



**Department of Veterans Affairs  
Office of Inspector General**

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**Audit of Veterans Benefits  
Administration Controls to Minimize  
Compensation Benefit Overpayments**

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## Executive Summary

### Introduction

The VA Office of Inspector General (OIG) audited compensation accounts receivable to determine if Veterans Benefits Administration (VBA) controls to minimize avoidable overpayments were effective. Overpayments and the resulting collection efforts can cause veterans and their dependent family members (beneficiaries) undue financial hardships.

### Background

Title 38 Code of Federal Regulations (CFR), Part 3, provides for the payment of compensation to veterans for conditions they incurred or aggravated during military service. The amount of compensation a beneficiary is entitled to may change for reasons such as a change in the status of dependents or the death of a beneficiary. Compensation overpayments generally occur when beneficiaries receive payments to which they are not entitled because VBA has not updated its records to reflect the beneficiaries' changes in status. It is in the interest of both the beneficiaries and the Government for VBA staff to take prompt action to adjust compensation benefits to reduce overpayments and the need for collection actions that can present financial hardships for beneficiaries.

When VBA receives evidence showing a change in a beneficiary's status, VBA is required to notify the beneficiary of any decision to adjust (reduce or terminate) benefits. If a beneficiary (first party) is the source of the evidence, VBA staff should take action immediately and send a notice to the beneficiary explaining the change. If the source of the evidence is from a third party (other than the beneficiary), VBA staff should notify the beneficiary of a proposed adverse action that could adjust benefits (predetermination notification), and should provide the beneficiary an opportunity to provide additional evidence to contest the action. A beneficiary has 60 days to respond to this notification and VBA allows an additional 5 days for mail receipt.

VBA refers beneficiary debts, including debts caused by compensation benefit overpayments, to the VA Debt Management Center (DMC). The DMC notifies a beneficiary of the debt and the requirement to respond within 30 days with one of four actions: (1) dispute the debt, (2) request a waiver, (3) send payment in full, or (4) contact the DMC to make reasonable repayment arrangements. This initial demand letter notifies a beneficiary that if they do not respond within 30 days, VBA will withhold the beneficiary's monthly benefits. If a beneficiary does not respond, a second demand letter notifies the beneficiary that the DMC will refer the delinquent debt to the Treasury Offset Program (TOP) for further collection action unless the beneficiary makes an acceptable repayment arrangement. When the DMC refers a debt to the TOP, the DMC reports the debt to credit bureaus, which could limit a beneficiary's ability to secure credit. The

DMC will also report delinquent debts to the U.S. Department of Housing and Urban Development, which can limit beneficiaries' ability to obtain other benefits, such as VA guaranteed home loans. The DMC can also refer accounts for additional collection efforts to private collection agencies.

From January 2004 through March 2006, beneficiaries were paid \$63.7 billion for compensation, and VBA established 181,835 compensation accounts receivable totaling \$481.4 million. We selected a stratified sample from the universe of 181,835 accounts receivable using statistical sampling software. The audit sample included 940 accounts receivable totaling \$56.9 million. It consisted of all 340 accounts receivable over \$100,000, totaling \$47.8 million, and a random stratified statistical sample of 600 accounts receivable, totaling \$9.1 million, selected from the remaining 181,495 accounts receivable.

VBA M21-4, dated October 3, 1996, includes timeliness goals for processing notifications depending on the action required. For example, if a VA Regional Office (VARO) receives a notice of a dependency change from a beneficiary, the VARO has 25 days to complete the action from the date of receipt. Although VBA had implemented significant process changes since 1996, it had not revised the timeliness goals. For example, in 2001 VBA established the Claims Processing Task Force to improve timeliness and reduce pending claims. The task force recommended that VAROs make organizational structure and processing changes and, in 2005, implemented the current Claims Processing Improvement Model. Because timeliness goals had not been revised since 1996, we met with senior VBA officials to establish a reasonable timeframe for evaluating processing timeliness. VBA officials stated that 30 days was a reasonable standard to initiate action for all compensation benefit adjustments if VBA staff were not required to develop or issue a predetermination notification. If a predetermination notification was required (usually for a third party notification), 95 days was a reasonable standard. These 95 days consisted of 30 days for VARO staff to initiate the action, 60 days for the beneficiary to respond to the predetermination notification, and 5 days for mail time.

## Results

VBA did not have effective controls to ensure that VARO staff took prompt action to adjust compensation benefits. Beneficiaries indebted to VA because of compensation overpayments can experience financial hardships if the DMC takes collection action. Our review of 940 accounts receivable showed, and management agreed, that VARO staff did not take prompt action to adjust 209 (22 percent) cases, which resulted in \$5.8 million in avoidable overpayments. For each case, we reviewed claims folders and Benefit Delivery Network records to determine when and how VBA became aware of a beneficiary's change in status. We used this information to determine when VBA staff should have adjusted an award, and if they did, within either 30 days for first party

notifications or 95 days for third party notifications. We estimated that VBA and beneficiaries could have avoided \$50.8 million of the \$481.4 million in overpayments had VBA staff processed adjustments promptly.

For the 209 avoidable overpayments, 53 were first party notifications with delays of more than 30 days, and 156 were third party notifications with delays of more than 95 days. The 53 first party notification delays averaged 29 months and the 156 third party notification delays averaged 32 months. Many of these delays occurred before VARO staff placed the required actions under control. Placing information under control is VBA's mechanism to manage and account for workload by assigning an end product code (EPC) to information received at a VARO. For example, when a beneficiary submits a divorce decree to the VARO, the VARO mailroom will date stamp the document and forward it to the VARO staff responsible for processing the adjustment. The action is not placed under control until the VARO staff assigns it an EPC. The VARO risks losing accountability and visibility over the required action until staff place the document under control.

Procedures did not ensure that VARO staff processed compensation adjustments promptly. We identified avoidable overpayments at 46 of the 57 VAROs. For the 46 VAROs, 38 Veterans Service Center Managers (VSCM) attributed the cause to VBA's emphasis on processing pending disability rating claims, which have increased 19 percent from approximately 320,000 in fiscal year (FY) 2004 to 380,000 in FY 2006. As a result, VARO VSCMs gave a lower priority to other workload, including compensation benefit adjustments.

VSCMs at 11 VAROs attributed the cause to limited staffing resources. We acknowledge that staffing limitations contributed to the processing delays, and if VARO managers use additional staff to process adjustments, timeliness should improve. The FY 2008 VBA budget submissions included funding requests for at least 470 additional Veterans Service Center full-time equivalent employees. VBA expects that additional staff resources will assist in improving timeliness of adjustment cases and minimizing the potential financial hardship resulting from overpayments and collection actions.

During the period of our review, VBA did not effectively monitor and report compensation benefit adjustment workload. For FY 2007, VARO Director's performance goals were revised to require that 97 percent of adjustments be completed in less than 1 year. However, we do not believe this goal adequately addresses the need to minimize compensation benefit overpayments because a 1-year delay in processing adjustments can result in significant overpayments to beneficiaries.

## **Conclusion**

VBA needed to improve timeliness of processing compensation benefit adjustments. VBA should improve standards and establish a mechanism to routinely monitor and

report the timeliness of compensation benefit adjustments. Routinely monitoring and reporting the timeliness of adjustments will increase emphasis on compensation benefit adjustments and better ensure that VARO staff promptly adjusts compensation benefit payments. Improving timeliness of processing compensation benefit adjustments should reduce overpayments and the resulting collection efforts that can burden beneficiaries.

## Recommendations

1. We recommended that the Under Secretary for Benefits establish a 30-day standard for initiating action for compensation benefit adjustments and allow 65 additional days for a predetermination notification response when required.
2. We recommended that the Under Secretary for Benefits monitor the timeliness of compensation benefit adjustments.
3. We recommended that the Under Secretary for Benefits implement corrective actions to improve the timeliness of compensation benefit adjustments when monitoring shows unacceptable compliance with established standards.

## Under Secretary for Benefits Comments

The Under Secretary for Benefits agreed with the finding and recommendations of the report and provided acceptable implementation plans. (See Appendix D, pages 15-17, for the full text of the Under Secretary's comments.) In response to the audit recommendations, the Under Secretary agreed to issue procedural guidance requiring VARO staff to initiate action within 30 days of receipt on first and third party information that could reduce a beneficiary's compensation benefits. If a predetermination notice is required, a 65-day response time will be the standard. The Under Secretary also agreed to reiterate the required controls needed to monitor timely completion of compensation benefit adjustments. VBA staff will monitor timeliness and VARO directors whose stations are significantly out-of-line in processing the adjustments will be contacted. We will follow up on the planned actions in this report until they are completed.

*(original signed by:)*

BELINDA J. FINN  
Assistant Inspector General  
for Auditing

## Introduction

### Purpose

We audited compensation accounts receivable to determine if VBA controls to minimize avoidable overpayments were effective. Overpayments can cause beneficiaries undue financial hardships created by collection efforts.

### Background

Title 38 CFR, Part 3, provides for the payment of compensation to veterans for conditions they incurred or aggravated during military service. The amount of compensation a beneficiary is entitled to may change for reasons such as a change in the status of dependents or the death of a beneficiary. Compensation overpayments generally occur when beneficiaries receive payments to which they are not entitled because VBA has not updated its records to reflect beneficiaries' changes in status. It is in the interest of both the beneficiaries and the Government for VBA staff to take prompt action to adjust compensation benefits to reduce overpayments and the need for collection actions that can present financial hardships for beneficiaries.

When VBA receives evidence showing a change in a beneficiary's status, VBA is required to notify the beneficiary of any decision to adjust benefits. If a beneficiary (first party) was the source of the evidence, VBA staff should take action immediately and send notice to the beneficiary explaining the change. If the source of the evidence is from a third party (other than the beneficiary), VBA staff should notify the beneficiary of a proposed adverse action that could adjust benefits (predetermination notification), and should extend the beneficiary an opportunity to provide additional evidence to contest the action. A beneficiary has 60 days to respond to this notification, and VBA allows an additional 5 days for mail time.

VBA M21-4, dated October 3, 1996, includes timeliness goals for processing notifications depending on the action required. For example, if a VARO receives a notice of a dependency change from a beneficiary, the VARO has 25 days to process the action from the date of receipt. Although VBA implemented significant process changes since 1996, VBA has not revised the timeliness goals. For example, in 2001 VBA established the Claims Processing Task Force to improve timeliness and reduce pending claims. The task force recommended that VAROs make organizational structure and processing changes and, in 2005, implemented the current Claims Processing Improvement Model.

VBA refers beneficiary debts, including debts caused by compensation benefit overpayments, to the DMC. The DMC notifies a beneficiary of the debt and the requirement to respond within 30 days with one of four actions: (1) dispute the debt, (2) request a waiver, (3) send payment in full, or (4) contact the DMC to make reasonable



repayment arrangements. This initial demand letter notifies a beneficiary that if they do not respond within 30 days, VBA will withhold the beneficiary's monthly benefits.

If a beneficiary does not adequately respond to an initial demand letter, a second demand letter notifies the beneficiary that VBA will refer the debt to the TOP for further collection action unless the beneficiary makes an acceptable repayment arrangement. The TOP reduces Federal payments such as:

- Income tax refunds.
- Federal wages, including military pay.
- Retirement pay, including military and civil service retirement pay.

To maximize collection of delinquent debts owed the Government, the Debt Collection Improvement Act of 1996 requires quick and aggressive actions to enforce recovery of debts and adequate monitoring of the accounts. To reduce losses, agencies are required to share information among Federal agencies. When the DMC refers a debt to the TOP, the DMC reports the debt to credit bureaus, which could limit a beneficiary's ability to secure credit. The DMC will also report delinquent debts to the U.S. Department of Housing and Urban Development, which can limit beneficiaries' ability to obtain other benefits, such as VA guaranteed home loans. The DMC can also refer accounts for additional collection efforts to private collection agencies.

## **Scope and Methodology**

The audit included reviews of applicable laws, regulations, policies, procedures, guidelines, and interviews of employees at VBA Central Office, VBA Area Offices, the DMC, and eight VAROs. The audit also included reviews of Benefits Delivery Network records and a national statistical sample of accounts receivable. We obtained written agreement from VARO management for each case identified with an avoidable overpayment. We interviewed DMC officials to determine the impact that collection procedures had on beneficiaries' accounts receivable.

From January 2004 through March 2006, beneficiaries received compensation payments totaling \$63.7 billion and VBA established 181,835 compensation accounts receivable totaling \$481.4 million. We selected a stratified sample from the universe of 181,835 accounts receivable using statistical sampling software. The audit sample included 940 accounts receivable totaling \$56.9 million. It consisted of all 340 accounts receivable over \$100,000, totaling \$47.8 million, and a random stratified statistical sample of 600 accounts receivable, totaling \$9.1 million, selected from the remaining 181,495 accounts receivable. (See Appendix B for the details of our stratified sample.)

Because timeliness goals had not been revised since 1996, we met with senior VBA officials to establish a reasonable timeframe for evaluating benefit adjustment processing timeliness. VBA officials stated that 30 days was a reasonable standard to initiate action

for all compensation benefit adjustments if VBA staff were not required to develop or issue a predetermination notification. If a predetermination notification was required (usually for a third party notification), 95 days was a reasonable standard. These 95 days consisted of 30 days for VARO staff to initiate the action, 60 days for the beneficiary to respond to the predetermination notification, and 5 days for mail time.

We compared DMC computer-generated data identifying a beneficiary, claim number, accounts receivable amount, and date created to information in VBA claims folders and Benefits Delivery Network records. We determined the computer-generated data was sufficiently reliable for the audit objective.

The audit focused only on the internal controls related to the audit objective of determining if VBA controls minimized the financial hardship on beneficiaries caused by avoidable compensation benefit overpayments. Our assessment was not intended to form an opinion on the adequacy of VBA's internal controls overall. Therefore, we do not render such an opinion. The audit was conducted in accordance with generally accepted government auditing standards.

## Results and Conclusions

### Controls Over Compensation Benefit Adjustments Needed Strengthening

#### Findings

VBA staff did not take prompt action on compensation benefit adjustments resulting in overpayments. These overpayments can increase financial hardships on beneficiaries when the DMC initiates collection actions. VBA management needed to strengthen controls by establishing requirements to routinely report and monitor the timeliness of compensation benefit adjustments. We estimated VBA could have minimized beneficiaries’ financial hardships and avoided \$50.8 million of the \$481.4 million in overpayments had VBA staff processed adjustments promptly.

**Compensation Benefit Adjustments Need To Be Timely.** Our review of 940 sample cases showed, and VARO management agreed, that staff did not take prompt actions to adjust 209 (22 percent) of the cases, which resulted in \$5.8 million in avoidable overpayments. Table 1 shows that for the 209 avoidable overpayments, 53 were first party notifications with delays of more than 30 days, and 156 were third party notifications with delays of more than 95 days. The 53 first party notification delays averaged 29 months and the 156 third party notification delays averaged 32 months. Many of these delays occurred before VARO staff placed the required actions under control. Placing information under control is VBA’s mechanism to manage and account for workload by assigning an EPC to information received at the VARO. For example, when a beneficiary submits a divorce decree to the VARO, the VARO mailroom will date stamp the document and forward it to the VARO staff responsible for processing the adjustment. The action is not placed under control until the VARO staff assigns an EPC to the action. The VARO risks losing accountability and visibility over the required action until staff place the document under control.

**Table 1. Average Months From VA Notification to Authorization**

<b>Type of Notification</b>	<b>Total Cases with Overpayments</b>	<b>Average Months</b>		
		<b>From Notification to EPC Control</b>	<b>From EPC Control to Authorization</b>	<b>Total: From Notification to Authorization</b>
1 <sup>st</sup> Party	53	26	3	29
3 <sup>rd</sup> Party	156	28	4	32

For each case, we reviewed claims folders and Benefit Delivery Network records to determine when and how VARO staff became aware of a beneficiary’s change in status. (See Appendix A for the details of our sample results.) We used this information to

determine when VBA staff should have adjusted the award and whether processing delays occurred. The primary categories and amounts reviewed were death of beneficiary, change of dependent’s status, beneficiary incarcerated for felony, beneficiary was a fugitive felon, beneficiary hospitalized at VA expense, and other lesser used categories.

**Chart 1. Cases with Processing Delays**

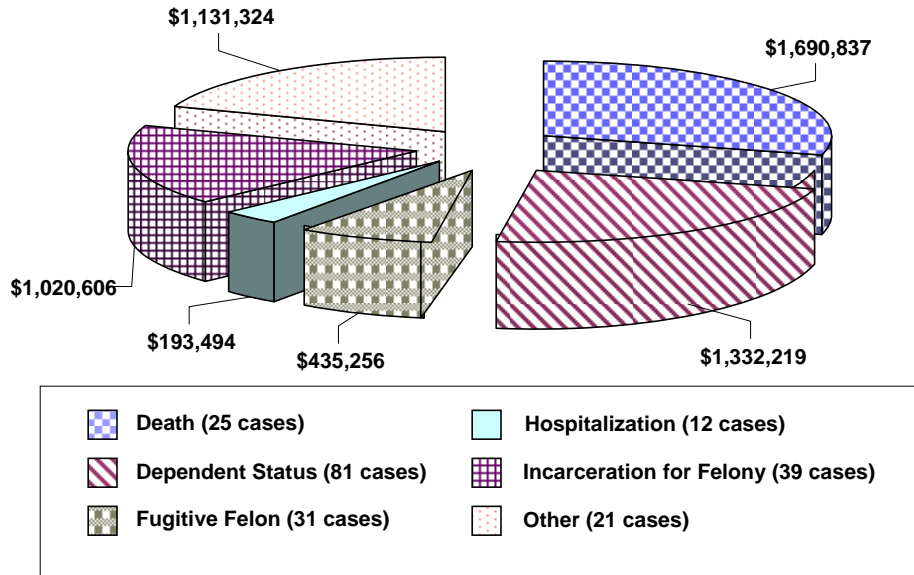


Chart 1 categorizes the 5 primary changes in beneficiaries’ status for 188 (90 percent) of the 209 cases that led to \$4.7 million in avoidable overpayments. The remaining 21 cases with processing delays and \$1.1 million in avoidable overpayments were attributed to less common changes in the beneficiary’s status. Some of the more significant examples for each of the categories are included below.

Death of Beneficiary. Title 38 CFR, Part 3.500, requires that the effective date to discontinue compensation be the last day of the month before a beneficiary’s death. Our sample included 308 cases with accounts receivable totaling \$8.4 million related to beneficiaries who had died. Of these 308 cases, 25 (8 percent) with avoidable overpayments totaling \$1.7 million resulted from processing delays ranging between 42 days and 15 years and averaging 6 years. In 14 of the 25 cases, VARO staff delayed processing adjustments for over 5 years. For example, a beneficiary died on May 15, 1989, and VARO staff received a record of interment from the VA National Cemetery on June 1, 1989. However, VBA staff did not terminate benefits until December 20, 2004. The VARO’s VSCM agreed that VBA could have avoided \$147,258 (98 percent) of a \$150,108 overpayment if staff had promptly acted when the

VARO staff received the information in 1989. In April 2006, a Federal court found the son of the beneficiary guilty of theft of Government funds.

Changes in Dependent Status. VA criteria require reduction of benefits for the loss of a dependent due to marriage, annulment, divorce, or death. Our sample included 315 cases with accounts receivable totaling \$23.5 million related to beneficiaries who had a change in the status of dependents. Of these 315 cases, 81 (26 percent) with avoidable overpayments totaling \$1.3 million resulted from processing delays ranging between 60 days and 10 years and averaging 2 years. In 32 of the 81 cases, VARO staff delayed processing the adjustments for over 1 year. For example, a widow receiving dependency and indemnity compensation remarried in 1986 and notified VBA of the marriage on April 7, 1995, and again on March 7, 2003. However, VARO staff did not terminate benefits until January 7, 2004. The VARO's VSCM agreed that VBA could have avoided \$104,886 (58 percent) of a \$179,966 overpayment had VARO staff taken prompt action when notified of the remarriage in 1995.

Beneficiary Incarcerated for Felony. VA criteria require reduction of benefits for a beneficiary who has been incarcerated for more than 60 days following conviction for a felony. Our sample included 80 cases with accounts receivable totaling \$8.5 million related to beneficiaries incarcerated for a felony. Of these 80 cases, 39 (49 percent) with avoidable overpayments totaling \$1 million resulted from processing delays ranging between 110 days and 19 years and averaging 2 ½ years. In 16 of the 39 cases, VARO staff delayed processing the adjustments for over 1 year. For example, a beneficiary was incarcerated for a felony in 1993. On September 1, 2002, a VA Form 21-0538 (Status of Dependents Questionnaire) was received unsigned. VARO staff should have investigated to determine why the form was unsigned; however, no further action was initiated until July 22, 2005, when another unsigned VA Form 21-0538 was received. VBA did not reduce benefits until January 25, 2006. The VARO's VSCM agreed that VBA could have avoided \$35,868 (33 percent) of a \$107,819 overpayment if VARO staff had taken prompt action to follow up after receiving the unsigned questionnaire in 2002.

Beneficiary was a Fugitive Felon. VA criteria prohibit payment to beneficiaries while they are fugitive felons. Our sample included 55 cases with accounts receivable totaling \$3.3 million related to beneficiaries who were fugitive felons. Of these 55 cases, 31 (56 percent) with avoidable overpayments totaling \$435,256 resulted from processing delays ranging between 113 days and 3 ½ years and averaging 1 year. In 18 of the 31 cases, VARO staff delayed processing the adjustments for over 6 months. For example, VARO staff were notified on March 15, 2004, that a beneficiary was a fugitive felon. VARO staff did not initiate action to suspend benefits until November 8, 2005. The VARO's VSCM agreed that VBA could have avoided \$45,872 (26 percent) of a \$175,669 overpayment had VARO staff taken timely action in 2004.

Beneficiary Hospitalized at VA Expense. Title 38 CFR, Part 3.552, requires that additional compensation paid for aid and attendance be discontinued when a beneficiary

is hospitalized at VA expense. Our sample included 28 cases with accounts receivable totaling \$2.4 million related to beneficiaries who were hospitalized at VA expense. Of these 28 cases, 12 (43 percent) with avoidable overpayments totaling \$193,494 resulted from processing delays ranging between 99 days and 18 ½ years and averaging 4 years. In 8 of the 12 cases, VARO staff delayed processing the adjustments for over 1 year. For example, a VA Nursing Home Care Unit admitted a beneficiary on March 19, 1985, and subsequently transferred the beneficiary to a VA medical center. The claims folder contained VA medical center progress reports dated as early as April 28, 1987. However, VARO staff did not reduce benefits until November 16, 2005. VARO staff waived the overpayment in December 2005 when the beneficiary requested a waiver, and the VARO determined that the beneficiary was not at fault. The staff waived the overpayment because VARO staff had received several reports stating the beneficiary had transferred to a VA medical center as early as May 1986. The earliest progress reports in the claims folder were dated April 28, 1987. Therefore, the VARO's VSCM agreed that VBA could have avoided \$52,031 (93 percent) of a \$55,971 overpayment had VARO staff taken timely action in April 1987.

Other Changes in Beneficiary's Status. Our sample included 110 cases with accounts receivable totaling \$8.5 million related to beneficiaries who were on active duty, had changes in employment status, had been awarded tort claims, had apportionment adjustments, or had school benefit adjustments. Of these 110 cases, 21 (19 percent) with avoidable overpayments totaling \$1.1 million resulted from processing delays ranging between 51 days and almost 12 years and averaging 2 ½ years. In 13 of the 21 cases, VARO staff delayed processing adjustments for over 1 year. For example, a beneficiary was awarded a tort claim settlement for personal injury resulting from medical treatment at a VA medical center in 1992. The beneficiary was also receiving compensation for that same disability injury suffered at the medical center. Title 38 CFR, Part 3.8000(a)(2), requires that when a tort claim is concluded by settlement based on the same disability for which entitlement to compensation benefits is established, such compensation benefits are to be offset. VA's General Counsel decided to settle the claim to pay the beneficiary and notified VARO staff on March 7, 2000. However, VARO staff did not take action until July 27, 2005. The VARO's VSCM agreed that VBA could have avoided \$152,829 (96 percent) of a \$159,288 overpayment had VARO staff taken action when notified of the tort claim in 2000.

**VBA Needs To Emphasize Controls over Compensation Benefit Adjustments.**

Current procedures did not ensure that VARO staff processed compensation adjustments promptly. VBA staff should take action immediately when they are notified of a beneficiary's change of status from various sources. For example, a computer match with the Social Security Administration identifies VA beneficiaries who may be deceased. Upon notification, VBA staff should initiate action to contact the beneficiary's family to verify and obtain the date of death.

We identified avoidable overpayments at 46 of VA's 57 VAROs. For the 46 VAROs, 38 VSCMs attributed the cause to the emphasis on processing pending disability rating claims, which had increased 19 percent from approximately 320,000 in FY 2004 to 380,000 in FY 2006. As a result, VBA gave a lower priority to other workload, including compensation benefit adjustments.

VSCMs at 11 VAROs cited limited staffing resources as the cause for avoidable overpayments. We acknowledge that staffing limitations contributed to the processing delays, and if VARO managers use additional staff to process adjustments, timeliness should improve. The FY 2008 VBA budget submissions included funding requests for at least 470 additional Veterans Service Center full-time equivalent employees. VBA expects these additional staff to provide resources to improve timeliness of adjustment cases and to minimize potential financial hardship resulting from overpayments and collection actions.

During the period of our review, VBA did not effectively monitor and report compensation benefit adjustment workload. For FY 2007, VBA revised the VARO Directors' performance goals to require 97 percent of the adjustments be completed in less than 1 year. However, we do not believe this goal adequately addresses the need to minimize compensation benefit overpayments. A 1-year delay in processing adjustments can result in significant overpayments to beneficiaries.

**VBA Needs To Minimize the Financial Hardship on Beneficiaries.** We estimated that VBA could have avoided \$50.8 million in overpayments and reduced financial hardships on beneficiaries by implementing better controls over the processing of compensation benefit adjustments. When VARO staff do not take prompt action to adjust benefits, the amount of debt can accumulate to such a level that repayment within a reasonable time becomes difficult for beneficiaries with limited income. The following examples show the monetary impact on beneficiaries when VARO staff do not take prompt action to process compensation benefit adjustments.

- On November 18, 2002, a VA medical center admitted a beneficiary for care. The beneficiary's claims folder contained admission reports dated November 27, 2002, and January 3, 2003, that were annotated "No Action Necessary" by VBA staff. The VSCM agreed that VARO staff should have initiated action and adjusted compensation benefits in January 2003 based on the VA hospitalization, which would have eliminated most of the debt. However, VARO staff did not reduce benefits until June 23, 2005. The VSCM agreed that, had the staff taken prompt action, VBA could have avoided \$65,286 (90 percent) of the \$72,666 overpayment. As a result, VBA reduced the beneficiary's monthly benefit from \$3,531 to \$1,972 to repay the debt. As of November 2006, the debt balance was \$38,958 with the monthly benefit payment reduction scheduled to continue until January 2009.

- On May 30, 2001, VBA awarded benefits to a beneficiary at the 100 percent compensation level because he was unemployable. The beneficiary notified VA as early as August 2001 that he was employed. However, VBA staff did not reduce benefits until June 2005. The VSCM agreed that staff should have taken action to discontinue the additional benefits for unemployability in August 2001, which would have eliminated \$55,353 (85 percent) of a \$64,753 overpayment. As a result, VBA reduced the beneficiary's monthly benefit from \$1,232 to \$632 to repay the debt. As of November 2006, the debt balance was \$55,206 with the monthly benefit payment reduction scheduled to continue until July 2014.
- On November 20, 1995, a beneficiary was incarcerated for a felony. VBA staff were notified in September 2001 that the beneficiary was incarcerated, but VBA staff did not adjust benefits until July 2005. The VSCM agreed that staff did not take prompt action and could have avoided \$81,803 (43 percent) of a \$190,229 overpayment. The prison released the beneficiary on September 30, 2004. However, due to the overpayment, VBA reduced the beneficiary's \$2,393 monthly benefit to \$1,293 to repay the debt. As of November 2006, the debt balance was \$54,002 with the monthly benefit payment reduction scheduled to continue until January 2011.

Monitoring and reporting the timeliness of actions taken will strengthen controls and better ensure that VARO staff promptly adjusts compensation benefit payments, thereby reducing potential financial hardships on beneficiaries. Based on the sample results, we estimated that \$50.8 million in compensation overpayments could have been avoided had VBA staff processed compensation benefit adjustments promptly.

## **Conclusion**

VBA needed to improve timeliness of processing compensation benefit adjustments. VBA should improve standards and establish a mechanism to routinely monitor and report the timeliness of compensation benefit adjustments. Routinely monitoring and reporting the timeliness of adjustments will increase emphasis on compensation benefit adjustments and better ensure that VARO staff promptly adjusts compensation benefit payments. Improving timeliness of processing compensation benefit adjustments should reduce overpayments and the resulting collection efforts that can burden beneficiaries.



## Recommendations

1. We recommended that the Under Secretary for Benefits establish a 30-day standard for initiating action for compensation benefit adjustments and allow 65 additional days for a predetermination notification response when required.

The Under Secretary for Benefits agreed and stated that VBA will issue procedural guidance requiring staff to initiate action within 30 days of receipt on first and third party information that will potentially result in a reduction of compensation benefits. When a predetermination notice is required, the standard 65-day response time will continue following issuance of the predetermination notice. A Fast Letter addressing these procedures will be provided to the VAROs by November 1, 2007, and the VBA manual will be updated by December 31, 2007.

2. We recommended that the Under Secretary for Benefits monitor the timeliness of compensation benefit adjustments.

The Under Secretary for Benefits agreed and stated that the Fast Letter, to be provided to the VAROs by November 1, 2007, will clearly outline the controls necessary to facilitate monitoring.

3. We recommended that the Under Secretary for Benefits implement corrective actions to improve the timeliness of compensation benefit adjustments when monitoring shows unacceptable compliance with established standards.

The Under Secretary for Benefits agreed and stated that VBA will re-emphasize the importance of timely completion of compensation benefit adjustments that result in overpayment of benefits on the weekly Associate Deputy Under Secretary for Field Operations conference call and the monthly Veteran Service Center Managers conference call. The Fast Letter, to be provided to the VAROs by November 1, 2007, will also discuss the importance of timely completion of adjustments, and timeliness will be added as an area of review under the Internal Controls Systematic Analyses of Operations. The VARO directors are responsible for ensuring that programs and policies are implemented, assessing through an effective internal controls process, and adjusting as necessary to achieve appropriate results. VBA will monitor the end product timeliness of corrective actions and contact VARO directors whose stations are significantly out-of-line in processing the adjustments.

## Overpayments by VA Regional Office

For each VARO, we identified the number of first and third party cases with avoidable overpayments. We identified the percentage of cases in error and the total dollar value of the avoidable overpayments at each VARO.

VARO	First Party Notification			Third Party Notification		
	No. of Cases	Percentage of Cases	Avoidable Overpayment for Cases	No. of Cases	Percentage of Cases	Avoidable Overpayment for Cases
Albuquerque, NM	1	33%	\$4,700	1	25%	\$10,665
Anchorage, AK	0	0%	0	3	75%	1,709
Atlanta, GA	3	27%	34,783	4	27%	53,414
Baltimore, MD	0	0%	0	5	45%	432,489
Boston, MA	2	29%	9,442	8	38%	267,878
Cheyenne, WY	0	0%	0	1	100%	24,113
Chicago, IL	1	9%	3,307	1	17%	18,980
Cleveland, OH	2	15%	154,250	5	38%	128,661
Columbia, SC	1	20%	4,074	2	33%	12,995
Denver, CO	1	33%	4,965	6	60%	161,784
Des Moines, IA	1	100%	8,121	0	0%	0
Detroit, MI	0	0%	0	4	33%	132,677
Hartford, CT	0	0%	0	3	60%	80,449
Houston, TX	3	30%	27,114	9	33%	176,250
Huntington, WV	1	25%	18,683	0	0%	0
Indianapolis, IN	1	14%	2,394	0	0%	0
Jackson, MS	0	0%	0	1	13%	449,204
Little Rock, AR	1	20%	1,904	2	40%	144,126
Los Angeles, CA	3	14%	1,167	2	18%	16,676
Louisville, KY	0	0%	0	6	67%	249,749
Milwaukee, WI	1	17%	172	4	25%	14,917
Montgomery, AL	1	9%	9,472	7	70%	109,668
Muskogee, OK	3	20%	24,274	7	32%	405,470
Nashville, TN	1	25%	8,451	3	25%	12,460
New Orleans, LA	1	8%	99,805	0	0%	0
New York, NY	2	13%	62,355	3	43%	199,790
Oakland, CA	2	11%	3,777	7	39%	127,952
Philadelphia, PA	1	11%	8,365	2	13%	57,647
Phoenix, AZ	1	9%	11,774	0	0%	0
Pittsburgh, PA	0	0%	0	1	8%	6,821
Portland, OR	0	0%	0	2	50%	9,809
Reno, NV	0	0%	0	1	25%	89,442
Roanoke, VA	3	33%	175,670	4	33%	29,966
Salt Lake City, UT	0	0%	0	1	100%	4,372
San Diego, CA	3	30%	3,490	5	42%	106,922
San Juan, PR	0	0%	0	1	17%	30,678
Seattle, WA	2	29%	16,925	4	17%	50,919
St. Louis, MO	1	10%	8,177	4	40%	70,634
St. Paul, MN	2	25%	17,224	1	8%	8,956
St. Petersburg, FL	2	8%	10,896	12	27%	146,787
Togus, ME	0	0%	0	2	33%	3,915
Waco, TX	2	8%	159,165	11	30%	404,234
Washington, DC	2	29%	107,185	4	67%	206,370
Wichita, KS	0	0%	0	2	25%	25,166
Wilmington, DE	0	0%	0	1	100%	5,280
Winston-Salem, NC	2	15%	83,336	4	15%	228,326
<b>Total</b>	<b>53</b>	<b>13%</b>	<b>\$1,085,417</b>	<b>156</b>	<b>29%</b>	<b>\$4,718,320</b>

## Sampling Methodology and Estimates

### Universe

The universe consisted of 181,835 compensation accounts receivable totaling \$481.4 million established from January 2004 through March 2006.

### Sampling Design

We used a random sampling design that included five strata based on the accounts receivable amount. The following table shows details of our stratified universe of 181,835 accounts receivable.

#### Stratified Universe of Accounts Receivable

Stratified Dollar Range	Number of Accounts Receivable	Dollar Amounts
\$0-\$1,000	101,172	\$ 36,654,887
\$1,001-\$5,000	64,216	149,773,209
\$5,001-\$25,000	13,742	132,745,641
\$25,001-\$99,999	2,365	114,417,149
\$100,000-\$479,443	340	47,780,734
<b>Total Universe</b>	<b>181,835</b>	<b>\$481,371,620</b>

We reviewed all 340 accounts receivable ranging from \$100,000 – \$479,443 and reviewed a random stratified statistical sample of 150 accounts receivable from each of the remaining 4 strata. The following table shows details of our stratified sample.

#### Stratified Sample of Accounts Receivable

Stratified Dollar Range	Number of Accounts Receivable	Dollar Amounts
\$0-\$1,000	150	\$ 51,365
\$1,001-\$5,000	150	362,051
\$5,001-\$25,000	150	1,405,846
\$25,001-\$99,999	150	7,314,764
\$100,000-\$479,443	340	47,798,222
<b>Total Sample</b>	<b>940</b>	<b>\$56,932,248</b>

**Estimation Methodology**

We verified the reliability of computer-generated data by comparing the data to information found in VBA records and information obtained through employee interviews at VAROs. We did not verify that the accounts receivable within the population tested comprised the total universe of accounts receivable resulting from the untimely processing of compensation benefit adjustments. However, nothing came to our attention to indicate that receivables were missing from the universe.

We based the sample of 940 cases on a stratified variable sampling design at a 95 percent confidence level. In our sample, we identified 209 accounts receivable with avoidable overpayments totaling \$5.8 million. Based on the sample results, we projected avoidable overpayments of \$50.8 million in the population of 181,835 accounts receivable totaling \$481.4 million. The precision interval was +/- \$11.5 million with a lower limit projection of \$39.3 million and an upper limit projection of \$62.3 million. The following table illustrates the estimated avoidable overpayments.

**Estimated Avoidable Overpayments**

<b>Stratified Dollar Range</b>	<b>Sample Size</b>	<b>Sample Examined Value</b>	<b>Errors</b>	<b>Sample Value of Errors</b>	<b>Universe Point Estimate</b>
\$0-\$1,000	150	\$ 51,365	5	\$ 1,259	\$ 849,170
\$1,001-\$5,000	150	362,051	24	29,557	12,653,549
\$5,001-\$25,000	150	1,405,846	44	200,965	18,411,028
\$25,001-\$99,999	150	7,314,764	47	899,511	14,182,283
\$100,000-\$479,443	340	47,798,222	89	4,672,445	4,672,445
<b>Totals</b>	<b>940</b>	<b>\$56,932,248</b>	<b>209</b>	<b>\$5,803,737</b>	<b>\$50,768,475</b>

## Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendations</u>	<u>Explanation of Benefits</u>	<u>Better Use of Funds</u>
1 – 3	Estimated \$50.8 million in overpayments were avoidable and could have reduced beneficiaries' accounts receivable had VBA staff processed compensation benefit adjustments promptly.	\$50.8 million

## Under Secretary for Benefits Comments

**Department of  
Veterans Affairs**

**Memorandum**

**Date:** September 10, 2007

**From:** Under Secretary for Benefits (20)

**Subject:** **OIG's Revised Draft Report:** Audit of Veterans Benefits Administration Controls to Minimize Compensation Benefit Overpayments—WebCIMS 387639

**To:** Inspector General (50)

1. This is in response to your request for VBA's review of OIG's Revised Draft Report: Audit of Veterans Benefits Administration Controls to Minimize Compensation Benefit Overpayments. VBA's comments are attached.
2. Questions may be referred to Nancy Holly at (202) 461-9199, or Dee Fielding at (202) 461-9057.

*(original signed by:)*

Daniel L. Cooper

Attachment

## **Under Secretary for Benefits Comments to Office of Inspector General's Report**

The following comments are submitted in response to the recommendations in the Office of Inspector General's report:

1. We recommended that the Under Secretary for Benefits establish a 30-day standard for initiating action for compensation benefit adjustments and allow 65 additional days for a predetermination notification response when required.

Concur

Target Completion Date: December 31, 2007

VBA will issue procedural guidance requiring action to be initiated within 30 days of receipt on first and third party information that will potentially result in a reduction of compensation benefits, including dependency and indemnity compensation. When a predetermination notice is required, the standard 65-day response time will continue following issuance of the predetermination notice. A Fast Letter addressing these procedures will be provided to the field by November 1, 2007, and the manual will be updated by December 31, 2007.

2. We recommended that the Under Secretary for Benefits monitor the timeliness of compensation benefit adjustments.

Concur

Target Completion Date: December 31, 2007

VBA establishes end product controls when initiating action on information that potentially results in a reduction of compensation benefits. The Fast Letter mentioned above will clearly outline the controls, which will facilitate monitoring.

3. We recommended that the Under Secretary for Benefits implement corrective actions to improve the timeliness of compensation benefit adjustments when monitoring shows unacceptable compliance with established standards.

Concur

Target Completion Date: Immediately

VBA will re-emphasize the importance of timely completion of compensation benefit adjustments that result in overpayment of benefits on the weekly Associate Deputy Under Secretary for Field Operations conference call and the Veteran Service Center Managers conference call. The Fast Letter will also discuss the importance of timely completion of adjustments, and this matter will be added as an area of review under the Internal Controls Systematic Analyses of Operations. The regional office directors are responsible for ensuring that programs and policies are implemented, assessed through an effective internal controls process, and adjusted as necessary to achieve appropriate results. VBA will monitor the end product timeliness of corrective actions and contact regional office directors whose stations are significantly out-of-line in processing the adjustments that result in overpayment of compensation benefits.



## OIG Contact and Staff Acknowledgments

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OIG Contact	Larry Reinkemeyer (816) 426-7100
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This report will be available in the near future on the OIG's Web site at <http://www.va.gov/oig/publications/reports-list.asp>. This report will remain on the OIG Web site for at least 2 fiscal years after it is issued.

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