Department of
Veterans Affairs

Office of Inspector General

MANAGEMENT LETTER

FISCAL YEAR 1999
CONSOLIDATED FINANCIAL
STATEMENT AUDIT

BENEFITS PROGRAMS

Although we did not identify any material weaknesses in financial statement information, we concluded that some improvements in compliance with laws and regulations, and in internal controls, were needed.

Report No. 99-00005-99
Date: July 14, 2000

Office of Inspector General
Washington DC 20420

DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Director, Office of Resource Management (24)

Management Letter – Fiscal Year 1999
Consolidated Financial Statement Audit-Benefits Programs

1. As part of the Office of Inspector General (OIG) audit of Department of Veterans Affairs (VA) Fiscal Year (FY) 1999 Consolidated Financial Statements (CFS), we tested selected Veterans Benefits Administration (VBA) functions and accounting operations at VA Central Office (VACO). We also tested selected Hines Finance Center (HFC), Debt Management Center (DMC), and VA regional office (VARO) internal controls. Finally, we performed two national statistical samples. In one sample, we tested the accuracy of compensation, pension, education, and vocational rehabilitation payments made in FY 1999. For the other sample, we tested the accuracy of certain attributes used by the VA actuary to estimate future liability. The purpose of these tests was to determine if financial information processed at the above facilities was reliable, if internal controls were adequate, and whether operations complied with applicable laws and regulations.

2. Overall, we concluded that VBA staff established required internal controls for monitoring financial information, and generally complied with VA policies and procedures based on audit tests made. Although we did not identify any material weaknesses in financial statement information, we concluded that some improvements in compliance with laws and regulations, and in internal controls, were needed.

3. The following conditions warrant VBA management attention:

- VACO should use a methodology to calculate the future liability for compensation and pension (C&P) that reflects a "smoothing" or "stabilizing" approach instead of one that relies on the yield on U.S. Treasury notes for the last weekday of the fiscal year. This would avoid the large variances in the annual reported net costs and future liability.

- HFC, with the assistance of Systems Development Center (SDC), should distinguish between canceled and undeliverable checks, in order to avoid understating benefits expenses and accrued liabilities.

- HFC, with the assistance of SDC, should implement computer program changes to permit the accurate and more efficient recording of benefit accruals.

- HFC, with the assistance of VA regional offices, should ensure that deposits-in-transit are recorded on a timely basis.

- VBA should record and collect interest charges for accounts receivable related to compensation and pension programs.

- VBA should monitor, update, and enforce security policies for accessing sensitive personal data and financial payment authorizations in the Benefits Delivery Network (BDN).

4. You are not required to provide an official response to this management letter. However, we would appreciate any written comments that you wish to make. The OIG will also follow up on actions taken to resolve these issues on future audits.

5. We are also available to provide assistance or further clarification on these issues. If you wish to discuss this report, or would like our assistance concerning any other issues, please call me at (708) 202-2667.

For the Assistant Inspector General for Auditing

(Original signed by:)

WILLIAM V. DEPROSPERO
Director, Chicago Audit Operations Division

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PURPOSE, SCOPE, AND METHODOLOGY

Purpose

As part of the Office of Inspector General audit of Department of Veterans Affairs (VA) Fiscal Year 1999 Consolidated Financial Statements (CFS), we tested selected Veterans Benefits Administration (VBA) functions and accounting operations at VA Central Office (VACO). We also tested selected Hines Finance Center (HFC), Debt Management Center (DMC), and VA regional office (VARO) internal controls. We performed two national statistical samples of compensation, pension, education, and vocational rehabilitation recipients to determine if payments made in Fiscal Year (FY) 1999 and beneficiary attributes used for future liability estimates were accurate. The purpose of these tests was to determine if financial information processed at the above facilities was reliable, if internal controls were adequate, and whether operations complied with applicable laws and regulations.

Scope and Methodology

We obtained an understanding of the control structure and assessed risk related to management's assertion that financial data was complete and related to events that occurred during FY 1999.

To accomplish this, we performed the following audit procedures:

- Evaluated the adequacy of procedures relating to the future liability for veterans benefits and the compilation of VBA's CFS at VACO.

- Evaluated the adequacy of procedures relating to accounts receivable, accrued liabilities, benefit payments, and revenue and expense, at the Hines Benefits Delivery Center (BDC) and the HFC.

- Reviewed compensation, pension, and education (CP&E) accounts receivable and loan receivables at the DMC in St. Paul, MN.

- Tested the reliability, security, and potential fraud related to electronic data processing operations and activities at each location visited, by reviewing source documents.

We visited six VAROs and tested the reliability and accuracy of CP&E award information in VBA computer based systems and claim folders. The data base systems and source documents contained in the claim folders form the basis for authorizing and issuing each benefit payment. The offices visited were selected based on workload, geographical diversity, and date of last audit visit, with the provision that at least one of the four education centers is visited each year.

The VAROs we visited in FY 1999 were:

- Albuquerque, NM
- Detroit, MI
- Montgomery, AL
- Muskogee, OK (Education Center)
- Oakland, CA
- Winston-Salem, NC

We also reviewed two national statistical samples of FY 1999 benefit payments. One sample was to verify the accuracy of compensation, pension, education, and vocational rehabilitation payments made to veterans and their beneficiaries. The other sample was to verify the accuracy of attributes such as age, sex, and veteran status, recorded in master records for compensation and pension.

We conducted this audit in conjunction with the overall FY 1999 VA CFS audit. The audit was performed in accordance with generally accepted 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. This audit consisted of such tests as we considered necessary under the circumstances.

BACKGROUND

VBA provides an integrated program of veterans benefits. The major benefits include insurance and payments for compensation, pension, education, housing, burials, and survivors' annuities. VA estimates the current veteran population at 24.8 million. The FY 1999 benefit entitlement appropriations totaled over $23 billion. Approximately 2.7 million veterans received C&P benefits and 588,633 beneficiaries received survivor compensation or death pension benefits in FY 1999. In addition, 458,339 veterans, service persons, reservists, and dependents received education and training benefits in FY 1999.

VBA provides veteran benefits through a network of 57 VAROs, which include offices in all 50 states and in Washington, DC, Puerto Rico, and the Philippines. There are seven VAROs that are co-located with VA medical centers, two with outpatient clinics, and two with insurance centers in St. Paul, MN and Philadelphia, PA. VBA has designated 4 of the 57 VAROs as regional education processing offices. VBA also has out-based facilities, which are small satellite offices. One or two VBA employees staff each of these satellite offices and provide personalized vocational rehabilitation counseling, veteran benefits counseling, fiduciary oversight, and other individual services.

VBA benefit program operations are carried out in the VAROs, which determine program eligibility and process benefit awards. The Benefits Delivery Center (BDC) in Hines, IL updates beneficiary master records and produces the information used to generate benefit payments. The Hines Finance Center (HFC), located in the BDC, is where accounting for benefit appropriations is primarily performed. The DMC is located in St. Paul, MN and performs most of VBA's debt collection activities. The DMC maintains a centralized accounts receivable system (CARS), which controls approximately $2.9 billion owed the Government, as of September 30, 1999.

DETAILS OF AUDIT

Central Office

Liability for Future Compensation, Burial, and Pension Benefits

VA provides veterans and their dependents with: compensation benefits if the veteran was disabled or died of military service-connected causes; burial benefits; and non-service connected pension and survivor benefits based on the beneficiary's yearly income. In FY 1999, almost 3.3 million veterans, dependents, and survivors received compensation, and pension benefits of approximately $22 billion. VA also calculates an estimated unfunded liability for benefits expected to be paid in future years to veterans and their survivors, who have met or are expected to meet defined eligibility criteria. This financial statement line item is calculated as $483.2 billion for compensation and burial benefits for FY 1999 and is an important consideration for VA and Congress in planning and making budgetary decisions.

In determining if accrued veterans benefits liabilities are properly calculated and reported, two issues concerning presentation and methodology came to our attention.

Presentation. The Statement of Net Costs shows a huge change in benefit costs from last year. This is not attributable to a significant change in the number of beneficiaries or benefit programs, but rather to a change in the actuarial estimate. Specifically, the change was caused by an increase in discount rates (interest rates) from FY 1998. This resulted in a lowered value-to-estimated-liability, a change so great that the Statement of Net Costs reports a negative benefits cost. OMB Bulletin 97-01 (under "Instructions for the Statement of Net Cost") states that:

> *Agencies should consider differentiating other significant costs if by doing so the usefulness of the statement would be improved either because the amount of a particular cost is large or because of its special nature.*

We believe that the change in actuarial estimate is both large and of a special nature.

In the Statement of Net Costs, VBA combines actual veteran benefit costs and the change in actuarial estimated present value of veteran benefits liability. Currently, the Statement of Net Costs reports a negative net cost of $73.7 billion. If the change in actuarial estimate was broken out, the Statement of Net Costs would report actual net costs of

$21.3 billion. This would improve the usefulness of the financial statement because the user would immediately recognize the $95 billion decrease in the actuarial estimate.

VA management agreed to state the reason for the change in the Statement of Net Cost on the face of the financial statement this year. It includes a reference to Note 13 for additional explanation. The financial statement is annotated: "The change in net compensation costs between FY 1999 and FY 1998 is due to fluctuations in the actuarial out-year liability as detailed in Note 13." As such, this issue has been adequately addressed for this year. However, we believe that VBA should separate this financial statement line item into two distinct line items in next year's financial statement, one for actual veterans benefits costs, and one for change in actuarial estimate.

Methodology. The actuary's methodology for calculating future liability relies on the yield on U.S. Treasury notes on the last weekday of the fiscal year, or one day out of the entire year. Using one day's rate increases the possibility of significant variances of the present value of the future liability. This causes the very large variances in reported net costs as well as significant changes to the reported liability every year. In his report, the actuary states :

- *"…Using the current methodology in a year of a wide range of interest rates will result in a significant variation of estimated liability, depending upon the interest rates in effect on a particular day."* (page 38, Discounting)

- *"It should be noted that alternative approaches to the current discounting approach could have been used, particularly in view of the reliance of the estimates based on a specific day's interest rates…"* (page 39, Discounting)

- *"…variations could be developed which would reflect a smoothing or stabilizing approach, which is not as dependent on the interest rates of a particular valuation date."* (page 40, Discounting)

The change in the discount rate yielded a $115.2 billion decrease from September 1998 to September 1999. This overwhelming effect renders many of the planned improvements to the model and databases nearly irrelevant.

Our review of Federal Accounting Standards Advisory Board (FASAB) standards showed nothing that would preclude the actuary from using a consistent discount rate for the calculation of future benefits.

The General Accounting Office (GAO) is looking at this same issue and provided the following information:

- "*Many governmental agencies base their discounting on a stable discounting assumption from year to year. The discount rate utilized is generally one that can be expected to remain viable over time."*

- *"The U.S. Postal Service monitors the net discount rate utilized in its FECA [Federal Employees Compensation Act] liability model. It is subject to modification only if the auditor finds the difference between the net discount rate utilized and its own valuation*[1] *to be material."*

The actuary agreed that an alternative methodology should be devised to stabilize the projection. He expressed concern that the discount rate to be used is selected carefully and objectively, since it would be difficult to change once it is established.

We believe VBA should consider differentiating, on the face of the Statement of Net Costs, the change in actuarial projection in future benefits liability from benefits net costs. Doing so will improve the usefulness of the statement because the actuarial projection is particularly large and is of a special nature, i.e. an actuarial estimated present value of veterans benefits liability. VBA should also direct the actuary to modify his methodology to reflect a smoothing or stabilizing approach in order to lessen a potentially significant variation in values.

Data Reliability. VA management is responsible for establishing, maintaining, and assessing the internal controls over the systems that produce the underlying data used by the actuary to estimate the liability for future compensation, burial, and pension benefits. For FY 1999, we tested the underlying data used in the estimate as part of the FY 1999 financial statement audit.

We also performed a national statistical sample of benefit award payments to test the accuracy of certain demographic attributes in the C&P master record and claim folders used by VBA's actuary to estimate future compensation, burial, and pension liability. The attributes included age, sex, type of benefit, type of beneficiary (veteran, spouse, child, or parent), date of discharge, validity of disability rating, and date of initial award.

We reviewed 77 (56 compensation, 11 pension, and 10 dependency and indemnity compensation) claim folders in a national statistical sample of the FY 1999 Compensation and Pension Master Record File. We identified 33 errors in our sample.

[1] The U.S. Post Office auditor's own valuation is based on a matching of the payment stream with current T-bill rates and counterbalancing impact of projected COLAs.

However, most of these errors consisted of incomplete dates in the beneficiaries' master records. For example, in a number of instances the veteran's service dates only included the month and the year of service in the master record. We found only one error (the veteran's discharge date in the master record was the wrong year) that would actually affect actuarial projections.

We contacted the VAROs in charge of the 33 error cases. VARO personnel agreed with the errors we cited and immediately corrected the master record data.

DETAILS OF AUDIT

Hines Finance Center and Systems Development Center

We reviewed accounting data and internal controls related to HFC accrued liability, accounts receivable, benefit payments, disbursing authority, and the Financial Management System (FMS) interface. For disbursing authority, we performed tests to ascertain if the disbursing authority balance represented funds held on deposit with the United States Treasury. We performed tests to determine if accrued liabilities have been correctly calculated or reasonably estimated and recorded in accordance with Generally Accepted Accounting Principles (GAAP). Our test of benefit payments was to determine if payments are appropriate, timely, and completely recorded in the underlying financial records in accordance with GAAP. We also determined the adequacy of HFC's Interface with the FMS Program and controls surrounding the process of identifying, correcting, and reprocessing data rejected by the interface.

The audit tests we performed at the HFC did not identify any conditions in this year's audit that had a material effect on VBA financial statements. However, we are providing our observations on several issues that we believe warrant attention.

Benefit Payment Accruals

Last year, and over the last several years, we have reported that HFC staff must break down benefit accruals into several accounting entries. This condition exists because the current accounting system limits entries to a maximum of eight digits per entry (i.e., $999,999.99). As a result, an accrual of $24,611,390.53 requires 26 separate inputs: 24 for $999,999.99; and two for $458,543.33 and $152,847.44, respectively.

Making multiple entries for one large adjustment is inefficient and increases the likelihood for errors to be recorded in the financial statements. HFC management has repeatedly reported that they are working with the Hines Systems Development Center programmers to address this field limitation. Management has also informed us that VA has a system pending implementation known as "VetsNet" that will theoretically eliminate this problem. However, according to management, for FY 1999, the problem was considered low priority because of initiatives to address Y2K concerns.

Recording Canceled and Undeliverable Benefit Checks

Last year, we reported that VA misstated benefits expense and the associated accrued liability by approximately $1,042,417 at fiscal year-end (September 30, 1998). This occurred because HFC's computer system does not have the capability to differentiate between checks returned due to bad addresses and checks returned due to non-entitlement of the beneficiary. Non-entitlement checks returned to VA will not be reissued; therefore, there is no liability to VA for these checks.

This year, we estimated that VA understated benefits expense by $563,284 at fiscal year-end (September 30, 1999). This amount is not material in nature. Last year, HFC management stated that they initiated a project request to address this deficiency. Hines Systems Development Center staff were to have completed the project that would have automatically updated the accounting system to correctly update the liability and benefits expense. However, the condition still exists as of the end of FY 1999. Again, because of management concerns about Y2K, the project had been assigned a low priority.

Recording Deposits-in-Transit

Last year, we reported that accounts receivable (AR) was overstated by $51,955 because deposits were not recorded on a timely basis. The C&P system does not recognize, and HFC does not record, deposits-in-transit (i.e., payments received at VA regional offices for accounts receivable, loans receivable, interest and benefit overpayments) at the end of the fiscal year. HFC staff could not record some deposits from the fourth quarter of the fiscal year until October and November of the following fiscal year. This occurred because some VAROs did not submit bank deposit data to the HFC on a timely basis. This year, we determined that accounts receivable was again overstated, by $47,475.

Financial Management System

FMS is the computer system used as the core accounts receivable, accounts payable, general ledger, and funds management system for VA. FMS incorporates the Federal Government's Standard General Ledger. VBA uses a "crosswalk" program to transfer VBA Benefit System figures to a FMS Interface. We reviewed the procedures and internal controls for reconciling VBA's benefits systems with the FMS Interface.

We found that HFC adequately performs a reconciliation of the FMS "crosswalk" with its benefits system. Specifically, the VBA Benefits System's General Ledger (G/L) is compared and reconciled to the FMS System G/L report that is referred to as the Roger Software Development (RSD) Report. However, during our review of the crosswalk between FMS and HFC we found one instance in which a Chapter 30 reconciliation was not performed timely. Our review of documentation revealed a $614,337 understatement of Benefits expense in FMS. This was caused by a timing difference and HFC staff's failure to timely update FMS.

HFC management has also noted certain programming deficiencies in the FMS Interface. We reported these deficiencies in previous years as well, and have listed them here in order to illustrate some weaknesses in FMS internal controls that can and should be strengthened:

- FMS does not report intra-agency activity. Therefore, FMS does not track disbursing authority transfers from VA Central Office (VACO) to HFC.

- FMS does not report "No-Year" Appropriations. Apparently FMS reports all benefits appropriations as single year appropriations.

- FMS does not report "point" accounts. Point accounts are sub-accounts used by management to classify activity in certain accounts, such as accounts receivable. Instead, FMS provides "class codes" that can prepare reports needed to supply these functions, but this requires additional steps and would not be as efficient as using point accounts.

- HFC staff must manually input financial data from certain education programs into FMS. Manual entries are inefficient and increase the probability of recording errors in the system.

- FMS does not have an "on-line" help program. With such a program, FMS administrators could increase its capacity and enhance its ease of use by providing helpful hints and instructions for on-line users.

DETAILS OF AUDIT

Debt Interest and Administrative Costs

We have reported each year since FY 1992 that VA is not in compliance with Public Law 96-466 (the Veteran Rehabilitation and Education Amendment Act of 1980) and Title 38 U.S.C, Section 5315. Public Law 96-466 and Title 38 prescribe that interest and administrative costs shall be charged on any amount owed to the United States for an indebtedness resulting from a person's participation in a benefits program administered by the Secretary. VA does not charge interest or administrative costs on compensation and pension accounts receivable balances.

The balance for compensation and pension accounts receivable totaled about $490 million at the end of FY 1999. More than 56 percent of the individual accounts (totaling $276 million) were over 2 years old. The total interest and administrative costs that were applicable to FY 1999 were about $20 million.

In a July 1992 decision, the former VA Deputy Secretary decided that VA would not charge interest on compensation and pension debts. The Office of Inspector General has disagreed with the Deputy Secretary's decision since 1992. Congress passed the law with the intent of charging interest and penalties on benefit debts similar to charges levied on debts owed the Federal government. Rather than continuing the noncompliance, we have been advocating that VA comply, or work with Congress to change Public Law 96-466 if Department officials believe that the law is not appropriate.

This non-compliance issue is reported in the overall consolidated financial statement report.

DETAILS OF AUDIT

Regional Offices

We visited six VAROs in this year's audit. The selection of the sites was based on workload, geographical diversity, and date of last audit visit. The sites selected each year must also include one of the four designated education centers. The six VAROs visited in FY 1999 were:

- Albuquerque, NM
- Detroit, MI
- Montgomery, AL
- Muskogee, OK (Education Center)
- Oakland, CA
- Winston-Salem, NC

At each VARO, we tested the internal controls and procedures for CP&E awards documented in the VBA BDN master records and claim folders. We conducted these tests because the data base systems and source documents contained in the claim folders form the basis for authorizing and issuing each benefit payment, as well as for overall financial data reported to the CFS. We also tested certain accounts receivable and the reliability and security of automated data processing activities to ensure that financial data are adequately safeguarded.

We found no material weaknesses at any of the six sites. However, we found two issues that warrant VBA management attention:

- Accessing BDN information
- Maintaining employees' claim folders

As we have reported in previous years, in many instances VARO employees had BDN access commands that were not properly authorized.

Policy contained in VA Manual M23-1, Part V, Chapter 6, Appendix B (List of Authorized Commands) provides the guidance for issuing various BDN processing commands depending on the user's position and responsibility. These processing commands vary from simple "veteran record inquiries" to "establishing and authorizing benefit payments to claimants." The above policy was implemented to provide proper segregation of duties among employees. Segregation of duties is an essential feature of internal control structures of large organizations and helps protect against internal fraud.

We believe that the development and management of this policy is the responsibility of VA Central Office, including actively communicating the policy throughout VBA and actively monitoring it for needed updates.

Our audit tests at the six VAROs showed that, at each office visited, employees used BDN security access codes that were not in compliance with VA's "List of Authorized Commands." The commands had not been properly authorized or exceeded the access the employees needed to carry out their assigned duties. Since the issuance of the List of Authorized Commands, dated April 16, 1985, there have been 23 new BDN commands available to VARO employees. These new commands are discussed in Pension Fast Letters, VA Manual M-21, different chapters of VA Manual M-23, and other VBA guidance. These other directives are not supplements to VA Manual M-23, Pt. V and, therefore, result in contradictory guidance. Additionally, there seems to be no requirement for VARO BDN Security Officers to keep a record or index of the changes made to the list of authorized commands. VBA's lack of monitoring and updating the List of Authorized Commands has resulted in constant violations.

We refer to this system of BDN limits to command access as "application controls." These application controls are also referred to as "prevention controls," because they help prevent internal fraud. According to OMB Circular A-130, policies surrounding application controls must be evaluated and updated every three years. This continuing update is important because of the changing nature of VBA's EDP environment.

Based on our repeated yearly findings, we believe that VBA should take immediate action to update and revise the List of Authorized Commands.

At two of the regional offices, we also tested for compliance with procedures for maintaining and safeguarding employees' claim folders.

The policy for transferring and storing employee-veteran records is detailed in VA Manual M21-1, Pt. II, para. 4.07. Instructions are provided for handling employee files with no rating or award action pending, and files with active benefit awards or pending award action. Generally, such claim folders should be transferred to an alternate "office of jurisdiction" no later than 90 days after the date of employment. All employee-veteran records should also be stored in locked files. This policy was supplemented by VBA Letter 20-99-53, dated July 30, 1999, which was issued in response to three fraud cases involving veteran-employee claims. The letter instructed all stations to review their internal control procedures and transfer all veteran-employee files to the appropriate alternate office of jurisdiction.

For the two offices' procedures we reviewed, we found 60 claim folders, including 26 with active C&P awards belonging to VA or service organization employees, which should have been transferred to the appropriate alternate office of jurisdiction. We also found three employee claim folders that were not kept in locked files. In one instance, according to the file location records, an employee had accessed her own claim folder.

In a separate fraud review at VARO St. Petersburg, FL, we also found that employee claim folders that should have been maintained at VARO Atlanta, GA, were being kept in St. Petersburg.

The importance of complying with VBA policy and tightly controlling employee-veteran claim folders at each regional office should be stressed and enforced.

DETAILS OF AUDIT

National Statistical Sample of CP&E Payments

As part of this year's financial statement audit, we selected and reviewed a national statistical sample of FY 1999 benefit payments to validate the accuracy of the benefits expenses. This year, VBA is reporting one significant line item as Benefits Net Cost in the Statement of Net Costs. This line item combines the amounts for:

- Compensation
- Pension
- Education
- Vocational Rehabilitation

Sampling Methodology and Key Factors Regarding Selection

Dollar-unit sampling (DUS) is the type of representative sampling methodology we used for the FY 1999 Financial Statement Audit national statistical sample of benefit payments.[2] The sample was pulled from VBA's FY 1999 Payment History File (PHF). We feel DUS is justified because the Payment History File exhibits the following characteristics:

- Dollar amounts of individual items in the population are known.

- The auditor expects that a relatively small amount of misstatement exists in the population (based on prior audit results).

Definition of the Population

The PHF universe includes special payments, one-time payments, irregular, and recurring monthly payments for compensation, pension, education, and vocational rehabilitation.

Tests Performed

We performed detailed testing on each claim folder received. These tests were designed to verify the accuracy of dollar amounts paid in each sample case, to verify internal

[2] DUS is also known as "probability proportional to size" and "monetary unit" sampling. DUS is the recommended statistical sampling methodology described in GAO's Financial Audit Manual (FAM).

controls over benefit award processing, and to ensure VBA compliance with current laws and regulations regarding benefit payments.

Results of Review

We reviewed a total of 148 cases. We found the following:

- 1 of 148 cases (0.68 percent) contained an incorrect benefit payment.

The incorrect payment case was as follows:

- In one education case, the veteran was erroneously paid an additional education amount (referred to as a "kicker"). The veteran should have received $396, but actually was paid $671, resulting in an overpayment to the veteran of $275.

We contacted the applicable VARO in charge of the above case, and VARO personnel agreed with our findings of the incorrect payment amount and took immediate corrective action to establish an overpayment.

Evaluation of Sample Results

Error evaluation based on our national sample was based upon GAO guidance (FAM 480.37). The monetary error found was projected based upon the following formula:

1) Divide the amount of misstatement by the recorded amount in the sample item;
2) Multiply the result by the amount of the sampling interval.
3) The sum of all projected misstatements represents the aggregate projected misstatement of the sample.

Using this formula, projected incorrect monetary amounts for FY 1999 are as follows:

COMBINED VETERANS BENEFITS	
Monthly rate of overpayment	275
(divided by) VBA recorded monthly amount	671
(equals) Percentage of overpayment	40.98%
(multiplied by) Sampling interval	$152,310,290.00
Projected Overpayment for All Benefits	**$ 62,422,250.00**

However, according to GAO's FAM, our DUS projection of $62.4 million in incorrect payments is not considered to be significant, since it does not approach or exceed the established audit materiality threshold of $423 million. Materiality represents the magnitude of an omission or a misstatement of an item in a financial report that, in light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have changed or been influenced by the inclusion or correction of the item. Therefore, based on our audit results, we are not making any formal recommendations to modify the reported benefits expense.

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