



Department of Veterans Affairs Office of Inspector General

Combined Assessment Program Review of the VA Regional Office St. Petersburg, Florida

Office of Inspector General Combined Assessment Program Reviews

Combined Assessment Program (CAP) reviews are part of the Office of Inspector General's (OIG's) efforts 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

During the week of November 4-8, 2002, the Office of Inspector General (OIG) conducted a Combined Assessment Program (CAP) review of the VA Regional Office (VARO) St. Petersburg, Florida. The purpose of the review was to evaluate the effectiveness of Compensation and Pension (C&P) and Vocational Rehabilitation and Employment (VR&E) benefits claims processing, Information Resource Management (IRM) and Benefits Delivery Network (BDN) security, Regional Loan Center (RLC) activities, and financial and administrative management controls. During the review, we also provided 3 fraud and integrity awareness briefings to 126 VARO employees.

Results of Review

VR&E eligibility determinations and payment transactions were appropriate, and C&P one-time payments of \$10,000 to \$24,999 were supported by appropriate documentation. Aspects reviewed of IRM and BDN Security, and RLC Construction and Evaluation were generally operating satisfactorily. VARO management attention is needed to improve:

- The Director's review of C&P one-time payments over \$25,000.
- VR&E claims processing timeliness.
- Timeliness of Fiduciary and Field Examination (F&FE) initial appointments (IA) and field examinations.
- Income verification for RLC refunded loans.
- Credit underwriting for RLC prior-approval loans.

Regional Office Director Comments

The Regional Office Director agreed with the findings and recommendations and provided acceptable improvement plans. (See Appendix A, page 8, for the full text of the Director's comments.) We may follow up on the implementation of planned improvement actions until they are completed.

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

Introduction

Regional Office Profile

Organization. VARO St. Petersburg provides C&P, VR&E, and RLC services to eligible veterans, dependents, and beneficiaries residing in Florida. The Veterans Service Center (VSC) has C&P claims processing teams at Mini-Service Centers in Orlando and at VA Medical Center West Palm Beach. VSC staff also provide claims assistance services to veterans at each Florida medical center and two outpatient clinics. In addition, 4 C&P Pre-Discharge Program claims processing teams provide services to all 21 active duty military installations in Florida. VR&E has counselors at 10 offices throughout the State of Florida.

The VARO is one of nine designated RLCs. Loan guaranty services were consolidated at VARO St. Petersburg for veterans in the states of Florida, Alabama, and Mississippi. VARO Atlanta, Georgia, provides education services to veterans and their dependents residing in Florida.

Resources. General operating expenses for Fiscal Year (FY) 2002 totaled more than \$44 million, and staffing was 716 full-time equivalent employees. During FYs 2000 through 2002, the VSC hired 193 Veteran Service Representatives (VSRs) at General Schedule (GS) grade levels 5 and 7, which was almost 10 percent of all new VSRs at these grade levels hired nationwide. At the end of FY 2002, VARO St. Petersburg had retained 169 (88 percent) of these employees, which was better than the national average of 85 percent. While 19 (79 percent) of the VARO losses occurred within 1 year of hire, this was also better than the 85 percent average nationwide.

Workload. VARO St. Petersburg serves a population of nearly 1.8 million veterans. During FY 2002, about \$1.5 billion in C&P benefits were paid to about 219,000 beneficiaries. VR&E services were provided to about 4,800 beneficiaries, with estimated benefits totaling over \$104 million. The RLC guaranteed about 34,400 veteran loans, including refinanced loans, totaling almost \$4 billion. VARO St. Petersburg had about 5,100 active fiduciary cases with a total estate value of more than \$124 million.

Objectives and Scope of CAP Review

Objectives. CAP reviews are one element of the OIG's efforts to ensure that our Nation's veterans receive high quality services. The objectives of the CAP review program are to:

- Conduct recurring evaluations of selected VARO operations, focusing on the delivery of benefits, security of information technology systems, and financial and administrative controls.
- Provide fraud and integrity awareness training to increase employee understanding of the potential for program fraud and the need to refer suspected fraud to the OIG.

Scope. We reviewed selected VARO activities to evaluate the effectiveness of C&P and VR&E benefits claims processing, IRM and BDN security, RLC activities, and financial and

administrative 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.

In performing the review, we interviewed managers and employees, inspected work areas, and reviewed benefits, and financial and administrative records. The review covered the following activities:

C&P One-Time Payments	RLC Loan Production
VR&E Claims Processing	RLC Construction & Valuation
F&FE Services	IRM Security
RLC Loan Administration	BDN Security

Activities that were particularly effective or otherwise noteworthy are recognized in the Organizational Strengths section of this report (page 3). Activities needing improvement are discussed in the Opportunities for Improvement section (pages 3–7). For these activities, we make recommendations. Recommendations pertain to issues that are significant enough to be monitored by the OIG until corrective actions are implemented. For the activities not discussed in the Organizational Strengths or Opportunities for Improvement sections, we did not identify reportable deficiencies.

During the review, we also presented 3 fraud and integrity awareness briefings to 126 employees. The VARO also taped 1 of the training sessions, which was distributed to an additional 60 outbased employees for viewing.

The CAP review covered VARO operations from October 1, 2000, through October 19, 2002, and was conducted in accordance with the OIG’s Standard Operating Procedures for CAP Reviews.

Results of Review

Organizational Strengths

VR&E Payment Transactions Were Appropriate. VR&E management had established effective controls to ensure that eligible veterans were placed in VR&E programs and that payment transactions were appropriate. The justification and authorization for payments to training facilities, vendors, and contract services were well documented. VR&E Government purchase card transactions and convenience check payments were made in accordance with VA regulations.

C&P One-time Payments From \$10,000 to \$24,999 Were Effectively Processed. VSC management had established effective controls to ensure that one-time payments of \$10,000 to \$24,999 that were retroactive for more than 2 years had the required third-party review and signature.

Opportunities for Improvement

VA Regional Office Management – Director’s Review of C&P One-Time Payments Over \$25,000 Needs Improvement

Conditions Needing Improvement. The Director’s review of third-signature authorization for C&P one-time payments over \$25,000 was not performed in accordance with Veterans Benefits Administration (VBA) policy. A review of VARO procedures for ensuring one-time payments over \$25,000 had third-signature authorizations showed the following:

- Third-signature authorizations were not obtained on 26 of 222 (12 percent) awards processed during the period August 1, 2002, through October 19, 2002.
- The Director incorrectly certified to VBA that he had personally reviewed the 222 awards. The Director delegated the review, which was not in writing, to the acting Assistant VSC Manager, instead of a non-VSC employee, as required. The acting Assistant VSC Manager used the Director’s signature stamp on the reviews signifying that the Director had conducted the reviews when he had not.
- During the week of the CAP review, when the Director was out of the office, the acting Assistant VSC Manager used the signature stamp to complete 12 reviews. The acting Assistant VSC Manager should have signed the review sheets using her name and title, instead of the Director’s signature stamp.
- Four employees were responsible for 15 of the 26 (58 percent) awards that did not have third-signature authorizations. The acting Assistant VSC Manager obtained written explanations from the employees responsible for ensuring the awards were properly signed as to why VBA policy was not followed and provided the explanations to the Director. However, the

explanations were not provided to the VSC Manager. The VSC Manager stated that if he had been informed, he would have taken action to ensure that these employees did not continue to make the same mistakes.

Recommended Improvement Action 1. The VARO Director should ensure that the reviews of one-time payments over \$25,000 are performed in accordance with VBA policy.

The VARO Director agreed with the finding and recommendation, and has implemented acceptable improvement plans. We consider this issue resolved.

Vocational Rehabilitation and Employment – Timeliness of Claims Processing Should Be Improved

Conditions Needing Improvement. VR&E needs to improve the timeliness of claims processing. VR&E performance goals include notifying veterans of their eligibility for benefits within 60 days of the date of their claim. Our review of 15 of 4,760 cases selected from the Inventory of Chapter 31 Veterans in Open Case Status (COIN TAR 6013 Report), dated October 1, 2002, showed the following areas need management attention:

- In 5 cases (33 percent), veterans' applications for VR&E benefits were not processed timely.
- In 4 cases (27 percent), appropriate dates were not established in BDN to properly calculate timeliness.
- In 2 cases (13 percent), veterans' status as recorded in the Corporate Case Management Information System (CCMIS) was not consistent with data recorded in BDN, or the veterans' Counseling, Evaluation, and Rehabilitation (CER) files.

As of September 2001, VR&E was averaging 60 days for entitlement notifications. However, as of September 2002, VR&E was averaging 72 days to notify veterans of entitlement, or 12 days longer. According to the VR&E Officer, the decrease in timeliness was mainly a result of a reduction in contracted services, and an increase in counseling staff from 19 to 34. Since more experienced staff were training the new counselors, not as many cases were completed.

Recommended Improvement Action 2. The VARO Director should ensure that veterans' notifications are timely, and that veteran status is recorded consistently in BDN, CCMIS, and the CER file.

The VARO Director agreed with the finding and recommendation, and provided acceptable improvement plans. We will follow up on planned actions until they are completed.

Fiduciary and Field Examinations – Timeliness of Initial Appointment and Field Examinations Need Monitoring

Conditions Needing Improvement. VARO management needs to improve the timeliness of IA and field examinations. VBA policy requires an IA examination be made within 45 days of the date FF&E receives notification the veteran has been declared incompetent. The subsequent

field examination must be completed within 120 days after the scheduled diary date. The diary date for the first field examination is 1 year from the date of the IA. Diary dates for subsequent examinations range from 1 to 3 years, depending on the condition of the veteran. Our review of 17 incompetent veterans' files showed the following areas need management attention:

- 2 (12 percent) IA examinations did not meet the required 45-day standard.
- 6 (35 percent) field examinations were not completed within the required 120 days.

As of October 11, 2002, Work in Process reports in the Fiduciary-Beneficiary System showed that, overall, 37 percent (242 of 647) of the pending workload for IA and field examinations exceeded the timeliness standards. According to F&FE management, the delay in performing IA and field examinations occurred because 2 of 10 field examiners were not completing their case work in a timely manner. Management was aware of these delays, and was redistributing workload to other field examiners to improve the timeliness of the examinations.

Recommended Improvement Action 3. The VARO Director should ensure that IA and field examinations are performed timely.

The VARO Director agreed with the finding and recommendation, and provided acceptable improvement plans. We will follow up on planned actions until they are completed.

Regional Loan Center Refunded Loans – Verification of Income Needs to Be Strengthened

Conditions Needing Improvement. RLC management needs to ensure that Loan Servicing Representatives (LSRs) verify all income prior to approving refunded loans.¹ Our review of 5 of 308 loans refunded during FYs 2001 and 2002 showed that income for 3 loans (60 percent) was not properly verified, as shown below:

- A \$450 monthly bonus claimed as income by the veteran was not verified, and the spouse's pay stubs showed about \$979 in monthly income, while the LSR used \$1,645 when analyzing the spouse's income.
- The monthly income of \$450 per month supposedly contributed by a brother-in-law was not verified, and the spouse's retirement income used on the loan analysis could not be identified in the loan file.
 - A loan was approved based on a letter from a daughter living at home stating she contributed \$1,000 per month to the household income. This income was not verified, and the daughter's name was not on the mortgage.

Since these veterans were previously in a pre-foreclosure status prior to the VARO refunding the loans, it is essential that the VARO ensures that veterans have the ability to make the monthly

¹ A loan is refunded when a veteran becomes seriously delinquent on the original guaranteed loan and VA, in order to prevent foreclosure, purchases the defaulted loan from the lender and re-amortizes the loan to eliminate the delinquency.

mortgage payment by verifying all income and expenses. Use of the correct income amounts might have made a difference in the LSR's decisions to refund the loans in these three cases.

According to RLC management, it was an oversight on the part of the LSRs that these cases did not have all income verified. RLC management stated that they would meet with the LSRs that did not ensure that data used for loan approvals was accurate and verified to ensure that these errors would not occur in the future.

Recommended Improvement Action 4. The VARO Director should ensure that all income considered in the refunded loan approval process is properly verified.

The VARO Director agreed with the finding and recommendation, and has implemented acceptable improvement plans. We consider this issue resolved.

Regional Loan Center Prior-Approval Loans – Credit Underwriting Should Be Improved

Conditions Needing Improvement. RLC management should improve credit underwriting² for prior-approval loans.³ VA can only guarantee a loan when the veteran is a satisfactory credit risk, and has present and anticipated income to repay the loan. Our review of 14 of 259 prior-approval loans approved by RLC staff during FY 2002 showed that 3 loans (21 percent) contained at least 3 negative underwriting factors which, when taken collectively, increased the probability that the loans would default:

- The borrower had a 48 percent debt-to-income ratio,⁴ a 30 percent increase in shelter expense, \$1,315 in liquid assets that was accumulated before the shelter expense increase, and the borrower's residual income did not meet VBA requirements.
- The borrower had a 63 percent debt-to-income ratio, a 74 percent increase in shelter expense, \$3,120 in liquid assets that was accumulated before the shelter expense increase, and the borrower's residual income did not meet VBA requirements.
- The borrower had a 45 percent debt-to-income ratio, a 189 percent increase in shelter expense, and \$48 in liquid assets that was accumulated before the shelter expense increase.

According to VBA policy, an obviously inadequate residual income alone can be a basis for disapproving a loan. Compensating factors can be considered for marginal loans, but should represent unusual strengths rather than mere satisfaction of basic program requirements. For example, significant liquid assets may compensate for a residual income shortfall, although long-term employment would not.

RLC management agreed that the loans were marginal, but stated that veterans were usually given the benefit of the doubt in marginal loans. While we recognize that VA's home loan

² Credit underwriting is the process of identifying and verifying that the veteran's income will meet the mortgage payment, other shelter expenses, debts and obligations, and family living expenses.

³ Prior-approval loans require the lender to submit the information to VA for approval prior to closing the loan.

⁴ VA requires a debt-to-income ratio below 41 percent.

program was designed to offer veterans an opportunity for home ownership, RLC staff should not make loans with multiple adverse factors that increase the risk of default.

Recommended Improvement Action 5. The VARO Director should ensure that sufficient compensating factors are present when marginal loans are approved.

The VARO Director agreed with the finding and recommendation, and has implemented acceptable improvement plans. We consider this issue resolved.

VARO Regional Office Director Comments



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May 22, 2003

In Reply Refer To: 317/00

Mr. James R. Hudson
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SUBJ: Draft Report: Combined Assessment Program review – VA Regional Office,
St. Petersburg, FL (OIG Draft 04/18/2003)

In response to the above referenced Combined Assessment Program (CAP) Review, the St. Petersburg Regional Office makes the following revised comments on the opportunities for improvement:

A) VA Regional Office Management – Director’s review of C&P one-time payments over \$25,000 needs improvement

Recommended improvement action 1. We recommend that the VARO Director ensure that the reviews of one-time payments over \$25,000 are performed in accordance with VBA policy.

We concur with this recommendation. The Acting Director has been conducting the reviews of C&P one-time payments over \$25,000 since April 28, 2003. She accesses a special mailbox, ensures the checklist is completed, reviews cases expeditiously, prints and signs the printed copy, maintains in a chronological file, and otherwise complies with VBA policy. We consider this corrective action completed.

Page 2.

B) Vocational Rehabilitation and Employment – Timeliness of claims processing should be improved

Recommended improvement action 2. We recommend that the VARO Director ensure that veterans' notifications are timely, and that veteran status is recorded consistently in BDN, CCMIS, and CER file.

We concur with this recommendation. We have improved the notification timeliness of veteran entitlement notification, the accuracy of the dates of claim, and the need for consistency in the BDN, CWINRS (VR&E corporate case management information system) and CER file systems. The decrease in timeliness at the time of audit was a result of the reduction in staffing due to an extended hiring freeze. As staffing decreased, we increased contracting services, which did not have an immediate impact to assist in improving timeliness. While procedures are in place to make sure that the date of claim established in BDN matches the date stamp on the 1900 application for benefits, we have also advised staff of their responsibility to ensure the dates are accurate. We are working with VR&E Central Office to develop a discrepancy report designed to identify and correct any discrepancies between the BDN and CWINRS systems. The targeted date of completion date is dependent on Central Office deployment.

C) Fiduciary and Field Examinations – Timeliness of initial appointment and field examinations need monitoring

Recommended improvement action 3. We recommend that the VARO Director ensure that the IA and field examinations are performed timely.

We concur with this recommendation. We have improved our timeliness for initial appointments and fiduciary/beneficiary field examinations considerably even though we have had two field examiners retire and one on extended leave for the last two months. We have used an aggressive performance management strategy to close our late pending cases for initial appointments and fiduciary/beneficiary field examinations. Referring to the balanced scorecard, we are currently at 32.6% late completed cases and have a strategy to meet the national scorecard target of 9% by July 2003. We are currently at 3.8% late pending cases for initial appointments and fiduciary/beneficiary field examinations. The targeted date of completion is July 2003.

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D) Regional Loan Center Refunded Loans – Verification of income needs to be strengthened

Recommended improvement action 4. We recommend that the VARO Director ensure that all income considered in the refunded loan approval process is properly verified.

We concur with this recommendation. We met with the teams regarding all income verification and review of the financial statement information and verifiable income. Refunding training was given to all of the employees in the section to insure that they comply with Refunding Circular 26-02-07, which includes the types of income and the verification process. In addition, all refunding claims are currently reviewed by the first line supervisors prior to payment. We consider this corrective action completed.

E) Regional Loan Center Prior-Approval Loan – Credit underwriting should be improved

Recommended improvement action 5. We recommend that the VARO Director ensure that sufficient compensating factors are present when marginal loans are approved.

We concur with this recommendation. We met with the teams regarding marginal loans approved. Training has been conducted with the employees concerning marginal loans. They now ensure that all marginal loans that are approved using compensating factors are supported by strengths rather than just exceeding the basic program requirements. All approvals require a second signature by a higher graded employee. We consider this corrective action completed.

If you have any questions or comments on our responses, please contact me at (727) 319-5900.



TERRY A. BERUBE
Acting Director

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Appendix B

Congressman David Weldon

Congressman Robert Wexler

Congressman C. W. Bill Young

Congressional Committees (Chairmen and Ranking Members):

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Committee on Veterans' Affairs, U.S. Senate

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Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations,
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Affairs, U.S. House of Representatives

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.