REAR ADMIRAL PATRICK W. DUNNE, USN (RET), ACTING UNDER SECRETARY FOR BENEFITS, VETERANS BENEFITS ADMINISTRATION, DEPARTMENT OF VETERANS AFFAIRS

STATEMENT OF
REAR ADMIRAL PATRICK W. DUNNE, USN (RET)
ACTING UNDER SECRETARY FOR BENEFITS
VETERANS BENEFITS ADMINISTRATION
DEPARTMENT OF VETERANS AFFAIRS
BEFORE THE
SENATE COMMITTEE ON VETERANS' AFFAIRS
EXAMINING THE VA CLAIMS PROCESSING SYSTEM
July 9, 2008
Mr. Chairman and members of the Committee:
Thank you for the opportunity to appear before you today to discuss the Veterans Benefits Administration's (VBA) disability claims processing system. I am accompanied by Mr. Michael Walcoff, Deputy Under Secretary for Benefits.
Today, my testimony will focus on the numerous efforts we have in progress to improve the claims process. I will also address the recent independent study conducted by IBM and the actions we have taken to implement IBM's recommendations.
Before I discuss our efforts to improve benefits delivery, I would like to update you on our current workload situation. Last year we estimated we would receive 855,000 disability claims in fiscal year 2008. However, based on our claims receipts through May, we now project that we will receive as many as 883,000 disability claims this fiscal

year, an increase of over five percent from last year. While the incoming volume of claims continues to grow, our decision production has also significantly increased. Even with the increased volume, we are now completing more claims than we receive. As a result, the pending inventory at the end of May was reduced to 390,000.
VBA is continually seeking new ways to increase production and shorten the time veterans are waiting for decisions on their claims. In the near term, we have several initiatives that I will highlight here today. However, key to our success will be our ongoing longer-term efforts to enhance and upgrade our claims processing systems through integration of today's technology.
Hiring Initiative and Training
Last year we began an aggressive nationwide hiring initiative that has added more than 2,700 new employees since January 2007. Our hiring plan will result in an unprecedented increase of a total of 3,100 additional employees through the end of this fiscal year. At the same time, we continue ongoing recruitment to replace staffing losses that occur due to normal attrition.
To rapidly integrate these new employees into the claims production process, we modified our new employee training program to focus initial training on specific claims processing functions. This allows our new employees to become productive earlier in their training program and lets our more experienced employees focus on the more complex and time-consuming claims.

While the complexity of VBA's decision-making responsibilities normally requires a comprehensive program of classroom and on-the-job training over the course of a two-year period, our modified training program for new employees has contributed to earlier performance

improvements from the staffing increases. In May 2008, our inventory of 390,000 was at the lowest level since September 2006. We expect continued reductions through the balance of this year and throughout 2009.

Timeliness of Processing

The timeliness of our claims processing decisions has essentially remained stable throughout this fiscal year. In FY 2007 our average processing time was 183 days; we have averaged 182 days through May of this year. This is very disappointing to us, as we projected we would reduce our processing times this year to an average of 169 days. We believe our inability to reduce processing time this year is due in part to the greater than projected increase in incoming claims we are experiencing (approximately 30,000 more than projected). Although we increased production and will end the year at or above our projection of 878,000 completed claims, the greater volume has had an impact on our ability to achieve the timeliness improvements we projected. However, as our new hires receive training and gain experience over the coming months, we will make significant improvements in timeliness in 2009.

Pilot to Expedite Claims Development

Because the evidence-gathering process comprises such a significant portion of the time required to provide veterans with decisions on their claims, we have recently undertaken a pilot initiative in partnership with the Texas Veterans Commission (TVC) to test new ways to expedite claims development.

Through an intergovernmental agreement with the Waco Regional Office, TVC is providing the equivalent of four full-time employees who will make telephone contact with claimants and third-party sources in efforts to obtain necessary evidence more quickly. Additionally, the TVC employees have been trained to retrieve information from electronic sources to assist in obtaining documentation required to advance claims. This pilot commenced on June 9, 2008 and will run through January 2009. This initiative has already achieved some early successes, and we are exploring expansion of the pilot to other states.

Development Center Expansion

Last year VBA established two Development Centers in Roanoke and Phoenix to assist regional offices experiencing workload difficulties. This year through the end of May, these two centers completed development on over 31,000 claims. We are establishing two additional Development Centers this year in Togus and Lincoln. The Togus Center is already operational and the Lincoln Center will be fully operational in October 2008. Regional offices that have sent cases to the Development Centers have reduced the number of cases awaiting development (reductions range from 30 percent to 75

percent). We expect marked improvements in the timeliness of claims decisions at these regional offices as a result of the Development Centers' efforts.

Independent Study of the Claims Process

Because of the increasing and changing workload and workforce and our desire to ensure we are using the most effective methods of organizing work and maximizing resources, we sought help from the private sector. In September 2007, VBA contracted with IBM Global Business Services to analyze our current business processes and recommend changes to further improve our operational efficiency and consistency.

From October 2007 through January 2008, IBM conducted a detailed review of the business processes involved with claims adjudication, beginning with application receipt and ending with

notification to the claimant. Overall, IBM's recommendations validated areas for efficiency gains we had already identified internally.

Both the short-term and long-term recommendations made by IBM focus on the phases of the claims process and specific activities under VBA's control. The short-term recommendations are incremental enhancements that VBA can make to the existing business processes to realize benefits in efficiency and productivity. Because our current claims process is heavily reliant on paper and the movement of paper claims folders, the greatest efficiencies will be gained as a result of IBM's longer-term recommendations to move to an electronic, paperless environment.

Implementation of IBM's Recommendations

When analyzing our claims process, the IBM study team noted that bottlenecks occur during the time VBA waits for a response to our Veterans Claims Assistance Act (VCAA) letter. Upon receipt of a claim for benefits, claims processors must carefully analyze all issues and determine what evidence is necessary to substantiate the claim. Under the VCAA, we must provide a letter to the claimant detailing the evidence required to substantiate the claim and which party (VA or the claimant) is responsible for obtaining the evidence. Under statute (38 USC 5103), claimants have one year from the date of the VCAA notification to submit any requested evidence. However, VA may make a decision on the claim prior to the one-year expiration. To help streamline this evidence-gathering process, IBM recommended that we simplify the VCAA letter and also reduce the evidence-gathering time period from 60 days to 30 days.

VA issued a final rule on May 30, 2008 that clarified the 30-day response time. VA now allows 30 days for a claimant to respond to the VCAA notification before VA may adjudicate a claim. Of course, if the claimant submits evidence after VA adjudicates a claim but before the expiration of the one-year period, VA will readjudicate the claim.

We have revised the VCAA letters in order to reduce confusion and misunderstanding by the veterans. Four new VCAA letter templates were created for specific types of claims. Each letter template is concise, reader-focused, and consolidates all VCAA requirements to a single enclosure. The option to waive the VCAA waiting period to further help expedite the claims process is in bold font on the first page of each letter

template. Programming changes to our claims processing systems are necessary to implement the new letters. The revised letters will be available for use in field stations with our November 2008 programming update.

To achieve large-scale improvements in efficiency and productivity, VBA must make a fundamental shift in how we process compensation and pension claims. All of IBM's longer-term recommendations focus on information technology enhancements that will allow VBA to move into a paperless environment. Integration of paperless processing technologies will enable us to assign and manage work electronically and reduce manual activities, freeing resources for more value-added decision making. Eliminating manual processes is necessary to greatly improve VBA's timeliness.

IBM identified enhancements to the current Veterans Online Application (VONAPP) system as one of the critical first steps in VBA's transition. Because VONAPP is not integrated with our IT systems, data from applications that were filed on line must be manually entered into our processing systems. Enhancing VONAPP is an essential step in moving to a paperless environment. We recently completed the process to begin accepting VONAPP applications without requiring submission of a signed paper application. The electronic application is

accepted as sufficient authentication of the claimant's application for benefits. This streamlines the application process for veterans and their families and reduces the need for additional development by VA personnel to obtain the required signatures. Normal evidentiary development procedures and rules of evidence still apply to all VONAPP applications.

Our comprehensive strategy for paperless delivery of veterans benefits employs a variety of enhanced technologies to support end-to-end claims processing. In addition to imaging and computable data, we will incorporate enhanced electronic workflow capabilities, enterprise content and correspondence management services, and integration with our modernized payment and claims processing system, VETSNET.

Integration with VETSNET is also a critical success factor in our overall strategy. We have made significant progress in the implementation of VETSNET over the past two years. Approximately 98 percent of all original compensation claims are being processed end-to-end in VETSNET, and we are now paying monthly compensation benefits to nearly 2.4 million veterans - or approximately 84 percent of all compensation recipients - using this modernized platform.

We are exploring the utility of business-rules-engine software for both workflow management and to potentially support improved decision making by claims processing personnel. We published a "Request for Information" last summer that yielded a variety of products that may be useful in our end-state vision.

We have conducted two pilot projects that have demonstrated the utility of imaging technology in our Compensation and Pension Program. Both projects utilize our Virtual

VA imaging platform and related applications. Virtual VA is a document and electronic claims-folder repository.

The first pilot supports our income-based pension program. It involves imaging documents received in conjunction with the annual income verification and reporting process. This imaging allows the three Pension Management Centers to make the necessary claims adjustments without retrieving and reviewing the paper claims file. We are expanding this effort to support the transition of all pension claims processing to the Pension Maintenance Centers, which will bring this category of claims into the paperless environment from the outset of the claims process.

The second pilot supports the compensation program at the centralized rating activity sites for our Benefits Delivery at Discharge (BDD) Program. The separating servicemembers' medical records and supporting claims information are imaged at the outset of the claims process. This allows rating veterans service representatives to make decisions based solely upon review of the imaged records rather than the paper claims file. We are now expanding this pilot to include all claims filed under the BDD Program. By September 2008, all BDD claims will be processed in the paperless environment.

We are continuing to expand. The next category of claims to move to the paperless environment will be claims filed by separating servicemembers who have less than 60 days until discharge.

We are developing another pilot project as a first step in implementing on-line "self-service" to allow veterans to manage some of their interactions with VA electronically. This project will examine issues such as user authentication that will allow self-service changes to beneficiaries' accounts (e.g., change of address or banking institution, addition or deletion of a dependent).

Disability Evaluation System (DES) Pilot

In November 2007, VA and the Department of Defense launched a joint pilot of the revised Disability Evaluation System in the national capital region. The redesigned process differs from the existing standard process in four critical elements.

First, VA enters the process at the beginning rather than the end. When a servicemember is referred for a Medical Evaluation Board, VA is advised of the conditions that are potentially unfitting. Experienced VA military services coordinators interview the member and determine whether there are additional conditions that the servicemember believes were incurred in or aggravated by their military service.

Second, a comprehensive physical examination is conducted according to VA protocols for both the potentially unfitting and other claimed conditions. In the initial stages of the pilot, VA is conducting those examinations. As the pilot expands and if it becomes the standard business practice, examinations will be conducted according to VA protocols by a combination of DOD, VA and contract clinicians.

Third, if DoD determines that the servicemember is unfit for further military duty, VA assesses the level of disability for both the unfitting and other claimed conditions for DoD and VA purposes. Thus, there is one rating and the servicemember has a comprehensive understanding of what he/she is entitled to from both Departments.

Finally, in accordance with DoD policy, the member has a right to a one-time reconsideration of the evaluation assigned by VA by a VA Decision Review Officer while the member is still on active duty. This review does not compromise the servicemember's right to exercise his/her VA appellate rights once separated.

The process has been organized to enable VA to authorize benefits on the date that the member separates from service. As of June 15, 2008, a total of 439 servicemembers have entered the program. One member has separated from service and four other servicemembers were scheduled to separate on June 27, 2008. Currently 33 servicemembers are in transition pending separation.

Expanded Quality Assurance Program

As part of VBA's continued commitment to quality improvement, VBA is expanding its quality assurance program. The national STAR (Systematic Technical Accuracy Review) staff has been consolidated to the Nashville office. The expanded program includes increased national accuracy review sampling, expanded data analysis, and focused rating decision consistency reviews.

Based on sound statistical sampling procedures, sample size for any national or regional office accuracy measure should be 246 cases. With the addition of 10 FTE in February 2008, the STAR staff was able to increase the annual rating sample size for each regional office from 120 cases to 246 cases in April 2008. A similar increase for the Pension Maintenance Centers (PMC) annual sample is planned for August 2008. Expansion of the sample size for the 57 regional offices for compensation maintenance (authorization) end products is pending completion of new space completion and full hiring.

This year the STAR staff conducted several special focused reviews of rating cases, including a special quality review of radiation cases and the ongoing review of extraordinarily large awards. Additional special reviews include a focused review of cases completed by the Appeals Management Center that began in June 2008.

On-going data analysis is conducted quarterly to identify the most frequently rated disabilities or diagnostic codes, assess the frequency of the assignment or denial of service connection for each

code by regional office, and assess the most frequently assigned evaluation mode for each code by regional office. Focused audit-style case reviews are conducted on station outliers to identify root causes of inconsistency. Through these regular reviews, we expect to gain more consistent decision-making across regional offices, as well as a better understanding of underlying causes for variation across geographic boundaries.

Conclusion

Mr. Chairman, this concludes my testimony. I will be happy to respond to any questions that you or other members of the Committee may have.