



# Office of Inspector General

**MANAGEMENT LETTER  
FISCAL YEAR 1999  
FINANCIAL STATEMENTS  
VA LIFE INSURANCE PROGRAMS  
AND SELECTED LOAN GUARANTY  
PROGRAM FINANCIAL ACTIVITIES**

*VBA staff are implementing  
improvements, although enhancements  
are still needed.*

**Report No.: 99-00002-60  
Date: April 21, 2000**

**Office of Inspector General  
Washington DC 20420**



**DEPARTMENT OF VETERANS AFFAIRS**  
**Office of Inspector General**  
**Washington DC 20420**

**Memorandum to: Director, Regional Office and Insurance Center (310)**

**Management Letter – Fiscal Year 1999 Financial Statements**  
**VA Life Insurance Programs and Selected Loan Guaranty Program Financial**  
**Activities**

1. The Office of Inspector General (OIG) reviewed selected internal controls at the Department of Veterans Affairs (VA) Regional Office and Insurance Center, Philadelphia, PA, as part of our audit of VA's Fiscal Year (FY) 1999 Consolidated Financial Statements. The purpose of the audit was to determine whether financial information processed at this center was reliable, accurate, and complete. In addition, we reviewed operations to evaluate compliance with applicable laws and regulations.
2. The six life insurance programs administered by VA represented over 2.2 million policies in force at September 30, 1999, totaling over \$22 billion of face value coverage. VA also supervised group life insurance issued by a major insurance company, which provided uniformed servicemembers and separated veterans with 2.6 million policies having a face value of nearly \$462 billion.
3. The Finance Division of VA's Regional Office and Insurance Center in Philadelphia provided accounting for loan guaranty funding fee collections processed by a vendor. Philadelphia's Finance Division was also responsible for reporting funding fee collections to and reconciling funding fee deposits with Treasury.
4. We concluded that staff established required internal controls for monitoring financial information, and generally complied with VA policies and procedures based on audit tests made. Management action resolved one control weakness noted in prior reports. This weakness dealt with analyzing accounts receivable and making provisions for uncollectible items. However, some control weaknesses noted in prior years continued to exist. VA management had actions underway to correct three conditions discussed in our prior year audit report<sup>1</sup>. For these three

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<sup>1</sup> Report No. 9R1-G10-100, dated May 21, 1999, Management Letter, Fiscal Year 1998 Financial Statements, VA Life Insurance Programs and Selected Loan Guaranty Program Financial Activities.

issues, we reaffirmed the recommendations made to you last year concerning: (i) charging interest on accounts receivable, (ii) confirming and updating critical policyholder information and documenting this process, and (iii) verifying computer generated disbursements. We are also providing our observations of the status of open conditions to reemphasize the continuing need and importance of enhancing internal controls and improving operations.

5. None of the issues reviewed had a material effect on VA's financial statements, based on audit tests made. The findings and recommendations addressed in this report have been reviewed, discussed, and concurred in by members of your Insurance Service staff. Therefore, you are not required to provide an official response to this management letter. We will continue to monitor these issues during future annual financial statement audits. If you wish to discuss this report or would like our assistance concerning any other issues, please call me at 781-687-3120.

For the Assistant Inspector General for Auditing

*(Original signed by:)*

THOMAS L. CARGILL, JR.  
**Director, Bedford Audit Operations Division**

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## **PURPOSE, SCOPE, AND METHODOLOGY**

### **Purpose**

As part of our audit of the Department of Veterans Affairs (VA) Fiscal Year (FY) 1999 Consolidated Financial Statements, we determined whether financial information processed at the Regional Office and Insurance Center at Philadelphia, PA was reliable, accurate and complete. In addition, we reviewed VA's insurance operations for compliance with applicable laws and regulations.

### **Scope and Methodology**

In performing the audit, we evaluated Life Insurance Program internal controls and tested data presented on the FY 1999 Consolidated Financial Statements. We reviewed financial and administrative records, and tested selected general ledger accounts, fund balance reconciliations with the Department of the Treasury for life insurance (Agency Location Code 36000310) and loan guaranty funding fee (Agency Location Code 36000104) transactions, investment transactions, life insurance benefit payments, policy loans, premium receipts, dividend payments and the mathematical accuracy of actuarial reserve summary reports as well as other data used in the financial statements.

In support of the above tests, we reviewed general ledger entries, various reports prepared by actuarial and finance staff, Insurance Terminal System transaction history screens, and hard-copy veterans records. We also selected a sample of 114 life insurance policyholders to confirm that data maintained in the computer system are reliable. Letters were sent to the sampled policyholders to confirm system generated data. We compared responses to insurance files associated with the sampled records and discussed discrepancies with the VA Regional Office and Insurance Center (VAROIC) Philadelphia staff. This examination required documentation reviews at two sites: VAROIC Philadelphia, PA, and Veterans Benefits Administration (VBA) Office of Resource Management, Loan Guaranty and Insurance Accounting and Reporting Division at Washington, D.C.

The audit was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and the Office of Management and Budget's *Audit Requirements For Federal Financial Statements*. The audit consisted of such tests as we considered necessary under the circumstances.

### **BACKGROUND**

VA life insurance programs are managed by Insurance Service officials at VAROIC Philadelphia. This office collects premiums, maintains policies, and pays death and disability claims for the six insurance programs that are administered directly by VA. The Insurance Service also supervises the group life insurance policy issued by a major insurance company (*The Insurer*), which provides Servicemembers' Group Life Insurance (SGLI) to members of the uniformed services and separated veterans. The day to day operations of these programs are handled by The Insurer's Office of Servicemembers' Group Life Insurance at Newark, NJ.

The Insurance Service Actuarial Staff in Philadelphia prepared the financial statement information for the VA insurance programs. As of September 30, 1999, there were over 2.2 million policies in force in the six VA-administered life insurance programs representing over \$22 billion face value. The SGLI program administered by The Insurer accounted for another 2.6 million policies with nearly \$462 billion face value.

**DETAILS OF AUDIT – Improvements Completed**

We found that management had completed action sufficient to resolve weaknesses in one of four areas (Allowance for Uncollectible Items) reported in prior years' audits. Prior years' audits identified the need to review accounts receivable and establish an allowance account for uncollectible items based on collection experience and other analyses including aging reports. Management implemented the intent of these recommendations. Additionally, we noted no new conditions requiring management action.

**Allowance for Uncollectible Items**

During FY 1999, management reviewed accounts receivable and established an allowance account for uncollectible items based on collection experience, including aging reports. At the end of FY 1999, VAROIC Philadelphia Life Insurance Program accounts receivable totaled 294 items amounting to about \$1,209,248. These items were analyzed to determine their collectibility.

Management initiated several actions to analyze accounts receivable and determine their collectibility during FY 1999. An Insurance Service management team reviewed all accounts receivable to determine whether they were still valid receivables, or should be written off. This team utilized 13 review criteria based on VA Debt Collection Policy, and recommended writing off 269 accounts as uncollectible. Sixty-three (63) accounts were referred to the Internal Revenue Service for offset. Management plans to conduct another review of accounts receivable in March, 2000. Insurance Service management also continued to implement the computer program application to collect and track Life Insurance Program accounts receivable and monitor these activities. We agree with management's actions and consider our recommendations resolved.

**DETAILS OF AUDIT – Improvements Underway**

Management had actions underway to resolve weaknesses in three areas (Interest Charges on Accounts Receivable, VMLI Program Database Enhancements and Expanded Verification of Computer Generated Disbursements) noted as open during last year's audit. Prior years' audits recommended: (i) charging interest on accounts receivable, (ii) enhancing the reliability of the VMLI program database and (iii) increasing oversight of computer generated disbursements. During FY 1999, management initiated further actions to analyze collecting interest on accounts receivable, to plan accomplishing a confirmation of all VMLI program data, and to verify sampled computer generated disbursements to supporting documents.

**Interest Charges on Accounts Receivable**

The concept of charging interest on benefit debts has been an on-going debate. In response to a VA Office of Resource Management request for comments concerning charging interest on benefit-related debts, Insurance Service management responded in FY 1997 that it should not be a high priority based on the small amount of receivables outstanding and the low probability of collecting many debts. Most of these receivables represent various types of overpayments to policyholders/beneficiaries over a period of years, which have since been prevented by improved controls. Management is considering available options to address this unresolved issue.

**Enhancing the Reliability of the Veterans Mortgage Life Insurance (VMLI) Program Data Files**

Management plans to enhance the reliability of the VMLI program data files, but has been delayed because of resource constraints. Insurance Service officials use information in the VMLI program database to determine mortgage balances and VMLI program reserves. Differences between the VMLI database and policyholder supplied information ranged from 25 to 39 percent of confirmation responses during audits from 1994 through 1998. As noted in prior years' management letters, discrepancies such as these decrease the reliability of VMLI program reserves estimates and need to be resolved. These discrepancies did not significantly misstate VA's Consolidated Financial Statements taken as a whole, because the aggregate face value of policies in the VMLI program was approximately \$201 million for FY 1999 and represented less than 1 percent of the total face value of policies in all VA administered life insurance programs.



OIG's planned audit of VA's FY 1999 Consolidated Financial Statements included observing the Insurance Service's confirmation of data with each VMLI program policyholder. However, the confirmation process was delayed because of resource constraints, and was incomplete at the conclusion of the audit. Therefore, the conditions reported in prior years remain unchanged.

We reaffirm the prior year audit recommendations that management complete a comprehensive initial confirmation of critical information with all VMLI program policyholders, followed by annual confirmations to update data segments.

### **Verification of Insurance Disbursements**

The Insurance Service is verifying computer generated disbursements from active (inforce) life insurance policies, and plans to begin verifying disbursements from matured (awarded) policies by August, 2000. Our FY 1998 audit disclosed that clerically initiated disbursements were verified to supporting documents for inforce and awarded policies; however, most computer generated disbursements were made without verification. Computer generated disbursements represent an estimated \$499 million annually, or 29 percent of disbursements from the life insurance program.

In January, 2000, management installed a system that verifies selected computer generated disbursements from inforce policies. Fifty transactions are verified to supporting documents each week, as follows:

- forty-five transactions are randomly sampled; and,
- five transactions are selected based on high dollar value.

Insurance Service staff is developing a similar system for verifying computer generated disbursements from matured policies, with implementation scheduled for August, 2000. These disbursements totalled approximately \$101 million during FY 1999.

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