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Potential for Reducing U.S. Financial Support and Ending VA Involvement in Medical Program for Filipino Veterans. HRD-77-95; B-133044. May 20, 1977. 22 pp.

Report to Sen. William Proxmire, Chairman, Senate Committee on Appropriations: HUD-Independent Agencies Subcommittee; by Elmer B. Staats, Comptroller General.

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The Veterans Administration (VA) operates a medical care program in the Philippines, which was established as a temporary program almost 30 years ago. Laws were passed extending the program, changing funding from grants to reimbursable contracts, and expanding benefits to include nonservice-connected illnesses. Findings/Conclusions: In 1976, treatment for nonservice-connected illnesses represented about 56% of the care provided under the grant program. Limiting care to service-connected illness and funding by a fixed-sum grant program would result in considerable savings and eliminate the need for VA involvement. Arguments cited against reduction of the program included possible adverse effects on United States Philippines relations and on the quality of medical care. GAO believes that reductions would be consistent with the temporary nature of the program, the Philippines' growing self-reliance, and their increased ability to absorb costs. Recommendations: If it is believed timely, the subcommittee should take steps not to fund the program as currently authorized, but should act to change funding from a reimbursable contract to a fixed-sum grant providing only for service-connected care at the Veterans Memorial Medical Center. (HTW)

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**REPORT OF THE  
COMPTROLLER GENERAL  
OF THE UNITED STATES**

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**Potential For Reducing  
U.S. Financial Support  
And Ending VA Involvement  
In Medical Program  
For Filipino Veterans**

**Veterans Administration**

The VA medical grant program in the Philippines is used primarily to treat Filipino veterans for nonservice-connected illnesses at the Veterans Memorial Medical Center. If the responsibility for medical treatment for nonservice-connected illnesses of Filipino veterans were transferred to the Philippine Government, U.S. funding could be reduced and VA involvement ended.



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-133044

The Honorable William Proxmire  
Chairman, Subcommittee on HUD-  
Independent Agencies  
Committee on Appropriations  
United States Senate

Dear Mr. Chairman:

Enclosed is our report on the Veterans Administration's medical care program in the Republic of the Philippines.

For the past several years program funds have been used to treat mostly nonservice-connected illnesses. For example, in fiscal year 1976, 96 percent of the patient days charged against the program were for nonservice-connected illnesses. If medical care were provided for only service-connected illnesses, the program need only be funded for about \$160,000 annually--a savings of about \$1.9 million over the fiscal year 1977 appropriation. Moreover, the awarding of a fixed-sum grant would eliminate the need for VA involvement in the program at a savings of about \$180,000 annually.

If the Subcommittee believes it is now time for the Philippine Government to assume greater responsibility for providing medical care to Filipino veterans, we are recommending that the Subcommittee take appropriate steps to not fund the program as authorized in current legislation due to expire September 30, 1978. However, because of our commitment to provide medical treatment of Filipino veterans for service-connected illnesses, the Subcommittee should take action to change the program from a reimbursable contract basis to a fixed-sum grant basis to provide annual funding for only service-connected care.

As you requested, we did not get formal Veterans Administration comments on this report. We did, however, discuss it with Veterans Administration and Department of State officials.

B-133044

As agreed with your office, we are sending copies of the report to the Veterans Administration and the Department of State.

Sincerely yours,

A handwritten signature in black ink, reading "James B. Axtell". The signature is written in a cursive style with a large initial "J".

Comptroller General  
of the United States

Enclosure

COMPTROLLER GENERAL'S REPORT  
TO THE CHAIRMAN, SUBCOMMITTEE  
ON HUD-INDEPENDENT AGENCIES,  
SENATE COMMITTEE ON  
APPROPRIATIONS

POTENTIAL FOR REDUCING U.S.  
FINANCIAL SUPPORT AND ENDING  
VA INVOLVEMENT IN MEDICAL  
PROGRAM FOR FILIPINO  
VETERANS

D I G E S T

The U.S. provides medical care funds for treating Filipino veterans who have served under the command of U.S. military forces. Financial support of medical treatment for Filipino veterans with service-connected illnesses should continue, but the U.S. should reassess its policy of paying for nonservice-connected treatment. If care for nonservice-connected illnesses were assumed by the Philippine Government, a \$1.9 million reduction in the medical program could be made, and the Veterans Administration (VA) could end its involvement in the Filipino medical program.

GAO will be reviewing other VA benefit programs in the Philippines which will be the subject of a separate report.

POTENTIAL FOR REDUCING  
MEDICAL PROGRAM FUNDING

The Republic of the Philippines is the only foreign country in which VA actively runs a comprehensive benefit program. Since 1946, the program has provided \$1.87 billion in benefits to various eligible veterans and beneficiaries--\$84.0 million during fiscal year 1976. Included in the latter amount were expenditures under the \$2.1 million medical program. (See p. 1.)

In 1948, Congress (1) enacted a 5-year grant program, intended to be temporary, to provide medical care to Filipino veterans who had service-connected illnesses and (2) authorized a \$9.4 million hospital--now known as the Veterans Memorial Medical Center--to be

constructed and equipped. It was turned over to the Philippine Government in 1955, and continues to receive U.S. support, although this was not originally intended. (See p. 2.)

Since 1948, laws were passed which extended the medical program--every 5 years--through September 30, 1978. In 1958 funding of the program was changed from a grant program to a reimbursable contract program. A September 1966 law had the greatest effect on the program because it not only extended the program but also expanded the medical benefits to include medical care for nonservice-connected illnesses. (See p. 2.)

In 1976, treatment for nonservice-connected illnesses represented about 96 percent of the care provided under the grant program. In addition, VA estimates that questionable hospitalization of veterans for treatment which can be generally provided on an outpatient basis will account for about \$400,000 of the fiscal year 1977 program expenditures. (See pp. 6 and 8.)

If medical care were provided only for service-connected illnesses, the program would only need to be funded for about \$160,000--reducing the program by about \$1.9 million. Further, if the current reimbursable contract program were changed to a fixed-sum grant program to Veterans Memorial Medical Center, the need for VA involvement could be eliminated. This alone would save over \$180,000. (See pp. 8 and 10.)

POLITICAL, ECONOMICS,  
AND QUALITY OF CARE  
CONSIDERATIONS

In prior years, VA and the State Department have contended that

--reductions in the medical program could harm our political relationship with the Philippine Government, including current base rights negotiations;

--the Philippine Government may be unable to support the medical program; and

--reductions in the program would adversely affect the quality of medical care at Veterans Memorial Medical Center. (See p. 12.)

U.S. Embassy officials in Manila believe that reducing the medical program would irritate U.S.-Philippine relations, but would not be a major factor in the base rights negotiations. (See p. 12.)

GAO believes that reducing the medical program and VA involvement would be consistent with

--the temporary nature of the program;

--the U.S. position that the Philippine Government would eventually assume full responsibility for the hospital;

--the Philippine Government's policy of increased self-reliance and nationalism;

--the U.S. and Philippine desires to move away from the "special relationship" of the past;

--the Philippine Government's increased ability to absorb program costs and maintain the hospital; and

--the U.S. policy of minimizing its presence abroad.

#### AGENCY COMMENTS

As requested by the Subcommittee, GAO did not obtain formal VA and Department of State comments on the report. GAO did discuss it with VA Manila Regional Office, VA Central Office, and U.S. Embassy

and State Department representatives. VA and State Department officials in Washington generally agreed with the recommendations to the Subcommittee.

This report was not discussed with officials of the Philippine Government nor of Veterans Memorial Medical Center because the U.S. Embassy in Manila prohibited contact with Philippine Nationals due to the possible impact on U.S. and Philippine political relations.

#### RECOMMENDATIONS TO THE SUBCOMMITTEE

If the Subcommittee believes that it is now time for the Philippine Government to assume greater responsibility for providing medical care to Filipino veterans, GAO recommends that the Subcommittee take appropriate steps to not fund the program as authorized in current legislation due to expire September 30, 1978. However, because of the U.S. commitment to provide medical treatment to Filipino veterans for service-connected illnesses, it should take action to change the basis of funding the program from a reimbursable contract to a fixed-sum grant to provide annual funding for only service-connected care at the Veterans Memorial Medical Center. (See p. 21.)

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## ABBREVIATIONS

GAO	General Accounting Office
VA	Veterans Administration

## CHAPTER 1

### INTRODUCTION

In a letter dated February 21, 1977, the Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations, requested us to review the veterans assistance program administered by the Veterans Administration (VA) in the Republic of the Philippines. Specifically, we were asked to make a comprehensive review addressing the feasibility of eliminating or substantially reducing

- the medical program for the operation of the Veterans Memorial Medical Center, and
- the other veterans' benefit programs (compensation, pension, and education payments) in the Philippines.

This report is concerned with the medical program. A subsequent report will be issued on the other benefit programs.

### 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 categories of eligible 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.

Filipinos with service in the regular components of the U.S. Armed Forces, including those who served before and during World War II as Philippine Scouts, called Old Scouts, are considered U.S. veterans. Approximately 50,000 of these veterans reside in the Philippines.

In addition to the 50,000 U.S. veterans, three groups of Filipino veterans 1/ 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, which was 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.

In 1948, the 80th 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. After July 1, 1958, 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 September 1966.

1/In this report, "U.S. veterans" refers to Filipinos entitled under law to the same benefits as American veterans. "Filipino veterans" refers to those covered under separate legislation and entitled to more limited benefits.

In addition to extending the program for another 5-year period, this legislation expanded the program to include medical care for nonservice-connected illnesses. 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 89-612 also authorized \$500,000 for replacing and upgrading equipment and for restoring the physical plant of the hospital. It further authorized a yearly \$100,000 appropriation for 6 years, beginning in 1967, in grants to the Center for medical research and training of health service personnel.

The latest renewal legislation, Public Law 93-82 approved August 2, 1973, extended the program through June 30, 1978--subsequently changed to September 30, 1978--and authorized funds of up to \$2 million for medical care. The law also provided for annual grants annually up to \$50,000 for education and training of health service personnel at the Center and up to \$50,000 for replacing and upgrading equipment and maintaining the physical plant.

The program is administered on a cost reimbursable basis whereby the Center is paid for inpatient care on an all-inclusive per diem rate. The per diem rates are jointly determined by the U.S. and the Philippine Governments. For fiscal year 1978, VA estimates the per diem rate to be \$14.48.

#### 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 Philippine 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, de-

pendent care, and treatment of civilian patients (on a paying basis if beds are available). The U.S. also expanded its program in 1966 to cover nonservice-connected care for eligible Filipino veterans. 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.

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.

#### 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. As of March 1977, VA employed 254 persons in the Philippines, including 14 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 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 the \$1.7 million operating cost for VA activities in the Philippines in fiscal year 1976.

#### SCOPE OF REVIEW

Our review included discussions with officials of VA Central Office in Washington, D.C., the VA Manila Regional Office, the U.S. Embassy, and U.S. military installations in the Philippines. The U.S. Embassy did not permit us to contact Philippine Government officials and Philippine

nationals because of the possible impact on U.S. and Philippine political relations.

We reviewed pertinent records, reports, and other documents available at the U.S. VA Manila Regional Office and the U.S. Embassy. Since the Center is owned and operated by the Philippine Government, we did not review any of its records. We were accorded a walk-through visit accompanied by a U.S. Embassy representative.

## CHAPTER 2

### POTENTIAL FOR REDUCING MEDICAL PROGRAM FUNDING

Although the medical care program was established almost 30 years ago as a temporary program to provide medical treatment for service-connected illnesses, legislative amendments have continued the program and have expanded it to include nonservice-connected care, currently representing about 96 percent of all patient days charged under the program. Moreover, the Manila VA Regional Office which screens both U.S. and Filipino veterans to determine the need for hospitalization through its outpatient clinic at the Center, estimates a substantial portion of the care provided on an inpatient basis under the program could be treated more effectively and economically on an outpatient basis under the Philippine Government's program.

By limiting the program to service-connected illnesses, substantial reductions in funding and the role of VA could be achieved.

#### PROGRAM FUNDS USED MOSTLY TO TREAT NONSERVICE- CONNECTED ILLNESSES

In fiscal year 1976, almost 96 percent of the patient days charged against the program were for nonservice-connected illnesses. Moreover, about \$1.6 million of the \$1.9 million cost for the program in fiscal year 1976 was attributable to inpatient care--the only category for which treatment of nonservice-connected illness can be authorized under the program. As shown on p. 8, the program could be reduced by about \$1.9 million if treatment was limited to service-connected illnesses.

The Congress authorized nonservice-connected care under the program in 1966. During the 10-year period, from 1966 to 1976, the proportion of Filipino veterans receiving care at the Center for service-connected conditions has declined from 100 percent to about 4 percent. The following table shows the decrease in service-connected care at the Center from over 20 percent of total patient days in fiscal year 1970 to about 4 percent in fiscal year 1976.

Year	Service - connected care		Nonservice- connected care		Total	
	Patient days	Percent	Patient days	Percent	Patient days	Percent
1970	37,126	22.9	124,764	77.1	161,890	100.0
1971	29,426	13.1	194,946	86.9	224,372	100.0
1972	9,283	3.5	255,569	96.5	264,852	100.0
1973	9,749	4.0	233,475	96.0	243,224	100.0
1974	8,115	3.9	200,475	96.1	208,200	100.0
1975	5,690	3.5	158,802	96.5	164,492	100.0
1976	6,539	4.3	146,307	95.7	152,846	100.0

### Hospitalization can be avoided

Many veterans treated at the Center for nonservice-connected illnesses would not require hospitalization with proper outpatient treatment. VA Manila Regional Office estimates that substantial reductions in hospital costs could be realized in fiscal year 1977 if these veterans could receive proper treatment on an outpatient basis.

Under current legislation, the program may be used to fund both service and nonservice-connected inpatient medical care at the Center. Outpatient care, however, is authorized only for those Filipino veterans who have service-connected illnesses. Outpatient treatment for nonservice-connected illnesses are available only under the Philippine program.

An indication of the nonservice-connected nature of the program, as it now exists, can be shown by the cost for inpatient care--the only category for which medical care is authorized for nonservice-connected illnesses. As shown on the following page, most of the expenditures at the Center, charged to the program for several years have been for inpatient care.

Program Costs  
(Rounded to nearest thousands)

	<u>FY 1973</u>	<u>FY 1974</u>	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u> (Projected)
Inpatient care-the Center	\$1,705,000	\$1,633,000	\$1,644,000	\$1,541,000	\$1,626,000
Inpatient care-other hospitals	29,000	32,000	29,000	24,000	27,000
Outpatient care-VA clinic	-	183,000	181,000	125,000	165,000
Beneficiary travel	77,000	100,000	71,000	100,000	119,000
Other	-	45,000	13,000	10,000	12,000
<b>Total</b>	<u>\$1,811,000</u>	<u>\$1,993,000</u>	<u>\$1,938,000</u>	<u>\$1,800,000</u>	<u>\$1,949,000</u>

In addition to the \$1,541,000 received for inpatient care, the Center received \$88,000 in fiscal year 1976 under separate training and facility rehabilitation grants. The Center also received \$245,000 for U.S. veterans care for a total of \$1.9 million. This represented about 57 percent of the Center's total operating costs of \$3.3 million for fiscal year 1976.

As shown below, we estimate that about \$160,000 was expended under the program in fiscal year 1976 for service-connected illnesses.

Inpatient treatment (Center and other hospitals)	\$ 88,500
Screening	2,000
Outpatient	36,000
Fee basis (private physicians)	8,100
Travel	23,800
Nursing home	1,000
<b>Total</b>	<u>\$159,400</u>

In a recent study on unnecessary hospitalization, the VA Manila Regional Office sampled 167 patient files related to fiscal year 1976 nonservice-connected treatment. Based on its analyses and projections, it estimated that over \$400,00 in fiscal year 1977 hospitalization charges to the program

could be eliminated if the proper treatment was provided on an outpatient basis.

To evaluate VA's position, we reviewed medical records of 15 veterans hospitalized more than once in a recent 12-month period for nonservice-connected illnesses. We asked VA's Acting Chief Physician at the outpatient clinic if hospitalization could have been avoided in any of these cases. We were informed that hospitalization could have been avoided in 10 of the 15 cases if proper outpatient treatment was provided.

Following are some observations on the above cases:

- A veteran was hospitalized 15 times for bronchial asthma/dyspnea for a total of 154 days during a 12-month period.
- A veteran was hospitalized 44 times since 1968 for various urinary complaints.
- A veteran was hospitalized 6 times in 1976 for psoriasis and hypertension.

We also 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.

Because we were not permitted to discuss this review with Philippine nationals nor to review Center records, we were not able to determine whether the Philippine-operated outpatient clinic has the capability to deliver the degree of care which might preclude hospitalization. Because of this restriction, we were also unable to fully assess the financial ability of the Philippine Government to fund all nonservice-connected medical care.

In 1976, a VA Central Office committee evaluated an Internal Audit Service report and commented on the problems of unnecessary hospitalization. To avoid unnecessary hospitalization, the committee recommended that veterans with nonservice-connected conditions be admitted for hospitalization at the Center only when they cannot be treated on an

outpatient basis. The committee further concluded that such outpatient treatment should be the responsibility of the Philippine Government. As of April 1977, the committee's recommendation had not been implemented.

TREATING ONLY SERVICE-  
CONNECTED ILLNESSES  
COULD REDUCE VA ROLE

THE VA Manila Regional Office monitors the 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.

We believe changing the funding basis of the program from a reimbursable contract to a fixed-sum grant directly to the Center could result in the Center operating more efficiently. It 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. The fixed-sum grant could be determined using the cost experience over the past several years for treating service-connected illnesses at the Center.

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.

We discussed the above potential personnel reductions and cost savings with the Chief of Medical Administration, VA Manila Regional Office. He stated that our estimates of personnel reductions were conservative and that the cost savings appeared reasonable.

### CHAPTER 3

#### POLITICAL, ECONOMIC, AND

#### QUALITY OF CARE CONSIDERATIONS

The United States has provided medical care to the Filipino veterans who fought with U.S. forces during World War II. However, the U.S. position has always been that the Philippine Government would eventually assume full responsibility for the operation and maintenance of the Center.

Although substantial reductions in the medical program could be made, we believe the U.S. is obligated to continue its financial support of service-connected medical treatment to those Filipino veterans who were disabled during the war period. Even though such treatment represented only 4 percent of total inpatient care under the program in fiscal year 1976, it would continue to serve as a symbol of our commitment to those Filipino veterans who incurred a disability as a result of service under the command of U.S. forces.

In the past the VA and the State Department has contended that:

- Reductions in the medical program could be a detriment to our political relationship with the Philippine Government;
- The Philippine Government may be unable to bear the cost of assuming sole support for the medical program; and
- Program reductions may adversely effect the quality of medical care at the Center.

#### POLITICAL CONSIDERATIONS

The State Department in 1976 informed the Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations, that a reduction in the medical program would be ill-advised considering the upcoming resumption of base rights negotiations with the Philippine Government and the possible detrimental impact on the substance of U.S. and Philippine relations.

Although the current base agreement is valid through 1991, after which it can be unilaterally renounced, the U.S. and the Philippine Governments agreed in December 1975 to negotiate a

new base agreement. Formal negotiations began in April 1976 but, by mutual agreement, were placed in suspense at the end of 1976. They are expected to resume no earlier than June 1977. The outcome and the timing of the base rights agreement is unknown at this time, however, the current base agreement cannot be unilaterally renounced before 1991.

We were informed by the U.S. Embassy that a reduction in the medical program would not be a major factor in the base rights negotiations. We were provided in April 1977 with the following statement to clarify the Embassy's position:

"There is some concern within the Embassy that a reduction in the medical grant would be an irritant in the U.S.-Philippine relations. Veterans benefits are an issue of sensitivity and emotion in the Philippines and a cut in these benefits could lead to an adverse reaction out of proportion to the relatively small funds involved. Should a cut in benefits be effected, a phasing of such reductions would be desirable."

Two factors exist which should be considered in deciding whether a phasedown in the medical program would be detrimental to U.S. and Philippine relations. First, VA and the Congress have held that the Philippine Government would eventually assume full responsibility for the operation and maintenance of the Center. Initial legislation (Public Law 80-865 approved July 1, 1948), established the program for only a 5-year period (1950-1954). In 1954, the original law was extended for an additional 5-year period but provided for progressively lower annual funding from \$3.3 million prior to 1955 to \$1 million by 1959. According to the legislative history, the reduction was made to "adopt the principle of progressively reduced grants as a second five-year extension in order to make it clear that the Philippine Government would be expected to gradually assume full responsibility."

The most recent reemphasis on the "temporary" nature of the program was made in April 1977. In testifying before the Senate Committee on Veterans Affairs on April 27, 1977, in support of a bill (H.R. 5029) to extend the medical program to September 30, 1979, the Deputy Administrator of Veterans Affairs stated that:

"Although it has been the United States' position throughout that the Philippine Government would eventually be expected to assume full responsibility for the operation and maintenance of the Veterans Memorial Medical Center, we have continued to acknowledge a certain moral obligation to provide care for service-connected Filipino veterans and to recognize, as a practical matter, that the program enables the Philippine Government to maintain a high standard of medical care for its veterans which would not be possible if such assistance was withheld."  
(Underscoring added)

A second factor to be considered in deciding whether a phasedown of the program would adversely effect U.S. and Philippine relations is the fact that the U.S. relationship with the Republic of the Philippines has undergone changes in the past. As a former U.S. possession, the Philippines has had a long and special relationship with the United States, evidenced by bilateral trade agreements and security arrangements between the two governments. The U.S. and the Philippines are moving away from this special relationship, as demonstrated by

- rising Philippine nationalism;
- Philippine aspirations for third world status;
- expiration of a bilateral trade agreement in 1974, with no intention on the part of the United States to extend it.

The U.S. Embassy views the Philippine Government's policy as toward self-reliance and away from this "special relationship." In addition, transfer of the program to the Philippines would be in line with the U.S. policy of reducing U.S. presence abroad.

#### ABILITY OF THE PHILIPPINE GOVERNMENT TO REPLACE U.S. MEDICAL PROGRAM FUNDS

The question of whether the Philippine Government can or will assume responsibility for funding the Center is based on two factors: (1) the overall development of the Philippine economy since the end of World War II and (3) trends in the budget allocations of the Philippine Government.

## The Philippine economy

The Philippine economy has greatly improved during the post-war period. Between 1950 and 1976, the gross national product (GNP) has more than tripled. The Philippine economy achieved an estimated real GNP growth rate of 6.3 percent in 1976 compared to 5.9 percent in 1975. The Philippine Government expects the 1977 GNP growth to exceed the initial target of 7 percent.

However, with these advances in economic development, the Philippine economy has its problems. According to the Congressional Research Service, Library of Congress, underemployment is high and population growth continues at the rate of more than 3 percent per year. Balance of payments deficit were substantial but showed signs of improvement in 1976. Favorable capital flows reduced the 1976 balance of payments deficit to \$164 million as compared to the previous year's \$520 million deficit.

In general terms, the Filipinos are viewed as an economically talented people. The economy of the Philippines enjoys many healthy elements including the presence of natural and human resources superior to those of many third-world countries. The U.S. Embassy believes the Philippines has much of the high development potential that characterized Korea and Taiwan a decade ago.

Although the Philippines has not achieved a self-sustaining economy, progress towards economic strength have been made since the end of World War II. The Philippine economy is in better condition now than when the medical program was established in 1948.

## Budgetary trends

The Philippine Government budget has increased dramatically from fiscal years 1966 to 1973 with General Fund expenditures increasing from 1.9 billion pesos to 7.1 billion pesos. Expenditures from all funds (a breakdown of General Fund data was not available) doubled from fiscal years 1974 to 1976.

Revenue collections have shown a corresponding increase. The following table shows revenue collections, expenditures, and the inflation rates from revenue years 1974 to 1976.

	<u>Year</u>				
	<u>FY-1974</u>	<u>FY-1975</u>	<u>FY-1976</u>	<u>CY-1976</u>	<u>CY-1977</u>
	<u>Billions P/</u>				
Receipts	P10.2	P15.5	P17.4	P19.3	P24.1
Percentage increase in receipts	-	52.0%	12.3%	10.9%	24.9%
Expenditures	P9.3	P13.4	P20.3	P22.3	P26.7
Percentage increase in expenditures	-	44.1%	51.5%	9.9%	19.7%
Financial surplus (deficit)	P0.9	P2.1	(P2.9)	(P3.0)	(P2.6)
Inflation rate	34.0%	8.0%	5.6%	-	-

During the above period, substantial operating surpluses were recorded. The above net deficits are attributed in large part to increases in capital expenditures which are funded by the operating surpluses and borrowings.

There is an apparent trend for the Philippine Government to play a more active role in the economy. U.S. Embassy records show the Philippine Government plans to engage directly in a growing number of activities which in the past would have been left to private enterprise. Examples include proposals for a \$750 million petrochemical complex, a \$1.2 billion integrated steel production project, and a \$200 million copper smelter project.

I/Peso conversion rates:

<u>Period</u>	<u>Rates</u>	<u>Period</u>	<u>Rates</u>
1966	\$1=P3.90	1975	\$1=P6.97
1973	\$1=P6.79	1976	\$1=P7.48
1974	\$1=P6.74	1977	\$1=P7.41

The basic question of whether the Philippine Government would assume the responsibility for adequately supporting the Center is dependent on the Philippine Government's priorities. Data obtained by the Congressional Research Service suggests that such support would come from the Philippine social services budget which decreased from 40 percent of the total budget in 1965 to 25 percent in 1975. However, the Philippine veterans benefit programs (including medical care) are funded from the national defense budget. From 1965 to 1975, the share of the budget allocated to defense (including transfer payments) has increased from 12 percent to 22 percent.

Although pointing out the potential adverse political ramifications, Embassy officials informed us that they believed the Philippine Government would be able to allocate \$2 million for the Center from its 1977 calendar year budget of \$3.7 billion. The question is whether it would want to.

This question can only be answered by the Philippine Government. Because we were not allowed to contact Philippine Government officials, we are unable to address this question. However, indications are that there is governmental concern for the veteran citizen in that:

- The 1977 Philippine budget, in addition to providing funds for medical care of veterans, specifically calls for constructing Center annexes in Luzon, Visayas, and Mindanao to facilitate hospitalization of veteran patients living in the country's remote areas, for the operation of existing annexes; and for the operation of a 50-bed veteran nursing home in Rizal.

Also, recent Philippine legislation provides for an increase in

- the monthly pension of Filipino veterans or their widows, and

- the amount of death gratuity and disability pension for Filipino veterans.

In addition, the Philippine Veterans Affairs Office intends to bring the Center closer to veterans by disseminating information on medical programs nationwide to them and also has as top priority goals:

- accelerating the regionalization program for hospitalizing veterans to augment the Center extension wards already established in the cities of Davao, Cebu, Naga,

La Trinidad, Benguet, Dagupan, Iloilo, Ozamiz and Zamboanga;

--establishing a 25-bed ward in Cebu City and another 25-bed ward in Davao City; and

--constructing an outpatient building at the Center.

#### QUALITY OF CARE

In the past VA and the State Department have contended that a reduction in the medical program may adversely effect the quality of care at the Center because there is no assurance that the Philippine Government will provide adequate funding. Since the VA program supports about 50 percent of the patient load, it is believed by U.S. Embassy officials that the U.S. has considerable leverage in insuring maintenance of adequate medical standards.

This position is based on the questionable premise that the U.S. has an obligation to provide Filipino veterans with standards of medical care higher than that which is provided by the Philippine Government for its own veterans. Although the Philippine Veterans Affairs Office uses the Center, the Philippines has at least 13 other medical facilities where veterans receive medical care at government expense. VA has also reported that outlying Center annexes (not funded by the U.S.) provide medical care for those veterans who are reluctant or unable to travel to the Center under the U.S. program.

We were informed by the Director, VA Manila Regional Office, that the quality of care at other Philippine veterans' hospitals was generally much lower than that of the Center. Because we were not able to contact the other hospitals, we have no basis for comparing the level of care among the hospitals.

The State Department and VA have also expressed concern that if the quality of care declines, this will not only adversely affect veterans under the program but create an additional problem of caring for U.S. veterans (averaging about 67 patients per day at the Center in fiscal year 1976) at alternative medical facilities, such as local private hospitals or at U.S. hospitals such as at Clark Air Force Base. They point out that the added costs of these more expensive facilities (\$168 per day at Clark Air Force Base and \$70 per day at a local private hospital compared to about \$14 per day at the Center) would more than offset the savings from reducing the program.

However, it should be noted that the Philippines is the only foreign country in the world where U.S. veterans receive VA-funded hospitalization for nonservice-connected illnesses. In fiscal year 1976, nonservice-connected treatment represented about 80 percent of U.S. veteran inpatient days at the Center. Only 4,979 patient days were attributable to service-connected illnesses. Based on a \$70 per diem rate at a private (and relatively expensive by Philippine standards) hospital in Manila, providing medical care at this facility would result in a cost of only about \$350,000.

## CHAPTER 4

### CONCLUSIONS AND RECOMMENDATIONS

#### CONCLUSIONS

Substantial reductions--about \$1.9 million--in the medical program could be made. Also, staff reductions and savings relating to VA's involvement in the program can be realized.

The Philippines is the only foreign country in the world where the VA provides funding of hospitalization for nonservice-connected illnesses. Inclusion of nonservice-connected care under the program was provided, in part, as a means of supplementing the diminishing number of eligible patients at the Center. Since its construction, the Center has expanded its bed capacity from 700 to 1,160 to accommodate the increased demands of the U.S. and the Philippine programs.

An estimated \$400,000 will be incurred in fiscal year 1977 for hospitalization of patients who could be treated on an outpatient basis under the Philippine program.

This cost of avoidable hospitalization would be substantially eliminated if the U.S. confined the program to service-connected care. Such care accounted for less than \$200,000 of the \$2.1 million incurred under the program in 1976.

Further, if (1) the current reimbursable contract was changed to a fixed-sum grant to the Center and (2) the VA outpatient clinic's responsibility of treating service-connected illnesses under the program was transferred to the Center, the need for VA involvement in the program could be eliminated. Such a change would result in direct cost savings of over \$180,000 per year in VA outpatient clinic operations. This includes a reduction in clinic personnel from 64 to about 30 and other expenses.

Fears that reductions in the program would interfere with upcoming base rights negotiations are questionable. The current base agreement cannot be unilaterally renounced until 1991. It is therefore possible that a final agreement will not be reached in the near future. Further, the temporary nature of the medical program has always been the

U.S. policy and one which concurs with the current U.S. and Philippines desire to move away from the "special relationship" of the past. We believe a reduction in the program can be made independent of the base rights issue.

Concerns that a reduction in the program will adversely affect the quality of care at the Center are likewise questionable. These concerns are based on the assumption that the Philippine Government will not adequately fund the Center. However, improvements in the Philippine economy, increased revenues and expenditures by the Philippine Government, an increased defense budget, and expansion of Philippine veterans medical benefits programs suggest otherwise.

The U.S. has a commitment to provide Filipino veterans with medical treatment for service-connected disabilities. Service-connected care should continue to be funded as a symbol of the U.S. commitment to those Filipino veterans who incurred a disability as a result of service under the command of U.S. Forces.

#### AGENCY COMMENTS

As requested by the Subcommittee, we did not obtain formal written comments from VA and Department of State on the report. We did discuss it informally with VA Manila Regional Office, VA Central Office, and U.S. Embassy and State Department representatives. VA and State Department officials in Washington generally agreed with the recommendations to the Subcommittee.

#### RECOMMENDATIONS TO THE SUBCOMMITTEE

U.S. policy has been that the medical program was a temporary program and that the Government of the Philippines would eventually be responsible for it. If the Subcommittee believes that it is now time for the Philippine Government to assume greater responsibilities for providing medical care to Filipino veterans, we recommend that it

- take appropriate steps to not fund the program as authorized in current legislation due to expire on September 30, 1978. However, because of our commitment to provide medical treatment to Filipino veterans for service-connected illnesses, it should take action to change 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.

PRINCIPAL VA OFFICIALS RESPONSIBLE  
FOR ADMINISTERING ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<b>ADMINISTRATOR OF VETERANS AFFAIRS:</b>		
Max Cleland	Mar. 1977	Present
R. L. Roudebush	Oct. 1974	Feb. 1977
<b>DEPUTY ADMINISTRATOR:</b>		
R. H. Wilson	Mar. 1977	Present
Vacant	Jan. 1977	Mar. 1977
O. W. Vaughn	Nov. 1974	Jan. 1977
<b>CHIEF MEDICAL DIRECTOR:</b>		
J. D. Chase, M.D.	Apr. 1974	Present
<b>DIRECTOR, MANILA REGIONAL OFFICE</b>		
H. Price	Jun. 1976	Present
R. E. Edmondson	Oct. 1974	May 1976