

Office of Inspector General

EVALUATION OF THE EFFECTIVENESS OF VETERANS BENEFITS ADMINISTRATION'S CONTROLS TO DETECT AND PREVENT COMPENSATION AND PENSION BENEFIT PAYMENT ERRORS

*By better managing C&P system messages,
VBA can enhance customer service and
prevent benefit payment errors.*

Report No: 8R1-B01-083
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Office of Inspector General
Washington DC 20420



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Under Secretary for Benefits (20)

Evaluation of the Effectiveness of Veterans Benefits Administration's Controls to Detect and Prevent Compensation and Pension Benefit Payment Errors

1. The purpose of our evaluation was to determine whether Department of Veterans Affairs (VA) compensation and pension (C&P) system messages served as an effective control to ensure the accuracy of C&P benefit payments and enhance the quality of service to beneficiaries.
2. C&P system messages are an important internal control that can help the Veterans Benefits Administration (VBA) ensure the accuracy of benefit payments and enhance customer service. C&P system messages contain information about beneficiaries that require VA Regional Office (VARO) review. For example, one message may inform the VARO that a beneficiary did not receive a recent legislative rate increase, while another could be that a beneficiary had not submitted a required certification of a dependent's school attendance. When system messages are acted upon, they help to ensure the accuracy of benefit payments and correct potential discrepancies in beneficiaries' records.
3. During Fiscal Year (FY) 1997, VAROs paid about \$19 billion in C&P benefits to 3.3 million beneficiaries. During the same period, the Hines, IL Benefits Delivery Center generated about 660,000 automated C&P system messages to VAROs informing them of changes in C&P records that required validation. We conducted a nationwide review of C&P system messages generated to VAROs during the 2nd quarter of FY 1997. Based on a statistical sample, we found that 44 percent of C&P messages reviewed did not serve as an effective control to ensure the quality of customer service or the accuracy of benefit payments because either the messages had not been timely and properly processed, or the messages were not useful and caused unnecessary work. We found that VAROs were not effectively managing system messages to ensure that messages that impact on customer service and the accuracy of benefit payments were addressed in a timely and appropriate manner.

4. By better managing C&P messages, VBA can enhance customer service and prevent annual benefit payment errors of about \$33 million, \$19 million in overpayments and \$14 million in underpayments. Additionally, by eliminating messages that generate unnecessary work, resources valued at about \$6 million could be put to better use by reallocating those resources to administer messages that help ensure the accuracy of benefit payments and enhance the quality of customer service.

5. We recommended that you improve the effectiveness of controls to detect and prevent C&P benefit payment errors and enhance customer service by: (a) requiring VARO management to monitor the timeliness and accuracy of actions taken in response to C&P messages, (b) eliminating those messages discussed in this report and shown in Appendix III, that do not impact payment accuracy and customer service, (c) encouraging VAROs to identify messages that result in unnecessary work and initiate action to eliminate them, and (d) gathering and disseminating VARO best practices for managing C&P system messages.

6. The Deputy Under Secretary for Management concurred with the findings and provided acceptable implementation plans for the recommendations. The Deputy Under Secretary did not agree with \$6 million of the \$25 million estimated monetary impact contained in the report. The Deputy Under Secretary did not agree that \$6 million in resources could be put to better use by eliminating unnecessary work and believed that the Office of Inspector General should have taken into consideration the cost of labor and technology to eliminate unnecessary messages. We continue to believe our \$6 million estimate is reasonable. The estimate is not an arbitrary one, but is rather based on a processing cost estimate that was developed by one of the larger VAROs in the VBA system. We agree our estimate should be offset by labor and technology costs to eliminate unnecessary messages, however, we were unsuccessful in obtaining this information from VBA during our evaluation. We consider the issues resolved, however, we will continue to follow-up on VBA's planned corrective actions until they are completed.

For the Assistant Inspector General for Auditing,

(Original signed by:)

THOMAS L. CARGILL, JR.

Director, Bedford Audit Operations Division

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RESULTS AND RECOMMENDATION

The Veterans Benefits Administration (VBA) Can Improve Customer Service and Prevent Benefit Payment Errors by Better Managing Compensation and Pension (C&P) System Messages

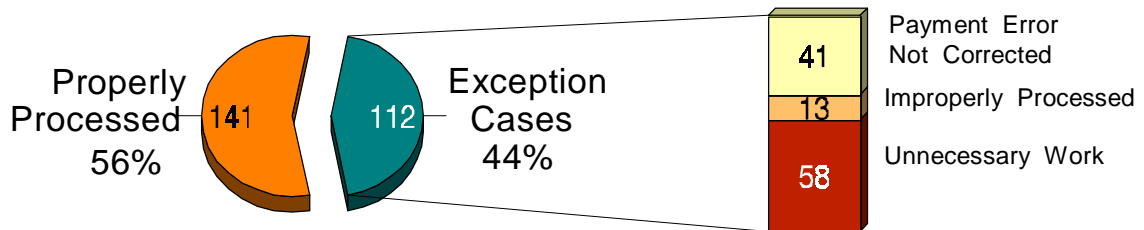
C&P system messages are a primary internal control designed to help VBA managers and claims examiners identify payment errors and discrepancies in beneficiary records. When system messages are acted upon in an appropriate and timely manner, they serve as an effective control and management tool to ensure the accuracy of benefit payments and quality of customer service. Our analysis of a statistical sample of C&P messages generated to the Department of Veterans Affairs (VA) Regional Offices (VARO) during the 2nd quarter of Fiscal Year (FY) 1997, showed that 21 percent of the messages were not timely or properly processed. As a result, we estimate that payment errors of \$33 million, \$19 million in overpayments and \$14 million in underpayments, occurred during FY 1997. We also found that 23 percent of the generated messages could be eliminated to prevent unnecessary work. We estimate that the value of resources dedicated to either rework messages that were not properly processed the first time, or work on messages that don't provide VAROs with useful information is \$6 million. By streamlining the processing of C&P messages and enhancing management oversight, VBA resources could be redirected to work on high risk messages that would help prevent benefit payment errors and enhance customer service.

C&P Messages Can Help Prevent Benefit Payment Errors and Ensure Accuracy of Beneficiary Records

During FY 1997, VAROs paid about \$19 billion in C&P benefits to 3.3 million beneficiaries. During the same period, the Hines, IL Benefits Delivery Center (BDC) generated about 660,000 automated C&P system messages to VAROs informing them of changes in C&P records. C&P system messages contain information about beneficiaries that require VARO review to ensure the accuracy of benefit payments and correct potential discrepancies in beneficiary records.

Our review, conducted in August and September 1997, of a statistical sample of 253 of the 159,062 C&P messages generated during the 2nd quarter of FY 1997, showed that in 112 cases (44 percent), the messages had not served as an effective control to ensure payment accuracy or enhance customer service.

The bar graph below illustrates the results of our analysis and categorizes the reasons 44 percent of the messages reviewed did not serve as an effective control to prevent payment errors or enhance customer service.



(See Appendix III on page 11 for a description of our sampling plan and results.)

Timely and Appropriate Processing of System Messages Would Have Prevented Payment Errors

Our review showed payment errors could have been prevented in 41 instances (16 percent), if VAROs had timely and properly processed messages. We found 22 of these messages represented underpayments, valued at \$9,734 (\$442 average), while 19 represented overpayments, valued at \$16,047 (\$845 average). These payment errors resulted from either improperly processing messages or from not acting on these messages in a timely manner. In determining timeliness, we used a conservative benchmark figure of about 6 weeks from the date of the message’s receipt in the VARO to the date action was initiated. We found VAROs had generally initiated action in much less than 6 weeks in 56 percent of the system messages reviewed. The following illustrates conditions identified:

VA pension rates are based on beneficiary’s reported income. A widow was in receipt of \$474 monthly pension, based on the fact she reported no income. Our sample message 899A, “SSA Reports - \$639”, was generated by the BDC on March 31, 1997. The 899A message was generated because a match of C&P and Social Security Administration (SSA) records showed the widow was receiving a \$639 monthly SSA benefit rather than the \$0 SSA amount shown in the C&P record. Since VA pension is reduced to reflect widow’s receipt of SSA benefits, this message was a notification that the widow was being overpaid VA pension. VARO staff should have given the widow a 60-day predetermination notice that her pension would be reduced based upon the receipt of SSA benefits and then taken reduction action at the end of the predetermination period. At the time of our review (September 1997), VARO staff had not provided the widow with a 60-day predetermination notice or adjusted the widow’s pension. As a result, the

widow had been overpaid about \$1,896. VARO management agreed with our analysis, and provided the widow with a 60-day predetermination notification that her pension benefits would be reduced.

A widow was in receipt of a \$208 monthly pension. Our sample 855 message, "Award Prior to Last Legislative Increase", generated by the BDC in March 1997, should have alerted the VARO that the widow had not received a December 1, 1996 cost of living increase. At the time of our review (September 1997), VARO staff had not taken any action to correct the payment error and the widow had been underpaid \$78. VARO management agreed with our analysis and properly increased the widow's award.

Proper Processing of Messages Would Prevent the Regeneration of Identical or Similar Messages in Subsequent Months and Eliminate Unnecessary Work

We identified 13 instances (5 percent) where VAROs had improperly processed messages, generating additional unnecessary work. The following illustrates improper processing that will result in unnecessary work:

A widow was in receipt of a \$98 monthly pension. Our sample message 611, "Check Returned - Death of Person Entitled", generated March 1997, alerted the VARO that the widow's February pension check had been returned to VA, due to her death. VARO staff should have acted to determine the date of the widow's death and properly terminated the award. However, VARO staff did not attempt to determine the date of the widow's death. The returned check had caused suspension of payments, so no additional overpayment occurred. However, because VARO staff did not act to determine the date of the widow's death and terminate the award, they will continue to receive messages regarding the suspended award, creating unnecessary work. By requiring similar or identical messages to be regenerated, costs related to production, mailing, screening, claims examination and filing will be incurred again. Additionally, our experience has shown that the longer funds remain in suspense, the more vulnerable they are to misuse and diversion. VARO management agreed with our analysis and took action to determine the beneficiary's date of death and terminate the award.

As demonstrated by this example, by not properly processing a C&P system message the first time it is generated, subsequent similar or identical messages will be generated. VARO work will be unnecessarily increased, using valuable staff resources until appropriate action is taken.

A Significant Portion of VARO's C&P Message Workload Was Unnecessary

Based on our analysis and discussions with VBA and VARO management, we determined that 58 of our sample messages (23 percent) could have been eliminated or suppressed. Due to organizational changes within VBA financial management, responsibility for certain actions has changed. As a result, certain messages that are directed to VARO finance activities are no longer necessary, but continue to be generated and require VARO processing. By streamlining the processing of such messages at the BDC, VARO staff could be redirected to higher priority messages. The following illustrate some examples of C&P messages that should no longer be sent to VAROs in an effort to prevent unnecessary work:

VBA's Debt Management Center (DMC) has been responsible for C&P accounts receivable for several years. However, C&P system message 603, "Returned Check Applied to Accounts Receivable", continues to be generated to VARO finance activities. Our sample included 31 of these messages. Message 650, "Irregular Collection", is another accounts receivable-related message that continues to be generated to VARO finance activities. Our sample included 14 of these messages. Neither the 603 nor 650 messages are needed by VAROs, but combined they constituted 18 percent of our sample messages. Eliminating these messages and associated processing costs would prevent unnecessary work and free up significant resources.

We also identified several adjudication-related messages, which represented about 5 percent of our sample, that could be eliminated or significantly reduced in the number of times they are generated. For example:

The 892 message, "Review for Greater Benefit", is a very important adjudication-related message that is generated when a veteran is entitled to both compensation and pension and is receiving what appears to be the lesser benefit. However, when veterans are patients in Medicaid supported nursing homes, the \$90 pension rate is a greater benefit, regardless of the veteran's compensation entitlement. Our sample included 7 "Review for Greater Benefit" messages, that involved Medicaid nursing home patients. The 892 messages could be suppressed in this type of case by editing compensation entitlement against the C&P master record's Medicaid nursing home indicator.

The 661 message, "Recoupment Balance - No Deduction", is another important adjudication-related message that alerts VARO staff when the C&P record shows a veteran in receipt of compensation, also received military disability severance pay. Veterans are barred from receiving compensation for a severance pay disability until the amount of their severance pay is recouped. However, veterans can receive compensation for their non-severance pay disabilities, and in these

cases the 661 message should be suppressed. Our sample included 4 “Recoupment Balance – No Deduction” messages, where compensation was being paid for non-severance pay disabilities.

The 551 message, “Transportation Amount Excessive”, is generated when a burial award pays a transportation amount exceeding \$400. In these cases both the claims examiner and authorizer had been alerted by the C&P system that transportation exceeded \$400, at the time they processed the burial award. Therefore, the message does not serve a useful purpose and should be eliminated. Our sample included 2 “Transportation Amount Excessive” messages. These 892, 661, and 551 messages are not needed by VAROs but combined they constituted 5 percent of our sample messages.

As a result of these messages being continuously generated, VARO workload is unnecessarily increased. Eliminating these unnecessary messages would reduce workload and free up resources that could be redirected to work on high risk messages that impact the accuracy of benefit payments and quality of customer service.

(See Appendix III on page 16 for a description of costs related to C&P message processing.)

Closer Management of C&P System Messages is Needed

In 44 percent of the cases reviewed, C&P system messages did not serve as an effective control to ensure payment accuracy because the messages had not been timely and properly processed or the messages created unnecessary work. In cases where C&P messages indicated probable payment errors, VAROs had not initiated action for between 6 weeks and 6 months. As previously noted, the 6-week figure represents a benchmark figure from the time a message was received in the VARO, to the time VARO staff initiated action. The 6-month figure represents when we notified VAROs that action had not been taken. It should be noted that VARO staff took action on all cases we brought to their attention.

Based on the results of our evaluation, we found that most VAROs were not managing C&P messages to ensure that they were addressed in a timely and appropriate manner, and that messages which cause unnecessary work were eliminated. We believe VAROs had not acted timely and properly because they had no specific quality monitor or performance standard to evaluate the timeliness or accuracy of processing C&P messages. We also believe that messages causing unnecessary work resulted from VBA not periodically evaluating the continuing need for all messages.

Some VAROs Were Working to Better Manage C&P System Messages

We did note that some VAROs had implemented controls to ensure C&P messages were timely and properly processed. For example, one of the more significant message processing problems we noted involved the 899 message. We found 26 of 72 (36 percent) of our sample 899 messages, which report discrepancies between VA and SSA records, had not been timely or properly processed. However, VAROs Cleveland and Denver had increased control over these messages by retaining a copy of each message in a central location. This enabled management to retain accountability over the messages and monitor processing. We also found that VARO Reno limits the number of employees involved with message processing to simplify data gathering, reduce training time, and improve accountability. The results of our review indicated that these VAROs had properly and timely processed messages. It should also be noted that several years ago VARO Cleveland management, working with VBA management, eliminated some unnecessary messages.

Improper and Untimely C&P Message Processing Resulted in Significant Payment Errors and a Reduced Level of Customer Service

We estimated that payment errors valued at \$33 million could have been prevented if C&P messages had been processed timely and properly. Nineteen million dollars of this estimate represents overpayments and \$14 million represents underpayments. Further, eliminating unnecessary messages would allow staff resources valued at \$6 million annually, to be redirected to work on those messages that could help improve the accuracy of beneficiary payments and enhance customer service.

(See Appendices III on page 16 and IV on page 18 for calculation of the cost of processing unnecessary messages and calculation of monetary impact.)

Conclusion

C&P system messages serve as a primary internal control and management tool to help identify payment errors and ensure the accuracy of beneficiaries' records. By better managing and monitoring actions taken on C&P messages, VBA can enhance customer service and prevent benefit payment errors.

Recommendation

We recommend that the Under Secretary for Benefits take action to improve the effectiveness of VBA controls to detect and prevent C&P benefit payment errors and enhance customer service by:

- a. Requiring VARO management to monitor the timeliness and accuracy of actions taken in response to C&P system messages.
- b. Eliminating or suppressing those messages, 603, 650, 892, 661, and 551, discussed in this report and shown in Appendix III, that do not impact payment accuracy and customer service.
- c. Encouraging VAROs to identify messages that result in unnecessary work and initiate action to eliminate them.
- d. Gathering and disseminating VARO best practices for managing C&P system messages.

(Monetary impact associated with the recommendation is shown in Appendix V, page 19.)

Deputy Under Secretary for Management's Comments

The Deputy Under Secretary for Management concurred with the findings and recommendations, and provided acceptable implementation plans. However, the Deputy Under Secretary did not agree with \$6 million of the \$25 million estimated monetary impact contained in the report. [The Office of Inspector General (OIG) estimated that \$19 million in overpayments could be prevented if C&P system messages were timely and accurately processed, and that resources valued at \$6 million could be put to better use by eliminating C&P system messages that caused unnecessary work.] The Deputy Under Secretary stated that VBA could not support the \$25 or \$50 per message processing cost on which the \$6 million is based. In addition, the Deputy Under Secretary believed that the OIG estimate should have taken into consideration the cost of labor and technology necessary to eliminate or suppress messages that do not impact payment accuracy or customer service.

(See Appendix VI on pages 20-22 for the full text of the Deputy Under Secretary for Management's comments.)

Implementation Plan

The Deputy Under Secretary for Management's implementation plan include estimated target completion dates for requiring VARO management to monitor the timeliness and accuracy of actions taken in response to messages, encouraging VAROs to identify messages that result in unnecessary work, and gathering and disseminating VARO best practices for managing messages. The Deputy Under Secretary also provided an implementation plan for eliminating or suppressing those messages that do not impact payment accuracy and customer service, but stated a target completion date could not be provided until carefully assessing the impact of other high priority issues, such as Year 2000 changes.

Office of Inspector General's Comments

The Deputy Under Secretary for Management's implementation plan is acceptable and we consider all issues resolved. However, we will follow-up on the implementation of planned corrective actions, including action to streamline and eliminate messages that cause unnecessary work and have no impact on payment accuracy or customer service.

Regarding the Deputy Under Secretary's disagreement with \$6 million of the report's estimated monetary impact, we continue to believe our estimate is reasonable. The average processing cost of \$25 or \$50 per message, on which the \$6 million estimate is based, is not an arbitrary one but rather one that was developed by management of one of the larger VAROs in the VBA system. As shown in Appendix III, page 16 of our report, there are substantial processing costs associated with C&P system messages that VBA agrees do not impact payment accuracy and should be eliminated. As a result, we believe our estimate of the value of resources that could be put to better use, by eliminating messages that cause unnecessary work, is reasonable. We agree that our estimate of benefits should be offset by the estimated cost of labor and technology to eliminate unnecessary messages. On January 28, during a draft resolution meeting with key VBA staff, we were informed that many of the identified messages could be eliminated or suppressed with minimal programming. On January 29, we specifically requested VBA's estimate of labor and technology costs to eliminate messages causing unnecessary work. We received no response to our request either during interim follow-up attempts or in their official response dated March 5, 1998.

BACKGROUND

Compensation and pension (C&P) system messages are an important internal control that help Veterans Benefits Administration (VBA) ensure the accuracy of benefit payments and enhance customer service to beneficiaries. During Fiscal Year 1997, Department of Veterans Affairs Regional Offices (VARO) paid about \$19 billion in C&P benefits to 3.3 million beneficiaries. During the same period, the Hines, IL Benefits Delivery Center generated about 660,000 automated C&P system messages to VAROs.

There are 3 broad categories of C&P messages.

- About 2 percent of C&P messages were generated to notify VAROs that C&P transactions submitted by VAROs had been rejected by the automated C&P system. For example, if a VARO used an incorrect beneficiary name on a C&P transaction, the transaction would reject and the VARO would receive a C&P message. The VARO would then resubmit the transaction.
- About 45 percent of C&P messages were generated to notify VAROs of changes in C&P records. For example, if further payments to a C&P beneficiary were suspended because a benefit check had been returned due to the death of the beneficiary, a VARO would receive a C&P message notifying them that the beneficiary had expired. The VARO would need to verify the beneficiary's death and terminate the C&P award.
- About 53 percent of C&P messages were generated to notify VAROs of errors found during automated C&P system edits of C&P records. For example, in a pension case, if a match of C&P and Social Security Administration (SSA) records disclosed a beneficiary was in receipt of previously undisclosed SSA benefits, a VARO would receive a C&P message notifying them of the income discrepancy. The VARO would then need to determine amounts and effective dates of the income and adjust the beneficiary's pension rate.

Office of Inspector General reports issued on September 15, 1995, (Review of VBA Claims Processing Procedures for C&P Benefit Overpayments) and December 1, 1996, (Review of the Causes of C&P Overpayments) both identified benefit overpayments resulting from untimely or improper processing of C&P system messages. Accordingly, we initiated a nationwide evaluation of C&P system message processing to determine the extent of processing problems.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The purpose of the evaluation was to determine whether Department of Veterans Affairs (VA) compensation and pension (C&P) system messages served as an effective control to ensure the accuracy of C&P benefit payments and enhance service to beneficiaries.

Scope and Methodology

To determine whether VA's C&P system messages served as an effective control over C&P benefit payment accuracy and enhanced service to beneficiaries, the nationwide evaluation focused on a population of 159,062 C&P messages generated by the Hines Benefit Delivery Center (BDC) to VA Regional Offices (VARO) during the 2nd quarter of Fiscal Year 1997.

We statistically sampled 253 of the 159,062 system messages generated to VAROs. For each sampled case, we analyzed the C&P master record and beneficiary claims file to determine whether or not the sample message was processed in a timely and accurate manner, and, if not, determined the cause and impact on the beneficiary. Our case analyses were forwarded to each VARO for their review and comments. In addition to our statistical sample we also:

- Reviewed the applicable VA policy and procedures for the sampled cases
- Conducted on-site reviews at VAROs New York and Cleveland
- Analyzed results of a questionnaire relating to VARO processing of C&P system messages
- Reviewed written responses to our case analyses from the responsible VAROs
- Discussed C&P system messages with Veterans Benefits Administration (VBA) officials and BDC management and staff
- Discussed our review process, findings, and proposed recommendation at various stages of the review with VBA program officials

The evaluation was conducted in accordance with government auditing standards for qualifications, independence, and 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 conducted a nationwide evaluation of compensation and pension (C&P) system messages that were generated to Department of Veterans Affairs (VA) Regional Offices (VAROs) during the 2nd quarter of Fiscal Year (FY) 1997. With the assistance of the Hines, IL Benefits Delivery Center (BDC), we identified 159,062 C&P system messages that were issued to VAROs during the 2nd quarter of FY 1997.

Sample Design

The sample included 253 randomly selected messages of the 159,062 messages generated in the 2nd quarter of FY 1997 and was based on a non-stratified attribute sampling design at the 95 percent confidence level. We validated the C&P system message data for the sampled cases by verifying the information to the beneficiaries claims folder. We did not independently validate that the messages within the population tested comprised the total universe. However, nothing came to our attention that would lead us to believe that any messages were missing from our review universe.

Sampling Results

We found payment errors could have been prevented in 16.2 percent of the messages reviewed. In an additional 5.1 percent of the messages reviewed, although a payment error did not occur, VAROs had improperly processed the message resulting in the regeneration of identical or similar messages in subsequent months. In addition, based on our analysis and discussions with Veterans Benefits Administration (VBA) and VARO management, we also found that 22.9 percent of the messages reviewed were unnecessary and could have been eliminated or suppressed to prevent unnecessary work by VAROs.

Category of System Generated Messages	Estimated Rate Of Occurrence	Confidence Interval	Estimated Number of Exceptions in the Population
C&P system messages where payment errors were not corrected	16.2 %	+/- 4.5 %	25,768
Occurrence rate in 159,062 message population		+/- 7,158 messages	

Category of System Generated Messages	Estimated Rate Of Occurrence	Confidence Interval	Estimated Number of Exceptions in the Population
C&P system messages where improper processing resulted in the regeneration of similar messages	5.1	+/- 2.7 %	8,112
Occurrence rate in 159,062 message population		+/- 4,295 messages	
C&P system messages that caused unnecessary work	22.9	+/- 5.2 %	36,425
Occurrence rate in 159,062 message population		+/- 8,271 messages	

Analysis of C&P Messages That Could Be Eliminated

We are providing the following information on C&P messages that could be eliminated, or suppressed in some cases, because we believe it will be helpful to VBA management. We determined the first 5 messages could be eliminated or suppressed based on our analysis and discussions with VBA and VARO management. The remaining C&P messages listed (indicated by *) were suggested by VARO management in response to our questionnaire regarding C&P message processing.

<u>Message</u>	<u>Description</u>	<u>Comments or Suggestions</u>
603	Returned Check Applied to Accounts Receivable (A/R)	Eliminate message, A/R are now the responsibility of the Debt Management Center (DMC).
650	X Type Irregular Collection	Eliminate message, A/R are now the responsibility of the DMC.
551	Transportation Amount Excessive	Eliminate message, current controls are adequate to ensure that payment is justified.
661	Recoupment Balance-No Recurring Deductions	Suppress message in cases where veteran is receiving compensation based on nonseverance pay disabilities.
892	Review for Greater Benefit	Suppress message in cases where veteran is a Medicaid nursing home (NH) patient.

<u>Message</u>	<u>Description</u>	<u>Comments or Suggestions</u>
629 *	Status of Accounts Receivable at Term. – Review collection	Eliminate message, A/R are now the responsibility of the DMC.
631 *	Review for Return of VAF 21-4140	Suppress when unemployability is no longer an issue.
631 *	Review Need for Reevaluation	Reprogram to suppress when future exams are scheduled.
652 *	Aid and Attendance (A&A) Termination	Eliminate message, information available from other sources.
660 *	A/R Balance – No Recurring Deduction	Eliminate message, A/R are now the responsibility of the DMC.
730-772 Series *	“Not Adjusted” Series	Reprogram C&P system to automatically adjust these cases.
808 *	Review for Continuous Hospitalization	Eliminate message, these cases are reviewed as part of annual hospitalized veteran and nursing home projects.
815 *	A&A Code Improper	Reprogram to suppress in cases where A&A is not a factor.
835 *	Date EOD Before RAD	Reprogram to suppress when there are multiple service dates.

<u>Message</u>	<u>Description</u>	<u>Comments or Suggestions</u>
855 *	Award Prior to Last Legislative Date	Reprogram to suppress where rates are protected and can't be increased.
860 *	NH Inconsistent with W/H	Reprogram to suppress when a reason 36 is shown in master record after the date of VA Medical Center admission.
878 *	Total Dependent 70 – Only One Parent	Eliminate, message is unnecessary.
885 *	Total Dependent Not Identical On All Records	Reprogram to suppress in apportionment cases, only in certain circumstances.
893 *	PFOP or Severance Added to Net Award	Eliminate, message is unnecessary.

Costs Associated with C&P Message Processing

We discussed the production and processing of C&P system messages with the management and staff of several VAROs and the BDC. The production and processing of C&P system messages consists of various stages.

- Production – Actual production of the messages takes place at the Hines IL, BDC where about six times per month they are printed, sorted, stacked, packaged and mailed to VAROs.
- Distribution – Upon receipt at a VARO, all messages are screened by mailroom personnel to determine the message destination points. Messengers then deliver them to individual units.
- Screening – A unit chief or senior claims examiner then reviews each message to determine whether to pull the claims file or have the message filed. This determination is most often done by researching the message through the benefits delivery network.
- Retrieval – After determining needed action for each message, file personnel arrange all the messages and pull claims files or file the mail. Files that cannot be located are put on special search. Files that are located are distributed to appropriate claims examiners.
- Working the Message – Claims examiners act on the message. Time spent at this stage will vary according to the type of message received. Action taken can include award action, further development of a claim, or a determination that no action is necessary.
- Authorization and Return to File – Award action prepared by the claims examiner is reviewed and authorized by a senior claims examiner and the claims folder is returned to the appropriate storage area.

Through discussion with VARO management and staff, we determined that even if a message does not require actual processing by a claims examiner, significant costs remain. The actual working of the message is only one part of the process. This also applies to those messages referred to the finance operations. VARO Cleveland management estimated it costs \$50 to process an adjudication-related message requiring claims examiner action. Those messages not requiring claims examiner action cost the VARO an estimated \$25.

CALCULATION OF MONETARY IMPACT**Projected
Preventable
Payment
Errors****Compensation & Pension (C&P) Messages Improperly Processed**

- **Underpayments** - In 10 (4.0 percent - 10/253) of the 22 underpayment cases, the messages are only generated once a year (i.e., the 899 series). These 10 cases resulted in underpayments valued at \$5,747 (\$575 average). In calculating our Fiscal Year (FY) 1997 estimates, we used one quarter to estimate for these messages. Based on our sample results, we estimate that during FY 1997 there were 6,362 underpayments (159,062 X 4 percent) valued at \$3.7 million (6,362 x \$575 average underpayment x 1 quarter).

\$3,658,150

In calculating the remaining 12 underpayments (4.7 percent – 12/253), because these messages are generated throughout the year, we projected our results to each quarter of FY 1997. The 12 cases resulted in underpayments valued at \$3,987 (\$332 average). Based on these results, we estimate that during FY 1997 there were 7,476 underpayments (159,062 x 4.7 percent) valued at \$9.9 million (7,476 x \$332 average underpayment x 4 quarters). Adding the two categories of underpayments, we estimate that during FY 1997, there were 13,838 underpayments valued at \$13.6 million.

\$9,928,128

Total Underpayments

\$13,586,278

- **Overpayments** - In calculating our estimated overpayments we used the same method as above. In 16 (6.3 percent - 16/253) of the 19 overpayment cases, the messages again are only generated once a year (i.e., the 899 series). These 16 cases resulted in overpayments valued at \$11,127 (\$695 average). Based on these results, we estimate that during the 2nd quarter of FY 1997 there were 10,021 overpayments (159,062 x 6.3 percent) valued at \$7 million (10,021 x \$695 average payment error x 1 quarter).

\$6,964,595

In calculating the remaining 3 overpayments (1.2 percent – 3/253), because these messages are generated throughout the year, we projected our results to each quarter of FY 1997. The 3 cases resulted in overpayments valued at \$4,920 (\$1,640 average). Based on these results, we estimate that during FY 1997, there were 1,909 overpayments (159,062 x 1.2 percent) valued at \$12.5 million (1,909 x \$1,640 average overpayment x 4 quarters). Adding the two categories of overpayments, we project that during FY 1997, there were 11,930 overpayments valued at \$19.5 million because C&P system messages were not timely and properly processed.

\$12,523,040

Total Overpayments

\$19,487,635

Total Projected Preventable Payment Errors

\$33,073,913

CALCULATION OF MONETARY IMPACT

**Projected
Staff
Resource
Savings**

Certain C&P System Messages Could be Eliminated

Based on our analysis and discussions with Veterans Benefits Administration and Department of Veterans Affairs Regional Office (VARO) management, we determined that 58 of the 253 sample messages (23 percent) could have been eliminated or suppressed without significantly impacting customer service or VARO operations. VARO management estimated that processing finance-related messages costs \$25 and adjudication-related message \$50.

- Our review identified 45 (18 percent) finance-related messages that could be eliminated. By eliminating these unnecessary finance-related messages, staff resources valued at about \$2.9 million annually, could be redirected to those messages that could help improve the accuracy of beneficiary payment and enhance customer service. (159,062 population x 18 percent x \$25 cost of processing a finance-related message x 4 quarters in FY 1997) \$2,863,116

 - We identified 13 (5 percent) adjudication-related messages that could be eliminated or suppressed. By eliminating or suppressing these adjudication-related messages, staff resources valued at about \$1.6 million annually, could also be redirected to process those messages that could help improve the accuracy of beneficiary payment and enhance customer service. (159,062 population x 5 percent x \$50 cost of processing an adjudication-related message x 4 quarters in FY 1997) \$1,590,620

 - Our review also identified 13 (5 percent) messages where VAROs had improperly processed the messages, resulting in the regeneration of an identical or similar message in subsequent months. Processing of these similar or identical messages resulted in an increase in unnecessary VARO workload valued at about \$1.6 million annually. (159,062 population x 5 percent x \$50 cost of processing message x 4 quarters in FY 1997) \$1,590,620
- Total Projected Staff Resource Savings \$6,044,356**

APPENDIX V

**MONETARY IMPACT IN ACCORDANCE WITH IG ACT
AMENDMENTS**

REPORT TITLE: Evaluation of the Effectiveness of Veterans Benefits Administration's Controls to Detect and Prevent Compensation and Pension Benefit Payment Errors

PROJECT NUMBER: 7R1-005

<u>Recommendation</u>	<u>Category / Explanation of Benefits</u>	<u>Recommended Better Use of Funds</u>
a, d	Better Use of Funds: Timely and appropriate processing of compensation and pension (C&P) system messages would prevent payment errors and enhance customer service.	\$19,487,635
b, c	Better Use of Funds: Eliminating unnecessary C&P messages would reduce workload.	<u>6,044,356</u>
	Total Recommended Better Use of Funds	<u>\$25,531,991</u>

NOTE: For recommendations b and c, the Deputy Under Secretary for Management did not agree that eliminating unnecessary C&P messages would reduce workload and allow resources valued at \$6 million to be put to better use. The Deputy Under Secretary provided an alternative estimate of \$0 resources that could be put to better use. We continue to believe our estimate is reasonable. (For additional detail, see Office of Inspector General Comment on page 8.) In addition, recommendations a and d address the recurring nature of the C&P benefit program. Therefore, it is reasonable to project that over the remaining 5 years of the VA Strategic Plan, Fiscal Years (FYs) 1998-2003, \$97 million in benefit overpayments (\$19.4 million x 5 years) will be prevented by processing C&P messages timely and accurately.

MEMORANDUM FROM THE DEPUTY UNDER SECRETARY FOR
MANAGEMENT, DATED MARCH 5, 1998

Department of
Veterans Affairs

Memorandum

Date: March 05, 1998

From: Deputy Under Secretary for Management (20)

Subj: Effectiveness of VBA Controls to Detect and Prevent Compensation and Pension
Benefit Payment Errors

To: Assistant Inspector General for Auditing (52)

1. We have reviewed your draft report titled "Evaluation of the Effectiveness of Veterans Benefits Administration Controls to Detect and Prevent Compensation and Pension Benefit Payment Error." We are pleased to respond to the recommendations which accompanied your report.

2. Prevention of payment errors, whether for compensation and pension or any other benefit program, will continue to be an issue of great concern to the Department. At the same time, we are always eager to enhance customer service and eliminate unnecessary work wherever feasible. Therefore, we welcome recommendations from OIG in this regard. We will address each of your recommendations:

Recommendation: We recommend that the Under Secretary for Benefits take action to improve the effectiveness of VBA controls to detect and prevent C&P benefit payment errors and enhance customer service by:

a. Requiring VARO management to monitor the timeliness and accuracy of actions taken in response to C&P system messages.

We concur with this recommendation. We plan to change our procedures to provide that any message code writeout that may potentially lead to either an overpayment or an underpayment must be placed under end product control along with active mail which is established in the system under the "CEST" (claims establishment) command. This will be discussed in a training letter and will also be incorporated into M21-1, Part III, Chapter 2. This will enable management to monitor and control the most important messages just as claims are now monitored through the Work-in-Progress (WIPP) Subsystem. The target completion date for both manual changes and the training letter is April 30, 1998.

**MEMORANDUM FROM THE DEPUTY UNDER SECRETARY FOR
MANAGEMENT, DATED MARCH 5, 1998 (Continued)**

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Assistant Inspector General for Auditing (52)

b. Eliminating or suppressing those messages, 603, 650, 892, 661, and 551, discussed in this report and shown in Appendix III, that do not impact payment accuracy and customer service.

We concur that the 551, 603, 629, 650, 652, 660, 878, and 893 messages should be eliminated. We further agree that reprogramming is needed for the 631, 815, 835, 855, 892, and 730-772 series message codes so that they are generated only when there is potential need for review. However, we believe that message codes 661, 808, 860, and 885 serve their intended purpose. We will include a full explanation of these message codes as well as all others in a training letter we plan to issue by April 30, 1998. We will not be able to provide a target completion date for the reprogramming involved until we are able to assess carefully the impact on other high priority issues such as Year 2000 and legislative changes.

c. Encouraging VAROs to identify messages that result in unnecessary work and initiate action to eliminate them.

We concur. We discussed this issue during the Adjudication Officers' Conference Call held on February 19, 1998.

d. Gathering and disseminating VARO best practices for managing C&P system messages.

We believe the issuance of a training letter on this subject will essentially serve the purpose of providing the field with "best practices" for handling system messages.

3. VBA does not concur with the estimated \$6,044,356 savings presented in this report. As we discussed with the representatives of the IG, we do not believe these program dollars will materialize. We do support most of the recommendations and believe they will enhance our ability to perform our business.

The report notes that fully 44 percent of the error writeouts reviewed did not serve as an effective control to ensure the quality of customer service or the accuracy of benefit payments. We cannot support an estimated \$25 or \$50 per writeout cost on which this figure is based. From our internal analysis, these figures are too high. The IG estimate does not take into consideration any costs in labor or technology to implement any of the recommended changes. These must be considered when estimating the cost of the proposals presented.

**MEMORANDUM FROM THE DEPUTY UNDER SECRETARY FOR
MANAGEMENT, DATED MARCH 5, 1998 (Continued)**

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Assistant Inspector General for Auditing

For these reasons, we have agreed to disagree with the estimates provided in the report. We believe many of the recommendations will contribute to processing improvements, but not to the amount noted. We believe the savings now to be estimated at \$0, but that the recommendation will now allow us to process those claims that will contribute to the estimated benefits savings.

4. Thank you for providing a copy of your findings concerning the effectiveness of payment system messages.

(Original signed by)
Nora Egan

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