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Testimony before the Senate Committee on Veterans' Affairs; by Gregory J. Ahart, Director, Human Resources, Div.

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Organization Concerned: Veterans Administration; Veterans Memorial Medical Center, Luzon (Philippines).

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H.R. 5029 would provide for continuation of the Veterans Administration (VA) medical program and the VA office in the Philippines, the only foreign country in which the VA operates a comprehensive benefits program. In 1948, the Congress authorized a program to provide medical benefits to Filipino veterans with service-connected illnesses and construction of a hospital in Luzon, now called the Veterans Memorial Medical Center. Although the program was intended to be temporary, it has been extended in 5-year increments by legislation and, in 1966, it was expanded to include medical care for nonservice-connected illnesses. The Center, which was turned over to the Philippine Government in 1955, has been expanded into a general hospital offering a wide range of services for U.S. and Filipino veterans. Substantial reductions in funding and the VA's role could be achieved by greater use of outpatient treatment rather than hospitalization and by treating only service-connected illnesses. An alternative to continuation of the present operation of the Manila office would be to transfer all or some of its functions to a U.S. location. (HTW)

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STATEMENT OF
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BEFORE THE
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE
ON
H.R. 5029

Mr. Chairman and Members of the Committee, we are pleased to be here today to discuss certain reports we have issued which have a bearing on the subject matter of H.R. 5029, which would provide for continuation of the VA medical program and the VA office in the Philippines. In May 1977, we issued a report on the VA medical care program in the Republic of the Philippines 1/ and in January 1978 we issued a report on other VA benefits programs in the Philippines. 2/

Both of these reviews were undertaken at the request of the Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations.

BACKGROUND

The Philippines is the only foreign country in which VA operates a comprehensive benefits program. Since 1946, \$1.87 billion has been provided under the program. During fiscal year 1976, \$84 million in benefits were distributed to various

1/ "Potential for Reducing U.S. Financial Support and Ending VA Involvement in Medical Program for Filipino Veterans (HRD-77-95, May 20, 1977)

2/ "Veterans Administration Benefits Programs in the Philippines Need Reassessment" (HRD-78-26, January 18, 1978)

categories of veterans and beneficiaries. This program resulted from:

- the Philippines being a U.S. possession from 1898 until its independence in 1946,
- Filipinos serving in and with the U.S. Armed Forces since the Spanish American War, but mostly during World War II, and
- continually recruiting several hundred Filipinos each year to serve in the U.S. Armed Forces.

Two groups of Filipinos are U.S. veterans. There are approximately 20,000 Philippine Scouts, called Old Scouts, who served before and during World War II. Another 30,000 Filipinos have been recruited into the U.S. Navy since World War II. The Navy recruitment program still continues on a limited scale. Both groups are entitled under law to the same monetary benefits as American veterans.

In addition to the 50,000 U.S. veterans, three groups of Filipino veterans also are entitled to benefits as a result of military service during and immediately following World War II:

- Filipinos who served in the Philippine Commonwealth Army, who were inducted into the U.S. Armed Forces of the Far East in July 1941.
- Those who fought during World War II in guerrilla units recognized by the U.S. Army as part of the U.S. Armed Forces.
- Philippine Scouts, called New Scouts, enlisting in the U.S. Armed Forces under provisions of the Armed Forces Voluntary Recruitment Act of 1945.

The VA reported in 1977 that approximately 110,000 Commonwealth Army veterans, 312,000 recognized guerrillas,

and 30,000 New Scouts, or a total of 452,000 Filipino veterans resided in the Philippines.

VA activities

VA is responsible for administering and monitoring both the monetary and medical benefit programs in the Philippines. VA has maintained an office in the Philippines since 1921; before World War II the office was staffed by 13 employees serving approximately 7,500 veterans. However, VA operations have expanded greatly due to the large increase in potential beneficiaries created by legislation providing benefits to World War II Filipino veterans and by continually expanding these benefits over the years. In fiscal year 1978 full-time equivalent employment totaled 273.5 employees in the Philippines, including 13 Americans.

The VA has an outpatient clinic which (1) provides service-connected treatment to U.S. and Filipino veterans and (2) screens all veterans before admitting them to the Philippines' Veterans Memorial Medical Center to ascertain the need for hospitalization. Authorized staffing for the clinic is 64 positions including 2 Americans. Annual operating costs for the outpatient clinic were about \$460,000 of \$1.7 million in operating costs for VA activities in the Philippines in fiscal year 1976.

MEDICAL PROGRAM

In 1948, the Congress authorized, through Public Law 80-865, a grant program to provide medical benefits to Filipino veterans with service-connected illnesses. This law also provided authorization for constructing and equipping a

hospital in Luzon. The grant was authorized for a 5-year period. The program was to be temporary with the Philippine Government eventually assuming responsibility for funding the program and operating the hospital. The hospital, built and equipped at a cost of about \$9.4 million, now called the Veterans Memorial Medical Center, was turned over to the Philippine Government in 1955.

Although the program was intended to be temporary, it has been extended in 5-year increments by legislation through September 30, 1978, 30 years since it was initially established. Public Law 85-857, enacted in 1958, changed the basis of the funding of the program from a grant basis to a reimbursable contract basis.

Renewal legislation which had the greatest impact on the program was Public Law 89-612, enacted in September 1966. In addition to extending the program for another 5 year period, this legislation expanded the program to include medical care for nonservice-connected illnesses. This was done in part to supplement the declining patient load at the Center--at the time running at less than 75 percent of capacity. Until that time, expenditures charged to the program had been declining. Since then, the cost of the program experienced an upward trend increasing from less than \$300,000 in 1966 to approximately \$2 million in 1974. Since 1974, program costs have remained fairly constant.

Public Law 93-82 extended the program through June 30, 1978--subsequently changed to September 30, 1978--and

authorized funds of up to \$2 million annually for medical care.

The program is administered on a cost reimbursable basis whereby the Center is paid for inpatient care at an all-inclusive per diem rate. The per diem rates are jointly determined by the U.S. and Philippine Governments.

Center facilities and services

The Center employs over 1,500 personnel and provides a wide range of inpatient and outpatient services to U.S. and Filipino veterans. Its mission was expanded in 1960 from a specialized veterans hospital into a general hospital, offering specialties such as obstetrics-gynecology, pediatrics, and psychiatry. Since then, the Center has established specialized services and programs including nuclear medicine, open heart surgery, radiotherapy, and renal dialysis.

In 1960, the Philippine Government also began using the Center for its own veterans program. Today, the Philippine program includes service- and nonservice-connected care, dependent care, and treatment of civilian patients (on a paying basis if beds are available).

To meet the increased demands of the U.S. and Philippine programs, we were informed that the hospital gradually increased its bed capacity from 700 in 1964 to 1,160 in 1976. Located on a 126-acre site, the Center now has a total of 30 buildings, with a variety of recreational facilities including

an 18-hole golf course, tennis courts, and a basketball court.

In addition to the Center, the Philippines have at least 13 other Philippine-funded medical facilities which may be used by Filipino veterans under the Philippine Government's program.

POTENTIAL FOR REDUCING MEDICAL PROGRAM FUNDING

As I mentioned before, the Congress authorized nonservice-connected care under the program in 1966. During the period from 1966 to 1976, the number of Filipino veterans receiving care at the Center for service-connected conditions has declined from 100 percent to about 4 percent. By avoiding hospitalization and limiting U.S. funding of the program to service-connected illnesses, substantial reductions in funding and the role of VA could be achieved.

Hospitalization can be avoided

Many veterans treated at the Center for nonservice-connected illnesses would not require hospitalization with proper outpatient treatment. VA's Manila office estimated that substantial reductions in hospital costs could have been realized in fiscal year 1977 if these veterans had received proper treatment on an outpatient basis.

Under current legislation, however, U.S. funded outpatient care is authorized only for those Filipino veterans who have service-connected illnesses. Outpatient treatment for nonservice-connected illnesses is available only under the Philippine program.

VA's Manila office, studying unnecessary hospitalization, sampled 167 patient files related to fiscal year 1976 non-service-connected treatment. Based on its analyses and projections, it estimated that over \$400,000 in fiscal year 1977 hospitalization charges to the program could have been eliminated if proper treatment were provided on an outpatient basis.

We noted that during fiscal year 1976, hospitalization for pulmonary tuberculosis represented 78,000, or more than 50 percent, of patient days under the program. Most tubercular cases are treated on an outpatient basis in the U.S. A VA outpatient clinic physician acknowledged that many of the veterans being hospitalized for treatment could be treated without hospitalization. He said, however, that the Philippines' outpatient clinic at the Center lacks sufficient funding to provide adequate supplies of medicine to the veterans.

The U.S. Embassy did not permit us to discuss this review with Philippine nationals nor to review Center records. We were, therefore, not able to determine whether the Philippine-operated outpatient clinic has the capability to deliver the degree of care which might obviate the need for hospitalization. Because of these restrictions, we were also unable to fully assess the financial ability of the Philippine Government to fund the medical care program.

Treating only service-connected illnesses could reduce VA role

VA's Manila office monitors the medical program to ensure that it is administered properly. If the program

were reduced to treat only service-connected veterans, we believe the VA monitoring role could be substantially reduced.

Under the program, VA's role includes (1) providing services on an outpatient basis to Filipino veterans with service-connected illnesses; (2) screening veterans seeking admission to the Center to determine if hospitalization is necessary; and (3) monitoring length of stay, per diem computations, and billings for reimbursement. To perform these and other services, such as examining compensation and pension claims (not charged to the program), the clinic employs 64 persons, including 10 physicians.

In fiscal year 1976, 61 percent of the clinic workload--13,300 out of about 22,000 visits--was for treating Filipino veterans with service-connected illnesses on an outpatient basis and screening admissions to the Center. In fiscal year 1976, VA screened more than 9,300 veterans applying for hospitalization under the program. Of these, only 3,565, about 38 percent, were admitted to the Center. The rest were referred to the Philippine Government-funded outpatient clinic at the Center. Additionally, during fiscal year 1976, VA physicians reviewed about 4,700 medical records for veterans who had been admitted under emergency conditions to the Center. VA rejected reimbursement under the program for over 1,300 of these admissions because the veterans did not require emergency hospitalization at the time they were admitted.

On the basis of VA turning over these responsibilities to the Center and the resulting reduction in workload, we estimate that the current VA outpatient staff could be reduced from 64 persons to about 30. Savings could also be achieved in medicines and supplies for a total reduction of about \$180,000 per year.

Mr Chairman, in our May 1977 report, we recommended that consideration be given to changing the program from a reimbursable contract basis to a fixed-sum grant basis to provide annual funding for only service-connected care at the Center. The fixed-sum grant could be determined using the cost experience over the past several years for treating service-connected illnesses at the Center.

This action would also permit VA to turn over the outpatient treatment of Filipino veterans with service-connected illnesses to the Center and eliminate VA involvement in the program.

MOVING VA'S FUNCTION TO THE U.S.

Mr. Chairman, the passage of H.R. 5029 would permit VA to continue its operation of VA's Manila office. In our January 1978 report, we presented several alternatives with respect to deciding the future of VA benefits programs in the Philippines. One of these was negotiating a lump-sum settlement or setting up a trust fund to cover costs of all future benefits, with the Philippine Government administering the programs. This would permit VA to close its Manila office.

VA's Manila office is the only VA regional office in a foreign country. Except in the Philippines, Federal benefits programs, including the VA program, are included in the operations of the various consular sections. Italy has the next largest VA program with 6,300 beneficiaries, and five other countries have programs of more than 1,000 beneficiaries. Except for the Philippines and Mexico, VA's regional office in Washington, D.C., administers all veteran programs for beneficiaries abroad.

In the past there have been suggestions that some functions of VA's Manila office be transferred to a U.S. location. For example, in an April 27, 1976, letter to the Chairman, House Committee on Veterans Affairs, the Ranking Minority Member of the Subcommittee on Medical Facilities and Benefits, House Committee on Veterans' Affairs, pursuant to an inspection of the facilities and operations of VA's Manila office, made several suggestions regarding the transferring of several functions of the office to the U.S.

On December 8, 1976, the current director of VA's Manila office, in a letter to VA's central office stated that he was opposed to any transfer of VA operations from Manila to the U.S. at that time and stated:

"Such transfer would be uneconomical and would drastically affect our services to Filipino veterans and beneficiaries * * * many useless and fraudulent claims are presented. Our local employees are experienced in recognizing such

claims which would appear valid to the average employee in the U.S. Most probably, our claims fixers would have a field day submitting new or reopened claims to stateside offices for consideration."

The U.S. Embassy views moving some of the functions of VA's Manila office to the U.S. to be in line with overall U.S. policy of reducing U.S. presence abroad. This reduction would be accompanied by a change in VA functions, such as computerization and moving work gradually back to the U.S. Over time VA could change from a separate entity to being part of the Embassy, with certain VA functions consolidated with Embassy activities.

There are several options available in transferring VA functions stateside, such as

- transferring all or part of the functions,
- reducing only American positions,
- consolidating activities, for example, supply, maintenance, and motor pool with the Embassy, and
- computerizing check payments and records now being handled manually.

Since these options cannot be readily quantified, we were unable to determine if they would save the Government money or reduce invalid or fraudulent claims.

Any plan for reducing VA employees or transferring functions stateside would mean that beneficiaries in the Philippines are likely to receive less service than they now receive. At the same time we would point out that current service provided to VA beneficiaries in the

Philippines are considerably above the level of services provided to beneficiaries in other countries.

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Mr. Chairman, in the past VA and the Department of State have opposed changes to VA programs in the Philippines. We believe that both agencies have now changed their positions.

As you know, the Appropriations Committees last year cut the VA Philippine medical program by \$400,000. On August 31, 1977, hearings were conducted by the Subcommittee on HUD-Independent Agencies, Senate Appropriations Committee, on the veterans benefits programs in the Philippines.

At these hearings, the Deputy Assistant Secretary of State for East Asian and Pacific Affairs stated that caution should be used before reducing or eliminating programs affecting the Philippines. However, he stated that the matters we found in our review indicated that a review of the veterans benefits programs was very much in order. He said that the Department of State would cooperate fully in the development of proposals on how to meet our obligations to veterans who are genuinely entitled to benefits. He also said that the Department would be willing to pick up some of the administrative functions of VA's Manila office, should there be changes in its operations.

VA's Deputy Administrator stated that our review had raised some valid questions concerning the desirability of

continuing or modifying VA's current programs in the Philippines. He also said that VA had no objections whatever and in fact favored the phasing out of the medical program.

As a result of the August 1977 hearings, VA was to provide the Chairman, Senate Subcommittee on Appropriations, with legislative proposals to curtail some of the abuses to the benefits programs. These were furnished in February 1978. While VA is willing to make certain changes to the programs, it strongly objects to moving its Manila office operations to the U.S.

Also, in line with statements made during the hearings, we note that in VA's fiscal year 1979 budget submissions to the Congress, VA proposes to let the medical program expire September 30, 1978, and have the Philippine Government assume the responsibility for care and treatment of Filipino veterans.

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This concludes my statement Mr. Chairman. We would be happy to respond to any questions you or other Members of the Committee may have.