



# Department of Veterans Affairs Office of Inspector General

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## Follow-up Evaluation of the Causes of Compensation and Pension Overpayments

*The Veterans Benefits Administration  
needs to implement procedural changes  
to further reduce C&P benefit  
overpayments.*

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

**Memorandum to the Acting Under Secretary for Benefits (20)**

**Follow-up Evaluation of the Causes of  
Compensation and Pension Overpayments**

1. The purpose of the evaluation was to follow up on the Office of Inspector General's Report No. 7R1-B01-105, "Review of the Causes of Compensation and Pension Overpayments" issued on December 2, 1996. Another objective of the evaluation was to assess whether Veterans Benefits Administration's (VBA's) changes in claims processing procedures have helped prevent avoidable compensation and pension (C&P) overpayments.

2. C&P benefits are paid to eligible service-connected and nonservice-connected veterans and their survivors. During fiscal year (FY) 2000, the Department of Veterans Affairs (VA) paid about \$22.2 billion in C&P benefits to 3.2 million beneficiaries. Overpayments represent debts owed VA and occur when beneficiaries receive payments to which they are not entitled, generally as a result of changes in eligibility status (dependency, income, death, and other changes). The value of the FY 2000 overpayments that were established and remained outstanding as of September 30, 2000 was \$233 million.

3. Our prior report focused on C&P overpayments valued at \$120 million that were established and remained outstanding at the end of FY 1995. At that time, we estimated that \$26.2 million in overpayments could have been prevented and we made recommendations to the Under Secretary for Benefits to help reduce overpayments. Two primary recommendations made were: a) to revise due process procedures to allow VA to take more timely actions to reduce benefit overpayments caused by eligibility status changes, and b) to direct VA regional office (VARO) and VBA staff to make overpayment prevention a continuous focus area of their quality reviews in order to detect and trend factors contributing to overpayments and take corrective actions.

4. This review focused on C&P overpayments valued at \$233 million that were established and remained outstanding at the end of FY 2000. We estimated that \$26.6 million in overpayments could be prevented annually. While our prior report also estimated that over \$26 million of annual overpayments could be avoided, we found that some improvement had been made. In comparison, both the number and value of the overpayments sampled that could have been prevented declined by 4.1 percent and 10.4 percent, respectively. Root causes of the preventable overpayments related

to: a) the delay in implementing changes in the due process procedures, b) untimely or inappropriate actions taken by VARO staff which often require additional or unnecessary work, and c) the need to change claims processing practices that contribute to benefit overpayments. We also found that VARO management had not conducted continuous focused quality reviews to identify opportunities to prevent overpayments.

5. Since our prior report, VA had implemented a number of Business Process Reengineering initiatives including some measures to prevent overpayments. For example, VA has coordinated with the Social Security Administration (SSA) to automate and streamline the process by which VAROs obtain SSA data. Earlier notification and timely processing of changes in social security benefits can prevent unnecessary overpayments. Additionally, on November 13, 2000, the Under Secretary for Benefits signed a proposed rule to amend existing due process requirements which, when implemented, will help prevent overpayments. The final rule was published in the Federal Register on November 9, 2001, with an effective date of December 10, 2001.

6. We recommended that you take action to reduce C&P overpayments by: a) implementing our prior recommendations relating to due process notification procedures and making overpayment prevention a continuous focus area of quality review, b) reinforcing and clarifying processing procedures to ensure that timely and complete actions are taken on beneficiary status changes that impact overpayments, c) revising VA policy to include all VA entities in the definition of first party, and d) revising processing procedures and clarifying VA policy to proactively suspend benefits when bad addresses cannot be resolved.

7. You concurred with the findings and provided acceptable implementation plans for the recommendations. We consider the issues resolved. However, we may follow up on planned corrective actions until they are completed.

For the Assistant Inspector General for Auditing,

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

## **RESULTS AND RECOMMENDATIONS**

### **Veterans Benefits Administration's Procedural Changes Will Minimize or Prevent Compensation and Pension Beneficiary Overpayments**

Preventing avoidable overpayments would reduce unnecessary work and related administrative costs, and also improve debt management by reducing uncollectable overpayments. We reviewed a nationwide statistical sample of 208 compensation and pension (C&P) overpayments established during fiscal year (FY) 2000 and determined that the Department of Veterans Affairs (VA) could have prevented overpayments in 25.5 percent of cases reviewed. Based on our sample results, we estimated that C&P overpayments of \$26.6 million could be prevented annually. While our prior report also estimated that over \$26 million of annual overpayments could be avoided, we found that some improvement had been made. In comparison, both the number and value of the overpayments sampled that could have been prevented declined by 4.1 percent and 10.4 percent, respectively. Root causes of the avoidable overpayments identified in our sample are related to: a) the delay in implementing changes in the due process procedures, b) untimely or inappropriate actions taken by VA regional office (VARO) staff which often require additional or unnecessary work, and c) the need to improve claims processing practices that relate to beneficiary status changes and contribute to benefit overpayments. We also found that VARO management had not conducted continuous focused quality reviews to identify opportunities to prevent overpayments. By implementing our prior recommendations to include processing beneficiary changes timely, revising existing processing procedures regarding due process, and seeking a definition change for "first party", the Veterans Benefits Administration (VBA) would improve its ability to minimize or prevent benefit overpayments and enhance debt management.

#### **C&P Overpayments Occurred after Beneficiary Entitlement Status Changes**

Our sampled overpayments occurred after 1 of 4 beneficiary entitlement status changes. These changes fell into the following four general categories: dependency, income, death, and other (i.e., hospitalization at VA expense, net worth determination, re-marriage, etc.). VA could have minimized or prevented 25.5 percent of the overpayments reviewed valued at \$107,406 (about \$2,027 per case). *(See Appendices III and IV on pages 14 and 15 for the sampling plan and calculation of monetary impact.)*

#### **VBA was Working to Prevent C&P Overpayments**

VBA management has taken actions to prevent overpayments as part of Business Process Reengineering initiatives. For example, VBA coordinated with the Social Security Administration (SSA) to automate and streamline the process by which VAROs obtain SSA benefit data. Earlier notification of SSA benefits can help prevent overpayments when the information is timely processed by claims processing staff. On November 13, 2000, the Under Secretary for Benefits signed a proposed rule to amend

existing due process requirements which, when implemented will help prevent overpayments. The final rule was published in the Federal Register on November 9, 2001, with an effective date of December 10, 2001. VBA has also implemented Case Management that focuses on expediting and improving customer service.

### **Some Overpayments were Unavoidable**

Our sample results identified 155 (74.5 percent) unavoidable overpayments resulting from status changes, income verification matches, or matches to identify incarcerated veterans. These changes were correctly processed, but due to claims processing requirements the overpayments were unavoidable. For example, if a beneficiary dies on or near the last day of the month, it is nearly impossible to avoid an overpayment even if the beneficiary's death is immediately reported.

### **Opportunities to Prevent Avoidable C&P Overpayments**

We found that about 25.5 percent of the overpayments sampled could have been prevented if claims processors took complete and timely actions, changes in due process procedures were implemented, and current policies and procedures for processing beneficiary changes in eligibility status were revised and/or clarified. As detailed below, we identified a number of opportunities to prevent benefit overpayments.

#### **Processing Priority Status Changes Will Minimize and Prevent Overpayments**

VA's Mail Processing Guidelines (M21-1, Part II) assign priority to these types of incoming mail notifications:

- First Notices of Death (FNOD),
- Eligibility Verification Reports (EVRs), and
- Veteran Assistance Inquiries and a limited number of other notifications.

By assigning delivery priority to these mail types, VA policy implies that this priority should also be maintained in claims processing, where these notifications may require prompt award actions, such as:

- Notification of Beneficiary Status Changes, and
- System messages that reflect computer matches for SSA income, death, and correctional facility.

Some of these notifications can have actions initiated and completed "upfront" (within 30 days of receipt) without the need for due process (a legal period allowing for the

beneficiary to refute a proposed action). If development (the process of collecting evidence for an action) is necessary, it should often be initiated with due process, thereby allowing for a timely award action. We found these notifications were often drop filed (filed with no action taken).

Processing these notifications “upfront”, as intended, reduces internal VA turnaround time by eliminating the need to file mail, and pull and route claims folders. The claim will be worked to completion utilizing the least number of work processes. This will effectively improve customer service, reduce overall workload, and reduce administrative costs.

Overpayments could have been minimized or prevented if VAROs had processed status changes in accordance with VA policy and procedures. The following examples illustrate overpayments that VARO staff could have prevented if they had properly and timely processed the status changes.

- This example involves two VAROs, identified as 1 and 2. On May 2, 2000, VARO 1 received the veteran’s death certificate. VARO 1 should have processed the FNOD upon receipt. Instead, VARO 1 forwarded the death certificate to VARO 2, holder of the claims file. On May 25, 2000, the veteran’s widow requested that VARO 1 process her claims. The claims folder was transferred and received at VARO 1 in July 2000. During the 2-month interval, neither VARO took any action to terminate the veteran’s compensation award, which resulted in an overpayment of \$2,169. Although the overpayment was recouped, it was avoidable had proper procedures been followed.
- On January 31, 2000, the VARO received the veteran’s SSA notification that his spouse’s benefits would begin on January 22, 2000. This represented first-party notification, requiring immediate action. The VARO took no action until April 11, 2000, creating a \$1,800 overpayment. The running award is being offset at \$213 per month. The overpayment was avoidable had the VARO acted promptly.

In these examples, the VAROs did not follow their own policies and procedures. Minimizing or preventing these overpayments through appropriate and timely actions would help VA better achieve its goals of improving customer service and reducing costs by eliminating unnecessary work.

#### Evidence Development Should Occur With Due Process Notification

Once eligibility requirements have been met, decisions on entitlement are based on evidence of record. Evidence consists of documents, records, testimonials, and information provided by, or obtained for, a claimant. When VAROs develop for evidence that may reduce benefit payments, they allow 60 days for the return of requested evidence. This increases the number of days before due process notification is sent and allows the potential overpayment to increase. Upon receipt or non-receipt of the requested developmental evidence, the VARO will send due process notification

to the beneficiary allowing 65 days (60 days for due process and 5 days for the mail) before taking any award action. VAROs indicated this policy is based on Title 38, Code of Federal Regulations (CFR) 3.103 which states that no C&P award shall be adversely affected unless the beneficiary has been notified and provided a period of 60 days to show that the adverse action should not be taken. Due process allows the beneficiary to submit evidence showing why the proposed action should not be taken. A VARO could prevent at least a 2-month overpayment when developing evidence by incorporating due process notification in the initial request for evidence. In the following example, evidence development and due process should have occurred at the same time.

On December 30, 1999, an 82-year old pension beneficiary submitted his unsigned EVR, which identified a previously unreported bank account and interest/dividend income. The VARO returned the EVR for a signature and received it back on February 7, 2000. The VARO sent a development letter to the beneficiary on March 3, 2000, for the bank account, requesting the information within 60 days. The veteran did not respond. The VARO then sent a due process letter on May 31, 2000. Development of the estate was completed August 31, 2000, and the award action to terminate was taken September 1, 2000, creating an overpayment of \$3,699. The VARO claimed they could not simultaneously develop the case and provide due process notification. Their actions delayed the actual due process period by 113 days. Due process notification should have been initiated after receipt of the signed EVR, based on the bank account and interest/dividend income, and the possibility of net worth being a bar to benefits. The VARO completed their development on August 31, 2000, or almost 7 months later. This award was terminated based on net worth; the debt remains open and there is currently no repayment plan.

#### Policy Revisions are Needed Specific to Pension Awards

Persons applying for VA pensions based on reduced incomes also often apply for SSA benefits due to their disabilities or age. In high risk pension claims, (those where there are indicators that the beneficiaries, based on age or disability, are highly likely to also seek SSA benefits), VAROs should be required to query for SSA benefits at the time of the awards and annually thereafter. Currently, VAROs are not aware of SSA benefits until receiving a system message or beneficiary notification. This usually leads to an overpayment of VA benefits that must be offset or cancelled, and the beneficiary requesting waiver due to financial hardship. To illustrate:

- Since February 8, 1991, a widow receiving pension benefits resided at a rest home. She had no income other than the VA pension; therefore she was not required to complete an EVR. The VARO received a system message on March 3, 1999, showing that the beneficiary was also receiving SSA benefits. The VARO contacted SSA and the widow's custodian (the rest home), and determined that benefits had been paid since March 1997. Action was taken to



adjust the award on October 19, 1999, creating a \$10,662 overpayment. A waiver request was submitted and granted for undue financial hardship.

- In August 1996 a veteran applied for pension benefits, reporting zero income. He indicated being denied SSA benefits, but was appealing SSA's decision. The VARO awarded pension benefits in March 1997. The VARO queried SSA for this veteran on November 17, 1998, and found he was in receipt of SSA benefits since April 1998. Due process notification on the SSA benefits was given on July 20, 1999, after a follow-up SSA query on July 13, 1999. The award was suspended from November 17, 1998, due to the failure of the beneficiary to respond, and terminated October 20, 1999. This created an overpayment of \$6,640. As of December 1999 this award was reinstated and the debt is being offset.

If VA had a more proactive query system this type of overpayment could have been avoided, which would provide a proactive service to veterans by minimizing unnecessary debts. Further, VA could avoid unnecessary administrative costs and associated workload caused by additional case development and requests for waivers.

#### First-Party Rule Changes Will Facilitate Accurate and Timely Benefit Adjustments

Beneficiaries and fiduciaries must notify the VARO in writing of status changes that result in benefit adjustments. Accepting oral notifications of status changes could prevent overpayments and facilitate accurate and timely adjustments. This issue was addressed and recommendations made in our prior report. We are aware that proposed changes have been made to allow for acceptance of oral notifications, but they are not yet in effect. To illustrate:

- On January 6, 2000, the VARO received a letter stating that a 79-year old pension recipient would be receiving his annual \$700 IRA distribution. He notified VA because he wanted to keep things "right". The veteran's letter did not identify the distribution date. On January 26, 2000, the VARO properly notified the veteran that no action could be taken without the actual distribution date. The veteran telephoned the VARO on January 31, 2000, stating that the distribution date was January 6, 2000. Four months later, on May 10, 2000, the VARO initiated due process. The VARO's due process notice confused the veteran, who telephoned the VARO for a second time on May 16, 2000. The veteran re-stated information he had already provided. After the 60-day due process period lapsed, the VARO adjusted the veteran's pension award on July 17, 2000, which created an avoidable overpayment of \$295. This overpayment has been collected.
- On February 4, 1998, a veteran receiving compensation benefits telephoned the VARO to inform them he had been incarcerated and his formal sentencing would be February 10, 1998. The VARO completed a report of contact for the veteran but no control (an automated diary to follow-up) was established and no

development was initiated. On June 9, 1999, the VARO received a Notice of Incarceration from the correctional facility. The VARO took action to adjust the award on April 4, 2000, creating an overpayment of \$1,199. This overpayment is currently being offset against his running award.

VA's current policy on first-party notification created confusion and poor customer service to these veterans, who acted appropriately by properly and timely notifying the VAROs of important status changes. Had the VARO employees properly processed and developed these status changes, and if they were able to accept the first-party verbal information, these overpayments could have been greatly minimized, and in one case even avoided.

In addition, there are many overpayments caused by the inability of VAROs to act on information provided by VA employees or other Government entities. All entities other than the beneficiary or fiduciary are considered third party for purposes of verified information. Although it is important to protect the interests of beneficiaries, the designation of benefit delivering Government entities as third parties creates backlogs of work and benefit overpayments. VA policy should be revised to include all VA entities in the definition of first party. This would expedite the due process notification requirement and reduce overpayments and unnecessary claims processing work.

VAROs are informed of beneficiary conditions by Fiduciary and Field Examination (F&FE) and VA medical center (VAMC) employees who oversee the delivery of benefits and the welfare of the beneficiaries. If VA could immediately act on information provided from these sources, overpayments could be minimized or prevented. The following examples illustrate overpayments caused by the inability of VA to act on information provided by VA sources:

- On November 17, 1999, the veteran's spouse telephoned the VARO's F&FE section to inform them that the fiduciary would be arranging for the veteran's bail prior to his felony incarceration. On December 10, 1999, F&FE followed up with the fiduciary, who said the veteran was out on bail and that sentencing was not yet determined, but he would be serving prison time. On January 13, 2000, F&FE learned from the fiduciary that the veteran's court date was scheduled for February 4, 2000. On March 9, 2000, F&FE notified the Veterans Service Center (VSC) that the veteran was sentenced on February 4, 2000, to a prison term of 1½ to 3 years, and identified a possible correctional facility. Adjudication Service replied to F&FE on March 16, 2000, stating that they would develop for the correctional facility, and established a control with a pending action date of May 16, 2000. On March 31, 2000, the VARO received the correctional facility's verification of the veteran's incarceration. On July 5, 2000, F&FE followed up again with VSC regarding the veteran's award reduction. On August 2, 2000, VSC replied to F&FE of the proposed award reduction effective April 5, 2000, and also sent due process notice to the veteran at the correctional facility. On September 19, 2000, the VARO reduced the veteran's compensation award effective April 5, 2000, creating an overpayment of \$10,370. This entire overpayment could have been prevented. Under normal circumstances the

spouse would have been entitled to an apportionment; however, the spouse was also incarcerated and therefore not entitled to the veteran's benefit. Contemporaneous notice should have been given on March 31, 2000, and the award reduced effective April 5, 2000. This veteran is still incarcerated and offset to collect cannot occur until the release date.

- On June 28, 1999, a VAMC reported to the VARO that an incompetent veteran receiving compensation benefits was hospitalized. The VARO received four subsequent hospitalization reports on July 1, July 20, August 12, and September 2 of 1999, which were all drop filed with no action taken. On October 29, 1999, an F&FE report to VSC stated that the veteran was incompetent, the fiduciary was a bank, the veteran's condition was terminal, and he was transferred to a VA nursing home with no probability of release. Since the estate was over \$1500, his benefits should have been suspended. The award action to suspend was taken April 4, 2000, creating an overpayment of \$16,147. As of March 11, 2001, the fiduciary had not returned the overpayment to the VARO.
- On April 20, 1999, a VA medical examination contractor reported to the VARO that a veteran receiving compensation benefits missed his scheduled exam because he was in a correctional facility. The veteran's wife informed the VA contractor of this. On May 6, 1999, the veteran's wife informed the VARO in writing of her husband's incarceration and his whereabouts, and requested her apportionment. On February 4, 2000, the correctional facility verified the veteran's incarceration. Due process was initiated on May 26, 2000, and the veteran responded on June 12, 2000, requesting immediate award action. The award was adjusted on July 18, 2000, creating an \$8,366 overpayment and the spouse's apportionment that offset the overpayment. On July 20, 2000, the VARO received a letter from the veteran faulting the VARO for taking over 1 year to give notice.

In each of these instances, a VA entity was the first to know and inform VSC of beneficiary situations requiring award adjustments. Current VA policy mandates due process be provided to the beneficiary and/or fiduciary, yet in these cases VA bears an oversight responsibility for the beneficiary and fiduciary, but cannot initiate actions appropriately regarding the awards. By creating avoidable overpayments, the veterans are poorly served and VA incurs unnecessary administrative costs.

#### Suspension of Benefits Should Occur When Bad Addresses Are Not Resolved

Given the widespread use of direct deposit and electronic funds transfer (DD/EFT), many beneficiaries may not see a need to keep the VARO advised of their most recent address. However, correcting bad addresses and maintaining contact with beneficiaries will help prevent payment errors due to changes in entitlement, and under certain circumstances, could help prevent fraud or possible diversion of benefits.

VBA management advised us that a benefit should not be suspended because of returned VARO correspondence, (i.e. undeliverable/bad address). A Court of Veterans Appeals (COVA) Decision Assessment, Docket No. 91-1604, dated June 22, 1993, relating to undeliverable mail and termination of benefits, heightened VA's duty to ensure notices are sent to the latest address of record. VA Manual 21-1, Part IV, Paragraph 9.04b, "Bad Address in VA Records" addressed this COVA decision by requiring research for a more recent address using the current claim file or available non-VA records, and in cases of DD/EFT the financial institution. However, Paragraph 9.04 was intended to address Title 38 CFR 1.710, "Homeless Claimants," which prevents denial of benefit payment because the claimant provides no mailing address, (i.e., "lack of address") and whose benefit payments and correspondence may be delivered to VA Agent Cashiers. In revising Paragraph 9.04, VBA combined two separate award issues causing a misinterpretation of policy regarding the suspension of benefits for an undeliverable/bad address.

In a recent evaluation,<sup>1</sup> we identified the issue of "bad addresses" in returned correspondence as having the potential to allow for fraud or the possible diversion of benefits. We determined an important internal control in VA benefit processing has been eliminated by DD/EFT payments. The control, automatic suspension of the benefit, existed over claims that had a check returned for a "bad address". Since the inception of DD/EFT, VAROs have identified a loss of control because the award continues to be deposited as long as the account is open. The suspension of benefits due to "undeliverable/bad addresses" is supported by the aforementioned COVA decision and Title 38 CFR 3.158 "Abandoned Claims", and Title 38 CFR 3.500(t) "Whereabouts Unknown". Our questionnaire, sent to all VAROs regarding overpayment prevention practices, queried the VAROs on the suspension of benefits in cases of undeliverable mail. Only 6 of 57 stations suspend benefits based on undeliverable mail returned to the VARO after researching for better addresses. Twenty-five stations do not suspend benefits due to bad addresses, and 26 stations quoted varied criteria without giving a definitive response. Here are some examples:

- On August 13, 1999, a C&P/SSA Death Match notified the VARO that a veteran receiving pension via DD/EFT was deceased on December 4, 1998. The VARO did not suspend the award at that time. On December 14, 1999, the VARO's correspondence was returned with the following notation: "no forwarding address Post Office (P.O.) box closed". The VARO drop filed this returned mail with no action taken. On April 10, 2000, a follow up C&P computer run showed the veteran as an active case from a C&P/SSA Death Match. The VARO suspended the award, developed for a better address, and gave due process on April 26, 2000. The VARO sent notification to the veteran's closed P.O. box and to the veteran's financial institution requesting a better address. The VARO received a second system message on May 3, 2000, showing that the payee was deceased. On June 16, 2000, the financial institution identified the closed P.O. box as the address; again this mail was drop filed with no action taken. On

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<sup>1</sup> *Combined Assessment Program Review VA Regional Office Boston, Massachusetts*, Report No. 00-02560-28, January 11, 2001.

July 18, 2000, the VARO processed the FNOD, gave contemporaneous notice, and terminated the award, creating an overpayment of \$7,654. If the VARO had proactively suspended the award on August 13, 1999, instead of on April 26, 2000, an overpayment of about \$4,500 could have been avoided. The Department of the Treasury has collected the entire debt.

- On April 3, 1998, a widow in receipt of DD/EFT pension benefits received a burial payment for the deceased veteran at her street address. In that same month, she applied for benefits giving a P.O. box as her address. In December 1998, correspondence started being returned to the VARO. On December 18, 1998, the VARO sent an award letter to the widow's P.O. box and a request to her financial institution for a better address. On December 23, 1998, the widow's correspondence was again returned as address unknown, and the VARO took no action. The VARO continued sending correspondence to the P.O. box, including the 1998 EVR. On February 1, 1999, the financial institution responded, "they cannot disclose information about its customers to third parties without the customer's consent." The VARO suspended the widow's award on March 1, 1999, because her completed EVR was not received. On November 2, 1999, the VARO terminated the widow's award, effective March 1, 1998, creating an overpayment of \$516, and the debt remains open. The VARO followed VA policy by sending notification to the last address of record and the financial institution. However, we noted a prior address in the claims folder and the VARO did not follow up with either the prior address or pursue a better address with the financial institution.

These examples show that VA could minimize potential overpayments if VA was more proactive in suspending DD/EFT awards. This would assist in identifying the beneficiaries' whereabouts, minimizing the risk of fraud, and improving customer service.

As stated before, responses to our questionnaire indicated that VAROs are inconsistent in the handling of this issue. Some VAROs responded that this is an important potential fraud issue that is not being addressed. We found that many VAROs have the understanding that they are not to suspend awards due to bad addresses. This is an issue that needs clarification from VBA management.

#### Need for Local Management Oversight

We believe the best method to ensure that status changes are properly and timely processed is to make preventing overpayments a continuous focus area of VA quality reviews. We recognize that the Systematic Technical Accuracy Review (STAR) currently addresses payment accuracy and other quality factors. However, including overpayment prevention as a special focus of these reviews would help ensure that VAROs detect and trend factors that contribute to overpayments, including current policy and procedures, and lead to improved strategies for preventing overpayments to beneficiaries. This was a recommendation in our prior report and VA's response was to include it in the STAR. We questioned the VAROs regarding whether they had a

special focus area of quality review. Two VAROs had on-station focused reviews, 12 VAROs identified overpayment prevention as a STAR area, 39 VAROs responded “NO” with qualifying comments such as “matching programs are primary methods of detecting overpayments, or work in process reviews,” and 4 failed to respond. These results indicate that the STAR review has not adequately addressed overpayment prevention and we conclude that a continuous focused quality review is still necessary.

## **Conclusion**

VBA management has not implemented some recommendations from our prior report, to include the due process proposed rule changes and making overpayment prevention a continuous focus area of quality review. Our evaluation has shown a need to reinforce, change, and/or clarify a number of policies, procedures, and practices that impact benefit overpayments. We estimate that \$26.6 million of benefit overpayments can be prevented annually by: a) processing beneficiary status changes in accordance with priority guidelines, b) initiating due process with evidence development, c) requesting SSA data in high risk pension cases, d) revising VA policy to include all VA entities in the definition of first party, and, e) revising processing procedures to suspend benefits when bad addresses cannot be resolved. The examples shown in our report demonstrate impediments preventing VA from improving timeliness and customer service, and reducing potential fraud. The proactive approaches recommended will help to minimize or prevent overpayments, increase quality customer service, and improve debt management.

## **Recommendations**

The Acting Under Secretary for Benefits should reduce C&P benefit overpayments by:

1. Implementing recommendations from our Report No. 7R1-B01-105, dated December 2, 1996;
  - a. Implementing proposed rule changes relating to due process notification procedures, and
  - b. Directing VA staff to make overpayment prevention a continuous focus area of their quality reviews.
2. Reinforcing and clarifying processing procedures to ensure that VBA staff take timely and complete actions on beneficiary status changes that impact overpayments, to include:
  - a. Reviewing “priority” mail timely and taking necessary action,
  - b. Initiating due process procedures with requests for developmental evidence on all open awards, and
  - c. Requesting SSA benefit data on high-risk pension awards.
3. Revising VA policy to include all VA entities in the definition of first party.

4. Revising processing procedures and clarifying VA policy to proactively suspend benefits when bad addresses cannot be resolved.

*The monetary benefits associated with the recommendations are shown in Appendix V on page 16.*

#### **Acting Under Secretary for Benefit's Comments**

The Acting Under Secretary for Benefits concurred with the findings and recommendations.

#### **Implementation Plan**

The Acting Under Secretary provided an implementation plan that included targeted implementation dates. *(See Appendix VI on pages 17-19 for the full text of the Acting Under Secretary for Benefits' comments.)*

#### **Office of Inspector General's Comments**

The Acting Under Secretary's implementation plan is acceptable and we consider all issues resolved. However, we may follow up on the implementation of planned corrective actions.

## **BACKGROUND**

VA's C&P program pays benefits to eligible service-connected and nonservice-connected veterans and their survivors. Compensation benefits are paid to disabled veterans, certain survivors, and eligible dependent children based upon disabilities incurred in or aggravated during military service. Pensions are need-based benefits provided to wartime veterans who have been rated permanently and totally disabled as a result of nonservice-connected disabilities, and in the event of the veterans' deaths, to the spouses and children.

During FY 2000, VA paid about \$22.2 billion in C&P benefits to 3.2 million beneficiaries. Overpayments occur when beneficiaries receive money to which they are not entitled, generally as a result of changes in their entitlement status (dependency, income, death, and other changes). As of the end of FY 2000, about \$233 million in overpayments remained outstanding. These overpayments represent beneficiary debts owed VA.

An April 1995 General Accounting Office review titled "VA Can Prevent Millions in Compensation and Pension Overpayments" recommended that to help prevent overpayments VA should: a) establish procedures that identify beneficiaries who will soon become eligible for SSA benefits and timely adjust their benefits, and b) collect and analyze information on the causes of overpayments to develop strategies for preventing additional overpayments.

On December 2, 1996, we issued Report No. 7R1-B01-105, "Review of the Causes of Compensation and Pension Overpayments." That review focused on C&P overpayments valued at \$120 million that were established and remained outstanding at the end of FY 1995. Based on the results of a statistical sample, we estimated that overpayments valued at \$26.2 million could be prevented annually, if overpayment cases were properly processed and if some VA policies and procedures were revised. It was also reported that pension overpayments could be further reduced by about \$4.2 million annually if the pension program was simplified and communications with beneficiaries enhanced. Our Semi-Annual Report to Congress for the period April 1, 2000 to September 30, 2000, noted that one recommendation, to revise due process procedures, remained unimplemented from the prior report. On November 13, 2000, the Under Secretary for Benefits signed a proposed rule to amend existing due process requirements. The final rule was published in the Federal Register on November 9, 2001, with an effective date of December 10, 2001.

The major goal of overpayment prevention is to correct the underlying causes, while reducing the amount of debt established. The importance of overpayment prevention is underscored by the fact that VA collects an average of about 24 percent of its C&P overpayments, which is a decrease from the prior report's collection rate of 28 percent. During FY 2000, the VA Debt Management Center collected about \$221 million on an outstanding balance of \$913 million. Preventing beneficiary debt is also less costly than trying to collect it.

The issue of revising due process procedures was also addressed in a separate Office of Inspector General report titled "Audit of the Effectiveness of Benefit Award Notification" (Report No. 6D2-B01-049, dated September 20, 1996).



## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

The purpose of the evaluation was to follow up on our Report No. 7R1-B01-105, "Review of the Causes of Compensation and Pension Overpayments" issued on December 2, 1996. Another objective of the evaluation was to assess whether VA's changes in claims processing procedures have helped prevent avoidable C&P overpayments.

### **Scope and Methodology**

To identify the causes of C&P benefit overpayments, the review focused on a population of C&P debt resulting from overpayments that were established during FY 2000, and which remained outstanding as of September 30, 2000. The population totaled 51,567 cases, valued at about \$233 million.

- About 68 percent of the C&P overpayment cases valued at about \$171 million pertained to nonservice-connected pension beneficiaries.
- About 32 percent of the C&P overpayment cases valued at about \$62 million corresponded to service-connected compensation beneficiaries.

We statistically sampled 208 of the 51,567 cases. For each sampled case, we reviewed the beneficiary claims folder maintained by VAROs. In addition to our statistical sample, we also:

- Reviewed the applicable VA policies and procedures for the sampled cases.
- Analyzed results of a questionnaire sent to all VAROs regarding overpayment prevention procedures.
- Reviewed written responses to our case analyses from the responsible VAROs.
- Discussed our review process, findings, and proposed recommendations at various stages of the review with VA program officials.

The evaluation was made in accordance with generally accepted government auditing standards for staff qualifications, independence, and due professional care, field work standards for planning, supervision, and evidence, reporting standards for performance audits, and included such tests of procedures and records as we considered necessary under the circumstances.

## **DETAILS OF EVALUATION**

### **Sampling Plan and Results**

#### **Evaluation Universe**

We analyzed VA's September 30, 2000, automated C&P file, and extracted records where a C&P debt had been established during FY 2000 and remained outstanding, with a balance of at least \$100. The extracted population totaled 51,567 records valued at about \$233 million.

#### **Sample Design**

The sample included 208 randomly selected cases, based on a non-stratified attribute sampling design at a 90 percent confidence level. We validated the C&P overpayment data for the sampled cases by verifying the information with the beneficiaries' claims folders. We did not independently validate that the beneficiaries within the population tested comprised the total universe. However, nothing came to our attention that would lead us to believe that any beneficiaries were missing from our review universe.

#### **Sample Results**

In 155 cases (74.5 percent) of the 208 cases sampled, the overpayments were unavoidable because even though status changes were reported timely, they were too late to prevent an overpayment due to claims processing requirements. In 53 cases<sup>2</sup> (25.5 percent) of the 208 cases sampled, the overpayments could have been avoided.

<b><u>Category of Preventable Overpayment</u></b>	<b><u>Estimated Rate of Occurrence</u></b>	<b><u>Confidence Interval</u></b>	<b><u>Estimated Number of Preventable Overpayments in the Population</u></b>
C&P overpayments could be avoided.	25.5 %	+/- 5.0 %	13,140
Occurrence rate in 51,567 case population.		+/-2,558 cases	

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<sup>2</sup> Of the 53 cases, 11 were compensation and 42 were pension.

**CALCULATION OF MONETARY IMPACT****C&P Overpayments Can Be Prevented**

	<b><u>Actual Preventable Overpayment</u></b>	<b><u>Projected Preventable Overpayment</u></b>
<ul style="list-style-type: none"> <li>53 preventable overpayments were noted in 208 sampled cases (25.5 percent). Preventable overpayments totaled \$107,406, or about \$2,027 per case (<math>\\$107,406 \div 53</math>).</li> </ul>	\$107,406	
<ul style="list-style-type: none"> <li>We project that C&amp;P overpayments for 13,140 cases (<math>51,567 \times 25.5</math> percent)<sup>3</sup> can be prevented annually. These cases were valued at \$26,634,780 (<math>13,140 \times \\$2,027</math> average overpayment). (See Appendix III)</li> </ul>	_____	<u>\$26,634,780</u>
<b>TOTAL</b>	<u>\$107,406</u>	<u>\$26,634,780</u>

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<sup>3</sup> Due to rounding, calculation does not match statistical point estimate.

**MONETARY BENEFITS IN ACCORDANCE WITH IG ACT  
AMENDMENTS**

**REPORT TITLE:** Follow-up Evaluation of the Causes of Compensation and Pension Overpayments

**REPORT NUMBER:** 01-00263-53

<b><u>Recommendation</u></b>	<b><u>Category / Explanation of Benefits</u></b>	<b><u>Recommended Better Use of Funds</u></b>
1 - 4	Recommended Better Use of Funds. Overpayments can be prevented in an estimated 13,140 cases. (See Appendix IV)	<u>\$26,634,780</u>
	<b>TOTAL</b>	<u>\$26,634,780</u>

**ACTING UNDER SECRETARY FOR BENEFITS' COMMENTS**

**Department of  
Veterans Affairs**

**Memorandum**

Date: January 23, 2002

From: Acting Under Secretary for Benefits (20)

Subj: Draft Report, Follow-up Evaluation of the Causes of Compensation and Pension Overpayments, Project No. 2001-00263-R1-0045

To: Inspector General (50/52)

The Veterans Benefits Administration has reviewed your follow up report on the causes of compensation and pension overpayments. Our responses for each recommendation are included in the attachment. We agree with your estimated dollar impact of the finding.

**Point of Contact**

Questions may be referred to Steve Simmons, Assistant Director, Benefits Delivery, Compensation and Pension Service, telephone: 202-273-7343.

/s/  
Guy H. McMichael III

Attachments

**ACTING UNDER SECRETARY FOR BENEFITS' COMMENTS****Draft Report, Follow-up Evaluation of the Causes of Compensation and Pension Overpayments, Project No. 2001-00263-R1-0045****Recommendation 1a**

Implement proposed rule changes relating to due process notification procedures.

**VBA's Response**

Concur. The final rule was published in the Federal Register on November 9, 2001. The effective date of the rule is December 10, 2001. A copy is attached.

**Recommendation 1b**

Direct VA staff to make overpayment prevention a continuous focus area of their quality reviews.

**VBA's Response**

Concur. Our quality review programs already address payment accuracy, along with other quality factors, which are underlying causes of overpayments and debt. We will continue to emphasize the importance of payment accuracy and debt prevention in upcoming Service Center Managers' conference calls. In addition, we will instruct quality reviewers during the course of their case reviews to provide comments when overpayments could have been prevented or minimized.

**Recommendation 2a**

Review "priority" mail timely and take necessary action.

**VBA's Response**

Concur. We will emphasize the importance of processing priority mail timely and taking appropriate action, especially when a reduction or termination of benefits is in order, during upcoming Service Center Managers' conference calls. We are also in the process of consolidating our pension maintenance program to three regional offices (Philadelphia, Milwaukee, and St. Paul). Stronger emphasis will be placed on overpayment avoidance, prevention, and debt collection. The pension maintenance sites are expected to be operational by the beginning of calendar year 2002.

## **ACTING UNDER SECRETARY FOR BENEFITS' COMMENTS**

### **Recommendation 2b**

Initiate due process procedures with requests for developmental evidence on all open awards.

#### **VBA's Response**

Concur. VA will continue to put greater emphasis on telephone development. We should be able to receive necessary evidence more expeditiously by conversing with our beneficiaries, explaining what evidence we need, and the action we are planning to take. This will obviate the need to send out separate development and due process letters. Once we receive the necessary information/evidence over the telephone, we can make the necessary adjustments in benefit payments immediately. This innovative practice should minimize or prevent large overpayments, in addition to providing outstanding customer service. This practice is currently in place. We will continue to emphasize the importance of telephone development during upcoming Service Center Managers' conference calls.

### **Recommendation 2c**

Request SSA benefit data on high-risk pension awards.

#### **VBA's Response**

Concur. Veterans Service Representatives are required to check the SSA database on all original claims prior to awarding benefits. This practice is currently in place.

### **Recommendation 3**

Revise VA policy to include all VA entities in the definition of first party.

#### **VBA's Response**

VBA will pursue this recommendation by initiating discussions among various affected VA elements. If consensus can be reached, we will make appropriate policy changes.

### **Recommendation 4**

Revise processing procedures and clarify VA policy to proactively suspend benefits when bad addresses cannot be resolved.

#### **VBA's Response**

Concur. We are currently in the process of drafting procedures for managing non-essential returned mail, including, as the final step, suspending benefits if a better address cannot be found. These procedures should be in place by the middle of calendar year 2002.

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