



Department of Veterans Affairs Office of Inspector General

Audit of Veterans Benefits Administration's Pension Maintenance Program Administered by the Pension Maintenance Centers

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Executive Summary

Introduction

In January 2002, the Veterans Benefits Administration (VBA) consolidated its pension maintenance processing from 58 regional offices to 3 Pension Maintenance Centers (PMCs) in an effort to make claims processing more efficient. The VA Office of Inspector General (OIG) conducted an audit of the PMC's processing controls to determine whether VBA's consolidation efforts resulted in accurate and timely processing of pension awards.

Results

While VBA informed us that the consolidation of pension claims to three centers had achieved efficiencies, our audit showed some internal controls could be strengthened. VBA could improve: (1) the accuracy of processing beneficiary income adjustments, (2) the accuracy of processing Eligibility Verification Reports (EVRs), (3) the timely processing of Compensation and Pension (C&P) system messages, and (4) the accuracy of scanning and filing documents into Virtual VA (VVA). We estimated, based on the conditions we identified, that 7,570 (5.2 percent) of 146,463 beneficiaries received inaccurate award payments totaling \$13.4 million. Of the \$13.4 million, beneficiaries received \$9.4 million in overpayments and \$4.0 million in underpayments. We also identified unmitigated risks that could lead to inaccurate pension claims that needed management attention.

Recommendations

We recommended the Under Secretary for Benefits ensure PMCs use standardized procedures among the PMCs for processing income adjustments, EVRs, and monitoring employee accuracy rates. We also recommended that appropriate training be provided and that procedures be developed and implemented to more timely process C&P system messages, and ensure required documents are imaged into VVA.

Under Secretary for Benefits Comments

The Under Secretary for Benefits agreed with the recommendations in the report with some qualifications to the findings and provided acceptable implementation plans. The Under Secretary reported VBA has implemented process changes and enhanced training programs at the PMCs. (See Appendix C, pages 19–24, for the full text of the Under Secretary's comments.) He also provided technical comments that we incorporated into our report where appropriate. We will follow up on the implementation of planned improvement actions until they are complete.

While agreeing with our recommendations, the Under Secretary qualified that a distinction should be made between errors resulting in inaccurate monetary benefit amounts compared with errors not affecting monetary benefit amounts. We agree with the Under Secretary's comment that a distinction should be made between the two types of errors, and we have made this distinction throughout the report. (This distinction is first made on page 4.) Our audit of 563 pension claims where beneficiaries reported either changes in income, medical expenses, the number of dependents, or other miscellaneous changes concluded that PMC employees made income adjustment or processing errors in 106 (19 percent) of the audited pension claims. Our report points out of the 106 income adjustment or processing errors, 60 of them resulted in either overpayments or underpayments. This represents 11 percent of the pension claims audited and does not clearly represent the extent of the control weakness. The remaining 46 processing errors did not result in changes of monetary benefits. (See Appendix A, pages 15–17, for a detailed analysis of errors resulting in overpayments and underpayments.)

The Under Secretary also reported VBA does not have specific accuracy targets for income adjustments or EVRs. While we agree with the Under Secretary's comments, regional office Directors' performance appraisal plans established a target error rate of 13 percent in FY 2004 and a target error rate of 12 percent in FY 2005 for pension claims processing. Our audit revealed that improved accuracy was needed. For example, at the St. Paul PMC our audit showed that improved accuracy was needed for 55 (32 percent) of 172 audited income adjustments and improvement was needed for 43 (40 percent) of 108 audited EVRs processed. Standardizing procedures among the PMCs for processing income adjustments, EVRs, and monitoring employee accuracy rates would serve to improve the accuracy and timeliness of processing pension claims.

(original signed by:)
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for Auditing

Introduction

Purpose

We conducted an audit of key pension maintenance processing controls over Improved Disability Pension, Improved Death Pension, and Parents' Dependency and Indemnity Compensation (PDIC) to determine whether VBA's consolidation efforts resulted in accurate and timely processing of pension awards.

Background

VA pension programs generally provide monthly payments to veterans or surviving dependents of deceased wartime veterans who die as a result of a disability unrelated to military service. VBA operates three income-based programs that are still accepting applications—Improved Disability Pension, Improved Death Pension, and PDIC. Improved Disability Pension is a benefit paid to wartime veterans who are permanently and totally disabled or age 65 or older and have limited income and net worth. Improved Death Pension is a benefit paid to eligible dependents of a deceased veteran who served during a wartime era. Basic eligibility depends upon the veteran being discharged from service under other than dishonorable conditions and having served during wartime; the surviving spouse or unmarried child of a deceased veteran must have countable income and net worth below a limit set by Federal law. PDIC is a monthly payment to a parent or parents of a veteran based on a veteran's service-connected death and income limitations. C&P Service estimated VBA paid \$2.6 billion in pension benefits to 335,900 veterans in fiscal year (FY) 2005.

Consolidation of Pension Maintenance Activities. In May 2001, VA established the Claims Processing Task Force to identify actions to reduce the C&P claims backlog and make processing more efficient. One of their recommendations was for VBA to consolidate the maintenance portion of pension processing.¹ In January 2002, VBA consolidated the processing of pension work at three PMCs located at Philadelphia, PA; Milwaukee, WI; and St. Paul, MN. The consolidation of pension maintenance was phased in over time with full implementation in July 2003. Pension maintenance operations were consolidated in order to centralize processing of all running pension awards, achieve a more effective use of limited human resources, improve technical accuracy, and allow regional offices to concentrate on compensation claims processing. VBA expected to make logistical improvements and enhance service to claimants by consolidating the program and improving the accuracy and timeliness of award processing. These actions were expected to reduce overpayment amounts.

¹ This issue is discussed in *VA Claims Processing Task Force: Report to the Secretary of Veterans Affairs*, October 2001.

VBA's Evaluation of Pension Work Processes. In July 2003, VBA performed an evaluation of work processes and the use of imaging technology related to pension maintenance activities.² Overall, VBA believed that consolidation achieved efficiencies. However, VBA determined that because they had not developed a clear and integrated business plan, they found dissimilar business processes among the three PMCs as well as inconsistent utilization of the VVA technology. The evaluation also disclosed that expected performance improvements had not yet been realized with centralization.

Scope and Methodology

To address the objectives of the audit, we reviewed employees' efforts to timely and accurately process: (1) eligibility verifications, (2) income adjustments, (3) grants of special monthly pension benefits, (4) C&P system messages, (5) accrued benefits, (6) waivers and compromises based on pension overpayments, and (7) electronic imaging of veteran information. Our audit excluded a review of hospital adjustments, except to examine whether Systematic Analysis of Operations (SAOs) were performed; and third-party computer matching. We excluded hospital adjustments due to prior audit coverage, and third-party computer matching because we plan to perform a separate audit of this PMC responsibility at a future date.

We interviewed employees with pension responsibilities at VBA headquarters located in Washington, D.C.; three PMCs located in Philadelphia, Milwaukee, and St. Paul; the Austin Automation Center in Austin, TX; and the Hines Information Technology Center located in Hines, IL. We assessed compliance with VBA and Office of Management and Budget (OMB) policies and public laws that addressed pension programs. We reviewed medical expense reports, Social Security benefits, pension awards, self-reported beneficiary information, reports of contact, and award notifications.

The period of review was January 1, 2004, through June 30, 2005, with the exception of our review of C&P system messages. For C&P system messages, our review period was from July 2005 to December 2005. This occurred because VBA did not maintain data on C&P system messages prior to July 2005 and after December 2005. We conducted onsite work from November 28, 2005, to May 4, 2006. In planning and performing the audit, we relied on computer-generated data from VBA's C&P Master Record and Work-In-Progress databases. To test the reliability of this data, we compared relevant electronic data with veterans' claims data. We found the computer-generated data to be sufficiently reliable for our audit objectives.

To accomplish the audit we used computer sampling technology, and randomly selected a sample of 1,666 cases out of the 242,471 claims for the review period. Table 1 on the following page illustrates the sample size by processing action. (See Appendix A, pages 15–17, for a detailed description of our sampling methodology.)

² This issue is discussed in VBA's *Pension Maintenance Center Study*, August 28, 2003.

Table 1. Sample Size by Processing Action

Processing Action	End Product Work Codes	Number of Claims	Sample Size
Eligibility Verification Reports	050 and 155	141,537	345
Income Adjustments-Income Change	150 and 157	78,821	563
Dependency Change	130 and 137	3,581	100
Special Monthly Pensions	120 and 127	835	114
Accrued Benefits	165 and 167	130	98
Committee on Waivers and Compromises	293	17,567	446
Totals		242,471	1,666

In addition, we reviewed 1,666 electronic folders (e-folders) for completeness, and we reviewed SAO reports for FYs 2004 and 2005. We reviewed 100 percent of the C&P system messages provided by VBA for the review period.

Our assessment of internal controls focused only on those controls related to our audit objective of evaluating whether the PMCs were accurately and timely processing pension awards. Our assessment was not intended to form an opinion on the adequacy of VBA's internal controls overall; we do not render such an opinion. In all other aspects, the audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Results and Conclusions

Pension Claims Processing Needed Strengthening

Findings

Controls to monitor the accuracy and timeliness of processing pension claims needs strengthening. We determined controls over processing income adjustments and eligibility verifications at two of the three PMCs could be improved by standardizing procedures, improving monitoring, providing consistent training, and clarifying procedures for processing specialized awards. Improving these controls will increase the accuracy of payments made to veterans and/or beneficiaries, reduce overpayments that only serve to burden claimants who need to reimburse VA, and ensure all amounts due are paid timely. Based on audit tests, we estimated 7,570 (5.2 percent) of 146,463 beneficiaries received inaccurate awards totaling \$13.4 million. Of the \$13.4 million, beneficiaries received \$9.4 million in overpayments and \$4.0 million in underpayments. The net effect of overpayments and underpayments was \$5.4 million of overpayments. (See Appendix A, pages 15–17, for a detailed analysis of errors resulting in overpayments and underpayments.)

We also determined that improvement in accuracy and timeliness was needed for processing C&P system messages, and scanning and filing required documents into VVA.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004, requires managers to develop and maintain effective internal controls. Effective internal controls provide assurance that significant weaknesses in the design or operation of internal controls that could adversely affect the agency's ability to meet its objectives would be prevented or detected in a timely manner.

Beneficiary Income Adjustments Need to be Made in Accordance with VBA Policies. Our audit of 563 pension claims where beneficiaries reported either changes in income, medical expenses, the number of dependents, or other miscellaneous changes concluded that PMC employees made income adjustment or processing errors in 106 (19 percent) of the audited pension claims. Of the 106 income adjustment or processing errors, 60 of them resulted in overpayments or underpayments. The remaining 46 processing errors did not result in changes of monetary benefits. VBA policy provides that income may be adjusted periodically based on changes in income, marital and dependency status, allowable deductible expenses such as unreimbursed medical expenses paid by the beneficiary, and continuing medical expenses.³ Regional Office

³ VBA Manual 21-1, Part IV, *Authorization Issues*, Chapter 16, "Income and Net Worth," dated December 30, 2004.

Directors' performance appraisal plans established a target error rate of 13 percent in FY 2004 and a target error rate of 12 percent in FY 2005 for pension claims processing.

Table 2 that follows illustrates that errors exceeded VBA's 13 percent target error rate for the Improved Disability Pension program at the St. Paul and Philadelphia PMCs and the St. Paul PMC error rate exceeded the target rate for the Improved Death Pension program. PDIC program error rates exceeded standards at all three PMCs.

Table 2. Adjustment Processing by PMC and Pension Program

PMC and Pension Program	Number of Claims Processed Needing Improvement	Number of Claims Audited	Error Rate
St. Paul			
Improved Disability Pension	32	108	30%
Improved Death Pension	7	34	21%
PDIC	16	30	53%
Subtotal	55	172	32%
Philadelphia			
Improved Disability Pension	27	130	21%
Improved Death Pension	2	30	7%
PDIC	8	30	27%
Subtotal	37	190	19%
Milwaukee			
Improved Disability Pension	5	139	4%
Improved Death Pension	2	32	6%
PDIC	7	30	23%
Subtotal	14	201	7%
Totals	106	563	19%⁴

Our analysis disclosed that miscalculation of unreimbursed medical expenses, prospective medical expenses, and income resulted in 86 (81 percent) of the 106 errors. Table 3 on the following page summarizes the adjustments by category.

⁴ The error rate is not weighted; therefore, it does not reflect the size of the pension programs.

Table 3. Income Adjustments Needing Improvement by Category

Adjustment Category	PMC			
	Total	St. Paul	Philadelphia	Milwaukee
Unreimbursed Medical Expenses Inaccurately Calculated	39	17	18	4
Prospective Medical Expenses Incorrectly Projected	29	20	4	5
Income Incorrectly Calculated	18	6	8	4
Incorrect Effective Date Used	5	5		
Dependency Not Correctly Developed	3	2	1	
Incorrect End Product Code Used	3	2	1	
Policies Regarding Special Monthly Pension Improperly Applied	3	1	2	
Claimant Not Provided Due Process	3	1	1	1
Missing Signature on Award	2		2	
Report of Contact Incomplete	1	1		
Totals	106	55	37	14

St. Paul PMC. Our audit showed that improved accuracy was needed for 55 (32 percent) of 172 audited income adjustments. We attributed 25 (45 percent) of the 55 errors to staff following conflicting procedures that were incorrectly released without approval. For example, VBA policy states vitamins should not be allowed as a medical expense without a physician's prescription.⁵ We obtained an internal e-mail from a Supervisory Veterans Service Representative (VSR), dated April 28, 2005, stating that VSR's should "...accept vitamins as a medical expense without a doctor's prescription as long as they are reasonable." In December 2003, C&P Service issued a memorandum barring the partial allowance of Supplementary Medical Insurance Benefit (SMIB).⁶ We determined that some staff continued authorizing partial allowance of SMIB upon making income adjustments.

Philadelphia PMC. We determined that improved accuracy was needed for 37 (19 percent) of 190 audited income adjustments. Of these 37 income adjustment errors, 29 (78 percent) of the 37 errors could have been avoided by establishing a more comprehensive training program. Even though PMC managers provided training related to most aspects of pension maintenance in FYs 2004 and 2005, managers did not provide any training related to the proper calculation of medical expenses, use of the Social Security Administration's database to identify Medicare premiums, or the PDIC program. Increasing supervisory oversight could also reduce errors. There were eight instances where final award actions were taken prior to the complete development of claims: actual miles for claimed transportation costs were not obtained, the purpose of a claimed expense was not determined, the source of reported income was not identified, and the date income earned was not verified.

⁵ VBA Manual 21-1, Part IV, Authorization Issues, Chapter 16, Addendum A, dated December 15, 1995.

⁶ C&P Service Memorandum to the Regional Office Directors, dated December 5, 2003.

Milwaukee PMC. Income adjustment error rates at the Milwaukee PMC were the lowest of the three PMCs. Our audit showed that improved accuracy was needed for 14 (7 percent) of 201 audited income adjustments. For example, improvements were needed in calculating medical expenses and income and providing claimants with due process. We attributed 7 (50 percent) of the 14 errors to the infrequent processing of PDIC claims. Prior to our audit, the PMC manager recognized that infrequent processing of PDIC claims was an issue. As a result, he assigned select employees to process these claims in an attempt to improve accuracy. We did not identify a systemic reason for the remaining errors.

As a result of the 106 income adjustment or processing errors, we estimated inaccurate awards totaling \$6.8 million. Of the \$6.8 million, we determined beneficiaries received \$3.1 million in overpayments and \$3.7 million in underpayments. (See Appendix A, pages 15–17, for a detailed analysis of errors resulting in overpayments and underpayments.)

Improved Accuracy Needed for EVR Processing. Our audit showed improved accuracy was needed for the processing of 81 (23 percent) of 345 audited EVRs. As a condition to receive a pension, VA may require a beneficiary to provide evidence to support eligibility. VA uses EVRs for this purpose. An EVR is a form that is used to request income, net worth, dependency status, and any other information necessary to determine or verify entitlement to pension.⁷

Table 4 on the following page shows that EVR processing errors exceeded VBA's 13 percent target error rate for total pension claims processing at the St. Paul and Philadelphia PMCs; the St. Paul PMC error rate exceeded the target for the Improved Death Pension program. PDIC program error rates exceeded standards at all three PMCs.

⁷ *VBA Manual 21-1, Part IV, Authorization Issues*, Chapter 29, "Eligibility Verification Reports," dated December 19, 2005.

Table 4. EVR's Needing Improvement by PMC and Pension Program

PMC and Pension Program (Target goal 13%)	Number of EVRs with Errors	Number of EVRs Audited	EVR Processing Error Rate
St. Paul			
Improved Disability Pension	15	48	31%
Improved Death Pension	11	30	37%
PDIC	17	30	57%
Subtotal	43	108	40%
Philadelphia PMC			
Improved Disability Pension	11	64	17%
Improved Death Pension	2	30	7%
PDIC	12	30	40%
Subtotal	25	124	20%
Milwaukee PMC			
Improved Disability Pension	3	53	6%
Improved Death Pension	0	30	0%
PDIC	10	30	33%
Subtotal	13	113	12%
Totals	81	345	23%⁸

Our analysis disclosed that incomplete EVRs and incorrect calculation of income and expenses accounted for 57 (70 percent) of the 81 incorrectly processed EVRs. Table 5 that follows summarizes the errors by category.

Table 5. EVRs Needing Improvement by Category

EVR Error Category	PMC			
	Total	St. Paul	Philadelphia	Milwaukee
Incomplete EVR Processed	26	16	8	2
Income Incorrectly Calculated	16	11	3	2
Expenses Incorrectly Calculated	15	5	7	3
Dependency Improperly Developed	13	5	6	2
Incorrect Effective Date Used	3	2		1
Incorrect Signature on EVR	3	2		1
Policies Regarding Special Monthly Pension Incorrectly Applied	2	1		1
Incorrect End Product Code Used	1	1		
Missing Signature on Award	1		1	
Incorrect Net Worth Code	1			1
Totals	81	43	25	13

St. Paul PMC. Our audit revealed that improved accuracy was needed for 43 (40 percent) of 108 audited EVRs processed. Of these 43 EVRs, 24 (56 percent) of the 43 errors could have been mitigated by strengthening monitoring. For example, our review of documents that could have been used by PMC managers to monitor employee accuracy

⁸ The error rate is not weighted; therefore, it does not reflect the size of the pension programs.

disclosed these errors could have been identified and corrected if the PMC managers had reviewed these documents.

The remaining 19 errors were attributed to conflicting procedures. VBA policy specifies which EVR blocks can be left blank.⁹ In January 2002, C&P Service issued an e-mail allowing EVRs to be processed without all required information. As a result of this e-mail, awards were granted when amounts related to net worth, retirement income, interest income, and other Government benefits were not listed on the EVR. In December 2005, C&P Service reminded all employees that unless procedures are published in *VBA Manual 21-1*, the policies or procedures are not considered official.

Philadelphia PMC. We determined that improved accuracy was needed for 25 (20 percent) of 124 audited EVRs processed. We attributed 15 (60 percent) of the 25 EVR errors to the lack of a comprehensive training program. Twelve (80 percent) of the 15 errors were related to the PDIC program. Three (25 percent) of the errors arose from the incorrect calculation of Medicare premiums. The Philadelphia PMC had not provided any training related to either subjects during FYs 2004 or 2005.

We attributed 5 (19 percent) of the 26 EVR errors to processing EVRs with incomplete information. We identified 5 EVRs without income information. Also, 2 of those 5 EVRs did not have a report of net worth. We associated these errors with the conflicting procedures issued in January 2002 by C&P Service. We did not identify a systemic cause for the remaining five errors.

Milwaukee PMC. Of the 113 EVRs we reviewed, we determined 13 (12 percent) were incorrectly processed. We attributed 10 (77 percent) of the 13 errors to the infrequent processing of PDIC claims. We did not identify a systemic reason for the remaining three errors.

As a result of the 81 EVR errors, we estimated inaccurate awards totaling \$6.7 million. Of the \$6.7 million, we determined beneficiaries received \$6.3 million in overpayments and \$400,000 in underpayments. (See Appendix A, pages 15–17, for a detailed analysis of errors resulting in overpayments and underpayments.)

C&P System Messages Need to be Processed Timely. PMC managers need to improve the timely processing of C&P system messages. C&P system messages, or writeouts, are an important internal control that can help ensure the accuracy of benefit payments. When a change occurs to the C&P master record, an automatic audit is initiated by the system. If an error is identified, a writeout is generated, notifying the appropriate PMC that a “possible overpayment” or “possible underpayment” may exist. When a writeout is generated but not reviewed and cleared from the C&P master record, the audit error continues to regenerate until action is taken. Until system messages errors and the

⁹ *VBA Manual 21-1, Part IV, Authorization Issues*, Chapter 29, “Blocks on EVR Blank,” dated December 14, 1995.

underlying overpayments and possible underpayments are addressed, these errors could continue to place an undue financial hardship on the claimant.

We audited 5,250 writeouts generated from July 1, 2005, to December 23, 2005, with message codes 809 (underpayments) and 810 (overpayments). (We determined the 809 and 810 codes represented the highest risks to pension claims.) Of the 5,250 writeouts, 2,754 (52 percent) were regenerated after 30 days. These writeouts had an average outstanding time of 86 days.

We believe timeliness was an issue for the PMCs because they had no specific performance standards or procedures for processing writeouts. Table 6 that follows illustrates the number of average days outstanding by message code and PMC.

Table 6. Average Days Outstanding by PMC

PMC and Writeout Category	Total Reviewed	Average Days Outstanding	Minimum Days Outstanding	Maximum Days Outstanding	Median Days Outstanding
St. Paul					
Overpayment	115	88	33	135	84
Underpayment	581	87	31	135	84
Philadelphia					
Overpayment	172	89	31	135	84
Underpayment	1,376	90	31	149	92
Milwaukee					
Overpayment	67	75	31	135	69
Underpayment	443	84	31	135	84
Totals	2,754	86	31	149	86

We have initiated a separate audit to expand our coverage to determine whether VBA's C&P system messages are an effective internal control that ensures the accuracy of benefit payments.

Controls over Scanning and Filing Documents into VVA Need Strengthening. Our audit of 1,666 veterans' e-folders disclosed 263 (16 percent) of the e-folders were missing required documents. Specifically, we audited 603 e-folders at the St. Paul PMC, 572 at the Philadelphia PMC, and 491 at the Milwaukee PMC. VVA serves to replace the paper-based folders by imaging paper documents into e-folders. VBA policy specifies the documents and forms—generated or received as a result of VBA's eligibility verification process or in connection with income adjustments—are to be imaged into VVA.¹⁰ VVA is used in support of pension maintenance activities at all three PMCs.

Examples of missing documents include EVRs, C&P award actions, and notification letters. We attributed this to the lack of a reliable methodology to ensure necessary

¹⁰ *VBA Manual 21-IMR, Part V, Subpart iv, Chapter 1, "Imaging Documents for Virtual VA,"* dated March 22, 2004.

documents were imaged into VVA. Future award actions that require adjustments based on historical data and appellate actions cannot take place when documents are missing.

We also identified five instances, two at the St. Paul PMC and three at the Philadelphia PMC, where documents containing veterans' personal information—names, Social Security numbers, and addresses—were imaged into five other veterans' e-folders. As a result, five veterans' personal data are at risk of inappropriate disclosure. Under the Privacy Act, VA is responsible for establishing appropriate administrative, technical, and physical safeguards to ensure the security and confidentiality of records and to protect against any anticipated threats or hazards to their security or integrity which could result in substantial harm, embarrassment, inconvenience, or unfairness to any individual on whom information is maintained.¹¹

Observation: Consistency of Debt Waiver Decisions Needs Improvement. In some instances, Committee on Waivers and Compromises (COWC) members were making inconsistent decisions when dealing with similar facts. VA has the authority to waive recovery of erroneous pension payments. A single standard of equity and good conscience is used to determine whether collection of a debt should be waived.¹² Each PMC established a COWC for this purpose.

At one site, a COWC member determined the veteran was at fault for failure to report Social Security income. Pension debt of \$56,129 was waived because the veteran's expenses exceeded his income. In a comparable case (a veteran failed to report Social Security income and the veteran's expenses exceeded his income), another COWC member did not waive the \$31,772 debt because he believed it would be unjust enrichment for the veteran to retain the benefit. We also identified instances where the same COWC member made inconsistent decisions when faced with similar facts.

We identified 257 (58 percent) of 446 instances where similar facts were present and inconsistent decisions were made. The VA OIG previously reported this condition in February 1997.¹³

¹¹ 5 U.S.C. Section 552a.

¹² 38 U.S.C. Section 5302.

¹³ This issue is discussed in *Review of Waiver Decisions for C&P Debts* (Report No. 7R1-B01-047, dated February 21, 1997).

Table 7 that follows illustrates inconsistencies in waiver decisions by PMC.

Table 7. Inconsistent Waiver Decisions by PMC

PMC	Waivers Granted with Similar Facts	Waivers Denied with Similar Facts	Total Waivers Reviewed
St. Paul	33	29	98
Philadelphia	73	25	171
Milwaukee	39	58	177
Totals	145	112	446

Because decisions were made in accordance with the “equity and good conscience” standard, we made no recommendation.¹⁴ However, PMC managers should be aware of the waiver decision inconsistencies.

Conclusion

We concluded that VBA needs to strengthen key controls over pension claims processing at the three PMCs. We determined controls over processing income adjustments and eligibility verifications at two of the three PMCs needs strengthening due to the need to standardize procedures, improve monitoring, provide sufficient training, and the infrequent processing of specialized awards. Using a 95 percent confidence level, we estimated 7,570 (5.2 percent) of 146,463 beneficiaries received inaccurate awards totaling \$13.4 million. Of the \$13.4 million, beneficiaries received \$9.4 million in overpayments and \$4.0 million in underpayments.

We also determined that improvement in accuracy and timeliness was needed for processing C&P system messages, scanning and filing required documents into VVA.

Recommendations. To address the issues pertaining to the accuracy and timely processing of pension claims, we recommended the Under Secretary for Benefits:

1. Ensure PMCs use standardized procedures among the PMCs for processing income adjustments and EVRs.
2. Develop and implement standardized monitoring procedures among the PMCs to ensure pension processing accuracy rates reflect actual processing performance.
3. Ensure standardized training among the three centers is provided to all PMC employees responsible for processing pension claims. For income adjustments, emphasis should be placed on the calculation of unreimbursed medical expenses, prospective medical expenses, and income calculation. For EVRs, emphasis should be placed on income and expense calculation, dependency development, and required EVR elements.

¹⁴ 38 C.F.R. Section 1.965.

4. Develop procedures to reduce errors associated with the infrequent processing of specialized awards.
5. Develop and implement procedures to more timely process C&P system messages associated with pension maintenance activities.
6. Develop procedures to ensure veterans' e-folders contain the required documents and ensure e-folders contain veteran-specific documents.

The Under Secretary for Benefits agreed with the recommendations. The Under Secretary reported VBA is standardizing training, designating quality review coordinators to be responsible for quality improvement oversight, developing a refresher training curriculum to help reduce errors associated with infrequent processing of specialized awards, conducting tests of an electronic application that stores and sorts write-outs by frequency, claim number, terminal digit, and improving controls over e-folder documentation. The Under Secretary also reported that all improvement actions would be completed by September 2007. The improvement actions are acceptable, and we will follow up on the completion of planned actions.

While agreeing with our recommendations, the Under Secretary qualified that a distinction should be made between errors resulting in an inaccurate monetary benefit amount compared with errors not affecting monetary benefit amounts. We agree with the Under Secretary's comment that a distinction should be made between the two types of errors, and we have made this distinction throughout the report. (This distinction is first made on page 4.) Our audit of 563 pension claims where beneficiaries reported either changes in income, medical expenses, the number of dependents, or other miscellaneous changes concluded that PMC employees made income adjustment or processing errors in 106 (19 percent) of the audited pension claims.

The report points out that 60 of the 106 income adjustment or processing errors resulted in either overpayments or underpayments. This represents 11 percent of the pension claims audited and does not clearly represent the extent of the control weakness. The remaining 46 processing errors did not result in a change of monetary benefits. (See Appendix A, pages 15–17, for a detailed analysis of errors resulting in overpayments and underpayments.)

He also reported VBA does not have specific accuracy targets for income adjustments or EVRs. While we do not comment on management's decision to set accuracy targets, our audit revealed that improved accuracy was needed. For example, at the St. Paul PMC our audit showed that improved accuracy was needed for 55 (32 percent) of 172 audited income adjustments and improvement was needed for 43 (40 percent) of 108 audited EVRs processed. Standardizing procedures among the PMCs for processing income

adjustments, EVRs, and monitoring employee accuracy rates would serve to improve the accuracy and timeliness of processing pension claims.

Sampling Methodology and Estimates

Sampling Methodology

To determine whether PMCs processed income adjustments and EVRs accurately and timely, we used VBA's C&P Work-In-Progress and Master Record databases to identify the population and sample. VBA provided the OIG a weekly copy of the Work-In-Progress database and a quarterly copy of the C&P Master Record database.

Population

The population consisted of 220,358 claims submitted by 146,463 beneficiaries processed by the 3 PMCs from January 1, 2004, to June 30, 2005. The 220,358 excludes claims with monthly payments less than \$200 for income adjustments, claims processed under a closed pension program, and original pension claims processed by Regional Offices,

Sampling Design

We used a random sampling design that included nine strata. The stratum was based on the Improved Disability Pension, Improved Death Pension, and PDIC at the three PMCs. Table 8 that follows illustrates the stratified sample size.

Table 8. Sample Size by Stratification

PMC	Strata	Number of Claims	Claim Sample Size
Philadelphia	Improved Disability Pension	57,055	194
	Improved Death Pension	32,017	60
	PDIC	1,254	60
	Subtotal	90,326	314
Milwaukee	Improved Disability Pension	47,695	192
	Improved Death Pension	24,792	62
	PDIC	867	60
	Subtotal	73,354	314
St. Paul	Improved Disability Pension	38,980	160
	Improved Death Pension	16,960	60
	PDIC	738	60
	Subtotal	56,678	280
Totals		220,358	908

Appendix A

Table 9 that follows illustrates the sample size and population size by sample unit.

Table 9. Sample Size by Type of Claim

Type of Claim	End Product Work Codes	Number of Beneficiaries	Number of Claims	Claim Sample Size
Income Adjustments-Income Change	150 and 157	58,589	78,821	563
Eligibility Verification Reports	050 and 155	98,271	141,537	345
Adjustment to Eliminate Beneficiaries with More Than One Claim		(10,397)		
Totals		146,463	220,358	908

Estimation Methodology

We used the Department of Health and Human Services (HHS) OIG's RAT-STATS computer software to perform our statistical analysis.¹⁵

Our estimation of \$13.4 million resulted from adding the estimates for overpayments and underpayments for income adjustments and EVR errors. Our estimation of 7,570 beneficiaries resulted from adding the estimated number of beneficiaries processed with income adjustment and processing errors and the estimated number of beneficiaries processed with EVR errors (4,784 beneficiaries with income adjustment errors plus 2,786 beneficiaries with EVR errors). Table 10 that follows illustrates the total estimate.

Table 10. Calculation of Inaccurate Awards

Category	Estimated Overpayments and Underpayments	Totals
Overpayments-Income Adjustments	\$3,136,212	
Overpayments-EVRs	6,302,496	
Total Estimate of Overpayments		\$ 9,438,708
Underpayments-Income Adjustments	3,657,120	
Underpayments-EVRs	356,844	
Total Estimate of Underpayments		<u>4,013,964</u>
Total Estimate of Inaccurate Awards		\$13,452,672

Income Adjustment Estimate. We identified 106 income adjustment or processing errors, of which 60 resulted in either overpayments or underpayments. As a result, we estimated annual overpayments of \$3.1 million and annual underpayments of \$3.7 million. The sub-population for income adjustments was 78,821 claims. The total sample size for the

¹⁵ RAT-STATS is a package of statistical software tools designed to assist the user in selecting random samples and evaluating the audit results. It has been used by the HHS OIG since the early 1970s.

Appendix A

audit of income adjustments was 563. For monetary estimates we used a 95 percent confidence level. Table 11 that follows reflects the income adjustment estimates.

Table 11. Income Adjustment Estimates

Category	Number of Beneficiaries	Projections (Annual Point Estimates)	Precision (95% Confidence)	
			Lower Limit	Upper Limit
Underpayments	1,485	\$3.7 million	\$ 0	\$7.7 million
Overpayments	3,299	\$3.1 million	\$0.7 million	\$5.6 million
Totals	4,784	\$6.8 million		

EVR Estimate. We identified 81 EVR errors, 11 of them resulted in either overpayments or underpayments. As a result, we estimated annual overpayments totaling \$6.3 million and annual underpayments totaling \$.4 million. The sub-population for EVRs consisted of 141,537 claims. The total sample size for the audit of EVRs was 345. For monetary estimates we used a 95 percent confidence level. Table 12 that follows reflects the EVR estimates.

Table 12. EVR Estimates

Category	Number of Beneficiaries	Projections (Annual Point Estimates)	Precision (95% Confidence)	
			Lower Limit	Upper Limit
Underpayments	763	\$0.4 million	\$ 0	\$ 0.8 million
Overpayments	2,023	\$6.3 million	\$ 0	\$18.2 million
Totals	2,786	\$6.7 million		

Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendation</u>	<u>Explanation of Benefit(s)</u>	<u>Questioned Costs</u>
1a	Estimated \$9.4 million in overpayments less \$4.0 million in underpayments resulting from incorrect processing of income adjustments and EVRs at three PMCs.	\$5.4 million

Under Secretary for Benefits Comments

**Department of
Veterans Affairs**

Memorandum

Date: December 22, 2006

From: Under Secretary for Benefits (20)

Subject: **Audit of Veterans Benefits Administration's Pension
Program Administered by the Pension Maintenance
Centers**

To: Assistant Inspector General for Auditing (52)

1. This is in response to your request for VBA's review of OIG Revised Draft Report: Audit of Veterans Benefits Administration's Pension Maintenance Program Administered by the Pension Maintenance Centers. Attached are VBA's comments addressing the OIG findings.
2. VBA concurs with the recommendations in the revised draft report.
3. Questions may be referred to Dee Fielding, VBA's OIG Liaison, at 273-7018.

(original signed by:)

Daniel L. Cooper

Attachment

VBA COMMENTS TO OIG DRAFT REPORT

Audit of Veterans Benefits Administration's Pension Maintenance Program Administered by the Pension Maintenance Centers

The Veterans Benefits Administration has implemented process changes and enhanced training programs at the Pension Maintenance Centers subsequent to the period covered by the audit that have significantly improved performance. For example, accuracy of claims processed by the PMCs increased from 80.7 percent for the period January 1, 2004 through June 30, 2005 to 90.5 percent for the period January 1 through May 31, 2006. In particular, processing of income adjustments improved from 84 percent to 91.8 percent (4 errors in 49 reviewed) and the processing of Eligibility Verification Reports (EVRs) improved from 76.4 percent to 90.7 percent (6 errors in 65 reviewed). This response details the improvement steps implemented by VBA subsequent to the period covered by the audit, including those most recently instituted in response to the OIG audit findings. All improvement efforts are being tracked and monitored for completeness and positive results.

We offer the following comments on specific statements in the draft report:

Page 4, under Beneficiary Income Adjustments Need to Be Made in Accordance with VBA Policies: "...concluded that PMC employees incorrectly adjusted income for 106 (19 percent) of the audited pension claims."

This statement leads the reader to incorrectly conclude that all 106 errors affected the amount of benefits received by the beneficiaries. However, according to the appendix, page 15, from the 107 [sic] identified income adjustment errors, only 60 resulted in either overpayments or underpayments. The processing errors in the other 47 transactions did not result in a change of monetary benefits. Therefore, out of the sample of 563, only 11 percent of the audited claims resulted in incorrect payments to beneficiaries. We believe this is an important distinction that needs to be made clear in this section.

Pages 4 & 5, under Beneficiary Income Adjustments Need to Be Made in Accordance with VBA Policies: "Regional Office Directors' performance appraisal plans established a target error rate of 13 percent in FY 2004 and a target error rate of 12 percent in FY 2005 for pension claims processing. While we do not comment on management's decision to set these targets, the table that follows illustrates that errors exceeded VBA's 13 percent target error rate for the Improved Disability Pension program..."

There are no specific accuracy targets for income adjustments or EVRs. VBA's pension processing accuracy target also includes other types of pension

Appendix C

processing transactions not covered in the OIG's review. The overall pension processing accuracy target for FY 2004 was 87 percent, which increased to 88 percent in FY 2005. The current overall pension processing accuracy target is 90 percent.

Page 6, under St. Paul PMC: "Our review of the quality assessments used by supervisors to monitor employee performance showed a disparity between local quality reviews and data maintained in the Benefits Delivery Network (BDN)."

VBA disagrees with using award authorization data from the Benefits Delivery Network (BDN) to measure local accuracy. An authorizer may return a case for a number of reasons besides processing errors. Cases can be returned at the request of an employee, because of processing cycle issues, to add a COLA line, etc. For this reason, VBA has never viewed authorization data from BDN as a gauge of an individual's work.

Page 7, under Improved Accuracy Needed for EVR Processing: "Our audit showed improved accuracy was needed for the processing of 81 (23 percent) of 345 audited EVRs."

Here again the report fails to distinguish between payment errors and errors that are clerical or technical in nature. According to the OIG appendix, page 16, from the 84 [sic] identified EVR errors, only 12 resulted in either overpayments or underpayments. The other 72 transactions that OIG considered erroneous did not affect payments. Therefore, out of a sample size of 345, we believe the report should emphasize that only 3 percent resulted in inaccurate payments to beneficiaries.

VBA Comments on Recommended Improvement Actions

Recommendation 1: Ensure PMCs use standardized procedures among the PMCs for processing income adjustments and EVRs.

VBA concurs. Standardized training has been implemented. The manual re-write of the pension chapters is underway, with C&P Service soliciting input to the drafts from PMC staff. This re-write will further clarify processing procedures and reduce ambiguity, thereby minimizing areas needing additional local guidance. C&P Service released Part V, Subpart iii, Chapter 7, *Eligibility Verification Reports*, on October 31, 2006. M21-1 Part IV, Chapter 16 on income and net worth will be completed and released by December 31, 2006.

Recommendation 2: Develop and implement standardized monitoring procedures among the PMCs to ensure pension processing accuracy rates reflect actual processing performance.

VBA concurs. Each PMC has designated quality review coordinators responsible for quality improvement oversight. These coordinators monitor all quality issues, such as training, mentoring, overseeing the 31-case stratified sample review, coordinating the monthly quality reviews for performance evaluations, and monitoring local and national Systematic Technical Accuracy Review (STAR) findings. These individuals also work closely with the other two PMC quality coordinators, as well as the C&P STAR staff, and keep station management apprised of all efforts. The PMCs implemented this position in March 2006. There are three levels of quality checks performed at each PMC; local employee quality, local station quality, and national STAR quality review. VBA requests closure of this recommendation, which was implemented in March 2006.

Recommendation 3: Ensure standardized training among the three centers is provided to all three PMC employees responsible for processing pension claims. For income adjustments, emphasis should be place on the calculation of unreimbursed medical expenses, prospective medical expenses, and income calculation. For EVRs, emphasis should be placed on income and expense calculation, dependency development, and required EVR elements.

VBA concurs. A national standardized training program for new PMC employees was released to the field in March 2006. A refresher training curriculum was developed by the C&P Service and became available via the C&P training website on September 29, 2006. Topics include income adjustments based on claims for unreimbursed medical expenses, write-out procedures, and parent's DIC procedures. The Philadelphia Insurance Center conducted public contact team training at the Milwaukee and St. Paul PMCs in April and May 2006. VBA requests closure of this recommendation, which was implemented by September 2006.

Recommendation 4: Develop procedures to reduce errors associated with the infrequent processing of specialized awards.

VBA concurs. A refresher training curriculum was developed by the C&P Service and became available via the C&P training website on September 29, 2006. Topics include income adjustments based on claims for un-reimbursed medical expenses, write-out procedures, and parent's DIC procedures.

The C&P Service Procedures Staff, in collaboration with the PMCs, developed eight new job aids and posted them on the C&P Service training website. These job aids cover topics such as dependency, Income Verification Match (IVM) for pension, IVM for individual unemployability, apportionments, Section 306 and Old Law Pension, hospitalization, incarceration, and incompetency. VBA requests closure of this recommendation, which was implemented in September 2006.

Recommendation 5: Develop and implement procedures to more timely process C&P system messages associated with pension maintenance activities.

VBA concurs. Technical staffs from the C&P Service and the Philadelphia Insurance Center are testing an electronic application that stores and sorts write-outs by frequency, claim number, terminal digit, etc. This application is being developed in Philadelphia, and we expect rollout to all PMCs by September 2007. Future enhancements to the application will allow all regional offices to manage write-outs in an electronic environment.

Recommendation 6: Develop procedures to ensure veterans' e-folders contain the required documents and ensure e-folders contain veteran-specific documents.

VBA concurs. We have implemented the following measures to ensure accurate electronic filing:

- In May 2006, standard operating procedures were implemented based on industry best practices for the Capture (i.e. scanning) Units.
- Automatic imports (uploads) to Virtual-VA (VVA) were increased. Automatic uploads include BDN letter inserts, certain QTC documents, and PCGL bar-coded letters. Bar-coded letters can be scanned and then stored directly in VVA. Reports of contact can be created and automatically stored in VVA, as well as SHARE SSA screens.
- A new enhancement to VVA was introduced to facilitate scanning and indexing.

Appendix C

- PMCs now review three prepping batches and ten indexing documents per employee per month. Completed cases are reviewed to ensure all actions were forwarded to the Capture Unit and properly indexed.
- National production standards for scanners and indexers were established in July 2005.

Based on the above actions, VBA requests closure of this recommendation, which was implemented in July 2006.

OIG Contact and Staff Acknowledgments

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	Karen C. Chambers
	Christina J. Surber

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