United States Government Accountability Office

GAO

Report to Congressional Requesters

February 2012

VA HEALTH CARE

Methodology for Estimating and Process for Tracking Savings Need Improvement

GAO-12-305

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Methodology for Estimating and Process for Tracking Savings Need Improvement

GAO Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-305, a report to congressional requesters

Why GAO Did This Study

The President's budget request for the Department of Veterans Affairs (VA) for fiscal years 2012 and 2013 included a total of $2.5 billion dollars in savings from six VA-wide operational improvements. If VA's estimated savings for fiscal years 2012 and 2013 do not come to fruition and VA receives appropriations in the amount requested by the President, VA may have to make difficult trade-offs to provide health care services with the resources provided.

GAO assessed (1) the basis for VA's estimated savings from each improvement and (2) VA's process for tracking its actual savings from each improvement. GAO obtained documentation that described the methodology VA used to develop its savings estimates and the process it used to track those savings. By analyzing the documentation and interviewing VA officials, GAO assessed whether VA's savings estimates were reasonable and whether VA's process for tracking savings would allow it to accurately determine actual savings.

What GAO Recommends

GAO recommends that VA develop (1) a sound methodology for estimating savings from new operational improvements and (2) a detailed process for tracking actual savings resulting from those improvements for which GAO identified concerns. VA concurred with GAO's findings and recommendations on all but two initiatives within the *real property* improvement, stating that the savings from these initiatives were not overstated. GAO believes its findings and recommendations remain valid.

View GAO-12-305. For more information, contact Randall B. Williamson at (202) 512-7114 or williamsonr@gao.gov.

What GAO Found

GAO found that VA's estimated savings from two of its six operational improvements lacked analytic support and estimated savings from another were flawed. Without a sound methodology for estimating these savings, VA runs the risk of not achieving them. Furthermore, due in part to flaws GAO identified with another operational improvement—*reducing acquisition costs*—VA decided to revise it. Because this effort was still in progress, GAO could not evaluate VA's estimated savings and process for tracking actual savings from this operational improvement. In addition, GAO found that VA lacks a process for tracking actual savings for one operational improvement and its processes may overstate results for two others. Without an accurate process for tracking these savings, VA will be unable to determine whether it has realized the estimated savings reflected in the President's budget request for fiscal years 2012 and 2013. See table 1 for GAO's assessment of VA's methodology for estimating savings and VA's process for tracking actual savings, for five of six improvements.

Table 1: Summary of GAO's Findings

Operational improvement	Assessment of VA's savings estimation methodology	Assessment of VA's process for tracking actual savings
Reducing costs for medical and administrative support activities	VA lacked analytic support for its savings estimate.	VA's process for tracking actual savings may overstate such savings.
Realigning VA clinical staff and resources by using less costly health care providers	VA lacked analytic support for an assumption in its savings estimate.	VA lacks a process for tracking actual savings at this time.
Reducing costs associated with operating and leasing VA real property	VA's estimated savings for three of the six initiatives within this operational improvement may be overstated.	VA's process for tracking actual savings from three of the six initiatives within this operational improvement may overstate such savings.
Reducing provider reimbursement rates for certain fee-based care services	VA's methodology for estimating savings appeared to be reasonable.	VA's process for tracking actual savings appears to be reasonable.
Additionally reducing fee-based care costs	While VA's methodology for estimating savings appeared to be reasonable for six of the seven initiatives within this operational improvement, GAO was unable to assess VA's ability to achieve its estimated savings from the remaining initiative.	VA's process for tracking actual savings appears to be reasonable.

Source: GAO analysis of VA data.

Contents

Abbreviations

VA	Department of Veterans Affairs
VAMC	Veterans Affairs medical center
VHA	Veterans Health Administration

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United States Government Accountability Office
Washington, DC 20548

February 27, 2012

The Honorable Patty Murray
Chairman
Committee on Veterans' Affairs
United States Senate

The Honorable Jeff Miller
Chairman
Committee on Veterans' Affairs
House of Representatives

The Honorable Michael H. Michaud
Ranking Member
Subcommittee on Health
Committee on Veterans' Affairs
House of Representatives

The Department of Veterans Affairs (VA) operates one of the largest health care delivery systems in the nation. In fiscal year 2010, VA provided a range of health care services, including primary care, inpatient and outpatient surgery, and mental health services, to 6 million eligible veterans with $48.2 billion in federal funding. The amount of funding VA receives to provide its health care services is determined by Congress in the annual appropriations process. In preparation for this appropriations process, VA annually must develop a 2-year budget estimate of the resources needed to provide health care services, including the costs for the administration and operation of VA facilities. Developing a budget estimate is the first step in a complex, multistep budget formulation process, which culminates in the inclusion of a request for VA in the President's annual budget submission to Congress.

In an effort to be more efficient and—according to VA—achieve savings without compromising the quality of and access to health care services, the President's budget request for fiscal years 2012 and 2013[1] incorporated a total of $2.5 billion in savings from six VA-wide operational

[1]The President's budget request was submitted to Congress in February 2011.

improvements.[2] These six operational improvements cover a broad spectrum of potential cost-saving areas, such as reducing costs for medical and administrative support activities and reducing costs of operating and leasing VA real property. In addition to these six operational improvements, VA is in the process of implementing other savings initiatives—not outlined in the President's budget request for fiscal years 2012 and 2013—that may result in some additional savings in these years.[3]

Based on experiences with past budget submissions where VA did not achieve anticipated savings associated with its proposed initiatives to promote efficiency, members of Congress have expressed renewed concern about VA's estimated savings supporting the President's budget request for fiscal years 2012 and 2013. In 2006, for example, we reported on planned management efficiency initiatives by VA and found, at that time, that the department lacked a methodology for determining its estimated savings and also lacked the ability to accurately track the savings resulting from these initiatives.[4] In part because VA did not achieve its targeted savings from proposed management efficiency measures at that time, the President had to ask Congress for a supplemental appropriation to meet VA's funding needs for that year. If the savings anticipated under VA operational improvements incorporated in the President's budget request for fiscal years 2012 and 2013 do not materialize and VA receives appropriations in the amounts requested by the President, VA may have to make difficult trade-offs to provide health care services with the resources provided.[5] You asked us to evaluate

[2]VA estimated that it would realize savings from these operational improvements of more than $1.2 billion in fiscal year 2012 and approximately $1.3 billion in fiscal year 2013. GAO recently reported on VA's plans to improve efficiencies through these operational improvements. See GAO, *Veterans Health Care Budget Estimate: Changes Were Made in Developing the President's Budget Request for Fiscal Years 2012 and 2013,* GAO-11-622 (Washington, D.C.: June 14, 2011).

[3]GAO also recently reported on other departmentwide efforts that VA is implementing to improve efficiency. See GAO*, Streamlining Government: Key Practices from Select Efficiency Initiatives Should be Shared Governmentwide*, GAO-11-908 (Washington, D.C.: Sept. 30, 2011).

[4]See GAO, *Veterans Affairs: Limited Support for Reported Health Care Management Efficiency Savings*, GAO-06-359R (Washington, D.C.: Feb. 1, 2006).

[5]These concerns were included in a letter to VA Secretary Eric Shinseki from Senate Veterans' Affairs Committee Chairman Patty Murray and Ranking Member Richard Burr on September 15, 2011.

VA's operational improvements included in the President's budget request for fiscal years 2012 and 2013. Specifically, in this report, we assess (1) the basis for VA's estimated savings from each of the six operational improvements in the President's budget request for fiscal years 2012 and 2013 and (2) VA's process for tracking its actual savings from each of the six operational improvements.

To assess the basis of VA's estimated savings from each of the six operational improvements in the President's budget request for fiscal years 2012 and 2013, we examined documents—provided by VA headquarters officials—that describe VA's savings estimates and interviewed VA headquarters officials about how they developed these estimates. Our assessment included examining the extent to which VA's savings estimates were documented and the assumptions used to develop these estimates were supported and appeared to be reasonable. Developing savings estimates that are documented and include assumptions that are supported helps ensure that the estimation methodology is applied consistently over time, and that estimates can be reviewed for accuracy by agency officials and independent evaluators. Furthermore, we examined whether VA's timeline for implementing the six operational improvements appeared to be achievable, based on our review of VA's plans for implementing them. Although we asked VA headquarters officials about the extent to which some of VA's operational improvements would impact the quality of, and access to, VA health care services, we did not assess their impact on quality and access because many of the operational improvements had not been fully implemented at the time of our review.

To assess VA's process for tracking the actual savings it is achieving from each of the six operational improvements, we examined documents that describe VA's processes for tracking these savings. We also interviewed VA headquarters officials and officials from three VA networks,[6] who we judgmentally selected, because of diversity in the size of the veteran populations they serve, the size of their budgets, and their

[6]Each of VA's 21 regional networks is responsible for managing and overseeing several VA medical centers (VAMC). VA's 152 VAMCs, located throughout the United States, offer a variety of outpatient, residential, and inpatient services.

locations.[7] Our assessment included determining the extent to which VA has developed a written process for tracking actual savings from each operational improvement, and determining whether VA's processes allow the department to accurately determine the savings from each operational improvement. We were unable to assess the accuracy of the actual savings reported by VA for each operational improvement because complete data on VA's actual savings will not be available until the beginning of fiscal year 2013.

We conducted this performance audit from July 2011 to February 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

VA provides health care services to various veteran populations—including an aging veteran population and a growing number of younger veterans returning from military operations in Afghanistan and Iraq. VA provides these services at 152 VA medical centers (VAMC) and other facilities that are organized into 21 regional VA networks. Each network is responsible for managing and overseeing the VAMCs within it.

Each year, Congress provides funding for VA health care through the appropriations process. Specifically, Congress provides appropriations for the coming fiscal year that begins October 1 of that year, as well as an advance appropriation for the following year. In preparation for this process, each year VA must develop a budget estimate for the next 2 years to determine the resources needed for its health care services, including the cost for the administration and operation of VA medical facilities. In February 2011, the President submitted a budget request to

[7]The three networks we visited are the Sunshine Healthcare Network in St. Petersburg, Fla.; the Rocky Mountain Network in Glendale, Colo.; and the New York/New Jersey Veterans Healthcare Network in Bronx, N.Y.

Congress for fiscal years 2012 and 2013 that was informed by VA's estimates.[8]

The President's budget request for fiscal years 2012 and 2013 incorporated six operational improvements that were intended to improve efficiency within the VA health care system. According to VA, these operational improvements were intended to achieve savings without compromising the quality of, and access to, VA health care services. VA estimated that it would realize savings from these operational improvements of more than $1.2 billion in fiscal year 2012 and approximately $1.3 billion in fiscal year 2013.[9] In total, these savings were designed to pay for the majority of the $2.8 billion in expected costs for initiatives included in the fiscal year 2012 and 2013 budget requests associated with opening new health care facilities and programs for homeless veterans, among other initiatives.[10] More specifically, the six operational improvements are:

1. *Reducing costs for medical and administrative support activities*. VA intends to employ resources more efficiently in various medical and administrative support activities at each medical center and in other VA locations. VA estimated savings of $150 million a year in fiscal years 2012 and 2013 for this operational improvement.

2. *Realigning VA clinical staff and resources by using less costly health care providers*. VA intends to use selected nonphysician providers, such as nurse practitioners, instead of certain types of physicians; use

[8]In 2009, the Veterans Health Care Budget Reform and Transparency Act was enacted and provided that VA's annual appropriations for health care include advance appropriations that become available 1 fiscal year after the fiscal year for which the appropriations act was enacted. The act provided for advance appropriations for VA's Medical Services, Medical Support and Compliance, and Medical Facilities appropriations accounts. Pub. L. No. 111-81, § 3, 123 Stat. 2137, 2137–38 (2009), *codified at* 38 U.S.C. § 117.

[9]VA officials told us that in addition to these six operational improvements, VA is in the process of implementing other measures—not specifically referenced in the President's budget request for fiscal years 2012 and 2013—that involve using financial data to identify VAMCs that are higher or lower in terms of staffing costs and costs for certain services and taking steps to address those outliers. VA expects these measures to result in some additional savings over the course of fiscal years 2012 and 2013.

[10]Department of Veterans Affairs*, Volume II Medical Programs and Information Technology Programs Congressional Submission Fiscal Year 2012 Funding and Fiscal Year 2013 Advance Appropriations Request* (Washington, D.C.).

selected licensed practical nurses instead of certain types of registered nurses; and according to VA, more appropriately align required clinical skills with patient care needs. VA estimated savings of $151 million a year in fiscal years 2012 and 2013 from clinical staff and resource realignment.

3. *Reducing costs associated with operating and leasing VA real property*. This operational improvement comprises six initiatives, which VA estimated will generate savings of about $66 million a year in fiscal years 2012 and 2013.[11,12] These are:

   - *Repurposing vacant and underutilized buildings*: VA intends to lease vacant and underutilized buildings that it owns to entities that provide housing to homeless veterans, among other things. VA estimated that this initiative will result in more than $5 million in savings per year in the form of decreased operating costs for buildings the department no longer uses and rent payments from entities that lease these buildings.

   - *Demolishing or abandoning vacant or underutilized VA buildings*: VA estimated that this initiative will result in about $3 million in savings in fiscal year 2012. These savings result from decreased operating costs for buildings the department no longer uses.

   - *Decreasing energy costs*: VA intends to decrease energy costs by renegotiating electricity and natural gas contracts at a lower rate, improving energy efficiency, and increasing the use of renewable energy at VAMCs. VA estimated that the reduction in energy costs will result in about $42 million in savings in fiscal year 2012.

   - *Improving nonrecurring maintenance contracting*: VA is reducing its reliance on the Army Corps of Engineers for conducting nonrecurring maintenance, thereby reducing the amount of fees it pays to the Army Corps of Engineers. VA estimated that this will result in savings of over $8 million in fiscal year 2012.

[11]In June 2010, all federal agencies were directed by the President to find ways to reduce real property costs as part of the broader President's Accountable Government Initiative, intended to reduce federal spending.

[12]At the time of our review, VA had not determined how it will generate the $66 million in savings for fiscal year 2013.

- *Reducing leased space*: VA is moving operations previously located or planned for leased spaced into space owned by VA. VA estimated that this will result in savings of about $6 million in fiscal year 2012.

- *Additionally reducing leased space by increasing the number of employees who telework*: In fiscal year 2012, VA expects to increase the number of employees who telework frequently—that is, greater than 60 percent of the time. As telework increases, VA plans to reduce the amount of office space it leases.[13]

4. *Reducing acquisition costs*. VA expects to make changes to its purchasing and contracting strategies for which VA estimated savings of $355 million a year in fiscal years 2012 and 2013. The budget estimate included the following seven initiatives for the *reducing acquisition costs* operational improvement: consolidating contracting at the national and network level; increasing competition of contracts; reassigning work currently contracted to the U.S. Army Corps of Engineers to work done internally by VA staff; reverse auctioning—selling back—utilities, such as electricity or natural gas, to utility providers; converting contracted services to services within VA; reutilizing excess equipment to avoid costs of purchasing new equipment; and more efficiently managing inventory by using medical and surgical vendors rather than VA for inventory management.

5. *Reducing provider reimbursement rates for certain fee-based care services*.[14] VA proposed to reimburse fee-based care providers at lower-priced Medicare rates instead of using current higher-priced community rates for clinical laboratory services and other care. VA estimated savings of $315 million in fiscal year 2012 and $362 million in fiscal year 2013 as a result of this rate change.

[13]VA estimated that this initiative will result in almost $14 million in savings per year in fiscal years 2012 and 2013. However, VA officials told us that only a small portion of these estimated savings will be counted towards the $66 million annual target for the real property operational improvement, because this initiative primarily applies to the Veterans Benefit Administration.

[14]Fee-based care refers to care delivered by non-VA providers who will accept VA payment.

6. *Additionally reducing fee-based care costs*. This operational improvement comprises seven initiatives, which VA estimated will generate savings of about $200 million a year in fiscal years 2012 and 2013.[15] These are:

   - *Reducing bed days of care*: This initiative is intended to reduce the number of days veterans spend in non-VA hospitals when space is available in VAMCs. VA estimated this will result in over $26 million in savings in fiscal year 2012.

   - *Reducing fraud, waste, and abuse*: This initiative is intended to identify instances of fraud, waste, and abuse associated with fee-based care claims and recouping associated spending. VA estimated this will result in $25 million in savings in fiscal year 2012.

   - *Increasing revenue collection from veterans' health insurance plans*: VA is authorized to submit claims for fee-based care to veterans' health insurance plans for non-service-connected conditions. By being more diligent in submitting claims to these insurance plans, VA estimated that it will achieve almost $9 million in savings in fiscal year 2012.

   - *Avoiding interest payments*: This initiative is intended to reduce the amount of interest VA pays to fee-based care providers. VA estimated this will result in almost $30 thousand in savings in fiscal year 2012.

   - *Repricing fee-based care claims*: This initiative is intended to obtain lower prices for fee-based care by taking advantage of lower reimbursement rates negotiated by a VA contractor. VA estimated this will result in about $70 million in savings in fiscal year 2012.[16]

[15]At the time of our review, VA had not determined the amount of savings it expects to achieve from each of these initiatives in fiscal year 2013.

[16]VA's contractor, Health Net, offers VA its negotiated provider reimbursement rates for certain fee-based care services. VA's savings from this initiative represent the difference between VA's provider reimbursement rates and Health Net's rates minus Health Net's fee for providing this service.

- *Contracts for dialysis treatments*: For fiscal year 2012, VA negotiated lower reimbursement rates for contracted providers that provide dialysis treatments. VA estimated this will result in over $60 million in savings in fiscal year 2012.

- *Additional savings identified by VA networks*: VA tasked its 21 networks with developing their own initiatives to reduce fee-based care costs. In total, VA estimated these network-developed initiatives will result in about $10 million in savings in fiscal year 2012.

VA's Estimated Savings from Two of Its Six Operational Improvements Lacked Analytic Support and Estimated Savings from Another Were Flawed

For two of VA's six operational improvements—*reducing costs of medical and administrative support activities* and *realigning clinical staff*—we found that VA's estimated savings lacked analytic support. For another—*reducing costs of real property*—we found that VA's estimated savings were flawed. Furthermore, due in part to flaws we identified with another operational improvement—*reducing acquisition costs*—VA decided to revise it. Because this effort is still in progress, we could not evaluate VA's estimated savings from this operational improvement. While we did not identify concerns with VA's savings estimate for six of the seven initiatives within one operational improvement—*additionally reducing fee-based care costs*—we were unable to assess VA's ability to achieve its estimated savings from one initiative because VA's networks were in the process of developing plans to achieve such savings at the time of our review. We did not identify concerns with VA's estimated savings from the remaining operational improvement—*reducing provider reimbursement rates for certain fee-based care services*. (See table 1 in app. I for a detailed description of VA's methodology for estimating savings from all initiatives planned within each of its six operational improvements.)

Reducing costs for medical and administrative support activities. VA lacks analytic support for determining the estimated savings of $150 million per fiscal year for this operational improvement. Rather, VA headquarters officials told us these estimated savings were based on their belief that VAMCs could reduce medical and administrative support costs by $150 million per fiscal year, which represents more than 1 percent of all medical and administrative support costs based on fiscal year 2011

data.[17] VA headquarters officials could offer no analysis to support the $150 million in annual savings estimated in the budget submitted for fiscal years 2012 and 2013. Instead, VA headquarters officials told us they expect VAMCs to reduce medical and administrative support costs without compromising veterans' quality of care and access to medical services. However, officials have not provided any guidance to VAMCs for how they are to reduce costs.

Realigning VA clinical staff and resources by using less costly health care providers. VA lacks analytic support for one of two assumptions in the methodology it used to determine its estimated savings of $151 million for this operational improvement. VA headquarters officials said this estimate was based on their belief that 3 percent of physician positions and 3.6 percent of registered nurse positions across the VA health care system could be filled by lower paid clinical staff, such as nurse practitioners replacing physicians and licensed practical nurses replacing registered nurses. However, VA lacked documentation to support how these percentages were determined; VA headquarters officials told us that these percentages were "determined judgmentally". Furthermore, VA headquarters officials told us that VAMCs—rather than VA headquarters—are responsible for implementing this operational improvement in a way that does not negatively impact quality and veterans' access to care.

Reducing costs associated with operating and leasing VA real property. We did not identify concerns with VA's estimated savings for three of the six initiatives within this operational improvement.[18] However, VA's methodology for determining savings from the remaining three initiatives resulted in an overstatement of the savings VA is likely to achieve in fiscal year 2012. Specifically, VA's estimated savings from the *decreasing energy costs* and *improving nonrecurring maintenance contracting* initiatives include savings that VA realized prior to fiscal year 2012. Furthermore, VA's estimated savings from the *additionally reducing leased space through telework* initiative are likely overstated because VA

[17]For this operational improvement, VA is focusing only on those medical and administrative support costs which can be controlled by VAMCs. In fiscal year 2011, these costs amounted to over $12 billion across all VAMCs.

[18]Because this operational improvement comprises six different initiatives, VA developed a separate savings estimate for each initiative.

neglected to account for the time necessary to implement this initiative—that is, the time it would take the department to increase the number of employees who telework frequently, put in place office-sharing arrangements, and subsequently reduce the amount of leased space. VA assumed it would achieve savings of nearly $14 million through a reduction in leased space in fiscal year 2012 by increasing the number of employees who telework frequently. VA officials told us that as of January 2012, VA has not yet reduced the amount of space it leases and does not expect to achieve space reductions necessary to achieve estimated savings in this area until the end of fiscal year 2012, which would result in lower savings than VA estimated.[19]

Reducing acquisition costs. We determined that VA's methodology for determining estimated savings from this operational improvement—as presented in the President's budget submission—overstated the savings that VA was likely to achieve. Specifically, we pointed out to VA officials that VA's methodology for estimating savings from this improvement was flawed for two reasons.

- First, it included estimated savings from one initiative—*consolidating contracting at the national and network level*—that were already being counted towards another operational improvement, and thus were being double-counted.

- Second, it did not take into account the cost of implementing two initiatives—*converting contracting workload from the U.S. Army Corps of Engineers to workload within VA* and *converting contracted services to services within VA*. Both of these initiatives may require VA to hire or retain additional staff to perform services previously performed by a contractor, potentially resulting in added cost to VA that would detract from any savings realized.

Due in part to the concerns we identified for this operational improvement, VA is now developing new savings initiatives that VA officials say will meet the department's target of $355 million in savings for fiscal years 2012 and 2013. However, given that this effort is a work in progress, we

[19]A VA headquarters official told us that only a small portion of the estimated savings from the *reducing leased space through telework* initiative will be counted towards the $66 million annual target for the real property operational improvement, because this initiative primarily applies to the Veterans Benefit Administration.

cannot say whether proposed savings in this area can be expected to materialize in fiscal years 2012 and 2013.[20]

Additionally reducing fee-based care costs. We did not identify concerns with VA's estimated savings for six of the seven initiatives within this operational improvement.[21] However, we could not yet assess VA's estimated savings from the remaining initiative—*additional savings identified by VA networks*—which represents a savings target VA headquarters expects its 21 networks to achieve. Under this initiative, each network is required to develop and implement its own plans to achieve fee-based care savings, which VA headquarters would subsequently review and approve. Because this process was still ongoing at the time of our review, we were unable to assess the networks' plans to achieve such savings.[22]

Overall, although VA headquarters officials admitted that estimated savings from some of the operational improvements lacked analytic support, they stated that they are not concerned if some of the estimated savings from the six operational improvements do not materialize. According to officials, VA is in the process of implementing other cost-cutting measures, not outlined in the President's budget request for fiscal years 2012 and 2013, that also may generate savings for those years. For example, these measures involve using data to identify VAMCs that may be outliers in terms of having higher or lower staffing costs than other VAMCs, and identifying the reasons for these VAMCs being outliers. Because those measures have not been fully implemented at this time, we are unable to assess whether they will generate the savings VA expects to achieve.

[20]Recently, GAO reviewed acquisition-related savings and risk reduction initiatives of 24 federal agencies, including VA, and in a number of instances identified problems with the reported savings data and missed opportunities to further reduce high-risk contracts. See GAO, *Federal Contracting: OMB's Acquisition Savings Initiative Had Results, but Improvements Needed*, GAO-12-57 (Washington, D.C.: Nov. 15, 2011).

[21]Because this operational improvement comprises seven different initiatives, VA developed a separate savings estimate for each initiative.

[22]GAO has ongoing work to evaluate selected networks' plans to achieve fee-based care savings.

VA's Process for Tracking Actual Savings from the Six Operational Improvements Is Lacking for One and Potentially Overstates Results for Two Others

We found that VA's process for tracking actual savings is lacking for one operational improvement and may overstate results for two others. Moreover, we were unable to assess VA's process for tracking actual savings from the *reducing acquisition costs* operational improvement as VA is still developing it. We did not identify concerns with the processes for the remaining two operational improvements. (See table 2 in app. I for a detailed description of VA's process for tracking actual savings from all initiatives planned within each of its six operational improvements.)

Process for Tracking Actual Savings Is Lacking or Potentially Overstates Results for Three Operational Improvements

We found that VA lacks a process for tracking the actual savings it is achieving for its *realigning VA clinical staff and resources* operational improvement, and its processes for tracking savings for two other operational improvements—*reducing costs for medical and administrative support activities and reducing costs associated with operating and leasing VA real property*—may overstate such savings. More specifically, we identified the following concerns:

Realigning VA clinical staff and resources by using less costly health care providers. VA lacks a process for tracking actual savings it is achieving from this operational improvement. Although VA headquarters officials told us that they intend to develop a process to track these savings, they do not know when this process will be in place. VA officials stated that tracking savings from this operational improvement is challenging because VA's data systems do not provide information on the extent to which VAMCs are filling vacated positions with lower paid clinical staff—for example, replacing physicians with nurse practitioners. In addition, officials from VA networks we visited stated that VAMCs have continually realigned clinical staff to better meet patient care needs, making it difficult to determine whether realignments—and associated savings, if any—can be attributed to the operational improvement as cited in the budget request.

Reducing costs for medical and administrative support activities. VA's process for tracking its actual savings from this operational improvement may overstate such savings for three reasons:

- First, VA is tracking actual savings by determining the change in the ratio of VA's medical and administrative support costs to VA's total health care costs between fiscal year 2010 and fiscal year 2012 and then multiplying the difference in this ratio by its medical and administrative support costs in fiscal year 2012.[23] This process does not, in fact, measure actual savings, partly because a decrease in the ratio of VA's medical and administrative support costs to VA's total health care costs may be attributed to other factors besides greater efficiency, such as increases in VA's costs for providing health care services to veterans.

- Second, the ratio of VA's medical and administrative support costs to VA's total health care costs has generally decreased since fiscal year 2008, several years before the operational improvement was included in the President's budget request, which suggests that this ratio may decrease even if the operational improvement had not been implemented.

- Third, according to officials from VA headquarters and the three networks we visited, the data VA is using to calculate its actual savings for this operational improvement may have limitations. Specifically, according to officials from the three networks we visited, networks have recently taken steps to more accurately record the time clinicians spend conducting administrative activities (time that is counted towards support costs) versus clinical activities (time recorded separately as clinical time) in VA's electronic system. A network official told us that this is because clinicians were overreporting the time they spent conducting administrative activities. This further calls into question VA's ability to use these data to track its actual savings, as a decrease in the ratio of support costs to total costs may be partially the result of more accurate data reporting rather than actual savings.

[23]VA is using the same methodology to calculate savings for fiscal year 2013.

Reducing costs associated with operating and leasing VA real property. VA's process for tracking its actual savings from three of the six initiatives within this operational improvement may overstate such savings. Specifically, for the *decreasing energy costs* initiative, VA is calculating the difference between energy contract prices—including electricity and natural gas—negotiated prior to and after the implementation of this operational improvement. However, for electricity contract prices, VA is tracking cumulative savings achieved between fiscal years 2010 and 2012, rather than savings achieved solely in fiscal year 2012. This results in savings that may be overstated. Similarly, for the *improving nonrecurring maintenance contracting* initiative, VA is tracking cumulative savings achieved in fiscal years 2011 and 2012, rather than savings achieved solely in fiscal year 2012. Furthermore, to determine actual savings from the *additionally reducing leased space through telework* initiative, VA is manually tracking the number of employees who telework frequently and multiplying this number by its assumed savings per frequent teleworker. However, because savings are not achieved until VA is able to reduce the amount of space it leases, the amount it is reporting through its process does not represent actual savings. VA officials told us that as of January 2012, VA has not yet reduced the amount of space it leases and does not expect to achieve space reductions necessary to achieve savings in this area until the end of fiscal year 2012, which would result in lower savings than VA estimated.

We did not identify concerns with VA's process for tracking its actual savings from the remaining three initiatives that comprise this operational improvement.

Process for Tracking Actual Savings from One Operational Improvement Cannot Be Assessed Yet and for Two Appears to be Adequate

Because VA was still in the process of developing its *reducing acquisition costs* operational improvement, we were unable to evaluate VA's process for tracking actual savings resulting from it.

We did not identify concerns with VA's process for tracking actual savings from the *reducing provider reimbursement rates for certain fee-based care services* and the *additionally reducing fee-based care costs* operational improvements.

Conclusions

VA is seeking ways to be more efficient—achieving savings without compromising the quality of and access to VA health care services. One way VA plans to improve efficiency and, in turn, reduce its level of requested resources, is by relying on anticipated savings resulting from

six operational improvements included in the President's budget request for fiscal years 2012 and 2013. We found that the savings estimates and processes for tracking actual savings were flawed in many cases. Without a sound methodology for estimating savings from these operational improvements, VA runs the risk of falling short of its estimates, which may ultimately require VA to have to make difficult trade-offs to provide health care services with the resources provided by Congress. We are unable to verify how close VA may come to its estimated savings and planned budgets. If VA decides to include new operational improvements in future budget requests, developing a sound methodology for its savings estimates would help the department ensure that it can achieve its proposed savings. Similarly, without a detailed process for tracking VA's actual savings resulting from each operational improvement, VA is unable to determine whether, and to what extent, each operational improvement is generating the intended savings, which is key to helping VA manage its resources.

Recommendations for Executive Action

We recommend that the Secretary of Veterans Affairs take the following two actions:

In order to better inform future budget requests, develop a sound methodology for estimating savings from new operational improvements. This methodology should include:

- an explanation of how savings from each operational improvement will be achieved;
- an explanation for the basis of any assumptions included in the savings estimates; and
- an implementation plan that includes a realistic timeline for implementation, to help ensure that savings can be achieved within the targeted time frame.

In addition, develop a detailed process for tracking VA's actual savings resulting from those operational improvements for which we identified concerns. This process should provide detailed written guidance for those responsible for tracking the savings, which outlines the methodology for calculating savings.

Agency Comments and Our Evaluation

VA provided written comments on a draft of this report, which are reprinted in appendix II. In its comments, VA generally concurred with our findings—with one exception—and described the department's planned actions to implement our recommendations. VA did not agree with our assessment that its projected savings from two of the initiatives within the *reducing costs associated with operating and leasing VA real property* operational improvement were flawed or that VA's process for tracking actual savings may overstate them.

VA concurred with our recommendation that the department develop a sound methodology for estimating savings from new operational improvements. VA also concurred with our recommendation that the department develop a detailed process for tracking its actual savings resulting from the *realigning clinical staff and resources by using less costly health care providers* and the *reducing costs for medical and administrative support activities* operational improvements. VA elaborated on what actions the department would take to implement these recommendations. In addition, VA agreed that estimated savings from the *additionally reducing leased space by increasing the number of employees who telework* initiative, which is included in the *real property* operational improvement may not be achieved in fiscal year 2012. VA decided to remove this initiative from the fiscal year 2013 budget request.

VA did not agree with our assessment that projected savings from two of the initiatives within the *real property* operational improvement—*decreasing energy costs and improving non-recurring maintenance contracting*—were flawed or that VA's process for tracking actual savings from these initiatives may overstate the savings.

- Specifically, VA did not agree that its calculation of projected savings from these two initiatives in the *real property* operational improvement were flawed. According to VA, the initiatives within this operational improvement were developed in response to a June 2010 Presidential memorandum, which required agencies to achieve real property savings from June 2010 through September 2012. Because VA did not account for these savings in the fiscal year 2010 and 2011 budget requests, VA believes that it is appropriate to account for them in the fiscal year 2012 and 2013 budget requests instead.

- VA also noted in its comments that the department believes actual savings for this operational improvement are not overstated because they were not reflected in the baseline data VA used to develop the budget request for fiscal years 2012 and 2013. For example, VA's

baseline data do not reflect lower electricity contract rates, which VA renegotiated between fiscal years 2010 and 2012.

VA is correct that these savings would not be reflected in the baseline data, but it does not change our position that VA should have included only those savings achieved in fiscal year 2012 in its fiscal year 2012 budget request. For example, in order to determine the impact of those renegotiated lower electricity contract rates on the fiscal year 2012 budget, we believe VA should have multiplied its estimated fiscal year 2012 electricity consumption by the difference between the electricity rates under the prior contracts (i.e., those in place prior to fiscal year 2010) and under the renegotiated contracts. Instead, VA relied on cumulative savings it achieved between fiscal years 2010 and 2012, which may have resulted in an overstatement of the savings VA is likely to achieve in fiscal year 2012. We believe that the same argument applies to fiscal year 2013 as well.

In summary, we remain concerned that VA has included savings achieved in prior fiscal years—2010 and 2011—in the President's budget request for fiscal years 2012 and 2013. VA has not provided evidence that the department can achieve $66 million in savings in fiscal years 2012 and 2013 from the *real property* operational improvement. Therefore, we continue to believe that the reduction in costs for fiscal years 2012 and 2013, as shown in the President's budget request, is overstated. If VA's projected savings are overstated, the department may not be able to offset other costs in the fiscal year 2012 and 2013 budgets as it had originally intended. As a result, it may have to make difficult trade-offs to provide health care services with the resources provided by Congress.

We are sending copies of this report to appropriate congressional committees and the Secretary of Veterans Affairs. The report is also available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-7114 or williamsonr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs are on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

Randall B. Williamson
Director, Health Care

Appendix I: VA's Methodology for Estimating and Process for Tracking Savings from Its Six Operational Improvements

Table 1 provides a detailed description of VA's methodology for estimating savings from all initiatives planned within each of its six operational improvements, and table 2 provides a detailed description of VA's process for tracking its actual savings from all initiatives within these operational improvements.

Table 1: Description of VA's Methodology for Estimating Savings from Each of VA's Six Operational Improvements in the President's Budget Request for Fiscal Years 2012 and 2013

Operational improvement	VA's methodology for estimating savings
Reducing costs for medical and administrative support activities	N/A—VA lacked an analytic methodology for estimating savings.
Realigning VA clinical staff and resources by using less costly health care providers	VA estimated its savings by: 1. assuming that 3 percent of physician positions and 3.6 percent of registered nurse positions across the VA health care system could be filled by lower paid clinical staff (such as nurse practitioners replacing physicians and licensed practical nurses replacing registered nurses); and 2. multiplying 3 percent of the total number of physician positions by the difference in average physician and nurse practitioner salaries, and 3.6 percent of the total number of registered nurse positions by the difference in average registered nurse and licensed practical nurse salaries.
Reducing costs associated with operating and leasing VA real property	*Repurposing vacant and underutilized buildings initiative*: VA estimated its savings by (1) determining the number of buildings that would be repurposed as well as their square footage; (2) multiplying the total square footage by assumed operating cost per square foot; and (3) adding intended revenue from entities that will be leasing the repurposed buildings. *Demolishing or abandoning other vacant or underutilized VA buildings initiative*: Similarly, VA determined the number of buildings that would be demolished or abandoned and their square footage and then multiplied the total square footage by assumed operating cost per square foot. *Decreasing energy costs initiative*: VA carried out three separate estimates for this initiative: 1. VA estimated its savings from negotiated electricity and natural gas contracts by subtracting the new price per unit of electricity or natural gas from the former price and multiplying the result by the assumed amount each VAMC consumes. 2. The department estimated savings from its energy conservation efforts by multiplying VA's total energy costs by nearly 1 percent—the amount by which VA expects to reduce energy consumption. 3. To estimate savings from its renewable energy efforts, VA multiplied its average price per unit of electricity by the amount of electricity it expects VA's renewable energy projects to generate.

Operational improvement	VA's methodology for estimating savings
	Improving nonrecurring maintenance contracting initiative: VA estimated its savings by: (1) estimating its total spending reduction on nonrecurring maintenance contracts administered by the Army Corps of Engineers based on historical data and (2) multiplying this amount by 7 percent, which represents the fee charged by the Army Corps of Engineers for administering these contracts; the resulting amount is offset by VA's estimated increase in staffing costs for administering these contracts. *Reducing leased space initiative*: VA estimated these savings by calculating avoided payments for three canceled contracts. *Additionally reducing leased space by increasing telework initiative*: VA estimated its savings by: (1) determining the number of employees who would be eligible to telework frequently—that is, greater than 60 percent of the time; (2) determining net savings per frequent teleworker, based on assumptions about the average amount of office space occupied by each employee, the average lease cost per square foot of office space, and additional technology costs resulting from teleworking; and (3) multiplying the net savings per frequent teleworker by the total number of estimated frequent teleworkers.
Reducing acquisition costs	N/A—VA is in the process of developing savings initiatives for this operational improvement.
Reducing provider reimbursement rates for certain fee-based care services	To develop the savings estimate, a VA contractor: (1) analyzed claims for certain fee-based care services paid at VA's previous reimbursement rates and calculated what VA's payment would have been, had the reduced rates been implemented; the difference between the two amounts represents VA's potential savings and (2) adjusted the estimated savings for each year based on estimated increases in the number of fee-based care claims and health care inflation.
Additionally reducing fee-based care costs	*Reducing bed days of care*: To develop the savings estimate, VA reviewed prior year data on the reduction in bed days of care and the associated savings and determined that the same amount of savings would be achievable in fiscal year 2012. *Reducing fraud, waste, and abuse*: Because this initiative is new, VA based its savings estimate on a report from its Office of Inspector General, which stated that VA could save at least $114 million annually due to better fraud management. In fiscal year 2012, VA assumed that it could achieve savings of $25 million—roughly 25 percent of the savings estimated by the Office of Inspector General. *Increasing revenue collection from veterans' health insurance plans*: VA developed the estimate by (1) projecting total fiscal year 2012 third-party revenue collection based on factors including the expected workload and the average billed amount, (2) projecting total fiscal year 2012 first-party revenue collection based on the historical ratio of first-party to third-party revenue collection, and (3) determining the increase in projected first-party and third-party revenue collection for fiscal year 2012 relative to fiscal year 2011. *Avoiding interest payments*: To develop the savings estimate, VA reviewed prior year data on interest payments and determined that a 5 percent reduction over fiscal year 2011 interest payments would be achievable. *Repricing fee-based care claims*: VA based its savings estimate on historical data, which it adjusted for factors that impact its ability to achieve savings from repricing fee-based care claims in fiscal year 2012.

Operational improvement	VA's methodology for estimating savings
	Contracts for dialysis treatments: To develop the savings estimate, VA multiplied the difference in reimbursement rates for contracted dialysis providers prior to and after the implementation of this initiative by the estimated number of dialysis services performed by contracted providers. *Additional savings identified by VA networks*: VA's savings estimate for this initiative represents the difference between the $200 million overall savings target VA set for the *additionally reducing fee-based care costs* operational improvement and the total amount of estimated savings from the other initiatives within this operational improvement. VA networks are responsible for developing plans to achieve these savings.

Source: GAO analysis of VA data.

Table 2: Description of VA's Process for Tracking Actual Savings from Each of VA's Six Operational Improvements in the President's Budget Request for Fiscal Years 2012 and 2013

Operational improvement	VA's process for tracking actual savings
Reducing costs for medical and administrative support activities	VA is tracking savings by determining the change in the ratio of VA's medical and administrative support costs to VA's total health care costs between fiscal year 2010 and fiscal year 2012 and then multiplying the difference in this ratio by its medical and administrative support costs in fiscal year 2012. VA is using the same methodology to calculate savings for fiscal year 2013.
Realigning VA clinical staff and resources by using less costly health care providers	N/A—VA lacks a process for tracking savings at this time.
Reducing costs associated with operating and leasing VA real property	*Repurposing vacant and underutilized buildings initiative*: To track savings, VA is (1) recording information on the buildings being repurposed in a database and (2) multiplying the square footage of repurposed buildings by VA's assumed operating cost per square foot. In addition, VA is tracking the revenue it receives from entities that lease these buildings. *Demolishing or abandoning other vacant or underutilized VA buildings initiative*: VA is (1) recording information on the buildings being demolished and abandoned, and (2) multiplying the square footage of demolished or vacated buildings by VA's assumed operating cost per square foot. *Decreasing energy costs initiative*: VA is tracking three separate measures: 1. To track actual savings from negotiated electricity and natural gas contracts, VA is using a manual spreadsheet to calculate the difference between contract prices negotiated prior to and after the implementation of this operational improvement. 2. To track actual savings from its energy conservation efforts, VA is determining the percentage reduction in energy intensity and multiplying this percentage by its total energy costs. 3. To track actual savings from its renewable energy efforts, VA is determining the amount of renewable energy VAMCs generate and multiplying this amount by the cost per unit of energy. *Improving nonrecurring maintenance contracting*: VA is tracking savings by (1) determining its total spending reduction on nonrecurring maintenance contracts administered by the Army Corps of Engineers and (2) multiplying this amount by 7 percent; VA is subsequently subtracting its estimated additional staffing costs. *Reducing leased space initiative*: VA is determining whether each contract has been terminated and recording the amount of the terminated contract. *Additionally reducing leased space by increasing telework initiative*: VA is manually tracking the number of employees who telework frequently and multiplying this number by its assumed savings per frequent teleworker.

Reducing acquisition costs	N/A—VA is in the process of developing savings initiatives for this operational improvement.
Reducing provider reimbursement rates for certain fee-based care services	VA is tracking savings by comparing the amount it reimbursed providers for certain fee-based care services before and after the implementation of the operational improvement. Specifically, VA is (1) calculating the percentage of the amount billed by providers that VA reimbursed prior to the implementation of the operational improvement; (2) multiplying this percentage by the amount billed by providers after the operational improvement was implemented to calculate the amount VA would be paying had it not implemented the operational improvement; and (3) comparing the amount it would have paid if the operational improvement had not been implemented to the amount it actually paid.
Additionally reducing fee-based care costs	*Reducing bed days of care*: VA is tracking the savings by first calculating the savings per episode of care. This is done by (1) subtracting the number of bed days of care for each diagnostic code in fiscal year 2012 from the number of bed days of care for each corresponding diagnostic code in fiscal year 2011 and (2) multiplying the resulting number by the average disbursed amount for bed days of care for each diagnostic code in fiscal year 2012. Then VA is multiplying the savings per episode by the number of stays for each diagnostic code that occurred in fiscal year 2012. *Reducing fraud, waste, and abuse*: VA is tracking the savings by recording the total amount of funds it deems to be collectible. VA plans to eventually track actual collections. *Increasing revenue collection from veterans' health insurance plans*: VA maintains a database to track the revenue it collects. VA is tracking savings by determining the increase in revenue since fiscal year 2011. *Avoiding interest payments*: VA is tracking the savings by calculating the reduction in interest payments for fee-based care claims between fiscal years 2011 and 2012. *Repricing fee-based care claims*: VA is tracking savings reported by its contractor and is subtracting fees charged by the contractor from these savings. *Contracts for dialysis treatments*: VA is tracking savings by comparing the difference in costs per dialysis patient between fiscal year 2011 and fiscal year 2012. *Additional savings identified by VA networks*: VA is tracking the savings by subtracting each network's actual spending on fee-based care in fiscal year 2012 from the total amount of funds allocated to each network for fee-based care in fiscal year 2012; from this amount, VA is subtracting any savings each network achieved from any of the other initiatives within the operational improvement and savings from the *reducing provider reimbursement rates for certain fee-based care services* operational improvement.

Source: GAO analysis of VA data.

Appendix II: Comments from the Department of Veterans Affairs

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON
February 13, 2012

Mr. Randall Williamson
Director, Health Care
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Williamson:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, ***"VA HEALTH CARE: Methodology for Estimating and Process for Tracking Savings Need Improvement"*** (GAO-12-305) and generally agrees with GAO's findings except where noted in the enclosure that responds to the recommendations.

VA appreciates GAO's efforts in reviewing the savings estimates and process for ensuring savings are tracked with the appropriate methodologies. VA has a process in place for reporting and reviewing progress toward achieving its stated goals for operational savings and cost avoidance. Monthly Performance Reviews occur in which top VA management reviews and discusses operations, including operational savings. In 2011, VA achieved medical care operational savings in excess of $1 billion, greatly exceeding our goal. For 2012, VA is taking steps to further strengthen the reporting process and clarify the definition of operational savings. VA is confident of achieving our goal of $1.2 billion in operational savings in 2012.

The enclosure specifically addresses each of GAO's recommendations in the draft report, including VA's non-concurrence on the findings regarding the "reducing costs associated with operating and leasing VA real property" initiative. VA appreciates the opportunity to comment on your draft report.

Sincerely,

John R. Gingrich
Chief of Staff

Enclosure

Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report:
"VA Health Care: Methodology for Estimating and Process for Tracking Savings Need Improvement"
(GAO-12-305)

GAO recommendation: We recommend that the Secretary of Veterans Affairs take the following two actions:

Recommendation 1: In order to better inform future budget requests, develop a sound methodology for estimating savings from new operational improvements. This methodology should include:

- an explanation of how savings from each operational improvement will be achieved;
- an explanation for the basis of any assumptions included in the savings estimates;
- an implementation plan that includes a realistic timeline for implementation, to help ensure that savings can be achieved within the targeted timeframe.

VA Comment: Concur. VA agrees with GAO that a sound methodology is desirable for identifying potential savings or cost avoidance opportunities that are included in the budget. For each new operational improvement, or major redesign of existing operational improvements in the Veterans Health Administration (VHA), action will be taken to ensure:

- that the operational improvement is appropriately documented to explain how the improvement was computed;
- how the improvement is to be achieved, with an explanation of the specific assumptions included in the improvement; and
- that an implementation plan includes a realistic timeline for achieving the improvement.

VA and VHA senior leadership will approve all improvements prior to implementation.

Recommendation 2: Develop a detailed process for tracking VA's actual savings resulting from those operational improvements for which we identified concerns. This process should provide detailed written guidance for those responsible for tracking the savings, which outlines the methodology for calculating savings.

VA Comment: This recommendation has three components: 1) Realigning VA clinical staff and resources by using less costly health care providers; 2) Reducing costs for medical and administrative support activities; and 3) Reducing costs associated with operating and leasing VA real property, which has three components. Below are the Department's comments on each of these initiatives.

1

Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report:
"VA Health Care: Methodology for Estimating and Process for Tracking Savings Need Improvement"
(GAO-12-305)

1. Realigning VA clinical staff and resources by using less costly health care providers.

   VA Comment: Concur. VHA's Office of Finance in coordination with the Deputy Under Secretary for Health for Operations and Management (DUSHOM) will develop a methodology for identifying and reporting savings considering options such as those described below. VA and VHA senior leadership will approve all improvements prior to implementation. Upon approval, written instructions will be issued to initiate the monthly report progress.

   Option 1: Use manual reporting by Veterans Integrated Service Network (VISN) based on each vacancy. VISNs and medical facilities would prepare a monthly report of each vacant position for Physicians, Nurses, and Licensed Practical Nurses (LPN) and indicate whether the position will be filled at the same skill level or a lower skill level. Savings would be computed based on skill level at which the position is filled.

   Option 2: Use fiscal glide path data to track the ratio of physicians to nurses on a monthly basis by facility. VISNs and medical facilities would describe how the results of the ratio of physicians to nurses will be used to compute the realigning of skill levels as positions become vacant and are filled by lower skill level personnel. Savings would be computed based on increase/decrease of ratio of physician to nurses.

   Option 3: Use the monthly full time equivalent (FTE) data from the Financial Management System (FMS) to determine the number of physicians, nurses, and LPNs by facility, VISN, and nationally. This option would compare FTEs for each category of physicians, nurses and LPNs with the previous month and determine if there was an increase or decrease in the number of FTEs. The increase/decrease would be compared to applicable national salaries to determine any net savings or net increased costs.

It is anticipated that a proposal for selection of method will be presented to the USH by April 30, 2012.

2. Reducing costs for medical and administrative support activities.

   VA Comment: Concur. VHA's Office of Finance in coordination with the DUSHOM will develop a method for identifying and reporting the savings of the Decision Support System (DSS) controllable indirect costs (IDC) considering options such as those identified below. VA and VHA senior leadership will approve all improvements prior to implementation.

2

Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report:
"VA Health Care: Methodology for Estimating and Process for Tracking Savings Need Improvement"
(GAO-12-305)

Option 1: Measure percent of controllable IDC. Measure expected percent of controllable IDC to total cost by facility and compare to actual percent for current month in fiscal year (FY) 2012. DSS staff will analyze the difference between the actual percent to expected percent to determine savings or increased costs.

Option 2: Categorize controllable IDC into subgroups. Categorize controllable IDC into subgroups namely clinical, administrative, and facility IDC, and then compare results to historical data. Historical data and statistical analyses will be used to develop targeted reduction percent. Increases below the targeted reduction rate represent savings, while increase above the targeted reduction rate represent increased costs.

It is anticipated that a proposal for selection of method will be presented to the USH by April 30, 2012.

3. Reducing costs associated with operating and leasing VA real property related to: a) decreasing energy costs, b) improving non-recurring maintenance (NRM) contracting, and c) reducing leased space through telework.

VA Comment: Non-concur. VA does not agree with GAO's assessment that real property costs savings are "flawed" and "may overstate such savings." VA believes the savings and process the Department used for developing and tracking those savings are sound. Savings calculations for real property are based upon the June 2010 Presidential Memorandum, "Disposing of Unneeded Federal Real Estate -- Increasing Sales Proceeds, Cutting Operating Costs, and Improving Energy Efficiency." This memorandum required agencies to begin realizing savings from June 2010 through September 2012. GAO's claim that VA's real property savings are overstated is based on its assumption that real property savings reflect a 12-month period. That is not the case. Consistent with the President's June 2010 memorandum, VA's estimated savings are based on a 27-month time period -- June 2010 through September 2012.

Because budget formulation generally begins 18 months prior to the start of the fiscal year, the savings that were realized in 2010 and 2011 were not reflected in previous budgets because they had not been identified at the time of formulation. All savings for the time period are reflected in the $66 million to be realized by the end of FY 2012. The savings noted in the budget for 2013 are not additional savings; they are the same cumulative savings to be realized through the end of 2012 in accordance with the Presidential memorandum.

3

Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report:
"VA Health Care: Methodology for Estimating and Process for Tracking Savings Need Improvement"
(GAO-12-305)

a) *Decreasing energy costs.* GAO states "However, for electricity contract prices, VA is tracking cumulative savings achieved between fiscal years 2010 and 2012, rather than savings achieved solely in fiscal year 2012. This results in savings being overstated." The savings are not overstated. The cumulative savings are being tracked from June 2010 through September 2012 using 2010 energy consumption as the baseline. The entire $66 million will be saved by the end of FY 2012, and none of the savings have been claimed in previous budget submissions. The savings are cumulative and cover a multi-year period, but because of the timing of the identification of the savings per the Presidential memorandum, the 2012 budget is the first opportunity to report on the full savings. With the timing of VHA's budget process, none of these savings are currently in the baseline; therefore, savings are not overstated.

b) *Improving non-recurring maintenance (NRM) contracting.* GAO states "VA is tracking cumulative savings achieved in fiscal years 2011 and 2012, rather than savings achieved solely in fiscal year 2012." This statement is accurate, but does seem to imply that savings are being overstated. Point "a" directly above explains why these costs are cumulative and why they are not overstated.

c) *Reducing leased space through telework.* The telework program is still in its infancy and actual real property savings requires reducing space that is currently leased. These reductions in leased space may not be fully realized in 2012. The majority of the savings to be realized will come from staff offices, including the Office of Information and Technology, and Veterans Benefits Administration personnel who are located in urban areas, particularly Washington, DC. VHA's telework savings is a very small portion of the $66 million savings (i.e., less than $500K) because of the 9 percent of VHA staff who are eligible, less than 1 percent are teleworking "frequently" and they are generally spread out across various medical centers, meaning very little real property savings to be realized by VA will come from VHA. VA has removed this initiative from the description of the savings for the FY 2013 budget.

4

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Randall B. Williamson, (202) 512-7114 or williamsonr@gao.gov

Staff Acknowledgments

In addition to the contact named above, Mary Ann Curran, Assistant Director; Christina C. Serna; and Michael Zose made key contributions to this report. Jennie F. Apter assisted in the message and report development; Hal Brumm and Melissa A. Wolf provided methodological support; and Sandra George provided legal support.