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July 17, 2024

The Honorable Denis R. McDonough
Secretary
U.S. Department of Veterans Affairs
810 Vermont Avenue, NW
Washington, DC 20420

Dear Mr. Secretary:

On Monday, chief financial officers from the Veterans Benefits Administration (VBA) and Veterans Health Administration (VHA) informed the Committee that they anticipate a \$2.88 billion shortfall in the remainder of fiscal year (FY) 2024 related to compensation and pension and readjustment benefit payments and a \$11.97 billion shortfall in FY 2025 primarily related to increased hiring and pharmaceutical costs.

This represents by far the largest budget shortfall the Department of Veterans Affairs (VA) has experienced under any administration and a repudiation of the FY 2025 budget request that the Biden-Harris administration presented just four months ago. Not only have your chief financial officers thrown out the dollar amounts requested for many key accounts, they have abandoned many of the estimates and projections that underpinned their budget. This is not just fiscal mismanagement; it is strategic whiplash. I understand that priorities may change, but it boggles my mind how the roughly 10,000 full-time equivalent (FTE) workforce reduction and the nationwide VHA hiring restrictions that you defended just a few months ago have already become a more than 22,000 FTE increase. Hiring quality health care workers is difficult enough without a constantly moving target.

I would like to reiterate the concerns that I expressed to you during the Committee's April 11, 2024, budget hearing. I voiced my alarm that VA was barely keeping the lights on despite Congress consistently providing every dollar requested in the budget. VA's budget has become increasingly complicated and reliant on gimmicks, apparently to compensate for the expiration of one-time, pandemic-related supplemental funding. This has created a situation where one bad estimate or unanticipated event can create a shortfall in multiple accounts. In particular, the Biden-Harris administration has repeatedly shifted regular expenses out of the base budget and dumped them into the Cost of War Toxic Exposures Fund, rather than using the Fund to pay for the incremental cost of delivering health care and benefits under the *Honoring Our PACT Act of 2022*, Public Law 117-168. Such budgetary mismanagement does not serve veterans' interests or make responsible use of the resources that Congress continues to provide.

The budget shortfall seems to be a troubling mix of anticipated costs that were not budgeted for and other costs that lack sufficient explanation or are speculative. For example, although compensation and pension obligations have been running below expectation so far this fiscal year, it is well understood that claims submissions have increased due to the PACT Act and this year's rulemakings, that disability examinations increase with the volume of claim submissions and contentions, and VBA typically experiences a surge in obligations near the end of the fiscal year. That said, it is unclear why VA did not account for these potential expenses in its original or revised budget requests. Similarly, the annual increase in community care obligations has been fairly constant in percentage terms since fiscal year 2022, but the Biden-Harris administration has declined to include community care growth in its base budget request for VA while seemingly straining, if not breaking, the limits of what the Toxic Exposures Fund can pay for.

In contrast, explanations for the need for a \$3.87 billion increase in pharmaceutical and prosthetics spending across FY 2024 and FY 2025 were spotty at best, including a round \$1 billion to manage unspecified "chronic disease," speculation that demand for Ozempic and similar drugs may be the cause, and no explanation at all for the increased prosthetic expense. Additionally, I am troubled by the VHA chief financial officer's repeat suggestions that the Change Healthcare ransomware attack may be to blame for any or all of VA's faulty budgetary projections. Aside from shifting \$700 million of medical collections from FY 2024 to FY 2025, the Change Healthcare incident seems to have been used as a convenient excuse.

Above all, the budget shortfall seems to be driven by the 22,304 FTE increase from the FY 2024 budget to VHA's new projection for FY 2025. My understanding is roughly 17,000 FTE have already been hired and about 5,000 FTE remain to be hired. Given Under Secretary for Health Elnahal's announced policy of nationwide hiring restrictions and managing by attrition, I think veterans and employees deserve a much better explanation of where these 22,304 FTE are being hired. I also think taxpayers deserve a thorough explanation of the 180-degree reversal from Dr. Elnahal's statement in February 2024 that, "we have the nationwide staffing level we need to accomplish this important mission — and we have the funding we need to care for veterans through 2024 and into 2025...As responsible stewards of these funds, we must make thoughtful decisions about resource use at every level of the enterprise..."¹ I am also concerned that some of the FTE increase represents VHA's continued, ill-fated campaign to reduce community care utilization, ignoring the myriad personal or medical reasons why individual veterans choose to get their care in the community as is their right under the *VA MISSION Act of 2018*, P.L. 115-182, access standards.

Given the chief financial officers' expressed urgency, I respectfully ask that you answer the following questions no later than **July 26, 2024**, to help the Committee fully understand VA's expected budget shortfall. Please note, the Committee will resort to compulsory processes, if necessary, to obtain the requested information.

¹ [VHA Tells Leaders to Rescind Job Offers Only as a 'Last Resort' to Manage Size of Health Care Workforce](#), Jory Heckman, Federal News Network, February 21, 2024.

- 1) Was former Chief Financial Officer Jon Rychalski's June 17, 2024, attestation under section 7103 of the *Johnny Isakson and David P. Roe, M.D. Veterans Health Care and Benefits Improvement Act of 2020*, P.L. 116-315, complete and accurate? Specifically, why did his attestation that he "collaborated with the Department subordinate chief financial officers regarding the fiscal year 2025 request" omit the substance of the required attestation "to be confident in the financial projections included in the budget request and supporting materials"?²
- 2) Given the 22,304 FTE increase, from the FY 2024 budget to VHA's new projection for FY 2025, do you acknowledge Dr. Elnahal misled veterans when he stated, "we have the nationwide staffing level we need to accomplish this important mission..."? Or, have there been significant, unexpected changes in demand for in-house VA care since February 2024? If so, please detail such demand changes.
- 3) Please provide a list of the 10 VHA healthcare systems with the largest actual or expected FTE increases throughout FY 2024 and 2025. Please also provide each such healthcare system's community care obligations or expenditures for FY 2023, 2024, and 2025 to date along with a comparison against relevant national averages.
- 4) Please provide Committee staff with a briefing specifically focused on VHA's expected \$3.87 billion increase in pharmaceutical and prosthetics spending across FY 2024 and 2025.
- 5) Please provide Committee staff with another briefing specifically focused on the impact of the Change Healthcare ransomware attack's impacts on VA's budgetary projections or estimates, anticipated obligations or expenditures, the timing or amount of medical collections, or any other matter relevant to the budget shortfall.
- 6) Please explain the effects of VA's continued inability to use the Program Integrity Tool on medical collections, the accuracy of community care payments including improper payments, and the resulting budgetary impact. This issue was not mentioned during the budget shortfall presentation. The Office of Inspector General estimates the impact on revenue operations to exceed \$665 million.³

² The full text of section 7103 is:

Concurrent with the submittal to Congress of the President's budget request under section 1105 of title 31, United States Code, for fiscal year 2022 and each of the next three subsequent fiscal years, the Chief Financial Officer of the Department of Veterans Affairs shall submit to the appropriate congressional committees each of the following:

(1) A certification of the responsibility of the Chief Financial Officer for internal financial controls of the Department.

(2) An attestation that the Chief Financial Officer has collaborated sufficiently with the subordinate chief financial officers of the Department *to be confident in the financial projections included the budget request and supporting materials [emphasis added]*.

³ [OIG-21-00846-178: Veterans Health Administration: The Pause of the Program Integrity Tool Is Impeding Community Care Revenue Collections and Related Oversight Operations](#), July 16, 2024, p. 9.

- 7) Please explain the basis of the estimate, made in the FY 2024 budget request, that the number of individuals receiving educational entitlement would be significantly less in 2024 than in 2023. Given the projected shortfall in the readjustment account, this estimate appears to have been erroneous.
- 8) Please reconcile the primary justification for the VBA shortfall, unexpected or greater than expected increases in claims workload, with the projection in the FY 2025 budget request that claims receipts, including PACT Act claims, would increase by 85% and non-rating claim receipts would increase by 60% by FY 2025.
- 9) Please explain whether VA's FY 2025 budget request correctly accounted for the impact of the increase in claims submissions on the volume or expected cost of disability compensation examinations, either in VBA discretionary or mandatory accounts. How much of VBA's projected shortfall, if any, is attributable to modifications to the disability compensation examination contracts?

Thank you for your commitment to transparency in this vital matter.

Sincerely,



MIKE BOST
Chairman

Cc: The Honorable Mark Takano, Ranking Member