

**STATEMENT OF THE HONORABLE ANTHONY J. PRINCIPI**  
**SECRETARY OF VETERANS AFFAIRS**  
**FOR PRESENTATION BEFORE THE**  
**HOUSE COMMITTEE ON VETERANS AFFAIRS**

**February 13, 2002**

Mr. Chairman, and members of the Committee, good morning. I am pleased to be here today to discuss the President's 2003 budget proposal for the Department of Veterans Affairs (VA) and tell you about the significant progress we are making on behalf of the Nation's veterans.

Our budget reflects the largest increase ever proposed for veterans' discretionary programs. It ensures more veterans will receive high-quality health care, that we will provide more timely and accurate benefit claim determinations, and that we will maintain a dignified and respectful setting for deceased veterans. Our proposal reflects the debt of gratitude we owe to those who have served our country with honor. It also signals our enduring commitment to the men and women in uniform who today defend our freedom many miles away.

We are requesting \$58 billion for veterans' benefits and services - \$30.1 billion for entitlement programs and \$27.9 billion for discretionary programs. This is an increase of \$6.1 billion over the 2002 enacted level. Our budget increases VA's discretionary funding by \$3.1 billion over the 2002 level, including medical care collections. Increases for specific programs are as follows: \$2.7 billion for medical programs; \$17 million for burial services; \$94 million for the administration of veterans' benefits; and \$64 million for capital programs and other departmental administration.

Our budget request includes \$197 million for a new grant activity that replaces programs currently administered by the Department of Labor and \$892 million for certain Federal retiree and health benefits as proposed by the Administration's Managerial Flexibility Act of 2001. Excluding these new activities, our budget for discretionary programs reflects an increase of \$1.9 billion, or 7.8 percent over last year's funding level.

Medical Care

For Medical Care, we are requesting budgetary resources of \$25 billion, including \$1.5 billion in collections. This increase will provide health care for nearly 4.9 million unique patients - an increase of 156 thousand, or 3.3 percent, over the current 2002 estimate.

Mr. Chairman, I'm pleased to report that we are making substantial improvements to our billing and collection from third party insurers. In a collaborative effort with an external contractor, we have identified 24 actions that will yield significant enhancements to our ability to collect revenue. While many of these actions require time and investment, we have already begun improvements to the revenue collection process. I have directed that we begin the process of consolidating billing and collection services, and that we explore the cost and benefits of outsourcing these services. In addition, we are aggressively pursuing insurance identification by obtaining new HIPAA compliant software to facilitate exchange of medical information with non-VA entities. We are also mounting increased veteran and employee awareness and training campaigns. Further, we have developed a web-based performance metrics program that is used by central office and medical center staff to monitor and evaluate the critical steps in the revenue cycle. Following the original implementation of reasonable charges in September 1999, we have implemented two updates. Work is nearly complete on the next reasonable charges update, which we expect to publish in the Federal Register as an Interim Final Rule and implement during Spring 2002. We expect to collect over \$1 billion this year with continuing increases in 2003 and beyond. We are committed to maximizing our revenue opportunities from this source.

VA has experienced unprecedented growth in the medical system workload over the past few years. The total number of patients treated increased by over 11 percent from 2000 to 2001 – more than twice the prior year's rate of growth. For the first quarter of 2002, we experienced a similar growth rate when compared to the same period last year. The growth rate for Priority 7 medical care users has averaged more than 30 percent annually for the last 6 years, and they now comprise 33 percent of enrollees in the VA health care system. Based on current law, this percentage is expected to increase to 42 percent by 2010.

I am proud that an increasing number of veterans are choosing to receive their health care in the VA system. Despite this success, we have much to accomplish. Patient access to our medical facilities must be improved and this budget reaffirms our commitment to do so. Our goal is for veterans to receive non-urgent appointments for primary and specialty care in 30 days or less, while being seen within 20 minutes of their scheduled appointment. We have included an additional \$159 million in our request to work toward this goal.

Mr. Chairman, I know you agree that VA's health care system should maintain timely, high quality care for service-connected and low income veterans and remain open to all veterans. To effectively manage participation in the system, we are proposing a \$1,500 medical deductible for Priority 7 veterans. With no change in policy, the cost of care for Priority 7 veterans would grow from \$1 billion in 2000 to over \$5 billion in 2007. To assure that rising workload does not dilute the quality of care, Priority 7 veterans are being asked to pay for a greater portion of their health care than in the past. We are recommending that these veterans be assessed a deductible for their health care at a percentage of the reasonable charges up to a \$1,500 annual ceiling. This is not a standard deductible that must be paid upfront and veterans' insurance may cover all

charges. If all projections, funding levels, and the new deductible are realized, VA anticipates continued open enrollment to all veterans in 2003 without detriment to our traditional core patients – those with service-connected disabilities and lower incomes.

VA is working to meet the challenges in long-term care for veterans. However, we believe that a literal interpretation of P.L. 106-117, the “Veteran’s Millennium Health Care and Benefits Act of 1999” will result in less than optimal solutions for increasing our long-term care capacity. The number of individual veterans who received care in VA increased from more than 3 million veterans in 1998 to more than 4 million veterans in 2001, due primarily to VA’s efforts to expand access for primary care. During that same time period, efforts have been made to meet the increased demand for long-term care. Although the average daily census in VA nursing homes declined, veterans mandated under P.L. 106-117 to receive such care are being served in VA and contract community nursing homes. VA is also supporting a significantly increased census of veterans in state veterans nursing homes. At the same time, VA has been expanding care for veterans in home and community-based extended care, consistent with the mandates of P.L. 106-117. Indications we have received from veterans show that they are pleased with options providing long-term care closer to home, as well as alternatives to more traditional skilled-nursing environments. We look forward to working with Congress to pursue the best options to provide veterans with long-term care.

Our rapidly aging veteran population requires more health care services. Our request includes \$817 million to address this rising demand. These funds will support our emphasis on access and service delivery, pharmaceutical support, prosthetics, CHAMPVA for Life, and information technology. Management savings of over \$316 million will partially offset resource needs. For example, I am establishing a program across the VA system that will implement “best practice” standards for dispensing and prescribing pharmaceuticals.

The 2003 budget supports our cooperative efforts with the Department of Defense (DoD) to improve federal health care delivery services. Over the past year, we have undertaken unprecedented efforts to improve cooperation and sharing in a variety of areas through a reinvigorated VA and DoD Executive Council. VA and DoD entered into a Memorandum of Understanding (MOU) in December 1999, with the objective of reducing contract duplication. The first addendum to that MOU resulted in the conversion of DoD’s Pharmaceutical Distribution and Pricing Agreements (DAPAs) to reliance on VA’s Federal Supply Schedule (FSS) contracts for pharmaceuticals, which was completed in December 2000. The second addendum is an agreement to convert DoD’s DAPAs for medical/surgical products to reliance on VA’s FSS. This effort was completed in December 2001. To address some of the remaining challenges, the Departments have identified four high-priority items for improved coordination: veteran enrollment, computerized patient records, cooperation on air transportation of patients, and facility sharing instead of construction.

## Medical and Prosthetic Research

VA's clinical research program is funded at the highest level in history with a partnership of government, universities and the private sector. Over \$1.46 billion will be invested in 2003: \$409 million in direct appropriation; \$401 million in support from the VA Medical Care appropriation primarily in the form of salary support for the clinical researchers; \$460 million from federal organizations such as DoD and NIH; and \$196 million from universities and other private institutions. This investment will allow VA to expand knowledge in areas critical to veterans' and other citizens' health care needs including schizophrenia, diabetes, further implementation of cholesterol and other guidelines, aging, renal failure treatment, and clinical drug treatment evaluations. This investment is relevant to the medical needs of the entire Nation and will enhance future quality of life.

## Capital Asset Realignment for Enhanced Services (CARES)

We continue our effort to transform the veterans' health care system under the Capital Asset Realignment for Enhanced Services (CARES) initiative. We are evaluating the health care services we provide, identifying the best ways to meet veterans' future medical needs, and realigning our facilities and services to meet those needs more effectively.

Mr. Chairman, this initiative is not a perfunctory exercise. The CARES process has already had a significant impact on our planning process. Last week, I announced my decision on realigning VA health care facilities in VISN 12. For example, we will shift inpatient services to a remodeled Chicago West Side Division, and maintain a Lakeside Division multi-specialty outpatient clinic in the downtown area. The Hines VA Medical Center will be renovated, including the Blind Rehabilitation and Spinal Cord Injury Centers. Sharing opportunities between the North Chicago VA Medical Center and the adjacent Naval Hospital Great Lakes will be enhanced.

CARES is critical to the future of VA health care. It will allow us to redirect funds from the maintenance and operation of facilities we no longer need to direct patient care. I am prepared to make the difficult choices necessary to ensure accessible care to more veterans in the most convenient and appropriate settings. We will complete CARES studies of our remaining health care networks within two years. Any savings that result from CARES will be put back into the community to provide higher quality care and more services to veterans. Changes will affect only the way VA delivers care – health care services will not be reduced.

## Major and Minor Construction Programs

For all capital programs (construction and grants) this is the largest request since 1996. Specifically for major construction, new budget authority of \$194 million is requested. We are requesting funds for four seismic projects in exceptionally high-risk areas: two in Palo Alto, one in San Francisco, and one in West Los Angeles, CA. These projects involve primary care buildings and a consolidated research facility – all of which will be part of any service delivery option resulting from the CARES process. Seismic improvements will ensure veterans and their families, and VA staff, will continue to be cared for, and work in a safe environment. The 2003 Major request also addresses critical National Cemetery needs. Resources are included for new cemeteries in Pittsburgh, PA and Southern Florida and a columbaria and cemetery improvements project at the Willamette National Cemetery, OR. Design funds are provided in the amount of \$3.4 million for the design of new cemeteries in Detroit, MI and Sacramento, CA. We are also requesting funds to remove hazardous waste and asbestos from Department-owned buildings, perform an emergency response security study, reimburse the judgment fund, and support other construction-related activities.

To date, we have received \$80 million in Major Construction funding to support the design and construction of projects that result from CARES studies. Our Major request for 2003 includes \$5 million to continue efforts to realign our facilities.

New budget authority in the amount of \$211 million is requested for the Minor Construction program. Particular emphasis will be placed on outpatient improvements, patient environment, and infrastructure improvements. A total of \$35 million is earmarked for CARES-related design and construction needs. These funds have been proposed to allow VA to immediately implement CARES options that can be accomplished through the minor construction program (i.e., capital projects costing more than \$500 thousand and a total project cost less than \$4 million). In addition, \$20 million is dedicated to a newly created category to fund minor seismic projects, which will allow VA to further address its seismic corrections needs.

## Veterans' Benefits

For the administration of veterans' benefits, we are requesting \$1.2 billion and an additional 125 employees over the 2002 level. The President has promised to improve the timeliness and quality of claims processing. Last year, I established a claims processing task force to recommend changes that would improve the time it takes to process claims. The results of that task force, as well as implementation plans, have been presented to me and we have already begun to execute many of the recommendations.

I have set a goal of reaching 100 days to process compensation and pension claims by the summer of 2003. While the annual average number of days for these claims is projected to be 165 for 2003, we expect to achieve the 100-day goal by the last quarter of the year. Four months ago, we began a major effort to resolve 81,000 of the oldest Compensation and Pension claims. A key element of this effort involves a "Tiger Team" at the Cleveland Regional Office that will tackle many of these claims over an 18-month period. The team became fully operational in November 2001. Additionally, consolidation of pension benefit maintenance at three sites will allow VBA to free up employees to focus on rating compensation claims.

At the same time we are reducing the time it takes to process claims, we continue to improve the quality of claims processing. During 2003, the national accuracy rate for compensation and pension claims is projected to grow to 88 percent – a significant improvement from the 59 percent rate evidenced in 2000. This budget contains \$3.5 million to support 64 additional employees dedicated to the Systematic Individual Performance Assessment (SIPA) initiative. This is an important contribution to enhance internal control mechanisms and bring accountability to the accuracy of claims processing.

This budget provides additional staff and resources to continue the development of information technology tools to support improved claims processing. Over the last several years, VBA has developed and implemented major initiatives, established cooperative ventures with other agencies, and used technology and training to address accuracy and timeliness. This budget continues to focus on initiatives in these high payoff areas. For example, this budget requests \$6 million in support of the Virtual VA initiative. This effort, when complete, will replace the current intensive paper-based claims folder with electronic images and data that can be accessed and transferred through a web-based application.

Our budget also addresses the mandate to ensure that Montgomery GI Bill (MGIB) education benefits provide meaningful transition assistance and aid in the recruitment and retention of our Armed Forces. Recent legislation has improved these benefits and our priority is to deliver them as efficiently as possible. I am pleased to report that the Imaging Management System (TIMS) is now functioning in all four Regional Processing Offices. The electronic folders that result from this effort have expanded access points, improved data access, and enhanced customer satisfaction. This budget requests \$6.2 million to develop and install the Education Expert System (TEES). Among other benefits, this expert system will enable us to automate a greater portion of the education claims process and expand enrollment certification. In 2003, we will continue to improve the accuracy and timeliness of education claims and improve blocked call rates.

Mr. Chairman, I would like to take this opportunity to mention one of VA's great success stories – the administration of more than 4 million insurance policies in force. The American Customer Satisfaction Index (ASCI) and the University of Michigan conducted a study of the insurance death claims process and the satisfaction of beneficiaries who

received awards. This study gave the VA's insurance program a score of 90 on a scale of 100. This is one of the highest scores ever recorded for either government or private industry. This budget provides funding to continue the Insurance Center's history of excellence. Our request includes a paperless processing initiative, which improves timeliness and quality of service while reducing the cost to policyholders.

### New Veterans Employment Grants Program

Veterans represent a unique and invaluable human resource for American society and the economy. Service personnel leave the military knowing they have made a vital contribution to their country. Veterans want to continue making meaningful contributions as they return to civilian life. However, in 21 states, fewer than 10 percent of veterans between the ages of 22 and 44 were placed in employment after seeking job search assistance from state service providers; during 2001, there was an average of 519,000 unemployed veterans, and in the same time period, 32 percent of unemployed veterans experienced 15 or more consecutive weeks of unemployment.

America's labor exchange market has evolved in the time since the foundation for current programs was laid. This budget proposes legislation that will allow VA to create a new competitive grant program to help veterans obtain employment. VA is working with the Department of Labor (DOL), veterans' service organizations and others to propose a veterans' employment program tailored to the needs of 21<sup>st</sup> century veterans seeking assistance in finding suitable employment. The details of the legislative proposal to implement this initiative are not yet final. If authorized by Congress, the new program will broaden our ability to assist veterans with employment and training services. Our first priority will be serving unemployed service-connected disabled veterans and those recently separated from military service. We will also help other veterans searching for employment. Our budget request for discretionary programs includes \$197 million for the grant initiative.

We have the flexibility to design a program that will incorporate elements currently contained in the DOL grant program – transition assistance; disabled veterans' outreach; local veterans' employment representatives; and homeless veterans reintegration. Veterans look to the VA for education benefits, home loan assistance and, in some instances, rehabilitation and employment, medical care and compensation benefits in the transition years after leaving active duty. Later in life, many veterans may return to the VA for health care and ultimately burial benefits. Adding an enhanced employment opportunity program to the spectrum of care and services provided by VA would provide veterans with a single access point to a full continuum of benefits and services throughout their lifetime.

I know there are many questions left unanswered regarding this new program. We are in the process of finalizing our legislative proposal within the Administration and will

submit it to you in the near future. At that time, we will be prepared to address your questions in greater detail.

### National Cemetery Administration

The budget proposal includes \$138 million to operate the National Cemetery Administration. The request preserves our commitment to maintain VA's cemeteries as National shrines, dedicated to preserving our Nation's history, nurturing patriotism, and honoring the service and sacrifice of our veterans. It provides a total of \$10 million to continue renovation of gravesites, as well as clean, raise, and realign headstones and markers.

As noted earlier in my testimony, our budget request for Major Construction includes funds for the development of two new national cemeteries in the vicinity of Pittsburgh, PA and Miami, FL. Operating funds also are requested to prepare for interment operations in 2004 at these two locations and to begin interment operations at new cemeteries at Fort Sill, OK, and near Atlanta, GA.

### Management Improvements

Mr. Chairman, last year I stated my commitment to reform VA's use of information technology. I am pleased to report that we have made substantial progress in this area and will continue our reform efforts. As VA moves forward with implementation of the One-VA Enterprise Architecture developed in 2001, we will manage information technology resources to account for all expenditures and ensure our scarce resources are spent in compliance with this Enterprise Architecture. A strong program is under development for Cyber Security. We are re-engineering our IT workforce to ensure we have the proper skill sets to support our program needs. I have recently approved a comprehensive change in how we manage our IT projects to ensure they deliver high quality products, meet performance requirements, and are delivered on time and within budget.

VA is bringing enterprise-wide discipline and integration of our telecommunications capability to increase security, performance, and value. Command and control capabilities are being established to support the Department in times of emergency. Electronic government will be expanded and internet capabilities will be enhanced to improve the delivery of services and the sharing of knowledge for the benefit of the veteran. All of these efforts will focus on meeting the objectives of the President's Management Agenda.

We are pursuing other important initiatives that will promote better management practices throughout the Department. For example, I recently convened the VA

Procurement Reform Task Force to examine our acquisition process and develop recommendations for improvement. The Task Force has presented 60 recommendations to accomplish several major goals that will enhance our ability to: 1) leverage purchasing power; 2) obtain comprehensive VA procurement information; 3) improve VA procurement organizational effectiveness; and 4) ensure a sufficient and talented VA acquisition workforce. Mandatory use of the Federal Supply Schedule, reorganization and elevation of the VHA logistics function to more quickly standardize medical and surgical supplies, and establishment of a National Item File are some of the more prominent recommendations being made in order to maximize savings in our medical care procurements. We are well on our way to achieving savings and increased effectiveness in VA's acquisition arena.

Finally, our 2003 request includes funds for a new Office of Operations, Security and Preparedness (OS&P). Since the tragic events of September 11, 2001, we have made substantial investments to address the Department's security and preparedness, and to meet our primary and critical emergency response missions. VA is the only pre-deployed nationwide health care system. We must be prepared for any disaster response. OS&P will play an important role in the Federal government's continuity of operations in the event of an emergency situation. The new office is formed with the specific intent of improving VA's ability to respond to any contingency with minimal disruption to services for veterans and their families. This office will coordinate all VA involvement with the Office of Homeland Security, FEMA, the Department of Health and Human Services and DoD.

Mr. Chairman, that concludes my formal remarks. Although many challenges lie ahead, I am proud of the accomplishments that have taken place over the past year. Our budget request for 2003 is a good budget for veterans and positions us for continued success. I thank you and the members of this Committee for your dedication to our Nation's veterans. I look forward to working with you. My staff and I would be pleased to answer any questions.