

# STRUCTURING THE U.S. DEPARTMENT OF VETERANS AFFAIRS OF THE 21ST CENTURY

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## HEARING BEFORE THE COMMITTEE ON VETERANS' AFFAIRS U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED ELEVENTH CONGRESS SECOND SESSION

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## **STRUCTURING THE U.S. DEPARTMENT OF VETERANS AFFAIRS OF THE 21ST CENTURY**

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**Wednesday, March 10, 2010**

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON VETERANS' AFFAIRS,  
*Washington, DC.*

The Committee met, pursuant to notice, at 10:37 a.m., in Room 334, Cannon House Office Building, Hon. Bob Filner [Chairman of the Committee] presiding.

Present: Representatives Filner, Brown of Florida, Michaud, Herseth Sandlin, Halvorson, Rodriguez, Donnelly, McNerney, Walz, Adler, Kirkpatrick, Buyer, Stearns, Brown of South Carolina, Boozman, Bilbray, Lamborn, and Roe.

### **OPENING STATEMENT OF CHAIRMAN FILNER**

The CHAIRMAN. Good morning. The Committee on Veterans' Affairs hearing on "Structuring the U.S. Department of Veterans Affairs (VA) of the 21st Century" will come to order.

I want to thank the Members of the Committee and, of course, the Secretary of the Department of Veterans Affairs, General Shinseki, for being with us.

We all know that the VA is the second largest agency in the Federal Government. With about a quarter of a million employees, the VA oversees the largest integrated health care system in the country along with a vast array of benefit programs to compensate the service and sacrifice of our 25 million veterans.

Reforming the VA and bringing it into a 21st Century organization is a monumental task and one that our Secretary has not shied away from.

We are here to listen to your comments, Mr. Secretary. We want to hear your views on the future of the VA, the challenges that face the VA in the future, and what your needs are to transform the agency into a 21st Century organization.

We are not looking at specific bills right now. We want to hear about your vision and your assessment of what tools you need, including a proposal that you support put forth by Secretary Nicholson that would amend title 38 to add an additional Assistant Secretary and eight Deputy Assistant Secretaries.

We are not looking, as you have said, for a piecemeal approach, but we want to look at a comprehensive program.

We look forward to the hearing with you and we are going to work together in a bipartisan way to act on your suggestions.

I recognize Mr. Brown for any comments he may make.

[The prepared statement of Chairman Filner appears on p. 22.]

Mr. BROWN OF SOUTH CAROLINA. Thank you, Mr. Chairman.

And, Mr. Secretary and the rest of the panel, we welcome you here today and look forward to a great discussion.

I know we just passed a goodly number of bills that we think will help our veterans and particularly those that are homeless and unemployed. And we look forward to your testimony.

The CHAIRMAN. Mr. Secretary, you have the floor.

**STATEMENT OF HON. ERIC K. SHINSEKI, SECRETARY, U.S. DEPARTMENT OF VETERANS AFFAIRS; ACCOMPANIED BY W. TODD GRAMS, ACTING ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF VETERANS AFFAIRS; JAN R. FRYE, DEPUTY ASSISTANT SECRETARY FOR ACQUISITIONS AND LOGISTICS, OFFICE OF ACQUISITION, LOGISTICS, AND CONSTRUCTION, U.S. DEPARTMENT OF VETERANS AFFAIRS; AND STEPHEN W. WARREN, PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR INFORMATION AND TECHNOLOGY, U.S. DEPARTMENT OF VETERANS AFFAIRS**

Secretary SHINSEKI. Chairman Filner, Congressman Brown, distinguished Members of the Committee, thank you for this opportunity to discuss our desire to restructure the Department of Veterans Affairs into a more effective and more efficient organization.

Joining me today here at the witness table, let me begin on my left, Mr. Steph Warren, who is our Principal Deputy Assistant Secretary for Information and Technology; to my immediate left, Todd Grams, our Acting Assistant Secretary for Management; and to my right, Mr. Jan Frye, Deputy Assistant Secretary for Acquisition and Logistics.

Mr. Chairman, I provided written testimony to the Committee and I ask that it be entered into the record.

The CHAIRMAN. It will be. Thank you, sir.

Secretary SHINSEKI. Thank you, sir.

Our thoughts about redesign seek an organization that is going to accomplish several things. First, we want it to be capable of agilely leveraging the significant opportunities that are provided to the VA in the next two budgets, the 2010 budget and the 2011 budget, that gives us resources at our disposal.

Second, we want to produce demonstrable returns on investments and then, third, we want to improve access, quality, safety of our services while still being able to control costs involved.

Let me be clear. Underpinning our intent is a commitment never to squander nor diminish the quality of care and benefits we provide to veterans. That is our mission.

You have shared your insights with me both during our testimonies and also in our meetings together about changes many of you feel are necessary to fulfill President Obama's charge to transform this Department into a 21st Century organization. And this hearing provides VA an opportunity to continue that dialogue.

The veterans service organizations who are represented here today also have insights into some of the challenges that we wrestle with every day to raise our effectiveness and efficiencies. And I have listened to their comments as well.

During this Committee's recent budget hearing in February, I outlined four strategic goals which have already begun to guide our path to the future.

First, increase access, improve quality, and enhance the value of health care benefits and memorial services.

Second, raise veterans' satisfaction with VA benefits and services.

Third, improve the quality of internal systems to build a more competent organization, competency from the top to the lowest level of execution inside the organization, no single-point failures, and last, assure our readiness to protect our people and our assets daily and especially during crises.

Now, during that testimony, I also highlighted six performance goals around which we focus our efforts.

First, automate the GI Bill education benefits. And as I reported then, the first set of tools I expect in April, the next set in July, the third set in November. And there may be a fourth iteration in December. But by the end of this year, we will be fully automated in the new GI Bill process.

The second of those performance goals attack the claims backlog. In fact, the language we use is break the back of the backlog this year.

Third, set the conditions culturally for veterans' advocacy within VA.

Next, improve mental health care. Then establish a virtual lifetime electronic record, something that President Obama in April mandated, and both Secretary Gates and I have that charter.

And then, finally, eliminate veterans' homelessness. So these are the six performance goals around which we organize ourselves.

Now, internal management and organizational changes, which we have already put into motion, are strengthening the trust and confidence of stakeholders in our transformation initiatives, some of the feedback that I get as we travel.

Now, we seek to strengthen VA's management infrastructure across all five of our core functions. Those functions are common to any large organization like VA. It is acquisition and logistics. It is construction and facilities management. It is information technology (IT), human resources management, and the fifth core function is financial management.

Of specific importance and interest is our need for acquisition reform. Along with the rapid deployment of robust and effective IT tools, acquisition reform is equally important to fulfilling those strategic goals that I identified.

We are hard pressed to improve our return on investments without an appropriate acquisition management structure, which we lack today.

There is similarity between IT success or failure and contracting. The IT setbacks that have tested your patience and our confidence have largely been project management and acquisition failures. For both IT and acquisitions, past weaknesses have stemmed from overly decentralized control, lack of enterprise-wide management information, the ability to see what we are doing and how we are doing it, and in some cases improvised policies.

Managers in the field lacked supervision, guidance, and sustained support, and policies were inconsistently applied. And to me, those are my responsibilities to put in place.

VA is large and diverse enough that having all operational IT decisions passing through a single office would slow operations, so we balanced centralized policy with decentralized execution of those policies to empower our employees and, yet, maintain consistency across the organization.

After 3 years of work to centralize IT, we are beginning just now to reap intended benefits.

While they are sufficiently different disciplines requiring individualized solutions, the issues we dealt with during IT reform are also present in acquisition reform.

VA's procurement spending, almost \$15 billion annually, has been highly decentralized, resulting in a lack of standardization, accountability, and controls.

I seek a \$2 billion return on acquisition reform and that is what we are about.

To accomplish these savings, we need your authorization to proceed with my request for an Assistant Secretary for Acquisition, eight DAS positions, Deputy Assistant Secretary positions, and the associated authorities included in draft legislation, which the Department provided to this Committee.

Great IT development and execution depend on well-managed, disciplined acquisition support and project management. Sensible policies and consistency in delivering high-value customer services are crucial. The link between IT success or failure and contracting is clear, but we have made progress, beginning with IT centralization, which was initiated at your behest in 2007 and with PMAS, the Program Management Accountability System, which was VA's initiative launched last year by Assistant Secretary Baker.

We have more work to do and we seek the support of this Committee in order to continue improving, as I said at the outset, our effectiveness and our efficiency. We have spent a year fundamentally and comprehensively reviewing our mission, what it is we are supposed to be doing, and the processes and procedures we have in place to control that.

We have challenged all the assumptions and believe we are ready to take this next step. Your support in restructuring VA's acquisition and IT programs is much needed. We seek Secretary Baker's counterpart in acquisition, logistics, and construction, which we do not have.

Changes to restructure acquisition and IT were included in the budget we sent to Congress in the first session of the 111th Congress. We propose authorizing VA to establish an Office of Assistant Secretary for Acquisition, Logistics, and Construction, a fundamental step in consolidating the acquisition function and elevating it to its central role in controlling costs and contracting and acquisitions.

Going forward, our programs need coherence, intellectual rigor, and decisiveness that an Assistant Secretary will provide.

VA only recently, I think you will recall, established its Office of Acquisition, Logistics, and Construction, in October 2008. We have a Director performing that role.



We need authorization to appoint an Assistant Secretary level leader who will direct this office, consolidate functions, centralize procurement policies, which are currently scattered across and throughout the Department.

This proposal is not about creating a new layer of bureaucracy. It is about streamlining our organization in ways that will better align our priorities with the most responsible use of VA's funds.

It is to be implemented within existing resources and it will not require an increase in VA SES, Senior Executive Service, authorizations.

Last, I can appreciate some of the frustration on the part of Members of this Committee with the pace of change, especially regarding some long-standing deficiencies. I have read the U.S. Government Accountability Office (GAO) reports. I have read the Inspector General (IG) reports. We believe this proposal will give us the agility and discipline we seek.

I intend to consult and share our progress with this Committee so that you can monitor the rate of reform with this initiative.

Again, Mr. Chairman, I thank you and the Members of this Committee for inviting me here to discuss these issues. And, again, I would like to thank you for tremendous support during my first year as Secretary of this Department. Your insights were generously shared and most helpful. Thank you, and I look forward to your questions.

[The prepared statement of Secretary Shinseki appears on p. 23.]

The CHAIRMAN. Thank you, Mr. Secretary.

I am going to be calling on my colleagues after I make just two quick comments.

I believe you saw, while you were waiting, the bills that we passed on homelessness. We certainly are strongly committed to, and supportive of, your commitment to end veterans' homelessness in 5 years. And we thank you—

Secretary SHINSEKI. Thank you very much, Mr. Chairman.

The CHAIRMAN [continuing]. For your energy on that. I must say that during 18 years I have been sitting here, I have not heard a Secretary acknowledge problems, mistakes, or failings at the VA, and their responsibility and your accountability for improving them. We thank you for your candor and we look forward to supporting you.

Ms. Brown.

Ms. BROWN OF FLORIDA. Thank you, Mr. Secretary. And I want to thank you for your service and your commitment to continuing to serve. And I keep saying that you are really a bright spot in the Administration. And I was reading in *USA Today* about your proposal.

And I want to get that article, Mr. Chairman, and make sure everybody gets it. It was an interesting article in yesterday's *USA Today*.

[The *USA Today* article, entitled "VA to Automate its Agent Orange Claims Process," dated March 9, 2010, appears on p. 28.]

But my question comes to as you develop a plan for the Veterans Affairs Medical Center in Orlando. I was in Orlando and I had three meetings with labor groups. They are concerned about agreements that when the VA contracts to do work, to make sure there

has not been a waiver dealing with Buy America or some other reason why they are not able to be more competitive as far as getting the opportunity to work on these projects.

I need a more intensive explanation as to the bid process and how we are selecting the contractors for the various VA hospitals that we have because they even mentioned the one in New Orleans.

Secretary SHINSEKI. Congresswoman, I know there is probably a longer history than I have on the way contracting is done. Part of my effort here is to bring this under control, under discipline, but also increase the level of transparency so people can see what we do and then make their judgments about whether we are fair and we are doing the right things.

Let me just use as an example, a year ago, we were given by the Congress and the Administration \$1 billion in recovery funds.

Ms. BROWN OF FLORIDA. Yes.

Secretary SHINSEKI. We took that \$1 billion opportunity and we competed 98 to 99 percent of that. So it was put out for competitive bidding. Of those contracts, over 80 percent went to small businesses owned by veterans, which for us is important because, as I have said a number of times, we find that veterans hire veterans because they are comfortable and they know what they are getting.

This creates churn in the workplace. That means veterans are being hired and veteran-owned small businesses have an opportunity to compete. It is the fairness factor. It is not a disadvantage for anyone else, but it is a fairness factor for them.

And so what I would offer is that model that we use to track our contracts, it is an electronic model, is the same model we will use and then improve on as we seek the opportunity to consolidate contracting in a way that it has not been in the past.

Ms. BROWN OF FLORIDA. I want to mention minorities, and women. You have already indicated that you are doing preferences or however we want to frame it today with helping veterans get employment and contracts because the VA does quite a bit of contracting.

So thank you.

Secretary SHINSEKI. We do have a Veterans First Program at VA where we look at contracting opportunities for them, again to level the playing field. And then within that, we also track the other categories that are important and so that we have visibility and others can transparently see our work.

Ms. BROWN OF FLORIDA. Thank you again for your service.

And I yield back, Mr. Chairman.

The CHAIRMAN. Thank you, Ms. Brown.

I do want to point out, Mr. Secretary, that this Committee included in its FY 2011 Views and Estimates that we submitted to the Budget Committee, a section that stated that if there are additional stimulus jobs bills going forward that we recommend almost \$1 billion for the VA since there are minor and major construction projects ready to go. We hope that if there are additional stimulus bills that some of that money gets into the VA.

Secretary SHINSEKI. Great. Thank you. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Lamborn.

Mr. LAMBORN. Thank you, Mr. Chairman.

Mr. Secretary, and it is good to hear your testimony today. When addressing the new IT system for the GI Bill, I believe you mentioned delivery of phased improvements in July and November. I believe at our last oversight hearing, the delivery dates were June, September, and December.

Could you please clarify these dates for us.

Secretary SHINSEKI. I will try to. The dates I have are April, July, and November. Let me ask Mr. Warren to provide some technical—

Mr. WARREN. The dates that we are working to, sir, are the end of March, beginning of April the first increment. June is the second increment. November is the third. And we delayed it a little bit so we did not hit the peak for the fall semester. And the full system is deployed by the end of December.

Secretary SHINSEKI. Well, I would say that I am probably a little bit of the pressure here. I do not know that anything is magical about April, July, and November. And so if there is a variance in the dates, it is my pressure to say what is the best we can do and perhaps that is a little bit of the response you are hearing here.

But, you know, if we can put the July target in May or June, because I know what happens in the summer, the crunch points are July, August is registration time, if I can get those inserted earlier so people can be fully trained, that is what I would like to do. And so that is a little bit of my pressure.

But in reality, the date I was provided as sure-fire, no fail is a July date. And I am working to see if we can move that up.

Mr. LAMBORN. Okay. Thank you for that answer.

And, Mr. Chairman, I yield back.

The CHAIRMAN. Thank you, Mr. Lamborn.

Mr. Michaud.

Mr. MICHAUD. Thank you very much, Mr. Chairman.

I want to thank you, Mr. Secretary, for your testimony this morning on how we can better support the VA administratively to provide the best care for our veterans.

In your testimony, you propose to add a new Secretary of Acquisition, Logistics, and Construction and eight additional Deputy Assistant Secretaries, yet you also indicated the proposal would be cost neutral and would not require additional budgetary resources.

What areas in the current VA budget will be providing the offset for these new positions and will these funding reduction offsets have any detrimental effect to those programs?

Secretary SHINSEKI. I am probably here better off providing you an answer, a detailed answer for the record. But I do intend savings to come out of this. If I am able to convince the Committee this is the right way to go. I already indicated that my target is \$2 billion in terms of contract savings.

I am already committed. The President has asked all of the departments to reduce contract awards in the next 2 years to a tune of seven percent over the next 2 years. And for VA, that, I think, comes in around \$958 million. I have confidence that we can improve on that and that is why I have set \$2 billion as our target.

These decisions will help me get there. I have said I do not foresee a need for any more SES positions and I think this is what I can see as cost neutral because of the savings I intend.

Mr. MICHAUD. Thank you.

In your testimony, you also say VA's partnership with Congress is critical to achieve transformation. Veterans benefit from a strong partnership between VA and the Congress, which I agree 100 percent with those comments.

However, sometimes when we actually pass something in law, and I agree with what your intention with this new administrative change is, but sometimes when we enact something into law, the actual implementation is at odds. And I do have a concern as far as whether this might slow down the process for new clinics or community-based outpatient clinics (CBOCs) that are to be built and actually whether the saving is going to be there.

And the reason why I say that, and I am just going to give an example because we actually just had a hearing last week in the Subcommittee on Health dealing with a law that we passed in Congress in 2006, but the implementation is, in my opinion, contrary to the law. And it actually deals with reimbursement for nursing homes. The law was very clear that the VA will provide full cost of nursing home care. The implementation of that law actually defining the full cost of nursing home care was narrowed as to these costs.

When the VA testified at the hearing, they said many States, in their written testimony, agreed with the new regulations. The testimony was a few States. When I asked the VA what States agree with it, they named two. And out of the two, Connecticut, actually we heard from the State Veterans Nursing Homes, that they disagree. The problem being is the language in the law was full cost. The VA narrowed what that full cost was to be.

When I further asked, well, how are they going to make up the difference for the additional cost that the VA does not cover, they said, well, they can charge it to third-party billing. The problem is because the rules that were implemented stated that if they accept payment from the VA, that is payment in full.

So you have State-run nursing homes that have a large Medicare, Medicaid population, they cannot collect it. So I said because it is payment in full, where else are they going to get the money. The answer was long-term health care, which veterans have long-term health care.

So my concern is the fact that when we enact laws, the implementation sometimes might not be in the proper manner. And my concern if we give you this new administrative change, you know, exactly whether or not that might be contrary to what we are enacting.

And I wanted to feel comfortable that what you are saying and how it actually gets implemented is correct, not like the situation that we ended up hearing last week with reimbursement rates for nursing homes because it does have a negative effect, where actually we had a hundred percent service-connected disabled veteran who was refused access to a nursing home and ultimately passed away before he could get the care that he needed because of how the VA implemented the law.

So I just want to make sure that what you are saying today and how you want to see this new administrative change work is actually how it is going to work.

Secretary SHINSEKI. Fair question, Congressman. And I will go back and take a look at this case that you have cited and see whether whatever answer, whatever position we gave makes sense to me. I will get into that and provide you a response.

I guess you will have to take my oral statement for what it is worth and that is that nowhere in this request is there an intent to squander or diminish the care we provide to veterans. That is the first statement in the mission. In fact, I have to do this in order to be able to fulfill that because just looking at the cost curve, not just for health care, but just the cost of operating government, the President has asked us to do a good hard look. And so I want to do this. But for every dollar that I am able to save, the intent is to turn this around and return it in terms of care and benefits and increased access and higher quality services we provide veterans. That is the end result here. That is the target we are shooting for.

Mr. MICHAUD. Well, thank you very much. And I do take you for your word. You are a very honorable man and really appreciate all that you have been doing.

And I know on the nursing home issue, that started before you became Secretary, but the culture within the VA is, you know, that is a big concern of ours. I know it is hard to turn it around and you are doing the best that you can.

I want to be very supportive of what you are doing. But at the same token, I am also concerned that once we pass laws, our intent is implemented by the VA because I can see the whole nursing home area reimbursement could be the Walter Reed of the VA system if it is not addressed quickly.

Secretary SHINSEKI. Okay. Thanks for that insight, Congressman.

Mr. MICHAUD. Thank you.

Secretary SHINSEKI. I will provide it for the record.

[The Committee staff has been meeting with VA on the State Veterans Homes issue.]

The CHAIRMAN. Ms. Brown, did you want to follow-up on that?

Ms. BROWN OF FLORIDA. I will just listen and then I will.

The CHAIRMAN. Okay. Thank you.

Regarding the issue that Mr. Michaud brought up, I ask you to provide the Committee with your investigative work on that.

Secretary SHINSEKI. I will.

The CHAIRMAN. Mr. Brown.

Mr. BROWN OF SOUTH CAROLINA. Thank you, Mr. Chairman.

Mr. Secretary, just so I can get, I guess, a little handle on the process today as we move forward, I guess, to consolidate the acquisitions, is each hospital basically independent in their acquisitions and supply of their needs?

Secretary SHINSEKI. One hundred and fifty-three hospitals. I think that is for the most part true. There may be a number of hospitals that are linked together where those orders are done in combination, working together, or a Veterans Integrated Services Network (VISN) has imposed some kind of control. But for the most part, contracting is done across the spread of VA.

Mr. BROWN OF SOUTH CAROLINA. Is there any oversight? Do the VISNs have any kind of an oversight over those purchases or are they pretty well independent themselves?

Secretary SHINSEKI. They do have, but it is difficult at my level to see how well we do that, what we buy, how we buy it, and when we buy.

The impact on cost could be influenced by when you decide to buy a certain product, especially when we are buying in such large volume as we are.

I will just use the example, after this winter, of snow blowers. If we buy it at the beginning of the snow season, we are going to pay a certain price. If we buy it at the end of the snow season and demand that for our purchase we want a full warranty, we are going to get a far different price. I just want us to be smart about it.

Mr. BROWN OF SOUTH CAROLINA. So you are saying that you are going to have this Under Secretary then. And then all the requisitions will come through that one station?

Secretary SHINSEKI. We want to centralize the policy on procurement and acquisition and list what it is that we are going to underwrite. And then decentralized execution of that means people can off of that list be able to execute the purchases.

And there is a practical side to this as well. We all remember the endoscopy set of events that we went through. When I went to take a look at it, we had, I do not know, 25 versions of endoscopes, 28 versions of endoscopes. And I think everyone who had an interest in having a particular endoscope was very happy with that arrangement, but all of the responsibility for assuring the safety that goes along with performing endoscopies falls on the youngsters in the basement of a hospital that are in the steam room trying to clean each of 24, 25 versions and meeting the established regimen for, according to that manufacturer, of meeting the mark, each using a different set of cleaning tools, each using a different set of solvents or whatever is used, so the risk in the system falls on youngsters who are doing the best they can, but we have created for them an almost impossible task.

I think manufacturers also have a role they can help us with, and that is to improve the engineering interface. As I have said, if we have a valve, two valves, one is a one-way valve which is safe and another one is a two-way valve which is not safe and we color code it the same color and we allow them to be hooked up, then it is going to require someone to be especially attentive to make sure that we have got a one-way valve in place for that procedure.

With our ability to bring contracting under our control, we can seek the help of manufacturers to give us color coding or other safety features that do not allow the wrong valve to be coupled.

Mr. BROWN OF SOUTH CAROLINA. It would be a whole lot easier, too, to transfer personnel between the different hospitals.

Secretary SHINSEKI. Absolutely.

Mr. BROWN OF SOUTH CAROLINA. How about the pharmaceuticals now? Are they under one master requisition or each hospital has their own purchasing plan?

Secretary SHINSEKI. Let me call on Mr. Frye.

Mr. BROWN OF SOUTH CAROLINA. Okay.

Mr. FRYE. Thank you for that question. That is a great question. And I would argue that the VA, the Veterans Health Administration (VHA) specifically, has one of the best managed pharmaceutical programs in the government. And it is centrally managed.

There is a Program Management Office located in Hines, Illinois, out at our National Acquisition Center that is staffed by people that have all sorts of experience and expertise in the pharmaceutical arena. There is a Program Manager located at the Central Office here in Washington. And in my opinion, they do a great job of managing that program, but it is centralized management of the Pharmaceutical Program.

Mr. BROWN OF SOUTH CAROLINA. So I guess ultimately the other parts of the purchasing will be similar to the pharmaceuticals then?

Mr. FRYE. Yes. The way it works is there is a formulary and the stockage is based on that formulary. And orders are placed by the individual pharmacies against that formulary. And so it is run very efficiently and I think we have seen the GAO reports that have said just that.

Mr. BROWN OF SOUTH CAROLINA. That is a real bright spot in the VA. And I wanted to bring that up because you all are doing such a good job with it and so I can, you know, understand now maybe, you know, some parallel as you move forward in it.

But we are excited about this new venture. In particular, we can save, you know, \$2 billion a year. Mr. Secretary, that is a sizeable savings. And I think, too, you will have a whole lot better uniformity, too, throughout the process.

And so I commend you on this. Thank you very much for being here today.

Secretary SHINSEKI. Thank you.

The CHAIRMAN. Thank you, Mr. Brown.

Mrs. Halvorson.

Mrs. HALVORSON. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being here. It is good to see you guys.

I have a couple questions. But first of all everybody knows that I have bothered you every single time I see you about Silver Cross in my district, which is going to be vacant soon because they are building down the street. And, you know, it has presented the VA with a wonderful opportunity because they built it 3 years ago for a cost of \$20 million and here you have this opportunity to get it for almost free.

Now, I am worried about this time-sensitive bureaucracy not being flexible. So you are bringing on possibly an Assistant Secretary who is in charge of that sort of thing.

Would he be in charge of this time-sensitive bureaucracy, procuring or acquiring property? Would he be in charge of something to help through the bureaucracy because I feel that it is moving a little slower than I would like it and especially my constituents want because they think it is just something that I can flip the switch and it would happen?

The CHAIRMAN. I would like to correct the record. She meant he or she.

Mrs. HALVORSON. Yes, he or she, the person.

Secretary SHINSEKI. Congresswoman, the intent is to be able to look long term, think strategically, and see what our opportunities are so we have in place decision makers that will then leverage these decisions faster.

I have said that for the next 2 years, we have strong budgets and I need to get this in place and be able to force a return on investment. So when I say think strategically, I think we should be out there understanding what our requirements are, out there looking for opportunities like this.

In this case, thanks to you, it was brought to our attention. And I understand a team has visited and found it a very strong option.

Mrs. HALVORSON. Uh-huh.

Secretary SHINSEKI. So we are in the process of following up on that. But we ought to have that capability as well to be looking out there on how we understand our requirements and see what our options are out there and then, yes, absolutely, take the insights from Members of Congress.

But I think in this case, had you not brought it up to us, we might have missed it. So hopefully this will come out well.

Mrs. HALVORSON. Great. And then my other question is the fact that, and Chairman Filner has been out there and he is the one that keeps bringing up the fact that there are 200 beds also attached because it used to be a hospital or it still is a hospital, it will be vacant. You know, we are talking about the emergency room med center that you all are looking at. But there are 200 beds connected to it, which could be used for many things, whether it is the homeless, whether it is, you know, a hospital, or long-term care because there are so many waiting lists.

I have two veterans homes in my district and the State keeps cutting back and cutting back.

Is it your practice to purchase then other property to house veterans in long-term care?

Secretary SHINSEKI. Our intent is to take care of veterans however we need to do that. And so we look at a variety of options. We try to settle on the one that is most cost effective, but the primary driver here is how do we best take care of veterans, whether it is build, lease, purchase, assume. We are willing to look at the whole list of opportunities.

Mrs. HALVORSON. Because it is very frustrating in my office to hear from the veterans who have done so much for us who are on waiting lists and a lot of them die before they even get to the front of the list to get into these veteran homes. And I—

Secretary SHINSEKI. These are the State Veteran Homes?

Mrs. HALVORSON. Yes. They are the State ones.

Secretary SHINSEKI. Yes.

Mrs. HALVORSON. But it would be nice if, you know, you have those 200 beds, if we could just keep that on your radar screen also, that is connected to the facility.

Secretary SHINSEKI. I will.

Mrs. HALVORSON. Thank you.

And I yield back.

Secretary SHINSEKI. Thank you, Congresswoman.

The CHAIRMAN. Thank you, Mrs. Halvorson.

Mr. McNerney.



Mr. MCNERNEY. Thank you, Mr. Chairman.

I was expecting you to call Mr. Stearns first, but I will go ahead and take your—

Mr. STEARNS. And I yield to the Ranking Member, Mr. Buyer.

Mr. MCNERNEY. Okay. Thank you.

Mr. Secretary, I have to say I respect your sense of duty in taking on this position as Secretary. And also, I admire your ambition. I mean, the goals that you have laid out here specifically and the ones that drive me the craziest are the backlog and the homelessness. And if we can attack those with the vigor that you are showing, we will make a lot of progress. So I thank you for that service, Mr. Secretary.

Regarding the new positions, are there people within the VA now carrying out those duties and responsibilities, as far as you know, or is this something that is sort of a new structure that will bring in people for entirely new responsibilities?

Secretary SHINSEKI. Let me call on Mr. Frye.

I would say there, as you might imagine in any organization, there is somebody covering these responsibilities, but without the authority and without the resources.

We centralized IT 3 years ago. Five of the eight Deputy Assistant Secretaries I am requesting go into the IT Program to flesh out the responsibilities that they should be providing.

One of the Deputies would look at strategic architecture and design. Another Deputy Assistant Secretary will look at product development and delivery, overseeing 900 employees. A third IT Deputy Assistant Secretary would address enterprise program management that cuts across the entire Department, another DAS would be responsible for performance management, tracking our commitments on IT, and then the fifth Deputy Assistant Secretary for Operations and Engineering would have leadership responsibilities of over 5,000 people.

There is somebody filling a seat without the authority they need and they are doing the best they can. And what I am looking for is the opportunity to give them the authority so they can move out.

I think part of the reason it has taken us 3 years—this was the right move—to get to this point is that we needed to put a structure in place and that is what we are asking to do now so we can move out smartly.

Let me just ask Mr. Frye if he has anything else to add.

Mr. FRYE. Sir, if I could address the Assistant Secretary position. The Services Acquisition Reform Act of 2003 requires that we have a Chief Acquisition Officer. That Chief Acquisition Officer is filled today. It is filled by my boss, Mr. Glenn Haggstrom, who is the Executive Director of Acquisition, Logistics, and Construction. He is delegated that authority by the Secretary and the Secretary, of course, serves as the head of the activity.

So those functions have been undertaken. They are being embraced by the Chief Acquisition Officer. And the Chief Acquisition Officer further delegates authority to myself, the Senior Procurement Executive, to develop policy and promulgate that policy across the VA.

We have all heard of these breaches in performance out there and it may be that we do not have appropriate policy developed

and promulgated or it may be that we simply have individuals that do not adhere to the policy. And in many cases, that is the result. And you have seen the GAO and the IG reports that reflect that.

But to answer your question, yes, we have a Chief Acquisition Officer. Currently that Chief Acquisition Officer is not at the Assistant Secretary level. This acquisition and procurement machine has many, many moving parts. It is my personal opinion that we need this Assistant Secretary to synchronize the movement of these parts and provide unity of effort across the enterprise.

Mr. MCNERNEY. Well, the thing I liked about your answer was that it will give somebody the responsibility or the authority, but from our point of view, the responsibility so that we can call him in front of us and ask questions if things go wrong and giving him praise if things go right.

So the point in my asking this is that we want the VA to be responsive to the veterans and to the needs and just making sure that those new positions do not create a layer of bureaucracy, as you mentioned, or the sort of red tape that has characterized the VA in the past and actually makes it more responsive. And if we can carry out and achieve that objective, then you have been successful. So—

Secretary SHINSEKI. I would also add the law requires that the Chief Acquisition Officer be a noncareer individual and we are not quite in compliance right now. And so the intent here is to meet the obligation here.

Mr. MCNERNEY. Okay. Well, thank you for your Herculean ambitions here and your efforts. I appreciate it.

Secretary SHINSEKI. Thank you.

The CHAIRMAN. Mr. Stearns?

Mr. STEARNS. Mr. Chairman, I think the Ranking Member was here before me, but if I could, I would like to strike a point of order, Mr. Chairman.

I have been to Committee hearings here a number of times in which you have gone to the Democrats without coming to the Republicans. So I asked the staff to give me the rules on this. On page three, Rule three, paragraph F, let me just read it to you.

The questioning of witnesses in both Committee and Subcommittee hearings shall be initiated by the Chairman followed by the Ranking Minority party Member and all other Members alternating between the Majority and Minority.

These are rules that you approved and these are the rules of the Veterans' Affairs Committee. So I would say to you I appeal to your fairness here and appeal to regular order that in this Committee and all future Committees, you alternate between Majority and Minority. And I would request that you do that.

The CHAIRMAN. I thank you for pointing out the rule. I have expressed several times that we would recognize Members who were not here at the gavel in the order of their appearance at the hearing.

I would appreciate also, Mr. Stearns, the courtesy of being here for the testimony if you are going to ask questions. So you are recognized.

Mr. STEARNS. Oh, I understand. But I think you want to abide by the rules because—

The CHAIRMAN. Yes, sir. You are recognized for your 5 minutes.

Mr. STEARNS. Okay. Mr. Secretary, let me just thank you for coming here today and just tell you how much we appreciate your hard work.

When I came to Congress, the budget of the Veterans Administration was quite smaller than it is today. In fact, the Department of Education's budget was, I believe, higher. Now except for the U.S. Department of Defense (DoD), it is the second highest amount of money we spend—\$125 billion proposed.

My question is, before I get into details and talking about some of the problems we have had, are you finding it frustrating to control such a bureaucracy?

I know that you are going to outside sources, PricewaterhouseCoopers (PWC), to do some kind of accounting. I mean, is it a possibility that systemic to the Veterans Administration through this huge increase in funding and the demands of veterans coming back that it is maybe something that is difficult to operate, shall we say, from an accounting standpoint and know where all the money is going? That is just a general question.

Secretary SHINSEKI. Congressman, I think your point is a good one. These two budgets, 2010, 2011, are significant. But I know this kind of funding cannot continue and so I have to put in place now those investments that are going to create for us the opportunity to be as effective in the future of caring for veterans even as we try to increase quality and, you know, open access to more veterans because of the economic difficulties who are coming to us and more veterans who are coming back.

So the issue of how do we do this, control, I think, is the word you used, centralization is one way of doing that. But my experience on either end, centralization versus decentralization, I think we can look back at the lack of control and discipline in place and say that was a result of decentralization. We know what that has cost us in opportunities and we are trying to put in place the fixes.

By the same token, going to the other end of that spectrum and talking about full centralization, my concern would be that we lock down our processes in a way that it lacks responsiveness and agility to respond to veterans who come to us and seek the kind of support and services and benefits that we provide.

I have run a study. I have asked internally for a review of the options. Frankly, I was given two options to consider, one to integrate where we stand today or to go to full centralization. I turned the study around and I said there was a third option here that I wanted to have described for me and that is the option that begins with the integration step and then a discussion of whether or not to go to centralization as a second step. And then what are the conditions that would allow that kind of a decision and how long might it take to achieve those conditions? And that is what I am waiting for, a return report, probably within the month, to be able to lay out a decision.

Mr. STEARNS. The staff informed me about a hearing that I attended dealing with how money was spent and the \$5 plus billion in the miscellaneous fund. And during that hearing and subsequent hearings, we had a little difficulty understanding where all that money was the miscellaneous obligations.

And I understand that you have hired PricewaterhouseCoopers, a consulting firm, accounting firm, at \$850,000 to help you. And then you have a follow-on contract for \$350,000, is that correct, with PricewaterhouseCoopers?

Mr. FRYE. Sir, actually, we hired PricewaterhouseCoopers to do an initial study of the VA procurement structure and our command and control issues in 2008. That study was completed. As the Secretary has already said, some of the recommendations were implemented, three important ones.

First, we reduced the numbers of heads of contracting activity from 31 to 6, a significant reduction in the VA.

Secondly, out in VHA where virtually every hospital managed their own procurement affairs, a structure was established whereby a Chief Procurement Officer position was put in place in VHA and a Deputy Chief Procurement Officer. Today I will report to you that all of the procurement personnel in VHA report up to that Chief Procurement Officer.

So we think those changes were significant changes and they really add to that unity of effort and our ability to exercise command and control over those contracting professionals that are out in VHA.

I hope I answered your question.

Mr. STEARNS. Okay. And the follow-up contract is for what, the \$350,000?

Mr. FRYE. Oh, I am sorry, sir. Yes. We then contracted with PWC this year in January to conduct a follow-on contract. And the Secretary has already talked about the purpose of that contract, but it is to do a follow-on to the initial study that was done in 2008 and look at our structure and see if there is not a better way of doing business, so to speak, and that is where we are at now. And as the Secretary has already stated, the results of that study and the executive decisions will come about in about 30 days.

Mr. STEARNS. Thank you, Mr. Chairman.

I think you, as Chairman—

The CHAIRMAN. Thank you, Mr. Stearns.

Mr. STEARNS [continuing]. Should consider, you know, pursuing this area and to see with the Secretary if we have the need for oversight, a simple oversight policy on a running basis that continues to look at the Veterans Affairs budget.

The CHAIRMAN. Thank you.

Mr. Walz.

Mr. WALZ. Thank you, Mr. Chairman and Ranking Member.

Mr. Secretary and your staff, thank you for being here.

It is a compliment, but maybe a sad state of affairs for me. I think I see you more than I see my family now. So you are here often. You are very accessible. Your staff is, too, and for that, I am very, very appreciative.

Yesterday we had a hearing and Mr. Buyer was talking about some of his initiatives and one has been acquisition reform. And it is something that I have watched go on. And he talked about our Ranking Member is going to be retiring. And I said how we need to make sure that this legacy continues and having this hearing today is that.

I also reminded him that many of us may be retiring in November, but our veterans will still be there. The care for them must still be there and our responsibility to make sure that the things are in place that stay behind as a legacy behind us are there.

So I am appreciative of what you are saying. I am interested about a couple of things I would ask. I want to ask just a quick question.

The PMAS, you talked about implementing that. Are folks buying into that?

Secretary SHINSEKI. Absolutely. I think we have been able to demonstrate to all of our folks that are involved in IT that this makes good business sense.

I am sure there are going to be a couple which are either over schedule, over budget, or behind schedule that are not happy with where they are, but they understand why they are there and what we expect.

So in terms of transparency, in terms of getting folks to understand where we are headed, and getting them to take the corrective actions here, it is easier than chasing down each little——

Mr. WALZ. Well, I am interested in this because what you are doing is you are getting at the heart of systemic change of the organization and the culture and it is turning that battleship type of thing. And I am interested in this because I think all of us understand it is care for the veterans as well as safeguarding those dollars.

And as we are putting in money, Mr. Stearns is right, we need to be very, very critical of where the money is going and make sure that it is making an impact because if we do not then we will not be able to get it in the future.

So I have watched this acquisition process and I understand that everybody has this great idea. They want it to be adopted right away or whatever. I understand it is a two-fold process for you to make sure we are watching for fraud, waste, and abuse. We are making sure that it goes through there. But I have to tell you I have seen some pretty interesting things.

We have a one o'clock meeting with Bill Gates today and I was talking I am not sure if Bill Gates came in with an IT solution for us he would get through the red tape and get his product in at this point. So I am very happy you are moving down this.

And what I wanted to say is you, Mr. Secretary, have a unique ability here. You have worked with the Joint Capabilities Integration and Development System on the other side. You have seen it work with Abrams. You have seen it knock out Crusader and things like that.

The one I was really interested in is, is there anything to learn from DoD, not that it is perfect. But something my staff and myself and I have seen personally work is the Program Executive Office (PEO) Soldier thing, of being able to cut through that, to see a great piece of technology, to see a great program, and be able to reach down, pull that out and implement it quicker.

Do you have that ability? If you have that ability, would it be better? Could we still have accountability of the dollars as well as fielding things quicker whether it is, you know, telemed or whatever? I just ask if you think that is a way to go?

Secretary SHINSEKI. Well, just very quickly, two points. First of all, on PMAS, we have already saved \$56 million on the 17 projects that were not meeting standard and which we have stopped and harvested that money and reinvested it in other projects that seem to be moving in the right direction. So this——

Mr. WALZ. Before PMAS, would that have happened?

Secretary SHINSEKI. I am sorry?

Mr. WALZ. Before PMAS, would that have happened——

Secretary SHINSEKI. As a result——

Mr. WALZ [continuing]. Or would they have continued to run a natural course?

Secretary SHINSEKI. Probably not.

Mr. WALZ. Okay.

Secretary SHINSEKI. Probably not. I will attribute that to the changes that have occurred since Secretary Baker arrived——

Mr. WALZ. Okay.

Secretary SHINSEKI [continuing]. Someone who has a great background in the IT world and who thinks strategically. And this what—it has been a year—this is what he has been able to accomplish. What I am looking for is Baker's counterpart in a \$15 billion enterprise of acquisition, logistics, and construction.

To get to your question, we do not have a PEO Program Manager, a doctrinally-based acquisition program as you are describing.

Mr. WALZ. Could we have a PEO Vet like we have a PEO Soldier?

Secretary SHINSEKI. We could, and that is part of this first step is to create the conditions under which we might investigate how we put together a formal acquisition program that looks long term strategically that develops the workforce to have the strengths that DoD has been able to grow with their program management acquisition.

Mr. WALZ. And this request for the Assistant Secretary is the first step in leading to the next thing of maturing this acquisition process?

Secretary SHINSEKI. Yes.

Mr. WALZ. Okay. That is all I had. I yield back.

The CHAIRMAN. Thank you, Mr. Walz.

Mr. Buyer.

Mr. BUYER. Thank you. Thank you very much.

Sergeant Major, I would ask of you to help us with your academician as we proceed with this. Okay? You bring some expertise.

And I am also hopeful, Mr. Chairman, that some years back when we gave the Oversight and Investigations Subcommittee legislative authorities, they have a great deal of investment of time in the acquisition, all the hearings that they have done, and that might be the best Subcommittee, I think, to move the acquisition and acquisition bill. I just throw that up for consideration.

I think what would be really helpful here over the next 30 days, Mr. Secretary, is as we try to formulate this legislation, please, what I am going to ask of you since we can leave the record open, articulate your acquisition policy. So submit that for the record.

So it is one thing to ask for the positions. Let us couple that with your specific intent. So we will take the policy, put that into the

record. It will help substantiate why you are asking for these eight positions. And we will have a better understanding.

With regard to us then outlining these positions by title, I also believe it will be fruitful for us to outline their responsibilities. And I will embrace your recommendation to the Committee that when we do with specificity on each of these titled positions, that each one of them, we will put in proper language giving you as Secretary authority to take that position and move it throughout the, quote, the Department.

So I am not going to hold you to particular silos. I think it would be good to give you that flexibility. Would you work with us to do that?

Secretary SHINSEKI. Definitely I will. And we will be happy to provide the requested description of what each of the eight DASs will be doing and what their responsibility and scope would be. But I do appreciate the flexibility that allows the Secretary, whoever the Secretary is, the opportunity to be agile.

[The VA met with Congressman Buyer and staff regarding VA's acquisition policy in June 2010.]

Mr. BUYER. Yes. I think you made a good point from our discussions. You know, we may not touch this for 30 to 40 years and who knows what a future Secretary finds that some new need may be required.

And if, in fact, we have things running smooth over here, he might need that political appointment in some other Department. So I think that would be a good thing for us to talk about and work that through.

And that is an implementation issue, Sergeant Major. That is why I think putting your eyes on it will be helpful to us.

The question on resellers, in the proposed legislation that I have—if I may, Mr. Secretary, could I go directly to Mr. Frye? Would that be all right?

Mr. Frye, I would like for you to put your eyes on Section 7 of the bill. I know you do not have it in front of you.

But earlier, Mr. Secretary, I made a pledge to you that I would not try to be as prescriptive and I will take out of the bill areas that I could move to report language and give you as much deference for executive authority as I can. Okay? So I will do that.

But please, Mr. Frye, on Section seven of the bill, we addressed these issues making sure that the contract for the purchase of a commercial item that the vendor the item is either a manufacturer or a regular dealer. And we get in to then address these issues for which Chairman Mitchell and Ranking Member Roe got into dealing with the resellers.

So we get into this whole issue about resellers. And I would like your thoughts about this issue because there are legitimate and then there are not so legitimate.

Mr. FRYE. Thank you, Mr. Buyer.

Your concerns are shared by those of us involved in this issue in the VA. It perhaps is a government-wide issue, but it certainly affects us in the VA and it certainly affects us in the execution of our duties with our Federal supply schedules that are run and managed out of the National Acquisition Center in Chicago.

We agree that the reseller business model is a legitimate business model. It certainly is. And we deal with resellers on a daily basis out of our National Acquisition Center.

The problem arises when—and by the way, it is also a commercial model—but the problem arises when firms—and I will use the word storefronts—establish themselves and declare themselves to be resellers and there is no value added.

In some instances, we found where literally a vendor set up operation in a garage. They had no stock. They had no supplies. And they simply drop-ship products to VA facilities. There was no value added there. And what it does for us is add six, seven, eight, ten percent to the cost of those items at the expense of our veterans.

So that is the issue that we need to look at and perhaps we need help in establishing the definition of reseller because I do not believe one exists across the government today.

And I think that is where our Office of Inspector General has been reaching out to. They would like to see a definition of reseller there so that when we send our auditors to the field to do these pre- and post-award audits with these Federal supply schedule vendors, we have the ability to look at a storefront operation and say that is not where we need to go. We need a legitimately run operation here, a legitimate reseller.

Mr. BUYER. Mr. Frye, I do not believe it would be prudent for us to legislatively define the word reseller. Would you agree with that?

Mr. FRYE. It is my personal and professional opinion that yes.

Mr. BUYER. We should not statutorily define reseller. In the language, what we have done here is we said that you ought to be working with that specific vendor, a manufacturer, and then we actually then say unless the Secretary specifically provides for a waiver of such requirement for such concern.

So if you have got legitimate resellers that add value, then the Secretary ought to be able to utilize them.

Mr. FRYE. Absolutely.

Mr. BUYER. I attended one of the Subcommittee hearings that Chairman Mitchell had done with Ranking Member Roe and they went right at this issue. And the IG testified. And it was pretty deplorable.

And what I am going to ask of you is please put your eyes on Section seven. If there is a way that we can best work through this, I do not want to exclude legitimate resellers that add value.

So the savings, Mr. Secretary, that you are hoping to accomplish, much can come from Section seven. But I want to be able to write this in a manner that does not harm the legitimate ones.

The other issue with regard to—may I?

The CHAIRMAN. Certainly.

Mr. BUYER. With regard to the issue of the proposal for a fourth branch dealing with the economic opportunity issues, I note that you had shared with me in private that you have a lot of challenges on your plate. And I recognize that and I have no interest in sending a bow-wave to you.

So maybe the best for us to do is have a meeting of the minds whereby in the legislation we ask for an analysis on if we move



this way, what is the best way that it would be implemented. So we can move it to a study and analysis.

Mr. Secretary, would that be workable with you?

Secretary SHINSEKI. That would be agreeable. I think I would just say on the fourth administration, I know I could not implement it now with the challenges that I have taken on about breaking the back of the backlog, about the homeless issue.

But until I get the acquisition, the reforms into place, I do not know that I could even begin to answer that question. So I think a study of some kind might be a worthy way to go. And I am happy to work with the Committee on that.

Mr. BUYER. Okay. May I in conclusion?

The CHAIRMAN. Yes.

Mr. BUYER. All right. Thank you.

I believe that you should have these political appointments and if you get us that policy that helps move this in place, we will make sure that you have the flexibility. We will do a Study Committee on the fourth branch and we will have Mr. Frye put his eyes on that Section seven to make sure that you get what you need. Is that good? Awesome. Thank you.

The CHAIRMAN. Just for the record, you were not speaking for the Committee. You were speaking for yourself. We have not passed that legislation yet, so we have not done any of this, right? Am I correct?

Thank you.

There was nothing settled, it was simply ideas.

I appreciate you being here, and your laying out your vision. We look forward to working with you to realize it.

Secretary SHINSEKI. Thank you very much, Mr. Chairman.

The CHAIRMAN. This hearing is adjourned.

[Whereupon, at 11:46 a.m., the Committee was adjourned.]

## A P P E N D I X

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### **Prepared Statement of Hon. Bob Filner, Chairman, Committee on Veterans' Affairs**

I would like to thank the Members of the Committee, Secretary Shinseki, and all those in the audience, for being here today.

The VA is the second largest agency in the Federal Government. With more than 245,000 employees, the VA oversees the largest integrated health care system in the country along with a vast array of benefits programs to compensate the service and sacrifice of our 25 million veterans.

Reforming the VA and remaking it into a 21st Century organization that can serve as a model for other areas of the Federal Government is a monumental task. Today's hearing enables this Committee, and the VA, to begin the conversation on how best to undertake this transformation.

Mr. Secretary, today, we are here to listen to you. We want to hear your views on the future of the VA, the challenges that face the VA in the future and what your needs are to transform this agency into a 21st Century organization.

Today's hearing is not a legislative hearing on specific bills. Rather, we want to hear about your vision and your assessment of what tools you need, including a proposal you support that was first put forth by Secretary Nicholson that would amend title 38 to add an additional Assistant Secretary and eight Deputy Assistant Secretaries.

We are not looking for a piecemeal approach to structuring VA to best address the needs of America's veterans.

We look forward to hearing your thoughts, sharing our thoughts, and examining proposals to provide the important structure and change we need at the VA to ensure it is responsive to our veterans. Our hope is to come out of this with a plan we can all get behind that meets the needs of the Department and our veterans.

Historically this Committee has worked in a bipartisan fashion to address the needs of veterans. And at the end of the day, regardless of our differences, that is what we are all here to do.

Mr. Secretary, on both sides of the aisle, you have Members committed to working with you to make the VA the very best organization it can be. Many of us have ideas, proposals, or thoughts on how to do that. The Committee believes in providing the Executive Branch wide latitude in organization matters, but we retain a strong interest in ensuring that organizational changes will improve the VA's ability to administer benefits and services to veterans while improving accountability.

We wish to thank you, Mr. Secretary, for your leadership, as well as the employees of the VA, for the devotion to veterans that you all demonstrate day after day.

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### **Prepared Statement of Hon. Harry E. Mitchell**

Thank you Chairman Filner, and thanks to Secretary Shinseki for coming to participate in the hearing today.

The President and Secretary Shinseki have made a clear goal of transforming the VA into a 21st Century organization, and we are here today to move toward that goal.

I wish to highlight two of the many important issues that this Congress and Administration must address to meet that goal:

First, I believe, in order to transform the VA into a 21st Century Organization, we must ensure that the acquisition process within the VA is one that is fair, fiscally responsible, and effective.

Mr. Secretary, I know from my role as Chairman of the Oversight and Investigations Subcommittee some of the long-standing challenges in acquisitions. Recently,

we held a hearing examining the extent of the reform needed in order to improve the acquisition process.

One recent report, produced by the U.S. Government Accountability Office revealed that Network and Medical Center staff within the Veterans Health Administration failed to use the Federal Supply Schedule, or FSS, due to a lack of information and the proper tools needed to use the FSS. This resulted in a lost savings of almost \$8.2 million a year or \$41 million over 5 years.

This is simply unacceptable.

And I know you share this same concern, and I know you know how much work needs to be done to improve the acquisition and procurement process.

Additionally, I believe the VA needs to aggressively reduce the claims backlog. The VA must deliver these earned benefits in a timely manner.

As many have noted, there is a backlog of disability claims that stretches hundreds of thousands of veterans long. I am pleased that the Administration has requested more than 4,000 new claims processors in their FY 2011 request. However, I believe that the VA needs more than additional manpower to reduce the backlog.

The VA needs a long term strategy and plan.

This will provide better services to our veterans and increase their morale and confidence in the VA.

Finally, I want to say that I am encouraged by Secretary Shinseki's commitment to reform the VA, and I look forward to working with him, as well as with my colleagues on this Committee, to bring veterans the benefits and services that they have earned in an effective and efficient manner.

Thank you all again for attending today's hearing, and I look forward to all the testimony being presented today.

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### **Prepared Statement of Hon. Eric K. Shinseki, Secretary, U.S. Department of Veterans Affairs**

#### *Introduction*

Chairman Filner, Ranking Member Buyer, distinguished Members of the House Committee on Veterans Affairs: Thank you for this opportunity to discuss our plan for structuring the Department of Veterans Affairs into the most effective and efficient organization possible, focused on providing veterans the best care and benefits they have earned through their service. You have shared important insights with me—both during hearings and in personal meetings—on changes that are necessary at VA to fulfill President Obama's charge to transform this department into a 21st Century organization. This hearing is an opportunity to continue those conversations.

#### *VA's Strategic Goals*

We've established four strategic goals to guide our path to the VA of the future:

- Improve the quality, accessibility, and value of health care, benefits, and memorial services;
- Increase veteran satisfaction with VA benefits and services;
- Improve workforce satisfaction and make VA an employer of choice; and
- Protect people and assets continuously, and in times of crises.

You may recall me mentioning these goals during your Committee's hearing on the President's proposed budget for 2011, on 4 February, 2010. In that testimony, I also set out six, key, high-priority performance goals: reducing the claims backlog, eliminating veteran homelessness, automating the GI Bill benefits system, establishing a Virtual Lifetime Electronic Record, improving mental health care, and deploying a Veterans Relationship Management System.

We have done much to improve services for our veterans, but much more remains to be done. Our intent is to effectively advocate for veterans by improving their access to, and the quality and value of, our services. Achieving that goal requires VA to strengthen our management infrastructure in order to leverage results even better than our programs have produced to date, instituting greater internal accountability in the process.

#### *How will VA make the organizational and management changes to achieve those goals?*

The budget I presented to this Committee on 4 February gives a detailed answer to the question of *what* VA plans to achieve with the resources it is requesting. I believe this hearing poses the valuable and vital question of *how* VA will achieve

those goals. What does VA need to do as an organization to provide veterans the access, timeliness, and quality of services they deserve? How will VA achieve this level of excellence and become a model for the effective use of taxpayers' dollars?

Three hundred thousand good people come to work everyday at VA to serve veterans. Not a single one of them comes to work to make mistakes. My job is to focus all our efforts on providing veterans the highest quality and safety in benefits and services. Transformation of an enterprise our size requires that we act with both deliberation and the right sense of urgency—creating haste slowly—making change in a systematic, controllable way. We must cut through the barriers that have confounded veterans and VA employees, as well, for years now. We owe it to those, who have served, to deliver a better VA—more responsive, more transparent, more accountable, and more cost effective. We need to proceed in a way that allows stakeholders to review our plans, internalize them, and use them to help us get it right.

We have made a real commitment to listening carefully to veterans' experiences with VA, both the good and the disappointing, and our employees about what the front lines of care and benefits delivery are like. I've gotten tremendously valuable insights from my meetings with veterans and their families, hearing for myself their experiences with VA. To learn the nuances and diversity of VA's operations throughout the country, I spent four hours with each of 21 Veteran Integrated Service Network (VISN) leadership teams, as well as significant additional hours with every business line at VBA and NCA. We have surveyed over 20,000 employees and conducted many detailed sessions looking with fresh eyes at our policies and operational performance from top to bottom. We have fundamentally and comprehensively reviewed our mission, our organization, and our resources, and challenged all our assumptions to find ways to better serve veterans. These assessments have allowed some conclusions about how to improve effectiveness and efficiency within current resources. We have, in fact, moved ahead with some of the logical changes that were needed to dramatically improve services veterans are already receiving.

*The next step to dramatically better results: strengthening management infrastructure, especially pursuing acquisition reform, paired with continued consolidation of Information Technology management*

I am confident that management and organizational changes already underway are moving us in a direction that will incrementally give veterans, the Congress, and the taxpayers ever-growing trust and confidence in our transformation initiatives.

We seek to strengthen VA's management infrastructure across all five of our departmental management functions:

- Acquisition and Logistics;
- Construction and Facilities Management;
- Information Technology (IT);
- Human Resources Management; and
- Financial Management.

Stronger departmental coordination and control lead to better service, value, and accountability. All of the varied programs, initiatives, and services to veterans outlined in our fiscal year 2011 budget will only work well and consistently when these central management functions operate effectively and efficiently. We know you are especially interested in programs and proposals for acquisition reform. Along with effective deployment of IT tools, we see those proposals as critically important to fulfilling VA's strategic goals.

State-of-the-art planning and execution of IT will be vital across all of VA. While we cope with claims backlogs through increased hiring, we all know that any long-term solution will require modernizing the claims processing infrastructure. Great IT development and execution, in turn, depends on very well-managed and disciplined acquisitions support and project management, which are based on sensible policies and consistently applied customer service from knowledgeable specialists. This link between IT success or failure and contracting is evident—VA's past IT setbacks, that have tested your confidence in, and patience with, our program, have largely been project management and acquisition failures.

For both IT and acquisitions, past weaknesses have stemmed from overly decentralized control, lack of enterprise-wide information and, in some cases, improvised policies. Managers in the field lacked supervision, guidance, and sustained support; and policies were applied inconsistently. As you know, positive changes in our IT program, including greater centralization, began before my tenure here. With that, I missed some of the friction and delay that often occur during the earliest parts of a significant transition.

There is now evidence that these changes are resulting in a more centralized and focused IT team. This consolidation allows for the kind of discipline represented by the Project Management Accountability System (PMAS), which has already begun to help us and which will soon produce an effective process distinguishing between best-run projects from those requiring revision or termination. It also has enabled better management of our IT portfolio, and focused the management team on training and development of IT professionals.

We know, as well, that VA is too big and diverse to have every IT decision pass through a single office, so we seek a balance of centralized policy and decentralized execution to empower our front-line employees and maintain consistency and efficiency across the organization. We are making progress towards this end.

While they are very different disciplines, requiring their own multi-faceted solutions, some of these same themes in IT reform are present also in acquisition reform. In the past, VA's procurement spending—almost 15 billion dollars annually—has been highly decentralized, resulting in a lack of standardization, accountability, and controls.

We have made progress—initiatives are underway to improve its acquisition processes, including:

- Instilling a management approach that aligns system-wide policies with mission accomplishment;
- Increasing the collection and use of enterprise-wide data;
- Improving training and raising the competence of the acquisition workforce; and
- Improving our relationships with over 15,000 suppliers.

Examples of these improvements:

- *Developing a professional workforce and establishing the VA Acquisition Academy (VAAA):* The VAAA is the only Federal civilian acquisition academy, and represents a significant investment in growing, training, and retaining a 21st century, professional acquisition workforce. The academy's programs include intern, contracting, and program management schools. This cutting-edge effort was recognized with a 2009 Team Excellence Award by the Office of Management and Budget's Chief Acquisition Officer Council. The results are evident: 98 percent of VA contracting officers have Federal acquisition certification, up from 65 percent in 2008. We have increased our dedicated contract specialists from 766 to 1,405 full-time employees since 2003.
- *Executing specialized attention in information technology procurement:* Recognizing how central IT is to VA's transformation, we have established a VA Technology Acquisition Center (TAC) to provide dedicated, specialized contracting support to VA's Office of Information and Technology (OIT).
- *Providing better information management for better central decision-making and accountability.* VA is working on both short-term and long-term improvements to systems and data analysis tools to provide decision makers at all levels the necessary information for the wise stewardship of taxpayer dollars.
- *Mandating integrated teams for all procurements over five million dollars:* Established in 2009, these Integrated Product Teams (IPTs) include subject-matter experts from program offices, procurement, legal counsel, and the Office of Small and Disadvantaged Business Utilization. Having these components involved at the front end of the acquisition process will help ensure VA's requirements and acquisition strategies are properly defined and developed.
- *Increasing oversight over acquisition offices across VA:* VA's acquisition executive will evaluate every VA procurement office on a regularly scheduled basis. These compliance reviews will help identify problems and institute corrective actions, minimizing risk to the Department that may result from poor procurement practices.
- *Promoting a clear and consistent acquisition business model:* Using recommendations from a PricewaterhouseCoopers (PWC) study, VA has established an acquisition business model that carries out centralized decision-making and decentralized execution. A follow-on study by PWC will be completed shortly, and we will look at the results to further enhance our business model.
- *Partnering with the private sector:* VA established an innovative Supplier Transformation Relationship Initiative, recognizing that the supplier community is a critical component to VA's success. Better and more transparent communications with vendors yields better results—this is why we hosted a forum in August of last year with more than 90 companies representing every material, service, and socioeconomic area of VA's purchasing. This effort is expanding to reach more than 15,000 VA industry partners.

- *Promoting advances in management of construction acquisition:* We have undertaken a transformation initiative in our Office of Construction and Facilities Management (CFM) to improve the planning and execution of our major and minor construction, and non recurring maintenance programs by:
  - Having CFM engaged with the administrations throughout the Capital Planning Process;
  - Maximizing the performance of our facilities through an enterprise facilities management system;
  - Establishing critical engineering capability to support the Department's infrastructure program; and
  - Aligning our programmatic investment with strategic objectives and performance targets.

Collectively, these measures will improve acquisition service delivery outcomes.

*What Congress can do to help structure the VA of the 21st Century*

VA needs support from this Committee to fully realize these reforms. We appreciate and rely on a close partnership with the Congress to effect change at the Department. Your steadfast commitment to providing the resources VA needs to serve veterans is deeply appreciated. The oversight that this Committee provides also challenges VA to perform better, and helps us learn and incorporate the right lessons and remedies when we sometimes fall short.

*VA-proposed Legislation to Structure VA Acquisition and IT for the 21st Century*

There are legislative changes that would benefit the Department. In our 2011 budget package, we described 51 legislative proposals to improve and adjust programs across VA. We would appreciate your consideration of all of them, but a proposal included in our fiscal year 2010 budget in May of last year would be an especially important step in structuring our acquisition and IT offices for the 21st Century. I advocated for it before this Committee in your April 2009 "Funding the VA of the Future" hearing, again when I appeared before you on 4 February of this year to present our fiscal year 2011 budget, and also in individual meetings with some of you.

Our proposal would give VA the authority to establish an Assistant Secretary for Acquisition, Logistics, and Construction. This is a fundamental step in elevating and consolidating the acquisition function to its central role in carrying out everything we do in support of veterans.

We have been able to move forward on many of these initiatives, even without an acquisition office headed by an Assistant Secretary. But these are piecemeal moves of opportunity. Going forward our programs need coherence, intellectual rigor, and decisiveness. This overdue change will help cement and accelerate all these efforts, past and future. The Services Acquisition Reform Act requires the appointment of a non-career employee as a Chief Acquisition Officer (CAO). The General Accounting Office has identified as a weakness situations where the CAO has other duties not related to acquisitions. VA remedied this by establishing an Office of Acquisition, Logistics, and Construction in October, 2008. But we do not have a senior level, assistant secretary to lead that office, and I believe that is critical.

As a practical matter, VA often receives recommendations on new technologies or promising innovations, which we are not organized to accommodate in more than a superficial courtesy meeting. Polite as those conversations are, they usually don't easily lead to leveraging potential solutions to some of our challenges. A senior Assistant Secretary for Acquisition, Logistics, and Construction would be an ideal place to receive, evaluate, and act on the most meritorious ideas.

We have chosen to give acquisition reform prominence—speaking bluntly, it is obvious we must do so. If VA is going to be a top-performing Department, the organizational lines should match up with our priorities. Much of this we can do under existing authority, and we are—but some actions will require legislation. In an agency this size, with programs so diverse and in so many cases having complex requirements, such as building major medical facilities, and purchasing almost 15 billion dollars in goods and services annually, the need for an Assistant Secretary with an exclusive focus on acquisition is obvious.

In addition, this legislation would create eight new Deputy Assistant Secretary (DAS) slots. Two of the DAS positions would be for a Principal Deputy Assistant Secretary (PDAS) for Acquisition, Logistics, and Construction, and a Principal Deputy Assistant Secretary for Construction and Facilities Management.

We would utilize five new DAS positions in the Office of Information and Technology (OIT), based on a comprehensive IBM study informed by corporate best practices. There currently are only two DAS offices in OIT, with responsibility for Infor-

mation Protection and IT Resource Management—holdovers from our pre-centralized OIT organization.

Our proposal would provide for the following additional lines of authority, which were transferred to OIT as part of the centralization, to support the leadership structure necessary to lead one of the largest consolidated IT offices in the world:

- DAS leaders responsible for:
  - Strategy, Architecture, and Design,
  - Product Development and Delivery,
  - Enterprise Program Management Office,
  - IT Performance Management, and
  - IT Operations and Engineering.

Finally, VA would utilize the last DAS position to support the Assistant Secretary for Management. This official would be responsible for oversight of VA's capital programs and capital budget formulation. I believe these issues are prominent enough to require a new DAS.

This legislative proposal is not about creating a new layer of bureaucracy—it is about streamlining and aligning our organization in ways that will better align our priorities with the most responsible use of funds entrusted to this Department. This proposal is cost-neutral, to be implemented with existing resources. It would not require additional Senior Executive Service authorizations.

Our fiscal year 2011 budget also includes two legislative proposals regarding personnel authorities for OIT staff who work with the Veterans Health Administration. These two new authorities would harmonize differences that emerged when personnel were moved from VHA (which had its own personnel authorities under Title 38) to OIT (which is governed by personnel rules found in Title 5).

*VA's partnership with Congress is critical to achieve transformation*

Veterans benefit from a strong partnership between VA and the Congress. For both the conduct of oversight and the formulation of legislation, open communication and collaboration is vital. In that spirit, I'd like to offer some cautions on legislation regarding transformation that is well-intentioned but could be counterproductive. Locking detailed and prescriptive organizational changes into the United States Code would be unwise, even if VA were to agree with the underlying concepts in the legislation. These changes are a complex undertaking and will require Departmental agility to adjust this organizational addition as we learn by implementing its principles along the way.

I understand that frustration with the pace of change, especially for long-standing deficiencies, can lead to an urge to mandate very specific procedures and organizational structures. We would urge Congress to forego such prescriptive measures at this time while we undertake the efforts I've described. VA would offer instead close consultations with the Congress to build confidence in the Department's plans and hopefully demonstrate success in reforms that are underway, which can also be furthered under the organizational changes I'm advocating again today.

We also know one legislative idea for restructuring under consideration would make dramatic changes in the VA's structure, by moving certain programs now under the Veterans Benefits Administration into a new fourth administration. We would counsel against such changes at this time, in favor of first making the essential improvements in the management functions described above. We see that as the first step in improving program performance VA-wide. Consideration of serious functional reorganizations, we believe, should wait until these core management infrastructure have been implemented. In the meantime, we would welcome creation of a new Assistant Secretary and the DAS authority on which that organization would rely.

*Closing*

Again, I want to thank the Committee for inviting me here to discuss these issues. We depend on your counsel, and support. Together, we can deliver the changes we need so that VA can be an even more positive provider of care and benefits to our Nation's Veterans.

**“VA to Automate its Agent Orange Claims Process”**

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By Gregg Zoroya, *USA TODAY*

WASHINGTON—The Department of Veterans Affairs plans to announce today that it will fully automate how it pays claims for illnesses related to exposure to the chemical Agent Orange to keep an overburdened system from collapse.

It is the department's first effort at automating claims processing in its 80-year history, says VA chief technology officer Peter Levin. It comes as the agency struggles to cut a backlog of more than 1 million disability claims, appeals and other cases.

The system “is likely to break” if nothing is done, Levin says.

“Look, the bottom line is why the hell they didn’t do (automation) 30 years ago,” says John Rowan, national president of Vietnam Veterans of America. “The question is whether they will do it right.”

VA Secretary Eric Shinseki took office last year and said no disability claim should take longer than four months to process. However, department records show that almost 40 percent take an average of 161 days to process and that will increase to 190 days without automation.

The increase is largely the result of Shinseki’s efforts to allow more Agent Orange disability claims.

The military used Agent Orange to defoliate plants and trees in which Vietnamese insurgents hid during the Vietnam War. It was later shown to cause cancer, birth defects and other ailments. After years of debate and medical research, the VA began compensating veterans for illnesses linked to Agent Orange with non-taxable, monthly payments to those without dependents ranging from \$123 to \$2,673.

In October, Shinseki added three more illness to those linked to the herbicide: Parkinson’s disease, B-cell leukemia and heart disease. He told Congress this would generate another 228,000 claims in the next two years.

The automated claims system will apply only to veterans filing these new Agent Orange claims. If it works, the VA hopes to expand automated claims processing through the department, says Roger Baker, an assistant secretary for information and technology.

Shinseki said in a statement that veterans harmed during military service deserve the “best this Nation has to offer.”

Old, incomplete or complicated records have hampered the VA’s move to automation, says former VA secretary James Peake, who applauded Shinseki’s move. Many records require hands-on investigation, says Peake, who led the department from 2007 to 2009.

Agent Orange cases, however, may be a good place to start, Peake says. Once the information from a veteran’s discharge papers is entered into a computer, the VA can quickly verify service in Vietnam in many cases—a key factor in determining eligibility for Agent Orange benefits.

