and detail required for evidence development and notifications to claimants adds another 10 to 15 percent to the "time to complete" totals.[6]

Full time equivalent employees (FTEs) and other resources have not increased commensurate with the workload. The overall adjudication staff decreased to 4,122 at the end of fiscal 1992 from the previous year's level of 4,203. During the same period, the total number of claims examiners decreased from 1,754 to 1,535; and, while the complexity of cases rose, the number of senior adjudicators decreased from 439 to 414.[7] The total number of rating specialists increased from 491 in 1991 to the present total of 596 (555 fully trained and 41 trainees). Since claims examiners and rating specialists must be quasi-

legal and quasi-medical experts, over two years of training is required to attain full proficiency.

Workload problems will be further exacerbated by the anticipated increased downsizing of the military. While more than 800,000 new and reopened claims are filed annually, the number of original compensation claims, the most resource-intensive type, has risen from 102,000 in fiscal 1991 to a projected 160,000 for fiscal 1993, an increase of 54 percent. The current backlog of 557,000 cases is expected to approach one million by the end of fiscal 1994.[8]

The VA has established prototype Case Manager/Self-Directed Work Teams in several regional offices to determine whether restructuring of regional office adjudication staffs can improve the timeliness and accuracy of decisions. Four teams, comprised of 12 members each, have been established in the VA's New York Regional Office.[9] Each team has "ownership" of the claim from its inception through completion and notification.[10] Each team is responsible for examining, developing, and preparing cases for final adjudication. Team members advise veterans, their beneficiaries, and dependents of the rights and benefits they are entitled to receive from the VA.

This initiative follows two years of extensive research by the VA's New York Regional Office staff with the assistance of outside management consultants. Focus groups comprised of veteran customers participated in the study. The VA intends to reconvene the veteran focus groups and incorporate their assessment in measuring performance. The performance of the prototype teams will then be compared with the performance of the regional office staff using traditional claims processing methods.

The VA will soon submit a draft bill to Congress entitled, *The Veterans' Appeals Improvement Act of 1993.* The bill would amend Title 38, United States Code, and authorize several changes in the procedures used by the Board to adjudicate appeals following denials of veterans' benefits within the VA. The bill would allow individual-member decisions, streamline motion-ruling procedures, allow the use of

telecommunications technology in Board hearings, and remove the 67 member limit on the Board's panels.[11]

Single-signature authority for Board members would increase the number of decisions rendered. The number of decisions issued by the Board declined from 45,308 in fiscal 1991 to 33,483 in fiscal 1992, and is expected to drop to approximately 27,600 in fiscal 1993. The response time[12] increased from 139 days in fiscal 1991 to 240 days in fiscal 1992, and is expected to reach more than 440 days in fiscal 1993. The Board estimates that allowing individual Board members to sign decisions, alone, would increase the number of decisions issued from 29,185 to 36,550 in fiscal 1994, an increase of 25.2 percent.[13]

This bill would re-establish authority of the Chairman or Vice Chairman of the Board to administratively allow a previously denied and otherwise final Board decision. During 1989, the last full year this authority was in effect, allowances were granted in 65 cases. VA estimates an additional 50 allowances per year would result from this provision.[14]

The Board Chairman would also be authorized to use modern telecommunications technology to allow a claimant to fully participate from a remote location in a hearing with a Board panel sitting in Washington, D.C. This provision provides an alternative to sending Board members to field facilities in cases where such travel would not be cost- or time-effective.

Recommendations

1. The VA should assess the performance of the prototype Self-Directed Work Teams established in the VBA's New York Regional Office, and closely monitor the progress of similar on-going reinvention initiatives in other VBA regional offices. Improved business practices identified through these initiatives should be implemented, where appropriate, in the other VBA regional offices.

2. The VA should ensure that FTE and other resources allocated to the adjudication process are commensurate with the quantity and complexity of the workload in each of the 58 VBA regional offices.

3. The *Veterans' Appeals Improvement Act of 1993* should be enacted.

Implications

Implementation of the first and second recommendations would result in improved service to veterans through enhanced quality and timeliness of the claims adjudication process. Members of regional office self-directed work teams would be responsible for completion of the claim and would maintain personal contact with the claimant throughout the process. This "ownership" would encourage team members to relate each claim to the veteran or the veteran's family, rather than thinking of each claim as another file passing through the system.

Many of the procedural changes proposed in *The Veterans' Appeals Improvement Act of 1993* would enable the Board to reverse trends of decreasing productivity and increasing response time in the issuance of its decisions. These changes would allow the Board to comply with its Congressional mandate to conduct hearings and consider and dispose of appeals in a timely manner. The major provisions of this bill which streamline the appeals process include:

- Allowing individual Board members, including the Chairman, to rule on matters before the Board.
- Allowing the Board Chairman or Vice Chairman to administratively allow, based on difference of opinion, previously denied claims.
- Allowing the Board to use modern telecommunications technology to hold hearings with the Board member or members sitting in Washington, D.C., and the appellant appearing at a remote location.

- Clarifying the Board's authority to obtain and employ advisory medical opinions from its own staff physicians, other VA physicians, and those of other Federal departments or agencies.
- Prohibiting judicial review of the Chairman's decisions to order or not to order reconsideration of prior Board decisions.
- Eliminating the 67-member limit on the number of individuals who can serve as Board members, revoking the Chairman's authority to designate temporary Board members, removing the restrictions on the length of time acting members may serve, and statutorily recognizing the position of Deputy Vice Chairman.[15]

Fiscal Impact

There are no anticipated dollar savings from the first two recommendations. The underlying benefit of streamlining processing of compensation and pension claims is to enable the VA to meet its increased workload with static or declining resources.

Enactment of *The Veterans' Appeals Improvement Act of 1993* would result in estimated additional costs of $250,433 for fiscal 1994 and $1,635,203 for the six-year period of fiscal years 1994 through 1999.[16]

	In Millions of Dollars					
	1994	1995	1996	1997	1998	1999
Budget Authority	($ .3)	($ .3)	($ .3)	($ .3)	($ .3)	($ .3)
Outlay	($ .3)	($ .3)	($ .3)	($ .3)	($ .3)	($ .3)
Change in FTEs	0	0	0	0	0	0

Endnotes

1. Testimony of R. J. Vogel, Deputy Under Secretary For Benefits, VA, before the Subcommittee on Compensation, Pension and Insurance, Committee on Veterans' Affairs, House of Representatives, April 21, 1993.

2. U.S. Department of Veterans Affairs, Task Force On the Impact Of The Judicial Review Act Of 1988, "Summary of Findings and Recommendations," (Washington, D.C., May 15, 1992).

3. Ibid.

4. Interview with J. Gary Hickman, Director, Compensation and Pension Service, VBA.

5. Interview with Darryl W. Kehrer, Director, Benefits/Management Policy Service, Office of the Assistant Secretary for Policy and Planning, VA (member of the VA Judicial Review Task Force cited above).

6. Interview with J. Gary Hickman, VBA.

7. Interview with Robert Haas, Compensation and Pension Service, VBA.

8. Interview with J. Gary Hickman.

9. The VA has identified this initiative as a reinvention laboratory.

10. Interview with Joseph Thompson, Director, New York Regional Office, VBA, during on-site review conducted by NPR on May 20, 1993.

11. Transmittal letter from the Secretary of Veterans Affairs to the Speaker of the U. S. House of Representatives with draft bill entitled, *The Veterans' Appeals Improvement Act of 1993.*

12. Response time is the projected number of days it would take the Board to decide all currently pending appeals based on the average number of decisions rendered per day over the preceding year.

13. Transmittal letter from the Secretary of the VA to the Speaker of the House with, *The Veterans' Appeals Improvement Act of 1993.*

14. Ibid.

15. Interview with John H. Thompson, Assistant General Counsel, VA.

16. Transmittal letter from the Secretary of the VA to the Speaker of the House with, *The Veterans' Appeals Improvement Act of 1993.*

CONSOLIDATE DEPARTMENT OF DEFENSE AND DEPARTMENT OF VETERANS AFFAIRS COMPENSATION AND RETIRED PAY PROGRAMS

Background

The Department of Veterans Affairs (VA) and the Department of Defense (DoD) administer compensation, retired pay, and pension programs that are similar in many respects and perform numerous overlapping functions. By law, each must consider the existence of the other department's program when making eligibility determinations and payments.[1]

The largest area of overlap occurs when service members separated from active duty under honorable conditions, for either disability or length of service are also eligible for disability compensation from the VA. Dual adjudication processes are employed. For example, a retired service member entitled to $3,000 military retired pay per month may also be entitled to VA disability compensation of $300 per month. The veteran can waive (not receive) $300 of his retired pay to receive the VA compensation. The waiver is an advantage since VA compensation is non-taxable, while military retired pay based on length of service is taxable. In this case, the veteran would still receive a total of $3,000 per month but only $2,700 would be taxable.[2]

At the beginning of fiscal 1990, 442,265 of the 1.4 million veterans (31 percent) who were receiving regular and medical retirement pay from DoD, were also receiving VA disability payments.[3] The total benefits from both departments may not exceed the higher of the two benefits. If VA compensation exceeds military retired pay, DoD must inform the VA that military retired pay has been discontinued before full VA compensation can be paid. In addition, there are similar restrictions on the payment of VA dependency and indemnity compensation (service-connected death benefits) and the DoD Survivor Benefit Plan annuities.

As a result of these legal requirements, the VA and DoD must maintain close liaison with each other. This does not always prevent erroneous payments due to the complexity

of the respective programs, especially when changes in the rate of payments occur based on cost-of-living adjustments or basic entitlement changes in either program. Veterans find the dual systems confusing, particularly when their benefits are adjusted.

An increased administrative burden falls on the VA since it must deal with separate military payment centers for each branch of service. In April 1993, Secretary Brown directed that a VA task force be assembled to identify the size, complexity and administrative costs of the respective payment systems and identify areas where consolidation could enhance service delivery and result in cost savings. Secretary Brown, by letter dated April 12, 1993 to DoD Secretary Aspin, formally requested that DoD provide assistance regarding this initiative. DoD's response is being awaited.

DoD had already assembled a task force comprised of officers from each branch of service and the Office of the Secretary of Defense to determine whether consolidation or streamlining of medical disability discharge procedures is feasible within DoD.[4]

Members of the DoD task force have found that complete consolidation within the military is not recommended.[5] They advised that the primary objective of their respective medical and physical evaluation boards is to determine a service member's fitness for duty. This is similar to civilian workers' compensation programs since the determination is job specific. DoD uses the VA's schedule for rating the disability which was the basis for separating the member, but only for the specific impairment.

DoD regards the administration of this program as critical to its ability to maintain a fit force. With military downsizing, the armed forces will have fewer "desk jobs" for members who cannot be deployed for combat. DoD considers this as operational rather than administrative in nature because it directly affects the military's ability to accomplish its mission in the event of an emergency. Additionally, each service branch cites its own unique physical demands as justification for separate systems. The Navy, for example, will not retain a sailor with diabetes because of the lack of adequate medical facilities aboard ship. The Navy will also separate sailors for less severe knee impairments than the other branches because of the requirement to rapidly ascend and descend ship ladders. Members

of the DoD task force strongly believe that each branch must remain "empowered" to determine and enforce their own fit for duty standards.[6]

The VA's disability compensation adjudication process focuses on the veteran's overall civilian employability and eligibility for additional compensation to make the veteran "whole." Since the VA must identify and apply these additional factors in rendering decisions, VA ratings are often higher than DoD's.

DoD administers a retired pay program based primarily on length of service. The continuing contact with recipients also enables DoD to rapidly recall retired service members to active duty in the event of war or other serious national emergency.[7] DoD considers this capability as increasingly important as the active duty and reserve forces are downsized. This program differs from the VA's pension program which is a benefit provided to indigent and unemployable veterans.

DoD questions whether consolidation of the military retired pay and VA pension programs is technically feasible based on reports that the VA's computer systems are operating at capacity and in need of modernization.[8] DoD would oppose any decision which would entrust their retirees' pay and DoD's emergency recall capabilities to the VA at a time when the VA is having difficulty addressing its own workload. The VA, however, advises that its computers currently have the capacity to meet the additional workload.[9]

The three largest veterans service organizations (VSOs) support consolidation and streamlining initiatives. Some VSO leaders advised that retired military personnel would be likely to oppose consolidation efforts because they expect and receive preferential treatment when dealing with their respective service branches. They anticipate that this group would object to a system that would treat them on an equal basis with all other veterans.[10]

Recommendations

1. VA and DoD task forces should jointly examine their disability compensation adjudication and disbursement processes and identify potential areas which could be streamlined and/or consolidated.

2. VA and DoD should expeditiously implement the resultant recommendations.

3. VA and DoD should also identify other overlapping benefit programs (education, life insurance, burial, etc.) which may offer similar restructuring opportunities.

Implications

Streamlining and/or consolidating aspects of the disability compensation programs administered by the VA and DoD would result in improved service to the veteran customer.

Another likely outcome of this review process would be the identification of additional restructuring opportunities within other VA and DoD benefits programs. The enhanced efficiencies achieved through the streamlining and/or consolidating of these processes would result in additional cost savings and improved service delivery to a greater number of veterans.

Fiscal Impact

Since specific processes to be streamlined and/or consolidated have not been identified there are no identifiable cost savings which can be estimated. Logically, streamlining of existing processes and consolidation of duplicative procedures would result in increased efficiency and reduced costs.

Endnotes

1. Interview with J. Gary Hickman, Director, Compensation and Pension Service, Veterans Benefits Administration (VBA), U.S. Department of Veterans Affairs (VA).

2. Interview with Robert Yurgal, Chief of Analysis and Budget, VBA.

3. Office of the Inspector General, U.S. Department of Defense, Audit Report Number 92-100, *Medical Disability Discharge Procedures*, Washington, D.C., June 8, 1992.

4. Interview with John F. Mazzuchi, Ph.D., Acting Deputy Assistant Secretary of Defense for Professional Affairs and Quality Assurance, Department of Defense.

5. Interview with Colonel Edward A. Miller, M.D., Director, Professional Affairs, Office of the Assistant Secretary of Defense (Health Affairs), Department of Defense, and members of the DoD disability task force.

6. Interview with members of the DoD disability task force.

7. Interview with Tom Tower, Assistant Director for Compensation, Office of the Assistant Secretary of Defense, DoD.

8. Interview with members of the DoD disability task force.

9. Interview with Robert Yurgal, VBA.

10. Interview with Joseph A. Violante, Legislative Counsel; John F. Heilman, National Legislative Director; Arthur H. Wilson, National Service Director; and O.J. Brooks, Deputy National Service Director; Disabled American Veterans, Washington, D.C.

Introducing Market Dynamics

The Department of Veterans Affairs' (VA) need for effective business practices is often overlooked when the primary mission is dealing directly with customers' medical and economic needs. However, business and programmatic interests are not unrelated. For example, every dollar spent today in trying to collect debts owed VA is a dollar which can not be used for a veteran's education, home loan, or direct medical care. The two initiatives in this category realign several VA business practices to support the most cost-effective use of VA resources. These initiatives ensure, among other things, that funds in the Medical Care Appropriation are not used for debt collection and that incentives are in place to foster program performance at the local level.

ENHANCE COST RECOVERY CAPABILITIES OF THE DEPARTMENT OF VETERANS AFFAIRS

Background

The Department of Veterans Affairs (VA) has increased its cost recoveries over the past few years from $24 million in fiscal 1987 to approximately $530 million in fiscal 1993. The pivotal factor in this accomplishment was the establishment of the Veterans Health Administration (VHA) Medical Care Cost Recovery (MCCR) Program. MCCR Program authorities should now be expanded, and VA should be allowed to institute a similar VBA initiative.

Through its MCCR Program, the VHA recovers health care costs from third party insurers and co-payments from veterans. Although VHA has been authorized by statute to collect certain costs since 1986, collections remained relatively low until: (a) the MCCR Program was formally established, (b) employees were empowered to redesign the program, and (c) the program was allowed to fund administrative costs for the succeeding year from the current year's collections. The success of the MCCR Program after these enhancements has been dramatic as shown in Table 1.

Table 1. Medical Care Cost Recovery Collections[1]
(In Millions of Dollars)

Category	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993 (est.)
Recoveries	$23.9	$105.6	$133.4	$148.3	$267.0	$448.4	$530
Admin. Costs	N/A	N/A	N/A	N/A	51	76	96

The MCCR Program is only one of several bill collection programs administered by the VHA. For example, VHA also bills and collects monies under the provisions of the

Federal Medical Care Recovery Act, from sharing agreements with other medical facilities, from ineligibles, and from emergency humanitarian care. Though these other programs are administratively staffed by some of the same personnel involved with the MCCR Program, the administrative costs associated with these other programs are charged against the Medical Care appropriations. As shown in Table 2, for 1992 these billings/collections amounted to an additional $65.8 million on top of the $448.4 million in MCCR collections, for a total of $514.2 million.

Table 2. Veterans Health Administration Collections - FY 1992[2]
(In Thousands of Dollars)

Category	Total Count Receivables	Total Collections	Percent of Total Accounts	Percent Total Collections
MCCR Total	2,765,526	$448,400	97.77	87.21
Ineligibles	9,611	397	0.34	0.08
Tort Feasor & Workmans Compensation	10,891	4,790	0.39	0.93
Emergency Humanitarian	8,951	461	0.32	0.09
Sharing Agreements	310	749	0.01	0.15
All Other	63,201	59,369	2.23	11.55
Total	2,828,727	$514,165	100.00	100.00

VHA does not now have the authority to retain any portion of collections beyond *administrative costs* as an incentive to move the collection level to $1 billion dollars and beyond. Although the authority to retain the administrative costs of MCCR has

been a significant incentive to foster increased cost recovery, it is believed that allowing for the payment of administrative costs alone will not be a sufficient incentive to optimize the collection potential in the shortest time possible. The shortest path may be through *gain-sharing*,[3] whereby a percentage of the funds collected could be retained by the local VA medical centers (see Table 3).

Table 3. Projected Medical Care Cost Recovery Program Collections[4]
(In Millions of Dollars)

Category	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
With Gain-sharing	$ 876	$ 984	$ 1,038	$ 1,083	$ 1,133
Without Gain-sharing	773	805	837	872	907
Sharing at 10 percent level	92	98	104	108	113
Net Savings w/Gain-sharing	51	80	97	104	113

Why is gain-sharing necessary? Gain-sharing is needed to incentivize the extra effort believed to be needed to make extraordinary gains in cost recovery. Some feel that this should not be necessary since the employees are paid to do cost recovery anyway. Experience in the private sector has indicated that incentives work. In this case, the beneficiary is the medical center participating in the program. The potential for all medical centers is not uniform as some, such as the Martinsburg, WV medical center, have been leading the field in this area for a long time, and the marginal recovery is now increasingly more difficult.

How would gain-sharing work? Each year, a predetermined percentage or a set amount of gross recoveries from the previous year's recoveries could be retained for disbursement to medical centers during the next fiscal year to be used for enhancements to medical care operations. Each facility would share according to their contribution to the program's total recovery effort and in consideration of the medical center's established

collections goal. MCCR program data tend to indicate that the volume of outpatients and inpatient cases for which collections are undertaken should be roughly equivalent, and a difference suggests a potential performance improvement target. Relatively solid performance data exist for the 166 reporting stations participating in the MCCR Program.

The amount of funds retained and the individual medical center's share would not be known until after a medical center's target allowance and current fiscal year budget are set. Since the sharing amount originates from prior fiscal year collections and not from projected current year or future year revenue, this proposal would not jeopardize the Medical Care Appropriation. Several alternatives were considered in calculating the percent of gain-sharing. The Office of the Attorney General for the State of Texas, for example, is authorized to retain 50 percent of the debts which it collects, and the funds are used to finance the operations of the Office of the Attorney General.[5] The use of 10 percent for the VA is considered to be conservative, but acceptable to test the concept.

How would the gain-sharing be used? This proposal would provide managers in medical centers greater autonomy in devoting funds to unique needs unanticipated in the centrally-driven budget process. Such a concept would foster an entrepreneurial approach to public management, where fiscal managers could respond to events quickly and decisively, curing problems without the costly delay guaranteed when seeking a central authority's approval to spend funds. For example, emergent requirements in high priority programs such as homeless, substance abuse, and AIDS could be funded immediately at the facility level thereby providing better service to veterans. Other emergencies such as hurricane relief could also be funded in this manner, as well as capital investments in building service equipment replacement or medical center blood and blood products. With passage of the authorizing legislation, VA would issue instructions to the field to define the purposes to which the funds could be used. In addition, at the end of the year, how the funds were actually used would be documented in the annual MCCR Report.[6]

In view of the success of the MCCR Program, it would be appropriate now to also establish a similar initiative within the Veterans Benefits Administration (VBA) for the

collection of delinquent debts resulting from individual veteran's participation in VBA education, compensation, pension, and loan guaranty programs. The administrative costs for this effort, see Table 4, have historically been charged against the General Operating Expenses (GOE) appropriation, where the expenditures compete with a variety of operational expenditures, primarily employee salaries for all VBA staff, having little to do with cost recovery. Moreover, a cut in GOE could adversely effect future cost recoveries. This situation needs to be changed to enhance the cost recovery potential, not lessen it.

It is believed that enabling the VBA to operate along the same lines as the MCCR Program will have a very beneficial effect in that additional recoveries will result. Table 4 projects VBA recovers through fiscal 1998. Given VBA's historical 1987-1993 (excluding fiscal 1992) trend of approximately $325.2 million annually with $9.7 million in administrative costs and a net of $315.5 million, it can be seen that increases in recoveries of approximately $ 111.9 million would be projected for the five-year period fiscal years 1994 through 1998. Fiscal 1992 was the first year that computer matching was allowed with other federal agencies and is considered an outlier in this analysis; total recoveries for the other previous five years varied slightly between $321.6 and $324.0 million (i.e., 0.7 percent).

VBA has a fully automated, consolidated Debt Management Center located in St. Paul, Minnesota. As a *reinventing government initiative*, VA is proceeding to develop procedures and the necessary computer programs for VBA to collect the delinquent debt owed by veterans to VHA for medical care and copayments. VBA has a well-developed and efficient process for handling such debts and this inter-departmental cooperation and assistance is an excellent example of what can be done to improve government operations.

It is anticipated that the Administration's health care reform initiative could have some impact upon VA's cost recovery activities overall, however, it would be premature to postulate at this time what that impact might be.

Table 4. Veterans Benefits Administration Collection[7]

(In Millions of Dollars)

Category	1992	1993	1994	1995	1996	1997	1998
Total Recoveries	394.4	335.0	340.0	344.0	348.0	352.0	361.1
Admin. Costs	10.3	10.0	10.2	10.6	11.1	11.6	12.2
Net Transfers to Programs	384.1	325.0	329.8	333.4	336.9	340.4	348.9
Average Net (fiscal 1987-1993)[8]	315.5	315.5	315.5	315.5	315.5	315.5	315.5
Net New Recoveries	N/A	9.5	14.3	17.9	21.4	24.9	33.4

Recommendations

1. **Revise VA policy to allow Medical Care Cost Recovery (MCCR) funds to be used to defray all collection costs for all categories of VHA receivables.** This change would provide more consistent policy and would correctly align charges against the MCCR versus Medical Care appropriations. It would also remove the administrative burden of maintaining separate records. The MCCR Program has been advised by the VA General Counsel that only the VA policy need be revised and that the existing legislative authorities are sufficient.[9]

2. **Revise the MCCR legislative authority to enable the MCCR Program to retain and distribute to medical facilities 10 percent of prior year annual revenues as a "gain-sharing" incentive to optimize cost recoveries.** VA proposes that the allocation of the "gains" be made on the basis of both facility contribution and performance with regard

to cost recovery activities, i.e., a facility's share of the incentive would be in proportion to their contribution to the total recovery effort, with adjustments for operational efficiencies. Legislative change to appropriations language and to 38 U.S.C. 1729 would be required.

3. **Provide VA with legislative authority to institute a VBA revolving fund following the same principles established for the MCCR Program.** This would enable VA to pay the expenses of cost recovery from collections rather than out of another account unrelated to cost recovery, ensuring the ongoing health of such activities.

Implications

Legislation will be required to implement only Recommendations 2 and 3. The experience in gain-sharing with the MCCR Program would be a useful input to the emerging base of federal experience in this area. Consolidated debt management activities and the use of newer technologies as they become available will allow management and labor to be supplied with more specific measures of success for incentive programs and performance appraisals.

Fiscal Impact

Recommendation 1 has little effect on transfers to the general Treasury fund to offset deficit reductions. The funds currently come out of categories unrelated to cost recovery and the effect of the recommendation is to remove impediments which tend to "dis-incentivize" the spending of monies on cost recovery. Presumably, the potential for cost recovery is enhanced.

Recommendation 2 puts incentives into place to enhance cost recoveries through the initiation of gain-sharing. At a 10 percent level of "gain-sharing," transfers to the general Treasury fund would still be increased by $445.1 million over the 5-year period 1995 through 1999. It should be recognized that under the 10 percent scenario, the average incentive to be retained by each of the 166 reporting stations would amount to about $540,000 annually. It should also be noted that the analysis underlying the projected

savings includes a substantial increase already factored into federal deficit offsets. As shown in Table 1, cost recoveries for period prior to fiscal 1994 were at the $530 million mark, and moving up to $773 million in fiscal 1995 (Table 3). Consequently, the MCCR Program has already made a substantial commitment to enhance cost recoveries and the concept of gain-sharing is one which builds onto that commitment.

Recommendation 3 also results in additional cost recoveries, but in a different way than with the MCCR Program. Funds coming into the VBA program will be channeled back into the appropriations from which they came and offset the next year. It is estimated that about $145.3 million in extra federal revenues will result from VBA collections over the period fiscal 1994 through fiscal 1999. Because VBA's cost recovery activities have not operated as a revolving fund in the past, VBA is only now beginning to develop and refine its forecasting methodology.

Recommendations 2 and 3 result in additional combined revenues of $590.4 million over the period fiscal 1994 through fiscal 1999 as shown below.

In Millions of Dollars

	1994	1995	1996	1997	1998	1999
Budget Authority	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Outlay	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Revenues	$ 14.3	$ 69.0	$101.8	$121.9	$136.9	$146.5
Change in FTEs	0	0	0	0	0	0

Endnotes

1. Letter from Richard Pell, Jr., Deputy Chief of Staff, Department of Veterans Affairs to Corlis Sellers, National Performance Review, May 27, 1993. Fiscal 1993 estimate was later revised in interview with Raymond Wilburn on July 16, 1993 to reflect the latest performance estimate.

2. Ibid.

3. Gain-sharing as used in this context is calculated against total cost recoveries at the proposed rate of 10 percent. Other methods of calculation are possible, and their use would require the adjustment of the percentage. If, for example, the gain-sharing were to be calculated against the increase from the prior year's recoveries, then some percent greater than 10 percent would be appropriate to use.

4. Ibid.

5. Letter from Ronald R. Del Vento, Assistant Attorney General, Chief, Collections Division, State of Texas, to Wallace Keene, National Performance Review, July 6, 1993.

6. U.S. Department of Veterans Affairs, *Medical Care Cost Recovery 1992 Annual Report*.

7. Ibid.

8. The fiscal year 1992 VBA cost recoveries amounted to $394.4 million and were extraordinarily high due to it being the first year that SSA/IRM matching was put into place.

9. Discussion between Douglas W. Bartow, Director, Debt Management, Office of the General Counsel, and Don Pratt, Staff Director, MCCR Program, July 7, 1993.

ESTABLISH A WORKING CAPITAL FUND FOR THE DEPARTMENT OF VETERANS AFFAIRS

Background

The Department of Veterans Affairs (VA) would like to establish a working capital fund (WCF) to enhance the management effectiveness of selected common activities. WCFs have been used across the federal government to accomplish many objectives. In general, they provide managers great flexibility through the consolidation of similar activities. For example, a WCF can provide for the replacement of equipment owned and operated by the fund. This allows managers to (a) spread the cost of equipment purchases over several years, thereby avoiding the impact of large, one-time budget requests, and (b) procure replacement equipment when they need it rather than in the year when budgeted funds may be available. No other mechanism is available to federal managers to accomplish this objective.

A WCF also allows an organization to centralize activities to take advantage of economies of scale without physically reorganizing. For example, in the VA's case, personnel security at VA clearances were funded historically by each separate organizational component. This required duplicative accounting mechanisms, as well as additional staff dedicated to this activity. Using a centralized approach, both personnel training and the accounting processes are simpler. There are no other mechanisms available to federal managers to accomplish these objectives, and taking advantage of opportunities and fostering the search for new ones is at the core of the WCF concept, suggested in part as an underpinning to the "mission-driven" government.[1]

The VA now operates 23 general funds, 21 revolving funds, 6 trust funds, 5 deposit funds, 5 clearing accounts, and 1 special fund.[2] However, while the operation of these funds has given VA a valuable experience base in funds management, none of the existing funds can be used to serve the purposes of the proposed WCF, and modifying the charter of one of the existing funds is not recommended by the VA.

VA previously proposed the creation of a WCF beginning in fiscal 1994 to support four areas: personnel security, data processing training, records management, and office supplies. VA believes that the WCF would provide a mechanism to effectively manage scarce resources while maintaining a high standard in delivering services. VA specified that the fund would:

- provide business-like incentives for productivity enhancement, customer orientation and management efficiency;
- stimulate cost awareness in both the service activities and users of the goods and services through the "buyer-seller"relationship that includes the option to seek services from other providers with consideration for all VA users; and
- provide managers of the service activities the financial authority and flexibility required to effectively procure and use personnel, materials, and other resources.

The flexibility of the proposed WCF, as established by its charter[3], is that apportionment controls and full time equivalent (FTE) limits will be lifted. By being a "no-year" fund, its operating funds are not subject to fiscal year limitations in their use. The proposed VA approach encompasses certain safeguards against abuses sometimes found in other agencies and of concern to OMB. Specifically, the proposed charter provides, among other things, for:

- a Board of Directors to ensure openness of operation and representation of those serviced;
- a WCF director who is charged to "establish productivity measurements and perform evaluations of all departmental operations covered by the fund;"
- an annual audit by the Inspector General to "ensure that services provided by the fund are competitive with equivalent services available from other governmental and non-governmental providers;" and
- the requirement for Secretarial approval of all amendments to the fund's charter.

The VA proposes that the fiscal 1994 operations of the fund be set at $2.1 million. Initial funding would include the following: Office of the Inspector General Personnel

Security Investigations ($864,000); Austin Data Processing Center Training ($185,000); Records Depository, Neosha, Missouri ($228,500); and VA Central Office Supplies ($772,000). At this time, no new budget authority will be requested to implement the fund. All necessary funding will be transferred from existing appropriations. However, the fund cannot be established without authorizing legislation.

Recommendation

Title 38 United States Code, should be amended to provide for a working capital fund in the Department of Veterans Affairs with fiscal 1994 funding at the proposed level of $2.1 million. In general, the amendment would add a new section identifying the fund and specific operating mechanisms, including: how items are added to or removed from the fund, how the fund is reimbursed, how assets are capitalized, and what management controls need to be applied.

Implications

Legislation would be required to establish the fund, and a proposal is enclosed. Its establishment would enable selected needs, common to more than one VA component, to be provided more efficiently than would otherwise be possible.

Fiscal Impact

VA plans that the establishment and operation of the WCF be essentially budget neutral. VA proposes to start the activity on a small scale using existing resources in order to test the efficacy of the overall approach.

SUGGESTED LEGISLATIVE PROPOSAL
Submitted to NPR by VA, 6/30/93

Be it enacted by the Senate and the House of Representatives of the United States of American in Congress Assembled,

Section 1. REFERENCES TO TITLE 38, UNITED STATES CODE

References to title 38. --Whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of title 38, United States Code.

Sec. 2. Chapter 1 of title 38, United States Code, is amended--(a) by adding at the end the following new section:

S. 116. Working Capital Fund

"(a) There is established in the Treasury of the United States a working capital fund to be known as the Department of Veterans Affairs Working Capital Fund (hereinafter in this section referred to as the Fund).

"(b) The Fund shall be available without fiscal year limitation for expenses necessary for the maintenance and operation of service performed by the Fund.

"(c) The Secretary may transfer to the Fund those services which the Secretary deems more advantageously performed in a centralized manner to meet in whole, or in part, the requirements of the Department. The Secretary may transfer services out of the Fund upon a determination that centralization of particular services is no longer advantageous.

"(d) The Fund shall be reimbursed or credited with advance payments from available appropriations for which services are to be furnished at rates which will return in full the cost of the services furnished. Full cost shall include, but is not limited to (1) salaries and other personnel benefits, training and travel; (2) equipment including maintenance, repairs and depreciation; (3) the procurement or rental of supplies and furniture; (4) rent, utilities and other facility maintenance and operation costs; and, (5) the cost of private sector contractual services. In addition, all other reimbursements, refunds or recoveries resulting from operations of the Fund, including the net proceeds of disposal of excess or surplus personal property and receipts from carriers and others for loss of or damage to property shall be credited to the Fund.

"(e) The Secretary is authorized to transfer assets into the Fund and to capitalize in the Fund at fair and reasonable value, such receivables, equipment, supplies, and other assets on hand or on order, and may assume the liabilities in connection with such assets. The Secretary may transfer assets and accompanying liabilities out of the Fund upon a determination that centralization of particular services is no longer advantageous.

"(f) An adequate system of accounts for the Fund shall be maintained on the accrual method and financial records shall be prepared on the basis of such accounts. An annual business type budget shall be prepared for operations under the Fund. The Fund shall be subject to an annual audit to assure that it is being operated in accordance with all applicable accounting rules.

"(g) There is authorized to be appropriated such sums as are necessary to meet the needs of the Fund." and

(b) in the table of sections at the beginning thereof by inserting after the item relating to section 115 the following:

"S. 116. Working capital fund.".

Section 3. The amendments made by section 2 shall take effect on October 1, 1993.

Endnotes

1. The Progressive Policy Institute, *Mandate for Change* (New York, New York: The Berkley Publishing Group, 1993), p. 269.

2. U.S. Department of Veterans Affairs, *Financial Statements, Fiscal Year 1992* (Washington, D.C., March 31, 1993), p. 2-1.

3. U.S. Department of Veterans Affairs, *The Department of Veterans Affairs Working Capital Fund Charter* (Washington, D.C., undated).

Creating a Quality Management Culture

The most basic tenets of quality management include understanding performance and continuous improvement. These tenets are also the underpinnings of the *Government Performance and Results Act of 1993* which was recently signed into law by the President. The four initiatives in this category involve a complete refreshment of the Department of Veterans Affairs' (VA) approach to the service environment, from decentralizing decision-making to enable VA staff to be more responsive, to building new relationships with both the veteran and the veteran service organizations. In addition, VA will begin implementing a resource planning and management system in fiscal 1994, to assure veterans, VA managers and staff, and critics alike, that VA resources are being used in the best possible manner.

DECENTRALIZE DECISION-MAKING AUTHORITY WITHIN THE DEPARTMENT OF VETERANS AFFAIRS TO PROMOTE MANAGEMENT EFFECTIVENESS

Background

The Department of Veterans Affairs (VA) is one of the largest organizations in government, employing some 260,000 employees in the United States and abroad, and it encompasses 171 medical centers, 191 outpatient clinics, 128 nursing care units, 35 domiciliaries, 58 regional benefits offices, and 114 cemetery facilities. The distributed nature of VA operations, the rate of technological change, and the diversity of day-to-day challenges require a greater delegation of authorities than now exists, to enhance management effectiveness and to enable VA to respond efficiently to the needs of veterans.

In 1986, an idea began to evolve within the VA and its Congressional committees around the idea of removing constraints on VA management. In fact, a bill (HR 4839) was passed by the House of Representatives in the 99th Congress and re-introduced the following year by the 100th Congress as HR 2616. This bill would have granted broad authority to the Administrator of Veterans Affairs to waive law and regulation for purposes of a pilot test but was never acted upon by the Senate.

The VA established a Management Efficiency Pilot Program (MEPP) in 1987 operating under its administrative authority, with the purpose of removing obstacles in the paths of managers so that they might operate more cost-effectively. Although unable to waive statutes without the authority that the proposed legislation would have provided, VA allowed the pilot sites significant flexibility. MEPP was a three-year initiative patterned after efforts done earlier by the Department of Defense (DoD) and the Department of Interior's Forestry Service, and it involved 11 field facility sites. MEPP resulted in the successful adoption of 495 of a total of 1,352 (36.6 percent) requests/suggestions from the pilot sites, which improved services to veterans, utilized resources better, provided dollar

savings, and/or improved employee morale.[1] Table 1 provides selected statistics regarding the pilot.

Despite the apparent success of the MEPP, department-wide implementation of waivers was limited by the lack of statutory authority to eliminate the most significant barriers to effective management such as (a) restrictions on expenditures of funds, (b) "ceilings and floors" on staffing, and (c) the inability to carry over funds from one fiscal year to the next. Department-wide implementation of the waivers found successful at pilot sites was limited because many concerned subjects under the jurisdiction of other agencies such as the Office of Personnel Management, the Office of Management and Budget, and the General Services Administration. Although follow-up was limited, VA employees generally believe the project was a success.

One of the interesting details about the MEPP is that it became widely known across VA and other efforts which were similar in result were referred to as "MEPP-related efforts." Some VA components published their own reports. For example, in 1991 the Veterans Health Administration's five pilot site directors prepared a report recommending approval for use by all facilities of the initial 83 waivers granted at the beginning of the project. This encompassed: 13 in financial management; 25 in personnel management; 33 in procurement and supply management; and 10 in management, data processing, and printing.[2]

Building trust, empowering employees, eliminating unnecessary work, and creating a new paradigm were central to the MEPP, and the evidence is strong that the MEPP was a good thing to do, was well received and resulted in efficiencies and improvements in health care and benefit delivery. It is worthy of note that these same characteristics are central to similar efforts initiated in the private sector with amazing success. For example, Jack Welsh, General Electric Corporation's Chief Executive Officer, initiated his *Work-Out Program* in 1988 with these characteristics and launched an ambitious 10-year effort to spread a new way of thinking and acting to all levels of the corporation.[3] While some

further analysis is warranted, further pilot efforts at VA would not seem useful. It is time to implement a comprehensive program to achieve the objectives set for the MEPP.

Table 1. Summary of MEPP Initiative[4]

	Veterans Health Administration (VHA)	Veterans Benefits Administration (VBA)	Information Resources Management
Facilities involved	5 of 171 Medical Center	5 of 58 Regional Offices	Austin Data Center[5]
Waivers submitted to VA Central Office	391	933	28
Waivers approved by VA Central Office	111	378	6
Waivers submitted at local level	1,037	1,036	n/a
Waivers approved at the local level	318	517	n/a
Selected results	More than $3.1 million redirected to unfunded acute care needs of veterans; new health care capabilities were established; additional savings in staff hours.	Reduction of more than 300 days in processing requests of delivering items; savings of more than $640,000 and 3,000 staff hours.	Cost savings and cost avoidances totaled $2.9 million

VA should develop a comprehensive management policy framework against which existing policies can be compared and revised, and future policies can be developed. The

basis for the policy framework would be primarily the body of MEPP information, and new insights gained through the reinvention activities under the VA's new Secretary. MEPP provided ample evidence of what kinds of policies have hampered management efficiency and better service to the veteran. As a consequence, it is possible to both generalize how agency operation should be focused as well as to identify specific details about who should have authorities commensurate with their responsibilities. An agency's policy directives should be brief and well-focused, and exclude, for example, procedural information more aptly placed into handbooks or other publications. The philosophical theme emphasized should be delegating authority to the lowest practical level, ensuring adequate accountability and granting maximum management flexibility.

While VA, DoD and the Forest Service may be unique in having done MEPP-type initiatives, other federal agencies have completed a review of their management directives with much success. For example, over an eight-month period, the National Aeronautics and Space Administration (NASA) revised over 500 NASA Management Instructions, limiting the material to three pages in almost all cases and excluding procedural material. The Air Force did the same thing, reducing the 1,500 policies down to 750 no longer than two pages in length. The two examples are offered as evidence that the task can be done, as others have already done it. The fact that there is a need for change and the delegation of greater authorities to VA field managers is found in the VA's own reports.

Recommendation

1. VA Central Office and field managers should develop jointly a management policy framework as a comprehensive basis for all VA management policy directives. The framework would consist of, for example, principles, guidelines, and specific exemptions, and it would serve as the underpinnings for the revision and/or development of VA management policy directives. The MEPP experience base provides ample evidence of what types of policies have hampered management efficiency and better service to the customer-veteran. As a consequence, it is possible to both generalize how agency

operations should be focused as well as to identify specific details about who should have authorities commensurate with their responsibilities.

2. **VA should undertake the review and update of its policy directives to incorporate the policy framework identified in Recommendation 1. above.** In addition to revising the substance of the directives to be in line with the policy framework, attention should be given to the form and scope of the directive as well with a view towards making them concise and user-friendly. Other agencies have found it beneficial to limit such policy directives to two to or three pages and to include all procedural *how to* in handbooks or other publications.

Implications

Empowerment and delegation will result in more timely and efficient operations and improved employee morale. Redistributing *control* is a very difficult undertaking, and some VA employees have expressed concern that unless some caution is exercised, little may be redistributed down below the facility director.

This initiative, along with two other National Performance Review (NPR) initiatives discussed elsewhere in this report, form the basis for an overall approach to making whatever changes in VA that are necessary to enhance health care and service delivery: *Eliminate Legislative Budget Constraints to Promote Management Effectiveness within the Department of Veterans Affairs* and *Establish a Comprehensive Department of Veterans Affairs Resource Allocation Program.* Eliminating both legislative and management constraints will *unshackle* management to function cost-effectively; implementation of comprehensive resource allocation program will help ensure that VA resources are being employed as efficiently as possible.

Fiscal Impact

The fiscal effects of these two recommendations cannot be determined. Nevertheless, one of the major disincentives to carrying out the recommendations is the

concern that resultant savings will be removed from the budgets of the involved organizations. It is suggested that this concern be offset by the recognition that this is one of several NPR recommendations which, taken together, will put into place an overall program for identifying how the performance of VA operational entities compare to each other and where resources might be used more cost-effectively.

Endnotes

1. U.S. Department of Veterans Affairs, *Management Efficiency Pilot Program Final Report* (Washington, D.C., 1991), p. vii.

2. U.S. Department of Veterans Affairs, *Management Efficiency Program: Freeing Managers to Manage* (Washington, D.C., July 1991).

3. Noel M. Tichy and Stratford Sherman, *Walking the Talk at GE*, Training and Development, June 1993.

4. Ibid, pp. 2-8.

5. The numbers for the Austin Data Center were imputed from the difference between the totals (i.e., 1,352 requests and 495 approvals) and the sum of VHA and VBA efforts.

ESTABLISH A COMPREHENSIVE DEPARTMENT OF VETERAN AFFAIRS RESOURCE ALLOCATION PROGRAM

Background

The Department of Veterans Affairs (VA) has been criticized for not having an organized approach for allocating its resources and maximizing the return on investment for the federal dollar in terms of service to the veteran.[1] With the enactment of the *Government Performance and Results Act of 1993*, the adoption of such mechanisms will eventually become government-wide.

This past June, VA Secretary Jesse Brown announced his endorsement for a new initiative of this type for the Veterans Health Administration (VHA) beginning in fiscal 1994.[2] This action will build on an experience base of earlier attempts by VA to address this concern. For example, VA initiated a more limited program of this type in the mid-1980"s for the Veterans Health Administration (VHA), but it was cancelled under the previous Administration, and VA commissioned the National Research Council's Institute of Medicine to help develop an analytical approach for determining physician staffing, which admittedly only addresses a portion of the overall concern, but received little followup nevertheless.[3]

VA is one of the largest organizations in the Federal Government, employing some 260,000 employees in the United States and abroad, and it encompasses 171 medical centers, 191 outpatient clinics, 128 nursing care units, 35 domiciliaries, 58 regional benefits offices, and 114 cemetery facilities. Table 1 identifies the resources for the VHA and VA's other two principal operating components: Veterans Benefit Administration (VBA), and the National Cemetery System (NCS). Of the three principal operating components, the principal emphasis appropriately rests with VHA since it has the vast majority of the personnel resources and the majority of the funding spent on operational activities (see

Table 1). While sizeable, most of VBA funding is dispensed in the form of compensation and pension benefits.

Table 1. Summary of VA Resources - FY 1993

Category	VHA	VBA	NCS	Other**
Funding ($ in billions)	$15.8	$18.7	<$.1	$.4
Staffing (thousands)*	236.7	13.9	1.4	8.2
Staffing (percent of total)*	91	5	1	3

* As of 9/30/92; includes both full time and part time staff.

** Includes construction costs; staffing includes Inspector General, Staff Offices, Office of Facilities and Veterans Canteen Service.

VHA established a Resource Allocation Model (RAM) several years ago to address this issue. The benefit of RAM was that it resulted in a gradual improvement of service, even though not much money really changed hands to reward and incentivize performance. RAM had a major flaw in that it provided an open-ended incentive to expand workload within limited budgets and raised questions about the impact on the quality of health care. Some believe that RAM was abandoned because it was too threatening to participants.

VHA also commissioned a study by the Institute of Medicine (IOM) to assess the allocation of physicians and other health care specialists along the lines of DRGs (Diagnostic-related Groups).[4] No action was taken, however, to implement the controversial results of the IOM effort. In general, the study used both a *Delphi* approach (i.e., the use of expert opinion) to determine staffing requirements and an empirically-based approach (i.e., the use of actual experience. Where the two solutions were close, there was a good indication that an answer had been found, however, where the two solutions were far apart, there was no easy mechanism to solve the debate. What the VHA did do that had

ongoing significance was to establish an organization with the analytical capability to continue the analysis of VHA performance data, and it is this organization -- the Boston Development Center -- which developed the Resource Planning and Management (RPM) System which VA is implementing in fiscal 1994.

Secretary Brown has characterized RPM as patient-based, policy-driven and prospective in terms of workload and costs. It is designed to improve the management of VA's limited medical care resources and better define VA's resource requirements in the future.[5] RPM integrates budget formulation, budget implementation, and facility planning, and it uses eight patient groups: Clinical Patient Groups (acute inpatients); Non-bed Care (solely outpatient); Long Term Care; AIDS; Dialysis; Chronic Mental Illness; Restorative and Supportive Care (rehabilitation, spinal cord injury, and traumatic brain injury); and Transplants.

Allocation of funding to VA medical centers will be accomplished in the new system on the basis of national policy and at the same time support local management flexibility with accountability. Consequently, it is critical to the success of this approach, that managers and staff not be constrained artificially in making resource decisions. In this regard, the National Performance Review has recommended elsewhere in this report that legislative budget constraints be eliminated and that decision-making be decentralized.[6] The new prospective capitation system, because of its patient-based focus, will support the efforts underway in the President's health care reform as well as the Department's initiative on eligibility reform. It is generally recognized that fiscal 1993 is the first step in a three year transition and development process. It will take two years to transition away from the historical budget data and institutionalize a patient care workload funding base.[7]

Neither the VBA nor the NCS have programs as comprehensive as VHA's RPM initiative, although both have defined resource allocation mechanisms which are used to formulate their budgets and then to equitably distribute the authorized funding. The VBA has used a resource allocation model since the mid-1980's to distribute VBA resources on the basis of work units, by end product, to its 58 regional offices.

NCS formulates its budget and allocates its resources to accommodate four major workload factors: interments performed, graves maintained, developed acreage maintained, and headstones and markers procured. The effort is labor intensive and time dependent, i.e., burials cannot be deferred and headstones/markers must be obtained in a timely manner. While NCS makes use of community service and volunteers, training and liability considerations limit how such individuals can be used.

Recommendation

VA should design and develop a comprehensive, performance- and needs-based, resource allocation program. The institution of output-oriented performance measures is a logical replacement for input-oriented controls and the elimination of legislative constraints as proposed elsewhere in this report. This effort should be consistent with the guidelines established by the *Government Performance and Results Act of 1993* and serve as an overall, integrative framework for the activities of individual Departmental components. A multi-phased approach would be appropriate:

1. Beginning in fiscal year 1994, VA would implement its RPM initiative in VHA as planned, and determine any modifications needed for fiscal 1995 based upon the initial experience with RPM and the Departmental approach to performance measurement. This effort should enable the identification of high-cost outliers and provide a mechanism for reallocating resources from these facilities to help offset uncontrollable annual cost increases or expansion of high priority programs, thus enabling VA to move away from simply increasing each facility's budget by inflation and program enhancements. This effort should also include the development and/or identification of quality indices so that each facility can be measured in terms of clinical effectiveness. These data, along with RPM data, would be used to determine the level of quality care provided at high, low, and average cost facilities, which would be useful not only to VA, but as a model for the nation's health care industry.

2. During fiscal 1994, VA should begin framing comparable approaches for VBA, NCS, and Central Office, with a view towards beginning the implementation and test of such approaches in fiscal 1995. Implementation of this recommendation will position VA in compliance with the scope and intent of the *Government Performance and Results Act of 1993* and enable the Department to maximize the utilization of its resources to meet the health care and benefit service delivery needs of veterans.

Implications

The VA RPM-type enterprise has been lauded by OMB. However, it will not be possible for VA to implement this recommendation optimally unless legislative budget constraints are eliminated and decision-making is decentralized as proposed by NPR recommendations elsewhere in this report. The evidence is very strong that VA managers can be creative and responsive to veterans' needs when constraints are removed (e.g., MEPP), but the initiative fades in the face of continuing constraints which inhibit/preclude such creativity (e.g., early RAM initiative).

Fiscal Impact

This initiative is essentially budget neutral, with VA absorbing the cost of development and implementation. The function of the recommendation is to give visibility to the bases for the allocation of VA resources. It is anticipated that the outputs of this recommendation will be used in future budget formulation discussions between VA and its stakeholders, including OMB.

Endnotes

1. Interview with W. Todd Grams, Chief Veterans Branch, Human Resource Division, Office of Management and Budget, April 21, 1993.

2. Letter from The Honorable Jesse Brown, Secretary of Veterans Affairs to Directors of VA Medical Centers, subject: *Medical Care Budget Reform* (Washington, D.C., June 16, 1993).

3. Institute of Medicine (IOM), *Physician Staffing for VA* (Washington, D.C.: National Academy Press, 1991).

4. IOM, Ibid.

5. Letter from The Honorable Jesse Brown, Ibid.

6. See *Eliminate Legislative Budget Constraints to Promote Management Effectiveness within the Department of Veterans Affairs* and *Decentralize Decision-making Authority within the Department of Veterans Affairs to Promote Management Effectiveness.*

7. Letter from The Honorable Jesse Brown, Ibid.

ADOPT A PRO-FAMILY APPROACH TO CHILD AND SPOUSAL SUPPORT

Background

The Department of Veterans Affairs' (VA) process of apportioning benefits to estranged spouses and children of veterans who are delinquent in their support obligations is ineffective and does not contribute to the "family-friendly" policy ideals being promoted by this Administration. Financial deprivation due to non-support from a parent is the primary cause of welfare dependency in the United States, at great cost to children and to the taxpayer.[1] The problem of non-support has become even more serious over the years because of the number of single-parent families, the majority of which are headed by women.[2] Divorces have risen by almost 200 percent from 393,000 per year in 1960 to 1,163,000 in 1989.[3]

Women with children whose fathers are absent are often living in poverty.[4] The number of women in these families who were living below the official government poverty level was 3.2 million in 1989, a poverty rate of 32.2 percent.[5] Child support awards are an important factor in keeping families without fathers present out of poverty.[6] Those with child support awards in 1990 had a significantly lower poverty rate (24.1 percent) than those without child support awards (43.2 percent).[7] The poverty rate for women who actually received child support payments in 1989 was 21.8 percent.[8]

In 1989, only 51 percent of women in the U.S. who were due child support received the full amount; 24 percent received partial payments; and 25 percent received nothing.[9] Thus, over half of the women in the U.S. with children whose fathers are absent receive no child support, either because there is no support award or the support that is awarded is not paid.[10]

There are no data to indicate how many of the 2.66 million veterans who receive compensation and pension are: (1) required to provide alimony or child support; and (2) delinquent in their support obligations. Where veterans are delinquent in their familial

support obligations, estranged spouses and children of veterans can apply to receive cash benefits through an administrative process called "apportionment." This virtually unknown process enables the applicant (spouse and child) to receive a portion of those benefits.

Under apportionment, once a claim is received, VA allows the claimant 60 days to respond with financial information (income, assets, debts in support of her or his claim). The veteran must also respond with the same type of financial information. Apportionment claims are processed in the same manner as other benefit claims. Most apportionment cases (except those that involve the death of a veteran) are very labor intensive and involve subjective determinations by VA adjudicators regarding the parties' financial conditions and the amounts of apportionment to be granted. Generally, initial determinations can be made within 60 to 90 days after VA receives the information from both parties. If the decision is contested and therefore must be further adjudicated, the case may take up to a year or longer to settle.

The apportionment process is not publicized by VA. Apportionment cases constitute a very small number of total veterans' benefits cases. For example as of October 1992, there were approximately 15,715 cases on the rolls (out of a total of about 2.7 million running awards) in which VA compensation or pension benefits were being apportioned on behalf or children or spouses with children.[11] Annually, only $25 million out of $16 billion compensation and pension payments are apportioned to children.[12] In comparison, the State of Texas collected $36 million in child support for the month of June 1993 alone.[13]

Under current law, veterans' benefits are generally prohibited from being attached by court order for spousal or child support even where a veteran is receiving additional benefits on the basis of having dependents. There is a legal bar to garnishing or attaching VA benefits except to satisfy debts for the recovery of Internal Revenue Service (IRS) tax deficiencies and VA disability compensation paid to military retirees who waive military retirement pay in lieu of VA disability benefits (that are not taxable). Regarding the latter, Congress enacted legislation in 1975 that permits VA benefits to be attached for court-ordered child support or alimony, but only up to the amount that equals the waived retired

military pay. Currently, federal workers' compensation, military pay, and other federal salary are subject to deduction for court-ordered child and spousal support.

Estranged spouses and children must now petition through court (independently or via their state child support enforcement agency) for alimony and child support. Because VA benefits generally cannot be garnished by court order, the spouse must also file separately for apportionment of VA benefits when the veteran fails to meet support obligations. Further, VA procedures do not allow state child support enforcement agencies to file for apportionment on behalf of their clients who receive assistance. The few families in crisis who happen to know about apportionment and who wish to take advantage of it must now pursue two avenues that are both adversarial--litigation and apportionment--to obtain financial resources for their support.

Recommendations

1. **Amend Section 5301 of Title 38, U.S.C. and section 662 of Title 42, U.S.C. (Social Security Act) to allow court-ordered garnishment of VA compensation and pension benefits for child and spousal support.** Under circumstances where VA is served with a court order for garnishment of disability compensation or pension, the amount ordered by the court would be paid out to the dependent.

2. **VA should become more proactive in publicizing the rights of veterans' families.** VA publications that are tailored for the general public should include a discussion about the families' rights to receive a portion of compensation and pension when veterans are not fulfilling their support obligations. This information could also be included as supplemental material when disability and pension checks are mailed.

Implications

Implementation of these recommendations would promote the Administration's "family friendly" policy ideals. Families in emotional and financial crisis would have easier access to more resources and would be spared an additional lengthy and contentious

administrative process. VA's adjudicators would spend less time adjudicating labor-intensive apportionment claims.

As child support experts (U.S. Commission on Interstate Child Support) have developed independent recommendations in a report to Congress along the same lines, the NPR recommendations would be congruent with a larger domestic child support policy agenda.[14] This proposal would likely enjoy the support of child advocates including the Children's Defense Fund, the Association for Children for the Enforcement of Support, Inc., state welfare agencies and the Child Support Project of the American Bar Association.

Those in opposition may view this proposal as eroding veterans' benefits. However, this proposal, as is the case with the apportionment process, is intended to provide for the families of veterans who have failed to assume their familial responsibilities. On the other hand, opponents may be reluctant to defend a public policy that allows less than responsible parents to "hide behind the law."

Fiscal Impact

This recommendation is essentially budget neutral to VA but should result in some indirect savings to the Aid to Families with Dependent Children (AFDC) program administered by the Department of Health and Human Services. Because there is no current mechanism in place to match families on welfare with veterans receiving compensation and pension, we are unable to estimate the economic impact to the AFDC program.

With respect to VA, implementation of this recommendation may involve some additional costs in reengineering the current payment system to process the garnishment orders. However, any implementation costs should be offset by a decrease in the time spent by adjudicators in processing these cases.

Endnotes

1. U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Support Enforcement, *15th Annual Report to the Congress,* (1990), p. 5.

2. Ibid.

3. Ibid.

4. Ibid.

5. Ibid.

6. Ibid., p. 6.

7. Ibid.

8. Ibid.

9. U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Support Enforcement, *16th Annual Report to the Congress* (1991), p.4.

10. Ibid.

11. Facsimile transmission from John H. Thompson, Assistant General Counsel, Professional Staff Group II, Department of Veterans Affairs, July 21, 1993.

12. Ibid.

13. Interview with Patrick Sullivan, Attorney, Child Support Litigation Division, Texas Attorney General's Office, Austin, Texas, July 13, 1993.

14. U.S. Commission on Interstate Child Support, *"Supporting Our Children: A Blueprint for Reform"* (Washington, D.C.), p. 191.

SERVE VETERANS AND THEIR FAMILIES AS CUSTOMERS

Background

The Department of Veterans Affairs (VA) exists to serve veterans and their families. Unlike any other federal organization, VA is responsible for fulfilling obligations of the United States that were incurred in exchange for an earlier national service--often at great risk. Military service in many respects represents the most fundamental form of national service and the panoply of veterans' benefits may be thought of as "earned opportunities." Everything VA does is an acknowledgment of the fact that the veteran is someone who has paid for, in advance and in a very personal way, the benefits and service to which he/she is entitled.

VA touches veterans' lives in a very direct way. With its more than a quarter of a million employees in the United States and abroad, VA encompasses 171 medical centers, 191 outpatient clinics, 35 domiciliaries, 58 benefits regional offices, and 114 cemeteries. VA employees assist some five to ten million veterans annually, depending upon program usage, for disability compensation or pension benefits, vocational rehabilitation, education, home loan guaranty, life insurance and burial services. Each year VA handles in excess of 15 million telephone calls and processes over 1 million hospital admissions and 25 million outpatient visits.

VA's customer base includes approximately 27 million veterans (almost 21 million of whom served during at least one war period), 42 million dependents, and 1.6 million survivors of deceased veterans. Thus VA's customer base comprises approximately one-third of the U.S. population.

All of VA's activities must be focused on putting its customers first. Under the leadership of VA Secretary, Jesse Brown, and his deputy, Hershel Gober, VA has placed a renewed emphasis on service. While involved successfully in quality management, VA is undertaking five important new initiatives to improve the delivery of services that emphasize the mission of all employees and why VA exists--to serve the veteran.

First, is through courtesy and caring. Service starts with courtesy. In July 1993, Secretary Brown inaugurated a new nationwide awareness campaign among VA's 260,000 employees, emphasizing the themes of caring and courtesy: "VA--Putting Veterans First." Every VA employee will participate in courtesy training and orientation programs. In announcing the program the Secretary said:

> Because we are undoubtedly the government's largest single employer of direct public contact personnel, we have a special need to emphasize customer service. The tone we establish with our veterans in their encounters with VA must communicate a total sense of caring and courtesy. . .We want to provide clear guidelines to our employees not only to reinforce a sense of responsibility for being pleasant and helpful, but also to demonstrate that in the long run it helps us to be efficient.

The Secretary explained that by reducing time spent on consumer complaints and by taking an early interest in individual concerns, VA could increase its productivity.

Second, is through listening--customer feedback. Since most public agencies do not get funds from their customers, as businesses do, and since most public programs are monopolies whose customers cannot go elsewhere for a better deal, agencies easily can become customer-blind rather than customer-driven.[1] VA can learn from such companies as Xerox which requires its senior managers to spend one day a month taking phone calls from customers.[2] Says former Xerox CEO David Kearns, "There is simply no substitute for direct access. It keeps managers informed, it keeps them in touch, it keeps them honest."[3]

VA needs more flexibility in reaching and hearing directly from veterans and their families on their perceptions and expectations. VA employees must have an opportunity to respond quickly to any concerns or meet the changing needs of their customers. Adding to this urgency, VA's customer base is increasing with the current downsizing of the military.

Customer feedback within VA is being offered in several ways, including surveys, personal one-on-one telephone interviews, and focus groups. The extent of direct and indirect involvement with customers in each varies, particularly depending on whether the feedback is conducted at the local or national levels. In almost all cases, to survey veterans

and their families VA must receive approval from the Office of Management and Budget (OMB) because of the Paperwork Reduction Act of 1980.

The approval process is cumbersome and lengthy and restricts VA's ability to collect customer data. VA should have the authority to collect customer data but along with that authority is a responsibility to have trained personnel who can design, develop, and interpret data.

Third, is through customer representation. VA is improving its services by emphasizing direct service contact with veterans and their families. One initiative involves the enhancement of the customer representative function, coupled with the establishment of *ombudsman* activities. The actual design and implementation of this initiative will vary within each of VA's three primary organizations, the Veterans Health Administration, the Veterans Benefits Administration, and the National Cemetery System.

Although the roles and responsibilities of the customer representative and ombudsman are similar, differences do exist between these functions. The customer representative is often an employee of an organization whereas an ombudsman frequently is not. For example, there are patient representatives at most VA medical centers. These employees, on behalf of the facility, assist patients, family members, veterans' service officers, and other concerned individuals with their questions and concerns about the medical care experience, projecting a positive image for VA. In the private sector, the Ritz Carlton Hotel in Washington, DC, resolves customer problems on the spot by authorizing all employees to make decisions, even writing checks up to $2 thousand.

In contrast, an ombudsman serves as an advocate for the veteran, and is not necessarily restricted by internal VA rules and constraints. An ombudsman can be thought of as an individual who facilitates resolution of customer complaints. For example, an ombudsman will investigate the circumstances surrounding the complaint and recommend a course of action to resolve it.

Fourth, is through forming a partnership with veterans' service organizations (VSOs), which in effect represent VA's customers. Concurrent with the creation of

veterans' programs and benefits in the early formative years of the United States, were veterans organizing to help one another--the forerunners of today's VSOs. Following World War I, the number of VSOs grew dramatically. With that growth, VSOs became very active in affecting policy making at the federal level.

Today there are more than eight million veterans who are members of VSOs that are federally chartered and/or recognized or approved by the Secretary of Veterans Affairs for purposes of preparation and presentation of veterans claims under laws administered by VA. Six million-plus of these veterans are represented by the three largest organizations--the American Legion, Veterans of Foreign Wars of the United States, and Disabled American Veterans.[4] Being thoroughly familiar with VA programs, the VSOs are very sophisticated advocates for veterans. Uniquely, the VSOs prepare an annual independent budget, endorsed by some 38 organizations, of what they believe veterans need.[5] Since a major focus of reinventing government is listening to the customer, it is to VA's advantage to include such organizations, at least in a consultative sense, in its policy decision-making.

Finally, VA can establish itself as a customer-driven organization by acting on a measure that stresses the dignity of patients in VA medical centers and respect for their families--patient bedside telephones. VA has historically not provided veteran patients with direct bedside access to telephones, and veterans have had to rely on pay telephones to make and receive telephone calls, thereby causing great inconvenience, particularly for those veterans with severe disabilities. To be sensitive to veterans' needs concerning telephone accessibility, VA also has required nursing staff to devote time assisting patients in making telephone calls to their loved ones or receiving calls from them. Bedside telephones are ordinarily found in hospitals across the country and are normally associated with providing medical care.

The General Accounting Office conducted an audit on effective use of nursing skills and recommended that VA provide telephone access for patients.[6] Subsequently, Public Law, 102-585, enacted in November 1992, directed the Secretary of Veterans Affairs to evaluate the feasibility and desirability of patient bedside phones. In 1993, the Under

Secretary for Health developed a plan for placing patient telephones at all 171 VA medical centers within 5 years.

The Castle Point, New York, VA Medical Center was the first to receive patient phones. VA accomplished this through donations from the veterans service organization known as "PT Phone Home." At no cost to VA, PT Phone Home coordinated the donation of funds, equipment, and labor necessary to complete the installation and to pay the monthly recurring costs.

In summary, being courteous and caring, listening to the customer and acting on customer feedback, enhancing customer representation, forming a partnership with the veterans' service organizations, and stressing the dignity of patients in VA medical centers, are important initiatives which will enable VA to achieve its goals as a customer-driven organization.

Recommendations

1. **VA should implement a courtesy and caring initiative throughout VA.** Since this initiative concerns effective communication, some form of training and feedback mechanisms should also be developed to determine the effectiveness of the courtesy and caring from both employee and veteran perspectives.

2. **VA should develop Department-wide policy for collecting and responding to veterans' suggestions and concerns**. The policy should include a strategy that would (a) include a blanket authority approved by OMB for conducting recurring surveys and (b) provide a centralized clearinghouse on information feedback, research and development, including case studies and lessons learned.

3. **VA should develop a comprehensive approach for improving its capacity to respond to its customers' concerns, inquiries, and complaints**. One way to accomplish this approach would be through the use of a working team comprised of VA and VSO representatives. Their purpose would be to develop and implement a plan for establishing customer representatives, ombudsmen, or case managers at VA medical centers, regional

offices, and cemeteries as appropriate for the particular facility.

4. **VA should develop a comprehensive approach for providing the VSOs a stronger consultative role in policy making and decision-making.** The initiative would build on the existing relationship and greatly strengthen it.

5. **VA should provide patient bedside telephone access at its medical centers as expeditiously as possible.** VA should continue to work aggressively with community organizations (e.g., PT Phone Home), VSOs, and telecommunications firms, to obtain telephones or have them donated as a community service.

Implications

Courtesy and Caring - An effective training program and careful implementation of the program should improve services and customer confidence.

Listening to the Customer -- Customer Feedback - Without aggressive, structured access to and communication with veterans and their families, VA would continue to conduct business from more of a bureaucratic perspective than from a customer perspective.

Customer Representation - Customer service will become critical to VA, especially in an increasingly competitive environment (e.g., national health care reform and reinventing government) and rising customer expectations. VA will need to increase its emphasis on human resources development. The implementation of a viable customer representative program is consistent with the Administrative Dispute Resolution Act of 1990, which requires VA and other federal agencies to develop a policy for implementing alternative means of dispute resolution in the administrative programs.

Partnership with Veterans' Service Organizations - Unlike most Cabinet departments, VA is a service not a regulatory or oversight organization. As a service organization, VA's decisions should focus on the veterans and families it serves. Creation of a "partnership" with the organizations representing its customers holds great potential for more responsive services and better informed policies.

Patient Bedside Telephone Access - The installation of bedside telephones will bring VA hospitals up to the standard in most other hospitals in the country and allow nurses to spend more time in direct patient care.

Fiscal Impact

VA anticipates no new budget authorities to implement the initiatives of Courtesy and Caring, Listening to the Customer -- Customer Feedback, Customer Representation, and Partnership with Veterans' Service Organizations. VA will make every effort to secure funding the Patient Bedside Telephone initiative through community organizations, VSOs, and private businesses.

Endnotes

1. David Osborne, "Reinventing Government: Creating an Entrepreneurial Federal Establishment,"in Will Marshall and Martin Schram, ed. *Mandate for Change* (New York: Berkley Books, 1993), p. 264.

2. David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (New York: Plume Books, 1993), p. 170.

3. Ibid.

4. U.S. Department of Veterans Affairs, *1993 Directory of Veterans' Service Organizations* (Washington, D.C., 1993), pp. 5, 16, and 36.

5. James J. Kenney, National Commander, American Veterans of World War II, Korea, and Vietnam; Joseph C. Zengerle, National Commander, Disabled American Veterans; Richard F. Johnson, National President, paralyzed Veterans of America; and John M. Carney, Commander-in-chief, Veterans of Foreign Wars of the United States, *The Independent Budget for Veterans Affairs: Fiscal Year 1994* (Washington, D.C., undated).

6. U.S. Comptroller General, *VA Health Care: Telephone Services Should be More Accessible to Patients,* GAO/HRD-91-110 (Washington, D.C.: General Accounting Office, July 31, 1991).

Now is the Time

In addition to improving customer service and promoting competition, continuous improvement and business reinvention mean doing more with less, and now is the time. The logistics operations of the Department of Veteran Affairs (VA) involve operating and supplying more than 700 sites and facilities worldwide--one of the largest health care systems in the world. Similarly, the number of financial transactions to the millions of beneficiaries and vendors involved are also enormous.. The nine initiatives in this category seize upon the advantage of modern information technologies to enhance the responsiveness and cost-effectiveness of VA business processes.

PHASE OUT AND CLOSE VETERANS AFFAIRS SUPPLY DEPOTS

Background

The Department of Veterans Affairs (VA) established a Task Force in January 1993 to realize the financial benefits of the Veterans Health Care Act of 1992 (PL 102-585), and to examine the impact of the law on the VA supply distribution system and the Supply Fund. In fiscal 1991, VA spent nearly $1.3 billion on drugs and pharmaceuticals, medical supplies and nonperishable subsistence, which was distributed through a supply distribution system which cost the VA $138 million.[1] The VA supply distribution system has historically stored relatively large inventories in both supply depots and at the medical centers to meet customers needs and moves products in batches through various distribution channels. VA's operates three major supply depots and approximately 170 warehouses.

VA has long benefitted from deep discounts that were provided by manufacturers for volume procurements of their pharmaceuticals. By establishing ceiling prices for "covered drugs," PL 102-585 eliminated the pricing advantage for many drug products distributed through the depot system. At the same time, VA had successfully pilot-tested *just-in-time* commercial distribution of Federal Supply Schedule pharmaceuticals through Prime Vendor arrangements. Just-in-time commercial distribution refers to the situation where the VA medical center, using centralized contracts, orders directly from the prime vendor and delivery is made directly to the medical center with no intervening inventory/material handling in the VA distribution network.[2]

The Task Force was charged with examining these current realities and developing a long-term distribution strategy for VA. After a substantive review of the existing depot distribution system, changes resulting from the new public law and full consideration of five long-term distribution strategies, it was recommended that VA phase out the current depot system and transition to a commercial distribution system. Veterans Affairs' Secretary Jesse Brown approved the recommended strategy for implementation on July 13,

1993, subject to Congressional notification.[3] The five strategies considered were (a) the use of four regional service centers, (b) the use of a commercial distribution system (approach selected), (c) the use of a combination of the commercial approach in conjunction with the retention of one national service center, (d) the continuance of downsized versions of the existing depots, and (e) conversion to 12 regional distribution centers. Recent reports of the General Accounting Office tend to validate the approach now selected by the VA.[4]

The availability of Prime Vendor commercial systems for pharmaceuticals has already been proven efficient and is in the process of VA-wide implementation.[5] This program, coupled with the impact of PL 102-585, will eliminate VA medical centers' needs for pharmaceuticals from the depots. Since drugs represent a substantial portion of depot revenues, it is no longer cost-effective to maintain the depots.

Recommendation

VA should convert its existing centralized depot storage and distribution program to a commercial just-in-time delivery system. Alternative concepts were considered before this was selected as the most cost-effective approach. Implementation of this recommendation will expedite the provision of comparable prime vendor systems for medical/surgical supplies and subsistence.

The conversion is expected to take 18 to 24 months, during which, VA's depots will be phased out and closed. VA will establish a multi-disciplinary transition team to plan and monitor the conversion process. The VA Office of Acquisition and Materiel Management will ensure continuity of supply support to the VA Medical Centers is maintained and that the impact of the conversion on depot employees is minimized as much as possible. Every effort will be made to offer depot employees other positions within the Department.

Implications

This initiative was identified and developed by VA, and the recommendation adopted by Secretary Brown on July 13, 1993, subject of Congressional notification.

Commercial distribution system are cost-effective, widely accepted in the health care industry, and have demonstrated a proven record for just-in-time delivery to the customer.

Fiscal Impact

As a result of the closure of the depots and the transition to a commercial distribution system, VA projects a one-time reduction of depot and VA medical center inventories of $89 million. The phase-out and closure of the depots will occur over two fiscal years; the process will begin in fiscal 1994 and be complete by the end of fiscal 1995. At the beginning of fiscal 1996, the Office of Acquisition and Material Management will have realized a reduction of 295 depot-related full-time-equivalent employees (FTEE). This reduction will generate a recurring cost savings of $30.3 million, encompassing costs tied to the reduction in staffing ($25 million) in addition to a recurring inventory holding cost reduction of about $5.3 million. Total savings for the six year period are estimated at $215.5 million.

In Millions of Dollars

	1994	1995	1996	1997	1998	1999
Budget Authority	$ 31.8	$ 62.5	$ 30.3	$ 30.3	$ 30.3	$ 30.3
Outlay	$ 31.8	$ 62.5	$ 30.3	$ 30.0	$ 30.3	$ 30.0
Change in FTEs	0	(139)	(295)	(295)	(295)	(295)

Endnotes

1. Logistics Management Institute (LMI), *Win-Win Supply - Distributed Network Alternatives for the Department of Veterans Affairs* (Washington, D.C., September 1992), p. iii.

2. LMI, Ibid, p. 2-18.

3. Secretary's Decision Document, *Department of Veterans Affairs Supply Fund Acquisition/Distribution Strategy* (Washington, D.C., July 13, 1993).

4. U.S. Comptroller General, *General Services Administration - Increased Direct Delivery of Supplies Could Save Millions,* GAO/GGD-93-32 (Washington, D.C.: General Accounting Office, September 1992). Also, U.S. Comptroller General, *DoD Food Inventory - Using Private Sector Practices Can Reduce Costs and Eliminate Problems,* GAO/NSIAD-93-110, June 1993).

5. C. Dale Duvall and Chris Figg, *Prime Vendor As It Is Used In The Department of Veterans Affairs* (Washington, D.C., March 23, 1993).

ELECTRONIC COMMERCE IMPLEMENTATION: AN OPPORTUNITY TO REINVENT VETERANS AFFAIRS BUSINESS PROCESSES

Background

Electronic commerce offers significant potential for revenue enhancement and improved funds accountability across Department of Veterans Affairs (VA) activities. Electronic commerce encompasses electronic data interchange (EDI), electronic funds transfer (EFT), electronic benefits transfer (EBT), and direct deposit (DD).

EDI is defined by the American National Standards Institute (ANSI) as "the transmission, in a standard syntax, of unambiguous information of business or strategic significance, between computers of independent organizations."[1] The use of EDI applications has grown significantly from an estimated 1,465 in 1987 to 31,000 last year.[2] EFT, EBT and DD are closely aligned with EDI applications, but involve the one-way electronic transfer of information, particularly financial information, which effect the payment of employees and beneficiaries.

VA already has made substantial achievements to date in implementing EDI and related applications, and the support received by the initiative from across VA program offices has been noteworthy. VA's Office of Acquisition and Material Management (OA&MM) has piloted EDI to exchange purchasing information with select vendors of pharmaceuticals and medical supplies. VA's Austin Finance Center receives EDI invoices from 55 vendors, accounting for 17 percent of invoices for goods received by VA. Currently, OA&MM is rapidly expanding the use of EDI to cover orders from a larger set of vendors for the entire VA medical system. The replacement of VA-owned inventories with just-in-time delivery to VA field stations is possible thanks to industry adoption of EDI standards and technology.

Overall, the areas listed below have been identified to offer the most significant benefits from the use of EDI.

- purchase orders and delivery orders;
- invoices, including government bills of lading;
- eligibility, claims and payments with health care providers and insurers;
- enrollment certification/financial information with educational institutions;
- applications, defaults, and foreclosures with mortgage lenders;
- military service histories with the Department of Defense (DoD); and
- exchange of (a) veteran income data with the Social Security Administration (SSA) and the Internal Revenue Service (IRS), and (b) retirement pay data with the DoD and the Office of Personnel Management.

VA has conducted a series of studies that document the benefits for these programs.[3] These studies found, for example, that:

1. Invoices - The VA Austin Finance Center should receive invoices via EDI from the 220 firms that represent 1.6 million invoices (about 50 percent of the total number of invoices); the per invoice costs would drop approximately $2.00, with a net savings of $12 million (discounted) over five years.
2. Government Bills of Lading (GBLs) - The VA Office of Finance should use EDI on GBLs would reduce the cost from $10.07 to $4.52 each for a total savings of about $388,541 (discounted) over five years.
3. Acquisition Processing - The Office of Acquisition and Material Management should use EDI for delivery orders and purchase orders under $25,000, which would result in a net savings of about $75 million (discounted) over five years.

If VA, in coordination with the Treasury Department, implements EDI within electronic funds transfer, VA can send detailed statements with vendor payments to aid reconciliation of accounts and prevent misunderstandings. Additionally, payments to educational institutions can be sent with detailed statements to aid reconciliation of accounts. When veterans are at risk of default, mortgage lenders can advise the Veterans Benefits Administration (VBA) via EDI, permitting the Department to respond more quickly to assist veterans in resolving this crisis. Network costs to the government depends

upon whether Treasury of a commercial value-added-network is used as the conduit. With timely and accurate notice, not only will VBA avoid the cost of foreclosure, more importantly, veterans can get the help they need to keep their homes. No veteran should become homeless simply because VBA could not respond in time.

Implementation of EDI and changes in business practices offer potential for revenue enhancement and improved funds accountability. For example, even before the veteran arrives at the medical center, center staff can verify via EDI, the veteran's insurance coverage and obtain the insurer's precertification for service to be provided by the center that is not paid by Veterans Health Administration (VHA) but covered by the veteran's own medical insurance. This will eliminate cost penalties for failure to get timely precertification or even the denial of claims. Claims can be generated and submitted automatically; medical record data can be incorporated electronically as appropriate to document the need for the procedure, medication or service.

The VHA initiates, as needed, an electronic query to the IRS, which matches the query against tax return data, replying in a fraction of the time now required. In some cases, this feedback may be obtainable even before the veteran leaves the facility. Untimely notices are avoided and co-payments are collected when service is delivered, rather than months later when memories have dimmed. Similar matching initiatives exist within VBA.

Table 1 summarizes the estimates cost savings identified to date relative to the use of EDI, a total of $111 million have been identified thus far for the five-year period fiscal 1995 through fiscal 1999, from the applications analyzed in detail. No savings are estimated for fiscal 1994.

Currently, the VA also processes about 3.3 million monthly payments to compensation and pension beneficiaries. Of this total, 48 percent are processed through electronic funds transfer (EFT). EFT allows VA to transmit checks directly to a veteran's bank account, resulting in significant savings to the government. Savings to the Treasury through the use of EFT is about $.30 per payment

Table 1. Net Benefits from Use of EDI

(In Millions of Dollars)

Activity	1995	1996	1997	1998	1999
Finance/Invoices	2.6	3.2	3.2	3.2	3.2
Finance/GBLs	.2	.2	.2	.2	.2
OA&MM/Purchase Requests	7.7	17.7	21.9	25.6	21.7
VHA/Medical Claims	TBD	TBD	TBD	TBD	TBD
VBA/Education	TBD	TBD	TBD	TBD	TBD
VBA/Loan Guaranty	TBD	TBD	TBD	TBD	TBD
VBA/Service History	TBD	TBD	TBD	TBD	TBD

Those veterans who do not have bank accounts may gain access to their benefits through the use of a plastic access card in conjunction with an automated teller machine. This process is referred to as Electronic Benefits Transfer (EBT). It is estimated that approximately 8 percent of compensation and pension beneficiaries may not have bank accounts and would benefit from the use of EBT. However, unlike like EFT as described above, the use of EBT could be costly. For example, an earlier Treasury study found that the first year's cost of EBT would average about $1.72 per month with the cost per month dropping to about $1.30 the second and succeeding years. If some government-wide initiative were undertaken, it is possible that these costs could be cut to a minimum. For example, the federal government's experience with Diners Card is that there is no interest or service charges for the use of the card because the sponsor is eager for the access to customers provided by the government-wide exposure. Therefore, there are no costs to the individual customer.

VA's use of Direct Deposit encompasses about 80 percent of its 260,000 employees. If VA could increase the usage to 95 percent (about 39,000 employees) it could save about $300,000 annually. As important as the savings, is the increased awareness that would come with the use of electronic funds transfer to the employees who would be using the new electronic means and would then be prompted to consider other applications throughout VA.

VA's electronic commerce program is being coordinated by the Deputy Assistant Secretary for Information Resources Management. Leading implementations in VA are under the Deputy Assistant Secretary for Financial Management and the Deputy Assistant Secretary for Acquisition and Materiel Management.

Recommendations

1. **VA should expand its use of EDI for invoicing, government bills of lading, and purchase orders, and analyze the cost-effectiveness of EDI application to VHA and VBA programs.** The proposed VA initiative in EDI is based upon a thorough analysis of selected applications. Further research will be required to design the appropriate implementation approach within VHA and VBA. Program offices will need close support to plan, design, and execute their EDI implementation initiatives. This includes development of applications systems, technical support, and standards-based telecommunications/value added networks.

Although the reduction in administrative costs found in the EDI studies identifies savings in salary and fringe benefits, the individual program areas will determine the appropriate alternate use of human resources. For example, staff in medical administration would be freed of routine paperwork to better negotiate with insurers and providers. EDI is extremely broad in scope and VA managers need the flexibility to realign their staff resources. Consequently, a full realization of the EDI potential is contingent upon the removal of legislative and other constraints upon VA managers as recommended in the two National Performance Review initiatives *Eliminate Legislative Budget Constraints to*

Promote Management Effectiveness with the Department of Veterans Affairs and *Decentralize Decision-Making Authority within the Department of Veterans Affairs to Promote Management Effectiveness.*

2. VA should seek to implement EFT for those compensation and pension beneficiaries who do not now use it. VA should attempt to employ EFT for the remaining 52 percent of compensation and pension beneficiaries who are not now using it. It is worth noting that not all beneficiaries will have either have access to a bank account or will want such access. This is a issue common to the Social Security Administration and other federal organizations who make payments to individuals.

3. VA should work with the Department of Treasury to develop a cost-effective, government-wide approach to Electronic Benefits Transfer (EBT) for beneficiaries who can not use EFT. The preferred approach to servicing compensation and pension beneficiaries is EFT because the initiative costs about $.05 saves about $.30 per payment. EBT is an alternative approach for those who do not have bank accounts. Unfortunately, however, it will cost about $1.72 per payment the first year unless VA can get some assurance that the institutions honoring the veterans cards will not charge user fees. VA will explore the ramifications of this approach with Treasury.

4. VA should seek to increase the level of participation in the Direct Deposit of employee salaries. VA should seek to increase the level of employee participation in Direct Deposit from the current level of 80 percent to at least 95 percent. This activity is both cost-effective and results in an increased awareness on the part of employees as to the use of technology. VA is moving to a single release date for both paper checks and electronic deposits, and the use of Direct Deposit by employees would allow them early access to the funds and serve as an incentive for their participation in VA's Direct Deposit initiative.

Implications

These recommendations were provided to the National Performance Review by the

VA. The continued support of EDI, EFT, and EBT and related applications by VA program and staff offices, trading partners, and beneficiaries is critical to the successful implementation of these initiatives.

Fiscal Impact

As summarized below, the impact of implementing EDI for the three applications cited amounts to about $ 150 million over the period fiscal 1994 through fiscal 1999. Costs associated with the use of EBT will be borne by VA.

	In Millions of Dollars					
	1994	1995	1996	1997	1998	1999
Budget Authority	$ 6.5	$ 17.0	$ 27.6	$ 31.8	$ 35.5	$ 31.6
Outlay	$ 6.5	$ 17.0	$ 27.6	$ 31.8	$ 35.5	$ 31.6
Change in FTEs	0	0	0	0	0	0

Endnotes

1. U.S. Department of Veterans Affairs, *So You Would Like to be an EDI Trading Partner with the VA...* (Washington, D.C., August 1992), p. 1.

2. "A Message of Unity: A fledgling standard may finally put electronic data interchange in the E-mail network," *Information Week* (August 2, 1993), p. 28.

3. U.S. Department of Veterans Affairs, *Application of EDI Technology at the Austin Finance Center* (Washington, D.C., September 1992). Also see, U.S. Department of Veterans Affairs, *Applications of EDI Technology in Acquisition and Material Management* (Washington, D.C., July 1993).

ELIMINATE "SUNSET" DATES IN OMNIBUS BUDGET RECONCILIATION ACT OF 1990

Background

The Omnibus Budget Reconciliation Act of 1990 (OBRA) contained a number of provisions affecting veterans that achieve savings that are scheduled to "sunset" or expire in 1998. The effects of four of the provisions have been to:

1. Limit to the monthly benefit paid to veterans and their survivors who are in Medicaid-covered nursing homes and who have no dependents to $90.
2. Authorize Veterans Affairs (VA) to verify with the Internal Revenue Service (IRS) and the Social Security Administration (SSA) incomes reported by veterans for the purpose of establishing eligibility for pensions and other benefits
3. Authorize VA to collect from any third party that insures a veteran with service-connected disabilities the reasonable cost of medical care that the VA provides to the veteran for the treatment of nonservice-connected disabilities ; and
4. Authorize VA to charge copayments to nonservice-connected veterans receiving inpatient care, outpatient care, and outpatient medication from VA facilities.[1]

Recommendation

Remove statutory sunset dates contained in the Omnibus Budget Reconciliation Act relating to programs administered by VA. By removing the sunset dates, these cost savings measures would become permanent. Health insurance companies would continue to be required to reimburse VA for medical care provided to certain veterans. Among other things, this recommendation would also allow VA to be permanently authorized to verify incomes of beneficiaries with the IRS and the SSA to prevent overpayment of benefits and other errors.

Implications

Generally, Congress has been extending these provisions one year at a time. Permanently enacting these provisions would convert temporary savings into ongoing savings.[2]

Fiscal Impact

The estimated cumulative six-year savings from this proposal would be $911 million.

In Millions of Dollars

	1994	1995	1996	1997	1998	1999
Budget Authority	$ 0	$ 0	$ 0	$ 0	$ 0	$911
Outlay	$ 0	$ 0	$ 0	$ 0	$ 0	$911
Change in FTEs	0	0	0	0	0	0

Endnotes

1. The Congressional Budget Office,*"Reducing the Deficit: Spending and Revenue Options"* (Washington, D.C., February 1993), p. 331.

2. Ibid., p. 332

RAISE THE FEES FOR VA GUARANTEED HOME LOANS

Background

Since World War II, VA has supported home ownership by veterans through the home loan guaranty program, that allows veterans to obtain home loans from private lenders on more favorable terms than usual (such as without a down payment).[1] Where foreclosure occurs, VA's guaranty reduces the lender's potential loss.[2] The proportion of the loan principal that is guaranteed varies with the size of the mortgage loan (not more than $46,000).[3] In 1992, the Bush Administration estimated net federal outlays for the program at $740 million.[4]

Since 1982, one-time VA loan funding fees have been assessed for veterans who borrow.[5] Currently, the fee is 1.25 percent of the mortgage amount for loans with down payments of less than 5 percent, 0.75 percent for loans with down payments of 5 percent up to 10 percent, and 0.5 percent for loans with down payments of 10 percent or more.[6] VA home loans are often obtained with no money down. In addition, the VA fees may be paid in cash at closing or included in the loan amount and financed by the veteran over the life of the mortgage.

Prospective homeowners are unable to purchase homes with conventional or FHA financing without down payments (5 percent minimum generally applies to conventional and 3 percent to FHA). However, FHA allows the inclusion of closing costs in the loan amount, while VA does not.[7] This results in a maximum loan that is not far from zero down payment.[8] Where FHA and conventional financing are obtained, the mortgage insurance rates are higher. For example, FHA requires a 3 percent fee up front plus a monthly fee based on an annual rate of 0.5 percent of the loan amount (that can generally be terminated when the value of the property exceeds 80 percent of the mortgage amount). The rates charged by private mortgage insurers vary from company to company. One private insurance company quoted a 1 percent up-front fee that cannot be financed by the buyer, but can be paid by the seller at closing in some circumstances and an annual fee of 0.44 percent of the loan amount paid on a monthly basis until the lender no longer requires the insurance (generally, when the loan amount falls below 80 percent of the value of the home and the borrower applies for release of the insurance obligation).

In addition to lower loan costs and the ability to obtain no money down loans, VA qualifying criteria are more lenient than other programs. Consequently, veterans receive a substantial benefit as compared to other home buyers who use FHA or conventional financing.

In its fiscal 1994 budget, the Administration has proposed to raise the fee for down payments of less than 5 percent from 1.25 percent to 2 percent. VA estimates that this increase will cost the veteran with no down payment about $4.50 a month (based on the average loan amount of $86,000; annual percentage interest rate of approximately 7.5 percent; and assuming the veteran has chosen to finance the entire funding fee). The Congressional Budget Office (CBO) recommends that the fees be increased to 3 percent for down payments of less than 5 percent and to 2 percent for loans with down payments of 5 percent to 10 percent, and to 1.5 percent for loans with down payments of at least 10 percent.[9] It is estimated that this increase (compared to the Administration proposal) will cost the veteran with no down payment an additional $6.00 a month.

Table 1. VA Guaranteed Home Loan Charges

Situation/Proposal	Less than 5% Down payment	5 to 10% Down payment	More than 10% Down payment
Current	1.25	.75	.50
Administration Proposal	2.00	1.50	1.25
CBO Proposal	3.00	2.00	1.50

Recommendation

Congress should enact legislative change (38 U.S.C. Section 3729) in support of the CBO recommendation to increase VA home loan funding fees.

Implications. While requiring fairly modest increases in monthly payments for the average home-

buying veteran, the VA program would continue to provide benefits (e.g., zero down payments and more lenient qualification criteria) over and above what is available in the current market place.

Fiscal Impact

Cumulative six-year savings that would result from implementing this proposal are estimated at $780 million.

In Millions of Dollars

	1994	1995	1996	1997	1998	1999
Budget Authority	$130.2	$131.6	$129.1	$130.1	$129.5	$129.5
Outlay	$130.2	$131.6	$129.1	$130.1	$129.5	$129.5
Change in FTEs	0	0	0	0	0	0

Endnotes

1. The Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, (Washington, D.C., February 1993), p. 329.

2. Ibid.

3. Ibid.

4. Ibid.

5. Ibid.

6. Ibid.

7. Facsimile transmission from Alan Schneider, Deputy Director of the Loan Guaranty Service, Department of Veterans Affairs (July 27, 1993).

8. Ibid.

9. The Congressional Budget Office, *Reducing the Deficit,* p. 329.

LIMIT MULTIPLE USE OF THE VETERANS' HOME LOAN GUARANTY BENEFIT AND RESTRICT REFINANCING LOANS

Background

The Department of Veterans Affairs (VA) supports home ownership by veterans by allowing them to obtain mortgage credit on more favorable terms than usual (i.e., no down payment is required).[1] The home loan program, established during World War II, was originally intended as a readjustment benefit for the purpose of assisting veterans returning from war in buying their first homes. Veterans had to use their entitlement within 10 years after being discharged from service, and once used, the benefit could only be restored in cases where the veteran lost the property by condemnation or hazard.[2]

Under current law, veterans and their surviving spouses can obtain more than one guaranteed loan during their lifetimes. A veteran who did not use the full amount of the entitlement can use any remaining entitlement to obtain another VA loan. Also, any previously used entitlement can be restored if the previous home has been disposed of, and any previous VA guaranteed loans have been either paid off or assumed by another eligible veteran who is willing his or her entitlement for that of the first veteran.[3] About 20 percent of loans guaranteed by VA are multiple use loans (i.e., involve other than first-time use of the benefit). Allowing veterans to reuse their entitlements is inconsistent with the program's original goal of assisting veterans returning from war readjust to civilian life. In 1992, the Bush Administration estimated net federal outlays (loan fees received as compared with foreclosures and program operating costs) for the program at $740 million.[4]

Following the current trend to finance consumer purchases through tax deductible home equity loans, veterans, whose properties have appreciated significantly in value, can use the VA home loan program to remove equity from their homes to finance other projects or purchases (e.g., home improvements, student loans, automobiles and other consumer purchases). These cash-out refinancing loans are limited to 10 percent of the reasonable value of the property. While second-time borrowers with substantial equity in their homes

potentially pose less credit risk to the VA than first-time buyers, the use of this program represents a significant departure from the original intent of this benefit. Further, it is inappropriate for the federal government to undertake the additional risk that accompanies these loans.

Recommendation

Congress should amend the law (Title 38 U.S.C.) to restrict multiple use of the VA home loan benefit to active-duty military and to veterans who are refinancing solely for interest rate reductions. Therefore, VA home loans would not be available for individuals who are purchasing second or subsequent homes under the program unless they are active duty military personnel. Further, the VA home loan program would not be available to refinance existing home mortgages when the owner's equity is removed and used for other purposes.

Implications

This proposal would reduce the number of loans guaranteed by VA, and therefore, its financial exposure to pay on the guaranty. The proposal would return the program to the original intent of the Servicemen's Readjustment Act of 1944--to assist veterans in buying their first homes.

Fiscal Impact

Implementation of this recommendation should result in cumulative six-year savings of approximately $301 million.

In Millions of Dollars

	1994	1995	1996	1997	1998	1999
Budget Authority	$ 50.5	$ 50.2	$52.1	$ 49.6	$49.4	$49.4
Outlay	$ 50.5	$ 50.2	$ 52.1	$ 49.6	$49.4	$49.4
Change in FTEs	0	0	0	0	0	0

Endnotes

1. The Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options* (Washington, D.C., February 1993), p. 330.

2. Facsimile transmission from Lisa Signori, Office of Management and Budget, July 28, 1993.

3. Facsimile transmission from Alan Schneider, Deputy Director of the Loan Guaranty Service, Department of Veterans Affairs, July 27, 1993.

4. The Congressional Budget Office, *Reducing the Deficit*, p. 330.

CONSOLIDATE DEPARTMENT OF VETERANS AFFAIRS HEALTH CARE FACILITIES

Background

The Department of Veterans Affairs (VA), through its Veterans Health Administration (VHA), currently maintains approximately 80,000 beds for both hospital and nursing home care. VA also operates outpatient services at over 350 sites, including clinics at every medical center, satellite clinics, independent clinics, community-based and rural-outreach clinics, as well as about 200 veterans centers. Nursing home care is provided on site at 126 VA medical centers and through contracts with thousands of community nursing homes. VA also supports care by non-VA providers through sharing agreements, contracts and various fee-for-service arrangements.

VA's health care facilities are loosely grouped into "networks" according to geographic location and veteran utilization patterns; the hospital, however, is the fundamental structural unit. Facilities are organized into four regions that coordinate the facility networks and, in turn, a central office coordinates among regions.

As the demographic pattern of veterans has changed with the aging of World War II veterans and migration to the "sunbelt," the capacity in some areas exceeds demand and in other areas quite the reverse situation exists.

These demographic changes together with changes in the technology and practice of health care led to calls for VA to evaluate options for potential changes to the structure of the VA health care system, to include its balance of services and the needs of its patient population. At the same time, there was a general interest in revising eligibility statutes for VA services to allow increased flexibility, such as providing ambulatory services instead of institution-based care.

In response to these issues of geographic distribution, capacity, demographics and eligibility, then-Secretary Derwinski established the Commission on the Future Structure of Veterans Health Care. The 15-member panel of health care experts was an independent

body appointed by the Secretary with the approval of the Congress. Its tasks were to conduct a thorough and objective examination of the VA health care system and to recommend actions that would keep the system viable through the year 2010 and beyond. The Commission examined veterans' access to care, quality of care, and restructuring to optimize efficiency and effectiveness. Over twenty-five years had passed since the previous examination of VA health care delivery programs; it was time for a reassessment.

The Commission delivered its recommendations in November of 1991, and VA began to evaluate and implement the suggested changes.[1] Although many of the changes could have been made within the existing environment, three major suggestions could not have been; 1) the Congress should change the law, removing differences in eligibility for inpatient, outpatient, and long-term care, 2) the health care system should be reorganized to grant VA Central Office the role of setting national policy and delegating operational authority to geographic service area managers, and 3) VA health care resources should be redistributed to match veterans' needs.

The recommendations of the Commission form a plan that by its nature is complex. Neither the problems of access, cost and quality, which affect the non-VA sector as well, nor the recommendations to resolve them are amenable to simple or expedient solutions such as closing facilities or opening clinics. Because of the complexity and the limits of annual budget cycles, there was little organized support for the recommendations by the Congress and the previous Secretary.

Although these recommendations have not been implemented as a package, VA has developed plans for changing the field structure of facilities to ensure elimination of overlapping capacity and to fill in gaps in access to care (Veterans Service Areas concept). VA also has a proposal for a more thorough managed care practice pattern, and is implementing a rigorous quality assurance program. Examples of other planning efforts are: plans for improving access through eligibility simplification, providing a continuum of care to all eligible veterans, and expanding sharing agreements.

When the opportunity was presented to participate in President Clinton's National Health Care Reform Task Force, the VA was ready to offer its experience and plans as potential options for achieving the President's goals of guaranteed access to a defined set of services, at a cost that is affordable and at a quality that was desirable. Further development of these coordinated efforts will allow VA to participate more fully in national health care reform. Some fundamental decisions as to structure, role and fiscal implications must await the final recommendations of the National Health Care Reform Task Force.

Recommendation

VA should examine its role and structure after issuance of the report of the President's National Health Care Reform Task Force and take steps to reorganize and/or consolidate VA health care facilities.

Implications

Given the direction and goals of the President, it appears that VA may be in a position to be a provider in competition with other providers. A change in the VA structure will be necessary to prepare for this role.

Fiscal Impact

The fiscal impact of this recommendation cannot be determined.

Endnotes

1. U.S. Department of Veterans Affairs, *Report of the Commission on the Future Structure of Veterans Health Care* (Washington, D.C., November 1991).

RECOVER ADMINISTRATIVE COSTS OF VETERANS' INSURANCE PROGRAM FROM PREMIUMS AND DIVIDENDS

Background

The Department of Veterans Affairs (VA) administers eight government life insurance programs.[1] The cost of administering the Servicemen's Group Life Insurance, the Veteran's Group Life Insurance and the Veterans Reopened Life Insurance programs are covered entirely from premium income.[2] However, under existing law, the government must pay the administrative costs of the United States Government Life Insurance (USGLI), the National Service Life Insurance (NSLI), the Service-Disabled Veterans Insurance (S-DVI), the Veterans Special Life Insurance (VSLI) and the Veterans Mortgage Life Insurance (VMLI) programs.[3]

The originating legislation of the SGLI, VGLI and VRI programs all provided for the administrative expenses to be paid from premium income.[4] In the case of the S-DVI and VMLI programs, which provide insurance to disabled veterans, there are no surplus funds from which administrative costs could be recovered.[5] Both of these programs receive significant government subsidies to help meet their claims and administrative expenses.[6]

The issue of paying the administrative costs for the USGLI, NSLI and VSLI programs from excess program revenues has been raised a number of times in the past.[7] The Administration's 1994 budget proposal contained a proposal to begin paying administrative expenses from trust fund surpluses.[8]

Recommendation

Congress should amend Title 38 U.S.C. to permit the payment of administrative expenses of the USGLI, NSLI and VSLI programs from trust fund surpluses.

Implications

This proposal would bring the financing of the USGLI, NSLI, and VSLI programs more in

line with other VA life insurance programs (SGLI, VGLI, and VRI). Further, the financial impact on individual policy holders would be minimal (about $ll per policy holder per year).[9] However, because the government would breach its contractual obligation to current policy holders that stipulates it will pay the administrative costs of the program, some contend that this legislative proposal may be subject to legal challenge.

Fiscal Impact

Cumulative six-year savings for this proposal are estimated at $135 million.

In Millions of Dollars

	1994	1995	1996	1997	1998	1999
Budget Authority	$ 0	$ 29	$ 28	$ 27	$ 26	$ 25
Outlays	$ 0	$ 29	$ 28	$ 27	$ 26	$ 25
Change in FTEs	0	0	0	0	0	0

Endnotes

1. Facsimile transmission from Ray Wilburn, Department of Veterans Affairs, (Washington, D.C. August 5, 1993).

2. Ibid.

3. Ibid.

4. Ibid.

5. Ibid.

6. Ibid.

7. Ibid.

8. Ibid.

9. Ibid.

Section III
Agency Reinvention Activities

THE DEPARTMENT OF VETERANS AFFAIRS
AGENCY REINVENTION ACTIVITIES

Putting Veterans and Their Families First

The Clinton Administration began putting veterans and their families first with the appointment of Jesse Brown as Secretary of Veterans Affairs (VA). As the former representative of the Disabled American Veterans (DAV), one of the largest veterans' service organizations, Secretary Brown brings to the Department an understanding of the real problems facing veterans and has begun to lead it into a new era where veterans groups are explicitly a part of the policy-making process.

The transition to a new VA will not be easy because of the far-flung nature of the organization and its many interfaces with a variety of communities of interest, both in the United States and abroad. VA has a long history of successes, and Secretary Brown wants to build on them. For example, VA's medical research has sponsored two Nobel Laureates and the seminal thinking in such areas as spinal cord injury and prosthetics, and it administers an educational program, the G.I. Bill, that is one of the most successful domestic initiatives ever enacted. The VA has also conducted several pilot studies of its operations to determine how they might be made more effective and efficient. A wealth of data exists to help determine what needs to be done, and now the leadership is in place to move forward to shift to an entirely different paradigm.

Getting Started

At the time the National Performance Review (NPR) was announced officially, VA had already established an executive-level task group to consider new ways of doing business and service delivery. In addition, VA was already an important participant in the White House Task Force on Health Care Reform.

An early cross-cutting theme was the consideration that every dollar spent unnecessarily by VA was a dollar that could have been spent meeting the needs of veterans.

With this in mind, Secretary Brown undertook a personal initiative to eliminate the perception of elitism through such actions as closing executive dining rooms, prohibiting first class travel, and freezing executive furniture purchases.

With the announcement of the NPR, VA formally established a 15-person Steering Committee to direct departmental reinvention. The committee is chaired by the Deputy Chief of Staff and comprised of senior executives from VA's principal administrations and staff offices. A full-time staff was assigned to support the committee, and the NPR reinvention projects were announced to all 260,000 full- and part-time VA employees.

The work of the VA and NPR teams is not unrelated. VA's selection of the three reinvention laboratories discussed below goes a long way towards revolutionizing VA's direct contact with veterans and their families. In all cases, a person, rather than a process, will be the caretaker of the veterans' concerns. While the results of the laboratories will establish the experience base to refocus VA's operations, the more sweeping changes, however, are contingent upon changes in federal and VA infrastructure, which are tied to recommendations made elsewhere in this report. Specifically,

- some changes required to make VA facilities responsive to veterans' needs cannot be made department-wide because of legislative constraints--these are addressed by another issue paper in this report;
- some changes required to make VA facilities responsive to veterans' needs cannot be made department-wide because of VA's self-imposed constraints--these also are addressed by another issue paper in this report; and
- some changes required to enable the VA facilities to be responsive to veterans' needs are constrained by the VA system and its underlying business practices--these are addressed by several NPR recommendations elsewhere in this report, and include: consolidating operations; leveraging scarce assets better; and augmenting the use of modern technologies for processing veteran information received by the department, paying bills, and making benefit payments

VA also recognizes the significant need for health care eligibility reform. The rate of technological change in science and engineering in the last decade have radically changed, for example, the type of care given on an outpatient basis. Today, a veteran who does not have a service-connected disability, can receive cataract surgery as an outpatient. However, under the law, he/she cannot also receive the eyeglasses needed to see after the surgery unless admitted as an inpatient. Putting veterans and their families first means putting an end to such irrational practices or requirements and creating an eligibility structure that promotes, rather than hinders, good medical care. Eligibility reform is a top priority for the Steering Committee, and a legislative proposal will be developed consistent with the Administration's national health care reform plan.

Reinvention Laboratories

The department is actively soliciting ideas from VA employees in the field, who work directly with veterans on a daily basis. For that reason, VA has chosen two of its 171 medical centers, and one of its 58 regional offices, as reinvention laboratories. The laboratories are focused on making the VA more veteran-centered and service-oriented. The department's reinvention laboratories are the New York Regional Benefits Office, the Baltimore VA Medical Center, and the Milwaukee VA Medical Center. The initiatives at these facilities are being coordinated with representatives of the veterans service organizations and union officials to address the full range of both VA staff and veteran concerns as the activities evolve.

The New York City Regional Benefits Office administers veterans' benefits such as disability compensation, pension, education, vocational rehabilitation, and home loan guaranty to veterans and their families in the New York area. The regional office has been committed for some time to total quality management principles, and their reinvention laboratory is expanding an effort to reengineer the services provided to veterans.

The claims adjudication process in VA regional offices is very fragmented, consisting of some 20 to 30 steps spread among a dozen or so employees, without anyone

having ready knowledge of either the overall process or the status of a particular veteran's case. Staff in the New York office have reengineered the entire service concept, turning instead, to a more integrated "case manager" approach. The goal of this approach is to personalize the claims process and empower employees to handle a veteran's claim from start to finish, interacting with the veterans and their families more frequently to enhance communications and clarify expectations.

The reengineered process uses teams consisting of 12 employees, with each individual team responsible for all elements of a claim. Specialization is deemphasized and overlapping knowledge among team members, is promoted. The teams are essentially self-directed and a sense of "ownership" of cases is encouraged. VA expects to cut disability compensation processing time significantly, possibly by as much as 50 percent; the results thus far are encouraging. Faster decisions and more personal attention will mean more satisfied beneficiaries.

The Baltimore VA Medical Center is giving the concept of "managed patient care" its most visible trial, and both patients and staff are benefitting. The Baltimore facility is the newest VA hospital and employs the latest in both technology and facility design to demonstrate what the VA medical system is capable of doing--it is a natural reinvention laboratory.

This reinvention laboratory has developed a hospital inpatient care model that makes extensive use of patient care assistants (PCAs). These individuals cross-train in nursing, laboratory, pharmacy, respiratory therapy, and cardiology to perform a variety of patient care functions at the bedside. With PCAs to help them, clinical professionals have more time to devote to patient care tasks which they can uniquely perform. As a consequence, the overall quality and timeliness of patient care is enhanced.

In the outpatient area, as funding permits, ambulatory care is being organized around a primary care model, where every veteran is assigned to a primary physician to increase patient access and communication with the health care delivery system.

Baltimore is also emerging as a leader in the area of managing patient information. Patient data are readily available throughout the hospital and information gathering devices in patient's rooms and service areas are integrated to give staff ready access to patient data by health care professionals. In addition, the Baltimore radiology department employs a state-of-the-art computer system which enables physicians to manipulate x-ray images in a three-dimensional environment to more easily detect abnormalities or conditions that would be difficult, or perhaps impossible to diagnose using the traditional two-dimensional x-ray representation.

The Milwaukee VA Medical Center seeks to identify the needs of veterans and their families through surveys of both patients and center staff. The medical center is using this information to better focus their health care delivery practices. Several early successes have already been attributed to this technique.

Home oxygen therapy presented a problem of coordination between the providers of the equipment and the caregivers responsible for the patients. A "home oxygen team" was established to address this problem and now tracks clinical concerns like patient compliance, at the same time that they monitor the timely, adequate provision of service by vendors. This initiative has resulted in better continuity of care at an annual savings of about $90,000.

Kidney dialysis is monitored through laboratory analysis of blood samples. In too many cases, laboratory results were being received at the dialysis unit after the procedure was already complete. By working together, the clinical professionals involved--lab and nursing--solved the problem. Their solution combines better preparation of specimens by nurses, adjusting priorities in the lab, and the use of a pneumatic tube delivery system. This initiative resulted in a reduction in turnaround time, better use of staff time, and a more timely response to the patient's need.

Through these and other innovations, Milwaukee is reinventing the way it does business. In addition, Milwaukee is the site of VA's national center for cost containment which studies service delivery enhancements and cost-saving approaches. It bases its work

on active involvement of clinical staff, and disseminates worthwhile findings to VA medical centers nationwide. VA estimates that it saved at least $30 million in fiscal 1992, based on Milwaukee's initiatives.

Looking Forward

The foundation for a successful plan for the future is an understanding of what has transpired in the past--both the successful and the not-so-successful. It would be unconscionable to continue to frustrate veterans as well as the highly dedicated and knowledgeable VA staff without trying to address the needs of the whole system which must function cohesively for any piece of it to be truly successful.

The National Performance Review is clearly working as a catalyst. The partnership of VA with the NPR staff has resulted in the identification of a range of factors and experiments to help redirect energies and give focus to the primary mission--service to the veteran and their families.

As word about the results from the reinvention laboratories gets out, more groups of employees are coming forward with proposals that will allow them to do their jobs better or faster. VA is committed to reinventing its basic service of providing health care and benefits for almost one-third of the U.S. population and serving as a model for experimentation in arenas that have ramifications throughout the private sector.

The goal, however, is not attainable by the NPR and VA alone, but requires the spirited support of the Congress, veterans service organizations, labor unions, and the veterans themselves. This is a national effort, and anything less may not be successful. The leadership is in place under Secretary Brown, the team is ready, the challenge at hand, and the time for action is now.

Section IV
Fiscal Impact Summary

Section IV
Fiscal Impact Summary

DEPARTMENT OF VETERANS AFFAIRS
FISCAL IMPLICATIONS SUMMARY

CHANGE IN BUDGET AUTHORITY
Numbers in Millions

Ch. Ref.	Recommendation	Fiscal Year 1994	1995	1996	1997	1998	1999	6-YRS	Change in FTEs
1	Develop the Master Veteran Record and Modernize	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
2	Modernize Department of Veterans Affairs' Benefit	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
3	Eliminate Legislative Budget Constraints to Promot	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
4	Streamline Department of Veterans Affairs' Benefit	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($1.8)	0.0
5	Consolidate DoD/VA Compensation and Retired Pa	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
6	Enhance Cost Recovery Capabilities of the Depart	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
7	Establish a Working Capital Fund for the Departme	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
8	Decentralize Decision-Making Authority within the	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
9	Establish a Comprehensive Department of Veterans	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
10	Adopt a Pro-Family Approach to Child and Spousal	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
11	Serve the Veterans as Customers	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
12	Phase-out and Close VA Supply Depots	$31.8	$62.5	$30.3	$30.3	$30.3	$30.3	$215.5	(295.0)
13	Electronic Commerce Implementation: An Opportu	$6.5	$17.0	$27.6	$31.8	$35.5	$31.6	$150.0	0.0
14	Eliminate "Sunset" Dates in Omnibus Budget Reco	$0.0	$0.0	$0.0	$0.0	$0.0	$911.0	$911.0	0.0
15	Raise the Fees for VA Guaranteed Home Loans	$130.2	$131.6	$129.1	$130.1	$129.5	$129.5	$780.0	0.0
16	Limit Multiple Use of the Veterans Home Loan Gu	$50.5	$50.2	$52.1	$49.6	$49.4	$49.4	$301.2	0.0
17	Consolidate VA Health Care Facilities	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
18	Recover Administrative Costs of Veterans' Insuranc	$0.0	$29.0	$28.0	$27.0	$26.0	$25.0	$135.0	0.0
	Total, Department of Veterans Affairs	$218.7	$290.0	$266.8	$268.5	$270.4	$1,176.5	$2,490.9	

CHANGE IN OUTLAYS
Numbers in Millions

Ch. Ref.	Recommendation	Fiscal Year 1994	1995	1996	1997	1998	1999	6-YRS	Change in FTEs
1	Develop the Master Veteran Record and Modernize	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
2	Modernize Department of Veterans Affairs' Benefit	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
3	Eliminate Legislative Budget Constraints to Promot	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
4	Streamline Department of Veterans Affairs' Benefit	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($1.8)	0.0
5	Consolidate DoD/VA Compensation and Retired Pa	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
6	Enhance Cost Recovery Capabilities of the Depart	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
7	Establish a Working Capital Fund for the Departme	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
8	Decentralize Decision-Making Authority within the	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
9	Establish a Comprehensive Department of Veterans	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
10	Adopt a Pro-Family Approach to Child and Spousal	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
11	Serve the Veterans as Customers	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
12	Phase-out and Close VA Supply Depots	$31.8	$62.5	$30.3	$30.3	$30.3	$30.3	$215.5	(295.0)
13	Electronic Commerce Implementation: An Opportu	$6.5	$17.0	$27.6	$31.8	$35.5	$31.6	$150.0	0.0
14	Eliminate "Sunset" Dates in Omnibus Budget Reco	$0.0	$0.0	$0.0	$0.0	$0.0	$911.0	$911.0	0.0
15	Raise the Fees for VA Guaranteed Home Loans	$130.2	$131.6	$129.1	$130.1	$129.5	$129.5	$780.0	0.0
16	Limit Multiple Use of the Veterans Home Loan Gu	$50.5	$50.2	$52.1	$49.6	$49.4	$49.4	$301.2	0.0
17	Consolidate VA Health Care Facilities	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
18	Recover Administrative Costs of Veterans' Insuranc	$0.0	$29.0	$28.0	$27.0	$26.0	$25.0	$135.0	0.0
	Total, Department of Veterans Affairs	$218.7	$290.0	$266.8	$268.5	$270.4	$1,176.5	$2,490.9	

CHANGE IN REVENUES
Numbers in Millions

Ch. Ref.	Recommendation	Fiscal Year 1994	1995	1996	1997	1998	1999	6-YRS	Change in FTEs
1	Develop the Master Veteran Record and Modernize	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
2	Modernize Department of Veterans Affairs' Benefit	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
3	Eliminate Legislative Budget Constraints to Promot	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
4	Streamline Department of Veterans Affairs' Benefit	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
5	Consolidate DoD/VA Compensation and Retired Pa	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
6	Enhance Cost Recovery Capabilities of the Depart	$14.3	$73.0	$101.8	$121.9	$136.9	$136.9	$584.8	0.0
7	Establish a Working Capital Fund for the Departme	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
8	Decentralize Decision-Making Authority within the	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
9	Establish a Comprehensive Department of Veterans	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
10	Adopt a Pro-Family Approach to Child and Spousal	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
11	Serve the Veterans as Customers	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
12	Phase-out and Close VA Supply Depots	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	(295.0)
13	Electronic Commerce Implementation: An Opportu	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
14	Eliminate "Sunset" Dates in Omnibus Budget Reco	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
15	Raise the Fees for VA Guaranteed Home Loans	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
16	Limit Multiple Use of the Veterans Home Loan Gu	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
17	Consolidate VA Health Care Facilities	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
18	Recover Administrative Costs of Veterans' Insuranc	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	0.0
	Total, Department of Veterans Affairs	$14.3	$73.0	$101.8	$121.9	$136.9	$136.9	$584.8	

Section V
Appendices

Acknowledgements and Contributor list

The National Performance Review staff gratefully acknowledges the assistance of those listed below who participated in the preparation in the overall development of this report and the findings of the NPR. Unless otherwise noted, the location of those listed is Washington, DC.

Col. Eileen Albertson, USMC	Department of Defense
Shirley S. Arico	Office of the Secretary, VA
Patricia Amberg-Blyskal	Veterans Benefits Administration, VA, New York City
Raymond H. Avent	Veterans Benefits Administration, VA, Eastern Area, Baltimore, MD
David P. Baine	General Accounting Office
Vincent L. Barile	National Cemetery System, VA
Walter J. Besecker	Veterans Health Administration, VA
John P. Bott	Office of Assistant Secretary for Acquisition and Facilities, VA
William Bradshaw	Veterans of Foreign Wars
O. J. Brooks	Disabled American Veterans
Gila J. Bronner	Chicago, IL
Turner Camp, MD	Veterans of Foreign Wars
Christine K. Carrico, PhD	Department of Health and Human Services
D. Mark Catlett	Assistant Secretary for Finance and IRM, VA
Edward Chow, Jr.	Kent, WA
Ronald E. Cowles	Office of Assistant Secretary for Human Resources and Administration, VA
Nancy A. Coldeway, PhD	Veterans Health Administration, VA, Martinsburg, WV
Myles Cogan, DDS	Veterans Health Administration, VA, Martinsburg, WV
Patrick Courtney	Veterans Benefits Administration, VA
Ronald E. Crellin	Veterans Benefits Administration, VA
Dennis Cullinan	Veterans of Foreign Wars
Richard Culp	Veterans Benefits Administration, VA
Peter Daly	Veterans Health Administration, VA, Martinsburg WV
Ruth Dayhoff, MD	Veterans Health Administration, VA, Baltimore, MD
Adelaide De Falco	Veterans Benefits Administration, VA, New York City
Ronald R. Del Vento	Office of Attorney General, State of Texas, Austin, TX
Frank J. Denny	Office of Assistant Secretary for Human Resources and Administration, VA
Robert Dolan	Veterans Benefits Administration, VA, New York City
Larry Dolecki, PhD	Veterans Health Administration, VA, Martinsburg, WV

Clark R. Doughty	Veterans Health Administration, VA, Region 4, San Francisco, CA
William Dozier	Veterans of Foreign Wars
C. Dale Duvall	Office of Assistant Secretary for Acquisition and Facilities, VA
Linn Davison	Veterans Health Administration, VA, Martinsburg, WV
John Devlin	Veterans of Foreign Wars
Ronald W. Drach	Disabled American Veterans
Nancy Ebb	Children's Defense Fund
Susan C. Edgerton	Paralyzed Veterans of America
Dan Edwards	Veterans Health Administration, VA, Martinsburg, WV
James V. Edwards	Office of Assistant Secretary for Finance and IRM, VA
R. David Edwards	Veterans Health Administration, VA, Baltimore, MD
Nora E. Egan	Office of Assistant Secretary for Human Resources and Administration, VA
Paul Eichorn	Veterans Benefits Administration, VA, New York City
Robert F. Elliott	Veterans Health Administration, VA, Martinsburg, WV
George T. Estry	Veterans of Foreign Wars
Douglas Fairchild	Veterans of Foreign Wars
Carla M. Fischer	General Electric Corporation, Fairfield, CT
Lucy Fleming	Veterans Health Administration, VA, Baltimore, MD
Mack G. Fleming	VA Committee, House of Representatives
Thomas Fowler	Veterans Health Administration, VA, Martinsburg, WV
Richard B. Fuller	Paralyzed Veterans of America
Frank Galipo	Veterans Health Administration, VA, Baltimore, MD
Barbara Gallagher	Veterans Health Administration, VA, Region 1, Howard, MD
Mel Garza	United Services Automobile Association, San Antonio, TX
Judith Gerdeman, RN	Veterans Health Administration, VA, Martinsburg, WV
Satinder P. Gill, MD	Veterans Health Administration, VA, Martinsburg, WV
Terry Glover, RN	Veterans Health Administration, VA, Martinsburg, WV
Richard L. Glotfelty	Paralyzed Veterans of America
Harold F. Gracey	Veterans Benefits Administration, VA
James I. Gracyalny	Office of Assistant Secretary for Finance and IRM, VA
Sanford M. Garfunkel	Veterans Health Administration, VA
Charles A. Graffam, Jr.	Veterans Benefits Administration, VA
W. Todd Grams	Office of Management and Budget
Joyce Greaving	Veterans Benefits Administration, VA
Joseph G. Gray	Veterans Health Administration, VA, Martinsburg, WV
Rod Grimm	Veterans of Foreign Wars
Robert T. Haas	Veterans Benefits Administration, VA
Stuart E. Haggard	Office of the Secretary, VA
Maxine Haller	Veterans Health Administration, VA, Martinsburg, WV
Robert Harris	Department of Health and Human Services

Margaret Campbell Haynes	American Bar Association
John Hanson	American Legion
Alvis Hargrove	Veterans Health Administration, VA, Martinsburg, WV
William Hart, RN	Veterans Health Administration, VA, Baltimore, MD
John F. Heilman	Disabled American Veterans
Ruth M. Henderson	Veterans Health Administration, VA
Jeannie Henderson, RN	Veterans Health Administration, VA, Martinsburg WV
Gary Hickman	Veterans Benefits Administration, VA
LTC James L. Hickman, USA	Department of Defense
Conrad Hoffman	Office of Assistant Secretary for Policy and Planning, VA
Kenneth H. Hoffman	Office of Assistant Secretary for Finance and IRM, VA
Frank Holden, MD	Veterans Health Administration, VA
Dottie Hough	Veterans Health Administration, VA, Martinsburg, WV
Walter R. Houser	Office of Assistant Secretary for Finance and IRM, VA
Rebecca Hucks	Veterans Health Administration, VA
Robert Huffman	Veterans Health Administration, VA, Martinsburg, WV
Rick Hurst	Veterans Benefits Administration, VA
Suzanne Hutchinson	Mortgage Insurance Companies of America
Richard Iafolia	Veterans Health Administration, VA, Baltimore, MD
Michael Jansen	Veterans Health Administration, VA, Baltimore, MD
Michelle Jefferson	Department of Health and Human Services
Geraldine Jensen	Association for Children for the Enforcement of Support, Inc.
Eleanor L. Johnson	General Accounting Office
Barbara Jones	Office of the Secretary, VA
Fred Juarbe	Veterans of Foreign Wars
Jacqueline Kallstron	Veterans Health Administration, VA, Baltimore, MD
C. R. Kamath, MD	Veterans Health Administration, VA, Martinsburg, WV
Darryl W. Kehrer	Office of the Secretary, VA
John Keighley, MD	Veterans Health Administration, VA, Martinsburg, WV
Stephen Kendall	Veterans Health Administration, VA
Paul Klingenberg	Department of Labor
Robert Knight	Veterans Health Administration, VA, Baltimore, MD
Justin Kopca	Office of Management and Budget
Marion H. Korzec, RD	Veterans Health Administration, VA, Martinsburg, WV
Rita Kowalski	Veterans Benefits Administration, VA, New York City
Gary J. Krump	Acting Assistant Secretary for Acquisitions and Facilities, VA
Udom Kunyosying, MD	Veterans Health Administration, VA, Martinsburg, WV
Col. Wayne C. LaBoeuf, USAF	Department of Defense, Randolph AFB, TX
Frank E. Lalley	Office of Assistant Secretary for Finance and IRM, VA
Robert Landrum	Office of Assistant Secretary for Finance and IRM, VA

Howard Lem	Veterans Benefits Administration, VA
Stephan L. Lemons	Veterans Benefits Administration, VA, Central Area, Livonia, MI
James Linz	General Accounting Office
Rhoda R. Mancher	Veterans Benefits Administration, VA
Stanley Mansfield	Veterans Health Administration, VA, Martinsburg, WV
Sandra Marshall, MD	Veterans Health Administration, VA, Baltimore, MD
James A. Maye	Veterans Benefits Administration, VA, Southern Area, Jackson, MS
LTJG Don Maupin, USN	Department of Defense
John F. Mazzuchi, PhD	Department of Defense
Stephen A. McCarren	Veterans Health Administration, VA, Martinsburg, WV
William T. Merriman	Office of the Inspector General, VA
Col. Edward A. Miller, MD, USAF	Department of Defense
Richard P. Miller	Veterans Health Administration, VA, Region 3, Jackson, MS
Norman Morse, RN	Veterans Health Administration, VA, Baltimore, MD
Michael W. Neusch	Veterans Health Administration, VA, Baltimore, MD
Peter Ogloblin	Department of Defense
Robert O'Toole	Veterans of Foreign Wars
Edward Pantejo, MD	Veterans Benefits Administration, VA, New York City
Richard Pell, Jr.	Office of the Secretary, VA
Sandra L. Peyton	Office of the Secretary, VA
Gerry Prizeman	Veterans Benefits Administration, VA, New York City
Don H. Pratt	Veterans Health Administration, VA
Donald Rakoskie	Veterans Benefits Administration, VA
Victor P. Raymond	Assistant Secretary for Policy and Planning, VA
James Reynolds	Veterans Health Administration, VA, Martinsburg, WV
Phil Riggin	Office of the Secretary, VA
Elizabeth L. Rogers, MD	Veterans Health Administration, VA, Baltimore, MD
Edward Scott	Assistant Secretary for Legislative Affairs, VA
Nina Shephard	Congressional Budget Office
James A. Sifers	Paralyzed Veterans of America
Eliot Siegel, MD	Veterans Health Administration, VA, Baltimore, MD
A.J. Singh	Office of Assistant Secretary for Policy and Planning, VA
Norma St. Clair	Department of Defense
Donna St. John	Office of Assistant Secretary for Public and Intergovernmental Affairs, VA
Col. Howard Sherman, USAF	Department of Defense, Randoph AFB, TX
Lisa C. Signori	Office of Management and Budget
Stanley R. Sinclair	Veterans Benefits Administration, VA

Charlie H. Smith	Veterans Health Administration, VA, Martinsburg, WV
Marissa T. Smith	Office of Assistant Secretary for Finance and IRM, VA
Paul Smits	Veterans Health Administration, VA, Martinsburg, WV
John F. Sommer, Jr.	American Legion
David Spivey	Veterans Benefits Administration, VA
James R. Steele	Veterans Administration, VA, Martinsburg, WV
Norman H. Stier, Jr.	Veterans Health Administration, VA, Martinsburg, WV
William D. Stinger	Veterans Benefits Administration, VA
Frank W. Sullivan	Office of Assistant Secretary for Finance and IRM, VA
Patrick Sullivan	Office of Attorney General, State of Texas, Austin, TX
Eileen Southerly	Veterans Health Administration, VA, Martinsburg, WV
Nancy Tackett	Office of the Secretary, VA
Lawrence J. Timko	Veterans Benefits Administration, VA
John Thompson	Office of General Counsel, VA
Joseph Thompson	Veterans Benefits Administration, VA, New York City
Thomas Tower	Department of Defense
John Troxler	Veterans Health Administration, VA, Martinsburg, WV
Dorthea Turner	Veterans Benefits Administration, VA, New York City
Eric Vance	Veterans Health Administration, VA, Martinsburg, WV
Joseph Violante	Disabled American Veterans
Veronica Wales	Veterans Benefits Administration, VA, New York City
David M. Walls	Veterans Benefits Administration, VA, Western Area, San Francisco, CA
Jimmy Lee Wallace	Veterans of Foreign Wars
Laura Warfield	Veterans Health Administration, VA, Baltimore, MD
Thomas H. Weaver	Veterans Health Administration, VA, Martinsburg, WV
James D. Weill	Children's Defense Fund
Sharon Werbin	Veterans Health Administration, VA, Baltimore, MD
Paul Weiss	Veterans Benefits Administration, VA, New York City
H. Raymond Wilburn	Office of the Secretary, VA
Deborah Williams	Veterans Health Administration, VA, Martinsburg, WV
Arthur H. Wilson	Disabled American Veterans
Robert A. Wilson	Office of the Assistant Secretary for Finance and IRM, VA
George Wolohojian, PhD	Veterans Benefits Administration, VA
W. Scott Wood, PhD	Veterans Health Administration, VA, Martinsburg, WV
Robert J. Woods	Office of Assistant Secretary for Finance and IRM, VA
Philip Wooten, PhD	Veterans Health Administration, VA, Martinsburg, WV
Jeanne Wooten	Veterans Health Administration, VA, Martinsburg, WV
Herman Wright	Veterans Benefits Administration, VA, New York City
Robert Yurgal	Veterans Benefits Administration, VA
Major Cheril Zadlo, USAF	Department of Defense
David Zaken	Veterans Health Administration, VA, Martinsburg, WV

Al Zamberlan Veterans Health Administration, VA, Region 2, Ann Arbor, MI

Members of the National Performance Review Veterans Affairs Team who wrote and assembled the report were:

Corlis L. Sellers	Team Coordinator	Department of Labor
Stanley Bryant	Member	White House Intern
Kevin Chapman	Member	White House Intern
Thomas V. Fuentes	Member	Federal Bureau of Investigation
Wallace O. Keene	Member	National Aeronautics and Space Administration

DRAFT--INTERNAL WORKING DOCUMENT

NATIONAL PERFORMANCE REVIEW
AGENCY TEAMS

Team **Veterans Affairs**

6-Aug-93

ISSUE DECISION PACKAGE

Issue No.	Issue Title	6-Year Impact (Million $)	NPR Team Position	Agency Position	Action from Tollgate 4 Meeting
1	Develop the Master Veteran Record and Modernize the Departmental Information Infrastructure	0	Enables VA to integrate its information about its customers	Supported by VA	
2	Modernize Department of Veterans Affairs' Benefits Claims Processing	0.0	Already in VA budget request. Enables VA to bring modern technology to its outdated information processing activities	Supported by VA. VA and OMB have worked together to address the concerns of Chairman John Conyers, House Gov Ops. Committee, who has felt that VA planning in this area has been inadequate.	
3	Eliminate Legislative Budget Constraints to Promote Management Effectiveness within the Department of Veterans Affairs	0	Provides VA managers with increased flexibility to respond to the changing needs of veterans	Supported by VA.	
4	Streamline Department of Veterans Affairs' Benefit Claims Processing	-1.8	Helps VA focus on understanding and better managing the benefits claims processing caseload.	Supported by VA.	
5	Consolidate DoD/VA Compensation and Retired Pay Programs	0	Recommends that DoD and VA work together to study areas of consolidation and information exchange in the disability programs.	Supported by VA.	
6	Enhance Cost Recovery Capabilities of the Department of Veterans Affairs	584.8	Supports VA's cost recovery activities by paying administrative costs out of funds recovered and providing incentives.	Supported by VA.	

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Team **Veterans Affairs**

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ISSUE DECISION PACKAGE

Issue No.	Issue Title	6-Year Impact (Million $)	NPR Team Position	Agency Position	Action from Tollgate 4 Meeting
7	Establish a Working Capital Fund for the Department of Veteran Affairs	0	Provides new, more flexible mechanism to fund joint efforts being undertaken by VA.	Supported by VA	
8	Decentralize Decision-Making Authority Within the Department of Veterans Affairs	0	Delegates greater authority to front-line managers who are in the best position to respond to the immediate, and often critical needs of veterans.	Supported by VA.	
9	Establish a Comprehensive Department of Veterans Affairs Resource Allocation Program	0	Builds on VA's own plan to initiate a pilot effort in fiscal 1994 for the Veterans Health Administration. Supports implementation of "Government Performance and Results Act."	Supported by VA.	
10	Adopt a Pro-Family Approach to Child and Spousal Support	0	VA has a responsibility to provide for veterans and their families. VA's current process of apportioning VA benefits to the families of veterans who fail to provide support is dysfunctional, because it is adversarial, labor-intensive, and subjective.	Not supported by Secretary Brown.	

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Issue No.	Issue Title	6-Year Impact (Million $)	NPR Team Position	Agency Position	Action from Tollgate 4 Meeting
			Rec #1 would preserve the apportionment process but allow VA benefits to be garnished as an alternative to apportionment.	Regarding Rec #1, VA believes that the current apportionment process achieves the same result without requiring families to bear the burden of legal representation, and is fair and equitable to both veterans and dependents.	
			Rec #2 would cause VA to publicize and streamline its current apportionment process.	Regarding Rec #2, VA agrees with publicizing apportionment and will make every effort to improve.	
11	Serve the Veteran and Their Families as Customers	0	The paper was written essentially by VA and given to NPR. It focuses on enhancing services to veterans and relationships with the veterans service organizations.	Supported by VA; contains items of specific importance to Secretary Brown.	
12	Phase-Out and Close VA Supply Depots	215.5	Closes VA's three large supply depot and shifts to a "just-in-time" delivery system.	Supported by VA.	

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Issue No.	Issue Title	6-Year Impact (Million $)	NPR Team Position	Agency Position	Action from Tollgate 4 Meeting
13	Electronic Commerce Implementation: An Opportunity to Reinvent Veterans Affairs' Business Practices	150	Converts several VA business processes from paper-intensive processes to electonic. Encompasses EDI, Electronic Funds Transfer, Electronic Benefits Transfer, and Direct Deposit by VA employees.	Supported by VA.	
14	Eliminate "Sunset" Dates in Omnibus Budget Reconciliation Act of 1990.	965.00	Makes permanent the sunset dates for selected legislation.	Supported by VA.	
15	Raise the Fees for VA Guaranteed Home Loans	780	Raises the fee for veterans home loans from 2 percent to 3 percent where the veteran puts less than 5 percent down. The NPR recommendation is the same as that made earlier by the Congressional Budget Office.	Supported by VA.	
16	Limit Multiple Use of the Veterans Home Loan Guaranty Benefit and Restrict Refinancing Loans	301.2	Limits veterans use of home loans to the first time use except for (a) those in military service now, and (b) those who want to refinance to save money on monthly payments. Brings program in line with its original intent--a readjustment benefit.	Supported by VA.	
17	Consolidate VA Health Care Facilities	TBD	A place-holder to keep the issue on the table until the results of the national health care reform are known and evaluated.	Supported by VA.	

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ISSUE DECISION PACKAGE

Issue No.	Issue Title	6-Year Impact (Million $)	NPR Team Position	Agency Position	Action from Tollgate 4 Meeting
18	Recover Administrative Costs of Veterans' Insurance Program From Premiums and Dividends	135	Recommends amendment of Title 38 USC to permit payment of administrative expenses of certain insurance programs from trust fund surpluses.	Supported by VA.	

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Issue No.	Issue Title	6-Year Impact (Million $)	NPR Team Position	Agency Position	Action from Tollgate 4 Meeting
1	Develop the Master Veteran Record and Modernize the Departmental Information Infrastructure	0	Enables VA to integrate its information about its customers	Supported by VA	
2	Modernize Department of Veterans Affairs' Benefits Claims Processing	0.0	Already in VA budget request. Enables VA to bring modern technology to its outdated information processing activities	Supported by VA. VA and OMB have worked together to address the concerns of Chairman John Conyers, House Gov Ops. Committee, who has felt that VA planning in this area has been inadequate.	
3	Eliminate Legislative Budget Constraints to Promote Management Effectiveness within the Department of Veterans Affairs	0	Provides VA managers with increased flexibility to respond to the changing needs of veterans	Supported by VA.	
4	Streamline Department of Veterans Affairs' Benefit Claims Processing	-1.8	Helps VA focus on understanding and better managing the benefits claims processing caseload.	Supported by VA.	
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