

THE PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda, announced in the summer of 2001, is an aggressive strategy for improving the management of the Federal government. It focuses on five areas of management weakness across the government where improvements and the most progress can be made. VA is working closely with OMB to resolve problems identified in each of these areas. OMB uses a 'stoplight' scorecard to reflect progress being made by each federal agency and issues reports quarterly. The chart below identifies the five areas of government focus and the scores from 2001 compared with those received on September 30,

2002. VA is making good progress in all areas and is committed to implement them fully.

In addition to these five areas, VA is also reporting on two additional agency-specific areas of focus:

- Improved coordination of VA and Department of Defense (DoD) programs and systems; and
- Faith-based initiatives.

The following is a discussion of VA's progress in each of these areas.

President's Management Agenda Progress Evaluation Office of Management and Budget

	FY 2001	As of September 30, 2002	
	Status	Status	Progress in Implementing
Human Capital	●	●	●
Competitive Sourcing	●	●	●
Financial Performance	●	●	●
E-Government	●	●	●
Budget and Performance Integration	●	●	●

OMB definitions of Progress Evaluation:

- Implementation is proceeding according to plans agreed upon with OMB and VA
- Slippage in implementation schedule, quality of deliverables, or other issues requiring adjustments by VA in order to achieve initiative on a timely basis
- Initiative in serious jeopardy. Unlikely to realize objectives without significant management intervention

Strategic Management of Human Capital

VA is facing extremely high retirement eligibility rates over the next 3-10 years and took many steps during 2002 to address this issue.

VA completed a restructuring plan in support of the President's Management Agenda. The plan includes 1) an assessment of VA's human capital program and strategies VA will pursue to implement a more corporate approach to human capital management and 2) a workforce analysis of physicians, nurses, and compensation and pension veterans service representatives including past, current, and projected workforce needs; drivers of change; workforce gaps; and strategies to address the gaps.

VA has made workforce information, tools, and data available to decision-makers, and redesigned its human resources (HR) Intranet site so managers have the tools to answer HR questions. VA established a new system of HR policies that is streamlined, user-friendly, and Intranet accessible. A workforce planning Web site was established that provides planning tools, best practices, and data. VA also developed an Intranet site that provides customized workforce reports that can be used to drill down to the facility level.

VA established a Senior Executive Service candidate development program to train, develop, and certify employees who exhibit outstanding executive potential and deploy them across organizational lines. This program will help VA build its leadership cadre and prepare for impending retirements and turnover. There were approximately 270 government-wide applicants and 16 were selected. The program began in November 2002.

VA's childcare subsidy program has been cited as the most comprehensive program in government with the highest number of program participants. At the beginning of 2002, about 1,100 employees (with over 1,700 children) were enrolled in the program, and 89 percent of eligible employees indicated in a recent survey that this program is a factor in their decision to remain at VA.

To date, VA has agreed upon a universal definition of TeleWork; established a scheduled reporting mechanism to capture employee participation rates; conducted a record year assessment of employee participation rates; and is completing a Departmental TeleWork plan. The existing telecommuting policy is being revised to make it more inclusive by permitting participation of Title 38 employees on a case-by-case basis. A TeleWork Web site is available. VA has also developed a business case application for employee participation.

In April 2002, VA conducted an in-depth study on the use of recruitment and retention HR flexibilities and is in the process of identifying strategies to improve use of these flexibilities.

These efforts supplement the already extensive workforce planning efforts each of VA's business lines has undertaken this year, including an enhanced focus on the recruitment of new employees, leadership development programs at all organizational levels, and the integration of workforce planning into the strategic planning process.

Competitive Sourcing

Over each of the past 5 years, VA as a whole has steadily increased its contractual services spending while decreasing the number of full-time employees within the Department. In addition, VA's 2001 FAIR Act inventory identified approximately 85 percent of VA's workforce as being engaged in commercial activities. This is by far the highest percentage of a total agency workforce deemed to be commercial within the President's Cabinet.

VA utilizes competitive sourcing and the FAIR Act as part of its basic business management approach, which is predicated on VA's efforts to deliver timely and high-quality service to our Nation's veterans and their families. As part of its normal business operations and as part of the Secretary's priority of applying sound business principles, VA continuously assesses the demand for benefits and services from veterans and ensures that it has the capabilities to meet these needs. This market-based

analysis often results in contracts for medical care and other services in specific geographical areas when it is determined to be more cost effective to obtain the services from the private sector than to hire doctors, nurses, cemetery maintenance workers, and other skill sets. It should be noted that this approach does not focus on moving a certain established number of jobs from the public sector to the private sector -- but rather on providing veterans and taxpayers the best value possible.

We are committed to continuing the approach of strategically identifying opportunities for competitive sourcing. The Deputy Secretary charged the Office of Policy and Planning with establishing and coordinating a working group to develop a more streamlined competitive sourcing process for VA. The working group identified areas of opportunity for future competitive sourcing and developed a tracking system to assess progress and outcomes. The working group also developed a three-tiered streamlined process, with more focus on cost-benefit analysis and less focus on solicitation to make the management decision about whether to contract out or retain the work in-house. The Office of Management and Budget approved the three-tiered process in April 2002 for use throughout VA.

The following reflects an overview of the three tiers that comprise VA's competitive sourcing process and their specific objectives:

- *Tier 1* competitive sourcing process focuses on cost-benefit analysis for the day-to-day make-or-buy decisions at the local level for 10 or fewer FTE;
- *Tier 2* focuses on a more detailed and rigorous but internal cost analysis using market research for competitive sourcing for 11 or more FTE; and
- *Tier 3* requires a formal A-76 study based on the premise that a federal agency must rely on a formal procurement process in order to make a decision about whether to contract out an activity or conduct it in-house.

The newly designed Tier 2 process retains the most effective features of the A-76 process, namely the Performance Work Statement (PWS) and the Most Efficient Organization (MEO). The MEO may include benchmarking with the private sector and business process reengineering.

One of the reasons OMB approved our new process is because of VHA's exemption under Section 8110(a)(5) of Title 38 U.S.C., which requires that VHA funding to carry out any activity in connection with a cost study comparing the cost of the provision by VA of commercial or industrial products and services is prohibited unless such funds are specifically appropriated. VHA currently has no funds appropriated for 2002 or 2003. This prohibition was intended to apply to a formal A-76 study and would not apply to a Tier 2 analysis.

VA has completed and circulated for implementation throughout the Department a directive on competitive sourcing – Directive 7100. This directive provides detailed guidance on how to conduct the three-tiered competitive sourcing process.

All VA organizations have begun to track their respective competitive sourcing activities on the amount of competitive sourcing that has occurred quarterly. The tracking system will enable VA to document competitive sourcing decisions and track the results of the cost-benefit analyses. Each organization will provide a list of those activities that are most promising for cost-benefit analysis or cost comparison studies using our new three-tiered process over the next several years.

Fiscal year 2002 competitive sourcing data have been collected and are being reviewed and analyzed. VA established a formal tracking process to capture the results of all cost comparison studies that are conducted throughout VA. At the end of 2002, VA had completed studies on approximately 4,000 FTE, with a preliminary estimated cost savings of \$25 million. This is the first annual cycle in which VA has used its new competitive sourcing tracking system

and the resulting data are currently being verified and validated. This system is a critical foundation for establishing a useful and valuable cost and performance-based competitive sourcing database for the future.

For 2002, VHA, which represents about 97 percent of VA's total commercial activities, conducted 1,626 cost comparison studies. These studies covered 4,061 FTE positions and resulted in 3,189 being contracted out and 872 being retained in-house.

VHA has increased the amount of contract services to \$2.6 billion – a 32 percent increase over the last 5 years. VHA's total contract service expenditures equate to approximately 43,000 full-time employees. One of the key factors contributing to VHA achievements in competitive sourcing is the transformation of the health care delivery approach, moving increasingly from inpatient to outpatient care and toward the use of community-based outpatient clinics (CBOCs) to improve access for veterans. For each CBOC opened, VA determines whether it is more cost effective to operate the facility with VA employees. Out of 609 operating CBOCs, 146 are staffed with contract personnel.

NCA currently contracts out for full maintenance services for 26 of 120 national cemeteries. In 2002, NCA contracted out an equivalent of 240 FTE in connection with the National Shrine Commitment. This competitive sourcing is the equivalent of approximately 20 percent of NCA commercial activities.

VBA is finalizing a comprehensive A-76 study examining its real property management function. This study involves a competitive sourcing of close to 9 percent of VBA's identified commercial activities. VA applied lessons learned from this study in developing its new, alternative three-tiered approach to implementing the President's Management Agenda.

Under VA Directive 7100, and as part of its new tracking system, VA has compiled projections for all competitive sourcing to be conducted during 2003. VA is establishing a new Office of

Competitive Sourcing and Management Analysis to provide the leadership necessary to carry out its competitive sourcing strategy and directive.

Improved Financial Performance

VA received an unqualified opinion on the Department's financial statements from the auditors in 2002 and 2001, continuing the success first achieved in 1999.

The Department is making efforts to ensure that its financial management systems and standards are in compliance with statutory requirements including the FFMIA. The Core Financial and Logistics System (CoreFLS) project will replace VA's current financial management system (FMS), Integrated Fund Control and Procurement System (IFCAP), and other financial and logistics systems interfacing to FMS.

Below are some of the ways the Department improved its financial performance in 2002:

Electronic Business Solution

E-Travel - VA began piloting a new electronic travel system, known as e-travel, to allow travelers or travel arrangers to electronically prepare and submit travel information using a Web-based system. The traveler will begin by logging on to the e-travel system through the Internet from a PC, laptop, or hand-held device to create an online travel request. Through the e-travel system, all VA travelers or travel managers will access an online booking engine for trip planning purposes, including access to information on available transportation and lodging options.

Once preliminary travel plans are made, the travel request is electronically routed to the supervisor for authorization and to approving officials for final approval. The electronic routing process includes electronic signature approval and e-mail notification of the request throughout the process. When travel is approved, travel authority data will be sent from the e-travel system to VA's FMS. Upon implementation of CoreFLS, data will be sent from the e-travel system to CoreFLS to be obligated

and to the booking engine for confirmation and ticketing. Upon completion of the trip, travelers can easily and immediately submit their travel vouchers.

E-travel will provide a Departmentwide system that will reduce cycle time for the travel management process, centralize travel and budget information online, reduce delinquency rates, increase dollar savings from prompt payment of travel card bills, and reduce paper with an end-to-end process. This same program also provides a split disbursement feature allowing employees to forward travel reimbursement for such expenses as hotel and airfare directly to VA's banking institution. This enhancement alone will substantially reduce VA's delinquency rate.

The Departmentwide system for e-travel is aimed at ensuring the efficient and effective use of current and emerging technologies to support VA business operations. The e-travel solution promotes the delivery of customer service because the investment is crosscutting in nature with all VA organizations benefiting by system implementation. The delivery of world-class service is defined in both the Department's IT strategic plan for 2001-2006 and the Administration's e-GOV initiatives contained in the President's Management Agenda.

Debt Management

In the area of debt management, VA has established an excellent record for referral of eligible delinquent debt to the Department of Treasury's Offset (TOP) and Cross-Servicing (CS) Programs. Since VA began participation in TOP, we have referred \$348 million, of which \$119 million was referred in FY 2002. Currently, \$283 million remains at TOP, which is 97 percent of the debt eligible for referral for offset. Since VA began participation in the CS program, we have referred \$393 million, of which \$87 million was referred in FY 2002. Currently, \$183 million remains at CS, which is 93% of the debt eligible for referral to CS.

Collections for the Medical Care Collections Fund continued to improve, with a total of approximately \$1.2 billion for 2002 – a significant increase over

the 2001 total of \$0.8 billion. VA has developed a revenue cycle improvement plan to increase collections to \$2.1 billion by 2006. In addition, the amounts reported for patient and third-party insurers' medical debts continue to increase due to a change in billing methodology. VA now bills for medical services based on "reasonable charges" rather than "reasonable cost." Amounts collected under this program are retained by VA and used for medical care purposes. Further, first-party pharmacy co-payments changed from \$2.00 per prescription to \$7.00 per prescription effective February 2002, of which \$5.00 goes to the new Health Services Improvement Fund (HSIF). Projected 2002 HSIF collections are \$200 million.

Also in the area of debt management, VHA continues the nationwide fixed-fee contract with a collection agency to pursue delinquent third-party claims over 90 days old. These delinquent claims are based on inpatient health care services provided to veterans. Implementation of this project has increased collection of delinquent amounts owed VA. The cost is \$4.75 for each case referred. Individual facilities pay the contractor for cases referred. As of June 2002, over \$212 million has been collected, and \$5.4 million has been paid to the vendor for contracted services. This represents a \$143 million increase in collections compared to the same time period in 2001.

Expanded Electronic Government

VA has developed an agency-wide Enterprise Architecture (EA). Our goal is to use this architecture to develop the common infrastructure and systems development environment necessary to build and support systems that allow a comprehensive approach to expanded electronic government. These new systems, and as possible, updates to existing legacy systems, will allow for integrated, comprehensive, consistent, veteran-centric, and universally available electronic access to all veteran services and information. It is essential that the foundational infrastructure and architectural disciplines be developed and instituted Departmentwide before large-scale applications are fielded to ensure that a common

approach to electronic government is achieved. The foundational systems that are currently under development include:

- Telecommunications Infrastructure
 - Telecommunications Modernization Project (TMP),
- Cyber Security Infrastructure
 - Enterprise Cyber Security Infrastructure Project (ECSIP),
 - Authentication and Authorization Infrastructure (AAI) Project,
- Corporate and Regional Data Processing with Continuity of Operations (COOP)
 - Corporate Data Center Integration (CDCI) Project.

Successful completion of these system initiatives will allow for the implementation of VA's expanded electronic government.

VA's Enterprise Architecture is a business line-oriented approach that seeks to understand and capture the major business processes that are required to provide America's veterans with the benefits they have earned in a consistent, timely, efficient, comprehensive, well-managed, and cost-effective environment. The EA will allow for a single, shared database for all veteran information. It will also allow for a common interface for each user category for a consistent look and feel and for a customer application profile that only requires an end user provide necessary information on a one-time basis. Finally, it will allow for a standardized *One VA* approach to electronic government across the spectrum of government to citizen, government to government, government to business, and internal government efficiencies.

Examples of major business processes that are under development using VA's architected approach include:

- One VA Registration and Eligibility Project,
- One VA Contact Management Project,

- VistA HealthVet Health Data Repository (HDR) Project, and
- Core Financial and Logistic System (CoreFLS) Project.

In addition, VA is working with at least five managing partners on cross-agency electronic government projects including e-authentication, e-payroll, e-benefits, e-vital, and Project SafeCom. While an architected approach is VA's preferred solution for these management initiatives and other congressionally mandated requirements for electronic government, some requirements have a more aggressive timeline than VA's EA process can accommodate. In situations that require a short-term solution, we will strive to meet related requirements in as compatible and efficient a manner as possible.

VA has established a comprehensive governance process that enables the Department to comply with the various mandates for internal inefficiencies such as the Government Paperwork Elimination Act as well as the strict requirement for financial and management oversight of information technology dictated by the Clinger-Cohen Act and the Government Information Security Reform Act. This governance process along with the strict management disciplines imposed by the Enterprise Architecture review process enable VA to develop, field, and support information systems that meet the requirements of various stakeholders within and outside VA, while at the same time complying with the challenge of the President's Management Agenda to "... champion citizen-centered electronic government that will result in a major improvement in the federal government's value to the citizen."

Budget and Performance Integration

During 2002, VA made great progress in implementing performance-based management, particularly with regard to better linking resources with results. The centerpiece of our budget and performance integration activities is our development of a new budget account restructure. VA will submit its FY 2004 budget using a new

account structure that focuses on nine major programs—medical care, research, compensation, pension, education, housing, vocational rehabilitation and employment, insurance, and burial. Medical education, which previously was identified as a separate program, is included as a subset of the medical care program.

With the implementation of this new budget account structure, VA will be better positioned to:

- More readily determine the full cost of each of our programs;
- Shift resource debates from inputs to outcomes and results;
- Make resource decisions based on programs and their results rather than on other factors;
- Improve planning, simplify systems, enhance tracking, and focus on accountability; and
- Prioritize capital investments against recurring expenditures.

The major features of the revised budget account structure are the following:

- Simplifying the structure by significantly reducing the number of accounts;
- Requesting mandatory and discretionary funding within each program while ensuring the Department fully complies with all provisions of the Budget Enforcement Act;
- Distributing all capital costs (including construction and information technology) among the nine major program accounts; and
- Maintaining some non-appropriated accounts (revolving and trust funds) as separate budget accounts to meet government-wide requirements.

VA will implement use of a new budget account structure effective with FY 2004 reporting within its existing core accounting system, FMS. This structure will continue

in the Department's new CoreFLS, which will replace FMS and up to 33 interfacing applications. CoreFLS will allow the Department to better align its resources with program activities and improve automated analytical and reconciliation tools. Full implementation of CoreFLS is scheduled by the end of 2006.

The implementation of this new account structure is the culmination of a multi-year project. VA and OMB jointly developed and implemented this new set of budget accounts, and will continue to work closely together on a variety of budget formulation and budget execution activities related to this project. VA officials conducted numerous briefings and meetings with appropriations and authorizing committees of Congress prior to implementing this new account structure. In order to ensure the transition to the new account structure occurs as smoothly as possible, we will continue to coordinate our efforts with the appropriate Congressional committees.

Improved Coordination of VA and DoD Programs and Systems

The President has directed VA and DoD to better coordinate benefits, services, information, and infrastructure to ensure the highest quality of health care and efficient use of resources. VA is committed to strengthening the cooperative relationship we have with DoD.

VA and DoD executive leadership have been meeting for several years to improve and expand sharing. In February 2002, the VA/DoD Joint Executive Council (JEC) was established to further enhance joint sharing and other collaborative initiatives. The JEC is co-chaired by the Deputy Secretary of Veterans Affairs and the Under Secretary of Defense for Personnel and Readiness. To date, the JEC has reached agreement on the following major issues: Federal Health Information Exchange, including a joint strategy for interoperable electronic records (*HealthPeople*); a new standardized national reimbursement rate structure for VA/DoD medical sharing agreements; implementation of a Consolidated Mail Outpatient Pharmacy pilot (CMOP); establishment of a joint

physical examination pilot; increased cooperation in capital asset planning; and a joint strategic planning initiative to develop a common vision and set of objectives for future sharing and collaboration.

In addition, the VA/DoD Benefits Executive Council (BEC), modeled after the very successful Health Executive Council, was established and is chaired by the VA Under Secretary for Benefits and the DoD Assistant Secretary of Defense for Force Management. The BEC will explore opportunities to facilitate the transition of separating servicemembers from DoD beneficiary to VA beneficiary through joint initiatives designed to improve the processes for establishing eligibility, facilitating enrollment in the VA health care system, and expediting claims for service-connected disability ratings/compensation and to enhance the medical examination process.

VA and DoD coordinate health services through a variety of mechanisms, including direct sharing agreements, TRICARE contracting, joint contracting for pharmaceuticals and medical/surgical supplies, information management/information technology collaboration, training cooperation, and joint facilities.

In 2002, an estimated 163 VA medical facilities were involved in sharing agreements with DoD military treatment facilities and 280 reserve units around the country. There were an estimated 622 sharing agreements covering approximately 6,000 health services with the military. The dollar value of these agreements was \$30.2 million in services sold and \$37.2 million in services purchased. In 2001, there were 604 agreements covering 6,602 services.

The amount of money generated from providing services to TRICARE beneficiaries for 2002 is estimated to be \$16.0 million, an increase of \$6.2 million from the 2001 figure of \$9.8 million. Anticipated revenue for 2003 and 2004 is \$17.6 million and \$19.3 million, respectively. The total dollar value of sharing agreements with DoD including services sold, services purchased and TRICARE was \$83.4 million in 2002.

VA and DoD are exploring ways to further improve the coordination of service delivery in other areas such as geriatric care, pharmacy, and information services. The VA/DoD Health Executive Council meets bi-monthly and has work groups developing recommendations in the following areas: Information Management and Technology; Clinical Practice Guidelines; Patient Safety; Pharmacy; Medical/Surgical Supplies; Benefits Coordination; Financial Management; Geriatric Care; Joint Facility Utilization/Resource Sharing; Education; and Deployment Health. The Council, co-chaired by the VA Under Secretary for Health and the DoD Assistant Secretary of Defense for Health Affairs, consists of top policymakers in each agency.

The President's Task Force to Improve Health Care Delivery for Our Nation's Veterans holds monthly meetings. Their interim report was released in July 2002, and the final report is expected in March 2003. The task force was established to identify ways to improve benefits and services for VA beneficiaries and DoD military retirees through better coordination of the activities of the two departments.

VA and DoD have made substantial progress in increasing joint procurement activities. The foundation for this progress was established in December 1999 when VA and DoD signed a memorandum of agreement (MOA) to combine their purchasing power to eliminate redundancies. As of July 1, 2002, there were 63 joint VA/DoD contracts and 4 blanket purchase agreements (BPA) for pharmaceuticals. The cost avoidance resulting from these contracts and BPAs was approximately \$350 million in 2001 and over \$100 million in 2002. Additionally, there are 37 pending solicitations for which joint requirements have already been submitted to VA's National Acquisition Center (NAC).

The next major phase of the MOA implementation is underway. VA and DoD are converting DoD's Distribution and Purchasing Agreements to the Federal Supply Schedule for medical/surgical products. VHA's Office of Logistics

is working with the NAC and DoD counterparts to facilitate shared acquisition strategies through product standardization committees. The latest initiative regarding the MOA is negotiation of an equipment appendix. While this negotiation is ongoing, progress has been made in the area of joint procurements. The Defense Supply Center – Philadelphia is currently evaluating offers on a recent solicitation for equipment maintenance contracts, and the NAC issued a joint radiation therapy solicitation in July.

The electronic interface for VHA's Consolidated Mail Outpatient Pharmacy is completed and is compliant with Health Insurance Portability and Accountability Act and cyber security requirements. Initial prescription processing began in August 2002. In October 2002, planned expansion to process refill prescriptions from the Naval Medical Center San Diego and Fort Hood began and Kirkland AFB will begin in December 2002. Additionally, DoD has developed promotional brochures to market the pilot with their beneficiary population.

Faith-based Initiatives

During 2002, the Faith-based and Community Initiatives Task Force developed and completed a survey of VHA, VBA, and NCA field facilities to determine VA involvement with faith-based and community service providers. The survey response rate was approximately 90 percent. The survey revealed that nearly 60 percent of field facilities

reported having sharing agreements or contracts with faith-based or community organizations and 52 percent of facilities reported having sharing agreements or contracts with one or more faith-based organizations. Ninety-five percent of VA respondents reported that faith-based and community organizations were providing high-quality services to veterans.

The task force also worked with the Office of General Counsel (OGC) to clarify a variety of topics encountered while working with faith-based and community organizations. OGC provided an excellent overview of the legal issues involved in working with faith-based organizations and responded to a series of questions developed by the task force. In addition, OGC opined that VA's current regulations for the homeless grant and per diem program has a provision, not required by law, which may be a barrier to faith-based organizations interested in participating in that program. The task force recommended that while VA was reviewing and revising these regulations, the identified barrier regarding employment restrictions on faith-based organizations be deleted.

VA contracted with BETAH Associates, Inc., a consulting group, to secure the opinion of faith-based and community service providers regarding their involvement with VA and to provide recommendations on improving community linkages to better serve veterans. The final report will be completed in January 2003.