VA Office of Inspector General

OFFICE OF AUDITS & EVALUATIONS

Department of Veterans Affairs

Audit of VA's Implementation of Executive Order 13520, "Reducing Improper Payments"

August 12, 2011
10-02892-251

ACRONYMS AND ABBREVIATIONS

CHAMPVA	Civilian Health and Medical Program of the Department of Veterans Affairs
C&P	Compensation and Pension
FAO	Financial Assistance Office
IPIA	Improper Payments Information Act
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
STAR	Systematic Technical Accuracy Review
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration

Report Highlights: Audit of VA's Implementation of Executive Order 13520, "Reducing Improper Payments"

Why We Did This Audit

On November 23, 2009, President Barack H. Obama signed Executive Order 13520 in the interest of reducing payment errors and eliminating waste, fraud, and abuse in Federal programs. To evaluate VA's implementation of Executive Order 13520, we determined if VA's *FY 2010 First Quarter High-Dollar Overpayments Report* was complete and the process to identify susceptible programs was adequate.

What We Found

VA's *FY 2010 First Quarter High Dollar Overpayments Report*, that listed 101 high-dollar overpayments, was incomplete primarily because Veterans Benefits Administration (VBA) misinterpreted reporting guidance. We identified 143 high-dollar overpayments totaling $623,434 that VBA did not report. VBA also did not adequately consider including an additional 39,208 potential high-dollar overpayments totaling $213 million.

VBA made adjustments after the first quarter to improve the compliance with reporting guidance; however, VBA's process still did not fully follow guidance for identifying the high-dollar overpayments. We determined that the 39,208 overpayments met some of the criteria used in determining reportable high-dollar overpayments; however, VBA did not gather and analyze additional information to determine which overpayments met all of the criteria and should have been reported.

Veterans Health Administration's (VHA) FY 2009 risk assessment did not adequately assess the level of risk associated with their programs. VHA relied upon a self-assessment process that consisted of a checklist; however, the process did not adequately address all payment components.

What We Recommended

We recommended the VA Secretary direct the Under Secretary for Benefits to report prior period overpayments and administrative errors as required. Further, the VA Secretary should direct the Under Secretary for Health to implement planned improvements to risk assessments. We did not make recommendations where VA made improvements during our audit.

Agency Comments

The VA Chief of Staff agreed with our conclusions and recommendations and provided an acceptable implementation plan for the recommendations. Appendix B contains the full text of the VA's comments.

Belinda J. Finn

BELINDA J. FINN
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

Objectives

The audit determined whether VA implemented Executive Order 13520, "*Reducing Improper Payments"* effectively. Specifically, we determined whether VA reported all identified high-dollar overpayments in the *FY 2010 First Quarter High-Dollar Overpayments Report* and whether VA's process to identify susceptible programs was adequate.

Improper Payments Information Act of 2002

The Improper Payments Information Act of 2002 (IPIA) required VA to perform a risk assessment of programs to determine if they are susceptible to significant improper payments. Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, provided requirements for implementing IPIA. OMB defined susceptible programs as programs with annual improper payments exceeding both 2.5 percent of program payments and $10 million. VA identifies susceptible programs in the Performance and Accountability Report (PAR).

VA reported five programs in the FY 2009 PAR as susceptible: Compensation, Pension, Education, Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA), and Non-VA Fee Care. In the FY 2010 PAR, VA added a sixth program (Insurance). Although the Insurance and Compensation Programs did not meet the reporting threshold for significant improper payments, OMB directed Veterans Benefits Administration's (VBA) to report on these payments in the PAR because the total value makes them susceptible programs.

Executive Order 13520

In November 2009, President Barack H. Obama signed Executive Order 13520 with the purpose of reducing improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in major Federal programs. OMB Circular A-123, Appendix C, Part III provided requirements for implementing Executive Order 13520. In part, Executive Order 13520 required VA to report high-dollar overpayments quarterly for programs identified as susceptible by the IPIA. OMB defined a high-dollar overpayment as a single payment or cumulative payments for the quarter over $5,000 for an individual or $25,000 for an entity where the amount of overpayment exceeded 50 percent of the correct amount.

VA submitted the *FY 2010 First Quarter High-Dollar Overpayments Report* to the Inspector General on June 2, 2010. It listed 101 high-dollar overpayments from five susceptible programs reported in the FY 2009 PAR with total overpayments over $1.1 million. Of the 101 high-dollar overpayments reported, the VBA programs reported 67 overpayments while Veterans Health Administration (VHA) reported 34 overpayments.

RESULTS AND RECOMMENDATIONS

Finding 1 VBA's Process to Report High-Dollar Overpayments Needs Improvement

VBA did not have an adequate process to ensure compliance with Executive Order 13520 reporting requirements. We identified 143 additional high-dollar overpayments totaling $623,434 that VBA did not report to VA for inclusion in the *FY 2010 First Quarter High-Dollar Overpayments Report*. In addition, VBA's process for identifying the high-dollar overpayments shown in the report did not adequately consider including an additional 39,208 potential high-dollar overpayments totaling $213 million. We determined that these 39,208 overpayments met some of the criteria used in determining reportable high-dollar overpayments. VBA did not request sufficient information or conduct analysis to determine which overpayments met all of the criteria and should have been reported.

This occurred because VA misinterpreted OMB's guidance on determining high-dollar overpayments. VBA did not apply high-dollar thresholds accurately, report prior period overpayments identified in the first quarter, report overpayments caused by administrative errors, or report overpayments when documentation was insufficient to determine if high-dollar thresholds were met. Reducing improper payments increases the effectiveness of VA programs to provide services and benefits to veterans. Without an adequate process to identify and report high-dollar overpayments, VA cannot fully comply with Executive Order 13520 to reduce and collect improper payments.

VBA's Process for Identifying and Reporting High-Dollar Overpayments

To identify high-dollar overpayments, the VA's Debt Management Center provided VBA a list of all accounts receivable (receivables) created during the first quarter of FY 2010 that were greater than $5,000. A receivable represents an overpayment to a veteran that needs to be paid back. VBA compared this list with a list of first quarter benefit payments to veterans. If the total payments made in the quarter were less than $5,000, VBA did not include the overpayment on the report. The Education Service and the Compensation and Pension (C&P) Service reviewed the remaining receivables and excluded any overpayments that occurred prior to the reporting quarter or did not meet high-dollar guidance. The remaining overpayments were included on the *FY 2010 First Quarter High-Dollar Overpayments Report*.

VBA Process Did Not Include All Overpayments

VBA reported 67 high-dollar overpayments in the VA's *FY 2010 First Quarter High-Dollar Overpayments Report*, but did not report an additional

143 high-dollar overpayments—128 Education Service overpayments and 15 C&P Service overpayments. Specifically:

- Education Service excluded 128 overpayments because the improper payment (overpaid amount) of $3,000 was less than the $5,000 threshold. OMB's criteria states that the $5,000 threshold applies to total payment, not the improper payment. In all 128 cases, the total payment was more than $5,000 and met the additional OMB requirement that overpayment be more than 50 percent of the correct amount.

- C&P Service excluded 15 overpayments from reporting because the reason for the overpayment could not be determined. All 15 overpayments were greater than $5,000 and identified during the first quarter of FY 2010. An OMB official in the Office of Federal Financial Management responsible for the government-wide implementation of the Executive Order 13520 stated that VA should report all overpayments identified during the quarter where VA did not have enough information to determine if the overpayment met all of OMB's criteria.

VBA noted that OMB's guidance was not always clear, but agreed that they had misapplied the reportable overpayment threshold for the first quarter report. VBA officials said they made corrections in time for the third quarter report. Additionally, during the second quarter, VBA said they began including overpayments where the reason of overpayment could not be determined. We will review the implementation of these corrective actions in future Office of Inspector General (OIG) reviews of high-dollar overpayments.

VBA's Process Did Not Adequately Consider All Overpayments

VBA did not adequately consider including 39,208 potential high-dollar overpayments totaling $213 million in the report. We determined that these 39,208 overpayments met some of the criteria in determining high-dollar overpayments. However, VBA needed to gather and analyze additional information to identify the quarter when overpayments occurred and determine if the $5,000 total payment and 50 percent improper payment criteria were met. Specifically, VBA incorrectly omitted the following items from reporting.

- **Some Receivables Less Than $5,000 Meet Reporting Criteria.** The VBA Office of Resource Management excluded 30,993 receivables because they requested only receivables greater than $5,000 from the Debt Management Center. OMB guidance identifies a high-dollar overpayment as an improper payment that exceeds the correct payment by 50 percent and the total payments exceed $5,000. For example, if a veteran is entitled to a monthly payment of $3,333 but the VA incorrectly pays the veteran $5,000, the veteran was overpaid $1,667 or 50.1 percent of the correct amount. We identified 30,993 receivables between $1,667 and $5,000 that VBA did not consider for inclusion in the first quarter report.

- **Prior Period Overpayments Identified in the First Quarter.** The Office of Resource Management excluded 8,104 receivables because the overpayments were made prior to the FY 2010 first quarter. OMB Circular A-123 states that the report shall list all high-dollar overpayments identified by the agency during the quarter. An OMB official confirmed this by stating that programs were to report high-dollar overpayments identified in the quarter regardless of when the overpayment occurred.

- **Overpayments Caused by Administrative Errors.** C&P Service excluded at least 111 administrative errors because they misinterpreted OMB's guidance. An administrative error occurs because of a VBA decision. A veteran is not asked to repay the resulting overpayments from an administrative error; therefore, a receivable is not established. However, OMB's guidance states that an improper payment is any payment that should not have been made or that was made in an incorrect amount. Each month, the Systematic Technical Accuracy Review (STAR) evaluates a statistical sample of about 1 to 2 percent of C&P decisions that occur nationwide. In the first quarter FY 2010, STAR reviews found 80 administrative errors with improper payments over $1,667 that VBA did not consider including in the high-dollar overpayment report. In addition, we contacted three regional offices to determine if administrative errors are identified and reported as high-dollar payments through local reviews. St. Petersburg Regional Office identified 31 administrative errors while Denver and Salt Lake City did not track administrative errors.

VBA agreed receivables less than $5,000 should be considered and said they revised their methodology for the third quarter report. Therefore, we did not make a recommendation. However, VBA had concerns about their ability to report prior quarters and administrative errors. VBA stated the Benefits Delivery Network and Veterans Services Network databases did not track information necessary for data matching techniques to report prior quarter and administrative errors. These limitations would require case-by-case reviews significantly increasing required resources to comply with OMB guidance. VBA needs to follow OMB's guidance and report all high-dollar overpayments found in the reporting quarter regardless of when it occurred.

Conclusion

VA's methodology did not report all high-dollar overpayments to ensure compliance with Executive Order 13520 reporting requirements. Although VA adjusted their process since issuing the first high-dollar overpayments report on June 2, 2010, VA needs to consider prior period overpayments and administrative errors in reporting high-dollar overpayments. Reducing improper payments increases the effectiveness of VA programs to provide services and benefits to veterans. VA needs to ensure that VBA applies OMB thresholds and guidance in a consistent manner.

Recommendations

1. We recommended the VA Secretary direct the Under Secretary for Benefits report prior period high-dollar overpayments that meet Office of Management and Budget's definition of high-dollar overpayments.

2. We recommended the VA Secretary direct the Under Secretary for Benefits report improper payments that result from administrative errors that meet Office of Management and Budget's definition of high-dollar overpayments.

Management Comments and

VA Chief of Staff generally agreed with our conclusions and provided acceptable implementation plans to our recommendations. Based on actions taken by VBA, we consider recommendation 2 closed. We will monitor VBA's progress and follow up on their implementation of recommendation 1 until all proposed actions are completed. Appendix B contains the full text of the Chief of Staff's comments. The Chief of Staff provided additional comments on the content of our report.

Management Comment: VA Chief of Staff requested the report acknowledge that the Insurance, Compensation, and Pension Services did not meet the significant erroneous payments reporting threshold set by OMB.

OIG Response: We acknowledged that the Insurance and Compensation Services did not meet the significant erroneous payments reporting threshold set by OMB in the Introduction Section of the report. According to the FY 2010 PAR, Pension Service did meet the reporting thresholds.

Management Comment: VA Chief of Staff commented that a vast majority of education, compensation and pension payments are proper based on the information available to VBA at the time payments were made. These types of overpayments occur because VBA must rely on third parties to promptly report changes in eligibility status. In the case of Education Service, a majority of the overpayments occurred because tuition and fees are paid up-front and the student withdraws after payment.

OIG Response: OMB directed VBA to report the overpayments when the recipient was ineligible at the time of payment regardless of what information was available. As noted by VA Chief of Staff, OMB stated that VBA does not have to report payments that became improper based on a future event. We did not reference these Education Service overpayments in our report.

Finding 2 VHA's Susceptible Program Assessment Needs Improvement

VHA did not adequately assess program susceptibility to improper payments in FY 2009 as required by the IPIA. Program personnel used a self-assessed checklist that did not address all aspects of the payment cycle. In addition, improper payment rates found in independent OIG audits differed significantly from the program assessment results. This occurred because VHA did not make needed improvements to the risk assessment process identified by the Financial Assistance Office (FAO). More VHA programs may be susceptible to significant improper payments than reported. Without accurate reporting, susceptible programs continue to be at risk for significant improper payments.

Risk Assessments Need Improvement

For FY 2009, VHA's risk assessments of 22 programs with total outlays of over $17 billion found only 1 with significant improper payments (improper payments exceeding both 2.5 percent of program payments and $10 million). However, OIG audits found and reported significantly higher improper payment rates in two of the programs. Further, two VHA internal reviews by FAO found results from annual risk assessments were not valid and facilities needed a better assessment tool for determining whether programs had significant improper payments.

OIG Reviews

OIG audit results for the Non-VA Fee Care Program and the Patient Transportation Program differed significantly from VHA's self-assessments. VHA found improper payment rates of approximately 1 percent for each program.

- In FY 2009, OIG's *Audit of Non-VA Outpatient Fee Care Program* (Report 08-2901-185) estimated $225 million in improper payments due to weaknesses in payment processes. Our estimation equaled an improper payment rate within the Non-VA Fee Care Program of 17 percent. In FY 2010, OIG's *Audit of Non-VA Inpatient Fee Care Program* (Report 09-03408-227) estimated $120 million in improper payments because VHA's policies did not provide adequate guidance, staff did not have accurate and timely information, and sufficient controls were not in place to detect clerical errors.

- In FY 2010, OIG's *Audit of Oversight of Patient Transportation Contracts* (Report 09-01958-155) reviewed $520 million of patient transportation contracts and found improper payments estimating $18.4 million or 3.5 percent of the contract outlays. The improper payments occurred because VHA needed to strengthen controls and oversight of patient transportation service contracts.

Due to the significant variance in risk assessment results, VHA reported the OIG's results of the FY 2009 *Audit of Non-VA Inpatient Fee Care Program* in the PAR with a footnote stating that VHA "will improve future error measurements to more accurately identify proper payments in the Fee program." In the FY 2010 PAR, VHA estimated a 14 percent improper payment rate for the Non-VA Care Fee Program.

FAO's Internal Reviews

FAO serves as the principal advisor to the VHA financial community by providing oversight through reviews, audits, and assessments designed to improve national program fiscal performance and compliance with fiscal policy and Federal accounting regulations. During 2009, FAO conducted two internal reviews with findings that differed significantly from the results of VHA's risk assessments.

FAO conducted one review to learn ways to improve the risk assessment process for FY 2009. In the *IPIA Quality Improvement Research White Paper*, dated February 3, 2009, FAO noted the following issues with the risk assessment process:

- Checklists were not appropriate because they did not adequately lead field station personnel to verify compliance in each component of the payment. For example, one of the questions on the checklist was "Payment made for goods or services not received?" However, the checklist did not verify the proper certification of the receipt of goods or services. Proper certification may be the only available evidence to reviewers of receiving goods or services.

- Risk assessments were performed without consideration of known risks in VHA's overall internal control environment.

- Personnel who performed the self-assessments lacked objectivity. FAO auditors stated the assessments resulted in extremely low error rates that did not reconcile with findings reported by independent audits.

In another review *(Follow-up to Fiscal Year 2008 Improper Payment Information Act Risk Assessment*, May 6, 2009), FAO conducted a review on the quality of supporting documentation. FAO requested supporting documentation for 235 claims; medical facilities provided documentation for 175 (74 percent) claims. FAO's follow-up review of the 175 claims with supporting documentation found that claims were not adequately assessed for improper payment determination and concluded that risk assessment results were not valid.

For example, for the:

- Non-VA Fee Care program, VHA's risk assessment found the improper payment rate was 1.28 percent in 2008. However, FAO reviewed 16 claims and found:

  - ➢ Accuracy of the medical coding on the bill was checked for only one payment.
  - ➢ Authorization or referral was missing in most of the payments, and in one case, the referring provider was blank.
  - ➢ Documentation to verify that services were actually provided was found in only 2 (13 percent) of the 16 claims.

- Pharmacy program, VHA's risk assessment found the improper payment rate was less than 1 percent (.22 percent) in 2008. However, FAO's review found no documentation to show that goods were received for many cases.

Our audit reviewed the assessment process and did not verify the accuracy of program risk assessments. However, significant variances in the results of OIG audits compared to VHA assessments, and FAO's findings on the inadequacies of the risk assessment process showed that the self-reporting risk assessment process did not accurately reflect correct program risk levels. VHA needs to improve risk assessments to ensure that programs susceptible to improper payments are identified.

FY 2010 Improvements

VHA stated they are developing an improved risk assessment process. For the FY 2010 assessment of the Non-VA Fee Care Program, VHA performed independent assessments using a specialized checklist that consisted of inputs from medical center clerks and supervisors. Checklist results and payment documentation will be subject to a secondary review by FAO. VHA plans to implement these changes for all programs in FY 2011.

Conclusion

VHA needs to ensure improvements in the assessment of susceptible programs are completed and expanded to all programs. Without an adequate assessment and reporting of susceptible programs, more programs could be at risk with limited efforts to reduce significant improper payments.

Recommendations

3. We recommended the VA Secretary direct the Under Secretary of Health implement planned improvements to risk assessments to include independent reviews with specialized checklists for all programs.

Management Comments and OIG Response

VA Chief of Staff generally agreed with our conclusions and provided acceptable implementation plans to our recommendations.[1] We will monitor VHA's progress and follow up on their implementation until all proposed actions are completed. Appendix B contains the full text of the Chief of Staff's comments.

[1] VHA provided us updated completion dates for three of their proposed actions. Those dates are identified by footnotes in Appendix B.

Appendix A Scope and Methodology

Scope

The audit focused on VA's implementation of Executive Order 13520 and the completeness of VA's *FY 2010 First Quarter High-Dollar Overpayments Report*. The report is located at the following VA website: http://www4.va.gov/ABOUT_VA/docs/2010_high_dollar_overpayment_reportQ1.pdf. In addition, we reviewed the assessment and reporting process for IPIA reporting related to the FY 2009 PAR.

Methodology

To assess the implementation of Executive Order 13520, we performed site visits to VA, VHA, and VBA offices in Washington, DC, and the FAO in Austin, TX. While on site, we interviewed key personnel from VHA and VBA officials to determine and discuss the methodology and procedures used for both Executive Order 13520 and IPIA reporting requirements. We contacted:

- The VA Debt Management Center to obtain receivables established in the first quarter FY 2010.
- VA Quality Assurance program offices to obtain and review internal reviews conducted on VHA's risk assessments.
- OMB for clarification on guidance when questions arose on the interpretation of OMB guidance.

We reviewed current and prior OIG and Government Accountability Office audits to identify improper overpayments not reported in the *FY 2010 First Quarter High-Dollar Overpayments Report* and to determine the relative risk of programs excluded from IPIA reporting.

We relied on the number and amount of receivables provided by the VA Debt Management Center without auditor verification. The VA Debt Management Center numbers were determined for the purpose of this audit to be sufficiently reliable because the VA Debt Management Center was independent of the decision review process to identify high-dollar overpayments. Numbers relied on for this report were not disputed by VA.

Compliance with Government Audit Standards

We conducted our audit work from June through November 2010. To review VHA's process for identifying susceptible programs we relied on the information reported in FAO's internal reviews. We did not verify the accuracy of the results in these reports because data from these reviews were no longer available. However, results from independent audits corroborated the internal review conclusions. We also did not perform audit steps to look for fraud, waste, and abuse because the nature of the activity being audited made fraud unlikely. In all other facets, we conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Reliability of Computer-Processed Data

We did not rely on computer-processed data for our conclusion. Therefore, reliability was not assessed.

Appendix B Agency Comments

Department of Veterans Affairs

Memorandum

Date: July 29, 2011

From: Chief of Staff (00A)

Subj: OIG Draft Report-Audit of VA's Implementation of Executive Order 13520, "Reducing Improper Payments" (VAIQ 7125742)

To: Assistant Inspector General for Audits and Evaluations (52)

1. The Department of Veterans Affairs has reviewed the Office of Inspector General's (OIG) draft report, *Audit of VA's Implementation of Executive Order 13520, "Reducing Improper Payments,"* and generally agrees with the conclusions and concurs with the OIG's recommendations to the Department.

2. Attached are VA's revised comments on the draft report as well as responses to the OIG's recommendations. VA appreciates the opportunity to comment on the draft report.

(Original signed)

John R. Gingrich

Attachment

VA Comments on Office of Inspector General (OIG) Draft Report Audit of VA's Implementation of Executive Order 13520, "Reducing Improper Payments"

VA provides the following comments on the OIG draft report:

The draft report states that the Veterans Benefits Administration (VBA) reports on four programs identified as susceptible to significant improper payments -compensation, pension, education, and insurance. We believe the report should acknowledge that the insurance, compensation, and pension programs do not meet the reporting threshold for "significant erroneous payments," which the Office of Management and Budget (OMB) has defined as exceeding both 2.5 percent of program payments and $10 million.

The insurance program was included as a reportable entity in the 2010 Performance and Accountability Report (PAR) at OMB's request. The insurance program had previously been granted relief from this reporting requirement because of the extremely low percentage and amount of improper payments under that program. As reported in the 2010 PAR (based on fiscal year (FY) 2009 actual data), insurance outlays were $1.3 billion and improper payments were projected to be .03 percent of outlays (approximately $400,000).

In the compensation and pension programs, "erroneous payments" account for approximately 1.6 percent of payments made. However, VBA was directed by OMB to report on these payments as the total value of "erroneous" payments makes them "high risk programs" for PAR purposes. It is important to note that a vast majority of the compensation and pension payments reported as "erroneous" were actually proper, based on all of the information available to VBA at the time the payments were made. Subsequent to the issuance of recurring monthly payments, VBA frequently receives new information that places previously issued payments in the "erroneous" category (e.g., death of a beneficiary, incarceration of a beneficiary, a Veteran returns to active duty, a beneficiary's marital status changes). In these types of cases, VBA must rely on the beneficiary, the beneficiary's family, or another third party to promptly report the change in status.

Under the education program, VBA faces a similar situation. Although the "erroneous" payments in the education program currently exceed the 2.5 percent and $10 million criteria for reporting purposes, the primary cause of the overpayments is students' withdrawal from some or all of the classes for which they enrolled and were certified. Again, the majority of the payments were proper based on the information available to VBA at the time the payments were made, and VBA is dependent on timely reporting of changes in enrollment status by students and their educational institutions. The majority of the "erroneous" payments occur under the new Post-9/11 GI Bill because the full amount of tuition and fees is paid up-front. Additionally, the long term solution does not yet provide the functionality for monthly certification of students' continued attendance before issuance of the recurring housing allowance. Automated monthly certification processing is available to support the other education programs VBA administers.

VBA sought clarification from OMB on the proper reporting of these payments. OMB agreed to host discussions with VBA, the Office of Management, and OIG to further clarify reporting requirements and ultimately reduce the significant burden placed on VBA to identify, review, recalculate, and report on improper payments. Those discussions are ongoing. VA teamed with OMB to develop a pilot program to streamline methods for accurately identifying and reporting improper payments. VA and OMB are evaluating results of the pilot and will use findings to inform ongoing discussions.

Additional technical comments include:

Preamble of the report. Add the following paragraph: In December 201 0, OIG solicited information from OMB on the reporting of overpayments that were proper at the time the payments were made but subsequently were deemed improper as a result of additional information. OMB's response stated that VBA does not have to report payments that were proper at the time they were made, but a future event resulted in them being viewed as an overpayment. Applying this guidance would reduce the number of overpayments in the fourth quarter report from 2,027 to 323 for education. Beginning with the first quarter report for FY 2011, VBA no longer reports as improper those education overpayments that represent proper payments at the time they were issued.

Responses to the recommendations in the OIG draft report:

<u>Recommendation 1</u>: We recommend the VA Secretary direct the Acting Under Secretary for Benefits to report prior period high-dollar overpayments that meet the Office of Management and Budget's definition of high-dollar overpayments.

<u>VA Response</u>: VA concurs.

OMB criteria are as follows:

1. The overpayment is in excess of 50 percent of the total amount.
2. Total payments to the individual exceed $5,000 for the quarter.

Due to the nature of VBA debts, the overpayment mayor may not have been identified in the same quarter as the payments were made. VBA sought clarification from OMB regarding whether VBA should report all payments that contributed to the overpayment or just those that occurred in the quarter being reported. OMB directed that VBA review all payments that contributed to the overpayment in order to determine if the debt meets the criteria above. If the debt meets the criteria, then VBA will report as an overpayment.

OMB implementing guidance provides the following potential means of identifying high dollar overpayments. The guidance states:

High-dollar overpayments should be identified by examining several sources of information available to agencies. For instance, agencies could identify high-value errors, where applicable, through:

1. Statistical samples conducted under the Improper Payments Information Act;
2. Agency post-payment reviews;
3. Recovery audits;
4. Agency IG reviews;
5. Self-reports; or
6. Reports from the public through Internet and telephone hotlines, and other referrals.

To develop the report, beginning with the third quarter FY 2011, VBA will do the following:

1. On VBA's behalf, the VA Debt Management Center will continue to produce the file of debts established for overpayments during the quarter.

2. VBA will review a statistically valid sample of all debts totaling over $1,667 and report on those that meet the definition as written by OMB. The sample would be selected based on a 95 percent confidence rate with a confidence level of 5 percent; this is consistent with the sample sizes selected for the Compensation and Pension STAR reporting.

3. VBA will use the results of the sample to develop inferential statistics regarding the population of debts.

4. VBA will continue to report on improper payment cases where no receivable was established under the administrative error provisions.

5. Additionally, VBA will provide a report to the Secretary on:
    a. root causes of debts
    b. total number and amount of debts established in each quarter
    c. total amount of collections in each quarter

Target Completion Date: September 1, 2011

Recommendation 2: We recommend the VA Secretary direct the Acting Under Secretary for Benefits to report improper payments that result from administrative errors that meet the Office of Management and Budget's definition of high-dollar overpayments.

VA Response: VA concurs. The Compensation and Pension Service began including administrative errors in the FY 2010 fourth quarter report. The Education Service began including administrative errors in the FY 2011 first quarter report. VA requests closure of this recommendation.

Recommendation 3: We recommend the VA Secretary direct the Under Secretary of Health to implement planned improvements to risk assessments to include independent reviews with specialized checklists for all programs.

<u>VA Response</u>: VA concurs. All Veterans Health Administration (VHA) programs will undergo a formal risk assessment and review process in FY 2011 (and at least once every 3 years thereafter), to include independent reviews with specialized checklists, to establish a new baseline and more accurately determine if VHA programs are susceptible to significant improper payments in accordance with the Improper Payments Elimination and Recovery Act of 2010 (lPERA). VHA identified 25 programs that are subject to IPERA reporting requirements. Programs are defined by VHA appropriations, budget object codes, cost centers, and transaction codes, if applicable.

To conduct the review, the VHA Financial Assistance Office has contracted with the VA Financial Services Center to acquire a list of the universe of program payments from VA's Financial Management System (completed December 15, 2010).

VHA will conduct a formal risk assessment taking into account the following risk factors:

(a) Whether the program or activity reviewed is new to the agency;

(b) The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;

(c) The volume of payments made annually;

(d) Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government;

(e) Recent major changes in program funding, authorities, practices, or procedures;

(f) The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;

(g) Significant deficiencies in the audit report of the agency or other relevant management findings that might hinder accurate payment certification; and

(h) Results from prior improper payment work.

Based on the risk assessment results, VHA will conduct an independent review of program payments where the estimated annual improper payments in the program exceeds both 2.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported, or $100 million.

The VHA Financial Assistance Office will consult with the VHA Allocation Resource Center and a statistician to ensure the validity of the sample design, sample size, and measurement methodology in accordance with OMB guidelines. The Allocation Resource Center will generate a statistically valid, random sample based on the payment universe and estimated error rate of sufficient size to yield an estimate with a 90% confidence level and an estimated error of plus or minus 2.5 percent. The 2011 annual IPERA review will consist of VHA payments made in FY 2010 (completed January 15, 2011).

The VHA Financial Assistance Office will review sampled program payments using a specialized checklist detailing specific compliance criteria to more accurately identify payment accuracy (completed June 15, 2011).[2]

Review results will be forwarded to the VHA Allocation Resource Center to estimate the amount of improperly paid dollars in each program. The estimates for the risk susceptible programs will be based on a gross total of both over-and underpayments (estimated completion date -July 29, 2011).[3]

For programs determined to be susceptible to significant improper payments, program officials will be responsible for implementing an action plan to strengthen internal controls, reduce improper payments, and establish reduction targets. VHA will report, for inclusion in the agency's PAR, estimates of the annual amount of improper payments in programs and activities and report on the progress in reducing them (estimated completion date –July 29, 2011).[4]

[2] Revised completion date of July 21, 2011
[3] Revised completion date of July 29, 2011
[4] Revised estimated completion date September 30, 2011

Appendix C OIG Contact and Staff Acknowledgments

OIG Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720
Acknowledgments	Larry Reinkemeyer, Director Robin Frazier Joseph T. Janasz Jr Lance Kramer Brad Lewis Daniel Morris Dao Pham Lynn Scheffner Oscar Williams

Appendix D Report Distribution

VA Distribution

Office of the Chief of Staff
Veterans Health Administration
Veterans Benefits Administration
National Cemetery Administration
Assistant Secretaries
Office of General Counsel

Non-VA Distribution

House Committee on Veterans' Affairs
House Appropriations Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
House Committee on Oversight and Government Reform
Senate Committee on Veterans' Affairs
Senate Appropriations Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
Senate Committee on Homeland Security and Governmental Affairs
National Veterans Service Organizations
Government Accountability Office
Office of Management and Budget

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