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REPORT BY THE U.S.

General Accounting Office

Improved Productivity Can Reduce The Cost Of Administering Veterans Benefit Programs

The Veterans Administration (VA) could save several million dollars annually by reducing overstaffing and improving productivity at regional offices that process claims for veterans' benefits. The offices are provided staff based on the number of claims to be processed. VA provides additional staffing to offices in locations where it believes economic and demographic conditions make it difficult to maintain an adequately trained and motivated work force.

GAO found that the regional offices' productivity was unrelated to the economic and demographic factors VA cited. Consequently, VA does not need to provide extra staff for certain offices based on their location.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-208080

The Honorable Robert P. Nimmo
Administrator of Veterans Affairs

Dear Mr. Nimmo:

We are examining the claims processing function in several agencies to determine the potential for improving productivity. As a part of this effort, we examined the processing of claims for Veterans Administration (VA) compensation, pension, education, and death claims. In this report we discuss our findings at VA and address the budgetary implications of them.

The Veterans Administration could save several million dollars annually by eliminating overstaffing and improving productivity at claims processing offices. There are 58 offices, or stations, and all perform the same type of work in processing veterans' claims for such benefits as disability, burial, pension, and education. Yet, despite the fact that their organization, workforce, and procedures are uniform, these stations vary in productivity by over 25 percent. The primary cause of this variation is management decisions to overstaff certain stations.

BACKGROUND AND OBJECTIVE

VA administers a comprehensive array of veterans benefits. This report deals with the compensation, pension, and education division, which is responsible for processing the widely used benefits for disability, burial, pension, and education. VA's department of veterans benefits administers these benefits through its 58 major field stations within and outside the United States. In fiscal 1981, the department employed an average of 5,389 people to administer the compensation, pension, and education programs. The administrative costs related to those programs were about \$138.6 million in 1981.

The overall objective of this review was to identify the alternative operating methods that can result in higher productivity and lower costs in VA's claims processing activity. Improved productivity essentially means using resources more efficiently. The general methodology we used involved two steps--identify why some VA claims operations had higher productivity than others and analyze the general process to identify unnecessary steps and improved techniques.

This review was made between February 1981 and January 1982 and included reviews at adjudication divisions of nine VA regional offices. Further details on the scope and methodology of our review are provided in appendix I.

As part of the fiscal 1982 appropriation bill, Congress required that any administrative reorganization resulting in reduced staffing levels for any covered office or facility of the Veterans Administration, as defined in Section 601 of the act, must first be submitted to the House and Senate Veterans' Affairs Committees if the reorganization would reduce the number of full-time equivalent employees in such an office by 10 percent or more. This requirement also exists if the reduction plus any reduction in the previous year amounts to 15 percent or more. The organizations discussed in this report are covered by the act. However, this report addresses productivity improvements rather than administrative reorganizations.

MANAGEMENT DECISIONS TO OVERSTAFF
CAUSE CLAIMS PROCESSING PRODUCTIVITY
TO VARY WIDELY AMONG STATIONS

An organization that is well managed and achieving acceptable levels of productivity, quality, and timeliness can serve as an example for similar organizations. In particular, organizations producing similar work using similar processes should have similar productivity. However, VA's reports show that claims processing stations vary in productivity by over 25 percent. The following table shows the variation for 5 of the 58 stations, ranking them by their 5-year average.

<u>Station</u>	<u>5-year average productivity (percent)</u>
Jackson, Miss.	94
Roanoke, Va.	89
Denver, Colo.	77
Lincoln, Nebr.	71
Wilmington, Del.	67

Appendix II, which shows the 5-year performance of all 58 stations, reveals that those stations with low performance, on the average, are traditionally low and those with high performance, on the average, are traditionally high.

To determine why productivity varied widely among stations, we examined such factors as the mix of different types of claims, procedures, backlogs, equipment and space, layout, organizational structure, management, overtime, and staffing methods. We attempted to determine, for example, if two stations of a similar size, such as Lincoln, Nebraska and Albuquerque, New Mexico, were using different processing procedures. If so, then a difference in

procedures may account for the difference in claims adjudicated. Albuquerque was producing significantly more claims per staff person, and thus had a productivity rate about 10 percent higher than Lincoln for the 5 years ending in fiscal 1981. In another example, Roanoke, Virginia, averaged nearly 20 percent greater productivity than the similar-sized station in Boston, Massachusetts, during the same 5-year period.

We also examined the effect of variations in station size on productivity to determine if small stations were affected by diseconomies of scale. We found that, in general, there is no relationship between size and productivity. Further, we found small stations with above-average productivity. For example, in fiscal 1981, the Boise, Idaho, station with a staff of 19 had a productivity rate of 90 percent and Honolulu, Hawaii, station with a staff of 22 had a productivity rate of 82 percent.

Except for staffing decisions, most factors were consistent throughout our sample of stations. Only a few minor variations in methods and workload mix were identified, but we believe these could not account for much of the difference in productivity. Staffing decisions, on the other hand, were based in part on rationale that varied from location to location.

The rationale used at some stations to determine the size of staff resulted in overstaffing, which in turn reduced the productivity for those stations. Headquarters management has, for several years, considered each station's productivity as part of staffing decisions. In doing so, they allowed certain stations to have more staff than others with the same workload. They did so believing that certain local demographic and economic conditions create problems in obtaining and keeping employees of the caliber needed from the area work force. For example, VA felt that the average wage rate it paid was too low in some areas to attract, keep, and motivate productive employees.

We found no basis for VA's perception. Our examination showed that experience levels, education, local unemployment, wage scales, overall experience levels, percentage of employees new to their jobs, and other factors had no significant relationship to the differences in stations' productivity in claims processing.

In other words, two stations in the same general area with similar area wage levels may have widely differing productivity, but no major economic or demographic differences seemed to exist. For example, the productivity in Hartford, Connecticut, averaged 83.2 percent for the 5 years ending in fiscal 1981, and the area wage rate for the middle year, 1979, was about \$13,600. In Boston, Massachusetts, the productivity averaged 70.6 percent and area wages about \$13,100 for the same periods. In terms of the number of employees in training, the stations are comparable. In fiscal 1981, 17.4 percent of Hartford's and 19.7 percent of Boston's employees had been in their present job less than one year. Yet, during the

same time period, Hartford's productivity was more than 20 percent higher than Boston's. (See app. III)

We also examined the performance of VA's loan guarantee operation, which is also a part of the department of veterans benefits. We found that several stations that had low performance in claims processing actually had reasonably good performance in the loan guarantee operations, as shown in the table below. This appears to indicate that VA should not automatically assume that certain locations will have poor productivity.

<u>Location</u>	<u>5-year productivity ranking among 58 stations</u>	
	<u>Loan guarantee</u>	<u>Compensation, pension, and education</u>
Washington, D.C.	7	58
Cleveland, Ohio	12	46
Chicago, Ill.	13	52
Philadelphia, Pa.	24	50

We believe that VA should expect all stations' productivity performance to be within a reasonably close range. Staffing the lower performing stations in the same manner as other stations should make this goal achievable.

Savings attainable through reducing overstaffing

If VA management changes its approach to staffing decisions, substantial savings can be attained by eliminating overstaffing at the stations with lower claims processing performance. The amount of overstaffing can be determined by using VA's productivity measures, which indicate the relative efficiency of processing claims. In other words, a station operating at 75-percent efficiency is using about 27 percent more staff-hours per claim than a station operating at 95-percent efficiency. Hence, overstaffing at any station can be determined by establishing management expectations for productivity, and comparing a station's performance with that goal.

We computed possible savings for individual stations by comparing their fiscal 1981 productivity levels with various potential productivity goals. For each station whose productivity fell below potential goals, we computed the number of staff-years that must be eliminated before the station could increase productivity to the goal level. For example, if two of the low performance stations were to meet the 1981 VA average productivity of 80 percent, one would have to eliminate 13 staff members and the other would have to eliminate 16. In 1981, 23 stations had a productivity level below 80 percent. (See app. II.)

Potential cost savings achievable at various levels are shown at the top of page 5. Total estimated savings are based on low performance stations reducing their staffs. The dollar savings were computed using the average adjudication division employee grade level.

<u>Productivity</u> <u>level (note a)</u> (percent)	<u>Estimated savings</u>		
	<u>Staff-hours</u>	<u>Staff-years</u>	<u>Amount</u>
95	1,815,744	992	\$21 million
90	1,349,659	737	\$15 million
85	905,667	495	\$10 million
80	505,667	276	\$ 6 million

a/These percentages represent the level of productivity relative to VA's work measurement time standards, as adjusted for indirect functions. A station that meets the work measurement standards would have a productivity rate of 100 percent.

One station took action to reduce its overstaffing shortly after we reviewed the location. Halfway through fiscal 1981 the St. Petersburg, Florida, station reduced its adjudication staff by 17 to more closely match workload and what was believed to be its staff needs. These individuals were then transferred to another division where more staffing was required, thus avoiding a new hiring action. This action also resulted in an increase in reported productivity. In fiscal 1981 the productivity was 81 percent; by the third quarter of fiscal 1982 it had risen to 86 percent.

If VA acts to reduce overstaffing at low performance stations, the savings should be reflected in the budget. The fiscal 1983 budget and potential reductions are discussed in appendix IV.

Excess idle time and minor variations in methods accompany overstaffing

Two normal consequences of overstaffing are idle time and minor procedural variations. During our review we observed that idle time was more common at two stations with low productivity than at stations with high productivity. These observations were reinforced by work sampling studies we performed at one of the low performance stations and at another station which was performing 18 percent better. At the low performance station, employees were spending about 22 percent of their time nonproductively, while those at the higher performing station spent about 15 percent of their time nonproductively--a difference of 7 percent.

We also found minor procedural variations at low performance stations, which added time and absorbed some of the excess staffing. For example, one low productivity station was adding an extra review and quality check to all educational claims. And some low and average productivity stations were requiring more work of their file sections than necessary by not screening the mail. Certain claims can be processed without using the claimant's file folder. By screening mail, claims that can be processed without a file folder can be identified and sent directly to the adjudicators. In doing so, time-consuming file searches are eliminated.

Changes in these procedural variations will undoubtedly make needed staff reductions easier to accommodate.

PRODUCTIVITY, QUALITY, AND
TIMELINESS RELATIONSHIPS

Quality variation is one of the most common issues raised when productivity comparisons are made. At issue is the question of whether increases in productivity are made at the expense of quality.

Using VA's quality reporting system we examined the possibility that certain stations are achieving high productivity at the expense of quality. The results of this analysis, although indicative, are not conclusive since the VA Inspector General's audit staff has demonstrated that the reporting system understates the true error rates by at least 50 percent. However, the audit was not able to show which stations understated error rates most. At the root of the understatement problem are the sampling procedures, which are applied at all stations.

Based on data from the department of veterans benefits' quality reporting system, we were unable to find any significant statistical relationship between quality and productivity levels. For example, one station with a productivity rate of about 90 percent had a substantive error 1/ rate in education claims of 1.4 percent, while another station with a productivity rate of about 70 percent had an error rate of 3.3 percent.

Finding high quality and productivity within the same organization is not surprising, however. Managers who attempt to control quality through the normal means of updating the training of the work force, following proper procedures, and using an appropriate quality control system can also achieve higher productivity through the same means. By following proper procedures and doing the job correctly the first time, expensive and time-consuming rework is avoided. And by assuring that a high quality product is achieved in the processing operations, costly inspection procedures can be avoided and inexpensive means, such as statistical quality control, can be used.

The value of appropriate statistical quality control is also discussed in the VA Inspector General's report on the quality system. 2/ That report points out that by reducing the sample size,

1/A substantive error occurs when the effect of the error is to deny or grant a benefit, which is the opposite of what should have been the result. This error usually costs money.

2/ "Department of Veterans Benefits Statistical Quality Control For Benefits Authorizations," July 15, 1982, Office of Inspector General, Veterans Administration.

staff resources would be made available for performing more careful examinations of errors and their causes. According to the Inspector General, only a few of the very small stations would require some additional quality control efforts.

Good productivity and timeliness both rely on efficient, well-managed processes, so the relationship between the two factors is generally direct. In VA's claims processing function, however, the timeliness issue is somewhat altered because the process is often delayed while additional information is gathered from the claimant, military services, or VA hospitals. Consequently, it is difficult to draw any general conclusions from VA's timeliness data.

Our examination of five types of claims at nine stations showed no conclusive relationship, even though the station with the highest productivity had the best timeliness record. In two types of claims, that station's timeliness was better than the other nine and on the other three types it was consistently one of the best. However, the timeliness of the other stations did not seem to be tied to productivity in either a positive or negative way.

POTENTIAL EXISTS FOR PRODUCTIVITY AND
TIMELINESS IMPROVEMENTS AT BOTH HIGH
AND LOW PERFORMANCE STATIONS

In analyzing claims processing practices at nine stations, we identified a number of ideas for improved operating methods that could, potentially, improve productivity and timeliness at both high and low performance stations. Some ideas for improved methods were developed from our own observations and some from suggestions of the adjudication staff.

In February 1982, a VA task force asked us to provide a preliminary list of these improved methods. We did so in a report to the Chief Benefits Director on July 13, 1982, (GAO/AFMD-82-86). (See app. VI.) Potential dollar savings from 2 of the 17 improvements we listed could be more than \$7 million annually. However, these potential methods improvements require further analysis to fully judge their benefits in terms of cost, productivity, and timeliness.

The management improvement task force, which the chief benefits director recently established to improve the claims processing functions, could play a major role in identifying productivity improvement opportunities. Since the task force has an appropriate purpose, and includes station directors along with headquarters staff, it could be responsible for determining actions needed to raise productivity and improve timeliness.

In addition to addressing the need to reduce staff at the low performance stations, the task force could identify unnecessary

procedures that could be eliminated. Further, the task force could identify improvements that would improve productivity at all stations. The list of potential improvements we provided the chief benefits director should provide a good starting point.

CONCLUSIONS AND RECOMMENDATIONS

VA needs to take action to improve productivity in processing compensation, pension, and education claims. Basically, productivity can be improved by changing management's staffing decisions which lead to overstaffing at low performance stations. In doing so, however, VA needs to recognize that some of those overstaffed stations perform unneeded tasks or are performing needed tasks inefficiently. Consequently, the stations must improve their processing operations while they reduce staff.

Although improvements can only be made by taking specific action at the station level, headquarters can, and should, provide managerial and technical guidance to the stations.

Therefore, we recommend that you require the chief benefits director to:

- Establish a continuing program to help all stations improve their productivity, with particular emphasis on low performance stations.
- Change the management decision to provide extra staff at certain stations, and thereby reduce staffing at low performance stations.

Your efforts should include a plan and timetable for interim improvements to assure that progress is made toward improving productivity. The improvement plan should identify productivity goals for all stations and particularly emphasize the steps that headquarters management will take to aid lower performing stations in achieving these goals. The task force on claims processing is already identifying and considering some improvements and these should be incorporated as part of your continuing program.

BUDGETARY IMPACT OF RECOMMENDATIONS

Implementation of our recommendations to establish minimum acceptable goals for productivity and to take needed management action to achieve those goals should save from \$6 million annually (based on a goal of 80 percent) to \$21 million annually (based on a goal of 95 percent).

To achieve these savings, you should take the recommended actions to improve productivity. Budgetary savings would then accrue to the Veterans Administration, General Operating Expenses Appropriation Account (29-00) 36-0151 in the Other Veterans Benefits and Services (705) budget subfunction. The Subcommittees on HUD

and Independent Agencies of the Senate and House Committees on Appropriations have spending jurisdiction over the claims processing activities.

AGENCY COMMENTS

In commenting on our draft report, (see app. V) you agreed with the need for continuing, organized efforts to improve the quality, timeliness, and productivity of operations. You disagreed, however, with our conclusions regarding the causes of differences in stations' productivity. In particular, you felt that the report treated the issue of productivity too narrowly and did not adequately consider quality and timeliness issues. You also pointed out that 7 of the 10 stations with the lowest productivity are located in large, northeastern industrial metropolitan areas, indicating that local economic and demographic factors significantly affect individual stations' productivity.

You also disagreed with our suggestion that 80 percent productivity could be used by management as a minimum expected performance level--and hence a benchmark for judging which stations are overstaffed and need top management attention. You felt that establishing such a benchmark was too arbitrary, did not consider important differences in stations such as training and turnover, and could result in decreased output.

We have made some changes in the report to clarify our positions, and we provide a more detailed response to your comments in appendix V. In addition, we reviewed the updated information on timeliness you provided and removed the recommendations dealing with timeliness improvement.

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This report contains recommendations to you. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to your Inspector General.

Sincerely yours,


W. D. Campbell
Acting Director



SCOPE AND METHODOLOGY

This review, which was made between February 1981 and January 1982, included reviews at nine Veterans Administration (VA) regional offices (stations) and adjudication divisions.

Our review was conducted at the Veterans Administration claims processing stations in Albuquerque, New Mexico; Atlanta, Georgia; Boston, Massachusetts; Detroit, Michigan; Lincoln, Nebraska; Roanoke, Virginia; Seattle, Washington; St. Petersburg, Florida; and Waco, Texas. We selected those stations to review based on our discussion with VA central office managers and our analysis of productivity data for the 58 stations. We designed the selection to include large, medium, and small stations with high and low productivity.

VA's regional offices process claims for benefits under the compensation, pension, and education programs as well as claims for entitlement under the loan guaranty program. We dealt strictly with benefit claims under the compensation, pension, and education programs because they represent the regional office's major workload and are managed and processed primarily in the adjudication division.

The overall objective of this review was to identify the opportunities for higher productivity and lower costs in VA's claims processing activity. The general methodology we used involved two steps--identify why some VA claims operations had higher productivity than others and analyze the general process to identify unnecessary steps and improved techniques.

To determine why the productivity of various stations differed, we performed the following analyses.

1. A processing system analysis at each location, where we reviewed:

--process flow	--staffing	--performance standards
--equipment	--workload	--training
--procedures	--backlog	--files
--management	--overtime	--"Target" automated
--organization	--quality	claims processing
--productivity	--timeliness	system

To determine unnecessary steps and find potentially better techniques, we

--examined the need for steps necessary to process claims and

--visited other (non-VA) operations, including other agencies and the private sector (insurance firms), to become acquainted with other claims processing techniques.

2. A statistical analysis of economic and demographic factors that were suggested as affecting the work force productivity.

At the nine VA offices visited, we interviewed officials to identify policies and procedures for processing claims, and we interviewed staff in the adjudication division to determine workflow from the time the claims were received at VA until they were settled. This included establishing, developing, rating, adjudicating, and authorizing payment of claims through the Target automated claims processing system.

We discussed policies, procedures, and management control matters with officials at all locations. We also obtained productivity and efficiency data as it related to claims processing, gathered information about the regional office organization, management, automation, measurement systems, and quality control techniques. We examined the productivity measurement system to determine if it was conceptually sound and sufficiently accurate to compare inter-station productivity.

The productivity measurement system was established in the early 1970s and has been studied comprehensively for major updates twice since its establishment. The system is based on work measurement of the claims processing operations. The work measurement information is then used to establish a standard, allowed time for each type of claim. Our examination of the methodology and procedures used to develop the system indicated that the productivity measures are basically sound. A later investigation by VA's Inspector General revealed only a minor problem with overstating workload which would inflate all stations reported workload about 2 percent or less. Since this inflation is small, and applies to all stations, we believe it does not significantly affect a comparison analysis between stations.

Over 50 variables were statistically correlated with productivity to determine if any particular workforce factors were significantly related to productivity at the VA stations. Factors examined included area wage rates, unemployment levels, station employees education levels, average experience, new employee levels, supervisory ratios, part-time employee percentages, sick-leave and leave-without-pay levels, and number of vacant positions. In addition, we statistically correlated the percentage of each type of claim and each type of unmeasured workload with the productivity of each station. This analysis was performed to determine if major types of workload in particular stations were related to high or low productivity. Over 20 workload variables were examined in this analysis, such as percentage of education assistance claims.

Data relating to area wage rates and unemployment levels were taken from public releases issued by the Department of Labor's Bureau of Labor Statistics. Data related to employee characteristics, such as average education levels, were derived from VA

personnel records. Data relating to an employee's job experience, such as number of years as an adjudicator, was not available from formal records. Therefore, this data was collected from a questionnaire we designed but VA's personnel department administered. All employees in the operating units were covered by this questionnaire. We did not independently verify the responses to the questionnaire, nor did we independently check the accuracy of VA's personnel records.

We conducted this review in accordance with generally accepted government auditing standards.

PRODUCTIVITY BY STATION - 5 YEAR HISTORY

ADJUDICATION DIVISION - FISCAL 1977-81

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>Average</u>	<u>Range</u>
	(Percent)					(Percent)	
Jackson, Miss.	94	89	105	88	93	93.8	88-105
Roanoke, Va.	90	86	93	89	89	89.4	86-93
Manila, P.I.	78	79	121	83	81	88.4	78-121
Waco, Tex.	85	89	91	84	91	88.0	84-91
Columbia, S. C.	93	86	95	75	84	86.6	75-95
Little Rock, Ark.	85	84	94	81	88	86.4	81-94
Winston Salem, N. C.	86	86	89	83	86	86.0	83-89
Montgomery, Ala.	84	86	94	80	85	85.8	80-94
Nashville, Tenn.	85	81	95	81	85	85.4	81-95
Muskogee, Okla.	82	80	92	83	90	85.4	80-92
San Diego, Calif.	89	85	89	80	83	85.2	80-89
Louisville, Ky.	81	81	94	87	81	84.8	81-94
Hartford, Conn.	78	83	87	73	95	83.2	73-95
Boise, Idaho	80	79	83	81	90	82.6	79-90
Atlanta, Ga.	81	81	81	79	88	82.0	81-88
Manchester, N. H.	80	87	88	78	74	81.4	74-88
Sq. Petersburg, Fla.	79	78	86	80	81	80.8	78-86
Fargo, N. D.	83	85	88	74	73	80.6	73-88
New Orleans, La.	73	71	89	87	83	80.6	71-89
Ft. Harrison, Mont.	76	76	88	84	79	80.6	76-88
Newark, N. J.	80	82	93	75	72	80.4	72-93
Reno, Nev.	85	82	79	74	81	80.2	74-85
Honolulu, Hawaii	71	76	87	83	82	79.8	71-87
Albuquerque, N. M.	74	76	80	87	80	79.4	74-87
Huntington, W. Va.	78	73	88	76	81	79.2	73-88
Salt Lake City, Utah	76	73	81	76	90	79.2	73-90
Houston, Tex.	78	75	85	78	80	79.2	75-85
Portland, Ore.	73	76	85	74	83	78.2	73-85
Phoenix, Ariz.	85	81	76	70	75	77.4	70-85
Des Moines, Iowa	71	72	79	76	87	77.0	71-87
San Juan, P. R.	76	88	77	72	72	77.0	72-88
Denver, Colo.	85	79	76	68	75	76.6	68-85
Wichita, Kans.	73	71	85	72	81	76.4	71-85
Seattle, Wash.	76	72	83	74	77	76.4	72-83
San Francisco, Calif.	70	73	69	79	89	76.0	69-89
Sioux Falls, S. D.	71	71	85	74	77	75.6	71-85
Pittsburgh, Pa.	69	72	83	70	82	75.2	70-83
Milwaukee, Wis.	72	70	79	72	82	75.0	70-82
Indianapolis, Ind.	69	67	86	75	78	75.0	67-86
Togus, Maine	68	71	87	72	77	75.0	68-87
Providence, R. I.	72	74	71	72	82	74.2	71-82
New York, N. Y.	68	71	83	70	74	73.2	68-83
Buffalo, N. Y.	69	72	80	67	76	72.8	67-80
Cheyenne, Wyo.	65	66	72	76	81	72.0	65-81
St. Paul, Minn.	74	73	74	63	72	71.2	63-74
Cleveland, Ohio	68	65	72	68	80	70.6	65-80
St. Louis, Mo.	69	73	71	70	70	70.6	69-73
Lincoln, Nebr.	72	69	79	64	69	70.6	64-79
Boston, Mass.	66	68	80	68	71	70.6	66-80
Philadelphia, Pa.	66	66	79	64	77	70.4	64-79
Baltimore, Md.	63	67	73	65	84	70.4	63-84
Chicago, Ill.	67	63	80	68	74	70.4	63-80
White River Jct, Vt.	59	69	84	66	69	69.4	59-84
Los Angeles, Calif.	66	67	71	70	71	69.0	66-71
Detroit, Mich.	69	64	72	66	72	68.6	64-72
Anchorage, Alas.	63	71	65	71	68	67.6	63-71
Wilmington, Del.	51	60	85	69	72	67.4	51-85
Washington, D. C.	62	58	71	68	71	66.0	58-71
National average	74	74	82	74	80	76.8	74-82

ANALYSIS OF RELATIONSHIPS BETWEEN
ECONOMIC AND DEMOGRAPHIC FACTORS
AND STATION PRODUCTIVITY

VA has, for several years, allowed certain stations to have larger staffs than others with the same workload. They did so believing that some stations had difficulty obtaining and keeping employees of the caliber they needed from the area work force. For example, VA felt the wage rate it paid in some areas was too low to attract, keep, and motivate productive employees. We found, however, that the differences in productivity among stations does not vary based on factors that might describe differences in employees. Experience levels, educational background, local unemployment, wage levels, and other factors were found to have no significant relationship to variations in productivity. In other words, stations with high productivity are as likely as those with low productivity to have employees with the same experience, education, and economic motivation.

We obtained data on these external factors from VA and Bureau of Labor Statistics reports and by sending a questionnaire to all stations. Then each variable was statistically correlated with productivity. The results are shown in the following table. In interpreting the table, it should be noted that a correlation of about 70 or above indicates a significant relationship between productivity and the external factor. A correlation of about 40 to 70 shows a poor to moderate relationship. A minus sign means only that as the variable increases, the productivity appears to decrease. ^{1/}

<u>Correlation coefficient</u>	
-.39	Population of standard metropolitan area or county
-.38	Average annual wage of the metropolitan area or county
-.31	Average years of experience on the job
-.21	Unemployment rate in area
-.06	Educational level of employees
-.01	Percentage of employees in position less than one year
+.21	Average age of employees
+.37	Differences between average adjudicator's salary and area wages

^{1/}For a discussion of interpreting correlation levels, see Fitz-Gibbon, Carol T. and Morris, Lynn L., "How to Calculate Statistics," p. 92, Sage Publications.

In our opinion, this analysis clearly shows there is no significant correlation between the suggested variables and stations' productivity. Consequently, to consider these factors when allocating staff between stations is not justified. In fact, to do so actually makes the method of allocating staff the cause of productivity variation, for extra staff is provided where it is not required.

COMPUTATIONS OF COST SAVINGS AND
BUDGETARY IMPACT OF RECOMMENDATIONS

As we discussed earlier, productivity can be improved by establishing minimum acceptable levels of productivity for individual stations. Along with establishing levels or goals, management needs to take action on two fronts. First, and most importantly, staffing must be reduced at those stations whose productivity is lower than the goal. Secondly, VA managers need to provide the attention and commitment necessary to improve the operations by reducing nonproductive time and eliminating unnecessary processing steps. Potential savings through such an approach will vary, depending on the productivity levels that are established as goals.

Achievable goals can be established in a number of ways. Within VA's adjudication division, which has a large number of locations performing the same operation, a productivity goal or standard of performance could be established as follows:

- Use the best performing locations as standards of performance. If VA were to use such a criterion, the expected level of productivity would be between 90 and 95 percent.
- Use the average location performance as a standard. This approach is logical if the productivity among relatively similar operations varies widely. If VA were to use this criterion, the expected level would be about 80 percent.
- Use a combination of the first two methods. This approach might entail using the average, even though it increased annually, until all stations were performing within a narrow, acceptable band of productivity.

Once productivity goals have been established, potential savings can be determined on a station-by-station basis. For example, a station may currently have 100 employees, be producing a given workload, and have a productivity level of 70 percent. The question, then, is "how many employees are required if the station achieves a minimum goal of 80 percent productivity?"

To determine this, the workload must first be established. VA expresses its claims workload at all stations as "standard manhours (SMH)" which is the sum of all claims processed. It is called "standard manhours" because the claims have been weighted for processing difficulty by using the number of staff-hours required to process each type. This weighting was established by a work measurement study. In this example, the workload is 128,128 SMH, as shown on page 12.

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}} = \frac{\text{SMH}}{\text{Available hours}}$$

$$\text{Productivity} = \frac{128,128}{100 \text{ employees} \times 2,080 \text{ available hours per employee per year} \times .88 \text{ (leave factor) } \frac{1}{2}} = 70 \text{ percent}$$

The number of employees required at 80-percent productivity is obtained simply by working the equation backwards, as follows.

$$80 \text{ percent} = \frac{128,128}{\text{New employee level} \times 2,080 \times .88}$$

$$\text{New employee level} = 87.5 \text{ or } 88.$$

Therefore, by raising the productivity to 80 percent at this station, 12 fewer employees would be required.

For all 58 stations, the net savings will depend on where the goal, or minimum acceptable levels of productivity, is established. The following table gives the potential savings at various possible levels.

<u>Minimum acceptable levels</u>	<u>Staff-years</u>	<u>Amount 2/</u>
95	992	\$21 million
90	737	\$15 million
85	495	\$10 million
80	276	\$ 6 million

BUDGETARY IMPACT OF RECOMMENDATIONS

Implementation of our recommendations to establish minimum acceptable goals for productivity and to take needed management action to achieve those goals should save at least \$6 million annually, based on a goal of 80 percent. These savings could be even greater if progressively higher goals are established and achieved.

1/A leave factor of 12 percent has been estimated based on the allowance VA used in developing its fiscal 1982 budget.

2/Cost per staff-year is based on the salary for the average grade level of GS-8, step 2, for fiscal 1983, including a pay raise of 4 percent and a 10.5-percent benefit rate.

Office of the
Administrator
of Veterans Affairs

Washington, D.C. 20420



SEPTEMBER 23 1982

Mr. Gregory J. Ahart
Director, Human Resources Division
U.S. General Accounting Office
Washington, DC 20548



Dear Mr. Ahart:

The July 19, 1982, draft report, "Improved Productivity Can Reduce the Cost of Administering Veterans Benefit Programs," has been reviewed. GAO recommends that I direct the Chief Benefits Director to reduce overstaffing at low performance stations and establish a program to help all stations improve their productivity and timeliness. I agree that necessary staffing should be maintained in reasonable balance with workloads to preclude overstaffing. All levels of management and personnel should be involved in continuing, organized efforts to improve the quality, timeliness, and productivity of operations.

This report treats productivity in the narrow sense and measures efficiency as the amount of output produced for a given input. A broader and more realistic concept is the transformation of input into desired results. The goal is to produce output of fully acceptable quantity, quality, and timeliness with the least resource expenditure.

Productivity is a complex issue involving personnel, organization, equipment, employee turnover, training, size and location of workspace, workflow, procedures, workload, staffing, management effectiveness, and many other factors. For these reasons, there is no logical basis for requiring stations to meet an arbitrarily set numerical productivity standard which assumes a fully trained and stable workforce with a static workload. Generally, our workforce is not stable; there are trainees in many positions at regional offices with high employee turnover; and workloads vary due to enrollment or income questionnaire processing periods, accommodation of requests for special case reviews, and legislative changes which impact on eligibility for benefits.

(See GAO note below) GAO concludes there is no significant correlation between the productivity of stations and demographic, economic, and other factors. However, in the 5-year history chart (Enclosure II), it is important to note that seven of the ten lowest productivity stations are in large metropolitan areas where both turnover and income per capita are high. The other three are small stations where a certain number of employees must be maintained to provide the full range of services. Conversely, all ten high productivity stations are in smaller metropolitan areas and in states where per capita income is significantly lower.

If the 5-year average productivity ratio of all adjudication divisions were depicted on a United States map, a pattern would develop showing a heavy concentration of high productivity stations in the southeastern states. Stations with the lowest productivity are concentrated in the industrial northeast and the midwest. This is evidence of a significant relationship between productivity and demographic, economic, and other factors.

GAO note:

Enclosure II is Appendix II in the final report.

I do not agree with GAO's assumption that 23 of 58 claims processing offices were overstaffed in Fiscal Year 1981 because their productivity ratios were below 80. Nine of the 23 offices are small and account for less than 4 percent of the total adjudication workload. Small offices with the same output per direct labor manhour as large offices have lower productivity ratios because they must use a higher proportion of total input manhours for supervisory and clerical overhead indirect labor duties. Arbitrary staffing reductions at such offices would most likely cause decreased output, not a higher productivity ratio. Almost all of the other 14 offices with productivity ratios below 80 are located in large metropolitan areas where income per capita is high.

(See GAO note below)

The increases in processing time from 1978 through 1980 (see chart on page 5) are the direct result of increased workload, due primarily to the enactment of Public Law 95-588, coinciding with major Department of Veterans Benefits (DVB) employment reductions. The chart shows timeliness improved from 1980 through 1981, and the following data, for the 12 months cumulative through June 30, 1982, illustrate this continuing trend.

<u>Type of Claim</u>	<u>Average Elapsed Time (Calendar Days)</u>	
	<u>12 Months Cumulative 6/30/82</u>	<u>1978</u>
Disability Compensation	113	109
DIC	64	67
Disability Pension	85	91
Death Pension	54	54
Education*		

*The education claims part of the Award Processing Timeliness Report has been canceled because of an invalid base date used to compute the average elapsed days.

DVB has long used work measurement and quality and timeliness control systems as indispensable to the manpower management function. These systems provide data to compare performance and efficiency, allocate manpower, control and forecast manpower requirements, and evaluate manpower effectiveness. Since 1977, DVB staffing has been reduced by over 4,600 positions (about 23 percent), largely due to workload declines and development of the Target computer system. The national average productivity ratio for adjudication activities increased from 80 in FY 1981 to 82 in FY 1982, as of July 31. DVB is also committed to ongoing Target system enhancements. A major overhaul of the Work-in-Process Processing Subsystem, scheduled for October 1982, will allow closer monitoring of productivity and timeliness levels in adjudication operations.

The GAO report emphasizes work output quantity and makes no mention of quality. A recent Inspector General (IG) audit report found that quality levels for benefits authorizations do not meet established standards. At small stations, some of which GAO categorized as underproductive and overstaffed, the IG recommended an increase in the number of quality reviews. In this respect, GAO's recommendation for staff reduction is incompatible with the IG's recommendation for more reviews at small stations.

GAO note:

The discussion of timeliness was not included in the final report.

GAO contends that offices with productivity ratios below 80 can be increased to that level by reducing staff, thereby saving \$5 million a year. The IG estimates that a 1 percent reduction in substantive adjudication errors will prevent annual payment errors of \$2.7 million for education and \$6.4 million for compensation and pension. I believe there is greater potential for cost effectiveness by improving quality rather than by reducing staff.

I would like to clarify certain statements and terminology in the report:

- As stated on page 1, it is true that the difference in the productivity ratios of the highest and lowest stations in FY 1981 was over 25 percent (Jackson, Mississippi - 93; Anchorage, Alaska -68). It is more important to note that 55 of the 58 offices had productivity ratios within plus or minus 11 percent of the national average of 80 which, in our experience, is a normal range.
- Page 5 of the report states that the adjudication workload dropped 8 percent between 1978 and 1981 and the Target system lowered personnel requirements by 881 (16 percent) in 1979 and 1980. This staffing decrease of 881 encompassed the impact of the Target system on Adjudication, Veterans Assistance, Administrative, and Finance activities. The reduction for Adjudication activities alone was 405 positions. (See GAO note 1 below)
- Productivity and other operating performance data which are cited are by-products of the DVB work measurement system. GAO uses direct labor effectiveness measures (net) interchangeably with productivity, a gross measure. For instance, the second sentence of note "a" on page 4 is not a correct statement regarding productivity. The statement would be true of direct labor effectiveness ratio rather than productivity rate. (See GAO note 2 below)

Thank you for the opportunity to review this report.

Sincerely,



ROBERT P. NIMMO
Administrator

Deputy Administrator For

GAO notes:

1/This section was not included in the final report.

2/This point is discussed on page 5 of the letter in the final report.

GAO RESPONSE TO AGENCY COMMENTS

We agree that arbitrary performance goals do not constitute good management tools. For this reason we have suggested goals based on VA's own productivity measurement system. These measures, as developed, incorporate existing conditions such as quality, timeliness, employee capabilities, and organizational structure. Consequently, we believe these measures can be logically used for establishing performance goals. This is particularly true in view of the fact that many stations are already achieving good productivity levels as measured by the VA system, while concurrently meeting the goals already established for quality and timeliness.

To address the agency's concern that large metropolitan areas have low productivity due to higher wages and higher rates of employee turnover, we clarified the section of the report dealing with the relationships between such factors as wage rates and productivity. Basically, our work shows that these factors either have no significant effect on productivity, or that the difference in these factors between stations is not large enough to cause a difference in productivity. We believe that by adding extra staff to those stations in large, industrial, geographically clustered cities, the agency has artificially induced low productivity.

Individuals who were familiar with VA claims processing, including some management officials at the stations, contended that a productivity variation of 25 percent is excessive. We agree with their contention. A 25-percent productivity variation for operations which are largely similar seems too great. Further, in addition to reducing the productivity variation by reducing overstaffing at certain locations, we found that low productivity stations could improve productivity by assuring that their staffs were effectively employed and that inefficient and unnecessary processing steps are not added. Consequently, the suggested initial goal of 80-percent productivity was established at what we believe is a low, easily attainable level. We believe such goals can be achieved if headquarters assists low productivity stations in better managing their staffs, and assures that unnecessary work is not undertaken.

As pointed out in the report, we found no relationship between size and productivity. We added information in the report to make this clearer. We have also altered the report to reflect the updated information the agency provided on timeliness and quality, and we have added the qualifications necessary to properly define VA's productivity measures.



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-208080

JULY 13, 1982

Ms. Dorothy L. Starbuck
Chief Benefits Director
Department of Veterans
Benefits
Veterans Administration

Subject: VA Claims Processing Improvements Can Aid In
Improving Productivity (GAO/AFMD-82-86)

Dear Ms. Starbuck:

We have recently concluded the onsite portion of a productivity review of the Veterans Administration's compensation, pension, and education benefits claims processing function. As a part of that review, we were able to identify a number of operational changes that could lower costs and improve timeliness. Your staff has been aware of our work, and in December 1981 we were contacted by a member of the task force you recently activated to improve the claims process. We were asked if we could provide suggestions to the task force that they might consider in their work. In response, we met with members of the task force and others in February 1982, and orally presented about half of the method and procedural changes we had developed--the others were not yet sufficiently developed to be included. This letter transmits to you the entire series of 17 suggested improvements. (See encl. I.) Enclosure II provides details about the objectives, scope, and methodology of our review.

Some of these suggestions originated from discussions our staff had with individuals who were working directly with claims. Some were developed from our own ideas on how the claims process might be improved. Still others were obtained through observing good practices that were followed in certain locations but not in others. Consequently, not all of these suggestions will benefit all locations--some have already been implemented at some stations. Further, some improvements have already been made as a result of suggestions we made while visiting the locations. However, we believe the potential for considerable cost savings still remains from broad adoption of these operational changes. For example, the potential savings could be more than \$7.0 million per year from just two operational changes:

(910334)

B-208080

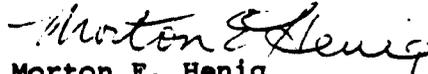
--Reducing claims authorizations by using statistical sampling at a 75-percent level could save about \$3.4 million.

--Eliminating the section chief positions could save about \$3.7 million.

In your consideration of these and other improvement suggestions, we believe it is important to address the impact of management or method changes on the quality of your work. Consequently, it may be appropriate to test certain of these improvements on a pilot basis.

I hope the suggestions will be useful to you and your claims processing task force. A response to the Congress regarding the disposition of these suggestions is not required, but we would appreciate your letting us know of any cost savings or other improvements made as a result of our work.

Sincerely yours,


Morton E. Henig
Senior Associate Director

Enclosures - 2

CLAIMS PROCESSING IMPROVEMENTS CAN AID
IN IMPROVING PRODUCTIVITY

The following are some ideas for processing claims more efficiently with fewer people. We saw some of these ideas in use during our visits, and the field locations (stations) we did not visit may already be using some of them. However, in our review we found that stations are often unaware of practices used in other stations.

Some of these ideas were the outcome of our study. We did not see them in use but believe they could be an improvement at all stations. They include selected ideas and thoughts of the field adjudication staff which we believe deserve serious consideration. In some cases, the procedures are controlled by the central office and the station has no authority to make changes.

No specific time or dollar savings have been attached to the individual changes suggested because assessing the present coverage would have been too time consuming for the scope of our current study. However, potential savings have been estimated for the first three suggestions. Although some changes appear minor, many stations process over 100,000 claims annually. A single minute saved per claim at a station with such a workload translates into potential cost savings of over \$16,000 annually.

1. Authorizing claims on a sample basis could save considerable time.

Authorizing claims on a sample basis could save both calendar and "hands-on" time and free senior adjudicators to perform other processing functions. The Veterans Administration (VA) has about 526 senior adjudicators who authorize (review and approve someone else's decision) all compensation, pension, burial, and initial education claims. Substantially all of the 8.7 million claims processed during fiscal 1981 were reviewed and approved by senior adjudicators. The purpose of this procedure is to decrease the error rate for payments.

At the stations we visited, senior adjudicators told us they spend most of their time reviewing and approving decisions of adjudicators, burial clerks, and education clerks. Personnel records show that many of these adjudicators and clerks are experienced, seasoned individuals who have been in their positions for 5 or more years, and that error rates vary considerably by individual. For example at one station, of two employees with comparable monthly output, one had no procedural errors and the other had 6.67 errors.

Private industry has long recognized that even examining 100 percent of the items produced does not guarantee a 100-percent-perfect product. In fact, total inspection often can result in

increased quality problems as employees take the attitude that quality work is unnecessary because their errors will be caught and corrected. Consequently, the quality control system should be examined to determine what level of review actually is needed to maintain desirable quality levels.

If such review and approval of decisions were done on a sample basis, much time could be saved with little compromise of quality. Field stations could be given the flexibility to authorize claims commensurate with the quality record of an individual's work.

Based on the average grade for a senior adjudicator of GS-11, step 4 (\$25,924 per year), we have estimated the potential labor cost savings of reducing senior adjudicator review:

<u>No. of claims reviewed</u>	<u>Percentage of total claims received</u>	<u>No. of senior adjudicators required</u>	<u>Labor cost</u>	<u>Annual recurring savings</u>
8,700,000	100	526	\$13,636,024	\$ -
6,525,000	75	394	10,214,056	3,421,968
4,350,000	50	263	6,818,012	6,818,012
2,175,000	25	131	3,396,044	10,214,056

2. Screening of incoming mail would minimize folder handling.

Identifying incoming mail that can be worked without the claim folder reduces calendar time as well as hands-on time because pulling and handling of files can be eliminated in these cases. VA's instructions require that as much mail as possible be processed without the claim folder, and that mail not requiring development or rating board action be worked immediately without the folder.

We found that each of the nine stations screened mail at some point, but not all did it in a way that minimized folder pulling and handling. At one station, which is consistently a leader in productivity, VA's instructions were followed very closely. On the other hand, at one of the largest stations we found that many folders were being pulled unnecessarily because screening was limited.

As a test, we determined that one unit received 821 pieces of active mail on a particular day, of which 146 pieces were computer generated letters containing basic information on the claimant. We selected five of the 146 letters and gave them to an adjudicator who successfully worked them without the claims folder. We then determined that the adjudication division was receiving about 1,600 of these letters daily, and the folder was being pulled for each letter until we discussed the situation with adjudication staff.

Working as much mail as possible without the folder, and screening to identify that mail, are required by VA instructions. These requirements should be emphasized by central office, particularly in the stations' systematic analyses of operations and in the central office's semiannual staff analyses of the stations.

To obtain an idea of potential savings from pulling only necessary folders, we made estimates at various levels of processing. We did not determine the actual percentage of claims that could be worked without folders or how many are being worked this way VA-wide. The costs are based on VA records which indicate that the 58 file activities pulled 8.7 million files in fiscal 1981, and that the average file clerk is paid \$5.24 per hour.

<u>Work units completed</u>	<u>Units processed without the claim folder</u>	<u>Savings</u>	<u>Positions eliminated</u>
8,682,246	4,341,123 = 50% of work units completed	\$478,280	45
	5,209,348 = 60% of work units completed	573,937	54
	6,077,572 = 70% of work units completed	669,593	63

3. The number of section chiefs can be reduced.

Many of the 117 section chief positions can be eliminated by assigning duties to other supervisory personnel. As the third position in a VA unit's four-tier supervisory structure, the section chief supervises two or three unit chiefs, coordinates activities between units and the rating board, and checks the quality of work processed by each unit. The unit chief supervises the day-to-day activities of a claims processing team comprising about 20 senior adjudicators, adjudicators, and clerical and technical support members. The section chief reports to the assistant adjudication officer.

VA's unit concept provides for either two or three units per section, and emphasizes that three units per section is most desirable for supervisory control. At the nine stations we visited, two had no section chiefs and seven had a total of 16 section chiefs. Our observations, discussions with station personnel, and analysis of documentation disclosed no relationship between the number of section chiefs and the station's productivity, timeliness, or quality of work. Further, having three units per section chief provides no assurance of high performance. For example, one station with three units per section was consistently a leader in productivity and in the top group in timeliness and quality. Another station with three units per section was consistently low in productivity but usually exceeded timeliness and quality goals.

Our observations and study of the claims process strongly suggest that the section chief duties could be assigned to the assistant adjudication officer, who is already performing similar work by helping the adjudication officer plan and control work and achieve established quality and production goals. We also believe (1) sections should have at least three units, (2) the span of control can exceed three units per section, and (3) except for at a few large stations the section chief positions could be eliminated altogether.

We estimate that eliminating 100 of the 117 section chiefs could provide \$3.7 million in recurring annual savings. This is based on the average section chief grade of GS-13, step 4, with a salary of \$36,946.

4. File activities would benefit from better supervision.

Central supervision of all file clerks would provide tighter control of the entire files function. It would also allow a uniform search for missing or unavailable folders. Although the VA is trying to reduce the use of claim folders, our work at nine stations showed that the claim folder is still used for working most claims actions. The file clerks are responsible for associating claims mail with the corresponding folder, delivering the folder for action, and refiling the folder when action has been completed.

The 58 VA stations presently house claim folders on 10.5 million claimants. During our review, we learned that ready access to these files and efficient movement of claim folders in and out of the files is one of the keys to an efficient adjudication process.

Two different approaches are used for supervising the files activity and we observed both. One approach places all file clerks under the supervision of a single files supervisor. The other assigns file clerks to individual units where they are under unit chief supervision.

The files activities at the stations we visited were generally more efficient when supervised by a single files supervisor. The files supervisor's only job is to see that the files are kept orderly and up to date, and to provide a service in pulling and refiling claim folders. Unit chiefs, on the other hand, are responsible for many parts of the claims process and do not have time to adequately supervise the file clerks assigned to them. Placing all file clerks under a single, designated supervisor would provide better service to the entire adjudication division.

5. Strengthening the training program should reduce employee errors.

Strengthening the VA's training program should improve employee performance by reducing errors. The VA's present program, Ventures

in Progress (VIP) was developed in 1975. It consists of a classroom package designed for the various elements in the adjudication division and is to be supplemented with training on new issues, circulars, manual or procedural changes, and areas requiring special or additional training. The VA recommends that a maximum of 7.5 percent of available staff hours (roughly 3 hours per week) be used for training. Two of the 3 hours are spent on the prepared VIP units and the other hour on the items discussed above.

During our review we found that the 1975 VIP program had not been updated and was considered by many people to be obsolete because of changes in veterans benefits over the past 6 years. We also learned that several of our sample stations were not performing the training as envisioned by central office and were spending less time on it than the recommended 7.5 percent of staff hours. Employees at some of the stations we visited told us they did not learn as much as they could have because the training material was obsolete.

Because training is a necessity for learning the job and maintaining competence, we feel that the central office should continually update the VIP program to meet changing needs.

6. Certain awards could be made at time of application.

Vocational rehabilitation awards for disabled veterans could be made when the veteran applies for these benefits. This would eliminate certain processing steps and result in less hands-on processing time.

Disability is established when the veteran applies for disability compensation benefits. In addition to compensation, the veteran may be eligible for assistance in restoring employability lost by reason of service incurred disability. Over 46,000 of these claims were processed in fiscal 1981.

A counselor in the field station's vocational and rehabilitation division assists the veteran in planning a program to meet the individual need. The counselor also obtains the claim folder from the adjudication division and helps the veteran complete the application. The counselor then walks the application through the adjudication division, where an adjudicator determines eligibility and entitlement and makes the award. These awards are handwritten because the "Target" computerized claims processing system is not programmed to handle them.

As described above, the counselor has the application and the claim folder, disability has already been established, and the claim is not worked on the computer. We see no reason why the counselor could not determine eligibility and entitlement himself, and make the award. Security concerns could be satisfied by reviewing awards made by each counselor on a sample basis.

7. Benefits counselors could perform more basic claim changes.

By allowing veterans benefits counselors to process more claim changes on the Target system, the VA could reduce hands-on and processing time by eliminating steps. Overpayments could also be avoided because information would get into the system more quickly.

Counselors in the veterans services division help veterans and eligible applicants complete benefit applications during personal interviews and by telephone. The counselors also receive claim changes such as address changes, first notices of death, payment suspensions, and changes in dependents. The counselors write up these changes and send them to the adjudication division for action, with one exception: they enter address changes into the Target system themselves and then send the written notices to adjudication to be filed in the claimants' folders. Since all claim changes could be processed without the claim folders, we believe counselors could handle all of them directly, avoiding the lengthy process shown below.

EXAMPLE OF CHANGE IN DEPENDENTS TAKEN BY A
VETERANS BENEFITS COUNSELOR

<u>Present</u>	<u>Proposed</u>
Counselor writes up change in dependents	Counselor writes up change in dependents
Counselor sends hard copy to adjudication through mail system (mail clerk, to mailroom for sorting, to mail clerk)	Counselor inputs change on Target-- <u>Action taken</u>
Change data is delivered to adjudication division	Counselor sends hard copy of change through mail system to adjudication division
Claimant's folder is pulled	Adjudication drops into claimant's folder
Folder and data are delivered to clerk for processing	
<u>Action taken</u> by inputting change on Target	
Folder returned to files unit for refileing	

As shown, action is taken much sooner when it is performed by the counselor. We believe excessive handling of the change could be eliminated if counselors could take a more active role in processing claim changes. Two aspects of this method, however, should be considered before making any changes: (1) the amount of extra training required to provide needed skills to the counselor and (2) the degree to which counselors function as advocates for the veterans and the impact of such advocacy on their independence and objectivity.

8. Incentive awards would improve employee morale and productivity.

Individuals are motivated when they are recognized for their accomplishments. When high performers are given awards, they usually increase their productivity. However, high performers sometimes lose incentive when awards are withheld. Although each of the nine stations we visited provided incentive awards to employees, award programs varied. We found that employees given visible recognition responded very positively.

We looked closely at the awards program at one high productivity station which placed more emphasis on employee recognition than any other we visited. Each month, an incentive award presentation program was part of the director's staff meeting. Award recipients were given a letter and a list of those receiving awards by category. Station corridors displayed photographs and lists of award recipients, and separate bulletin boards recognized employees for special achievement, creativity, outstanding ratings, and best letter of the quarter.

We found a very similar program in a private industry firm where great significance is placed on performance. The company has a very strong award system and also places performance posters in key spots.

We believe that the strong award program we have described should be extended to the other VA stations. Employee productivity would be enhanced through recognition and, where little or no promotion potential exists, the recognition would help maintain good working relationships.

9. Moving the Sycor unit would provide more logical organization.

The Sycor unit's workload is largely financial in nature. The unit more logically fits organizationally in the finance division. Moving the unit to the finance division would (1) place the process where it is most used in the station and (2) eliminate staff from the adjudication division who are not performing claims processing functions. Before Target was implemented, the major workload of the Sycor unit was to prepare claims payment data and transmit them to a VA data processing center. Nearly all claims award information is now input and transmitted to the data processing center through the Target system.

10. Additional video display terminals could increase productivity.

More claims could be processed daily if adjudicators were provided more video display terminals (VDTs). We observed that a VDT is often shared by two or more adjudicators with the result that an adjudicator must frequently wait his or her turn to process a claim using the Target system. Waiting means lost production and may discourage the adjudicator from working claims without the folder. As discussed elsewhere in this report, working claims without the folder saves processing time and utilizes advantages offered by the Target system.

We found that one station recognized the impact of shared VDTs in its production standards. Employees not sharing VDTs were expected to process about 24 to 30 claims daily, whereas those sharing VDTs were expected to process about 20 to 24.

Some additional VDTs are needed now. However, as VA makes staffing adjustments to compensate for a decreasing claims workload, fewer VDTs will have to be shared. As this happens, central office should ensure that VDTs are allocated to meet the changing need.

11. Consolidation of instruction manuals would help employees.

Consolidating instruction manuals could reduce the time clerks and supervisors spend interpreting instructions and resolving associated problems. Development and correspondence clerks use three basic instruction manuals, M23-1, M22-1, and M4-1, in carrying out their daily tasks. These manuals, written by two separate organizations in the central office, are not correspondingly updated. At times they are conflicting and often leave jurisdictional boundaries unclear or do not adequately assign responsibilities.

Providing uniform, consolidated instructions could alleviate employee confusion and improve processing speed.

12. Rerouting unnumbered mail would reduce handling and speed delivery.

Sending unnumbered mail directly to the adjudication division would reduce mail handling and speed delivery. At the stations we visited, incoming mail that has no claim number is sent from the mailroom to the data terminal unit in the administrative division. There, a search is made on the automated subsystem to see whether a file exists for the claimant. If a file is found, a request is made for its transfer to the station. If none is found, a file number is assigned. At some stations, the claim folder is prepared at this point; at other stations the mail is sent to the adjudication division where the folder is prepared.

Our large station estimated that it takes 4 to 5 days for unnumbered mail to clear through the data terminal backlog. If it

were routed directly to the adjudication division, it could be worked within a day. If file location is required, the adjudicator could hand-carry the request for a data inquiry to the terminal. This station's terminal processed an average of 150 pieces of unnumbered mail and prepared from 30 to 50 new folders daily.

Routing unnumbered mail directly to adjudication could also reduce the creation of duplicate claims folders. Under the present system, an application for burial benefits showing the applicant's social security number is sent to adjudication, where a folder is prepared. An unnumbered application for pension benefits received at about the same time is sent to the data terminal where a folder may also be prepared. One station visited had had several problems with duplicate folders.

Moving these responsibilities to the adjudication division could reduce mail handling, improve processing time, and establish better quality control.

13. Allowing adjudicators to establish certain claims would improve the workflow.

Giving limited claims establishment authority to adjudicators would provide a smoother workflow and could reduce processing time. Claims establishment occurs when a unit clerk enters a command that creates a pending issue in the Target system. A pending issue is necessary to allow a subsequent award or disallowance to be processed. To eliminate the possibility of an employee both establishing and approving a claim, only unit clerks have authority to establish claims.

While it may be advisable to limit claims establishment responsibility to certain individuals, the procedure sometimes creates workflow bottlenecks because of the volume of mail or because adjudicators must return cases to unit clerks to establish or correct codes.

One way to deal with these problems is for unit clerks to establish routine claims and claims requiring development, rating action, and referral for folder pull. Claims that lend themselves to immediate action, however, could be routed directly to adjudicators who could both establish the claims and prepare them for review and approval. System security concerns could be satisfied by an edit comparing the identification of the establishing employee with the identification of the approving employee and denying approval if the two are the same.

14. More emphasis could be placed on accepting existing medical evidence in lieu of VA examinations.

Taking full advantage of existing physical examination reports in lieu of requiring an applicant to obtain a VA examination can save considerable processing time and reduce the VA hospitals'

workload. Obtaining medical evidence from VA hospitals is one of the longstanding causes of processing delays. For example, at one large station, which is very active in working with hospitals to improve timeliness, the average time for receiving examination reports from VA hospitals was 54 days. At that time the processing of initial pension claims averaged 110 days; thus obtaining physical examinations took a large proportion of the processing time.

VA's instructions recognize the value of using existing medical evidence from qualified sources by requiring constant care to avoid unnecessary examination or reexamination of claimants. The instructions provide that a hospital report or examination from a military, State, county, municipal, or other government hospital or recognized private institution may be acceptable. In pension cases, statements from private physicians may serve for rating the claim. The instructions also specify that no VA examination is to be made solely to confirm medical evidence from these sources.

Adjudication staff at several stations told us that they do not attempt to obtain existing examination reports in lieu of VA examinations. One adjudication officer suggested that applicants for pensions may often have already obtained an examination for social security benefits which might be used by the VA.

Accepting existing medical evidence in lieu of a VA examination is authorized and encouraged by VA instructions. It should be emphasized by central office, particularly in the stations' systematic analysis of operations.

This suggestion and the following one--which deals with the need for physicians on the rating board--should be considered together. In particular, should non-VA examinations become more commonly used in the rating process, consideration will have to be given to the level of expertise and training needed on the rating boards.

15. Eliminating physicians on rating boards would reduce staffing costs.

Eliminating physicians on rating boards would improve the rating process. The rating board is responsible for deciding whether to grant or deny a claim based on established criteria. The board consists of three members--a physician and two lay persons--who rotate as chairman. The number of boards a station has depends upon the workload. Board members individually decide whether to deny or grant a claim. If they do not agree on a decision, the claim is sent to the adjudication officer for resolution. If all members agree, the rated claim is sent to the authorization section (adjudicators) for further processing.

The board physician has several duties which include acting as a medical rating specialist at hearings conducted by the board and conducting personal hearings when assigned as chairman of the

board. While serving as chairman he is also responsible for the administrative operation of the board, including work distribution. At some stations visited, physicians process certain claims, but these are few and are processed by lay members at other stations.

In the rating process, one board member writes the case and the other two sign in agreement or disagreement. The ratings must be signed by all three--the rating specialist, the chairman, and the physician. Our work shows that the physician usually has little impact on decisions rendered by the board; his or her basic duty is to legalize the decision with the physician's signature.

Even though the physician has been assigned certain duties and responsibilities, we believe many of these can be performed by a lay person (a rating specialist) and the physician's position can be eliminated. Decisions signed by at least three nonmedical rating specialists should suffice since the decisions are based on either private or VA hospital physicians' examinations and reports, which have usually been reviewed by the VA physicians at a VA hospital. The VA rating board physician performs no medical examinations personally. In addition, the boards use military and civilian medical records if applicable. Finally, all board decisions are subject to appeal to the Board of Veterans Appeals, which includes a physician. In those instances where the rating board requires medical advice, the VA hospital staff could provide assistance.

Therefore, eliminating the physician is practicable. It would provide potential savings in staffing and improve the rating process. It would also eliminate critical situations that now occur when physicians are on sick or annual leave. At such times rating decisions must wait, or stations must "borrow" VA hospital physicians.

16. Annual income questionnaire could be better timed.

Releasing the annual income questionnaire throughout the year would eliminate the high volume of claims mail now received during November, December, and January. This mail often causes backlogs and requires overtime work to process. The VA expects to process about 1.3 million questionnaires in fiscal 1982. Although all are sent to a processing center for action, about one-quarter need additional work and are forwarded to the appropriate station.

The questionnaire is released on November 1 to all claimants receiving VA pensions, and is to be returned to the VA by January 1. Its purpose is to verify that the claimants' income and net worth have remained within the allowable limits for 12 months. When the questionnaires are received in the adjudication division, each is reviewed and any necessary action is taken.

Releasing the questionnaire on the anniversary date of the claim would be one way to spread out the concentrated workload created by the present system.

17. More claims could be developed by telephone.

The supporting documentation needed to adjudicate claims could be obtained more quickly if more development work were done by telephone. Because claimants often fail to submit all necessary documentation and processing delays occur while this information is being obtained, time saved at this point is particularly beneficial to the claims process. At the stations we visited, a letter was sent to the applicant requesting additional information needed to adjudicate the claim. This added to processing time, particularly when typing pools were backlogged.

To speed up claims development, one station was using clerks to call (1) educational institutions to verify enrollment and attendance, (2) VA hospitals to verify admissions and discharges and request hospital summaries, and (3) funeral homes to verify payment information. This exemplifies the kind of development work other stations could do by telephone. We observed that this station's telephone development could be even more effective if claimants were required to include their telephone number on the initial documentation.

OBJECTIVES, SCOPE, AND METHODOLOGY

We recently conducted a review of the compensation, pension, and education benefits operations in the Veterans Administration (VA). The overall objective was to identify opportunities for higher productivity and lower costs in VA's processing of claims. The methodology included (1) examining the general process to identify reasons for higher productivity in some claims operations and (2) seeking ways to extend to other locations any superior techniques thus identified.

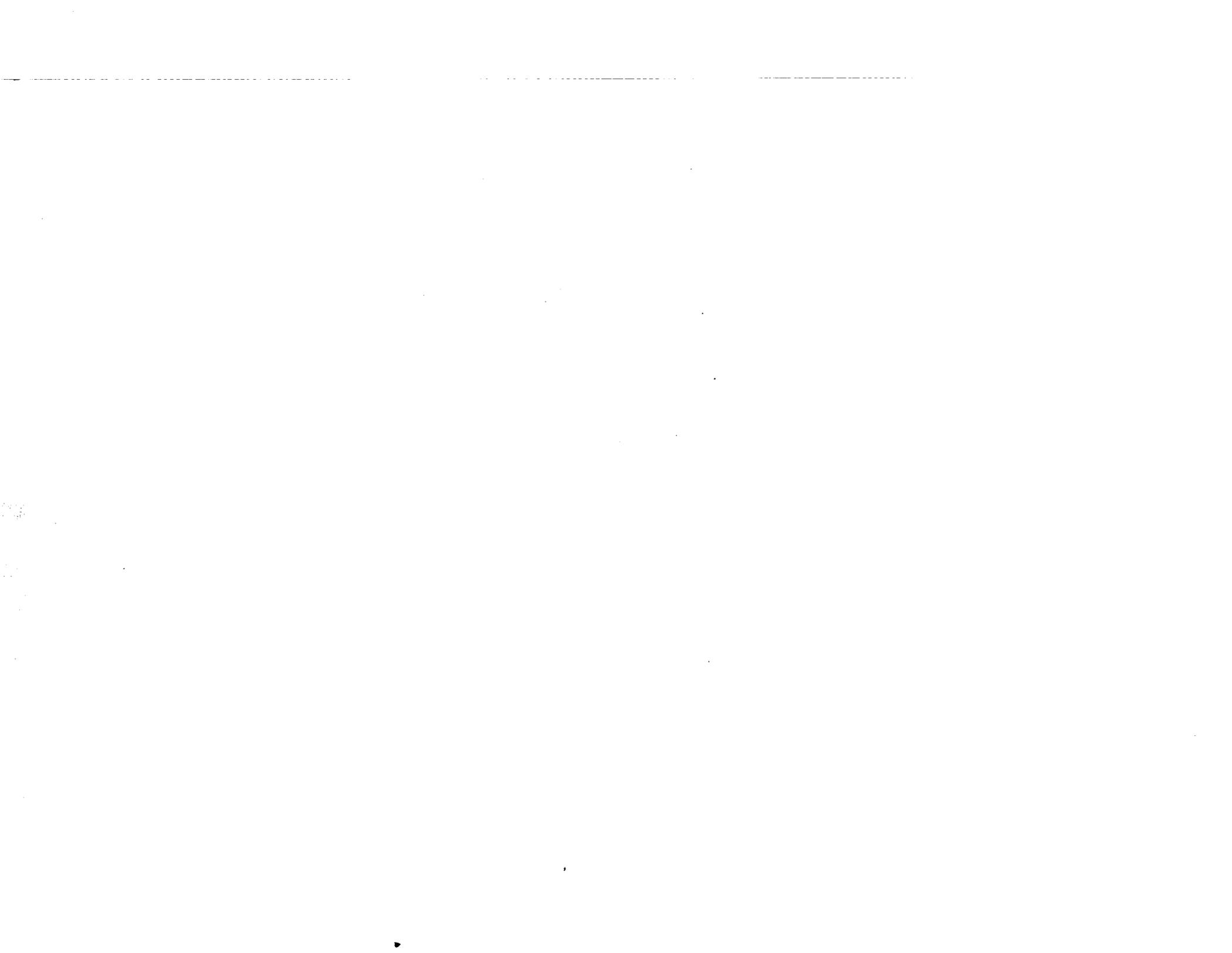
Our review was made during February 1981 through October 1981. It included nine VA regional offices and adjudication divisions located in Albuquerque, New Mexico; Atlanta, Georgia; Boston, Massachusetts; Detroit, Michigan; Lincoln, Nebraska; Roanoke, Virginia; Seattle, Washington; St. Petersburg, Florida; and Waco, Texas. Selection was based on discussions with VA central office managers and analysis of productivity data for the 58 regions. We designed the selection to include large, medium, and small stations with high and low productivity.

At the nine VA offices visited, we interviewed officials to identify policies and procedures for processing claims, and we interviewed staff in the adjudication division to determine workflow from the time the claims were received through final processing. This included establishment, development, rating, adjudication, and authorization for payment of claims through the Target automated claims processing system.

At every location we attempted to gather information that would be representative of that to be found across the VA. We discussed policies, procedures, and management control matters, and obtained productivity and efficiency data as they related to claims processing. We gathered information about the regional offices' organization, management, automation, measurement systems, and quality control techniques. We generally accepted information obtained during discussions and interviews with VA personnel without assessing its accuracy or validity. We also examined the productivity measurement system to determine if it was conceptually sound and sufficiently accurate to make interstation productivity comparisons.

At VA's central office we obtained documentation and interviewed personnel to obtain statistical data and other information about VA's policies, procedures, planning, and budgeting as they relate to claims processing. We also reviewed the legislative history of the VA and studied the system and procedures of the claims processing activity.

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