



Office of Inspector General

EVALUATION OF BENEFIT PAYMENTS TO INCARCERATED VETERANS

VBA did not implement a systematic approach to identify incarcerated veterans and dependents, resulting in additional past and future overpayments exceeding \$170 million.

Report No.: 9R3-B01-031

Date: February 5, 1999



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to Under Secretary for Benefits (20)

Evaluation of Benefit Payments to Incarcerated Veterans

1. The Office of Inspector General (OIG) conducted an evaluation of the Veterans Benefits Administration (VBA) to determine if benefit payments to incarcerated veterans were appropriately adjusted. We had made recommendations in this regard in a July 1986 report. The evaluation included incarcerated and released prisoners in State prisons in California, Florida, Michigan, New York, Ohio, and Texas. The evaluation also included review of VA Regional Offices' (VAROs) processing of prisoners' data received from the Federal Bureau of Prisons (FBOP). According to the Department of Justice, Bureau of Justice Statistics, the Federal and State prison populations more than doubled since 1986; from about 522,100 to about 1,085,400. In addition, about 4.6 million individuals have been admitted to and about 4.1 million inmates have been released from Federal and State prisons since 1986.

2. Public Law 96-385, effective October 7, 1980, requires that full compensation and pension benefits not be paid to veterans incarcerated in a Federal, State, or local penal institution, in excess of 60 days, when convicted of a felony. Beginning on the 61st day of incarceration, compensation is not to be paid at a rate higher than 10 percent for those convicted of a felony, and pension payments are to be terminated for those convicted of a misdemeanor or a felony. Adjudication Divisions at VAROs are responsible for adjusting payments of the incarcerated veterans and dependents.

3. VBA officials did not implement a systematic approach to identify incarcerated veterans and dependents, and adjust their benefits as required by Public Law 96-385. While we recommended that such a systematic approach be implemented in our 1986 audit report, no such actions were taken. Our current evaluation of a sample of 527 veterans incarcerated in 6 states showed that VAROs had not adjusted benefits in over 72 percent of the cases requiring adjustment, resulting in overpayments totaling \$1.8 million. Projecting the sample results nationwide, we estimate that about 13,700 incarcerated veterans have been, or will be, overpaid by about \$100 million. Additional overpayments of about \$70 million will occur over the next 4 years for newly incarcerated veterans, if

VBA does not establish a systematic method to identify newly incarcerated veterans and dependents.

4. We recommend that the Under Secretary for Benefits require VBA to enter into a matching agreement with the Social Security Administration (SSA) to identify incarcerated veterans and make benefit adjustments. Until such an agreement is made, VAROs should obtain this data from FBOP, State, and local prison officials. Also, overpayments should be established and collected for current and past incarcerations that were not adjusted. Compensation & Pension (C&P) Service should monitor the program and monthly progress reports should be provided to ensure that appropriate progress is being made to adjust benefits and establish overpayments.

5. VBA's Deputy Under Secretary for Management concurred with the findings and recommendations in the report and provided acceptable action plans. Therefore, we consider the issues discussed in the report to be resolved, based on actions taken or planned. However, we will continue to follow up on planned actions until they are completed.

(Original Signed By)

MICHAEL G. SULLIVAN
Assistant Inspector General
for Auditing

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RESULTS AND RECOMMENDATION

Improper Payments to Incarcerated Veterans Total Over \$170 Million in Compensation and Pension Benefits

Veterans Benefits Administration (VBA) officials did not implement a systematic approach to identify incarcerated veterans and dependents, and adjust their benefits in accordance with Public Law 96-385. While we recommended that such a systematic approach be implemented in our 1986 audit report¹, no such actions were taken. Analysis of a sample of veterans incarcerated and/or released in 6 states showed that VA Regional Offices (VAROs) had not identified and adjusted benefits in over 72 percent of the cases requiring adjustment, resulting in overpayments totaling \$1.8 million. Projecting these results nationwide, we estimate that VBA has overpaid or will overpay about 13,700 incarcerated veterans about \$100 million. Additionally, overpayments of about \$70 million will occur over the next 4 years for newly incarcerated veterans, if VBA does not establish a systematic method to identify newly incarcerated veterans and dependents.

Requirement to Adjust Incarcerated Veterans' Compensation and Pension Benefits

Public Law 96-385, effective October 7, 1980, requires that full compensation and pension benefits not be paid to veterans incarcerated in a Federal, State, or local penal institution, in excess of 60 days, when convicted of a felony. Beginning on the 61st day of incarceration, compensation is not to be paid at a rate higher than 10 percent for conviction of a felony, and pension payments are to be terminated for conviction of a misdemeanor or a felony. Adjudication Divisions at VAROs are responsible for adjusting payments of the incarcerated veterans and dependents.

Prior Audit Recommendations

During our 1986 audit, we found that VBA facilities were not identifying incarcerated veterans and adjusting their benefits. At that time, about 20 percent of the cases requiring adjustment had been identified. We estimated that veterans currently incarcerated would be overpaid approximately \$28 million, and about \$12 million in benefits was paid in error to veterans released from prison from 1981 to 1986. We recommended that action be taken by VBA to establish controls to identify incarcerated veterans, adjust compensation and pension benefits, and establish overpayments. VBA agreed to enter into an agreement with the Social Security Administration (SSA) to begin receipt of accretions to the various State and Federal prison rolls, and to develop a system to process this data. Until such agreements were completed, VAROs were to make arrangements

¹ Audit of Benefit Payments to Incarcerated Veterans, Report No. 6R3-B01-110, dated July 16, 1986.

with the various states to obtain prison data and report their contacts to Compensation and Pension (C&P) Service.

VBA Actions to Implement Recommendations Were Not Effective

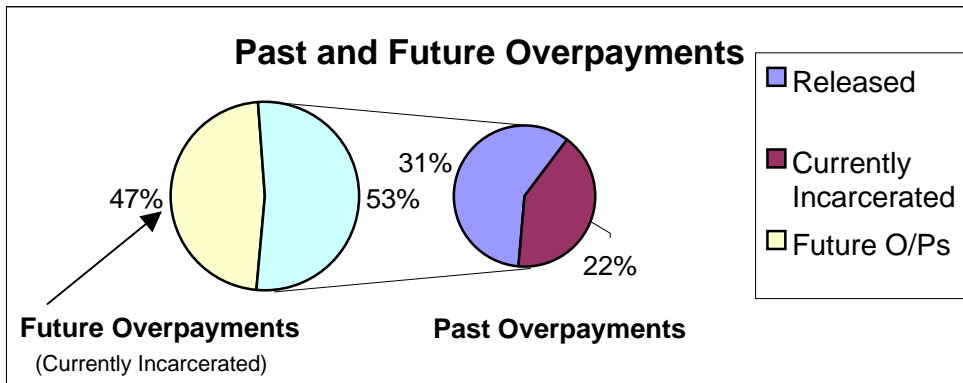
VBA management officials did not establish procedures with the Federal Bureau of Prisons (FBOP), SSA, or State prison systems as recommended in the 1986 OIG audit report. We contacted current and former VBA management officials and were told they did not know why an agreement had not been completed. One former official stated that he believed that C&P Service did receive extremely voluminous hardcopy data from SSA many years ago. Due to the voluminous nature of the data and the manpower needed to process and work the cases, nothing was done with the data. In April 1998, VBA began receiving a monthly file of incarcerated individuals from the FBOP. C&P Service is currently working with SSA on an agreement to obtain access to SSA's prisoner database.

Since a nationwide systematic process had not been developed to obtain prisoner information, we contacted 20 VAROs to determine if they had developed procedures to obtain this data from FBOP, State, or local prison officials. We found that only 6 of 20 VAROs had a procedure to obtain state or local data. All received accession data in hardcopy form with varying frequencies (one annual, two semiannual, and three monthly). Four of these six VAROs were located in states from which we obtained State prison data. While we did not conduct evaluations of the processes used by each of these 4 VAROs to identify and adjust awards, our sample results showed that from 65 to 78 percent of the cases requiring adjustment had not been adjusted.

Overpayments Made to Released and Incarcerated Veterans

Our review included 6,610 veterans in 6 states who had 10,506 episodes of incarceration between October 1, 1986 and March 31, 1998, including 4,703 veterans with 8,599 episodes of incarceration who were released from State prisons prior to March 31, 1998. Our review also included 1,907 veterans who were incarcerated in the 6 states as of March 31, 1998. We sampled 527 of the 10,506 episodes and found that VAROs had not adjusted benefits in over 72 percent of the cases requiring adjustment, resulting in overpayments totaling \$1.8 million. Projecting the sample results nationwide, we estimate that about 13,700 veterans have been, or will be, overpaid by about \$100 million. These overpayments are distributed between currently incarcerated and released veterans as shown below:

- \$47.5 million - Future Overpayments to Currently Incarcerated Veterans
- \$21.7 million - Overpayments to Currently Incarcerated Veterans Prior to 4/1/98
- \$31.0 million - Overpayments to Veterans Released Prior to 4/1/98.



Overpayments to Newly Incarcerated Veterans

To demonstrate the amount of potential overpayments for individuals that will be incarcerated in the future, we analyzed the data obtained for the currently incarcerated veterans in the six states included in our review. Using this data, we determined the number of incarcerated veterans that required benefit reduction in the 12 months ending March 31, 1998, the annual average amount of benefit reduction, and their average term of incarceration. Our analysis found that 24 (25 percent) of the 96 veterans were incarcerated within the year ending March 31, 1998. The average prison sentence was about 4 years, and the average annual benefit reduction was about \$5,208. Based on this analysis, we estimate that VBA could reduce overpayments to newly incarcerated veterans by about \$7 million during their first year of incarceration. Given the cumulative effect of new veterans being incarcerated each year, the annual reduction would increase by \$7 million each year through the first 4 years, reaching \$28 million and continuing. VBA action to identify and adjust benefits to new veterans entering the State prison systems could reduce overpayments over the next 4 years by \$70 million.

VBA Adjustments for Veterans Incarcerated in Federal Prisons

Prior to 1998, VBA had not received prisoner data from the FBOP. In April 1998, VBA began receiving FBOP prisoner data monthly. The initial file contained all individuals incarcerated in FBOP facilities at that time. Subsequent monthly files contained only new accretions to FBOP. In April 1998, at the request of C&P Service, the Hines Data Processing Center matched the initial FBOP file against the C&P master file and sent VAROs a listing of 839 individuals whose Social Security Numbers (SSN) matched C&P files. A review of the 839 matches disclosed that 763 were veterans or dependents in receipt of compensation or pension and were subject to benefit reductions.

At VBA's request, we conducted a limited review of VARO actions to adjust awards for these veterans. We found that VAROs were slow to process these cases. As of August 6, 1998, over 100 days after the lists were transmitted to the VAROs, the TARGET System only showed that 185 awards had been adjusted and action was pending on 129 others.

TARGET showed no adjustments or pending actions (end products 290 and 600) for the remaining 449 cases, 59 percent of the cases subject to benefit reduction. Also, veterans' master records in TARGET frequently did not have the "Incarceration" indicator completed. We found that of the 185 awards adjusted, only 83 indicated the veteran was incarcerated, 19 indicated the veteran was not incarcerated, and the remaining 83 were blank.

Conclusion

VBA did not implement the recommendations in our 1986 audit report to establish a systematic approach to identify incarcerated veterans and dependents, adjust benefits as required, and establish necessary overpayments. Our current evaluation of a sample of 527 veterans incarcerated in 6 states showed that VAROs had not adjusted benefits in over 72 percent of the cases requiring adjustment, resulting in estimated overpayments totaling \$1.8 million. Projecting the sample results nationwide, we estimate that about 13,700 veterans have been, or will be, overpaid by about \$100 million. Additional overpayments of about \$70 million will occur over the next 4 years for newly incarcerated veterans, if VBA does not establish a systematic method to identify newly incarcerated veterans and dependents.

We recommend that the Under Secretary for Benefits ensure that (i) VBA enters into a matching agreement with the SSA to identify incarcerated veterans; (ii) benefits are adjusted accordingly; and (iii) overpayments are established and collected for current and past incarcerations. Additionally, the Under Secretary for Benefits should monitor C&P Services' current efforts to obtain access to SSA's prisoner database until access is obtained. In addition, C&P Service should establish a monitor to ensure that VAROs process identified cases timely and properly adjusts benefits.

For More Information

The details of the evaluation are discussed in-depth in the APPENDIXES beginning on page 7.

- *General background information is included in APPENDIX I on page 7.*
- *The Objective, Scope, and Methodology are included in APPENDIX II on page 11.*
- *Demographics of the State Sample are included in APPENDIX III on page 17.*
- *Estimates of Overpayments and Future Benefit Reductions are included in APPENDIX IV on page 19.*

Recommendation

We recommend that the Under Secretary for Benefits ensure that VA C&P Service officials:

- a. Initiate and maintain a matching agreement with SSA for prison records. Until such an agreement is made, VAROs should obtain this data from FBOP, State, and local prison officials.
- b. Identify and adjust the benefits of incarcerated veterans and dependents.
- c. Establish and collect overpayments for released veterans and dependents that did not have their benefits adjusted.
- d. Establish a monitor to ensure VAROs process identified cases timely and properly adjust benefits.

Comments of the Deputy Under Secretary for Management

VBA's Deputy Under Secretary for Management concurred in the findings and recommendations and the estimated dollar impact included in the Monetary Benefits on page 25. The Deputy Under Secretary also stated that future legislation should require the cooperation of entities' outside VA. To ensure its successful implementation, the legislation should be equipped with provisions to assure outside entities' cooperation. For example, Federal funding for State and local penal institutions could be contingent upon cooperation with Federal agencies such as VA in identifying individuals whose Federal benefits are subject to adjustment while incarcerated. Currently, VA has no way of compelling penal authorities to furnish the information needed to comply with the law.

Implementation Plan

1a. The Deputy Under Secretary stated that discussions were entered into and a draft computer matching agreement (CMA) concerning VA receiving electronic files identifying veterans incarcerated in State and local prisons was sent to SSA's Prisoner Suspension Team in April 1998. As of November 1998, the CMA had been reviewed by SSA's General Counsel and was out for review by other SSA components. VBA will attempt to get the CMA in place as soon as possible. Until then, VBA procedures require regional offices to establish and maintain liaison with State and Federal correctional authorities within the regional office's jurisdiction to provide systematic notification of incarceration of VA beneficiaries.

1b. The Deputy Under Secretary stated that although Central Office does not maintain figures on adjustments of State and local prisoners, they are tracking VA beneficiaries in

Federal prisons. So far, approximately 308 of the 839 prisoners identified in the initial match with Bureau of Prisons (BOP) have had their benefits adjusted as a result of the match. Virtually all of the cases on the initial match that still require adjustment have been placed under control. Prior to the match, regional offices had already adjusted approximately 195 of the 839 prisoners identified on the initial match. Regional offices are also taking action to adjust the benefits of the 40 to 50 accessions to the BOP system that are being identified each month through the match with BOP.

1c. Hines BDC has received the file from BOP which identifies beneficiaries on the VA rolls as of April 1998, who had been incarcerated by BOP during the previous 5 years. Hines will run that file and generate worksheets to regional offices as soon as most of the incarcerated beneficiary cases from the April 1998 match have been completed. C&P Service believes that it is advisable to finalize action on most of the 839 cases from the April 1998 match before sending field stations another large group of BOP worksheets.

1d. C&P Service receives listings for all cases appearing on the BOP match and tracks each case on those listings through to final adjustment. If there are any questions about whether the case has been properly adjusted, the regional office is contacted and asked for an explanation of the action taken or not taken. C&P Service plans to monitor cases identified by the match with SSA in similar fashion.

(See APPENDIX VI on page 27 for the full text of the Deputy Under Secretary for Management's comments.)

Office of Inspector General Comments

The Deputy Under Secretary for Management's comments and implementation plan are responsive to the recommendations. We consider the recommendations resolved. However, we will continue to follow up on planned actions until completed.

BACKGROUND

Adjust Benefits Paid to Incarcerated Veterans

Public Law 96-385, effective October 7, 1980, requires that full compensation and pension benefits not be paid to veterans incarcerated in a Federal, State, or local penal institution, in excess of 60 days, when convicted of a felony. Beginning on the 61st day of incarceration, compensation is not to be paid at a rate higher than 10 percent for conviction of a felony, and pension payments are to be terminated for conviction of a misdemeanor or a felony. VARO Adjudication Divisions, upon receipt of notification of the incarceration, are responsible for the adjustment of benefit payments.

Veterans and dependents are required to notify VA of any change in their status that may affect their benefits, such as incarceration. VBA has established procedures for reducing or terminating benefits when a VARO becomes aware of a veteran's incarceration. In addition, each VARO has been given the responsibility for coordinating with State and Federal prisons to develop procedures for identifying incarcerated veterans.

Prior Audit

The OIG conducted an audit of veterans incarcerated in Federal and State prisons to determine if VA was properly notified of the veteran's incarceration, and to determine if VAROs properly reduced or terminated C&P benefits and established controls to periodically identify incarcerated veterans (Report Number 6R3-B01-110, dated July 16, 1986).

The audit included comparisons of prison data and VA C&P master records for Federal prisoners incarcerated as of October 14, 1985, in Florida and Georgia, and State prisoners currently incarcerated or released from prison between January 1, 1981, and September 29, 1985, in Alabama, Georgia, and Texas. We also obtained data of prisoners currently incarcerated in New Jersey as of December 1985.

The objectives of the 1986 audit were to determine if: (i) VA was properly notified of the veteran's incarceration; (ii) appropriate action was taken to reduce or terminate benefits; and (iii) controls had been established at VAROs to periodically identify incarcerated veterans.

The audit showed that when VA was notified of a veteran's incarceration, the VARO of jurisdiction took appropriate action to reduce or terminate benefits. However, VA had not developed a systematic procedure for identifying incarcerated veterans; therefore, only about 20 percent of the cases requiring adjustment had been identified. We estimated that \$28 million would be overpaid to about 2,300 incarcerated veterans. In addition, about 4,300 veterans released from prison since 1981 were overpaid \$12 million. Our \$40

million estimate may be reduced by \$2 million, based on dependents initiating claims for apportionment.

The report recommended that VBA establish controls to identify incarcerated veterans, adjust C&P awards, and establish overpayments. The Under Secretary for Benefits concurred with the report's recommendations and stated in his implementation plans that VBA will enter into an agreement with SSA to begin receipt of accretions to the various State and Federal prison rolls. Additionally, VAROs will be informed of VA Manual M21-1 provisions concerning contact with penal institutions, and be required to provide a report confirming the contacts.

Prison Population Has Significantly Increased

We obtained statistical data from the U.S. Department of Justice, Bureau of Justice Statistics, which shows that the Federal and State prison populations in the U.S. increased significantly from calendar year 1986 to 1995. Since our 1986 report, the Federal prison population has increased from about 36,500 to 83,700 in 1995³; a 129 percent increase. For the same period, State prison populations increased from about 485,600 to about 1,001,700; a 106 percent increase. During this period, the number of annual releases from Federal and State prisons increased by 42 percent and 90 percent, respectively, and the number of admissions increased by 38 percent and 88 percent, respectively. The increases in prison population and the number of prisoners admitted and released are depicted in the following table and charts.

Table 1
Prison Population Growth
10-Year Prison Population

| Year | Federal | | | State | | |
|------|------------|------------|----------|------------|------------|----------|
| | Population | Admissions | Releases | Population | Admissions | Releases |
| 1986 | 36,531 | 19,770 | 15,934 | 485,553 | 285,088 | 247,247 |
| 1987 | 39,523 | 19,863 | 16,871 | 521,289 | 319,899 | 288,227 |
| 1988 | 42,738 | 19,232 | 16,017 | 560,994 | 360,510 | 320,805 |
| 1989 | 47,168 | 23,491 | 18,430 | 633,739 | 437,307 | 367,049 |
| 1990 | 50,403 | 23,969 | 18,650 | 689,577 | 474,128 | 419,783 |
| 1991 | 56,696 | 24,447 | 18,870 | 732,914 | 480,046 | 436,991 |
| 1992 | 65,706 | 24,924 | 19,089 | 780,571 | 495,756 | 447,105 |
| 1993 | 74,399 | 25,402 | 19,309 | 857,675 | 493,160 | 437,099 |
| 1994 | 79,795 | 27,325 | 21,445 | 936,896 | 514,109 | 435,497 |
| 1995 | 83,663 | 27,369 | 22,603 | 1,001,700 | 535,355 | 469,255 |

³ 1995 is the last year for which data was available at the time of our review.

Chart 1
Federal Prison Population, Admissions and Releases
1986 to 1995⁴

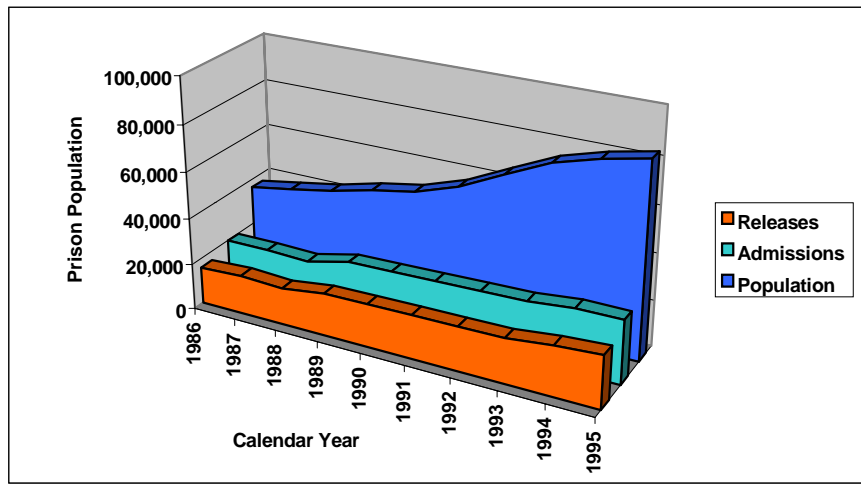
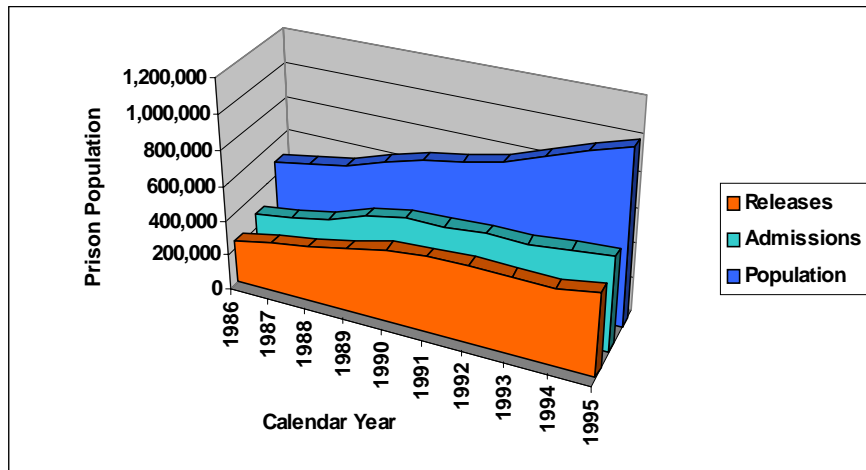


Chart 2
State Prison Population, Admissions and Releases
1986 to 1995⁵



⁴ Statistical data in the chart obtained from the U.S. Department of Justice, Bureau of Justice Statistics. Data for calendar years 1990 through 1992 was not reported.

⁵ Statistical data in the chart obtained from the U.S. Department of Justice, Bureau of Justice Statistics. Data for calendar years 1990 through 1992 was not reported.

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OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The evaluation was conducted as part of the OIG's continuing coverage of the Department of Veterans Affairs programs. The purpose of the evaluation was to determine whether VBA implemented report recommendations made as a result of our July 1986 audit of benefit payments to incarcerated veterans and dependents.

Scope

The scope of our evaluation included state prisoners incarcerated and released during Fiscal Years 1987 to 1998 (through March 31, 1998). Using data from the U.S. Department of Justice, Bureau of Justice Statistics, we selected the six states with the highest prison populations at the end of Calendar Year 1995 (California, Florida, Michigan, New York, Ohio, and Texas) to sample incarcerated veterans, as shown in Table 2:

Table 2
State Prison Population
(Incarcerated and Released)

| State | Population ⁶ | | | | | |
|---------------|-------------------------|----------------|------------------|---------------|----------------|------------------|
| | Incarcerated | | | Released | | |
| | 1986 | 1995 | Percent Increase | 1986 | 1995 | Percent Increase |
| California | 57,725 | 131,745 | 128.23 | 37,452 | 98,561 | 163.17 |
| Texas | 38,534 | 127,766 | 231.57 | 30,851 | 42,055 | 36.32 |
| New York | 38,449 | 68,489 | 78.13 | 13,498 | 26,895 | 99.25 |
| Florida | 32,228 | 63,866 | 98.17 | 5,831 | 7,973 | 36.73 |
| Ohio | 22,463 | 44,663 | 98.83 | 6,216 | 8,262 | 32.92 |
| Michigan | 20,742 | 41,112 | 98.21 | 4,005 | 9,078 | 126.67 |
| Totals | 210,141 | 477,641 | 127.29 | 97,853 | 192,824 | 97.05 |

Prisoner data was obtained from the FBOP and the State Department of Corrections for the six states with the highest prison populations in order to:

- Determine VBA's actions since the report was issued,
- Obtain State prison populations,
- Identify states for review of incarcerated veterans and dependents,
- Obtain prisoner data from selected states,
- Compare C&P benefits data with prisoner data,

⁶ Latest available data from the U.S. Department of Justice, Bureau of Justice Statistics

- Review matches for periods of incarceration,
- Determine if VAROs appropriately adjusted benefits of veterans and dependents,
- Estimate approximate overpayment amounts, and
- Make recommendations to appropriate VA officials.

In order to determine if VBA properly reduced benefits, we matched data obtained from the six states with the highest prison populations (California, Texas, New York, Florida, Ohio, and Michigan) to VA's C&P master records. The match identified 10,506 episodes of incarceration where the prisoner's SSN, stub name, and month and year of birth matched data in VA C&P master records. We selected a stratified random sample of 527 released and currently incarcerated veterans, based on the distribution of the prison populations in these six states for review.

We obtained the veterans' C&P payment histories from the TARGET system, determined whether the veteran was receiving benefits during incarceration, and computed the amount of any past overpayment or future benefit reductions. We obtained background information on prison populations from the Department of Justice, Bureau of Justice Statistics, and reviewed VBA administrative records concerning actions taken in response to our 1986 audit report. We obtained information from:

- VBA officials concerning actions in response to our 1986 audit.
- Representatives of 20 VAROs concerning their coordination with State and Federal prison facilities to obtain information on incarcerated veterans.
- SSA officials concerning information they maintain on incarcerated individuals.

The evaluation was made in accordance with generally accepted government auditing standards for staff qualifications, independence, and due professional care; fieldwork standards for planning, supervision, and evidence; and reporting standards for performance audits.

Methodology

State Prison System

Prison data files for the 6 states included in our review contained 2.7 million records, including 2.2 million releases prior to April 1, 1998, and 538,000 incarcerated individuals as of March 31, 1998. A comparison of these records with VA's C&P master records identified 6,610 veterans or dependents that had 10,506 episodes of incarceration during the period of our evaluation. We found that veterans and dependents had 8,599 periods of

incarceration in State prisons (releases) prior to March 31, 1998, and 1,907 veterans were currently incarcerated in State prisons as of March 31, 1998. The following totals illustrate the episodes of incarceration by state.

**Table 3
State Prison
Incarcerated and Released Veterans**

| State | Veterans | | |
|--------------|--------------|--------------|---------------|
| | Incarcerated | Released | Total |
| California | 441 | 4,059 | 4,500 |
| Texas | 618 | 2,053 | 2,671 |
| New York | 111 | 438 | 549 |
| Florida | 302 | 510 | 812 |
| Ohio | 257 | 1059 | 1316 |
| Michigan | 178 | 480 | 658 |
| TOTAL | 1,907 | 8,599 | 10,506 |

These 10,506 records represented matched SSN, stub name, and month and year of birth in the State prison file and C&P master records. In comparing the State prison and C&P files, we also found the following potential matches:

- 998 - SSN and stub name
- 3,827 - SSN and month and year of birth
- 2,790 - SSN only

These other matches represent an additional 7,600 potential cases that may require adjustment, but were not evaluated during this review. We took the most conservative approach and only evaluated those cases where we had a match on the SSN, stub name, and month and year of birth.

We selected a stratified random sample of 527 of the 10,506 episodes of incarceration to determine if benefits paid to incarcerated veterans and dependents were adjusted. Our sample included 431 released veterans and 96 currently incarcerated veterans, as shown below:

Table 4
State Prison Sampled Cases
By State and Incarcerated vs. Released

| State | Veterans | | |
|--------------|--------------|------------|------------|
| | Incarcerated | Released | Total |
| California | 22 | 203 | 225 |
| Texas | 31 | 103 | 134 |
| New York | 6 | 22 | 28 |
| Florida | 15 | 25 | 40 |
| Ohio | 13 | 54 | 67 |
| Michigan | 9 | 24 | 33 |
| Total | 96 | 431 | 527 |

We obtained current benefit payment information from the TARGET system and historical payment information from a C&P master records tape dated March 1994. Using the benefit payment information, we determined if the appropriate benefit adjustment was made for the period of incarceration. We calculated the potential overpayment amount for each incarcerated and released veteran that did not have their benefits appropriately adjusted during the period of incarceration.

See APPENDIX III for a demographic description of the State sample.

Federal Prison Review

We obtained a copy of VA's and the FBOP's April 1998 match of incarcerations from C&P Service to review the potential overpayments of veterans and dependents incarcerated in Federal prisons. The prisoner's SSN was matched to the SSN of veterans receiving VA benefits, resulting in 839 matches.

We used the TARGET system to run Beneficiary Identification and Records Locator Subsystem (BIRLS) inquiries to determine if the 839 incarcerated individuals were veterans or dependents in receipt of benefits. If the SSN, name, and date of birth matched, we obtained benefit payment information from the TARGET system and calculated the approximate overpayment for each incarcerated veteran or dependent receiving VA benefits during their incarceration.

Data associated with the individual SSN matches was mailed to the VAROs that have jurisdiction over the records for further analysis and determination of veteran status. If the VARO determined that the incarcerated individual is a veteran in receipt of benefits, an adjustment to the veteran's benefit is to be made.

C&P Service requested that we review the efforts of the VAROs in working the FBOP cases. We reviewed TARGET pending inquiries for end products 290 and 600 for all incarcerated veterans that had not been adjusted. These end products indicate that the

VAROs have either initiated action to obtain additional information on the veteran’s incarceration or have initiated action to reduce or terminate the benefits. Table 5 shows the frequency distribution of incarcerated veterans in Federal prisons by VARO.

Table 5
Distribution of Federal Prison Match

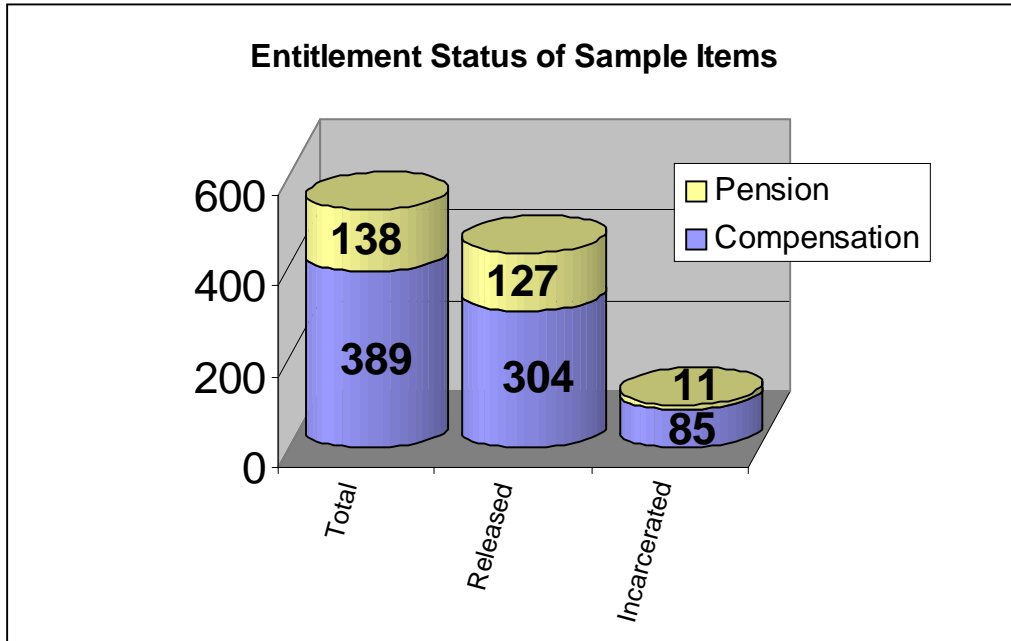
| VARO No. | Regional Office Name | Number of Cases |
|-----------------|-----------------------------|------------------------|
| 317 | St Petersburg | 78 |
| 349 | Waco | 59 |
| 316 | Atlanta | 38 |
| 318 | Winston-Salem | 38 |
| 306 | New York | 34 |
| 362 | Houston | 31 |
| 328 | Chicago | 26 |
| 329 | Detroit | 26 |
| 320 | Nashville | 25 |
| 310 | Philadelphia | 22 |
| 314 | Roanoke | 22 |
| 322 | Montgomery | 21 |
| 343 | Oakland | 20 |
| 330 | Milwaukee | 19 |
| 372 | Washington | 19 |
| 325 | Cleveland | 18 |
| 346 | Seattle | 18 |
| 350 | North Little Rock | 18 |
| 331 | St Louis | 17 |
| 344 | Los Angles | 17 |
| 321 | New Orleans | 16 |
| 351 | Muskogee | 15 |
| 315 | Huntington | 14 |
| 345 | Phoenix | 14 |
| 301 | Boston | 13 |
| 327 | Louisville | 13 |
| 339 | Denver | 13 |
| 323 | Jackson | 12 |
| 319 | Columbia | 11 |
| 335 | St Paul | 10 |

| VARO No. | Regional Office Name | Number of Cases |
|-----------------|-----------------------------|------------------------|
| 452 | Wichita | 10 |
| 311 | Pittsburgh | 9 |
| 348 | Portland | 9 |
| 340 | Albuquerque | 8 |
| 377 | San Diego | 8 |
| 307 | Buffalo | 7 |
| 309 | Newark | 7 |
| 326 | Indianapolis | 7 |
| 354 | Reno | 7 |
| 308 | Hartford | 6 |
| 313 | Baltimore | 6 |
| 334 | Lincoln | 6 |
| 355 | San Juan | 6 |
| 459 | Honolulu | 6 |
| 373 | Manchester | 5 |
| 402 | Togus | 5 |
| 436 | Fort Harrison | 5 |
| 460 | Wilmington | 5 |
| 333 | Des Moines | 4 |
| 438 | Sioux Falls | 4 |
| 304 | Providence | 3 |
| 463 | Anchorage | 3 |
| 442 | Cheyenne | 2 |
| 341 | Salt Lake | 1 |
| 358 | Manila | 1 |
| 405 | White River | 1 |
| 437 | Fargo | 1 |
| Total | | 839 |

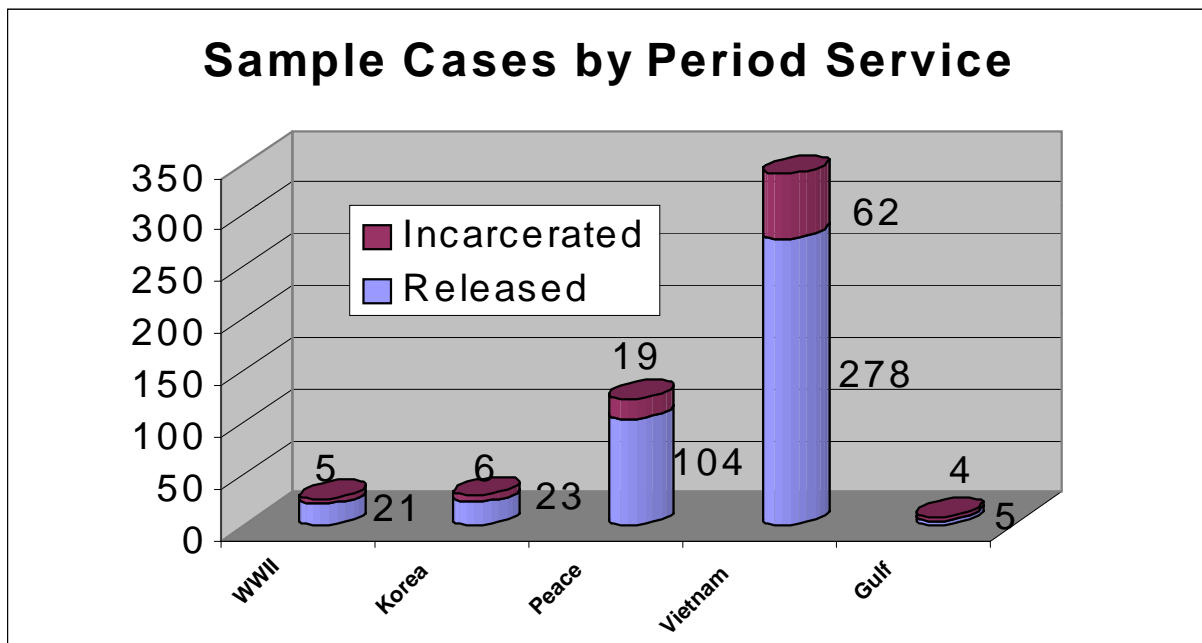
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DEMOGRAPHICS OF STATE SAMPLE

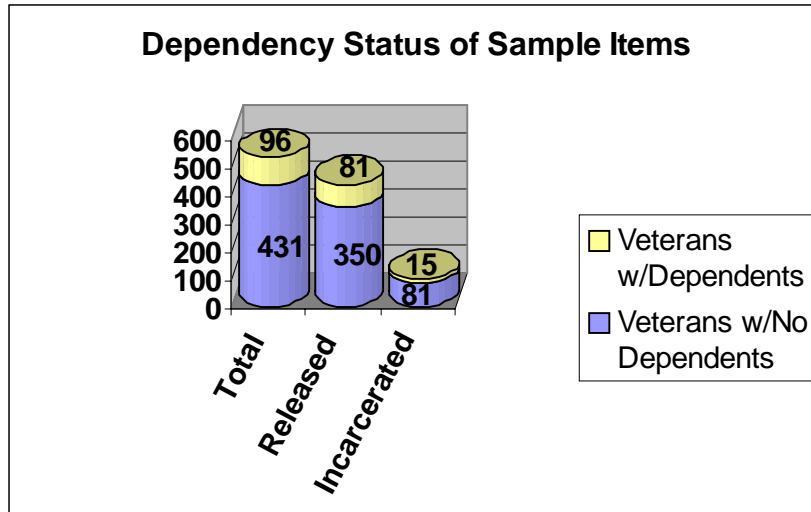
Analysis of the 527 sample cases showed that 389 veterans were receiving compensation benefits and 138 were receiving pension benefits, as shown below:



Analysis of the 527 sample cases by period of service showed the largest number were Vietnam Era followed by peacetime, Korea, World War II, and the Gulf War, as shown below:



Further analysis of the sample by dependency status coincidentally showed that 431 veterans had no dependents, while the remaining 96 veterans had 1 or more dependents. Only 32 veterans had an active apportionment at the time of our review. These results are shown below:



DESCRIPTION OF RESULTS

State Sample Review

We reviewed a sample of 527 of the 10,506 episodes of incarcerations for veterans in State prisons in California, Florida, Michigan, New York, Ohio, and Texas. The sample consisted of 431 episodes of incarcerations where the veterans’ releases occurred during the period October 1, 1986 through March 31, 1998, and 96 veterans were incarcerated as of March 31, 1998.

We found that 389 (74 percent) of the 527 episodes of incarcerations, were for veterans receiving compensation, and 138 (26 percent) were receiving pension. Coincidentally, we also noted that episodes of incarcerations included 431 instances where the veterans had no dependents and 96 instances where the veterans had dependents. The veteran had an apportionment in only 32 of the cases.

As shown in the following table, 337 of the 527 sample episodes required benefit reductions. VAROs had adjusted benefits in 93 of these cases (27.6 percent). The remaining 244 cases require benefit reductions (72.4 percent). In only 60 of the 527 sample cases did VBA’s TARGET system contain the ‘incarceration indicator’; the remaining 467 records were blank.

| | Incarcerated | Released | Total |
|--|--------------|----------|-------|
| Sample Size | 96 | 431 | 527 |
| <u>Cases Not Requiring Adjustment</u> | | | |
| Awarded Benefits After Release | 0 | 100 | 100 |
| Released Prior to 61st day of Incarceration | 0 | 34 | 34 |
| Incarcerated Prior to Law | 4 | 9 | 13 |
| 61 st day of Incarceration Not Reached ¹ | 7 | 0 | 7 |
| Insufficient Benefit Information to Determine | 0 | 36 | 36 |
| <u>Cases Requiring Adjustment</u> | | | |
| Cases Adjusted by VA Regional Offices | 30 | 63 | 93 |
| Cases Not Adjusted by VA Regional Offices | 55 | 189 | 244 |

¹ Future overpayments computed for these cases after 61st day of incarceration was reached.

The 244 sampled cases not adjusted had overpayments totaling over \$940,500 through March 31, 1998; including \$386,000 for released (Table 6A) and \$554,000 for incarcerated veterans (Table 6B). We also calculated future overpayments for 62 currently incarcerated veterans that did not have their benefits adjusted. This includes 7 veterans incarcerated as of March 31, 1998, but had not reached their 61st day of incarceration at that time. These 62 veterans will receive future benefit payments from April 1, 1998, to their anticipated release date (*we used 5 years for veterans incarcerated for life*). We estimate that these veterans will be overpaid about

APPENDIX IV

\$847,300 (Table 7). This amount is conservative because we used the current benefit rate data to develop the amount of potential overpayment and did not consider annual rate increases. Overall, the incarcerated and released veterans in our sample had been, or will be, overpaid about \$1.8 million.

Using the sample results of \$1.8 million, we estimate that the sample universe of 10,506 episodes (6 states) contains 4,880 veterans that should have their benefits reduced. As Table 8 shows, these veterans have been, or will be, overpaid \$35.7 million, including overpayments prior to April 1, 1998, of \$18.8 million, and future overpayments for currently incarcerated veterans of about \$16.9 million.

Table 6A
ESTIMATED OVERPAYMENTS TO INCARCERATED VETERANS PRIOR TO 4/1/98

| SAMPLE | | INCARCERATED | | | | | |
|--------------|------------|--------------|---------------------|---------------------|------------------|----------------------------------|-------------------------------|
| State | Number | Sample Size | Number Unique O/P's | Population Estimate | O/P Amounts | Sample Estimate per Unique O/P's | Population Estimate for O/P's |
| CA | 225 | 22 | 12 | 240 | \$76,224 | \$6,352 | \$1,524,474 |
| TX | 134 | 31 | 18 | 360 | \$240,352 | \$13,353 | \$4,807,035 |
| NY | 28 | 6 | 5 | 100 | \$7,700 | \$1,540 | \$154,007 |
| FL | 40 | 15 | 12 | 240 | \$33,664 | \$2,805 | \$673,286 |
| OH | 67 | 13 | 5 | 100 | \$12,875 | \$2,575 | \$257,497 |
| MI | 33 | 9 | 3 | 60 | \$15,707 | \$5,236 | \$314,136 |
| TOTAL | 527 | 96 | 55 | 1,100 | \$386,522 | \$7,028 | \$7,730,435 |

Table 6B
ESTIMATED OVERPAYMENTS TO RELEASED VETERANS PRIOR TO 4/1/98

| SAMPLE | | RELEASED | | | | | |
|--------------|------------|-------------|---------------------|---------------------|------------------|----------------------------------|-------------------------------|
| State | Number | Sample Size | Number Unique O/P's | Population Estimate | O/P Amounts | Sample Estimate per Unique O/P's | Population Estimate for O/P's |
| CA | 225 | 203 | 81 | 1620 | \$100,357 | \$1,239 | \$2,007,137 |
| TX | 134 | 103 | 47 | 940 | \$228,691 | \$4,866 | \$4,573,813 |
| NY | 28 | 22 | 8 | 160 | \$15,809 | \$1,976 | \$316,173 |
| FL | 40 | 25 | 16 | 320 | \$68,662 | \$4,291 | \$1,373,233 |
| OH | 67 | 54 | 24 | 480 | \$121,136 | \$5,047 | \$2,422,726 |
| MI | 33 | 24 | 13 | 260 | \$19,290 | \$1,484 | \$385,804 |
| TOTAL | 527 | 431 | 189 | 3,780 | \$553,945 | \$2,931 | \$11,078,886 |

Table 6C
ESTIMATED OVERPAYMENTS TO INCARCERATED AND RELEASED
VETERANS PRIOR TO 4/1/98

| State | INCARCERATED | RELEASED | TOTAL |
|--------------|-------------------------------|-------------------------------|-------------------------------|
| | Population Estimate for O/P's | Population Estimate for O/P's | Population Estimate for O/P's |
| CA | \$1,524,474 | \$2,007,137 | \$3,531,611 |
| TX | 4,807,035 | 4,573,813 | \$9,380,848 |
| NY | \$154,007 | \$316,173 | \$470,180 |
| FL | \$673,286 | \$1,373,233 | \$2,046,519 |
| OH | \$257,497 | \$2,422,726 | \$2,680,223 |
| MI | \$314,136 | \$385,804 | \$699,940 |
| TOTAL | \$7,730,435 | \$11,078,886 | \$18,809,321 |

Table 7
FUTURE OVERPAYMENTS FOR INCARCERATED VETERANS SAMPLE AND POPULATION
ESTIMATES

| SAMPLE ESTIMATES | | | POPULATION ESTIMATES | | |
|------------------|------------------------|------------------|----------------------|--|----------------------|
| State | Number of Unique O/P's | Future Amounts | Population Estimate | Future Amounts Estimate per Unique O/P's | Future Amounts O/P's |
| CA | 14 | \$333,716 | 280 | \$23,837 | \$6,674,360 |
| TX | 19 | \$384,200 | 380 | \$20,221 | \$7,683,980 |
| NY | 5 | \$12,943 | 100 | \$2,589 | \$258,900 |
| FL | 13 | \$67,750 | 260 | \$5,212 | \$1,355,120 |
| OH | 7 | \$36,479 | 140 | \$5,211 | \$729,540 |
| MI | 4 | \$12,165 | 80 | \$3,041 | \$243,280 |
| TOTAL | 62 | \$847,253 | 1,240 | \$13,665 | \$16,945,180 |

Table 8
PRIOR AND FUTURE OVERPAYMENTS FOR INCARCERATED
VETERANS POPULATION ESTIMATES
OVERPAYMENT TOTAL

| State | Prior Overpayment Amounts Prior to 04/01/98 (Table 6C) | Future Overpayment Amounts (Table 7) | Prior and Future Overpayment Amounts |
|--------------|--|--------------------------------------|--------------------------------------|
| CA | \$3,531,611 | \$6,674,360 | \$10,205,971 |
| TX | 9,380,848 | 7,683,980 | \$17,064,828 |
| NY | \$470,180 | 258,900 | \$729,080 |
| FL | \$2,046,519 | 1,355,120 | \$3,401,639 |
| OH | \$2,680,224 | 729,540 | \$3,409,764 |
| MI | \$699,939 | 243,280 | \$943,219 |
| TOTAL | \$18,809,321 | \$16,945,180 | \$35,754,501 |

Nationwide Projection of Results

In order to estimate values of overpayments to both incarcerated and released veterans nationally, the following assumptions were made:

1. The state-level population distribution of incarcerated and released veterans is similar to the state-level population distribution of non-institutionalized male veterans.
2. The proportional distribution of incarcerated and released veterans for the six states in the sample reflects the overall national proportional distribution of incarcerated and released veterans.

In regard to the first assumption, the 6 states used in the sample contain 35.7 percent of the U.S. male non-institutionalized veteran population. Under this assumption, these 6 states would also contain 35.7 percent of the incarcerated and released veteran population. Moreover, if 35.7 percent of the incarcerated and released veteran population received an estimated \$18.8 million in overpayments, extrapolating to a national estimate results in finding VA has potentially made \$52,687,200 in overpayments to incarcerated and released veterans prior to April 1, 1998.

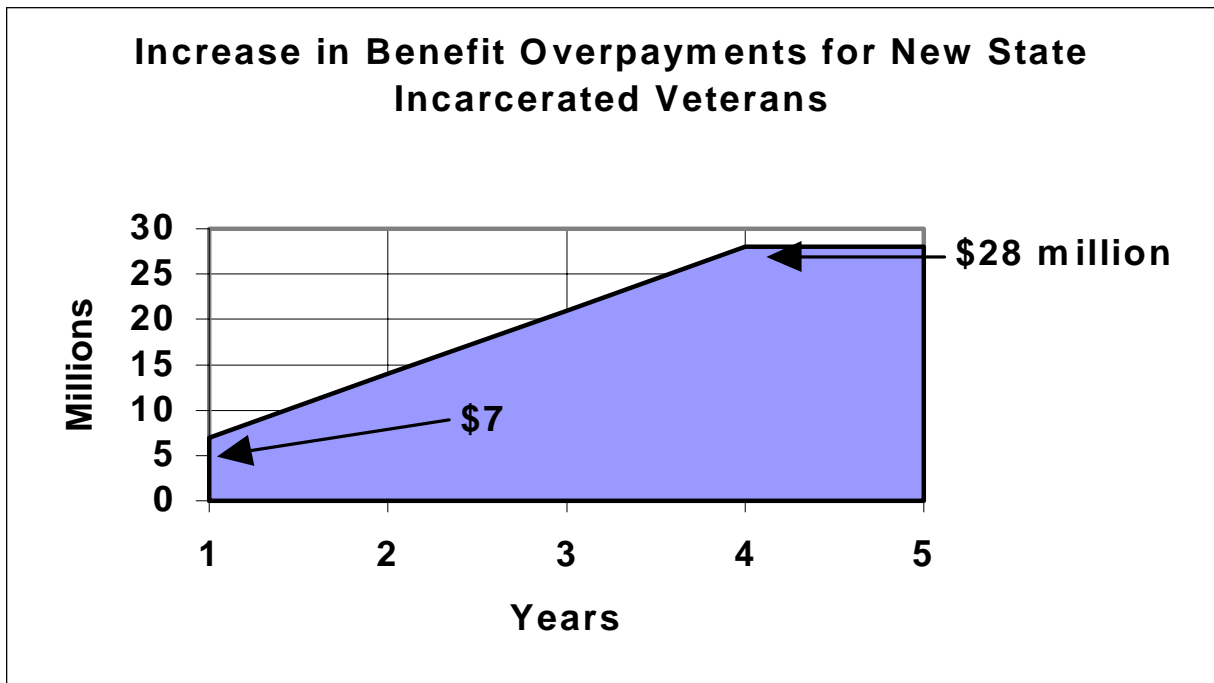
Turning to the second assumption, the national estimate of overpayment (\$52,687,200), can be distributed accordingly: \$9,597,700 going to incarcerated veterans and \$43,089,500 going to released veterans. Including the estimated values of the future overpayments beyond April 1, 1998, for incarcerated veterans, VA could make \$100,152,300 in overpayments to incarcerated and released veterans.

Newly Incarcerated Veterans Projected Overpayments

Our sample projections only included those veterans that are currently incarcerated and those previously released. To demonstrate the amount of potential overpayments for individuals that will be incarcerated in the future, we analyzed the data obtained for the currently incarcerated veterans in the six states included in our review. We found that 23 (24 percent) of the 96 incarcerated veterans sampled were incarcerated in the year ending March 31, 1998. We determined that the average prison sentence was about 4 years and the average benefit reduction was about \$5,382. Based on this analysis, we estimate that nationwide benefit reductions for newly incarcerated veterans would total about \$ 7 million annually the first year, \$14 million the second, \$21 million the third, and \$28 million the fourth and each year thereafter. Based on our analysis, we estimate that newly incarcerated veteran reductions will be about \$7 million annually and about \$70 million over the 4-year period of incarceration. The following table and chart illustrate the annual benefit reductions for newly incarcerated veterans in state prisons:

Table 11
Overpayment Reductions by Year
(\$ Millions)

| Year | 1 | 2 | 3 | 4 | 5 |
|--------------|------------|-------------|-------------|-------------|-------------|
| 1 | \$7 | \$7 | \$7 | \$7 | |
| 2 | | \$7 | \$7 | \$7 | \$7 |
| 3 | | | \$7 | \$7 | \$7 |
| 4 | | | | \$7 | \$7 |
| 5 | | | | | \$7 |
| Total | \$7 | \$14 | \$21 | \$28 | \$28 |



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MONETARY BENEFITS SUMMARY
(IN ACCORDANCE WITH OIG ACT AMENDMENTS)

REPORT TITLE: Evaluation of Benefit Payments to Incarcerated Veterans

PROJECT NUMBER: 7R3-042

| Recommendation Number | Category/Explanation of Benefits | Better Use of Funds | Questioned Costs |
|----------------------------------|---|--------------------------------|-----------------------------|
| 1a-d | Better use of funds. Identify and adjust veterans' and dependents' benefits who are or have been incarcerated in Federal, State, and local penal institutions. | \$170 million | |

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COMMENTS OF THE DEPUTY UNDER SECRETARY FOR MANAGEMENT

Department of
Veterans Affairs

Memorandum

Date: **JAN 19 1999**

From: Deputy Under Secretary for Management (20)

Subj: Draft Report, Evaluation of Benefit Payments to Incarcerated Veterans, Project No. 8R3-209.

To: Assistant Inspector General for Auditing (52)

1. This is in response to your memorandum of November 5, 1998, concerning Project No. 8R3-209.
2. We concur in Recommendation 1a, "Initiate and maintain a matching agreement with Social Security Administration (SSA) for prison records." On April 13, 1998, Compensation and Pension Service staff entered into discussions with SSA's Prisoner Suspension Team about initiating a Computer Matching Agreement (CMA) to receive electronic files identifying veterans incarcerated in state and local prisons. On April 22, 1998, a draft CMA was sent to Tim DeHoff of the SSA Prisoner Suspension Team for informal review. Unfortunately, Mr. DeHoff did not receive a readable copy of the document so it was transmitted again on 6/9/98. As of 11/3/98, Mr. DeHoff stated that the draft CMA had been reviewed by SSA's General Counsel and was out for review by SSA components. The Veterans Benefits Administration (VBA) will attempt to get the CMA in place and initiate a computer match with SSA as soon as possible. Until then, our procedures (M21-1, part IV, par. 25.04a(4)) require regional offices to establish and maintain liaison with State and Federal correctional authorities within the regional office's jurisdiction to provide systematic notification of incarceration of VA beneficiaries.
3. We concur in Recommendation 1b, "Identify and adjust the benefits of incarcerated veterans and dependents." Although Central Office does not maintain figures on adjustment of state and local prisoners, we are tracking VA beneficiaries in Federal prisons. So far, approximately 308 of the 839 prisoners identified on the initial (April 20, 1998) match with Bureau of Prisons (BOP) have had their VA benefits adjusted as a result of the match. Virtually all of the cases on the initial match that still require adjustment have been placed under control. Approximately 195 of the 839 prisoners identified on the initial (April 20, 1998) match had already been adjusted by regional offices prior to the match. Regional offices are also taking action to adjust the benefits of the 40-50 accessions to the BOP system that are being identified each month through the match with BOP.

COMMENTS OF THE DEPUTY UNDER SECRETARY FOR MANAGEMENT

2.

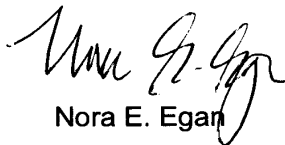
Assistant Inspector General for Auditing (52)

4. We concur in Recommendation 1c, "Establish and collect overpayments for released veterans and dependents that did not have their benefits adjusted." Hines BDC has received the file from BOP which identifies beneficiaries on the VA rolls as of April, 1998, who had been incarcerated by BOP during the previous 5 years. Hines will run that file and generate worksheets to regional offices as soon as most of the incarcerated beneficiary cases from the April 20, 1998, match have been completed. The Compensation and Pension Service believes that it is advisable to finalize action on most of the 839 cases from the April 20, 1998, match before sending field stations another large group of BOP worksheets.

5. We concur in Recommendation 1d, "Establish a monitor to ensure VAROs process identified cases timely and properly adjust benefits." The Compensation and Pension Service receives listings for all cases appearing on the BOP match and tracks each case on those listings through to final adjustment. If there are any questions about whether the case has been properly adjusted, the regional office is contacted and asked for an explanation of the action taken or not taken. The Compensation and Pension Service plans to monitor cases identified by the match with SSA in similar fashion.

6. We agree with the estimated dollar impact discussed in the report.

7. We recommend that future legislation which requires the cooperation of entities outside VA for its successful implementation be equipped with provisions to assure that cooperation. For example, Federal funding for state and local penal institutions could be contingent upon cooperation with Federal agencies such as VA in identifying individuals whose Federal benefits are subject to adjustment while incarcerated. Currently, VA has no way of compelling penal authorities to furnish the information needed to comply with the law.



Nora E. Egan

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