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VETERANS' HEALTH CARE BUDGET ESTIMATE

Changes Were Made in
Developing the
President's Budget
Request for Fiscal
Years 2012 and 2013



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Why GAO Did This Study

The Veterans Health Care Budget Reform and Transparency Act of 2009 requires GAO to report whether the amounts for the Department of Veterans Affairs' (VA) health care services in the President's budget request are consistent with VA's budget estimates as projected by the Enrollee Health Care Projection Model (EHCPM) and other methodologies.

Based on the information VA provided, this report describes (1) the key changes VA identified that were made to its budget estimate to develop the President's budget request for fiscal years 2012 and 2013 and (2) how various sources of funding for VA health care and other factors informed the President's budget request for fiscal years 2012 and 2013. GAO reviewed documents describing VA's estimates projected by the EHCPM and changes made to VA's budget estimate that affect all services, including estimates developed using other methodologies. GAO also reviewed the President's budget request, VA's congressional budget justification, and interviewed VA officials and staff from the Office of Management and Budget (OMB).

GAO is not making recommendations in this report. GAO provided a draft of this report to the Secretary of VA and the Director of OMB for comment. VA had no comments on this report. OMB provided technical comments, which GAO incorporated as appropriate.

VETERANS' HEALTH CARE BUDGET ESTIMATE

Changes Were Made in Developing the President's Budget Request for Fiscal Years 2012 and 2013

What GAO Found

VA officials identified changes made to its estimate of the resources needed to provide health care services to reflect policy decisions, savings from operational improvements, resource needs for initiatives, and other items to help develop the President's budget request for fiscal years 2012 and 2013. For example, VA's estimate for non-recurring maintenance to repair health care facilities was reduced by \$904 million for fiscal year 2012 and \$1.27 billion for fiscal year 2013, due to a policy decision to fund other initiatives and hold down the overall budget request for VA health care. VA's estimates were further reduced by \$1.2 billion for fiscal year 2012 and \$1.3 billion for fiscal year 2013 due to expected savings from operational improvements, such as proposed changes to purchasing and contracting. Other changes had a mixed impact on VA's budget estimate, according to VA officials; some of these changes increased the overall budget estimate, while other changes decreased the overall estimate.

The President's request for appropriations for VA health care for fiscal years 2012 and 2013 relied on anticipated funding from various sources. Specifically, of the \$54.9 billion in total resources requested for fiscal year 2012, \$50.9 billion was requested in new appropriations. This request assumes the availability of \$4.0 billion from collections, unobligated balances of multiyear appropriations, and reimbursements VA receives for services provided to other government entities. Of the \$56.7 billion in total resources requested for fiscal year 2013, \$52.5 billion was requested in new appropriations, and \$4.1 billion was anticipated from other funding sources. The President's request for fiscal year 2012 also included a request for about \$953 million in contingency funding to provide additional resources should a recent economic downturn result in increased use of VA health care. Contingency funding was not included in the advance appropriations request for fiscal year 2013.

Budgeting for VA health care is inherently complex because it is based on assumptions and imperfect information used to project the likely demand and cost of the health care services VA expects to provide. The iterative and multilevel review of the budget estimates can address some of these uncertainties as new information becomes available about program needs, presidential policies, congressional actions, and future economic conditions. As a result, VA's estimates may change to better inform the President's budget request. The President's request for VA health care services for fiscal years 2012 and 2013 was based, in part, on reductions to VA's estimates of the resources required for certain activities and operational improvements. However, in 2006, GAO reported on a prior round of VA's planned management efficiency savings and found that VA lacked a methodology for its assumptions about savings estimates. If the estimated savings for fiscal years 2012 and 2013 do not materialize and VA receives appropriations in the amount requested by the President, VA may have to make difficult trade-offs to manage within the resources provided.

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Abbreviations

CHAMPVA	Civilian Health and Medical Program of the Department of Veterans Affairs
DOD	Department of Defense
EHCPM	Enrollee Health Care Projection Model
MCCF	Medical Care Collections Fund
NRM	non-recurring maintenance
OMB	Office of Management and Budget
VA	Department of Veterans Affairs
VHA	Veterans Health Administration

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GAO

Accountability * Integrity * Reliability

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Congressional Committees

The Department of Veterans Affairs (VA) operates one of the largest health care delivery systems in the nation. In fiscal year 2010, VA served 6 million patients and spent \$48.2 billion on a range of health care services for eligible veterans including primary care, inpatient and outpatient surgery, prosthetics, mental health services, prescription drugs, and nursing home care.¹ The amount of funding VA receives to provide its health care services is determined by Congress in the annual appropriations process, which also provides funds for a wide range of other national programs, such as those supporting defense, education, and transportation. In preparation for the appropriations process, VA must develop annually a budget estimate of the resources needed for its health care services, including the costs for the administration and operation of VA facilities. Developing a budget estimate is the first step in a complex, multistep budget formulation process, which culminates in the President's annual budget request to Congress. VA begins developing its budget estimate for health care services approximately 10 months before the President submits the budget to Congress in February each year.

As we have previously reported, VA uses what is known as the Enrollee Health Care Projection Model (EHCPM) to develop most of its estimate of the resources needed to meet the expected demand for health care services, and uses other methods to estimate the remaining resources needed.² VA's estimate of the resources needed is reviewed through successively higher levels within the agency and revised until consolidated

¹Eligibility is determined on the basis of service-connected disability, income, and other special statuses, such as former prisoners of war, and is used to determine priority for VA services. VA is required to provide a specified set of health care services, including hospital care, to eligible veterans. 38 U.S.C. §§ 1710(a)(1), (2), 1701(5), (6). VA is authorized to provide these health care services to other veterans not identified in these groups. 38 U.S.C. § 1710(a)(3). The population of veterans to whom VA is required to provide nursing home care is more limited than the population to whom VA is required to provide other health care services, although VA also makes nursing home care available to other veterans on a discretionary basis as resources permit. See 38 U.S.C. § 1710A.

²For fiscal year 2011, VA used the EHCPM to develop approximately 83 percent of VA's budget estimate. See GAO, *VA Health Care: VA Uses a Projection Model to Develop Most of Its Health Care Budget Estimate to Inform the President's Budget Request*, [GAO-11-205](#) (Washington, D.C.: Jan. 31, 2011).

into a departmentwide annual budget estimate that is submitted to the Office of Management and Budget (OMB) for review and consideration. OMB subsequently includes a request for VA in the President's annual budget request to Congress, which represents the administration's priorities and funding decisions for federal programs, including VA health care services.

VA's formulation of its health care budget estimate is inherently complex, as assumptions and imperfect information are used to project the likely quantity and cost of the health care services VA expects to provide.³ Most of these projections are 3 to 4 years into the future based on data from the most recent fiscal year. As such, VA's budget estimate is prepared in the context of uncertainties about the future—not only about program needs, but also about future economic conditions, presidential policies, and congressional actions that may affect the funding needs in the year for which the request is made. In addition, our prior work has highlighted some of the challenges VA has faced in obtaining sufficient data, making accurate calculations, and making realistic assumptions when formulating its budget estimate.⁴

In 2009, the Veterans Health Care Budget Reform and Transparency Act was enacted and provided that VA's annual appropriations for health care include advance appropriations that become available 1 fiscal year after the fiscal year for which the appropriations act was enacted.⁵ The 2009 law also required that we report whether the amounts for VA health care services in the President's budget request are consistent with the estimates of the resources required by VA for the provision of medical care and

³See GAO, *VA Health Care: Challenges in Budget Formulation and Execution*, [GAO-09-459T](#) (Washington, D.C.: Mar. 12, 2009).

⁴See GAO, *VA Health Care: Budget Formulation and Reporting on Budget Execution Need Improvement*, [GAO-06-958](#) (Washington, D.C.: Sept. 20, 2006) and *VA Health Care: Long-Term Care Strategic Planning and Budgeting Need Improvement*, [GAO-09-145](#) (Washington, D.C.: Jan. 23, 2009).

⁵Pub. L. No. 111-81, § 3, 123 Stat. 2137, 2137–38 (2009), *codified at* 38 U.S.C. § 117. The act provided for advance appropriations for VA's Medical Services, Medical Support and Compliance, and Medical Facilities appropriations accounts.

services as projected by the EHCPM or using other methodologies.⁶ In response to this act, we report on: 1) the key changes VA identified that were made to its budget estimate to develop the President's budget request for fiscal years 2012 and 2013 and 2) how various sources of funding for VA health care and other factors informed the President's budget request for fiscal years 2012 and 2013.

To describe the key changes VA identified that were made to its budget estimate for the President's budget request, we reviewed VA documents that described the estimate projected by the EHCPM and key changes made to the estimates for all health care services, including estimates developed for services using other methodologies for fiscal years 2012 and 2013. We also reviewed the President's fiscal year 2012 budget request for VA health care services, including VA's congressional budget justification supporting the President's request. We interviewed VA officials and OMB staff to discuss these changes.

To describe how various sources of funding and other factors informed the President's budget request, we reviewed the President's request and VA's supporting congressional budget justification that detail funds expected to be available for VA's health care services. We discussed with VA officials and OMB staff the availability of resources from prior years, anticipated collections, and other factors that affected decisions on funding for VA health care services reflected in the President's budget request.

To assess the reliability of the estimates VA provided, changes made to these estimates, and VA's sources of funding, we obtained documents containing these data and verified the consistency of the information in these documents. We confirmed that the changes to VA's estimates for which VA provided documentation were reflected in the President's budget request for VA health care services for fiscal year 2012 and for fiscal year 2013 advance appropriations. We also relied on our prior work to compare data and check for internal consistency and discussed these data with VA officials. We found the data reliable for the purpose of

⁶The law requires that we report on our analysis within 120 days after the President's budget requests are submitted in 2011, 2012, and 2013. The President's budget request is submitted to Congress in February for the fiscal year that starts the following October. For example, the President's budget submission in February 2011 was for fiscal year 2012—which starts October 1, 2011—and includes a request for advance appropriations for VA health care for fiscal year 2013.

describing certain changes to VA's budget estimate, the requested amounts in the President's budget request, and VA's sources of funding for fiscal years 2012 and 2013.

We requested that VA provide us with the components of its total health care budget estimate that informed the President's budget request of \$54.9 billion for fiscal year 2012 and \$56.7 billion for fiscal year 2013. VA provided an estimate of \$47.1 billion for fiscal year 2012 and \$49.8 billion for fiscal year 2013 as projected by the EHCPM at the beginning of VA's 10-month budget formulation process. VA did not, however, provide the estimates it developed at the same point in time, or any other point in time, for the remainder of the budget estimate using other methodologies. VA also provided information on certain changes made to the underlying estimates, including those projected by the EHCPM and those developed using other methodologies. However, we were unable to determine when all of these changes were made.

We conducted our work from December 2010 through June 2011 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

Background

VA provides health care services to various veteran populations—including an aging veteran population and a growing number of younger veterans returning from the military operations in Afghanistan and Iraq. VA operates 152 hospitals, 133 nursing homes, 824 community-based outpatient clinics, and other facilities to provide care to veterans.⁷ In general, veterans must enroll in VA health care to receive VA's medical benefits package—a set of services that includes a full range of hospital and outpatient services, prescription drugs, and long-term care services

⁷VA is required by law to provide health care services, including hospital care, to certain veterans and may provide care to other veterans. See 38 U.S.C. §§ 1710(a)(1)-(3), 1701(5), (6). Requirements for VA health care services are effective in any fiscal year only to the extent and in the amount provided in advance in appropriations acts for such purposes. 38 U.S.C. § 1710(a)(4).

provided in veterans' own homes and in other locations in the community.⁸ VA also provides some services that are not part of its medical benefits package, such as long-term care provided in nursing homes.⁹

To meet the expected demand for health care services, VA develops a budget estimate each year of the resources needed to provide these services. This budget estimate includes the total cost of providing health care services, including direct patient costs as well as costs associated with management, administration, and maintenance of facilities. VA develops most of its budget estimate using the EHCPM. The EHCPM's estimates are based on three basic components: the projected number of veterans who will be enrolled in VA health care, the projected quantity of health care services enrollees are expected to use, and the projected unit cost¹⁰ of providing these services.¹¹ The EHCPM makes these projections 3 or 4 years into the future for budget purposes based on data from the most recent fiscal year. For example, in 2010, VA used data from fiscal year 2009 to develop its health care budget estimate for the fiscal year 2012 request and advance appropriations request for 2013.

VA uses other methods to estimate needed resources for long-term care, other services,¹² and health-care-related initiatives proposed by the Secretary of VA or the President. As previously reported, these methods estimate needed resources based on factors that may include historical data on costs and the amount of care provided, VA's policy goals for health care services such as long-term care, and predictions of the number of users. For example, VA's projections for long-term care for fiscal year 2012

⁸Under 38 U.S.C. § 1710B, VA is required to provide adult day care and respite care. VA provides these and other noninstitutional long-term care services as part of its medical benefits package and makes them available to veterans enrolled in VA health care.

⁹The population of veterans to whom VA provides nursing home care is more limited than the population to whom VA provides other health care services. See 38 U.S.C. § 1710A.

¹⁰Unit costs are the costs to VA of providing a unit of service, such as a 30-day supply of a prescription or a day of care at a medical facility.

¹¹For fiscal years 2012 and 2013, VA used the EHCPM to estimate the resources needed to provide 61 health care services.

¹²Other services include the Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA), which provides health coverage for spouses, widowed spouses, and children of veterans who are permanently and totally disabled from a service-connected disability or who died in the line of duty or from a service-connected disability. See 38 U.S.C. § 1781.

were based on fiscal year 2010 data on the amount of care provided and the unit cost of providing a day of this care.

Typically, VA's Veterans Health Administration (VHA)¹³ starts to develop a health care budget estimate approximately 10 months before the President submits the budget to Congress in February. The budget estimate changes during the 10-month budget formulation process in part due to successively higher levels of review in VA and OMB before the President's budget request is submitted to Congress. For example, the successively higher levels of review resulting in the fiscal year 2012 President's budget request are described in table 1. The Secretary of VA considers the health care budget estimate developed by VHA when assessing resource requirements among competing interests within VA, and OMB considers overall resource needs and competing priorities of other agencies when deciding the level of funding requested for VA's health care services. OMB issues decisions, known as passback, to VA and other agencies on the funding and policy proposals to be included in the President's budget request. VA has an opportunity to appeal the passback decisions before OMB finalizes the President's budget request, which is submitted to Congress in February. Concurrently, VA prepares a congressional budget justification that provides details supporting the policy and funding decisions in the President's budget request.

¹³VHA administers VA's health care system. VHA is one of three administrations that comprise VA and are included in the President's budget request for VA: VHA, the Veterans Benefits Administration, and the National Cemetery Administration.

Table 1: VA and OMB Review Process Resulting in the Fiscal Year 2012 President’s Budget Request and Advance Appropriations Request for Fiscal Year 2013

Date	Budget formulation event
2010	
April-September	<p>The Veterans Health Administration (VHA) developed most of its health care budget estimate for fiscal years 2012 and 2013 through the Enrollee Health Care Projection Model (EHCPM), which used data from fiscal year 2009. VHA developed the rest of its health care budget estimate for fiscal years 2012 and 2013 using methodologies other than the EHCPM.</p> <p>VHA used the budget estimate to inform its budget submission for health care for fiscal year 2012, including estimated resources for fiscal year 2013.</p> <p>The VHA Undersecretary for Health reviewed the budget submission for health care.</p> <p>The Secretary of the Department of Veterans Affairs (VA) reviewed the budget submission for health care along with the submissions from other components of VA.</p> <p>VA Office of Budget compiled the Department’s budget submission to the Office of Management and Budget (OMB).</p> <p>The Secretary approved VA’s budget submission to OMB.</p>
September	VA delivered the budget submission to OMB.
October-December	<p>OMB reviewed VA’s budget submission.</p> <p>OMB issued decisions on funding and policy priorities for VA, and VA appealed some of the decisions.</p> <p>OMB issued a final decision on the funding and policy priorities for VA to use for the fiscal year 2012 President’s budget request and advance appropriations request for fiscal year 2013.</p>
2011	
January	OMB prepared the fiscal year 2012 President’s budget request, and VA concurrently prepared its congressional budget justification, which supports the policies and funding decisions in the President’s budget request.
February 14	The President submitted the budget request, which requested resources for VA health care, to Congress.
October 1	Fiscal year 2012 begins.
2012	
October 1	Fiscal year 2013 begins.

Source: GAO analysis and presentation of VA and OMB information.

Each year, Congress provides funding for VA health care through the appropriations process. For example, Congress provided new appropriations¹⁴ of about \$48.0 billion for fiscal year 2011 and advance

¹⁴We use the term “new appropriations” to refer to the appropriations provided during the current annual appropriations process for the upcoming fiscal year and, with respect to advance appropriations, the next fiscal year.

appropriations of \$50.6 billion for fiscal year 2012 for VA health care.¹⁵ In addition to new appropriations that VA may receive from Congress as a result of the annual appropriations process, funding may also be available from unobligated balances from multiyear appropriations, which remain available for a fixed period of time in excess of 1 fiscal year. For example, VA's fiscal year 2011 appropriations provided for some amounts to be available for 2 fiscal years. These funds may be carried over from fiscal year 2011 to fiscal year 2012 if they are not obligated by the end of fiscal year 2011. VA and OMB consider anticipated unobligated balances when formulating the President's budget request.

VA has statutory authority to collect amounts from patients, private insurance companies, and other government entities to be obligated for health care services. VA collects first-party payments from veterans, such as copayments for outpatient medications, and third-party payments from veterans' private health insurers for deposit into the Medical Care Collections Fund (MCCF). Amounts in the MCCF are available without fiscal year limitation for VA health care and expenses of certain activities related to collections subject to provisions of appropriations acts.¹⁶ VA also receives reimbursements from services it provides to other government entities, such as the Department of Defense (DOD), or to private or nonprofit entities. For example, in 2006, we reported that VA received reimbursements from other entities by selling laundry services.¹⁷ These amounts also contribute to decisions on funding in the President's budget request.

¹⁵The Military Construction and Veterans Affairs and Related Agencies Appropriations Act, 2010 provided advance appropriations for fiscal year 2011. Pub. L. No. 111-117, div. E, tit. II, 123 Stat. 3034, 3298-3300 (2009). The Department of Defense and Full-Year Continuing Appropriations Act, 2011, rescinded 0.2 percent of the fiscal 2011 appropriations and provided advance appropriations for fiscal year 2012. Pub. L. No. 112-10, div. B, tit. I, § 1119, 125 Stat. 38, 107 (2011); Pub. L. No. 112-10, div. B, tit. X, § 2015, 125 Stat. 38, 175 (2011).

¹⁶Appropriations acts have authorized VA to transfer collections to its appropriation for Medical Services, but provide for these amounts to be available without fiscal year limitation. See, e.g., Pub. L. No. 111-117, § 215, 123 Stat. 3034, 3305 (2009); Pub. L. No. 110-329, § 215, 122 Stat. 3574, 3711 (2008).

¹⁷[GAO-06-958](#).

Congress provides funding for VA health care through three appropriations accounts:

- **Medical Services**, which funds health care services provided to eligible veterans and beneficiaries in VA's medical centers, outpatient clinic facilities, contract hospitals, state homes, and outpatient programs on a fee basis;
- **Medical Support and Compliance**, which funds the management and administration of the VA health care system, including financial management, human resources, and logistics; and
- **Medical Facilities**, which funds the operation and maintenance of the VA health care system's capital infrastructure, such as costs associated with nonrecurring maintenance, utilities, facility repair, laundry services, and grounds keeping.¹⁸

Funding was appropriated for fiscal year 2012 for the three accounts in the following proportions: Medical Services at 78 percent, Medical Support and Compliance at 11 percent, and Medical Facilities at 11 percent.

¹⁸This account does not include funding for major or minor construction or for information technology because separate appropriations provide funds for these purposes.

Changes Were Made to VA's Budget Estimate Based on Policy Decisions and Other Factors to Help Develop the President's Budget Request

Changes to VA's Budget Estimate Based on Policy Decisions and Operational Improvements Resulted in Reduced Requested Resource Levels

VA identified several changes that were made to its budget estimate to help develop the President's budget request for VA for fiscal years 2012 and 2013. In one change, VA identified that the resources identified in its budget justification for non-recurring maintenance (NRM) were lower than the amount estimated using the EHCPM by \$904 million for fiscal year 2012 and \$1.27 billion for fiscal year 2013. Funds for NRM are used to repair and improve VA health care facilities and come from the Medical Facilities appropriations account.¹⁹ The President's budget request reflected resource levels of \$869 million for NRM for fiscal year 2012 and \$600 million for fiscal year 2013. OMB staff said that amounts identified for NRM in VA's congressional budget justification were lower than estimated amounts due to a policy decision to fund other initiatives and to hold down the overall budget request for VA health care without affecting the quality and timeliness of VA's health care services. VA officials said NRM amounts that were identified for fiscal years 2012 and 2013 should be sufficient to maintain VA health care facilities in their current conditions.

¹⁹NRM funds are used for expansion, renovation, and infrastructure improvements that cost more than \$25,000. Funds for recurring maintenance—which includes routine repair of facilities and upkeep of land that costs less than \$25,000—and operating equipment maintenance are tracked separately and are not included in the NRM estimate. In addition, expansion, renovation, and infrastructure improvements can be categorized as minor construction or major construction. Minor Construction and Major Construction are separate VA appropriations accounts. The Minor Construction account funds projects estimated to cost at least \$500,000 but not more than \$10 million, and the Major Construction account funds projects estimated to cost more than \$10 million.

In recent years, VA’s spending on NRM has been greater than the amounts identified in VA’s budget justifications and reflected in the President’s budget requests (see table 2). The higher spending is consistent with VA’s authority to increase or decrease the amounts VA allocates from the Medical Facilities account for NRM and with congressional committee report language.²⁰ While VA’s NRM spending has exceeded amounts identified in VA’s budget justifications over the last several years, VA’s projection of the NRM backlog for health care facilities—which reflects the total amount needed to address facility deficiencies—has increased to nearly \$10 billion.²¹

Table 2: Non-Recurring Maintenance (NRM) Amounts Reflected in the President’s Budget Request and VA’s NRM Spending, Fiscal Years 2006 to 2013

Dollars in millions

Fiscal year	NRM amount reflected in President’s budget request	Amount spent by VA on NRM ^a
2006	\$376	\$415
2007	514	815
2008	573	1,577
2009 ^b	800	1,644
2010 ^c	972	2,156
2011	1,110	Not available
2012	869	Not available
2013	600	Not available

Source: GAO analysis of VA’s congressional budget justifications for fiscal years 2006 through 2012.

^aSpending totals reflect obligated amounts.

^bVA was provided \$1 billion for NRM—in addition to the fiscal year 2009 appropriations for the Medical Facilities account—as part of the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act funding was outside the scope of the President’s fiscal year 2009 budget request. VA spent about \$260 million of this Recovery Act funding on NRM in fiscal year 2009.

^cThe NRM amount reflected in the President’s fiscal year 2010 budget request included \$510 million from the Recovery Act. However, VA had about \$740 million in Recovery Act funding available for fiscal year 2010, and VA spent all of the remaining Recovery Act funding in fiscal year 2010.

²⁰See, e.g., S. Rep. No. 111-40 (2009), at 57; H.R. Rep. No. 111-188 (2009), at 43-44.

²¹VA reported a repair backlog for VHA facilities of \$7.8 billion in the fiscal year 2010 budget justification to Congress, \$9.3 billion in the fiscal year 2011 budget justification, and \$9.7 billion in the fiscal year 2012 budget justification.

Changes also were made to EHCPM estimates for health care equipment. For equipment purchases, VA identified that the resource request in its budget justification was \$15 million lower than the amount estimated using the EHCPM for fiscal year 2012 and \$410 million lower than the amount estimated using the EHCPM for fiscal year 2013. The President's budget reflected a request of \$1.034 billion for fiscal year 2012 and \$700 million for fiscal year 2013 to purchase health care equipment. OMB staff said amounts identified for equipment were lower than estimated amounts due to a policy decision to fund other initiatives and to hold down the overall budget request for VA health care without affecting the quality and timeliness of VA's health care services.

In addition, estimates of resource needs for employee salaries were reduced due to the enactment of a law requiring the elimination of across-the-board pay raises for federal employees in 2011 and 2012.²² This 2-year pay raise freeze led to a reduction of \$713 million for fiscal year 2012 and \$815 million for fiscal year 2013 from VA's health care budget estimate. The amount of the reduction was calculated separately from the EHCPM because the EHCPM does not have an explicit assumption for pay increases. VA officials said that OMB staff calculated the impact on the President's budget request for VA health care for fiscal year 2013. The lower salary base that resulted from the pay freeze in 2011 and 2012 also would reduce the overall salary level for fiscal year 2013.

According to VA's budget justification, VA's health care budget estimate was further reduced by \$1.2 billion for fiscal year 2012 and by \$1.3 billion for fiscal year 2013 to reflect expected savings from what VA identified as six operational improvements. Expected savings from these operational improvements are a result of planned changes in the way VA manages its health care system to lower costs.²³ The operational improvements for fiscal years 2012 and 2013 from VA's budget justification are the following:

- *Acquisitions.* The operational improvements with the largest amount of estimated cost savings are VA's proposed changes to its purchasing and contracting strategies for which VA estimates a savings of

²²See Continuing Appropriations and Surface Transportation Extensions Act, 2011, Pub. L. No. 111-322, § 1, 124 Stat. 3518, 3518-19 (2010).

²³According to VA's fiscal year 2012 budget justification, VA estimates that it will realize savings from operational improvements in fiscal years 2012 and 2013 to partly pay for a total of \$2.8 billion in proposed initiatives in those 2 years.

\$355 million a year for fiscal years 2012 and 2013.²⁴ For example, VA has proposed savings by increasing competition for contracts that were formerly awarded on a sole-source basis.

- *Changing rates.* VA proposed to purchase dialysis treatments and other care from civilian providers at Medicare rates instead of current community rates. VA estimates a savings of \$315 million for fiscal year 2012 and \$362 for fiscal year 2013 as a result of this rate change.
- *Fee care.* VA proposed initiatives to generate savings from health care services that VA pays contractors to provide. VA estimates a savings of \$200 million a year for fiscal years 2012 and 2013 from reductions in its payments for fee-based care.
- *Realigning clinical staff and resources.* VA proposed to realign clinical staff and resources to achieve savings by using less costly health care providers. Specifically, VA plans to use selected non-physician providers instead of certain types of physicians, use selected licensed practical nurses instead of certain types of registered nurses, and more appropriately align required clinical skills with patient care needs. VA estimates a savings of \$151 million a year for fiscal years 2012 and 2013 from clinical staff and resource realignment.
- *Medical and administrative support.* VA proposed to employ resources more efficiently in various medical care, administrative, and support activities at each medical center and in other VA locations. For example, a VA official said that VA could examine job vacancies for medical and administrative support to see whether vacant positions need to be filled. VA estimates a savings of \$150 million a year for fiscal years 2012 and 2013 for this operational improvement.
- *VA real property.* VA proposed initiatives to repurpose its vacant or underutilized buildings, demolish or abandon other vacant or underutilized buildings, decrease energy costs, change procurement practices for building supplies and equipment, and change building-

²⁴VA's budget justification lists the following eight initiatives for acquisition improvements: consolidated contracting, increasing competition of contracts, converting contracting workload from the U.S. Army Corps of Engineers to workload within VA, reverse auctioning of utilities to lower costs, procurement of supplies at lower prices, converting contracted services to services within VA, reutilizing excess equipment to avoid costs of purchasing new equipment, and using medical and surgical vendors rather than VA for inventory management.

service contracts. VA estimates a savings of \$66 million a year for fiscal years 2012 and 2013 from real property initiatives.

In the past, VA has proposed management efficiencies to achieve savings in order to reduce the amount of funding needed to provide health care services. However, in a 2006 report, we reported that VA lacked a methodology for its assumptions about savings estimates it had detailed for fiscal years 2003 through 2006, and we concluded that VA may need to take actions to stay within its level of available resources if VA fell short of its savings goals.²⁵ According to VA officials, VA is planning to develop a system to monitor the operational improvements to determine whether they were generating the intended savings.

Changes to VA's Budget Estimate Based on Administration's Initiatives Resulted in Increased Requested Resource Levels

VA's health care budget estimate was increased overall by about \$1.4 billion for fiscal year 2012 and \$1.3 billion for fiscal year 2013 to support health-care-related initiatives proposed by the administration, according to VA officials.²⁶ Some of the proposed initiatives can be implemented within VA's existing authority, while other initiatives would require a change in law.

VA officials estimated that the majority of initiatives would increase resource needs for new health care services or expanded existing services. Four initiatives which make up over 80 percent of the total amount for initiatives in the President's budget request are:

- *Homeless veterans programs.* VA officials estimated that this initiative, which supports the agency's goal to end homelessness among veterans, would increase VA's resource needs by \$460 million for fiscal year 2012 as well as for fiscal year 2013. This would allow VA to expand existing programs and develop new ones to prevent veterans from becoming homeless and help those veterans who are currently homeless, programs such as assisting veterans with acquiring safe housing, receiving needed health care services, and locating employment opportunities.

²⁵GAO, *Veterans Affairs: Limited Support for Reported Health Care Management Efficiency Savings*, GAO-06-359R (Washington, D.C.: Feb. 1, 2006).

²⁶The President's budget request includes 17 initiatives for fiscal year 2012 and 12 initiatives for fiscal year 2013.

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- *Opening new health care facilities.* This initiative would provide VA with the resources to purchase equipment and supplies and complete other activities that are necessary to open new VA health care facilities and begin providing health care services to veterans. VA officials estimated that this initiative would increase VA's resource needs by \$344 million for fiscal year 2012 as well as for fiscal year 2013.
 - *Additional services for caregivers.* This initiative would give VA the resources to expand services to caregivers of the most severely wounded veterans returning from Afghanistan and Iraq, as required by the Caregivers and Veterans Omnibus Health Services Act of 2010.²⁷ For example, this initiative would provide caregivers a monthly stipend and eligibility to receive VA health care benefits. To provide these additional services to caregivers, VA officials estimated that the agency's resource needs would increase by \$208 million for fiscal year 2012 and \$248 million for fiscal year 2013.
 - *Benefits for veterans exposed to Agent Orange.* This initiative would provide VA with the resources to implement activities required by the Agent Orange Act of 1991 that directs the Secretary of VA to extend health care benefits to veterans with certain conditions, such as some types of leukemia, who were known to be exposed to Agent Orange and to issue regulations establishing presumptions of service connection for diseases that the Secretary finds to be associated with exposure to an herbicide agent.²⁸ VA officials estimated that to provide these additional benefits, its resource needs would increase by \$171 million for fiscal year 2012 and \$191 million for fiscal year 2013.

VA officials estimated a small number of initiatives in the President's budget request would decrease VA's spending needs. These initiatives propose ways for VA to reduce costs. For example, the Medicare ambulatory rates initiative proposes that Congress amend current law to allow VA to reimburse vendors for certain types of transportation, such as ambulances, at the local prevailing Medicare ambulance rate in the absence of a contract. VA expects that by paying transportation vendors

²⁷Pub. L. No. 111-163, 124 Stat. 1130 (2010).

²⁸See 38 U.S.C. § 1116. The requirement to issue regulations will terminate on September 30, 2015. VA published final regulations on August 31, 2010, that established presumptive service connection for veterans who were exposed to certain herbicides and subsequently developed hairy cell leukemia and other chronic B-cell leukemias, Parkinson's disease, and ischemic heart disease. See 75 Fed. Reg. 53,202 (Aug. 31, 2010) (amending 38 C.F.R. § 3.309).

the Medicare rate over their current billing rate—which VA reported may be up to three to four times the Medicare rate—VA’s resource needs related to certain types of transportation would decrease by about \$17 million for fiscal year 2012 as well as for fiscal year 2013.

Changes to VA’s Estimate Based on More Current Information and Other Factors Had a Mixed Impact on VA’s Estimate

VA’s overall estimate for long-term care and other services was reduced, according to VA officials and OMB staff, to reflect more current data that became available during the 10-month budget formulation process. To meet OMB’s timeline for preparing the President’s budget request, VA initially produced estimates for long-term care and CHAMPVA services in May 2010. These estimates were based on a mix of available data representing the actual amount of care provided and unit costs for these services to-date and projections for these services for the remainder of the 2010 fiscal year. VA had to project data because only partial-year data were available in May. Between May and November 2010, VA provided OMB with periodic updates of the most current data available. OMB staff, with input from VA officials, finalized the estimate for the President’s budget request using this information, which according to VA officials and OMB staff, resulted in a lower estimate overall for long-term care and other services than the estimate VA produced in May 2010. VA, however, did not provide us with the amount of the decrease in the estimate.

According to VA officials, VA’s health care budget estimate was increased by \$420 million for fiscal year 2012 and by \$434 million for fiscal year 2013 to account for the costs of providing health care to non-veterans, including active duty service members and other DOD beneficiaries under sharing agreements, and certain VA employees who are not enrolled as veterans.²⁹ Since VA’s estimates from the EHCPM are based on the cost of treating veterans, the agency developed the estimates for providing health care to non-veterans separately.

VA’s estimate from the EHCPM was also increased by \$220 million for fiscal year 2012 to reflect enhancements for rural health care for veterans, according to VA officials. Congress directed VA to spend \$250 million on enhancements for rural health care in fiscal year 2009,³⁰ and VA made a policy decision to continue spending this amount on enhancements for rural health care in subsequent years, according to VA officials. However,

²⁹See 5 U.S.C. § 7901; 38 U.S.C. § 8111.

³⁰See Pub. L. No. 110-329, 122 Stat. 3574, 3704-05 (2008).

VA was not able to spend the entire \$250 million in fiscal year 2009 and spent only \$30 million.³¹ Since VA used data from fiscal year 2009 in the EHCPM to develop its health care budget estimate for fiscal year 2012, VA's estimate projected \$30 million in spending for enhancements for rural health care for that fiscal year. As a result, VA's estimate was increased by about \$220 million to reflect the agency's planned \$250 million spending for this policy change.

The President's Budget Request for VA Health Care Relied on Funding from Various Sources and Included a Request for Contingency Funding

The President's Budget Request for New Appropriations Was Based in Part on Consideration of Collections, Unobligated Balances, and Reimbursements

The President's request for appropriations for VA health care for fiscal years 2012 and 2013 relied on anticipated funding from several sources. Of the \$54.9 billion requested by the President for fiscal year 2012 to fund VA's health care services, \$50.9 billion was requested in new appropriations. This request was an increase of 5.5 percent from the amount requested for fiscal year 2011—the lowest requested percent increase in recent years. The request assumes the availability of about \$4.0 billion from collections, unobligated balances of multiyear appropriations, and reimbursements. Similarly, of the \$56.7 billion requested by the President for fiscal year 2013, \$52.5 billion was requested in new appropriations—an increase of 3.3 percent from the fiscal year 2012 request. About \$4.1 billion was expected to be available from other funding sources. (See table 3.) VA estimates the amount of funding from these other sources as part of its congressional budget justification supporting the President's request.

³¹According to VA officials, the agency subsequently spent \$470 million on enhancements for rural health in fiscal year 2010, which consisted of the remaining \$220 million from fiscal year 2009 and \$250 million for fiscal year 2010.

Table 3: Funding Sources for VA Health Care for Fiscal Years 2012 and 2013 in the President’s Budget Request

Dollars in millions

	Fiscal year 2012	Advance appropriations for fiscal year 2013
President’s budget request	\$54,872	\$56,690
New appropriations ^a	50,851	52,541
Collections	3,078	3,291
Unobligated balances	600	500
Reimbursements	343	358

Source: GAO analysis of VA’s congressional budget justification for fiscal year 2012.

^aWe use the term “new appropriations” to refer to the appropriations provided during the current annual appropriations process for the upcoming fiscal year and, with respect to advance appropriations, the next fiscal year.

As table 3 shows, the President’s budget request assumes that VA will collect about \$3.1 billion for fiscal year 2012 and \$3.3 billion for fiscal year 2013. These funds are from health insurers of veterans who receive VA care for nonservice-connected conditions, as well as from other sources, such as veterans’ copayments. VA has the authority to retain these collections in the MCCF and may use them without fiscal year limitation for providing VA medical care and services and for paying departmental expenses associated with the collections program.

According to VA officials, VA reduced its \$3.7 billion estimate for collections included in the fiscal year 2012 advance appropriations request by approximately \$600 million for the fiscal year 2012 President’s budget request. VA officials said that because of the depressed economy, fewer enrollees have comprehensive health insurance that VA can bill for third party payments for services that VA provides. In addition, even if enrollees do have health insurance that VA can bill, insurance companies are increasingly reducing payment amounts to levels stipulated in the insurers’ own policies. Finally, because the enrollee population is aging, the percentage of enrollees who are Medicare beneficiaries is rising. As a result, VA is increasingly limited to billing enrollees’ Medicare Supplement Insurance policies, because fewer enrollees have full health insurance policies that VA can bill.³²

³²VA can bill enrollees’ private health insurance policies, including Medicare Supplement Insurance, but cannot bill Medicare.

The President's budget request also assumes that VA will have unobligated balances left from fiscal years 2011 and 2012 totaling \$1.1 billion to obligate in fiscal years 2012 and 2013. Specifically, VA proposes to carry over \$600 million of the funds left from fiscal year 2011 to obligate in fiscal year 2012 and to carry over \$500 million of the funds left from fiscal year 2012 to obligate in fiscal year 2013. VA assumes that Congress will provide some multiyear funding and thus, VA will be able to carry over any unobligated balances from one fiscal year to the next fiscal year. The fiscal year 2011 full-year continuing resolution provided that \$1.2 billion would be available for 2 fiscal years,³³ so VA has the ability to use unobligated balances in fiscal year 2012, including the \$600 million proposed, if that amount remains available. If the fiscal year 2012 appropriations also provide funding that is available for 2 fiscal years, VA would be able to carry over the \$500 million in unobligated balances, if available, from fiscal year 2012 into fiscal year 2013 as proposed.

The President's budget request also assumes that VA will receive \$343 million and \$358 million in reimbursements for fiscal years 2012 and 2013, respectively, from services it provides to other government entities as well as prior year recoveries. For example, VA receives reimbursements for medical services it provides under sharing agreements with DOD, including to TRICARE beneficiaries.³⁴ VA estimates that prior year recoveries will be approximately \$3 million for each of the fiscal years 2012 and 2013.

The President's Budget Request Included Funding Contingent on Certain Conditions

Of the \$54.9 billion in total resources requested by the President for fiscal year 2012, \$953 million represents contingency funding to be available under certain circumstances for health care services, supplies, and materials. This contingency funding would only be made available to VA through the Medical Services appropriations account if the Director of OMB concurs with the Secretary of VA's determination that economic conditions warrant the additional funds. The Secretary's determination would reflect an examination of national unemployment rates, the quantity of VA health care services enrollees use, and the amount of spending for VA's health care services. According to staff at OMB, any unused

³³Pub. L. No. 112-10, div. B, tit. X, § 2014, 125 Stat. 38, 174-75 (2011).

³⁴TRICARE is DOD's program that provides health care to active duty military personnel and other beneficiaries, including retired service members.

contingency funds would expire at the end of the fiscal year and could not be used to fund VA health care services in future years.

OMB determined that the contingency funding request for fiscal year 2012 would be the amount projected by the EHCPM with some adjustment for OMB's economic assumptions. This amount was calculated by estimating the potential impact of a recent downturn in the economy on veterans' use of VA health care. VA conducted an analysis of unemployment rates and their effect on enrollees' use of VA's health care services. VA showed that enrollees under age 65 who lost their jobs, and therefore their access to employer-sponsored health insurance, relied more heavily on VA health care services. For the first time since developing the model, VA incorporated unemployment rates into estimates developed using the EHCPM to estimate the effect of the economic downturn on VA's needed resources.

The President's fiscal year 2012 budget request did not include contingency funding for fiscal year 2013 advance appropriations because OMB was uncertain if the increased costs VA anticipated as a result of the economic downturn would materialize. OMB staff said they planned to monitor VA's fiscal year 2011 performance and would request contingency funding for fiscal year 2013 if needed, as part of the President's fiscal year 2013 budget request.

Concluding Observations

Budgeting for VA health care, by its very nature, is complex because assumptions and imperfect information are used to project the likely demand and cost of the health care services VA expects to provide. The complexity is compounded because most of VA's projections anticipate events 3 to 4 years into the future. To address these challenges, VA uses an iterative, multilevel process to mitigate various levels of uncertainty not only about program needs, but also about presidential policies, congressional actions, and future economic conditions that may affect funding needs in the year for which the request is made. VA's continuing review of estimates in this iterative process does attempt to address some of these uncertainties, and as a result, VA's estimates may change to better inform the President's budget request. Essential to the usefulness of these estimates, as our prior work has shown, is obtaining sufficient data, making accurate calculations, and making realistic assumptions. However, the uncertainty inherent in budgeting always remains.

The President's request for VA health care services for fiscal years 2012 and 2013 was based, in part, on reductions in VA's estimates for certain activities that were made using the EHCPM or other methods. The changes in VA's estimates reflected a decline in expected spending for these activities compared to what VA officials said would have been the case if the management and provision of health care services had continued unchanged. For example, VA estimated that various operational improvements would substantially reduce the costs for carrying out some activities, such as contracting and purchasing, in fiscal years 2012 and 2013. As a result of these anticipated changes, VA estimated that it would achieve savings that could be used for other purposes. However, in 2006, we reported on a prior round of VA's planned management efficiency savings and found that VA lacked a methodology for its assumptions about savings estimates. If the estimated savings for fiscal years 2012 and 2013 do not materialize and VA receives appropriations in the amount requested by the President, VA may have to make difficult tradeoffs to manage within the resources provided.

Agency Comments


We provided a draft of this report to the Secretary of VA and the Director of OMB for comment. VA had no comments on this report. OMB provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the Secretary of Veterans Affairs, the Director of the Office of Management and Budget, and appropriate congressional committees. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact Randall B. Williamson at (202) 512-7114 or at williamsonr@gao.gov, or Denise M. Fantone at (202) 512-6806 or at fantoned@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix I.



Randall B. Williamson
Director, Health Care



Denise M. Fantone
Director, Strategic Issues

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Appendix I: GAO Contacts and Staff Acknowledgments

Contacts

Randall B. Williamson, Director, Health Care, (202) 512-7114, williamsonr@gao.gov
Denise M. Fantone, Director, Strategic Issues, (202) 512-6806, fantoned@gao.gov

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