



Department of Veterans Affairs Office of Inspector General

Review of Veterans Benefit Administration Large Retroactive Payments

To Report Suspected Wrongdoing in VA Programs and Operations
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Executive Summary

Results in Brief

The Office of Inspector General (OIG) conducted a special review of large retroactive payments, of \$25,000 and above, made by Veterans Benefits Administration (VBA) Regional Offices (VAROs) in response to an ongoing OIG investigation. The objective of this review was to determine whether other such incidents were occurring at other VAROs processing large retroactive payments, and to what extent VBA and VAROs have designed and implemented effective policies, procedures and mechanisms to prevent and detect this type of fraudulent activity.

Our review of 690 large retroactive payments at three VAROs found no similar cases to the alleged fraud under investigation. These results mean we can say with 90 percent confidence that this particular type of fraud is unlikely to be occurring at the VAROs selected for review during the sampled period. If fraud were occurring at less than a one percent rate, our statistical sample may not detect it.

Background

Retroactive payments made by VBA to eligible claimants are based upon adjustments made to a prior monetary benefit allowance, or payments for a first-time claim covering the period from the date the claim was received through the date the claim was approved. Retroactive payments differ from recurring benefit payments released each month that are based upon a disability determination.

While large retroactive payments constitute less than two percent of all retroactive payments, they represent over 27 percent of all the retroactive funds paid out and amounted to over \$2.2 billion distributed from January 2005 through February 2008. Prior investigations of fraud relating to large retroactive payments heightened the need for more attention to prevention and detection of fraud-related to these benefits payments. For example, in 2001, the OIG disclosed that employees at the Atlanta VARO generated approximately \$11 million in fraudulent compensation claims.

At each of the three VAROs visited, we selected claim files associated with each retroactive payment for review and compared medical examination information in the file to medical information in Department of Veterans Affairs (VA) systems. We also assessed the extent controls ensured the security and integrity of date stamps and date stamping devices used to establish receipt of medical and other claim-related documentation at the VARO. In addition, we assessed the internal control environment in place for the processing and approval of retroactive payments to determine if internal controls would be likely to detect this type of alleged fraud.

Findings

The physical date stamping of claims, applications, and associated evidence is a critical aspect of VBA benefits processing operations. We found that VBA lacks sufficient guidance directing VAROs to maintain accountability over its official date stamps. The VAROs we visited did not maintain adequate control over their date stamps, and thus the VAROs were vulnerable to fraud from backdated claim documentation. In general, the VAROs followed the required VBA procedures for reviewing, and approving large retroactive payments. However, the internal controls in place were not designed, and therefore are not an effective means, to uncover large retroactive payments based upon fraudulent documentation. Therefore, opportunities exist to bypass VBA internal controls to generate fraudulent large benefits payments.

VBA raters and authorizers stated that they were not required to, and therefore, do not compare hard-copy medical examination information in a claims folder to information contained in other media, such as CAPRI,¹ to ensure its validity. VBA uses a third-signature review to serve as a control for preventing improper retroactive payments. However, we found that third-signature designees performed their reviews with a focus on the technical sufficiency and completeness of a claim and do not focus on identifying potentially fraudulent medical information.

In October 2001, and in response to the fraud found at the Atlanta, GA VARO, VBA established the “Large Payment Verification Process”, which is commonly referred to as the “25K Review”. As part of this process, each VARO Director, or designated Assistant Director, reviews retroactive payments of \$25,000 or greater and completes a four-question checklist to detect potential fraud and verify the payment is supported by medical evidence, a rating decision, and was paid to the correct payee. However, these procedures were not designed, and, therefore, would not be effective in detecting fraud based on fraudulent documentation. Director-level reviews of large retroactive payments focus on the technical sufficiency of the claim and are therefore unlikely to identify fraudulent medical examination information placed in the official claims files.

According to VBA’s Office of Performance Analysis and Integrity (PA&I), the purpose of VBA’s \$25K Review Process is “fraud prevention and detection.” Annual reports published by PA&I compile information provided by individual VAROs on processing large, retroactive payments \$25K and larger. While PA&I’s analysis is intended as an independent review of the \$25K Review Process, it only focuses on analyzing “response timeliness” and processing errors for large payments. The PA&I analysis does not evaluate whether the controls put into place as a result of prior fraud schemes are functioning as intended.

¹The Compensation and Pension Record Interchange (CAPRI), a joint initiative of the Veterans Health Administration and VBA, provides templates that prompt physicians and other clinicians as they examine a patient for a disability determination and stores the information in a standard form within the VHA’s VistA electronic medical record system. Access to CAPRI assists VBA raters in making rating and benefits decisions.

In addition, review of VARO processing and control procedures regarding retroactive payments is accomplished through the Compensation and Pension (C&P) “Site Visit” program and through VBA’s monthly Systematic Technical Accuracy Review (STAR) and VA’s Management Quality Assurance Service (MQAS) reviews. However, these reviews also do not appear to be designed to serve as effective means to detect fraudulent retroactive payments that include altered medical examination documentation.

VBA will continue to be vulnerable to these types of fraud-related activities if controls are not improved throughout VAROs. Accordingly, we are recommending that VBA take additional steps to address internal control weaknesses in the review and approval of large retroactive payments. VBA needs to ensure that reviews of these payments address technical accuracy and provide reasonable assurance regarding the appropriateness of the payments.

Recommendations

We recommend that the Under Secretary for Benefits:

1. Develop and issue policies and procedures to establish and improve the accountability of VARO date stamps.
2. Implement a process to review large retroactive payments that requires reviewers to match a sample of the supporting medical examination information in VHA's records to VBA's claims information for large retroactive payments valued above \$25,000.
3. Modify the C&P Site Visit program’s protocols to match a sample of the supporting medical examination information in VHA's records to VBA's claims information for large retroactive payments valued above \$25,000.

Management Comments and OIG Response

The Under Secretary for Benefits concurred with the report’s conclusions and recommendations. Comments indicated guidance to improve accountability for date stamps was issued in VBA Letter 20-09-10 (dated February 20, 2009). We were also advised that VBA developed a Standard Operating Procedure (SOP) for Quality Assurance Medical Evidence Validation Review.

The SOP tasks the C&P Quality Assurance Systematic Technical Accuracy Review Staff and the Quality Assurance Program Oversight Staff to review a sample of large retroactive payment decisions and validate the authenticity of the medical evidence used to support those decisions. VBA requested closure of all the recommendations.

We consider the completed actions for the recommendation 1 responsive to our concerns about the security of VARO date stamps and consider the issue resolved. We consider VBA’s proposed actions for recommendations 2 and 3 to be responsive to our concerns related to the lack of effective validation of medical evidence used to support large retroactive payments. However, until VBA fully implements the SOP for Quality

Assurance Medical Evidence Validation Review, the recommendations will remain open. The OIG will assess the effectiveness of these new controls in future reviews of regional office operations.

(original signed by:)

BELINDA J. FINN
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for Auditing

Introduction

Purpose

Improper benefit payments have occurred in the Veterans Benefits Administration (VBA) because of poor oversight, inadequate separation of duties, ineffective monitoring, and weak internal controls, as well as fraud and other abuses. The OIG conducted a special review of large retroactive payments at select VAROs in response to an ongoing OIG investigation. The objective of this review was to determine whether other such incidents were occurring at other VAROs processing large retroactive payments and to what extent VBA and VAROs have designed and implemented effective policies, procedures and mechanisms to prevent and detect this type of alleged fraudulent activity.

Background

VBA's compensation program provides monthly payments and ancillary benefits to veterans, in accordance with rates specified by law, in recognition of the average potential loss of earning capacity caused by a disability or disease incurred in or aggravated during active military service. This program also provides monthly payments, as specified by law, to surviving spouses, dependent children and dependent parents in recognition of the economic loss caused by a veteran's death during active military service or, subsequent to discharge from military service, as the result of a service-connected disability.

VBA Retroactive Payments. Retroactive payments made by VBA to eligible claimants include adjustments made to a prior monetary benefit allowance or payments for a first-time claim covering the period from the date when the claim was received though the date the claim was approved. Retroactive payments differ from recurring payments, which are benefit payments released each month based upon a veteran's disability determination. From January 2005 through February 2008, while the vast majority (98 percent) of retroactive payments made by VBA were amounts less than \$25,000, payments \$25,000 and above accounted for \$2.2 billion, about 27 percent of the total paid for the period (see Appendix B).

VBA has a variety of policies and internal controls in place for the review and approval of large retroactive payments. VA procedures require a third signature to authorize retroactive payments of any benefit exceeding \$25,000. The process is as follows: The proposed payment action is entered into the Benefits Delivery Network (BDN)² or VETSNET³ by a Veterans Service Representative (VSR) who prepares the payment

²The Benefits Delivery Network (BDN) is a legacy system employed by VBA to process entitlements for three of its five business lines: Compensation and Pension, Education, and Vocational Rehabilitation and Employment.

³The Veterans Service Network (VETSNET) is a windows-based application used to support claims processing from establishment, development, and rating to award and payment. At the time of our review, VBA was implementing VETSNET applications to replace BDN.

document and signs it (first signature). The VSR submits the claims file to a senior member of the authorization activity who reviews it for accuracy (second signature). The Veterans Service Center Manager (VSCM) or supervisory designee then reviews the proposed payment action for approval or denial (third signature). If approved, retroactive payments are released to the claimant. In addition to the third-signature review process, VBA created a Certification Test Procedure requiring each VARO Director, or designated Assistant Director, to review retroactive payments of \$25,000 or greater and complete a four-question checklist to detect potential fraud and verify that the payment was supported by medical evidence, a rating decision, and is being paid to the correct beneficiary.

When a proposed payment action is for \$250,000 or higher, the VSCM requests an administrative review by the Compensation and Pension (C&P) Service in Nashville, TN. C&P reviews the proposed retroactive payment documentation and returns the claims file to the originating station within 5 days of receipt.

Importance of Date Stamping to VBA Operations. The physical date stamping of claims, applications, and associated evidence is a critical aspect of VBA benefits processing operations. Date stamps provide prima facie evidence that a VARO has received documents. The date of receipt, physically stamped onto a document when received by a VARO, sets the date of entitlement for an award of pension, compensation or dependency. Date stamping is also used by VBA to track the timeliness of claims processing and to monitor internal workflow. VBA accomplishes date stamping with manual and electronic date stamps. At the VAROs, the majority of date stamps we observed were manually operated, both the self-inking variety and the manual stamp and pad type. However, we also noted a more limited use of electronic date stamps.

Despite the importance of date stamping to its operations, VBA has issued only limited policies, procedures, or guidance concerning the accountability and control of date stamps used in claims processing. M23-1, *Mail Management*, states, “Local management will be responsible for implementing a system that shows which employee affixed the time-date stamp on incoming mail,” and “numbered time-date stamps will be used where more than one employee stamps incoming mail.” These limited policies apply only to VBA mailroom operations, despite the fact that date stamps are used in other parts of the VARO, including the Triage Team and Public Contact areas.

Previous OIG and C&P Reviews of Retroactive Payments. Previous OIG audits and investigations found that improper benefit payments have been a significant problem for VBA and were the result of poor oversight, monitoring, and inadequate internal controls. For example, review of large retroactive payments were part of the OIG’s Combined Assessment Program (CAP)⁴ reviews of VAROs, which identified problems with

⁴CAP reviews were part of the OIG’s efforts to ensure that high quality health care and benefits are provided to our Nation’s veterans, and combined the knowledge and skills of the OIG’s Offices of Healthcare Inspections, Audit, and Investigations to provide collaborative assessments of VA medical facilities and Regional Offices on a cyclical basis.

retroactive payments that were not timely or signed by employees with third-signature authority, and in some cases large retroactive payments were improperly calculated. In response to payment fraud that resulted in more than \$1.3 million in fraudulent compensation payments, in 2000, the OIG audited internal controls for the adjudication and payment of compensation benefits at the St. Petersburg, FL VARO and noted that large payments were not substantively reviewed as required by VBA policy and third-signature review and authorization was not performed. In 2001, the OIG undertook a special review of large retroactive payments processed by VAROs following discovery that several VBA employees at the Atlanta, GA VARO had bypassed internal controls and generated almost \$11 million in fraudulent compensation claims. A small number of cases were referred to the VA OIG Office of Investigation and the 2001 review uncovered what was termed “unacceptably high rates of noncompliance with internal control requirements related to retroactive payments” processing.

Quality Assurance. As part of VBA’s Quality Assurance program to ensure compensation and pension benefits are provided in a timely, accurate, and consistent manner, C&P Services implements its “Site Visit” program to provide oversight of VSCs through cyclical site visits to assess compliance with C&P policies. One component of these oversight visits by C&P teams is a review of VARO compliance with large retroactive payments policies and procedures. In October 2001, and in response to the fraud found in the Atlanta, GA VARO, VBA established the “Large Payment Verification Process”, commonly referred to as the “25K Review”, the purpose of which is “fraud prevention/detection” and to “improve VBA’s ability to ensure that benefits and services are only provided to individuals who are entitled to receive veteran’s benefits.”

In addition, VBA implemented the Systematic Technical Accuracy Review (STAR) program in 1998. STAR is the primary quality measurement and evaluation mechanism for evaluating VARO staff performance in processing benefits claims. The Benefits Financial Assurance Division (BFAD), one of four Divisions within the Management Quality Assurance Service (MQAS) under VA’s Office of Business Oversight, performs compliance reviews to ensure field compliance with applicable guidance and regulations and to identify potential improper payments.

Results and Conclusions

Our review of a statistically valid sample of large retroactive payments at three VAROs detected no instances where altered or forged medical examination documentation and information improperly supported retroactive payments of \$25,000 or above. In general, the VAROs reviewed follow the required VBA procedures for reviewing and approving large retroactive payments. However, the internal controls in place are not effective in identifying and preventing large retroactive payments which could be generated using fraudulent medical documentation and other records.

If controls over large retroactive payments are not put in place or improved throughout the VAROs, we believe that VBA will continue to be vulnerable to similar fraud-related activities. While large retroactive payments constitute less than two percent of all retroactive payments, they represent over 27% of all the retroactive funds paid out and amounted to over \$2.2 billion distributed from January 2005 – February 2008. Consequently, stronger efforts to prevent more fraud from occurring in the future are needed. Because of prior problems identified by the OIG for large retroactive payments and internal control weaknesses, VBA needs to ensure that reviews of these payments address technical accuracy and provide reasonable assurance regarding the appropriateness of the payments.

Fraudulent Retroactive Payments Not Identified at Selected VAROs

Our review of 690 large retroactive payments at three VAROs revealed no similar cases to the alleged fraud currently being investigated by the OIG. This sample gave a 90 percent probability of detecting fraudulent payments at the three VAROs. Medical examination information contained in the files used to support each of the large retroactive payments matched information contained primarily in CAPRI, indicating that this critical information was not fraudulently altered to support large payments.

In addition, we reviewed each VARO's compliance with VBA procedures for reviewing and approving large retroactive payments. In general, two of the three VAROs complied with VBA policies and procedures. We identified only a minimal number of cases where signatures of the authorizer, third-signature designee, and/or the Director's signatures were missing. We noted that the Los Angeles, CA VARO was performing the required review, but was not capturing the required date of the third-signature.

Date Stamps Not Adequately Controlled

VBA has not issued sufficient guidance that directs VAROs to maintain accountability over its official date stamps. Policies are limited and apply to VBA central mailroom operations, despite the fact that we observed date stamps used in other part of the VARO, including in Triage Team and Public Contact areas. Furthermore, the policy does not address critical issues such as disposal or conducting a recurring inventory of date

stamps. The VAROs we visited, consequently, did not maintain adequate control over their date stamps, making them vulnerable to fraudulent schemes.

- **Huntington, WV VARO:** Senior leadership of the Huntington, WV VARO was unaware of the number of date stamps issued to employees, and indicated that no policies concerning the accountability, safeguarding, inventorying, or disposition of date stamps were issued by the VARO. The mailroom and Public Contact areas were accessible to all VARO employees and VSO representatives and, in both places, date stamps were in unsecured locations. The Chief of Support Services Division initially could not locate two of the date stamps in this division. However, the date stamps were ultimately located after several hours of searching.
- **San Juan, PR VARO:** The Chief of the Support Services, who was also the mailroom supervisor, was unaware of the number of date stamps being used in the VARO. The coach of the Triage Team could not correctly identify the number of date stamps used by his team, and other managers indicated that date stamps were not routinely secured, and, instead, were left either on top of desks or in unlocked drawers. The Public Contact area maintained both a manual and an electronic date stamp. All VARO employees and VARO representatives had unimpeded access to the Public Contact area, and officials indicated that VSO representatives have been allowed to use the date stamp. In addition, VARO management and employees indicated that they do not conduct regular inventories of date stamps.
- **Los Angeles, CA VARO:** Our review team observed multiple date stamps left unsecured in the mailroom after normal business hours. In addition, one of the doors to the mailroom had tape over the lock to prevent the door from locking when it was closed (see Figure 1, next page). The mailroom supervisor stated employees were instructed, at the end of the workday, to place the date stamps in drawers and cabinets that did not have working locks. Additionally, neither the Triage coach nor the mailroom supervisor knew how many date stamps they had on hand. We found eight date stamps in one area where a manager indicated that only three had been issued. According to these managers, VARO officials do not conduct regular inventories of its date stamps, nor has the VARO implemented a local policy concerning the disposition or destruction of date stamps.

Figure 1: Lock on VARO Los Angeles, CA Mailroom Door Taped and Providing Full Access to Mailroom Operations



Figure 2: Date Stamp Left Unsecured After Business Hours at the VARO Los Angeles, CA



The majority of date stamps we observed were manually operated, both the self-inking variety and the manual stamp and pad type. However, we also noted the use of electronic date stamps in some cases, which automatically print out the date, time and VARO station information onto an inserted document and provide a keyed lock as a means to prevent the illegal alteration of the date and time stamped on a document. This type of date stamp provides a higher level of security and accountability, and, unlike manual date stamps, would be more difficult to illicitly duplicate, particularly if VBA went to a common electronic date stamp device nationwide.

Documentation on Some Medical Examinations Was Not Secured. The Los Angeles, CA VARO was not able to locate some documentation on medical examinations performed by QTC Medical Group. VARO personnel told us that QTC recorded the results of medical examinations performed from 2001 through 2005 on computer disks and sent those disks to the Los Angeles VARO. After that time, QTC medical examination information was uploaded to “Virtual VA.” However, the VARO was able to locate only four of the eight known disks when we requested these disks to compare the medical examination results with hard copy documents maintained in the claim files. The VA OIG Office of Investigations investigated this incident because these disks contained personally identifiable information of an estimated 15,000 veterans.

VBA took immediate action to ensure the accountability of similar information at other VAROs that were using the same contractor provided medical examination services. On June 13, 2008, VBA issued VBA Letter 20-08-33 directing every VBA organizational element to ensure that all portable media containing personally identifiable information (PII) is properly secured, accounted for, and destroyed when appropriate. It further noted that the contents of compact disks (CDs) containing reports of medical examinations conducted by QTC for VAROs participating in the Contract Medical Examination Program be uploaded to a secure regional office server and the CDs immediately destroyed.

Internal Controls in Place Unlikely to Detect and Prevent This Type of Fraudulent Payment

VBA’s internal controls to review and approve large retroactive payments were not designed to identify and prevent fraudulently altered medical or other information used to support large awards of payment. Control weaknesses related to the processing, review and approval of large retroactive payments exist at the VAROs visited for this review. Therefore, the means to bypass VBA internal controls to generate fraudulent large benefits payments are still present.

Raters Do Not Routinely Validate Medical Information. VBA raters stated they were not required to compare hard-copy medical examination information in a claims folder to information contained in other media, such as CAPRI, to ensure its validity. While some raters may use CAPRI to identify additional medical evidence to support a benefits claim, they are not required to assess whether medical information contained in the claims folder is fraudulent or altered in any way. Instead, they review medical information only for sufficiency and completeness necessary to rate the claim. Other raters working in two VAROs visited indicated that making such a comparison would be time consuming and put internal productivity quotas at risk.

Third-Signature Review Process Does Not Routinely Identify Fraudulent Medical Information. Since 2001, VBA policy requires three signatures for awards where the retroactive payment exceeds \$25,000. Generally, a rater will rate the claim and then submit it to the authorizer who reviews and signs the award, which is then submitted to

the VSC manager or a supervisory designee as the “third signature.” For claims processed using BDN, signatures and dates continue to be manually entered on VA Form 21-8947, Compensation and Pension Award. Since its implementation in August 2007, awards processed using the VETSNET application requires the third-signature to be made electronically.

Despite the fact that two of the three VAROs visited were largely following these procedures, the three-signature procedures constitute primarily a technical and accuracy review of the proposed retroactive payment. Authorizers interviewed indicated that their review of proposed retroactive payments consists entirely of determining the completeness of the documentation, the accuracy of the proposed payment amount, and the accuracy of other information associated with the file, such as the claimant’s name, disability percentages, disability codes, and the effective date of the award. Authorizers rely on the rater’s review of the medical evidence. Similarly, third-signature review designees (usually coaches) focus not on identifying potentially fraudulent medical information, but on the technical sufficiency and completeness of the claim.

Director’s Review of Large Retroactive Payments Does Not Meet the Intent of VBA Policy. In 2001, in response to OIG recommendations, VBA implemented new policy to strengthen the integrity of payments processed by the C&P program based upon findings from a fraud investigation.⁵ Under these guidelines, the VARO Director, or designated Assistant Director, is responsible for verifying and certifying the propriety of large retroactive payments. The VARO Director or Assistant Director completes a four-question checklist to verify the existence of a claims folder, identify the source document that warranted the payment, verify the appropriate payee, and determine if medical evidence supports the rating decision. The policy states that if the response to any of the four questions is “no,” and the Director suspects a fraudulent payment, they are to contact the Inspector General’s Office. In addition, each VARO is required to conduct an annual systematic analysis of operations on the review process of these large payments.

From our analysis of the policy, and its implementation at the three VAROs visited, we concluded that Director’s review will not be effective in detecting fraud. The four-question checklist and accompanying instructions do not require a substantive review of retroactive payments, but, instead, only requires a VARO Director, or designee, to verify basic information such as the existence of the claims folder and evidence to justify the rating decision. In particular, the review does not require an in-depth analysis or verification of medical examination or information used to support verifying VA medical examinations against electronic databases like CAPRI.

⁵VBA Letter 20-01-47, “Certification Test Procedures for \$25,000 Retroactive Payments” and VBA Letter 20-01-50, “Internal Controls - Large Payment Verification Process,” provide procedures for implementing an electronic review system to verify the propriety of payments of \$25,000 or greater.

During interviews conducted at the VAROs, Directors, and Assistant Directors characterized the checklist questionnaire as a cursory or superficial review of the retroactive payments. Additionally, two Directors and one Assistant Director stated that they lacked the technical knowledge to determine if fraud had occurred and instead relied heavily upon the judgment of the raters, authorizers and third-signature designees. One Assistant Director stated that the checklist and instructions were vague and ambiguous. Other officials indicated they do not specifically utilize the checklist review of large retroactive payments to identify fraud and do not scrutinize the authenticity of medical evidence. If the Director's review included steps to determine the validity of medical information in the claims folder, the fraudulent claims would have been detected. While validating medical evidence on all claims could be burdensome, performing these checks on a statistically valid sample of claims could possibly deter others from perpetrating this type of fraudulent activity.

Quality Assurance Reviews Were Unlikely to Identify Forged Medical Records. VBA and VA review retroactive payments primarily through the 25K Review, Site Visit program and, potentially, through STAR and MQAS reviews. These mechanisms, however, were not designed, and therefore are not an effective means to uncover fraudulent retroactive payments supported by altered medical examination documentation.

25K Reviews According to VBA's Office of Performance Analysis and Integrity (PA&I), the purpose of VBA's \$25K Review process is "fraud prevention and detection." Annual reports published by PA&I compile information provided by individual VAROs on processing large, retroactive payments valued at \$25K or larger. However, annual reports published by PA&I focus primarily on Director "response timeliness" and processing errors for large payments, such as "effective date errors" or "failure to recoup overpayments." The PA&I analysis does not evaluate whether the controls put into place as a result of prior fraud schemes are functioning as intended. Since FY 2002, PA&I has never reported fraud in the annual summary analysis reports. If the 25K Review included steps to determine the validity of medical information in the claims folder, reviewers may detect fraudulent claims. Requiring VARO officials to perform these steps on all large retroactive claims valued above \$25,000 has the potential to deter other individuals from perpetrating similar frauds.

Site Visits C&P Site Visit oversight inspections of VAROs include a review of each site's compliance with policies and procedures concerning the review and approval of large retroactive payments. These reviews focus only on procedural and policy compliance, such as third-signatures and Director's review of large payment processes, previously discussed. Site Visit program protocols do not require reviewers to determine the legitimacy of the large retroactive payments sampled or validate the authenticity of medical evidence supporting payment awards.

STAR The Systematic Technical Accuracy Review (STAR) program is the primary quality measurement and evaluation mechanism for evaluating VARO staff performance for accuracy and completeness in processing benefits claims. STAR reviews of award payments do not specifically target large retroactive payments of \$25,000 or greater for review. Further, STAR review guidelines do not require the reviewer to evaluate the authenticity of medical evidence used to support the benefit payment.

MQAS MQAS oversight visits designed to ensure field compliance with applicable guidance and regulations and to identify potential improper payments, are not designed to conduct any type of special review associated with retroactive payments of \$25,000 or greater. Retroactive payments are only reviewed when they randomly appear in statistical samples related to specific site visit work. In addition, MQAS reviews of large retroactive payments do not evaluate medical evidence in VBA claims folders to determine if such evidence is legitimate.

Conclusion

In general, the VAROs sampled follow the internal procedures related to the review and approval of large retroactive payments. Notwithstanding, we concluded that internal controls in place are not effective in identifying and preventing fraudulent large retroactive payments. We believe that VBA will continue to be vulnerable to fraud-related activities concerning large retroactive payments if controls over the retroactive payment and review process are not improved.

Recommendations

We recommend that the Under Secretary for Benefits:

1. Develop and issue policies and procedures to establish and improve the accountability of VARO date stamps.
2. Implement a process to review large retroactive payments that requires reviewers to match a sample of the supporting medical examination information in VHA's records to VBA's claims information for large retroactive payments valued above \$25,000.
3. Modify the C&P Site Visit program's protocols to match a sample of the supporting medical examination information in VHA's records to VBA's claims information for large retroactive payments valued above \$25,000.

Management Comments and OIG Response

The Under Secretary for Benefits concurred with the report's conclusions and recommendations (see Appendix C for original comments).

In response to the first recommendation, the Under Secretary for Benefits stated guidance to improve accountability for date stamps was verbally disseminated to all VBA regional

offices on July 29, 2008, and issued VBA Letter 20-09-10 (dated February 20, 2009) to formalize VBA policy and procedures for maintaining accountability of date stamps. VBA requested closure of this recommendation.

The Under Secretary for Benefits stated, in response to the second recommendation, VBA developed a Standard Operating Procedure for Quality Assurance Medical Evidence Validation Review, which has Compensation and Pension Service (C&P) Quality Assurance Systematic Technical Accuracy Review Staff reviewing a sample of decisions resulting in large retroactive payments submitted in accordance with the extraordinary award review to validate the authenticity of medical evidence used to support those decisions. The VBA requested closure of this recommendation.

For the third recommendation, the Under Secretary for Benefits stated VBA developed a Standard Operating Procedure for Quality Assurance Medical Evidence Validation Review. This procedure has C&P Quality Assurance Program Oversight Staff conducting a review of a sample of decisions, where they will validate the authenticity of the medical evidence. The review will look at decisions of retroactive payments that resulted in payments of more than \$25,000. VBA requested closure of this recommendation.

We consider the completed actions for the recommendation 1 responsive to our concerns about the security of VARO date stamps. We consider the issue resolved and agree that the recommendation is closed.

We consider VBA's proposed actions for recommendations 2 and 3 to be responsive to our concerns related to the lack of effective validation of medical evidence used to support large retroactive payments. However, until VBA fully implements the Standard Operating Procedure for Quality Assurance Medical Evidence Validation Review, the recommendation will remain open. Once these new procedures are fully implemented, the OIG will assess the effectiveness of these new controls in future reviews of regional office operations.

Scope and Methodology

We selected three VAROs to review based on the following methodology:

- From a universe of all retroactive payments of \$25,000 and above for the period of January 2005 - March 2008, the data was stratified by percent of payment amount by VARO and by fiscal year. From this data, we identified VAROs where the percent of \$50,000+ payments was greater than or equal to one standard deviation above the national average within each of the three years.
- The number of retroactive payments of \$25,000 or greater processed by each VARO were compared to C&P rating end product data, for the same time period (January 2005-March 2008) in order to adjust for the different size and workload of the various VAROs, and stratified by fiscal year. From this data, we identified the VAROs where the incidence of issuing large retroactive payments was abnormally high given their workload.

Based on the two different methods used to analyze the retroactive payment data, we identified VAROs that merited selection as sample sites, namely, VAROs located in San Juan, PR, Los Angeles, CA, and Huntington, WV. For each VARO, we selected a statistically valid discovery sample of 230 large retroactive payments. This sample gave a 90 percent probability of detecting fraudulent payments assuming that fraud was prevalent in one percent or more of the payments.

We conducted site visits to three VAROs in May 2008. At each of the these VAROs, we selected claims files associated with each retroactive payment for review and compared medical examination information in the file to medical information in either the CAPRI system, Virtual VA⁶ or Exam Trak. This comparison can identify improper alteration or forgery of the medical exam contained in the hard-copy claims file information supporting each retroactive payment.

At the Los Angeles, CA VARO, a number of retroactive payments included in our sample relied upon medical exams performed by the QTC Medical Group, Inc. However, related electronic evidence was not available for our review when payments and/or associated exams were made prior to March 2006, when QTC medical examinations and invoices were made available through “Virtual VA.” Therefore, for some of these files, no electronic medical reports were available to compare to the VBA claims files drawn from our sample. For these cases, the team drew additional retroactive payments from the list of spare samples provided by the OIG statistician. The team also drew from a list of spare samples at other VAROs when sampled cases could not be timely located for the team’s review.

⁶ VBA has contracted QTC Medical Group, Inc. (QTC), to conduct medical examinations of some individuals who have filed claims for VA disability benefits at certain VAROs, including the Los Angeles, CA VARO. QTC began conducting these medical evaluations for VA on May 1, 1998. “Virtual VA” is the computer application used to store QTC examination reports and invoices completed since March 6, 2006. In some cases, the review team used Virtual VA to verify medical examinations in files used to support large retroactive payments.

Appendix A

At each site, we interviewed senior VARO management and a sample of VARO supervisors, raters, and authorizers⁷ in order to understand the internal control environment in place for the processing and approval of retroactive payments and to determine if internal controls would be likely to detect the type of fraud that was the basis of our special inquiry into large retroactive payments. Through interviews and observations, the review team determined to what extent controls were in place or needed to ensure the security and integrity of date stamping devices used to establish receipt of medical and other claim-related documentation at the VARO.

We also interviewed representatives of C&P Site Visit and STAR programs and VA's MQAS to understand to what extent these programs evaluate VARO processing of large retroactive payments. We conducted this review under the *Quality Standards for Inspections* (dated January 2005) issued by the President's Council on Integrity and Efficiency's Executive Council on Integrity and Efficiency.

⁷ Raters analyze claims along with any supporting evidence, and apply VA's Schedule for Rating Disabilities to prepare rating decisions for disability benefit determinations. An authorizer is the approving signatory on payment actions in the adjudication division of a VARO or Center.

VBA Retroactive Payments, CY 2005-CY 2007, January-February 2008

Payment Range	CY 2005		CY 2006		CY 2007		CY 2008*		% OF TOTAL	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
< \$25,000	757,778	\$1,868,241,524	777,549	\$1,969,435,528	709,776	\$1,863,977,549	90,247	\$250,510,063	98%	73%
\$25,000 - \$49,999	10,089	\$344,122,822	10,275	\$346,667,036	10,323	\$350,198,878	1,410	\$47,280,495		
\$50,000 - \$74,999	2,433	\$147,187,568	2,284	\$136,790,245	2,365	\$141,989,067	356	\$21,302,133		
\$75,000 - \$99,999	1,038	\$89,607,940	813	\$70,122,113	815	\$70,631,508	91	\$7,779,962		
\$100,000 - \$124,999	528	\$58,504,994	402	\$44,654,522	377	\$41,800,788	48	\$5,304,584		
\$125,000 - \$149,999	287	\$39,040,104	221	\$30,158,625	182	\$24,869,352	29	\$3,956,167		
\$150,000 - \$174,999	148	\$23,966,299	111	\$17,822,755	101	\$16,280,666	13	\$2,073,067		
\$175,000 - \$199,999	110	\$20,471,431	84	\$15,688,208	53	\$9,827,515	9	\$1,669,448		
\$200,000 - \$224,999	81	\$17,171,854	52	\$10,988,237	32	\$6,776,005	3	\$628,171		
\$225,000 - \$249,999	34	\$8,048,258	30	\$7,096,273	19	\$4,500,482	1	\$234,616		
\$250,000 and higher	61	\$18,307,656	57	\$17,888,205	41	\$13,268,740	4	\$1,186,212		
SUBTOTAL - \$25,000 and higher	14,809	\$766,428,925	14,329	\$697,876,219	14,308	\$680,143,001	1,964	\$91,414,855	2%	27%
TOTAL	772,587	\$2,634,670,449	791,878	\$2,667,311,747	724,084	\$2,544,120,550	92,211	\$341,924,918	100%	100%

*January-February 2008 only

Under Secretary for Benefits Comments

**Department of
Veterans Affairs**

MEMORANDUM

Date: APR 17 2009

From: Under Secretary for Benefits (20)

Subj: OIG Draft Report—Review of Veterans Benefits Administration Large
Retroactive Payments—WebCIMS 422661

To: Assistant Inspector General for Audit (52)

1. Attached are VBA's comments on the OIG Draft Report: Review of Veterans Benefits Administration Large Retroactive Payments.
2. Questions may be referred to Nancy Holly, Program Analyst, at 202-461-9199.



P. W. Dunne

Attachments

Attachment

VBA COMMENTS TO OIG DRAFT REPORT

**Review of Veterans Benefits Administration
Large Retroactive Payments**

Recommendation 1: We recommend that the Under Secretary for Benefits develop and issue policies and procedures to establish and improve the accountability of VARO date stamps.

VBA Response: Concur. Guidance to improve accountability for date stamps was initially verbally disseminated to all VBA regional offices during an Office of Field Operations conference call shortly following receipt of OIG's management advisory dated July 29, 2008. VBA Letter 20-09-10, VBA Policy to Maintain Accountability of Date Stamps, formalized the policy procedures. VBA requests closure of this recommendation.

Recommendation 2: Implement a process to review large retroactive payments that requires reviewers to match a sample of the supporting medical examination information in VHA's records to VBA's claims information for large retroactive payments valued above \$25,000.

VBA Response: Concur. VBA will implement a review of a sample of decisions resulting in large retroactive payments submitted in accordance with the extraordinary award review to validate the authenticity of medical evidence used to support those decisions. The Compensation and Pension Service (C&P) Quality Assurance Systematic Technical Accuracy Review Staff will conduct these reviews. The Standard Operating Procedure for Quality Assurance Medical Evidence Validation Review (attached) outlines this review. VBA requests closure of this recommendation.

Target Completion Date: May 1, 2009

Recommendation 3: Modify the C&P Site Visit program's protocols to match a sample of the supporting medical examination information in VHA's records to VBA's claims information for large retroactive payments above \$25,000.

VBA Response: Concur. VBA will review a sample of decisions that resulted in a retroactive payment of more than \$25,000 as part of C&P station site visit reviews. The purpose of the review is to validate the authenticity of medical evidence used to support those decisions. The C&P Quality Assurance Program Oversight Staff will conduct these reviews. The Standard Operating Procedure for Quality Assurance Medical Evidence Validation Review (attached) outlines this review. VBA requests closure of this recommendation.

Target Completion Date: May 1, 2009

Site Visit Case Review

Prior to a scheduled C&P site visit, the Site Survey Team provides the regional office with a list of folders that should be shipped to Central Office for review. A member of the Site Survey Team reviews these folders and the folders are returned to the regional office prior to the site visit.

For medical evidence review purposes, a sample of files will be selected from a listing of retroactive payments over \$25,000 processed by the regional office. The medical evidence review will compare the VA hardcopy outpatient treatment records and VA examination reports from the claims file that were used to support the decision against those contained in the VHA electronic medical records. The electronic records can be accessed through CAPRI. The outpatient treatment records and/or VA exam will be reviewed and compared to ensure the medical records contained in the claims file were not fraudulently altered.

Review Actions:

- Review the claims file to determine if VA medical records were used to make the disability determination under review. This is determined from the evidence section of the rating decision under review.
 - Determine the facility and date range of treatment records used.
 - Determine the date of any VA examinations.
- Use CAPRI to review the electronic medical records identified above.

Note: If you need further instructions on using the CAPRI medical system please visit <http://vbaw.vba.va.gov/bl/21/systems/docs/capri2008UG.pdf>

- The reviewer will validate the authenticity of the VA medical records contained in the claims folder against the electronic medical records contained in CAPRI.
- Quality Assurance staff reviewers will record all review findings on a centralized spread sheet which will be maintained on the shared drive at: CAP-21/214/Medical Evidence Validation Review.
 - The following data elements will be maintained on all cases reviewed.
 - Claim Number
 - Claimant Name (First, Last)
 - Select RO
 - Alteration of record: Y/N
 - If "Y" then date of treatment and explanation of alteration
 - VAMC or clinic
 - Reviewer (first and second when needed)
 - Date of Review(s)
 - Date of Referral

- Second-level reviews at the GS-14 level will be required for cases where there is suspected alteration of the medical evidence. If the second review confirms suspected tampering of medical evidence used in the decision under review, then the C&P Quality Assurance staff will use appropriate methods to refer the case to the Office of Inspector General (OIG).
- If there is no fraud found, the claims folder is either returned to the regional office of jurisdiction or forwarded through the extraordinary award review process.

Reporting Requirements:

- Findings for the Site Visit review will be included in the site visit reports.
- Findings for both reviews will be consolidated in an annual report to senior VBA leadership.

Implementation Date: May 1, 2009

Effective Date: This SOP remains in effect until rescinded

H:\CAP-21\214\Medical Evidence Validation Review\Review SOP 41009.doc

OIG Contact and Staff Acknowledgments

OIG Contact	Timothy J. Crowe (727) 395-2422
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Acknowledgments	Brent Arronte Craig Ward Alan Brecese Dennis Capps Debra Cato Charles Chiarenza Thomas McPherson Melissa Colyn Kristine Abramo Johnny McCray Victor Milano Robert Campbell Kristopher Kasey Jessica Blake Lee Giesbrecht
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