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EXAMINING CONTRACTOR PERFORMANCE AND GOVERNMENT MANAGEMENT OF RETROACTIVE PAY FOR RETIRED VETERANS WITH DISABILITIES

HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC POLICY

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

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EXAMINING CONTRACTOR PERFORMANCE AND GOVERNMENT MANAGEMENT OF RETROACTIVE PAY FOR RETIRED VETERANS WITH DISABILITIES

WEDNESDAY, JULY 16, 2008

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC POLICY,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 12:03 p.m., in room 2154, Rayburn House Office Building, Hon. Dennis J. Kucinich (chairman of the subcommittee) presiding.

Present: Representatives Kucinich, Issa, Tierney and Watson.

Staff present: Jaron R. Bourke, staff director; Jean Gosa, clerk; Charisma Williams, staff assistant; Vic Edgerton, legislative director; Leneal Scott, information systems manager; Larry Brady, minority senior investigator and policy advisor; Alex Cooper, minority professional staff member; Grace Washbourne, minority senior professional staff member; and Molly Boyl, minority professional staff member.

Mr. KUCINICH. As the witnesses are getting ready to be seated, I just want to let you know that we have had votes called. We expect votes to be called shortly. So I am going to try to get through at least the opening statements of myself and Mr. Issa, and we will be back right after votes.

The committee will come to order. This is the Domestic Policy Subcommittee of the Oversight and Government Reform Committee of the U.S. Congress. I am Dennis Kucinich of Ohio. I am chairman, and joining us is Mr. Issa of California who is the ranking member.

The title of today's hearing is "Examining Contractor Performance and Government Management of Retroactive Pay for Retired Veterans with Disabilities." Today's hearing is going to examine the reasons for the significant delay in delivering the retroactive pay award to disabled retired veterans and assess the Government's management of the program.

Without objection, the Chair and the ranking minority member will have 5 minutes to make opening statements followed by opening statements not to exceed 3 minutes by any other Member who seeks recognition and, without objection, Members and witnesses will have 5 legislative days to submit a written statement or extraneous materials for the record.

To my colleagues and to those who are here today, veterans are told every year that their political leaders, their military leaders and their Nation are grateful to them. The President, just last month, awarded the Presidential Medal of Freedom in part on his assessment that the recipient demonstrated the love and care that should be shown to our veterans.

But do the leaders believe it? Has caring for our veterans become an empty gesture? Is it a hollow sentiment?

This subcommittee began an investigation into the cause of delay in delivering of benefits to severely disabled veterans whose injuries and diseases are related to their combat and military service experience.

Congress mandated in 2003 and 2004 that such veterans were eligible to receive their full military retired and VA disability pay where previously their retired pay had been deducted by the value of their disability pay. The new benefit was going to make a real difference in the lives of those veterans with awards ranging from thousands of dollars to tens of thousands of dollars, but the payments barely got out the door.

My staff sifted through a total of over 16,000 pages of documents produced separately by the Defense Finance and Accounting Service, DFAS, and Lockheed Martin. They interviewed veterans whose eligibility for VA retroactive pay was denied or delayed. The findings are shocking:

The Department of Defense waited 2 years after enactment of the law to hold its first formal meeting on implementing the new benefit—two years.

It took a total of 5½ years to review the claims of just 133,057 veterans who became eligible when Congress changed the law.

Up to 8,763 disabled veterans died before their cases were reviewed for VA retroactive eligibility.

DFAS gave a no-bid, cost-plus contract to Lockheed Martin. Lockheed's performance proved to be deficient, but DFAS was unable to assess penalties because the contract did not permit it.

Unable to do more than exhort Lockheed to do better, DFAS cut back on its own quality control. Essentially, the Government let Lockheed monitor itself. DFAS suspended its own rigorous independent verification of calculation made by Lockheed and instead outsourced quality assurance to Lockheed. In doing this, DFAS effectively bypassed GAO regulations on statistical sampling in Federal quality control procedures.

Lockheed applied a weaker standard to quality assurance than the standard mandated by GAO.

DFAS also used Federal workers to supplement Lockheed's work force. This is highly unusual since there is a prohibition on assigning Federal workers to tasks that the Government has contracted out to a private company.

While these measures had the effect of clearing the backlog of cases waiting for review, it did so at the expense of accuracy:

Up to 60,061 payments to veterans were issued after a suspension of quality control measures went into effect on March 1, 2008.

At least 28,283 veterans were denied retroactive pay based on determinations made wholly without quality assurance review.

These denials were made by Lockheed technicians who received all of 6 weeks training.

This subcommittee doesn't know how many denials and payments were made in error, but we do know that DFAS hasn't a clue either because DFAS failed to do due diligence. In suspending its own quality control measures, DFAS shifted the burden of error detection onto disabled veterans. DFAS and Lockheed have told disabled veterans they are on their own to figure it out themselves and fight with the bureaucracy if they disagree with what Lockheed and the Government told them.

These findings are why this hearing is really about something bigger than the execution of a specific policy called VA Retro.

Do we care enough about our veterans to get it right the first time?

Do we care enough about our veterans to verify the accuracy of the payments we send to them?

Do we care enough about our veterans to check the work of a Lockheed technician who, with 6 weeks training, has made a decision that a disabled war veteran is not eligible for retroactive pay?

Our investigation has, unfortunately, found that Lockheed and DFAS did not care enough in this case to do that. Their policies and practices in VA Retro are an intolerable insult to veterans. The management of the VA Retro project and the performance of Lockheed have been disgraceful.

I want to say on behalf of all of those families who waited and waited and waited and waited, hoping for some financial help which they needed so sorely because they were already at a disadvantage because of the disabilities that they had that were service-connected. I want to say on behalf of them that this Congress is going to relentlessly pursue this matter.

We are going to do everything we can not only to see that these payments are brought up to speed, but we are going to do everything we can to hold to an accounting those who saw this system fall apart while people who served this country, put their lives on the line, waited and waited and waited and didn't get the financial help that they needed and that they were entitled to under laws that this Congress passed.

There is a lot of routine business that is done before this committee. This is not routine business. This deals with people's lives in ways that are quite compelling.

I want you to think of what it would be like if you were one of those 8,700 veterans who were waiting by the mailbox as their lives ebbed away for a check that never came. A response from a Government that they were willing to put their lives on the line to protect was never forthcoming.

The Chair recognizes Mr. Issa.

[The prepared statement of Hon. Dennis J. Kucinich follows:]

Opening Statement

Of

Dennis J. Kucinich, Chairman

Domestic Policy Subcommittee

Oversight and Government Reform Committee

Wednesday, July 16, 2008

2154 Rayburn HOB

11:30 a.m.

"Examining Contractor Performance and Government Management of Retroactive Pay for Retired Veterans with Disabilities"

Veterans are told every year that their political leaders, their military leaders, and their nation are grateful to them. The President just last month awarded the Presidential Medal of Freedom in part on his assessment that the recipient demonstrated the "love and care" that should be shown to our veterans.

But do the leaders believe it? Has caring for our veterans become an empty gesture? Is it a hollow sentiment?

This Subcommittee began an investigation into the causes of delay in delivering a benefit to severely disabled veterans, whose injuries

and diseases are related to their combat and military service experience. Congress mandated in 2003 and 2004 that such veterans were eligible to receive their full military retired and VA disability pay, where previously their retired pay had been deducted by the value of the disability pay. The new benefit was going to make a real difference in the lives of these veterans, with awards ranging from a thousand dollars to tens of thousands of dollars. But the payments barely got out the door.

My staff sifted through a total of over 16,000 pages of documents produced separately by the Defense Finance and Accounting Service (DFAS) and Lockheed Martin. They interviewed veterans whose eligibility for VA Retro pay was denied or delayed. Their findings are shocking:

Delays in the implementation and execution of the VA Retro program were caused by government mismanagement and poor performance by Lockheed.

- The Department of Defense waited two years after enactment of the law to hold its first formal meeting on implementing the new benefit.

- It took at total of five and one-half years to review the claims of just 133,057 veterans who became eligible when Congress changed the law.

- Up to 8,763 disabled veterans died before their cases were reviewed for VA Retro eligibility.

- DFAS gave a no bid, Cost Plus contract to Lockheed. Lockheed's performance proved to be deficient, but DFAS was unable to assess penalties because the contract did not permit it.

- Unable to do more than exhort Lockheed to do better, DFAS cut back on its own Quality Control. Essentially, the Government let Lockheed monitor itself. DFAS suspended its own rigorous, independent verification of calculation made by Lockheed, and instead outsourced quality assurance to Lockheed.

- In doing this, DFAS effectively bypassed GAO regulations on statistical sampling in federal quality-control procedures.

- Lockheed applied a weaker standard to quality assurance than the standard mandated by GAO.

- DFAS also used federal workers to supplement Lockheed's workforce. This is highly unusual, since there is a prohibition on assigning federal workers to tasks that the Government has contracted out to a private company.

- While these measures had the effect of clearing the backlog of cases waiting for review, it did so at the expense of accuracy:

- Up to 60,051 payments to veterans were issued after a suspension of quality control measures went into effect on March 1, 2008.

- At least 28,283 veterans were denied retroactive pay based on determinations made wholly without quality assurance review.

- Those denials were made by Lockheed technicians who received all of six weeks training.

This Subcommittee doesn't know how many denials and payments were made in error. But we know that DFAS hasn't a clue either, because DFAS failed to do due diligence. In suspending its own quality control measures, DFAS shifted the burden of error detection onto disabled veterans. DFAS and Lockheed have told disabled veterans that they are on their own to figure it out themselves and fight with a bureaucracy if they disagree with what Lockheed and their Government has told them.

These findings are why this hearing is really about something bigger than the execution of a specific program called VA Retro: Do we care enough about our veterans to get it right the first time?

Do we care enough to verify the accuracy of the payments we send to them?

Do we care enough to check the work of a Lockheed technician who, with six weeks' training, has made a decision that a disabled war veteran is NOT eligible for retroactive pay?

Our investigation has unfortunately found that Lockheed and DFAS did not care enough in this case to do that. Their policies and practices in the VA Retro are an intolerable insult to veterans.

The management of the VA Retro project and the performance of Lockheed have been disgraceful.

I hope that today's hearing can help to change that, give peace of mind to tens of thousands of retired veterans with disabilities, focus the minds of management at the Defense Finance and Accounting Service, and remind Lockheed "who they're working for."

Mr. ISSA. Thank you, Mr. Chairman. Thank you for holding this not routine hearing on this important subject.

I would like to ask unanimous consent that a record of the IT-related hearings in the previous Congress be placed in the record at this time.

Mr. KUCINICH. Without objection.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. Chairman, as you said, this is not routine, but we have been there before. First, let us be blunt. We are fighting two wars, and our service men and women from all the services including the Guard and Reserves deserve the very best support from us, the Congress, and throughout the Government, but they are not getting it.

When Tom Davis was chairman of this committee, regular and in-depth oversight was conducted on some non-routine problems service men and women were facing. This included the persistent problems at Walter Reed, the persistent problems in military pay which continue until today, the inability of DOD to get its business processes and financial management systems properly updated.

The oversight on these issues continued when the Subcommittee on Government Management, headed by Todd Platts, examined the modernization failures of financial management systems Government-wide.

Over the years, we have asked the GAO for help in assessing the causes of these repeated failures. They have once, twice, thrice and many more times said that the financial management practices of the U.S. Government cost us billions of dollars and have come nowhere close to best practice in the past, the present and show no sign of doing so in the future.

We know the root cause of these problems is the lack of best practices, the lack of adhering to concepts which have been long proven in the private sector. To this end, I do applaud private sector companies, whether they be flawless or not, in at least exposing to the Government system the opportunity to use best practices.

Today, in our hearing, we are going to deal with an example of both the best and the worst example of that. We are going to see a contractor who is accused of perhaps profiting by the very errors that the Government had within its system.

We are going to hear, and I think accurately, that multiple Government data bases were not properly assessed prior to the commencement of this contract for what their real costs were going to be.

We are going to see more than 15, if you will, redefining moments in the contract. These added cost and, in many cases, inevitably cost us time.

We are going to see some good news in this case, and the chairman referred to it in his opening comment, and that was that assets, both public and private, were put to bear quickly to try to reduce the time for our veterans to receive what Congress had entitled them to.

The shortcuts taken will be criticized here today, and they should be. We need to plan better. We need to implement better.

Certainly we need to insist that contractors obey the law, and if they need or want exclusions from existing and well thought-out

laws such as contractors not using Government employees, that in fact the proper exemption be granted in a timely fashion.

Having said all of that, the chairman and I both take a keen interest in this subject. Both of us have immediate family members who are disabled veterans. Both of us see every day how difficult it is for veterans of previous wars to get by.

And, I think I can speak on behalf of both of us. We can only estimate the hundreds of thousands of veterans exposed to injuries particularly from IEDs in this war who will, over a period of time, develop debilitating injuries not immediately apparent. So, if we don't get it right today and we continue to not get it right, it is very clear that in the future we will be faced with a much larger problem.

Having said that, I would like to applaud everyone involved in taking from multiple data bases, paper documents, some of them from microfiche and some of them just poorly scanned, finding a way to turn them into at least somewhat meaningful data. I don't think that we can sell short the fact that 20 years ago, what was done in the case of bringing these records into a digital age would have been impossible. Notwithstanding that, implementation of technology is expected by our contractors and expected by the American people.

So today, as we focus on a series of what will be characterized, I am sure, as mistakes, I want us to focus on the positive. I also very much appreciate that we will be dealing with ways to get to the best practices that clearly we don't have today.

Mr. Chairman, once again, I would like to thank you for this subcommittee continuing to work on a bipartisan basis on all of our issues and yield back.

[The prepared statement of Hon. Darrell E. Issa follows:]

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REPUBLICAN POLICY COMMITTEE

Examining Contractor Performance and Government Management of Retroactive Pay for Retired Veterans with Disabilities

July 16, 2008

Chairman Kucinich , thank you for holding this hearing.

Let me be very clear and blunt—we are fighting two wars and our servicemen and women, from all the services, including the Guard and Reserves, deserve the very best support from us in Congress, and throughout government; but they are not getting that support.

When Tom Davis was chairman of this committee, regular and in-depth oversight was conducted on the problems facing our servicemen, in all areas, from the problems at Walter Reed, to persistent military pay problems, to the inability of the DOD to get its business processes and financial management systems updated. The oversight on these issues continued when the Subcommittee on Government Management, headed by Todd Platts, examined modernization failures of financial management systems government-wide.

Over the years, we have asked the GAO for help in ascertaining the causes of the repeated failures in the government's financial management practices. In their report to Congress in March 2006, GAO said that despite the *billions* of dollars spent developing and implementing financial management systems, attempts at modernization have exceeded costs, resulted in delays in delivery, and have not provided the expected performance.

We know the root cause of these problems -- best practices are not adhered to, resulting in billions of dollars lost.

The subject of today's hearing is a case in point—the data that Lockheed Martin needed to ensure payment accuracy was corrupted. Neither the Department of Defense, the Services, nor the Department of Veterans Affairs had the accurate personnel and financial records needed to process the claims. Business and financial systems in each department number into the thousands.

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The VA Retro payments issue has been resolved, but other IT, financial management and business process systems issues across government have not been fixed. DOD's approximately 2,900 different business systems cost $15-16 billion to operate, yet they do not provided the day-to-day data that is needed.

The amount of money squandered is unimaginable:

- Army Logistics Modernization Program (LMP): problems with requirements, testing, and data conversion, and system interfaces have caused the implementation of the $1 billion system to be delayed indefinitely.

- Navy Enterprise Resource Planning (ERP): Problems in data conversion and system interfaces, and with project management, meant that the Navy wasted $1 billion in four pilot programs that were not interoperable. The Navy then started a new project to converge the four into a single program, which is expected to cost an *additional* $800 million.

- Department of Veterans Affairs: Problems with data conversion and system interfaces, project management, and testing forced the VA to stop implementation of their $250 million VetsNet system.

- DIMHRS: One of DOD's largest IT integration efforts is the Defense Integrated Military Human Resources System (DIMHRS), which was designed to merge military services pay and personnel systems into one enterprise. It has been "under development" for ten years. During this time, the date of execution, narrowly defined as one service going online, has slipped 5 times. The Army is now scheduled to go online in March 2009. No dates have been set for the other services. The development has only centered on merging pay systems, not personnel systems, diluting the original purpose to marry orders, benefits and other important information with pay.

The GAO is currently looking at DIMHRS, with a report scheduled to come out in September 2008. GAO estimates that the Department of Defense has spent well over a billion dollars on this system to date, with no product yet fielded. Lack of trust of joint requirements, issues with merging cultures, and infighting between OSD and individual service DIMHRs offices have contributed to the lag in execution.

One of the most recent examples of failures of government management is the Harris Field Data Collection Automation (FDCA) Contract with the US Census Bureau. This contract was originally scheduled to costs taxpayers $600 million, but projections have it ballooning to around $1 billion. The reverberations of this Census debacle will also lead to a different way of collecting census data, meaning other parts of the 2010 census will cost more. In the end the taxpayers will likely be on the hook for an additional $3 billion – all because of a lack of financial and project management within the US Government.

It is impossible to manage government efficiently without IT systems that work—we are too big and too much money is at stake.

Mr. Chairman, this hearing may be worthwhile but we need to revert to the Chairman Davis tenure of holding agencies across government accountable, and cease the show trials and hearings aimed at garnering media attention but have little impact on the reform side of oversight and reform.

Mr. KUCINICH. I thank Mr. Issa and appreciate his willingness and demonstrated capacity to work together on these matters.

Here is how we are going to proceed. We have a vote that is on right now. I am going to read, with unanimous consent, a statement into the record of Command Sergeant Major Harold Lewis who, for medical reasons, was not able to be here. I am then going to swear the witnesses, introduce them, swear them in, and then we are going to recess until we complete the votes.

Is there any other Member who seeks recognition before I do that?

Ms. WATSON. I did have an opening statement. Do we have a second to read it?

Mr. KUCINICH. The gentlelady is entitled to read her opening statement, and we will proceed with your opening statement.

Ms. WATSON. Thank you. I want to thank you, Mr. Chairman, for holding today's very, very important hearing to examine the reasons for delay in delivering retired veterans their disability compensation.

In 2003 and 2004, Congress passed legislation that would allow retired members of the Armed Forces to receive retired pay and veterans disability compensation concurrently. The enacted legislation was good for our veterans because, previously, retired pay was cut by the amount of disability compensation a veteran received from the VA.

According to the Defense Finance and Accounting Services, as a result of new entitlements, over 215,000 veterans became eligible for retroactive pay due to changes in their disability status.

DFAS created the Veterans Retro program in September 2006 to disburse retroactive payments to veterans. In order to process claims, DFAS contracted Lockheed Martin to review and adjudicate cases.

According to the committee, Lockheed was to create a software solution for calculating benefits, but that was never done.

They also missed every deadline for completion of the VA Retro program. The official deadline for completing the retroactive payments backlog was scheduled for November 2007 but not completed, according to the DFAS, until the end of June 2008.

So, Mr. Chairman, we have to run and vote at the time, but I certainly look forward to hearing from today's panel, and I hope they can explain in detail as to why it was difficult to complete the retroactive payments in timely manner.

Thank you very much.

[The prepared statement of Hon. Diane E. Watson follows:]

Opening
Statement
Of
Congresswoman Diane E. Watson
Domestic Policy Subcommittee
Oversight and Government Reform Committee
Wednesday, July 16, 2008
2154 Rayburn HOB
11:30 a.m.

"Examining Contractor Performance and Government Management of Retroactive Pay for Retired Veterans with Disabilities"

Thank you Mr. Chairman for holding today's very important hearing that will examine the reasons for delay in delivering retired veterans their disability compensation for service connected disabilities, and to assess the government's management of the VA Retro program.

In 2003 and 2004, Congress passed legislation that would allow retired members of the Armed Forces to receive retired pay and VA disability compensation concurrently. The enacted legislation was good for our veterans because previously, retired pay was cut by the

amount of disability compensation a veteran received from the VA.

According to the Defense Finance and Accounting Service (DFAS), as a result of new entitlements over 215,000 veterans became eligible for retroactive pay due to changes in their disability status.

DFAS created the VA Retro program in September 2006 to disburse retroactive payments to eligible veterans. In order to process claims DFAS contracted Lockheed Martin to review and adjudicate cases.

According to the committee Lockheed was to create a software solution for calculating benefits, but that was never done. They also missed every deadline for completion of the VA Retro program.

The official deadline for completing the retroactive payments backlog was scheduled for November 2007, but was not completed, according to DFAS, until the end of June 2008.

Mr. Chairman, I look forward to hearing the testimony of today's panelist, and I hope they can explain in detail as to why it was difficult to complete the retroactive payments in a timely manner.

Mr. Chairman, thank you and I yield back the remainder of my time.

Mr. KUCINICH. I thank the gentlelady for her participation and for her statement.

I want to read into the record a statement of Command Sergeant Major Harold E. Lewis.

Command Sergeant Major Lewis is a disabled Army veteran who received his injuries in combat in Vietnam. Originally a draftee, he served 28 years in field artillery and eventually rose to command levels of authority. He also received a denial of VA retroactive eligibility from DFAS, and this is his statement.

"Most guys who get a letter saying they get zero money would never challenge it. They wouldn't know how. I would be surprised if they understand what they get in the mail, and a lot of guys would just trust their Government.

I get sad to the point of crying, seeing the guys in worse shape than me, but DFAS wants us to die or just give up trying to get our benefits."

That is a statement from Command Sergeant Major Harold E. Lewis to the subcommittee majority staff by telephone on July 8, 2008.

Now Mr. Lewis did challenge it. Thanks to his fortitude and the help and support given to him by his wife and her impeccable recordkeeping, he was able to persist and prevail. Last month, he received notification from DFAS that he was, in fact, eligible for a $15,000 retroactive pay award.

For the record, I want this subcommittee to know that Mr. Lewis wanted to testify here today, but Mr. Lewis' VA doctors advised him that the stress of making the trip and testifying before us would endanger his life.

The Army attributes his multiple disabilities, including Diabetes Type II, acute peripheral neuropathy, tinnitus and hearing loss, and post-traumatic stress disorder to numerous combat experiences and injuries including concussions and broken vertebrae from rocket attacks and exposure to Agent Orange.

If there are no additional opening statements, the subcommittee is going to receive testimony from the witnesses here today. I want to start by introducing our panel.

Mr. Zack Gaddy is the Director of Defense Finance and Accounting Service. In his role, he oversees the day to day accounting and finance activities in the Department of Defense, leading more than 12,000 civilian employees in a complex mission that includes paying over $446 billion annually to 5.9 million military, civilians, retirees and annuitants. Mr. Gaddy has been working for the DFAS since 1991.

Mr. Joseph Cipriano is the president of Lockheed Martin Business Process Solutions. Under his leadership, the Lockheed Martin Business Process Solutions serves the Federal Government and regulated industries with innovative outsourcing solutions. Prior to joining Lockheed Martin, Mr. Cipriano served as the Program Executive Officer for Information Technology at the U.S. Department of the Navy.

Mr. Gordon Heddell became the Acting Inspector General of the U.S. Department of Defense on July 14th of this year. Previously, Mr. Heddell held the title of Inspector General at the U.S. Depart-

ment of Labor since January 2001. His multifaceted career includes 29 years in the U.S. Secret Service.

Mr. Pierre Sprey is an independent defense expert, aeronautical engineer and statistician. A former Pentagon analyst, he has served as Special Assistant to the Assistant Secretary of Defense for Systems Analysis during the Johnson and Nixon administrations. While working at the Pentagon, Mr. Sprey also helped launch the military reform movement in the 1980's which led to the passage of a number of military reform laws.

I want to thank the witnesses for appearing before the committee. We also have Mr. Kleinknecht who is here to be of assistance in answering questions to Mr. Heddell, if I am correct at that. He will be sworn, but he will not testify.

So I would ask all the witnesses who are to be sworn, would you please stand? It is the policy of our Committee on Oversight and Government Reform to swear in all witnesses before they testify. I would ask you to raise your right hands.

[Witnesses sworn.]

Mr. KUCINICH. I thank you, gentlemen.

Let the record reflect that the witnesses answered in the affirmative.

When this committee returns from this brief recess for the votes, we will then ask that each witness give a brief summary of their testimony. Keep their summary under 5 minutes in duration. I will assure you that your complete statement will be in the record.

When we return, we will begin with Mr. Gaddy. I thank you for your patience.

We are in recess until we return after the votes. Thank you.

[Recess.]

Mr. KUCINICH. The committee will resume its sitting.

Mr. Gaddy, you may proceed.

STATEMENTS OF ZACK E. GADDY, DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE; JOSEPH CIPRIANO, PRESIDENT, LOCKHEED MARTIN BUSINESS PROCESS SOLUTIONS; GORDON HEDDELL, ACTING INSPECTOR GENERAL, U.S. DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL, ACCOMPANIED BY HENRY KLEINKNECHT, PROGRAM DIRECTOR, ACQUISITION AND CONTRACT MANAGEMENT DIRECTORATE; AND PIERRE SPREY, INDEPENDENT STATISTICS EXPERT

STATEMENT OF ZACK E. GADDY

Mr. GADDY. Chairman Kucinich, Ranking Member Issa and distinguished subcommittee members, my name is Zack Gaddy, and I am the Director of the Defense Finance and Accounting Service, DFAS.

Thank you for this opportunity to address the retroactive distribution of Federal benefits to disabled retired veterans under the project known as VA Retro.

I request that my full statement be included in the official committee record.

I want to assure the members of this subcommittee that caring for our military retirees and veterans who have served this Nation is one of my top priorities.

DFAS pays more than 2½ million military retirees and their surviving spouses approximately $4 billion each month and pays over 283,000 eligible military retirees more than $298 million monthly for their combat-related special compensation or concurrent retirement and disability payments.

During the VA Retro project, eligible retirees have continued to receive their current monthly entitlement to these benefits of VA disability compensation.

The VA Retro program is a temporary project begun in 2005 by DFAS and the Department of Veterans Affairs to pay eligible retirees and veterans all retroactive entitlements they are due as a result of statutory changes. VA Retro refers to the retroactive nature of VA disability awards which directly impacts disabled retirees' entitlements previously paid by DFAS and the VA.

When DFAS is initially informed of a retiree's new or modified VA award, there is typically a need to calculate a five to 6-month retroactive entitlement on the retiree's previously paid pay.

Mr. Chairman, I am pleased to report that as of July 1, 2008, DFAS adjudicated all of the original and new and returning claims and as of July 13, 2008, adjudicated over 229,000 claims and paid out over $149 million in entitlements. We have also created a reliable and repeatable process enabling us to adjudicate incoming claims within 30 days of receipt.

DFAS initially underestimated the difficulty of processing many of these claims. In November 2007, when we missed our deadline for completing all original claims, we reviewed our overall approach and revised our plan to complete the remaining original claims by April 30, 2008 and the new and returning claims by June 30, 2008.

In February 2008, we realized that we would be hard pressed to meet our revised deadlines, and the Under Secretary of Defense, Comptroller, committed to triple the contractor work force dedicated to this project.

Pursuant to her commitment, by the end of April 2008, we quadrupled the contractor staffing from 51 to more than 200 personnel. We also deployed a set of automated tools to more readily categorize the claims and, in the case of the more easily calculated claims, allowed the processing of those claims through automated payrolls.

We added an additional 15 Government employees to oversee the program, and we streamlined the quality control process by adjusting the Government review process to rely more heavily on a post-payment review to remove any potential delays in delivery of accurate VA Retro payments to deserving veterans. While the processing of these claims is our responsibility, we rely heavily on contractor support to process timely and accurate payments.

In early March 2008, when the contractor failed to meet planned outcomes and fell behind their established schedule, DFAS issued a letter of nonperformance to move the project to completion within established milestones.

During the month of March 2008, the contractor adjudicated more than 13,000 original claims. However, despite quadrupling

the work force, streamlining the quality control process and deploying additional automation, by April 2008, we saw the contractor was not meeting production goals.

Our analysis of the situation revealed that the less complex claims had been processed, and the remaining claims included ones with a combination of entitlements for veterans with multiple disability percentages and disability codes, consideration of former spouses' community property interests, prior year taxes, deaths and other unique characteristics, requiring manual process.

At this point, we were significantly behind our revised schedule. On April 23, 2008, as a result of lack of performance and our eroding confidence in the contractor's ability to meet its milestones, we issued a second letter documenting our concerns and requiring the contractor to get the project back on schedule.

Additionally, we initiated a Contract Past Performance Assessment Report to document the unsatisfactory performance and initiated action to transition the cost plus fixed fee contract modification to a performance-based contract modification that will be implemented before the end of the year for the VA Retro project.

We also instituted the use of a standard set of approved data sources for the calculation of each claim to minimize calculation errors, expedite reconciliations and ensure consistency in review and validation through quality control.

The contractor realigned quality control personnel to the production floor to produce quality payrolls. They also established a production dashboard to foster performance accountability at every level in the organization.

While we were not able to complete the original claims by the April 30, 2008 deadline, we were able to adjudicate all of the original and the new and returning claims by July 1, 2008. We also institutionalized a process that enables us to process claims within 30 days of receipt.

Mr. Chairman, I clearly recognize that this subcommittee is concerned about the delays in the distribution of Federal benefits to disabled retired veterans who are eligible for a one-time VA Retro payment. I want to assure that this issue remains one of my top priorities, and DFAS will continue to work the VA and our contract partner to do everything possible to pay retired service members correctly and in a timely manner.

I will be happy to respond to any questions you may have. Thank you.

[The prepared statement of Mr. Gaddy follows:]

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STATEMENT OF

MR. ZACK E. GADDY

DIRECTOR
DEFENSE FINANCE AND ACCOUNTING SERVICE

BEFORE THE

DOMESTIC POLICY SUBCOMMITTEE

OVERSIGHT AND GOVERNMENT REFORM COMMITTEE

ON

"VA Retro Pay Entitlement"

Wednesday, July 16, 2008
2154 Rayburn HOB
11:30 a.m.

For Official Use only
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Oversight and Government Reform Committee

Chairman Kucinich, distinguished Subcommittee members, my name is Zack Gaddy, and I am the Director of the Defense Finance and Accounting Service (DFAS). Thank you for this opportunity to address the retroactive distribution of federal benefits to disabled retired veterans under the project known as VA Retro.

I want to assure the members of this subcommittee that caring for our military retirees and veterans who have served this nation is one of my top priorities. The DFAS pays more than 2.5 million military retirees and their surviving spouses approximately $4 billion each month and pays over 283,000 eligible military retirees more than $298 million monthly for their Combat Related Special Compensation (CRSC) or Concurrent Retirement and Disability Payments (CRDP). During the VA Retro project eligible retirees have continued to receive their current monthly entitlement to these benefits. When the DFAS receives notice from the Department of Veterans Affairs (DVA) that a retiree has a compensable disability of 50 percent, or greater, which establishes a Concurrent Retirement and Disability Payment entitlement, or receives certification from a retiree's military service that the member is eligible for a Combat Related Special Compensation entitlement based on a combat-related disability of 10 percent or greater, current and future monthly payments are initiated within 30 days.

The VA Retro project is a temporary project initiated in 2005 as a joint DFAS and DVA effort to properly pay eligible retirees and veterans all retroactive entitlements that are payable by either agency in the form of retired pay, Concurrent Retirement and Disability Payment, Combat Related Special Compensation, or VA disability compensation. The DFAS was working with the DVA to complete the original 133,057 VA Retro claims, which were identified as our initial potentially eligible claimants in September 2006. We then focused on completing all of the new and returning VA Retro claims that were incorporated into our total claims inventory after the original baseline was established.

Mr. Chairman, I am pleased to report to the Subcommittee that as of July 1, 2008, the DFAS adjudicated all of the original and new and returning claims and as of July 6, 2008, we had adjudicated over 223,000 claims and have paid out over $145 million in entitlements. We have also created a reliable and repeatable process enabling us to adjudicate incoming claims within 30 days of receipt.

As a matter of background, the term "VA Retro" refers to the retroactive nature of DVA disability awards, which directly impacts disabled retirees' entitlements previously paid by the DFAS and the DVA. Under title 38 of the

United States Code (U.S.C.), retroactive entitlements arise because all DVA disability awards are effective retroactive to the date that a veteran first applied to the DVA. Consequently, when the DFAS is initially informed of a retiree's new or modified DVA award, there is typically a need to calculate a 4 to 6-month retroactive entitlement on the retiree's previously paid retired pay.

Prior to June 1, 2003, a veteran was required to waive the veteran's retired pay entitlement in an amount equal to the full amount of any DVA disability compensation, in compliance with 38 U.S.C. To account for the prohibition on concurrent receipt during the retroactive period of a DVA award, the DVA would not pay the veteran additional compensation for the period that the retiree had previously received retired pay. However, with the enactment of Combat Related Special Compensation and Concurrent Retirement and Disability Payment effective June 1, 2003, and January 1, 2004, respectively, retirees and veterans became entitled to concurrent receipt of retired pay and DVA disability compensation in varying amounts and percentages, depending upon which type of compensation a retiree is eligible to receive.

This fundamental change to the relationship between military retired pay and veterans' disability compensation has been extremely challenging. To determine whether a retiree/veteran is due an additional payment, a retiree's retired pay and DVA disability compensation must be reconciled for the entire retroactive period. This reconciliation requires a comparison of all amounts the disabled retiree originally received with the retiree's total entitlements from all sources after a retroactive DVA award is applied. An accurate reconciliation requires the sharing of data from the separate and distinct DFAS and DVA pay systems designed to comply with the prior statutory prohibition on concurrent receipt.

In November 2007, we missed our self-imposed targeted deadline for completing all of the original claims and had approximately 68,000 claims remaining. At that time, we reviewed our overall approach and revised our plan to complete the remaining original claims by April 2008. By February 2008, we had worked the original inventory down from 68,000 to less than 46,000 claims, but realized that we would be hard pressed to complete the remaining 46,000 claims without taking some extraordinary measures. At that time the Under Secretary of Defense (Comptroller) committed to triple the workforce dedicated to this project. Pursuant to that commitment, by the end of April 2008, the DFAS quadrupled the contractor staffing level from 51 to more than 200 personnel ensuring that there were over 185 personnel manually working claims daily.

In February 2008, the quality control process was streamlined. As the number and size of the payrolls increased and to ensure the timely processing of accurate payments, the review process was adjusted from a pre-payment to a post-payment review to remove potential delays in delivery of accurate VA Retro payments to deserving veterans.

Although process improvements had been made as of March 5, 2008, overall the performance failed to meet planned outcomes and created concern in the contractor's ability to complete the original cases by the deadline of April 2008. Consequently, the DFAS issued a letter of nonperformance. The letter required that they take immediate action to get the plan back on schedule and move the project to completion within established milestones.

During the month of March 2008, the contractor adjudicated more than 13,000 original claims. However, despite quadrupling the work force, streamlining the quality control processes and deploying additional automation, in April 2008, the resulting decreased production was further analyzed. The analysis revealed that the less complex cases had already been processed, while the remaining claims included accounts with a combination of CRSC and CRDP entitlements for veterans with multiple disability percentages and disability codes, as well as claims requiring consideration of former spouses' community property interests, prior year taxes, deaths, and other unique characteristics, requiring manual processing. In many cases, the individual's account history had to be reconstructed using various DVA databases, pdf files, and microfiche that resulted in making the manual adjudication more difficult and time consuming. At this point, we were significantly behind our revised schedule. To compound the problem, the contractor did not have an authoritative set of data sources for consistency in processing between the personnel manually calculating the claims and the quality control team responsible for reviewing and validating the calculation.

Mr. Chairman, at this stage the DFAS took steps to address these shortcomings and to expedite claim processing without sacrificing quality and accuracy.

On April 23, 2008, as a result of a lack of performance and the DFAS's eroding confidence in the contractor's ability to meet its milestones, we issued a second letter documenting the Agency's dissatisfaction and requiring the contractor to get the project back on schedule. In addition, we initiated a Contract Performance Assessment Report (CPAR) to document the unsatisfactory performance. At the same time, we initiated action to transition the cost plus fixed

fee contract modification to a performance-based contract modification that could be implemented before the end of the year for the VA Retro project.

To increase the reliability of the calculated payments and ensure consistency in quality reviews between the production floor and control team, we instituted the use of a standard set of approved data sources for the calculation of each claim. We ensured that the authoritative data sources were approved by the government oversight team for use in calculating the payment and that the data sources used to calculate a retiree's payment were included in each claim file forwarded through quality control for payment. This process minimized calculation errors, expedited reconciliations, and ensured consistency in review and validation through quality control.

To adjudicate the more complex claims, the contractor organized its workforce into teams to enhance collaboration. It realigned select quality control personnel to the production floor to ensure each team produced quality payrolls to go to the quality control team, and it retrained some of its workforce to be able to work multiple complex claim types. They also established a production dashboard to foster performance accountability at every level of the organization down to first line supervisor and employee.

While we were not able to complete the original claims by our self-imposed deadline of April 2008, we were able to adjudicate all of the original and the new and returning claims by July 1, 2008. We also institutionalized a process that enables us to process cases within 30 days of receipt.

Mr. Chairman, I clearly recognize that this subcommittee is concerned about the delays in the distribution of federal benefits to disabled retired veterans who are eligible for a one-time VA Retro payment. I want to assure you that this issue remains one of my top priorities and the DFAS will continue to work together with the DVA and our contract partners to do everything we can to pay retired service members correctly and in a timely fashion.

Thank you.

Mr. KUCINICH. Thank you, Mr. Gaddy.

Mr. Cipriano, you may proceed.

STATEMENT OF JOSEPH CIPRIANO

Mr. CIPRIANO. Chairman Kucinich, my name is Joe Cipriano. I am President of Lockheed Martin Business Process Solutions. I manage the business responsible for our program with the Defense Finance and Accounting Service [DFAS], and the VA Retro project as part of that program.

I appreciate the opportunity to speak to the committee, and I am pleased to discuss the VA Retro project and the progress we have made in completing its mission. I ask that a copy of my written testimony be inserted to the record.

Mr. KUCINICH. So ordered.

Mr. CIPRIANO. Today, I will describe what the Lockheed Martin team has done in conjunction with our customer to accomplish the VA Retro project's important goal of paying eligible military retirees any retroactive compensation they are due.

Lockheed Martin began working with DFAS in 2003 following our acquisition of the Federal Government business of Affiliated Computer Services. We are proud to support the Department of Defense in its important mission of paying our Nation's military retirees.

Under our DFAS contract, we perform complete payroll and customer service functions for 2½ million customers. This program demands accurate, timely, personalized business process services for a very special customer base. We have successfully executed on this program since we took it over and take pride in supporting those who have defended our Nation's freedoms.

In 2006, we began working with DFAS on the VA Retro project as a task order under our larger DFAS contract. When we began the project, there was a backlog of over 133,000 cases awaiting adjudication. I am pleased to report that all these cases have been adjudicated as of June 6, 2008.

The initial phase of the VA Retro project required Lockheed Martin to develop a prototype solution to process many of the VA Retro cases. This phase was successfully completed on time.

A 12-month plan was then put in place dependent on 9 initiatives to complete the 133,057 original cases by November 2007. A key assumption in the schedule was that we would only need one file from one source for data required from the DVA.

We set an interim goal of processing 50 percent of the cases by the end of March 2007. This was completed 2 weeks early.

By August 2007, we had processed over 102,000 cases.

In September, we notified DFAS of a 6-month slip in schedule if we were not able to use the DVA's SLC06 file as the source of rating decision data.

In December 2007, DFAS determined the data quality would not support our plans for automation. Together, with our customer we recognized that most cases would have to be processed manually, and we began an accelerated hiring initiative with a goal of completing the original 133,000 by the end of April 2008 and the new and returning backlog of over 86,000 by July 1st.

We were successful in completing all original cases on June 6, 2008 and the new and returning backlog on June 26th.

The process to determine accurate payments for some of the final cases proved more difficult than anyone anticipated. Identification on May 1, 2008, of a single authoritative source for each data element greatly simplified the process and supported increased productivity.

Case processing is people-intensive. We doubled and subsequently tripled the work force originally assigned to the task. The Government support our staffing efforts by assuming a small portion of the calls coming into our customer call center. This change allowed us to reallocate some of our staff to meet everyone's top priority, paying retirees.

Additionally, during this time, we made significant improvements in our reconciliation process that contributed to decreased processing time and improved quality.

Throughout this entire project, we have followed the quality assurance requirements set forth by DFAS in our contract. Lockheed Martin's quality processes are documented in specific VA Retro standard operating procedures. These procedures specify authoritative sources of data in adjudicating cases, sample sizes and methods.

They are reviewed by DFAS's quality assurance officer regularly for appropriateness, ensuring the process supports accurate payroll production. Each payroll is certified by Lockheed Martin's program manager and both the DFAS assurance officer and certifying officer. DFAS continuously reviews Lockheed Martin's process as one of their inherently governmental responsibilities.

Thank you again for the opportunity to be here today, and I am pleased to answer any questions you may have.

[The prepared statement of Mr. Cipriano follows:]

Testimony
Of
Joseph R. Cipriano
President
Lockheed Martin Business Process Solutions

Domestic Policy Subcommittee
Oversight and Government Reform Committee

Department of Veterans Affairs Retroactive Payment (VA Retro) Project

Wednesday, July 16, 2008
2154 Rayburn HOB
11:30 a.m.

Chairman Kucinich, Ranking Member Issa and distinguished Members of the Sub-Committee:

Thank you for the opportunity to discuss the VA Retro Project. I am here today before this Sub-Committee to talk about what the Lockheed Martin Team has done, in conjunction with our customer, the Defense Finance and Accounting Service (DFAS), to accomplish the VA Retro Project's important goal of paying eligible military retirees any retroactive compensation they are due. I look forward to sharing the progress our Lockheed Martin Team has achieved on this important project. Specifically, the VA Retro Project has completed the processing and payment of the original 133,057 retiree's cases, as well as all the new and returning cases identified. All retirees who are identified on an ongoing basis as eligible for a retroactive payment are currently being paid in less than thirty days after we receive their casework.

Background

Prior to June 1, 2003, a veteran was required to waive the full amount of any VA disability compensation from any retired pay entitlement, in compliance with 38 U.S.C. With the enactment of Combat Related Special Compensation (CRSC) and Concurrent Retirement Disability Payments (CRDP) effective June 1, 2003, and January 1, 2004, respectively, retirees and veterans became entitled to concurrent receipt of retired pay and disability compensation in varying amounts and percentages, depending upon which type of compensation a retiree is eligible to receive. Although this change occurred, the DFAS and Department of

Veterans Affairs (DVA) pay systems were designed to comply with the statutory prohibition on concurrent receipt.

Lockheed Martin's involvement in the VA Retro project began in 2005 as a joint DFAS and DVA effort to properly pay eligible retirees and veterans all entitlements that are payable by either agency in the form of retired pay, CRDP, CRSC, or VA compensation after the enactment of the CRSC and CRDP laws The VA Retro project is temporary, focusing on making each retiree/veteran whole for the period prior to DFAS notification of a retroactive VA award, creating an additional entitlement to CRDP, CRSC or additional VA compensation.

To accurately compute whether a retiree/veteran is due an additional payment, the retiree's retired pay and VA disability compensation must be reconciled for the entire retroactive period. This reconciliation requires the sharing of data from the separate and distinct pay systems of DFAS and the DVA.

Roles and Responsibilities

Lockheed Martin began working with DFAS in 2003 following our acquisition of most of the federal government business of Affiliated Computer Services. We are proud to support the Department of Defense in its important mission of paying our nation's military retirees. Under our DFAS contract, we perform complete payroll and customer service functions for 2.5 million customers, including the disbursement of $3.4 billon each month. On an annual basis, we process 2 million transactions, respond to 3 million customer calls, issue 5 million pay statements and establish 70,000 new accounts. This program demands accurate, timely, personalized business process services for a very special customer base. We have successfully executed on this program since we took it over and take pride in supporting those who have defended our country's freedoms.

In 2006, we began working with DFAS on the VA Retro project as a Task Order under our larger DFAS contract. Under our VA Retro Task Order, we are tasked with processing cases from the original population, as well as the new and returning cases, once we received the data to do so. The original VA Retro Project established a baseline of 133,057 cases. I am pleased to report that all of the original eligible retirees have been paid as of June 6, 2008, and we currently have a backlog of only two weeks for retirees who are identified on an ongoing basis as eligible for a retroactive payment.

The processing entails computing the members' retroactive entitlements in accordance with the business rules set forth by DFAS. We also provide a quality assurance (QA) function necessary to help ensure compliance with government requirements.

The initial phase of the VA Retro project required Lockheed Martin to develop an interim solution to process many of the VA Retro cases. This phase was successfully completed on time and approved by DFAS. A twelve month plan

was then put in place with nine initiatives to complete the 133,057 original cases by November 2007. A key initiative was the use of VA's SLC06 file as the source for disability rating decisions and dates. As part of that plan, we set a goal of processing 66,529 cases by the end of March 2007; this was completed two weeks early. The majority of these cases however did not require combat related disability rating data. By August 2007, we had processed over 102,000 cases. In September 2007 we notified DFAS of a four to six month slip in schedule if we were not able to use the SLC06 file as the source for rating decision data. In December 2007, we determined our plans to automate the process would not work, as data quality did not support automation. Together with our customer, we recognized that most cases would have to be processed manually, and we began an accelerated hiring initiative with a goal of completing the original cases by the end of April 2008. We were successful in completing all original cases on June 6, 2008.

While no one wanted to delay the payments and we were disappointed not to meet our completion targets, we needed to ensure that we met DFAS' important fiscal responsibilities to the American taxpayers by properly and accurately accounting for all payments and meeting the strict guidelines set forth in the law.

The process to determine accurate payments for some of the final cases proved more difficult than anyone anticipated. These cases had multiple conditions and dependencies that had to be processed manually. Many required time-consuming reconstruction of account history using VA and DFAS data and involved factors such as changes to previous years' taxes, deceased retirees, former spouses and other unique characteristics. Identification on May 1, 2008 of a single authoritative data source for each data element greatly simplified the process and supported increased productivity.

Case processing is people intensive, so we doubled and subsequently tripled the workforce originally assigned to the task. The government supported our staffing efforts by moving a portion of the call volume coming into our customer call center to a call center managed by DFAS. This change allowed us to re-allocate some of our staff to meet everyone's top priority of paying the retirees. DFAS took the overflow calls mid-March, and stopped taking them in June 2008. It was done in accordance with federal law and documented in a contracts letter between DFAS and Lockheed Martin. Additionally during this time, we made significant improvements to our reconciliation processes that contributed to decreased processing time and improved quality.

While we provided our best estimate of when we could complete the cases, those estimates were based on dependencies. The dependencies ranged from receiving the data required to support automated processing of cases and finalizing business rules that governed the way cases were adjudicated to obtaining space and equipment for our personnel. Those dependencies, combined with the complexity of the cases, meant we did not finish in November

as we anticipated. Once we were able to resolve all the dependencies, however, we completed the backlog in less than four months.

Throughout this entire project, we followed the quality assurance requirements set forth by DFAS in our contract. Lockheed Martin's quality processes are documented in specific VA Retro standard operating procedures. They are reviewed by DFAS' quality assurance officer randomly and regularly for appropriateness, ensuring the process supports accurate payroll production. These procedures require us to use authoritative sources of data in adjudicating cases. The decision to begin utilizing Authoritative Data Sources was jointly made between Lockheed Martin and DFAS and with advice from the Department of Veteran Affairs. Subject matter experts from both organizations participated in assessing each data source.

Each payroll is also certified by Lockheed Martin's program manager and both the DFAS assurance officer and certifying officer. DFAS continuously reviews Lockheed Martin processes as one of their inherently governmental responsibilities.

Conclusion

We are proud to be able to work on a project of such critical importance to the Fighting Men and Women of our Nation. Though we have completed the outstanding cases, we are not slowing down improvements in processes, training or technology. We will continue to work with DFAS to provide timely payments to our nation's military retirees and we will apply best practices from lessons learned.

Mr. Chairman, thank you for the opportunity to submit this testimony for the record.

Mr. KUCINICH. Thank you, Mr. Cipriano.
Mr. Heddell.

STATEMENT OF GORDON HEDDELL

Mr. HEDDELL. Mr. Chairman, thank you for the opportunity to appear before you this afternoon.

My name is Gordon Heddell, and I am currently the Acting Inspector General for the Department of Defense.

The DOD is one of the largest and most complex organizations in the Federal Government. Oversight of its programs and functions is essential to the success of our troops regardless of the mission in which they are engaged.

The magnitude and complexity of the Department of Defense requires nothing less than full time effort. We are in a time of war, and our work not only saves taxpayer dollars but also, much more importantly, the lives of U.S. service members.

My testimony today addressees the DOD IG experience with OMB Circular 76 competitions and, more specifically, work relating to the competition that privatized military retired and annuitant pay functions.

In March 2003, my office completed the audit of the public-private competition for the DFAS military retired and annuitant pay functions. This effort was initiated in a response to a request from you, Mr. Chairman.

Our review found that although the competition process was completed and the 10-year contract was awarded:

A calculation error of $31.8 million was identified for the in-house estimate;

DFAS's overhead costs of $33.7 million used for the in-house estimate based on the OMB-directed 12 percent cost factor were not reduced after the functions were awarded to the contractor, and;

The contract had inadequate standards to measure performance. In fact, 7 out of 10 were inadequate.

In response to the above report, DFAS contracted with the Center for Naval Analysis, CNA, to examine the choices available. To address the errors identified in our previous audit report, CNA estimated that the current contract was $42 million less expensive than the most efficient organization.

In response to a second request from you, Mr. Chairman, my office completed an additional audit in June 2004. We reviewed the $42 million cost savings associated with retaining the existing contract and did not agree that the contract was $42 million less expensive than the MEO.

We believe the amount of system work to be performed in the remaining years was unknown and, as such, the reduction in the level of work should have been applied to all portions of the in-house cost estimate in order to fairly compare the contractor proposal and the MEO offer.

Thank you, Mr. Chairman, for the opportunity to appear before this committee today address our work related to OMB Circular A–76.

As I am not the subject matter expert on the issue, I have brought with me, Henry Kleinknecht. Mr. Kleinknecht is a Program Director in the Acquisition and Contract Management Direc-

torate. Other than the CNA review, Henry also performed all of the audits that we discussed in my statement here today and is here to answer any specific questions regarding the previous work of the Department of Defense IG.

I ask that my prepared statement be submitted for the record, and I thank you again for the opportunity to appear before you today, and we would be happy to answer any questions that you may have, sir.

[The prepared statement of Mr. Heddell follows:]

July 16, 2008

Expected Release
10:00 a.m.

Gordon Heddell

Acting Inspector General
Department of Defense

Domestic Policy Subcommittee of the
Oversight and Government Reform Committee
Wednesday, July 16, 2008
2154 Rayburn HOB
11:30 a.m.

on

"DoD's experience with Circular A-76 competitions and the specific context of the A-76 competition which privatized Military Retired and Annuitant Pay functions"

Mr. Chairman and distinguished members of this committee, thank you for the opportunity to appear before you this morning and address our experience with Office of Management and Budget (OMB) Circular No. A-76 competitions and more specifically, our work relating to the competition that privatized Military and Retired and Annuitant Pay functions. This testimony will cover previous audits by the Department of Defense Office of the Inspector General (DoD IG) and analysis by the Center for Naval Analysis (CNA) for the Defense Finance and Accounting Service (DFAS) related to the DFAS Military Retired and Annuitant Pay Functions and associated DoD IG work with A-76 competitions.

DFAS Military Retired and Annuitant Pay Functions

Audit of the "Public/Private Competition for the Defense Finance and Accounting Service Military Retired and Annuitant Pay Functions," March 21, 2003 (D-2003-056). In response to a congressional request, we performed an audit of the public/private competition for the Military Retired and Annuitant Pay Functions from December 2001 through November 2002. The audit reviewed selected portions of the OMB Circular A-76 process and the decision to award the military retired and annuitant pay functions to a private contractor, and to assess related performance risks.

The audit found that although the competition process was completed and the 10-year contract was awarded:

- a calculation error of $31.8 million was identified for the in-house estimate;
- DFAS overhead costs of $33.7 million used for the in-house estimate, based on the OMB-directed 12-percent cost factor, were not reduced after the functions were awarded to the contractor; and
- the contract had inadequate standards to measure performance (7 out of 10 were inadequate).

DFAS had awarded the Military Retired and Annuitant Pay Functions to the contractor based on a savings of only $1.9 million ($366.6 million for in-house performance versus $364.7 million for contractor performance that included the $10 million minimum conversion differential).

We found several other issues that also raised concerns. The cost comparison showed that the Government didn't realize any cost savings until year 9 of contract performance, and that the Government Most Efficient Organization (ME0) had proposed 503 full-time equivalents (FTEs) while the contractor staffing profile went from 451 FTEs in contract year 1 to 250 FTEs in contract year 10.

The audit showed that the two customer service performance requirements (call center and resolve pay problems) were not measurable or identified as critical performance requirements in the contract. For the call center, the established performance standard was "80 percent of the customer calls responded to within 20 seconds." DFAS representatives stated they did not have the capability to measure the requirement and chose to measure calls based on whether they were answered. Although the acceptable quality level was 80 percent for the life of the contract, the contractor had received deficiency reports in February, March, and April 2002, for achieving quality levels of only 33.6 percent, 58.3 percent, and 79.2 percent, respectively. The audit recommended that DFAS conduct a benchmarking study to identify appropriate customer service performance standards such as "the ability of a call center to answer callers' questions on the first call with no transfers and no call-backs," and the Director DFAS concurred and stated DFAS would develop the solicitation requirement for a benchmarking study for the call management area by March 31, 2003.

In addition, the general scope of the contract to provide resources to staff the military retired and annuitant pay functions included 120,000 hours or about 68 FTEs at an annual cost ranging from $6.4 million in year 1 to $8.8 million in year 10 totaling about $75.2 million (676 FTEs) for time and materials work. This time and materials work was related to Automated Information System changes that the Government may

request based on new legislation, policy, new or existing requirements, system performance issues, or enhancements.

The Center for Naval Analysis (CNA) "Analysis of DFAS Military Retired and Annuitant Pay Sourcing Options," September 2003 (CRM D0008864.A2/Final). In response to our Report D-2003-056, DFAS contracted with CNA to examine the choices available to address the error found in the A-76 competition of retired and annuitant pay functions. The CNA identified four options, Option 1 – Retain the existing contract; Option 2 – Return to government performance without additional competition; Option – 3 Conduct a new public competition; and Option 4 – Conduct a private-private competition.

The CNA recommended Option 1 – Retain the existing contract. As part of their analysis CNA had determined that DFAS had overestimated "the level of work that is likely to occur" for one-time systems changes in both the contract and MEO. "As a result of this adjustment, the existing contract is estimated to be $42 million less expensive than the MEO once it has been revised for systems work." CNA determined that the contractor's costs for systems changes were included in the time and materials portion of the contract and considered variable while a large portion of the MEO's costs associated with systems changes were considered "a permanent part of the organization, not a flexible unit whose staffing would fluctuate with changes in demand." CNA determined that the contractor's actual costs for systems changes during the year 1 were only $1.5 million, or 23.8 percent of the costs of the time and materials portion of the contract or about $5 million less than expected for the first year.

The CNA also determined that current contractor performance was satisfactory using three measures. "All three measures indicate that overall performance is satisfactory and at least as good as the government's prior to competition."

DFAS Decision to Retain Contractor. On October 20, 2003, the Director, DFAS notified Congressman Kucinich that DFAS "will be retaining the contract and will

evaluate it each year to ensure it continues to provide best value and acceptable performance."

Audit of "Analysis of the Defense Finance and Accounting Service Military Retired and Annuitant Pay Sourcing Options," June 16, 2004 (D-2004-088). In response to a request from Congressman Kucinich to review the $42 million cost savings associated with retaining the existing contract, we conducted an audit of the retired and annuitant pay sourcing options. We did not agree that the contract was $42 million less expensive than the MEO once it has been revised for systems work. CNA chose to reduce only a portion of the MEO's cost estimate for system work while reducing the contractor's cost estimate for the full amount extrapolated from only two years of actual cost experience. We believed that since the amount of system work to be performed in the remaining years was unknown, the reduction in systems work should be applied to all portions of the in-house cost estimate to fairly compare the contractor proposal and the MEO offer. Also, DFAS was still only able to evaluate the contractor on 4 of 10 contractual performance requirements; therefore, we were unable to come to a conclusion on the performance of the contractor.

Current Status for the DFAS Retired and Annuitant Pay Functions (July 2, 2008). The DoD commercial activities management information system used to track A-76 competition shows a baseline cost for the retired and annuitant pay functions of $386.3 million based off of the original MEO bid and an estimated savings from the competition of $31.6 million. The system also shows the following costs associated with contractor performance ($ million).

Year (CY)	Contract Bid Cost	Contract Actual Cost	Difference
1 (2002)	$ 39.3	$ 34.1	$ (5.2)
2 (2003)	37.2	31.2	(6.0)
3 (2004)	34.5	31.3	(3.2)

4 (2005)	33.2	33.3	0.1
5 (2006)	33.3	30.5	(2.8)
6 (2007)	33.4	35.4	2.0
Total	$210.9	$195.8	$ (15.1)

We also were unable to find any contractor assessment reports in the DoD Past Performance Information Retrieval System (PPIRS) related to the contract for the retired and annuitant pay functions.

Recently Completed A-76 Project

Audit of "Performance-Based Service Contract for Environmental Services at the Navy Public Works Center, San Diego, California," April 3, 2007 (D-2007-079). In response to a congressional request, we reviewed selected portions of the OMB Circular No. A-76 process and the decision to award the environment services function at the Navy Public Works Center, San Diego, California, to a private contractor. The contract awarded in January 2005 was a performance-based, combination firm-fixed-price and indefinite-delivery-indefinite quantity contract valued at $67.3 million over 5 years.

Our audit report showed that the Navy Public Works Center was not effectively managing the performance-based environmental services contract, was unable to adequately assess contractor performance on all performance requirements, and could not relate workload to payments because actual workload was significantly less than established in the performance work statement but the fixed payment remained the same.

The Public Works Center also was not following sound procurement practices for performance-based indefinite-delivery-indefinite-quantity work valued at $5.8 million annually. For example,

- there were no means to hold the contractor accountable for measurable performance outcomes on the firm-fixed-price performance-based task orders, and

- the contractor was using higher labor rates on the task orders than those negotiated in the competitive sourced contract. We calculated that during the base and first option period, the Navy paid about $1.4 million more than negotiated by using higher labor rates and that over the next three option periods the Navy would pay about $6.6 million more if the Navy continued to accept the contractor's higher labor rates.

Further, the Navy in-house team would have won the competitively sourced environmental services function by about $7.1 million if the contractor had proposed the higher labor rates.

In response to our report, the Navy took aggressive action. The Navy added additional staff to administer the contract, deleted performance standards that were obsolete or repetitious, and reduced non-critical performance standards from 78 to 38. Contractor performance reported in the Contractor Performance Assessment Reporting System has improved from marginal in FY 2005 to satisfactory in FY 2007. The Navy was able to negotiate a reduced contract price for laboratory services in-line with the workload level and decreased the fixed-price lab costs by about $3.7 million. The Navy also reached a settlement with the contractor associated with using the higher labor rates for indefinite-delivery-indefinite-quantity work where the contractor agreed to pay $553,285 for costs associated with the overpayment issues. Finally, the Navy is beginning to develop its acquisition strategy for the follow-on contract and during a recent follow-up meeting Navy representatives expressed concern about potential cost increases on the follow-on contract.

Ongoing Projects Related to National Defense Authorization Act for FY 2008

Requirement to Review In-sourcing Guidelines in Section 324 (Project No. D2008-D000CH-0165). Section 324 of the FY 2008 National Defense Authorization Act requires the Under Secretary of Defense for Personnel and Readiness (USD(P&R)) to develop guidelines and procedures to ensure that consideration is given to using DoD civilian employees to perform new functions or functions that are performed by contractors and required the DoD IG to review the guidelines on in-sourcing. The guidelines should provide that special consideration be given to using DoD civilian employees to perform any new requirement or function that is performed by a contractor and:

- has been performed by DoD civilian employees at any time during the previous 10 years,
- is a function closely associated with the performance of an inherently governmental function,
- has been performed pursuant to a contract awarded on a non-competitive basis, or
- has been performed poorly because of excessive costs or inferior quality.

On April 4, 2008, the Deputy Secretary of Defense implemented Section 324 and issued guidelines and procedures on in-sourcing new and contracted out functions. He stated that the Department should give special consideration to using DoD civilian employees to perform certain categories of functions and to use the inventory of contractors (required by section 807 of the FY 2008 National Defense Authorization Act) to identify those functions. DoD Components can use civilian employees to perform new functions or functions that are performed by a contractor if an economic analysis performed by the activity shows that DoD civilian employees are the low cost provider, or the DoD Component has determined that the function under review is inherently governmental or exempt from private sector performance.

As required by Section 324, we plan to issue a report on the guidelines by July 25, 2008.

Requirement to Review OMB Influence on DoD A-76 Competition Required by Section 325 (Project No. D2008-D000CH-0166). Section 325 of the FY 2008 National Defense Authorization Act prohibits the Office of Management and Budget (OMB) from directing or requiring the Secretary of Defense or Secretary of a Military Department to prepare for, undertake, continue, or complete a public-private competition of a DoD function to contractor performance under OMB Circular No. A-76 and required the DoD IG to review OMB influence on A-76 competitions.

As required by Section 325, we issued Report No. D-2008-088, "DoD IG Interim Report to Congress on Section 325 of the National Defense Authorization Act for Fiscal Year 2008, Office of Management and Budget Influence Over DoD Public-Private Competitions," on April 22, 2008. We plan to issue a final report by December 31, 2008.

On March 20, 2008, the Deputy Under Secretary of Defense for Installations and Environment issued competitive sourcing guidance. He stated that restrictions in the FY 2008 Defense Authorization Act limit, but do not entirely prohibit, the use of the competitive sourcing tool. He stated that DoD independently determines its competitive sourcing program during the normal program and budget review process, and DoD Components are expected to execute these plans. He also encouraged DoD Components to continue to use competitive sourcing to the maximum extent possible to determine the most cost-effective business methods to perform commercial activities.

Competitive sourcing is the second initiative on the President's Management Agenda. In FY 2002, OMB directed DoD to complete public-private competitions on 50 percent of the DoD Federal Activities Inventory Reform (FAIR) Act inventory (226,404 positions) by FY 2005. OMB informed DoD that DoD's FAIR inventory was more than half of the Government-wide inventory, and therefore, the DoD share was "critical to the overall success (or failure)" of the competitive sourcing initiative. OMB

rates DoD's competitive sourcing efforts using the Executive Management Branch Scorecard. As of the first quarter FY 2008, OMB rated DoD's competitive sourcing initiative as "yellow" for mixed results, meaning that DoD needed to make adjustments to the program in order to achieve objectives on a timely basis.

The fact that competitive sourcing is a President's Management Agenda item creates pressure on DoD to complete public-private competitions. In addition, Components are expected to execute the President's budget. However, DoD was not close to completing public-private competitions of the 226,404 positions by FY 2005, as OMB originally directed. Additionally, the estimated time frame for completing DoD competitive sourcing efforts continues to move out each year. As of the draft FY 2009 budget estimate, the efforts should be completed by FY 2013.

We held initial meetings to discuss OMB or DoD pressure to conduct competitive sourcing efforts. We received a variety of responses and requested further information for our final report to determine the extent of pressure to complete public-private competitions. The Competitive Sourcing Officials from the Office of the Secretary of Defense, Office of Housing and Competitive Sourcing; the Office of the Assistant Secretary of the Navy for Installations and Environment and Office of the Chief of Naval Operations; and the Air Force Directorate of Manpower, Organization, and Resources stated that they do not feel pressure to conduct public-private competitions. However, the Office of the Assistant Secretary of the Army for Installations and Environment and Office of the Assistant Chief of Staff for Installation Management stated that the Army has had difficulties with implementing the competitive sourcing program and feels extreme pressure from OSD to conduct public-private competitions.

Closing

Thank you for the opportunity to appear before the committee today to address our work relating to OMB Circular A-76 competitions.

Although we currently have a strategic audit plan to address key competitive sourcing issues in DoD to assess and evaluate the effectiveness and efficiency of the DoD competitive sourcing program and initiatives, other high priority audits frequently require us to use our limited resources elsewhere which prevents us from performing more audit work in the competitive sourcing area.

Mr. KUCINICH. I thank the gentleman.

Mr. Sprey.

STATEMENT OF PIERRE SPREY

Mr. SPREY. Thank you, Mr. Chairman.

Your committee staff asked me to review all the available statistical evidence justifying the transfer of quality control functions for retired disability payments from the Government, that is from the CGA, to an outside contractor, Lockheed Martin.

I did review all the available evidence, and the short answer to my review is there is not a shred of statistical evidence that this transfer was justified. Let me briefly summarize why I feel that way.

First of all, the only evidence, the only statistical evidence produced was a small tabulation by DFAS of a set of CGA audits that were a very small sample. Eight hundred and forty-one payments were reviewed by CGA and determined to be in error or not in error.

My first comment on that is looking at the internal correspondence of DFAS over the period of this contract, it is obvious that there is far more error data than those 841 samples, but that is all that has been presented. I believe that between the Government and the contractor, a lot of error data that would be very useful for determining whether quality control was accomplished and properly transferred has been suppressed or withheld from the committee.

Looking at the actual data that was presented to see whether it justifies the fact that errors were so small that transferring quality control was justifiable, this was a small tabulation put together by what was referred to as the Moxley Team.

It was supposed to show that errors were much smaller than the 2½ percent total dollar error mandated by GAO under the Improper Payments Information Act. The sample, in fact, totally fails to show that.

First of all, the first simple reason is the payments that were sampled, the 841 payments, are the wrong payments. The payments that are supposed to be sampled under the GAO procedure are supposed to be under $2,500 payments. All payments over $2,500 are supposed to be 100 percent sampled. The sample that as produced by the Moxley Team is, in fact, an over $2,500 sample as far as I can tell.

Second, the sample is not random. I think as anybody understands who has ever looked at political opinion polls, if you get to choose what is in the sample, you can get any answer you want to. That is exactly the case with this sample.

It was not randomly drawn and, in fact, it consists of relatively the easiest cases to do. So, obviously, errors in that sample are understated.

Third, the tabulation, the Moxley Team tabulation, showed a little over 1 percent dollar error as their estimate. That is a totally wrong calculation.

That calculation is not based on dollar errors as assessed by CGA. It is based on a guess on what the dollar error might be because DFAS never insisted that CGA give them the dollar error.

All that DFAS basically turned over to them was a payment was right or wrong.

In fact in a way, this sample was a 1.19 percent dollar error in the Moxley tabulation. It shows, in fact, that the sample fails to meet the GAO standard because these are over $2,500 payments and the GAO standard is they have to be 100 percent reviewed and 100 percent accurate or corrected. So 1 percent error rate in the dollars means that the sample is unacceptable.

But there is a much larger issue in this whole thing in the simple statistical validity of these 841 payments. That larger issue is that no one, not DFAS, not Lockheed Martin, has ever reviewed, audited or checked the denials of payments to veterans. In other words, the zero payment decisions which are very much a part of the sample, very much a part of the mandated checking process by GAO, have simply been left out.

By my calculations, that means about 43,000 veterans have been given payment decisions that no one knows whether they are right or wrong.

Furthermore, in that 43,000 is exactly where the largest financial errors are likely to be. In many of these cases where veterans have been told they are owed nothing, they may in fact be owed tens of thousands of dollars. So the very largest errors may be buried in this sample of zeroed payments that nobody has looked at.

But even larger than the statistical question of whether this invalidates the statistical sampling is the fact that this is the single area in which the greatest injustice has been done to veterans. The veterans who have been denied payment, by my estimate, 43,000 of them, have been denied that in the absence of anybody knowing whether this was right or wrong.

That completely invalidates all the rest of the argument about the statistics, the audits, are the errors large, small and so on. This is really an ethical and a moral issue, not a statistical issue at all.

There is one more major issue beyond the ethical failures of not reviewing denials of payment and the terrible small sample that was presented to prove that errors were acceptable, and that is the simple question of sound financial management.

Imagine that you are the CEO of a company and you suspect your payroll department is either making horrible arithmetic errors or maybe embezzling the money. Would you, under those circumstances, assign the quality control function to that payroll department? Of course not.

Yet, in effect, that is exactly what the Government has done. It has assigned the quality control function to the very process that is in question and that we know in 43,000 cases has failed to address the most important question, whether a veteran is owed money or not.

[The prepared statement of Mr. Sprey follows:]

STATEMENT
OF
PIERRE M. SPREY

DOMESTIC POLICY SUBCOMMITTEE
OVERSIGHT AND GOVERNMENT REFORM COMMITTEE
Wednesday, July 11, 2008
2154 Rayburn HOB
2:00 P.M.

REGARDING QUALITY CONTROL FOR RETIRED VETERANS' DISABILITY RETROACTIVE PAYMENTS

I have reviewed the available statistical evidence supporting the decision to transfer quality control of retired disability retroactive payments (CRDP and CRSC) from the USG's Retired and Annuity Pay Continuing Government Activity (CGA) to an outside contractor, Lockheed Martin.

The only statistical evidence presented, as far as I can determine, is a tabulation by DFAS (the "Moxley team") summarizing the CGA-audited errors in four payment batches totaling 841 individual payments. That tabulation is inadequate and statistically invalid evidence: it fails to show that the payments processed under the Lockheed Martin contract meet the mandated thresholds of the Improper Payments Information Act (i.e. no more than 3% of payments may be in error and total dollar errors must be less than 2.5% for payments below $2500; payments above $2500 must be 100% reviewed and 100% corrected).

The DFAS/Moxley tabulation is statistically invalid evidence because:

1. The payment batches tabulated by DFAS sample the wrong payments: these payments are mostly or entirely over $2500 (since the average payment in each batch of the tabulation calculates to more than $2500). Thus, these payments are NOT subject to the 3%/2.5% error thresholds of the Improper Payments Information Act. Instead, these samples are the over-$2500 payments for which 0% error and 100% review are required.

2. In addition to sampling the wrong payments, the DFAS/Moxley sample is not random and therefore no conclusions drawn from the sample have any statistical validity for the overall population of payments processed by Lockheed Martin. The DFAS/Moxley sample consists of the "easy-to-resolve" payment cases, exactly the ones that could be expected to seriously understate the overall error rates.

3. The DFAS-calculated total dollar percentage of 1.19% is invalid evidence because a) as above, the sample is non-random and is drawn from the wrong

population; b) the DFAS assumption that the CGA-audited erroneous payment amounts (used because DFAS did not insist on also getting from CGA the corrected payment amounts) represent a conservative estimate of the dollar errors per payment is simply wrong. Obviously, the dollar amount of the error in any given payment can be many times the erroneously calculated payment itself.

In view of the above, there is no statistical justification for transferring disability payment quality control from the USG to the contractor, Lockheed Martin.

There is, however, a much larger statistical/quality control problem that calls into question a very large number of retroactive payment decisions made by DFAS and Lockheed Martin--by my estimate, over 43,000 such decisions. These are the decisions notifying the disabled veteran that he/she will receive zero compensation for retroactive disability. Lockheed Martin has stated in writing that they do NO quality control review of these zero payment decisions; DFAS, as best I can determine, does no routine quality control of these decisions either. Obviously, those zero-payment cases are exactly the ones in which the largest monetary errors--and the largest injustices to our disabled veterans--are likely to be found. Given the complexity of the retroactive eligibility decisions themselves, not to mention the large diversity of forms of supporting evidence for eligibility, it would be astonishing if these DFAS/ Lockheed Martin zero-payment decisions didn't have a higher error rate than the processing calculations for non-zero payments. Yet these cases are excluded, as best I can tell, from the entire quality/control/audit effort. (My estimate of over 43,000 cases of zero-payment decisions is based on two factors: 1) 133, 057 "original inventory" disabled veteran backlog cases augmented by 84,237 "newly eligible and returning" cases that emerged since the original inventory, up through last May; and 2) based on my inquiries, a best estimate that 20% of these 217,294 cases resulted in a zero-payment decision.)

Aside from the major statistical and ethical problems discussed above, there remains an equally crucial financial management problem: the decision to transfer quality control from Government to contractor violates the most elementary sound financial management principles. No competent corporate CEO, suspecting shoddy accounting practices in his payroll department, would ever consider assigning the audit/quality control function to that same department. DoD and VA have made exactly that mistake by assigning disability payment quality control to the same organization that has a profit incentive for minimizing the detection of errors and, even worse, for minimizing the reporting of those errors to the public.

Based on these facts, it is my professional opinion that we are doing a grave disservice to our disabled veterans--and to our taxpayers--by leaving the quality control of their disability payments in the hands of the contractor who profits from processing those payments.

We are doing perhaps 43,000 of these disabled veterans an even graver injustice: we are telling them that they will receive zero retroactive disability without anyone routinely checking those decisions for errors.

Mr. KUCINICH. I thank the gentleman. Your time is expired. We are going to get back into some of these issues in questioning. I can guarantee you that.

I would just like to know. Everybody on this panel has heard Mr. Sprey's testimony.

Mr. Heddell, do you have any comment on what you just heard? Is this consistent with what you have found in your work?

Mr. HEDDELL. Mr. Chairman, I could comment on that, but with your permission I would like to defer to Mr. Kleinknecht because he actually performed the audit.

Mr. KUCINICH. OK. I would like Mr. Kleinknecht to comment on the previous testimony because it kind of gets to the heart of the question of this issue of veterans really being denied benefits without any essential review.

Mr. KLEINKNECHT. On the VA Retro pay, we have not done any work in that area.

Mr. KUCINICH. OK.

Mr. KLEINKNECHT. This was all kind of after the fact where we did all the initial, looked at all the initial decision to competitively source it. At your request back in 2001, we looked at all these issues, and we wrote our reports and addressed all that, but this is all. We haven't been in since that work.

Mr. KUCINICH. Thank you.

Mr. Gaddy, it is evident from the correspondence staff has reviewed in our investigation that you monitored the progress on the VA Retro program and frequently complained to Lockheed about low productivity and high number of errors that the DFAS quality control auditors were detecting.

You said, for instance, "These results for Thursday are extremely disappointing. By now, you should have a handle on why cases are not passing QA"—that is quality assurance—"and get the quality level to a point where adjudicated cases pass muster."

Then it went on that LMCO missed the goal. "Lockheed Martin missed the goal for the original cases by 707 for the week, nowhere near the level required to meet productivity goals to achieve the revised plan briefed to me today."

"Also, why were 388 cases rejected back to ops? By now, I think Lockheed Martin should be able to produce consistently reliable results to avoid the high level of rework that has occurred since the inception of this project."

Would you tell the subcommittee, Mr. Gaddy, how did you know that Lockheed was making errors? Didn't your CGA auditors tell you that?

Mr. GADDY. Chairman Kucinich, I am not quite sure the timeframe of that specific e-mail reference, but I was getting some.

Mr. KUCINICH. I can refresh your memory. One was an e-mail from you to Rocky Thurston, Karl Bernhardt, Robert Cook, Martha Smith on April 4, 2008.

Mr. GADDY. OK.

Mr. KUCINICH. And the second one was an e-mail. The next one was an e-mail from you to Howard Ruddell, Douglas Smith, Karl Bernhardt on May 5, 2008.

You are familiar with those, the contents of those e-mails, right?

Mr. GADDY. Yes. Yes, I am.

Mr. KUCINICH. So you knew because your auditors were telling you that Lockheed Martin was making errors, isn't that correct?

Mr. GADDY. Mr. Chairman, actually, what I was referring to in those e-mails was a daily report that I started getting in February which disclosed on it the number of cases that were dispositioned, number of cases that were adjudicated, number of cases that were rejected back from QA to operations, and the QA in this case was actually Lockheed Martin's QA or Team Blue as they called it.

So it wasn't a government. It was the Lockheed Martin QA process that was rejecting the work back to their operational floor.

Mr. KUCINICH. Back at the start of the contract with Lockheed on August 10, 2006, you wrote in an e-mail: "We need to start making payments in September 2006. Politically, we can't wait."

This was an election year. So what did you mean when you said it was politically impossible for payments to start any later? Were you referring to the election?

Mr. GADDY. No. No. We were talking about the fact that it had taken until September 2006 to get into place a process to start paying the retroactive portion of payments.

Mr. KUCINICH. You wanted to start making.

Mr. GADDY. It was taking a long time to get going.

Mr. KUCINICH. You wanted to start making payments in September. Do you know when the first payment was made?

Mr. GADDY. In September.

Mr. KUCINICH. It was October 13th, a month after you wanted payments to start.

Did Lockheed miss the deadline for even the first payment to VA Retro veterans?

Mr. GADDY. Well, if we wanted it in September, then if it wasn't until October, they missed it, yes.

Mr. KUCINICH. Mr. Gaddy, there is no question you tried to exhort your people to clear the backlog faster.

On December 2, 2007, for instance, you wrote an e-mail to your senior manager and saying, "I can tell you right now that six more months is unacceptable. I want these cases processed within three months. We have already taken far too long, and I will not accept the glide path you included. Tell me how many people you need and how much OT is required to make three months?"

But did you notice the same coincidence that I did, that the unacceptable 6-month glide path turned out to be the real glide path in clearing the backlog?

In retrospect, with this evidence, do you feel that your exhortations made Lockheed move any faster?

Mr. GADDY. Well, obviously, sir, they did not.

We were briefed in December. I was briefed in December an April schedule by Lockheed that I questioned why it would take that long. They did not hire people as fast as I thought they would.

Of course, one of the things that was unknown to me until I visited Cleveland a little bit later was hiring people is one thing. Training them and getting them up to speed to actually do the work was something else. So it took several weeks to hire, several weeks to train and then certainly to get the experience to be a highly qualified person doing the work took many more months after that.

So the realism of April, in hindsight, was it was unachievable.

Mr. KUCINICH. Right. Since you suspended CGA's 100 percent verification on all payments that is a Continuing Government Activity, 100 percent verification on all payments above $2,500, have you, by any other means, detected errors in such payments calculated and approved by Lockheed?

Mr. GADDY. The QA process that we implemented with Lockheed, and by the way Lockheed had a QA process that we had evaluated over many months to be what we thought reliable. In the CGA, the Continuing Government Activity, what we were doing was duplicative from a QA perspective of what Lockheed was already doing.

What we intended for the CGA to do, which they have done, is what we call a certifying officer review of payments, and they do that and have been doing that.

Mr. KUCINICH. But you know it has come to the subcommittee's attention that DFAS is now aware of a certain number of VA Retro payments that were made in error. Is DFAS aware of any VA Retro payments that have been made since March 1, 2008 and have been subsequently determined to be in error?

Mr. GADDY. We have reviewed almost 200 payrolls since February, and those payrolls include over 43,000 payments on what we call a post-pay review, and the error rate that we are seeing right now is less than 1 percent of all those payments that are reviewed.

Mr. KUCINICH. Are they overpayments or underpayments?

Mr. GADDY. It is a combination of both. I believe the number of underpayments is seven, and the number of overpayments is 42. Forty-nine in total, I believe, is the number.

Mr. KUCINICH. I am going to go to Mr. Issa.

I took about 7 minutes for the first round here, so you may do the same. Thank you, Mr. Issa.

Mr. ISSA. Great. Thank you.

Mr. Gaddy, on the scale of, if you will, all of the problems in finance and distribution within your area of control, is this 1 percent of the problem, 2 percent of the problem?

Let me just clarify it. When we look at the amount of data that is still paper or microfiche, when we look at the amount of mistakes being made in other areas of finance, how do you compare the problem that you had—and most of it is in the past tense—with in fact some of the other major areas?

I will just give you a couple of quick ones. For example, the Army Logistics Modernization Program, the LMP, that is a billion dollar program that has been delayed for, I guess, indefinitely.

The Navy Enterprise Resources Planning, the ERP, problems in data conversion, interface, that is $1 billion in four pilot programs, and the estimate to complete it now is $800 million of all cost overrun.

Or the Vets Net, I believe the Vets Net system which obviously is a very important potential program, $250 million and it is currently in sort of a hiatus.

So I give you those as just some of the tip of the iceberg. Can you put this in perspective because I think this is an important hearing because we want to fix problems? One to 10 or percentagewise, where are we here today?

Mr. GADDY. Being familiar with two of the three examples you gave me, anytime you implement a new system, it is hugely complicated, extremely expensive and tends to be way behind schedule.

This project, in comparison to those, is simpler because we are not trying to build a very complex system. We are trying to use information from a variety of data sources, from VA, from DOD and try to create, if we could, automated solutions, and we came up with a variety of automated tools to help assist but could not fully automate the process.

I have asked my chief information officer to work with the VA to look at how we might do so, so we can eliminate the touch labor or the manual effort associated with this.

So on a scale of one to ten, if I were to rate those huge efforts you cited, the billion dollar efforts as, say a ten, this effort is more like three.

On the other hand, because of the population that is impacted by it and the length of time it took to get it completed, I would say that, in and of itself, made it to me very, very significant and visible because we wanted the work done. We wanted to make sure the retroactive portion of the payments was paid to deserving veterans as quickly as possible. And so, from that perspective, very disappointed that it took the length of time it took.

But I do believe that today we now have a repeatable process. So we can, in fact, turn claims around in 30 days or less. As a matter of fact, as of this morning, we currently have 65 unprocessed claims where we are lacking some information from VA that we are going back to get.

We think, going forward, we can sustain that although we do know that there are other legislative proposals that have taken effect that will cause some more work to come our way. But between three and five thousand of these claims a month are coming in, and we know we can keep up with that workload on an ongoing basis.

The committee has pointed out an issue with the no pay due calculations. I would comment that in one sense the process to calculate whether pay was due or not was reviewed by the CGA, the Continuing Government Activity.

We understand what the process is. There were adjustments made to it over time to try to automate some of the calculations. Some of that automation worked well. Some of that automation didn't work as well as we intended for it to.

The specific example of Command Sergeant Major Lewis, where his initial claim was denied and then eventually was determined that he was owed money, actually came out of one of the very first attempts to use an automated solution to calculate his case, and it was wrong.

When we found out it was wrong, we went back. We made changes to the process to get it right. It came out and showed he was owed money, and we are now looking at all of those no pay due claims to ensure that proper steps were taken.

Mr. ISSA. Mr. Gaddy, I am particularly interested in part of the lessons learned here. The laws governing this requirement, this retroactive pay, were passed in 2002, 2004, but Lockheed, the subsidiary that Lockheed acquired got the contract in 2006.

So, when I am sitting here in 2008 and you are giving me a mission accomplished, maybe a little more expensive than it would have been if it had been better planned or we had known in the beginning what we know at the end, how do we get past the 2-years and 2 years in the future because it appears as though the runway that we didn't have available, that would have allowed this to be maybe done more efficiently, was behind Lockheed at the time that they got the contract? At that time, it had been used up.

How do we account for that time and how do we prevent it from being lost in the future?

Mr. GADDY. You are correct, sir, that the laws were passed as I said in my opening statement. As soon as an eligible veteran qualifies for either combat-related special compensation or concurrent retirement and disability payments, they, in fact, are drawing those payments the minute they are eligible.

That retroactive portion which is what we are talking about today, while the laws were in passed in the timeframe you suggest, what happened was from a policy perspective between VA and DOD, which actually was before my time as Director of DFAS, no one recognized, I believe, that there was a requirement to look at how payments had been made and whether there was a retroactiveness required. That didn't actually start until late 2004, early 2005 timeframe.

Then it took from February 2005, when the initial formal meetings started between DOD and VA, it took from then to determine how do you even do it, what the data sources would be.

And then it took some time to create a contract modification with Lockheed Martin to actually start doing the work and set up a process around how that would work.

So we were late determining or identifying the requirement, and then it took some time to get going with it. Then, of course, we wanted to finish much more rapidly than we actually took.

Mr. ISSA. I appreciate that, and the veterans appreciate that.

Let me ask you a question on, I never can pronounce this acronym very well, DIMHRS. Now that is 10 years in development, and we don't have it. Is that something that we should be looking at because obviously it is delayed, obviously it is not delivering the benefits?

It is not on the scope today, but something tells me it will be soon and it is a much more expensive project. Can you comment on that?

Mr. GADDY. Sir, I am sorry. I am not familiar with that particular application.

Mr. ISSA. Let me just ask one more question very quickly. If you had it to do over again and you were back to 2004ish when you began to realize that there was a retroactive question, would it have been better to have issued a small, perhaps no-bid, contract to a contractor who could scope the project, who could in fact put the assets to bear in a much shorter period of time to figure out what data bases, where and when, particularly a contractor who may have already been in those data bases and then, using that, gone out with a better design contractor, knowing what you know now?

I am not saying that you could have done it with what you knew then, but now isn't that potentially a best of practice that could be looked at rather than a year plus of Federal looking and then ultimately not having all the facts you needed at the beginning of the contract?

Mr. GADDY. Well, actually, you identify what I believe is a best practice, and that is to bring in experts who can assess the situation, identify a game plan to deal with it. For example, had we known automation was not really going to be what we thought it would be, we could have hired and trained people sooner and done it with people as opposed to automation.

Conversely, had we known like VA was in the middle of converting to Vets Net from a variety of other systems. Had we known that was going to occur in the middle of the operation, we may have done things a bit different in terms of timing of when certain things would be completed.

So, a small pilot to look at what, how to do it, the duration of time, then quite possibly we could have written a totally different task order of how to do the work because we would have had more empirical information to support what would be required, what durations would be required and had a better feel for how many claims would actually be processed.

Mr. ISSA. Thank you.

Thank you, Mr. Chairman.

Mr. KUCINICH. I thank the gentleman.

We are going to go into a second round of questioning here.

Mr. Gaddy, what is a Red Team?

I am not talking about Cincinnati. I am talking about DFAS. What is a Red Team? Would you tell this committee?

Mr. GADDY. Mr. Chairman, a Red Team normally is what we would send in to review something that someone has done, for example.

Mr. KUCINICH. So it is a normal practice you have a Red Team?

Mr. GADDY. If we are going to, say, put a contract out. If we are going to, like when we did an A–76 study in an operation I managed in Denver, we had a Red Team come in and review what we had done.

They are independent from the operation. They come in and review what we are doing to ensure that we are thinking of all the things we are supposed to think of, covering all the bases, those sorts of things.

Mr. KUCINICH. What kind of circumstances would you send in a Red Team?

Mr. GADDY. We normally send in Red Teams where we want to know information about something from an independent set of eyes.

Mr. KUCINICH. Like what?

Mr. GADDY. Oh, it could be any operation. It could be we sent a Red Time, like I said, the A–76 study. If we have an operation that we think is struggling, has some problems, we will send a Red Team in to look at that to see what is going on.

Mr. KUCINICH. Has Red Team been assigned with respect to the VA Retro program?

Mr. GADDY. Yes, it has.

Mr. KUCINICH. When was it assigned?

Mr. GADDY. Let's see. Steve Turner came in as the director. I would say in the last maybe 2 weeks or week. I think it has been up in Cleveland.

Mr. KUCINICH. The last week or two. Now I just want my colleague here to join me in reflecting on this moment. You have brought in a Red Team in the last couple of weeks. You have also testified to this committee that you only have a 1 percent error rate.

Mr. GADDY. Right, post-pay reviews, yes, sir.

Mr. KUCINICH. Pardon?

Mr. GADDY. On post-pay reviews that we have looked at for payroll.

Mr. KUCINICH. Why did you assign a Red Team? Help us with the significance of that.

What were they assigned to do? What did they find?

Mr. GADDY. I don't have the results of the Red Team review. I think they are still looking at a variety of operational areas. VA Retro is one of those, but they are looking at, I believe, all of retired annuity pay operations.

Mr. KUCINICH. But let's talk about VA Retro.

Mr. GADDY. OK.

Mr. KUCINICH. Now I have been looking at the scope of your stewardship. I have seen there are times that you had real awareness that something was going on, and you kicked it up. Get it done in 3 months instead of six.

Why did you assign the Red Team to VA Retro? What was going on in your mind about what is your concern?

Mr. GADDY. My concerns are pretty much around what this hearing is all about.

Mr. KUCINICH. No, no. Tell me. Help us out. What?

Mr. GADDY. My concern was when the director of operations said he wanted to send a Red Team in to look at operations in Cleveland, generic Cleveland. That means everything we do in Cleveland. We also said, well, then let's ensure that we include VA Retro and retired annuity pay operations as a part of the Red Team review.

Mr. KUCINICH. Could you have sent a Red Team in because you found certain problems with the VA Retro program and you needed another opinion about what happened and maybe what you should do?

Mr. GADDY. Right.

Mr. KUCINICH. Is that possible?

Mr. GADDY. Yes, sir.

Mr. KUCINICH. Payroll 303 was issued after you suspended 100 percent verification of payments over $2,500, isn't that right?

Mr. GADDY. Yes. Yes, sir.

Mr. KUCINICH. Payroll 303 contained errors which DFAS detected after checks had been sent from DFAS, isn't that right?

Mr. GADDY. Yes, sir.

Mr. KUCINICH. Can you tell the subcommittee what those errors were?

Mr. GADDY. I don't have the facts around all of the errors. I do believe that I was told, there was a 10 percent error rate in Payroll 303.

Mr. KUCINICH. Maybe I can help.

Mr. GADDY. I think there were a total of 226 or 230 payments, I believe, were in that payroll.

Mr. KUCINICH. OK, because I want to make sure that when you testify that we are as precise as we can be. So I am going to ask some questions to help.

Mr. GADDY. OK.

Mr. KUCINICH. Were there overpayments?

Mr. GADDY. Yes, there were overpayments.

Mr. KUCINICH. Is it possible that the overpayments had a total value of $117,000 in overpayments made to six individuals?

Mr. GADDY. I don't know for sure, but that is possible.

Mr. KUCINICH. Were those individuals entitled to receive retroactive pay on the overpayments?

Mr. GADDY. I believe they were entitled to retroactive pay. I don't know that they were paid the correct amount.

Mr. KUCINICH. I think the appropriate answer, based on the subcommittee staff, is no.

Mr. GADDY. OK.

Mr. KUCINICH. Were those veterans even entitled to receive monthly CRDP pay?

Mr. GADDY. I do not know.

Mr. KUCINICH. OK. Would you be able to inform this committee in writing of the answer to that question?

Mr. GADDY. Yes, I will.

[The information referred to follows:]

CHARRTS No.: HOGR-02-001
House Government Reform Committee
Hearing Date: August 04, 2008
Subject: Examining Contractor Performance and Government Management of Retroactive Retired Pay for Veterans with Disabilities
Congressman: Congressman Kucinich
Witness: Mr. Gaddy
Question: #1

Post-payment Review of Payroll 303

Question: Concerning findings from a Post-payment review of Payroll #303:a. What were the nature and magnitude of errors found in payroll #303?b. How many of the errors found in Payroll #303 were determined to be no pay due, overpayments, and underpayments?c. How many of the errors in Payroll #303 were determined to be ineligible for concurrent receipt (Combat Related Special Compensation or Concurrent Retirement and Disability Pay)?d. Please provide findings from all other Post-payment reviews performed after March 1, 2008.

Answer: a. The errors discovered in Payroll #303 were the result of manual input errors and/or misinterpretation of the Authoritative Data Sources (ADS), resulting in a 17 percent payroll error rate. b. DFAS identified 42 discrepant accounts out of a total of 246 accounts. There were no "No Pay Due" accounts in Payroll #303. The over and under payments are as follows: 22 overpayments, 20 underpayments c. All accounts within Payroll #303 were eligible for CRSC or CRDP. d. Post-payment review documents for the period March 3, 2008, through July 23, 2008 are provided.

CHARRTS No.: HOGR-02-002
House Government Reform Committee
Hearing Date: August 04, 2008
Subject: Examining Contractor Performance and Government Management of Retroactive Retired Pay for Veterans with Disabilities
Congressman: Congressman Kucinich
Witness: Mr. Gaddy
Question: #2

VA Retro program SITREP

Question: Has a SITREP been ordered in connection with the VA Retro program since March 1, 2008? If so, please provide details?

Answer: No SITREP has been issued subsequent to March 1, 2008.

CHARRTS No.: HOGR-02-003
House Government Reform Committee
Hearing Date: August 04, 2008
Subject: Examining Contractor Performance and Government Management of Retroactive Retired Pay for Veterans with Disabilities
Congressman: Congressman Kucinich
Witness: Mr. Gaddy
Question: #3

Legal Analysis of Lockheed Prepayment Review Contract

Question: Please provide the Subcommittee with any legal analysis prepared at the time of your decision to outsource prepayment review to the contractor, Lockheed Martin?

Answer: DFAS did not outsource prepayment reviews. The provisions of the contract require contractor prepayment reviews. DFAS retains the ultimate responsibility to ensure prepayment reviews are performed.

CHARRTS No.: HOGR-02-004
House Government Reform Committee
Hearing Date: August 04, 2008
Subject: Examining Contractor Performance and Government Management of Retroactive Retired Pay for Veterans with Disabilities
Congressman: Congressman Kucinich
Witness: Mr. Gaddy
Question: #4

DFAS Augmentation of Lockheed Workforce

Question: Concerning DFAS' efforts to augment Lockheed Martin's workforce:a. Please explain in detail the personal measures taken by DFAS to augment the Lockheed Martin VA Retro Effort.b. A number of Lockheed Martin employees, who had been assigned to Retired and Annuitant Pay (R&A), were reassigned to VA Retro. Under which contract - R&A or VA Retro - were those employees paid during the period of time they worked on VA Retro?c. What steps did DFAS take to prevent Lockheed Martin from being compensated for R&A work that was performed by Government employees?

Answer: a. DFAS electronically diverted calls from the Lockheed Martin call center to the Government call center resulting in 3,080 hours that DFAS augmented Lockheed Martin's VA retro effort. b. All VA-Retro related work was appropriately billed to the VA Retro Task Order consistent with the Federal Acquisition Regulation (FAR) Part 31 and the Cost Accounting Standard (CAS) 407. c. DFAS is in the process of negotiating with the contractor to receive compensation for the reduced level of performance under the contract.

CHARRTS No.: HOGR-02-005
House Government Reform Committee
Hearing Date: August 04, 2008
Subject: Examining Contractor Performance and Government Management of Retroactive Retired Pay for Veterans with Disabilities
Congressman: Congressman Kucinich
Witness: Mr. Gaddy
Question: #5

Computation Accuracy

Question: Has DFAS been able to determine the degree of computation accuracy in utilizing the authoritative data sources in use after March 11, 2998? Please provide all relevant documentation, including explanations of any category of case or circumstance that are associated with compromises in accuracy.

Answer: Yes, DFAS has determined the degree of accuracy to be over 97 percent since the utilization of the authoritative data source (ADS) in use after March 1, 2008. The documentation supporting the accuracy is provided.

Mr. KUCINICH. That will be fine.

If those veterans were possibly not even eligible to receive the onthly CRDP, let alone retroactive pay, doesn't that suggest to you that there may be a wider problem in your retired and annuitant division?

Mr. GADDY. As I said, Payroll 303 was included in the total scope of the 200 payrolls that they have looked at for post-pay review. So, in the total scheme of 200 payrolls, 1 payroll had a high error rate. The others did not. So, in the aggregate.

Mr. KUCINICH. We are dealing with VA Retro here now, remember.

Mr. GADDY. Right, in the aggregate, that is what I am talking about, 200 payrolls, almost 200 payrolls for VA Retro. Payroll 303 was one of those. So we had 1 payroll out of the almost 200 that exceeded the 3 percent threshold for errors.

So, when we aggregate all of that, what my staff has told me is the errors are less than 1 percent including that particular payroll.

Mr. KUCINICH. Has a sit rep been done about payments made in error since March 1, 2008?

Mr. GADDY. Not to my knowledge.

Mr. KUCINICH. Are you sure about that? Is it possible it could be done without your knowledge?

Mr. GADDY. There could have been one that went. I have not seen a sit rep.

Mr. KUCINICH. Would you find out for this committee and let us know?

Mr. GADDY. Yes, we will find out.

Mr. KUCINICH. OK. I would like to read to you another e-mail written by the VA Retro contracting officer: "Even if the contractor can meet his goal, the CGA is not able to process this level of work flow due to the reviews mandated to comply with Certifying Officer Legislation and the potential liability therein."

This and other e-mails from within DFAS lead us to the conclusion that there was a belief in DFAS that CGA audits were causing or could cause further delay in clearing the backlog. Is this a fair assessment of the thinking within DFAS management?

Mr. GADDY. I think so, that at the time that e-mail was sent, we had not increased the staff of the CGA by the 15 that we subsequently added. When we saw Lockheed Martin, we anticipated they would increase the number and volume of payroll sent to CGA for review. We needed to add more people to the CGA to do the payroll reviews.

At the time—I think that was January 2008—we had not added those individuals yet.

Mr. KUCINICH. Couldn't you have directed your own CGA auditors to adopt the lower standards that Lockheed used?

Mr. GADDY. For COL, no, we did not.

Mr. KUCINICH. Can you tell me why?

Mr. GADDY. Because we are trying to comply with Certifying Officer Legislation from the payroll certification perspective. So we asked them to apply the standards that were applicable to all payroll operations.

Mr. KUCINICH. Well, let's talk about the GAO rules then. Did you go around the GAO rules in order to do this?

Mr. GADDY. The GAO rules that require a review of payments under $2,500 on a sampling basis and over $2,500 on a 100 percent review, we comply with those on a post-pay review basis, and then we sample on a pre-pay review basis. I do not believe we fully comply.

Mr. KUCINICH. Does Lockheed abide by those rules?

Mr. GADDY. No. Their QA is different from COL.

Mr. KUCINICH. Right, but DFAS asked GAO in another context for the ability to do fewer than 100 percent verification of payments, isn't that right?

Mr. GADDY. Yes, we did.

Mr. KUCINICH. GAO wouldn't permit it, isn't that right?

Mr. GADDY. Right.

Mr. KUCINICH. Was the GAO guidance from 2003 still in effect during the VA Retro payment project?

Mr. GADDY. GAO guidance is in effect across the board for all payments.

Mr. KUCINICH. Your CGA auditors couldn't adopt the lower quality control standards you felt were necessary for clearing the backlog, so you did the next best thing. You outsourced it.

Now there is a legal question here, I think. Could DFAS accomplish by outsourcing what it could not do itself, namely, subject the VA Retro payments to a lower standard of quality control than GAO allows? What is your opinion on this question?

Mr. GADDY. Lockheed Martin's QA process is embedded in Lockheed Martin and is required by contract, and we understand what their QA process is. We actually review it. We have actually observed it as it is underway.

QA, from a Government perspective, Certifying Officer Legislation is not the same thing as Lockheed Martin QA. It is actually two separate things.

Mr. KUCINICH. OK. As an administrator, you are governed by certain legal authorities. What legal authority did you have to proceed in the way that you proceeded? Could you cite that for this subcommittee?

Mr. GADDY. I cannot cite legal reference. I can say that when we contract for payroll operations like Lockheed does, a part of the contract specifies what the quality assurance steps will be and that they will abide by those.

The Government role of Certifying Officer Legislation is distinct from the QA process that Lockheed Martin was required to perform.

Mr. KUCINICH. Mr. Kleinknecht, you just heard testimony by Mr. Gaddy on this matter with respect to the approach that he used, and you are certainly familiar with the rules, regulations and laws governing administrative conduct with respect to this matter. Does anything in his testimony raise questions as to the possibility that GAO rules were somehow avoided?

Mr. KLEINKNECHT. Mr. Chairman, I think clearly it would be something we would need to look at again and get a legal opinion. It does sound like they are circumventing the rules. Whether it is legal, again, we would have to look at that.

Mr. KUCINICH. Right.

Mr. KLEINKNECHT. You know I wanted to comment just one more thing.

Mr. KUCINICH. You may.

Mr. KLEINKNECHT. Earlier on a comment about the best practices of maybe going outside this contract and using another contractor to do some of this function, this part of the original contract that we looked at when it was awarded, when this function was outsourced included to address legislative changes that affected the military retired and Retro pay function.

Built into the contract, there was this time and materials work which is the task where I believe it was issued to cover these kinds of changes. And the contract included, I think it was six, seven million dollars of this time and materials work to cover just this VA Retro pay issue. There were provisions for surge requirements. So this is all part of the original competitively sourced retired and annuity pay function.

Mr. KUCINICH. To Mr. Gaddy, I have a memorandum here that was given to the subcommittee staff by the Congressional Research Service. I asked them their opinion on this question. I want to read to you their response from this.

They said, and they are talking about Lockheed: "If Lockheed uses statistical sampling of claims above the allowed maximum, there is no per se violation, but the disbursing or certifying official may not receive the protection of the statute."

Do you agree with that statement?

Mr. GADDY. I do.

Mr. KUCINICH. Does your certifying officer for the VA Retro payments possibly face personal liability for improper payments occurring pursuant to your decision to leave quality assurance to Lockheed?

Mr. GADDY. The certifying official faces pecuniary liability for any improperly certified payrolls.

I keep drawing a distinction. QA is endemic to the payroll operation. Certification of payments that a certifying official approves for payments is a separate event that the certifying official is responsible for.

Mr. KUCINICH. Knowing your efforts here, one of the things that bothers me is I wonder if what you did would have been tolerated in the private sector. What you did was let Lockheed audit its own work and report to you the results. Don't you see somewhat of a problem here in letting a contractor audit his own work?

Mr. GADDY. Actually, this is no different than when someone in payroll, where we don't outsource the work, is responsible for computing payments to individuals. The process in place and the owner of that process is responsible for the quality of what they produce.

The payroll certification process, separate and distinct from that, certifies payrolls for payment. And so, from that perspective, no, I don't because, quite honestly, what Lockheed is doing is computing something that will ultimately either be paid in the case of a payroll.

Or in the case of a no pay due, the same rules don't apply because there is actually no payment to be made. So there is no Certifying officer Legislation requirement. There is no payment above $2,500 requiring a review.

So, from that perspective, I would say I don't see a conflict of any type here. We expect the contractor in this case to follow the procedures that were approved, to use the authoritative information that we came up and said, when you compute a payroll and adjudicate a case, this is how you do it.

One of the reasons there was such a high failure rate within QA for Lockheed was at the floor level, the operations level, people were doing what they thought was correct, how they were trained to do their work. It would go into QA, the Team Blue that Lockheed had. It would fail because they would use a different set of sources of information to do the calculation and verify the payment.

So we said, OK, there has to be one way to figure this out, one way to calculate this. It is an open book test. You calculate it the same way. You will review it the same way so that we will get the same answer if two people look at the same set of data.

And, that is what we started in the April, May timeframe, and I do believe was why we saw the failure rates within Lockheed Martin's own QA process start to diminish.

Mr. KUCINICH. I want to just say, as we go to Mr. Issa, that based on what has come before this committee today and what staff has been able to determine, it appears that you accomplished through outsourcing what you wouldn't have been permitted to do under GAO rules. For that reason, I feel it is appropriate for this subcommittee to ask the IG to look at that and see if, in fact, there is any action taken that contravenes GAO.

I want to now go to Mr. Issa for his questioning in the second round. We are going to have one more round after this.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. Cipriano, how long have you been? I apologize for not knowing your whole resume, but how long have you been in the IT world, particularly looking at Government documents?

Mr. CIPRIANO. About 6 years.

Mr. ISSA. OK. And, prior to that, where were you 25 years ago?

Mr. CIPRIANO. I spent over 30 years in the Federal Government.

Mr. ISSA. As best you can and if you can't, just tell me, going back let's say 25 years ago.

This project appears to me to have taken during the period in the rear view mirror here, it seems to have taken about 150 man years to accomplish. That is sort of my best guess. You guys might come up with 160 or 170. Essentially, it is a lot of man years.

Mr. CIPRIANO. Right.

Mr. ISSA. How many, if you had to do it over again, do you think it would, assuming that we will just take 150 man years as a number, arbitrary? And, 25 years ago, what would it have taken with the paperwork that was the source material?

I realize many of the documents you look at go back that far, and I want to get a perspective because I want to see where we have been and I want to know where we can go.

Mr. CIPRIANO. I think looking at the degree of automation that we have now versus when we started, I think we could do this with, if we started today, with what we now have with 30 to 50 percent less man years total than we expended this time.

And I think if we look back 25 years ago, it would have taken twice as many people as we expended probably to do this because we wouldn't have had the benefit of any of the automation.

Mr. ISSA. You know one of the reasons I picked 25 years ago was 25 years ago they alternately paid me as a captain or a lieutenant in the Reserves. They couldn't make up their mind which I was because two different data bases had two different ranks.

I served—actually with two different sets of bars on—the same commander at the time, and only General Wes Clark could laugh about it years later that I had worked for him as a captain, then as a lieutenant, then as a captain. That was to be expected because you didn't argue with the orders no matter how bizarre they were.

But I do want us to look at it in that sense of where we were. Let me ask sort of the other part of the question, and if you feel comfortable, great. If not, perhaps other experts or perhaps a followup for the record.

We have countless amounts of non-digital data sitting out there at DOD and all kinds of other areas. Would this committee be well advised to hold hearings and in fact to potentially create a program that says we can save money in the long run if we launch a professionalized program to get it all digitized?

I realize we have had blueprints of this ship but not this ship and lots of other piece meals. Is that something that from a Government oversight standpoint, piece-mealing by DOD, by Veterans, by the Department of Agriculture is costing us more than in fact if we do it all at once?

And, let me give you the alternate. Am I being a little bit foolish because even though it is costing us this much, will it cost us that much less 10 years from now if we don't need until 10 years from now?

That is my conundrum here today. This is a project that wasn't, on the scale of things, that expensive, but it was expensive and it was piece-mealed.

Do we continue piece-mealing projects in hopes that as the years go on it gets less expensive or should we have a Government-wide plan, if you will, the Manhattan Project of conversion of analog to digital?

Mr. CIPRIANO. That is a very good question. I did spend 30 years in the Government, and I will answer from that perspective.

I think when I was in the Government, we looked at that very same question, and the answer to the question is yes, it is worth the investment, but it is very difficult to get the capital to do it. So if it is a tradeoff between having to take that money out of your operation and maintenance money to do it, it never quite makes the cut.

It would have to be a separate funding initiative, I think, but I think there is a business case that can be made for making that conversion.

Mr. ISSA. Mr. Gaddy, with what you have now come up against, if you agree, how should this committee and this chairman and this ranking member best set about holding the hearings, making the case that might lead to that funding that is not currently available to do this right?

Mr. GADDY. Quite frankly, the fact that so much information is in so many places in such a state of disrepair, quite frankly, most people don't even know what they have nor can you share information.

In this example, VA will use a different disability code for the same disability that DOD. And not only do you use a different code, you use different wording around it, so you can't even read it to see if they are the same thing or not. You actually have to be able to interpret the information to understand what you are looking at.

If we lived in a world where people spoke the same language and shared the same information, we would save a tremendous amount of resources.

Entitlements come all the time, and one of our challenges as an organization is to quickly, effectively implement those new entitlements. If we don't have the tools to do it with, then you end up with what we have here, which is kind of an ad hoc approach where you come at it like a pickup game to try to get it done in a reasonable timeframe and a reasonable cost, but at the same time recognizing the impact on people is such that you want to do it as fast and effectively as possible.

I do think and I agree with Mr. Cipriano that there is a business case for this. Now how do you, who do you direct to do the business case to support? What are the benefits?

There are intangible benefits certainly to individuals who will start receiving something, but there are very tangible benefits to organizations that manage all this disparate data that have to work together.

You cited earlier on the Walter Reed incident. Data-sharing, I believe, between VA and DOD could get much better than it is right now, and that is just two cabinet agencies. If you looked across Government and multiply that times 12 or 13 times what the effect of those two organizations is, I think you would build a tremendously viable business case that says the right information, readily accessible, understood by decisionmakers to make those decisions about: Well, what if I change this, what is the impact of it? If I want to change it, what is the cost?

Mr. ISSA. Thank you.

Thank you, Mr. Chairman.

Mr. KUCINICH. I thank the gentleman.

Mr. Gaddy, let me ask you about no pay due determinations meaning, obviously, that someone isn't due pay. Who determined that 28,283 disabled veterans were not due any money in the retroactive pay project?

Mr. GADDY. The Lockheed Martin individuals, who are responsible for computing or adjudicating cases, take information, run it through the procedures that were established and agreed to by the CGA.

Mr. KUCINICH. So it is Lockheed Martin, right?

Mr. GADDY. Lockheed Martin, yes, sir.

Mr. KUCINICH. OK. How much training did the Lockheed technicians before deciding if veterans were eligible for Federal money?

Mr. GADDY. Roughly, 6 weeks.

Mr. KUCINICH. When a Lockheed technician decides a person is not eligible, what happens then? Does Lockheed's Team Blue quality assurance operation verify the accuracy of that decision?

Mr. GADDY. No, they do not.

Mr. KUCINICH. Does the Government verify the accuracy of every decision by a Lockheed technician that a disabled veteran doesn't get any Federal money?

Mr. GADDY. No, we do not.

Mr. KUCINICH. So who bothers to check a decision by a Lockheed technician with 6 weeks training that a veteran with 28 years of Army experience does not get a Federal benefit? Who verifies that?

Mr. GADDY. The post-decision verification, as we just established, is not occurring.

Mr. KUCINICH. But you told us no one, right?

Mr. GADDY. Right, the post-decision.

The pre-decision process to go through and come up with a decision, there is logic. There are agreed upon procedures that were established to make that initial determination. But you are right, there was no subsequent post-determination.

Mr. KUCINICH. No, nobody. I mean I just want to establish this, that no one verifies this.

Mr. GADDY. No one verifies, correct.

Mr. KUCINICH. Let me ask more specifically about Command Sergeant Major Harold Lewis. He is a disabled Army veteran. He received his injuries in combat in Vietnam. Originally a draftee, he served 28 years in field artillery, 28 years, and eventually rose to command levels of authority.

The Army attributes his multiple disabilities including Diabetes Type II, acute peripheral neuropathy, tinnitus and hearing loss to numerous combat injuries including concussions and broken vertebrae from rocket attacks and exposure to Agent Orange.

Mr. Lewis was denied retroactive pay after waiting approximately 1 year for adjudication of his case. He contested the no pay determination. He had an easy to understand reason to believe that he would be due retroactive pay.

He had conclusive documentation which would have been available to Lockheed before they denied Mr. Lewis his eligibility. Nevertheless, it took a year-long odyssey, in his words, to finally get DFAS to check the accuracy of Lockheed's denial.

You know what DFAS found? Mr. Lewis was, in fact, entitled to a total retroactive payment of nearly $15,000 and that, in fact, Lockheed erroneously denied Mr. Lewis his benefits.

By the way, without objection, there is a letter from Harold Lewis to DFAS in Cleveland which talks about his odyssey. Without objection, we will put that in there.

[The information referred to follows:]

Martha J. Smith, Director DFAS, Cleveland
DFAS Cleveland
Anthony J. Celebrezze Federal Building
1240 East 9th Street
Cleveland OH 44199-2055

1 June 2008

Dear Ms. Smith,

I am CSM Harold E. Lewis, U.S. Army, (Retired); I would like to share with you my one year odyssey in dealing with the DFAS concerning my CRSC/Concurrent Retirement and Disability Account. I have always updated my CRSC as the Veterans Administration has changed my disability determination.

In March of 2007 I submitted an update to CRSC, and was told in approximately ninety-days I would receive any back pay that was due, this happened approximately the same time as the Army wide review of CRSC/CRDP.

In June of 2007 I called the DFAS phone number to find out if a status on my account has been made. I was told, based on my social security number being entered into the computer that I was due no pay, or back pay. I informed the young lady that by my calculations that I was and she was mistaken. She placed me on hold, and after a lengthy time told me that a supervisor made a review of my records and that the initial determination was incorrect, and that I would be getting a letter soon explaining how the determination was made.

Now the fun begins, I called in July-it was waiting on three signatures, I called in August still but now the signatures were down to two, I called in October, and was told that I was in a group that was difficult to determine and it was still being worked on. I called in November and was told there was an amount determined, but it could not be

released to me until it went to DFAS for verification. I called in December and was told it was getting close to finalizing.

On December 20, I was hospitalized for internal bleeding. Hospitalized for nine days, my wife revived me at home after I stopped breathing. The internal bleeding was caused by a medicine prescribed for pain. Prescribed by the Veterans Hospital in Temple, Texas. This does not pertain to the subject; it's just a month by month accounting.

On 7 April 2008, I received a letter from DFAS, London, Kentucky. It stated that my account was current and the entitlements were correctly computed.

I believe that that is incorrect; the consistent changing of stories on a month by month basis caused me to, at times, doubt my sanity. I served 28 years in the Army, in one of the toughest jobs there was. Field Artillery. I taught my soldiers not to lie, cheat, steal, or tolerate any one who did.

I have always believed in my country, and that, at times risking my life for my country was the price you paid for the your blessed birth in this wonderful free country.

I am disgusted with my treatment by DFAS, I sent four emails outlining my questions and asking for a phone call, but was never called. I was given one excuse after another, for a year.

My belief now is that DFAS, and this country only want to recognize me when I am killing people in the name of the United States.

I am writing you for help, your phone number are no help, your on line is no help, your customer service men and women only read a computer screen, and will not under any circumstances let you talk to anyone else. I am disgusted.

I want my record reviewed by someone you trust. If the answer is the same, so be it.

And, I would like a complete audit in writing on a month by month determination if your decision remains the same.

I am including seven enclosures' that may assist the requested audit.

Thank you, Ms. Smith for your time, and your service to our men and women who protect this great nation. The first enclosure is, in my opinion the starting document.

The Veterans Affairs letter dated 22 August 2006 was a determination letter awarding me a compensable service-connected disability of 90%. EFFECTIVE 1 JANUARY 2006.

Sincerely,

Harold E. Lewis, CSM, U.S. Army, (Retired)

Enclosures':
CRSC-Personal Audit from January 2, 2006, thru January 31 2007.
DFAS Letter dated April 2, 2008
Department of Veterans Affairs, Letter dated 22 August 2006
Adjustment to Previous CRSC dated 1 May 2007 (VA Copy)
Adjustment to Previous CRSC dated 1 May 2007 (Veterans Copy)
CRSC statement dated 2 January 2008
Department of Veterans Affairs Letter dated 2 February 2006

CSM (Retired)
Harold E. Lewis
[redacted]

CC: Honorable Chet Edwards
Honorable Kaye Bailey Hutcheon

DFAS-CL [redacted]

DEFENSE FINANCE AND ACCOUNTING SERVICE

Retired and Annuity Pay

DVA Retro - [redacted]
April 2, 2008

CSM HAROLD E LEWIS, USA (Retired)
[redacted]

Dear Sergeant Major LEWIS:

This letter is to inform you the Defense Finance and Accounting Service (DFAS) has reviewed your Combat Related Special Compensation (CRSC) / Concurrent Retirement and Disability Pay (CRDP) account.

The Public Laws establishing these entitlements were amended so that retired military members who have previously received, or are currently receiving CRSC and / or CRDP, could have their entitlement(s) recalculated based on retroactive ratings awarded by the Department of Veterans Affairs (DVA).

Our most recent review has determined that your account is current at this time and that these entitlements have been correctly computed for the period of June 2003 through March 2008. A Retiree Account Statement (RAS) will be sent, under separate cover, to confirm the current status of your account.

Should you have any further questions, please contact us at Defense Finance and Accounting Service, US Military Retirement Pay, PO Box 7130, London, KY 40742-7130, or call, toll free, via 1-877-327-4457 (commercial 216-522-6161), Monday through Friday, 8:00 AM to 4:30 PM Eastern Time. You may also send us a toll free fax via 1-800-469-6559.

Sincerely,

Retired and Annuity Pay

PLEASE KEEP A COPY OF THIS LETTER FOR YOUR RECORDS.

DFAS-CL [redacted]

DEFENSE FINANCE AND ACCOUNTING SERVICE
1240 EAST NINTH STREET
CLEVELAND OHIO 44199

Command Sergeant Major Harold E. Lewis,
U.S. Army (Retired)
[redacted]

JUN 1 8 2008

Dear Sergeant Major Lewis:

This is in response to your letter, dated June 1, 2008, to Ms. Martha J. Smith, Director, DFAS Cleveland, concerning the status of your Combat-Related Special Compensation (CRSC) and Concurrent Retirement and Disability Payments (CRDP) retroactive payments. Your inquiry was forwarded to our office for reply.

In September 2006, the Department of Veteran's Affairs (DVA) identified approximately 133,057 veterans in receipt of CRDP or CRSC that may be eligible for additional retroactive compensation. This retroactive payment is commonly referred to as a VA Retro payment. In October 2006, the Defense Finance and Accounting Service (DFAS) in coordination with the DVA began a process of computing these payments. On June 8, 2008, we completed all claims the DVA identified in September 2006.

In March 2008, your VA Retro was adjudicated and we determined we did not owe you a retroactive payment. This resulted in the letter we sent to you dated April 2, 2008 advising you of the results of our computation.

We have recomputed your VA Retro. Upon re-computing your account we corrected the entitlement information and determined you are due a VA Retro payment from both us and the DVA. We anticipate a payment for approximately $1,935.00 to be deposited to your First National Bank account no later than Thursday, June 27, 2008. Additionally, you are eligible for payment from the DVA in the estimated amount of $12,829.00. That information will be forwarded to the DVA for additional validation and possible payment. There may often be a lapse of time between the payments from the two different agencies. If you do not receive payment from them within 45 days, you may wish to contact them directly at 1-800-827-1000.

We apologize for the poor customer service you received. If you have any questions, you may contact Mr. Sonny Alquero or Jeff Meier in the Ombudsman's office at 216-522-6395. You may also write to us at Defense Finance and Accounting Service, U.S. Military Retirement Pay, PO Box 7130, London, KY 40742-7130.

Sincerely,

Douglas Smith
Director, Retired and Annuitant Pay
DFAS Cleveland

DFAS-CL [redacted]

Mr. KUCINICH. Mr. Gaddy, did this veteran with 28 years in the Army, this veteran who drank poison water from Agent Orange that was dumped over him and the Vietnamese, who was denied a retroactive pay award by a Lockheed technician with 6 weeks training, do you think this veteran deserved to have his denial checked for accuracy before a letter from DFAS came to his door?

Don't you think his country owes him that much, at least a quality check, Mr. Gaddy?

Mr. GADDY. Yes, I do.

Mr. KUCINICH. Now I am going to request you, Mr. Gaddy, that DFAS's CGA do 100 percent verification of every no pay due determination that has been sent under VA Retro. Will you assure this committee that you will do it?

Mr. GADDY. Yes, I will.

Mr. ISSA. It is not appropriate to move, but I want to be associated with that request. I appreciate your willingness to do that review so that if one could fall through the crack, another one doesn't.

Mr. KUCINICH. I would like to go to Mr. Issa right now, and then I am going to come back for one more round of questions.

Thank you, Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman, and I am going to be very brief.

Mr. Gaddy, if you had those common terminologies or an interpreter that put them into a common data base in a like way, if in fact all of the information from the various data bases were put together for each individual that you are trying to adjudicate proper payment to, would this problem likely not have occurred?

Mr. GADDY. It is hard to say anything with certainty, but I do believe if DOD and VA shared common information that was readily accessible in a data base environment, this would be no different than normal payroll operations where we actually pay millions of people every month with a proportionately much smaller work force at a proportionately much smaller cost.

Mr. ISSA. Let me ask one more question, and this may be outside your expertise, but I feel I need to ask it.

Being the brother of a 100 percent disabled veteran, I watched the process that he and many of my comrades of years past have gone through.

Isn't it true that, unfortunately, veterans most commonly go through a series, not one but a series of requests, reevaluations, perhaps additional medical examinations throughout their time post-service, so that the typical, very often 50-year-old retired or no longer active duty, let's say, veteran, whether they retired or simply served and went into private life, most often by the time they get to 100 percent, they have passed through a number of other thresholds and a series of turns and loops? Isn't that essentially the story of veterans?

Mr. GADDY. I believe so. My father was retired Army, and I helped him deal with VA in Texas, and I know what he went through right up to the very end including getting combat-related special compensation.

I do believe that the process we ask any veteran to go through between DOD and VA, in many respects from my perspective, is duplicative and could be done much more streamlined.

I do believe that what the departments are trying to do under various lines of action as a result of what happened at Walter Reed is to do some of those things once, jointly, so that you don't have to go through many of the various hoops that you go get a disability determination in DOD and then walk over to VA and get yet a different one that may be at odds with one another.

So I think that what the departments are already starting to do is a positive thing. Could more of that be done? I believe so. Just like the sharing of information amongst the departments would be very beneficial, and we are working those kinds of things with VA right now.

Mr. ISSA. Well, since you are talking in the present sense of we are working, we are doing this, I am going to maybe not pose it as a question but as a request to the Chair.

It seems that today's hearing is putting us in a position where what we have uncovered is that outer skin of the onion. If we don't peel back the current data base, the post-Walter Reed era, and see whether or not the next generation coming home from Iraq and Afghanistan or even noncombat tours in which they may be injured, if we don't make sure today that this is being done quickly, I suspect that those who come down the road 10 years from now will be having a similar conversation about how DOD still isn't talking well enough to VA so that individuals, perhaps with 6 weeks of training, but individuals are going to be trying to reconcile these things rather than it being a single combined data base in a seamless way.

So, Mr. Chairman, I would ask that we sincerely—I don't want to step on other committees, VA or DOD.

But I think when it comes to the IT portion, which this committee has a primary jurisdiction over these systems and whether they talk to each other, that we take the time to have another hearing in which we bring back some of the experts that could tell us how they are doing today and, perhaps picking up on the questions here today, also look backward at these expansive data bases because it seems like both finding out what dollars it would take to take care of the sins of the past and getting to the real crux of are we world-class today or are we just working on it and maybe a long way from it.

Those two questions can only be asked, I think, if a committee looking at it in that way does it.

So I want to close by thanking you for holding this hearing as it has caused us, I think, to look at a bigger picture so that the $15 million or so that we were talking about here today, we can perhaps save billions if we act bipartisan and jointly on it. I thank you and would make that request that you schedule it as you see fit.

Thank you, Mr. Chairman. I yield back.

Mr. KUCINICH. Again, in the spirit in which we proceed on this, Mr. Issa, we will certainly followup on your request and work with you to structure a hearing that will be responsive to what you are saying, just as I appreciate very much your associating yourself

with my request to Mr. Gaddy that he do 100 percent verification of every no pay due determination.

As you point out, we have more veterans coming into the system. Because we have more veterans coming into the system, we don't want them to be in a position of other veterans who there are more than 8,000 veterans who died while they were waiting for their check to come.

And so, first of all, looking at the instant case of 100 percent verification of every of no pay due determination, once we get DFAS's cooperation in doing that, then it will hopefully help them look at the systems that are involved here as well as the VA, at the systems that are involved here so that our veterans coming down into the system in the future are not going to have to face this.

In connection with this, to help us get to the point, because I know you are always forward-looking and I appreciate that, in order to get to the point of clearing this system up and not failing our veterans, I am going to be asking and requesting to Mr. Heddell—I will do it verbally, but we will put it in writing—that the Department of Defense Inspector General do a full-blown audit of every aspect of the VA Retro and the R&A programs that we have discussed at the hearing. Will you do that?

Mr. HEDDELL. Yes, sir, we will.

Mr. KUCINICH. That is a positive response as well. So what we can do in working together is address this matter right now, and then we go to the next step which is look at the systemic issues that relate to the architecture of the data base infrastructures.

I appreciate working with you, Mr. Issa, because you bring a perspective to this subcommittee that enables us to pursue our effort in a much broader way, and I appreciate it very much.

I want to go to a question here.

And, I want both of our staffs to work together so that Mr. Issa's idea for another hearing can be brought forward expeditiously. Staff, please do that.

Mr. Cipriano, would you share with this subcommittee what Lockheed's advertising slogan is? It really, I think, speaks to what you believe your corporate mission is.

Mr. CIPRIANO. "We never forget who we are working for."

Mr. KUCINICH. Could you bring that mic closer?

Mr. CIPRIANO. Yes. "We never forget who we are working for."

Mr. KUCINICH. Right. It was a Lockheed technician who decided to deny Mr. Lewis his VA Retro benefit, correct?

Mr. CIPRIANO. Yes, I believe it was, but if I may elaborate on the process.

Mr. KUCINICH. You will be able to elaborate. I just need to ask a couple questions here.

Mr. CIPRIANO. OK.

Mr. KUCINICH. Was it Lockheed that put this technician to work, determining the eligibility of VA Retro payments of men like Command Sergeant Major Lewis, right?

Mr. CIPRIANO. Yes.

Mr. KUCINICH. You gave these technicians about 6 weeks training to do that job, is that correct?

Mr. CIPRIANO. That is correct.

Mr. KUCINICH. It was Lockheed that decided not to verify the accuracy of that technician's work, is that correct?

Mr. CIPRIANO. No.

Mr. KUCINICH. What was the verification of the accuracy of that technician's work?

Mr. CIPRIANO. No. Our contract did not ask us to do verification.

Mr. KUCINICH. So you were not required to verify the accuracy of that technician's work, is that correct?

Mr. CIPRIANO. We were not.

Mr. KUCINICH. Who are you working for?

Mr. CIPRIANO. Who were we working for?

Mr. KUCINICH. You never forget who you are working for. So who are you working for?

Mr. CIPRIANO. We are working for DFAS as our contract customer and also looking out for the veterans as well as best we can.

Mr. KUCINICH. You are working for Command Sergeant Major Lewis, right?

Mr. CIPRIANO. Yes.

Mr. KUCINICH. You are working for him, but you really didn't work for him because he was denied. There wasn't a review. Lockheed didn't even double-check its work before you told Mr. Lewis and, I might say, 28,282 other disabled veterans that they would get nothing from the Government. They were denied.

How does that make you feel? Do you feel that maybe your motto here, you need to do something more in order to justify what your corporate——

Mr. CIPRIANO. No. I fully support the need to do a QA check.

Mr. KUCINICH. Could you speak a little bit louder? Would you say that again but just be a little bit louder?

Mr. CIPRIANO. I fully support the need to do a QA check on the no pay due determinations.

Mr. KUCINICH. Why did DFAS fail to demand that Lockheed verify denials of payments to veterans? Why do you think?

Mr. CIPRIANO. I don't know.

Mr. KUCINICH. Why did DFAS fail to conduct its own quality assurance Lockheed denials of Federal benefits?

Mr. CIPRIANO. I don't know.

Mr. KUCINICH. Do you regard payments differently from non-payments? Do you regard payments differently?

Mr. CIPRIANO. They are in one key way, which let me try to elaborate. Most of the 90 percent of the no pay dues are determined by a computer program that looks at the data that comes in and makes a decision based on that data that no payment is due.

Mr. KUCINICH. A computer program, does the computer program make a legal justification for making a distinction between payments and non-payments?

Mr. CIPRIANO. Well, the computer program has been validated that when the data coming into the computer program is accurate, it provides an accurate answer, and so there usually isn't any need for any further verification after that point.

Mr. KUCINICH. Lockheed has told us that they received $18.74 million for the work on the VA Retro program. Now, Mr. Cipriano,

this sum represents what percentage of Lockheed's total billing to the U.S. Government?

Mr. CIPRIANO. $18 million?

Mr. KUCINICH. $18.7 million for the work on VA Retro.

Mr. CIPRIANO. It is a very small percentage of our total billings to the Federal Government.

Mr. KUCINICH. Could it be like less than one-tenth of 1 percent? You do a lot of work, so it is very small, right?

Mr. CIPRIANO. Very small.

Mr. KUCINICH. Could it be one-hundredth of 1 percent, even less than that?

I mean with a relatively small value of the VA Retro contract in comparison, let's say, to Lockheed's billion dollar contracts with the Government for the F–22 or the Aegis Missile, would that affect Lockheed's commitment to performing as required?

Mr. CIPRIANO. No, sir.

Mr. KUCINICH. So I wonder, Mr. Cipriano, do U.S. taxpayers get Lockheed's best, get your best performance there is here in this VA Retro program?

Mr. CIPRIANO. I think we gave it our—we did the best we could given the circumstances in which we had to perform.

Mr. KUCINICH. Now, Mr. Cipriano, certainly, calculating benefits for a few thousand disabled veterans can't be as difficult as, say making a missile hit a missile?

Mr. CIPRIANO. But veterans are important, and we care about them.

I sent down my vice president. I sent down senior people to help make this project work. We augmented the team that was onsite in Cleveland with data automation experts, with production experts, with senior people from across the corporation. We send down quality assurance experts from our corporate experts to help improve the process, and so we treated this just as importantly as we do our larger duty programs.

Mr. KUCINICH. Well, you know the thing, Mr. Issa, that I am hearing here is Lockheed has a great reputation in a lot of areas, part of the defense of our country, and they can make a missile hit a missile. But for some reason, they can't connect a veteran with the benefits that are due.

I didn't get to all my questions. I am going to have to go to one more round, and I have exceeded my 5 minutes. Mr. Issa, it is yours.

Mr. ISSA. Mr. Chairman, I really have pretty well exhausted my questions.

I think there is one small point that I would like to make sure I understand: 28,000 plus denials, do we here today know that they are erroneous or just that there were 28,000 denials and perhaps 28,000 out of 28,500 are in fact accurate or maybe 28,499 are accurate?

Mr. Gaddy, you are going to do a full audit, and I appreciate your willingness to do that.

Mr. KUCINICH. Would the gentleman yield?

Mr. ISSA. Of course, Mr. Chairman.

Mr. KUCINICH. The thing that I am concerned about is based on this testimony here, no one seems to know.

Mr. ISSA. Exactly, and I think that is why it is so important for us to join together to ask to have that second look.

But here today, do you have a high confidence that the vast majority of those, particularly the computer ones, are accurate to the best of the data you are going to review? If you don't, then I would appreciate knowing because I would like to have sort of a heads-up for what to expect 60 or 90 days from now.

Mr. GADDY. Certainly, sir. Actually, our numbers of no pay dues is 25,448.

As Mr. Cipriano just explained, we established a process to verify whether payments were owed or not. That process was reviewed. The criteria that were required to make that original determination were vetted through the CGA and ultimately were automated to a large extent.

In the case of Command Sergeant Major Lewis, he was unfortunately one of the first people through the new revised automated process which kicked out the wrong answer for him, and we found out the problem when he came back and said, I don't believe your answer is right.

We went back and looked at the logic that was used to make that decision, found the errors in it, correct it. Lockheed Martin corrected those logic errors, reran it, came out obviously with a different answer.

And so, I am going to sit here and tell you a qualified answer. My expectation is when we are done with the review, we will not see a large number of no pay dues where there were in fact pays due. What percent, I couldn't tell you, but I don't expect it to be a large number.

If it is, however, we will certainly make sure the individuals are made whole, and we will go back and look at the process in place to make that initial determination and ensure that is corrected.

Second, on an ongoing basis, there will be a review of no pay dues to make sure that the initial cut that says no pay due gets looked at just like when we look at pays that are due to ensure that we have a second review of that process to make sure it is correct.

Mr. ISSA. Thank you.

Your answer brings up one more followup question very quickly. When you discovered the Command Sergeant Major had been run through basically a garbage in, garbage out program and it missed something, you changed the program and reran it and then he was granted.

Did all the previous rejections run back through that? In other words, without appealing, would the veterans that were previously denied reevaluated based on the now known flaw in the program.

Mr. CIPRIANO. The answer is yes. We made the change in less than a week, and so there wasn't very many during that interval, and they were checked.

Mr. ISSA. OK. But I just want to understand that the normal ISO 9000 kind of quality circle occurred. Because of his effort, ultimately it led to a recognition of a problem, and then the problem was employed to others without their having to say anything.

Mr. GADDY. Yes, sir. The QA process that Lockheed uses and that we use on our side, every time we see a payment anomaly or

an error condition, we go back into the process to establish was that systematic, was that a one-time error caused by human error or training issues or whatever it may be.

Quite frankly, it is a learning process to ensure that subsequently things were correct. If the same condition, we would run whole payrolls through a second time just to make sure that everything that came out at the end was correct.

Mr. ISSA. Well, thank you very much.

And, Chairman, once again, thank you for holding this important hearing.

Mr. KUCINICH. I am listening to this testimony, Mr. Issa, and I keep thinking about Command Sergeant Harold Lewis. People who are on disability, particularly soldiers, their entire lives end up being organized around whether that money is coming.

Really, if you take it down to an individual level here, it wasn't like some kind of a routine procedure was being handled here which you followed. The fact of the matter is this man struggled for a year. He took it upon himself to struggle for a year to get recognized.

This is what drives my involvement here because what I am seeing is that here is someone. If he didn't have the same stick-to-itiveness that he brought to service to the United States of America driving him, he would have just been blown off. He would not have gotten his money.

You know we come from the same community in many ways. Our families have the same kind of concerns. I think about that veteran who served and is just waiting for the check, and we don't know if they are due it or not, but they are not getting any review. So that is why I appreciate that.

Mr. ISSA. Mr. Chairman, we have to do this. As you know, in Cleveland, people choose to live in your district or near your district because of how long it takes to get to the Brecksville VA. If they can't get by transportation available to them, they can't get to the veterans hospital, in fact, they can't live where they choose to live.

So there is a myriad of issues, and you are absolutely right. Our disabled veterans are owed every accommodation particularly.

One of the reasons I made a point here today, that I am not upset about the money that was because of the speed of the contractor because ultimately we were letting down the veteran every day past 2004 that we didn't do it. I am upset about any inaccuracy and particularly if there is additional flaws and people who are presently entitled who are not receiving.

So, Chairman, again, thank you for making this hearing a keynote, I think, on this problem and bringing it to, hopefully, a conclusion before the end of this Congress.

Mr. KUCINICH. I thank the gentleman.

This is a copy of the staff report. I am sure you are familiar with it. I am going to ask unanimous consent to place the entire staff report in the hearing record.

[The information referred to follows:]

STAFF REPORT

of the

Domestic Policy Subcommittee Majority Staff
Oversight and Government Reform Committee
House of Representatives

Dennis J. Kucinich, Chairman

"Die or Give Up Trying": How Poor Contractor Performance, Government Mismanagement and the Erosion of Quality Controls Denied Thousands of Disabled Veterans Timely and Accurate Retroactive Retired Pay Awards

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Embargoed until Noon
July 15, 2008

EXECUTIVE SUMMARY
to
"Die or Give Up Trying": How Poor Contractor Performance, Government Mismanagement and the Erosion of Quality Controls Denied Thousands of Disabled Veterans Timely and Accurate Retroactive Retired Pay Awards.

Retroactive pay awards to eligible retired veterans with disabilities were enacted by Congress in 2003 and 2004. But delays in delivering the new benefit were significant. The Defense Finance and Accounting Service (DFAS) determined that more than 133,000 potentially eligible veterans were waiting for adjudication of their claims three years after Congress enacted the laws. The backlog grew to over 217,000 veterans as the delays compounded.

DFAS awarded a no-bid, Cost Plus Fixed Fee contract to Lockheed Martin ("Lockheed") for the VA Retro program, as the work to compute the retroactive pay awards was known. Lockheed originally had a deadline of November 2007 to work through the backlog of VA Retro cases. But Lockheed missed that deadline and every succeeding one. By March 1, 2008, over 60,000 eligible veterans still had not had their cases reviewed for payment.

For its part, Lockheed was unable to automate calculation of VA Retro claims, as both Lockheed and the Government had intended. The reasons were several: the individual circumstances of the disabled veterans were complicated and difficult to translate into reliable computer programming rules, and the databases necessary to automate did not exist at the project's inception. The government bore responsibility, too. The Department of Veterans Affairs and the military services were slow to put the data in the necessary form for automation.

Lockheed moved to hire more staff to perform the calculations manually. Yet productivity remained low and top DFAS managers were concerned about the high number of errors their quality control auditors were detecting.

But the Government was powerless to hold the contractor accountable; the contract did not provide for penalties for poor contractor performance.

In an effort to rescue the program from further delay, DFAS suspended its own quality control procedures, effectively allowing Lockheed to verify the accuracy of its own calculations. This, in combination with assigning federal workers to augment Lockheed's workforce, finally had the desired effect: By the end of June 2008, DFAS and Lockheed announced the VA Retro backlog had been eliminated, and Lockheed had received $18.74 million for the VA Retro program.

To determine the causes of the delays in the VA Retro program, an investigation was launched by the Domestic Policy Subcommittee in May 2008. The Subcommittee Majority Staff reviewed a total of 16,000 pages of documents produced separately by

DFAS and Lockheed. Staff also interviewed disabled veterans whose VA Retro payments had been delayed or denied.

One of those veterans, whose eligibility was initially denied, struggled for one year to get DFAS to reevaluate his denial. Eventually, he prevailed, after producing documentation that would have also been available to Lockheed. He was finally awarded a $15,000 retroactive payment. He told the Subcommittee, "Most guys who get a letter saying they get zero money would never challenge it. They wouldn't know how. I'd be surprised if they understand what they get in the mail. And lots of guys will just trust their government I get sad to the point of crying seeing the guys in worse shape than me. [But] DFAS wants us to die or just give up trying [to get our benefits]."

KEY FINDINGS

DELAYS IN THE IMPLEMENTATION AND EXECUTION OF THE VA RETRO PROGRAM WERE SIGNIFICANT. GOVERNMENT MISMANAGEMENT AND POOR PERFORMANCE BY LOCKHEED RESULTED IN A DELAY OF FIVE AND ONE-HALF YEARS TO REVIEW THE CLAIMS OF ELIGIBLE DISABLED VETERANS AFTER CONGRESS CREATED NEW BENEFITS FOR RETIRED VETERANS WITH COMBAT- RELATED AND SERVICE-RELATED DISABILITIES.

UP TO 8,763 DISABLED VETERANS DIED BEFORE THEIR CASES WERE REVIEWED FOR VA RETRO ELIGIBILITY.

DFAS FOUND LOCKHEED'S PERFORMANCE DEFICIENT BUT WAS UNABLE TO ASSESS PENALTIES BY THE CONTRACT'S TERMS.

DFAS CUT BACK QUALITY CONTROL AND USED FEDERAL WORKERS TO SUPPLEMENT LOCKHEED'S WORKFORCE TO DECREASE PAYMENT BACKLOG.

> **DFAS BYPASSED GAO REGULATIONS ON STATISTICAL SAMPLING IN FEDERAL QUALITY-CONTROL PROCEDURES.**
>
> **LOCKHEED APPLIED A WEAKER STANDARD TO QUALITY ASSURANCE THAN STANDARD MANDATED BY GAO.**

UP TO 60,051 PAYMENTS TO VETERANS WERE ISSUED AFTER A SUSPENSION OF QUALITY CONTROL MEASURES WENT INTO EFFECT ON MARCH 1, 2008.

AT LEAST 28,283 VETERANS WERE DENIED RETROACTIVE PAY BASED ON DETERMINATIONS MADE WHOLLY WITHOUT QUALITY ASSURANCE REVIEW.

I. BACKGROUND

A. NEW BENEFITS FOR DISABLED VETERANS

Congress enacted new benefits in 2003 and 2004 for veterans disabled by service-related and combat-related injuries.[1] These benefits entitled eligible disabled veterans to receive concurrently both military retired and VA disability pay. Previously, military retired pay was reduced by the amount of VA disability pay a disabled veteran received.

The 2002 law authorized Combat Related Special Compensation (CRSC), which offers tax-free compensation to retired veterans who are entitled to retired pay and have at least a 10 percent VA disability rating from combat related injuries.[2] The 2004 law authorized Concurrent Retirement Disability Payment (CRDP). CRDP is a phased-in, taxable restoration of the retired pay deducted from military retirees' accounts due to their receipt of compensation from the Department of Veterans Affairs.[3] Approximately 223,180 disabled veterans receive monthly payments CRDP and another 60,155 disabled veterans receive monthly payments under CRSC.

In addition, many disabled veterans also became eligible for a single retroactive payment pursuant to the new entitlements, due to changes in their disability status. Payments for this retroactive period became known within the Defense Finance and Accounting Service (DFAS) as "VA Retro." DFAS determined that there were 133,057 potentially eligible veterans as of September 2006. This backlog became known as the "original inventory." As processing delays continued, another contingent of disabled veterans—eventually comprised of 84,237 either newly retiring veterans or veterans whose disability status had changed—was increasing the backlog substantially.

B. DOD CONTRACTS WITH LOCKHEED TO CALCULATE BENEFIT PAYMENTS

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[1] See Section 636, Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314 (2002), codified as 10 U.S.C. § 1413a. See also Section 641, National Defense Authorization Act for Fiscal Year 2004, Pub. L. 108-136 (2004), amending 10 U.S.C. § 1414.

[2] Additional legislation, signed into law on January 28, 2008, expanded eligibility for CRSC to include veterans who retired under Chapter 61 (disabilities with less than twenty years of active duty service).

[3] Under this law, disabled veterans are eligible if they have a DVA-rated service-connected disability of 50 percent or greater and have twenty or more qualifying years of service. Additional legislation signed into law on January 28, 2008, amended CRDP (amending 10 U.S.C. § 1414(a)(1)) to include disabled veterans who are receiving VA disability compensation at the rate payable for a 100 percent disability by reason of a determination of individual un-employability.

In July 2006, DFAS awarded a no-bid, Cost Plus Fixed Fee contract to Lockheed under which Lockheed was to compute the retroactive pay awards.

Lockheed received the contract because the work was determined to be within the scope of a preexisting contract the agency had for Retired and Annuitant (R&A) pay with a contractor, ACS Government Solutions Group, Inc, that Lockheed had acquired in 2003.

DFAS had originally privatized R&A in 2001, pursuant to a public-private competition under OMB Circular A-76. The contract was worth $346 million over 10 years.

The privatization of R&A was controversial. DFAS privatized the work on the basis of only an estimated $1.9 million difference over ten years with what the Government would have charged. The winning private contractor's bid proposed using a workforce half the size the Government retained to perform R&A work, with no decrease in performance.[4]

After the privatization, there were concerns voiced within DFAS management about potential degradation of the quality of work:

> If we somehow now believe strongly that the contractor can't perform this work when and as required, we should retain some core capability... Someone has to balance the risk of contractor failure to perform against the costs of maintaining some core capability in retired and annuity pay and in DRAS support. Obviously, if we are unwilling to let the contractor fail, then we will for the next ten years always have the option of reducing requirements or bailing the contractor out with more money.[5]

At the request of Congressman Dennis J. Kucinich, the competition process was audited in 2003 by the Inspector General Department of Defense (DoDIG). DoDIG reported that an error was made in the preparation of the Government's bid, resulting in the erroneous inflation of the Government's bid by $31.8 million.[6] DFAS retained the contractor, in spite of the error's discovery.

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[4] The contractor's proposal for staffing assumed that staffing levels for R&A could be cut in half over the life of the ten year contract. The Government had 570 employees to perform R&A functions. At the contract's inception, the contractor would retain 451 employees, most of them hired away from the Government. The contractor would steadily cut the workforce, so that by year 10, there would be no more than 250 employees. Contractor proposal, (MDA220-00-R-6001) (Jan. 23, 2001).

[5] E-mail from Stephen Giebelhaus to Lois Elkin, Mattie L. Anderson, Karen Bell, (Aug. 6, 2001).

[6] Department of Defense Office of the Inspector General, *Public/Private Competition for the Defense Finance and Accounting Service Military Retired and Annuitant Pay Functions* (Mar. 21, 2003) (D- 2003-056).

C. DFAS RESPONDS TO CONGRESSIONAL OVERSIGHT AND ANNOUNCES CLEARANCE OF PAYMENT BACKLOG.

Delays in delivering the VA Retro benefit were significant. The backlog of potentially eligible veterans persisted for five and one-half years after Congressional enactment. As those delays in paying the VA Retro award compounded, so too did Congressional attention. Congressman Dennis J. Kucinich and Congressman Bob Filner, Chairman of the Committee on Veterans Affairs, made an unannounced site visit to the DFAS facility in Cleveland, OH in late February 2008. Senator Ron Wyden peppered Defense Comptroller Tina Jonas with questions on the subject at a hearing in February 2008. She promised to triple the number of people on the project.[7]

To determine the causes of the delays in the VA Retro program, an investigation was launched by the Domestic Policy Subcommittee in May 2008. The Subcommittee Majority Staff reviewed a total of 16,000 pages of documents produced separately by DFAS and Lockheed. Staff also interviewed disabled veterans whose VA Retro payments had been delayed or denied.

Five and one-half years after the laws creating the VA Retro award went into effect, DFAS announced the VA Retro backlog had been eliminated. Lockheed received $18.74 million for the VA Retro project.[8]

II. FINDINGS

A. UP TO 8,763 DISABLED VETERANS DIED BEFORE THEIR CASES WERE REVIEWED FOR VA RETRO ELIGIBILITY.

The five and one-half year delay in processing veterans' claims to the VA Retro award was too long for many veterans. Of the original inventory of 133,057 veterans, 8,763 died, most of whom died before their cases were adjudicated.[9]

B. DOD ACTED SLOWLY TO RESPOND TO CONGRESSIONAL INTENT.

DoD acted slowly to respond to enactment of the laws. In fact, the first formal interagency meeting within the Government to create a program to make the payments

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[7] Senate Budget Committee, *Fiscal Year 2009 Defense Budget and War Costs*, 110th Cong. (Feb. 12, 2008).

[8] Lockheed, *Overview of the Department of Veterans Affairs Retroactive Awards (DVA Retro) Project* (July 9, 2008). DFAS reported to the Subcommittee payments to Lockheed of $13,549,054 as of April 24, 2008, and cost of using government personnel to augment Lockheed of $464,136, as of May 24, 2008. DFAS, *VA Retro Update to Domestic Policy Subcommittee Staff* (June 24, 2008).

[9] E-mail from Judy Berman to Vic Edgerton (Feb. 15, 2008).

was not held until February 2005, more than two and one-half years after Congress enacted the benefit.[10]

C. POOR CONTRACTOR PERFORMANCE AND INEFFECTIVE GOVERNMENT MANAGEMENT ADDED TO THE DELAY.

1. LOCKHEED ENCOUNTERED DIFFICULTIES, MISSED DEADLINES, DUE TO FAILURE TO RETAIN SUFFICIENT STAFF.

Work on the VA Retro program began in July 2006. After an initial development phase, the contract entered into a payment phase in the Fall 2006.

Calculating the VA retroactive benefit was complicated. VA Retro is designed to pay eligible military retirees any retroactive money due as a result of increases in their percentage of disability. The VA Retro designation applies to any retiree who is retroactively awarded an initial or increased VA disability rating and, as a result, either becomes initially entitled to CRDP or CRSC or becomes entitled to an increased amount of CRDP or CRSC.

Individual amounts vary based on differences in disability amount and length of retroactive period. The amount of retroactive payment also varies depending upon other factors, including whether or not some payment is deducted and paid to a former spouse, whether the veteran had alternated between receiving non-taxable CRSC and taxable CRDP, and whether there are garnishments. In addition, changes in VA Retro benefit levels are also effected by alterations in medical disability ratings. For example, it is not uncommon for a retired service member to receive changes to his VA disability rating in view of increasing complications resulting from service or combat-related injuries.

Lockheed originally had a deadline of November 2007 to work through the backlog of VA Retro cases.[11] But Lockheed missed that deadline and every succeeding one. Lockheed personnel had difficulty making the computations in sufficient volume to eliminate the backlog in a timely manner. Lockheed had performed calculations for only half of the backlog by March 2007, more than three years after Congress created the benefit. Further, those cases were, by design, the easiest cases to compute. Lockheed and the Government had agreed to hold off paying the more complicated cases until a software solution could be created. By March 1, 2008 -- a year later -- over 60,000 eligible veterans still had not had their cases reviewed for payment.

For its part, Lockheed Martin was unable to automate the calculation of VA Retro payments, as both Lockheed Martin and the Government had intended. There were several reasons why Lockheed failed to implement an automated solution. Essentially, the databases required to operate it did not exist, and there was a complex and varied

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[10] DFAS, *supra* note 8.
[11] DFAS internal memorandum (undated).

array of rules for computing benefits, making programming difficult and reliance on computer programs for a significant portion of cases impossible.[12] In addition to Lockheed's failing, the Government bore significant responsibility for the delays in creating an automated solution. The VA and the military services were slow to put the data in the necessary form for automation. Without an automated solution, Lockheed did not have sufficient numbers of employees to perform the research and calculations manually.[13]

One of the key reasons Lockheed had insufficient numbers of staff to compute the benefits was a relic of the original R&A contract proposal. The contractor proposed slashing staff in half over the life of the contract. By 2006, the contractor proposed to have no more than 306 employees, whereas the Government had employed 570 to perform the same functions.[14]

2. DFAS FOUND LOCKHEED'S PERFORMANCE DEFICIENT BUT WAS UNABLE TO ASSESS PENALTIES BY THE CONTRACT'S TERMS.

From the very start of the VA Retro program, DFAS managers could see a looming problem with Lockheed's performance. "As you can imagine," wrote the lead manager to his deputy, "this action has a lot of high level visibility so we need to keep a constant eye on it and be prepared to act as soon as we see any slippage in the schedule."[15] Only one month later, a DFAS supervisor wrote, "The volume is low again this week."

By March 2007, DFAS managers were concerned about the viability of the project:

> While I suspect there is a fair likelihood that Lm will successfully achieve the 50% plus one threshold, I do not have a warm and fuzzy about the remaining project. When I heard that upward of 40% of the remaining cases are with the IU [Individual Unemployability] category, I can see where more unexpected difficulties may arise... I do not see a clear plan that takes us to project completion by Sep 07 with a high degree of certainty.[16]

There was also disbelief within DFAS about Lockheed's projected completion date. Skepticism was expressed by a DFAS attorney about a Lockheed powerpoint presentation in December 2007:

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[12] Staff briefing by Joseph Cipriano, President, Lockheed Martin Business Process Solutions (July 9, 2008).
[13] E-mail from Steven Minnich to Stephen Giebelhaus, Michael Majeski, Francis Quinlan, Jill Eggleston (Dec. 4, 2007) and DFAS internal memo (undated).
[14] Contractor proposal, *supra* note 4.
[15] E-mail from Pat Shine to William Tyminski (Oct. 11, 2006).
[16] E-mail from Karl Bernhardt to William Tyminski and Martin Kradlak (Mar. 6, 2007).

> Even if the project runs from the week of January 7 through the end of April 2008 (16 weeks) at 1,500 per week, LM would process only 24,000 cases, only half of the remaining cases.[17]

Lockheed's performance in other areas of responsibility was a source of concern as well. A senior manager wrote his top management:

> I'm hearing and seeing a lot more problems here than just the VA Retro especially in the customer service arena.[18]

Overseeing Lockheed was difficult. One senior manager could not even decipher statistics from the contractor:

> Maybe you understand these reports that R&A is providing better than I do. Look at the daily productivity for 1/16/08. The first attachment indicates zero productivity for 1/16/08. Now, look at the first slide in the second attachment going left to right. This chart reflects that 197 accounts were actually processed from the remaining original population. Does the 3rd attachment reflect that 258 cases were on 1/16/08. What's the accurate number[?][19]

Minutes from a meeting on January 4, 2008 of top DFAS managers encapsulate DFAS' dependence on Lockheed, even for basic understanding of the reasons why Lockheed was failing to meet expectations:

> What is the planned daily productivity per person? DS [Doug Smith] stated 6 cases per person per day X 50 people = 300 per day[.] What is the actual productivity per person? DS stated 1.4 cases per day because of slow data from the VA. ZG [Zack Gaddy] then asked why the 5K cases previously identified as not needing data from the VA to compute weren't done yet? *DS stated we don't know, we would have to ask LM* [Lockheed]. (emphasis added).[20]

Dissatisfied and frustrated with Lockheed's poor performance, Mr. Zack Gaddy, DFAS Director, personally monitored progress on the VA Retro program and frequently complained to Lockheed about low productivity and the high number of errors DFAS quality control auditors were detecting.[21] The following comments and conclusions, taken from e-mails he wrote to DFAS managers and Lockheed supervisors, are typical:

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[17] E-mail from Scott Lafferty to Linda Etter (Jan. 3, 2008).
[18] E-mail from Lee Krushinski to Martha Stearns and Chet Boutelle (Dec. 3, 2007).
[19] E-mail from Gene Benisek to Douglas Jakyma (Jan. 24, 2008).
[20] E-mail from Robert Myers to Karl Bernhardt and Doug Smith (Jan. 4, 2008).
[21] Beginning in November 2007, Mr. Gaddy demanded daily updates on VA Retro payments. E-mail from Zack Gaddy to Martha Stearns (Nov. 14, 2007).

> They aren't making their planned production so it calls into question their ability to meet the April deadline.[22]
>
> These results for Thursday are extremely disappointing... By now you should have a handle on why cases are not passing QA [quality assurance] and get the quality level to a point where adjudicated cases pass muster.[23]
>
> LMCO missed the goal for the original cases by 707 for the week... Nowhere near the level required to meet productivity goals to achieve the revised plan briefed to me today. Also, why were 388 cases rejected back to Ops? By now I think LMCO should be able to produce consistently reliable results to avoid the high level of rework that has occurred since the inception of this project.[24]

Mr. Gaddy also expressed his concern about the damage to DFAS' reputation caused by Lockheed's performance. Mr. Gaddy's email to a senior Lockheed executive is illustrative:

> My biggest concern is that you deliver on the plan. Once I brief the congressional staffers and the media on the plan, they will not be forgiving of another missed completiom [sic] date.[25]

DFAS formally expressed concerns to Lockheed in writing as well. At the end of April, 2008, DFAS wrote to Lockheed:

> DFAS recognizes that ... substantial changes were made in processes, applied tools, and manpower resulting in over 13,000 cases being adjudicated in March. Unfortunately, this led DFAS, the DoD leadership and Congress placed [sic] a high level of confidence in your revised plan and the asserted completion dates. However, since that initial success, both production and quality have fallen off to a point where production is behind by 5,400 cases with no indication that the project can be completed in accordance with your plan.
>
> In short, LM has failed to meet Congressional and DoD Leadership expectations, as established by LM projections. This failure has placed DFAS and LM credibility in serious jeopardy as those briefed on the project have moved from being guardedly optimistic to skeptical in their acceptance of our ability to complete this project.[26]

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[22] E-mail from Zack Gaddy to Martha Smith, Chet Boutelle, Lee Krushinski (Feb. 22, 2008).
[23] E-mail from Zack Gaddy to Rocky Thurston, Karl Bernhardt, Robert Cook, Martha Smith (Apr. 4, 2008).
[24] E-mail from Zack Gaddy to Howard Ruddell, Douglas Smith, Karl Bernhardt (May 5, 2008).
[25] E-mail from Zack Gaddy to Peter Rogers (Dec. 10, 2007).
[26] Letter from Steven H. Minnich to Mr. Joseph Cipriano (Apr. 28, 2008).

3. THE TERMS OF LOCKHEED'S COST PLUS CONTRACT IMPAIRED LOCKHEED'S ACCOUNTABILITY TO DFAS.

Features of the contract placed limitations on DFAS' ability to hold Lockheed accountable for poor performance. The contract contained no performance standards.[27] The dilemma was explained in an internal email from the contracting officer in charge of the VA Retro Lockheed contract:

> folks have not understood the "best effort" nature of cost plus. At the end of this they will want a hammer to hold over the contractor and there will not be one.[28]

Rather than include VA Retro under the existing R&A contract, DFAS entered into an open-ended, Cost Plus Fixed Fee (CPFF) contract with Lockheed in 2006. The CPFF contract required only exertion of effort by the Lockheed to fulfill its obligations. The deadlines Lockheed repeatedly failed to meet were not binding. The contract did not provide for penalties for poor contractor performance.

DFAS was also impaired by the contract from even giving an "unsatisfactory" evaluation to Lockheed. A draft of such a letter began circulate within DFAS in November 2007. One of those early drafts identified the subject of the letter as "Unsatisfactory Performance." But that assessment was edited out of the final version of the letter. A margin note created during the editing of the letter explained why:

> Contract performance cannot be deemed to be Unsatisfactory. They have applied the resources identified. Desk audits have shown resources applied and working as promised... The quantity has been unsatisfactory, but the payment calculations and processes used have been accepted.[29]

D. DFAS CUT BACK QUALITY CONTROL AND USED FEDERAL WORKERS TO SUPPLEMENT LOCKHEED'S WORKFORCE TO DECREASE PAYMENT BACKLOG.

In an effort to rescue the program from further delay, DFAS management settled on a number of questionable approaches to accelerate payments and clear the backlog. First, DFAS management assigned federal workers to relieve Lockheed of some of its R&A contractual responsibilities, in order to free up those Lockheed personnel to work on calculating VA Retro payments. These included assigning federal employees to perform Call Center duties covered by the R&A contract. Second, in February 2008, DFAS decided to suspend government procedures designed to verify the accuracy of payments

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[27] Contract issued by DFAS to Lockheed for VA Retro program (MDA220-01-D-0002) (Sept. 27, 2006)

[28] E-mail from Steven Minnich to David Kane, Michael Lindsay, Michael Majeski, Eric Miller (Dec. 4, 2007).

[29] See attachments for a copy of the draft letter with margin notes.

and outsource quality assurance to Lockheed. Up to that point, the Government itself checked the accuracy of Lockheed's benefits calculations by means of exacting audits performed by the Continuing Government Activity (CGA) -- essentially project managers and auditors working for the federal government.[30].

1. DFAS BYPASSED GAO REGULATIONS ON STATISTICAL SAMPLING IN FEDERAL QUALITY-CONTROL PROCEDURES.

Top DFAS management, however, determined that the CGA process was further slowing the benefits payment process.[31] In response, DFAS first diverted federal workers from other DFAS functions to work in CGA. Because concerns about delays remained, in February 2008, DFAS then opted for an alternative approach, and suspended its practice of independently verifying the accuracy of Lockheed's VA Retro calculations.

Under the new quality assurance approach implemented on or about March 1, 2008 DFAS relied upon Lockheed's own quality assurance to check accuracy of payments. DFAS closed down the extensive independent audits performed by the CGA. No longer being able to independently certify accuracy, DFAS changed its certifying procedures: Lockheed certified accuracy, DFAS certified that Lockheed had followed specified procedures.[32]

The Comptroller General of the United States has established rules for the application of statistical sampling in government quality assurance procedures. In fact, in 2003, DFAS approached GAO for relief from the sampling guidelines for other payments DFAS issued. GAO denied the request.[33]

In the case of VA Retro payments, the following rule applied: for payments under $2500, statistical sampling sufficient to achieve a 95% confidence interval for a 97% accuracy rate. For payments over $2500, no sampling was allowed. Every payment required verification.

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[30] For VA Retro payments that were $2500 or less, CGA conducted rigorous random sampling to verify accuracy. Samples confirmed to be 97% accurate enabled the entire payroll from which those samples were drawn to be approved without further verification. For payments in excess of $2500, every single payment in a payroll was manually checked. Any payment that was not confirmed was returned to the contractor for further processing.

[31] Typical was this expression of concern about CGA's becoming a bottleneck, from the CGA director, "Based on expectations of increased production by LM, and importantly an expectation of more DFAS payments in excess of $2500 (100% review required), I do not believe we have sufficient personnel to accommodate the anticipated larger volume." E-mail from Douglas Smith to Martha Stearns (Jan. 28, 2008).

[32] VA Retro Project Payroll Summary Statement (undated), CGA Review Guidelines (undated).

[33] Letter from McCoy Williams to Martha Stearns (Aug. 28, 2003).

2. LOCKHEED APPLIED A WEAKER STANDARD TO QUALITY ASSURANCE THAN STANDARD MANDATED BY GAO.

Lockheed's Quality Assurance relied exclusively on statistical sampling, making no distinction between payments over $2500 and payments below $2500.[34] This represented a lower standard of quality assurance than the government would have performed.

Nevertheless, DFAS management believed that accuracy of payments would not be affected by leaving the contractor to verify accuracy of its own work. In making the decision, DFAS management cited an internal study, known as the "Moxley study," finding that Lockheed's own quality assurance measures were sufficient to satisfy the Government.

However, the Subcommittee's review of the Moxley study reveals it was severely flawed. The study drew on a non-representative, non-random statistical sample. All of the cases in the sample were of the easiest type, rather than the complex cases that had been saved for last.[35] The study also misapplied the verification rules. The cases applied the 97% threshold used to evaluate payments below $2500, when all of the cases in the Moxley sample exceeded $2500. Payments in excess of $2500 required a 100% accuracy threshold. In fact the Moxley study found that the samples failed to meet the 100% accuracy threshold. That should have been enough to cast doubt upon the plan to rely exclusively upon Lockheed to check its own work.

Furthermore, no other independent verification of accuracy was performed at any level within the DoD. Indeed, the DoD's Operations Review Division, which conducts statistical sampling of many DoD payments, has avoided reviewing VA Retro pay, because it did not want to slow down DFAS in clearing the backlog.[36]

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[34] Lockheed briefing, *supra* note 12.

[35] Staff briefing from Karl Bernhardt and Martha Smith, DFAS, (Jun. 24, 2008).

[36] E-mail from Frank Lucas to Karl Bernhardt (Jun. 30, 2008). In this exchange, Karl Bernhardt poses the questions and Frank Lucas answers them:

> Q. [Y]ou have not to this date audited any VA-Retro payrolls specifically?
> A. True.
> Q. And since you audit payrolls for improper payments, why have you not audited any VA-Retro payments to date?
> A. Several reasons. 1. Outside our area of expertise. We presently do not have adequately trained staff member [sic] that possess an in-depth knowledge of CRSC, CRDP and the VA Retro process to perform a comprehensive post pay review. The CGA would appear a more likely candidate to perform these types of reviews. 2. Timing. It would not appear appropriate to conduct a VA-Retro post payment review, even if I had a properly trained staff, while R&A was striving to get these payments issued and reduce a substantial backlog.

3. UP TO 60,051 PAYMENTS TO VETERANS WERE ISSUED AFTER A SUSPENSION OF QUALITY CONTROL MEASURES WENT INTO EFFECT ON MARCH 1, 2008.[37]

After suspending its own quality control measures in deference to Lockheed's, the effort to clear the backlog gathered steam. The number of payments issued under the VA Retro program climbed quickly, averaging more than 15,000 per month. While this helped DFAS to clear the backlog of VA Retro cases, the Subcommittee Majority Staff believes that serious questions remain about the accuracy of payments made during this time. Payments in excess of $2500 received a lower standard of quality assurance after suspension of the Government's 100 percent verification standard. While the Subcommittee Majority Staff does not know how many erred payments were sent, we do not believe that DFAS knows either.

E. DFAS AND LOCKHEED FAILED TO VERIFY THE ACCURACY OF DENIALS OF PROGRAM ELIGIBILITY.

Many veterans who benefitted from the concurrent receipt entitlement were deemed not eligible for a retroactive payment. Unlike VA Retro payments, denials of VA Retro eligibility received no quality assurance checks at any time. According to Lockheed's operating procedures, Lockheed's quality assurance team does not verify the accuracy of any "No Pay Due" determination.[38] As a result, "No Pay Due" letters go directly to veterans without prior verification.

The Subcommittee Majority Staff is concerned that under this procedure, errors will remain undetected unless a veteran contests a denial. Neither DFAS nor Lockheed knows how many "No Pay Due" letters could be in error.

Illustrative of this procedural problem is Command Sergeant Major Harold Lewis's challenge of a no-payment notification he received from DFAS in April 2008.

Command Sergeant Major Lewis is a disabled Army veteran who received his injuries in combat in Vietnam. Originally a draftee, he served 28 years in field artillery and eventually rose to command levels of authority. The Army attributes his multiple disabilities – including Diabetes Type II, acute peripheral neuropathy, tinnitus and hearing loss – to numerous combat injuries including concussions and broken vertebrae from rocket attacks and exposure to Agent Orange.

Mr. Lewis was denied retroactive pay, after waiting approximately one year for adjudication of his case. He contested the no pay determination. He had an easy-to-understand reason to believe he would be due retroactive pay: he had a letter from the

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[37] DFAS, *VA Retro Project update* (Statistics as of Feb. 29, 2008).
[38] Lockheed, *Standard Procedures, Team Blue VA Retro/CRSC Payroll Review, Team Blue Quality Assurance Payroll Review*, (Procedures No. 1111.08).

Department of Veterans Affairs affirming his qualifying disability rating effective January 1, 2006.[39] This conclusive documentation would have also been available to Lockheed before they denied Mr. Lewis his eligibility. Nevertheless, he was initially rebuffed.[40] Finally, after "a year long odyssey," Mr. Lewis received notification by letter dated June 18, 2008 that his claim had been reviewed and recomputed, and that he was entitled to a total retroactive payment of nearly $15,000.[41]

In an interview, Mr. Lewis said, "Most guys who get a letter saying they get zero money would never challenge it. They wouldn't know how. I'd be surprised if they understand what they get in the mail. And lots of guys will just trust their government I get sad to the point of crying seeing the guys in worse shape than me. [But] DFAS wants us to die or just give up trying [to get our benefits]."[42]

He concluded, "If they treat a Command Sergeant Major like me this way, how do you think they treat the guys with just a couple years combat experience? It is just so sad."

1. AT LEAST 28,283 VETERANS WERE DENIED RETROACTIVE PAY BASED ON DETERMINATIONS MADE WHOLLY WITHOUT QUALITY ASSURANCE OR REVIEW.

Unverified "No Pay Due" letters were sent to at least 28,283 veterans .[43]

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[39] Letter from Harold E. Lewis to Martha J. Smith, Director DFAS Cleveland (Jun. 1, 2008).
[40] Letter from Retired and Annuity Pay to Harold E. Lewis (April 2, 2008)
[41] Letter from Douglas Smith, Director Retired and Annuitant Pay, DFAS, to Harold Lewis (Jun 18, 2008)
[42] Phone conversation with Mr. Lewis (Jul. 8, 2008).
[43] Letter from Zack E. Gaddy to Dennis J. Kucinich (Jul. 11, 2008). Lockheed estimated the rate of denials was 20 percent. Lockheed briefing, *supra* note 12. At the Lockheed estimated rate of denial, the number of veterans who received denials of retroactive payments is higher: 43,458.

Documents cited in Report

2.2 COST COMPONENTS

ACS has applied the following ground rules and assumptions to the cost components that make up our prices.

2.2.1 STAFFING

2.2.1.1 Staffing Profile. Our years of business process outsourcing have taught us that detailed planning is one of the most powerful mitigators of risk. Toward this end, we have painstakingly produced a detailed level of effort estimate shown in **Figure 2, Staffing Profile,** to support our lowest risk **Transition→Consolidation→Optimization** concept of operations. This staffing estimate not only supports our approach, but also provides top-level customer service to DFAS' customers—retirees, annuitants, military services, interfacing organizations, and other payees—and facilitates the rapid reduction of cost of operations to DFAS. In the discussion that follows, we will describe the rationale for the reductions shown in Figure 2 for the transition period and then for the life of the contract.

Figure 2. Staffing Profile

	Transition			Life Cycle Staffing									
Position	A	B	C	I	II	III	IV	V	VI	VII	VIII	IX	X
Business Analysts/Functional Analysts	63	62	62	62	54	49	46	45	45	44	44	44	44
Clerks (Mail, File, and General)	28	25	21	21	21	11	7	7	7	7	7	7	7
Customer Service (call center) Representatives	155	141	120	99	95	95	81	81	71	71	61	61	61
Document Handling, Records, and Transcribing	25	23	23	23	21	12	2	2	2	2	2	2	2
Member Services (Pay) Representative	258	235	200	199	174	145	145	134	134	122	117	112	112
Program Management, Secretarial, Office Support	22	20	10	10	9	9	7	7	7	7	7	7	7
QA, CM, and Process Specialists	4	4	4	4	4	4	4	4	3	3	3	3	3
Systems Engineers	15	14	11	14	15	14	14	14	14	14	14	14	14
Totals (D)	570	524	451	432	393	339	306	294	283	270	255	250	250

A. FY2000 authorized DFAS Staff
B. Assumed DFAS on board at transition based on 9 percent industry vacancy rate *(Human Resources Association)*
C. On-board with ACS after transition
D. Note: Lot Year headcounts are averages for each 12 month period

We know from experience on similar programs that we can reduce staffing without operational impact as optimization is achieved. Our specific introduction of organizational restructuring, process improvements, and the infusion of enabling technologies will, for example, reduce customer calls, and therefore the number of customer service representatives required to respond. Optimization activities will increase the efficiency of Pay Operations personnel (member services and customer services representatives), allowing fewer people to accomplish more in less time, and with greater accuracy. Just as important, by reducing workload and rework, the staff will be able to manage their workflow instead of being swept away by it, further enhancing their efficiency. Backlog is an infamous usurper of staff time, so our plans call for further process simplifications and improvements that will clear backlogs in imaging, research, and System Change Requests (SCRs).

SEE FAR 3.104
PROCUREMENT SENSITIVE
FOR OFFICIAL USE ONLY

[redacted]

002

From: GIEBELHAUS, STEPHEN
Sent: Monday, August 06, 2001 2:16 PM
To: ELKIN, LOIS; ANDERSON, MATTIE L; BE[redacted]EN; BERMAN, JUDY; BOGARD, CLAUDIA; COOK, ANN; COVINGTON, LORETTA; CRAWFORD, DIANE DEE; [redacted] DENISE; DOUTRICH, SAM; FERGUSON, CATHERINE; GILEAU, LINDA; GRIESSER, JAY; GROSSPIETSCH, JACKIE; HART, KEVIN; HEJDUK, MARY; HOLLANDER, LEAH; HOVEY, JERRY; JOHNSON, STEVE; KEILING, GREG; KOCZUR, DANIEL (CONTRACTOR); KOENIG, JOHN; KUFELDT, ED; LISENBY, DON; LONG, DENNIS; MADIGAN, JOSEPH; MCAULAY, ANN; MISENKO, JOHN; NAGY, JAMES; N[redacted] NOWLING, ROXANE; RIVERS, MICHELLE; SCHARON, JAMES; SE[redacted] KAREN; SEIWALD, MICHAEL (CONTRACTOR); SHORT, JOYCE; SIEWERT, BONNIE; SYLVESTER, CAROL; THORNBURG, DENISE; TYMINSKI, WILLIAM; WELLS, NADINE; WESSEL, CAROL; WOOST, AL; ZIU, JOHN
Cc: RUOFF, JOHN; MESTER, JOHN
Subject: RE: ASD R&A Taskers

DF HR ATTORNEY

In support of John's discussion on providing TSO support to ACS:

General Counsel's position is very simple. ACS contracted to provide TSO support. It will now be there responsibility to do so, and if they can't they will be in default. The fact that they may have believed TSO personnel would be affected employees who they could hire relatively easily is a problem for them...and may be a problem for us if they can't perform. Still, at this stage it really is ACS's problem. They will have to either lay out big bucks to attract our TSO folks, or they will have their transition period to develop that necessary expertise. Nevertheless, it is not an acceptable option for us now to amend the contract to delete this contract performance requirement from the PWS and take on that responsibility (the misnomered "subcontracting" option). To do so changes the very nature of the cost comparison that we went through. Neither is it appropriate to significantly extend the transition period for providing TSO support. We need to hold the contractor's feet to the fire...make them perform. If they somehow do need an extension of time, they will need to pay for it with some kind of consideration flowing back to the govt, such as a reduction in contract price.

If we somehow now believe strongly that the contractor can't perform this work when and as required, we should retain some core capability in the TSO (and R&A for that matter) to take back this work should the contractor fail. Someone has to balance the risk of contractor failure to perform against the costs of maintaining some core capability in retired and annuity pay and in DRAS support. Obviously, if we are unwilling to let the contractor fail, then we will for the next ten years always have the option of reducing requirements or bailing the contractor out with more money.

Steve Giebelhaus

---Original Message---
From: ELKIN, LOIS
Sent: Monday, August 06, 2001 8:35 AM
To: ANDERSON, MATTIE L; BELL, KAREN; Berman, Judy; BOGARD, CLAUDIA; Cook, Ann; COVINGTON, LORETTA; CRAWFORD, DIANE DEE; DECLUETT, DENISE; DOUTRICH, SAM; ELKIN, LOIS; Ferguson, Catherine; GIEBELHAUS, STEPHEN; GILEAU, LINDA; GRIESSER, JAY; GROSSPIETSCH, JACKIE; HART, KEVIN; HEJDUK, MARY; HOLLANDER, LEAH; HOVEY, JERRY; JOHNSON, STEVE; KEILING, GREG; KOCZUR, DANIEL (CONTRACTOR); KOENIG, JOHN; KUFELDT, ED; LISENBY, DON; LONG, DENNIS; MADIGAN, JOSEPH; MCAULAY, ANN; Misenko, John; NAGY, JAMES; NOSETTIC, ROSEMARY; NOWLING, ROXANE; RIVERS, MICHELLE; SCHARON, JAMES; SEIL, KAREN; SEIWALD, MICHAEL (CONTRACTOR); SHORT, JOYCE; Siewert, Bonnie; SYLVESTER, CAROL; Thornburg, Denise; TYMINSKI, WILLIAM; WELLS, NADINE; WESSEL, CAROL; Woost, Al; ZIU, JOHN
Subject: FW: ASD R&A Taskers

John Ziu has prepared this detailed message about ASD R&A taskers. Please review this message and provide any comments or questions back as the point of this is to ensure clarity for all of us. Thanks. Lois

---Original Message---
From: ZIU, JOHN
Sent: Friday, August 03, 2001 6:14 PM
To: ELKIN, LOIS
Cc: KUFELDT, ED; LEE, JAMES; MORGAN, SHARON C; SEIWALD, MICHAEL (CONTRACTOR); KOENIG, JOHN; RUOFF, JOHN
Subject: ASD R&A Taskers

Lois,

Overview of the

Department of Veterans Affairs Retroactive Awards (DVA Retro) Project

July 9, 2008

Making Every Day Count

LOCKHEED MARTIN

VA Retro Project Description

- VA Retro is a program designed by the Defense Finance and Accounting Service (DFAS) and the Department of Veterans Affairs (DVA) to pay eligible military retirees any retroactive compensation due as a result of increases in their percentage of disability.

- VA Retro payments include retroactive adjustments to Combat-Related Special Compensation (CRSC), Concurrent Retirement and Disability Pay (CRDP) and DVA disability compensation.

- A disabled military retiree may be eligible for both CRSC and CRDP but, by law, cannot receive payments for both during the same period. However, if you are eligible for CRSC and CRDP which cover different periods of retroactive entitlement, you may be entitled to separate VA Retro payments.

- No application or claim is required. The DVA is providing DFAS with the social security numbers of eligible retirees. Both organizations are working together to provide eligible retirees with their full entitlement to both DVA compensation and CRSC or CRDP payments.

LOCKHEED MARTIN

VA Retro Project Implementation Phases

Project implemented in several phases:

- Phase I by Task order
  - ✓This initial phase required the development of an interim solution to process many of the VA Retro cases. This phase was successfully completed on time with DFAS approval of the computation module. Twelve month plan put in place with nine initiatives to complete 133,057 cases by November, 2007.
- Phase II
  - ✓March 15th, 2007 50% goal to pay 66,529 cases was met.
  - ✓As of August 2007, the project had processed 102,713 cases and was experiencing data availability problems.
  - ✓New goal set to complete original 133,057 cases by April, 2008 with automation assumptions.
- Phase III
  - ✓ In December 2007 determined data quality did not support automation. Massive hiring initiated. In March goal set to complete 133,057 original cases and 8,200 additional cases received by May 2008.
  - ✓This phase was successfully completed by June 6th, 2008.
  - ✓Goal set to complete new and returning backlog by 1 July and maintain a backlog of 30 days or less.
- Phase IV – June / July 2008
  - ✓Completed ~11,500 New & Returning population by June 26th, 2008 – 3 days ahead of schedule

Backlog Now Less Then Two Weeks

VA Retro project – Contract Authorization

Task Order	Period of Performance	Funding	Description
TO 0077	07/12/06 – 09/30/06	$1.44M	Initial Prototype Phase Cost Plus Fixed Fee
TO 0077 + 13 Amendments	10/01/06 – 05/31/08	$15.4M	Processing "Original" population Cost Plus Fixed Fee Level of Effort
TO 0148	06/01/08 – 01/31/09	$1.9M	Remaining "Original" + New & Returning Population Cost Plus Incentive Fee
TO 0148 (Modified)	07/07/08 – 01/31/09	Incremental	Modified to include "Ongoing" population through the end of this contract period. Cost Plus Incentive Fee

LOCKHEED MARTIN

VA Retro Project - Demographics

Staffing

- At its peak there were a total of 163 technicians assigned to the Project; After July there will be 120 technicians assigned to "ongoing" cases.
- A total of up to 12 Quality Assurance reviewers support the VA Retro payroll process.
- A team of LM Six Sigma specialists has been assigned the task of evaluating every facet of the project. One major accomplishment of this team was the introduction of Authoritative Sources of Data used to compute and validate manual computations.
- Several Lockheed Martin and DFAS executives have provided routine guidance and oversight to the VA Retro project.

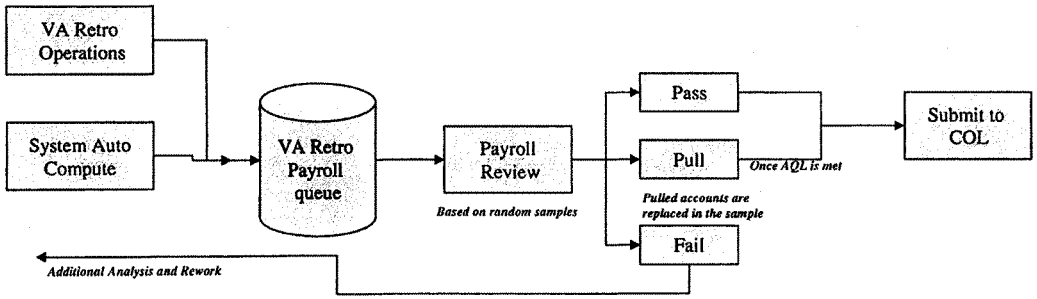
Productivity Improvements

- 12,871 total cases processed off the floor in May
- Average daily processing rate of 585
- 15,934 total cases processed off the floor June
- Average daily processing rate of 755

LOCKHEED MARTIN

Quality Control / Quality Assurance

- LM's quality processes are documented in standard operating procedures (SOPs) The emphasis is on ensuring authoritative sources of data are used in adjudicating VA Retro cases.
- SOPs are reviewed by DFAS' Quality Assurance Officer randomly and regularly for appropriateness—ensuring the process supports payroll production.
- Each payroll produced is certified by LM's program manager, DFAS' assurance officer, and DFAS' certifying officer (CGA). DFAS continuously reviews LM processes as one of their "inherently governmental" responsibilities.



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Going Forward – Permanent Solution Project

- Collaborating with DFAS towards an automated permanent solution
  - ✓ Efficient and Effective Case Processing (Automated Case Resolution with Manual Exception Processing)
  - ✓ Real-Time Integration with all partners and required systems
  - ✓ Case Transparency and Visibility
  - ✓ Agile Business Rules Management
  - ✓ Workflow – Routing, Tracking Touch-Time and Notifications
  - ✓ Address Security and Privacy
  - ✓ Audit History
  - ✓ Metrics and Analytics

Making Every Day Count

LOCKHEED MARTIN

Bourke, Jaron

From: BERMAN, JUDY CIV DFAS [JUDY.BERMAN@DFAS.MIL]
Sent: Friday, February 15, 2008 4:01 PM
To: Edgerton, Vic
Subject: RE: Retro-VA question

Vic- The remaining 4,291 cases to be adjudicated involve deceased applicants. While I can't provide a definitive answer without more extensive research, it's my understanding that of the 4,472 cases adjudicated in the majority of those cases the individuals died before the estate was paid.

Judy

-----Original Message-----
From: Edgerton, Vic [mailto:Vic.Edgerton@mail.house.gov]
Sent: Friday, February 15, 2008 3:42 PM
To: BERMAN, JUDY CIV DFAS
Subject: RE: Retro-VA question

Thanks Judy. The question the Congressman had was how many of those 8753 died before they got their checks? Are all the 4291 cases to which you refer involving deceased applicants?

_____
Vic Edgerton, MPH, MEM
Legislative Director
Congressman Dennis J. Kucinich
(202) 225-5871

-----Original Message-----
From: BERMAN, JUDY CIV DFAS [mailto:JUDY.BERMAN@DFAS.MIL]
Sent: Friday, February 15, 2008 3:25 PM
To: Edgerton, Vic
Subject: Retro-VA question

Vic,

Here is the response to Congressman Kucinich's question a while back, sorry it has taken a while, but we wanted to ensure accuracy.

Since enactment of CRSC/CRDP legislation, of the original 133,057 population, 8,763 individuals have died. However, as of February 13, 2008
adjudication has been made on 4,472 of those cases. We are working adjudicate the remaining 4,291 cases by April 2008.

Judy Berman
Legislative Liaison, DFAS-HAC
(703)-607-3783

email: Judy.Berman@dfas.mil

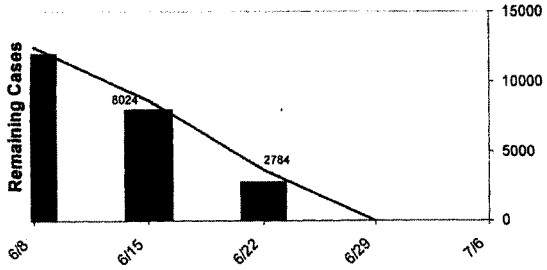
VA Retro Update to Domestic Policy Subcommittee Staff

Ms. Martha Smith
Director, DFAS Cleveland
Defense Finance and Accounting Service
June 24, 2008

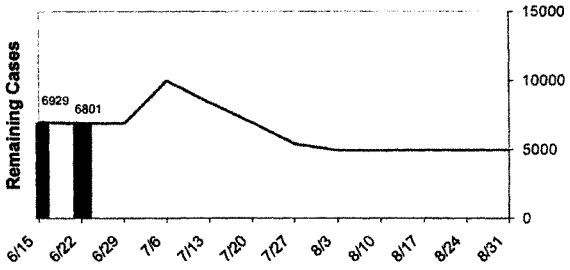
VA Retro Pay Summary – June 22, 2008

• ***New & Returning Cases*:***	***86,310***	*Note*: Target Date to Complete Processing is June 2008*
•Cases Paid/Completed:	***83,526***	*97% of Total 86,310 cases completed*
•Remaining Cases:	***2,784***	
• ***Ongoing Cases**:***	***6,801***	*Note**: Complete Backlog June-August 2008* *Target to Reach Steady State is August 2008*

Backlog of New & Returning Cases



Ongoing Cases



The Week's "New &Returning" Goal was 3,667 Cases: 143% or 5,240 Cases Completed

VA Retro Program Commencement

- DVA policy change on retroactivity, not CRSC and CRDP legislation, established VA Retro project requirement.
- Initial CRSC guidance issued by OSD on April 15, 2004, advised against retroactive payments. This was later revised based on legal review.
- Informal discussions to establish VA Retro project commenced December 17, 2004, via email and with formal meetings on February 1, 2005.
- Revised MOU between DFAS and DVA enabling retroactive payments was completed in February 2007.

Project Contract and Modifications

- Project is within general scope of existing R&A contract.
- Modified contract to include new process change driven by legislation and modification of MOU with DVA.
- CPFF contract vehicle most appropriate due to developmental nature of project.
  - ✓ Processes, data sources, and case complexities were not initially fully defined.
  - ✓ Contract had several modifications, including to Statement of Work, as requirements became better understood.
  - ✓ Developmental nature of project primarily contributed to perceived contractor failures.
- Original developmental contract modification provided no basis for contractor penalties
  - ✓ New task order incorporates incentives for enhanced performance.
  - ✓ Estimated completion date is June 27, 2008.

Making Every Day Count

Use of Awards Letters

- Initial procedure used Military Review Board (MRB) Award Letters in conjunction with DVA data.
  - ✓ MRB initially based CRSC start dates on date of DFAS adjustment in retired pay to reflect DVA compensation increase.
  - ✓ These dates were inconsistent with DVA diagnostic percentage increase changes.

- Use of Authoritative Data Sources.

- Error rate using proposed MRB Award Letters as sole source would have been 15-25 percent.

Making Every Day Count

Confirming Quality Assurance

- Mr. Michael Moxley validated the accuracy of contractor QA process.
  - ✓ Used same payroll sampling used by DFAS Internal Review "Quick Look" team for consistency
    - Cases sampled included CRSC and CRDP accounts
  - ✓ Internal Review was checking for payment accuracy and anomalies not reviewing the process.
  - ✓ He evaluated the multiple party QA process.
- Error rates, statistical data and payment calculations were provided by DFAS CGA.
- Pre-payment hands-on review by CGA personnel at various stages in payment process is ongoing.

Making Every Day Count

Quality Control Officer

- Appointed by DFAS in February 2008.
- Uses accepted authoritative data sources to compute payment amounts being reviewed.
- Initial sampling process used accounts from payrolls submitted by contractor.
- Reduced redundancy in QA process and improved oversight into LM case adjudication process by CGA selecting accounts while in LM Team Blue review.

Making Every Day Count

Contract Costs

- Additional contract cost for VA Retro modification is $13,549,054.01 as of invoice dated April 24, 2008.

- Costs of using government personnel to augment contractor effort were $464,136.20 as of May 24, 2008.

- Final costs won't be known until after full backlog of new and returning accounts is eliminated (ECD June 30, 2008).

DFAS "Quick Look" Review

- Review commenced January 2008.
- Final report expected by July 31, 2008.
- Upon conclusion of the review, we will provide a copy of the report.

Making Every Day Count

WINN, SHARON CIV DFAS

From:	MINNICH, STEVEN CIV DFAS
Sent:	Tuesday, December 04, 2007 2:07 PM
To:	GIEBELHAUS, STEPHEN CIV DFAS; MAJESKI, MICHAEL CIV DFAS; QUINLAN, FRANCIS CIV DFAS; EGGLESTON, JILL CIV DFAS
Cc:	LINDSAY, MICHAEL CIV DFAS; KANE, DAVID CIV DFAS; MILLER, ERIC CIV DFAS; MARQUEZ, CHERYL CIV DFAS
Subject:	VA Retro Background

I just got done talking to Mike and he asked me to summarize some additional background to better explain where I believe we are contractually.

The VA Retro project was started in July 2006. It involved a prototype/process development phase, an initial processing phase (similar to IOC), an interim processing stage, and a transition to full automation. We've never gotten out of the prototype/process development. The entire project has been done under CPFF (best effort). The proposals were based on known numbers of accounts, but in March of 2007 we "declared victory" at the halfway point by looking at the total number of accounts processed in comparison to the original 133K. In April 07 the contractor proposed continuation of the project based on the 133K original and 8K new records to be process. This was placed on contract with a period of performance ending 31 December. This again is a CPFF effort. As of 15 November the contractor had processed ~ 120K records and still has 48K of the original files to process. These 48K represent the hardest and most complex of the files and each requires significant time and expertise to process, once the record information is received. There are several constraints on availability of the data, but with Martha's help DFAS is working through the DFAS firewall issue on VETSNET, however, this will only cover about 11K of the 48K records. The remaining records are either on older data systems or require paper data pulls from various VA offices.

Based on past practice, the CGA never distinguished between original and new accounts being processed and the labor expended was paid for under the contract.

The Government (Karl, Martha & Chet) do not want the contractor or CGA to stop all efforts on the new files, but want emphasis on the original files. The contractor proposes that the will be able to process 300 records per day starting today (I do not believe they will be able to hit this mark) and based on that, they are projecting a 7 month POP. Further the "shot=off" valve of automation is some undefined date in the future as it is dependent on the VA's 3-in-one data product that has not been fully defined nor do we have a projected delivery for it. We will put the press on these files, set impossible goals and therefore expectations and be the architects of yet another failure. Even if the contractor can meet his goal, the CGA is not able to process this level of workflow due to the reviews mandated to comply with Certifying Officer Legislation and the potential liability therein.

Throughout the project, the processes have undergone numerous changes, the groundrules on what can and can't be done, review and sampling levels, and the sources of data as well as the population of records have all been moving targets. Nothing has stabilized to allow us to move to another form of contract.

I hope this helped, please let me know if you have any specific questions. Thanks
V/R
Steve

VA Retro

Executive Summary:

* Lockheed Martin (LM) committed to completing 133,057 VARetro accounts by November 15, 2007. Additionally, LM committed to completing any additional accounts that were received above this base number by December 31, 2007. As of September 30, 2007 this number was 162,475.

* Much effort was put into an accelerated development to create an automated solution to potentially pay 45-50% of the CRSC cases. This depended upon the government agreeing that that a DVA file, the SLC06 be the only source on information

* Once the risk of using the SLC06 file was determined, ti was no longer considered a viable option. At least 14%+ of the accounts computed using the solution would be erroneous..

* COL: the application of COL oversight has made payroll processing challenging. Most VA Retro cases are manually created. Achieving 97% passing is often very difficult..

* RBA200) a file recently determined to exist. It holds many possibilities, bur not fully explored

* Personnel: Approximately 44 people were hired (per LM invoice). Since inception the government has been invoiced $464,825.

Issue: What impediments negatively impacted timely completion? Are these issues valid?

Background:

An In Process Review (IPR) was held on May 8, 2007. A DVA Retro glide Path chart reflected the commitment to November 15 and December 31, 2007. The completion project proposed in several phases ():

- Phase I (7/06 – 9/06)
  - Successfully completed on time and received customer sign off approval on the computation module.

- Phase II (10/06 – 6/07)
  - As of April 2007, the project has processed 73,199 cases.
  - March 15th goal to pay 50% of the 133,057 cases was met and exceeded by approximately 200 payments.
  - Current period of performance extended through June 2007

- Phase II-B (continuation of Phase II) (7/07 – 1/08)
  - Completion of 133,057 cases as well as 8,200 new cases received through March 1, 2007
  - Proposal in review between CGA and LM

- Phase III - Residual
  - This phase is intended to support the processing of new accounts from March 2007 through the implementation of the permanent solution. A proposal will be submitted in August 2007.

The program was outlined in 3 phases (from the May 8, IPR) :

- Interim Solution: M/S Access
  Aimed at providing efficiency and stability to the current manual process.

  - May 11: Verify Conversion to SQL Server
  - May 31: Realize Increased Throughput of Casework – 24 additional technicians processing cases
  - August 15: Deliver Phase III Technical Proposal
  - November 15: Complete processing of original 133,057 cases
  - December 15: Complete processing of 141,300 cases

- Accelerated Development

Earlier delivery of certain components of the permanent solution; specifically with regards to CRSC cases

  - May 8: Start Funded Work Effort
  - July 31: Customer Acceptance Testing Begins
  - Sept 13: Implementation Begins – 3 months ahead of original schedule

- Permanent Solution
  - June 8: Phase II Technical Proposal
  - Sept 30: Build System Testing Environment

The Business Rule:

The interim solution utilized a Microsoft Access data base, and is primarily a manual operation. This process included manual data entry after receipt of entitlement data, diagnostic codes and .effective dates from the VA. This is time-consuming and cumbersome, but creates a payment based on all pertinent data.

The accelerated development solution was anticipated to allow much faster processing. It was based on the government accepting a business rule that assumed a particular file

provided by the DVA, the SLC06 file, along with the initial letter from the service authorizing CRSC was all that was required to adjudicate and pay VA retro. Note there is nothing in the may IPR indicating this was a requirement for completing the work effort).

LM provided briefings on July 25, 2007 August 22, 2007 and September 4, 2007. These briefings outlined what cases would be automated, which exceptions were excluded amd emphasized the need to approve the "Business rule":.

The new business rule.....

- DVA retro payments (DFAS and VA portions) are computed by the DVA Retro database (to be replaced by the DB2 accelerated CRSC permanent solution) through the use of data transmitted on the SLC06 file. For accounts already determined to be CRSC, it is assumed that the retroactive award on the SLC06 file is combat related.
- Through the implementation of this business rule, the SLC06 file data is considered the only source data required for processing. We will not use information on the DVA "Target" or "VETSNET" system to substantiate the SLC06 file data.

Business Rule Clarifications

- The SLC06 file data will be used to substantiate the retro-active effective date for award letters received prior to 10/1/06.
- The SLC06 file data ***does not reflect individual diagnostic codes and individual effective dates.*** The business rule defines that the effective date supplied in the SLC06 file data will be used to determine the retroactive effective date for combat related codes.
- For retroactive effective date changes (subsequent to the initial award), the SLC06 file data will be used to determine the retroactive effective date.

- Processing steps will be:

1. All cases with retroactive eligibility will be identified using the SLC06 file data.

2. For combat related diagnostic codes, we will change the effective date to the oldest date with a withholding amount on the SLC06 file.

Throughout the June-July 2007 timeframe LM requested the government approve the business rule. There was no definitive response. In August, when the business rule issue was again raised, the government asked, " what is the risk in improper payments if the business rule was approved?" The answer was not easily obtained. The government was asked to go to the DVA and request they provide information on a number of potential cases. LM pursued this effort on their own, requesting information on 500-600 accounts from the VAROs. The goal was to run accounts through their accelerated development tool and compute via the manual process. The government asked for feedback after a approximately 10 days.. The result was a determination that following the business plan would result in a 14% or greater error rate: Details of the sample accounts:

- 91 accounts where both options identified the same diagnostic effective date. This essentially means that the Gross Pay will be the same regardless of the option.

- 21 accounts yielded a difference in pay.
  - 3 Would become a CRDP recipient
  - 15 would be overpaid (average $5,183.00 – Max $17K Min $37.00)
  - 3 would be underpaid (average $2,342 – Max $3.4K Min $1.7K)

- 21 accounts in the sample have a CRSC award date after 10/01/06 and thus do not effectively test the business rule.

- 16 Additional analysis required

133	Total Reviewed	100.00%
91	Accurate Pay	68.42%
3	CRDP would be more beneficial	2.26%
15	Over Paid	11.28%
3	Under Paid	2.26%
21	Post 10/01/06	15.79%

Sampling (based on 112 accounts - Excludes post 10/01/06)		
112	Total Reviewed	100.00%
91	Accurate Pay	81.25%
3	CRDP would be more beneficial	2.68%
15	Over Paid	13.39%
3	Under Paid	2.68%

Projected results (based on 8,510 CRSC accounts and 13,172 CRSC / CRDP blended)		
18,259	Total Reviewed	100.00%
14,835	Accurate Pay	81.25%
489	CRDP would be more beneficial	2.68%
2,445	Over Paid	13.39%
489	Under Paid	2.68%
3,423	Post 10/01/06	

Average Over Payment Amount	$5,183.00

Projected Over payment	$12,674,517.46

Average Under Payment Amount	$2,342.00
Projected Over payment	$1,145,426.20

After weeks of addressing the business rule, the lack of upfront risk analysis resulted in ultimate rejection of this path forward. Note this issue addresses CRSC, not CRDP. LM advised CRDP accounts were on track for completion by 11/15 and 12/31 as appropriate. accounts

RBA2000:

After this effort fell through, contact was made wit a senior VA executive. He advised a VA file was available, the RBA2000. which appears to provide the needed information to adjudicate most non-exception cases (and assist with some of the exceptions). To use this file with the automated solution will likely take 3-4 weeks to get started, an automated solution not likely with this file until after processing commitments are met.

It would seem that a readable copy of this file would assist the manual side of processing, allowing faster manual account processing. No commitment from LM at this time.

Dependency Issues:

Another issues was raised regarding dependency processing and "color of money (DOD vs. DVA funds0". This issue came from the government, indicating that although accounts were computed correctly, the correct amount of money to the retiree the funds to the DFAS or the DVA was incorrect. This caused LM to recreate their payrolls, pulling 80% of the accounts. Within 2-3 days, the issue was resolved. And payrolls processed again.

Certifying Officer Legislation (COL):

Frustration has arisen several times regarding the issue of COL. The rule is that 97% of the accounts in a payroll must pass the governments review or the payroll has rejected. Payrolls has rejected at various times, but the contractor has reworked the payrolls

Personnel:

LM was generally given carte blanch to hire the personnel necessary to complete the VA Retro effort. Roughly 44 personnel were hired. Total expenditure since inception of the VA retro program is $464,825

The security process (EPSQ) has removed some processors,. The number is not known.

BERNHARDT, KARL H CIV DFAS

From: SHINE, PAT
Sent: Wednesday, October 11, 2006 5:01 PM
To: TYMINSKI, WILLIAM
Cc: BERNHARDT, KARL H; SWEITZER, KENNETH; STEARNS, MARTHA; HOGE, RITA; BENISEK, GENE; WETZEL, KAREN; COOK, ROBERT T (CONTRACTOR)
Subject: RE: VA Retro cases

Thanks Bill. As you can imagine, this action has a lot of high level visibility so we need to keep a constant eye on it and be prepared to act as soon as we see any slippage in the schedule.

Pat

>_____
>From: TYMINSKI, WILLIAM
>Sent: Wednesday, October 11, 2006 4:54 PM
>To: SHINE, PAT
>Cc: BERNHARDT, KARL H; SWEITZER, KENNETH; STEARNS, MARTHA; HOGE, RITA; BENISEK, GENE; WETZEL, KAREN; COOK, ROBERT T (CONTRACTOR)
>Subject: VA Retro cases
>
>
>Mr. Shine.....I am providing some of the information provided by Robert Cook regarding the VA retro payments for this month:
>
>From the pending payroll we removed 89 payments from DFAS, 172 from DVA. The payroll will now be 410--DFAS payments and 1450--DVA.
>
>We migrated cases to Level 3. Here is the new breakdown by levels:
>
>Level 1 from 53,812 to 47,497
>Level 2 from 38,195 to 32,127
>Level 3 from 42,886 to 55,269
>
>We will have the revised payroll to the CGA by 1700 today. I have Gene B. talking to Frank regarding the sampling requirements for this payroll---since it is different in size and complexity---the sampling size may change.. We will run the update tomorrow, Thursday, October 12, payment date will be Wednesday October 18.
>
>As far as the impact on the 40,000 for the month of October, it is critical that we get this payroll approved and the next large one out to the VA by the 18th or we will not be able to meet the 40,000 processing projections. Going on the premise that this payroll is acceptable, we will work closely with Lockheed to implement sampling plans on the processes for subsequent payrolls.
>
>By my estimation, if everyone remains on task, we'll have another payroll to the CGA by Friday. This will get us pretty close to the 40,000 mark.
>
>We will continue to monitor this process very closely with Lockheed and keep you apprised of developments.
>
>Bill
>
>

BERNHARDT, KARL H CIV DFAS

From: TYMINSKI, WILLIAM
Sent: Tuesday, March 06, 2007 4:13 PM
To: BERNHARDT, KARL H; KRADLAK, MARTIN
Subject: RE: Retro-VA Project Progress

Karl.....I concur. I too do not feel confident regarding a project completion by the end of September. I thought that we were still due a proposal from Lockheed for the final phase of this process. If that's the case, that would be the time for an update on the remainder of the project. I'll have to defer to Marty's good judgment on this issue.....Bill

>_____
>From: BERNHARDT, KARL H
>Sent: Tuesday, March 06, 2007 10:31 AM
>To: TYMINSKI, WILLIAM; KRADLAK, MARTIN
>Subject: Retro-VA Project Progress
>
>Bill, Marty,
> While I suspect there is a fair likelihood that Lm will successfully achieve the "50% plus one" threshold, I do not have a warm and fuzzy about the remaining project. When I heard that upward of 40% of the remaining cases are within the IU category, I can see where more unexpected difficulties may arise. I also heard that there is a reasonable chance that this effort will be predominantly supported by manual calculation/ technician work vice automated solutions. While Robert alluded to re-training the tax season temporary employees employed in the contact center after April, that means they may not be productive till May or later. I do not see a clear plan that takes us to project completion by Sep 07 with a high degree of certainty.
>
> Would it be prudent to conduct a mid-course IPR on this project with the goal of evaluating the plans and preparations for supporting the remainder of the project work? That could also include the automation/ SCR changes planned for RCPS. This could lead to a mid-course adjustment of the project, if needed, particularly if the desired outcomes are in doubt.
>
>Karl

WINN, SHARON CIV DFAS

From: ETTER, LINDA CIV DFAS
Sent: Thursday, January 03, 2008 5:53 PM
To: GIEBELHAUS, STEPHEN CIV DFAS; QUINLAN, FRANCIS CIV DFAS
Cc: BARTA, MARK CIV DFAS; KOENIG, JOHN CIV DFAS; LAFFERTY, SCOTT CIV DFAS
Subject: FW: VA Retro ROM

Importance: High

Attachments: VA Retro OPS - ROM for 48K cases - 12.27.07 - DFAS.doc

VA Retro OPS - ROM for 48K cas...

Steve and Frank,

We have reviewed the VA Retro - ROM. Although you indicated that the CGA will need to determine whether the ROM is a feasible and reasonable approach to completion of the processing of the original VA Retro case, we wanted to share our thoughts on a few of the items. Our comments are set forth in Scott's e-mail below.

Linda

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-----Original Message-----
From: LAFFERTY, SCOTT CIV DFAS
Sent: Thursday, January 03, 2008 3:35 PM
To: ETTER, LINDA CIV DFAS
Cc: KOENIG, JOHN CIV DFAS
Subject: FW: VA Retro ROM
Importance: High

Linda -

Per our discussion this morning, I am submitting the following as our comments to the ROM that LM has submitted for processing the remaining VA Retro cases.

- Page 1, under "Approach: Processing", 3rd bullet, item 2, LM refers to receipt of a correct and complete RBA2000 file from the VA by the end of December 2007 to complete certain cases. Then, at the top of page 4, it indicates that a "Detailed Data Analysis" is being conducted on the RBA2000, but no results are suggested. Since the ROM is dated December 27, 2007, it is unclear why an update from the VA is not included regarding the progress in providing access to this file in the near term. Otherwise, it seems meaningless to rely on this data source for completing the remaining VA Retro cases.

- Page 1, under "Approach: Processing", 3rd bullet, item 3, another stated assumption is receipt of 30,000+ "Rating Decisions" from the VA Regional Offices. There are approximately 55 VA regional offices, which DoD has no direct control over. Our earlier comments had alternatively suggested obtaining the Rating Decisions from the 3 individual military service CRSC offices, which with DoD assistance, would offer a more targeted approach. Obtaining the Rating Decisions from the military services is not addressed in the ROM.

- On page 3, "Assumptions/Baseline - Operational", LM projects adjudicating 1,500 cases per week. Even if the project runs from the week of January 7 through the end of April 2008 (16 weeks), at 1,500 per week, LM would process only 24,000 cases, only half of the remaining cases/accounts to be worked.

- Page 4, under "Dependencies/Constraints", the "relief from COL" constraint that Steve Minnich also refers to should more correctly refer to the Improper Payments Information Act that Mark cited in his opinion of December 10, 2007

 DFAS-CL [redacted]

to Eric Miller and Doug Smith about the reporting requirement for underpayments. The COL constraint would apply to overpayments.

Scott

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-----Original Message-----
From: GIEBELHAUS, STEPHEN CIV DFAS
Sent: Friday, December 28, 2007 11:36 AM
To: ETTER, LINDA CIV DFAS
Cc: MESTER, JOHN SES DFAS; KOENIG, JOHN CIV DFAS; LAFFERTY, SCOTT CIV DFAS; QUINLAN, FRANCIS CIV DFAS
Subject: FW: VA Retro ROM
Importance: High

Linda:

Frank Quinlan just received the Lockheed Martin proposal on how it would meet Mr. Gaddy's deadline for processing VA retro payments.

Please let him and me know if you see problems with this.

Steve G.

-----Original Message-----
From: QUINLAN, FRANCIS CIV DFAS
Sent: Friday, December 28, 2007 11:13 AM
To: GIEBELHAUS, STEPHEN CIV DFAS
Subject: FW: VA Retro ROM
Importance: High

Steve,

Here is Lockheed Martin's proposal. Steve Minnich apparently thinks there are some issues to work out. I am in the process of reviewing it.

Thanks, Frank

-----Original Message-----
From: MINNICH, STEVEN CIV DFAS
Sent: Friday, December 28, 2007 10:08 AM
To: SMITH, DOUGLAS CIV DFAS; BERNHARDT, KARL H CIV DFAS; STEARNS, MARTHA SES DFAS; BOUTELLE, CHET SES DFAS
Cc: KANE, DAVID CIV DFAS; MILLER, ERIC CIV DFAS; LINDSAY, MICHAEL CIV DFAS; QUINLAN, FRANCIS CIV DFAS; BARTA, MARK CIV DFAS; MAJESKI, MICHAEL CIV DFAS; EGGLESTON, JILL CIV DFAS; BENISEK, GENE CIV DFAS; HOGE, RITA CIV DFAS; KRUSHINSKI, LEE SES DFAS
Subject: FW: VA Retro ROM
Importance: High

Doug/Karl,
Attached is the ROM for VA Retro. Please review, provide comment and process funding and Government Estimate. I have extracted significant issues that I'm aware of below:

Salient features:
1. Total projected cost of clearing remaining 48,000 records $3,387,000 less applicable amount currently on contract leaves $1,529,000 to be funded
2. ROM is predicated on several assumptions/dependencies:
   - Practices Previously rejected by the Government as unacceptable including:

DFAS-CL

[redacted]

WILES, AMY CIV DFAS

From: KRUSHINSKI, LEE SES DFAS
Sent: Wednesday, June 04, 2008 9:10 AM
To: WILES, AMY CIV DFAS
Subject: FW: VA Retro Timeline
Signed By: lee.krushinski@dfas.mil

-----Original Message-----
From: KRUSHINSKI, LEE SES DFAS
Sent: Monday, December 03, 2007 7:14 AM
To: STEARNS, MARTHA SES DFAS; BOUTELLE, CHET SES DFAS
Cc: KLUMPH, BUD CIV DFAS
Subject: FW: VA Retro Timeline

Martha/Chet...I'd like something from the contracting office today on what we can do to require (and pay for) mandatory overtime for the current staff to work these cases. Would like to know how many folks would be capable to help out in this processing, recognizing some contractor personnel may not have the prerequisite competencies and skills to work these. We can discuss at Southbridge. If we get any push back at all from the contractor, I'd like to schedule a meeting with the VP this Friday if possible when we get back to discuss this. I also want to talk to you and Chet about what happened here and what short and long range actions we need to take to square this away. I'm hearing and seeing a lot more problems here than just the VA Retro especially in the customer service arena. Let's see if we can figure out a plan of attack.....Lee

-----Original Message-----
From: KRUSHINSKI, LEE SES DFAS
Sent: Monday, December 03, 2007 7:03 AM
To: GADDY, ZACK SES DFAS; STEARNS, MARTHA SES DFAS
Cc: BOUTELLE, CHET SES DFAS; BERNHARDT, KARL H CIV DFAS; SMITH, DOUGLAS CIV DFAS; ONDER, GARRICK CIV DFAS; MCKAY, TERESA SES DFAS; LOPEZ, LEE CIV DFAS
Subject: RE: VA Retro Timeline

Zack,
I have Martha checking with the contracting folks to see what we can do to require mandatory overtime for the full R&A staff to work these cases. Don't see why we can't do that and the people working the cases would already have the basic knowledge needed to work these.....Lee

-----Original Message-----
From: GADDY, ZACK SES DFAS
Sent: Sunday, December 02, 2007 2:46 PM
To: STEARNS, MARTHA SES DFAS
Cc: KRUSHINSKI, LEE SES DFAS; BOUTELLE, CHET SES DFAS; BERNHARDT, KARL H CIV DFAS; SMITH, DOUGLAS CIV DFAS; ONDER, GARRICK CIV DFAS; MCKAY, TERESA SES DFAS; LOPEZ, LEE CIV DFAS
Subject: RE: VA Retro Timeline

I can tell you right now that 6 more months is unacceptable. I want these cases processed within 3 months. We have already taken far too long and I will not accept the glide path you included. Tell me how many people you need and how much OT is required to make 3 months. Also, if a case is resubmitted it should not count against us since you should have already reviewed it and made an original determination.

Thx,
Zack

SMITH, DOUGLAS CIV DFAS

From:	BENISEK, GENE CIV DFAS
Sent:	Thursday, January 24, 2008 5:38 PM
To:	JAKYMA, DOUGLAS CIV DFAS
Cc:	SMITH, DOUGLAS CIV DFAS; BERNHARDT, KARL H CIV DFAS; MYERS, JAYNE CIV DFAS; HOGE, RITA CIV DFAS; WAWIERNIA, PAULA CIV DFAS
Subject:	FW: Need the orange chart populated with data today please.
Attachments:	VA Retro Daily Productivity 23JAN08.ppt; VA Retro 5 Day Report jan22.ppt; new daily production jan22v1.ppt

VA Retro Daily Productivity 23... VA Retro 5 Day Report jan22.pp... new daily production jan22v1.p.

Doug J,

Will the majority of the information Karl's requesting be ultimately provided by the contractor - since they trigger and actually feed the process and are cognizant of the requested information? They number the payrolls, are cognizant of the actual data contained therein and have the receipt of our random sampling requests, the dates they provided cases jackets to the CGA. I was under the impression that Brian Clemente was the controller of the numbers.

I agree with Karl that additional information is necessary. Will LMGS be expected to control and balance the numbers based on the submission and review process.

There is a reason for the request.

Maybe you understand these reports that R&A is providing better than I do. For example, look at the first chart attached above. Look at the daily productivity for 1/16/08. The first attachment indicates zero productivity for 1/16/08. Now, look at the first slide in the second attachment going left to right. This chart reflects that 197 accounts were actually processed from the remaining original population. Does the 3rd attachment reflect that 258 cases were worked on 1/16/08. What's the accurate number/

I'll provide and assist where I can, but I would suggest that we try to stay out of harms way in synching up LMGS numbers. Maybe I'm just reading information inaccurately.

Gene

Gene

-----Original Message-----
From: SMITH, DOUGLAS CIV DFAS
Sent: Thursday, January 24, 2008 3:54 PM
To: BENISEK, GENE CIV DFAS; JAKYMA, DOUGLAS CIV DFAS
Cc: MYERS, JAYNE CIV DFAS; MYERS, ROBERT CIV DFAS; HOGE, RITA CIV DFAS; WAWIERNIA, PAULA CIV DFAS
Subject: RE: Need the orange chart populated with data today please.

Gene,

Please work with Doug Jakyma to create a report that meets Chet's requirements. I would like to review with ALCON before we publish. Anticipate this will be a daily chart you will produce each day for internal DFAS distribution.

Doug

-----Original Message-----
From: BERNHARDT, KARL H CIV DFAS

BERNHARDT, KARL H CIV DFAS

From: SMITH, DOUGLAS CIV DFAS
Sent: Friday, January 04, 2008 1:10 PM
To: MYERS, ROBERT CIV DFAS; BERNHARDT, KARL H CIV DFAS
Subject: RE: VA Retro Mtg w/ Mr. Gaddy

Bob/Karl,

I have met with LM. They are to create new weekly reports:

1) A bar chart reflecting the cases remaining to be completed for both the "Original Population" and the "new and returning." The chart will begin at 15 Nov 07 and reflect status each week thereafter.

2) A productivity graph. This will begin on 15 Nov 07 and reflect weekly information. LM will project productivity based on 6 cases per tech per day. The projections are to be adjusted as each of the classes complete and deliver new techs. This planned line will move forward until 7 Apr 08. A second point will be noted weekly which is what was actually produced. Any delta will require explanation. The graph is to continue out until the inflow of cases can all be worked within 30 days.

Reports are to be available each week so that the information required for the website can be posted Tuesday morning.

3) They also need to report workable cases. These are cases for which they have the data needed to adjudicate. All other cases would be non-workable. No format discussed for this report.

LM will review the debt cases to ensure all debts are VARetro related. If so, a no pay due letter will be generated.

We owe a response to:

A) Why productivity is low
B) Why we have not processed the difference between the ~40,000 data call to the VA and the 43,056 currently on hand.
C) Status of obtaining VA data to complete by 7 Apr 08.

Corp Comm is to post information on the web regarding progress.

If more, please advise.

Doug

-----Original Message-----
From: MYERS, ROBERT CIV DFAS
Sent: Friday, January 04, 2008 12:39 PM
To: BERNHARDT, KARL H CIV DFAS; SMITH, DOUGLAS CIV DFAS
Subject: VA Retro Mtg w/ Mr. Gaddy

I'm no secretary and my shorthand stinks, but here's what I heard:

CB = Chet Boutelle
DS = Doug Smith
KB = Karl Bernhardt
LK = Lee Krushinski
ZG = Zack Gaddy

CB started by asking ZG how he wanted to proceed; email questions or chart? ZG: Directly to the questions in the email.

[redacted]

DFAS-CL

#1 What's the status of the contract mod to complete the retroactive work for the original population? DS stated the following for the contract status: we have received the Rough Order of Magnitude (ROM) from LM, we have initiated the appropriate funding document locally, have a completed IGCE and are working on a Statement of Work (SOW). ZG asked if we have an expected date yet? DS stated at least a couple of weeks. CB states hopefully sealed up by week of 1/14.
#2 How many people have been brought on by LM to do this work? Have they been trained? DS stated LM currently has 3 classes for a total of 35 people. In January a new class will start bringing the total number of people to 60, as discussed in Southbridge. ZG asked if any of these people are actually doing any work yet? DS stated no, they are strictly in training mode.
#3 How many additional DFAS resources have been added? DS stated 7 additional to review payrolls provided by LM and to review any entitlements over $2500
#4 Overall, are you successful at ramping up the number of people we discussed on Dec 6th? DS stated yes
#5 What was the original population of retroactive cases from the original population as of Dec 6, 2007? How many of these cases have been computed since then? DS stated the population on 12/6 was 44,128 and 43,056 remaining for a total of 1,092 completed from 12/6 to current date.
#6 What is the planned daily productivity per person? DS stated 6 cases per person per day X 50 people = 300 per day
#7 What is the actual productivity per person? DS stated 1.4 cases per day because of slow data from the VA. ZG asked what are they doing the rest of the time? DS stated they are doing Congressionals and other items helping to reduce the number, plus the holiday was a slow period. CB stated we are contacting the VA daily and that they are providing the 100% certificates. LK asked if the lack of productivity because of a lack of information provided by the VA? DS stated this was correct. LK stated early next week he will go back to the VA SR guys & ask them to turn it up.
#8 What is the status of the DVA file you were testing back in Dec? DS stated the RBA 2000 test is being reviewed and we will probably get about 30% of data needed from this file. Also, that VETSNET access is close, that DFAS technical have Ok'd and we've asked the VA for a status this morning.
#9 What other steps are you taking to speed up this effort? DS stated we are working with the VA for data identifying the first 35K who signed up continue to coordinate VETSNET availability and are getting as much data as possible from the RBA 2000 report.

ZG then asked why the 5K cases previously identified as not needing data from the VA to compute weren't done yet? DS stated we don't know, we would have to ask LM. ZG then states that LM needs to come prepared to talk about their productivity.
ZG: What does it take to get the right info from the VA? DS: The RBA 2000 test is being reviewed and VETSNET access is close. ZG: When will we have access the data? This week? Next week? The data is critical and we need to work. DS: We will get an answer to that question soon.
ZG: In our letters to the mbrs, do we give them a date to expect pmnt? DS: No, just that we are working the items. ZG: We need to let the customers know when we expect to get things done in order to avoid congressionals. CB: We are going to advertise on the web and have it updated every /Monday to see how many cases done, when we think the 100%ers will be done, and state when we are going to the 90%ers, etc. KB: We also advised corporate comm that they are receiving a smaller pmnt from us and a larger from the VA.
ZG: When will web be updated? CB: Probably Monday, Tuesday at the latest.
ZG: Format of the chart from LM not good, he does not want to have to do the math, only wants current quick snapshot.KB: The total # at the start of the day, the # of people working, # of cases done. ZG: Take the beginning # and the April 7 target date and depict how we're going to get to the goal. 50 people X 6 cases = 300/day. When there is a Delta, identify it and find out why it's there. Stay of track and on top for expected productivity. We should be able to identify daily what is happening. ZG: Are the #s going down as we said they would? What is the productivity with the # of people we have working the cases? He would like a "sand" chart depicting these figures at the same time the new & returning #s that will grow because of the age of the population. He would like this chart weekly stating work in progress, goals in 30 days, etc. He stated we do not want to create a backlog.
DS: 1600 paid, no pay dues ID'd, debts not processed. ZG: Debt ltrs sent? DS: No KB: Lawyers have said not to identify debtors. ZG: Not eligible's contacted? DS: Yes ZG: Keep the customers informed of their status as best we can. ZG asked LK if Philpot was contacted yet? LK: Not yet, trying to get with Rox in the middle of Jan when he'll return from work on the hill. We'll have to carefully craft when we do go out to them.

DFAS-CL [redacted]

DUE OUTS: Productivity is low. WHY?
Update chart to depict only information he wants to identify trends/productivity
Identify what data we need to get from the VA to complete the project by 4/7/08

Bob Myers
Finance Operations

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Thursday: 269
Friday: 382

Sub-total: ~1,331

Our class of 12 is ~ 50% complete. The new folks in house (6) are tackling blended cases, but we are depending on our seasoned personnel to more quickly work these difficult cases.

For the government to keep pace, the letter being worked is clearly needed.

Doug

-----Original Message-----
From: SMITH, MARTHA J SES DFAS
Sent: Friday, February 22, 2008 11:55 AM
To: SMITH, DOUGLAS CIV DFAS
Cc: BOUTELLE, CHET SES DFAS
Subject: FW: VARetro-021908d.ppt

How many will go out tonight? Thx m

-----Original Message-----
From: GADDY, ZACK SES DFAS
Sent: Friday, February 22, 2008 11:35 AM
To: SMITH, MARTHA J SES DFAS; KRUSHINSKI, LEE SES DFAS; MCKAY, TERESA SES DFAS; NOE, NORMAN CIV DFAS
Subject: Re: VARetro-021908d.ppt

Will you meet the goal to settle 2000 cases this week?

Thx,
Zack

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: SMITH, MARTHA J SES DFAS
To: GADDY, ZACK SES DFAS
Cc: BOUTELLE, CHET SES DFAS; KRUSHINSKI, LEE SES DFAS; SMITH, DOUGLAS CIV DFAS; BERNHARDT, KARL H CIV DFAS
Sent: Fri Feb 22 08:05:21 2008
Subject: RE: VARetro-021908d.ppt

Attached are the charts briefed this a.m. They changed the planned productivity to capture the data as the cases leave the QC review, as you requested. For the FTE's they added in the QC review folks (6, ramping up to 9). More discussion this a.m. about bringing the LM technician output up. Rocky reported that a couple of the technicians can output 15 cases a day, others barely 1.

A lot of discussion this morning between Linda Gooden and Rocky regarding workforce efficiency. They said they are bringing in an expert on Sunday to work with them. They have 45 people coming in Saturday and 15 Sunday.

Walked Radha through the report yesterday. Her only comment back to me was that the budget justification paper that went to Tina included the new and returning cases, so she is requesting that information daily, as well. I will work with Rocky to add that to the daily report because I think it's important that only one report be floating around each day.

-----Original Message-----
From: GADDY, ZACK SES DFAS
Sent: Friday, February 22, 2008 7:15 AM
To: SMITH, MARTHA J SES DFAS
Cc: BOUTELLE, CHET SES DFAS; KRUSHINSKI, LEE SES DFAS

Subject: RE: VARetro-021908d.ppt

Keep calling into the morning meetings with Linda Gooden. They aren't making their planned production so it calls into question their ability to meet the April deadline. That will be the subject of the meeting with Tina and Linda on Monday.

Thx,
Zack

-----Original Message-----
From: SMITH, MARTHA J SES DFAS
Sent: Thursday, February 21, 2008 10:27 AM
To: GADDY, ZACK SES DFAS
Cc: BOUTELLE, CHET SES DFAS; KRUSHINSKI, LEE SES DFAS
Subject: FW: VARetro-021908d.ppt

Zack, here are the corrected charts. This does not include your change to the productivity numbers (they are working that now).

The "Payroll Queue" is created when the technician finishes a case and presses Submit. The plan is to pull 500 cases per day into QA Queue for review. To walk you through this, let's take Wednesday's plan. The QA Queue number is a product of the previous day's QA Queue (1793) + what was pulled from Payroll Queue Output (500) minus QA Output (501) and minus rejects (86) = 1706.

For the CGA Queue numbers, they just counted what was in there today and for planning purposes they said CGA Output would be the same as what was pushed to them that day (501). We are assuming this will change with the combined review team.

Cumm Remaining is the previous days actual inventory - planned paid (37,211 - 501) for the plan and actual inventory - actual paid for the cumm remaining.

-----Original Message-----
From: Thurston, Rocky [mailto:rocky.thurston@lmco.com]
Sent: Thursday, February 21, 2008 9:15 AM
To: SMITH, MARTHA J SES DFAS; BOUTELLE, CHET SES DFAS; KRUSHINSKI, LEE SES DFAS
Subject: VARetro-021908d.ppt

<<VARetro-021908d.ppt>>

 [redacted]

SMITH, DOUGLAS CIV DFAS

From: GADDY, ZACK SES DFAS
Sent: Friday, April 04, 2008 1:56 PM
To: 'rocky.thurston@lmco.com'; BERNHARDT, KARL H CIV DFAS; COOK, ROBERT T CTR DFAS; SMITH, MARTHA J SES DFAS; SMITH, DOUGLAS CIV DFAS; BOUTELLE, CHET SES DFAS; JAKYMA, DOUGLAS CIV DFAS; NOE, NORMAN CIV DFAS; KRUSHINSKI, LEE SES DFAS; MCKAY, TERESA SES DFAS; BERMAN, JUDY CIV DFAS; RAMOS, CARLOS LTC DFAS; 'RADHA.SEKAR@OSD.MIL'; 'rodney.gregory@osd.mil'; MINNICH, STEVEN CIV DFAS; CLYMER, JOHN CIV DFAS; HALAUT, CAROLYN CTR USA DFAS; MORRIS, LARRY LTC USA DFAS
Subject: Re: VA Retro 4/4 - Flash

Rocky:

These results for Thursday are extremely disappointing. As we discussed this morning, I'd like to see all rejected cases cleared this week. By now you should have a handle on why cases are not passing QA and get the quality level to a point where adjudicated cases pass muster.

Thx,
Zack

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Thurston, Rocky <rocky.thurston@lmco.com>
To: BERNHARDT, KARL H CIV DFAS; COOK, ROBERT T CTR DFAS; SMITH, MARTHA J SES DFAS; SMITH, DOUGLAS CIV DFAS; BOUTELLE, CHET SES DFAS; JAKYMA, DOUGLAS CIV DFAS; GADDY, ZACK SES DFAS; NOE, NORMAN CIV DFAS; KRUSHINSKI, LEE SES DFAS; MCKAY, TERESA SES DFAS; BERMAN, JUDY CIV DFAS; RAMOS, CARLOS LTC DFAS; Radha.Sekar@OSD.MIL <Radha.Sekar@OSD.MIL>; Gregory, Rodney Mr OSD COMPT <Rodney.Gregory@OSD.MIL>; MINNICH, STEVEN CIV DFAS; CLYMER, JOHN CIV DFAS; HALAUT, CAROLYN CTR USA DFAS; MORRIS, LARRY LTC USA DFAS
Sent: Fri Apr 04 12:19:13 2008
Subject: VA Retro 4/4 - Flash

Please find charts attached.

Rocky Thurston
Director, Financial Services
Lockheed Martin
w: (703) 891-6580
c: (703) 403-7947
rocky.thurston@lmco.com

DFAS-CL [redacted]

SMITH, DOUGLAS CIV DFAS

From: GADDY, ZACK SES DFAS
Sent: Monday, May 05, 2008 4:19 PM
To: Ruddell, Howard; SMITH, DOUGLAS CIV DFAS; BERNHARDT, KARL H CIV DFAS; SMITH, MARTHA J SES DFAS; BOUTELLE, CHET SES DFAS; NOE, NORMAN CIV DFAS; KRUSHINSKI, LEE SES DFAS; MCKAY, TERESA SES DFAS; BERMAN, JUDY CIV DFAS; Radha.Sekar@OSD.MIL; Gregory, Rodney Mr OSD COMPT; MINNICH, STEVEN CIV DFAS; Darrell Graddy
Subject: RE: VA Retro Daily Flash 05-05-2008

I appreciate that 698 original and 248 new/returning cases were completed. However, LMCO missed the goal for original cases by 707 for the week. Further, for the period included in the flash report, floor production was 391 vice 590 and the productivity level was 1.49 cases per FTE--nowhere near the level required to meet productivity goals to achieve the revised plan briefed to me and Dave Patterson today . Also, why were 388 cases rejected back to Ops? By now I think LMCO should be able to produce consistently reliable results to avoid the high level of rework that has occurred since the inception of this project.

Zack

-----Original Message-----
From: Knachel, John S [mailto:john.s.knachel@lmco.com]
Sent: Monday, May 05, 2008 10:27 AM
To: SMITH, DOUGLAS CIV DFAS; Thurston, Rocky; BERNHARDT, KARL H CIV DFAS; COOK, ROBERT T CTR DFAS; SMITH, MARTHA J SES DFAS; BOUTELLE, CHET SES DFAS; JAKYMA, DOUGLAS CIV DFAS; GADDY, ZACK SES DFAS; NOE, NORMAN CIV DFAS; KRUSHINSKI, LEE SES DFAS; MCKAY, TERESA SES DFAS; BERMAN, JUDY CIV DFAS; RAMOS, CARLOS LTC DFAS; Radha.Sekar@OSD.MIL; Gregory, Rodney Mr OSD COMPT; MINNICH, STEVEN CIV DFAS; CLYMER, JOHN CIV DFAS; HALAUT, CAROLYN CTR USA DFAS; MORRIS, LARRY LTC USA DFAS; LOPEZ, LEE CIV DFAS; MOORE, KATHLEEN CTR DFAS; MOYER, TOM CIV DFAS
Cc: Ruddell, Howard
Subject: VA Retro Daily Flash 05-05-2008

Daily Flash for Friday and weekend work.

From: GADDY, ZACK SES DFAS <ZACK.GADDY@DFAS.MIL>
Sent: Monday, December 10, 2007 12:02 AM
To: Rogers, Peter <peter.rogers@lmco.com>
Subject: Re: Thank You

My biggest concern is that you deliver on the plan. Once I brief the congressional staffers and the media on the plan, they will not be forgiving of another missed completiom date.

Thx,
Zack

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Rogers, Peter <peter.rogers@lmco.com>
To: GADDY, ZACK SES DFAS
Sent: Fri Dec 07 09:39:22 2007
Subject: Thank You

Zack, I appreciate the time you took to meet with us yesterday. I□ve attached the presentation that we used. We will work w/ your staff to quickly review and calibrate every element of the plan and I will review our progress on a weekly basis. If you have any questions or concerns, or if there is anything I can help with, I can be reached at (301) 519-5159 or peter.rogers@lmco.com. Thanks again.

[redacted]

DEFENSE FINANCE AND ACCOUNTING SERVICE
COLUMBUS CENTER
P.O. BOX 182317
COLUMBUS, OHIO 43218-2317

IN REPLY REFER TO DFAS: HCMCOC, Steven H. Minnich 28 April 2008

Subject: Completion of VA Retro Project

TO: Mr. Joseph Cipriano
President
Lockheed Martin Business Process Solutions
2275 Research Boulevard, Suite 400
Rockville, MD 20850

Reference: MDA220-01-D-0002-0077, VA Retro Project
Reference: Letter: Completion of VA Retro Processing Dated 5 March 2008
Reference: LM Letter VA Retro Project dated 13 March 2008

The Defense Finance and Accounting Service (DFAS) is again experiencing an erosion in confidence in Lockheed Martin's (LM) ability to establish a standard, reliable process to complete the remaining 22,000 original cases in a timely manner. Our concerns are amplified by the discovery in the most recent Department of Veteran Affair's (DVA) data file of an additional 31,000 cases. This, coupled with a monthly inflow of approximately 6,000 new and returning cases leaves DFAS with little hope that this project will be completed any time soon.

DFAS recognizes that since the above referenced letters were sent that substantial changes were made in processes, applied tools, and manpower resulting in over 13,000 cases being adjudicated in March. Unfortunately, this led DFAS, the DoD leadership and Congress placed a high level of confidence in your revised plan and the asserted completion dates. However, since that initial success, both production and quality have fallen off to a point where production is behind by 5,400 cases with no indication that the project can be completed in accordance with your plan.

In short, LM has failed to meet Congressional and DoD Leadership expectations, as established by LM projections. This failure has placed DFAS and LM credibility in serious jeopardy as those briefed on the project have moved from being guardedly optimistic to skeptical in their acceptance of our ability to complete this project. DFAS needs case-based details for each planning assertion and its associated completion date to restore the credibility that has been lost over the course of the past month.

We recognize that LM is committed to this process and is working to be responsive to the needs of the veteran, DoD, and the Congress. We also understand that LM has called upon internal subject matter experts and Blackbelts to evaluate production and quality control processes in an effort to modify and more precisely define changes needed to establish a reliable and repeatable production environment that will result in

[redacted]

quality output. DFAS needs to be assured that the processes being put into place will increase production by case type and ensure the output of quality cases for payment. We must be assured that LM is going to be able to complete the original inventory and manage the new and returning inventory in a way that will bring this project to closure and fosters the smooth transition of future VA Retro requirements into the Retired and Annuitant (R&A) Pay process. To that end, we need:

1. The case processing model for each case type along with the documented standard operating procedures that account for the total inventory, including the newly discovered 31,000 cases.

2. The quality control process and standards being used that will provide assurances that the cases processed through production are going to be assessed using the same standard and are going to meet the 97 percent quality control standard for payment.

3. A comprehensive plan that tracks and reports on production performance by case type, provides detailed production and quality control processing deadlines, incorporates a rationale substantiating the schedule, addresses any projected risks, and identifies any additional costs. This plan must also be displayed in the form of a glide path that accounts for the original inventory, the newly discovered 31,000 cases, the backlog of new and returning cases and the recurring new and returning cases. It needs to also provide a milestone schedule for the transition of this effort into the R&A Pay process.

I cannot express strongly enough the criticality of completing the processing of the original inventory and for having a plan that will demonstrate our capability to manage this project as a standard business process. The expectation is that LM will expeditiously continue to plan, implement process changes and apply the necessary resources to address these requirements as expeditiously as possible and to ensure that any additional VA Retro cases coming into the inventory are processed for payment accurately and promptly.

Contractual questions and issues should be addressed to the undersigned or Mr. Eric Miller, (614) 693-0122. Operational and implementation questions and issues should be addressed to Mr. Doug Smith, (216) 522-6072.

STEVEN H.MINNICH, CPCM
Contracting Officer
(614)693-0107

CC: Lawrence Vittori
Rocky Thurston

[redacted]

SOLICITATION/CONTRACT/ORDER FOR COMMERCIAL ITEMS
OFFEROR TO COMPLETE BLOCKS 12, 17, 23, 24, AND 30

1. REQUISITION NUMBER: RPYCL6RV321

PAGE 1 OF 22

2. CONTRACT NO.	3. AWARD/EFFECTIVE DATE	4. ORDER NUMBER	5. SOLICITATION NUMBER	6. SOLICITATION ISSUE DATE
MDA220-01-D-0002	27-Sep-2006	0077		

7. FOR SOLICITATION INFORMATION CALL:	a. NAME	b. TELEPHONE NUMBER (No Collect Calls)	8. OFFER DUE DATE/LOCAL TIME

9. ISSUED BY CODE HQ0423

DEFENSE FINANCE AND ACCOUNTING SERVICE
CONTRACT SERVICES DIRECTORATE
BLDG 21/ 2B218
3990 EAST BROAD STREET
COLUMBUS OH 43213-1152

TEL.: 614-693-0291
FAX: 614-693-5674

10. THIS ACQUISITION IS
[X] UNRESTRICTED
[ ] SET ASIDE: % FOR
[ ] SMALL BUSINESS
[ ] HUBZONE SMALL BUSINESS
[ ] 8(A)

NAICS:
SIZE STANDARD:

11. DELIVERY FOR FOB DESTINATION UNLESS BLOCK IS MARKED
[ ] SEE SCHEDULE

12. DISCOUNT TERMS

[ ] 13a. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 700)

13b. RATING

14. METHOD OF SOLICITATION
[ ] RFQ [ ] IFB [ ] RFP

15. DELIVER TO CODE HQ0325
DFAS RETIRED PAY OPS - CLEVELAND
WAWF
ATTN DFAS-PO-CL
1240 EAST 9TH STREET
CLEVELAND OH 44199-2055

16. ADMINISTERED BY CODE

SEE ITEM 9

17a. CONTRACTOR/OFFEROR CODE 4D149

LOCKHEED MARTIN GOVERNMENT SERVICES, INC
7375 EXECUTIVE PLACE
SUITE 301
SEABROOK MD 20706

TEL.
FACILITY CODE

18a. PAYMENT WILL BE MADE BY CODE HQ0131

DFAS CO LCO
PO BOX 369016
COLUMBUS OH 43236-9016

[ ] 17b. CHECK IF REMITTANCE IS DIFFERENT AND PUT SUCH ADDRESS IN OFFER

18b. SUBMIT INVOICES TO ADDRESS SHOWN IN BLOCK 18a. UNLESS BLOCK BELOW IS CHECKED [ ] SEE ADDENDUM

19. ITEM NO.	20. SCHEDULE OF SUPPLIES/ SERVICES	21. QUANTITY	22. UNIT	23. UNIT PRICE	24. AMOUNT
	SEE SCHEDULE				

25. ACCOUNTING AND APPROPRIATION DATA
See Schedule

26. TOTAL AWARD AMOUNT (For Govt. Use Only)
$1,448,620.49

[ ] 27a. SOLICITATION INCORPORATES BY REFERENCE FAR 52.212-1, 52.212-4. FAR 52.212-3, 52.212-5 ARE ATTACHED. ADDENDA [ ] ARE [ ] ARE NOT ATTACHED

[ ] 27b. CONTRACT/PURCHASE ORDER INCORPORATES BY REFERENCE FAR 52.212-4. FAR 52.212-5 IS ATTACHED. ADDENDA [ ] ARE [ ] ARE NOT ATTACHED

28. CONTRACTOR IS REQUIRED TO SIGN THIS DOCUMENT AND RETURN 2 COPIES
[X] TO ISSUING OFFICE. CONTRACTOR AGREES TO FURNISH AND DELIVER ALL ITEMS SET FORTH OR OTHERWISE IDENTIFIED ABOVE AND ON ANY ADDITIONAL SHEETS SUBJECT TO THE TERMS AND CONDITIONS SPECIFIED HEREIN.

29. AWARD OF CONTRACT: REFERENCE
[ ] OFFER DATED . YOUR OFFER ON SOLICITATION (BLOCK 5), INCLUDING ANY ADDITIONS OR CHANGES WHICH ARE SET FORTH HEREIN, IS ACCEPTED AS TO ITEMS:

30a. SIGNATURE OF OFFEROR/CONTRACTOR

31a. UNITED STATES OF AMERICA (SIGNATURE OF CONTRACTING OFFICER)

31c. DATE SIGNED
29-Sep-2006

30b. NAME AND TITLE OF SIGNER (TYPE OR PRINT)

30c. DATE SIGNED

31b. NAME OF CONTRACTING OFFICER (TYPE OR PRINT)
STEVEN H. WINNICK / DIVISION CHIEF, MCG
TEL: 614-693-0107 EMAIL: steven.winnick@dfas.mil

AUTHORIZED FOR LOCAL REPRODUCTION
PREVIOUS EDITION IS NOT USABLE

STANDARD FORM 1449 (REV 4/2002)
Prescribed by GSA
FAR (48 CFR) 53.212

DFAS-CL [redacted]

SOLICITATION/CONTRACT/ORDER FOR COMMERCIAL ITEMS (CONTINUED)

19. ITEM NO.	20. SCHEDULE OF SUPPLIES/ SERVICES	21. QUANTITY	22. UNIT	23. UNIT PRICE	24. AMOUNT
	SEE SCHEDULE				

32a. QUANTITY IN COLUMN 21 HAS BEEN

☐ RECEIVED ☐ INSPECTED ☐ ACCEPTED, AND CONFORMS TO THE CONTRACT, EXCEPT AS NOTED: _____

32b. SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE

32c. DATE

32d. PRINTED NAME AND TITLE OF AUTHORIZED GOVERNMENT REPRESENTATIVE

32e. MAILING ADDRESS OF AUTHORIZED GOVERNMENT REPRESENTATIVE

32f. TELEPHONE NUMBER OF AUTHORIZED GOVERNMENT REPRESENTATIVE

32g. E-MAIL OF AUTHORIZED GOVERNMENT REPRESENTATIVE

33. SHIP NUMBER ☐ PARTIAL ☐ FINAL

34. VOUCHER NUMBER

35. AMOUNT VERIFIED CORRECT FOR

36. PAYMENT ☐ COMPLETE ☐ PARTIAL ☐ FINAL

37. CHECK NUMBER

38. S/R ACCOUNT NUMBER

39. S/R VOUCHER NUMBER

40. PAID BY

41a. I CERTIFY THIS ACCOUNT IS CORRECT AND PROPER FOR PAYMENT

41b. SIGNATURE AND TITLE OF CERTIFYING OFFICER

41c. DATE

42a. RECEIVED BY *(Print)*

42b. RECEIVED AT *(Location)*

42c. DATE REC'D *(YY/MM/DD)*

42d. TOTAL CONTAINERS

AUTHORIZED FOR LOCAL REPRODUCTION
PREVIOUS EDITION IS NOT USABLE

DFAS-CI

STANDARD FORM 1449 (REV 4/2002) BACK
[redacted]scribed by GSA
[redacted]R (48 CFR) 53.212

Section B - Supplies or Services and Prices

ITEM NO	SUPPLIES/SERVICES	MAX QUANTITY	UNIT	UNIT PRICE	MAX AMOUNT
0001		UNDEFINED	Each	UNDEFINED	UNDEFINED
	VA Retro CPFF Enhanced Development Prototype Period (Phase I), IAW VA Retro SOW as provided under Section "B" of this task order. FOB: Destination PURCHASE REQUEST NUMBER: RPYCL6RV321				
				MAX COST	$1,316,927.90
				FIXED FEE	$131,692.59
				TOTAL MAX COST + FEE	$1,448,620.49
	ACRN AA CIN: RPYCL6RV3210001				$1,448,620.49

ITEM NO	SUPPLIES/SERVICES	MAX QUANTITY	UNIT	UNIT PRICE	MAX AMOUNT
000101		UNDEFINED		UNDEFINED	UNDEFINED
	VA Retro CPFF Prototype Period and POP thru End of FY06 - ROM $1,090,064.92 FOB: Destination				
				MAX COST	UNDEFINED
				FIXED FEE	UNDEFINED
				TOTAL MAX COST + FEE	UNDEFINED

ITEM NO	SUPPLIES/SERVICES	MAX QUANTITY	UNIT	UNIT PRICE	MAX AMOUNT
000102		UNDEFINED		UNDEFINED	UNDEFINED
	VA Retro Phase I CPFF System Change Impacts - ROM $113,042.59 FOB: Destination				
				MAX COST	UNDEFINED
				FIXED FEE	UNDEFINED
				TOTAL MAX COST + FEE	UNDEFINED

ITEM NO	SUPPLIES/SERVICES	MAX QUANTITY	UNIT	UNIT PRICE	MAX AMOUNT
000103		UNDEFINED		UNDEFINED	UNDEFINED
	VA Retro Phase I CPFF ODC Charges - ROM $245,513.18 FOB: Destination				
				MAX COST	UNDEFINED
				FIXED FEE	UNDEFINED
				TOTAL MAX COST + FEE	UNDEFINED

ITEM NO	SUPPLIES/SERVICES	MAX QUANTITY	UNIT	UNIT PRICE	MAX AMOUNT
0002		UNDEFINED	Each	UNDEFINED	UNDEFINED
	VA Retro CPFF Initial Account Processing (Phase II), IAW VA Retro SOW as provided under Section "B" of this task order. FOB: Destination				
				MAX COST	UNDEFINED
				FIXED FEE	UNDEFINED
				TOTAL MAX COST + FEE	UNDEFINED

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000201	VA Retro Phase II Initial Account Processing FOB: Destination	UNDEFINED		UNDEFINED	UNDEFINED
				NET AMT	

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000202	VA Retro Phase II System Change Impacts FOB: Destination	UNDEFINED		UNDEFINED	UNDEFINED
				NET AMT	

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000203	VA Retro Phase II ODC Charges FOB: Destination	UNDEFINED		UNDEFINED	UNDEFINED
				NET AMT	

ITEM NO	SUPPLIES/SERVICES	MAX QUANTITY	UNIT	UNIT PRICE	MAX AMOUNT
0003	VA Retro CPFF Final Account Processing (Phase III), IAW VA Retro SOW as provided under Section "B" of this task order. FOB: Destination	UNDEFINED	Each	UNDEFINED	UNDEFINED
				MAX COST	UNDEFINED
				FIXED FEE	UNDEFINED
				TOTAL MAX COST + FEE	UNDEFINED

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000301	VA Retro Phase III Final Account Processing FOB: Destination	UNDEFINED		UNDEFINED	UNDEFINED
				NET AMT	

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000302	VA Retro Phase III System Change Impacts FOB: Destination	UNDEFINED		UNDEFINED	UNDEFINED
				NET AMT	

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000303	VA Retro Phase III ODC Charges FOB: Destination	UNDEFINED		UNDEFINED	UNDEFINED
				NET AMT	

STATEMENT OF WORK
Effective Date is Date of Order

I. BACKGROUND

The requirement to make retroactive payments of CRSC and CRDP originate from the laws establishing the two entitlements and their relationship to disability awards made by the DVA. Essentially, CRSC or CRDP are being paid by DFAS based on a disability percentage in effect at the time of payment. Subsequent to those payments, the VA may award a higher disability percentage and make the determination effective to a retroactive date. This creates a condition where the retiree is owed additional CRSC or CRDP money based on the higher percentage disability award and/or the retroactive effective date. The increased rate of CRSC or CRDP using the higher percentage begins as soon as the change is reported to DFAS, however, when the date is effective earlier than the current date, a retroactive condition occurs. The retiree must then be paid the difference between the lower rate which was paid, and the higher rate established by the DVA's increased award for the period between the DVA effective date and the date DFAS increased the rate to match the retroactive award.

CRSC laws:
Public Law 107-107 established Section 1413a, of Title 10 United States Code effective 06/01/2003.
Public Law 108-136 modified CRSC eligibility requirements effective 01/01/2004.

CRDP law:

Public Law 108-136 modified Section 1414 of Title 10, United States Code to phase-in Concurrent Receipting beginning in January 2004. Public Law 108-375 modified Section 1414 to eliminate the phase-in period for retirees with a 100% DVA disability rating.

Entitlement to retroactive DVA payment requires validation of data from three sources, the military services, the DVA and DFAS. The applicable military service approves a retiree's application for CRSC, the DVA supplies recurring validation of entitlement and DFAS establishes the CRSC account and makes continuing payments and needed changes. CRDP entitlement is based solely on a retiree's entitlement to DVA payments. The amount of payment is based on DVA combined ratings which is provided by the DVA but validation for this entitlement is based on retired pay data contained in the DFAS Retired and Casualty Pay System (RCPS).

Extensive coordination will be required throughout the entire duration of this project between LMGS, CGA and DVA. Coordination meetings and exchanges of information will continue to be needed to ensure the proper information is communicated to the population that is awaiting payments.

II. SCOPE

Phase 1 – Enhanced Developmental Prototyping Period

Objective: Prepare and design a process to initiate retroactive CRSC and/or CRDP payments for entitled retirees. Payments made will originate from DFAS or VA dependent on project requirements.

The prototype period includes the preparation required to perform the VA Retro project and will result in the payment of "process proofing" cases (enhanced developmental process prototyping).

Automated tools will be used to the extent possible to facilitate the review of cases, with associated payment where applicable. The impact of these tools will be assessed during this period to determine its impact on the project, specifically the cost and schedule of the succeeding phases.

The contractor will prove a representative sample of cases to validate the process required to make payments. This proof of concept will be made in concert with DFAS.

The end product of Phase 1 will be a requirements plan that shall document the proof of concept approach. The plan, once approved by DFAS. shall form the basis for LMGS to move to Phase 2 (Initial Account Processing). Phase II (and III) detail such as price, delivery, etc. will be provided for CLINs 0002 and 0003 by modification.

Phase 2 – Initial Account Processing

Objective: Perform case review and complete a preponderance of the backlog of cases. Bring cases current and prepare for transition to account maintenance. The following categories of cases are follows, and reference the case status on the VA Retro database:

- Category 1 - Ready to compute
- Category 2 - Error conditions solvable by technician
- Category 3 - Complex cases - (e.g. Former spouse, Garnishments, "Method A", Casualty)

Phase 3 – Final Account Processing

Objective: Most cases are processed on a current basis. Potential anomalous cases, complex in nature, that remain from Phase 2 shall be completed as a part of this phase.

LMGS shall provide customer service for members that inquire about this project.

III. Tasks

1.1 Management and Supervision. (All phases)

A. General - Management and Supervision (for all phases)

LMGS shall provide the needed management and supervision associated with a task of this size and scope. Management and supervision will direct the DVA CRSC/CRDP retroactive operations and manage the workflow and resources. A dedicated project leader will be assigned to this effort.

To help mitigate the risks associated with such a short timeframe, LMGS will utilize a Project Planner to track project tasks to the required timeline using Microsoft Project. The project planner will also utilize the principles of Earned Value Management (EVM) to help determine if the project is on track to deliver the required results. The project planner will work closely with the project leadership team in managing the project within the required timeline.

1.2 DVA Retro Processing. (Blended CRSC and CRDP) (for all phases)

If the member is entitled to CRSC or CRSC and CRDP during the entire retroactive period:
This effort will serve to compute and pay members for their retroactive entitlement, and will also serve as a review to validate data used in prior calculations and initiate any needed adjustments.

If the member is entitled to CRDP only for the entire retroactive period:
This effort will serve to compute and pay members for their retroactive entitlement, and will also serve as a full review to validate data used in prior calculations and initiate any needed adjustments.

In cases that need manual computation (not processed through the VA Retro Database, case documentation ("case jackets") will be provided.

Debt collection:

- New Debts: If DVA retro computations result in a negative (new debt is discovered), LMGS shall utilize existing R&A debt collection procedures.
- Unassociated Debts: Will not be collected from a pending VA Retro payment.

Some Special circumstances will exist. LMGS will address the following as a part of the review:

VA Retro payment processing will be conducted in accordance with the business rules found in SECTION IX. Changes to the business rules will be made only by mutual agreement.

- If member has a former spouse or garnishment, only the amount of the credit due from DFAS will be forwarded to Former Spouse and Garnishment departments for computation of garnishment/former spouse deductions.

- For disability retirements, an additional computation will be performed to show the amount of retired pay a member would have been entitled to based on years of service.

- A retiree may be entitled to CRSC and CRDP during the retroactive period. For purposes of this project, these cases are considered CRSC cases. In the estimates of the identified population, CRDP cases are cases in which CRSC has never been paid during the retroactive period.

- In situations case completion requires from an external source, i.e. the VA or military services, and that request is made timely, LMGS is not responsible for case completion until the appropriate data are received.

- DVA shall provide rating decisions on a timely basis in order to complete cases within the defined schedule.

1.3 Payment Initiation.

Payments made by DFAS.

LMGS shall process payments via the Automated Disbursing System. CRSC payments will be issued as a payroll to ADS. CRDP payments will be initiated through an automatic process of creating NRCR transactions into RCPS. VA Retro payroll processing for DFAS issued payments will be performed weekly, or on another mutually agreed upon schedule defined by business needs.

Payments to be made by the DVA.

Whenever it is determined that additional disability compensation is to be paid by the DVA, those computed amounts will be provided to the DVA for their use as DVA deems appropriate. LMGS will work with the DVA to construct a recurring file which contains the required data elements for the DVA to issue a payment through their disbursement processes. LMGS will design for DVA a format and mechanism to provide the required data. The DVA will be responsible for effecting payment to the retiree.

Work to establish the payment processes which impact existing systems is being completed according to existing systems processes employed in the R&A Program. Changes required to support these payment processes are documented under System Change Request 2502, with associated amendments, and will utilize the full set of process steps required for system changes. Specifically, changes will be supported by a white paper, detailed requirements, SRR, coding, unit test review, code reviews, Customer Acceptance Testing Readiness Review (CAT-RR), Customer Acceptance Testing (CAT) under the same requirements for any SCR, and submission of test packages to DFAS for their review and authorization to implement

The process constructed to move payment data into the mainframe environment will be accomplished using the required steps of CMM Level III.

Part applies to all Phases.

1.4 Quality Assurance.

A. Quality Assurance Review – Payment processing

1. Phase 1

During the Phase 1 Prototype period - Every case, without regard to result (overpayment, underpayment, or no change), will be reviewed to determine accuracy by the LMGS Quality Assurance process. The review will validate the required payment(s), a determination that the case is paid to date, or the existence of a debt and the debt amount.

2. Phase 2 and 3:

CRSC payroll files – LMGS will use a statistically relevant sample consistent with existing R&A practices for CRSC payrolls (currently available as described in the R&A QCP).

CRDP (NRCRs) – random sampling technique to be utilized as directed by DFAS

Manual (RAVCs) – 100% review consistent with existing R&A practices (currently available as described in the R&A QCP).

NOTE of Clarification (9-20-06):
- Manual payments will be 100% review. Full review of all
- Payroll files [CRSC and CRDP (NRCRs)] willl be randomly sampled (current standard is 20 cases per payroll per CRSC standards). Full supporting documentation would be presented to the CGA in support of that sampling.

B. Management Control Review: (for all phases)

1. LMGS will initiate a management control process to document the entire DVA Retro process. This process will include flow charts and supporting documentation.

2. LMGS will create Standard Operating Procedures (SOPs) to document the process and provide instruction on how to process and pay DVA retroactive payments.

C. Review of Use of Software Tools or Other Automation (for all phases)

LMGS Quality Assurance personnel will review the proposed plans and test output used to validate software tools determined to be useful for this project. The review will determine the technical accuracy of the software tools to ensure calculations and other pay impactive activities perform as required.

1.5 Database. (For all phases)

DVA Retro will reside in a database that will be designed to hold CRSC and CRDP DVA records. The initial database records will be set up using the information provided by the DVA

file and comparison information that identified the population that may be entitled to further compensation.

LMGS will define the database structure containing the relevant data needed to determine the outcome of the case (payment, paid correctly or overpaid).

Since new cases will occur, recurring data are required. New cases identified will be automatically added to the database using a recurring data feed from the DVA, identifying new retroactive awards granted by the DVA.

The VA Retro database will record the outcome of every review.

1.6 Reporting.

The following reports will be provided to CGA in the normal course of business:

Inventory Report showing:
- Cases processed to date
- Remaining cases to be processed
- New cases added
- Cases delivered for review to CGA
- Frequency is at least weekly

Payroll Report showing:
- Number of cases paid by service
- Dollar value of cases by service
- Review frequency is daily

There is no requirement to distinguish CRSC and CRDP funds paid by DFAS as a result of this project from regular, recurring CRSC and CRDP funds. No changes to existing accounting reports are required.

This part applies to all phases.

1.7 Customer Service. (For all phases)

Telephone Calls:

LMGS shall use a separate 1-800 number, unique from any 1-800 number in service today. The 1-800 number will be advertised as exclusively serving retirees who have questions or need information on their CRSC or CRDP entitlement due to a retroactive DVA award.

LMGS shall respond as necessary to calls from Veteran's Administration Regional Office (VARO) representatives with questions regarding the data provided to affect the DVA required payment to this number.

LMGS shall respond to callers using Customer Service Representatives (CSRs) in the organizational unit established for working cases under this proposal. These calls will not be blended into the existing Customer Service Center, however, call tracking and reporting techniques utilized in the Customer Service Center will apply. Efforts will be made to separate customer calls on the existing 1-800-321-1080 number from customer calls related exclusively to a VA retro payment. LMGS recognizes that this separation will not be flawless. Internal procedures will redirect callers to the appropriate area if required.

LMGS is not required to develop a specific VA Retro IVR script.

LMGS will respond to retirees regarding payment(s) made by DFAS. Questions about payment(s) made by the DVA, or potentially required by the DVA, will be referred to the DVA without action by LMGS. Claims of non-receipt of DVA payments will be referred immediately to the DVA.

Phone service shall be offered from 8:00 a.m. to 4:30 p.m. Monday through Friday (except federal holidays).

Correspondence:

LMGS will provide informational letters and send to retirees in cases which will result in a payment, or notification of an overpayment if applicable.

Informational letters will contain a specific 1-800 number and a mailing address for questions.

Overpayment letters will be the standard overpayment letters in use today.

Letters informing retirees that they are "paid to date" (i.e. not entitled to any additional funds) will only be provided when requested by the retiree.

LMGS will respond to retirees regarding payment(s) made by DFAS. Questions about payment(s) made by the DVA, or potentially required by the DVA, will be referred to the DVA without action by LMGS. Claims of non-receipt of DVA payments will be referred immediately to the DVA.

Congressionals, hotlines or other sensitive correspondence regarding VA retro issues will be completed as a part of this project.

External Customer Communications:

Consistent with existing R&A practices, LMGS will use the existing DFAS and myPay web sites to provide Frequently Asked Questions (FAQs), appropriate Press Release(s), articles to Service publications, the electronic Retired and Annuity Pay Newsletter, and monthly conference calls with the Services to communicate the status and any issues associated with this effort. DFAS shall provide support for timely issuance and posting of external information.

For Phase 1, LMGS shall consider, identify, and provide as necessary informational materials and other support that may be required to assist VAROs in executing the DVA Retro process from a customer service perspective.

LMGS shall augment its current operation to establish a dedicated customer service call center. The center shall be based via a separate 800 number staffed with dedicated agents able to addresses customer questions, inquires, and process cases as necessary. It may be necessary, at times, for this core service center to be augmented by trained VA Retro technicians during peak times of performance.

1.8 Recruitment and Training. (For all phases)

Training will be targeted to LMGS personnel performing tasks associated with the review and customer service associated with the VA Retro project. Formal classroom training for processors, reviewers and customer service representatives (CSRs) who deal directly with VA Retro cases will be accomplished. Familiarization efforts with other parts of the Military Retired and Annuity Pay Program will be conducted to ensure customers are served by the appropriate expertise.

LMGS will initiate, during the prototype phase, efforts to assist the VA in understanding VA Retro computations and payments so that they may assist retirees. Two activities are envisioned:

1. Training VA representatives on the use of RCPS and CRSC data and any other data VA deems relevant which DFAS is agreeing to provide.

2. An information package aimed at assisting VA Regional Offices (VAROs) in responding to retiree questions about eligibility for additional payments as a result of a retroactive VA award during periods of CRSC and CRDP, or in responding to questions about payment computations

IV. END-STATE OUTCOMES/ SUCCESS CRITERIA

Phase 1:

- Identify and categorize the potential accounts
- Pay initial accounts to prove the process
- Explore, leverage, and execute automated tools to the maximum extent practicable
- Establish effective data exchanges with the DVA
- Business rule definition
- Establish payment processes (manual and automated payroll methods)
- Customer service function – respond to callers on 1-800 number
- Inspection and acceptance processes finalized
- Infrastructure implemented (Sufficient GFE provided)
- VA Retro worksheet development and validation
- VA Retro database development and validation
- Documented Process Book
- Complete hiring and training
- Establish benefit of automation and subsequent staffing
- Define letters and establish letter production process
- Define customer service responsibilities between DFAS and DVA
- Weekly Report – Weekly Report VA Format

Phase 2:

- Process accounts
- Customer service delivery
- Data exchanges to VA as required
- Others to be mutually defined as necessary

Phase 3:

- Process accounts
- Customer service delivery
- Data exchanges to VA as required
- Others to be mutually defined as necessary

V. INSPECTION AND ACCEPTANCE – Phase I

CGA shall review for approval the following key project components. The parameters of acceptance shall be based on mutual agreement between LMGS and DFAS:

- DVA Retro worksheet
- DVA Retro database construction
- DVA Retro computation module
- CRSC Payment process
- CRDP Payment process
- Payment file to VA
- Mainframe system changes to support payment process

DFAS acceptance of the above items is required to complete the Prototype Phase.

VI. TRAVEL

Travel shall be conducted as approved and required by the COR, consistent with existing travel regulations.

VII. PLACE/PERIOD OF PERFORMANCE

The place of performance is Cleveland, Ohio.

Phase 1: The estimated period of performance is July 12, 2006 through September 30, 2006.

Phase 2: TBD

Phase 3: TBD

VIII. COR/COTR/TA

The COR is Bill Tyminski.

IX. BUSINESS RULES [As of 8/31//06; or a later edition, if applicable, and if that is mutually agreed to by both parties]

LMGS shall perform VA Retro services based on the multiple steps associated with the payment of CRSC and CRDP as is generally done under current procedures. The following business rules apply to this project. Changes are subject to mutual agreement between DFAS and LMGS:

I. General

A. We will use the retirement date or effective date of VA waiver as appropriate when the CRSC authorization letter is understood to be incorrect because the effective date is prior to the retirement date or authorized date of disability. Similarly, award letters in cases of obvious clerical errors, e.g. transposed first and last names, missing middle initial, etc., when there is no ambiguity in determining who to pay or the amount of the entitlement, will be utilized. Corrected award letters will not be requested in these cases.

B. We will pay CRSC based on the services' authorization letter. If the service indicates SMC is combat related, LMGS will include the SMC in the CRSC entitlement computation. LMGS will not routinely question or require validation from the Services regarding component parts of the letter authorizing CRSC, and expects the CGA will not require further validation absent any real evidence that the letter may be incorrect.

C. CRSC Automation Part 1 established DB2 accounts for CRSC recipients with an automated calculation for combined disability ratings. Consequently, LMGS will utilize this calculation as the correct value to use in combined disability ratings. Corrected award letters will not be requested in these cases.

D. Garnishments will be deducted from payments due in the exact amount and to the address directed by DFAS Garnishment Operations without regard to the address information contained in RCPS.

E. If the VA Target does not show a retiree codes as "06" in the VA system, indicating the veteran is a retiree, LMGS will notify the VA in writing that the veteran should be identified as a retiree.

F. In the case of a former spouse who incurs a debt based on the retiree transitioning from CRDP to CRSC retroactively, a debt letter to the former spouse and the associated debt will be posted to the former spouse account prior to payment of CRSC.

G. Retirees will be held to their CRSC/CRDP Open Season election without exception in cases where the retiree was afforded the opportunity to elect during Open Season. Personal reasons such as not understanding the letter, not acting prior to the close of Open Season, or a change in the retiree's VA rating do not negate Open Season elections, even if that election

was a passive election. LMGS will make no change unless advised otherwise by the CGA.

H. Transition from CRDP to CRSC, or vice versa, can occur in periods other than Open Season based on initial authorization to CRSC or CRDP. The retiree will be paid CRSC or CRDP based on the largest gross amount due, without regard to presumptive tax deductions or former spouse deductions which may be required.

I. Cases involving VA retroactive decreases will require adjusting the VA amounts on the database to account for credits/debit action taken as required by the current MOU with the VA.

J. No effort will be made to collect existing debts from the retro credit.

II. Payment Process

A. The only condition for an RAVC payment will be the third party payments (garnishments and casualty payments). Payment will be effected by automated NRCR for CRDP accounts and by CRSC Weekly Payroll for CRSC accounts.

B. Garnishment payments will be required only in those cases where there is an existing garnishment being paid from the CRDP or CRSC account and IGS determines that part of the retro payment should go to the third party recipient.

C. If there is an amount due by the VA, and there is a former spouse, the VA will not issue payment to the former spouse. The VA will only pay "disability compensation" which is not divisible.

III. Special Rules for Exception Cases

A. Certain cases will require special handling through alternate means due to unusual circumstances. The cases include, but will not be limited to:

- Former Spouse division of pay cases
- Garnishment cases
- Disability method A cases
- Deceased cases

B. If the spreadsheet indicates that a payment is due from DFAS, and the indicator reflects a former spouse/garnishment was active, the accounts must be processed through the appropriate manual worksheet to issue payment to a former spouse or garnishment, as well as payment to the retired member.

C. The disability method A cases will also be processed through the manual worksheet to ensure that the payment is reduced as appropriate.

D. The deceased cases will be the last category to be processed. The spreadsheet/database may be utilized to compute amounts due, but the account will have to Manually processed to determine eligible beneficiary(ies) and to effect payment. New claim forms will not be

solicited if on file.

IV. Audit Trail Requirements

A. Manually prepared records will be archived in RAPID.

B. The ACCESS database will contain the VA Retro Record and will maintain what cases have been worked.

C. RCPS and CRSC will record payment history.

X. GOVERNMENT FURNISHED EQUIPMENT/PROPERTY/SUPPORT (GFE)

DFAS shall make available appropriate work spaces for additional resources including: Desk space, Computer, Monitor, Printer, Telephone and chairs.

GFE items may include the following:

Space

- Adequate cubicle space for each process, reviewer, customer service representative and supervisor
- Each cubicle will require the standard components of a workstation, including but not limited to a personal computer on the DFAS network with LAN and mainframe capabilities, telephones (ACD capable phone and headsets for CSRs), chairs, wastebaskets, file drawers and cabinets, and basic office supplies.
- Software licenses as required to perform on the DFAS network
- Training rooms with mainframe access and LAN capability
- Space for basic office equipment such as copiers, faxes, printers and scanners
- One conference space for 15-20 people
- Printing capabilities from both the LAN and mainframe

Additional GFE requirements will be presented to the CGA as soon as practicable after they are identified. GFE may be provided, may be recommended for contractor purchase (contract modification to be processed), or may be denied if the supporting rationale provided is deemed lacking in substantiation.

Security and Personnel

- EPSQ, waiver to work and initiation of background security check for all new employees
- CAC badge issued for all new employees
- LAN and mainframe access authorizations within 5 days of hire date for new employees
- Grant LMGS additional TASO authority for the increase volume of work associated with the new hires, or provide TASO support for the project from DFAS resources
- Allow the all correctly computed CRSC payments to be paid via the payroll process, including those with disability percentages of 50% or greater so that existing CRSC resources can be utilized on VA Retro cases

Casework Support

- Release payments due, either in the form of payrolls, case jackets or RAPID cases.
- Perform as Certifying Officer for payments
- Disburse DFAS payments
- Provide criteria for garnishments to be deducted from any monies due
- Assistance in advertising to the customer community with press releases, web updates and other communication vehicles appropriate for the project
- Agreement on the documented business rules used to perform the review of VA Retro cases
- Consistent review that reviews the complete case for cases resulting in a payment

INSPECTION AND ACCEPTANCE TERMS

Supplies/services will be inspected/accepted at:

CLIN	INSPECT AT	INSPECT BY	ACCEPT AT	ACCEPT BY
0001	N/A	N/A	N/A	Government
000101	N/A	N/A	N/A	Government
000102	N/A	N/A	N/A	Government
000103	N/A	N/A	N/A	Government
0002	N/A	N/A	N/A	Government
000201	N/A	N/A	N/A	Government
000202	N/A	N/A	N/A	Government
000203	N/A	N/A	N/A	Government
0003	N/A	N/A	N/A	Government
000301	N/A	N/A	N/A	Government
000302	N/A	N/A	N/A	Government
000303	N/A	N/A	N/A	Government

DELIVERY INFORMATION

CLIN	DELIVERY DATE	QUANTITY	SHIP TO ADDRESS	UIC
0001	POP 06-JUL-2006 TO 30-SEP-2006	N/A	DFAS RETIRED PAY OPS - CLEVELAND WAWF ATTN DFAS-PD-CL 1240 EAST 9TH STREET CLEVELAND OH 44199-2055 216-204-3648 FOB: Destination	HQ0325
000101	POP 06-JUL-2006 TO 30-SEP-2006	N/A	(SAME AS PREVIOUS LOCATION) FOB: Destination	HQ0325
000102	POP 06-JUL-2006 TO 30-SEP-2006	N/A	(SAME AS PREVIOUS LOCATION) FOB: Destination	HQ0325
000103	POP 06-JUL-2006 TO 30-SEP-2006	N/A	(SAME AS PREVIOUS LOCATION) FOB: Destination	HQ0325
0002	POP 01-OCT-2006 TO 31-MAR-2007	N/A	(SAME AS PREVIOUS LOCATION) FOB: Destination	HQ0325
000201	POP 01-OCT-2006 TO 31-MAR-2007	N/A	(SAME AS PREVIOUS LOCATION) FOB: Destination	HQ0325
000202	POP 01-OCT-2006 TO 31-MAR-2007	N/A	(SAME AS PREVIOUS LOCATION) FOB: Destination	HQ0325
000203	POP 01-OCT-2006 TO 31-MAR-2007	N/A	(SAME AS PREVIOUS LOCATION) FOB: Destination	HQ0325
0003	N/A	N/A	N/A	N/A
000301	N/A	N/A	N/A	N/A
000302	N/A	N/A	N/A	N/A
000303	N/A	N/A	N/A	N/A

Section G - Contract Administration Data

ACCOUNTING AND APPROPRIATION DATA

AA: 97XXXX49305L2P 252ZZ00 060400000000 DFAS PL000 2_PD_CLCL_RPY_5L2P_FY06 RPYCL6RV321 1 033186
AMOUNT: $1,448,620.49
CIN RPYCL6RV3210001: $1,448,620.49

WINN, SHARON CIV DFAS

From: MINNICH, STEVEN CIV DFAS
Sent: Tuesday, December 04, 2007 8:29 AM
To: MINNICH, STEVEN CIV DFAS; KANE, DAVID CIV DFAS; LINDSAY, MICHAEL CIV DFAS
Cc: MAJESKI, MICHAEL CIV DFAS; MILLER, ERIC CIV DFAS
Subject: RE: VA Retro update

One other thing I should have included was that throughout this effort folks have not understood the "best effort" nature of cost plus. At the end of this they will want a hammer to hold over the contractor and there will not be one.

-----Original Message-----
From: MINNICH, STEVEN CIV DFAS
Sent: Tuesday, December 04, 2007 8:18 AM
To: KANE, DAVID CIV DFAS; LINDSAY, MICHAEL CIV DFAS
Cc: MAJESKI, MICHAEL CIV DFAS; MILLER, ERIC CIV DFAS
Subject: VA Retro update

here is the other string that you should be aware of

-----Original Message-----
From: SMITH, DOUGLAS CIV DFAS
Sent: Monday, December 03, 2007 9:45 AM
Cc: MINNICH, STEVEN CIV DFAS; MILLER, ERIC CIV DFAS
Subject: FW: VA Retro Timeline

-----Original Message-----
From: BERNHARDT, KARL H CIV DFAS
Sent: Monday, December 03, 2007 9:41 AM
To: KRUSHINSKI, LEE SES DFAS; STEARNS, MARTHA SES DFAS
Cc: BOUTELLE, CHET SES DFAS; SMITH, DOUGLAS CIV DFAS
Subject: Re: VA Retro Timeline

Lee,
I had a face to face discussion with Robert Cook at the airport this morning about options. O/T is good, but to accomplish what Zack wants will require more effort. To do that we may need to dig into the other processing areas (because the skilled peoiple are throughout the org that can work these hardest cases). Backfilling with new people (or in the short term not even backfilling) can work to accelerate the retro case throughput. However, we may need some creative support from contracting. For example, if we pull substantially from new account processing that J-1 measure will go red quickly (ie too many accounts started too slowly) - if we permit LM to slip without penalty for let's say two months we could really give the retro project a dramatic kick immediately. Unfortunately because these accounts are so complicated, there is only a select group of skilled technixians that could satisfactorily calculate these cases. Otherwise we just bunch up a whole lot of reject action in the CGA and increase the "churn" in LM.

Vr/Karl

Sent from my BlackBerry Wireless Handheld

----- Original Message -----

Letter to Lockheed Martin:

Subject: Unsatisfactory Performance; VARetro project, Completion of VA Retro Processing

This is to inform Lockheed Martin (LM) that the Defense Finance and Accounting Service (DFAS) deems the performance of LM in the processing of VARetro payments to be unsatisfactory. Defense Finance and Accounting Service (DFAS) is extremely concerned about the inability to meet historical promises contained in plans to date and the fact that little, if any, substantive process change is evident in the most recent plan presented to Mr. Gaddy on Friday February 29, 2008.

Lockheed Martin's plan, as presented on Friday February 29, 2008, continues to make promises of delivery in April of all remaining cases from the original population. LM's February 27, 2008 report reflects a remaining balance of 35,568 accounts. Two months remain to complete this project based on the LM's proposed completion date that was briefed to DFAS Leadership and Congressional members, who, in turn, briefed the press that all the original cases would be paid by April.

November 15, 2008 reflected a balance of 46,750 cases to be adjudicated. Based on your report, you've completed 11,122, an average of 3,178 cases per month. Based on that production rate, the project will take eleven months to complete—not two. This projection makes no provision for the current cases which your plan purports to complete by May.

Lockheed Martin has presented numerous plans since November 15, 2008, but the fact remains that the actual production is far below plan, with no evidence that there is any possibility of completion on time. The most recent plan unfortunately is no different from previous projections. DFAS, seeing the ongoing challenges, is seeking ways to facilitate the success of the VA Retro project and minimize risk of failure.

In order to mitigate further risk and to complete this project as planned, the following action has been directed and resources are to be provided, by the Director of DFAS to promulgate the mission of DFAS:

DFAS will provide direct support, assigning government employees to perform work to assist in VA Retro Processing. Providing additional resources is clearly in the interest of both parties to bring this project to a successful and timely close.

In order for this to succeed, LM may be called on to provide needed training in VA Retro processes, and the use of, and access to, LM tools and equipment by government personnel in order to conduct this support.

This augmentation is temporary and will only be in place to get through the backlog of records.

Comment [D1]: Contract performance cannot be deemed to be Unsatisfactory. They have applied the resources identified. Desk audits have shown resources applied and working as promised.

Comment [D2]: The quantity has been unsatisfactory, but the payment calculations and processes used have been accepted and have a 97% accuracy, to the point that the contractor's processes are being accepted for payment. Further, the fact that the original plans were predicated on having all data from the VA by 31 December, and to date we are still missing some files would provide some basis to say that the Government failed to live up to its responsibility.

Deleted:

Deleted: Congressionally

Deleted: congressionally mandated requirement to pay all of these disabled veterans by April 2008

Deleted:

Deleted: In the past 3 5 months LM has completed, by

Deleted: their

Deleted: your own report 11,122 cases, an average of 3,178 cases per month.

Deleted: e

Deleted: experienced todate

Deleted: Based on actual production, not plan, there remains at the curr ... [1]

Deleted: .

Deleted: perports

Deleted: The

Deleted: has lost faith in Lockheed Martin's ability to deliver on it's ... [2]

Deleted: .

Deleted: In order to mitigate further risk and to complete this project a ... [3]

Comment [3]: t

Deleted: for

Comment [D4]: How many and what experience? Where is TRD as well.

Comment [D5]: What does this mean?

Deleted: DFAS will augment LM employees with government empl ... [4]

Deleted: ¶

Deleted: will

Deleted: to

[redacted]

SMITH, DOUGLAS CIV DFAS

From: SMITH, DOUGLAS CIV DFAS
Sent: Monday, January 28, 2008 12:09 PM
To: STEARNS, MARTHA SES DFAS; BOUTELLE, CHET SES DFAS; BERNHARDT, KARL H CIV DFAS
Cc: BENISEK, GENE CIV DFAS; HOGE, RITA CIV DFAS
Subject: VARetro COL Processors

Attachments: Week Ending 1-26-08 Team Stats.xls; Ranking of Retired Pay Experience - Current Employees 2(a).xls

Week Ending -26-08 Team Stats.. Ranking of Retired Pay Experie...

Martha/Chet/Karl,

Enclosed is the first week's CGA production statistics.

The new personnel identified in the attached "ranking" in green) have been trained in CRDP processing only and are making progress. We will have to pull them in the future to teach CRSC processing, likely a two week training effort. They currently require significant oversight, but are getting better.

As a group, the government reviewed and confirmed for release over 2300 cases last week. Our production should improve as we continue to focus our experienced personnel on production solely.

Based on expectations of increased production by LM, and importantly an expectation of more DFAS payments in excess of $2500 (100% review required), I do not believe we have sufficient personnel to accommodate the anticipated larger volume.

The attachment "ranking" reflects personnel with retired pay experience. We have identified personnel (in red) we believe would be able to come up to speed quickly, once trained. Experience suggests we would require 3.5-4 weeks to train these folks to review and approve for payment CRSC and CRDP payments. With one exception all are GS-06 or below.

Although we have identified 7, a class of 10 is desired. The challenges of DFAS-CL F standing up additional work in Civ pay and Mil pay are understood. If all of these identified by us are unavailable, we would request a total of 10 personnel who are quick learners and can come up to speed quickly.

The sooner we can obtain a class of ten and begin training, the sooner we can increase our productivity.

Your support is appreciated.

Doug

VA Retro Project Payroll Summary Statement

Payroll Number: **185 (CRDP) Under $2500**

Number of Accounts: **274 accounts**

Dollar Value of Payroll: **See Attached**

Date: 3/5/08

Attachment: Individual Payment listing that includes the following: Attached

Name

SSN

Dollar amount ($)

Payroll Type

Approval Statements:

LM Senior Management
I certify this payroll has passed the LM Quality Assurance review and meets or exceeds 97% accuracy. _____ LMGS Program Executive
DFAS Assurance Officer
I certify the appropriate checklists, Standard Operating Procedures (SOPs), processes and procedures supporting this payroll have been and continue to be reviewed. _____ DFAS VA Retro Assurance Officer
Certifying Officer
I certify this payroll based upon the LM Quality and DFAS Assurance Officer's review. _____ DFAS VA Retro Certifying Officer

CGA Review Guidelines

VA Retro

The following should be completed for Input Phase Team Blue:

Input Phase Supervisors: Kenneth Gerlock, Susan Cernanec, Aisha Campbell
Team Blue: Lynn Kovello

- ☐ Verify Checklist is present and being used
- ☐ Is the proper starting date being used?
- ☐ Is Purple Heart of SMC involved?
- ☐ Is the proper disability percentage being used?
- ☐ Was there any switch from CRSC or CRDP, or vice versa?
- ☐ Have all prior payments been accounted for?

Procedure: CGA will send 2 technicians daily to review process and complete above checklist. Each technician will sit with 2 experienced and 2 less experienced technicians.

Team Blue Procedure: CGA will send 1 technician daily to review the Team Blue process and complete above checklist. 1 technician will sit with a different Team Blue reviewer on a daily basis.

Special conditions case type:

- ☐ Reservists
- ☐ Garnishments
- ☐ Former Spouse
- ☐ Method A Comp
- ☐ Casualty

LMIT Technician _____
Print Name

CGA Reviewer _____ Date _____
Signature

Case Type _____

DFAS-CL [redacted]

EFFECTIVE DATE 3-10-08

MEMBER NAME: _____ SSN: _____ DATE SUBMITTED: _____

TECHNICIAN #1 NAME: _____ TECHNICIAN #2 NAME: _____

A. INITIAL RESEARCH (EACH LINE MUST BE INITIALED)

1. ____ Verify case is one of original 133K
2. ____ Verify the case has not received prior VA Retro payment, neither DFAS nor VA.
4. ____ Verify no improved pension.
5. ____ Verify all reason codes on the Target.
6. ____ Check the Target to determine if the case has an incarceration, felony, apportionment, recoup or PFOP and make the necessary adjustments.
7. ____ Verify no current NAVA needed. (Not Applicable to Casualty)
8. ____ Verify that the current CRDP IND code is correct (not applicable to Casualty)
9. ____ Verify that all returned payments in RCB have been reissued.
10. ____ Verify Pay Status Code of PA, PR, NQ, SH, TA or TR
11. ____ Verify that all debts have been paid in full.
12. ____ Verify all negative nets have been reconciled.
13. ____ Check RAPID.

B. SPECIAL PROCESSING (EACH LINE MUST BE INITIALED)

	Yes	No	*(Yes if it applies to the case, no if it does not)*
1.	____	____	CRSC – Award letter in RAPID. (Section D)
2.	____	____	Reservist – fan code 7 or 8. (Section E)
3.	____	____	Method A – Current or Original Election. (Section F)
4.	____	____	Debts (Section G)
5.	____	____	Active Garnishment (Section H)
6.	____	____	Credits (Section I)
7.	____*	____	Former spouse (Section J) * *complete Initial Research under Section J before processing member's portion.*
8.	____	____	Casualty (Section K)

C. ALL CASES (LINES 1-10 MUST BE INITIALED)

1. ____ Check all comp lines for Former Spouse payments.
2. ____ Determine disability rating and IU code for each month QUALITY FOCUS
3. ____ Verify that the Target Total and Net are correct for each month.
4. ____ Verify Pay Status Code for each month.
5. ____ Verify gross pay for each month.
6. ____ Verify VA Waiver for each month.
7. ____ Verify CRDP/CRSC payments for each month
8. ____ Verify the case does not have IU 2 and 100% or a 0 IU code in the database.
9. ____ REVIEW THE VA SCREEN AND TARGET TO CONFIRM THAT ALL PRORATIONS HAVE BEEN PROPERLY COMPUTED AND ENTERED INTO DATABASE CORRECTLY.

DFAS-CL [redacted]

D. CRSC

1. ____ Compare Award Letter and VETSNET to find effective date of CRSC and SMC.
2. ____ Verify 2003 eligibility (60% or 10% with PH, reservist must have 7200 points).
3. ____ Check SCCD and SCCD history for valid debts.
4. ____ Check SCCG for active, unsatisfied garnishments.
5. ____ Verify SCCR. QUALITY FOCUS
   a. Are all combat related disabilities flagged "Y"
   b. Are all Bilaterals and Purple Heart disabilities flagged "Y"
   c. Are the effective dates and percentages correct.
   d. If SMC applies, is it the correct code with the correct SMC effective date?
   e. Ensure that the account has been maintenance within the past seven days.
   f. If you must maintenance the account, set the Retro Indicator to "Y" before pressing F3, F12.
6. ____ Check Open Season election for CRDP. If the member has no open season election and the percentage is 50% or more, the entire year must be computed for CRDP as well as for CRSC. Compare the two total amounts for the year, then compute the case showing the program that is more beneficial for that year.
7. ____ Check any mid month combat related percentage prorations.
8. ____ Verify all CRDP, SCSD or CRSC payments.
9. ____ Verify A/A has been processed correctly (if applicable).
10. ____ Research all credits before you apply them.
11. ____ Ensure information is input correctly into worksheet.
12. ____ Confirm that VA Retro worksheet has been properly completed.
13. ____ Ensure that disability percentages match the CRSC worksheet.
14. ____ Verify totals match on the VA Retro workbook and the database.

E. RESERVIST

1. ____ Note retirement date. (If retired prior to January 2004 do not include lines 2-5.)
2. ____ Prorate the first month of retirement: Gross Pay, VA Waiver, Target Total and Net.
3. ____ Determine the CRDP award for the retirement month.
4. ____ Determine if adjustment is needed on database for first retirement month. Verify amount due shown on database is caused by CRDP award amount for first month of retirement.
   Amount of adjustment needed $_____
5. ____ Adjustment completed.

F. METHOD A

1. ____ Complete a Method A worksheet.
2. ____ Determine Base Pay amount.
3. ____ Determine the Service Percent Multiplier.

4. ____ Enter correct 1st year Cola.
5. ____ Confirm Disability Comp and Service Comp matches CURR GP and CRDP SVC GP on ENTIT screen.
6. ____ Input yearly service comp amounts onto VA Retro workbook.

G. Debts

1. ____ Verify that all purged debts with balances have been paid/waived and documentation of this is available.
2. ____ Verify that the Gross Pay and VA Waiver have been adjusted as necessary for related debts.

H. Garnishments

1. ____ Check all pages of the HUNT_GARNSH screen and SCCG (for CRSC) to determine all active Garnishments on the account.
2. ____ Determine which of the active garnishments current monthly payments are not being satisfied.
3. ____ Calculate the new disposable income for each unsatisfied garnishment in chronological order.
4. ____ Calculate the additional amount needed to satisfy each garnishment.
5. ____ Enter the CRDP, CRSC and 3rd Party override fields as necessary on the database.
6. ____ Enter the amount due to the member from DFAS in the override fields on the database.
7. ____ Create an RAVC to each "Payee" listed on the HUNT GARNSH screen for any additional amounts owed in order to satisfy the current garnishments.

I. Credits

1. ____ Check the effective dates on all credits to see if they should be used.
2. ____ Verify the reason that each credit is included.
3. ____ If there are overlapping credits, then verify that there is proper documentation in Rapid to prove how the amount of each was calculated and that the credits were issued for the correct amount.
4. ____ Select the "Skip" option for all overlapping credits on the database.
5. ____ Adjust the VA Waiver and the CRDP Paid (if necessary) on the database using the documentation for each overlapping credit from Rapid.

J. Former Spouse

Initial Research

1. ____ Check for any active or purged garnishments that occurred during the VA Retro time period.
2. ____ Check the number of former spouses.
3. ____ Check for any alimony or child support. Check STATUS, PURGE DATES and HIST screens.
4. ____ Determine if the case is old law or new law.
5. ____ Verify there is no current debt on the HERS CP screen.
6. ____ Check to see if the former spouse is the beneficiary for SBP. If yes, verify that the FMR SPS IND is a "Y" and that the SBP election date is not prior to the divorce date.

7. ____ Check for Disability Disposable Pay.
8. ____ Verify the start date **if it occurs after 1/1/2004.**
9. ____ Check for any prior debts and determine if they are to be included.
10. ____ Look for any credits to the former spouse and determine if they are to be included. QUALITY FOCUS
11. ____ Check all HERS_HIST screens.
12. ____ Check RCB for any returned payments under the former spouse's SSN.
13. ____ Check for NQ to PA Pay Status Code.
14. ____ Manually identify **all** months with over/under withholdings/payments on the VA Retro worksheet that occur after the former spouse's start date. Verify the AUTO worksheet correctly identifies them.
15. ____ Make certain the "FS TOTAL" amounts on the former spouse worksheet match the actual former spouse payments on the HERS_PAY screen.
16. ____ Completely fill out all months of the former spouse portion of the database. (enter 0's for all months prior to FS start date)
17. ____ Verify worksheet matches database totals.

K. CASUALTY

1. ____ Determine loss date.
2. ____ Verify that the CRDP Taxable Amount on the database is correct if the member is Method B and died prior to 10/1/2005.
2. ____ Check to see if the member died prior to entitlement period? (1/1/04 or 6/1/03)
   Enter "DCSP" as a database comment. Do not work the case.
3. ____ Zero out everything starting with the loss month on both the database and worksheet, leaving the "Entitl" column blank on the database.

United States General Accounting Office
Washington, DC 20548

August 28, 2003

Ms. Martha Stearns
Deputy Director
Commercial Pay Services
Defense Finance and Accounting Service
P.O. Box 182317
Columbus, Ohio 43218-2317

Subject: *Payment Processing: Statistical Sampling Plan for Voucher Prepayment Examination*

Dear Ms. Stearns:

This report responds to a request made by your office that we approve the use of a statistical sampling plan for voucher prepayment examination of contract payments. While Title VII,[1] "Fiscal Guidance," of the GAO *Policy and Procedures Manual for Guidance of Federal Agencies* requires prepayment examination of vouchers prior to their certification and payment, it permits the use of statistical sampling for vouchers up to $2,500. You requested a waiver of the $2,500 ceiling for statistical sampling and approval of an alternative voucher prepayment examination plan that would, among other things, use statistical sampling for certain vouchers up to a maximum of $500,000 for contract payments.

In order to respond to your request, we reviewed your letter and the information provided in the attachments. We also contacted your staff to discuss your request in more detail. We analyzed the sections of the law pertaining to this request and reviewed the legislative history of 31 U.S.C. § 3521(b), upon which Title VII is based. Section 3521(b) of Title 31 provides for statistical sampling procedures. We did not test the Defense Finance and Accounting Service (DFAS) contract payment system; therefore, our response only addresses your request conceptually.

[1]Title VII of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*. The manual is the official medium through which the Comptroller General promulgates (1) accounting principles, standards, and related requirements and material for the guidance of federal agencies in the development of their accounting systems and internal auditing programs, (2) uniform procedures for use by federal agencies, and (3) regulations governing GAO's relationships with other federal agencies and with private concerns doing business with the government. 31 U.S.C. § 3521(b) states that heads of agencies may prescribe statistical sampling procedures to audit vouchers when they decide that economies will result. The term audit as used in 31 U.S.C. § 3521 (b) refers to the examination of disbursement vouchers prior to their certification for payment.

At this time, we cannot approve your request for a waiver or your proposed alternative sampling plan. Your submission, requesting exception to the $2,500 maximum for statistical sampling in voucher prepayment examination, does not justify your projected savings of approximately $4.2 million per year. Further, it is unclear how the proposed plan will adequately protect the government's interest. In addition, absent GAO approval, DFAS certifying officers risk personal liability for improper payments should they rely upon the voucher prepayment examination process under the proposed alternative sampling plan.

Background

As described in your letter and the information accompanying it and as explained by your staff during subsequent discussions, DFAS is evaluating its existing contract payment procedures with the intent of achieving cost-effective compliance with Title VII. We support such initiatives to create a government that works better and costs less. At the same time, agencies have the responsibility to protect the government's interest.

The fiscal guidance in Title VII contains general accounting processing procedures that are required by law. The requirements are designed to complement agencies' existing federal accounting, internal control, and systems standards. All basic vouchers, voucher schedules, and invoices or bills used as vouchers must be certified for correctness and legality by an authorized certifying officer. A certifying officer is accountable for and required to personally reimburse the government for any illegal, improper, or incorrect payment made by a disbursing officer because of his or her certification.[2] In addition, a disbursing official is accountable for ensuring that a voucher is in proper form, certified and approved, and computed correctly based on the facts certified.[3] In appropriate circumstances, the Comptroller General may relieve a disbursing or certifying official from liability.[4]

Electronic techniques and systems are being used to generate, process, transmit, and store financial information in today's federal financial environment, requiring accountable officials to rely on the systems, controls, and personnel that process the transactions. However, the accountable officials must have reason to believe that the key processes and controls on which they rely are working.[5] Further, even though all or some portion of the payment process may be automated, the certifying officer's basic accountability and legal liability for the propriety of the payment remains unaltered.

As a viable alternative to the traditional practice of performing 100 percent prepayment examination of vouchers, section 7.4E of Title VII authorizes agencies to establish statistical sampling programs for the examination of vouchers in support of their certification and payment, provided the vouchers do not exceed $2,500. Within this

[2]31 U.S.C. § 3528 (a)(4).
[3]31 U.S.C. § 3325 (a)(2).
[4]31 U.S.C. § 3528 (b).
[5]The most significant factors on which confidence in the system and controls should be based are (1) a well-defined organization structure and flow of work, with appropriate separation of responsibilities and clearly written policies and procedures governing the examination, approval, and certification of disbursement vouchers, (2) effective application of available technology and concepts to achieve efficient and effective voucher processing, and (3) review of the voucher processing procedures and controls in sufficient scope, depth, and frequency to provide reasonable assurance that key processing procedures and controls are working and reliable.

maximum, agencies are required to establish their own dollar limitations based on cost-benefit analyses of their voucher examining operations.[6] Any disbursing or certifying officer relying in good faith on the statistical sampling procedure adopted by the agency to disburse funds or certify a voucher for payment will not be liable for losses to the government resulting from payment or certification of a voucher not audited specifically because of the use of an authorized sampling procedure, provided that the agency has diligently carried out collection actions prescribed by the Comptroller General.[7] Exceptions to the $2,500 maximum for vouchers that may be statistically sampled may be authorized by the Comptroller General, on a case-by-case basis, when it is clear that they are warranted economically and that the procedures and controls will adequately protect the government's interest.

Prepayment Examination Process at DFAS

DFAS's voucher prepayment examination process is designed to ensure, among other requirements, that (1) payment is permitted by law, (2) appropriation amounts are available at the time and are being used for the intended purpose, (3) goods and services have been received and conform to the requirements of the order or agreement, (4) required administrative approvals have been obtained, and (5) quantities, prices, and calculations are accurate.

According to the information submitted with your request, the DFAS Columbus Contract Pay organization entitles[8] about 78,000 vouchers monthly at an average total monthly voucher value of $7.2 billion. Contractor invoices are processed and paid through a contract administration and payment system—Mechanization of Contract Administrative Services (MOCAS). Approximately 35,000 of the 78,000 monthly invoices are entitled through an automated payment of invoices (API) process. In the API process, the MOCAS system edit checks provide for the entitlement and automatic payment of these invoices. The remaining 43,000 payment vouchers are manually entitled by approximately 120 voucher examiners and supervisors. Vouchers are manually entitled if, for example, the contract governing the voucher payment has been modified, the contract has special payment instructions, or it fails the edits in the API process.

The DFAS Front End Analysis (FEA) organization was established to detect contract pay voucher errors prior to disbursement. One primary function of the DFAS FEA organization is to perform independent voucher prepayment reviews. FEA staff judgmentally select vouchers at various points in the entitlement process and examine them for various attributes, such as input errors, payment according to contract, and availability of funds. According to your letter, FEA's voucher examination procedures are designed to assess MOCAS system errors or individual voucher examiner error rates by nonstatistical sampling from each day's manual entitlements.

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[6]GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*, Title VII, "Fiscal Procedures," ch. 7, sec. 7.4E.
[7]31 U.S.C. § 3521 (c).
[8]The entitlement process, according to DFAS, refers to the preparation of the payment package, including the matching of an invoice, receiving report, and contract. Entitlement precedes prepayment review procedures.

Of the approximately 78,000 vouchers processed each month, 55,000 are greater than $2,500 and therefore subject to 100 percent prepayment examination in accordance with Title VII. Currently, FEA staff nonstatistically select and examine an average of 1,500 vouchers above $2,500 per month. In a sample of manually entitled invoices from October 2000 through July 2001, FEA noted a primary error rate[9] of 13.4 percent, with some of those errors attributable to overpayments totaling approximately $4.8 million for the 10-month period.

DFAS's Proposed Alternative Sampling Plan for Prepayment Examination

Your alternative voucher prepayment examination plan for contract payments would shift the role of the FEA independent voucher team, made up of 6.5 full-time equivalents, from detecting input errors and detecting individual voucher examiner errors to playing a key role in the prepayment certification process for accountable officers. Specifically, FEA staff would perform a review of (1) 100 percent of all manually entitled payment vouchers equaling or exceeding $500,000 and (2) a statistical sample of manually entitled vouchers less than $500,000 combined with all API vouchers regardless of amount, thereby excluding API vouchers from the 100 percent voucher examination threshold. All vouchers selected as part of this sampling plan would be reviewed to ensure that they were legal, proper, and correct for payment using standardized review criteria. Any discrepancies noted would be reported, tracked, monitored, and resolved.

Your analysis noted that this more systematic examination of vouchers would ensure that FEA staff review over 53 percent of total monthly contract payment dollars, as compared to the 6.5 percent of the total dollars that are currently examined through the judgmental sampling of manually entitled vouchers only. In turn, DFAS expects that this heightened review will detect and correct more potential overpayments and result in savings to the government. The analysis prepared by a contractor for DFAS concludes that the 6.5 FEA full-time equivalents can perform 1,000 manually entitled voucher examinations per month if the maximum threshold for statistically sampled vouchers was raised from $2,500 to $500,000. Thus, it appears to us that the resources available are driving the proposed threshold and sample size rather than the consideration of other key factors, such as an appropriate risk level and acceptable error rate that would provide reasonable assurance that the government's interest is protected.

Our Assessment of the Proposed Alternative Sampling Plan

Your proposed alternative sampling plan, which includes waiving the $2,500 maximum for statistical sampling of voucher prepayment examination for contract payments, does not justify the proposed savings or provide assurance that the government's interest will be adequately protected. Further, DFAS certifying officers risk personal liability for improper payments should they rely upon the prepayment examination process under the proposed alternative sampling plan.

[9]A primary error is defined in the business case analysis as "the first error on an invoice that has been reviewed." An invoice may have more than one error.

GAO's *Policy and Procedures Manual* sets out a relatively straightforward formula for agencies to use in deciding whether to adopt sampling in the certification of payment vouchers under 31 U.S.C. § 3521(b). The cost of examining all vouchers should be compared with the total costs of sampling (i.e., the cost of examining the sample plus the amount of projected losses from undetected errors in vouchers not examined).[10] Where the costs of reviewing all vouchers exceed the costs of sampling plus estimated losses, sampling offers savings. Savings are achieved when the combined costs of (1) examining the sample and (2) projected losses due to undetected errors on invoices not examined are less than the cost of examining all invoices. Through analysis, the sampling plan must identify a tolerable error rate,[11] the number of invoices to select for examination, and the selection method.

Your request describes approximately $4.2 million in projected savings per year as a result of the alternative sampling plan. Based on our review of your proposed sampling plan, we question this projection. Specifically, adequate evaluation of sample results involves defensible projections to the entire population using statistically valid samples. The sample results in your plan cannot be projected to the population because it is not clear how the monthly sample sizes were determined or how the samples were picked from the monthly population. The DFAS analysis is centered on 10 monthly selected samples of manually entitled vouchers, but does not document how the sample sizes, ranging from 985 vouchers selected in July 2001 to 1,894 vouchers selected in April 2001, were determined relative to the total monthly population of manually entitled vouchers. In addition, the methodology used to record errors in the sample is unclear in the analysis. The analysis indicates that the error rate of 13.4 percent is a result of 2,019 "primary" errors noted in the 15,021 vouchers reviewed. A primary error is defined in the analysis as "the first error on a reviewed invoice." However, an invoice may have more than one error. Because total errors are not known or identified, the results cannot be viewed as representative and used to project potential losses to the remaining vouchers in the population. Hence the measured savings calculated as a result of FEA's prospective ability to detect and correct potential contract payment errors under the proposed plan are unjustified.

We have additional concerns about whether this plan adequately protects the government's interest, based on the Department of Defense's (DOD) long-standing problems with accurately accounting for and reporting on disbursements. We have previously reported[12] on long-standing problems in MOCAS contract payments. For example, recent DFAS data showed that almost $1 of every $4 in contract payment transactions was for adjustments to previously recorded payments—$49 billion of adjustments out of $198 billion in transactions. DOD had been developing a new system, the Defense Payment Procurement System (DPPS), which was designed in part to resolve DOD's long-standing disbursements problems and streamline contract payment processes. However, as we previously reported,[13] DOD terminated DPPS in December

[10]GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*, Title VII, app. III.
[11]Tolerable error rate is the point at or below which savings occur.
[12]U.S. General Accounting Office, *Canceled DOD Appropriations: $615 Million of Illegal or Otherwise Improper Adjustments*, GAO-01-697 (Washington, D.C.: July 26, 2001).
[13]U.S. General Accounting Office, *DOD Business Systems Modernization: Continued Investment in Key Accounting Systems Needs to Be Justified*, GAO-03-465 (Washington, D.C.: Mar. 28, 2003).

2002 after 7 years of development due to poor program performance and increasing life cycle costs. Consequently, DFAS will be relying on MOCAS, which was implemented in 1968, and other legacy systems to meet its requirements for the foreseeable future.[14] In addition, DOD contracts processed by DFAS contain numerous fund citations and complex payment allocation terms. These factors, along with contract modifications, changes in payment allocation terms, and nonstandardized contracts and payment terms contribute to the fact that a large percentage of payment vouchers will need to be manually entitled for the foreseeable future. Based on our prior findings, this area has been very susceptible to errors.

One of the requirements imposed on the certifying officer is to ensure (or have in place a system that can offer a reasonable degree of assurance of) the "legality of a proposed payment under the appropriation or fund involved."[15] A certifying officer's legal liability is strict and arises automatically at the time of an illegal or improper payment.[16] The Comptroller General has authority to relieve a certifying officer from liability when we find that the certification was based on official records and the official did not know, and by reasonable diligence and inquiry could not have discovered, the correct information.[17]

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires agency heads to periodically evaluate their systems of internal control using the guidance issued by the Office of Management and Budget (OMB).[18] Title VII also provides that FMFIA reviews should be designed, carried out, and reported in ways that show whether the voucher processing and disbursing system and controls are reliable. To the extent practicable, the needs of certifying and approving officials should be considered in advance of an FMFIA review, and the review results should be made available or communicated to them in reports tailored to their special interests. The FMFIA review is a good starting place for assessing risk in the contract pay certification and disbursing process, which, used in conjunction with an objective and scientifically developed approach encompassing the criteria[19] referred to above, can provide the guidance for alternative plans that we could evaluate in the future.

Conclusion

Title VII allows for a deviation from the $2,500 limitation for using statistical sampling to certify vouchers to the extent that there are resultant savings while adequately protecting the government's interest. Title VII does not distinguish between certification of automated or manual entitlements, but provides for statistical sampling of vouchers less than $2,500 as a technique in large-volume, highly automated voucher processing operations. Any alternatives to 100 percent prepayment examination must be part of a total system that includes well-defined responsibilities, organizational structures, and an adequate set of internal controls. Until a sound statistical sampling plan with justifiable

[14]U.S. General Accounting Office, *DOD Financial Management: Integrated Approach, Accountability, Transparency, and Incentives Are Keys to Effective Reform*, GAO-02-573T (Washington, D.C.: Mar. 20, 2002).
[15]31 U.S.C. § 3528(a)(3).
[16]54 Comp. Gen. 112, 114 (1974).
[17]31 U.S.C. § 3528 (b)(1).
[18]31 U.S.C. § 3512 (d).
[19]The criteria include (1) defining the universe of vouchers, (2) determining the size of the sample needed, and (2) analyzing the results of the sample using the appropriate statistical procedure.

savings is presented, we cannot grant a waiver of the $2,500 maximum for statistical sampling of contract payments or approve the alternative voucher examination plan submitted. The proposed alternative sampling plan does not justify savings or adequately protect the government's interest. In addition, good faith reliance on this particular plan would not relieve a disbursing or certifying official of liability for an improper payment or certification of a voucher not audited.

- - - - -

The contents of this report were discussed with Bill Felice of your staff. We hope our comments are helpful. If you have any questions, or would like to discuss these matters further, please contact me at (202) 512-6906 or Mary Arnold Mohiyuddin, Assistant Director, at (202) 512-3087. This report will be available at no charge on GAO's Web site at http://www.gao.gov.

Sincerely yours,

McCoy Williams
Director
Financial Management and Assurance

(190060)

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WILES, AMY CIV DFAS

From: BERNHARDT, KARL H CIV DFAS
Sent: Monday, June 30, 2008 1:18 PM
To: WILES, AMY CIV DFAS; ONDER, GARRICK CIV DFAS
Cc: BOUTELLE, CHET SES DFAS; KOENIG, JOHN CIV DFAS
Subject: FW: Cong. Kucinich Data Letter Request

Amy,
This should close out Froank Lucas submission.

Karl

-----Original Message-----
From: LUCAS, FRANK CIV DFAS
Sent: Monday, June 30, 2008 1:00 PM
To: BERNHARDT, KARL H CIV DFAS
Cc: MCDERMOTT, DAVID SES DFAS; JAKYMA, DOUGLAS CIV DFAS; WILES, AMY CIV DFAS; SMITH, DOUGLAS CIV DFAS; BENISEK, GENE CIV DFAS; BOUTELLE, CHET SES DFAS; SMITH, MARTHA J SES DFAS
Subject: RE: Cong. Kucinich Data Letter Request

Karl,

I've inserted answers to your questions below. Realize that I may have provided more than what you need or may deem appropriate to use.

Frank

-----Original Message-----
From: BERNHARDT, KARL H CIV DFAS
Sent: Monday, June 30, 2008 10:49 AM
To: LUCAS, FRANK CIV DFAS
Cc: MCDERMOTT, DAVID SES DFAS; JAKYMA, DOUGLAS CIV DFAS; WILES, AMY CIV DFAS; SMITH, DOUGLAS CIV DFAS; BENISEK, GENE CIV DFAS; BOUTELLE, CHET SES DFAS; SMITH, MARTHA J SES DFAS
Subject: RE: Cong. Kucinich Data Letter Request
Importance: High

Frank,

==========

In summary, is it correct, accurate, and complete, to conclude that your office developed the sampling plans in support of the VA-Retro project that were subsequently approved by Mr. Gaddy (or delegated authority),

Yes, the pre-pay sampling plan for VA-Retro payments.

that your office performs improper payment review of DFAS payrolls,

Yes, for military and civilian pay only.

but that you have not to this date audited any VA-Retro payrolls specifically?

True.

And since you audit payrolls for improper payments, why have you not audited any VA-Retro payments to date?

Several reasons.
1. Outside our area of expertise. We presently do not have adequately trained staff member that possess an in-depth knowledge of CRSC, CRDP and the VA Retro process to

 DFAS-CL [redacted]

perform a comprehensive post pay review. The CGA would appear a more likely candidate to perform these types of reviews.

2. Timing. It would not appear appropriate to conduct a VA-Retro post payment review, even if I had a properly trained staff, while R&A was striving to get these payments issued and reduce a substantial backlog.

Additional Information

It may be helpful to gather statistics from the pre payment review and show the dollar value of potential improper payments that were corrected before they were issued. This could help show the importance and usefulness of the pre pay review process in preventing mispayments to retirees.

==========

Karl

-----Original Message-----
From: BERNHARDT, KARL H CIV DFAS
Sent: Thursday, June 26, 2008 10:41 AM
To: LUCAS, FRANK CIV DFAS
Cc: MCDERMOTT, DAVID SES DFAS; JAKYMA, DOUGLAS CIV DFAS; WILES, AMY CIV DFAS; SMITH, DOUGLAS CIV DFAS; BENISEK, GENE CIV DFAS
Subject: RE: Cong. Kucinich Data Letter Request

Frank,

I thought that you were involved in obtaining approval for the sampling plan from Mr. Gaddy? You should have correspondence that reflects the obtaining of approval and the final approved plan. For example I believe there was discussion that the plan approval had been delegated down from OSD(C) to the Agency Director.

Karl

-----Original Message-----
From: LUCAS, FRANK CIV DFAS
Sent: Thursday, June 26, 2008 10:30 AM
To: BERNHARDT, KARL H CIV DFAS
Cc: MCDERMOTT, DAVID SES DFAS; JAKYMA, DOUGLAS CIV DFAS; WILES, AMY CIV DFAS; SMITH, DOUGLAS CIV DFAS; BENISEK, GENE CIV DFAS
Subject: RE: Cong. Kucinich Data Letter Request

Karl,

The attachement is provided in response to para 2 of Congr. Kucinich's request. This includes the statistical sampling plan (narrative and sampling table) developed by Standards & Compliance, Operational Review (a.k.a. "Frank Lucas' group") for use by the CGA; the checklist developed by R&A, DoDFMR Vol 5 references and IR comments to an earlier draft that were considered in the final sampling plan.

Please note that Operational Review was not involved in the actual pre (or post) payment review process of any VA Retro payments or analysis of results from such sampling plans. Rather, we developed the pre payment sampling plan for use by the CGA or any statistical analysis of data from such reviews.

Frank

-----Original Message-----
From: BERNHARDT, KARL H CIV DFAS
Sent: Thursday, June 26, 2008 6:42 AM
To: NOE, NORMAN CIV DFAS; MOXLEY, MICHAEL CIV DFAS; 'Egeland, James S'; 'Graddy, Darrell W'; SMITH, DOUGLAS CIV DFAS; BENISEK, GENE CIV DFAS; LUCAS, FRANK CIV DFAS; GOUDLOCK, EDWINA CIV DFAS
Cc: BERMAN, JUDY CIV DFAS; MCDERMOTT, DAVID SES DFAS; SMITH, MARTHA J SES DFAS; BOUTELLE, CHET SES DFAS; ONDER, GARRICK CIV DFAS; JAKYMA, DOUGLAS CIV DFAS; WILES, AMY CIV DFAS; POGUE, DIANA CIV DFAS

 DFAS-CL [redacted]

THE DEFENSE FINANCE AND ACCOUNTING SERVICE VA RETRO PROJECT UPDATE
(Statistics as of February 29, 2008)

CURRENT STATUS:

- In September 2006, DFAS identified 133,057 retirees potentially requiring retroactive payment.
    - Of the original population of 133,057 retirees with claims, 98,057 claims have been adjudicated.
    - DFAS has paid $58,161,228 to date.
    - DVA has paid a projected $212,560,908 to date.
    - Of the total universe of 217,294 claims being reviewed, as of February 29, 2008, a total of 157,243 claims have been adjudicated.

ACTIONS TAKEN:

- The contract service provider, Lockheed Martin, has more than tripled the number of technicians available to process Retro VA claims. In addition, the training schedule has been accelerated.

STANDARD PROCEDURES	PROCEDURES NO./J.O. NO. 1111.08
CHECK ONE [X] Operating [ ] Administrative [ ] Job Outline [ ] Policy Statements [ ] Management Guidelines	ORGANIZATION CODE: Retired and Annuity Pay
SUBJECT : Team Blue VA Retro/CRSC Payroll Review Team Blue Quality Assurance Payroll Review	REVISION NO. 2
	DISTRIBUTION: VA Retro, CRSC, Retired and Annuity Pay, Quality Assurance, Training
	SUPERSEDES May 07, 2008 edition

I. PURPOSE AND SCOPE

The purpose of this Standard Operating Procedure (SOP) is to clearly define the review requirements and procedures on the review of VA Retro/CRSC payrolls. This SOP will also define the reporting process of such review.

II. INTRODUCTION

The role of Team Blue Quality Assurance is to provide a documented review of VA Retro payrolls in compliance with the use of authoritative sources of data. The listing of these data elements has been agreed to by both Lockheed and the CGA.

Payroll review is based on a randomly selected grouping of 40 (total) accounts pulled from the payroll queue at regular intervals throughout a production day. These smaller groups, which comprise the total sample, are selected from the payroll queue through the use of EZ Quant. This method of payroll sampling is repeated for three grouping of accounts:

1. Where any DFAS payment is in excess of $2500
2. Where DFAS payments are individually below $2500
3. Where there is no DAFS payment – only VA payment

Accounts computed as No Pay Due or Debts are not subjected to QA review.

Payroll review is focused on validating information on the account against the authoritative sources of data. The QA team does not re-compute or reconstruct the account manually. In instances where the sampled account is not complaint with the authoritative sources of data, the case is "Pulled" from the payroll.

A replacement account is selected for the sample. In instances where the review process detects a systematic flaw, the account is failed (not pulled). In instances where a single technician has two or more errors in the sample, the entire the work of that technician is removed from the payroll.

The review sample will also include all VIP members and all payments in the sample in excess of $30,000.

The review will be conducted in accordance with the VA Retro Authoritative Source Data checklist dated May 1, 2008.

Throughout the review process the Q/A team will continuously communicate their findings to Systems, Operations, Training and VA Retro Program Management.

The review of payrolls will also be documented in the Quality Control Checklist (QCC) database.

III. REFERENCES

A. VA Retro Authoritative Source Data dated May 1, 2008.

IV. SYSTEMS USED

All review by Team Blue Quality Assurance will utilize the Authoritative Sources of Data as directed by Program Management. These are documented in Section V, Attachment "E".

V. ILLUSTRATIONS

A. Ez-Quant Sample Selection
B. Payroll Sample
C. Quality Control Checklist
D. CGA Payroll Review Report
E. Authoritative Data Sources

VI. PROCEDURES

1. At the beginning of each day, the payroll review team will begin sampling accounts from the payroll queue.

2. Samplings of 10 (for each category) are pulled – using EZQuant – throughout the day.

3. VIP accounts and those culminating in a total DFAS payment of $30,000 are specifically reviewed.

4. This process is repeated for the three payroll groupings of "Over $2500", "Under $2500" and "VA Only".

5. Accounts found to be inconsistent with the authoritative sources of data are "Pulled" from the payroll sample and replaced.

6. Where system discrepancies are detected, the account "Fails" review.

7. Payrolls are then processed by pulling all accounts (by type) from the payroll queue and submitting them to the COL process.

All QA reviews will be conducted against the list of authoritative sources of data agreed to between LM and DFAS on May 1, 2008. The review SOP will be modified in concert with any changes on this list.

Martha J. Smith, Director DFAS, Cleveland
DFAS Cleveland
Anthony J. Celebrezze Federal Building
1240 East 9th Street
Cleveland OH 44199-2055

1 June 2008

Dear Ms. Smith,

I am CSM Harold E. Lewis, U.S. Army, (Retired); I would like to share with you my one year odyssey in dealing with the DFAS concerning my CRSC/Concurrent Retirement and Disability Account. I have always updated my CRSC as the Veterans Administration has changed my disability determination.

In March of 2007 I submitted an update to CRSC, and was told in approximately ninety-days I would receive any back pay that was due, this happened approximately the same time as the Army wide review of CRSC/CRDP.

In June of 2007 I called the DFAS phone number to find out if a status on my account has been made. I was told, based on my social security number being entered into the computer that I was due no pay, or back pay. I informed the young lady that by my calculations that I was and she was mistaken. She placed me on hold, and after a lengthy time told me that a supervisor made a review of my records and that the initial determination was incorrect, and that I would be getting a letter soon explaining how the determination was made.

Now the fun begins, I called in July-it was waiting on three signatures, I called in August still but now the signatures were down to two, I called in October, and was told that I was in a group that was difficult to determine and it was still being worked on. I called in November and was told there was an amount determined, but it could not be

released to me until it went to DFAS for verification. I called in December and was told it was getting close to finalizing.

On December 20, I was hospitalized for internal bleeding. Hospitalized for nine days, my wife revived me at home after I stopped breathing. The internal bleeding was caused by a medicine prescribed for pain. Prescribed by the Veterans Hospital in Temple, Texas. This does not pertain to the subject; it's just a month by month accounting.

On 7 April 2008, I received a letter from DFAS, London, Kentucky. It stated that my account was current and the entitlements were correctly computed.

I believe that that is incorrect; the consistent changing of stories on a month by month basis caused me to, at times, doubt my sanity. I served 28 years in the Army, in one of the toughest jobs there was. Field Artillery. I taught my soldiers not to lie, cheat, steal, or tolerate any one who did.

I have always believed in my country, and that, at times risking my life for my country was the price you paid for the your blessed birth in this wonderful free country.

I am disgusted with my treatment by DFAS, I sent four emails outlining my questions and asking for a phone call, but was never called. I was given one excuse after another, for a year.

My belief now is that DFAS, and this country only want to recognize me when I am killing people in the name of the United States.

I am writing you for help, your phone number are no help, your on line is no help, your customer service men and women only read a computer screen, and will not under any circumstances let you talk to anyone else. I am disgusted.

I want my record reviewed by someone you trust. If the answer is the same, so be it.

And, I would like a complete audit in writing on a month by month determination if your decision remains the same.

I am including seven enclosures' that may assist the requested audit.

Thank you, Ms. Smith for your time, and your service to our men and women who protect this great nation. The first enclosure is, in my opinion the starting document.

The Veterans Affairs letter dated 22 August 2006 was a determination letter awarding me a compensable service-connected disability of 90%. EFFECTIVE 1 JANUARY 2006.

Sincerely,

Harold E. Lewis, CSM, U.S. Army, (Retired)

Enclosures':
CRSC-Personal Audit from January 2, 2006, thru January 31 2007.
DFAS Letter dated April 2, 2008
Department of Veterans Affairs, Letter dated 22 August 2006
Adjustment to Previous CRSC dated 1 May 2007 (VA Copy)
Adjustment to Previous CRSC dated 1 May 2007 (Veterans Copy)
CRSC statement dated 2 January 2008
Department of Veterans Affairs Letter dated 2 February 2006

CSM (Retired)
Harold E. Lewis
[redacted]

CC: Honorable Chet Edwards
Honorable Kaye Bailey Hutcheon

DFAS-CL [redacted]

DEFENSE FINANCE AND ACCOUNTING SERVICE

Retired and Annuity Pay

DVA Retro - [redacted]
April 2, 2008

CSM HAROLD E LEWIS, USA (Retired)
[redacted]

Dear Sergeant Major LEWIS:

This letter is to inform you the Defense Finance and Accounting Service (DFAS) has reviewed your Combat Related Special Compensation (CRSC) / Concurrent Retirement and Disability Pay (CRDP) account.

The Public Laws establishing these entitlements were amended so that retired military members who have previously received, or are currently receiving CRSC and / or CRDP, could have their entitlement(s) recalculated based on retroactive ratings awarded by the Department of Veterans Affairs (DVA).

Our most recent review has determined that your account is current at this time and that these entitlements have been correctly computed for the period of June 2003 through March 2008. A Retiree Account Statement (RAS) will be sent, under separate cover, to confirm the current status of your account.

Should you have any further questions, please contact us at Defense Finance and Accounting Service, US Military Retirement Pay, PO Box 7130, London, KY 40742-7130, or call, toll free, via 1-877-327-4457 (commercial 216-522-6161), Monday through Friday, 8:00 AM to 4:30 PM Eastern Time. You may also send us a toll free fax via 1-800-469-6559.

Sincerely,

Retired and Annuity Pay

PLEASE KEEP A COPY OF THIS LETTER FOR YOUR RECORDS.

DFAS-CL [redacted]

DEFENSE FINANCE AND ACCOUNTING SERVICE
1240 EAST NINTH STREET
CLEVELAND OHIO 44199

Command Sergeant Major Harold E. Lewis,
U.S. Army (Retired)
[redacted]

JUN 1 8 2008

Dear Sergeant Major Lewis:

This is in response to your letter, dated June 1, 2008, to Ms. Martha J. Smith, Director, DFAS Cleveland, concerning the status of your Combat-Related Special Compensation (CRSC) and Concurrent Retirement and Disability Payments (CRDP) retroactive payments. Your inquiry was forwarded to our office for reply.

In September 2006, the Department of Veteran's Affairs (DVA) identified approximately 133,057 veterans in receipt of CRDP or CRSC that may be eligible for additional retroactive compensation. This retroactive payment is commonly referred to as a VA Retro payment. In October 2006, the Defense Finance and Accounting Service (DFAS) in coordination with the DVA began a process of computing these payments. On June 8, 2008, we completed all claims the DVA identified in September 2006.

In March 2008, your VA Retro was adjudicated and we determined we did not owe you a retroactive payment. This resulted in the letter we sent to you dated April 2, 2008 advising you of the results of our computation.

We have recomputed your VA Retro. Upon re-computing your account we corrected the entitlement information and determined you are due a VA Retro payment from both us and the DVA. We anticipate a payment for approximately $1,935.00 to be deposited to your First National Bank account no later than Thursday, June 27, 2008. Additionally, you are eligible for payment from the DVA in the estimated amount of $12,829.00. That information will be forwarded to the DVA for additional validation and possible payment. There may often be a lapse of time between the payments from the two different agencies. If you do not receive payment from them within 45 days, you may wish to contact them directly at 1-800-827-1000.

We apologize for the poor customer service you received. If you have any questions, you may contact Mr. Sonny Alquero or Jeff Meier in the Ombudsman's office at 216-522-6395. You may also write to us at Defense Finance and Accounting Service, U.S. Military Retirement Pay, PO Box 7130, London, KY 40742-7130.

Sincerely,

Douglas Smith
Director, Retired and Annuitant Pay
DFAS Cleveland

DFAS-CL [redacted]

DEFENSE FINANCE AND ACCOUNTING SERVICE
1851 SOUTH BELL STREET
ARLINGTON, VA 22240-5291

JUL 11 2008

The Honorable Dennis J. Kucinich
Chairman, Domestic Policy Subcommittee
Committee on Oversight and Government Reform
United States House of Representatives
Washington, D.C. 20515-6143

Dear Mr. Chairman:

This responds to your fifth document request dated July 07, 2008, regarding the Defense Finance and Accounting Service's (DFAS) VA Retro program. Accurate and expeditious claim adjudication is a very serious matter that has the full attention of the DFAS and the entire Department of Defense.

The DFAS has determined that the enclosed 222 pages of documents are responsive to your request for information. The documents are identified with the bates numbers DFAS-CL 013138 through DFAS-CL 013359, and are contained in two boxes. We are continuing our review of the DFAS records. Any additional responsive documents will be provided as soon as possible, if located.

In response to your contracting questions for the VA Retro project: a) we have provided a complete contract history with this response, b) the VA Retro project was administered as a separate stand-alone task order from the start because the developmental nature of the work required by the VA Retro project had not been contemplated or priced as part of the basic contract. Although the original contract did not contemplate the VA Retro project, the work was considered to be within the general scope of the Retired and Annuitant pay process; and therefore, was more properly covered by the issuance of a task order, c) the requested original deliberative documents that the DFAS has identified are provided with this response. We will continue to review the DFAS records to determine if there are any further responsive documents to this request.

In response to your questions regarding "zero determinations": 1) determinations by category total as follows; 24,356 of the Original population; 1,092 of the New and Returning population; and 2,835 of the Ongoing population, 2) determinations are made by the contractor, Lockheed Martin Corporation, the CGA has reviewed some portion of these determinations for accuracy, members are notified of these determinations by letter, and data regarding the number of determinations "reversed" is not maintained. Determinations are reversed through pay audit or through receipt of revised medical information from Department of Veteran Affairs, in which event the case is moved to another category for adjudication, such as "ongoing".

The enclosed documents contain sensitive information and are subject to the disclosure provisions of the Freedom of Information Act, (5 U.S.C. § 552) and the Privacy Act, (5 U.S.C. § 552a). The Department of Defense has consistently taken the position that such information must be safeguarded in order to protect the safety, privacy, and dignity of service members and civilian personnel. In conformance with this policy, the DFAS has redacted individual personal identifiable information from the documents being produced for this transmittal.

The DFAS provides these documents with a full reservation of rights and with the understanding and intent that such provision shall not be deemed a waiver of any applicable privilege. The DFAS respectfully requests that these documents be shared only within the Committee and then only with those who have an official need for the information, that the documents not be disclosed outside the Committee or to the public, that appropriate steps be taken to safeguard these documents, and that the documents be destroyed after use.

I want to assure you that the DFAS is taking all steps necessary to comply with your latest document request as quickly as possible. We will continue to accommodate all reasonable requests.

Please contact Ms. Judy Berman, of my staff, at (703) 607-3783, if you have any questions or concerns, or require additional briefings on this matter.

Sincerely,

Zack E. Gaddy
Director

cc: The Honorable Darrell Issa
Ranking Member

CGA Review Guidelines

VA Retro

The following should be completed for Input Phase Team Blue:

Input Phase Supervisors: Kenneth Gerlock, Susan Cernanec, Aisha Campbell
Team Blue: Lynn Kovello

- ☐ Verify Checklist is present and being used
- ☐ Is the proper starting date being used?
- ☐ Is Purple Heart of SMC involved?
- ☐ Is the proper disability percentage being used?
- ☐ Was there any switch from CRSC or CRDP, or vice versa?
- ☐ Have all prior payments been accounted for?

Procedure: CGA will send 2 technicians daily to review process and complete above checklist. Each technician will sit with 2 experienced and 2 less experienced technicians.

Team Blue Procedure: CGA will send 1 technician daily to review the Team Blue process and complete above checklist. 1 technician will sit with a different Team Blue reviewer on a daily basis.

Special conditions case type:

- ☐ Reservists
- ☐ Garnishments
- ☐ Former Spouse
- ☐ Method A Comp
- ☐ Casualty

LMIT Technician _____
Print Name

CGA Reviewer _____ **Date** _____
Signature

Case Type _____

EFFECTIVE DATE 3-10-08

MEMBER NAME: _____ SSN: _____ DATE SUBMITTED: _____

TECHNICIAN #1 NAME: _____ TECHNICIAN #2 NAME: _____

A. INITIAL RESEARCH (EACH LINE MUST BE INITIALED)

1. ____ Verify case is one of original 133K
2. ____ Verify the case has not received prior VA Retro payment, neither DFAS nor VA.
4. ____ Verify no improved pension.
5. ____ Verify all reason codes on the Target.
6. ____ Check the Target to determine if the case has an incarceration, felony, apportionment, recoup or PFOP and make the necessary adjustments.
7. ____ Verify no current NAVA needed. (Not Applicable to Casualty)
8. ____ Verify that the current CRDP IND code is correct (not applicable to Casualty)
9. ____ Verify that all returned payments in RCB have been reissued.
10. ____ Verify Pay Status Code of PA, PR, NQ, SH, TA or TR
11. ____ Verify that all debts have been paid in full.
12. ____ Verify all negative nets have been reconciled.
13. ____ Check RAPID.

B. SPECIAL PROCESSING (EACH LINE MUST BE INITIALED)

	Yes	No	*(Yes if it applies to the case, no if it does not)*
1.	____	____	CRSC – Award letter in RAPID. (Section D)
2.	____	____	Reservist – fan code 7 or 8. (Section E)
3.	____	____	Method A – Current or Original Election. (Section F)
4.	____	____	Debts (Section G)
5.	____	____	Active Garnishment (Section H)
6.	____	____	Credits (Section I)
7.	____*	____	Former spouse (Section J) * *complete Initial Research under Section J before processing member's portion.*
8.	____	____	Casualty (Section K)

C. ALL CASES (LINES 1-10 MUST BE INITIALED)

1. ____ Check all comp lines for Former Spouse payments.
2. ____ Determine disability rating and IU code for each month QUALITY FOCUS
3. ____ Verify that the Target Total and Net are correct for each month.
4. ____ Verify Pay Status Code for each month.
5. ____ Verify gross pay for each month.
6. ____ Verify VA Waiver for each month.
7. ____ Verify CRDP/CRSC payments for each month
8. ____ Verify the case does not have IU 2 and 100% or a 0 IU code in the database.
9. ____ REVIEW THE VA SCREEN AND TARGET TO CONFIRM THAT ALL PRORATIONS HAVE BEEN PROPERLY COMPUTED AND ENTERED INTO DATABASE CORRECTLY.

DFAS-CL [redacted]

D. CRSC

1. ____ Compare Award Letter and VETSNET to find effective date of CRSC and SMC.
2. ____ Verify 2003 eligibility (60% or 10% with PH, reservist must have 7200 points).
3. ____ Check SCCD and SCCD history for valid debts.
4. ____ Check SCCG for active, unsatisfied garnishments.
5. ____ Verify SCCR. QUALITY FOCUS
   a. Are all combat related disabilities flagged "Y"
   b. Are all Bilaterals and Purple Heart disabilities flagged "Y"
   c. Are the effective dates and percentages correct.
   d. If SMC applies, is it the correct code with the correct SMC effective date?
   e. Ensure that the account has been maintenance within the past seven days.
   f. If you must maintenance the account, set the Retro Indicator to "Y" before pressing F3, F12.
6. ____ Check Open Season election for CRDP. If the member has no open season election and the percentage is 50% or more, the entire year must be computed for CRDP as well as for CRSC. Compare the two total amounts for the year, then compute the case showing the program that is more beneficial for that year.
7. ____ Check any mid month combat related percentage prorations.
8. ____ Verify all CRDP, SCSD or CRSC payments.
9. ____ Verify A/A has been processed correctly (if applicable).
10. ____ Research all credits before you apply them.
11. ____ Ensure information is input correctly into worksheet.
12. ____ Confirm that VA Retro worksheet has been properly completed.
13. ____ Ensure that disability percentages match the CRSC worksheet.
14. ____ Verify totals match on the VA Retro workbook and the database.

E. RESERVIST

1. ____ Note retirement date. (If retired prior to January 2004 do not include lines 2-5.)
2. ____ Prorate the first month of retirement: Gross Pay, VA Waiver, Target Total and Net.
3. ____ Determine the CRDP award for the retirement month.
4. ____ Determine if adjustment is needed on database for first retirement month. Verify amount due shown on database is caused by CRDP award amount for first month of retirement.
   Amount of adjustment needed $_____
5. ____ Adjustment completed.

F. METHOD A

1. ____ Complete a Method A worksheet.
2. ____ Determine Base Pay amount.
3. ____ Determine the Service Percent Multiplier.

4. ____ Enter correct 1st year Cola.
5. ____ Confirm Disability Comp and Service Comp matches CURR GP and CRDP SVC GP on ENTIT screen.
6. ____ Input yearly service comp amounts onto VA Retro workbook.

G. DEBTS

1. ____ Verify that all purged debts with balances have been paid/waived and documentation of this is available.
2. ____ Verify that the Gross Pay and VA Waiver have been adjusted as necessary for related debts.

H. GARNISHMENTS

1. ____ Check all pages of the HUNT_GARNSH screen and SCCG (for CRSC) to determine all active Garnishments on the account.
2. ____ Determine which of the active garnishments current monthly payments are not being satisfied.
3. ____ Calculate the new disposable income for each unsatisfied garnishment in chronological order.
4. ____ Calculate the additional amount needed to satisfy each garnishment.
5. ____ Enter the CRDP, CRSC and 3rd Party override fields as necessary on the database.
6. ____ Enter the amount due to the member from DFAS in the override fields on the database.
7. ____ Create an RAVC to each "Payee" listed on the HUNT GARNSH screen for any additional amounts owed in order to satisfy the current garnishments.

I. CREDITS

1. ____ Check the effective dates on all credits to see if they should be used.
2. ____ Verify the reason that each credit is included.
3. ____ If there are overlapping credits, then verify that there is proper documentation in Rapid to prove how the amount of each was calculated and that the credits were issued for the correct amount.
4. ____ Select the "Skip" option for all overlapping credits on the database.
5. ____ Adjust the VA Waiver and the CRDP Paid (if necessary) on the database using the documentation for each overlapping credit from Rapid.

J. FORMER SPOUSE

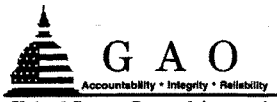
INITIAL RESEARCH

1. ____ Check for any active or purged garnishments that occurred during the VA Retro time period.
2. ____ Check the number of former spouses.
3. ____ Check for any alimony or child support. Check STATUS, PURGE DATES and HIST screens.
4. ____ Determine if the case is old law or new law.
5. ____ Verify there is no current debt on the HERS CP screen.
6. ____ Check to see if the former spouse is the beneficiary for SBP. If yes, verify that the FMR SPS IND is a "Y" and that the SBP election date is not prior to the divorce date.

7. ____ Check for Disability Disposable Pay.
8. ____ Verify the start date **if it occurs after 1/1/2004.**
9. ____ Check for any prior debts and determine if they are to be included.
10. ____ Look for any credits to the former spouse and determine if they are to be included. QUALITY FOCUS
11. ____ Check all HERS_HIST screens.
12. ____ Check RCB for any returned payments under the former spouse's SSN.
13. ____ Check for NQ to PA Pay Status Code.
14. ____ Manually identify **all** months with over/under withholdings/payments on the VA Retro worksheet that occur after the former spouse's start date. Verify the AUTO worksheet correctly identifies them.
15. ____ Make certain the "FS TOTAL" amounts on the former spouse worksheet match the actual former spouse payments on the HERS_PAY screen.
16. ____ Completely fill out all months of the former spouse portion of the database. (enter 0's for **all** months prior to FS start date)
17. ____ Verify worksheet matches database totals.

K. CASUALTY

1. ____ Determine loss date.
2. ____ Verify that the CRDP Taxable Amount on the database is correct if the member is Method B and died prior to 10/1/2005.
2. ____ Check to see if the member died prior to entitlement period? (1/1/04 or 6/1/03)
   Enter "DCSP" as a database comment. Do not work the case.
3. ____ Zero out everything starting with the loss month on both the database and worksheet, leaving the "Entitl" column blank on the database.



United States General Accounting Office
Washington, DC 20548

August 28, 2003

Ms. Martha Stearns
Deputy Director
Commercial Pay Services
Defense Finance and Accounting Service
P.O. Box 182317
Columbus, Ohio 43218-2317

Subject: *Payment Processing: Statistical Sampling Plan for Voucher Prepayment Examination*

Dear Ms. Stearns:

This report responds to a request made by your office that we approve the use of a statistical sampling plan for voucher prepayment examination of contract payments. While Title VII,[1] "Fiscal Guidance," of the GAO *Policy and Procedures Manual for Guidance of Federal Agencies* requires prepayment examination of vouchers prior to their certification and payment, it permits the use of statistical sampling for vouchers up to $2,500. You requested a waiver of the $2,500 ceiling for statistical sampling and approval of an alternative voucher prepayment examination plan that would, among other things, use statistical sampling for certain vouchers up to a maximum of $500,000 for contract payments.

In order to respond to your request, we reviewed your letter and the information provided in the attachments. We also contacted your staff to discuss your request in more detail. We analyzed the sections of the law pertaining to this request and reviewed the legislative history of 31 U.S.C. § 3521(b), upon which Title VII is based. Section 3521(b) of Title 31 provides for statistical sampling procedures. We did not test the Defense Finance and Accounting Service (DFAS) contract payment system; therefore, our response only addresses your request conceptually.

[1]Title VII of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*. The manual is the official medium through which the Comptroller General promulgates (1) accounting principles, standards, and related requirements and material for the guidance of federal agencies in the development of their accounting systems and internal auditing programs, (2) uniform procedures for use by federal agencies, and (3) regulations governing GAO's relationships with other federal agencies and with private concerns doing business with the government. 31 U.S.C. § 3521(b) states that heads of agencies may prescribe statistical sampling procedures to audit vouchers when they decide that economies will result. The term audit as used in 31 U.S.C. § 3521 (b) refers to the examination of disbursement vouchers prior to their certification for payment.

At this time, we cannot approve your request for a waiver or your proposed alternative sampling plan. Your submission, requesting exception to the $2,500 maximum for statistical sampling in voucher prepayment examination, does not justify your projected savings of approximately $4.2 million per year. Further, it is unclear how the proposed plan will adequately protect the government's interest. In addition, absent GAO approval, DFAS certifying officers risk personal liability for improper payments should they rely upon the voucher prepayment examination process under the proposed alternative sampling plan.

Background

As described in your letter and the information accompanying it and as explained by your staff during subsequent discussions, DFAS is evaluating its existing contract payment procedures with the intent of achieving cost-effective compliance with Title VII. We support such initiatives to create a government that works better and costs less. At the same time, agencies have the responsibility to protect the government's interest.

The fiscal guidance in Title VII contains general accounting processing procedures that are required by law. The requirements are designed to complement agencies' existing federal accounting, internal control, and systems standards. All basic vouchers, voucher schedules, and invoices or bills used as vouchers must be certified for correctness and legality by an authorized certifying officer. A certifying officer is accountable for and required to personally reimburse the government for any illegal, improper, or incorrect payment made by a disbursing officer because of his or her certification.[2] In addition, a disbursing official is accountable for ensuring that a voucher is in proper form, certified and approved, and computed correctly based on the facts certified.[3] In appropriate circumstances, the Comptroller General may relieve a disbursing or certifying official from liability.[4]

Electronic techniques and systems are being used to generate, process, transmit, and store financial information in today's federal financial environment, requiring accountable officials to rely on the systems, controls, and personnel that process the transactions. However, the accountable officials must have reason to believe that the key processes and controls on which they rely are working.[5] Further, even though all or some portion of the payment process may be automated, the certifying officer's basic accountability and legal liability for the propriety of the payment remains unaltered.

As a viable alternative to the traditional practice of performing 100 percent prepayment examination of vouchers, section 7.4E of Title VII authorizes agencies to establish statistical sampling programs for the examination of vouchers in support of their certification and payment, provided the vouchers do not exceed $2,500. Within this

[2]31 U.S.C. § 3528 (a)(4).
[3]31 U.S.C. § 3325 (a)(2).
[4]31 U.S.C. § 3528 (b).
[5]The most significant factors on which confidence in the system and controls should be based are (1) a well-defined organization structure and flow of work, with appropriate separation of responsibilities and clearly written policies and procedures governing the examination, approval, and certification of disbursement vouchers, (2) effective application of available technology and concepts to achieve efficient and effective voucher processing, and (3) review of the voucher processing procedures and controls in sufficient scope, depth, and frequency to provide reasonable assurance that key processing procedures and controls are working and reliable.

maximum, agencies are required to establish their own dollar limitations based on cost-benefit analyses of their voucher examining operations.[6] Any disbursing or certifying officer relying in good faith on the statistical sampling procedure adopted by the agency to disburse funds or certify a voucher for payment will not be liable for losses to the government resulting from payment or certification of a voucher not audited specifically because of the use of an authorized sampling procedure, provided that the agency has diligently carried out collection actions prescribed by the Comptroller General.[7] Exceptions to the $2,500 maximum for vouchers that may be statistically sampled may be authorized by the Comptroller General, on a case-by-case basis, when it is clear that they are warranted economically and that the procedures and controls will adequately protect the government's interest.

Prepayment Examination Process at DFAS

DFAS's voucher prepayment examination process is designed to ensure, among other requirements, that (1) payment is permitted by law, (2) appropriation amounts are available at the time and are being used for the intended purpose, (3) goods and services have been received and conform to the requirements of the order or agreement, (4) required administrative approvals have been obtained, and (5) quantities, prices, and calculations are accurate.

According to the information submitted with your request, the DFAS Columbus Contract Pay organization entitles[8] about 78,000 vouchers monthly at an average total monthly voucher value of $7.2 billion. Contractor invoices are processed and paid through a contract administration and payment system—Mechanization of Contract Administrative Services (MOCAS). Approximately 35,000 of the 78,000 monthly invoices are entitled through an automated payment of invoices (API) process. In the API process, the MOCAS system edit checks provide for the entitlement and automatic payment of these invoices. The remaining 43,000 payment vouchers are manually entitled by approximately 120 voucher examiners and supervisors. Vouchers are manually entitled if, for example, the contract governing the voucher payment has been modified, the contract has special payment instructions, or it fails the edits in the API process.

The DFAS Front End Analysis (FEA) organization was established to detect contract pay voucher errors prior to disbursement. One primary function of the DFAS FEA organization is to perform independent voucher prepayment reviews. FEA staff judgmentally select vouchers at various points in the entitlement process and examine them for various attributes, such as input errors, payment according to contract, and availability of funds. According to your letter, FEA's voucher examination procedures are designed to assess MOCAS system errors or individual voucher examiner error rates by nonstatistical sampling from each day's manual entitlements.

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[6]GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*, Title VII, "Fiscal Procedures," ch. 7, sec. 7.4E.
[7]31 U.S.C. § 3521 (c).
[8]The entitlement process, according to DFAS, refers to the preparation of the payment package, including the matching of an invoice, receiving report, and contract. Entitlement precedes prepayment review procedures.

Of the approximately 78,000 vouchers processed each month, 55,000 are greater than $2,500 and therefore subject to 100 percent prepayment examination in accordance with Title VII. Currently, FEA staff nonstatistically select and examine an average of 1,500 vouchers above $2,500 per month. In a sample of manually entitled invoices from October 2000 through July 2001, FEA noted a primary error rate[9] of 13.4 percent, with some of those errors attributable to overpayments totaling approximately $4.8 million for the 10-month period.

DFAS's Proposed Alternative Sampling Plan for Prepayment Examination

Your alternative voucher prepayment examination plan for contract payments would shift the role of the FEA independent voucher team, made up of 6.5 full-time equivalents, from detecting input errors and detecting individual voucher examiner errors to playing a key role in the prepayment certification process for accountable officers. Specifically, FEA staff would perform a review of (1) 100 percent of all manually entitled payment vouchers equaling or exceeding $500,000 and (2) a statistical sample of manually entitled vouchers less than $500,000 combined with all API vouchers regardless of amount, thereby excluding API vouchers from the 100 percent voucher examination threshold. All vouchers selected as part of this sampling plan would be reviewed to ensure that they were legal, proper, and correct for payment using standardized review criteria. Any discrepancies noted would be reported, tracked, monitored, and resolved.

Your analysis noted that this more systematic examination of vouchers would ensure that FEA staff review over 53 percent of total monthly contract payment dollars, as compared to the 6.5 percent of the total dollars that are currently examined through the judgmental sampling of manually entitled vouchers only. In turn, DFAS expects that this heightened review will detect and correct more potential overpayments and result in savings to the government. The analysis prepared by a contractor for DFAS concludes that the 6.5 FEA full-time equivalents can perform 1,000 manually entitled voucher examinations per month if the maximum threshold for statistically sampled vouchers was raised from $2,500 to $500,000. Thus, it appears to us that the resources available are driving the proposed threshold and sample size rather than the consideration of other key factors, such as an appropriate risk level and acceptable error rate that would provide reasonable assurance that the government's interest is protected.

Our Assessment of the Proposed Alternative Sampling Plan

Your proposed alternative sampling plan, which includes waiving the $2,500 maximum for statistical sampling of voucher prepayment examination for contract payments, does not justify the proposed savings or provide assurance that the government's interest will be adequately protected. Further, DFAS certifying officers risk personal liability for improper payments should they rely upon the prepayment examination process under the proposed alternative sampling plan.

[9]A primary error is defined in the business case analysis as "the first error on an invoice that has been reviewed." An invoice may have more than one error.

GAO's *Policy and Procedures Manual* sets out a relatively straightforward formula for agencies to use in deciding whether to adopt sampling in the certification of payment vouchers under 31 U.S.C. § 3521(b). The cost of examining all vouchers should be compared with the total costs of sampling (i.e., the cost of examining the sample plus the amount of projected losses from undetected errors in vouchers not examined).[10] Where the costs of reviewing all vouchers exceed the costs of sampling plus estimated losses, sampling offers savings. Savings are achieved when the combined costs of (1) examining the sample and (2) projected losses due to undetected errors on invoices not examined are less than the cost of examining all invoices. Through analysis, the sampling plan must identify a tolerable error rate,[11] the number of invoices to select for examination, and the selection method.

Your request describes approximately $4.2 million in projected savings per year as a result of the alternative sampling plan. Based on our review of your proposed sampling plan, we question this projection. Specifically, adequate evaluation of sample results involves defensible projections to the entire population using statistically valid samples. The sample results in your plan cannot be projected to the population because it is not clear how the monthly sample sizes were determined or how the samples were picked from the monthly population. The DFAS analysis is centered on 10 monthly selected samples of manually entitled vouchers, but does not document how the sample sizes, ranging from 985 vouchers selected in July 2001 to 1,894 vouchers selected in April 2001, were determined relative to the total monthly population of manually entitled vouchers. In addition, the methodology used to record errors in the sample is unclear in the analysis. The analysis indicates that the error rate of 13.4 percent is a result of 2,019 "primary" errors noted in the 15,021 vouchers reviewed. A primary error is defined in the analysis as "the first error on a reviewed invoice." However, an invoice may have more than one error. Because total errors are not known or identified, the results cannot be viewed as representative and used to project potential losses to the remaining vouchers in the population. Hence the measured savings calculated as a result of FEA's prospective ability to detect and correct potential contract payment errors under the proposed plan are unjustified.

We have additional concerns about whether this plan adequately protects the government's interest, based on the Department of Defense's (DOD) long-standing problems with accurately accounting for and reporting on disbursements. We have previously reported[12] on long-standing problems in MOCAS contract payments. For example, recent DFAS data showed that almost $1 of every $4 in contract payment transactions was for adjustments to previously recorded payments—$49 billion of adjustments out of $198 billion in transactions. DOD had been developing a new system, the Defense Payment Procurement System (DPPS), which was designed in part to resolve DOD's long-standing disbursements problems and streamline contract payment processes. However, as we previously reported,[13] DOD terminated DPPS in December

[10]GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*, Title VII, app. III.
[11]Tolerable error rate is the point at or below which savings occur.
[12]U.S. General Accounting Office, *Canceled DOD Appropriations: $615 Million of Illegal or Otherwise Improper Adjustments*, GAO-01-697 (Washington, D.C.: July 26, 2001).
[13]U.S. General Accounting Office, *DOD Business Systems Modernization: Continued Investment in Key Accounting Systems Needs to Be Justified*, GAO-03-465 (Washington, D.C.: Mar. 28, 2003).

2002 after 7 years of development due to poor program performance and increasing life cycle costs. Consequently, DFAS will be relying on MOCAS, which was implemented in 1968, and other legacy systems to meet its requirements for the foreseeable future.[14] In addition, DOD contracts processed by DFAS contain numerous fund citations and complex payment allocation terms. These factors, along with contract modifications, changes in payment allocation terms, and nonstandardized contracts and payment terms contribute to the fact that a large percentage of payment vouchers will need to be manually entitled for the foreseeable future. Based on our prior findings, this area has been very susceptible to errors.

One of the requirements imposed on the certifying officer is to ensure (or have in place a system that can offer a reasonable degree of assurance of) the "legality of a proposed payment under the appropriation or fund involved."[15] A certifying officer's legal liability is strict and arises automatically at the time of an illegal or improper payment.[16] The Comptroller General has authority to relieve a certifying officer from liability when we find that the certification was based on official records and the official did not know, and by reasonable diligence and inquiry could not have discovered, the correct information.[17]

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires agency heads to periodically evaluate their systems of internal control using the guidance issued by the Office of Management and Budget (OMB).[18] Title VII also provides that FMFIA reviews should be designed, carried out, and reported in ways that show whether the voucher processing and disbursing system and controls are reliable. To the extent practicable, the needs of certifying and approving officials should be considered in advance of an FMFIA review, and the review results should be made available or communicated to them in reports tailored to their special interests. The FMFIA review is a good starting place for assessing risk in the contract pay certification and disbursing process, which, used in conjunction with an objective and scientifically developed approach encompassing the criteria[19] referred to above, can provide the guidance for alternative plans that we could evaluate in the future.

Conclusion

Title VII allows for a deviation from the $2,500 limitation for using statistical sampling to certify vouchers to the extent that there are resultant savings while adequately protecting the government's interest. Title VII does not distinguish between certification of automated or manual entitlements, but provides for statistical sampling of vouchers less than $2,500 as a technique in large-volume, highly automated voucher processing operations. Any alternatives to 100 percent prepayment examination must be part of a total system that includes well-defined responsibilities, organizational structures, and an adequate set of internal controls. Until a sound statistical sampling plan with justifiable

[14]U.S. General Accounting Office, *DOD Financial Management: Integrated Approach, Accountability, Transparency, and Incentives Are Keys to Effective Reform*, GAO-02-573T (Washington, D.C.: Mar. 20, 2002).
[15]31 U.S.C. § 3528(a)(3).
[16]54 Comp. Gen. 112, 114 (1974).
[17]31 U.S.C. § 3528 (b)(1).
[18]31 U.S.C. § 3512 (d).
[19]The criteria include (1) defining the universe of vouchers, (2) determining the size of the sample needed, and (2) analyzing the results of the sample using the appropriate statistical procedure.

savings is presented, we cannot grant a waiver of the $2,500 maximum for statistical sampling of contract payments or approve the alternative voucher examination plan submitted. The proposed alternative sampling plan does not justify savings or adequately protect the government's interest. In addition, good faith reliance on this particular plan would not relieve a disbursing or certifying official of liability for an improper payment or certification of a voucher not audited.

- - - - -

The contents of this report were discussed with Bill Felice of your staff. We hope our comments are helpful. If you have any questions, or would like to discuss these matters further, please contact me at (202) 512-6906 or Mary Arnold Mohiyuddin, Assistant Director, at (202) 512-3087. This report will be available at no charge on GAO's Web site at http://www.gao.gov.

Sincerely yours,

McCoy Williams
Director
Financial Management and Assurance

(190060)

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WILES, AMY CIV DFAS

From: BERNHARDT, KARL H CIV DFAS
Sent: Monday, June 30, 2008 1:18 PM
To: WILES, AMY CIV DFAS; ONDER, GARRICK CIV DFAS
Cc: BOUTELLE, CHET SES DFAS; KOENIG, JOHN CIV DFAS
Subject: FW: Cong. Kucinich Data Letter Request

Amy,
This should close out Froank Lucas submission.

Karl

-----Original Message-----
From: LUCAS, FRANK CIV DFAS
Sent: Monday, June 30, 2008 1:00 PM
To: BERNHARDT, KARL H CIV DFAS
Cc: MCDERMOTT, DAVID SES DFAS; JAKYMA, DOUGLAS CIV DFAS; WILES, AMY CIV DFAS; SMITH, DOUGLAS CIV DFAS; BENISEK, GENE CIV DFAS; BOUTELLE, CHET SES DFAS; SMITH, MARTHA J SES DFAS
Subject: RE: Cong. Kucinich Data Letter Request

Karl,

I've inserted answers to your questions below. Realize that I may have provided more than what you need or may deem appropriate to use.

Frank

-----Original Message-----
From: BERNHARDT, KARL H CIV DFAS
Sent: Monday, June 30, 2008 10:49 AM
To: LUCAS, FRANK CIV DFAS
Cc: MCDERMOTT, DAVID SES DFAS; JAKYMA, DOUGLAS CIV DFAS; WILES, AMY CIV DFAS; SMITH, DOUGLAS CIV DFAS; BENISEK, GENE CIV DFAS; BOUTELLE, CHET SES DFAS; SMITH, MARTHA J SES DFAS
Subject: RE: Cong. Kucinich Data Letter Request
Importance: High

Frank,

==========

In summary, is it correct, accurate, and complete, to conclude that your office developed the sampling plans in support of the VA-Retro project that were subsequently approved by Mr. Gaddy (or delegated authority),

Yes, the pre-pay sampling plan for VA-Retro payments.

that your office performs improper payment review of DFAS payrolls,

Yes, for military and civilian pay only.

but that you have not to this date audited any VA-Retro payrolls specifically?

True.

And since you audit payrolls for improper payments, why have you not audited any VA-Retro payments to date?

Several reasons.
1. Outside our area of expertise. We presently do not have adequately trained staff member that possess an in-depth knowledge of CRSC, CRDP and the VA Retro process to

DFAS-CL [redacted]

perform a comprehensive post pay review. The CGA would appear a more likely candidate to perform these types of reviews.

2. Timing. It would not appear appropriate to conduct a VA-Retro post payment review, even if I had a properly trained staff, while R&A was striving to get these payments issued and reduce a substantial backlog.

Additional Information

It may be helpful to gather statistics from the pre payment review and show the dollar value of potential improper payments that were corrected before they were issued. This could help show the importance and usefulness of the pre pay review process in preventing mispayments to retirees.

==========

Karl

-----Original Message-----
From: BERNHARDT, KARL H CIV DFAS
Sent: Thursday, June 26, 2008 10:41 AM
To: LUCAS, FRANK CIV DFAS
Cc: MCDERMOTT, DAVID SES DFAS; JAKYMA, DOUGLAS CIV DFAS; WILES, AMY CIV DFAS; SMITH, DOUGLAS CIV DFAS; BENISEK, GENE CIV DFAS
Subject: RE: Cong. Kucinich Data Letter Request

Frank,

I thought that you were involved in obtaining approval for the sampling plan from Mr. Gaddy? You should have correspondence that reflects the obtaining of approval and the final approved plan. For example I believe there was discussion that the plan approval had been delegated down from OSD(C) to the Agency Director.

Karl

-----Original Message-----
From: LUCAS, FRANK CIV DFAS
Sent: Thursday, June 26, 2008 10:30 AM
To: BERNHARDT, KARL H CIV DFAS
Cc: MCDERMOTT, DAVID SES DFAS; JAKYMA, DOUGLAS CIV DFAS; WILES, AMY CIV DFAS; SMITH, DOUGLAS CIV DFAS; BENISEK, GENE CIV DFAS
Subject: RE: Cong. Kucinich Data Letter Request

Karl,

The attachement is provided in response to para 2 of Congr. Kucinich's request. This includes the statistical sampling plan (narrative and sampling table) developed by Standards & Compliance, Operational Review (a.k.a. "Frank Lucas' group") for use by the CGA; the checklist developed by R&A, DoDFMR Vol 5 references and IR comments to an earlier draft that were considered in the final sampling plan.

Please note that Operational Review was not involved in the actual pre (or post) payment review process of any VA Retro payments or analysis of results from such sampling plans. Rather, we developed the pre payment sampling plan for use by the CGA or any statistical analysis of data from such reviews.

Frank

-----Original Message-----
From: BERNHARDT, KARL H CIV DFAS
Sent: Thursday, June 26, 2008 6:42 AM
To: NOE, NORMAN CIV DFAS; MOXLEY, MICHAEL CIV DFAS; 'Egeland, James S'; 'Graddy, Darrell W'; SMITH, DOUGLAS CIV DFAS; BENISEK, GENE CIV DFAS; LUCAS, FRANK CIV DFAS; GOUDLOCK, EDWINA CIV DFAS
Cc: BERMAN, JUDY CIV DFAS; MCDERMOTT, DAVID SES DFAS; SMITH, MARTHA J SES DFAS; BOUTELLE, CHET SES DFAS; ONDER, GARRICK CIV DFAS; JAKYMA, DOUGLAS CIV DFAS; WILES, AMY CIV DFAS; POGUE, DIANA CIV DFAS

 DFAS-CL [redacted]

THE DEFENSE FINANCE AND ACCOUNTING SERVICE VA RETRO PROJECT UPDATE
(Statistics as of February 29, 2008)

CURRENT STATUS:

- In September 2006, DFAS identified 133,057 retirees potentially requiring retroactive payment.
    - Of the original population of 133,057 retirees with claims, 98,057 claims have been adjudicated.
    - DFAS has paid $58,161,228 to date.
    - DVA has paid a projected $212,560,908 to date.
    - Of the total universe of 217,294 claims being reviewed, as of February 29, 2008, a total of 157,243 claims have been adjudicated.

ACTIONS TAKEN:

- The contract service provider, Lockheed Martin, has more than tripled the number of technicians available to process Retro VA claims. In addition, the training schedule has been accelerated.

STANDARD PROCEDURES	PROCEDURES NO./J.O. NO. 1111.08
CHECK ONE [X] Operating [ ] Administrative [ ] Job Outline [ ] Policy Statements [ ] Management Guidelines	ORGANIZATION CODE: Retired and Annuity Pay
SUBJECT : Team Blue VA Retro/CRSC Payroll Review Team Blue Quality Assurance Payroll Review	REVISION NO. 2
	DISTRIBUTION: VA Retro, CRSC, Retired and Annuity Pay, Quality Assurance, Training
	SUPERSEDES May 07, 2008 edition

I. PURPOSE AND SCOPE

The purpose of this Standard Operating Procedure (SOP) is to clearly define the review requirements and procedures on the review of VA Retro/CRSC payrolls. This SOP will also define the reporting process of such review.

II. INTRODUCTION

The role of Team Blue Quality Assurance is to provide a documented review of VA Retro payrolls in compliance with the use of authoritative sources of data. The listing of these data elements has been agreed to by both Lockheed and the CGA.

Payroll review is based on a randomly selected grouping of 40 (total) accounts pulled from the payroll queue at regular intervals throughout a production day. These smaller groups, which comprise the total sample, are selected from the payroll queue through the use of EZ Quant. This method of payroll sampling is repeated for three grouping of accounts:

1. Where any DFAS payment is in excess of $2500
2. Where DFAS payments are individually below $2500
3. Where there is no DAFS payment – only VA payment

Accounts computed as No Pay Due or Debts are not subjected to QA review.

Payroll review is focused on validating information on the account against the authoritative sources of data. The QA team does not re-compute or reconstruct the account manually. In instances where the sampled account is not complaint with the authoritative sources of data, the case is "Pulled" from the payroll.

A replacement account is selected for the sample. In instances where the review process detects a systematic flaw, the account is failed (not pulled). In instances where a single technician has two or more errors in the sample, the entire the work of that technician is removed from the payroll.

The review sample will also include all VIP members and all payments in the sample in excess of $30,000.

The review will be conducted in accordance with the VA Retro Authoritative Source Data checklist dated May 1, 2008.

Throughout the review process the Q/A team will continuously communicate their findings to Systems, Operations, Training and VA Retro Program Management.

The review of payrolls will also be documented in the Quality Control Checklist (QCC) database.

III. REFERENCES

A. VA Retro Authoritative Source Data dated May 1, 2008.

IV. SYSTEMS USED

All review by Team Blue Quality Assurance will utilize the Authoritative Sources of Data as directed by Program Management. These are documented in Section V, Attachment "E".

V. ILLUSTRATIONS

A. Ez-Quant Sample Selection
B. Payroll Sample
C. Quality Control Checklist
D. CGA Payroll Review Report
E. Authoritative Data Sources

VI. PROCEDURES

1. At the beginning of each day, the payroll review team will begin sampling accounts from the payroll queue.

2. Samplings of 10 (for each category) are pulled – using EZQuant – throughout the day.

3. VIP accounts and those culminating in a total DFAS payment of $30,000 are specifically reviewed.

4. This process is repeated for the three payroll groupings of "Over $2500", "Under $2500" and "VA Only".

5. Accounts found to be inconsistent with the authoritative sources of data are "Pulled" from the payroll sample and replaced.

6. Where system discrepancies are detected, the account "Fails" review.

7. Payrolls are then processed by pulling all accounts (by type) from the payroll queue and submitting them to the COL process.

All QA reviews will be conducted against the list of authoritative sources of data agreed to between LM and DFAS on May 1, 2008. The review SOP will be modified in concert with any changes on this list.

Martha J. Smith, Director DFAS, Cleveland
DFAS Cleveland
Anthony J. Celebrezze Federal Building
1240 East 9th Street
Cleveland OH 44199-2055

1 June 2008

Dear Ms. Smith,

I am CSM Harold E. Lewis, U.S. Army, (Retired); I would like to share with you my one year odyssey in dealing with the DFAS concerning my CRSC/Concurrent Retirement and Disability Account. I have always updated my CRSC as the Veterans Administration has changed my disability determination.

In March of 2007 I submitted an update to CRSC, and was told in approximately ninety-days I would receive any back pay that was due, this happened approximately the same time as the Army wide review of CRSC/CRDP.

In June of 2007 I called the DFAS phone number to find out if a status on my account has been made. I was told, based on my social security number being entered into the computer that I was due no pay, or back pay. I informed the young lady that by my calculations that I was and she was mistaken. She placed me on hold, and after a lengthy time told me that a supervisor made a review of my records and that the initial determination was incorrect, and that I would be getting a letter soon explaining how the determination was made.

Now the fun begins, I called in July-it was waiting on three signatures, I called in August still but now the signatures were down to two, I called in October, and was told that I was in a group that was difficult to determine and it was still being worked on. I called in November and was told there was an amount determined, but it could not be

released to me until it went to DFAS for verification. I called in December and was told it was getting close to finalizing.

On December 20, I was hospitalized for internal bleeding. Hospitalized for nine days, my wife revived me at home after I stopped breathing. The internal bleeding was caused by a medicine prescribed for pain. Prescribed by the Veterans Hospital in Temple, Texas. This does not pertain to the subject; it's just a month by month accounting.

On 7 April 2008, I received a letter from DFAS, London, Kentucky. It stated that my account was current and the entitlements were correctly computed.

I believe that that is incorrect; the consistent changing of stories on a month by month basis caused me to, at times, doubt my sanity. I served 28 years in the Army, in one of the toughest jobs there was. Field Artillery. I taught my soldiers not to lie, cheat, steal, or tolerate any one who did.

I have always believed in my country, and that, at times risking my life for my country was the price you paid for the your blessed birth in this wonderful free country.

I am disgusted with my treatment by DFAS, I sent four emails outlining my questions and asking for a phone call, but was never called. I was given one excuse after another, for a year.

My belief now is that DFAS, and this country only want to recognize me when I am killing people in the name of the United States.

I am writing you for help, your phone number are no help, your on line is no help, your customer service men and women only read a computer screen, and will not under any circumstances let you talk to anyone else. I am disgusted.

I want my record reviewed by someone you trust. If the answer is the same, so be it.

DFAS-CL [redacted]

And, I would like a complete audit in writing on a month by month determination if your decision remains the same.

I am including seven enclosures' that may assist the requested audit.

Thank you, Ms. Smith for your time, and your service to our men and women who protect this great nation. The first enclosure is, in my opinion the starting document.

The Veterans Affairs letter dated 22 August 2006 was a determination letter awarding me a compensable service-connected disability of 90%. EFFECTIVE 1 JANUARY 2006.

Sincerely,

Harold E. Lewis, CSM, U.S. Army, (Retired)

Enclosures':
CRSC-Personal Audit from January 2, 2006, thru January 31 2007.
DFAS Letter dated April 2, 2008
Department of Veterans Affairs, Letter dated 22 August 2006
Adjustment to Previous CRSC dated 1 May 2007 (VA Copy)
Adjustment to Previous CRSC dated 1 May 2007 (Veterans Copy)
CRSC statement dated 2 January 2008
Department of Veterans Affairs Letter dated 2 February 2006

CSM (Retired)
Harold E. Lewis
[redacted]

CC: Honorable Chet Edwards
Honorable Kaye Bailey Hutcheon

DFAS-CL [redacted]

DEFENSE FINANCE AND ACCOUNTING SERVICE

Retired and Annuity Pay

DVA Retro - [redacted]
April 2, 2008

CSM HAROLD E LEWIS, USA (Retired)
[redacted]

Dear Sergeant Major LEWIS:

This letter is to inform you the Defense Finance and Accounting Service (DFAS) has reviewed your Combat Related Special Compensation (CRSC) / Concurrent Retirement and Disability Pay (CRDP) account.

The Public Laws establishing these entitlements were amended so that retired military members who have previously received, or are currently receiving CRSC and / or CRDP, could have their entitlement(s) recalculated based on retroactive ratings awarded by the Department of Veterans Affairs (DVA).

Our most recent review has determined that your account is current at this time and that these entitlements have been correctly computed for the period of June 2003 through March 2008. A Retiree Account Statement (RAS) will be sent, under separate cover, to confirm the current status of your account.

Should you have any further questions, please contact us at Defense Finance and Accounting Service, US Military Retirement Pay, PO Box 7130, London, KY 40742-7130, or call, toll free, via 1-877-327-4457 (commercial 216-522-6161), Monday through Friday, 8:00 AM to 4:30 PM Eastern Time. You may also send us a toll free fax via 1-800-469-6559.

Sincerely,

Retired and Annuity Pay

PLEASE KEEP A COPY OF THIS LETTER FOR YOUR RECORDS.

DFAS-CL [redacted]

DEFENSE FINANCE AND ACCOUNTING SERVICE
1240 EAST NINTH STREET
CLEVELAND OHIO 44199

Command Sergeant Major Harold E. Lewis,
U.S. Army (Retired)
[redacted]

JUN 1 8 2008

Dear Sergeant Major Lewis:

This is in response to your letter, dated June 1, 2008, to Ms. Martha J. Smith, Director, DFAS Cleveland, concerning the status of your Combat-Related Special Compensation (CRSC) and Concurrent Retirement and Disability Payments (CRDP) retroactive payments. Your inquiry was forwarded to our office for reply.

In September 2006, the Department of Veteran's Affairs (DVA) identified approximately 133,057 veterans in receipt of CRDP or CRSC that may be eligible for additional retroactive compensation. This retroactive payment is commonly referred to as a VA Retro payment. In October 2006, the Defense Finance and Accounting Service (DFAS) in coordination with the DVA began a process of computing these payments. On June 8, 2008, we completed all claims the DVA identified in September 2006.

In March 2008, your VA Retro was adjudicated and we determined we did not owe you a retroactive payment. This resulted in the letter we sent to you dated April 2, 2008 advising you of the results of our computation.

We have recomputed your VA Retro. Upon re-computing your account we corrected the entitlement information and determined you are due a VA Retro payment from both us and the DVA. We anticipate a payment for approximately $1,935.00 to be deposited to your First National Bank account no later than Thursday, June 27, 2008. Additionally, you are eligible for payment from the DVA in the estimated amount of $12,829.00. That information will be forwarded to the DVA for additional validation and possible payment. There may often be a lapse of time between the payments from the two different agencies. If you do not receive payment from them within 45 days, you may wish to contact them directly at 1-800-827-1000.

We apologize for the poor customer service you received. If you have any questions, you may contact Mr. Sonny Alquero or Jeff Meier in the Ombudsman's office at 216-522-6395. You may also write to us at Defense Finance and Accounting Service, U.S. Military Retirement Pay, PO Box 7130, London, KY 40742-7130.

Sincerely,

Douglas Smith
Director, Retired and Annuitant Pay
DFAS Cleveland

www.dfas.mil
Your Financial Partner @ Work

DFAS-CL [redacted]

DEFENSE FINANCE AND ACCOUNTING SERVICE
1851 SOUTH BELL STREET
ARLINGTON, VA 22240-5291

JUL 11 2008

The Honorable Dennis J. Kucinich
Chairman, Domestic Policy Subcommittee
Committee on Oversight and Government Reform
United States House of Representatives
Washington, D.C. 20515-6143

Dear Mr. Chairman:

This responds to your fifth document request dated July 07, 2008, regarding the Defense Finance and Accounting Service's (DFAS) VA Retro program. Accurate and expeditious claim adjudication is a very serious matter that has the full attention of the DFAS and the entire Department of Defense.

The DFAS has determined that the enclosed 222 pages of documents are responsive to your request for information. The documents are identified with the bates numbers DFAS-CL 013138 through DFAS-CL 013359, and are contained in two boxes. We are continuing our review of the DFAS records. Any additional responsive documents will be provided as soon as possible, if located.

In response to your contracting questions for the VA Retro project: a) we have provided a complete contract history with this response, b) the VA Retro project was administered as a separate stand-alone task order from the start because the developmental nature of the work required by the VA Retro project had not been contemplated or priced as part of the basic contract. Although the original contract did not contemplate the VA Retro project, the work was considered to be within the general scope of the Retired and Annuitant pay process; and therefore, was more properly covered by the issuance of a task order, c) the requested original deliberative documents that the DFAS has identified are provided with this response. We will continue to review the DFAS records to determine if there are any further responsive documents to this request.

In response to your questions regarding "zero determinations": 1) determinations by category total as follows; 24,356 of the Original population; 1,092 of the New and Returning population; and 2,835 of the Ongoing population, 2) determinations are made by the contractor, Lockheed Martin Corporation, the CGA has reviewed some portion of these determinations for accuracy, members are notified of these determinations by letter, and data regarding the number of determinations "reversed" is not maintained. Determinations are reversed through pay audit or through receipt of revised medical information from Department of Veteran Affairs, in which event the case is moved to another category for adjudication, such as "ongoing".

The enclosed documents contain sensitive information and are subject to the disclosure provisions of the Freedom of Information Act, (5 U.S.C. § 552) and the Privacy Act, (5 U.S.C. § 552a). The Department of Defense has consistently taken the position that such information must be safeguarded in order to protect the safety, privacy, and dignity of service members and civilian personnel. In conformance with this policy, the DFAS has redacted individual personal identifiable information from the documents being produced for this transmittal.

The DFAS provides these documents with a full reservation of rights and with the understanding and intent that such provision shall not be deemed a waiver of any applicable privilege. The DFAS respectfully requests that these documents be shared only within the Committee and then only with those who have an official need for the information, that the documents not be disclosed outside the Committee or to the public, that appropriate steps be taken to safeguard these documents, and that the documents be destroyed after use.

I want to assure you that the DFAS is taking all steps necessary to comply with your latest document request as quickly as possible. We will continue to accommodate all reasonable requests.

Please contact Ms. Judy Berman, of my staff, at (703) 607-3783, if you have any questions or concerns, or require additional briefings on this matter.

Sincerely,

Zack E. Gaddy
Director

cc: The Honorable Darrell Issa
Ranking Member

Mr. ISSA. Thank you. And, as you know, there is a minority staff report. I would ask for the same unanimous request although ours is somewhat smaller.

Mr. KUCINICH. Of course, as a courtesy, so be it. Thank you.

Mr. ISSA. Thank you.

Mr. KUCINICH. I want to go back to Mr. Cipriano here.

We are talking about 217,000 cases here in the VA Retro program, is that correct?

Mr. CIPRIANO. 217,000.

Mr. KUCINICH. 217,000?

Mr. CIPRIANO. In the ballpark, yes, sir.

Mr. KUCINICH. On the project, while we qualified it is not a large amount of money, given Lockheed's contracts overall with the Federal Government, you are still getting $18.7 million from the Government to handle these cases, correct?

Mr. CIPRIANO. Correct.

Mr. KUCINICH. That works out to about $90 a case. Your projections estimated that your technicians handle about six cases a day, is that correct?

Mr. CIPRIANO. I think that is pretty close to the current.

Mr. KUCINICH. So, just to do the math, 6 times 90, $540 per day per technician that you either plan on or you bill to the Government. How much do you pay your technicians per day?

Mr. CIPRIANO. The amount——

Mr. KUCINICH. What is the hourly rate for a technician with 6 weeks training?

Mr. CIPRIANO. I don't have the number off the top of my head, but it is a wage determination by the Department of Labor determines the labor amount for that.

Mr. KUCINICH. Can you get back to me with the exact amount of money that you pay your technicians per day? Would you let us know?

Mr. CIPRIANO. I will provide that, yes, sir.

Mr. KUCINICH. You will?

Mr. CIPRIANO. I will provide the number to you.

Mr. KUCINICH. Thank you. Thank you.

Now, Mr. Gaddy, as you know, when DFAS decided to outsource retired and annuitant pay to a private contractor that Lockheed acquired, the in-house Government bid was actually less, $31.8 million less. Even after this was brought to DFAS's attention, DFAS decided to retain Lockheed.

In retrospect, do you think you saved the taxpayers any money by sticking with Lockheed?

Mr. GADDY. The CNA study projected between $11 million and $40 million overall savings, and I know that is based on comparing Lockheed Martin's proposal or the ACS proposal to status quo costs and to our MEO.

The reality to me, having been in this business a long time and having seen most efficient organizations where the Government wins, and in our case there has only been one outsourcing of work and that was the R&A work. Without exception, when we win the proposal on the Government side, much like what we saw in the Lockheed proposal or ACS proposal as the predecessor, we would

have gotten better and we would have more than likely reduced our costs overall from what the original bid was.

So, are we saving the taxpayer money, based on a CNA study, yes. Based on my gut reaction, I would say we probably could have saved this much if the Government had won.

Mr. KUCINICH. Mr. Kleinknecht, would you comment on that?

Mr. KLEINKNECHT. Just on the CNA study, the issue was again that a lot of the time and materials work that would be associated really with the VA Retro pay wasn't going to materialize. The first couple of years, they were underrunning.

But as we have just been speaking about this whole hearing, it all related to work that didn't materialize. But the VA Retro pay was a part of the original. It is kind of other stuff that was included on the original contract for legislative changes.

So, again, that CNA report that showed the underrun really didn't underrun. It looks like probably it is going to be a wash, a zero number. Again, we can get the exact numbers if we look at it to address that issue.

Mr. KUCINICH. Yes, I would like those exact numbers because from the beginning of this A–76 program, I have raised the question about whether or not this was actually going to be a benefit to the taxpayers. We are finding out that is questionable, but certainly it has been to the disadvantage of veterans.

I am interested in your further digging into this, though, in terms of looking at the numbers.

Mr. KLEINKNECHT. You know one point on the MEO, on the Government side, it looked like there was a lot more labor built in on the in-house cost estimate where they had significantly more resources, and I don't know that.

A lot of this testimony has been about can we use data bases and do all this stuff, but I think a lot of these cases are probably labor intensive. Does it require more labor to fix the problem?

Mr. KUCINICH. I mean that is the point.

Mr. KLEINKNECHT. Right.

Mr. KUCINICH. You could bid. You could bid on a contract.

Let's go back to square one. You can bid on a contract, and you can actually get the contract by underbidding, saying it is not going to take that much work for what is arguably a labor-intensive endeavor.

Then you get the contract, and suddenly how does the backlog get created? Because you don't have enough people to do the work. Is that correct?

Mr. KLEINKNECHT. Yes, sir. Yes, sir.

We found that when we outsource things like this, again, I spoke to a couple of the large defense contractors. You lose a lot of your flexibility.

Again, on some of this thing with this VA Retro pay, with all these issues, flexibility is a key thing, that had we had the resources in-house to do the function, additional resources, we could have allocated them here, there, where we needed.

Once it is contracted out, you lose that flexibility. It is basically what is in the scope of the work, what is the contract requirement.

Mr. KUCINICH. Which is why the GAO rules become relevant here.

Here is where we are at: We have work contracted out. It said, well, the Government cannot do this or cannot do this as well as.

You can have a situation where an underbid occurs and then based on a calculation of it taking so much labor to do this work, so many people to handle so many cases, based on so much money spent per day. Then they calculate that out and figure out we can do this contract, but if they don't build in enough workers to do the contract, you not only end up with a backlog, but you end up with consequential deficiencies in the system.

So what we are seeing here, I believe, an object case which raises questions about the legitimacy of a privatization, and we are seeing specific evidence brought forward about this privatized system not working.

When you bring in Red Teams, when you continue to have to double and redouble efforts just to try to catch up, I just wonder, Mr. Gaddy. Without a privatized system here involved here, I just wonder. If you would had had the resources in-house to meet this challenge, I just wonder if you could have done it without any hitch at all.

It seems to me, given your core competencies, that you would have been able to do the job. Those decisions were made above your pay grade, and I certainly understand that.

This is not a question of your competency. This is really a question of how this whole thing has been structured, and no one looked down the road, thinking about the Sergeant Lewises of the world, about the effect this could have.

Now I want to go back to Mr. Cipriano. It is clear from our research that Lockheed had hoped, as had DFAS, that Lockheed would automate the VA Retro calculations, but it didn't work out. What was Lockheed's backup plan if the process couldn't be automated?

Where did you plan to find the people to perform the calculations for VA Retro on a manual basis?

Mr. CIPRIANO. Your question is what is our backup plan of the process?

Mr. KUCINICH. What was your backup plan?

You have a process. It couldn't be automated. It required a lot of manual work.

Maybe somebody made a mistake, maybe there is a discussion going on somewhere in Lockheed, saying, what did we get into here? Why in the world did we take this up? We are trying to make money. We are not trying to lose money.

Yet it is clear you had the idea you are going to be able to automate the calculation. Now the necessity to do it manually, where did you find the people? Where did you plan to find the people to perform the calculations on a manual basis?

Mr. CIPRIANO. Well, our backup plan was to do it manually as you suggested, and we found the people in the Cleveland area through recruiting firms that had the basic skills necessary that we could train them with the specific information needed to be able to process these claims.

Mr. KUCINICH. But you have had to hire new people, no question about it.

Mr. CIPRIANO. We had to hire people, yes, sir.

Mr. KUCINICH. Because they didn't necessarily and they couldn't all come from your retired and annuitant work force because they were involved in other things, is that correct?

Mr. CIPRIANO. That is correct.

Mr. KUCINICH. OK. So did you have sufficient numbers of people to perform the VA Retro calculations in September 2006, when you began processing cases? Did you have enough?

Mr. CIPRIANO. We had a sufficient number of people if the automation would have worked as we had planned.

Mr. KUCINICH. But it was manual. So you didn't have.

Did you have sufficient numbers to perform the calculations of VA Retro in September 2006 when you began processing? Did you have enough people in September 2006?

Mr. CIPRIANO. September 2006, we had enough people to start the processing, and we did get 50 percent of them processed by March.

Mr. KUCINICH. Do you still hold to that?

In November 2007, you missed your first deadline. Did you have enough people?

Mr. CIPRIANO. Between, before then, we identified the fact that the SLC06 file was going to be able to support the automation, the accuracy of the data in that file, and we, at that time, started hiring enough people to be able to.

Mr. KUCINICH. Can we talk about human beings here, not machines? Did you have enough people in November 2007, when you missed your first completion deadline?

Mr. CIPRIANO. Two thousand and seven? I am trying.

Mr. KUCINICH. In November 2008, when you missed another completion deadline, did you have enough people?

Mr. CIPRIANO. No.

Mr. KUCINICH. In April 2008, when you missed another completion deadline, did you have enough people?

Mr. CIPRIANO. We had enough people at that time.

Mr. KUCINICH. I have a report I am going to introduce into the record that relates to staffing profiles and how phased reductions in staff were occurring, were projected whereas your experience is demonstrating that the reduction in staffing would have not been wise.

[The information referred to follows:]

2.2 COST COMPONENTS

ACS has applied the following ground rules and assumptions to the cost components that make up our prices.

2.2.1 STAFFING

2.2.1.1 Staffing Profile. Our years of business process outsourcing have taught us that detailed planning is one of the most powerful mitigators of risk. Toward this end, we have painstakingly produced a detailed level of effort estimate shown in **Figure 2, Staffing Profile,** to support our lowest risk **Transition→Consolidation→Optimization** concept of operations. This staffing estimate not only supports our approach, but also provides top-level customer service to DFAS' customers—retirees, annuitants, military services, interfacing organizations, and other payees—and facilitates the rapid reduction of cost of operations to DFAS. In the discussion that follows, we will describe the rationale for the reductions shown in Figure 2 for the transition period and then for the life of the contract.

Figure 2. Staffing Profile

	Transition			Life Cycle Staffing									
Position	A	B	C	I	II	III	IV	V	VI	VII	VIII	IX	X
Business Analysts/Functional Analysts	63	62	62	62	54	49	46	45	45	44	44	44	44
Clerks (Mail, File, and General)	28	25	21	21	21	11	7	7	7	7	7	7	7
Customer Service (call center) Representatives	155	141	120	99	95	95	81	81	71	71	61	61	61
Document Handling, Records, and Transcribing	25	23	23	23	21	12	2	2	2	2	2	2	2
Member Services (Pay) Representative	258	235	200	199	174	145	145	134	134	122	117	112	112
Program Management, Secretarial, Office Support	22	20	10	10	9	9	7	7	7	7	7	7	7
QA, CM, and Process Specialists	4	4	4	4	4	4	4	4	3	3	3	3	3
Systems Engineers	15	14	11	14	15	14	14	14	14	14	14	14	14
Totals (D)	570	524	451	432	393	339	306	294	283	270	255	250	250

A. FY2000 authorized DFAS Staff
B. Assumed DFAS on board at transition based on 9 percent industry vacancy rate (*Human Resources Association*)
C. On-board with ACS after transition
D. Note: Lot Year headcounts are averages for each 12 month period

We know from experience on similar programs that we can reduce staffing without operational impact as optimization is achieved. Our specific introduction of organizational restructuring, process improvements, and the infusion of enabling technologies will, for example, reduce customer calls, and therefore the number of customer service representatives required to respond. Optimization activities will increase the efficiency of Pay Operations personnel (member services and customer services representatives), allowing fewer people to accomplish more in less time, and with greater accuracy. Just as important, by reducing workload and rework, the staff will be able to manage their workflow instead of being swept away by it, further enhancing their efficiency. Backlog is an infamous usurper of staff time, so our plans call for further process simplifications and improvements that will clear backlogs in imaging, research, and System Change Requests (SCRs).

SEE FAR 3.104
PROCUREMENT SENSITIVE
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Mr. KUCINICH. What I am wondering, and this goes to one of those core questions in this hearing, is why didn't you have enough sufficient numbers of people along the way capable of adjudicating cases to meet the deadlines that you were setting for yourself? How does this happen internally?

You see where you are at. You see you need more people. You don't have enough people. You miss your internal deadlines.

You set another deadline. You don't have enough people. You miss that deadline. How does a company like Lockheed Martin, which is one of the great American companies, how does that happen?

Mr. CIPRIANO. We initially estimated the project was going to take 22 months.

The Government asked us to speed it up, and we came up with an approach using automation to do that. OK. We staffed up based on that automation being successful.

In September, we advised the Government that automation didn't look like it was going to be able to work because the data was not sufficiently accurate to provide the 97 percent quality levels. And, at that point, the Government took it under advisement and then gave us permission to increase staffing which we started doing.

We increased staffing significantly. However, the productivity associated with that staffing took a while to develop.

Mr. KUCINICH. But here, according to your R&A contract with DFAS, you were cutting your work force at exactly the time you needed employees to perform VA Retro. Isn't that the case?

Mr. CIPRIANO. The VA Retro project is a separate contract.

Mr. KUCINICH. I know it is a separate contract, but Lockheed Martin is one company.

Mr. CIPRIANO. Right. Those, any people that were reduced under that contract would, if it wasn't because of attrition, if they were still there, we certainly would have applied them first.

Mr. KUCINICH. Let's say it is a separate contract, but you are cutting people on one hand. You are cutting people who work for you and, on the other hand, you had to go out and hire people at 6 weeks training to do this VA Retro, but it is all Lockheed Martin. So what I am saying is this subcommittee has evidence that you cut your work force at the time you needed employees to perform VA Retro.

Now the contractor's proposal assumed that you would cut an already severely reduced work force from 570, that is when the Government did the R&A work in 2000, to 393 in 2005 to 306 in 2007. This is the report that we are entering into the record.

If so, tell us, please, why did you reduce the work force at the same time you needed people to perform the VA Retro calculations?

I just have trouble understanding. Help us understand it.

Mr. CIPRIANO. I don't believe we did, but I will look at the staffing profile.

Mr. KUCINICH. Well, you know we have a staffing profile that suggests that is exactly what you did, and we have your testimony that you started ramping up and hiring people at 6 weeks training to review these cases. How does that happen in a company that is as storied as Lockheed Martin?

Mr. CIPRIANO. Are you looking? I don't know what you are looking at, but you may be looking at the staffing profile that was in the contract that ACS proposed which may not bear much resemblance to what it is.

Mr. KUCINICH. Mr. Cipriano, I am going to ask Mr. Kleinknecht. I need you to look into this, if you would, please. Look into this apparent discrepancy of, on one hand, staffing profiles going down and, on the other hand, requirements to handle VA Retro going up.

Would you, please, delve into that see what the implications are (A) for the performance of the responsibility that Lockheed Martin took for VA Retro and (B) for the difference in the profit margins that would occur for Lockheed Martin, given the fact that they were hiring these workers with 6 weeks training for X amount, $540 per day charge to the Government?

We need to have that. Can you look at that level of specificity?

Mr. KLEINKNECHT. Yes, sir. I think the IG has already committed us to do an audit. So, clearly, we can look at all that as part of our audit.

Mr. KUCINICH. I would appreciate it.

Now, Mr. Cipriano, did you in fact reduce your R&A work force as projected in the contractor's proposal between 2006, 2007?

Mr. CIPRIANO. I don't have those numbers in front of me.

Mr. KUCINICH. Could you provide that information to us?

Mr. CIPRIANO. I will provide that information.

Mr. KUCINICH. If so, if you did, we also need you to provide us with the information as to why you reduced the work force at the same time you needed people to perform the VA Retro calculations.

We are also going to need to make a determination as to whether you cut work force under the R&A contract which is a fixed-fee contract and hired workers under the VA contract which is a cost-plus contract. I mean that is what we are getting into, and that is what we are asking the IG to look at as well.

But I think it would be helpful to get an explanation because if VA Retro's cost-plus structure enabled you to mask your severe understaffing levels in your fixed-price R&A contract, we are looking at a situation here that is not in the service of the public interest. Certainly, a non-privatized function would never have to be faced with those kinds of internal calculations.

Now, Mr. Gaddy, you directed Federal workers to assume the duties of some number of Lockheed workers in the Lockheed-run retired and annuitant pay call center, didn't you?

Mr. GADDY. Yes, I did.

Mr. KUCINICH. Was that the only example of using Federal workers to perform duties which were the contractual responsibility of Lockheed?

Mr. GADDY. We applied, for about a 2-week period, some individuals to do some data base reviews.

Mr. KUCINICH. As you know, Lockheed operates the retired and annuitant pay call center under a fixed-fee contract. Your intention in assigning Federal workers to the Lockheed call center was to release a number of Lockheed workers from their contractual obligations for retired and annuitant pay so they could work to process VA Retro claims, isn't that right?

Mr. GADDY. That is correct.

Mr. KUCINICH. Were those Lockheed workers compensated under the VA Retro cost-plus contract or the R&A fixed-fee contract?

Mr. GADDY. I will have to confirm, but my expectation is they were paid under the Lockheed Martin fixed fee.

Mr. KUCINICH. Excuse me, one moment. OK, we have five more minutes. So I want to ask that again.

Were the Lockheed workers compensated under the VA Retro cost-plus contract or the R&A fixed-fee contract?

Mr. GADDY. I will have to get an answer for the record.

Mr. KUCINICH. Would you do that?

Mr. GADDY. My expectation is they were paid under the fixed fee, but I don't know that for sure.

Mr. KUCINICH. It would be important for this subcommittee to get that information, so we know under what circumstances they were paid and who paid them.

Mr. GADDY. Right.

Mr. KUCINICH. Or was there a relationship of a reduction by Lockheed Martin in the amount of money they were making from the contract. We need to know that.

Could you tell us what measures DFAS takes to make sure or would take to make sure that Lockheed did not receive compensation under its fixed-fee contract for work that Federal employees were doing in a call center? Would you be able to do that?

Mr. GADDY. We will be able to provide it for the record also.

Mr. KUCINICH. That would be great.

Those Federal workers were taken off other duties at DFAS, were they not?

Mr. GADDY. The call center people continued doing their call center work and handled the influx of calls for R&A as well.

Mr. KUCINICH. Did you have to pay them overtime?

Mr. GADDY. I don't believe we did.

Mr. KUCINICH. So they were handling both, but were they handling like 6 hours a day they do this and another 2 hours a day they do the Retro? How did that work?

Mr. GADDY. No. It was just commingled with the calls coming into the call center. It could be an R&A call. It could be a military call.

Mr. KUCINICH. But they were taken off other work they were doing?

Mr. GADDY. Yes, they combined.

Mr. KUCINICH. That you needed them to do.

Mr. GADDY. Right.

Mr. KUCINICH. That they were hired to do.

Mr. GADDY. Right.

Mr. KUCINICH. So the record of correspondence in DFAS reveals that there were concerns raised by DFAS project managers that their areas would suffer if personnel were moved around. Have you assessed any effect on DFAS's other areas of responsibility caused by this decision to assign Federal workers to the Lockheed call center?

Mr. GADDY. For the ones that we picked up the calls for, there was no degradation of military pay call service.

Mr. KUCINICH. Now you estimated the cost of using Federal workers is about a half a million dollars as of May 2008.

Mr. GADDY. Correct.

Mr. KUCINICH. And you are going to get us a better estimate?

Mr. GADDY. Yes. Yes, I will.

Mr. KUCINICH. Is it DFAS's intention to charge the U.S. taxpayer for the cost of those Federal workers or will you have a contractual charge to Lockheed?

Mr. GADDY. The payments to those individuals were they are Government workers. So whether they work on R&A work or mil pay work, their salaries didn't change. There was no incremental cost of them doing this work.

Mr. KUCINICH. But they are working for a private contractor who is under contract for the very work that the contractor's employees should be doing.

Now, Mr. Kleinknecht, you have listened to responses. Do you think this is a subtle issue? Are there some unanswered questions? Can you look into whether or not the taxpayer has been double-billed?

Mr. KLEINKNECHT. Clearly, the audit would cover all of those issues. I mean we would focus. These are things we would focus on.

Mr. KUCINICH. I think it is important that we look at the question of whether there have been any double billings. Certainly, if there has been, it can worked out between Lockheed Martin and the Federal Government. But, given the fact that you are scrambling here somewhat, it appears to be an appropriate question to ask and corrective action to be taken.

I would appreciate it if you look into that.

Gentlemen, you have been here for a few hours. I want to thank you for your participation.

This subcommittee is going to retain jurisdiction over this matter. We will have a followup hearing at the request of Mr. Issa. We will be in touch with you with further questions.

I think that overall what this is about is making sure these veterans get their money. If this subcommittee can, in some way, help to expedite that, then the purpose of this hearing is well taken.

I think that, again, there are decisions of privatization that are made above the pay grades of the people at the table. I am going to assume that each one of you is doing the best you can with the situation that you have.

But I also am letting you know that as long as there are disabled veterans out there who are not getting the money that is due them under the laws that Congress passed, that this subcommittee is going to be relentless in its work to examine this process and to call to the attention of the rest of the Congress and to push for remedies.

So I want to thank you, Mr. Gaddy, for agreeing to look at the no pay due profiles and to make sure that those are inspected, each and every case. It is very important for people to know that.

I want to thank the IG's Office for its willingness to get into this a little bit further.

This committee isn't in the business of "gotcha." What we want to is make something happen here that will work out for those veterans.

I want to thank you, Mr. Gaddy, for your service to our country.

Mr. Cipriano, thank you for seeing if there is a way to make this contract work, and for the IG finding a way to help facilitate that.

Mr. Sprey, thank you for your advocacy on behalf of veterans who often, on these matters, don't have the kind of help that they need. You know after serving their country, they need to be served too.

This committee stands adjourned.

[Whereupon, at 3:15 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

Memorandum July 10, 2008

TO: The House Committee on Oversight And Government Reform, Subcommittee on Domestic Policy
Attention: Jaron Bourke

FROM: John R. Luckey
Legislative Attorney
American Law Division

SUBJECT: Two Federal Contracting Questions

This memorandum is furnished in response to your request for CRS to respond to two questions arising from the following fact situation which you provided:

> Federal Agency A entered into two contracts with Contractor C. Contract 1 was a fixed fee contract for C to operate a call center to field calls about claims for benefits from A. Contract 2 was a cost plus fixed fee contract where C would evaluate the claims for benefits for certification of payment by A. Because of a backlog under contract 2, A assigned some of its employees to work in the call center under contract 1 (A's employees constituted about 10% of the total employees working at the call center) in order to free some of C's employees to work on contract 2. Also because of the backlog, C, under contract 2, began to utilize statistical sampling to evaluate some claims over $2,500.

The two question are: (1) Is the assignment of federal employees permissible? and (2) Is the statistical sampling permissible absent permission from the Comptroller General?

(1) Is the assignment of federal employees permissible?

Contract 1 would include a "Termination for Convenience clause."[1] This clause permits the termination of a contract, in whole or in part, when it is in the government's interest. Written notice is required for such a termination.[2] The assignment of Federal employees in the fact situation could be viewed as a partial termination in the government's

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[1] Most likely the clause required by 48 CFR § 49.502(c) for fixed fee service contracts found at 48 CFR § 52.249.4.

[2] 48 CFR § 52.249.4.

interest, though proper form and procedure would be required. Convenience termination may be used to restructure multiple contractual arrangements.[3]

The primary issue with which to be concerned in this situation is to make sure there is no double payment for the services provided by the federal employees, i.e. is agency A paying the full fixed fee and the salaries of the assigned employees. This could be remedied in several ways depending how the fixed fee is structured. If the fee is a fee per call, then the calls handled by the assigned employees would not be included in the fee paid. If the fee is for the total service, then a deduction would be required, most likely figured on a percentage of work performed basis.

(2) Is the statistical sampling permissible absent permission from the Comptroller General?

The statute governing audits by agencies does provide for some limited use of statistical sampling to audit vouchers of the agency, stating;

> The head of an agency may prescribe a statistical sampling procedure to audit vouchers of the agency when the head of the agency decides economies will result from using the procedure. The Comptroller General
>
> (1) may prescribe the maximum amount of a voucher that may be audited under this subsection; and
>
> (2) in reviewing the accounting system of the agency, shall evaluate the adequacy and effectiveness of the procedure.[4]

The maximum amount permitted without special approval by the Comptroller General is currently $2,500.[5]

The above cited provision is a safe harbor for disbursing and/or certifying officials. Such official acting in good faith is not to be liable for mis-payment or mis-certification just because statistical sampling was used.[6] The limitation and protection is afforded to that official directly. If C uses statistical sampling of claims above the allowed maximum, there is no per se violation, but the disbursing or certifying official may not receive the protection of the statute if he relies on such sampling without further acceptable verification.

We hope this information is responsive to your request. If we may be of further assistance, please call.

John R. Luckey
202-707-7897

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[3] *See*, for example, *Northrop Grumman Corp.* v. *United States*, 46 Fed. Cl. 622 (2000).

[4] 31 U.S.C. § 3521(b).

[5] *See*, GAO, *Policy and Procedures Manual for Guidance of Federal Agencies*, title 7, § 7.4.E (May 18, 1993).

[6] 31 U.S.C. § 3521 (c).

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