



# **Department of Veterans Affairs Office of Inspector General**

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## **Combined Assessment Program Review of the VA Regional Office Manchester, New Hampshire**

## **Office of Inspector General Combined Assessment Program Reviews**

Combined Assessment Program (CAP) reviews are part of the Office of Inspector General's (OIG's) effort to ensure that high quality health care and benefits services are provided to our Nation's veterans. CAP reviews combine the knowledge and skills of the OIG's Offices of Healthcare Inspections, Audit, and Investigations to provide collaborative assessments of VA medical facilities and regional offices on a cyclical basis. The purposes of CAP reviews are to:

- Evaluate how well VA facilities are accomplishing their missions of providing veterans convenient access to high quality medical and benefits services.
- Determine if management controls ensure compliance with regulations and VA policies, assist management in achieving program goals, and minimize vulnerability to fraud, waste, and abuse.
- Conduct fraud and integrity awareness training for facility staff.

In addition to this typical coverage, CAP reviews may examine issues or allegations referred by VA employees, patients, Members of Congress, or others.

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## Executive Summary

### Introduction

The Office of Inspector General (OIG) conducted a Combined Assessment Program (CAP) review of the Department of Veterans Affairs Regional Office (VARO) Manchester, New Hampshire from January 28 through February 8, 2002. The purpose of the review was to evaluate claims processing and administrative operations. During the review, we also provided fraud and integrity awareness training to 73 employees.

### Results of Review

VARO financial and administrative activities were generally operating satisfactorily, and management controls were generally effective. To improve operations, VARO Manchester needed to:

- Improve the timeliness and accuracy of compensation and pension (C&P) claims processing.
- Strengthen management controls over the Property Management (PM) Program.
- Improve oversight of lender servicing.
- Strengthen management controls over the Government Purchase Card Program.
- Strengthen controls and documentation of vocational rehabilitation and employment (VR&E) claims processing.
- Strengthen the Information Technology (IT) security program.
- Improve controls over fiduciary accountings and field examinations.

### VARO Director Comments

The Director agreed with the findings and recommendations and provided acceptable implementation plans. (See *Appendix B*, pages 19-26, for the full text of the Director's comments.) We will follow up on the planned actions until they are completed.

*(original signed by:)*  
RICHARD J. GRIFFIN  
Inspector General

## Introduction

### Regional Office Profile

VARO Manchester provides C&P and VR&E services to eligible veterans, dependents, and survivors residing in New Hampshire. During Fiscal Year (FY) 2001, general operating expenses totaled approximately \$5.6 million and the regional office had 87 full-time equivalent employees. VARO Manchester serves a veteran population of about 135,000, and processed about 6,700 claims in FY 2001. As of September 2001, the regional office's pending C&P workload was about 2,300 claims. In FY 2001, approximately \$116.7 million in C&P benefits was paid to approximately 15,200 beneficiaries. VR&E services were provided to about 500 beneficiaries in FY 2001 with estimated benefits totaling \$1.35 million.

VARO Manchester is also one of nine designated VA Regional Loan Centers (RLC). The Manchester RLC administers the Loan Guaranty Program for Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont. The RLC also has jurisdiction for loan administration and loan production functions in New York. The Loan Administration (LA) Section is responsible for supplemental servicing of VA guaranteed loans, which includes attempting to keep the veterans in their homes while protecting the interests of VA. The Loan Production Section is responsible for all areas related to loan origination. The Construction and Valuation Section establishes a reasonable value for properties which will become security for VA guaranteed loans by assigning an independent fee appraiser to appraise property. The PM Section is responsible for managing, maintaining, repairing, and selling properties acquired by VA. VA generally acquires properties as result of foreclosures on properties having VA loan guaranties. During FY 2001, the RLC acquired 215 properties at a total cost of \$16.8 million and sold 251 properties for total sales revenues of \$26.4 million. During FY 2001, the regional office reported that the PM Section spent an estimated \$4.4 million for maintenance and repair of VA properties and about \$1.8 million on management broker fees and real estate commissions.

### Objectives and Scope of CAP Review

**Objectives.** The objectives of the CAP review were to evaluate a range of benefits delivery and administrative operations, and provide fraud and integrity awareness training to VARO Manchester employees.

**Scope.** We reviewed selected VARO benefits delivery and administrative activities to evaluate the effectiveness of general management controls. Management controls are the policies, procedures, and information systems used to safeguard assets, prevent errors and fraud, and ensure that organizational goals are met. The review covered the following benefits delivery, administrative activities, and controls:

C&P Claims Processing  
Hospital Adjustments  
System-Generated Messages  
Retroactive Benefit Payments  
Construction and Valuation  
Loan Administration  
Loan Production

Property Management  
Government Purchase Card Program  
VR&E Claims Processing  
Information Technology Security  
Fiduciary Accountings and Field  
Examinations  
Benefits Delivery Network (BDN)  
Security

The CAP team performed the following activities while on-site:

- Visually inspected the VARO's physical space and equipment.
- Reviewed 100 C&P claims folders, 16 property management files, 27 fiduciary folders, and 33 VR&E folders.
- Interviewed VARO management, program managers, and selected program staff.
- Reviewed management information and data related to the timeliness and quality of service to veterans.
- Reviewed management controls and quality of service provided to veterans by the RLC, Veterans Service Center (VSC), VR&E, and Support Services Division, including Information Resources Management.
- Conducted fraud and integrity awareness training attended by 73 regional office employees. The briefing covered procedures for reporting suspected criminal activity to the OIG and included case-specific examples illustrating fraud, false claims, conflicts of interest, bribery, and regional office specific examples of beneficiary and employee fraud.

The review covered VARO operations for FYs 2001 and 2002 through December 2001 and was done in accordance with OIG standard operating procedures for CAP reviews.

## Results of Review

### Issues Requiring Corrective Actions

Benefits delivery and administrative activities were generally operating successfully, and management controls were generally effective. However, we identified a number of issues that require management's attention.

### Compensation and Pension Claims Processing – Action Was Needed to Improve the Timeliness and Accuracy of Claims Processing

**Conditions Needing Improvement.** VARO management needed to improve the timeliness and accuracy of C&P claims processing, and ensure strengthened controls over system-generated messages, hospital adjustments, and retroactive benefit payments for claims pending resolution for over 2 years.

**Timeliness of Claims Processing.** The VARO needed to improve the timeliness of C&P claims processing. As of August 2001, the Veterans Benefits Administration's (VBA's) nationwide pending workload was 656,340 claims, of which VARO Manchester had 2,823 (0.4 percent) claims. This represents an increase of 1,341 claims to the regional office's pending workload since August 2000. The current proportion of VARO Manchester's pending workload remains at about 0.4 percent for January 2002, with VBA's nationwide pending workload at 664,429 claims, and VARO Manchester's workload at 3,003. We noted that the VARO's January 2002 fiscal year to date (FYTD) timeliness was consistently better than or close to the Service Delivery Network (SDN) 1 and national averages.

#### Rating Related Actions (Actual FYTD) <sup>1</sup>

	Days To Complete	Days Pending
VARO Manchester	211.5 (192.5)	163.5 (186.5)
SDN 1	237.7	213.1
National	219.6	202.7

#### Non-Rating Related Actions (Actual FYTD)

	Days To Complete	Days Pending
VARO Manchester	71.2 (33.0)	87.3 (67.0)
SDN 1	82.6	135.5
National	71.1	82.6

The VARO's VSC is responsible for processing C&P claims. We reviewed 100 randomly selected C&P claims including original and reopened C&P claims from the BDN Work-In-Process system that were completed between October 1, 2000, and February 28, 2001. The

<sup>1</sup> The number in the parenthesis is VARO Manchester's FY 2002 Balanced Scorecard target.

review identified 50 claims with avoidable processing delays averaging 82 days. Avoidable delays were not confined to one phase of the claims processing cycle as illustrated below.

Processing Phase	No. of Claims With Avoidable Delays <sup>2</sup>	Range of Avoidable Delays	No. of Claims With Avoidable Delays Over 200 Days
Claims Establishment	4	2 to 348 days	1
Claims Development	19	1 to 256 days	1
Claims Rating	35	31 to 214 days	2
Claims Authorization	7	2 to 174 days	0

The VSC has been experiencing many changes in the past several years, e.g., the physical relocation and merging of the Adjudication Division and the Veterans Service Division, hiring two new Veterans Service Representatives (VSRs) and three new Rating VSRs, the enactment of the Veterans Claims Assistance Act of 2000, and the initiation of a new rating decision format. The combination of these events affected productivity and quality of claims processing and required many personnel and functional changes, extensive cross training, and employee mentoring. Many of the claims reviewed were worked during this transitional period.

To monitor trends and assist in moving claims through the various claims processing phases, VARO management plans to reinstitute a procedure of attaching a date of receipt tag to each active claim, establishing processing phase timeliness guidelines, and increasing its use of the inventory management reports available in the Claims Automated Payment System (CAPS).

**System-Generated Messages.** BDN generates C&P system messages that notify VAROs of possible beneficiary status changes that can affect benefit payments. The types of system-generated messages can include results of VA record matching with other Federal and State agencies related to income, death, incarceration, and dependency issues. Our review of 33 system-generated messages from January 2001 identified that, as of January 2002, VSC staff processed all required actions. However, two awards required further development for possible award reinstatement and retroactive payment. VSC management concurred with our findings and agreed to take appropriate action on both awards.

**Hospital Adjustments.** VARO management needed to improve debt prevention efforts for hospital adjustment benefit overpayments. C&P benefits for veterans hospitalized at VA expense were not reduced as required. We obtained reports from five area VA medical centers (VAMCs) identifying those veterans continuously hospitalized at VA expense for greater than 90 days. We reviewed the status of payments for 22 of the hospitalized veterans in receipt of benefit awards that required adjustments.

Four veterans' awards were not adjusted, which created overpayments totaling \$18,923. In three of the four cases, VSC staff overlooked the hospital admissions reported in the Automated Medical Information Exchange (AMIE) system. VSC staff are required to routinely review AMIE reports to ensure cases are adjusted timely. The fourth case involved a veteran receiving

<sup>2</sup> Total is greater than 50 as some claims had delays in multiple processing phases.

pension benefits who was admitted into a VA nursing home care unit, transferred to a VAMC, and returned to the nursing home care unit within 6 months. VSC staff were unaware that transfers from a VA nursing home to a VAMC then back to a VA nursing home should be considered as continuous nursing home care provided the period of hospitalization does not exceed 6 months.

**Retroactive Benefit Payments.** Since 1992, VBA has required a supervisory third review and authorization of initial, increased, or resumed benefits that cover a retroactive period of 2 or more years or that will result in a one-time payment greater than \$25,000. As of October 2001, VBA policy required that VARO Directors review all retroactive payments greater than \$25,000 and within 15 days review claims folder documentation and verify the validity of the awards. We reviewed the Director's compliance with this policy on retroactive payments over \$25,000 for the period October through December 2001, and sampled retroactive payments valued between \$10,000 and \$24,999 that were awarded in FY 2001.

We determined the Director was in compliance with the policy for review of retroactive payments over \$25,000. The Director reviewed all claims folder documentation within the required 15-day period. Further, we reviewed 33 retroactive payments valued between \$10,000 and \$24,999. Our review showed that 10 retroactive payments under \$25,000 required a supervisory third review because the awards were retroactive for more than 2 years. Four awards lacked the required supervisory third signature review.

**Recommended Improvement Action 1.** The VARO Director should ensure that: (a) VSC management monitors claims processing and timeliness by reinstituting the claim tag procedure, establishing claim timeliness guidelines, and increasing its use of inventory management reports available in the CAPS system, (b) VSC staff review AMIE reports monthly and take timely action to prevent overpayments, (c) VSC staff is trained in hospital adjustment requirements, and (d) VSC management reviews retroactive awards covering a period of more than 2 years to ensure validity and the required supervisory third signature review.

The Director concurred with the recommendation and reported that the claim tag procedure has been reinstated, claim processing guidelines will be established, and inventory management reports in the CAPS system will be used. Further, monthly AMIE reports will be reviewed, timely action will be taken to prevent overpayments, staff will be trained on hospital adjustment requirements, and retroactive awards will be reviewed to ensure validity and supervisory third review. The improvement actions are acceptable, and we will follow up on the planned actions until they are completed. (The Director's comments to the recommendations are shown in detail in *Appendix B*, page 20. The monetary benefit associated with this issue is shown in *Appendix C*, page 27.)

## **Property Management – Management Controls Over the Property Management Program Need Strengthening**

**Conditions Needing Improvement.** Review of property management practices governing the management, repair, and sale of VA acquired properties identified significant breakdowns in

management controls that resulted in a high number of questionable expenditures and transactions. We reviewed records related to the management and sale of 16 VA properties and identified the following conditions.

**Repair Costs Were Not Closely Monitored.** We reviewed repairs performed on 11 properties and had concerns about the validity of certain repairs on 10. Repair costs on these 11 properties exceeded \$238,700, ranging from \$1,285 to \$38,960. One contractor was awarded contracts valued at \$142,815, or about 60 percent of the value of all contracts awarded on these properties. VARO records did not adequately document the need, scope, or estimated costs of these repairs and a number of contractor invoices were highly questionable because the work done was not well described, appeared to have been done by another contractor, or was for work that appeared to have been previously billed and paid.

Local and VA Central Office (VACO) procurement limits were circumvented by awarding many small dollar contracts to accomplish high cost property repair programs. A repair program consists of all repairs considered necessary for preparing a property for sale. Repair programs are recommended by management brokers who manage properties for VA, and by PM staff.

We found that VARO files did not contain evidence of adequate competition--the winning bids for repair jobs were the only bids documented in all 10 instances. For repairs over \$1,000, VA policy requires that quotations be solicited in order to ensure competition. Solicitations may be obtained orally if the repairs are under \$3,500. However, when repairs are estimated to exceed \$3,500, competitive bids are to be obtained using sealed bidding procedures. Repair programs exceeding \$25,000 require VACO approval.

We found that rather than seeking competitive bids for an entire repair program or major segments of a repair program, PM staff frequently divided work into smaller jobs to keep costs below thresholds and avoid requirements to seek competitive bids. For example, on one property four repairs costing under \$1,000 were performed, three of which were each billed at a cost of \$995. Three other repairs were performed under \$3,500, including two at \$3,495. There was no evidence on file indicating oral bids were solicited for these repairs. Two contracts for repairs over \$3,500 were awarded--one at a cost of \$7,700 and the other at \$11,500--to the same contractor. This contractor's bids were the only bids on file. The total cost of repairs on this property exceeded \$32,000 and the repairs were performed without required VACO approval.

Additionally, the need for certain repairs was questionable. Prior to foreclosure on VA guaranteed properties, an independent appraiser performs a liquidation, or default appraisal. On the 11 properties we reviewed, liquidation appraisers' estimates of property values were often thousands of dollars more than management brokers' estimates and repairs recommended by liquidation appraisers were similarly below management brokers' and PM staff's estimates. To illustrate, for the 11 properties reviewed, the liquidation appraisers recommended an average of \$1,990 in repairs per property while management brokers and PM staff both recommended over \$16,000 in repairs per property. Furthermore, the actual average cost of repairs exceeded \$21,700. Similarly, the pre-repair values that liquidation appraisers assigned these properties averaged \$120,500, while PM staff assigned values averaging \$114,600. Despite the identified differences in the scope and estimated cost of repairs, PM staff authorized the higher cost

property repair programs. We also noted that one management broker appeared to have directed unbid repair and maintenance contracts to his relatives, for VA acquired properties that he was responsible for managing. (This issue is the subject of an ongoing investigation by the OIG.)

**Management Oversight and Supervision Was Lax.** A basic internal control standard requires the segregation of duties to reduce the risk of error or fraud. One employee who was involved in all aspects of PM operations including repairs of properties and underwriting of vendee loans, had authority to authorize repair work, inspect the work to ensure specifications were met, and approve contractor invoices for payment. The employee favored a small number of local contractors and had an outside or personal association with one favored contractor who was awarded the majority of all repair contracts. (This issue is the subject of an ongoing investigation by the OIG.) In our opinion, the questionable practices of this employee should have been apparent to his co-workers or supervisors, yet no one reported the questionable ethical conduct to top management or OIG auditors and investigators. Discussions with Regional Counsel and VARO management indicated that the annual ethics training course could be enhanced to better inform VARO employees of what constitutes unethical conduct, and reinforce the requirement to report suspected incidences of unethical conduct.

We also noted that while local and VACO management were aware that property repair program costs were in excess of the national average, management attention was focused on VARO Manchester's outstanding Balanced Scorecard (BSC) performance results. During FY 2001, VARO Manchester's Return on Sales of Acquired Properties was consistently high, ranking 5<sup>th</sup> (118.02 percent) nationwide for the year, and its Acquired Property Holding Time was the lowest in the nation at 4.99 months. The Chief, PM's internal control reviews [Statistical Quality Control (SQC) reviews and Management Broker Inspection Report reviews] should have identified many of the questionable transactions described above, but the reviews but were inadequate. We noted an instance where VACO conducted a secondary review of a local SQC review and requested resolution regarding two questionable payments for the same work. However, local Loan Guaranty management took no action on VACO's inquiry and no follow-up was made by VACO.

**Underwriting and Sales Terms Needed Closer Management Attention.** Our review of FY 2001 vendee term sales of VA properties (generally sales made to the public where VA is the mortgagor) showed that 105 properties were sold for about \$13 million with down payments of only \$264,000 (2 percent). Many were sold at prices considerably above the asking price and with only a 1 percent down payment. Additionally, our evaluation of five vendee loans showed that the quality of the underwriting for two of the loans was inadequate. Both loans were made to the same investor for the purchase of two VA properties on the same day. In these two instances, the loan analyses on which the loan approvals were based significantly understated the debts the investor reported on his loan applications. If the loan applications and loan analyses had been closely reviewed, as they were by a different PM realty specialist at our request during the review, these loan applications would not have been approved because the investor could not support the loan payments based on reported income and expenses.

In addition to inadequate underwriting, these loans were granted with only a 1 percent down payment, well below VA policy that typically requires a 10 percent down payment for loans to

investors. Both loans have recently gone into default, and the repayment agreement on one loan has been terminated for non-compliance.

In our opinion, the VARO should require larger down payments. We believe that offering properties for sale with only a 1 percent down payment requirement allowed buyers to offer more than the asking price of houses and helped ensure VA was able to sell properties quickly. This, in turn, helped enhance the VARO's PM performance results for Acquired Property Holding Time and Return on Sales of Acquired Properties.

**Management Actions.** The Loan Guaranty Officer (LGO), who transferred to the Manchester RLC in February 2001, and the VARO Director were forthright and cooperative during our review of the PM program. The LGO informed us he started his own reviews of PM operations in the spring of 2001 and advised the Director of many of the potential problems in PM. With the Director's support, the LGO took a number of actions beginning in July 2001 to improve controls over PM, to include close scrutiny of the property repair program and compliance with down payment requirements for vendee term sales. Most of the questionable transactions we identified occurred prior to July 2001. However, the employee involved with these transactions still found ways to circumvent certain controls. All repairs greater than \$2,500 were to be approved by the LGO prior to awarding contracts for the work. Yet the employee circumvented this new policy and had awarded contracts valued at greater than \$2,500.

**Recommended Improvement Action 2.** The Director should strengthen the management and oversight of PM functions to include establishing controls and routinely monitoring their implementation to ensure that: (a) repair and maintenance costs for VA properties are properly justified and accurately accounted for; (b) prudent procurement practices are implemented to maximize contractor solicitations, document contractor bids and VA work specifications and prevent both circumvention of approved procurement approval limits and procurements from inappropriate sources; (c) duties for the authorization, inspection, and approval of payment for contractor services are properly segregated; (d) the annual ethics training course is enhanced with the assistance of Regional Counsel to improve employees' awareness of unethical behavior and their obligation to report wrongdoing; and, (e) vendee loans are properly underwritten and VA properties are sold under terms and conditions that meet VA policy, safeguard Government assets, and prevent fraud, waste, and abuse.

The Director concurred with the recommendation and reported that all repair costs will be properly justified and accounted for and prudent procurement practices will be implemented to maximize and document contractor bid solicitations. In addition, duties for the authorization, inspection, and approval of payment for contractor services will be properly segregated, annual ethics training will be enhanced with the assistance of Regional Counsel, and procedures will be implemented to ensure that vendee loans are underwritten in an efficient and responsible manner. The improvement actions are acceptable, and we will follow up on the planned actions until they are completed. (The Director's comments to the recommendations are shown in detail in *Appendix B*, pages 21-22.)

## **Loan Administration – Oversight of Lender Servicing Activities Should be Strengthened**

**Condition Needing Improvement.** VARO management should ensure that lenders holding VA guaranteed loans are properly servicing those loans.

If a veteran-borrower misses a scheduled mortgage payment on a VA guaranteed loan, primary loan servicing becomes the responsibility of the mortgage lender or holder. The first months are critical, and effective and timely servicing may be the difference between a loan going into default or being cured. Once a veteran has missed three mortgage payments, the mortgage holder must report the default to VA, along with a summary of its servicing efforts. When notified, LA staff work to protect the interests of the veteran and the Government by performing supplemental loan servicing. Supplemental loan servicing involves contact with the veteran, and LA staff may offer financial counseling and intercede with the holder on behalf of the veteran in order to set up a repayment plan. If these efforts are unsuccessful, LA staff considers other options such as refunding the loan.

LA staff are required to oversee lender servicing and establish lender servicing files to track servicing deficiencies such as late reporting of defaults, lack of personal servicing, failure to establish cut-off dates, and late elections to convey property. Repeated deficiencies for any particular lender should be referred to Loan Guaranty Service. Our review of 45 lender servicing files revealed that most contained no documentation and none contained any documentation subsequent to 1998. LA staff could not explain why the lender servicing files lacked documentation of servicing deficiencies. A VACO Loan Guaranty survey team that reviewed the RLC's operations in October 2001 also identified this condition.

Because no documentation was maintained in lender servicing files, we could not determine what oversight of lenders LA staff had performed or whether poor loan servicing contributed to incurable loan defaults. Oversight of lender servicing practices could help identify deficiencies in lender servicing and improve the timeliness of notification of defaults.

**Recommended Improvement Action 3.** The Director needs to ensure LA staff perform proper oversight of lender servicing activities and document their oversight activities, including follow-up actions taken and referrals made in relation to their oversight of lenders.

The Director concurred with the recommendation and reported that LA staff will perform proper oversight of lender servicing activities and document their oversight activities. The improvement actions are acceptable, and we will follow up on the planned actions until they are completed. (The Director's comments to the recommendations are shown in detail in *Appendix B*, page 23.)

## **Government Purchase Card Program – Action Is Needed to Strengthen Management Controls**

**Conditions Needing Improvement.** VARO management needed to strengthen management controls over the Government Purchase Card Program and promote competition for purchases greater than \$2,500.

**Government Purchase Card Program Management Controls.** VA employees must use Government purchase cards for all micro-purchases (those under \$2,500) and to the maximum extent practicable, for all purchases up to \$100,000. The facility Government purchase card coordinator is responsible for implementing the program and ensuring that cardholders and approving officials are trained. Cardholders receive warrant authority based on the completion of a 40-hour training course on simplified acquisition procedures. The facility dispute officer is responsible for coordinating and monitoring disputed procurements, credits, and billing errors. The billing office official is responsible for performing monthly audits of cardholder accounts to ensure compliance with applicable policy and procedures. The Government Purchase Card Program at VARO Manchester included five cardholders and two approving officials. Cardholders made 448 purchases totaling approximately \$201,000 from October 1, 2000, through December 31, 2001. The following areas affect program effectiveness:

- Internal control requirements for separation of duties were not adhered to. The Government purchase card coordinator was also an approving official, the facility dispute officer, and the billing office official.
- An alternate Government purchase card coordinator was not designated to perform cardholder maintenance activities in the absence of the coordinator.
- One cardholder had not received the Government purchase card training as required.
- Single purchase limits for three cardholders were improperly set for FY 2001 and the first quarter of FY 2002. The limits should have been \$2,500, but were \$10,000 for one, and \$6,500 for two.
- Two cardholders in VR&E exceeded their single purchase limits of \$2,500, lacked required warrant authorities, and had not completed the 40 hour training course on simplified acquisition procedures.
- Cardholders and approving officials were signing purchase card monthly statements, but were not always dating their signatures. The dates are needed to determine whether the cardholders' reconciliations and approving officials' reviews were done on a timely basis.
- Periodic audits of cardholders' purchases were not conducted as required.
- Government purchase cards were not properly secured to prevent use by unauthorized individuals. One cardholder kept his Government purchase card in an unlocked desk drawer in his office.
- Government purchase cards were not deactivated in a timely manner. An employee left Support Services Division in January 2000, but his Government purchase card was not deactivated until January 2002.

**Competition.** The Federal Acquisition Regulations (FAR) require Government purchase cardholders to promote competition to the maximum extent practicable in order to obtain

supplies from sources whose offers are most favorable to the Government. For single purchases greater than \$2,500, cardholders should obtain quotes from at least three sources.

Purchase cardholders did not solicit competition as required. For a 15-month period ending December 31, 2001, cardholders did not solicit competition for \$39,000 (19 percent) of the \$201,000 total purchases. As a result of purchase cardholders not seeking competition, the Government may not be getting the best prices.

**Recommended Improvement Action 4:** The Director should ensure that management controls are implemented to: (a) effectively administer the Government Purchase Card Program, and (b) promote competition to the maximum extent practicable.

The Director concurred with the recommendation and reported that the duties of the purchase card coordinator, dispute officer, and billing officer will be separated, the coordinator will no longer be an approving official, purchase cardholder training will be completed, and single purchase limits will be reduced. In addition, cardholders were notified how to properly secure the purchase card and date their signature on statements of account. Audits of the purchase card activity will be conducted, procedures will be implemented to timely deactivate purchase cards, and warranted cardholders will comply with FAR regarding competition. The improvement actions are acceptable, and we will follow up on the planned actions until they are completed. (The Director's comments to the recommendations are shown in detail in *Appendix B*, page 23.)

## **Vocational Rehabilitation and Employment Service – Action Is Needed to Strengthen Controls and Documentation**

**Conditions Needing Improvement.** VARO management needs to ensure that claim dates are accurately recorded in BDN, the status of cases is properly monitored, subsistence allowances are verified to school transcripts, and Counseling, Employment, Rehabilitation (CER) folder documentation is improved.

**Claim Date.** A critical measurement of timeliness on the VR&E BSC is the elapsed time from when the VARO receives a veteran's application until the veteran receives notification of his or her eligibility. A review of 33 cases identified 13 instances (39 percent) where the date of claim in BDN differed from the date the veteran's application was received at the VARO. These dates varied anywhere from 2 days to over 40 days after the date the application was received. While we were onsite, management took corrective action by informing VSC staff to use the date the application was received as the claim date when establishing a veteran's record in BDN.

**Case Status.** Controlling the veteran's case status in the VR&E program is important so management can properly and accurately measure the VARO's workload. Also, case managers can properly monitor the progress of veterans under their control within the VR&E program. We found that the case status for seven veterans was not accurately documented. Documentation showed that 7 of 33 (21 percent) veterans were in either evaluation and planning status, rehabilitation to employment status, or employment service status for an extended period of time.

VR&E management agreed that one of the veterans should have been moved into interrupted status, while the other six should have been placed in discontinued status.

**Subsistence Allowances.** One of the benefits the VR&E program provides veterans attending school is a monthly subsistence allowance. The amount of subsistence is based on the number of dependents the veteran has, and the veteran's school workload. We found that 9 of 10 veterans were being paid properly for their school attendance. However, one veteran was incorrectly paid full-time subsistence while the veteran's school transcript showed he attended school half-time, resulting in the establishment of a \$716 overpayment.

**Counseling, Employment, Rehabilitation Folder Documentation.** CER folder documentation of BSC measurements should be improved in the following areas:

- Notification of a veteran's eligibility.
- Documentation to support a veteran's completion of the VR&E program and eligibility for employment.
- Documentation that the VR&E officer has reviewed and verified payments and purchases made by case managers.

**Recommended Improvement Action 5.** The Director should ensure that: (a) the claim date is properly entered into BDN, (b) veteran case status is properly monitored, (c) subsistence allowances are verified to school transcripts, and (d) BSC measurements are properly documented in the veteran's CER folder.

The Director concurred with the recommendation and reported that claim dates will be properly entered into BDN, veteran case status will be properly monitored, subsistence allowances will be verified to school transcripts to confirm enrollment, and BSC measurements will be clearly documented in the CER folder. The improvement actions are acceptable, and we will follow up on the planned actions until they are completed. (The Director's comments to the recommendations are shown in detail in *Appendix B*, page 24.)

## **Information Technology Security – Automated Information System Controls Should be Strengthened**

**Conditions Needing Improvement.** VARO management needed to strengthen the IT security program. Improved IT security is necessary to protect automated information systems (AIS) from unauthorized access, disclosure, modification, destruction, or misuse.

**Risk Assessment.** VBA policy requires that the VARO is responsible for the security of all AIS. Risk assessments are to be performed on each AIS such as Windows NT, BDN Server, and the Local Area Network (LAN) system. A risk assessment should be performed to make certain that all security threats and vulnerabilities have been identified and appropriate security measures have been implemented. In November 2001, a risk assessment was completed on the VARO's operating system, Windows NT system. However, risk assessments were not completed for the BDN Server and LAN systems. Assessing risk should be an ongoing process to ensure new

threats and vulnerabilities are identified and the appropriate security measures are taken to counter such threats.

**Backup Files.** VA policy requires that a full restoration of application and data backup files be tested regularly to ensure that data can be read from the disks in the event they are needed in an emergency situation. The VARO has not tested their application and data backup files. Additionally, application and data backup files are being stored in an unsecured area in the regional office's computer room.

**Recommendation Improvement Action 6.** The Director should ensure that: (a) a risk assessment is conducted on each AIS, and (b) application and data back-up files are tested on a regular basis and that files be stored in a secure area.

The Director concurred with the recommendation and reported that risk assessments will be conducted on all AIS, application and data backup files will be tested on a regular basis, and backup files will be stored in a secure area. The improvement actions are acceptable, and we will follow up on planned actions until they are completed. (The Director's comments to the recommendations are shown in detail in *Appendix B*, pages 24-25.)

## **Fiduciary Accountings and Field Examinations – Action Is Needed to Improve Follow-up on Accountings and Timely Completion of Field Examinations**

**Conditions Needing Improvement.** VARO management needed to improve the follow-up action on fiduciary accountings and ensure that field examinations are completed within 120 days of the scheduling dates.

**Fiduciary Accountings.** A fiduciary is a person or legal entity charged with the duty of managing the estate of an incompetent beneficiary. The Fiduciary and Field Examination (F&FE) unit is responsible for ensuring that required financial reports, known as accountings, are completed.

VA policy requires that the F&FE unit follow up by letter, telephone, or personal contact to ensure timely submission of accountings by fiduciaries. If an accounting is not received within 90 days of the due date without an excusable delay, further action should be taken. If the case involves a court-appointed fiduciary, the matter should be referred to Regional Counsel. If the case involves a Federal fiduciary, the case should be referred to a field examiner or the OIG.

As of January 2002, the VARO had 302 active fiduciary cases valued at \$7,075,349. We reviewed a judgment sample of 15 fiduciary accountings that showed that 9 of the 15 (60 percent) accountings were not submitted within the required 90-day period and additional follow-up action to resolve accounting discrepancies was needed. Accountings ranged from 90 to 270 days past due. In one case, a Federal fiduciary was over 2 months delinquent submitting

an accounting for an estate valued at \$9,000. A review of the Principal Guardianship Folder (PGF) and related documents identified the following deficiencies:

- Incomplete, inaccurate, and untimely accountings.
- Expenditure of funds for the fiduciary's personal use.
- Unreconciled account balances (total estate value vs. total cash assets).
- Several requests by VA's field examiner to increase the beneficiary's savings.
- No action taken on the beneficiary's request for a change of fiduciary.

We have referred this fiduciary case to our Office of Investigations. Timely accountings and F&FE unit oversight are needed to ensure VA beneficiaries' funds are properly managed and safeguarded. VSC management plans to aggressively follow up on delinquent accountings from court-appointed and Federal fiduciaries. Documentation should include evidence supporting expenditures of funds, bank accounts, and any discrepancies.

**Field Examinations.** Field examinations are performed by F&FE staff to ascertain the needs of the beneficiary, assess the competence of the beneficiary, assess the effectiveness of fiduciaries' management of beneficiaries' estates, and determine whether funds have been properly spent.

VBA policy requires that field examinations be completed within 120 days of the scheduled date. To evaluate the timeliness of field examinations, we reviewed the PGFs of 27 beneficiaries. We found that 8 of 27 (30 percent) beneficiary field examinations were not completed within the required 120 days. The examinations were conducted 3 to 95 days beyond the 120-day standard. F&FE management indicated that field examiners had been assigned other duties, which prevented timely completion of field examinations. Significant improvement was noted during the period December 2000 through December 2001, when timeliness of field examinations increased from 35 to 90 percent.

**Recommended Improvement Action 7.** The Director should ensure that: (a) follow up by letter, telephone, or personal contact be implemented on delinquent fiduciary accountings, and (b) field examinations are completed within 120 days as required.

The Director concurred with the recommendation and reported that follow-up actions by letter, telephone, or personal contact on delinquent fiduciary accountings will be documented and field examinations will be completed within 120 days. The improvement actions are acceptable, and we will follow up on the planned actions until they are completed. (The Director's comments to the recommendations are shown in detail in *Appendix B*, page 25.)

## **Suggestions for Management Attention**

We also identified other issues that warrant management attention. We discussed each of these issues with the Director and management staff, and the Director agreed to address each of these issues as necessary. (The Director's comments to the suggestions are shown in detail in Appendix B, pages 25-26.)

### **Issues Identified**

- LA staff should be trained on the use of the Loan Servicing and Claims system. Formal training should improve the timeliness and accuracy of data input into the system and increase its usefulness as a servicing tool.
- LA staff should include essential documents such as requests for liquidation appraisals, appraisal reports, cost analyses, bid letters, Notices of Default, and Notices of Intention to Foreclose in loan files as required.

**Appendix A**

**Balanced Scorecard Results  
Comparison January 2001 to January 2002**

**Compensation and Pension**

Measures	National	VARO		
	FY 2002 Target	Average January 2002	Average January 2001	Average January 2002
<b>SPEED</b>				
Rating Related Actions (Completed) – Days	195.0	219.6	153.9	211.5
Rating Related Actions (Pending) – Days	201.0	202.7	128.3	163.5
Non-Rating Related Actions (Completed) – Days	54.0	71.1	32.7	71.2
Non-Rating Related Actions (Pending) – Days	85.0	82.6	55.0	87.3
Appeals Resolution - Average Days/Case – Days	650.0	597.4	579.6	542.8
Fiduciary Activities - Initial Appts./Field Exams	12.0%	9.8%	61.9%	15.9%
<b>ACCURACY</b>				
National Accuracy Rate (core rating work)	72.0%	81.2%	57.8%	75.9%
National Accuracy Rate (authorization work)	62.0%	64.6%	57.0%	67.4%
National Accuracy Rate (fiduciary work)	65.0%	67.8%	60.2%	69.1%
<b>UNIT COST</b>				
Cost per Compensation Claim Completed	TBD	\$468	\$409	\$470
Cost per Pension Claim Completed	TBD	\$255	\$203	\$325
Cost per Active Compensation Case on the Rolls	TBD	\$187	\$619	\$174
Cost per Active Pension Case on the Rolls	TBD	\$315	\$1,596	\$503
<b>CUSTOMER SATISFACTION</b>				
Overall Satisfaction	60.0%	55.7%	58.3%	54.7%
Customer Orientation	68.0%	65.7%	68.9%	67.8%
Appeals Ratio	8.0%	5.4%	7.8%	7.1%
Telephone Activities - Abandoned Call Rate	7.0%	8.6%	7.0%	13.2%
Telephone Activities – Blocked Call Rate	5.0%	11.5%	1.1%	1.6%
<b>EMPLOYEE DEVELOPMENT &amp; SATISFACTION</b>				
Employee Development Skill Matrix	TBD	TBD	TBD	TBD
Employee Satisfaction	3.6	3.3	3.6	3.6

TBD = To Be Determined

**Appendix A**

**Balanced Scorecard Results  
Comparison January 2001 to January 2002**

**Loan Guaranty**

Measures	National	VARO		
	FY 2002 Target	Average January 2002	Average January 2001	Average January 2002
<b>SPEED</b>				
Acquired Property Holding Time (months)	10.0	8.1	5.7	5.3
Processing time for Eligibility Certificates	5.0	6.7	TBD	TBD
<b>ACCURACY</b>				
Foreclosure Avoidance Through Servicing Ratio	33.0%	40.8%	33.3%	31.0%
Statistical Quality Control Index	93.0%	96.0%	90.3%	88.6%
<b>UNIT COST</b>				
Return on Sales of Acquired Properties	97.5%	TBD	TBD	TBD
Administrative Cost per Loan Guaranty Issued	TBD	TBD	\$246	TBD
Administrative Servicing Cost per Default Processed	TBD	TBD	TBD	TBD
Administrative Cost per Property Sold	TBD	TBD	\$2,406	TBD
<b>CUSTOMER SATISFACTION</b>				
Veteran Satisfaction Index	TBD	92.9%	92.9%	92.9%
Lender Satisfaction Index	TBD	74.0%	74.0%	74.0%
Telephone Activities - Abandoned Call Rate	5.0%	3.2%	0.7%	0.3%
Telephone Activities - Blocked Call Rate	5.0%	2.3%	9.2%	1.9%
<b>EMPLOYEE DEVELOPMENT &amp; SATISFACTION</b>				
Employee Development Skill Matrix	TBD	79.1%	86.7%	86.7%
Employee Satisfaction	3.0	3.3	3.6	3.6

**Vocational Rehabilitation and Employment**

Measures				
<b>SPEED</b>				
Days to Notification - Entitlement Determination	66.0	69.9	84.1	44.1
Days to Employment	50.0	37.8	54.4	44.7
<b>ACCURACY</b>				
Entitlement Determination Accuracy	91.0%	94.0%	87.0%	94.0%
Evaluation, Planning, & Services Accuracy	89.0%	78.0%	79.0%	73.0%
Fiscal Accuracy	96.0%	85.0%	92.0%	86.0%
<b>UNIT COST</b>				
Cost to Provide a Veteran a Program of Services	TBD	\$1,946	\$11,019	\$2,705
<b>CUSTOMER SATISFACTION</b>				
Rehabilitation Rate	65.0%	64.4%	75.0%	78.2%
SEH Rehabilitation Rate	63.0%	64.1%	66.1%	75.0%
Customer Access Satisfaction	79.0%	76.0%	79.2%	79.9%
Customer Satisfaction Survey	80.0%	74.0%	86.6%	81.6%
<b>EMPLOYEE DEVELOPMENT &amp; SATISFACTION</b>				
Employee Development Skill Matrix	TBD	73.6%	43.9%	43.9%
Employee Satisfaction	3.6	3.5	3.6	3.6

## VARO Director Comments



**DEPARTMENT OF VETERANS AFFAIRS  
Regional Office  
Norris Cotton Federal Building  
275 Chestnut Street  
Manchester, NH 03101**

April 4, 2002

Mr. Thomas L. Cargill, Jr.  
Bedford Audit Operations Division (52BN)  
Office of Inspector General  
Bedford, MA. 01730

SUBJ: Draft Report - Combined Assessment Program Review: VA Regional Office, Manchester, NH (Project No. 2001-02639-R1-0056)

1. Enclosed please find our response and action plan regarding the recent OIG CAP Team's observations and recommendations resulting from your review January 28 – February 8, 2002. We have reviewed the report and findings and concur with the seven recommendations. We also concur with the "Monetary Benefits" noted for recommendation 1.
2. In addition, we have reviewed the "Suggestions for Management Attention" and concur with your suggestions.
3. Thank you for the opportunity to comment on your draft report. Please contact me if you have any questions.

/s/  
Edward J. Hubbard  
Director

Enclosure

**VARO MANCHESTER  
COMBINED ASSESSMENT PROGRAM REVIEW  
PROJECT NO. 2001-02639-R1-0056**

**Action Plan**

**C&P Claims Processing**

**VAOIG Recommendation 1** - The Director should ensure that:

- a. VSC management monitor claims processing and timeliness by reinstituting the claim tag procedure, establishing claim timeliness guidelines, and increasing its use of the inventory management reports available in the CAPS system.
- b. VSC staff review AMIE reports monthly and take timely action to prevent overpayments.
- c. VSC staff is trained in hospitalization adjustment requirements.
- d. VSC management review retroactive awards covering a period of more than 2 years to ensure validity and the required supervisory third review.

**Regional Office Director Comments**

We concur with the finding and recommendation. Our corrective action plan follows:

- a. The practice of attaching a tag to each folder so that the end product and date of claim can be immediately seen was implemented on December 3, 2001. This helps us to more quickly identify and prioritize the pending claims. The establishment of claims processing stage guidelines and a schedule for use of inventory management reports has a scheduled completion date of May 1, 2002.
- b. Division AMIE User Plan will be revised and updated by June 1, 2002 and timely action will be taken to prevent overpayments.
- c. Training for hospitalization adjustment regulations is scheduled for completion by June 1, 2002.
- d. Review of retroactive awards has been implemented. A memo, dated September 6, 2001, from the VSCM, was distributed to all concerned personnel on September 10, 2001, regarding instructions for third signature awards. On September 17, 2001, training was given at a division meeting regarding this issue and written instructions were handed out. On September 17, 2001, a meeting between VSC supervisory personnel and GS-11 Senior Adjudicators was held to further discuss procedures for assuring third signature awards were handled properly.

**Property Management**

**VAOIG Recommendation 2** - The Director and LGO should strengthen the management and oversight of property management functions to include establishing controls and routinely monitoring their implementation to ensure that:

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- a. Repair and maintenance costs for VA properties are properly justified and accurately accounted for.
- b. Prudent procurement practices are implemented to maximize contractor solicitations, document contractor bids and VA work specifications, and prevent both circumvention of approved procurement approval limits and procurements from inappropriate sources.
- c. Duties for the authorization, inspection, and approval of payment for contractor services are properly segregated.
- d. The annual ethics training course is enhanced with the assistance of Regional Counsel to improve employees' awareness of unethical behavior and their obligation to report wrongdoing.
- e. Vendee loans are properly underwritten and VA properties are sold under terms and conditions that meet prudent business practices, safeguard government assets, and prevent fraud, waste, and abuse.

**Regional Office Director Comments**

We concur with the finding and recommendation. We want to emphasize that we had identified and taken action on potential problems in Property Management before the CAP review. We have been making progress in addressing these problems and the VARO will continue to address these areas to ensure that PM activities are properly controlled and supervised. We have made several organization and personnel changes which strengthen the internal controls in Property Management. Effective March 1, 2002, the Loan Guaranty Officer assumed direct supervision of the Property Management Section which should result in improved oversight of PM activities. Our corrective action plan follows:

- a. We have taken action to ensure that all repair costs are properly justified and accounted for. Since July 2001, Realty Specialists and Management Brokers are required to detail each individual repair item before sending bids to contractors. Contractors are required to include a breakdown of their total bid by including the cost of each repair item. Effective July 2001, each repair item exceeding \$2,500 requires review by both the Section Chief and the Loan Guaranty Officer. In March 2002, a new payment control sheet was developed that will be maintained in each property management file and will account for every PM expenditure. This will assist anyone reviewing the file to, at a glance, recognize any repair/maintenance expense, and date completed. Additionally, we have emphasized selling acquired properties in their "As Is" condition. This policy has been successful as indicated by our higher percentage of "As Is" cash sales in recent months.
- b. Prudent procurement practices will be implemented to maximize contractor solicitations, document contractor bids and VA work specifications, and prevent both circumvention of approved procurement approval limits and procurements from inappropriate sources. Corrective action in this area began as early as July 2, 2001. Every effort has been made to realize and document bid solicitations. We will focus our attention on obtaining bids from

## Appendix B

contractors nearby the subject property. Also, there will be a significant reduction in repair programs in general. Most repairing, if any, will be limited to correcting hazardous situations, e.g. faulty steps, missing handrails, broken glass, and health concerns, e.g., debris removal, standing water. When repairs are required we will insure that the work described is thorough and that each bid itemizes cost. Effective March 1, 2002, the Loan Guaranty Officer began reviewing all procurement activities. This will ensure the adherence to procurement limits and that procurement is from appropriate sources.

- c. Since January 24, 2002, duties for the authorization, inspection, and approval of payment for contractor services are properly segregated. Procedures will be strictly followed regarding proper acknowledgment of repair invoices. These procedures have been circumvented in the past, leading to some of the contractor problems identified in this review.
- d. We will enhance the annual ethics training so that employees become more aware of what constitutes unethical behavior and their obligation to report wrongdoing. The Regional Counsel will discuss this subject at new employee orientation so that new employees are made aware of the importance of this issue. In March 2002, Regional Counsel met with employees recently assigned to VARO Manchester on the subject of ethics. Additionally, the OIG Investigations Unit now has an office in our Federal Building. When we conduct our annual ethics training, we will invite them to participate in the training so they can provide their insight on ethical issues.
- e. Procedures are already in place to assure that vendee loans are underwritten in an efficient and responsible manner. Specific actions include:
  - Required that underwriting guidelines used in Loan Production for GI home loans be used as the standard for underwriting vendee home loans also. Copies of guidelines were given to each Realty Specialist on December 4, 2001.
  - Also, on December 4, 2001, the PM staff underwent training by the Credit Bureau on the advantages of credit scoring when underwriting credit reports. It was mandated that every applicant for a vendee loan be rated a score to be used as an additional tool in predicting the ability of the borrower to make mortgage payments.
  - In December 2001, Realty Specialists were informed that, until further notice, every developed vendee loan request must receive the concurrence of the LGO prior to approval.
  - In March 2002, the Realty Specialist in PM who gathers data and underwrites the majority of vendee loans will receive two training sessions by our Loan Production Section Chief on the subject of underwriting standards, with emphasis on the self employed applicant.
  - On April 12, 2002, two PM staff members will attend training on fraud prevention in the mortgage industry sponsored by the NH Mortgage Bankers and Brokers Association.

### **Loan Administration**

**VAOIG Recommendation 3** - The Director needs to ensure LA staff perform proper oversight of lender servicing activities and document their oversight activities, including follow-up actions taken and referrals made in relation to their oversight of lenders.

**Regional Office Director Comments**

We concur with the finding and recommendation. Effective February 2002, lender servicing files were reorganized due to corporate mergers and other changes in the servicing industry. Copies of all procedural letters that are sent to the servicer/holder and/or their attorneys will be placed in the lender servicing file. Some examples are: (1) reconveyance issues that pertain to the attorney obtaining marketable title at the time of title conveyance to VA, (2) time extensions to the servicer/holder to submit complete title packages, and (3) late reporting of the Notice of Default that exceeds the 105 day reporting requirement. As the CAP review noted, copies of these letters were not always filed in the lender servicing file. All Loan Service Representatives and Loan Assistants have been directed to make certain that copies of all procedural letters are filed in the lender servicing file. Maintaining lender servicing files will provide VA with the means of assessing training needs of a servicer.

**Government Purchase Card Program**

**OIG Recommendation 4** - The Director should ensure that management controls are implemented to:

- a. Effectively administer the Government Purchase Card Program.
- b. Promote competition to the maximum extent practicable.

**Regional Office Director Comments**

We concur with the finding and recommendation. Our corrective action plan follows:

- a. The duties of the Purchase Card Coordinator, Dispute Officer, and Billing Officer, will be separated by May 31, 2002; the Coordinator will no longer be an approving official; purchase cardholder training was completed on March 12, 2002; single purchase limits for all cardholders were reduced to \$2,500 on January 2, 2002; cardholders were notified how to properly secure the purchase card and date their signature on statements of account on February 20, 2002; audits of the purchase card activity will be incorporated into the Systematic Analysis of Operation schedule by July 31, 2002; procedures were implemented to timely deactivate purchase cards on January 2, 2002.
- b. Cardholder single purchase limits have been reduced to \$2,500, no longer requiring competitive procurements. If an employee receives the necessary 40-hour training to obtain "Warrant Authority," then he/she will follow the Federal Acquisition Regulations regarding competition.

### **Vocational Rehabilitation and Employment Service**

**OIG Recommendation 5** - The Director should ensure that:

- a. The claim date is properly entered into the BDN.
- b. Veteran case status is properly monitored.
- c. Subsistence allowances are verified to school transcripts.
- d. BSC measurements are properly documented in the veteran's CER folder.

### **Regional Office Director Comments**

We concur with the finding and recommendation. Our corrective action plan follows:

- a. On January 29, 2002, VSC staff were trained on the correct procedure for entering the claim date into BDN. This issue is regarding General Eligibility Determination (GED) processing which had been transferred to the VSC for completion. Since early March 2002, GED's have been established in VR&E and should be consistently correct.
- b. Effective February 28, 2002, VR&E staff were required to take monthly corrective action after review by the VR&E Officer or provide an appropriate explanation to justify the veteran case status. Follow-up will be accomplished monthly to insure compliance which had not been done consistently.
- c. Although one of the cases reviewed by the OIG found a veteran to be overpaid subsistence, case managers have been and will continue to review transcripts against tuition bills to confirm enrollment. Effective February 9, 2002, case managers were required to review transcripts against tuition bills.
- d. BSC measurements will be clearly documented in the CER folder. Staff will use headings that make it possible to see when the entitlement determination is made and when the case status has been moved to job ready. Target completion date for this action is May 1, 2002.

### **Information Technology Security**

**OIG Recommendation 6** - The Director should ensure that:

- a. A risk assessment is conducted on all Automated Information Systems.
- b. Application and data backup files are tested on a regular basis and that files are stored in a secure area.

### **Regional Office Director Comments**

We concur with the finding and recommendation. Our corrective action plan follows:

- a. The risk assessment process required by VBA will be followed to include assessments of all AIS. The target completion date for this action is September 30, 2002. This target date will give us an opportunity to thoroughly research this subject to ensure that we do an effective review.

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- b. Backup files will be tested on a regular basis. The target completion date for this action is June 30, 2002. Our backup files are stored in a secure area. We store our full weekly back-up tapes off-site at the VAMC. Due to the CAP review finding, we now store the incremental backups in the safe in the Agent Cashier's Office.

**Fiduciary and Field Examinations**

**OIG Recommendation 7** - The Director should ensure that:

- a. Follow-up action by letter, telephone, or personal contact be implemented on delinquent fiduciary accountings.
- b. Field examinations are completed within 120 days as required.

**Regional Office Director Comments**

We concur with the finding and recommendation. Our corrective action plan follows:

- a. Effective February 8, 2002, we implemented a new follow-up policy on fund usage, accounts, and other discrepancies. All actions, visits, and telephone calls will be documented by Report of Contact (VA Form 119) or equivalent. We will conduct three follow-up contacts with diary dates for each contact. If the third follow-up does not produce results, we will refer the account to the Staff Attorney.
- b. The Strategic Objective for completing field exams within 120 days is 1 percent, and the National target is 12 percent. Our goal for FY 2002 is for less than 10 percent to be completed after 120 days, and for FY 2003 our goal is to complete all field exams within 120 days. We have made progress in this area. We ended FY 2001 at 25 percent, and in March 2002 our cumulative fiscal year-to-date rate was down to 11.1 percent.

**Loan Administration**

**OIG Suggestion 1** - The Director should ensure that LA staff are trained on the use of the Loan Servicing and Claims system. Formal training should improve the timeliness and accuracy of data input into the system and increase its usefulness as a servicing tool.

**Regional Office Director Comments**

A formal training plan has been established for all Loan Administration personnel. This training plan will cover all functional areas of Loan Administration and include all Loan Service Representatives and Loan Assistants. All SQC cases that are returned after a level two by VA Central Office/Loan Guaranty Service that reflect errors will be reviewed for training purposes. VA Central Office/Loan Guaranty Service has agreed to have a trainer come in from another Regional Loan Center to conduct formal in house training. This training will include instruction

**Appendix B**

on the Loan Service and Claims system. Some areas of immediate concern are interest cut off dates, claim processing, Loss Mitigation program, and the general servicing of delinquent loans.

**OIG Suggestion 2** - The Director should ensure that LA staff include essential documents such as requests for liquidation appraisals, appraisal reports, cost analysis, bid letters, Notices of Default, and Notices of Intention to Foreclose in loan records as required.

**Regional Office Director Comments**

Loan Administration is proceeding to a folderless environment. Much of the servicing, foreclosure, and bankruptcy documentation will be recorded electronically thus eliminating the need for maintaining paper files. This of course reinforces the need to electronically process and record all servicing related activities, i.e., telephone calls with servicers, program participants, and veterans. Essential documents will be retained in the servicing file. This will be monitored through the SQC and SAO programs. There is no question that a strong surveillance/oversight program is key in assessing the overall servicing on a national basis.

## Monetary Benefits in Accordance with IG Act Amendments

**Report Title:** Combined Assessment Program Review of VA Regional Office Manchester, New Hampshire

**Report Number:** 01-02639-115

<u>Recommendation</u>	<u>Explanation of Benefit</u>	<u>Better Use of Funds</u>
1	Better use of funds through timely processing of hospital adjustments.	<u>\$18,923</u>
	Total	<u>\$18,923</u>

## Final Report Distribution

### **VA Distribution**

Secretary (00)  
Deputy Secretary (001)  
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Assistant Secretary for Information and Technology (005)  
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        Affairs, U.S. House of Representatives

**Appendix D**

**This report will be available in the near future on the VA Office of Audit Web site at <http://www.va.gov/oig/52/reports/mainlist.htm>, *List of Available Reports*. This report will remain on the OIG Web site for 2 fiscal years after it is issued.**