

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Veterans Benefits Administration

*Audit of
Pension Payments*

September 4, 2013
12-00181-299

ACRONYMS AND ABBREVIATIONS

EVR	Eligibility Verification Report
IRS	Internal Revenue Service
IVM	Income Verification Match
OIG	Office of Inspector General
PMC	Pension Management Center
PTP	Pension Transformation Project
SSA	Social Security Administration
VBA	Veterans Benefits Administration

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Report Highlights: Audit of VBA's Pension Payments

Why We Did This Audit

VA paid nearly \$5 billion in FY 2012 for pension benefits to over 500,000 low-income veterans or their beneficiaries. Delayed or incorrect payments have the potential to affect the economic status of eligible veterans and beneficiaries. We conducted this audit to determine if the Pension Management Centers (PMCs) processed pension payments accurately.

What We Found

Veterans Benefits Administration (VBA) can improve the timeliness, and therefore the accuracy, of pension payment processing. During a 1-year period, an estimated 93,000 (18 percent) of 514,000 veterans and beneficiaries experienced an average 15 month delay in receiving their new pension award or adjustments to their current payment. Delays resulted in \$308 million in underpayments and \$194 million in overpayments. This included retroactive adjustments as early as 2006. Once PMC staff processed the claims, they correctly calculated pension payments for new awards and adjustments 96 percent of the time.

The delays occurred for two primary reasons. First, PMCs did not process new awards and adjustments timely because of an increased workload and a lack of clear communication of priorities. Second, PMCs did not receive timely notification of changes that affected current pension benefits, and did not have an effective plan to reduce the time to collect income, expense, or dependency changes. In addition, VBA systems contained a small

rate of duplicate pension records. VBA was aware of the potential for creating duplicate records and began taking action to control them.

What We Recommended

To reduce notification delays, the Under Secretary for Benefits should ensure Pension and Fiduciary Service implements a plan to reduce under and overpayments due to changes in income and dependency, and establishes and implements matching agreements. To reduce processing delays, the Under Secretary should ensure Pension and Fiduciary Service implements new triage and processing procedures at the PMCs. The Under Secretary should implement additional controls to identify and correct duplicate records.

Agency Comments

The Under Secretary for Benefits concurred with our recommendations and provided plans for corrective actions. We consider the actions acceptable and will follow up on their implementation.

A handwritten signature in blue ink that reads "Linda A. Halliday".

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

Objective

The VA Office of Inspector General (OIG) performed this audit to determine whether Pension Management Centers (PMCs) processed pension payments accurately.

VA Pension Program

VA pension is a needs-based benefit paid to low-income veterans with wartime service or their beneficiaries, who are at least 65 years of age or have permanent and total disabilities not related to their service. According to VA's FY 2013 Congressional Budget Submission, the Veterans Benefits Administration (VBA) expected to pay nearly \$5 billion in pension obligations for approximately 314,000 veterans and 206,000 survivor beneficiaries during FY 2013. Pension awards vary for each veteran and beneficiary depending on their income, medical expenses, and number of dependents. In FY 2013, VBA estimates veterans will receive an average pension of approximately \$10,000 per year, and surviving beneficiaries will receive an average pension of about \$8,000 per year.

Pension Management Centers

In January 2002, VBA consolidated pension work to three PMCs located in Philadelphia, PA; Milwaukee, WI; and St. Paul, MN. In 2008, the PMCs assumed the responsibility of processing original pension claims previously processed at regional offices. The goal of the consolidation was to improve accuracy, timeliness, and administration of the program. As of September 30, 2012, the three PMCs had a total workforce of just over 1,100 employees. PMCs process new pension awards and adjustments to pension benefits, burial claims, and dependency and indemnity compensation claims. Adjustments to pension benefits can occur when the PMCs receive information, such as Eligibility Verification Reports (EVRs) or Income Verification Matches (IVMs).

Other Information

The following appendixes provide additional information.

- Appendix A provides additional background information.
- Appendix B provides information about audit scope and methodology.
- Appendix C provides the statistical sampling methodology used in the audit.

RESULTS AND RECOMMENDATIONS

Finding 1 Significant Delays in Receiving New Awards and Adjustments to Pension Payments

VBA can improve the timeliness, and therefore the accuracy, of pension payment processing. During a 1-year period ending March 31, 2012, a projected 93,000 (18 percent) of 514,000 veterans and beneficiaries experienced an average 15 month delay in receiving new pension awards or adjustments to their current pension payments. Delays in establishing new awards or processing adjustments resulted in \$308 million in underpayments and \$194 million in overpayments to veterans and beneficiaries. However, once PMC staff received the information and processed the claims, they correctly calculated pension payments 96 percent of the time.

The delays occurred for two primary reasons. First, PMCs did not process new awards and adjust current pension payments timely because of an increased workload and a lack of clear communication of priorities. Second, PMCs did not receive timely notifications of changes that affected current pension benefits, and did not have an effective plan to reduce the time to collect income, expense, or dependency changes.

With improved controls for ensuring timely notifications and effective workload management, VBA could reduce a projected \$502 million in underpayments and overpayments to veterans and beneficiaries. The \$502 million included retroactive adjustments as early as 2006. VBA has controls in place to ensure veterans and beneficiaries eventually receive their correct pension payments by issuing retroactive benefits or creating debts. However, delays of eligible pension payments could cause potential financial hardship on veterans and beneficiaries who have demonstrated they need the pension to supplement their low income.

Reasons for Pension Claims

PMCs process pension entitlement claims (new awards) and adjust current pension eligibility when they receive notification of changes that affect current benefits (maintenance claims). Pension claims include the following:

- **New Awards**—When veterans and beneficiaries apply for their initial pension benefit;
- **EVRs**—When veterans and beneficiaries submit annual updates of their income, net worth, dependency and marital status, and any other information necessary to determine or verify entitlement to pension;
- **Income changes**—When veterans and beneficiaries experience changes in income or unreimbursed medical expenses;

- **Dependency changes**—When veterans marry or divorce, have a child, the veteran's spouse dies, or the veteran's child dies or marries;
- **IVMs**—When matches identify discrepancies between the Internal Revenue Service (IRS) or Social Security Administration (SSA) income records with income reported to PMCs by the veterans and beneficiaries;
- **Nursing home adjustments**—When veterans and beneficiaries move to a nursing facility and a Medicaid plan pays for services furnished by the nursing facility.

New Awards and Claims Adjustments

PMCs processed approximately 153,000 (60 percent) retroactive adjustments to about 253,000 pension claims comprised of new awards and maintenance claims during a 1-year period ending March 31, 2012. Approximately 111,100 of the 153,000 claims experienced significant notification or processing delays.

New Awards

PMCs processed approximately 44,600 (87 percent) retroactive adjustments to over 51,000 new awards during a 1-year period ending March 31, 2012. New awards experienced processing delays, which resulted in veterans and beneficiaries receiving delayed initial benefits. PMCs were not able to award benefits on an estimated 31,900 new claims within their timeliness goals, which resulted in a projected \$148 million in underpayments. PMCs completed the 31,900 new claims an estimated average of 6 months beyond their timeliness goals.

- Approximately 17,400 of the new awards experiencing delays were for pensions to veterans that resulted in \$90 million in underpayments. PMCs have a goal to process these new awards within 90 days.
- Approximately 14,500 of the new awards experiencing delays were for pensions to veterans' beneficiaries that resulted in \$58 million in underpayments. PMCs have a goal to process these new awards within 65 days.

Maintenance Claims

PMCs processed about 108,400 (54 percent) retroactive adjustments to over 201,800 maintenance claims during a 1-year period ending March 31, 2012. PMCs completed about 79,200 maintenance claims that experienced notification or processing delays. This resulted in about \$354 million in overpayments and underpayments. Specifically:

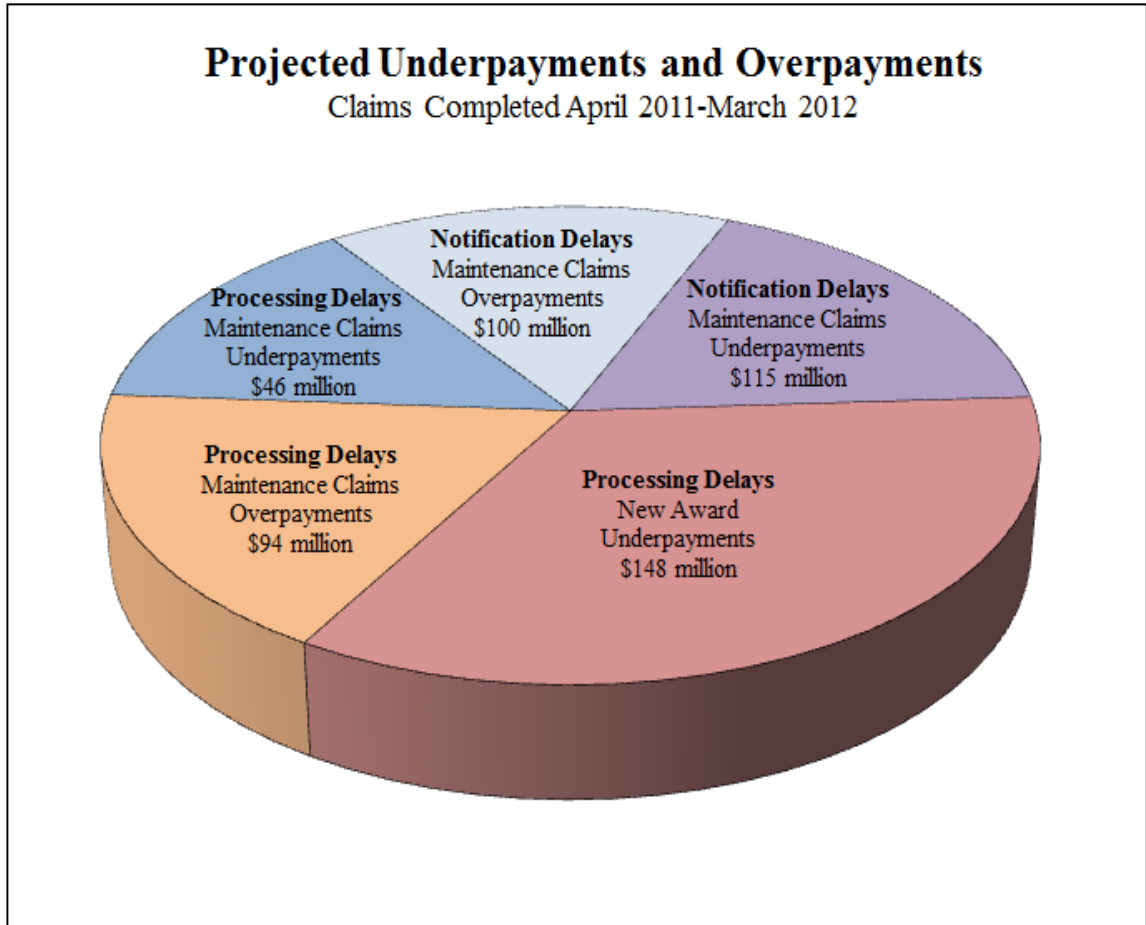
- PMCs were not notified within 4 months of changes that affect current benefits on about 56,400 claims they adjusted (notification delays), which resulted in underpayments of \$115 million and overpayments of \$100 million.
- PMCs were not able to adjust payments on almost 52,600 claims within their timeliness goals (processing delays), which resulted in

underpayments of nearly \$46 million and overpayments of almost \$94 million.

- Approximately 29,800 of the 111,100 claims experienced both notification and processing delays noted above. We offset the total to avoid double counting claims (31,900 new awards + 56,400 + 52,600 – 29,800 = 111,100).

Therefore, payments continued at previous amounts for an estimated average of 15 months until the PMC processed the claim and corrected the pension payment. In total, we identified a projected \$502 million in underpayments and overpayments based on claims completed during the 1-year period. VBA has controls in place to create retroactive payments for underpayments and create debts for overpayments. The following figure shows the value of underpayments and overpayments from notification (adjustments to existing maintenance claims) and processing (new awards and adjustments to existing maintenance claims) delays.

Figure



Source: VA OIG analysis

Notification Delays

PMCs did not receive notification from veterans and beneficiaries within 4 months of changes on 56,400 (37 percent) of 153,000 claims requiring adjustment. PMCs generally relied on the veteran or beneficiary to self-report changes; however, PMCs did not receive this information timely. PMCs also use matching programs, such as IVMs to verify accuracy, but did not receive matching information timely.

Notification delays caused a projected \$215 million in retroactive adjustments consisting of \$115 million in underpayments and \$100 million in overpayments. Our projections only included payment adjustments that the veteran or beneficiary took more than 4 months to notify the PMC. In the absence of VBA performance requirements addressing the timeliness of these actions, we used a conservative 4-month period as a reasonable expectation that the veteran or beneficiary should notify the PMC. In addition, because PMCs process new awards when veterans and beneficiaries apply for pension benefits, new awards are not subject to notification delays like maintenance claims. Table 1 provides a summary of projected notification delays and adjusted payment amounts by type of claim.

Table 1

Projected Notification Delays by Claim Type (dollars in millions)				
Pension Claim Type	Delayed Adjustments	Under-Payments	Over-Payments	Total Adjusted Amounts
EVR	33,700	\$83	\$30	\$113
Income and Dependency Change	18,200	32	11	42
IVM	3,900	0	55	55
Nursing Home/Hospital Adjustment	600	< 1	5	5
Total	56,400	\$115	\$100	\$215

Source: VA OIG analysis of pension claims completed April 2011 through March 2012

Note: Because of rounding, columns and totals may not sum.

EVRs

PMCs processed a projected 33,700 claims involving more than 4 months of retroactive adjustments based on EVRs submitted by veterans and beneficiaries. Veterans and beneficiaries used EVRs to submit annual updates of their income, net worth, dependency and marital status, and any other information necessary to determine or verify entitlement to a pension.

According to VA's 2012 Performance and Accountability Report, VBA requested approximately 140,000 EVRs in 2011.

The very nature of the EVR process (as it involves reporting changes) caused retroactive adjustments. VBA required veterans and beneficiaries to estimate income and medical expense information at the beginning of the reporting period. PMCs used the estimated information to determine the amount of pension benefits. At the end of the period, veterans and beneficiaries who had income other than Social Security submitted an EVR that noted actual income and expenses incurred during the year. PMCs adjusted prior payments based on the actual information provided at the end of the period. As a result, veterans and beneficiaries who submitted an EVR generally received a retroactive lump-sum payment to offset an underpayment or incurred a debt to pay back an overpayment. An example of an adjustment based on EVR information follows.

In March 2011, a veteran submitted an EVR that noted changes in unreimbursed medical expenses for the prior calendar year. In November 2011, the PMC completed processing the EVR and issued the veteran a retroactive payment of \$16,860. The retroactive payment was to adjust payments VBA made from March 2010 to November 2011. In this case, inaccurate monthly benefit payments occurred prior to receipt of the claim (from March 2010 through March 2011), as well as during processing (from April 2011 through November 2011).

We identified a projected \$113 million in underpayments and overpayments that occurred before the PMCs received the EVRs. This consisted of about \$83 million in underpayments and \$30 million in overpayments.

*EVRs
Discontinued*

In December 2012, VBA officials stated they discontinued requesting EVRs. Under this change, veterans and beneficiaries do not have to submit an annual EVR to continue receiving pension payments. VBA will further rely on veterans and beneficiaries to self-report changes. In 2013, VBA sent a letter to all pension recipients to inform them they are no longer required to submit an EVR. The letter noted that veterans and beneficiaries are still responsible for notifying VA of any changes in income, status of dependents, or the amount of unreimbursed medical expenses paid. The letter provided instructions on how to continue to submit this information. Elimination of EVRs could reduce processing delays that occurred for the end of the year reporting but presents a risk that PMCs will not receive changes that affect eligibility. To mitigate this risk, VBA should implement procedures to ensure continued eligibility. Routine checks of veterans and beneficiaries eligibility could ensure they receive their correct pension entitlements.

*Income and
Dependency
Changes*

PMCs processed a projected 18,200 claims involving more than 4 months of retroactive adjustments based on income and dependency changes. PMCs are required to adjust benefits dollar-for-dollar based on changes in annual income, or medical expenses above a threshold. This means that when a veteran or beneficiary incurs additional unreimbursed medical expenses, their eligible payment amount could increase. An example of an income change because of unreimbursed medical expenses follows.

During 2011, a surviving spouse received \$282 a month in pension payments. In December 2011, the beneficiary submitted a medical expense report stating unreimbursed medical expenses of \$75,609 incurred in 2011. In March 2012, the PMC issued a retroactive payment of \$4,561 after making an adjustment to offset the medical expenses associated with the beneficiary's income. The PMC issued the retroactive payment to adjust payments from February 2011 through January 2012 because that is when the unreimbursed medical expenses occurred and the beneficiary was eligible for a higher pension payment.

To mitigate delays in dependency changes due to a veteran's death, PMCs use a data-matching program with the SSA, which notifies them of deaths on a monthly basis. However, PMCs are reliant on the veteran or beneficiary notifying them timely of changes in income, unreimbursed medical expenses, or other dependency changes. As a result, over \$42 million in underpayments and overpayments occurred because of delays receiving income and dependency change notifications. This consisted of about \$32 million in underpayments and just under \$11 million in overpayments.

In March 2012, VBA established a team to formulate and implement strategies to reduce the amount of high-dollar overpayments. According to VA's FY 2013 First Quarter Report on High-Dollar Overpayments, the high-dollar overpayments identified in the Pension and Fiduciary Service are generally a result of changes in income, unreimbursed medical expenses, death, or dependency. Part of the VBA team's action plans consisted of developing recommendations to reduce improper payments.

However, unlike other VBA programs, Pension and Fiduciary Service had not established a workgroup or timeline to develop recommendations. Because veterans and beneficiaries typically submitted income, medical expenses or dependency changes in annual EVRs, PMCs could now receive an increase in the number of income and dependency changes from veterans and beneficiaries throughout the year. Pension and Fiduciary Service should implement a plan to reduce the amount of underpayments and overpayments due to changes in income and dependency.

IVMs

PMCs processed a projected 3,900 claims involving more than 4 months of retroactive adjustments based on IVMs. IVMs compare income reported to

PMCs by the veterans and beneficiaries to IRS or SSA records. However, IVMs did not provide PMCs with timely matching information to verify benefits. PMCs did not receive IVMs pertaining to calendar year 2008 until August 2011, and did not receive calendar year 2007 IVMs until July 2009. The following is an example of an IVM adjustment.

A PMC received an IVM in July 2009 due to income discrepancies between veteran-reported income and IRS-reported income for calendar year 2007. The PMC did not complete the adjustment until April 2011, which resulted in total overpayments of \$13,720. Of those overpayments, \$12,208 occurred during the 29 months prior to the PMC receiving the IVM.

From a review of IVMs, we identified a projected \$55 million in overpayments. VBA agreed to, but had not yet implemented, an enhanced interagency agreement with the IRS and SSA that would allow VBA to verify eligibility earlier in the claim process. If implemented, this could also allow PMCs to receive IVM data electronically and more frequently. VBA should implement the use of the exchange agreements to reduce delays in verifying veteran and beneficiary reported income.

Nursing Home Adjustments

PMCs processed a projected 600 claims involving more than 4 months of retroactive adjustments based on hospital or nursing home adjustments. VBA does not have adequate verification controls, such as a matching program, to identify when a veteran or beneficiary moved to a nursing home and received Medicaid benefits. Policy states VBA must not pay a veteran or beneficiary more than \$90 per month for any period after Medicaid benefits begin. An example of a nursing home adjustment follows.

A veteran who moved into a nursing home began receiving Medicaid benefits in May 2008. However, the veteran continued to receive unreduced pension benefits each month (as much as \$1,644) until the nursing home notified the PMC in July 2011. VBA overpaid the veteran \$49,781 during the notification delay. The PMC subsequently reduced the benefit to \$90 per month in November 2011. According to policy, the veteran or beneficiary is not liable for any pension paid in excess of \$90 per month, unless it is the result of willful concealment of information by the recipient. VBA does not recoup overpayments of this nature.

We identified a projected \$5 million in overpayments that occurred from hospital or nursing home adjustments. This occurred generally because PMCs were unaware a veteran or beneficiary was receiving Medicaid benefits. Prior reviews have also identified issues regarding PMC staff not reducing veterans' or beneficiaries' pension benefits to \$90 when they are in nursing homes paid by Medicaid. These reviews found that veterans and beneficiaries did not notify PMCs of receipt of Medicaid benefits.

In 2010, VBA stated they were in the process of drafting a computer-matching agreement with the Centers for Medicare and Medicaid Services that would automatically identify pension recipients who receive Medicaid benefits. Pension and Fiduciary Service officials stated their ability to implement the agreement depends on the availability of information technology resources and the cost for conducting the match. To ensure PMCs limit payments over \$90 to veterans and beneficiaries who receive Medicaid benefits, we recommend VBA establish a matching program with Medicaid to identify those requiring nursing home adjustments.

Processing Delays

PMCs completed approximately 84,500 (55 percent) of 153,000 claims, which included about 31,900 new awards, that required retroactive adjustments outside of their timeliness goals. Processing delays of new awards accounted for a projected \$148 million of the \$193 million total underpayments. Processing delays of adjustments caused a projected \$46 million in underpayments and \$94 million in overpayments. In total, we projected \$287 million in adjusted payments. Our projections only included payments made outside of VBA's timeliness goals. Table 2 provides a summary of projected processing delays by type of claim and adjusted payment amounts.

Table 2

Projected Processing Delays by Claim Type (dollars in millions)				
Pension Claim Type	Delayed Adjustments	Under-Payments	Over-Payments	Total Adjusted Amounts
EVR	28,100	\$19	\$33	\$52
Income and Dependency Change	20,900	25	42	67
IVM	760	0	9	9
New Award	31,900	148	0	148
Nursing Home/ Hospital Adjustments	2,900	1	10	11
Total	84,500	\$193	\$94	\$287

Source: VA OIG analysis of pension claims completed April 2011 through March 2012

Note: Because of rounding, columns and totals may not sum.

VBA policy includes timeliness goals based on cumulative average days to complete claims, noted in Appendix C, Table 5. The goals measure the date the PMC receives the claim to the date the PMC adjusts or completes the claim. We found the major obstacles preventing timely processing of pension claims were an increased workload and a lack of clear communication of priorities. In 2011, a study contracted by VBA identified opportunities for improvement with intake operations, claims processing designs, and workload reprioritization at the PMCs.

Workload

PMC managers identified the high volume of work as the key challenge to meeting timeliness goals. PMCs' pending and completed pension workload of the six types of claims we reviewed (outlined in Table 4 in Appendix C) increased from FY 2011 to FY 2012. While the workload demand increased, as shown in Table 3, PMC staffing levels increased from 1,099 in FY 2009 to just under 1,130 in FY 2012—an increase of about 3 percent.

Table 3

Pension Workload for FYs 2011–2012				
Status of Work	FY 2011	FY 2012	Increase	Percent Increase
Completed	295,064	340,851	45,787	16
Pending	93,835	136,254	42,419	45

Source: Veterans Service Network Operation Reports

Delays in processing new awards accounted for a projected \$148 million in delayed payments to veterans or beneficiaries initially applying for a VBA pension to supplement their financial need. PMC staff noted that development of new claims (requesting and receiving additional information) also added to processing time. To allow for faster processing of new claims, VBA implemented the Fully Developed Claims Program. In the Fully Developed Claims Program, veterans and beneficiaries submit a claim form, required evidence, and certify they have nothing further to provide. The aim of the Fully Developed Claims Program is to allow PMCs the ability to complete new awards within 90 days of receipt.

PMC workload included a large amount of seasonal EVR workload every January to March. VBA anticipates the removal of EVRs could eliminate as many as 150,000 work items associated with EVR processing each year. As a result, VA stated the elimination of EVRs allows VBA to redirect more than 100 full-time employees to work on eliminating the claims backlog.

Processing Priorities

Processing priorities of claims changed frequently. PMC staff and managers had varying understandings of processing priorities. One PMC considered

ratings claims, death claims, and some maintenance work as their priorities. Another PMC considered all claims the same and no type of claim received priority over any other type. Another PMC prioritized the oldest claims first.

VBA policy requires a written workload management plan to control how claims and other work move through the adjudicative process. While all three PMCs had a workload management plan, two of the three PMCs did not clearly define the priorities of claims PMC teams were to process in their plans. The third PMC had an overall policy that staff should process the oldest claims first, and their workload management plan clearly defined the priority of claims for staff to process.

For example, their workload management plan instructed a Veteran Service Representative on the maintenance team to run a workload report the first workday of the week to identify specific types of claims and the priority order staff processed claims. The priority of claims to be worked is clearly outlined and broken down by position within each team. That PMC had a lower amount of underpayments and overpayments during processing delays than the two PMCs that did not clearly define processing priorities. PMCs should clearly outline processing priorities in their workload management plans.

Processing Initiatives

Pension and Fiduciary Service officials agreed that improved timely processing of benefit adjustments would reduce the amount of retroactive adjustments. They noted that to improve management of PMC workload, they plan to revise triage procedures and establish processing lanes at the PMCs. In this plan, based in part on a contracted Pension Transformation Project (PTP) study provided to VBA in 2011, Pension and Fiduciary Services will work closely with the PMCs and the Office of Field Operations to manage PMCs' workload.

According to the PTP study, opportunities for improvement exist in intake operations, claims processing designs, and workload reprioritization. Based on existing best practices at each PMC, the PTP study recommended a simplified intake design that would divide incoming correspondence into three categories and reduce excessive sorting and handling. The study found one PMC established claims at a higher rate using a simplified routing structure.

The PTP study also identified that as much as 70 percent of maintenance claims can be processed immediately upon receipt. This means the PMC could complete these claims quickly because they would not have to request further information. Any inefficiency means that these claims accumulate quickly, adding significantly to the PMCs' pending workload. In May 2012, VBA issued guidance on a new function in VBA systems that allowed users to track claims that are ready for a decision. The PTP study noted, to

improve performance, PMCs must identify the ready-to-work claims and be efficient in completing them.

VBA should implement their plan to revise triage procedures and establish processing lanes to ensure prompt screening and routing of claims. Revised triage and processing procedures, along with available resources from eliminating EVRs could reduce delays in adjusting payments. This could lessen the impact of underpayments and overpayments on veterans and beneficiaries.

**PMCs
Correctly
Calculated
Pensions**

Once PMCs received and processed the claims, staff correctly calculated payment adjustments 96 percent of the time. We identified a small amount of errors that occurred from staff incorrectly applying policy or miscalculating income and expenses. VBA reviews the accuracy of PMC maintenance work through their Systematic Technical Accuracy Review. For the 1-year period ending October 31, 2012, the review reported an accuracy rate of 98 percent for maintenance workload. The following is an example of an incorrectly calculated pension.

A veteran notified the PMC of income and medical expense changes. Based on this information, the PMC adjusted prior payments and issued a retroactive payment of \$6,192. However, the staff miscalculated the medical expenses by not using the most current estimates and by counting a yearly medical deductible as a monthly deductible, which caused an overpayment of \$1,656.

Conclusion

VBA needs to improve pension processes to ensure veterans and beneficiaries receive new and adjusted pension payments when eligible. While VBA has controls in place to make retroactive payment adjustments, the delayed pension payments have the potential to adversely affect the economic status and quality of life of eligible pension recipients. The population receiving pensions from VBA are generally elderly or disabled and have fixed or limited income. They receive a specific amount of VBA pension payments to supplement any current income to bring them up to a level set by Congress. Underpayments leave them below that level, and overpayments could result in disruption of future benefits. If PMCs obtained change information within 4 months of the change in eligibility and processed adjustments, and new claims within established timeliness goals, VBA could reduce underpayments and overpayments by a projected \$502 million.

Recommendations

1. We recommended the Under Secretary for Benefits ensure the Pension and Fiduciary Service implements procedures that ensure continued veteran and beneficiary eligibility.

2. We recommended the Under Secretary for Benefits ensure the Pension and Fiduciary Service implements a plan to reduce the amount of underpayments and overpayments due to changes in income and dependency.
3. We recommended the Under Secretary for Benefits implement the use of the enhanced Interagency Exchange Agreements with the Internal Revenue Service and Social Security Administration to reduce delays in verifying veteran and beneficiary reported income.
4. We recommended the Under Secretary for Benefits establish a matching program with Medicaid to automatically identify veterans and beneficiaries that require nursing home adjustments.
5. We recommended the Under Secretary for Benefits ensure the Pension Management Centers clearly outline processing priorities in their workload management plans.
6. We recommended the Under Secretary for Benefits ensure the Pension and Fiduciary Service implements its plan to revise triage procedures and establish processing lanes to ensure prompt screening and routing of claims.

**Management
Comments
and OIG
Response**

The Under Secretary for Benefits concurred with our recommendations. The Under Secretary agreed with the central finding that VBA could improve the timeliness of pension payment processing, and stated VBA is constantly seeking ways to improve claims processing and provide better service to claimants. The Under Secretary agreed that delays in processing adjustments to existing awards create under- and overpayments, and that both under- and overpayments should be reduced. Although the Under Secretary questioned whether some of OIG's recommendations would in fact remedy problems identified during the audit, we believe VBA's actions are responsive to the intent of our recommendations.

Based on actions taken by VBA, we consider Recommendation 2 closed. The Under Secretary concurred with Recommendation 6, but noted that the establishment of processing lanes would not contribute to the prompt screening and routing of claims. The Under Secretary agreed to revise triage procedures for PMCs to facilitate prompt screening and routing of claims, and we believe this meets the intent of the recommendation.

We will monitor implementation of these actions and will close the recommendations when we receive sufficient evidence demonstrating VBA progress in addressing the issues identified. See Appendix E for the full text of the Under Secretary's comments. The following is a summary of the Under Secretary's additional comments and our responses.

Management Comments Regarding Processing Priorities: The Under Secretary acknowledged a workload management plan is necessary to

achieve efficiency. However, the Under Secretary disagreed that clearly outlining processing priorities in workload management plans would necessarily improve processing of pension claims. OIG assumes that PMC's established priority would automatically default to pension claims. Because PMCs process more than just pension claims, prioritization of any part of the PMC workload results in resources that will not be available to work other PMC claims. The Under Secretary stated it is unclear whether this recommendation will meaningfully address the problem of delays in processing pension claims. However, the Under Secretary agreed to the recommendation and stated the PMC workload management plans will be assessed and modified as appropriate. The Office of Field Operations will work with Pension and Fiduciary Service to ensure that each PMC's workload management plan clearly defines priorities and employee's roles for working pension claims.

OIG Response: It is VBA's responsibility to prioritize their workload in a manner they determine best meets the needs of veterans and beneficiaries. As acknowledged by the Under Secretary, establishing clear workload priorities would clarify expectations about workload and the current priority of effort. Communications regarding the requirements of a workload management plan is necessary to achieve efficiency. We found that the PMC with a lower amount of underpayments and overpayments during processing delays had clearly outlined the priority of claims to be worked by position within each team. We believe a workload management plan that clearly defines priorities and employees' roles for working pension claims would increase efficiency.

Management Comments Regarding Underpayments Associated With New Awards: VBA agreed that delays in processing adjustments to existing awards create under- and overpayments, but did not agree that delays in processing new pension claims produced underpayments. The Under Secretary stated that although delays in processing claims may cause undue hardship for some claimants, the veteran or beneficiary is made whole (receives their full benefit) when VBA eventually processes the claim and makes payment.

OIG Response: We disagree that delays in processing new pension claims cannot produce underpayments. VBA's goal is to process new pension awards in 65 days (for pensions to veterans' beneficiaries) and 90 days (for pensions to veterans). OIG's position is that any new award that took longer than VBA's processing goal resulted in an underpayment. PMCs completed an estimated 31,900 new pension awards an average of 6 months beyond their timeliness goals.

As the Under Secretary stated in her response, an initial applicant for a new pension is not likely to be receiving any VA benefits. Until VBA awards that benefit, the veteran or beneficiary is being underpaid and living below a

Congressionally set standard of living. While VBA attempts to make the veteran or beneficiary “whole” when the claim is processed, VBA cannot account for the potential hardship the claimant endured while waiting for VBA to complete their claim.

Management Comments Regarding Program Design: The Under Secretary agreed that improving the timeliness of pension maintenance claims will reduce the amount of under- and overpayments, but disagreed that benefit adjustments are avoidable. The pension program operates retroactively by design; both VA and the applicant lack perfect information on whether income, medical expenses, or dependency will in fact change during the reporting period.

The Under Secretary stated that VBA faces challenges to reduce under- and overpayments because VBA has no control in claimants reporting behavior, and many claimants have no incentive to timely report changes in entitlement. Claimants who fail to timely report income and status changes and benefit from an overpayment suffer no consequences other than the creation and possible repayment of a debt to the Government. VA regulations and VBA communications currently notify beneficiaries that they must report changes in income or circumstances that affect entitlement status. Where VBA cannot independently detect status changes, it will be unable to significantly reduce the under- and overpayments caused by untimely beneficiary reporting.

OIG Response: Our report points out the need to reduce under- and overpayments—not eliminate them. As noted in Appendix C, we identified a total of over \$751 million in underpayments and overpayments based on claims completed during the 1-year period. We acknowledge that PMCs generally rely on claimants to provide information. In the absence of VBA performance requirements, we used a conservative 4-month period as a reasonable expectation that the veteran or beneficiary should notify the PMC when their status changes. We adjusted our findings to allow processing time for claims completed within VBA's timeliness goals, as well as a notification time of 4 months. The adjusted results totaled approximately \$502 million in underpayments and overpayments.

VBA's use of reminders was not effective in prompting claimants to report any changes in status in a timely manner. According to VA's FY 2013 First Quarter Report on High-Dollar Overpayments, the high-dollar overpayments identified in the Pension and Fiduciary Service are generally a result of changes in income, unreimbursed medical expenses, death, or dependency. Part of the VBA team's action plans consisted of developing recommendations to reduce improper payments. However, unlike other VBA programs, Pension and Fiduciary Service had not established a workgroup or timeline to develop recommendations.

Now that claimants cannot submit income, medical expenses, and dependency changes in annual EVRS, PMCs could now receive an increase in the number of income and dependency changes from veterans and beneficiaries throughout the year. Pension and Fiduciary Service should implement a plan to reduce the amount of underpayments and overpayments due to changes in income and dependency.

Management Comments Regarding Timeliness and Accuracy: The Under Secretary had concerns with OIG's link of timeliness to accuracy and the implication that VBA can somehow enforce expedited reporting to VA when beneficiary circumstances change. The Under Secretary stated that accuracy, when used in the context of claims adjudication, typically refers to an assessment of whether VA employees followed policies and procedures.

OIG Response: We determined the difference between the benefits VBA paid versus the benefits a veteran or beneficiary should have received if PMCs had completed the claim timely. If the veteran or beneficiary received an incorrect amount of pension due to delays, we considered that as an inaccuracy.

Finding 2 Duplicate Records Existed in VBA Corporate Database

VBA's corporate database contained up to 150 duplicate pension records. These duplicate records occurred because VBA relied on PMC staff to identify pre-existing records prior to creating a new record. As a result of the identified duplicate pension records, VBA is at risk of paying approximately \$660,000 in duplicate payments over a 1-year period.

Duplicate Payments and Records Concerns

A newspaper article dated September 22, 2012, detailed concerns that VBA paid duplicate payments as a result of duplicate records in VBA systems. The article alleged VA was unaware and unresponsive regarding issues associated with duplicate payments. In addition, we had a number of conversations with a VBA employee who was adamant that duplicate records and payments existed. In response to the newspaper article, VA wrote an informational paper that explained duplicate records and controls regarding the issue. A portion of VA's explanation of the issue follows:

Each communication to VA presents an opportunity for a claimant to submit a variation of identifying information, e.g., Mary L. Smith instead of Mary Smith, or an incorrect Social Security number. When entered by a VA employee, these variations may produce a duplicate record. However, duplicate records generally do not result in duplicate payments.

VA's informational paper concluded duplicate payments were not a systemic problem, and VA cannot avoid the temporary establishment of a small number of duplicate records.

Duplicate Records

At the end of 2012, VBA began performing four weekly data tests in an attempt to identify duplicate records and prevent them from becoming duplicate payments. According to a VBA official, these data tests look for the following items:

- Multiple awards per file number;
- Duplicate payments made to the same file number and payee code;
- Running awards for deceased beneficiaries;
- Running awards for suspended entitlements.

We performed an additional data test that identified pension recipients' records with similar or same names under the same file numbers. From the March 2012 population of about 514,000 pension records, we identified 298 records with similar or same names within 148 individual electronic files. This means there were up to 150 duplicate records (298 total records minus 148 individual electronic files). The records had the same or similar names as other records under the same file number but different identifying

information. A non-statistical review of 20 file numbers identified 18 containing duplicate records. Because some of the duplicate records had current payments, we provided the list of records to Pension and Fiduciary Service officials for their review. In regard to the two file numbers that did not contain duplicate records, VBA systems showed the incorrect name, such as "First Child," instead of the actual name of the child beneficiary.

The duplicate records occurred when PMC staff created a new record for a veteran or beneficiary that already had a record in VBA's corporate database. VBA did not have system controls in place to prevent users from creating duplicate records. VBA was aware of the potential for creating duplicate records and stated training was ongoing to limit the creation of duplicate records. According to a July 2012 Pension and Fiduciary Service bulletin, VBA implemented system controls to prevent users from creating duplicate personal identification numbers in the system. In addition, a VBA official told us they rely on the due diligence of the staff to locate pre-existing records and have a help desk for users to report identified issues. To ensure VBA identifies additional duplicate records, we recommend they add the test we performed to their current series of data tests.

As a result of PMC staff creating duplicate pension records, VBA made duplicate payments to veterans and beneficiaries. Based on the award amounts of the records with similar or same names, VBA is at risk of paying approximately \$660,000 a year in duplicate pension benefits.

Conclusion

VBA's risk exposure to significant duplicate pension payments was considered low based on the number of duplicate pension records and average award amounts. However, any level of duplicate payments is unacceptable. VBA was aware of issues with duplicate pension records and began taking action to control them. This included training at PMCs and implementing a system control to prevent duplicate personal identification numbers. VBA still needs to make improvements in identifying and correcting future duplicate records.

Recommendations

7. We recommended the Under Secretary for Benefits ensure the Pension and Fiduciary Service corrects the duplicate records identified in this audit.
8. We recommended the Under Secretary for Benefits ensure the Pension and Fiduciary Service requests an additional data test be added to its current series of data tests that would identify claimant records with similar or same names under the same file number.

**Management
Comments
and OIG
Response**

The Under Secretary for Benefits concurred with our recommendations, and stated VBA is working with PMCs and other VBA offices to correct the duplicate records, and coordinating with VA Office of Information and Technology to develop an additional data test. The Under Secretary's comments and action plans were responsive to the intent of our recommendations. We will monitor implementation of these actions and will close the recommendations when we receive sufficient evidence demonstrating VBA progress in addressing the issues identified. Appendix E contains the full text of the VBA's comments.

Appendix A Background

Eligibility

Veterans with low income, who served during a period of war and are permanently and totally disabled, or 65 or older, may be eligible for a pension. Death pension provides payments to low-level income surviving spouses and unmarried children of deceased veterans with wartime service. VA bases entitlement and payment rates on veterans' and beneficiaries' applicable income from other sources including other retirement, Social Security, annuities, and interest or dividends. Unreimbursed medical expenses may reduce applicable income for VBA purposes, thereby increasing VBA pension payments.

Accuracy Measures

VA's Performance and Accountability Report provides national accuracy rates for pension claims. The national accuracy rate for pension maintenance claims has increased each year since 2007—starting at 91 percent and reaching 97 percent in 2011. This was just below the strategic target of 98 percent. The national accuracy rate for pension entitlement claims ranged from 91 percent to 98 percent during the same time, which met the strategic goal. Pension maintenance claims are adjustments to active pension entitlements, and pension entitlement claims are generally new awards.

Pension Initiatives

At a March 2011 Congressional hearing, a VBA official stated the Secretary of VA approved a new organizational structure for VBA headquarters. Under this new structure, VBA separated the Fiduciary and Pension Program functions from the Compensation Program in VBA headquarters. This created a Pension and Fiduciary Service separate from Compensation Service. VBA also stated they were in the process of integrating rules-based, automated processing, and other calculator tools to improve the accuracy of compensation and pension decisions and free employees working on simple claims to concentrate on claims that were more complex. At the time of this audit, VBA had not begun testing rules-based processing for pension claims.

As of December 2012, VBA informed us they discontinued the use of EVRs. VA estimates it would have sent nearly 150,000 EVRs to beneficiaries in January 2013. Starting in 2013, Pension and Fiduciary Service officials stated veterans and beneficiaries will instead receive a letter requesting they submit a form if any changes occur that would affect their pension eligibility.

In 2013, VBA plans to modify pension claims processing in an effort to effectively manage workload and improve efficiency at the PMCs. The plan includes potential changes to triaging incoming information, as well as implementing specialized processing lanes. PMCs will also have the ability to verify new claim information at the beginning of the process.

Prior Audits and Reviews

The Government Accountability Office report, *Improvements Needed to Ensure Only Qualified Veterans and Survivors Receive Benefits* (Report No. GAO-12-540, May 15, 2012), identified VBA's pension program design

and management did not adequately ensure only qualified veterans and beneficiaries received pension benefits. Veterans and beneficiaries can transfer assets immediately before applying and still receive approval for benefits. They recommended Congress establish a look-back and penalty periods for pension recipients who transfer assets for less than fair market value prior to applying. Specifically, VA should:

- Request information about all assets and asset transfers on pension application forms;
- Verify financial information during the initial claims process;
- Collaborate with VA's Fiduciary Program to share claimant financial information;
- Provide clearer guidance to claims processors assessing claimants' eligibility.

VA concurred with three of the recommendations and concurred in principle with one, citing concerns about the potential burden on recipients verifying reported financial information. VA agreed to study the issue further.

The VA OIG report, *Review of Pension Maintenance Centers* (Report No. 10-00639-135, March 30, 2011), found VBA did not process original death pension benefits and IVMs timely. The untimely processing of IVMs resulted in overpayments. VA OIG recommended VBA establish an operational plan to ensure PMCs efficiently and effectively manage workload. OIG also recommended VBA establish timeliness performance standards for completing IVMs to reduce overpayments and to modify Performance Accountability Report measures to reflect the current workload and ensure transparency over actual performance. VBA concurred with the findings, all four recommendations, and submitted action plans. As of April 2013, VBA had not finalized an operational plan to ensure PMCs efficiently and effectively manage workload, or implemented specific performance goals to measure IVM timeliness.

VA's Management Quality Assurance Service conducted reviews of the PMCs (Milwaukee in 2008, Philadelphia in 2009, and St. Paul in 2011) as part of their annual review plan. All three reviews identified issues regarding PMC staff not properly reducing veteran and beneficiary pension benefits to the applicable \$90 rate when they are in nursing homes paid by Medicaid. In most cases, PMC staff were unaware the veteran or beneficiary was in a nursing home because they failed to notify PMC staff of receiving Medicaid benefits.

The Government Accountability Office audit, *Improved Management Would Enhance VA's Pension Program* (Report No. GAO-08-112, February 14, 2008), reported VA does not require documentation, such as bank statements or asset statements, when pensioners apply for initial

pension claims nor when completing the annual EVR. VA did not concur that pensioners should supply documentation of income and net worth for initial pension applications and stated this “could be onerous to individuals and possibly diminish timeliness of initial pension eligibility decisions.”

Appendix B Scope and Methodology

Scope We conducted our audit work from June 2012 through July 2013. This audit focused on completed decisions (claims) by PMC staff during the 1-year period ending March 31, 2012. During this period, PMCs received and completed claims for about 199,000 veterans and beneficiaries.

Methodology We accomplished the following to address our audit objective.

- Interviewed employees with pension responsibilities at central office and three PMCs (Milwaukee, WI; St. Paul, MN; and Philadelphia, PA);
- Reviewed previous OIG and Government Accountability Office audits related to VBA pension program;
- Analyzed a sample of completed pension claims to determine the accuracy of payments made and the extent that processing delays affected payment accuracy;
- Conducted site visits to three PMCs to validate our sample review methodology, discuss identified issues, and determine potential causes;
- Obtained and reviewed PMC's latest Systematic Analysis of Operations and Workload Management Plans;
- Analyzed the pension population for matching or similar attributes to determine if potential duplicate records existed.

Criteria To evaluate PMC decisions, we applied the same criteria PMCs are required to follow when determining eligibility including VBA Manuals M21-1MR, Part V; M21-1MR, Part X; and M21-4. In addition, 38 CFR, Chapter 1, Section 3.700, prohibits concurrent pension benefits.

Data Reliability To achieve our audit objectives, we obtained computer-processed data from VBA's corporate database and VETSNET Operation Reports. We tested the data to establish validity and reliability. We sampled 90 records and established all records were active, the records represented a pension (not a compensation), and a decision had been completed during the review period. We used corroborating documentation found in electronic documents located in SHARE, Virtual VA, and Modern Award Processing-Development applications. SHARE is a computer application used to establish and manage claim data. Virtual VA is an electronic claims folder and provides electronic storage for evidence and correspondence to and from VA. Modern Award Processing-Development is an application to help perform claims development and identify evidence that has and has not been received.

Government Standards Our assessment of internal controls focused on those controls relating to our audit objectives. 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, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix C Statistical Sampling Methodology

To determine accuracy of payments made to veterans and beneficiaries and the extent to which processing delays affected payment accuracy, we sampled from approximately 253,000 PMC decisions of pension claims completed during the 1-year period that ended March 31, 2012. We selected PMC claims that could potentially adjust the awarded benefit, which included dependency changes, EVRs, income changes, IVMs, new awards for veterans and beneficiaries, and nursing home and hospitalization adjustments. We reviewed the accuracy of payments based on available documentation found in SHARE, Virtual VA, and Modern Award Processing-Development.

Population

The sampled population consisted of six types of pension claims that the PMC may have modified the awarded benefit. Table 4 identifies the total number of claims completed by PMCs during the 1-year period and the number of sample claims we reviewed.

Table 4

Sample Size by Claim Type		
Pension Claim Type	Sample Size	Total Claims Population
Dependency Change	90	23,273
EVR	93	122,213
Income Change	90	37,282
IVM	41	13,956
New Award	90	51,462
Nursing Home/Hospital Adjustment	90	5,089
Total	494	253,275

Source: VA OIG statistical sample selection from completed claims in VBA's corporate database.

Sampling Design

We stratified the population by claim type and the PMC credited with completing the claim. From each unique stratum, we used a statistical simple random sample. During the sample review, we identified the payments affected by the claim decision and determined if veterans and beneficiaries received accurate payments based on their eligibility at that time. Additionally, we determined when the payments occurred during three processing phases—prior to notification, after notification but within timeliness goals, and after timeliness goals.

Notification—PMCs generally rely on the veteran or beneficiary or matching programs to provide change information. Given this, we decided it was unreasonable to expect PMCs to be notified immediately by veterans, beneficiaries, or other sources upon a change. We used a conservative 4-month period as a reasonable expectation that the veteran or beneficiary should notify the PMC.

Processing—We identified claim types with VBA product codes. We obtained the average days to complete goals for six product codes from VBA's M21-4, as shown in Table 5. The table defines processing timeliness goals. The goals measure from the date of claim to the date the PMC authorizes the award or completes the product. We used these timeliness goals to allow for reasonable processing time at PMCs.

Table 5

Average Days to Complete—Processing Timeliness Goals		
Pension Claim Type	Product Code	Goal (Days) ¹
Dependency Change	137	30
EVR	050	N/A
	155	45
Income Change	150	85
	157	85
IVM	154	N/A
New Award ²	187	90
	197	65
Nursing Home/Hospital Adjustment	135	N/A

Source: VBA's M21-4

¹The M21-4 did not list a goal for three of the product codes we reviewed (050, 135, and 154). Product code 050 identified when the PMC received an EVR in which no action was necessary. For product code 135 we allowed a target processing time of 60 days consistent with VBA's due process notification period for awaiting a response from a veteran or beneficiary. For product code 154 we allowed a target processing time of 120 days—to allow for 60 days of independent verification of income and 60 days for VBA's due process notification period.

²New awards include 180 and 190 series product codes.

The current guidance from M21-4 provides indicators to measure the timeliness of claims processing. According to VBA officials, VBA has not updated the goals in the M21-4 since 2008. They stated that VBA updates performance targets annually based on current and future workload, resource needs, and management emphasis, and that those updates are published in the annual budget submissions. However, we used the goals listed in M21-4 to allow for reasonable processing time because they are indicators used to monitor the general effectiveness of claims processing, and the intent is to provide efficient, quality service to pension recipients.

Weights

We calculated estimates in this report using weighted sample data. Sampling weights are computed by taking the product of the inverse of the probabilities of selection at each stage of sampling.

Projections and Margins of Error

We sampled 494 claims, which a projected 60 percent (+/- 4.6 percent) required retroactive adjustments. We identified a projected \$480 million in underpayments and \$271 million in overpayments, for a total of over \$751 million. We adjusted these findings to allow processing time for claims completed within VBA's timeliness goals noted in Table 5, as well as a notification time of 4 months. The adjusted results shown in Table 6 found approximately \$308 million in underpayments and \$194 million in overpayments for a total of \$502 million. The projected average gross adjusted payment was \$4,500 (+/- \$800) and occurred over an estimated average of 15 months (+/- 1 month). Once PMCs received and processed the claims, staff correctly calculated payment adjustments 96 percent (+/- 2 percent) of the time.

Please note: Numbers are rounded for report presentation. In the following tables, the margins of error (+/-) for each of the categories do not sum to the margin of error for the total. Margins of error are calculated independently for each projected value.

Table 6

Projected Underpayments and Overpayments (in millions)						
Category	Under-Payments	+/-	Over-Payments	+/-	Total	+/-
Notification Delays	\$115	\$53	\$100	\$45	\$215	\$69
Processing Delays	193	41	94	43	287	58
Total	\$308	\$73	\$194	\$74	\$502	\$102

Source: OIG statistical analysis of underpayments and overpayments during notification and processing delays

Note: Because of rounding, totals may not sum.

Table 7 depicts the projected significantly delayed adjusted payments by claim type, including the associated margins of error. For presentation purposes, we combined results of income changes and dependency changes.

Table 7

Projected Significant Delayed Adjusted Payments by Claim Type (in millions)				
Pension Claim Type	Notification Delays	+/-	Processing Delays	+/-
EVR	\$113	\$57	\$52	\$37
Income and Dependency Change	42	13	67	27
IVM	55	38	9	13
New Award	N/A	N/A	148	25
Nursing Home/ Hospital Adjustment	5	4	11	3

Source: OIG statistical analysis of significant notification and processing delays by claim type

Note: Because of rounding, totals may not sum.

During the 1-year period ending March 31, 2012, a projected 153,000 (+/- 11,600) claims required retroactive payment adjustments. Table 8 details the projected maintenance claims and new awards with retroactive payment adjustments, and the percentage of the population of claims they represent, as outlined in Table 4.

Table 8

Projected Claims With Retroactive Payment Adjustments Claims Completed April 2011–March 2012				
Pension Claim Type	Number of Claims	+/-	Percent of Claims	+/-
Maintenance Claim	108,400	12,500	54	6
New Award	44,600	3,200	87	6
Total Claims with Retroactive Adjustments	153,000	11,600	60	5

Source: OIG statistical analysis of maintenance claims and new awards with retroactive payment adjustments

Note: Because of rounding, totals may not sum.

We projected the number of claims requiring payment adjustments that experienced significant delays in Table 9. Of the projected 153,000 claims with retroactive payment adjustments, approximately 111,100 claims experienced significant delays affecting a projected 93,000 (+/- 10,200) veterans' and beneficiaries' awards or adjustments of pension payments. The 93,000 veterans and beneficiaries accounted for a calculated 18 percent of 514,000 active pension recipients as of March 2012.

Table 9

Projected Claims With Significantly Delayed Adjusted Payments Claims Completed April 2011–March 2012		
Type of Adjustment	Number of Claims	+/-
Significant Notification Delays With Adjustments	56,400	10,200
Significant Processing Delays With Adjustments	84,500	10,700
Significant Notification and Processing Delays With Adjustments	(29,800)	8,500
Total Significant Delays with Adjustments	111,100	11,700

Source: OIG statistical analysis of pension claims with significant notification and processing delays requiring adjustments

Note: Because of rounding, totals may not sum.

The 56,400 significant notification delays accounted for a projected 37 percent (+/- 6 percent) of 153,000 claims requiring adjustment. The 84,500 significant processing delays accounted for a projected 55 percent (+/- 6 percent) of 153,000 claims requiring adjustment.

PMCs completed a projected 31,900 new claims an estimated average of 6 months (+/- 1 month) beyond their timeliness goals. We projected the number and amount of new awards with significant processing delays in Table 10.

Table 10

New Awards With Significant Processing Delays (dollars in millions)				
New Award Type	Delayed Awards	+/-	Under-Payments	+/-
Veterans	17,400	3,400	\$90	\$29
Veterans' Beneficiaries	14,500	2,900	58	19
Total	31,900	4,500	\$148	\$25

Source: *OIG statistical analysis of new awards with significant processing delays*

Note: Because of rounding, totals may not sum.

We estimated the number and amount of maintenance claims with significantly delayed adjusted payments in Table 11.

Table 11

Maintenance Claims With Significant Notification or Processing Delays (dollars in millions)				
Pension Claim Type	Delayed Adjustments	+/-	Total Over- and Under-Payments	+/-
EVR	41,400	10,100	\$165	\$80
Income and Dependency Change	31,000	3,700	110	30
IVM	3,900	1,500	64	44
Nursing Home/ Hospital Adjustment	3,000	500	16	4
Total	79,200	11,800	\$354	\$96

Source: *OIG statistical analysis of maintenance claims with significant delays*

Note: Because of rounding, totals may not sum.

We identified the estimated number of maintenance claims that received significant delays in adjusted benefits and the associated underpayments and overpayments. Table 12 details the projected notification delays and Table 13 details the projected processing delays.

Table 12

Projected Notification Delays by Maintenance Claim Type (dollars in millions)						
Pension Claim Type	Delayed Adjustments	+/-	Under-Payments	+/-	Over-Payments	+/-
EVR	33,700	9,400	\$83	\$51	\$30	\$25
Income and Dependency Change	18,200	3,400	32	11	11	7
IVM	3,900	1,700	0	0	55	38
Nursing Home/Hospital Adjustment	600	300	0.04	0.05	5	4
Total	56,400	10,200	\$115	\$53	\$100	\$46

Source: OIG statistical analysis of maintenance claims with notification delays

Note: Because of rounding, totals may not sum.

Table 13

Projected Processing Delays by Maintenance Claim Type (dollars in millions)						
Pension Claim Type	Delayed Adjustments	+/-	Under-Payments	+/-	Over-Payments	+/-
EVR	28,100	9,000	\$19	\$16	\$33	\$33
Income and Dependency Change	20,900	3,600	25	13	42	24
IVM	760	900	0	0	9	13
Nursing Home/Hospital Adjustment	2,900	500	1	1	10	3
Total	52,600	10,300	\$46	21	\$94	\$43

Source: OIG statistical analysis of maintenance claims with processing delays

Note: Because of rounding, totals may not sum.

The margins of error and confidence intervals are indicators of the precision of the estimates. If we repeated this audit with multiple samples, the confidence intervals would differ for each sample but would include the true population value 90 percent of the time.

Appendix D Potential Monetary Benefits in Accordance With Inspector General Act Amendments

Recommendations	Explanation of Benefits	Better Use of Funds	Questioned Costs
1-6	<p>We identified a projected \$480 million in under-payments and \$271 million in overpayments, for a total of over \$751 million. We adjusted these findings to allow processing time for claims completed within VBA's timeliness goals noted in Table 5, as well as notification time of 4 months. The adjusted results shown in Table 6 found approximately \$308 million in under-payments and \$194 million in overpayments for a total of \$502 million.</p>	\$502 million	\$0
Total		\$502 million	\$0

Appendix E Under Secretary for Benefits Comments

Department of Veterans Affairs

Memorandum

Date: August 9, 2013
From: Under Secretary for Benefits (20)
Subj: OIG Draft Report—Audit of Pension Payments
[Project No. 2012-00181-R5-0012)—VAIQ 7363942
To: Assistant Inspector General for Audits and Evaluations (52)

1. Attached is VBA's response to the OIG's draft report: Audit of Pension Payments.
2. Questions may be referred to Catherine Milano, Senior Program Analyst, at 461-9216.


for Allison A. Hickey

Attachment

**Veterans Benefits Administration (VBA)
Comments on OIG Draft Report
Audit of Pension Payments**

VBA provides the following comments:

VBA agrees with the central finding of this report, that “VBA can improve the timeliness . . . of pension payment processing.” Consistent with the Department’s goal of processing disability claims in less than 125 days with 98% accuracy, VBA is constantly seeking ways to improve claims processing and provide better service to claimants. VBA also agrees with OIG’s recommendations that it must take steps to preserve the integrity of the pension program. However, VBA disagrees with portions of OIG’s analysis and questions whether some of OIG’s recommendations will in fact remedy problems identified during the audit. VBA further notes that the increased program integrity measures recommended by OIG (i.e., verifying income and conducting additional income matches) will also add to the increased workload that OIG identifies on page two as a cause of VBA’s processing delays. We address each of these issues in turn.

OIG states in the second paragraph on page two that delays in claims processing occurred because of, “increased workload and a lack of clear communication of priorities.” As a remedy for this communication gap, OIG recommends that Pension Management Centers (PMCs), “clearly outline processing priorities in their workload management plans.” VBA acknowledges that increased workload adversely affects the PMCs’ ability to timely process pension claims and agrees that communication regarding the requirements of a workload management plan is necessary to achieve efficiency. However, we disagree that such a plan will necessarily improve processing of *pension* claims for two reasons.

First, VBA’s three PMCs process more than just pension claims. In the past three years, the PMCs have received an average of 140,000 burial claims annually. PMCs also process dependency and indemnity compensation (DIC) claims, which, due to recent prioritization efforts, now number approximately 1,626 in the backlog (June 2013) as compared to 6,020 in January 2013. The high volume of non-pension work is relevant because shifting resources to prioritize one component of the PMC workload (e.g., pension maintenance claims) necessarily diverts resources from other aspects, and, as a result, may adversely affect the timeliness of other claims processed by the PMCs. OIG’s analysis overlooks the fact that the prioritization of any part of the PMC workload requires resources that will not be available to work other PMC claims.

Second, although establishing clear workload priorities will clarify expectations about workload and the current priority of effort, OIG’s recommendation is premised on the assumption that the established priority of effort would automatically default to pension or pension maintenance claims. Based on VA policy regarding the delivery of benefits, VBA has consistently resourced at a higher level the processing of claims for initial entitlement (e.g., Veterans or survivors pension) as compared to pension maintenance claims. In contrast, our experience is that an initial applicant for pension or DIC is not likely to be receiving any VA benefits. Accordingly, VBA’s practice is that PMCs generally allocate more resources to the processing of initial applications for pension or DIC benefits than for maintenance workload. Because a clear

workload plan, although valuable for other reasons, may not necessarily prioritize pension or pension maintenance claims, it is unclear whether OIG's recommendation will meaningfully address the problem of delays in processing pension claims.

Throughout the report, OIG states that delays in processing both original (new) and pension maintenance claims produces under- and overpayments. VBA agrees that delays in processing adjustments to existing (running) awards create under- and overpayments. However, in the third paragraph on page three, OIG states that, "PMCs were not able to award benefits on an estimated 31,900 new claims within their timeliness goals, which resulted in a projected \$148 million in *underpayments*" (emphasis added). Although delays in processing claims may cause undue hardship for some claimants and should be avoided if at all possible, VBA does not agree that delays in processing new pension claims produces underpayments. To the extent a Veteran's or beneficiary's benefits are delayed, effective date provisions in the law make the Veteran or beneficiary whole when VBA processes the claim and makes payment.

OIG states that improving the timeliness of pension maintenance claims will reduce the amount of under- and overpayments. VBA agrees with this conclusion and the premise that both under- and overpayments should be reduced. However, OIG's focus on the number and amount of under- and overpayments as a measure of claims processing performance implies that such benefit adjustments are avoidable, which is incorrect and contrary to law. The pension program operates retroactively by design. By law, pension payments are reduced by a beneficiary's annual income. *See e.g.*, 38 U.S.C. § 1521(b) (providing that "pension shall be paid to the veteran at the annual rate of \$11,830, *reduced by the amount of the veteran's annual income*") (emphasis added). Although VA calculates initial pension rates based on the income, medical expenses, and dependency information provided by the applicant with his or her application, both VA and the applicant lack perfect information on whether income, medical expenses, or dependency will in fact change during the reporting period. Thus, any implication that under- and overpayments are avoidable is misplaced.

VBA has concerns about the validity of OIG's findings and recommendations to the extent that they attempt to link timeliness with accuracy and imply that VBA can somehow enforce expedited reporting to VA when beneficiary circumstances change. On page i, paragraph two, OIG states, VBA "can improve the timeliness, and therefore the accuracy, of pension payment processing." This language suggests a link between the timeliness of processing pension claims and accuracy, which may be misleading. Timeliness measures the time required to complete an action. The term "accuracy," when used in the context of claims adjudication, typically refers to an assessment of whether VA employees followed agency policies and procedures. Accordingly, the concepts are materially different and mutually exclusive. In addition, as OIG noted in the report, "[o]nce PMC staff processed the claims, they correctly calculated pension payments for new awards and adjustments 96 percent of the time."

On page 12 of its report, OIG asserts that VBA could reduce under- and overpayments "[i]f PMCs obtained change information within 4 months of the change in eligibility and processed adjustments and new claims within established timeliness goals." As OIG acknowledges, a large part of any effort to reduce under- and overpayments is necessarily dependent on claimant reporting, which presents three challenges. First, VBA has no control over claimant reporting behavior. Second, many claimants have no incentive to timely report changes in entitlement.

Claimants who fail to timely report income and status changes and benefit from an overpayment suffer no consequences other than the creation and possible repayment of a debt to the Government. While claimants who will receive increased benefits due to changes in circumstances, such as decreased income or increased medical expenses, may promptly report the changes, statutory effective date provisions protect the benefits of those who do not. Third, VA regulations, 38 C.F.R. § 3.660(a), and VBA communications (e.g., pension decisions and VA Form 21-8767, *Disability Pension Award Attachment*) currently notify beneficiaries that they must report changes in income or circumstances that affect entitlement status. Although VBA can emphasize the reporting requirement, for those beneficiaries whose status changes VBA cannot independently detect, it will be unable to significantly reduce the under- and overpayments caused by untimely beneficiary reporting.

Four of OIG's recommendations require that VBA take steps to improve the integrity of the pension program. VBA's efforts to improve program integrity have been underway for over a year and include redesigning its income and net worth verification. In the first quarter of fiscal year (FY) 2014, VBA will begin verifying the income of pension applicants at the time of application using federal tax information (FTI) supplied by the Internal Revenue Service (IRS) and Social Security Administration (SSA) and stored in VBA systems. After implementation of this up-front income verification initiative, VBA will work with the Office of Information and Technology (OI&T) to implement a post-award audit program which will take advantage of more timely IRS and SSA data and replace the former Income Verification Match program. After VBA fully implements the up-front income verification initiative and begins auditing existing beneficiaries, VBA will rely to a lesser extent on self-reported changes in income and entitlement status. VBA is also working to establish a matching program with the Centers for Medicare and Medicaid Services for purposes of identifying pension beneficiaries who are in receipt of Medicaid-covered nursing home care and subject to the \$90 monthly limit on pension.

In summary, VBA will continue to take decisive action to preserve the integrity of the pension program, to include improving eligibility verification and the timeliness of pension processing. However, VBA is not responsible for an over- or underpayment in cases where the beneficiary did not timely notify it of a change in circumstance that affects pension entitlement, or where the benefit adjustment was based on the difference between the claimant's estimate of income and expenses for a given period and the countable income actually received during that period.

The following comments are submitted in response to the recommendations in the OIG draft report:

Recommendation 1: We recommend the Under Secretary for Benefits ensure the Pension and Fiduciary Service implements procedures that ensure continued veteran and beneficiary eligibility.

VBA Response: Concur. After full implementation of the up-front income verification initiative, VBA will replace its Income Verification Match (IVM) program with a new post-award auditing process. Combined with current procedures, which require beneficiaries to report changes in circumstances that affect eligibility, these processes will ensure that VBA verifies continued Veteran and beneficiary eligibility.

Target Completion Date: November 30, 2014

Recommendation 2: We recommend the Under Secretary for Benefits ensure the Pension and Fiduciary Service implements a plan to reduce the amount of underpayments and overpayments due to changes in income and dependency.

VBA Response: Concur. VBA's plan to reduce under- and overpayments has three elements: (1) verify the income of pension applicants at the beginning of the process, (2) periodically audit the income of a sample of existing beneficiaries to verify continued eligibility, and (3) implement, where possible and contingent on other VBA benefit priorities, efficiencies in claims processing to reduce the time required to process pension claims. Because these elements are addressed in recommendations one, three, and four, respectively, VBA requests closure of this recommendation.

Recommendation 3: We recommend the Under Secretary for Benefits implement the use of the enhanced interagency exchange agreements with the Internal Revenue Service and Social Security Administration to reduce delays in verifying veteran and beneficiary reported income.

VBA Response: Concur. Action to accomplish this recommendation is already underway as part of VBA's up-front income verification initiative. As a result of revised Computer Matching Agreements (CMAs) with the IRS and SSA and the IRS' approval of the processes and technology for transferring federal tax information (FTI), VBA has extracted records for pension applicants and received FTI from IRS and SSA that will be used to verify income at the time of application. VBA is currently validating the data and developing procedures for implementation.

Target Completion Date: December 31, 2013

Recommendation 4: We recommend the Under Secretary for Benefits establish a matching program with Medicaid to automatically identify veterans and beneficiaries that require nursing home adjustments.

VBA Response: Concur. VBA is currently identifying the Medicaid data elements that will be made available to VBA. We are also finalizing a draft CMA with the Centers for Medicare and Medicaid Services (CMS) that, once approved and funded, will identify VA beneficiaries

receiving Medicaid-covered nursing home services. VBA's ability to implement this CMA depends on the availability of information technology resources to establish the interconnection security agreement and matching programming, as well as funding for conducting the match. Implementation is also contingent upon approval from the Office of the General Counsel and the VA Data Integrity Board.

Target Completion Date (CMA only): January 31, 2014

Recommendation 5: We recommend the Under Secretary for Benefits ensure the Pension Management Centers clearly outline processing priorities in their workload management plans.

VBA Response: Concur. Each PMC currently has its own workload management plan, which describes the types of claims that VBA considers a priority. In April 2013, VBA implemented a national prioritization workload management plan, affecting all PMCs and regional offices. This plan prioritizes one and two year old claims, dependency and indemnity compensation claims, Fully Developed Claims, and claims for those who are homeless, terminally ill, former Prisoners of War, or Medal of Honor recipients. This prioritization guidance supersedes all local workload management plans.

The PMC workload management plans will be assessed and modified as appropriate. The Office of Field Operations will work with Pension and Fiduciary Service to ensure that each PMC's workload management plan clearly defines priorities and employee's roles for working pension claims.

Target Completion Date: February 28, 2014

Recommendation 6: We recommend the Under Secretary for Benefits ensure the Pension and Fiduciary Service implements its plan to revise triage procedures and establish processing lanes to ensure prompt screening and routing of claims.

VBA Response: Concur. Establishment of processing lanes will not contribute to the prompt screening and routing of claims. VBA will revise triage procedures for PMCs to facilitate prompt screening and routing of claims to appropriate processing teams (i.e., rating or maintenance teams) and within processing teams.

Target Completion Date: February 28, 2014

Recommendation 7: We recommend the Under Secretary for Benefits ensure the Pension and Fiduciary Service corrects the duplicate records identified in this audit.

VBA Response: Concur. We are working with the PMCs and other VBA/VA offices to correct the duplicate records that OIG identified during the audit. We note that some of the duplicate records require system-level corrections by VBA's Office of Resource Management and VA's Office of Information and Technology.

Target Completion Date: October 31, 2013

Recommendation 8: We recommend the Under Secretary for Benefits ensure the Pension and Fiduciary Service requests an additional data test be added to their current series of data tests that would identify claimant records with similar or same names under the same file number.

VBA Response: Concur. Current data tests are developed with VA OI&T and provided to P&F Service on a quarterly basis. VBA is currently developing the criteria for the additional data test and will coordinate its implementation with OI&T.

Target Completion Date: December 31, 2013

Appendix F Office of Inspector General Contact and Staff Acknowledgments

OIG Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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Acknowledgments	Larry Reinkemeyer, Director Lance Kramer Brad Lewis Russ Lewis Daniel Morris Carla Reid Melanie Tsai Nelvy Viguera Butler Marilyn Barak
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