

**Department of
Veterans Affairs**

Memorandum

Date: July 31, 1998

From: Assistant Inspector General for Auditing (52)

Subj: Evaluation of the Life Insurance Programs' Administrative Expenses, Audit Report No. 8R1-B12-130

To: Under Secretary for Benefits (20A11)

1. SUMMARY

The Department of Veterans Affairs (VA) Insurance Service requested the Office of Inspector General to conduct an evaluation of the Life Insurance Programs' administrative expenses reported for Fiscal Year (FY) 1997. The purpose of the evaluation was to: (1) assess the reasonableness and accuracy of administrative expenses incurred and reported for VA's Life Insurance Programs, and (2) verify the allocation methodology used to assign costs among insurance programs.

Our evaluation disclosed that \$37.5 million of administrative expenses reported for FY 1997 were reasonable and accurate in all material respects. Also, the allocation methodology used to assign costs among insurance programs was proper. Our evaluation did not include an additional \$2.3 million of fringe benefit expenses allocated to the Life Insurance Programs by the Deputy Assistant Secretary for Financial Management.

2. BACKGROUND

Insurance Program administrative expenses reported for FY 1997 totaled \$37.5 million, excluding allocated fringe benefit expenses. The Insurance Service allocated these expenses among the six Life Insurance Programs it administered, based on the proportionate amount of face value insurance existing within each program, and a seventh program it supervised, (i.e., Servicemembers' Group Life Insurance) based on an accounting of resources applied to that program. See Attachment for details.

The cost accounting method used by the Insurance Service to capture and report FY 1997 expenses focused on allocating indirect costs to organizational elements such as divisions and departments. Insurance Service officials stated they plan to apply an Activity Based Costing (ABC) process to report subsequent years' administrative expenses. ABC is a cost accounting process that examines the way activities consume resources and relate to outputs, and traces indirect costs to these activities rather than organizational elements. Both cost accounting methods (i.e., the one used in FY 1997 and the ABC) conform with

the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, issued by the Federal Accounting Standards Advisory Board on July 31, 1995.

3. SCOPE OF AUDIT

We evaluated the reasonableness and accuracy of the \$37.5 million of Life Insurance Programs' administrative expenses incurred for FY 1997. We discussed administrative cost reporting procedures with officials from the VA Regional Office and Insurance Centers located in Philadelphia, PA and St. Paul, MN, and VA Central Office in Washington, DC. We reviewed public laws and publications dealing with cost accounting, verified direct salary costs to supporting accounting records for about 50 percent of total administrative costs, and evaluated the reasonableness of indirect cost allocations from supporting entities within and external to the Regional Office and Insurance Centers in Philadelphia, PA and St. Paul, MN. We also evaluated the reasonableness of the allocation methodology used to assign costs among insurance programs, discussed this methodology with Insurance Service officials, and verified the accuracy of allocated costs reported.

VA's FY 1997 Consolidated Financial Statements reported \$39.8 million of total administrative expenses for Life Insurance Programs. In response to Insurance Service management's request, we did not examine or evaluate \$2.3 million of these expenses, representing employee fringe benefits (i.e., annual leave, FECA, pension, life and health insurance) costs allocated by the Deputy Assistant Secretary for Financial Management.

The evaluation was made in accordance with generally accepted government auditing standards for staff qualification, independence, and due professional care; field work standards for planning, supervision, and evidence; and, reporting standards for content and timeliness.

4. CONCLUSION

Our review disclosed that the \$37.5 million of Life Insurance Programs' administrative expenses for FY 1997 were properly reported in all material respects. Direct salary costs were verified to supporting records, and significant cost allocations from supporting entities were found to be reasonable without material exception. The cost allocation methodology used to assign costs among insurance programs was proper.

For the Assistant Inspector General for Auditing,
(Original signed by)
THOMAS L. CARGILL, JR.
Director, Bedford Audit Operations Division

**DEPARTMENT OF VETERANS AFFAIRS
LIFE INSURANCE PROGRAMS
ALLOCATION OF ADMINSTRATIVE EXPENSES
FISCAL YEAR ENDED SEPTEMBER 30, 1997**

INSURANCE PROGRAM FUND	FACE AMOUNT OF INSURANCE	PERCENT OF FACE AMOUNT	TOTAL ADMINISTRATIVE EXPENSES	ALLOCATED ADMINISTRATIVE EXPENSES
NSLI	\$18,826,239,977	78.14	\$37,065,000	\$28,962,590
VSLI	2,784,764,670	11.56	37,065,000	4,284,714
SDVI	1,473,387,790	6.12	37,065,000	2,268,378
VRI	726,595,781	3.02	37,065,000	1,119,363
VI&I	210,267,621	0.87	37,065,000	322,466
USGLI	<u>70,771,708</u>	<u>0.29</u>	37,065,000	<u>107,489</u>
	<u>\$24,092,027,547</u>	<u>100.00</u>		<u>\$37,065,000</u>
SGLI				<u>481,000</u>
Total Administrative Costs				<u>\$37,546,000</u>

VA Administered Life Insurance Programs:

NSLI - National Service Life Insurance
VSLI - Veterans Special Life Insurance
SDVI - Service Disabled Veterans Insurance
VRI - Veterans' Reopened Insurance
VI&I - Veterans' Insurance and Indemnities
USGLI - United States Government Life Insurance

VA Supervised Life Insurance Program:

SGLI - Servicemembers' Group Life Insurance

FINAL REPORT DISTRIBUTION

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