



Testimony

Before the Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, and the Subcommittee on Contracting and the Workforce, Committee on Small Business, House of Representatives

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VETERAN-OWNED SMALL BUSINESSES

Preliminary Observations on Verification Program Progress and Challenges

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GAO Highlights

Highlights of [GAO-16-179T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, and the Subcommittee on Contracting and the Workforce, Committee on Small Business, House of Representatives

Why GAO Did This Study

VA must give contracting preferences to service-disabled and other veteran-owned small businesses and verify the ownership and control of firms seeking such preferences. GAO found in 2013 ([GAO-13-95](#)) that VA faced challenges in verifying firms on a timely and consistent basis, developing and implementing long-term strategic plans, and enhancing information technology infrastructure. This testimony discusses preliminary observations on (1) VA's progress in establishing a timely and consistent verification program and improving communication with veterans, and (2) the steps VA has taken to identify and address verification program challenges and long-term goals.

This statement is based on GAO's ongoing review of VA's verification program. GAO reviewed VA's verification procedures and strategic plan, reviewed a random sample of 96 verification applications, and interviewed VA officials, and representatives from two veterans' organizations, and four verification assistance counselors.

What GAO Recommends

GAO is not making recommendations at this time; as it finalizes its work for issuance early next year, it will consider making recommendations, as appropriate. GAO obtained comments from VA and incorporated them as appropriate.

View [GAO-16-179T](#). For more information, contact William B. Shear at (202) 512-4325 or shearw@gao.gov.

November 2015

VETERAN-OWNED SMALL BUSINESSES

Preliminary Observations on Verification Program Progress and Challenges

What GAO Found

Based on GAO's preliminary observations, the Department of Veterans Affairs (VA) has made significant improvements to its verification process and communication with veterans since GAO's 2013 report. VA reported it reduced its average application processing times by more than 50 percent—from 85 days in 2012 to 41 in 2015. GAO reviewed a randomly selected sample of verification applications and found that VA followed its procedures for reviewing applications. VA continued to refine its quality management by developing written work instructions for every part of the verification process, and implemented an internal audit process. As of September 2015, VA had taken action on and closed 364 of 379 (96 percent) of internal audit recommendations. The agency also conducted post-verification site visits to 606 firms in fiscal year 2015 to check the accuracy of verification decisions and help ensure continued compliance with program regulations. Since 2013, VA has made several changes to improve veterans' experiences with the program. For example, VA revised procedures to allow veterans additional opportunities to withdraw their applications or submit additional information and has partnered with federally supported assistance centers to provide assistance to veterans applying for verification. Correspondingly, the percentage of firms that received denials has dropped from 66 percent in 2012 to 5 percent in 2015. Veterans' organizations and verification counselors with whom GAO spoke noted improvements in VA's communications and interactions with veterans, although most verification counselors we spoke with suggested the program's website and letters to veterans could be clearer.

VA has multiple efforts underway to make its verification program more cost-effective and veteran-friendly, but GAO's preliminary results indicate that it lacks a comprehensive operational plan to guide its efforts. For instance, VA intends to restructure part of its verification process and in August 2015, began a pilot that gives veterans one point of contact (a case manager, who would be aware of the specifics of the application throughout the verification process). VA plans to fully transition to this new process by April 2016. VA also plans to change the program's organizational structure and hire a director for the program, which has had three different directors, the last two of which have been acting directors, since 2011. Finally, VA plans to replace the program's outdated case management system, but has faced delays due to contractor performance issues. Efforts are under way to develop and evaluate a pilot system by January 2016 and fully transition to the new case management system by September 2016. VA has developed a high-level operating plan that identified objectives for the office overseeing the verification program—the Office of Small and Disadvantaged Business Utilization (OSDBU). But the plan does not include an integrated schedule with specific actions and milestone dates for achieving the multiple program changes under way or discuss how these various efforts might be coordinated within OSDBU. GAO's work on organizational transformations states that organizations should set implementation goals and a timeline to show progress. Such a plan is vital to managing multiple efforts to completion and achieving long-term program objectives, particularly when senior-level staffing for the verification program has lacked continuity. GAO continues to assess these issues and will report its results early next year.



Chairmen Coffman and Hanna, Ranking Members Kuster and Takai, and Members of the Subcommittees:

I am pleased to be here to discuss our ongoing work on the Department of Veterans Affairs' (VA) efforts to verify the eligibility of veteran-owned small businesses (VOSB), including service-disabled veteran-owned small businesses (SDVOSB), to receive contracting preferences with VA. Since the passage of the Veterans Benefits, Health Care, and Information Technology Act of 2006, the agency reported that total contracting awards to VOSBs increased from \$616 million (\$356 million to SDVOSBs) in fiscal year 2006 to \$4.0 billion (\$3.6 billion to SDVOSBs) in fiscal year 2014. The act requires VA to give contracting preferences to SDVOSB and VOSBs and to verify the ownership, control, and status of firms seeking such preferences and maintain a database of verified businesses that have SDVOSB or VOSB status.¹ The program grew from 2,900 verified firms in 2010 to more than 7,400 verified firms in 2015. GAO found in 2013 that VA faced challenges in verifying firms on a timely and consistent basis, developing and implementing long-term strategic plans, and enhancing information technology infrastructure.²

My statement today is based on preliminary observations from our ongoing review of the verification program on which we plan to issue a report early next year. Specifically, this statement discusses (1) VA's progress in establishing a timely and consistent verification program and improving communication with veterans, and (2) the steps VA has taken to identify and address verification program challenges and long-term goals.

In conducting this work, we reviewed relevant statutes, regulations, and procedures, as well as our prior work on the program. We reviewed VA administrative program data on application processing times from fiscal years 2014 and 2015, assessed the reliability of data by interviewing VA

¹The act requires VA to give priority to SDVOSB and VOSB when awarding contracts and provides for limited competition contract awards to achieve contracting goals that VA must establish. Pub. L. No. 109-461, §§ 502, 120 Stat. 3403, 3431 - 3436 (codified as amended at 38 U.S.C. § 8127, 8128).

²GAO, *Veteran-Owned Small Businesses: Planning and Data System for VA's Verification Program Need Improvement*, [GAO-13-95](#) (Washington, D.C.: Jan. 14, 2013).

officials and reviewing documentation related to VA's data system, and determined the data are sufficiently reliable for the purpose of describing VA's reported processing statistics. In addition, we reviewed a random sample of verification applications submitted to VA from June through September 2014, stratified by decision outcome (i.e., approval, denial, or withdrawal) to estimate the length of time it took firms to become verified and assess the extent to which VA followed its procedures for verifying firms. We reviewed the internal audit reports prepared by CVE from December 2014 through March 2015. We interviewed agency officials and representatives of two veteran service organizations and four verification assistance centers selected based on geographic diversity to obtain information about VA's procedures to verify applications and communicate with veterans. We reviewed VA's strategic and operating plans, and interviewed VA officials to discuss steps taken to address program challenges.

The work on which this testimony is based is being conducted 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's Office of Small and Disadvantaged Business Utilization (OSDBU) has overall responsibility for the verification program.³ OSDBU's Center for Verification and Evaluation (CVE) maintains the mandated database of verified SDVOSBs and VOSBs and is responsible for verification operations, such as application processing.⁴ VA's verification process consists of reviewing and analyzing a standardized set of documents submitted with each verification application. VA uses contractors to support its verification program and federal employees oversee the

³VA's OSDBU develops department-wide policies, programs, and practices related to small businesses, monitors VA's implementation and execution of its small business contracting goals program, and provides outreach and liaison support to businesses (small and large) and other members of the public and private sectors concerning small business acquisition issues.

⁴Other staff and offices within OSDBU and VA, such as Information Technology and the Office of General Counsel, also support the verification program.

contractors and review and approve verification decisions. As of September 1, 2015, CVE had 15 federal employees and 156 contract staff (employed by five different contractors) verifying applications or filling supporting roles.

CVE is funded by VA's Supply Fund, a self-supporting revolving fund that recovers its operating expenses through fees and markups on different products or services.⁵ CVE's final obligations for fiscal year 2014 were \$17.9 million and its approved budget for fiscal year 2015 was \$16.1 million, representing a decrease of about 10 percent (\$1.8 million) from 2014.

We and VA's Office of Inspector General previously found that VA has faced numerous challenges in operating the verification program. Our most recent work on this program in 2013 found that VA had made significant changes to address previously identified program weaknesses, but that it still faced challenges establishing a stable and efficient program to verify firms on a timely and consistent basis.⁶ Specifically, we found that VA consistently placed a higher priority on addressing immediate operational challenges than on developing a comprehensive, long-term strategic focus for the verification program—an approach that contributed to programmatic inefficiencies. We also found that VA's case management data system had shortcomings that hindered the agency's ability to operate, oversee, and monitor the program. Therefore, we recommended that VA (1) refine and implement a strategic plan with outcome-oriented long-term goals and performance measures, and (2) integrate efforts to modify or replace the program's data system with a broader strategic planning effort to ensure the system addresses the program's short- and long-term needs. VA adopted a strategic plan in 2013 and efforts to update its case management system are ongoing.⁷

In 2014, VA launched the MyVA Reorganization Plan in an effort to improve the efficiency and effectiveness of VA's services to veterans. The plan's strategy emphasizes improved service delivery, a veteran-centric

⁵The Supply Fund is a revolving fund that supports VA's mission by the operation and maintenance of a supply system, including procurement of supplies, equipment, personal services, and the repair and reclamation of used, spent, or excess personal property.

⁶[GAO-13-95](#).

⁷See page 13 of this statement for more information on these efforts.

culture, and an environment in which veteran perceptions are the indicator of VA's success. MyVA extends to all aspects of the agency's operations, including the verification program. In response to this organizational change, OSDDBU is required to align its own strategy with MyVA and take steps to make its operations more customer service-oriented and veteran-centric.

VA Took Steps to Improve Its Verification Program and Communication with Veterans

Based on our preliminary observations, VA has improved its timeliness for application processing, followed its policies for verifying businesses, continued to refine quality controls for the program, and improved communications with veterans. For instance, CVE reported its processing times have improved by more than 50 percent since October 2012, going from an average processing time of approximately 85 days to 41 days in fiscal year 2015. Additionally, VA officials told us that they have been generally meeting their processing goal of 60 days (from receipt of a complete application) and only had 5 applications in fiscal year 2014 and 11 applications in fiscal year 2015 for which it did not meet this goal. Our review of randomly selected application files corroborates that CVE has generally met its processing goals, but the verification process can take longer from a veteran's perspective.⁸ In calculating processing times, CVE excludes any time spent waiting for additional information it asked firms to supply, so the actual number of days it takes an applicant to become verified is typically longer than what CVE reports. Our preliminary estimates are that it takes an average of 56 days (without stopping the regulatory clock while the veteran is preparing and submitting additional documents) from when CVE determines a firm's application is complete

⁸We conducted a review of a random sample of 96 verification applications (initial and renewal applications) submitted to VA from June through September 2014, stratified by decision outcome (i.e., approval, denial, or withdrawal). We are unable to develop an estimate for average processing times that are comparable to CVE's reported averages because CVE stops the regulatory clock when it is waiting for firms to submit additional information for applications, and we were unable to replicate those calculations through our review. We estimated the average processing times without stopping the clock to confirm that VA is meeting its regulatory goals.

to when the firm receives notification of the verification determination.⁹ During that time, CVE is reviewing the application and potentially requesting and waiting for the applicant to submit additional information. Additionally, firms can submit and withdraw their application multiple times should they need to correct issues or wish to apply at a later date. Each time a firm resubmits an application, CVE resets the application processing clock, meaning that CVE's average case processing time does not account for instances where a firm withdraws and resubmits an application. VA officials said that allowing applicants to withdraw and resubmit multiple applications is an advantage to the veteran because veterans can make several attempts to become verified, and without allowing veterans to withdraw their applications, more veterans would receive denials and have to wait 6 months before submitting another application. However, this means that some veterans might perceive the application process as lengthy if they have submitted and withdrawn several applications in their attempt to become verified. For example, we estimated that for 15 percent of applications, it took the firm more than 4 months from the initial application date to receive a determination from CVE.¹⁰

Based on our initial review of application files, VA appeared to follow its policies and procedures for verifying SDVOSBs and VOSBs, which includes checking the veteran and disability status of the applicant, conducting research on the firm from publicly available information, and reviewing business documents to determine compliance with eligibility requirements, such as direct majority ownership by the veteran, experience of the veteran manager, and the SBA small business size standard.¹¹ But, we also found that VA did not have a policy requiring

⁹Since our estimate of the average is based on a sample of verified applications, we calculated a confidence interval for our estimate. The 95 percent confidence interval for this estimate is 49 to 64 days. Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn.

¹⁰The 95 percent confidence interval for this estimate is 8 to 24 percent.

¹¹Our estimate that CVE reviewed the eligibility requirements in 100 percent of applications is based on a probability sample of case files. Our estimate has a 95 percent confidence interval that is contained within the range from 96 percent to 100 percent.

documentation of the rationale for assigning risk level to the application, and did not document the rationale in an estimated 40 percent of the cases.¹² VA recently implemented a procedure (October 2015) to require documentation of the rationale after we notified the agency of this finding.

CVE has continued to refine its quality management system since our January 2013 report.¹³ For example, CVE has developed detailed written work instructions for each part of the verification process, and developed a quality manual that documents the requirements of its quality management system. CVE officials said they update the work instructions on a regular basis. Additionally, CVE implemented an internal audit and continuous improvement process. As of September 2015, CVE had taken action on and closed 364 of 379 (96 percent) internal audit recommendations made from June 2014 through August 2015. Based on our review of internal audits conducted by CVE from September 2014 through February 2015, the findings generally identified information that was incomplete, unclear, missing, or not applicable to the current verification process.

CVE also conducted post-verification site visits to 606 firms in fiscal year 2015 to check the accuracy of verification decisions and help ensure that firms continued to comply with program regulations. CVE officials said the site visits identified two instances in which evaluators mistakenly verified a firm (a less than 1 percent error rate), and CVE issued 25 cancellations to firms found noncompliant with program regulations at the time of the site visit (a 4 percent noncompliance rate). CVE also monitors compliance by investigating potentially noncompliant firms identified through tips from external sources. CVE officials said they received about 400 such tips in 2014. Officials said that they investigate every credible tip by conducting public research, reviewing eligibility requirements related to the tip, and making a recommendation for corrective action, if necessary.

We reviewed case files associated with 10 firms for which CVE received allegations of noncompliance from June 2014 through May 2015. These

¹²CVE assigns a risk level to all applications after they have been evaluated. The risk level is reflective of the number of issues identified during the application review and whether the issues were adequately explained or resolved. This estimate's 95 percent confidence interval ranges from 30 percent to 50 percent.

¹³[GAO-13-95](#).

cases included one with an active status protest (a mechanism for interested parties to a contract award to protest if they feel a firm misrepresented its SDVOSB or VOSB status in its bid submission) and nine firms for which CVE received an e-mail allegation that the firm was not in compliance with program regulations (a few of these firms also recently received a status protest decision).¹⁴ CVE investigated 6 of 10 cases we reviewed, although it did not always document that an allegation of noncompliance had been received or that it was conducting a review of the firm's eligibility based on the allegation. In comparison, anytime a protest was filed against a verified firm, the case file had a note indicating the firm was the subject of a status protest and verification activities should be put on hold until the protest was resolved. We will continue to monitor these issues and report our final results early next year.

Our preliminary work revealed that since our 2013 report, VA has made several changes to improve veterans' experiences with the verification program and reduced the percentage of firms that receive denials from 66 percent in 2012 to 5 percent in 2015, according to agency data. A few examples include the following.

- VA implemented procedures to allow firms to withdraw applications in order to avoid denials. For example, veterans can correct minor deficiencies or withdraw an application to address more complex problems instead of receiving a denial decision and having to wait 6 months to reapply.
- VA established procedures to communicate with verified firms and applicants about their verification status. According to VA officials, the agency sends e-mail reminders 120, 90, and 30 days before the expiration of a firm's verification status, contacts firms by telephone 90 days before expiration of verification status; and notifies firms in writing 30 days before cancelling verified status. Officials said they also send notifications to applicants to indicate that an application is complete, additional documents are needed, and that a determination has been made.

¹⁴VA's Office of General Counsel reviews status protests for firms that have been awarded VA contracts, CVE's Director makes determinations in such protests, and OSDDBU's Executive Director makes determinations for appeals of status protest decisions. Status protest decisions are not public information.

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- VA partnered with Procurement Technical Assistance Centers—funded through cooperative agreements with the Department of Defense—to provide verification assistance to veterans at no cost.¹⁵ VA trained more than 300 procurement counselors at the centers on the verification process so they could better assist veterans applying for verification.
 - VA increased interaction with veterans by conducting monthly pre-application, reverification, and town hall webinars to provide information and assistance to verified firms and others interested in the program.
 - VA provided resources for veterans on its website, such as fact sheets, verification assistance briefs, and standard operating procedures for the verification program. VA also has a tool on its website that allows firms to obtain a list of documents required for their application depending on the type of company they own.
 - VA developed surveys to obtain feedback from firms (1) that go through the verification process, (2) that receive a site visit, (3) that leave the program, and (4) that participate in any pre-verification information sessions. CVE officials stated that they hope these surveys will allow them to more systematically collect feedback on different aspects of the program.

All of the verification assistance counselors and representatives of veterans' service organizations with whom we spoke noted that VA has improved its verification process, although most had some recommendations for areas for continued improvement. Three of the four verification assistance counselors we spoke with stated that VA's new policies to allow veterans to withdraw or submit changes to their application represented a positive change. Representatives of one veterans' group we spoke to stated that VA was doing a better job communicating with applicants on missing documentation and other potential issues. They also said VA was interacting more with veteran service organizations and veterans at conferences for veteran-owned small businesses and town hall meetings.

¹⁵The centers are located across the United States and employ procurement experts to help prepare small businesses for contracting opportunities with federal, state, and local governments, including VA.

However, three of the four verification assistance counselors noted that resources on VA's website for the verification program can be difficult to locate and representatives from one veteran service organization said VA does not provide adequate documentation of the program standards for applicants. VA officials said they have been working with the strategic outreach team in OSDDBU to redesign the website to make documents easier to locate. Additionally, we determined that the standard operating procedures—documents to help veterans understand the verification process—posted on the website were from 2013 and did not reflect current procedures, such as the ability to withdraw an application after CVE's evaluation. When we notified VA of this issue, the agency updated the program's website to reflect current procedures and implemented a policy to review and update the operating procedures every 6 months.

All of the verification assistance counselors we interviewed also stated that VA's determination letters to applicants could be clearer and that they include regulatory compliance language that could be difficult for some applicants to understand. VA officials maintained that the inclusion of regulatory language in the determination letters was necessary, but acknowledged that this language can present readability challenges. We also observed several instances in our review where a letter initially stated that documents were due on one date, and then later stated the applicant should disregard the initial statement and that documents were due on a different, earlier date. VA officials said this was due to a glitch in the system that generated the letters and this issue was resolved in May 2015.

VA Has Addressed Some Program Challenges, but Preliminary Findings Indicate That VA Lacks a Comprehensive Operational Plan

Despite the significant improvements VA has made to its verification program, it continues to face challenges establishing a more cost-effective, veteran-friendly verification process, and acquiring an information technology system that meets the agency's needs. The efforts that VA has either made or currently has underway include restructuring the verification process, revising verification program regulations, changing the program's organizational structure, and developing a new case management system—some of which have been ongoing since our January 2013 report. While these efforts are intended to help address some of the challenges associated with the verification program, VA lacks a comprehensive operational plan with specific actions and milestone dates for managing these efforts and achieving its long-term objectives for the program.

Changes in the verification process. VA intends to restructure part of the verification process in an effort to make it more veteran-focused and cost-effective. According to OSDBU’s Executive Director, VA embarked on these changes in response to the agency’s new MyVA strategy and requests from the Supply Fund to design a veteran-centered process that highlights customer service and maximizes cost efficiency. In August 2015, VA began a pilot for a new verification process that makes a case manager the point of contact for the veteran and the coordinator of staff evaluating the application. According to the Executive Director, the new process is expected to provide cost savings to the agency by reducing the amount of time staff spend reviewing applications and addressing veterans’ questions. Officials said the specific tasks staff perform to review applications would not change; rather, the new process would eliminate some redundancies and focus on the veteran’s experience. Key differences between the new and current processes as described by CVE officials are shown in table 1.

Table 1: Key Differences between the Current and New Pilot Verification Processes

Current process	New pilot process
Veteran applicants do not have a single point of contact and may correspond with different CVE customer service representatives, who may not be familiar with the specifics of the application.	Veteran applicants have a single point of contact, the case manager, who would be familiar with the veteran’s application status and any issues that arose during the process.
Applicants submit all required documentation at the very beginning of the process, but issues with an application are not identified and communicated to the veteran until the later stages of the process.	Veterans would be interviewed by CVE staff early, which would allow staff to identify issues up front and avoid having to conduct multiple reviews of applications for firms not meeting program requirements.
Two CVE contractors evaluate each application for regulatory compliance.	One CVE contractor evaluates each application for regulatory compliance, which helps to eliminate duplication of responsibilities.

Source: GAO analysis of VA information and interviews. | GAO-16-179T

According to CVE officials, as of September 2015, 43 applications had been reviewed using the new pilot process and VA had begun collecting feedback from applicants. VA also has developed metrics to inform adjustments to the pilot and plans to calculate processing times for each application, according to CVE officials. Officials stated that VA plans to finalize the new process in October 2015 and fully transition to the new process by April 2016. VA has not yet conducted an analysis to determine the cost of the new pilot process as compared with the current process,

but OSDBU's Executive Director said that he estimates the new pilot process will save the program about \$2 million per year.¹⁶

Revisions to regulations. VA is continuing to make revisions to its program regulations. In 2013 we reported that VA had begun the process of modifying the verification program regulations to extend the verification period from 1 year to 2 years and published an interim final rule to this effect in late June 2012.¹⁷ In addition, VA began a process in 2013 to revise program regulations in order to account for common business practices that might otherwise lead to a denial decision under the current regulation. For example, in addressing the challenges associated with one current regulatory provision, VA officials told us that VA plans to allow minority owners to vote on extraordinary business decisions such as closing or selling the business according to CVE officials. Officials stated that the revisions to the regulation are not expected to provide cost and resource efficiencies, but are intended to provide clarity for veterans and increase their satisfaction with the process. As of September 2015, the regulation was undergoing internal review with VA's Office of General Counsel according to CVE officials.

Approach to site visits. According to CVE officials, VA plans to determine how many site visits should be conducted annually to maintain the quality of the program while minimizing cost.¹⁸ CVE officials told us that they plan to visit a random sample of 300 of 2,312 verified firms that received VA contracts from March 2014 through April 2015 fiscal years 2014 and 2015 and then calculate the percentage of firms found to be noncompliant with program requirements. A high noncompliance rate could indicate that VA should increase the annual number of visits, while a low rate could indicate that VA should decrease or maintain the annual number of site visits it conducts, according to CVE officials. VA officials said that the statistical analysis will allow them to validate the noncompliance rate obtained from site visits conducted in fiscal year 2014

¹⁶As previously discussed, CVE's approved budget for fiscal year 2015 was \$16.1 million.

¹⁷[GAO-13-95](#).

¹⁸In fiscal year 2014, VA spent about \$3 million to conduct post-verification site visits on 1,144 firms (16 percent of verified firms). VA officials said that given the cost (about \$2,600 per site visit) and the low rate of noncompliance identified by site visit examiners, the agency reduced the number of site visits to 606 in 2015.

and that VA plans to complete its study by January 2016.¹⁹ We plan to include additional information on this study in our upcoming report.

Reverification policy. VA revised its reverification policy in an effort to improve efficiency and customer service. According to CVE's Acting Director, reverification used to require nearly the same effort of CVE staff, contractors, and veterans as the full verification process. Under a new process CVE implemented in October 2015, CVE contractors are to conduct an initial meeting with the veteran to identify necessary documentation based on changes to the company since its last verification. These changes are intended to improve veterans' understanding of the requirements for reverification, and reduce the amount of time spent re-verifying applications, according to CVE officials. However, it is not yet clear how the change to the reverification procedure will impact the number and type of documents veterans will be required to submit. In addition, VA analyzed data obtained from its fiscal year 2014 site visits and concluded that there is no correlation between a firm's noncompliance and the time passed since its last verification. According to information provided by CVE officials, the agency therefore may be able to reduce the number of site visits conducted each year by lengthening the 2-year reverification cycle.

Staffing and organizational structure. VA plans to fill vacant leadership positions and make changes to CVE's organizational structure to reflect the new verification process and align staffing resources with agency needs. In 2010, we noted that leadership and staff vacancies had contributed to the slow pace of implementation of the verification program.²⁰ CVE has since filled most of its vacant positions. However, staffing at the senior level has been in flux. Since 2011, CVE has had three different directors, the last two of which have been acting directors. The deputy director position also was vacant from March 2014 to September 2015. OSDBU's Executive Director (who has overseen the overall verification program since 2011) indicated that VA would begin advertising for a CVE director in October 2015.

¹⁹VA also plans to do 50 site visits in fiscal year 2016 to review noncompliance referrals.

²⁰GAO, *Department of Veterans Affairs: Agency Has Exceeded Contracting Goals for Veteran-Owned Small Businesses, but It Faces Challenges With Its Verification Program*, [GAO-10-458](#). (Washington, D.C.: May 28, 2010).

VA has developed a draft organizational structure and position descriptions for the new verification process. According to CVE officials, it also has begun an analysis—using initial data from the new verification process pilot—to determine optimal staffing levels for implementing the new process and meeting the demand for verification. CVE officials stated that VA plans to continue using contractor staff to conduct its verification activities because the use of such staff allows VA the flexibility to adjust staffing levels as needed. As discussed earlier, CVE currently has 15 full-time federal employees and 156 contract staff. OSDDBU's Executive Director stated that VA has contracts in place for the verification program through April 2016 and plans to start the process for securing new contracts in January 2016.

Plans for case management system. VA has faced delays in replacing the verification program's outdated case management system. In our January 2013 report, we also identified deficiencies in VA's data system—such as a lack of certain data fields and workflow management capabilities needed to provide key information on program management—and recommended that VA modify or replace the system.²¹ VA hired a contractor in September 2013 to develop a new system but the contract was cancelled in October 2014 due to poor contractor performance. VA paid the contractor about \$871,000 for work that had been performed prior to the contract's termination, and received several planning documents from the contractor that helped inform its current acquisition effort, according to CVE officials. VA has since decided to develop a pilot case management system through one of the agency's other existing contracts. According to VA officials, the pilot system is intended to provide VA with the opportunity to test and evaluate the capabilities of a new system without the time and expense of putting a whole new system in place. VA developed specifications and other planning documents for the pilot system, and plans to develop and evaluate the system from November 2015 through January 2016. If the pilot is successful, VA plans to issue a solicitation and award a contract for development of a full system by April 2016 and fully transition to the new system by September 2016. VA was in the initial stages of developing the pilot system as of October 2015, and has not determined how it will select cases for the pilot, evaluate the pilot, and fully transition to the new system once the pilot is complete.

²¹[GAO-13-95](#).

VA has taken some steps to address our previous recommendations, but our preliminary findings indicate that additional steps may be needed. In our January 2013 report, we found that VA faced challenges in its strategic planning efforts and recommended that VA refine and implement a strategic plan with outcome-oriented long-term goals and performance measures.²² VA developed a strategic plan for fiscal years 2014–2018 that described OSDBU’s vision, mission, and various performance goals for its programs. It has since developed an operating plan for fiscal year 2016 that identifies a number of key actions needed to meet OSDBU’s objectives, such as transitioning to a new verification process, completing revisions to the verification regulations, and developing a new case management system. But, the plan does not have an integrated schedule that includes specific actions and milestone dates for achieving program changes or discuss how the various efforts described above might be coordinated. Useful practices and lessons learned from organizational transformation show that organizations should set implementation goals and a timeline to build momentum and show progress from day one.²³ These practices also show that it is essential that organizations undergoing a transformation establish and track implementation goals and establish a timeline to pinpoint performance shortfalls and gaps and suggest midcourse corrections. According to OSDBU’s Executive Director, each OSDBU program team (such as CVE) is to develop action plans for their specific programs that include resource needs and expected timelines. However, it is not clear if OSDBU will develop an overall plan that captures and integrates the various efforts it has been undertaking that are managed by CVE and other program teams within OSDBU. We are continuing to assess the issues discussed in this statement and as we finalize our work for issuance early next year, we will consider making recommendations, as appropriate.

Chairmen Coffman and Hanna, Ranking Members Kuster and Takai, and Members of the Subcommittees, this concludes my prepared statement. I would be happy to answer any questions at this time.

²²[GAO-13-95](#).

²³See, for example, GAO, *Results Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003). To identify useful practices and lessons learned in organizational transformations, GAO convened a forum of public and private sector leaders who had experience managing or studying large-scale organizational mergers, acquisitions, and transformations.

If you or your staff have any questions about this statement, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Key contributors to this testimony include Harry Medina (Assistant Director); Katie Boggs (Analyst-in-Charge), Mark Bird, Charlene Calhoun, Pamela Davidson, Kathleen Donovan, John McGrail, Barbara Roesmann, and Jeff Tessin.

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