

**FILE**

**REPORT TO  
THE CONGRESS OF THE UNITED STATES**

**REVIEW OF INSTALLATION  
OF  
AUTOMATIC DATA PROCESSING SYSTEM  
AT HINES, ILLINOIS  
DEPARTMENT OF VETERANS BENEFITS  
VETERANS ADMINISTRATION**



**BY  
THE COMPTROLLER GENERAL  
OF THE UNITED STATES**

**MAY 1963**

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**BY  
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**MAY 1963**



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON 25

MAY 27 1963

B-118660

To the President of the Senate and the  
Speaker of the House of Representatives

Herewith is our report on the review of the installation of the automatic data processing system at Hines, Illinois, Department of Veterans Benefits, Veterans Administration.

The automatic data processing system, designed to maintain statistics and records relating to payments to about 4.5 million individuals receiving monthly financial assistance under the compensation and pension program, was ready for operations in January 1960. The Veterans Administration had planned to have the payment and statistical records at all 67 of its regional offices converted to automatic data processing in 1 year or by December 1960. However, operating difficulties arose in the early stages of the conversion which required suspension of the conversion for about 9 months beginning August 1960, and the conversion of all accounts to automatic data processing was not completed until August 31, 1962, or about 2-1/2 years after the equipment at the central location at Hines became operational. Considering the pioneering aspects and the magnitude of the undertaking and the complexity of the problems involved in converting the accounts maintained in the regional offices to automatic data processing at one central location, some difficulties were to be expected but, as shown by our review, they had been subsequently overcome. The automatic data processing system is now considered to be fully operational.

This report discusses the planning and installation of the automatic data processing system including the difficulties encountered and the attendant delay in the realization of the ultimate benefits of the new system. In commenting on the matters presented in this report, the Deputy Administrator informed us that, in retrospect, it was apparent that the feasibility study estimates of the conversion schedule and of the cost of operating the new system were highly optimistic. He attributed this condition in part to the lack of experience in this complex area but stated that the Veterans Administration had learned from the problems and had taken action to solve them and prevent their recurrence. The Deputy Administrator pointed to a cost and savings report projecting net annual savings in excess of \$1 million for fiscal year 1963 and to additional nonmonetary benefits to be derived from the new system. Our report contains comments on these

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B-118660

projected savings which were reported on October 3, 1962, by the Veterans Administration to the Chairman of the Committee on Veterans' Affairs, House of Representatives.

Copies of this report are being sent to the President of the United States and to the Administrator of Veterans Affairs.

A handwritten signature in cursive script, appearing to read "Roger Campbell".

Comptroller General  
of the United States

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REPORT ON REVIEW OF INSTALLATION  
OF  
AUTOMATIC DATA PROCESSING SYSTEM  
AT HINES, ILLINOIS  
DEPARTMENT OF VETERANS BENEFITS  
VETERANS ADMINISTRATION

INTRODUCTION

The General Accounting Office has made a review of the installation of the automatic data processing (ADP) system for maintaining compensation and pension benefit payment records and statistics at the Data Processing Center, Hines, Illinois. Our review was made at the Data Processing Center and at the Central Office of the Veterans Administration (VA). Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

DESCRIPTION OF THE COMPENSATION  
AND PENSION PROGRAM

One of the principal functions of the VA is the administration of the compensation and pension (C and P) program. Summaries of expenditures prepared by the VA show that expenditures under this program during fiscal years 1960, 1961, and 1962 amounted to about \$3.31 billion, \$3.57 billion, and \$3.65 billion, respectively, or about 61.4, 64, and 64.7 percent of the total VA expenditures from appropriated funds.

## ORGANIZATION AND MANAGEMENT

The Department of Veterans Benefits, which is headed by the Chief Benefits Director, is responsible for the administration of the C and P program as well as of certain other VA programs. Within the Department, the Compensation and Pension Service is responsible for formulating and recommending policies and procedures pertaining to the C and P program for application throughout the field offices of the VA.

As presently constituted, the operations of the C and P program are carried on in 67 VA regional offices (including the Veterans Benefits Office in Washington, D.C.) and in the Data Processing Center at Hines, Illinois. The VA regional offices are located in the 50 States, the District of Columbia, the Philippine Islands, and Puerto Rico.

The Data Processing Center is responsible for the operations of the ADP system which is used to maintain statistics and records relating to payments to individuals who receive monthly financial assistance under the C and P program. The manager of the Center was responsible initially to the Chief Benefits Director through the Deputy Chief Benefits Director. As of February 1, 1963, the manager reports to the Chief Data Management Director who coordinates ADP programs agency-wide.

A list of the VA officials responsible for the operations reviewed by us is shown as the appendix to this report.

## TYPES OF BENEFITS AVAILABLE

Financial assistance is provided to eligible veterans and their dependents principally in the form of monthly payments for

compensation and pension benefits. Following is a brief description of these benefits and some of the many factors involved in determining the amount of benefits to be paid, which had to be considered in the development of the ADP system.

#### Compensation benefits

Compensation benefit payments are made to eligible veterans who have disabilities incurred in or aggravated by service in the Armed Forces during times of war or peace. Payments are made at various rates which are dependent upon such factors as (1) the degree of the veteran's disability, (2) the number of dependents which the veteran has, (3) whether the disability was incurred during time of war or peace, (4) whether the veteran has a particular disabling handicap such as loss of sight or limbs, and (5) whether the veteran is in need of regular aid and attendance. Payments are subject to change, if the degree of disability changes.

Compensation is also payable to dependents of veterans who died as a result of disabilities incurred in or aggravated by service in the Armed Forces. Eligible dependents include unremarried widows, unmarried minor children, and, in some cases, parents. The amount of compensation paid is dependent upon such factors as (1) when the veteran died, (2) the number of the veteran's dependents, and (3) whether the veteran died as a result of disabilities incurred in or aggravated by service during time of war or peace.

#### Pension benefits

Pension benefit payments are made to eligible veterans who have permanent and total disabilities not connected with their service in the Armed Forces. Payments are made at various rates

which are dependent upon such factors as (1) the amount of the veteran's other income, (2) the age of the veteran, (3) the length of time which the veteran has been rated as permanently and totally disabled, and (4) whether the veteran is in need of regular aid and attendance. In addition, veterans or their beneficiaries who were receiving pensions prior to July 1, 1960, may continue to receive payments at the rate provided by the law in effect at that time or they may elect to receive payments at the rates provided in the current law which became effective on July 1, 1960. Income questionnaires disclosing the amount of other income must be completed each year by veterans whose entitlements to pensions are subject to income limitations. The VA makes changes in the amount of the pension payments, if required, in order to comply with income limitations imposed by law.

Pension payments are also made to dependents of veterans who died as a result of causes other than disabilities incurred in or aggravated by service in the Armed Forces. Eligible dependents include widows and children of the veterans. The amount of the pension payment depends upon such factors as the number of dependents and, with respect to dependents of veterans of World Wars I and II and the Korean Conflict, the amount of other income received by the dependents.

## CONVERSION TO THE AUTOMATIC DATA PROCESSING SYSTEM

### PLANNING AND PREPARATION FOR CONVERSION

Because of the magnitude and the repetitive nature of C and P operations, the cost of the large number of clerical employees required to perform such operations, and other processing costs, the Department of Veterans Benefits decided in 1956 to undertake a study to explore the possibility of converting certain operations to ADP. The Department believed that, in addition to the potential dollar savings through the mechanization of large clerical operations, greater speed and accuracy in processing C and P payments and accurate and timely statistical and financial data for management purposes could probably be obtained.

#### Feasibility study

On January 10, 1956, the Deputy Administrator of Veterans Affairs established an agencywide steering committee responsible for the selection of specific operations for study to determine their suitability for application of ADP. This committee was to provide leadership in coordinating and approving plans developed by the various departments within the VA for the possible application of ADP to their operations.

In accordance with the requirements of the steering committee, the Chief Benefits Director submitted a memorandum dated September 11, 1956, outlining a preliminary plan of approach to the study of potential application of ADP to the operations of the Department of Veterans Benefits. This plan included, among other things, a

proposal for undertaking a feasibility study to explore the possibility of integrating into one ADP system the functions of benefit claims accounting, check writing and issuing, and compiling claims statistics.

On September 21, 1956, the steering committee approved the undertaking of the feasibility study as proposed by the Chief Benefits Director, and the study, subsequently made by the Department of Veterans Benefits, resulted in a report issued in March 1958.

The feasibility study included (1) the development of a statement as to management objectives and the desired results, (2) an examination into new methods of operation which computers may provide and which heretofore had not been practicable, (3) the design of a system under ADP, with supporting charts showing the flow of work, (4) a comparison of services provided under the existing system with those to be provided under the proposed ADP system, and (5) an estimate of costs under ADP and of savings to be realized.

The study report resulted in a decision to install an ADP system at a data processing center in Hines, Illinois, to facilitate the processing of C and P benefit payments and the performance of related accounting and statistical functions. In the report it was estimated that the ADP system would maintain records and statistics relating to monthly payments made to 4.7 million veterans or their beneficiaries and that, upon completion of conversion to ADP, the new system would perform many of the payment accounting and statistical functions previously performed at the 67 VA regional

offices. The report indicated that the benefit checks could be written and issued at either the VA or the Treasury Department. The system, as ultimately installed, provided for the writing and issuing of benefit checks at the Chicago Regional Disbursing Office of the Treasury Department.

#### Equipment ordering, delivery, and replacement

In accordance with a recommendation contained in the feasibility study report, VA placed an order for the delivery of an International Business Machines (IBM) 705 III large-scale data processing system. The installation was completed and the system was ready for testing by the manufacturer on December 4, 1959. The manufacturer released the equipment to the VA on January 4, 1960, at which time rental charges began to accrue. Subsequently, to supplement the IBM 705 III computer system, the VA acquired on a rental basis a smaller IBM 1401 computer which became operational in April 1961.

After experience in operations had been gained, the VA made a special study of the existing ADP equipment to ascertain whether the capacity was adequate to process the anticipated workload. Upon completion of the study, the Chief Benefits Director and the Assistant Administrator for Management Services, in a report dated September 26, 1961, expressed the view that the existing ADP equipment capacity was unsatisfactory as it would require almost 100 percent utilization of the total available hours. Also, they believed that manning the Data Processing Center with an adequate qualified

permanent staff for an around-the-clock operation presented problems in the recruitment and retention of experienced people in a highly competitive labor market.

The two VA officials recommended, as a solution to the problem of inadequate capacity of existing equipment, the acquisition on a rental basis of a new and faster IBM 7080 large-scale computer system to replace the IBM 705 III. Accordingly, on October 4, 1961, the VA ordered the recommended large-scale computer system. The new equipment was delivered to the Data Processing Center in January 1962.

The IBM 7080 computer was initially acquired under a lease-with-option-to-purchase agreement at a basic monthly rental cost of \$44,310, replacing equipment which had a basic monthly rental of \$43,240. The agreement required the VA to pay the equipment manufacturer an option deposit of about \$25,000, which would be applied against the purchase price if the option to purchase was exercised within 2 years. The agreement provided also that a portion of the rental would be credited against the purchase price, if the equipment was purchased within the option period. In June 1962, the VA exercised its option and purchased the new equipment at a cost of about \$2.5 million. The option agreement allowed credit for the option deposit and resulted in a rental credit of about \$113,000.

In addition to the new IBM 7080 equipment, another smaller IBM 1401 computer system, similar to the one already in use at the Center, was ordered by the VA. This second IBM 1401 computer was delivered in February 1962; the basic monthly rental was \$5,355.

## INITIAL CONVERSION AND SUSPENSION

The ADP system, designed to maintain the statistics and records relating to payments to about 4.7 million individuals receiving monthly financial assistance under the C and P program, was ready for operations in January 1960.

In March 1960, the C and P accounts of five regional offices (Los Angeles, California; Phoenix, Arizona; Cleveland, Ohio; Detroit, Michigan; and Pittsburgh, Pennsylvania) were established on magnetic tape. The more than 400,000 death benefit accounts, which were transferred from the Philadelphia District Office, were converted in April 1960, and the accounts at the Chicago Regional Office were converted in May 1960. These conversions were followed in turn by the conversion of the records of six southeastern regional offices in July. The conversion of the accounts at regional offices in Winston-Salem, North Carolina; Columbia, South Carolina; St. Petersburg, Florida; Atlanta, Georgia; Roanoke, Virginia; and Huntington, West Virginia, brought the number of individual payee active files up to a total of over 1,400,000. Thus, approximately one third of the total accounts had been converted to ADP between the months of March and August 1960.

### Difficulties encountered

In August 1960, the VA suspended the conversion of C and P accounts because of certain difficulties which had arisen in the process, and the agency decided to convert no further accounts until these difficulties could be studied and eliminated.

The difficulties that had arisen were principally due to the following causes.

1. In scheduling the large volume of accounts for conversion to ADP, the VA did not provide sufficient time for the correction of the basic records by the regional offices. This created a workload which exceeded the capacity of the regional office personnel, and the necessary corrections were not completed prior to conversion of the accounts to ADP.

2. In many instances transaction data was not prepared in the exacting manner required for processing by the ADP system. Errors in transaction data transmitted to the Center from the regional offices and computer programming problems at the Center resulted in a high rate of rejection of transactions by the computer. The correction of rejected transactions required the use of additional personnel time and additional equipment time for reprocessing.

3. There was a need for improved procedures and programming to obtain faster methods of operation at the Center.

4. An excessive amount of printed data, which in some cases merely confirmed the central processing actions, was being produced by the ADP system and forwarded to the regional offices. Since this data was intermingled with that requiring action by the regional offices, an unnecessary workload was created requiring a review of purely informational material in order to identify action material.

Factors that also contributed to the difficulties were (1) the large number of inquiries concerning failure to receive C and P

benefit checks or concerning checks issued for incorrect amounts, creating a backlog of work at the regional offices which was difficult to cope with, (2) the inability of the Center to convert C and P accounts to ADP as rapidly as anticipated in the original conversion schedule, and (3) various types of machine and operating difficulties at the Center.

Moreover, the enactment of legislative changes, particularly the general revision of pension benefits which became effective July 1, 1960, created additional workloads at the regional offices and the Center.

In commenting on these developments, the Deputy Administrator expressed the view that any pioneering venture of this magnitude must, of its very nature, encounter difficulties. He agreed, however, that, in retrospect, it was apparent that the feasibility study estimates of the conversion schedule and of the cost of operation were highly optimistic. This condition was attributed by him partially to the lack of experience in this complex area, to the absence of parallel applications in other Government agencies from whose experience VA could have benefited, and to the added complications imposed by enactment, during the critical conversion period, of additional legislation substantially affecting the C and P program. He also informed us that, as early as September 1960, the VA recognized the need for a more realistic conversion schedule, for correction of basic records before conversion, and for adequate training of employees involved in ADP operations and that VA had taken immediate action to meet these needs, with respect to not

only the remaining conversions in the Department of Veterans Benefits, but also the conversion of other activities.

As related in a succeeding section of this report (see p. 15), our review showed a number of steps taken by the VA which served to overcome the difficulties encountered in the initial conversion period and to make conversion of the remaining regional offices possible. However, we have examined into only the action taken by the VA in connection with the C and P program activities.

Postponement of savings  
and incurrence of additional costs

The operating difficulties and the suspension of conversion resulted in a postponement of anticipated savings and in additional costs to the Government, in both the VA and the Treasury Department.

The additional VA costs resulted primarily from retaining leased electric accounting machine equipment in the regional offices even though a full ADP system had been installed and was available for use at the Center and from the use of personnel and, to some extent, equipment required for taking corrective action and reprocessing the high volume of transactions during the period of conversion prior to suspension and for reducing the backlog and reprogramming of ADP operations during the period of suspension.

Because the records of the VA were not maintained in a manner which would permit development of information on the costs incurred for these additional operations, it was impracticable for us to determine such costs.

In commenting on this situation, the Deputy Administrator expressed the belief that no increased costs were created by the stretch-out of conversions but rather that it only delayed the realization of potential savings. He stated that, although the get-ready costs, the early operating costs, and the time required for conversion were greater than estimated, these cost factors did not require supplemental appropriations or expenditures beyond previous rates. He informed us that no rent was paid for idle hours on the computer and that in each instance sufficient work was performed on the equipment to utilize the paid-for capacity.

We believe that the fact that the VA did not request supplemental appropriations is not necessarily indicative of an absence of increased operating expenditures; it should be noted that VA's general operating expense appropriation provides funds for the operation of other programs in addition to the C and P program, and funds planned for such other purposes may have been used for the C and P conversion, or funds appropriated were sufficient to absorb any additional costs.

Furthermore, it appears that the retention of leased EAM equipment beyond the time when it could have been released if conversion of the regional office accounts had progressed satisfactorily, together with additional personnel and overtime required to correct problems which had developed, did entail costs which otherwise would not have been necessary. Also, the additional computer time occasioned by the operating problems resulted in VA rental

costs which under a smoother conversion schedule would not have been incurred.

The Treasury Department, which had installed during December 1960 a large-scale computer system in its Chicago Regional Disbursing Office in anticipation of the increased C and P payments workload, incurred additional equipment rental and other costs of about \$170,000 because of the delay in the VA conversion schedule. These costs are further discussed in our separate report to the Congress on the review of automatic data processing operations, Chicago Regional Disbursing Office, Bureau of Accounts, Treasury Department, B-118709.

## COMPLETION OF CONVERSION

The process of converting accounts in the remaining offices was resumed in June 1961, after the VA put into effect the following improvements in its overall operations.

1. The VA established a new conversion schedule designed to relate the workloads at the regional offices to the capacities of the system at the Center. Also, the time of conversion at a regional office was to be determined by its readiness to convert its accounts to ADP, as indicated by the condition of the workload, staffing, and training.

2. The original preconversion procedures were revised, and additional controls and audit routines were developed.

3. To reduce the overall computer operating time, the VA installed program modifications and combined various computer runs. In addition, the experience gained during the early conversion provided a basis for improved operating techniques in the handling of transactions.

4. Training programs and the distribution of related materials were instituted. In addition, those regional offices whose accounts were not converted to ADP operated under simulated ADP conditions by processing all transactions on ADP forms as a means of training the personnel for the eventual conversion.

5. A new conversion procedure was established in an effort to avoid the problems encountered in the conversion at the first offices. The new procedure provided for the duplication of the regional office award account file and the forwarding of the accounts

to the Center for conversion to magnetic tape. Under this procedure, the regional office continued to make payments, maintaining duplicate copies of all transactions affecting the accounts transmitted to the Center. The changes in the central file were also made in the regional office file. This procedure, called a parallel operation, was continued until the regional accounts were considered ready for merging into the system. Accounts that were not considered acceptable for ADP processing continued to be paid by the regional office. When a rejected account was corrected, it was then resubmitted by the regional office for merging into the ADP system at the Center.

6. The benefit accounts for education and training awards for the vocational rehabilitation of disabled veterans, which had caused processing problems, were removed from the ADP system.

After the resumption of the conversion in June 1961, to August 31, 1962, the C and P benefit accounts of 54 additional regional offices and the C and P death award accounts maintained at the St. Paul Center were converted to magnetic tape at Hines, Illinois. Thus, by August 31, 1962, the 4.5 million accounts at 66 of the 67 offices had been converted to ADP. No conversion date had been established for about 71,000 accounts at the office in Manila, Philippines, because of special problems involved; this office is not included in the conversion plan.

### Description of completed ADP system

The establishment of the ADP system at Hines, Illinois, resulted in the transfer of certain functions formerly performed at the regional offices and in changes in certain procedures at these offices. The Data Processing Center is a service unit performing, for the operating units at the various regional offices, the functions pertaining to the maintenance of records of monthly C and P benefit payments. Also, the Center furnished the Treasury Regional Disbursing Office in Chicago with information necessary for the preparation and issuance of C and P benefit checks. All C and P transactions with which the Center is involved originate at the regional offices except for transactions relating to canceled checks, deductions for paying insurance premiums, and certain inquiries. The transactions originating at the regional offices involve such actions as establishing new awards, amending existing awards, changing addresses, recording dates for future actions, and suspending and resuming payments for various reasons. At the regional office, after the necessary processing of such transactions has been completed, the data is sent to an ADP control unit which assembles and batches the transaction data for transmission to the Center for processing in the ADP system.

Data from the regional offices is submitted in the form of both punched paper tapes and documents. Punched paper tapes relating to awards are produced simultaneously with the typing of the letters notifying the payees of the awards. At the Data Processing Center, punched cards are prepared (1) manually from information on

the documents submitted and (2) by automatic conversion of the information on the paper tapes. Information on the cards is then converted into magnetic transaction tapes which are used in computer processing.

The processing of transactions at the Center includes a series of validity checks and audits before such transactions are recorded on a master tape record. The transaction tapes are put through three runs: edit, assembly, and audit. In the edit run, the data is checked for certain types of errors which can be located without making reference to the master record. In the assembly run, the data on the tapes is arranged into a format corresponding to that of the master record. The transaction tapes are then put through an audit run designed to test the logic of factors included in the transaction, for example, whether the amount of the award is proper on the basis of the stated percentage of disability. Throughout these runs, errors discovered are recorded on magnetic tape to be used in printing messages for informing the regional offices and the Center of such errors. Some of these errors cause transactions to be rejected, while others allow the transactions to be processed subject to later correction.

After completion of the edit, assembly, and audit runs, the transaction tape is ready for use in the main processing run for revising the master record file to show the proper current status of the accounts. This process is known as updating. The master record file is updated 10 times a month, about once every 2 work-days. The main processing run produces a number of reels of

magnetic tape which are used for various operations. A reel of tape is provided for use in producing checks for retroactive payments; another reel contains information to be used in updating the master payment file; and a third reel contains statistical information used in compiling reports.

The master payment file includes all information necessary to produce the monthly recurring checks. About one fifth of the master payment file is updated in each of five payment runs made during the month. Each payment run produces magnetic tape to be used by the Chicago Regional Disbursing Office of the Treasury Department in updating its file pertaining to payees for whom checks are to be issued. The Disbursing Office produces checks throughout the month but does not mail them until the end of the month. Any address changes sent to the Disbursing Office are accompanied by gummed label addresses to be affixed to the check mailing envelopes. When award changes are processed by the Center after a check has been written by the Disbursing Office but before the check has been mailed, the check must be held and canceled and a new check must be written.

When new awards are established at the Data Processing Center or changes in previously established awards are effected, it is necessary to transmit such information to the Treasury Regional Disbursing Office throughout the calendar month so that the Treasury's payment file of VA beneficiaries is kept current. Amounts of new or amended awards covering retroactive periods are paid by the Disbursing Office throughout the month, whereas regular recurring

amounts are processed for payment at the end of the month. Awards received at the Disbursing Office are coded as to addressee location to facilitate the sorting of all benefit checks by geographical locations so that the Post Office Department can handle expeditiously the large volume of checks received at the end of each calendar month.

Each month the Regional Disbursing Office furnishes to each of the VA regional offices microfilm copies of benefit checks issued for that month. This microfilm, together with certain data furnished by the Treasury, provides the VA regional offices with information to be used in answering inquiries from veterans and beneficiaries relative to payments due them. In most instances, this procedure obviates the need for the VA regional offices to communicate with the Data Processing Center when payment information is required.

#### Measurement of financial results

In the feasibility study report, the VA estimated that, upon conversion to centralized ADP, 965 positions with salaries of about \$3.9 million would be eliminated at the regional offices. This estimated reduction was to be offset by 90 positions estimated to be added at the Central Office and the Data Processing Center at a cost of \$400,000, a net saving of 875 positions and about \$3.5 million in payroll costs. However, a subsequent revised estimate based partially on information received from the regional offices through March 31, 1962, reduced the saving to 586 positions with salaries of \$2.7 million.

The estimated reduction of 586 positions in the regional offices is a major factor in the estimated savings shown in a Preliminary Report on ADP Savings, September 1962, submitted by the VA to the House Committee on Veterans' Affairs on October 3, 1962. In this report, the VA estimated that net annual savings of \$1,040,000 would be realized in both fiscal year 1963 and fiscal year 1964 and that net annual savings would amount to \$1,672,000 in each of the fiscal years 1965 through 1969. It was further estimated that by the close of fiscal year 1966 these savings would offset estimated cumulative net conversion costs of \$5.3 million through fiscal year 1962.

The anticipated savings of \$1,040,000 in fiscal year 1963 were attributed to estimated cost reductions of \$3,074,000, including the reduction in regional personnel costs of \$2,714,000, offset by cost increases of \$2,034,000. The increases represented principally the budgeted annual cost of operating the Data Processing Center at Hines, \$1,431,000, and the amortization of the purchase price of the computer over a 7-year period, \$355,000.

In our review of the estimates of personnel savings, we found that they were not properly supported because of inadequate cost and statistical information provided by the regional offices and certain assumptions made by the Central Office which had the effect of increasing the savings reported by the regional offices.

A major part of the estimated personnel reduction of 586 positions was the reduction of 318 positions in the regional finance divisions, with related annual salary savings of \$1,495,000. This

estimate had been arrived at by projecting the information reported by the converted offices to the finance divisions of all regional offices and by an assumption, on the part of the Central Office, that, as the regional offices acquired more experience in operating under ADP procedures, operations would further improve and additional positions would be saved. Thus, the Central Office estimated a saving of 318 positions, which is 101 positions more than the saving estimated on the basis of the average reductions as reported by the converted offices.

The reductions in regional office personnel in divisions other than finance divisions were estimated by various methods but these estimates were also made on the basis of limited information and certain assumptions which could not be readily supported.

The need for adequate records and reports in measuring the effects of ADP on costs was recognized in two special reports, prepared by the VA in December 1960 and January 1961, in which the agency's ADP program was reevaluated. In one of these reports it was stated that a cost accounting system should be established to accurately document costs and savings resulting from conversion to ADP. However, our review indicated that accounting and statistical records adequate for measuring the financial results of the ADP system were not developed before or after the conversion.

Our review showed that, at the time the conversion to ADP began, the Central Office had not instructed the regional offices to maintain records that would provide information necessary for ascertaining the financial effects of the conversion on personnel

costs and other costs. Only in September 1961, about 18 months after conversion had started, did the Central Office issue instructions requiring the preparation of reports by the regional offices to show estimates of the impact of ADP on manpower utilization and the increases or savings in salary costs attributable thereto. These reports were to be prepared as of June 30, 1961, and quarterly thereafter.

In commenting on our findings as to the absence of standards adequate for measuring costs and performance both before and after conversion to ADP, the Deputy Administrator informed us that VA had recognized that the reporting mechanism used for collecting costs and savings data in the Department of Veteran Benefits needed improvement.

According to the Deputy Administrator, the data initially collected was distorted by the changing nature of the workload during the first conversion year, by the transfer and amalgamation of functions in the regional offices, and by the inconsistent interpretations as to what constituted properly chargeable ADP costs or savings. The Deputy Administrator stated that continuous efforts were made to collect and refine the data. However, we believe that further action is needed to require that the VA regional offices, as well as the Data Processing Center, develop and maintain adequate records of costs of C and P program operations in the future. Such records should enable management to appraise the effectiveness of C and P operations, including ADP, by allowing comparison of costs and production for different periods, comparison of actual

costs with budgeted costs, and development of requirements for planning and forecasting.

## SCOPE OF REVIEW

Our review of the installation of the ADP system for maintaining C and P benefit payment records and statistics was made at the VA Data Processing Center in Hines, Illinois, and the VA central office in Washington, D.C. We reviewed:

1. The basic laws authorizing the compensation and pension program.
2. VA's policies, procedures, and administrative regulations applicable to selected operations of the C and P program.
3. Selected transactions processed through the ADP system, including related correspondence and other documents.
4. The feasibility study made prior to the installation of the ADP equipment. Also, we made a comparison of estimated performance with actual performance in certain areas.

**APPENDIX**

PRINCIPAL VETERANS ADMINISTRATION OFFICIALSRESPONSIBLE FOR THE OPERATIONS REVIEWED

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<b>ADMINISTRATOR OF VETERANS AFFAIRS:</b>		
H. V. Higley	July 22, 1953	Dec. 19, 1957
S. G. Whittier	Dec. 20, 1957	Jan. 20, 1961
R. J. Lamphere (acting)	Jan. 21, 1961	Feb. 9, 1961
J. S. Gleason, Jr.	Feb. 10, 1961	Present
<b>DEPUTY ADMINISTRATOR OF VETERANS AFFAIRS:</b>		
J. S. Patterson	Nov. 3, 1954	Dec. 30, 1957
R. J. Lamphere (acting)	Dec. 31, 1957	Nov. 9, 1958
F. B. Morse	Nov. 10, 1958	Sept. 11, 1960
R. J. Lamphere (acting)	Sept. 12, 1960	Nov. 5, 1960
R. J. Lamphere	Nov. 6, 1960	Feb. 22, 1961
W. J. Driver	Feb. 23, 1961	Present
<b>CHIEF BENEFITS DIRECTOR:</b>		
R. Stone	July 1, 1954	Jan. 14, 1958
W. J. Driver (acting)	Jan. 15, 1958	Feb. 3, 1959
W. J. Driver	Feb. 4, 1959	Feb. 22, 1961
D. P. Page (acting)	Feb. 23, 1961	Mar. 13, 1961
P. N. Brownstein	Mar. 14, 1961	Mar. 3, 1963
C. F. Brickfield	Mar. 5, 1963	Present
<b>DEPUTY CHIEF BENEFITS DIRECTOR:</b>		
D. P. Page	Jan. 3, 1956	Jan. 31, 1963
A. W. Stratton (acting)	Feb. 1, 1963	Present
<b>DIRECTOR, COMPENSATION AND PENSION SERVICE:</b>		
W. Howard	Sept. 12, 1954	Dec. 31, 1955
H. Q. Brooks (acting)	Jan. 1, 1956	Feb. 18, 1956
W. J. Driver	Feb. 19, 1956	Feb. 3, 1959
A. W. Stratton	Feb. 4, 1959	Jan. 16, 1962
A. W. Farmer	Jan. 17, 1962	Present
<b>MANAGER, DATA PROCESSING CENTER:</b>		
J. F. Chestnut	Aug. 30, 1959	Present
<b>ASSISTANT MANAGER, DATA PROCESSING CENTER:</b>		
F. W. Hermann	Nov. 2, 1960	Present
<b>ACTING CHIEF DATA MANAGEMENT DIRECTOR:</b>		
Philip J. Budd	Jan. 31, 1963	Present