



Office of Inspector General

EVALUATION OF PREMIUM PAYMENT AND REPORTING PROCEDURES FOR THE SERVICEMEMBERS' GROUP LIFE INSURANCE PROGRAM

*Reserve component reporting and
validation procedures need
improvement to ensure the accuracy
of life insurance premium payments..*

Report No.: 8R1-B12-036

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Office of Inspector General
Washington DC 20420

TABLE OF CONTENTS

	<u>Page</u>
Memorandum to the Director, Insurance Service (29).....	i
RESULTS AND RECOMMENDATIONS	
Reporting System For Premiums Paid For Reservists Needs To Be Improved	1
Conclusion	2
Recommendation 1	2
Premium Payment Records Need To Be Reconciled For Non- Pay Status Reservists.....	3
Conclusion	5
Recommendation 2.....	5
APPENDICES	
I BACKGROUND.....	6
II OBJECTIVE, SCOPE AND METHODOLOGY	7
III ACTING UNDER SECRETARY FOR BENEFITS COMMENTS.....	8
IV FINAL REPORT DISTRIBUTION	12



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Director, Insurance Service (29)

Evaluation of Premium Payment and Reporting Procedures For The Servicemembers' Group Life Insurance (SGLI) Program

1. The Office of Inspector General conducted an evaluation of the Servicemembers' Group Life Insurance (SGLI) program premiums reported and paid to the Department of Veterans Affairs (VA) for life insurance of certain reservists. During Fiscal Year 1996, departments of the uniformed services reported that premium payments of \$475 million were made to VA for insured active duty and reserve personnel. Of the total, reservists' premiums represented \$163 million from payroll deductions (reservists in pay status) as well as from departmental appropriations for reservists who did not drill or receive pay (in non-pay status). The purpose of the evaluation was originally designed to determine whether all SGLI premiums received by VA were remitted accurately, in response to a request from the VA Under Secretary for Benefits. Early in the audit, Insurance Service management indicated they revised the SGLI premium collection system and, as a result, were particularly interested in knowing whether VA received premiums in the correct amounts for reserve personnel in a non-pay status. In accordance with their request, the scope of this evaluation was revised to assess the accuracy of premiums paid to VA for reservists in a non-pay status.
2. We found that the reporting systems for seven of eight reserve components were insufficient to verify the accuracy of insurance premiums because they did not separately report premiums for pay and non-pay status reservists. Accordingly, our review focused on the Air Force Reserve which did separately report premiums paid to VA for non-pay status reservists. We visited two of the Air Force Reserve field locations. Our examination showed that at the two sites visited, the correct individual premiums were reported for the agreed upon value of insurance coverage selected by the servicemembers in a non-pay status. However, at one of the two sites, we found that the total premiums paid to VA exceeded the amount due by about 30 percent. These overpayments in premiums were made for individuals who had left the reserve component, but the Air Force Reserve continued to pay VA their insurance premiums. Reserve unit records showed that the premium overpayments resulted from unreconciled differences between personnel assigned to field locations and data in the Air Force Reserve's Pay and Allowance System which reports insurance premiums to VA.

3. Since the reports accompanying remittances from seven of the uniformed services did not indicate whether premiums were remitted for reservists in a non-pay status, or identify the respective amounts and the associated levels of insurance coverage, adequate information did not exist to determine whether premiums were submitted for reservists in both pay and non-pay status, or to assess the accuracy of about \$130 million (80 percent) of the \$163 million of annual premium payments received by the VA.

4. We recommend that Insurance Service management:

- (a) work with uniformed service organization representatives to improve their reporting systems to ensure that premiums paid to VA for all insured reservists can be verified; and,
- (b) share the audit observations made regarding premium overpayments with Air Force Reserve management, to assist them in improving the accuracy of SGLI premium payments.

5. The Acting Under Secretary for Benefits concurred with the recommendations and provided acceptable implementation plans. We consider all issues resolved. However, we will follow up on the implementation of planned corrective actions.

For the Assistant Inspector General for Auditing

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

RESULTS AND RECOMMENDATIONS

Reporting System For Premiums Paid For Reservists Needs To Be Improved

Reports of premiums paid to VA for reservists' life insurance did not provide sufficient detail to determine the accuracy of premiums and their relationship to selected insurance coverage. The reporting systems for seven of eight reserve components did not separately report premiums for pay and non-pay status reservists or the amounts remitted for each level of coverage selected by reservists in either pay or non-pay status. Only one reserve component (i.e. Air Force Reserve) separately reported premiums paid to VA for non-pay status reservists. Title 38, United States Code, Chapter 19, Section 1969, requires that the uniformed services pay premiums from appropriated funds for insureds that are in non-pay status. Without being reported separately, adequate information did not exist to assess whether premium payments were submitted for reservists in a non-pay status or to determine the accuracy of these payments.

Premiums Were Not Reported Separately From Reservists in Pay and Non-Pay Status

During Fiscal Year 1996, eight reserve components collected premiums and made payments to VA amounting to \$163 million for SGLI. These payments were made from payroll deductions of reservists in pay status and departmental appropriations for reservists who did not drill or receive pay (in non-pay status). Payments from the Air Force Reserve (i.e. \$32.7 million or 20 percent of the eight reserve components) were separately reported to VA as representing premiums for reservists in either pay status (i.e. \$27.2 million) or non-pay status (i.e. \$5.5 million). Reports submitted by the remaining seven reserve components (i.e. Army, Army National Guard, Coast Guard, Marine Corps, Navy Drill Program, Naval Health Professional Intern Program, and Naval Officer Training Course), which account for \$130 million in premium payments, did not separately identify premium payments for reservists in non-pay status. As a result, Insurance Service management could not verify whether premiums were paid for reservists in both pay and non-pay status, or assess whether premiums were remitted for all insureds.

Adequacy of Reported Data

Without being reported separately, adequate information also did not exist to assess the accuracy of premiums submitted for non-pay servicemembers. Uniformed services provide monthly reports to VA identifying the number of insureds and total premiums remitted for each level of coverage from \$10,000 to \$200,000. Reports include explanations of adjustments, and are certified by an appropriate official. Reports of premiums from the Air Force Reserve separately identified the amounts of premiums remitted for reservists in a non-pay status, as well as the respective number of reservists who selected the associated levels of insurance coverage. These report details permitted Insurance Service to verify whether adequate premiums were remitted for each level of coverage selected by non-pay status reservists. However, reports from the remaining seven reserve components did not indicate whether premiums were paid to VA for reservists who were in a non-pay status, did not indicate the amounts paid for the various levels of coverage selected by servicemembers in a non-pay status, and did not provide sufficient information for Insurance

Service management to make informed judgments on the accuracy of these remittances. This information is needed to assess the accuracy of remittances made for insureds in non-pay status.

Insurance Service Initiative To Obtain Report Details

Within the past 2 years Insurance Service management have succeeded in improving the details reported for monthly insurance remittances. Uniformed services reports now identify premium amounts submitted by active duty and reserve components, numbers of members and associated premiums collected within insurance coverage levels, and adjustments to reported premium remittances. As a result of these enhancements in reported detail, Insurance Service officials perform a number of financial analyses aimed at verifying the accuracy of premiums. However, the limited detail reported for reservists' premiums, particularly those in non-pay status, restricted Insurance Service management's ability to verify whether premium payments were made for non-pay status reservists, and resulted in a request for audit.

Conclusion

Without separate reporting for non-pay status servicemembers, Insurance Service management is unable to gain the additional insight necessary to assess the accuracy of premium payments.

Recommendation 1

We recommend that Insurance Service management work with uniformed service organization representatives to improve their reporting systems to ensure that premiums paid to VA for all insured reservists can be verified.

Acting Under Secretary for Benefits Comments

The Acting Under Secretary for Benefits concurred with our finding and recommendation related to the SGLI premium reporting system. In connection with this recommendation, he pointed out that the Insurance Service staff have been working and will continue to work, with the uniformed services to improve their reporting systems.

Implementation Plan

The Acting Under Secretary for Benefits provided an acceptable implementation plan for Recommendation 1. Within the next 60 days each service will be requested to revise their reporting methods to include a separate accounting of premiums paid from appropriated money.

Office of Inspector General Comments

The implementation plan is acceptable and we consider all issues resolved. However, we will follow up on planned corrective action.

Premium Payment Records Need To Be Reconciled For Non-Pay Status Reservists

The accuracy of life insurance premiums paid to VA for reservists in non-pay status varied between Air Force Reserve field locations. Records at one of two sites visited showed no discrepancies, while premiums were overpaid to VA for more than 30 percent of non-pay status reservists from the other site. These overpayments were made for non-pay status reservists who had left the reserve component, but the Air Force Reserve continued to pay their insurance premiums to VA. Procedures established by the Department of Defense (DOD) indicate that life insurance premiums should be excluded from payment to VA for separated or released servicemembers, based on a reconciliation of field personnel assignments and pay and allowance system records. As a result of unreconciled discrepancies for 101 servicemembers at one Air Force Reserve location, \$21,816 of estimated annual premiums were overpaid to VA.

Accuracy of Premium Payments Tested at Two Sites

In March 1997, 2,211 reservists were assigned to Dover Air Force Base (AFB), Delaware, and 2,876 reservists were assigned to McGuire AFB, New Jersey. Included were 253 and 321 reservists, respectively, who were in non-pay status. Non-pay status reservists are servicemembers of a uniformed service who do not drill for pay, but remain eligible for active duty. During our visits to these sites, we tested personnel and payroll systems files and found the following conditions:

- At Dover AFB, we tested 25 sampled reservists in non-pay status and determined that premium payments were accurate for the coverage selected.
- At McGuire AFB, the premiums paid for 25 sampled reservists in non-pay status agreed with the coverage they selected. However, premiums were overpaid for 8 of these reservists because they had separated and were no longer assigned to McGuire AFB.

A detailed review of the records of all non-pay status reservists showed that insurance premium payments were made to VA for 101 (31 percent) who had left the McGuire AFB reserve component. As a result of these discrepancies, \$21,816 of estimated annual premiums were overpaid to VA.

Overpayments Were Made For Reservists Who Were Permanently Separated

The Air Force Reserve pay system automatically deducts life insurance premium payments from each insured's pay, or creates a debt (account receivable) if the reservist is in a non-pay status. Monthly, the system deducts \$18 (for \$200,000 of coverage) for every insured servicemember, unless servicemembers apply for reduced or no coverage. However, the system only generates a pay when a reservist's training assignment or other duty is input into the system. When an individual is insured and no duty activity is input for the month (i.e. non-pay status), a debt (account receivable) is created for the reservist and an insurance premium payment is made to VA.

from appropriated funds. This debt is repaid by the reservist from the next pay generated by the system.

When servicemembers separate from field locations an input to the payroll records system is needed to stop insurance premium activity. Without this interface, insurance premium receivables continue to accrue against reservists and premium payments are made to VA from appropriations for veterans who are ineligible for SGLI.

McGuire AFB Personnel Section staff informed us that 8 of the 25 sampled persons had not been assigned to that site for more than 2 years and that they were permanently separated. Payroll system microfiche indicated that one of these eight had not performed duty since 1992. Further analyses showed that accounts receivable were established and premiums were overpaid for 101 separated reservists.

Validation of Payroll and Personnel Records Should Improve Accuracy

In accordance with DOD Directives, the Defense Finance and Accounting Service (DFAS) provides each Air Force Reserve unit a reconciliation listing of individuals included in the payroll system with no corresponding personnel system record. Dover AFB Financial Management Section staff used this reconciliation list to identify individuals who were reassigned or separated in an effort to update payroll system records to reflect changes in site assignments and prevent potential insurance premium overpayments. As a result of Dover AFB staff taking action to reconcile and validate payroll and personnel records, we found no instances of insurance payment inaccuracies. However, McGuire AFB Financial Management Section staff had not performed these reconciliations due to staffing resource constraints, and as a result we found a 30 percent incidence of overpayment.

Annual Premium Overpayments

As a result of unreconciled discrepancies for 101 servicemembers at McGuire AFB, New Jersey, \$21,816 of estimated annual premiums (\$18 premiums per month x 12 months x 101 reservists) were overpaid to VA. We reviewed a report listing discrepancies between payroll system records and personnel system records which indicated 101 reservists who were previously assigned to McGuire AFB, and had separated. The payroll system created a monthly debt in the amount of \$18 and VA received premium payments from DOD appropriations for these 101 servicemembers who were no longer eligible for SGLI insurance. These overpayments would have been avoided if personnel and payroll system data were periodically reconciled for separating reservists. The payroll system automatically will continue to create insurance premium debts every month until this reconciliation is performed to adjust and delete system discrepancies. Although we visited only 2 of 40 Air Force Reserve sites, similar conditions may exist at many of the remaining 38 Air Force Reserve field sites.

Premium Overpayments At Other Sites Have Burdened Reserve Veterans

We noted conditions resulting from similar premium overpayments at other Air Force Reserve sites, which caused financial burden to veterans. Insurance Service management informed us of complaints from reservists, one of whom had separated from Homestead AFB Florida and was refused commercial credit because of a poor credit rating resulting from debts (accounts receivable) created for SGLI premium overpayments. Although not examined, this and similar conditions involving attached IRS refunds and collection agency actions were reported by veterans from other Air Force Reserve sites and other uniformed services.

Conclusion

The premium overpayments identified represent a system of fiscal inaccuracies which should be corrected. In addition to the financial impact they have on insurance funding and DOD appropriations, they can adversely affect veterans' financial credit ratings and may cause a false reliance on SGLI coverage which may not exist.

Recommendation 2

We recommend that Insurance Service management share the audit observations made regarding premium overpayments with Air Force Reserve management, to assist them in improving the accuracy of SGLI premium payments.

Acting Under Secretary for Benefits Comments

The Acting Under Secretary for Benefits concurred with our finding regarding the need for timely reconciliation of Air Force Reserve personnel and pay records, and our recommendation to share our observations regarding overpayments with Air Force management. He recognized the need to determine discrepancies and make adjustments through the Air Force Reserve pay system at Denver DFAS.

Implementation Plan

The Acting Under Secretary for Benefits stated that the Air Force is already considering changing current procedures and controlling situations creating overpayments. Monthly reconciliation reports, rather than semi-annual, will permit correction of accounts, and will stop and recoup erroneous SGLI payments on a timely basis. In addition, the Insurance Service will send a copy of the final OIG report to the Department of Defense, Office of Compensation within 60 days, requesting that the finding be brought to the attention of Air Force Reserve management.

Office of Inspector General Comments

The implementation plan is acceptable and we consider all issues resolved. However, we will follow up on planned corrective action.

BACKGROUND

Public Law 89-214 established the Servicemembers' Group Life Insurance (SGLI) program, effective September 29, 1965. This law provided \$10,000 of group life insurance for all active duty members of the Army, Navy, Air Force, Marine Corps, Coast Guard, Commissioned Corps of the United States Public Health Service, and Environmental Sciences Services Administration, now known as the National Oceanic and Atmospheric Administration. Over the years amendments to the law extended coverage to reservists and to cadets or midshipmen of the United States Military Academy, United States Naval Academy and the United States Coast Guard Academy, and in 1974 provided for the conversion of SGLI to a 5-year term policy called Veterans' Group Life Insurance. On December 1, 1992, Public Law 102-568 increased the maximum SGLI and VGLI coverage available to \$200,000.

Title 38, United States Code, Chapter 19, Section 1974 established an Advisory Council on Servicemembers' Group Life Insurance. The council consists of the Secretary of the Treasury, who is the chairman of the council, and the Secretary of the Departments of Defense, Commerce, Health and Human Services, and Transportation; and, the Director of the Office of Management and Budget. The council meets at least once a year to review the operations of the SGLI program and advise the Secretary of Veterans Affairs on matters of policy relating to the SGLI program.

The Servicemembers' and Veterans' Group Life Insurance Handbook, issued by VA, provides guidance concerning insurance available to service personnel and veterans. Department of Defense (DOD) Directive Number 1341.3 (August 16, 1984) references this handbook and Title 38, United States Code, Chapter 19 to establish policy guidance for the administration and management of the SGLI program within DOD. Field units input payroll data to the Air Reserves Pay and Allowance System from which the Defense Finance and Accounting Service, in Denver, Colorado, prepares monthly SGLI reports. These reports are reviewed and analyzed by Insurance Service staff for accuracy. Reported premium collections are transferred to VA monthly via electronic funds transfer through the Department of the Treasury's On-Line Payment and Collection system. VA Insurance Service staff periodically prepare a voucher to electronically transfer these collections to the insurer, Prudential Insurance Company.

In March 1997, 822,788 (95 percent) of 866,565 Air Force, Army, Army National Guard, Coast Guard, Marine Corps, Navy Drill Program, Naval Health Professional Intern Program, and Naval Officer Training Course reservists participated in the SGLI program. In FY 1996, premium collections for reservists amounted to \$163 million or 34 percent of the \$475 million collected for SGLI.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The purpose of our evaluation was to assess whether Servicemembers' Group Life Insurance (SGLI) premiums received by VA for non-pay status reservists were remitted accurately.

Scope and Methodology

We examined the monthly reports of SGLI premiums remitted to VA for reservists by the uniformed services, including the Insurance Service staff's procedures for analyses of their content and accuracy. We also reviewed applicable VA and uniform services procedures for remitting and reporting SGLI premiums to VA, reviewed governing laws and regulations, and discussed their substance with VA Insurance Service officials and management representatives from the Department of Defense (DOD), Defense Finance and Accounting Service (DFAS) offices in Denver, Colorado, Kansas City, Missouri, and Cleveland, Ohio. We also visited the DFAS facility in Denver, Colorado, and tested the adequacy of procedures and accuracy of records related to premiums reported and remitted to VA for Air Force reservists in non-pay status from 2 of 40 field locations (i.e. Dover Air Force Base, Delaware and McGuire Air Force Base, New Jersey) during March 1997.

Our contacts with DOD officials were preceded by consulting and briefing officials from the DOD Office of Inspector General, Finance and Accounting Directorate regarding the scope and objectives of this evaluation. We were accompanied by a member of the VA Insurance Service's Management Staff, who acted as an audit team participant, during our visits to DFAS in Denver, Colorado, Dover Air Force Base, Delaware and McGuire Air Force Base, New Jersey.

This evaluation was conducted in accordance with government auditing standards for qualifications, independence and due professional care, and field work standards for planning, supervision and evidence. However, uniformed service management controls were not tested for SGLI insurance premiums reported and remitted by 38 of 40 Air Force Reserve field sites, any Air Force active duty servicemembers, and servicemembers from the remaining uniformed service branches participating in SGLI. Because of the significant range of disparity in the rate of insurance premium overpayments identified at the 2 Air Force sites tested for non-pay status reservists (i.e. from no discrepancies at Dover Air Force Base, Delaware to a 31 percent instance rate of overpayment at McGuire Air Force Base, New Jersey), additional testing is necessary at other Air Force Reserve field sites to afford a reasonable basis for an accurate estimate of premium overpayments throughout the entire Air Force Reserve.

MEMORANDUM FROM THE ACTING UNDER SECRETARY FOR BENEFITS
DATED OCTOBER 21, 1997

Department of
Veterans Affairs

Memorandum

Date: October 21, 1997

From: Acting Under Secretary for Benefits (20)

Subj: Draft Report, Evaluation of Premium Payment and Reporting Procedures for the Servicemembers' Group Life Insurance Program

To: Assistant Inspector General for Auditing (52)

1. Thank you for the opportunity to review and comment on the draft report of the evaluation of premium collection and reporting procedures for the Servicemembers' Group life Insurance (SGLI) program. We concur in both recommendations.

2. As you mentioned, over the past several years the Insurance Service has actively pursued a number of avenues in an attempt to improve both premium collection and reporting in the SGLI program. The Insurance Service has, among other things, reviewed the uniformed services' premium collecting and reporting practices and procedures. One very significant result of these reviews is that VA has requested and now receives regular monthly reports from each uniformed service detailing SGLI activity within that service. These reports provide a breakdown as to the number of members eligible to be insured, the number of members actually insured, the number of members insured at any given coverage level, the amount of premiums collected and, in most cases, if needed, the amount of and explanation for any adjustments to premiums that are made by the services. Some of these reports also include copies of the system-generated source reports that are used by the services to determine the premium payment and prepare the monthly report.

3. The Insurance Service uses the data collected from the above reports to routinely monitor SGLI premium payments for both timeliness and accuracy of payment. The information provided is analyzed and used to monitor fluctuations in the total amount of premiums collected and the number of members insured. Over the past several years, these analyses have helped to improve premium collection timeliness of payments. These data also provide an additional tool for analysis of premium payments, especially during program changes like the change to \$200,000 coverage and the recent change in rates from \$.09 to \$.085 per thousand dollars of coverage. It also helps to identify problem areas such as the failure of the Navy Reserve to pay, from appropriated funds, the premiums for reservists who do not receive a pay check and are remiss in forwarding their premium payments to the Navy Reserve. Even though the Insurance Service has made significant progress in these areas, more is needed and that is why we asked for the review. We very much appreciate the assistance your staff has willingly and ably provided.

MEMORANDUM FROM THE ACTING UNDER SECRETARY FOR BENEFITS
DATED OCTOBER 21, 1997

2.

Assistant Inspector General for Auditing (52)

4. With regard to the first recommendation made in the evaluation, we very definitely concur. As evidenced by our actions over the past several years, we are working with, and will continue to work with, the uniformed services to improve the premium payment reporting systems in order to ensure that all premium payments are accurate and timely. In this regard, we shall request, within the next 60 days, that each of the services revise their reporting methods to include a separate accounting of premiums paid from appropriated money. Although we have requested such a breakdown in the past, we have focused on receiving the aforementioned detailed information.

5. We concur with the second recommendation and agree that Air Force Reserve and Guard units need to assure that the reconciliation of personnel and pay records is performed, and performed in a timely manner. The Air Force has a reconciliation procedure which is used to identify, resolve, and recoup these kinds of erroneous payment situations before they produce large amounts of overpayments. As soon as action is taken to reconcile the discrepancies, the Air Force Reserve pay system at Denver DFAS will make an adjustment to the SGLI premium payment in order to recoup the amounts paid in error. The McGuire finding is a situation where the procedure was simply not being performed. It certainly does appear that both Air Force Reserve and National Guard units need to more conscientiously perform the reconciliation procedure. We have learned that the Air Force is already considering changing the current procedures for controlling these kinds of situations. The changes will have the reconciliation reports produced every month, instead of every six months, and units will be monitored as to the actions taken to reconcile the records on their list. When this is done, accounts will be corrected and erroneous SGLI premium payments will be stopped and recouped on a timely basis.

6. We do agree that the Air Force needs to be informed of the situation that was found. It will provide reinforcing evidence to support the actions to strengthen control over the reconciliation procedures. Since a copy of the report is already being distributed to the Department of Defense (DoD) Inspector General and the Air Force Auditor General, we shall send a copy to the Department of Defense, Office of Compensation, within 60 days of receipt of the final report, requesting that the finding be brought to the attention of Air Force Reserve management. We shall also send a copy of the report to the commanders of the reserve units at Dover AFB and McGuire AFB, as requested by them.

7. It should be noted that the Insurance Service has heretofore expressed concern to DoD regarding premium payments for reservists. In fact, in DoD's draft memorandum on "Guidance Pertaining to Administration of the Servicemembers' Group Life Insurance (SGLI) Program," it specifically states as follows:

MEMORANDUM FROM THE ACTING UNDER SECRETARY FOR BENEFITS
DATED OCTOBER 21, 1997

3.

Assistant Inspector General for Auditing (52)

“Premium payment, collection, and reporting remains an issue of concern to the VA, particularly with respect to Reserve members who drill on an irregular basis or who drill for points and not pay... Services must not allow SGLI premium liability to accrue when it has been determined that the member will no longer drill or be scheduled to drill... Services must exercise caution to avoid jeopardizing a member’s credit rating because the member failed to understand his/her liability for SGLI premiums.” Naturally, separate premium reporting, along with unit reconciliations, as advocated in the report, will increase the likelihood that appropriate payment actions are taken.

8. Based on our experience, we believe a contributor to the SGLI premium payment problems is a lack of knowledge, at the unit level, about eligibility criteria and administrative procedures for both SGLI and Veterans’ Group Life Insurance (VGLI). Because of this, we have been working closely with DoD to have information about both SGLI and VGLI placed onto an Internet site. Previously, DoD created an Internet site that contains the SGLI/VGLI forms. A new site now contains complete information concerning conversion from SGLI to VGLI. In the near future, the entire SGLI/VGLI handbook will be available on the site. These actions will help address our concerns about readily available and accurate information concerning the two insurance programs and such information should assist those responsible for reconciliation of accounts, as well as all DoD members requiring knowledge of the SGLI and VGLI programs.

9. Again, we appreciate your efforts in this area and we believe that implementation of the recommendations made will enhance the accuracy of SGLI premium payments, thereby rendering improved service to members of the Armed Forces.

(Original Signed By:)
Stephen L. Lemons

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