



Office of Inspector General

ADVISORY:

ADEQUACY OF PROCEDURES USED TO TRANSFER LIFE INSURANCE POLICY DATA FROM VAROIC ST. PAUL, MN TO VAROIC PHILADELPHIA, PA

Report No.: 7R1-G10-079

Date: May 16, 1997

**Office of Inspector General
Washington DC 20420**



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

May 16, 1997

Memorandum to:

Director, Insurance Service, Department of Veterans Affairs Regional Office and Insurance Center (VAROIC) Philadelphia, PA.

Advisory - Adequacy of Procedures Used to Transfer Life Insurance Policy Data from VAROIC St. Paul, MN to VAROIC Philadelphia, PA, Report No. 7R1-G10-079

1. The Office of Inspector General audited the Department of Veterans Affairs (VA) Consolidated Financial Statements for Fiscal Year (FY) 1996¹. As part of this audit, we reviewed internal controls in VA's Life Insurance Programs to determine the reliability of financial information and compliance with applicable laws and regulations². Consistent with our continuing responsibilities to audit these financial data and operations, Insurance Service management requested our review of accounting procedures used to adjust errors in FY 1997 general ledger data during the first stage of consolidating the VAROIC St. Paul, MN Life Insurance Program operations at VAROIC Philadelphia, PA.

2. Based on our substantive audit tests and examination of selected accounting records, we concluded that management performed adequate adjustments to general ledger insurance accounts to resolve errors in certain fields which occurred during the first in a series of data transfers. In addition, management's procedures should adequately preserve the integrity of financial data transferred during the consolidation.

3. This advisory report and enclosure provide details of our examination and conclusions. We are not making any formal recommendations, nor are you required to provide an official response to this management advisory. We will continue to monitor these issues during future financial statement audits.

¹ Report No. 7AF-G10-051, dated February 25, 1997, Report of Department of Veterans Affairs Consolidated Financial Statements For Fiscal Years 1996 and 1995.

² Report No. 7R1-G10-072, dated April 11, 1997, Management Letter, Fiscal Year 1996 Financial Statements, VA Life Insurance Programs.

4. If you wish to discuss this report or would like our assistance concerning any other issues, please call me at 617-687-3120.

For the Assistant Inspector General for Auditing

(Original signed by:)
THOMAS L. CARGILL, Jr.
Director, Bedford Audit Operations Division

Enclosure

cc: Under Secretary for Benefits (20A11)
Deputy Assistant Secretary for Financial Management (047)
Director, Office of Resource Management (24)

Management Advisory

Purpose

Insurance Service management requested that we evaluate accounting procedures used to resolve errors caused by data limitations in some total dollar fields resulting in truncation during the February 26, 1997 transfer of active policy master records from the computer data base administered by the St. Paul, MN Department of Veterans Affairs Regional Office and Insurance Center (VAROIC) to the VAROIC Philadelphia, PA data base. Management also requested our suggestions for improvements during future bi-monthly data transfers during a 3-year consolidation of insurance operations.

Scope and Methodology

We discussed the details of the data truncation with Insurance Service, Systems Development Center (SDC), and Finance Division management officials at VAROIC Philadelphia, and reviewed relevant documentation. We analyzed and verified action taken by management to correct general ledger errors. This involved analysis of adjusting journal entries and related postings and reports.

Background

The Secretary of Veterans Affairs announced in 1995 that one of the Department's "Reinventing Government" initiatives was to consolidate the Veterans Benefits Administration (VBA) insurance activities at the VAROIC St. Paul, MN into VAROIC Philadelphia, PA. The consolidation was planned to occur over a 3-year period beginning in October 1996. A part of this consolidation is the transfer of active policy computer master records maintained in Philadelphia for VAROIC St. Paul to the data base administered by VAROIC Philadelphia. This consolidation is scheduled to take place in bi-monthly stages from January 1997 to December 1999.

The VAROIC St. Paul and VAROIC Philadelphia administered master record files are housed at VAROIC Philadelphia on the IBM 3090 computer, and are each divided into 20 segments. Each segment within the St. Paul administered file contains approximately the same number of master records, as is the case with Philadelphia administered files. Management's plan is to transfer one segment to the VAROIC Philadelphia data base every 2 months. Management decided to first transfer St. Paul segment number 20 to Philadelphia on February 26, 1997. This segment consisted of about 38,000 records.

Upon reviewing post-transfer general ledger reports, Insurance Service officials discovered the tens of millions digit truncated for some insurance funds for dividend credits/deposits, loans and

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face values. For example, \$12,213,473.57 in loans was transferred for the National Service Life Insurance (NSLI) fund. However, because of truncation of the tens of millions digit, only \$2,213,473.57 was recorded in the VAROIC Philadelphia general ledger. This occurred because of space limitations in some total dollar fields. SDC, Finance Division, and Insurance Service personnel researched the problem and initiated corrective actions. Insurance Service management requested that we assess the adequacy of corrective adjustments made and suggest improvements for use in upcoming data transfers.

Management Advisory Issues

We found that Insurance Service, SDC and Finance Division management adequately resolved the general ledger accounting errors caused by the truncation of certain total dollar fields.

We consider management's action in identifying the cause of the dollar fields' truncation and subsequent corrective action to be effective. Finance officials reviewed general ledger reports after the transfer and found the amounts of certain accounts (e.g. policy loans) were significantly understated. They informed SDC officials of their concern. SDC officials identified data truncations by using a utility computer program to accumulate amounts from selected accounts of historical insurance transaction files. These amounts were compared to the amounts posted to the general ledger. Variances in amounts identified errors due to truncation, as follows:

<u>ACCOUNT</u>	<u>UTILITY PROGRAM</u>	<u>GENERAL LEDGER</u>	<u>AMOUNTS OF TRUNCATIONS</u>
National Service Life Insurance (Face Amount)	\$339,539,737	\$9,539,737	\$330,000,000
Veterans' Special Life Insurance (Face Amount)	60,464,665	464,665	60,000,000
Service Disabled Veterans Insurance (Face Amount)	10,172,470	172,470	10,000,000
National Service Life Insurance (Loans)	12,213,473	2,213,473	10,000,000
National Service Life Insurance (Dividend Credits)	19,439,004	9,439,004	10,000,000

Correcting journal entries for VAROIC St. Paul and VAROIC Philadelphia accounting systems were made on February 28, 1997, which we reviewed and concluded were the proper amounts. We also verified that the adjustments were posted accurately to the respective ledger accounts.

Insurance Service management indicated that they intended to repeat these transfer and adjustment actions in future periods, as a cost effective alternative to reprogramming the transfer mechanisms. We consider this plan acceptable, and offer no recommendations to improve the adjustments made, or to improve future data transfers.