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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss claims processing issues in the Department of Veterans Affairs' (VA) disability compensation and pension programs. Through these programs, VA provided almost \$30 billion in cash disability benefits to more than 3.4 million veterans and their survivors in fiscal year 2004. For years, the claims process has been the subject of concern and attention within VA and by the Congress and veterans service organizations. Many of their concerns have focused on long waits for decisions, large claims backlogs, and inaccurate decisions. Our work and recent media reports of significant discrepancies in average disability payments from state to state has also highlighted concerns over the consistency of decision-making within VA. In January 2003, we designated modernizing federal disability programs as a high-risk area, in part because of VA's continuing challenges to improving the timeliness and consistency of its disability decisions.

You asked us to discuss the current state of VA's disability claims process and factors that may impede VA's ability to improve performance. My testimony today draws on numerous GAO reports and testimonies on VA's compensation and pension claims-processing operations. (See related GAO products.) To update our work, we reviewed recent claims processing performance data, VA's fiscal year 2006 budget justification, and VA's fiscal year 2004 Performance and Accountability Report. We did not perform independent verification of VA's data. We conducted our work in May 2005 in accordance with generally accepted government auditing standards. In summary, VA continues to have disability claims processing problems. For example, as of the end of March 2005, rating-related claims were pending an average of 119 days, 8 days more than at the end of fiscal year 2003, and far from its strategic goal of 78 days. During the same period, the rating-related inventory grew by about 86,000 claims to a total of about 340,000 claims. While VA has improved the accuracy of its decisions to 87 percent in fiscal year 2004, it is still below its strategic goal of 96 percent in fiscal year 2008. Further, we have identified concerns about the consistency of decisions across VA's regional offices. VA has begun studying one indicator of inconsistency, the wide variations in average payments per veteran from state to state, in response to adverse media coverage.

We identified factors that may impede VA's ability to improve its disability claims processing performance. The impacts of laws, court decisions, and the filing behavior of veterans can significantly affect VA's ability to decide claims, as well as the volume of claims received. Also, VA's ability to improve the productivity of its claims processing staff may affect its ability to improve performance. More dramatic gains in timeliness and inventory reduction might require fundamental changes in the design and operations of VA's disability programs.

#### Background

VA's disability compensation program pays monthly benefits to veterans with service-connected disabilities (injuries or diseases incurred or aggravated while on active military duty) according to the severity of the disability. Also, VA pays dependency and indemnity compensation to some deceased veterans' spouses, children, and parents and to survivors of service members who died on active duty. The pension program pays monthly benefits based on financial need to wartime veterans who have low incomes, served in a period of war, and are permanently and totally disabled for reasons not service-connected (or are aged 65 or older). VA also pays pensions to

surviving spouses and unmarried children of deceased wartime veterans.

When a veteran submits a claim to any of VA's 57 regional offices, a veterans service representative (VSR) is responsible for obtaining the relevant evidence to evaluate the claim. Such evidence includes veterans' military service records, medical examinations and treatment records from VA medical facilities, and treatment records from private medical service providers. Once a claim is developed (i.e., has all the necessary evidence), a rating VSR, also called a rating specialist, evaluates the claim and determines whether the claimant is eligible for benefits. If the veteran is eligible for disability compensation, the rating specialist assigns a percentage rating based on degree of disability. Veterans with multiple service-connected disabilities receive a single composite rating. For veterans claiming pension eligibility, the regional office determines if the veteran served in a period of war, is permanently and totally disabled for reasons not service-connected (or is aged 65 or older), and meets the income thresholds for eligibility. A veteran who disagrees with the regional office's decision for either program can appeal sequentially to VA's Board of Veterans' Appeals (BVA), the U.S. Court of Appeals for Veterans Claims, and the U.S. Court of Appeals for the Federal Circuit.

In January 2003, we designated modernizing VA's disability programs, along with other federal disability programs, as high-risk. We did so, in part, because VA still experiences lengthy processing times and lacks a clear understanding of the extent of possible decision inconsistencies. We also designated VA's disability programs as high-risk because our work over the past decade found that VA's disability programs are based on concepts from the past. VA's disability programs have not been updated to reflect the current state of science, medicine, technology, and labor market conditions.

In November 2003, the Congress established the Veterans' Disability Benefits Commission to study the appropriateness of VA disability benefits, including disability criteria and benefit levels. The commission held its first public hearing in May 2005.

#### Problems in Claims Processing Continue

VA continues to experience problems processing veterans' disability compensation and pension claims. These include large numbers of pending claims and lengthy processing times. While VA made progress in fiscal years 2002 and 2003 in reducing the size and age of its inventory of pending claims, it has lost some ground since the end of fiscal year 2003. As shown in figure 1, pending claims increased by about one-third from the end of fiscal year 2003 to the end of March 2005, from about 254,000 to about 340,000. During the same period, claims pending over 6 months increased by about 61 percent from about 47,000 to about 75,000.

#### Figure 1: Rating-Related Claims Pending at End of Period, Fiscal Year 2000 through March 2005

Similarly, as shown in figure 2, VA reduced the average age of its pending claims from 182 days at the end of fiscal year 2001 to 111 days at the end of fiscal year 2003. Since then, however, average days pending have increased to 119 days at the end of March 2005. This is also far from VA's strategic goal of an average of 78 days pending by the end of fiscal year 2008. Meanwhile, the time required to resolve appeals remains too long. While the average time to resolve an appeal dropped from 731 days in fiscal year 2002 to 529 days in fiscal year 2004, close to its fiscal year 2004 goal of 520 days, but still far from VA's strategic goal of 365 days by fiscal year 2008.

Figure 2: Average Days Pending for VA Compensation and Pension Rating-Related Claims, Fiscal Year 2000 through March 2005

In addition to problems with timeliness of decisions, VA acknowledges that the accuracy of regional office decisions needs to be improved. While VA reports that it has improved the accuracy of decisions on rating related claims from 81 percent in fiscal year 2002 to 87 percent in fiscal year 2004—close to its 2004 goal of 90 percent. However, it is still below its strategic goal of 96 percent in fiscal year 2008.

VA also faces continuing questions about its ability to ensure that veterans receive consistent decisions—that is, comparable decisions on benefit entitlement and rating percentage—regardless of the regional offices making the decisions. The issue of decision-making consistency across VA is not new. In a May 2000 testimony before the Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, House of Representatives, we underscored the conclusion made by the National Academy of Public Administration in 1997 that VA needed to study the consistency of decisions made by different regional offices, identify the degree of subjectivity expected for various medical issues, and then set consistency standards for those issues. In August 2002, we drew attention to the fact that there are wide disparities in state-to-state average compensation payments per disabled veteran. We noted that such variation raises the question of whether similarly situated veterans who submit claims to different regional offices for similar conditions receive reasonably consistent decisions. We concluded that VA needed to systematically assess decision-making consistency to provide a foundation for identifying acceptable levels of variation and to reduce variations found to be unacceptable. Again, in November 2004, we highlighted the need for VA to develop plans for studying consistency issues. VA concurred in principle with our findings and recommendation in the August 2002 report and agreed that consistency is an important goal and acknowledged that it has work to do to achieve it. However, VA was silent on how it would evaluate and measure consistency. Subsequently, VA concurred with our recommendation in the November 2004 report that it conduct systematic reviews for possible decision inconsistencies.

In December 2004, the media drew attention to the wide variations in the average disability compensation payment per veteran in the 50 states and published VA's own data showing that the average payments varied from a low of \$6,710 in Ohio to a high of \$10,851 in New Mexico. Reacting to these media reports, in December 2004, the Secretary instructed the Inspector General to determine why average payments per veteran vary widely from state to state. Also, VA's Veterans Benefits Administration began another study in March 2005 of three disabilities believed to have potential for inconsistency: hearing loss, post-traumatic stress disorder, and knee conditions. VA assigned 10 subject matter experts to review 1,750 regional office decisions. After completing its analysis of study data, VA plans to develop a schedule for future studies of specific ratable conditions and recommend a schedule for periodic follow-up studies of previously studied conditions.

#### Factors That May Impede VA's Ability to Improve Claims Processing Performance

Several factors may impede VA's ability to make, and sustain, significant improvements in its claims processing performance. These include the potential impacts of laws, court decisions, and the filing behavior of veterans; VA's ability to improve claims processing productivity; and program design and structure.

Laws, Court Decisions, and Filing Behavior of Veterans Impact Workload and Performance

Recent history has shown that VA's workload and performance is affected by several factors, including the impacts of laws and court decisions expanding veterans' benefit entitlement and clarifying VA's duty to assist veterans in the claims process, and the filing behavior of veterans. These factors have affected the number of claims VA received and decided. For example, court decisions in 1999 and 2003 related to VA's duty to assist veterans in developing their benefit claims, as well as legislation in response to those decisions, significantly affected VA's ability to produce rating-related decisions. VA attributes some of the worsening of inventory level and pending timeliness since the end of fiscal year 2003 to a September 2003 court decision that required over 62,000 claims to be deferred, many for 90 days or longer. Also, VA notes that legislation and VA regulations have expanded benefit entitlement and as a result added to the volume of claims. For example, presumptions of service-connected disabilities have been created in recent years for many Vietnam veterans and former Prisoners of War. Also, VA expects additional claims receipts based on the enactment of legislation allowing certain military retirees to receive both military retirement pay and VA disability compensation.

In addition, the filing behavior of veterans impacts VA's ability to improve claims processing performance. VA continues to receive increasing numbers of rating-related claims, from about 586,000 in fiscal year 2000 to about 771,000 in fiscal year 2004. VA projects 3-percent increases in claims received in fiscal years 2005 and 2006. VA notes that claims received are increasing in part because older veterans are filing disability claims for the first time. Also, according to VA, the complexity of claims, in terms of the numbers of disabilities claimed, is increasing. Because each disability needs to be evaluated, these claims can take longer to complete. VA plans to develop baseline data on average issues per claim by the end of calendar year 2005.

#### Ability to Improve Productivity May Affect Future Performance Improvements

In November 2004, we reported that to achieve its claims processing performance goals in the face of increasing workloads and decreased staffing levels, VA would have to rely on productivity improvements. However, its fiscal year 2005 budget justification did not provide information on claims processing productivity or how much VA expected to improve productivity. VA's fiscal year 2006 budget justification provides information on actual and planned productivity, in terms of rating-related claims decided per direct full-time equivalent (FTE) employee, and identifies a number of initiatives that could improve claims processing performance. These initiatives include technology initiatives, such as Virtual VA, involving the creation of electronic claims folders; consolidation of the processing of Benefits Delivery at Discharge (BDD) claims at 2 regional offices; and collaboration with the Department of Defense (DOD) to improve VA's ability to obtain evidence, such as evidence of in-service stressors for veterans claiming service-connected Post-Traumatic Stress Disorder.

It is still not clear whether VA will be able to achieve its planned improvements. VA's fiscal year 2006 budget justification assumes that it will increase the number of rating-related claims completed per FTE from 94 in fiscal year 2004 to 109 in fiscal year 2005 and 2006, a 16-percent increase. For fiscal year 2005, this level of productivity translates into VA completing almost 826,000 rating-related decisions. Midway through fiscal year 2005 VA had completed about 373,000 decisions.

## Program Design and Regional Office Structure May Limit Performance Improvements

Program design features and the regional office structure may constrain the degree to which improvements can be made in performance. For example, in 1996, the Veterans' Claims Adjudication Commission noted that most disability compensation claims are repeat claims? such as claims for increased disability percentage?and most repeat claims were from veterans with less severe disabilities. According to VA, about 65 percent of veterans who began receiving disability compensation in fiscal year 2003 had disabilities rated 30 percent or less. The Commission questioned whether concentrating claims processing resources on these claims, rather than on claims by more severely disabled veterans, was consistent with program intent. In addition to program design, external studies of VA's disability claims process have identified the regional office structure as disadvantageous to efficient operation. Specifically, in its January 1999 report, the Congressional Commission on Servicemembers and Veterans Transition Assistance found that some regional offices might be so small that their disproportionately large supervisory overhead unnecessarily consumes personnel resources. Similarly, in its 1997 report, the National Academy of Public Administration found that VA could close a large number of regional offices and achieve significant savings in administrative overhead costs.

Apart from the issue of closing regional offices, the Commission highlighted a need to consolidate disability claims processing into fewer locations. VA has consolidated its education assistance and housing loan guaranty programs into fewer than 10 locations, and the Commission encouraged VA to take similar action in the disability programs. In 1995 VA enumerated several potential benefits of such a consolidation. These included allowing VA to assign the most experienced and productive adjudication officers and directors to the consolidated offices; facilitating increased specialization and as-needed expert consultation in deciding complex cases; improving the completeness of claims development, the accuracy and consistency of rating decisions, and the clarity of decision explanations; improving overall adjudication quality by increasing the pool of experience and expertise in critical technical areas; and facilitating consistency in decisionmaking through fewer consolidated claims-processing centers. VA has already consolidated some of its pension workload (specifically, income and eligibility verifications) at three regional offices. Also, VA has consolidated at its Philadelphia regional office dependency and indemnity compensation claims by survivors of servicemembers who died on active duty, including those who died during Operation Enduring Freedom and Operation Iraqi Freedom.

### Concluding Observations

VA has had persistent problems in providing timely, accurate, and consistent disability decisions to veterans and their families. To some extent, program design features that protect the rights of veterans have also increased the complexity of and length of time needed to process their claims. In addition, expanding entitlements have increased VA's workload as more veterans file claims. As a result, major improvements in disability claims processing performance may be difficult to achieve without more fundamental change. We have placed VA's disability programs on our high-risk list along with other federal disability programs. Modernizing its programs would give VA the opportunity to address many longstanding problems. At the same time, VA could integrate any changes to disability criteria and benefit levels that the Veterans' Disability Benefits Commission may propose. This is important because significant changes in the benefits package and disability criteria are major factors affecting VA's disability claims process and its claims processing performance.

Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you or the members of the committee may have.