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Testimony

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VETERANS BENEFITS  
ADMINISTRATION

Progress Encouraging, but  
Challenges Still Remain

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Health, Education, and Human Services Division



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# Veterans Benefits Administration: Progress Encouraging, but Challenges Still Remain

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss long-standing challenges facing the Department of Veterans Affairs (VA) in administering programs that provide financial and other benefits to veterans, their dependents, and survivors. These benefits programs, which are administered by VA's Veterans Benefits Administration (VBA), include disability compensation benefits, disability pension benefits, education assistance, life insurance, housing loan guaranty, and vocational rehabilitation and counseling services. Among these programs, the disability compensation and pension programs are the largest, accounting for about 90 percent of VBA's cash outlays in fiscal year 1998 (about \$20 billion out of about \$23 billion) and requiring about half of VBA's staff-years to administer.

The disability programs have been the subject of concern and attention within VA and by the Congress and veterans' service organizations for many years. The concerns have included outmoded processes, long waits for disability decisions, and decisional quality—all of which affect the quality of service provided to veterans and the effective use of taxpayer dollars. As a result, the Congress has sponsored three studies that focused heavily, if not solely, on the disability programs. These studies were conducted by the

- Veterans' Claims Adjudication Commission,
- National Academy of Public Administration, and
- Congressional Commission on Servicemembers and Veterans Transition Assistance.

Also, in recent years we have issued a number of reports on some aspects of VBA's operations, including a report issued earlier this month, at the request of Representative Evans, on the accuracy of VBA's adjudication of disability claims.<sup>1</sup> As a result of such studies and the requirements of the Government Performance and Results Act of 1993 (the Results Act),<sup>2</sup> VBA itself has established a framework for addressing issues raised by the various study groups and has been exploring ways to reengineer its business processes.

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<sup>1</sup>Veterans Benefit Claims: Further Improvements Needed in Claims-Processing Accuracy (GAO/HEHS-99-35, Mar. 1, 1999).

<sup>2</sup>The Results Act requires agencies to clearly define their missions, set goals, measure performance, and report accomplishments.

Drawing on the studies sponsored by the Congress as well as our own work, today I will highlight

- recent progress VBA has made,
- areas in which progress is lacking, and
- changes in program design that could hold potential for greater gains.

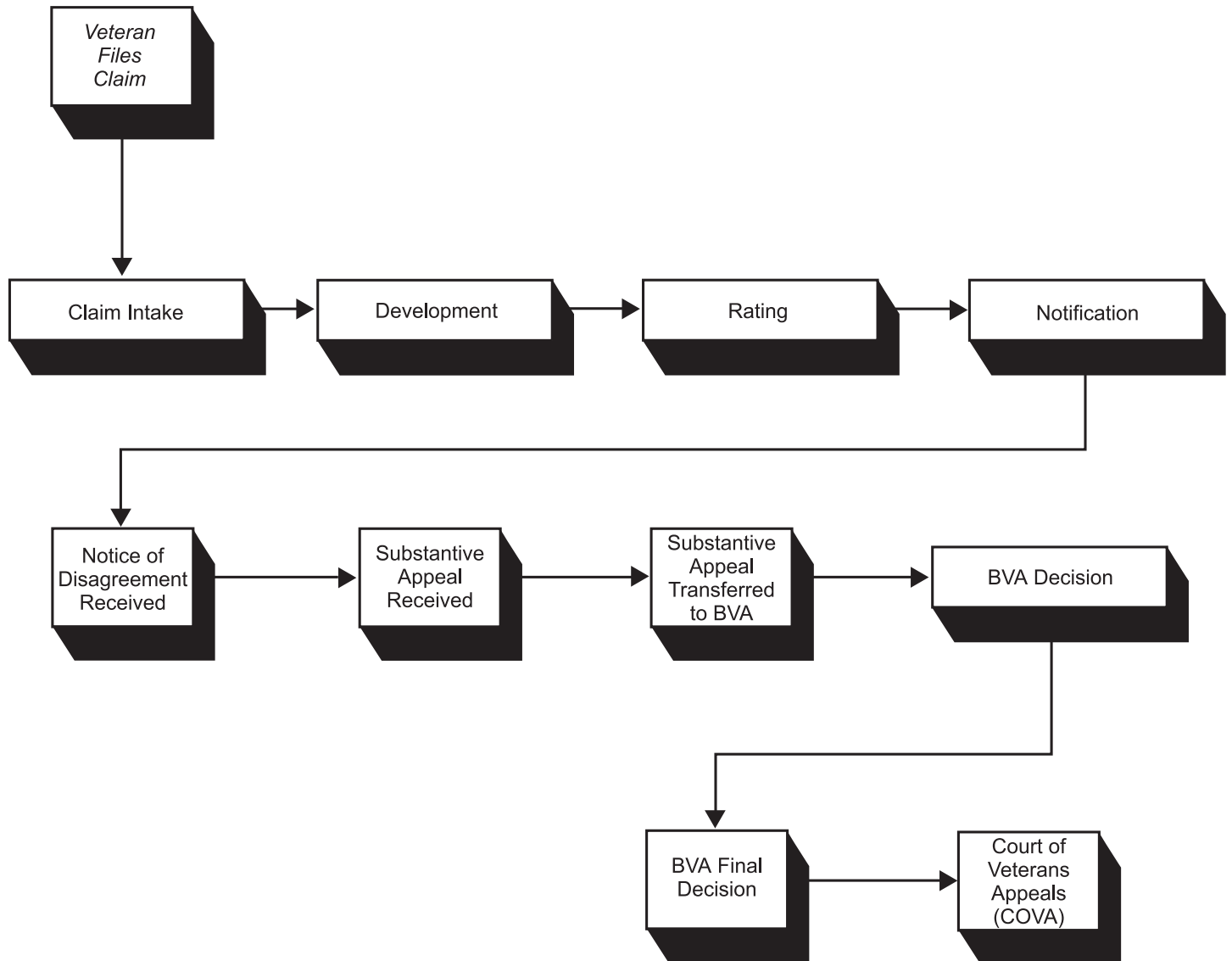
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## Background

VA's compensation program pays monthly benefits to veterans with service-connected disabilities (injuries or diseases incurred or aggravated while on active military duty). Veterans with service-connected disabilities are entitled to compensation benefits even if they are working and regardless of the amount they earn. In contrast, the pension program pays monthly benefits to wartime veterans who have low incomes and are permanently and totally disabled for reasons not connected to their service. In compensation cases, the payment varies according to the degree of disability; in pension cases, the amount varies according to financial need.

The disability claims adjudication process begins when the veteran submits a claim to one of VBA's 58 regional offices where counselors are available to answer questions and assist in completing forms (see fig. 1). VBA also maintains a nationwide toll-free telephone number to answer questions concerning application forms, and veterans' service organizations' representatives are often colocated in regional offices to help claimants prepare applications and to act as the claimants' representatives. The majority of claims are submitted through the mail to the 58 regional offices, which develop evidence and adjudicate veterans' claims.

Figure 1: The Disability Claims Adjudication Process



Note: Cases can be concluded at any point after notification.

Source: National Academy of Public Administration, Management of Compensation and Pension Benefits Claim Processes for Veterans. (Washington, D.C.: Aug. 1997).

The regional office develops each claim by obtaining records from the military services and information from the veterans, such as medical records and information on income and dependents. In order to determine

a veteran's degree of disability, regional offices often find that they need additional medical evidence and request that the Veterans Health Administration (VHA) conduct a physical or mental examination of the veteran. On the basis of such evidence, the regional office determines whether the veteran's disability is service-connected and, using VBA's Schedule for Rating Disabilities, rates (or evaluates) the degree of severity of the disability. The degree of disability is expressed in 10-percent increments up to 100-percent disability. For veterans with multiple impairments, the regional office must rate each impairment separately and then combine the ratings into a composite rating. A veteran can also receive a "zero-percent" rating for a condition that is service-connected but not severe enough to qualify for benefits. If a veteran's condition later worsens, the veteran may reapply for a higher disability rating.

After the regional office notifies the veteran of its decision, the veteran, if dissatisfied, may ask for a hearing before a regional hearing officer. The veteran may also file a notice of disagreement with the regional office and then file an appeal asking for a review of the decision by the Board of Veterans' Appeals, which makes VA's final decisions on appeals on behalf of the Secretary. If the veteran disagrees with the Board's decision, he or she may appeal to the Court of Veterans Appeals, which was established in 1989 and is independent of VA. Additionally, both veterans and VA may appeal decisions of the Court of Veterans Appeals to the Court of Appeals for the Federal Circuit.

VBA considers a disability claim to have been accurately processed if basic eligibility has been determined correctly, the case file contains all required medical and nonmedical documentary evidence, the regional office's decision on whether the disability is service-connected and the disability rating given to each medical impairment are correct, the payment amount is correct, and the regional office has properly notified the veteran of the outcome of his or her claim.

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## Recent Progress in Major Areas Is Encouraging

VBA has taken steps to begin addressing several important issues, including

- measurement of decision accuracy,
- accountability for performance,
- training for decisionmakers,
- reliability of data systems, and
- coordination with VHA on medical examination adequacy.

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## Measurement of Accuracy

As we reported on March 1, 1999, VBA recently implemented a new accuracy review system that represents an important step forward in measuring the accuracy of the regional offices' adjudication of disability claims and in providing data to identify error-prone cases and correct the causes of errors.<sup>3</sup> Compared with the previous accuracy measurement system, the new system focuses more on cases likely to contain claims-processing errors, uses a more stringent method for computing accuracy rates, provides more data on performance, collects more data on errors, and stores more review results in a centralized database for review and analysis.

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## Accountability for Performance

In May 1998, VBA issued its Roadmap to Excellence, in which VBA established a baseline for its current operational environment and described a process for evolving into an agency that is customer-focused, team-driven, cost-effective, and responsive to the needs of its stakeholders.<sup>4</sup> In Roadmap to Excellence, VBA stated that it lacked adequate employee accountability. As part of an effort to improve service and accountability, VBA has grouped its 58 regional offices into nine service delivery networks. These networks do not have their own centralized offices or staff. Instead, the regional offices in each network are expected to closely collaborate with one another, provide mutual support, share resources, operate according to team-based principles, and share collective responsibility and accountability for the networks' overall performance of all work assigned to the regional offices.

To improve the accountability of these networks and all other VBA organizational units, VBA implemented, at the start of fiscal year 1999, a performance evaluation system called the "balanced scorecard." This system scores performance on the basis of five factors: claims-adjudication accuracy, timeliness, unit cost, customer satisfaction, and employee satisfaction and development. VBA believes this new approach will drive organizational change; provide feedback to employees on measures they can influence; and link performance appraisal and reward systems to performance measures, thereby providing incentives to managers to work as teams in meeting performance measures.

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<sup>3</sup>GAO/HEHS-99-35, Mar. 1, 1999.

<sup>4</sup>VA, VBA, Roadmap to Excellence--Planning the Journey. (Washington, D.C.: VA, May 1998).

In March 1998, in testimony before this Subcommittee on VBA's implementation of the Results Act, we stated that VBA was developing goals and measures for its programs.<sup>5</sup> Since that time, VBA has made progress in setting goals and performance measures for the disability programs, and its success in meeting these performance measures will be assessed as part of the balanced scorecard process. For example, VBA had set a goal of achieving an accuracy rate of 75 percent in the adjudication of disability claims during fiscal year 1999 and a goal of increasing the accuracy rate to 93 percent by fiscal year 2004. However, in VA's fiscal year 2000 budget submission, VBA increased its accuracy goal to 96 percent but did not specify a time frame for reaching that goal. VBA's new accuracy measurement system will determine the claims-adjudication accuracy rate and will feed the accuracy data into the balanced scorecard for the disability programs. As part of our continuing review of VBA's progress in implementing the Results Act, we will be assessing VA's fiscal year 2000 performance plan.

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## Decisionmaker Training

In its Roadmap to Excellence, VBA also acknowledged that its training program had not prepared its workforce adequately to produce accurate disability decisions. VBA acknowledged the need for an effective, centralized, and comprehensive training program. Such training is important not only for current employees but also for the many new employees that will be hired to replace the up to 30 percent of the workforce that may retire by fiscal year 2003. VBA plans to identify the necessary employee skills and work processes for every decision-making position, implement skill certification or credentialing for these positions, and implement performance-based training connected to measurable outcomes. VBA has already developed a computer-based training module for processing appeals and is working on modules for original disability claims, service-connected death indemnity benefits, and pensions. VBA also plans to produce additional modules, including one for training new regional office staff when they begin rating disabilities. VBA estimates that it takes at least 2 to 3 years for a new decisionmaker to be able to operate at a fully productive, independent level.

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<sup>5</sup>Veterans Benefits Administration: Progress and Challenges in Implementing the Results Act. (GAO/HEHS-98-125, Mar. 26, 1998).



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## Data Systems Reliability

Also in our testimony before this Subcommittee last March, we noted VBA's lack of accurate, reliable data to effectively measure and assess its performance. In Roadmap to Excellence, VBA itself stated that its ability to provide accurate and timely data on program activities is compromised by, among other things, outdated computer systems and databases, unvalidated data collection methodologies, and limited data storage capacity. Because of such restrictions, VBA management has limited access to the types of data needed to adequately describe and analyze program activities and participants, and the lack of data has hindered VBA's ability to justify resource needs. In addition, the data systems do not have adequate controls to ensure that performance data, such as timeliness and production numbers, are valid.

According to its Roadmap to Excellence, VBA's goal is to develop data systems that enable forecasting and are reliable, timely, accurate, honest, flexible, and integrated across the organization. VBA aims to accomplish this goal by about the year 2002. Toward this end, VBA has completed or has in process a variety of actions, such as establishing an office to manage the process of improving data systems, developing a system for capturing detailed data on regional office disability rating decisions, acquiring actuarial assistance in developing forecasting capabilities, establishing a data inventory, and developing a data validation methodology.

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## Coordination With VHA

Our testimony last March also addressed the need for VBA to coordinate its performance goals with VHA, which performs the medical examinations that are necessary for VBA to determine eligibility for disability benefits.<sup>6</sup> At the time of our testimony, VBA was working with VHA to improve the quality of these medical examinations because the lack of adequate exams had been identified as a primary reason that appealed disability decisions were remanded by the Board of Veterans' Appeals to VBA regional offices. According to VBA officials, VBA and VHA have taken several actions to improve the quality of medical examinations. For example, VBA and VHA have jointly designed improved worksheets for every body system to guide physicians in performing examinations that meet adjudicators' needs. Also, VBA has provided training to VHA physicians.

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<sup>6</sup>VA is pilot testing the use of private medical providers to perform examinations of veterans.

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## Progress in Other Areas Is Still Lacking

Despite progress, VBA still has much to do in addressing issues related to

- accuracy in adjudicating disability claims,
- timeliness in adjudicating disability claims,
- organization and infrastructure, and
- rehabilitation of disabled veterans.

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## Accuracy in Claims Adjudication

As we reported on March 1, 1999, although VBA had been reporting more than 95-percent accuracy under the previous accuracy measurement system, the pilot test of the new system revealed an accuracy rate of only 64 percent. A primary reason for this difference is that the new system focuses on regional office work products that require a disability rating, and these are the most complex and error-prone work products. In contrast, the previous system drew its sample of cases from the entire universe of regional office work products, including those not requiring disability rating decisions and, therefore, less error-prone. The newly implemented accuracy measurement system continues to focus on claims that involve disability ratings.

The new system also tends to produce lower, more realistic accuracy rates because it uses a stricter accuracy rate computation method. Under the previous system, VBA categorized each error under one of three areas of the claims adjudication process: case control and development, decision elements, or notification to the veteran. Thus, if a case had one error, VBA would record this error under the appropriate area and show the two other areas as error-free. After reviewing all cases, VBA computed separate accuracy rates for each of the three claims adjudication areas and then determined an overall accuracy rate by calculating the average of the three accuracy rates. In contrast, under the new accuracy measurement system, if a case has an error in any area of the claims adjudication process, the entire case is counted as incorrect for accuracy rate computation purposes. This method tends to result in a lower accuracy rate than under the previous system.

Even with the improvements provided by the new accuracy measurement system, VBA's ability to identify error-prone cases and target corrective actions is constrained by the limited data that it captures on (1) the medical characteristics of veterans whose claims are processed incorrectly and (2) why medical evidence is deficient. Capturing more detailed data on claimants' medical characteristics could help pinpoint the specific types of

claims in which errors occur. Also, capturing more detailed data on why reviewers find medical evidence supporting regional office decisions to be deficient could help identify the types of corrective actions that need to be taken.

VBA also needs to address vulnerabilities in the integrity of performance data produced by the new accuracy measurement system. The new system does not adhere fully to internal control standards that call for separation of key duties or to standards for performance audits that call for those who review and evaluate a program's performance to be organizationally independent of the program's managers. Under the new system, the regional office staff who review the accuracy of regional office decisions are themselves responsible for making such decisions, and they report to regional office managers responsible for claims adjudication. Both the regional office reviewers and their managers have an inherent self-interest in having as high an accuracy rate as possible. This self-interest derives from the fact that accuracy is one of the five factors that determine regional office performance scores under the "balanced scorecard" approach. The potential effect of impaired objectivity on performance data is exemplified by findings reported by VA's Inspector General in 1998. The Inspector General found that regional office staff had manipulated data on the timeliness of claims processing to make performance appear better than it actually was. The Inspector General concluded that weaknesses in internal controls had contributed to lack of integrity in timeliness data.

While VBA needs to collect additional data to pinpoint causes of errors and to address vulnerabilities in accuracy data integrity, these improvements alone will not be sufficient for VBA to meet its goal of improving the accuracy rate from 64 percent to 96 percent. To do this, VBA must meet the two key management challenges mentioned earlier: establish stricter accountability and develop more effective training. In its Roadmap to Excellence, VBA acknowledged that lack of employee accountability and inadequate training were root causes contributing to quality problems in the adjudication of disability claims. As mentioned, VBA has begun taking action to address these issues; however, at this point, it is too early to determine the extent to which VBA will be successful in improving accountability and training or the extent to which these actions will enable VBA to meet its goal for improving accuracy.

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## Timeliness in Claims Adjudication

Slow claims processing has long been a concern.<sup>7</sup> In 1994, processing original claims took about 7 months on average, and currently, it takes about 5-½ months. However, even this improvement is far from the goal of about 2 months that VBA set in 1997 as part of a business process reengineering effort to redesign the system for processing original disability claims. VBA envisioned a reengineered system that would use advanced technologies to expedite the development of claims and also envisioned it would eliminate unnecessary tasks, reduce the number of hand-offs in the process, make information technology changes, and provide additional training for rating specialists.

However, the National Academy of Public Administration observed in its report that VBA's reengineering program needed better planning and management. Among other things, the report found that VBA had neither documented nor evaluated regional office initiatives, had neither prioritized reengineering initiatives nor developed a master plan for addressing specific problems, had not tested reengineering initiatives before proposing large reductions in staff, and had not tested assumptions on which its budget and process improvement decisions were based. As a result, VBA reexamined its reengineering strategy and plans. VBA is testing some new approaches, such as case management of claims, but the extent to which reengineering efforts will improve claims-processing timeliness is still unclear.

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## Organization and Infrastructure

In its January 1999 report, the Congressional Commission on Servicemembers and Veterans Transition Assistance stated that some VBA regional offices may be so small that their disproportionately large supervisory overhead unnecessarily consumes personnel resources. Excluding stations with insurance functions, the staffing in VBA's regional offices ranges from as many as 524 to as few as 18. Similarly, in its 1997 report, the National Academy of Public Administration stated VBA should be able to close a large number of regional offices and achieve significant savings in administrative overhead costs associated with supporting 58 regional office directors and their staffs. The Commission stated that VBA must develop streamlined and efficient processes to replace business practices that are merely adaptations of traditional paper-based processes

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<sup>7</sup>Department of Veterans Affairs: Programmatic and Management Challenges Facing the Department (GAO/T-HEHS-97-97, Mar. 18, 1997).

implemented through aged computer systems and applications and administered through a network of disability claims-processing offices at 58 sites across the nation.

Apart from the issue of closing regional offices, the Commission also highlighted a need to consolidate disability program claims adjudication into fewer locations. VBA has consolidated the education assistance and housing loan guaranty programs into fewer than 10 locations, and the Commission encouraged VBA to take similar action in the disability programs. VBA itself had proposed such a consolidation in 1995 and in that proposal enumerated several potential benefits, such as allowing VBA to assign the most experienced and productive adjudication officers and directors to the consolidated offices; facilitating increased specialization and as-needed expert consultation in deciding complex cases; improving the completeness of claims development, the accuracy and consistency of rating decisions, and the clarity of decision explanations; improving overall adjudication quality by increasing the pool of experience and expertise in critical technical areas; and facilitating consistency in decision-making through fewer consolidated claims-processing centers.

While VBA has not consolidated the disability claims-adjudication function, it has, as mentioned, grouped its 58 regional offices into nine service delivery networks. Nevertheless, greater efficiency and effectiveness could potentially be gained from adjudicating disability claims in fewer locations.

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## Rehabilitation Program

In February 1998, we testified before this Subcommittee regarding VBA's vocational rehabilitation program.<sup>8</sup> As we stated then, VBA needs to improve its success in placing disabled veterans in jobs. On the basis of our review of the records for about 74,000 veterans found eligible for the vocational rehabilitation program during fiscal years 1992-95, we found that only 8 percent had successfully completed the vocational rehabilitation process by finding a suitable job and holding it for 60 days. We found that VBA did not focus on finding jobs for participants, even though the law requires that VBA base its rehabilitation program on finding suitable employment for disabled veterans. Instead, VBA focused on sending veterans to training, particularly to higher education programs. Similarly, in its January 1999 report, the Commission on Servicemembers and Veterans Transition Assistance reported that the rehabilitation

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<sup>8</sup>Vocational Rehabilitation: Opportunities to Improve Effectiveness (GAO/T-HEHS-98-87, Feb. 4, 1998).

program continues to concentrate its efforts on sending veterans to training, with about 87 percent of program participants pursuing college-level training in 1997. The Commission concluded that VBA is not achieving its statutory purpose of assisting disabled veterans to become employable and to obtain and maintain suitable employment. According to VBA, it is making progress in this area, but we have not yet evaluated its progress.

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## Program Design Changes Could Hold Potential for Greater Gains

Our work and the work of others suggest that making dramatic gains in some areas may require changes in the current design of the programs. For example, a large portion of VBA's workload in the disability programs consists of "repeat" claims from veterans who have previously filed claims. According to the Veterans' Claims Adjudication Commission, repeat customers typically outnumber those filing initial claims by about three to one, and as of late 1995, 69 percent of repeat claimants with pending compensation claims were already receiving disability benefits. Over half of the repeat customers were previously rated as 30-percent or less disabled. The Commission questioned whether concentrating claims processing resources on veterans already receiving benefits for relatively minor disabilities instead of more severely disabled veterans is consistent with program intent. The Commission suggested that perhaps the program should be modified to make lump sum compensation payments to "minimally" disabled veterans (defined as those with 10-percent disability) upon separation from military service. This, according to the Commission, would considerably reduce the volume of repeat claims, allowing concentration of VBA processing efforts on claims from more seriously disabled veterans, and, over time, would potentially save taxpayer dollars by reducing administrative and program costs. This course of action would require legislative change.

In another instance, the Veterans' Claims Adjudication Commission recommended simplifying the disability pension program to reduce resource requirements as well as confusion and burdensome reporting requirements for veterans. According to the Commission, only one in four disability recipients is a pension beneficiary, and total compensation payments are almost seven times greater than pension payments. Nevertheless, maintaining recipients' accounts in the pension program requires almost twice as many staff resources as maintaining compensation recipients' accounts. Under complex and time-consuming pension program rules, VBA evaluates a claimant's need on the basis of income and assets available to the claimant's basic family unit. The Commission

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recommended pension program simplification to reduce confusion and burdensome reporting requirements for veterans and to improve VBA's administrative efficiency. While VBA may be able to accomplish some simplification through regulatory changes, some measures might require legislative action.

We support further evaluation of the issues we and others have raised, and we recommend that the Congress consider taking legislative action if necessary to achieve efficiency and effectiveness in VBA's programs. Without the option of altering the current programmatic framework, VBA may not be able to find solutions to provide the full measure of effectiveness, efficiency, and service that veterans and the taxpayers deserve.

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Mr. Chairman, this concludes my prepared remarks. I would be pleased to respond to any questions you or Members of the Subcommittee may have.

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