



Office of Inspector General

REVIEW OF THE CAUSES OF VETERANS BENEFITS ADMINISTRATION'S COMPENSATION AND PENSION OVERPAYMENTS

*VBA can further enhance their
overpayment prevention efforts and
reduce program costs.*

Report No. 7R1-B01-105

Date: December 2, 1996

Office of Inspector General
Washington DC 20420



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Acting Under Secretary for Benefits (20)

**Review of the Causes of Veterans Benefits Administration's
Compensation and Pension Overpayments**

1. The purpose of the review was to identify the causes of Veterans Benefits Administration's (VBA's) compensation and pension (C&P) overpayments. This is one of a series of reviews evaluating Department of Veterans Affairs (VA) debt management.
2. The C&P program pays benefits to eligible service-connected and nonservice-connected veterans and their survivors. During fiscal year (FY) 1995, VA paid about \$17.8 billion in C&P benefits to 3.3 million beneficiaries. During the same period, beneficiaries received excess benefit payments, or overpayments, of about \$303 million. These overpayments represent beneficiary debts owed to VA. Overpayments occur when beneficiaries receive money to which they are not entitled, generally as a result of changes in their entitlement status (income, dependency, hospitalization status or death).
3. The review focused on C&P overpayments, valued at \$120 million, that were established and remained outstanding at the end of FY 1995. Based on the results of a statistical sample we estimated that overpayments valued at \$26.2 million, could be prevented annually, if overpayment cases were properly processed and if some VBA policy and procedures were revised. We also believe that C&P overpayments could be further reduced by at least \$4.2 million annually, if management actions are taken to simplify the pension program and enhance communications with beneficiaries regarding their responsibility to timely report beneficiary status changes.
4. During the review, we found VBA management was concerned with preventing overpayments and was addressing this issue as part of their National Performance Review and Business Process Reengineering initiatives. We also noted several VAROs have implemented innovative procedures to prevent overpayments. We concluded that VBA management could further prevent overpayments by ensuring that changes in beneficiaries' status are properly and timely processed, and by revising procedures that currently contribute to overpayments.
5. We recommended that you reduce C&P overpayments by: (a) directing VARO and VBA staff to make overpayment prevention a continuous special focus area of their quality reviews; (b) gathering and disseminating innovative best practices that help prevent overpayments; (c) revising due process notification procedures for veterans receiving long-term care, fiduciaries of incompetent veterans, dependent school children, and for beneficiaries reporting status changes that result in a reduction of benefits; (d) revising

procedures for certain cases involving direct deposit of benefit payments; and (e) encouraging VAROs to enlist the assistance of veterans service organizations to improve timeliness of status changes reported by beneficiaries.

6. You concurred with the findings and recommendations. Based on your concerns regarding the Court's jurisdiction in the Semenchuk consent decree, you stated VBA would delay action on recommendations involving revision of due process procedures, until the Court's jurisdiction ends on August 10, 1997. You indicated that at that time, OIG assistance in reviewing revisions to these due process procedures would be welcomed. You provided acceptable implementation plans for the remaining four recommendations. However, your alternative action planned in response to recommendation (a), to hold a conference call emphasizing the need to prevent overpayments, should be monitored to ensure overpayment prevention measures taken were successful. We consider the report resolved, but recommendations involving revisions to due process procedures are unimplemented. We will follow up on your future actions to address these recommendations, including preparation of appropriate implementation plans, until they are completed. You chose not to comment on our estimate of monetary benefits, and provided no alternative estimate. Our estimate of monetary impact is based on a statistical sample, and we consider it to be reasonable and reliable.

For the Assistant Inspector General for Auditing

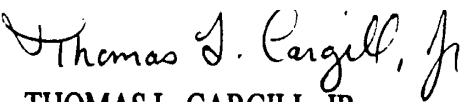

THOMAS L. CARGILL, JR.
Director, Bedford Audit Operations Division

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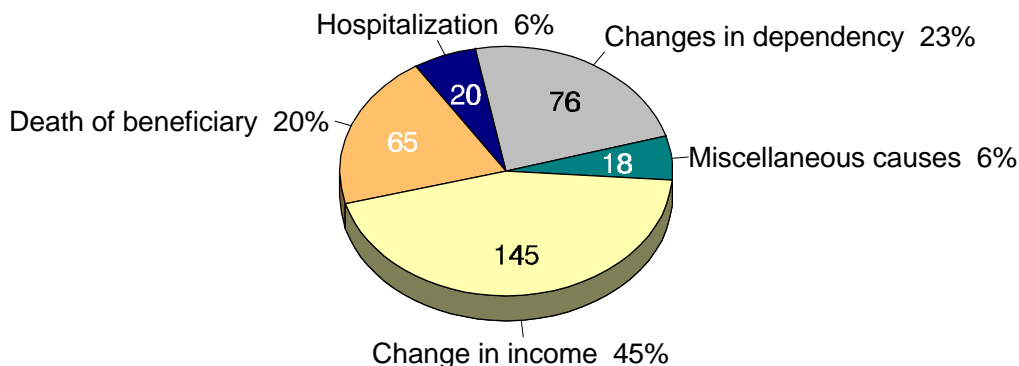
RESULTS AND RECOMMENDATION

Identifying Causes of Compensation and Pension (C&P) Overpayments Will Help Prevent Future Beneficiary Debts and Reduce Program Costs

A nationwide statistical sample from 40,494 C&P overpayments established during fiscal year (FY) 1995 showed Department of Veterans Affairs (VA) could have prevented overpayments in 29.6 percent of cases reviewed. Future overpayments could be prevented if VA Regional Office (VARO) staff process beneficiary status changes correctly and if VA can revise some existing policies and procedures. Based on our sample results, we estimated that C&P overpayments of \$26.2 million, could be prevented annually. We further estimated that improved communication with beneficiaries could prevent an additional \$4.2 million in C&P overpayments annually.

C&P Overpayments Occurred after Changes in Beneficiary Entitlement Status

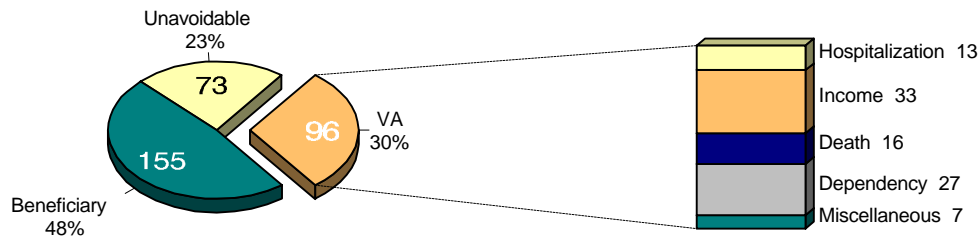
Our review of a statistical sample of 324 of the 40,494 FY 1995 C&P overpayments, valued at \$989,580, showed the overpayments had occurred after 1 of the 5 entitlement status changes shown below:



(See Appendix III on page 11 for a description of our sampling plan and results to provide management detailed information to help prevent overpayments.)

There were Three General Causes of Overpayments

Our analysis determined responsibility between VA, beneficiaries and an unavoidable category for the 324 overpayments as shown below. The bar graph provides further detail on the type of status changes involved in cases where VA was responsible for the overpayment.



Due to rounding the percentages shown above do not equal 100%.

VA Could Reduce Overpayments by Improving Claims Processing and Revising Certain Procedures

As shown in the above graph, the results of our statistical sample disclosed that VA could have prevented 96 overpayments. These overpayments were valued at about \$210,000 (\$2,188 per overpayment). Based on our sample results we estimated that \$26.2 million in 11,986 C&P overpayments could be prevented annually. (*See Appendix IV on page 18 for calculation of monetary impact.*) In 76 instances, overpayments could have been prevented if VAROs had processed status changes in accordance with VA policy and procedures. The following example illustrates an overpayment that VARO staff could have prevented if they had properly processed the status change.

On September 17, 1994, a VARO reduced a widow's pension award, effective May 1, 1993, because she had reported annual rental income of \$3,600 on her Eligibility Verification Report (EVR) received August 9, 1994. This action created a \$5,110 overpayment. Our analysis showed the widow had also reported this income on her EVR received May 5, 1993, but the VARO had taken no action. If the VARO had properly processed the May 5, 1993 EVR, they could have prevented the \$5,110 overpayment. At the time of our review, \$2,460 of the beneficiary's debt remained outstanding.

In an additional 20 instances, revision of existing policy and procedures would result in the prevention of overpayments. Sixteen of the procedural revision cases involved the following due process procedures:¹

- Potentially reducible hospitalized beneficiaries are not furnished a 60-day predetermination notice until their benefits actually become reducible. Furnishing these predetermination notices to beneficiaries admitted to long-term care (i.e., in a VA nursing home, or a community nursing home at VA expense), at the time of their admissions, would prevent overpayments. Similarly, furnishing predetermination notices to fiduciaries of incompetent beneficiaries admitted to VA care, at the time of admissions, would prevent overpayments. We realize VA is concerned that due to the stressful nature of hospital admissions, veterans may not be able to understand the complicated possibility of benefit reductions. For this reason we believe early predetermination notices should be utilized in the types of admissions described above. In addition, prior audit experience has shown veterans admitted to nursing home care and incompetent veterans admitted to any level of care, are most likely to remain hospitalized long enough for their C&P benefits to become reducible. We noted 7 occurrences of these types of overpayments that could have been prevented.
- Beneficiaries must notify the VARO in writing of status changes that will result in a reduction of benefits. Accepting oral notifications of status changes that will result in a reduction of benefits would prevent overpayments. We noted 6 instances where such overpayments could have been avoided.
- Beneficiaries are not furnished a 60-day predetermination notice until they fail to return a VA form certifying the school attendance of dependent children. Including the 60-day predetermination notice with requests that beneficiaries complete forms certifying school attendance could prevent overpayments. We noted 3 instances where such overpayments could have been avoided.

The following example illustrates an overpayment that could be prevented if VA can revise due process notification procedures.

On July 11, 1995, a beneficiary receiving a pension telephoned a VARO to report she had begun receiving social security benefits, effective June 1995. In accordance with current VA procedures, on July 14 the VARO provided the beneficiary with a 60-day predetermination letter and requested a copy of her social security award letter. By the time the beneficiary responded and her benefit award was reduced, an \$896 overpayment was created. The

¹ VA due process procedures were initiated in response to the Semenchuk court decision in the state of Illinois. The court's jurisdiction in the consent decree ends on August 10, 1997.

VARO agreed that if VA procedures had allowed them to verify the beneficiary's identity over the telephone and take immediate award action, they could have prevented the entire \$896 overpayment. At the time of our review the beneficiary's \$896 debt remained outstanding.

In addition to due process procedures, we noted, and VAROs confirmed, a significant problem involving beneficiaries who receive benefit payments by direct deposit/electronic funds transfer (DD/EFT) and fail to keep VAROs informed of their current address. We identified four of these cases. This situation can allow benefits to continue after entitlement status changes. The following example illustrates problems that can result from this situation.

On October 7, 1994, a VARO received notification from Social Security Administration (SSA) that a Dependency and Indemnity Compensation beneficiary had expired on November 1, 1989. The VARO confirmed the beneficiary's death and on May 9, 1995, terminated her award effective November 1, 1989, creating a \$56,120 overpayment. Our analysis showed that VA mail for the beneficiary, who received payments via DD/EFT, had been returned by the post office for at least 5 years. The VARO had unsuccessfully attempted to develop a current address through the post office. If the VARO had either suspended payments because the beneficiaries whereabouts were unknown, or contacted her financial institution to determine her status or whereabouts, about \$31,000 of the overpayment could have been avoided. At the time of our review \$54,120 of the beneficiary's debt remained outstanding.

We believe this issue will become even more significant as DD/EFT becomes more widely accepted. However, we noted at least one facility, VARO Cleveland, had developed a standardized letter, which was mailed to the beneficiaries financial institution, to determine the status or address of DD/EFT beneficiaries. The letter addresses the issue of Title 12 U.S.C. 3413 "Right to Financial Privacy," by specifying the requested information is necessary for, and will be used solely for, administration of veteran's benefits. VARO management advised us this letter is nearly always successful.

Beneficiaries Often Failed to Timely Report Status Changes that Affected Their Entitlement

Of the 155 overpayments that resulted from beneficiaries' failure to timely report status changes, 111 (72 percent) involved nonservice-connected (NSC) pension beneficiaries. In our opinion, many occurrences of beneficiaries' failure to timely report status changes can be attributed to complicated reporting requirements and the age and health of beneficiaries, especially pension beneficiaries. We believe improved communication, such as contacting beneficiaries by telephone, rather than only in writing, to explain what information is

needed, would help reduce this number. In addition, we found over 60 percent of the 155 beneficiaries were represented by service organizations, such as the American Legion and Disabled American Veterans. In our opinion, increased utilization of the expertise offered by these service organizations, to both help disseminate general information and to assist in specific cases, would also help reduce overpayments. As indicated above, VBA's due process policy can further add to beneficiaries' overpayment burden. In 39 of the 155 cases the due process policy added an average of \$418 of debt to each beneficiary.

Some Overpayments were Unavoidable

The 23 percent, shown in the graph as unavoidable overpayments involved cases where status changes were reported timely, but too late to avoid an overpayment due to claims processing requirements. For example, if a beneficiary expires on or near the last day of a month, even if the beneficiary's death is immediately reported, it is nearly impossible to avoid an overpayment.

VBA was Working to Prevent C&P Overpayments

During the review we found VBA management was concerned with preventing overpayments and was addressing the issue as part of their National Performance Review (NPR) and Business Process Reengineering (BPR) initiatives. For example, as part of their NPR review VBA had coordinated with SSA to automate the process by which VAROs obtain social security data. Also, one of the BPR goals is to simplify the pension program. Achievement of this goal would help reduce overpayments resulting from beneficiaries failing to timely notify VA of changes in their status.

We also noted several VAROs have implemented innovative procedures to prevent overpayments. For example, VAROs New York and Houston had improved communication with their beneficiaries. VARO New York uses telephone contact extensively to ensure beneficiaries are aware of what information the VARO needs from them. VARO Houston had developed simplified income information requests and worksheets. We believe these types of actions, along with the assistance of service organizations, will help reduce overpayments resulting from beneficiaries failing to timely notify VA of changes in their status. For every 10 percent reduction in overpayment cases of this type, we estimated that \$4.2 million of overpayments could be prevented annually. *(See Appendix IV on page 18 for calculation of monetary impact.)*

Conclusion

We concluded that VBA management could further reduce overpayments by ensuring that changes in beneficiaries' status are properly and timely processed. We believe the best method to ensure status changes are properly and timely processed is to make preventing overpayments a continuous special focus area of VBA and VARO quality reviews. We recognize that quality reviews currently address payment accuracy and other quality factors. However, we believe that including overpayment prevention as a special focus of these reviews would ensure VAROs detect and trend factors that contribute to overpayments, including current policy and procedures, and lead to improved strategies for preventing overpayments to beneficiaries. This would be much the same situation as when VAROs responded to our individual overpayment analyses during this review, they frequently indicated the case had been discussed with responsible individuals or teams for the particular type of processing, to prevent recurrence. We also believe that gathering and disseminating innovative procedures to all VAROs would help ensure status changes are properly processed as well as help reduce overpayments resulting from beneficiary reporting timeliness. We further concluded that overpayments would be reduced by revising certain due process and other procedures that contribute to overpayments. We believe the 60-day predetermination notice should be issued to veterans receiving long-term care (i.e., in a VA nursing home or a community nursing home at VA expense) or to fiduciaries of incompetent veterans, at the time of admission to reducible VA care. Similarly, the 60-day predetermination notice should also be issued at the time beneficiaries are asked to complete the certification of school attendance form. Beneficiaries' oral notification of status changes should also be accepted. Regarding due process, we recognize VBA is concerned with the court's jurisdiction in the Semenchuk decision, and may wish to wait until expiration of the court's jurisdiction, August 10, 1997, to revise procedures. Regarding earlier predetermination notifications on hospitalization cases, we believe this would be effective, even if limited to long-term care and fiduciary cases. We also believe procedures should be revised to allow VAROs to suspend payments in DD/EFT cases when they cannot determine the whereabouts of the beneficiary. We recognize this would not be necessary in many cases, so to better maintain current addresses, we believe a standardized letter to financial institutions, such as that utilized at VARO Cleveland, should be routinely used. *The issue of revising due process procedures was also addressed in a separate Office of Inspector General report "Audit of the Effectiveness of Benefit Award Notification" (Report No. 6D2-B01-049 dated September 20, 1996).*

Recommendation

The Under Secretary for Benefits should reduce C&P benefit overpayments by:

- a. Directing VARO and VBA staff to make overpayment prevention a continuous special focus area of their quality reviews, enabling them to detect and trend factors contributing to overpayments, including reevaluating current policy and revising procedures to prevent benefit overpayments.
- b. Gathering and disseminating innovative VARO best practices that should help other VAROs prevent overpayments, including practices to improve beneficiary reporting timeliness.
- c. Revising due process notification procedures to allow 60-day predetermination notices to be issued to veterans receiving long-term care (i.e., in a VA nursing home or a community nursing home at VA expense), or to fiduciaries of incompetent veterans, at the time of admission to reducible VA care.
- d. Revising due process procedures to remove the requirement that beneficiaries must inform the VA in writing of status changes that will result in a reduction of benefits.
- e. Revising VA Form 21-8960 “Certification of School Attendance or Termination” to include a 60-day predetermination notice that the dependent school child will be removed from the beneficiary’s benefit award, effective either the child’s 18th birthday or the last day of the month in which school attendance was last certified, if the completed form is not returned.
- f. Revising procedures to require that VAROs contact financial institutions to determine current mailing addresses for beneficiaries who receive payment via DD/EFT and for whom mail has been returned.
- g. Encouraging VAROs to enlist the assistance of veterans service organizations to help beneficiaries better fulfill their obligations to timely report beneficiary status changes.

Monetary impact associated with the recommendation is shown in Appendix V on page 19.

Acting Under Secretary for Benefits Comments

The Acting Under Secretary for Benefits concurred with the findings and recommendations, and offered no comment on the estimated monetary impact. Based on his concerns regarding the Court’s jurisdiction in the Semenchuk consent decree, the Acting Under Secretary stated VBA will delay action on recommendations (c), (d) and (e), involving revision of due process procedures, until the Court’s jurisdiction ends on

August 10, 1997. In response to the remaining four recommendations, the Acting Under Secretary planned to complete corrective actions no later than March 1997. The Acting Under Secretary stated that debt prevention was an issue of great concern to VA and that he welcomed OIG recommendations in that regard.

(See Appendix VI on page 20 for the Acting Under Secretary's comments.)

Office of Inspector General Comments

We recognize the Acting Under Secretary's concerns regarding the timing of VBA's actions addressing the due process findings discussed in the report and will plan to provide future assistance in addressing these problems. While we accept the Acting Under Secretary's decision to delay action on recommendations (c), (d) and (e), we would expect that VBA could begin addressing our recommendations by September 1997, after the Semenchuk consent decree expires. The Acting Under Secretary's implementation actions for recommendations (a), (b), (f) and (g) are acceptable. However, in addressing recommendation (a), which deals with making overpayment prevention a continuous special focus of quality reviews, the Acting Under Secretary stated he concurred with this recommendation because VBA's quality reviews already address payment accuracy, along with other quality factors, which are the underlying causes of overpayments. He went on to state that VBA would emphasize the importance of payment accuracy and debt prevention in an upcoming Adjudication Officers' Conference Call. We accept this implementation action and, as noted in the report, are aware that quality reviews address payment accuracy and other quality factors. However, we believe that in addition to making a conference call to emphasize prevention of overpayments, periodic focused reviews of overpayments should be conducted to identify and prevent systemic causes. Such reviews can help to avoid recurrence of the type of preventable overpayments identified by our review.

We consider the report resolved but recommendations (c), (d) and (e) are unimplemented. We will follow up on VBA's future actions to address these recommendations, including preparation of appropriate implementation plans, until they are completed. The Acting Under Secretary chose not to comment on our estimate of monetary benefits, and provided no alternative estimate. Our estimate of monetary impact is based on a statistical sample and we consider it to be reasonable and reliable.

BACKGROUND

During fiscal year 1995, Department of Veterans Affairs (VA) paid about \$17.8 billion to 3.3 million beneficiaries under its compensation and pension (C&P) programs. During the same period beneficiaries received excess benefit payments, or overpayments, of about \$303 million.

- The compensation program paid about \$14.8 billion to 2.5 million veterans with service-connected (SC) conditions, and survivors of veterans who died while in service, or whose death resulted from SC conditions.
- The pension program paid about \$3 billion to 799,000 veterans with nonservice-connected conditions, who served on active duty during wartime, and their survivors.

VA's C&P programs are administered by Veterans Benefit Administration (VBA). Claims for C&P benefits are processed by the Adjudication Division in VA regional offices (VAROs). There are 57 VARO Adjudication Divisions throughout the United States and in San Juan, PR and Manila, PI.

Overpayments to C&P beneficiaries generally result when there are changes in the beneficiaries' entitlement status and benefit awards are not reduced timely. These changes include increased income, hospitalization at VA expense, loss of dependents, or the death of the beneficiary.

As of September 30, 1995, VA's C&P debt resulting from overpayments totaled about \$574 million. The number of debtors totaled about 192,238, or an average debt of \$2,986. About \$367 million, or 64 percent of the debt, had been delinquent for over 1 year. Given VA's collection difficulties, overpayment prevention should be a major focus of its debt management program. The major goal of overpayment prevention is to correct the underlying causes, while reducing the amount of debt established. The importance of overpayment prevention is underscored by the fact that VA collects an average of about 28 percent of its C&P overpayments. Preventing beneficiary debt is also less costly than trying to collect it.

An April 1995 General Accounting Office review, "VA Can Prevent Millions in Compensation and Pension Overpayments" recommended that to help prevent overpayments: VBA establish procedures that identify beneficiaries who will soon become eligible for social security (SS) benefits and timely adjust their benefits; and collect and analyze information on the causes of overpayments to develop strategies for preventing additional overpayments. VBA implemented a procedure to remind beneficiaries prior to them becoming 60, 62, or 65, that SS benefits needed to be reported immediately. This should help reduce overpayments in cases where beneficiaries are awarded SS Retirement benefits. VBA was also attempting to develop information on causes of overpayments. Our review will assist VBA in this effort by identifying conditions that contributed to overpayments and making recommendations to prevent future overpayments.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The purpose of the review was to identify the causes of Veterans Benefits Administration's (VBA) compensation and pension (C&P) overpayments. This is one of a series of reviews evaluating Department of Veterans Affairs' (VA) debt management program.

Scope and Methodology

To identify the causes of C&P benefit overpayments, the review focused on a population of C&P debt resulting from overpayments that were established during fiscal year 1995, and which remained outstanding as of the end of the fiscal year. The total population of this group was 40,494 cases, valued at about \$120 million.

- About 63 percent of the C&P overpayment cases valued at \$74 million pertained to nonservice-connected pension beneficiaries.
- About 37 percent valued at \$46 million corresponded to service-connected compensation beneficiaries.

We statistically sampled 324 of the 40,494 cases. For each sampled case, we reviewed the beneficiary claims folder maintained by VA Regional Offices (VAROs). In addition to our statistical sample we also:

- Reviewed the applicable VA policy and procedures for the sampled cases.
- Analyzed results of a questionnaire regarding VARO overpayment prevention procedures.
- Conducted an on-site review at one VARO.
- Reviewed written responses to our case analyses from the responsible VAROs.
- Discussed our review process, findings, and proposed recommendation at various stages of the review with VBA program officials.

The review was conducted in accordance with government auditing standards for qualifications, independence, due professional care and included such tests of procedures and records as we considered necessary under the circumstances.

DETAILS OF REVIEW

Sampling Plan and Results

Review Universe

We analyzed the Veterans Benefits Administration's (VBA's) September 30, 1995, automated compensation and pension (C&P) file and extracted records where a C&P debt had been established during fiscal year (FY) 1995 and which remained outstanding, with a balance of at least \$100, at September 30, 1995. The extracted population totaled 40,494 records valued at about \$120 million. In 25,631 (63 percent) of the 40,494 cases, the beneficiaries received nonservice-connected (NSC) benefits and 14,863 (37 percent) received service connected (SC) benefits.

Sample Design

The sample included 324 randomly selected cases and was based on a non-stratified attribute sampling design at a 95 percent confidence level. We validated the C&P overpayment data for the sampled cases by verifying the information to the beneficiaries' claims folders. We did not independently validate that the beneficiaries within the population tested comprised the total universe. However, nothing came to our attention that would lead us to believe that any beneficiaries were missing from our review universe.

Sample Results

We noted in 73 cases (23 percent) of the 324 cases sampled, the overpayments were unavoidable because even though status changes were reported timely, they were too late to prevent an overpayment due to claims processing requirements. In an additional 155 cases (48 percent), overpayments resulted from beneficiaries' failure to timely report status changes. We found in 96 cases (30 percent) of the 324 cases sampled, the overpayments could have been avoided.

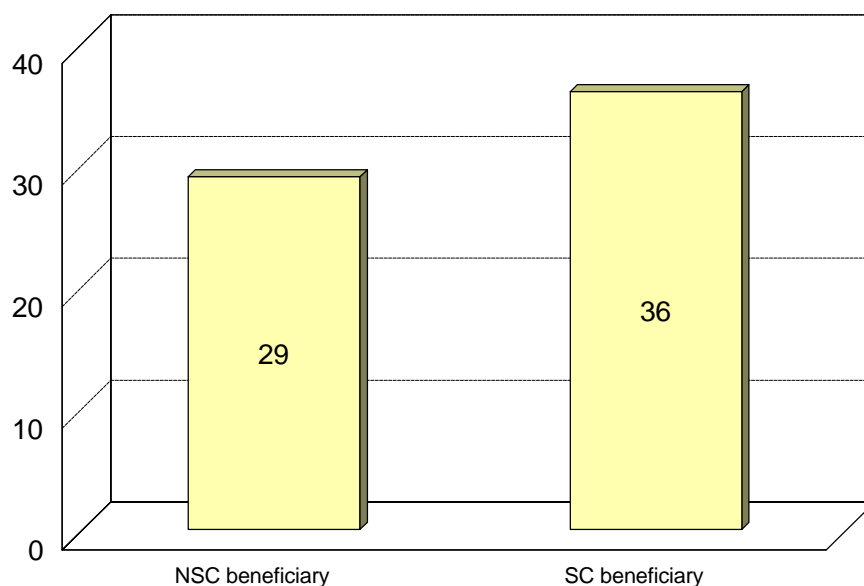
<u>Category of Preventable Overpayment</u>	<u>Estimated Rate of Occurrence</u>	<u>Confidence Interval</u>	<u>Estimated Number of Preventable Overpayments in the Population</u>
C&P overpayments could be avoided.	29.6 %	+/- 5.0 %	11,986
Occurrence rate in 40,494 case population.		+/-2,025 cases	

Analysis of Sampled Cases

We are providing the following detailed information on the types of overpayments disclosed by our review because we believe it will be helpful to VBA management. We believe that by knowing what causes overpayments VBA management will be in a better position to develop long-term strategies and plans that will reduce future overpayments, by considering the type, cause and value of overpayments.

Overpayments Related to the Death of the Beneficiary

Our review identified 65 cases (20 percent), of the 324 beneficiary overpayments, valued at \$180,261, were caused when SC or NSC beneficiaries were issued VA benefit payments, subsequent to their deaths.

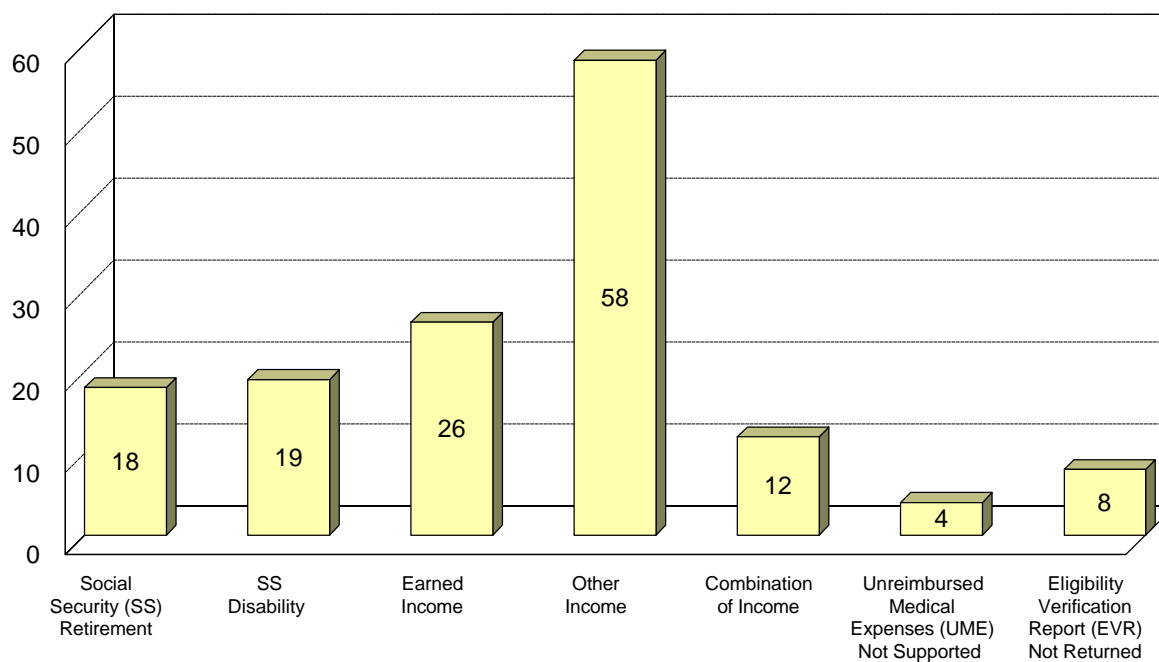


Related Average Overpayment (O/P)

<u>Total Cases</u>	<u>Type of Beneficiary</u>	<u>Value</u>	<u>Average O/P</u>
29	NSC beneficiaries	\$ 17,372	\$ 599
36	SC beneficiaries	\$162,889	\$4,525
<u>65</u>		<u>\$180,261</u>	

Overpayments Related to Changes in Beneficiary Income

Our review identified 145 cases (45 percent), of the 324 beneficiary overpayments, valued at \$442,723, were caused when there was a change in the beneficiary's income.

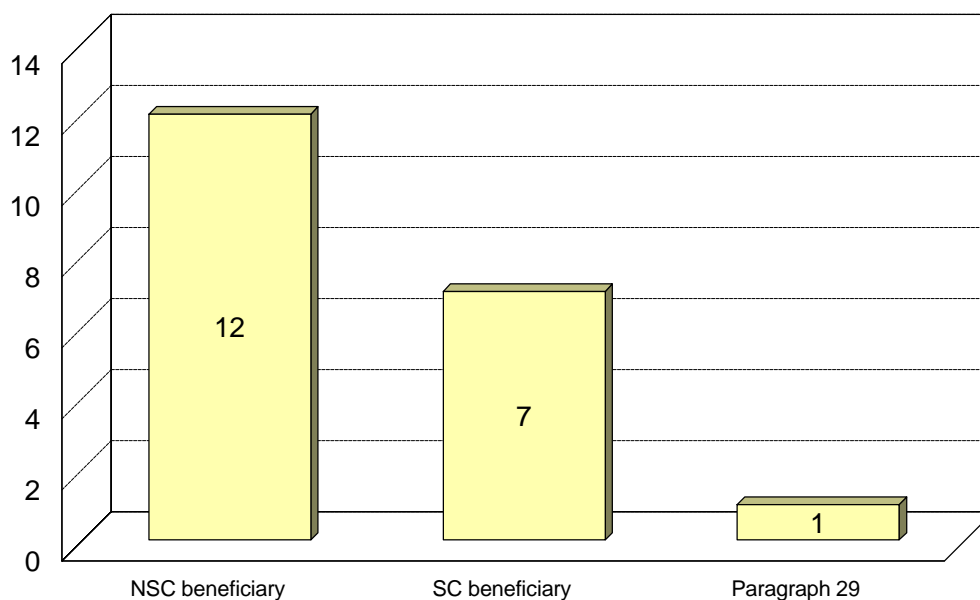


Related Average Overpayment for NSC Beneficiaries

<u>Total Cases</u>	<u>Type of Income</u>	<u>Overpayment Reason</u>	<u>Value</u>	<u>Avg. O/P</u>
18	SS Retirement benefits	Income not included in calculation of Pension Rate	\$ 24,984	\$1,388
19	SS Disability benefits	“ “	\$ 39,012	\$2,053
26	Earned Income	“ “	\$101,889	\$3,919
58	Other Income (e.g., Savings Interest)	“ “	\$190,761	\$3,289
12	Combination of Income	“ “	\$ 63,323	\$5,277
4	UME	Claim not supported	\$ 6,615	\$1,654
8	N/A	Failure to return EVR	\$ 16,139	\$2,017
<u>145</u>			<u>\$442,723</u>	

Overpayments Related to Hospitalization of Reducible Beneficiaries

Our review disclosed 20 cases (6 percent), of the 324 beneficiary overpayments, valued at \$89,902, related to either a NSC or SC veteran being hospitalized and receiving more benefits than entitled to.



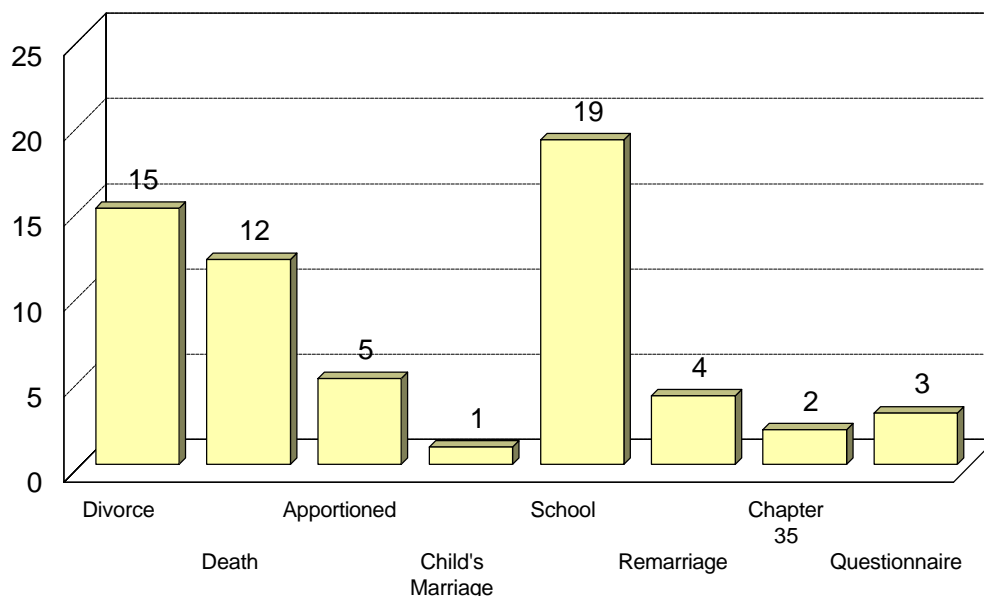
Related Average Overpayment

<u>Total Cases</u>	<u>Type of Beneficiary</u>	<u>Reason for Overpayment</u>	<u>Value</u>	<u>Avg. O/P</u>
12	NSC beneficiaries	Paid Non-Hospital Rate while Hospitalized at gov't. expense	\$55,806	\$ 4,651
7	SC beneficiaries	Paid Non-Hospital Rate while Hospitalized at gov't. expense	\$23,986	\$ 3,427
<u>1</u>	SC beneficiaries	Paid at 100% SC Rate, under Paragraph 29, subsequent to hospital discharge	<u>\$10,110</u>	\$10,110
<u>20</u>			<u>\$89,902</u>	

Overpayments Related to Changes in Beneficiary Dependency Status

Our review identified 76 cases (23 percent), of the 324 beneficiary overpayments, valued at \$243,242, that were caused when there was a change in the beneficiary's dependency status. These included 61 SC and 15 NSC cases, as shown below:

61 SC Benefit Cases, Valued at \$217,200



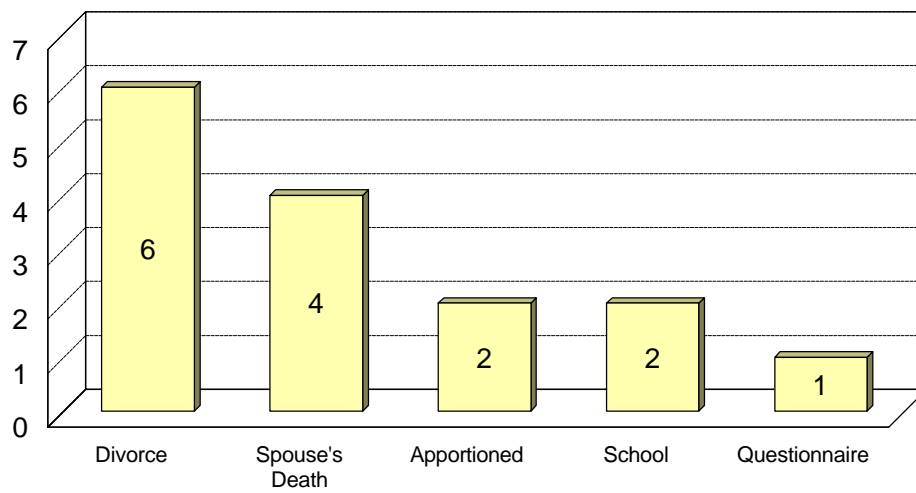
Related Average Overpayments for SC Benefit Cases

<u>Total Cases</u>	<u>Reason for Overpayment</u>	<u>Value</u>	<u>Avg. O/P</u>
15	Paid for a spouse, subsequent to divorce	\$ 36,532	\$2,435
12	Paid for a spouse, subsequent to spouse's death	\$ 27,997	\$2,333
5	Award was retroactively appORTioned	\$ 1,973	\$ 395
1	Paid for dependent school child, subsequent to child's marriage	\$ 1,570	\$1,570
19	Paid for dependent school child, subsequent to child's terminating school	\$ 13,940	\$ 734
4	Paid subsequent to remarriage	\$ 2,287	\$ 572
2	Paid for dependent child, subsequent to child's receipt of Dependents Educational Allowance (Chapter 35)	\$ 2,873	\$1,437
<u>3</u>	Paid for dependents, subsequent to failure to return	<u>\$130,028</u>	\$ 816 ²
<u>61</u>	Status of Dependents Questionnaire	<u>\$217,200</u>	

² The average overpayment for cases where beneficiaries were paid for dependents subsequent to failure to return "Status of Dependents Questionnaire" does not include one untypical case with an overpayment of \$128,396, which skewed average overpayment.

Overpayments Related to Changes in Beneficiary Dependency Status (cont.)

15 NSC Benefit Cases, Valued at \$26,042

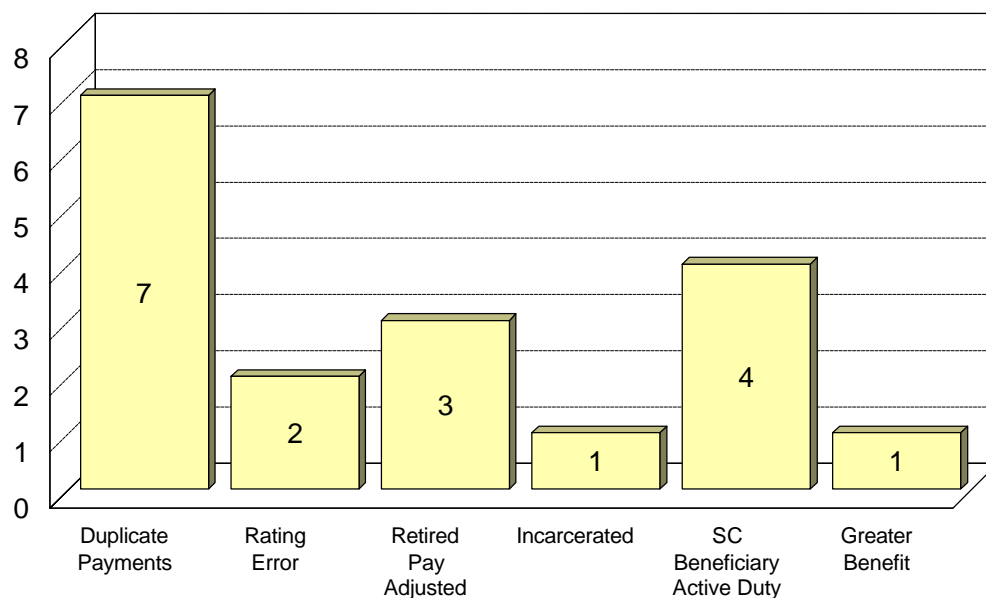


Related Average Overpayments for NSC Benefit Cases

<u>Total Cases</u>	<u>Reason for Overpayment</u>	<u>Value</u>	<u>Avg. O/P</u>
6	Paid for a spouse, subsequent to divorce	\$ 5,452	\$ 909
4	Paid for a spouse, subsequent to spouse's death	\$17,090	\$4,273
2	Award was retroactively apportioned	\$ 1,476	\$ 738
2	Paid for dependent school child, subsequent to child's terminating school	\$ 1,816	\$ 908
<u>1</u>	Paid for dependents, subsequent to failure to return Status of Dependents Questionnaire	<u>\$ 208</u>	\$ 208
<u>15</u>		<u>\$26,042</u>	

Overpayments Related to Miscellaneous Changes in Beneficiary Status

Our review identified 18 cases (6 percent), of the 324 beneficiary overpayments, valued at \$33,452, that were caused by miscellaneous reasons.



Related Average Overpayment

<u>Total Cases</u>	<u>Type of Beneficiary</u>	<u>Reason for Overpayment</u>	<u>Value</u>	<u>Avg. O/P</u>
7	N/A	Duplicate Benefit Payments	\$ 4,975	\$ 711
2	N/A	Rating Errors:	\$ 7,250	\$3,625
		1-Rating Decision Error		
		1-Paid Higher Rate than Authorized by Rating Decision		
3	SC beneficiaries	Military Retired Pay Not Properly Adjusted	\$ 8,797	\$2,932
1	N/A	Paid Benefits while Incarcerated	\$ 5,491	\$5,491
4	SC beneficiaries	Paid Benefits while on active duty	\$ 4,920	\$1,230
<u>1</u>	SC beneficiaries	Benefit changed to pension, while compensation remained a greater benefit	<u>\$ 2,019</u>	\$2,019
<u>18</u>			<u>\$33,452</u>	

CALCULATION OF MONETARY IMPACT

	<u>Actual Preventable Overpayment</u>	<u>Projected Preventable Overpayment</u>
Compensation & Pension (C&P) Overpayments Can Be Prevented		
<ul style="list-style-type: none"> • 96 preventable overpayments were noted in 324 sampled cases (29.6 percent). Preventable overpayments totaled \$210,124 or about \$2,188 per case (\$210,124 / 96). 	\$210,124	
<ul style="list-style-type: none"> • Based on our sample results, we project that C&P overpayments for 11,986 cases (40,494 x 29.6 percent) can be prevented annually. These cases were valued at \$26,225,368 (11,986 x \$2,188 average overpayment). (See Appendix III) 		\$26,225,368
<ul style="list-style-type: none"> • Based on our sample results we estimate that C&P overpayments for 1,944 cases (40,494 x 48 percent [percentage of sample cases where overpayments resulted from beneficiary failure to timely report status changes] x 10 percent [estimated reduction in rate of beneficiary failure to timely report]) can be prevented annually through improved communication with beneficiaries. These cases were valued at \$4,253,472 (1,944 x \$2,188 average overpayment). 		<u>4,253,472</u>
TOTAL	<u>\$210,124</u>	<u>\$30,478,840</u>

MONETARY IMPACT IN ACCORDANCE WITH IG ACT AMENDMENTS

**REPORT TITLE: Review of the Causes of Veterans Benefits Administration's
Compensation and Pension Overpayments**

PROJECT NUMBER: 6R1-057

<u>Recommendation</u>	<u>Category / Explanation of Benefits</u>	<u>Recommended Better Use of Funds</u>
a-g	Recommended Better Use of Funds. Overpayments can be prevented in an estimated 11,986 cases. (See Appendix IV)	\$26,225,368
a-g	Recommended Better Use of Funds. Improved communication with beneficiaries can prevent overpayments in an estimated 1,944 cases. (See Appendix IV)	<u>4,253,472</u>
TOTAL		<u>\$30,478,840</u>

**MEMORANDUM FROM THE ACTING UNDER SECRETARY FOR
BENEFITS DATED NOVEMBER 21, 1996**

Department of
Veterans Affairs

Memorandum

Date: November 21, 1996

From: Acting Under Secretary for Benefits (20)

Subj: Compensation and Pension Debt Prevention Procedures

To: Assistant Inspector General for Auditing (52)

1. We have received your draft report entitled "Review of the Causes of Veterans Benefits Administration's Compensation and Pension Overpayments" and have reviewed the draft report and the revisions you furnished on October 18, 1996. We are pleased to respond to the recommendations which accompanied your report.

2. Debt prevention is an issue of great concern to the Department. As pointed out in your report, we are addressing this issue as part of our National Performance Review (NPR) and Business Process Reengineering (BPR) initiatives. These initiatives emphasize application of information technology to improve service to our beneficiaries and also address simplification of the pension program. We strive to find a balance between preventing overpayments and ensuring that every beneficiary is afforded appropriate notice and opportunity to be heard before reduction or termination of benefits is effected. This balance is a delicate one, and we welcome recommendations from OIG in this regard. We will address each of your recommendations.

Recommendation 1: Direct VAROs and VBA staff to make overpayment prevention a continuous special focus for quality reviews in order to detect and trend factors contributing to overpayments. You state that this would allow VBA to reevaluate current policy and revise procedures to prevent overpayments.

We concur with this recommendation because our Quality Assurance and Quality Improvement reviews already address payment accuracy, along with other quality factors which are underlying causes of overpayments and debt. Whenever quality assurance and quality improvement reviews point out patterns or national trends of erroneous claims processing, it is our routine practice to use this information to review current procedures and establish new procedures to deal with such patterns or trends. We follow this practice to improve quality of service to claimants, regardless of whether overpayments are specifically involved. We will emphasize the importance of payment accuracy and debt prevention in an upcoming Adjudication Officers' Conference Call.

Recommendation 2: Gather and disseminate to all VAROs information concerning innovative procedures that should prevent debts and improve beneficiary reporting timeliness.

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Assistant Inspector General for Auditing

We concur with this recommendation. We believe it is important to improve VA procedures, and the sharing of good and innovative ideas is only one way to accomplish this. We will request that by March 1, 1997, regional offices bring to our attention any local procedures that are in use to facilitate debt prevention. We will disseminate that information to all VAROs for wider use.

Recommendation 3: Revise notification procedures to allow a 60-day predetermination notice to be issued to veterans receiving long-term care (i.e., in a VA nursing home or a community nursing home at VA expense), or to fiduciaries of incompetent veterans, at the time of admission to reducible VA care.

We agree that our procedures for award adjustment and benefit notification for beneficiaries receiving hospital or nursing home care at VA expense are in need of revision. Many of the award adjustment and notification procedures now in place were implemented based on the court settlement in Alex Semunchuk, et al. v. Harry N. Walters, 81C3132. The Semenchuk class was limited to Illinois residents, and involved only contested reductions and terminations of VA disability pension awards. However, we applied time limits and notification procedures to all situations involving reduction or termination of a current award (other than those provided for in 38 U.S.C. 5112(b)(6)), rather than only those specific to the Semenchuk class so that there would be a single procedure applicable to all beneficiaries. The United States District Court for the Northern District of Illinois retains jurisdiction in that case until August 10, 1997.

In response to a similar recommendation in OIG review, "Audit of the Effectiveness of Benefit Award Notification," we expressed our concern that a generic predetermination notice issued at the time of admission would be inadequate because it would lack specificity. We continue to object to a generic approach to notification. However, as we said in our response to your prior review, we will be happy to revisit the entire issue of notification procedures once the Court's jurisdiction in the Semunchuk consent decree expires. At that time, your assistance in reviewing procedures and notification requirements will be welcome.

Recommendation 4: Remove the requirement that beneficiaries furnish status changes in writing if reduction of benefits will be involved.

We agree with this recommendation in principle. However, the language in the regulations that requires written notice of a change in status before VA may take adverse action without issuing a predetermination/reduction notice was adopted verbatim from the consent decree in the Semunchuk settlement. While it would be inappropriate to take any action to amend that regulation now, we will review the regulatory and manual provisions when the Court's jurisdiction expires and would welcome your assistance at that time.

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Assistant Inspector General for Auditing

Recommendation 5: Revise VA Form 21-8960, "Certification of School Attendance or Termination," to include a predetermination notice that benefits will be reduced on the child's 18th birthday or on the last day of the month in which the school attendance was last certified if the form is not returned.

We agree with this recommendation in principle. As we indicated in our response to Recommendation 3 above, we have a concern that a generic predetermination notice issued when the annual certification form 21-8960 is sent out would be inadequate because it would lack specificity. However, the entire subject of when a predetermination notice is required and when contemporaneous notice is sufficient falls into the category of procedures we have already agreed to review, with your assistance, once the Semunchuk order expires.

Recommendation 6: Revise procedures to require that VAROs contact financial institutions to determine current mailing addresses for beneficiaries who receive payment via DD/EFT and for whom mail has been returned.

We concur with this recommendation. Currently, sample language for a letter to be sent to a financial institution requesting a current mailing address is contained in M21-1, Part IV, Chapter 31. To assure that such contact is routinely made when mail is returned, we will review our procedural manual to incorporate necessary changes and cross references. The projected date for completion of this action is March 1, 1997.

Recommendation 7: Encourage VAROs to enlist the assistance of veterans service organizations to help beneficiaries better fulfill their obligations to report beneficiary status changes timely.

We concur with this recommendation. We agree with you that veterans service organizations are an excellent resource. We value and encourage close cooperation between these organizations and regional office personnel. This is another recommendation we will address in an upcoming Adjudication Officers' Conference Call.

3. With regard to the estimated dollar impact of the recommendations, we have no comments.

4. Thank you for providing a copy of your findings concerning debt prevention procedures.

[Signed]
Stephen L. Lemons

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