

**DEVELOPMENT OF THE VETERANS  
BENEFITS ADMINISTRATION'S ANNUAL  
BUDGET**

---

---

**HEARING**

BEFORE THE

**COMMITTEE ON VETERANS' AFFAIRS**

**HOUSE OF REPRESENTATIVES**

**SUBCOMMITTEE ON DISABILITY ASSISTANCE  
AND MEMORIAL AFFAIRS**

**ONE HUNDRED NINTH CONGRESS**

FIRST SESSION

NOVEMBER 3, 2005

---

Printed for the use of the Committee on Veterans' Affairs

**Serial No. 109-27**



24-484.PDF

---

**U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 2006**

## COMMITTEE ON VETERANS' AFFAIRS

STEVE BUYER, *Indiana, Chairman*

MICHAEL BILIRAKIS, *Florida*  
TERRY EVERETT, *Alabama*  
CLIFF STEARNS, *Florida*  
DAN BURTON, *Indiana*  
JERRY MORAN, *KANSAS*  
RICHARD H. BAKER, *Louisiana*  
HENRY E. BROWN, Jr., *South Carolina*  
JEFF MILLER, *Florida*  
JOHN BOOZMAN, *Arkansas*  
JEB BRADLEY, *New Hampshire*  
GINNY BROWN-WAITE, *Florida*  
MICHAEL R. TURNER, *Ohio*

LANE EVANS, *Illinois, Ranking*  
BOB FILNER, *California*  
LUIS V. GUTIERREZ, *Illinois*  
CORRINE BROWN, *Florida*  
VIC SNYDER, *Arkansas*  
MICHAEL H. MICHAUD, *Maine*  
STEPHANIE HERSETH, *South  
Dakota*  
TED STRICKLAND, *Ohio*  
DARLENE HOOLEY, *Oregon*  
SILVESTRE REYES, *Texas*  
SHELLEY BERKLEY, *Nevada*  
TOM UDALL, *New Mexico*

JAMES M. LARIVIERE *Staff Director*

## SUBCOMMITTEE ON DISABILITY ASSISTANCE AND MEMORIAL AFFAIRS

JEFF MILLER, *Florida, Chairman*  
JERRY MORAN, *Kansas*  
JEB BRADLEY, *New Hampshire, Vice Chairman*  
GINNY BROWN-WAITE, *Florida*

SHELLEY BERKLEY, *Nevada,  
Ranking*  
TOM UDALL, *New Mexico*  
LANE EVANS, *Illinois*

PAIGE MCMANUS, *Subcommittee Staff Director*

**CONTENTS**  
**November 3, 2005**

Development of the Veterans Benefits Administration's Annual Budget Request .....	Page 1
--	-----------

**OPENING STATEMENTS**

Chairman Jeff Miller .....	1
Prepared statement of Chairman Miller .....	20
Hon. Shelley Berkley, Ranking Democratic Member .....	2
Prepared statement of Ms. Berkley .....	23
Hon. Lane Evans .....	4
Prepared statement of Mr. Evans .....	22

**WITNESSES**

Cooper, Daniel L., Under Secretary for Benefits, Veterans Benefits Administration .....	5
Prepared statement of Admiral Cooper .....	28

**STATEMENT FOR THE RECORD**

Bascetta, Cynthia A., Director, Education, Workforce and Income Security, U.S. Government Accountability Office ....	38
---	----

**POST-HEARING QUESTIONS FOR THE RECORD**

Chairman Miller .....	50
-----------------------	----

# DEVELOPMENT OF THE VETERANS BENEFITS ADMINISTRATION'S ANNUAL BUDGET REQUEST

---

Thursday, November 3, 2005

U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON DISABILITY ASSISTANCE AND  
MEMORIAL AFFAIRS,  
COMMITTEE ON VETERANS' AFFAIRS,  
*Washington, D.C.*

The Subcommittee met, pursuant to call, at 2:00 p.m., in Room 334, Cannon House Office Building, Hon. Jeffrey Miller [Chairman of the Subcommittee] presiding.

Present: Representatives Miller, Berkley, Udall, and Evans.

MR. MILLER. Good afternoon, everybody. This hearing will come to order.

I do want to open by saying I appreciate everybody reworking their schedules from the last scheduled time to be here with us. Today we are meeting to receive testimony on the development of VBA's annual budget. The Subcommittee is prepared to explore the process and the assumptions used by VBA to project the workload and the workforce trends that are then used to formulate the annual budget.

Earlier this year, in the context of the VA health care, we learned that given the limitations of the federal budget process and the dynamic nature of health care, VA's budget projection models can and have failed. When models fail in the context of health care, Congress must appropriate additional funds or VA may have to reduce services provided to our veterans.

It is important to note that the benefits provided by VBA in the form of compensation, pension, and other monetary benefits are entitlement programs which Congress is obligated to pay.

However, the administrative costs of claims adjudication are discretionary funds, which are subject to annual appropriations.

Therefore, the accurate projection of workforce and workload trends has a direct impact on the claims adjudication process. These projections are the basis for the discretionary appropriation request. And if VBA's projections fail, VBA may not have the resources necessary to timely and accurately adjudicate claims.

The Claims Processing Task Force Report, which Admiral Cooper chaired, stated in October of 2001 that, quote, "VBA's workload will continue to remain dynamic. To expect the workload to return to some normalized, predictable level is not reasonable," end of quote.

Admiral Cooper, we hope to better understand how VBA in light of this dynamic nature projects its workload and workforce trends to formulate its budget to ensure that VBA accomplishes the mission. I intend this to be the first in a series of such hearings.

[The statement of Mr. Miller appears on p. 20]

MR. MILLER. I now recognize our Ranking Member, Ms. Berkley, for her opening statement.

MS. BERKLEY. Thank you, Mr. Chairman, for holding this hearing and thank you all for being here. I appreciate it.

I have a number of questions and I am going to include a number of them in my testimony in case I get called to the floor.

Unlike the Veterans Health Administration, most of the Veterans Benefit Administration's budget is mandatory rather than discretionary spending. And I appreciate that you have little control over mandatory spending.

What I would like to do is focus on VBA's projections of new claims and staffing needs. I am particularly concerned that VBA does not have the adequate number of staff to do the job that we are asking them to do.

In fact, the number of new claims involving eight or more issues has more than doubled in the last five years. These are the most complex claims to decide, yet increases in staff have not kept up with the increase in the workload, particularly the complexity of it.

I am also concerned that the number of appeals has more than doubled in the past five years. And I fear that we are pushing overworked staff to quickly decide claims which may result in errors and more staff and time in order to correct the mistakes.

VA's Inspector General recently reported that most rating specialists and decision review officers who consider appeals do not believe that the VA Regional Offices have sufficient rating staff.

With the increase in claims, especially the more complex ones, and appeals compared to the current staffing levels, I have to agree with the Inspector General.

During our recent hearings on PTSD claims, the acting Inspector General indicated that VBA may only need to look at the 2,100 cases under review rather than the proposed 72,000. He said that issue is worthy of discussion.

At the same hearing, Mrs. Brown-Waite, who sits on this Subcommittee, raised concerns about the impact of the proposed 72,000 review on claims currently in the pipeline. I share her concerns and have questions regarding the process.

How many additional staff would VBA need to proceed on the proposed additional review of PTSD claims in 2006 without jeopardizing the accuracy and timeliness of claims currently in the system and future claims? Has there been any estimate of the cost of conducting this review? Will additional funds be needed? Are these costs included in the budget for 2006?

The VBA failed to meet its projected target for pending claims at the end of fiscal year 2005 and the number of claims received was substantially higher than projected.

To what extent was the low-balling, and I do not say that in a derogatory sense, the low-ball projection for claim receipts and lack of staff responsible for the failure to meet projected targets for pending claims?

I would like to know what is being done to provide more accurate projections of workload and staffing needs.

For fiscal year 2005 and 2006, VBA was awarded one-time money to improve claims processing. I believe that we are likely to fall even further behind if these funds are not included in the administration's budget for 2007. What happens if those funds no longer exist?

I am almost done, Mr. Chairman.

Also the VA is currently working under a continuing resolution, so I assume the ability to add any additional staff or make other expenditures is quite limited.

I hope that you can discuss the impact on VBA's budget when fiscal year funding is delayed by months and months.

In addition, it appears for the past several years VA has underestimated the amount of pay increase and when a higher amount is enacted, VA must adjust its spending. For fiscal year 2006, an increase of 2.3 percent was projected, but 3.1 percent is now expected.

How does the VA project the annual pay adjustment provided to its employees? How will the VBA be able to accommodate this increase? Where does the money come from? Is it from heaven or do we take it from equipment and travel and everything else?

We all know that this year, Congress had to provide supplemental funding for the VA due to inadequate budget projections for discretionary spending. We need to be sure that funding for the administration of the Compensation and Pension Program and the staffing of regional offices is adequate to provide veterans with accurate and timely decisions.

Unfortunately, the prepared testimony that I had an opportunity to review in a very cursory manner lacks specificity needed for proper oversight. I truly appreciate your willingness to provide additional data which I requested concerning claims receipts over the past five years. I ask that to be included in the record.

[The information is found on pgs. 25-27.]

And I want to thank you again for being here. I know you do not have an easy job. And I would like to be as helpful as possible in making your job easier.

MR. MILLER. Without objection, your request will be added into the record.

[The statement of Ms. Berkley appears on p. 23]

MR. MILLER. Mr. Evans.

MR. EVANS. Thank you, Mr. Chairman. I want to thank Ranking Member Berkley as well. I forgot to ask her how many veterans are in her district.

MS. BERKLEY. Funny you should ask. Fastest-growing veterans population in the United States.

MR. EVANS. Okay. They all live in Illinois, I guess.

MS. BERKLEY. Two hundred thousand.

MR. EVANS. Well, thank you.

I am concerned that the VA budgets have not matched the need for care and services for our veterans, that our veterans have.

As Veterans Day approaches, the administration seems more interested in reducing benefits to seriously disabled veterans than providing adequate staff to meet VBA's growing workload.

More veterans are applying for benefits. More veterans are appealing decisions that they believe are erroneous. Staff who will process these claims and appeals have not kept up with these increases.

VA employees perceive that the quantity not quality is recognized and rewarded. VBA's budget methodology must assure that adequate staff based upon real numbers, real needs, real problems, and real choices for veterans who have served their country.

I want to thank all the witnesses and look forward to your testimony.

Thank you, Mr. Chairman, for this opportunity to participate in this important hearing.

MR. MILLER. Thank you, Mr. Evans.

I welcome the panel of witnesses today.

Admiral Cooper, I appreciate you being with us. Most of the members of the Committee are well aware of his distinguished career, graduating from the Naval Academy in 1957, followed by a 33-year career in the Navy.

In April of 2001, Secretary Principi asked Admiral Cooper to head the Claims Processing Task Force to examine the benefits system at large and make recommendations the department could implement without Congressional action.

Subsequent to chairing that Task Force, President Bush nominated Admiral Cooper to serve as Under Secretary of Benefits and he assumed that post April 2nd of 2002.

Admiral, we all look forward to your testimony. Please proceed.

STATEMENT OF DANIEL L. COOPER, UNDER SECRETARY  
FOR BENEFITS, VETERANS BENEFITS ADMINISTRATION;  
ACCOMPANIED BY JAMES W. BOHMBACH, CHIEF  
FINANCIAL OFFICER, VETERANS BENEFITS ADMINISTRATION;  
RENEE L. SZYBALA, DIRECTOR, COMPENSATION  
AND PENSION SERVICES, VETERANS BENEFITS ADMINISTRATION;  
MICHAEL WALCOFF, ASSOCIATE DEPUTY  
UNDER SECRETARY FOR FIELD OPERATIONS, VETERANS  
BENEFITS ADMINISTRATION

STATEMENT OF DANIEL L. COOPER

MR. COOPER. Thank you, Mr. Chairman.

Mr. Chairman, members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the budget formulation and the process we use in the Compensation and Pension Program.

I am pleased to be accompanied by Ms. Renee Szybala, who is the Director of the Compensation and Pension Service; Mr. James Bohmbach, our Chief Financial Officer; and Mr. Michael Walcoff, who is the Associate Deputy Under Secretary for Field Operations.

My opening remarks will be brief and I respectfully request that my full testimony be made a part of the record.

In fiscal year 2005, the total obligations for C&P were 32.5 billion. Of that amount, \$1 billion was for discretionary funding or our general operating expenses, the vast majority of which is for personnel or FTE.

The 32.5 billion was for mandatory funding to pay the benefits that we administer to the veterans, their survivors, and their dependents.

Last fiscal year, VBA produced over two million award actions, 763,000 of which were disability rating determinations in connection with claims for disability benefits.

We handled over 6.3 million phone calls. We conducted over a million interviews. We provided nearly 8,200 briefings for more than 330,000 service personnel as they returned from OIF, OEF, and so on. We conducted nearly 70,000 hours of outreach.

As these figures emphasize, VBA's primary role is serving veterans. That role is extensive and complex. So our budget formulation process must take into account a myriad of factors in order to establish a sound basis for projecting our resource needs.

Each factor has its own set of assumptions and several of the factors have great variance from one fiscal year to the next.

Projecting the incoming workload, that is primarily the number of new and resubmitted claims we can expect, is the starting point for developing the FTE requirements in our discretionary budget.

The number of claims receipts is projected based on historical trends and anticipated external factors. Interestingly, despite the unprecedented level of claims that we have seen, the level of incoming each year still seems to increase.

FTE requirements dominate our discretionary funding needs. To determine FTE levels, we analyze our current performance. We try to establish performance goals and targets and we make assumptions relative to future performance.

Adjustments to the direct labor personnel requirements are made based upon those performance assumptions and goals as well as other factors, such as anticipated improvements, planned, process, and management efficiencies, various initiatives, mandatory training, and the experience levels of the employees.

There are also external influences which are less predictable, such as legislative changes, judicial decisions, and the guardianship and outreach activities that we must do.

We as all effective organizations must ensure that we fully consider a proper mix of management oversight, workforce training, and initiatives to improve our effectiveness and efficiencies in future years.

Over the past ten years, VA's budget for the C&P mandatory benefits has increased by 83 percent to the current \$32.5 billion. If we exclude additional annual COLAs, those obligations increase by 49 percent.

In the past ten years, the number of veterans on the compensation rolls has increased from 2.2 million to 2.6 million this year and the average annual payment for veteran has increased from \$5.2 thousand to \$9.4 thousand.

VBA has developed a benefits budget forecasting model based on detailed historical data and recent trends in workload and accession rate. This model then projects both the number of veterans expected to receive benefits and the average amount of benefits to be paid in the next ten years.

We estimate, using a discretionary budget formulation process, the expected number of both new and reopened claims which will be completed each year, we estimate the percent of those claims that will be granted and then use this accession rate to project additions to the compensation rolls.

To forecast total mandatory obligations, we must also estimate the average value of payments to be paid to veterans and we have seen significant increases in veterans' degree of disability, the number of veterans receiving individual unemployability, and veterans receiving special monthly compensation.

The most recent ten-year plan projects a \$21 billion increase in the annual veterans' compensation payment total by the year 2015, thus continuing the trend seen over the past decade.

As I have described, projections of incoming claims workload are

key to the formulation to both our mandatory and our discretionary budget requests. The number of veterans filing disability compensation claims has increased every year since 2000, growing by 36 percent between 2000 and 2005, this last fiscal year.

The ongoing hostilities in Afghanistan and Iraq are expected to continue to add to the compensation workload. In 2004, original claims increased 17 percent. In 2005, we saw an additional eight percent increase. We believe these increases are directly related to our aggressive outreach programs for separating service members.

Interestingly, the numbers of claims resubmitted by veterans who were already service connected and on our rolls are also increasing each year. Since 2000, the numbers have increased 42 percent and that number makes up about 56 percent of our total rating claims workload each year.

Since the addition of diabetes mellitus type II to the list of Agent Orange presumptive conditions in 2001, about 200,000 veterans have been compensated for diabetes.

The increased number of compensation recipients, many of whom suffer from chronic progressive disabilities, will continue to drive more claims for increased benefits in the coming years as veterans age and their conditions worsen.

There has also been a significant change in the processing procedures since the enactment of "Veterans Claims Assistance Act" of 2000.

VA's notification and development requirements increased, adding more steps to the claims process and the time that it takes to develop and properly adjudicate a claim.

The impact of all these factors and others, which may be more subtle and difficult to measure, must be considered as we attempt to formulate our budget.

As I have described, formulation is based on a complex combination of historical data, current experience, workload, performance assumptions, and independent variables.

Our budget evolves as these factors are refined, revised, and revisited. It is mandatory that we estimate and project our budget needs to the best of our ability.

VBA's mission is to serve deserving disabled veterans. That is the best mission we have in government today. We are dedicated to doing it well.

Mr. Chairman, this concludes my statement. We will be happy to answer any questions.

[The statement of Mr. Cooper appears on p. 28]

MR. MILLER. Thank you very much, Admiral.

In fiscal year 2005, VBA estimated receiving 794,000 rating-related claims, but actually received somewhere around 788,000 and adjudi-

cated 763,000-plus. Given that VBA had approximately 7,500 direct FTEs to adjudicate those claims, it works out to about 101 claims per FTE.

At the current staffing levels, are you meeting your performance goals and is the 2006 production assumption of 109 claims per FTE still realistic in your opinion?

MR. COOPER. First, no, sir, we are not meeting our goals. One of the things that happened in 2003, we worked very strongly on claims, initial claims and resubmitted claims. As we did that, in fact the appeals went up quite dramatically.

As a result, I have made the decision over the last year or so that we need to attack across the board because we need to give service to all the veterans. And as was mentioned, the appeals had gone up. In fact, we have attacked appeals and we have attacked remands.

We did not meet our goals in initial claims or resubmitted claims, but we did do fairly well in appeals and remands in starting to move those down. So in trying to attack across the board, we did that.

Secondly, we were not able to hire for a while, as you know, because of the continuing resolution. We did hire in the middle of the year about 400 people and toward the end of the year, we hired about 500 additional. All of those need to be trained and are not fully productive yet.

So my answer is, we are attempting to attack in several ways this thing. We are trying to ensure that our training is proper and that takes time too. So the first answer is no.

You asked me the question, did I think we had properly estimated for 2006, the answer is, yes, I think we are properly estimating. I also think that if the budget decided by the Senate in the SAC is agreed to, if we get that budget, we will be covered properly.

MR. MILLER. You talk about 400 new people. How long does it take to actually train a new individual and consider them fully up to speed?

MR. COOPER. To be fully up to speed and essentially able to operate independently, it takes approximately two years. We get them out and starting to help after about three or four months.

By having this central training, we at least know that we are training the people in the right way to do things as they then go back out to their various regional offices. They then come back and we try to reinforce and then send them back out again.

So essentially they get about three to four weeks of central training and then the rest of it is done on the site of the regional offices.

MR. MILLER. Why in the world does it take two years to train somebody to do this job?

MR. COOPER. This is a very complicated thing. And part of it is how you get the records. The records that we use to adjudicate are all paper records. We are not looking at any electronic records.

And so as you look through each and every page and you want to make sure, because we have tried to push quality also, and you try to make sure we are looking to get even those disabilities that that person may not have claimed. They may have put in for three issues on their claim.

We are training our people to look very thoroughly to ensure that, in fact, if there is anything else in there, that we are able to get it and work with the VSOs and the veteran. We are trying to do everything as completely as we can.

But it is a complicated process and it is very difficult for me even after about three -- maybe 25 years -- but actually three and a half years in this job, it is difficult for me to understand everything that they are doing. It is a complicated job. It calls for people who are well-trained and it calls for people who will concentrate on doing the job properly.

MR. MILLER. Can you tell me what the average length of service in the position is, how long they stay?

MR. COOPER. I will first say that we probably have better retention than the first figures I saw when I came in. I would say that the average time -- I am talking off the top of my head -- I would say the average time that a person stays in the VA when they come in is probably six to ten years.

Now, when we hired 400, you will find that even though we try to look very closely and interrogate them properly and make them understand what they are going to get into, you will find sometimes people will say the job is not what I expected. I do not want to do that and it is too cumbersome.

And even though we try to push the importance of the mission, they may still decide that claim adjudication is not for them. And that is fine. If they decide, then they should go on somewhere else.

My guess is we retain in that first year maybe close to 80 percent, a little bit more.

MR. MILLER. Do you know -- I am sure you do from exit interviews -- the reasons for most people's departure? Is it burnout, compensation, moving up in the system?

MR. COOPER. Part of it is moving up. And I was just passed a note. When we bring people in as veteran service representatives, and these are the people who first review the records, eventually they get promoted within our organization to what we call rating veterans service representatives or RVSRs.

Burnout, I do not think is necessarily it, but I do think if it is a degree of burnout to say this is not the job I want to do, I cannot take the pressure of doing so many claims and I am just unable to do this job for whatever reason, so the mutual decision is made by the RO director and the individual. I think there are several reasons and those are a couple of them.

MR. MILLER. Are there any performance-based measures in their job?

MR. COOPER. You bet. After a certain amount of time, we have a requirement that they do so many ratings per rating period per day. We look at that very closely, but we also look at quality too. And we have gotten hit pretty hard that we were not paying attention to quality while pushing productivity so much.

But I would say to you that in any organization, you have to ensure the people are doing the work. If somebody does one claim in a year, it is going to be a perfect claim, but there are going to be a lot of disgruntled people out there. So, yes, we do require that.

But we also have procedures set up for people who are not doing well, to mentor them, to try to help them do well. Some of them recover and some of them decide this is not what they want to do. But it is the same in any organization if you are going to be successful in my mind.

We are trying to look at quality and make sure that the quality is there. We are doing lots of things in the training arena too. I think we have made pretty good improvements in overall training throughout the organization.

MR. MILLER. You stated that VCAA has significantly increased the length and complexity of claims development. And at the end of 2005, records show it took VBA on average 168.2 days to process a claim.

So my question is, how many processing days do you attribute to VCAA compliance?

MR. COOPER. Well, the VCAA was a total bill. And let me first say -- of course, it came before I came into this job -- in my opinion, it was a very important, positive bill because it made us, the VA, do the job helping the veteran rather than saying, Mr. Veteran, you did not give us enough information so we are turning you down.

And so from what I understand historically, it is a good bill. It took us a while to understand the ins and outs of the bill because several judicial decisions were made that said, yeah, you are trying, but you are not quite doing it right. So, therefore, you have to revisit this and you have to make changes.

I hope by the time I leave this job, whenever that is, that we will have finally got it just about right.

We even had to make a change last year in the letter that we send out. One of the first times I came over here to testify, I got the question of, the letters you send out are so complicated. And so I went back and I said let us make it less complicated.

But it is a difficult thing to do to make a less complicated letter that goes to the veteran and still fulfills the notification requirements. So the letters have presented us a problem. There are also certain time elements there. One of the major ones is that, as soon as we receive the claim, we send a letter that hopefully states exactly what we need

from the veteran as well as what we ourselves are going to do. The veteran is allowed 60 days to get that information back to us.

Prior to that, it was my understanding that we did it in about 30 days, but that is not germane. The fact is that there is a set time. And, in fact, today, it appears that it is taking somewhere between 50 and 60 days from the time we send our letter until we get a response. So already you are at the 70-day point.

At that point then, you are trying to send the gentleman or the lady on to physical exams. As the claims get more complicated, one physical exam will not do it. You have to send them for a couple, two or three.

There are just complications that we have to understand. I think we are slowly getting there. I am not sure that we are there a hundred percent yet.

MR. MILLER. Ms. Berkley.

MS. BERKLEY. Thank you.

One of the areas of concern that I mentioned during my opening statement was the administration's projection of the annual pay adjustment for federal employees and other increases in personnel services.

For 2006, the VA's budget is based upon an expected increase of 2.3 percent. The actual increase is now expected to be 3.1. In previous years, VBA has needed to reduce staffing when annual pay adjustments exceeded projections.

How are you planning to pay for the increased costs in 2006?

MR. COOPER. As you rightfully state, 71 percent of our budget is paying people. And, in fact, that is where most of my flexibility is. When I take the other percentages, about 15 percent of the 29 percent I have left, in fact, goes to headquarters or goes to things I am obligated to do. Half again goes to other things over which I have nominal control.

So I have about six percent left. Some of that, determines whether we have IT initiatives or other training or things. I have to look across the whole board and decide. And, yes, in fact, sometimes I have to do it by decreasing the number of FTE that we have.

MS. BERKLEY. Wouldn't you agree that that is counterproductive given the fact that we do not have enough staffing as it is?

MR. COOPER. Yes, ma'am.

MS. BERKLEY. In response to one of the Chairman's questions, you talked about as soon as the ban was lifted or whatever, you were able to hire 400 additional FTE.

Is that new hires or is it backfill because I know in 2003 -- you probably know these numbers better than I do -- in 2002, you had over 7,000 FTE. In 2003, it went down to 6,886. In 2004, 6,784. And now 2005, 6,880.

For the regional offices, are you just replacing what has already

been taken or are these truly additions?

MR. COOPER. Both. You know, I have to make sure I stay within my budget. We know that we attrite approximately 30 a month across the full range of employees. So I try to look ahead and find out where we are and try to keep up with that.

But, in fact, we have had fewer people in the last couple years than we had in 2003. And I have had to make sure I look across the board and that we are doing the whole job and not just stressing only one element.

MS. BERKLEY. So you have got more claims, more complicated claims, but less FTE to do the job?

MR. COOPER. Basically that is correct, but we are working on getting more FTE. And, in fact, this year, we are hiring more.

MS. BERKLEY. In recent budgets, you have received one-year money. VBA has received one-year money that is supposed to be used for increased staffing.

What happens if the temporary funding dries up in 2007? What do you do then?

MR. COOPER. We received one-year money, and I thank Congress for that, to help the Secretary do that. And you are absolutely correct. That gives me a type of problem wherein, when I present a budget and you go back to what the base budget was, there is no allowance for the fact that I was given some extra money to do the job. It then suddenly appears if I am going to have a large increase in the total amount of money.

I think in the 2006 budget, I think we have properly accounted for that. And certainly people have recognized the problem.

And where I needed the money was in my base. It is good to get one-year money. But as you properly state, that does not help me in the following years because the base is not where it should be. And I think that has been properly corrected.

MS. BERKLEY. Okay. And for 2007?

MR. COOPER. If I may, going with the Senate mark, as they marked up the bill, I think everything has been properly accounted.

MS. BERKLEY. So they put the temporary money that you got in 2005 and 2006 as part of the base for 2007? Did I miss that?

MR. COOPER. In 2006.

MS. BERKLEY. In 2006.

MR. COOPER. It looks like they have made the proper adjustments for 2006.

MS. BERKLEY. Great. Okay. Great. Let me ask you something. There were a few things in the last hearing when we were talking about PTSD that concerned me a lot.

And do you know what the projected cost would be for the administration's proposal to review 72,000 PTSD claims in 2006?

And let me add some other questions to that so you can give me an

entire answer.

What additional staffing would be needed to complete this review without compromising the adjudication of current and expected workloads for 2006 and how are these kinds of contingencies taken into account in the budget process?

MR. COOPER. I honestly do not remember the money that we estimated. I estimate that approximately 150 to 160 people would be needed for that review.

MS. BERKLEY. Where do those people come from and what happens to the claims they are already working on?

MR. COOPER. They come from whatever staffing we have available at the time. Now, in the Senate mark, they take into account, I believe, 150 or so people that we would be using for that review. I think that is one of the amounts that is in there.

MS. BERKLEY. Additional from what you already have?

MR. COOPER. Yes, that is correct.

MS. BERKLEY. What happens when they are done reviewing the 72,000 PTSD? Is it like a one-year mark or --

MR. COOPER. No. No. Quite frankly, I would hope that I retain those people and do what has to be done. I fought pretty hard to try to ensure that whatever people are in the budget for that, if we make changes in how we are going to implement the review, that I be allowed to keep the money and the people.

MS. BERKLEY. Right. Well, I hope you do not have to do it. I hope you do get the people. But what if you do not get the Senate mark?

MR. COOPER. Then I have got problems.

MS. BERKLEY. Earlier this year, I had asked VBA to review the hundred oldest pending claims, many of which involved remanded claims for PTSD.

How does VBA budget methodology identify staffing needs to comply with the requirement to expedite handling of remanded claims so that the veterans are not waiting a decade or more for a decision?

MR. COOPER. I cannot talk specifically to your question on the hundred remands. But I will tell you this.

In the last year and a half, we have worked very closely with BVA as directed by the Deputy Secretary, I might add. We have set up a special office called the Appeals Management Center in Washington. We have also told our regional offices how they will submit the claims to BVA. So at least we are fulfilling most of the requirements as far as we can tell.

We have then worked with BVA and any remand they send, we forward to our Appeals Management team and work it. We have set up a system so that, when the board sends back a remand, the reason is stated in a much better fashion than it had been in the past. They specify precisely what it is they want VBA to do. We have set it up so it is not dictated that we have to do steps one through ten in order,

which has helped us to an extent.

We have also taken a few people from separate regional offices to work on remands. In fact, we have reduced remands, about 8,000 in the last year or so. That is one of the things we have tried to push very hard.

When I look at remands, when I look at a figure that I watch each month, out of every 100 claims decided in 2005, about 3.9 claims are certified to the board. The board decided in about 1.5 cases per 100 to not allow the appeal. About 1.5 are resolved through the remand process. In the other one percent, the appeal is allowed by BVA.

All of those are improved figures. Hopefully it means we are serving the veteran better and faster, but the important thing is we have worked together to try to make sure that we are doing this thing properly.

MS. BERKLEY. Between the years 2000 and 2005, the number of claims involving eight or more issues has more than doubled, I think from 21,000 plus to 43,000 plus.

VA projected increases in claims for 2005 fiscal year was much lower than actually received.

Was the failure to more accurately predict the number of claims received and necessary staffing responsible for VBA's failure to meet its targeted pending caseload at the end of fiscal year 2005?

MR. COOPER. It may have been. That is difficult to figure out exactly. But the fact is, interestingly enough, one of the things that we have tried to do and we have pushed very hard is to have two BDD rating sites. BDD is benefits delivery at discharge. And these are for people coming out of the service. They may be retiring. They may be coming out for another reason.

We have decided to have the 140 intake sites at various military sites, then have the adjudication done at two specific sites. And hopefully that will make us more efficient. Hopefully that will give us more consistency.

But what I have come to realize is the people who are retiring, the people who are leaving the service from these sites, we have found that the number of issues are quite high. The average number of issues on the claims coming in today is about 2.6, 2.7. The number of issues we have from people at BDD sites is about eight and a half to ten issues per claim. And I have physically seen claims with 40 issues and more.

And when you have those issues, they may not be pertinent. But the point is you still have to take specific actions to address each issue.

MS. BERKLEY. Well, then here is my question then. How many claims does VBA expect to be processed per FTE and what factors are taken into account? Do we take into account the complexity of it?

If you have got a claim with 40 issues, I would imagine that takes

a tremendous amount of time as opposed to a claim with one or two. So how do you determine how much staffing you need?

MR. COOPER. Well, I would hope by having the adjudication done at two sites where you have people that are experienced in how to process multiple issue claims.

But as the number of issues increase, yes, that increases the complexity. You hope that through training, through getting people on board that you take care of that, but it is an ongoing process. We are working on it.

MS. BERKLEY. The last question I have is regarding the continuing resolution funding. What is the impact on your ability to hire additional staff or make other expenditures and does the budget methodology take into account the possibility that the appropriation bills may not be enacted in a timely fashion? I hope I am not giving you too bad a headache, Admiral.

MR. COOPER. The fact is we are hiring right now. We are trying to hire, but I am still limited in what I can spend under the continuing resolution.

And so it will eventually impact me. I am trying to hire right now so I can get the people on board, get them through training, and get a little bit ahead of the curve.

MS. BERKLEY. Thank you very much. It was very helpful. Thanks.

MR. MILLER. Mr. Udall.

MR. UDALL. Thank you, Mr. Chairman.

Admiral, good to have you here today with us.

The 150 to 160 people you talked about -- and I am following up on the PTSD testimony of yours -- are those the individuals that would be needed to process all 72,000 claims review?

MR. COOPER. The processing, when we do it, will consist of first reviewing each one of those cases. The initial review should take about an hour for each. And then we estimate, predicated upon the review that the IG did of 2,100 claims, that approximately one-third of those will require further development. That will take a longer amount of time.

So we took those figures together and that is how we came up with approximately 150 FTE. And we expect about one-third of those cases to require some further development for whatever reason.

MR. UDALL. One-third of the 72,000?

MR. COOPER. Yes, sir.

MR. UDALL. And what is mandated as part of the further development? What do you expect to happen there? Is this the issue of stressors and --

MR. COOPER. That is correct.

MR. UDALL. -- the documentation for stressors?

MR. COOPER. Primarily stressors, that is correct. The IG reported that of the 2,100 that they reviewed that stressors were not properly

stated in 25 percent of the cases.

And I use that term "not properly stated" carefully, by the way, because I think we have found some areas where we might disagree with what the IG said and we are looking very closely at that.

MR. UDALL. So this estimate of 150 to 160 people would be for reviewing the 72,000 with this one-third additional attention that they needed.

And what period of time are we talking about for that review?

MR. COOPER. I think probably the initial review would be close to a year.

MR. UDALL. So you are saying 150 to 160 people would be working on those cases for a year?

MR. COOPER. Yes, sir.

MR. UDALL. Okay. That is obviously a significant amount of manpower in terms of your operation; is it not?

MR. COOPER. Yes, sir.

MR. UDALL. Now, you understand this whole issue of PTSD, I am sure, very well from your service. Do you think it is wise to head down this course knowing the kinds of cases and reevaluating stressors that sometimes occurred many years ago?

MR. COOPER. I think it is a very difficult problem.

MR. UDALL. Would you be in a position to recommend to us that the House do what the Senate did in terms of putting in language after the 2,100 to just terminate this review?

MR. COOPER. No. I am not in a position to --

MR. UDALL. That is above your pay grade?

MR. COOPER. I am in a position to talk to my boss, the Secretary, but --

MR. UDALL. Okay. But this issue is being discussed in the department, I hope?

MR. COOPER. Absolutely.

MR. UDALL. Let me see here. So your estimate is not that there is going to be additional staff needed to fully flesh out the stressor evidence?

MR. COOPER. One moment. I am getting advice here.

MR. UDALL. Yeah.

MR. COOPER. Yes. The Senate mark gives me the authority to hire up to do the review as I understand it.

MR. UDALL. And in the Senate mark, you believe it gives you enough to do that?

MR. COOPER. Yes, I do. Yes, today, I do believe so.

MR. UDALL. Great. And just to summarize here, at least for this member of the Committee, I believe after meeting with veterans in my home state of New Mexico and hearing testimony before this Committee that we really should take the action to terminate further review on these PTSD claims. It is causing a significant amount of

anxiety in the veterans community and many veterans, I think, are feeling under attack as a result of this.

And I just hope that you continue the analysis and make a speedy decision on this rather than go forward with this really protracted review.

Thank you, Mr. Chairman, and --

MR. COOPER. Could I make one statement?

MR. UDALL. Please. Please do.

MR. COOPER. As you know, one of the things that we have done as the first step before we do anything further is to look at the 2,100 that the IG used to come up with their recommendation. And we have reviewed these very carefully, by first bringing all of those records to Washington. And in general, we agreed that the stressors had not been properly annotated in about 25 percent.

There are seven regional offices that are concerned with this right now. I have specifically gone to each one of them with a personal letter that said I want to make sure we do this in the most sensitive way possible.

And I want to do everything we can to clear it without even talking to the veteran. And if we do, in fact, have to do some more development, then I want them to work very closely with the veteran and the VSO to make sure we do not do something dumb.

So I am merely pointing out I am trying to carry this out in the most sensitive way possible. The fact that the IG made this very strong recommendation at the time, that presents the problem. But we are discussing it. We are discussing it thoroughly and if not on a daily basis, certainly on an every third day basis.

MR. UDALL. Thank you, Admiral, and we very much appreciate your sensitivity to the issue. And we hope that all of your personnel all the way down to the lowest level carry it out with the same sensitivity that you have just described.

Thank you very much, Mr. Chairman.

MR. MILLER. Admiral, are you prepared possibly to disclose to this Committee how many FTEs you have requested for 2007?

MR. COOPER. I would rather not.

MR. MILLER. Okay. Thought I would ask. Thank you.

Ms. Berkley, anything else?

MS. BERKLEY. Is that in an open hearing or just in general?

MR. COOPER. In fact, we are still in the discussion, as you know, with OMB in the ongoing budget process. But I have to tell you, I think they are trying to support me to a very great extent.

I do not know if I am allowed to say that or not, but I feel that they are quite supportive. And we made pretty strong representation in talking about some of the same stuff with a lot of facts behind it.

MS. BERKLEY. If I could recommend, and you certainly know your job better than I, but given the protracted length of the war and it

does not look like it is going to end any time soon, we are going to have a lot of veterans coming back and they are going to need a lot of services, so go to the mat. And I can promise you at least this Congresswoman will be on that mat with you.

MR. COOPER. I would like to make a statement on that, if I may. One of the wonderful things in my mind that VA has done is set up the seamless transition. And we have worked very closely with the young men and women coming back to Walter Reed, to Bethesda, to the six or seven other service hospitals, so that we have people as soon as those young men and women are ready to talk about benefits to try to explain to them all the benefits that will be available when they are discharged.

And then, as you know, when they leave, their record is sent to the VA hospital closest to where we think they are going. And sometimes that is a problem. They do not go there.

Plus we try to make it so the day they are discharged that the disability claim that they have put in is either absolutely decided or very close to decision so they can start accruing the compensation payment and 30 to 60 days later start getting paid.

So we have set up a process that can adjudicate immediately and, therefore, I feel very confident that the decisions we see, the disabilities we adjudicate are rightful decisions and we can move on.

MR. MILLER. Thank you, Admiral.

Mr. Udall, do you have anything else?

MR. UDALL. Mr. Chairman, just one additional question here.

Last week, the IG seemed to indicate that the 72,000 review may not be needed. Do you have any thoughts on that?

MR. COOPER. Yes. I have a thought that there was no doubt in my mind when the IG made that recommendation, it was not up for a vote. Now, if the IG now feels it might not be necessary, that is a decision or a statement that he has made.

Right now I will tell you I felt when that recommendation was made -- you know, the IG, the way the IG law is set up, he answers to the secretary, but he also answers to Congress. And so the way it was stated and the way it was stated to me in the meeting, there was no doubt in my mind that I was going to be required to do a 72,000 review. But we are talking about it and I think that eventually we will come to an understanding.

MR. UDALL. Thank you, Admiral.

Thank you, Mr. Chairman.

MR. MILLER. Thank you very much.

We all know that each and every year, hundreds of thousands of veterans and VA beneficiaries ask for new benefits or increased benefits. And it is important that VBA be prepared to be able to accurately fulfill that role and responsibility with which you have been charged.

I would say personally and on behalf of this Committee as well, we are all counting on you, Admiral, as well as the veterans community, to keep us and the staff informed of the needs your organization has so that we can ensure that VBA's beneficiaries receive the timely and accurate service that they have earned.

I look forward to working with you, the staff that you brought with you, and the rest of your staff in the future as you continue your service to the veterans of our nation.

Without objection, a statement from the Government Accountability Office will be entered into the record.

With nothing further, this hearing is adjourned.

[The attachment appears on p. 38]

[Whereupon, at 2:58 p.m., the Subcommittee was adjourned.]

## APPENDIX

Chairman Jeff Miller

Opening Statement

Oversight hearing on the development of the Veterans Benefits Administrations' (VBA) annual budget request

November 3, 2005

Good afternoon. The hearing will come to order.

This hearing was originally slated for last week, and I appreciate everyone's reworking of schedules to be with us today.

We are receiving testimony on the development of the Veterans Benefits Administrations' (VBA) annual budget. The Subcommittee is prepared to explore the processes and assumptions used by VBA to project workload and workforce trends that are then used to formulate the annual budget.

Earlier this year in the context of VA health care we learned that, given the limitations of the federal budget process and the dynamic nature of health care, VA's budget projection models can fail. When models fail in the context of health care, Congress must appropriate additional funds or VA may have to reduce services provided to veterans.

It's important to note that the benefits provided by VBA in the form of compensation, pension, and other monetary benefits are entitlement programs which Congress is obligated to pay.

However, the administrative costs of claims adjudication are discretionary, which are subject to annual appropriations.

Therefore, the accurate projection of workforce and workload trends has a direct impact on the claims adjudication process; these projections are the basis for the discretionary appropriation request. If VBA's projections fail, VBA may not have the resources necessary to timely and accurately adjudicate claims.

The Claims Processing Task Force Report, which Admiral Cooper chaired, stated in October of 2001 that quote "VBA's workload will continue to remain dynamic. To expect the workload to return to some normalized, predictable level is not reasonable." End quote.

Admiral Cooper, we hope to better understand how VBA, in light of this dynamic nature, projects workload and workforce trends to formulate its budget to ensure that VBA accomplishes the mission. I intend this to be the first in a series of such hearings.

CLOSING

Each year hundreds of thousands of veterans and other VA beneficiaries file claims to obtain or increase benefits. It is imperative that VBA provide Congress an accurate and adequate budget request.

Admiral Cooper, I am counting on you and your staff to keep the Subcommittee informed of your organization's needs so that we can ensure that VBA's beneficiaries receive the timely and accurate service they have earned.

I look forward to working with you and would like to thank you for your continued service to our nation's veterans.

Without objection, a statement from the Government Accountability Office will be entered into the record.

**Statement of Congressman Lane Evans  
Disability Assistance and Memorial Affairs Subcommittee  
Hearing on the Budget Methodology for the Veterans Benefits Administration  
November 3, 2005**

Thank you, Chairman Miller and Ranking Member Berkley.

I am concerned the VA's budgets have not matched the need for the care and services our veterans have earned. As Veterans' Day approaches, the Administration seems more interested in reducing benefits to seriously disabled veterans than in providing adequate staff to meet VBA's growing workload.

More veterans are applying for benefits. More veterans are appealing decisions they believe are erroneous. Staff to process claims and appeals has not kept up with these increases. VA employees perceive that quantity not quality is recognized and rewarded.

VBA's budget methodology must assure an adequate staff based upon real numbers, real needs and real veterans who have served their country.

I thank all of the witnesses and look forward to your testimony.

Thank you Mr. Chairman.

**Statement of Congresswoman Shelley Berkley  
Disability Assistance and Memorial Affairs Subcommittee  
Hearing on the Budget Methodology for the Veterans Benefits Administration  
November 3, 2005**

Chairman Miller, thank you for holding this hearing. Unlike the Veterans Health Administration, most of the Veterans Benefits Administration's (VBA) budget is mandatory rather than discretionary spending. I recognize that the Department has little control over mandatory spending.

I would like to focus on VBA's projections of new claims and their staffing needs. I am particularly concerned VBA does not have the adequate number of staff to do the job we are asking them to do. In fact, the number of new claims involving eight or more issues has more than doubled in the last five years. These are the most complex claims to decide yet increases in staff have not kept up with the increases in workload.

I am also concerned that the number of appeals has more than doubled in the past five years. I fear we are pushing overworked staff to quickly decide claims, which may result in errors and more staff and time in order to correct.

VA's Inspector General recently reported that most rating specialists and decision review officers who consider appeals "do not believe VAROs [VA regional offices] have sufficient rating staff." Looking at the increase in claims, especially more complex claims, and appeals compared to the current staffing levels, I have to agree with VBA employees.

During our recent hearing on PTSD claims, the Acting Inspector General indicated that VBA may only need to look at the 2,100 cases under review rather than the proposed 72,000. He said that issue was worthy of discussion.

At that same hearing Ms. Brown-Waite raised concerns about the impact of the proposed 72,000 review on claims currently in the pipeline. I share her concerns and have many questions regarding the process. How many additional staff would VBA need to proceed on the proposed additional review of PTSD claims in 2006 without jeopardizing the accuracy and timeliness of claims currently in the system and future claims? Has there been any estimate of the cost of conducting this review? Will additional funds be needed? Are these costs included in the budget for 2006?

The VBA failed to meet its projected target for pending claims at the end of FY 2005 and the number of claims received was substantially higher than projected. To what extent was the "low ball" projection for claim receipts and lack of staff responsible for the failure to meet projected targets for pending claims? I would like to know what is being done to provide more accurate projections of workload and staffing needs.

For FY 2005 and FY 2006, VBA was awarded one-time money to improve claims processing. I believe that we are likely to fall even farther behind if these funds are not included in the Administration's budget for 2007.

Also, VA is currently working under a continuing resolution, so I assume your ability to add any additional staff or make other expenditures is quite limited. I hope that VBA will be able to discuss the impact on VBA's budget when fiscal year funding is delayed by months.

In addition, it appears for the past several years VA has underestimated the amount of the pay increase and when a higher amount is enacted, VA must adjust its spending. For FY 2006, an increase of 2.3% was projected, but 3.1% is now expected.

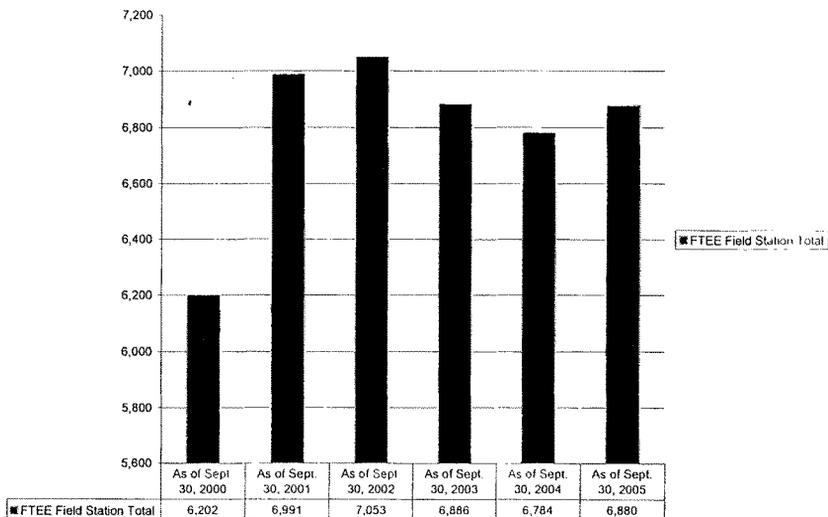
How does the VA project the annual pay adjustment provided to its employees? How will VBA be able to accommodate this increase?

As you all know, this year Congress had to provide supplemental funding for VA due to poor budget projections for discretionary spending. We need to be sure that funding for the administration of the compensation and pension program and the staffing of regional offices is adequate to provide veterans with accurate and timely decisions.

Unfortunately, VA's prepared testimony lacks the specificity needed for proper oversight. I appreciate the Department's willingness to provide additional data which I had requested concerning claims receipts over the past five years and ask that it be included in the record.

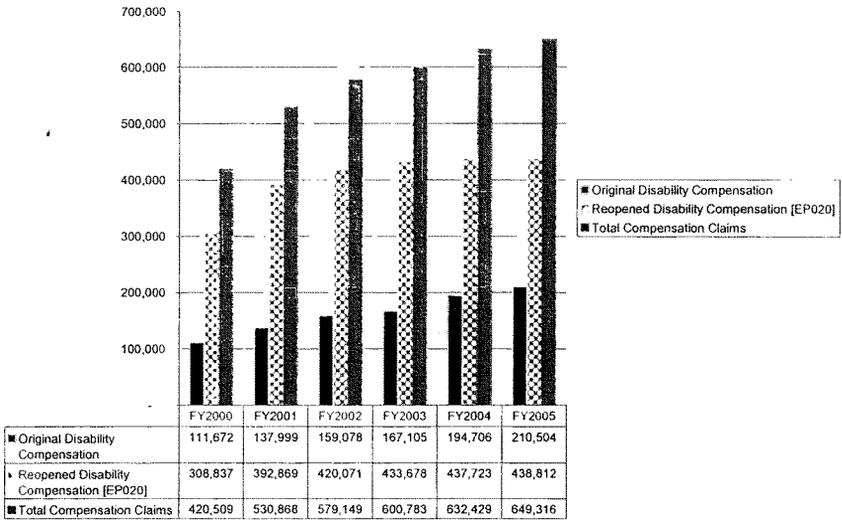
Thank you, Mr. Chairman

FTEE Field Station Total



Data based upon VBA Full Time Employment at Field Stations - Adjudication Division, CP&E and Education Services as of September 30 of each year. COIN PAI 243-102

Increase in Compensation Claims 2000-2005



Claims Received FY 2000-2005  
Veteran Benefits Administration

Receipts	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Original Disability Compensation	111,672	137,999	159,078	167,105	194,706	210,504
8 or more Issues [EP010]	21,814	22,776	26,678	31,058	36,401	43,655
7 or less Issues [EP110]	89,858	115,223	132,400	136,047	158,305	166,849
Reopened Disability Compensation [EP020]	308,837	392,869	420,071	433,678	437,723	438,812
D I C [EP140]	24,941	24,992	29,194	27,924	28,752	28,244
Original Disability Pension [EP180]	32,977	31,624	36,312	34,353	33,945	33,476
Original Death Pension [EP190]	40,206	38,719	41,861	40,148	41,273	41,483
Reopened Pension [EP120]	66,039	57,310	59,412	55,853	53,412	51,655
Education Claims	940,774	1,005,911	1,207,708	1,233,521	1,277,569	1,338,948
Original Claims	132,684	165,595	185,312	177,951	200,081	210,440
Supplemental Claims	808,090	840,316	1,022,396	1,055,570	1,077,488	1,128,508
Vocational Rehabilitation - Applicants	55,974	52,204	61,250	64,522	61,322	62,816

**STATEMENT OF  
DANIEL L. COOPER  
UNDER SECRETARY FOR BENEFITS  
DEPARTMENT OF VETERANS AFFAIRS  
BEFORE THE  
HOUSE VETERANS' AFFAIRS COMMITTEE  
SUBCOMMITTEE ON DISABILITY ASSISTANCE  
AND MEMORIAL AFFAIRS**

**NOVEMBER 3, 2005**

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to appear before you today to describe the budget formulation process for the Compensation and Pension (C&P) Program. I am pleased to be accompanied by Ms. Renée Szybala, Director of the Compensation and Pension Service, Mr. James Bohmbach, VBA's Chief Financial Officer, and Mr. Michael Walcoff, VBA's Associate Deputy Under Secretary for Field Operations.

In fiscal year 2005, C&P Program obligations were \$32.5 billion in mandatory funds, from which benefits are paid to 3.5 million veterans and dependents, and \$1 billion in general operating expense (GOE) or discretionary funds, which cover the costs of administering the C&P Program (primarily payroll).

In my testimony, I will outline how the Veterans Benefits Administration (VBA) formulates the C&P budget. I will discuss the process by which we project the C&P workload and the resources required to handle the workload. These projections then become the basis for our discretionary budget submission. We use the term "workload" to refer to claims submitted for determination of entitlement to benefits.

I will also describe how we integrate our workload projections into our mandatory budget process. We use the term "caseload" to refer to the number of veterans and dependents presently receiving monthly benefit checks. Just as workload projections

support the GOE budget requirements, caseload projections establish the amount of mandatory entitlement spending that must be included in the budget.

Finally, I will address some of the significant issues that have not only affected our workload and the number of beneficiaries being paid, but have also influenced the way claims are processed.

## **Formulation of the Compensation and Pension GOE Budget**

In 2005, we produced over 763,000 disability determinations. We also performed more than two million award actions of all types to address new claims and to maintain those already on the rolls. Additionally we handled over 6.3 million phone calls; conducted over a million interviews; briefed more than 330,000 service persons; and conducted nearly 70,000 hours of outreach to military members, former prisoners of war, homeless, minorities, women, and other targeted groups. VBA's role in serving the veteran population is extensive and complex. Our discretionary budget formulation process must consider all of these areas and ensure sufficient resources to provide the level of service expected by the American people for those who have sacrificed so much in defense of our freedom.

Payroll funding to support our staffing requirements is the largest component of VBA's GOE budget. It accounts for 71 percent of the C&P discretionary funds. Fixed operating and infrastructure costs, including costs for the C&P contract medical examination initiative, make up most of the rest. New and ongoing initiatives are the third element of the discretionary budget.

Projecting incoming workload (new claims) is the starting point for developing the FTE requirements in the C&P discretionary budget. The number of claims receipts is projected based on historical trends and known or anticipated external factors. Claims that require a disability rating determination are the primary workload component because they are the most difficult, time consuming, and resource intensive. There is

also a strong correlation between the volume of rating-related claims and other workload activities such as appeals, account maintenance actions, and public contact activities.

At the same time we reevaluate the workload projections used in formulating the President's Budget Submission for the immediately upcoming fiscal year, under consideration by the Congress. We make modifications as necessary to these projections based on our most recent experience and the current claims environment. We identify factors that will, in VA's judgment, cause workload in the upcoming fiscal year and the budget formulation year to be greater or less than our previous projections and the historical trends would suggest. We then formulate assumptions related to the impact of these factors on our incoming workload projections.

For example, among the factors for which we developed assumptions in the preparation of the 2006 budget were the ongoing hostilities in Iraq and Afghanistan, the Global War on Terrorism, changes in law related to concurrent receipt and combat-related special compensation, the impact of new presumptive conditions, and recent court decisions. We also made assumptions related to changing trends in particular disabilities, such as diabetes and PTSD. It is important to recognize, however, that development of assumptions is not a precise science. It involves application of our best judgment about what will happen in the future, and how those future events will impact on the delivery of VA benefits and services.

There is particular difficulty in making workload projections two years in advance, as the budget formulation process requires. There are intervening and previously unknown factors that, in our experience, occur virtually every year. Such unknown factors can include court decisions requiring re-adjudication of large numbers of claims, recommendations from Program Outcome Studies, reports by the Government Accountability Office or VA's Inspector General, and new entitlements and outreach activities mandated by statute. We must fulfill our responsibilities in relation to these

unanticipated workloads, even though they were not specifically identified in the budget formulation process.

In order to determine FTE needs, we assess our current performance, establish performance goals and targets, and then also make assumptions relative to our future performance. We measure productive capacity using information from our work measurement system that assigns standard manhours to specific types of completed claims and activities. We also use "output per FTE" as a measure of our productivity. Because rating-related claims are the driver of such a significant portion of our workload, the number of completed rating-related claims ("output") per each C&P direct labor employee ("FTE") is a good indicator of changes in our productivity.

We add the projected incoming claims receipts for the budget year to the anticipated pending inventory at the beginning of that year. We then subtract the pending inventory performance target for the end of the budget year to determine the volume of claims to be completed in the budget year. We apply the work rate standards and our measures of output and productivity to the volume of claims to be completed to determine the initial estimate of our direct labor FTE needs.

Adjustments to the direct labor FTE requirements are made based upon performance assumptions and goals, as well as other factors such as anticipated improvements due to process and management efficiencies, new initiatives, training, experience levels of the employees, and anticipated retirements. Adjustments are also made for programmatic changes and assumptions related to our other C&P responsibilities, such as outreach and guardianship activities.

We add the FTE requirements for C&P's share of management and information technology (IT) support to the projected direct labor FTE requirements. This total then becomes the requested FTE level for the C&P Program budget request. The payroll funding level required to support this FTE level is projected based on current average grade and salary, increases for employees not yet at the journey level, new hiring

initiatives, historic trends in changes to the averages, employee benefits and terminal leave costs, projected cost-of-living and locality pay adjustments, and the impact of programs such as employee skills certification. Overtime needs are also projected and added to our payroll funding requirements.

The C&P discretionary budget request is integrated into VBA's and then VA's total budget request. Adjustments are made throughout the internal budget process, as necessary, in line with the Secretary's priorities and goals for improved service delivery.

### **Compensation and Pensions Mandatory Account Projections**

VA's mandatory benefits budget for the Compensation and Pensions appropriation totaled almost \$32.5 billion in FY 2005. Over the past ten years, payments made from this appropriation have increased \$14.7 billion from the 1995 level of \$17.8 billion, or 83 percent. The greatest increase occurred in veterans' compensation payments, which increased \$13 billion from the 1995 level of \$11.6 billion, an increase of 112 percent. Excluding annual cost-of-living adjustments (COLAs), veterans' compensation obligations increased 49 percent from 1995 to 2005. The increase is reflected in both the total number of veterans receiving compensation and the average annual amount of compensation paid. The compensation caseload (number of veterans on the rolls) increased by almost 368,000 veterans, and the average payment increased from \$5,230 in 1995 to \$9,492 in 2005. This average annual payment includes all recurring and retroactive payments made to compensation beneficiaries. The average recurring benefit payment was \$8,609 in 2005.

Compensation and Pensions Appropriation					
	FY 1995	FY 2005		FY 2015	
	Actual	Estimate	% change	Estimate	% change
Total Obligations (\$ billions)	\$17.8	\$32.5	83%	\$56.7	74%
Veterans Compensation obligations(\$ billion)	\$11.6	\$24.6	112%	\$45.6	85%
Veterans Compensation Caseload	2,225,944	2,593,783	17%	3,490,773	35%
Veterans Average Payment (whole dollars)	\$5,230	\$9,492	81%	\$13,067	38%

To adapt to the changing trends in veterans' compensation benefit payments, VBA developed a benefits budget forecasting model based on detailed historical data to project both the caseload and the average amount of benefits paid for the next ten years.

The model incorporates specific data for approximately 99 percent of beneficiaries dating back to 1992. By comparing data from one year to the next, we are able to distinguish any changes in our recurring caseload and develop trends for both accessions and terminations from the compensation benefit program. It is important to note that 95 percent of compensation payments are issued in recurring monthly payments to veterans; the balance covers retroactive and one-time benefit payments.

To project future compensation obligations, trends in historical data are combined with forecast assumptions. Two of the more important assumptions used to estimate future caseload are projected workload and grant rate. Projected workload comes from the discretionary budget formulation process and is the number of both original and reopened cases expected to be completed each year. The grant rate is the percent of completed cases that are awarded benefits and is applied to projected workload to project accessions to the compensation rolls.

To forecast obligations, we must also estimate the average amount of benefits that will be paid to each beneficiary. Although increases in average payment can be

partially attributed to annual COLAs, we have also seen significant increases in veterans' degree of disability, the number of veterans receiving benefits at 100 percent rate based on individual employability determinations, and veterans receiving Special Monthly Compensation. The average degree of disability for all beneficiaries increased from 30.5 percent in 1995 to 37.2 percent at the end of 2004, causing significant increases in average benefit payments.

Once the mandatory benefits projection is developed, it is adjusted based on any recent program changes including newly enacted legislation, regulations, or court decisions. The most recent ten-year plan projects veterans' compensation payments to increase \$21 billion over the next ten years, continuing the trends seen over the past decade.

### **Influences Impacting Budget Formulation**

As I have described, projections of incoming claims workload are key in the formulation of both our mandatory and discretionary budget requests. The number of veterans filing disability compensation claims has increased every year since 2000. Disability claims from returning war veterans and veterans of earlier periods grew from 578,773 in FY 2000 to 788,298 in FY 2005. For FY 2005, this represents an increase of more than 209,000 claims or 36 percent over the 2000 base year.

Ongoing efforts in Afghanistan and Iraq and the Global War on Terrorism, in general, are expected to continue to increase the compensation workload. As of August 2005, there were over 616,000 veterans of the Gulf War Era receiving benefits. (It should be noted that Gulf War Era veterans include all those who have served in the armed forces since August 1990. Therefore, the compensable conditions for which they receive benefits are not necessarily combat-related injuries or illnesses). VA has committed to increased outreach efforts to active-duty personnel. In 2004, the greatest increase in rating receipts was in original claims – an increase of 17 percent. The increase in original claims for 2005 is an additional 8% over last year's high rate, which combines to

a 26 percent increase over the last 2 years. We believe these increases are directly related to our aggressive outreach programs, and that the increases will continue.

The number of veterans receiving compensation has increased by almost 300,000 since 2000 – from just over 2.3 million veterans to over 2.6 million as of September 2005. Since the addition of Diabetes Mellitus Type II to the list of Agent Orange presumptive conditions in 2001, almost 200,000 veterans have been compensated for diabetes. The increased number of compensation recipients, many of whom suffer from chronic progressive disabilities, will continue to drive more claims for increased benefits in the coming years as veterans age and their conditions worsen.

While these external influences have had an impact on the volume of claims receipts and ultimately on entitlement spending, there are still other changes influencing our resource needs in both the mandatory and discretionary accounts.

The number of disabilities per claim submitted by veterans has increased significantly, making claims more complex. Additional resources are required as the number of directly claimed conditions increases because of the number of variables that must be considered and addressed. Applicability of multiple regulations, multiple sources of evidence, multiple potential effective dates and presumptive periods, and the need to prepare adequate and comprehensive Veterans Claims Assistance Act notices, as well as adequate and comprehensive rating decisions, increase proportionately and sometimes exponentially as the number of claimed conditions increases. Additionally, as the number of claimed conditions increases, the potential for additional unclaimed but secondary, aggravated, and inferred issues increases as well. Since veterans appeal decisions for specific disabilities, the increasing number of claimed conditions significantly increases the potential for appeals.

The number of claims for eight or more disabilities increased from 21,814 in FY 2000 to 43,655 in FY 2005, representing a 100 percent increase over the 2000 base year. At our Benefits Delivery at Discharge (BDD) sites the average number of issues claimed is

6.7, compared to 2.6 in a non-BDD environment. Our experience since 2000 demonstrates that the trend to increasing numbers of conditions claimed is system-wide, not just at special intake locations such as BDD sites.

Combat and deployment of U.S. forces to under-developed regions of the world have resulted in new and more complex disability claims based on environmental and infectious risks, traumatic brain injuries, complex combat injuries involving multiple body systems, concerns about vaccinations, and other conditions. In addition, the aging of the veteran population who are today service connected for diabetes adds to the complexity of claimed disabilities. More than 220,000 veterans are now service connected for diabetes. As veterans with diabetes reach and move past the 10-year point since initial diagnosis, additional secondary conditions tend to become manifest. We are already seeing increasingly complex medical pictures resulting in neuropathies, vision problems, cardio-vascular problems, and other issues directly related to diabetes. Much like original claims with more than eight claimed disabilities, diabetes claims routinely present multiple variables with which the rating specialist must deal. If secondary conditions are not claimed, the rating specialist must be alert to identify them. This increasing complexity of the disabilities adds to the increased complexity of our workload and the resources needed to process it.

The number of veterans submitting claims for PTSD has also grown dramatically and contributes to increased complexity. From FY 2000 through FY 2005, the number of veterans receiving compensation benefits for PTSD increased from 134,000 to nearly 245,000. These cases present unique processing complexities because of the evidentiary requirements to substantiate the event causing the stress disorder.

There has also been significant change in processing requirements since FY 2001, with the enactment of the Veterans Claims Assistance Act (VCAA). The passage of the Veterans Claims Assistance Act reversed the decision of the Court of Appeals for Veterans Claims in *Morton v. West* that held that a veteran must submit a "well grounded claim" before VA could assist the veteran. VCAA has significantly increased

both the length and complexity of claims development. VA's notification and development duties increased, adding more steps to the claims process and lengthening the time it takes to develop and decide a claim. We are also now required to review the claims at more points in the decision process.

## **Conclusion**

The Compensation and Pension budget formulation process is based on a complex combination of historical data, current experience, workload and performance projections and assumptions, external influences, program judgment, and management decisions. The budget evolves as these factors and inputs are refined, revised, and revisited. But, throughout all this complexity and change, the prime motivation is fulfilling our mission to help disabled veterans receive the benefits they deserve.

Mr. Chairman, this concludes my statement. I will be happy to respond to any questions that you or other members of the Subcommittee might have.

**GAO**

Testimony  
Before the Subcommittee on Disability  
Assistance and Memorial Affairs,  
Committee on Veterans' Affairs, House of  
Representatives

---

For Release on Delivery  
Expected at 2:00 p.m. EST  
Thursday, November 3, 2005

## VETERANS' DISABILITY BENEFITS

### Improved Transparency Needed to Facilitate Oversight of VBA's Compensation and Pension Staffing Levels

Statement for the Record by Cynthia A. Bascetta,  
Director, Education, Workforce and Income Security



November 3, 2005



Highlights of GAO-06-225T, a statement for the record to Subcommittee on Disability Assistance and Memorial Affairs, Committee on Veterans' Affairs, House of Representatives

## VETERANS' DISABILITY BENEFITS

### Improved Transparency Needed to Facilitate Oversight of VBA's Compensation and Pension Staffing Levels

#### Why GAO Did This Study

The Chairman, Subcommittee on Disability Assistance and Memorial Affairs, House Committee on Veterans' Affairs, asked GAO to submit a statement for the record highlighting findings from an examination of the Veterans Benefit Administration's (VBA) fiscal year 2005 budget justification. In that review, we assessed (1) VBA's determination and justification of claims processing staffing levels, and the role of productivity in such determinations, and (2) VBA's projections of future claims workload and complexity.

#### What GAO Recommends

In our November 2004 report, GAO recommended that VBA take steps to ensure the Congress has a realistic and transparent foundation on which to base funding decisions for disability compensation and pension programs. Specifically, GAO recommended that VBA provide additional information on (1) the impact of claims processing improvement initiatives, (2) claims processing productivity, and plans to improve productivity; and (3) the impact of changes in claims complexity. VA concurred with this recommendation.

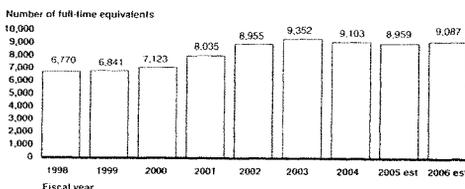
#### What GAO Found

We reported in November 2004 that VBA's fiscal year 2005 budget justification for disability compensation and pension staffing could have been more transparent. VBA inadequately explained how it planned to deal with a growing workload and meet its performance goals despite a lower staffing level. We recommended that to make its budget justification more transparent and useful for congressional oversight, VBA provide the Congress with the following types of information:

- Explanation of the expected impact of specific initiatives and changes in incoming claims and workload. While the fiscal year 2005 justification identified a number of factors that could affect VBA's staffing requirements, VBA did not clearly explain how each of these initiatives and projections affected its funding request for fewer employees.
- Claims processing productivity, including VBA plans to improve productivity. The fiscal year 2005 budget justification inadequately explained how VBA would achieve productivity improvements needed to improve claims processing performance with larger workloads and fewer staff.
- Explanation of how claims complexity is expected to change and the impact of these changes on productivity and requested staffing levels. VBA stated that claims complexity is increasing, but did not project increases in disabilities per claim or explain how complexity changes would affect productivity.

In responding to our report, VBA agreed to work to include this information in its future budget justifications for compensation and pension staffing and identified more specific steps that it plans to take in its fiscal year 2007 and 2008 budget cycles. We have observed that, in contrast to last year, the fiscal year 2006 justification contains performance goals that VBA believes are more achievable and it addresses how it will achieve these goals within higher resource levels, due to additional funding from the Congress.

VBA Compensation and Pension FTEs, Fiscal Years 1998-2006



Source: Department of Veterans Affairs Budget Submissions for fiscal years 2000-06

[www.gao.gov/cgi-bin/getrpt?GAO-06-225T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-225T)

To view the full product, including the scope and methodology, click on the link above. For more information, contact Cynthia A. Bascetta at (202) 512-7215 or [bascetta@gao.gov](mailto:bascetta@gao.gov).

United States Government Accountability Office

---

Dear Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to comment on Veterans Benefits Administration (VBA) requests for funding to administer its disability compensation and pension programs, in particular funding for claims processing staffing levels. The Congress relies on VBA's annual budget justification as the agency's statement of how it plans to spend the funds it requested and for conducting its oversight of VBA. Therefore, it is important that VBA provide the Congress with a reliable and transparent analysis to support its funding requests.

As the Chairman requested, my statement is based on our November 2004 report on VBA's fiscal year 2005 staffing request and presents key findings and recommendations from that report.<sup>1</sup> To update information in the report, we reviewed VBA's fiscal year 2006 budget submission and obtained final fiscal year 2005 data on VBA's compensation and pension claims workload. We did not perform independent verification of VA's data for this statement, but are currently assessing the reliability of VBA's workload data. We conducted our review in October 2005, in accordance with generally accepted government auditing standards.

In summary, we reported in November 2004 that VBA's fiscal year 2005 budget justification for disability compensation and pension staffing could have been more transparent. VBA inadequately explained how it planned to deal with a growing workload and meet its performance goals despite a lower full-time equivalent (FTE) staff level. We recommended that to make its budget justification more transparent and useful for congressional oversight, VBA provide the Congress with the following types of information:

- Explanation of the expected impact of specific initiatives and changes in incoming claims workload. While the fiscal year 2005 justification identified a number of factors that could affect VBA's staffing requirements, VBA did not clearly explain how each of these initiatives and projections affected its funding request for fewer employees.
- Claims processing productivity, including VBA plans to improve productivity. The fiscal year 2005 budget justification inadequately

---

<sup>1</sup>GAO, *Veterans' Benefits. More Transparency Needed to Improve Oversight of VBA's Compensation and Pension Staffing Levels*, GAO-05-47 (Washington, D.C.: Nov. 15, 2004).

---

explained how VBA would achieve productivity improvements needed to improve claims processing performance with larger workloads and fewer staff.

- Explanation of how claims complexity is expected to change and the impact of these changes on productivity and requested staffing levels. VBA stated that claims complexity is increasing, but did not project increases in disabilities per claim or explain how complexity changes would affect productivity.

In responding to our report, the Department of Veterans Affairs (VA) agreed to work with the Office of Management and Budget and congressional appropriating and authorizing committees to ensure that appropriate supporting information is included in its future budget justifications for compensation and pension staffing. VBA also identified more specific steps that it plans to take in response to our recommendation, in the fiscal year 2007 and 2008 budget cycles. Meanwhile, we have observed that VBA's fiscal year 2006 budget justification addressed how VBA would use higher resource levels, due to additional funding from the Congress, to meet what it believes are more achievable performance goals. For example, VBA eased its fiscal year 2005 goal for average days to complete rating-related claims from 100 to 145 days.<sup>7</sup>

---

## Background

When a veteran submits a claim for disability benefits to a VBA regional office, Veterans Service Center staff process the claim in accordance with VBA regulations, policies, procedures, and guidance. A Veterans Service Representative (VSR) in a pre-determination team develops the claim; that is, assists the claimant in obtaining sufficient evidence to decide the claim. The claim then goes to a rating team, where a Rating Veterans Service Representative (also known as a Rating Specialist) makes a decision on the claim, based on the available evidence and VBA's criteria for benefit entitlement. VSRs also perform a number of other duties, including establishing claims files, authorizing payments to beneficiaries and generating notification letters to claimants, conducting in-person and telephone contacts with veterans and other claimants, and assisting in the processing of appeals of claims decisions.

---

<sup>7</sup>Rating-related decisions are primarily decisions on original claims for compensation and pension benefits and reopened claims. For example, veterans may file reopened claims if they believe their service-connected conditions have worsened.

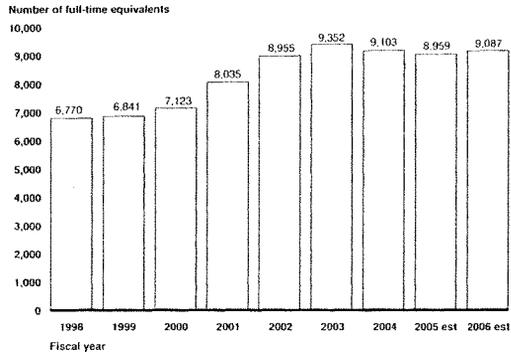
---

VBA's administrative costs, including personnel costs, are funded through VA's General Operating Expenses account. VBA, as part of VA's annual budget justification, asks for specific amounts for each of its programs, including compensation and pension programs. Funding is requested to support an estimated FTE employment level.<sup>3</sup> In fiscal year 2004, VBA spent about \$926 million to administer its compensation and pension programs, including support for about 9,100 FTEs.

From fiscal year 1998 through 2003, VBA's compensation and pension staffing levels increased by about 38 percent, from 6,770 to 9,352 FTEs, as shown in figure 1. Staffing levels increased because VBA hired hundreds of new Rating Specialists and VSRs in anticipation of a large number of future retirements. Also, these additional staff helped VBA respond to a sharp drop in the production of rating-related claims decisions in fiscal year 2001, with these decisions increasing from 481,000 to 827,000 in fiscal year 2003. After relatively small declines in the FTE level in fiscal years 2004 and 2005, VBA estimated that its fiscal year 2006 budget request would support 9,087 FTEs.

---

<sup>3</sup>Full-time equivalent employment is the basic measure of levels of employment used in the budget. It is the total number of hours worked divided by the total number of compensable hours in a fiscal year. For example, in fiscal year 2003 an FTE represented 2,088 hours (8 hours per day for 261 days).

**Figure 1: VBA Compensation and Pension FTEs, Fiscal Years 1998-2006**

Source: Department of Veterans Affairs Budget Submissions for fiscal years 2000-06

In fiscal year 2005, VBA's 57 regional offices received about 788,000 rating-related claims from veterans and their families for disability benefits. This included about 211,000 original claims for compensation of service-connected disabilities (injuries or diseases incurred or aggravated while on active military duty) and about 439,000 reopened compensation claims.<sup>4</sup> In addition, about 85,000 original and reopened claims were filed for pensions for wartime veterans who have low incomes and are permanently and totally disabled for reasons not service-connected and for their survivors.<sup>5</sup> In addition, VBA received about 28,000 original claims for dependency and indemnity compensation by deceased veterans' spouses, children, and parents and to survivors of service members who died on active duty. VBA's rating-related claims received increased by about 17,000 from fiscal year 2004 to fiscal year 2005, continuing a trend

<sup>4</sup>For example, a reopened compensation claim could be filed by a veteran seeking an increase in disability rating based on the worsening of a service-connected disability or by a veteran seeking compensation for a previously unclaimed disability.

<sup>5</sup>Veterans aged 65 or older do not have to be permanently and totally disabled to become eligible for pension benefits, as long as they meet the other requirements for income and military service. VBA also pays pensions to surviving spouses and unmarried children of deceased wartime veterans.

---

that has seen an increase of more than 200,000 claims (about one-third) since fiscal year 2000.

---

## VBA's Budget Justifications Could More Clearly Explain the Basis for Its Compensation and Pension Staffing Estimates

VBA officials stated that productivity improvements, workload changes, and attrition of experienced claims processing staff are considered throughout the annual budget process. However, VBA's fiscal year 2005 budget justification did not clearly explain how these factors affected its request. Early in this process, the Compensation and Pension Service makes a budget request that is reviewed by VBA's Office of Resource Management, under the direction of VBA's Chief Financial Officer, and becomes part of VBA's total request. VBA's request eventually becomes part of VA's overall budget request, which is submitted to the Office of Management and Budget (OMB) for review.<sup>6</sup>

VBA's fiscal year 2005 budget justification identified a number of initiatives and projections that could affect its staffing levels. For example, implementing specialized claims processing teams in VBA's regional offices and consolidating pension maintenance work at three regional offices could affect staffing levels. Also, VBA projected it would receive more disability compensation claims than in previous years, based on such factors as the enactment of concurrent receipt legislation in 2003—which allows military retirees with service-connected disabilities rated at 50 percent or higher to receive both VA disability compensation and military retirement pay. VBA estimated that it would receive about 65,000 claims due to this legislation. VBA officials said that this estimate was included in their negotiations with OMB. Further, VBA noted that it expects many experienced claims processing staff to leave VBA over the next several years.

Despite identifying these factors in its 2005 budget justification, VBA did not specify how such initiatives and projections would affect the number of employees it needed to meet its claims processing performance goals. For example, VBA projected that in fiscal year 2005, the number of original and reopened compensation claims receipts would increase by about 15 and 10 percent, respectively, from its fiscal year 2004 estimates, and that original and reopened pension receipts would decrease by about 2 percent. However, VBA did not specifically identify how these anticipated workload trends had affected its requested staffing levels or its expected

---

<sup>6</sup>Under OMB guidance (Circular A-11), agency FTE employment estimates should consider productivity improvements and workload assumptions.

---

improvements in productivity. VBA's reduced staffing request was consistent with OMB guidance to agencies to assume increased productivity in their budget requests—for example, to do the same amount of work with fewer employees. However, the budget justification does not describe how its FTE staffing requirements are linked to the specific initiatives and projections that could affect these needs. We recommended that VBA provide the Congress with an explanation of the expected impact of specific initiatives and changes in incoming claims workload on requested staffing levels. VBA concurred, stating that, beginning with the fiscal year 2007 budget cycle, VBA will provide detailed analyses of instituted or planned initiatives and process changes, and their anticipated impact on productivity.

Also, VBA's fiscal year 2005 budget justification provided no specific information on its compensation and pension claims processing productivity or on its planned improvements in productivity. VBA expressed confidence that it could improve productivity enough to meet its claims processing goals for fiscal year 2005 with fewer employees, despite a projected increase in the workload of compensation claims. However, the budget justification included no measurement of productivity nor did it identify how it planned to achieve the needed productivity improvements. We recommended that VBA provide the Congress with additional information on claims processing productivity, including how it plans to improve productivity. VBA concurred, stating that it would investigate ways to incorporate more information on productivity in the formulation of its fiscal year 2007 budget justification.

Further, VBA did not project the complexity of its rating-related claims in its fiscal year 2005 budget submission and did not explain the impact of complexity on productivity and requested staffing levels. VBA has noted that disability compensation claims have become more complex because veterans are claiming more service-connected disabilities per claim, and VBA must make a decision whether each disability is service-connected. Meanwhile, the Congress and VA have established presumptions of compensation and pension eligibility that can make some claims less complex. For example, the Congress and VA have identified several types of disabilities (such as type II diabetes) as service-connected based on the presumption that veterans who served in Vietnam were exposed to Agent Orange. Claims based on these disabilities can be simpler to decide because less evidence is needed to prove service connection. VBA did not specifically explain the impact of claims complexity on productivity and staff requirements. Further, VBA's discussion of complexity in its fiscal year 2006 budget justification was limited to a statement that complexity is

---

increasing. We recommended that VBA prepare an explanation of how claims complexity is expected to change and the impact of these changes on productivity and requested staffing levels. VBA concurred, stating that modifications were being made to its information systems that would enable VBA to use data from its Rating Board Automation 2000 system to measure complexity in terms of numbers of issues adjudicated. VBA anticipates having sufficient baseline data by the end of calendar 2005 to support its fiscal year 2008 budget projections.

VBA's fiscal year 2006 budget justification proposed to fund more FTEs than it originally proposed for fiscal year 2005 and set more achievable performance goals. Specifically, VBA estimated that it would have 7,703 direct compensation and pension FTEs in fiscal year 2005, primarily for the processing of compensation and pension claims.<sup>4</sup> This was 290 FTEs more than VBA originally requested. VBA requested the same direct FTE level for fiscal year 2006. This increased staffing level was funded through a transfer of \$119 million from VA's Medical Services account, as authorized by the Congress. At the same time, VBA adjusted key fiscal year 2005 performance goals to make them less ambitious. For example, the new goal for average days to complete a rating-related decision was 145 days, up from 100 days. Also, VBA's new timeliness goal for pending rating-related compensation claims was an average of 119 days, up from 96 days. While VBA met neither goal, it came closer to the revised goals.<sup>5</sup> Also, VBA provided information on claims decision productivity, in terms of rating-related claims decided per direct FTE.

---

## Concluding Observations

We concluded in our November 2004 report that it was difficult to determine whether VBA's confidence that it could meet its key fiscal year 2005 claims processing goals was well-founded because its budget justification lacked sufficient information to make such an assessment. VBA agreed, recognizing that it had not provided the Congress with the information needed to determine whether it could meet its compensation and pension claims processing performance goals despite increasing workload and a lower staffing level. VBA has adjusted its performance goals to make them more achievable, in particular its goals to provide

---

<sup>4</sup>VBA's budget justification also included requests for funding of management direction and support and information technology FTEs.

<sup>5</sup>VBA completed rating-related decisions in an average of 167 days in fiscal year 2005, and its end of fiscal year rating-related compensation inventory's average age was 122 days.

---

more timely claims decisions to veterans and their families. Meanwhile, the Congress provided additional funding to support a higher staffing level. VBA has identified steps it plans to take to provide additional information in support of its annual budget requests. It is important to do so to make its budget requests more transparent and more useful for congressional budgetary decisionmaking and oversight.

---

## GAO Contact and Acknowledgments

For further information, please contact Cynthia A. Bascetta at (202) 512-7215. Also contributing to this statement were Cristina Chaplain, Irene Chu, Martin Scire, and Greg Whitney.

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

---

**GAO's Mission**

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

**Obtaining Copies of GAO Reports and Testimony**

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site ([www.gao.gov](http://www.gao.gov)). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "Subscribe to Updates."

---

**Order by Mail or Phone**

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000  
TDD: (202) 512-2537  
Fax: (202) 512-6061

---

**To Report Fraud, Waste, and Abuse in Federal Programs**
**Contact:**

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)  
E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)  
Automated answering system: (800) 424-5454 or (202) 512-7470

---

**Congressional Relations**

Gloria Jarmon, Managing Director, [JarmonG@gao.gov](mailto:JarmonG@gao.gov) (202) 512-4400  
U.S. Government Accountability Office, 441 G Street NW, Room 7125  
Washington, D.C. 20548

---

**Public Affairs**

Paul Anderson, Managing Director, [AndersonP1@gao.gov](mailto:AndersonP1@gao.gov) (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548

**Questions for the Record**  
**Honorable Jeff Miller, Chairman**  
**Subcommittee on Disability Assistance and Memorial Affairs**

**Hearing on the Development of the Compensation and Pension (C&P)**  
**Annual Budget Request**

**November 3, 2005**

**Question 1:** In recent years Congress has provided Federal employees with a pay raise equal to that provided to military personnel; however, the Administration's budget proposal has projected a lower pay raise for Federal employees. What effect has this had on VBA's discretionary budget? Specifically, please explain which other discretionary funding programs have had resources diverted to cover increased personnel costs.

**Response:** Over the past five years, the difference in the cost of adjusting for the increase in the annual pay raise has been between \$5 million and \$10 million. By itself, this adjustment does not have a significant impact on our \$1.4 billion discretionary budget. However, meeting an increase in pay requirements is only one of many adjustments Veterans Benefit Administration (VBA) must address between formulation and execution. Our budget submission is developed 12 to 18 months before it is appropriated. Although we use the most sophisticated methods available during formulation to estimate actual requirements during the year of execution, numerous requirements (e.g., personnel fringe benefits, rent, and contracts) will either increase or decrease during the intervening period from formulation to execution. In addition, during the past two years, VBA's annual budget request has been reduced to meet a government-wide rescission during the congressional appropriation process. Upon receipt of the annual appropriation, VBA realigns resources in the development of the annual operating plan to meet unexpected increases in requirements (pay raise, rescission, etc.) from requirements that may have decreased since formulation. In those instances where it has been necessary to make programmatic reductions, VBA has reduced funding for initiatives and contracts that may be delayed until the following year.

**Question 2:** According to the GAO, since fiscal year 2000 VBA's workload projections have varied from an over-projection of 19.4 percent to an under-projection of 10.9 percent. Understanding that workload projection is complicated, what is an acceptable level of variance? What steps is VBA taking to improve workload projection modeling?

**Response:** VBA's workload projection process is complex and involves analysis of past workload trends, the veteran population, the active military force, the level of deployment, the existence of potential legislation, and program judgment. In

**Question 4:** We often hear VA officials state that they can reduce costs through “management efficiencies.” Please define “management efficiency” and provide me an example of a VBA “management efficiency.”

**Response:** Management efficiencies are processes or practices instituted to improve a program’s return on investment through higher productivity or decreased costs. Increasing employee proficiency through training and experience is also a management efficiency. Other examples include implementation of process improvements, implementation of effective reporting and methods to track and manage work, and centralization of specialized tasks to maximize the use of resources.

An example implemented by VBA is the Appeals Management Center (AMC), which processes appeals remanded by the Board of Veterans’ Appeals. In part because of the focus and specialization on remands at the AMC, VBA reduced the pending inventory of remanded appeals by more than 6,000 during fiscal 2005: a 26 percent decrease over the course of the year.

**Question 5:** Over the last two years VBA has seen a 26 percent increase in the number of original claims received. Are those claims mostly attributable to claims from service members returning from OEF/OIF or are they from veterans of other eras?

**Response:** VA identifies Operation Enduring Freedom/Operation Iraqi Freedom (OEF/OIF) returning service members through data sharing with Department of Defense (DoD). In fiscal year (FY) 2004, VBA received 194,706 original disability compensation claims, of which 31,624 (16.2 percent) were from returning OEF/OIF service members. Through June FY 2005, when the latest DoD information is available, we received 210,504 original compensation claims of which 40,628 (19.3 percent) were from returning OEF/OIF service members.

Some of these returning OEF/OIF service members had prior active military service. VBA’s benefits information system does not attribute each claim from a veteran to a specific period of service or deployment. Therefore, not all of the claims from returning OEF/OIF service members are for disabilities incurred during OEF/OIF deployment.

**Question 6:** Consolidating the pension maintenance function at three regional offices was intended to improve timeliness and lead to a decrease of 57 direct pension FTE in fiscal year 2005. Have the anticipated production gains been realized by the consolidation of the pension maintenance function? If so, could consolidation be employed to improve productivity for compensation adjudication? Please explain how consolidation could improve compensation adjudication and provide estimated timeliness gains that could be realized through consolidation.

addition, it is made more difficult by the need to develop projections two years in advance.

The variances between projected and actual receipts for 2000 through 2005 are as follows:

Fiscal Year	Projected	Actual	Difference	Variance
2000*	662,450	578,773	83,677	14.5% over projected
2001*	587,760	674,219	86,459	14.7% under projected
2002*	734,087	721,727	12,360	1.7% over projected
2003	675,323	735,274	59,951	8.9% under projected
2004	767,051	771,115	4,064	.5% under projected
2005	794,248	788,298	5,950	.7% over projected

\*FY2004 budget volume is when incoming workload numbers were included in the C&P Budget Submission.

The goal is for the estimated workload to be within plus or minus three percent of actual receipts. In a dynamic environment like VA's, we believe a three percent variance from actual workload numbers is a reasonable expectation.

Factors that cannot be foreseen at the time the budget is formulated contribute to greater variance in some years. For example, the projection for 2001 was prepared in 1999 and the higher than expected number of receipts resulted directly from legislation that added diabetes as a presumptive disability for herbicide exposure.

VBA continues to work with the Institute for Defense Analyses to improve the workload projecting process. However, an element of subjective judgment will always be part of the formulation process.

**Question 3:** In fiscal year 2005, \$69 million was transferred from VHA to VBA in accordance with the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act of 2005 (PL 108-324). An additional \$50 million will be transferred from VHA to VBA in fiscal 2006. Does VBA anticipate additional funding from future supplementals?

**Response:** VBA has requested approximately \$25 million as part of a supplemental funding request to address requirements related to damage incurred by Hurricane Katrina. Beyond that, VBA does not project any additional supplemental funding at this time.

**Response:** VA's 2006 Budget Submission estimated 1,230 direct full time equivalents (FTE) in the pension program for 2005, which would represent a decrease of 57 FTE from the 1,287 FTE reported for 2004. VBA's actual direct FTE in the pension program for 2005 was 1,257 FTE, a reduction of 30 FTE from the reported 2004 level.

VBA consolidated all pension maintenance activities to three Pension Maintenance Centers (PMCs) in 2002. One of the primary purposes of this consolidation was to narrow the focus of the jobs of the Veterans Service Center employees who previously had to have extensive knowledge and expertise in all the complexities of both compensation and pension claims processing. Prior to this consolidation, it had been estimated that veterans service representatives had to understand and be capable of performing over 10,000 separate tasks on any given day. Through consolidation of the pension maintenance activities and the establishment of specialized processing teams in both the compensation and pension programs, employees are now able to concentrate their training and learning on distinct functional areas and significantly reduce the number of tasks they are required to perform. This consolidation and specialization allows for greater workload control, improved decision quality, and greater efficiencies in the claims process in both programs. VBA achieved major reductions in the pending claims inventory as a result, while also making significant advances in quality. The national accuracy rate for authorization actions, which includes pension maintenance actions, increased from 76 percent in 2002 to 90 percent in 2005.

In 2006, VBA is exploring the consolidation of all the remaining pension work (i.e., pension claims requiring a disability rating decision) to the PMCs. VBA believes this will allow it to continue to capitalize on the efficiencies already achieved through the PMC consolidation. VBA will also complete the consolidation of the rating activities for all Benefits Delivery at Discharge claims to the Salt Lake City and Winston Salem Regional Offices in March 2006.

VBA has already successfully consolidated other portions of compensation claims processing. The Tiger Team was created in 2001 to focus on claims over one year old and to expedite decisions for claimants who are age 70 or older. The same year, nine Resource Centers were established to allow VBA to realize production gains where rating capacity exists and assist those regional offices experiencing workload difficulties. Another area of the compensation workload that has been consolidated is the processing of survivors' benefits claims for in-service deaths to the Philadelphia Regional Office and Insurance Center.

VBA will continue to explore other areas of the compensation workload for potential efficiencies that could be realized through consolidation. While improved timeliness of processing would likely be one of the primary goals of any future consolidation effort, VBA is unable to project future timeliness

improvements for consolidation initiatives not yet fully developed. It is also important to recognize that timeliness of processing is impacted by many factors, including incoming volume of claims, staffing levels, complexity of work, and legislative and programmatic changes.