VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS

Department of Veterans Affairs

FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act

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ACRONYMS

CHAMPVA	Civilian Health and Medical Program of the Department of Veterans Affairs
DOD	Department of Defense
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
PAR	Performance and Accountability Report
PLTSS	Purchased Long Term Services and Support
OIG	Office of Inspector General
OMB	Office of Management and Budget
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration

Report Highlights: FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act

Why We Did This Audit

We conducted this fiscal year (FY) 2014 review to determine whether VA complied with the requirements of the Improper Payments Elimination and Recovery Act (IPERA).

VA reported improper payment estimates totaling approximately $1.6 billion in its FY 2014 Performance and Accountability Report (PAR) compared with $1.1 billion in its FY 2013 PAR. The higher estimate was primarily the result of increased estimates reported for the Compensation and Pension programs under the Veterans Benefits Administration (VBA).

What We Found

VA met four IPERA requirements for FY 2014 by publishing the PAR, performing risk assessments, providing information on corrective action plans, and for the first time, reporting gross improper payment rates less than 10 percent for all of its programs in the FY 2014 PAR.

VA did not comply with two of six IPERA requirements for FY 2014. The Veterans Benefits Administration (VBA) reported four programs that did not meet its reduction targets. The Veterans Health Administration (VHA) also reported a missed target for one program. Further, VBA did not meet the requirement to publish an improper payment estimate for one program because the estimate was not considered reliable.

Additionally, VA's risk assessments should incorporate a stronger consideration of contracting risk. VBA and VHA should make improvements in identifying improper payments in their statistical samples. VBA's Compensation program crossed an Office of Management and Budget (OMB) threshold for potential designation as a high priority program due to errors we found.

What We Recommended

We recommended the Under Secretary for Benefits set reasonable reduction targets, improve sample evaluation procedures and testing, and consult with OMB about high priority designation for the Compensation program. We recommended the Interim Under Secretary for Health implement improved sample evaluation procedures. We recommended the Acting Assistant Secretary for Management improve risk assessments with respect to contracting risk.

Agency Comments

VA management concurred with our recommendations and provided plans for corrective action. We consider the actions acceptable and will follow up on their implementation during the FY 2015 review of VA's compliance with IPERA.

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INTRODUCTION

Objective

We conducted this fiscal year (FY) 2014 review to determine whether VA complied with requirements of the Improper Payments Elimination and Recovery Act (IPERA).

OMB Requirements

The Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments,* specifies that each agency's Inspector General review improper payment reporting in the agency's annual Performance and Accountability Report (PAR). The purpose of the review is to determine if the agency complies with IPERA. According to OMB guidance, compliance with IPERA means that the agency completed the following:

- Published a PAR or Annual Financial Report for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency Web site
- Conducted a specific risk assessment for each program or activity that conforms with title 31, United States Code, section 3321(if required)
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required)
- Published programmatic corrective action plans in the PAR (if required)
- Published and met annual reduction targets for each program assessed to be at risk and measured for improper payments
- Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR

OMB requires that the Office of Inspector General (OIG) issue annually a report assessing VA's compliance with IPERA. For FY 2014, OMB removed the reporting of recapture efforts as an agency compliance requirement.

Data Reported for FY 2014 Report

VA reported improper payment data based on the previous fiscal year activity, as permitted by OMB Circular A-123, Appendix C. As such, VA presented FY 2013 improper payment data in the FY 2014 PAR. The OIG's assessment of VA's compliance with IPERA for FY 2014 is based on the reported FY 2013 data.

RESULTS AND RECOMMENDATIONS

Finding 1 VA Programs Need To Comply Fully With IPERA

VA did not comply with two of six IPERA requirements for FY 2014.

- Specifically, five VA programs—one Veterans Health Administration (VHA) and four Veterans Benefits Administration (VBA) programs—did not meet their reduction targets. Last year, two VHA programs did not meet this requirement.
- VBA did not meet the requirement to publish an improper payment estimate for the Post-9/11 G.I. Bill program because its improper payment estimate of $0 was not considered reliable.

For FY 2014, VA reported in the PAR that all of its programs subject to reporting had gross improper payment rates less than 10 percent, representing an improvement over last year when one program still did not meet this requirement.

In total, VA met four of six IPERA requirements by publishing the PAR on VA's Web site, performing risk assessments to identify programs susceptible to significant improper payments, providing information on corrective action plans, and reporting a gross improper payment rate of less than 10 percent for each of its reportable programs.

Reduction Targets Were Not Met for Five Programs

VA published improper payment rates and reduction targets in the FY 2014 PAR as required. However, one VHA program and four VBA programs did not meet their reduction targets. OMB requires agencies to publish and meet annual reduction targets for each program determined to be at risk and measured for improper payments.

For FY 2014, VHA's Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA) missed its improper payment target rate of 2.25 percent with a reported rate of 4.83 percent. VHA said the target was missed because two claims in the sample were anomalies. VHA considered them to be outliers that distorted the sample results and statistical precision. VHA said it has increased the program's sample size from 364 to 1,500 for FY 2015 and revised its sample design to reduce the risk presented by outliers.

The four VBA programs that missed their targets are listed below with their actual and target improper payment rates:

- Compensation—1.32 percent actual and 0.67 percent target
- Pension—4.64 percent actual and 1.75 percent target

- Vocational Rehabilitation and Employment—1.72 percent actual and 0.27 percent target
- Montgomery G.I. Bill—Selected Reserve—0.70 percent actual and 0.33 percent target

VBA management said that it missed the targets for these programs because it improved the sample evaluation plans, which produced an anticipated spike in reported improper payment rates. VBA said that it improved the plans by testing more attributes that could indicate improper payments.

Two Programs Showed Improvement in Meeting Reduction Targets

For FY 2013, we reported that the State Home Per Diem and Beneficiary Travel programs did not meet their reductions targets. However, for FY 2014, the published improper payment rates for these two programs met their respective reduction targets. The State Home Per Diem program's improper payment target was 9.90 percent and the reported rate was 3.02 percent. VHA attributed this improvement to documentation reviews, better internal auditing practices, and expanded training. The Beneficiary Travel program's target rate was 9.30 percent and the reported rate was 5.09 percent. VHA attributed the improvement to a better sampling methodology, additional training, use of certifications, and development of administrative tools.

Post-9/11 G.I. Bill Improper Payment Estimate of $0 Was Unreliable

VA published an improper payment estimate of $0 for the Post 9/11 G.I. Bill program that was considered unreliable based on our review. This program is the third largest that VA reported as susceptible to significant improper payments, with outlays of over $10 billion. The reporting of no estimated improper payments for this program was therefore significant, and in light of other contradictory information, even misleading.

We determined that the program's estimate of improper payments was unreliable due to incomplete testing procedures used by VBA to produce its estimate, VBA's own analysis, and in comparison with the results of a previous OIG report. VBA's testing procedures were incomplete because, as we reported last year, VBA did not verify information provided by education institutions as part of evaluating its statistical sample. VBA therefore made projections using potentially inaccurate sample results.

During FY 2014, VBA conducted a historical analysis of Education programs that included verification of attributes affecting payments and school-provided information over a 3-year period. VBA identified errors in 90 out of 855 sampled payments, or an approximate error rate of 10 percent. VBA said it did not calculate a dollar effect nor retain information to replicate its conclusions. Based on the results of its analysis, VBA said it would verify school information for its Education program samples starting in FY 2015. VBA also revised its FY 2015 improper payment target for the Post-9/11 G.I. Bill program from $0 to approximately $162 million, as published in the FY 2014 PAR.

VBA's improper payment estimate of $0 for the Post-9/11 G.I. Bill program was also inconsistent with the estimated annual improper payments of $34 million reported in OIG's report, *Audit of VBA's Post-9/11 G.I. Bill Monthly Housing Allowance and Book Stipend Payments*, Report No. 13-01452-214, July 11, 2014. The OIG evaluated VBA's management of the Post-9/11 G.I. Bill program's monthly housing allowance and book stipend payments, a subgroup of the program's payments. To obtain our results, we validated VBA's student records and payment calculations against school-supplied information to verify student eligibility and the accuracy of payments.

Despite VBA's historical analysis and the OIG report, such discrepant information was not disclosed in the PAR except for the program's future improper payment targets. VA provided no explanation in the PAR as to why the estimated $0 improper payments reported in FY 2014 were projected to rise to $162 million in FY 2015. Rather, VA stated in the PAR that "For the third consecutive year, Education program related improper payments remained extremely low."

Improper Payment Rates Were All Below 10 Percent

For FY 2014, VA reported improper payment rates below 10 percent for all of its programs. As such, VA complied with this OMB requirement for the first time since the enactment of IPERA. Last year, VHA reported the State Home Per Diem program as noncompliant with an improper payment rate of 15.94 percent. VHA reported a much lower rate of 3.02 percent for FY 2014. VHA cited the same reasons for this improvement as it did for meeting this program's reduction target.

Conclusion

VA made progress in its IPERA compliance for FY 2014. For the first time, VA reported that all of its programs had improper payment rates below 10 percent. VHA reported only one program that did not meet its reduction target compared with two programs last year. However, VBA reported four programs—compared with none last year—that did not meet their reduction targets. VBA said these programs missed their targets because it improved its testing procedures, which helped it identify more improper payments. We commend VBA for these reported improvements even though they resulted in missing program reduction targets.

Regarding the requirement to publish improper payment estimates, we concluded that the improper estimate of $0 for the Post-9/11 G.I. Bill program was not reliable and constituted noncompliance with this requirement. VBA said it is implementing improved sample evaluation procedures, and it has updated the projected improper payment targets for FY 2015.

Recommendations

1. We recommended the Interim Under Secretary for Health ensure implementation of the revised sampling plan for the Civilian Health and Medical Program of the Department of Veterans Affairs to address sample outliers and adjust the program's reduction target to a reasonably achievable level, if necessary.
2. We recommended the Under Secretary for Benefits monitor the results of the Veterans Benefits Administration's revised testing plans for the Compensation, Pension, Montgomery G.I. Bill, and Vocational Rehabilitation and Employment programs and adjust the reduction targets to reasonably achievable levels, if necessary.
3. We recommended the Under Secretary for Benefits implement revised testing plans for the Post-9/11 G.I. Bill and its other reported Education programs that ensure valid and auditable estimates of improper payments.

Management's Comments and OIG Response

The Interim Under Secretary for Health concurred with Recommendation 1 and reported that VHA had increased the program's sample size from 364 to 1,500 for FY 2015 and revised its sample design to reduce the risk presented by outliers. These actions are responsive, and we will review their implementation and whether the CHAMPVA program has met its reduction target during our FY 2015 review of VA's compliance with IPERA. The Interim Under Secretary for Health's complete response is included in Appendix G of this report.

The Under Secretary for Benefits concurred with our recommendations. She responded that reduction targets will be assessed each year based on current testing results and changes in business processes that help reduce improper payments. Additionally, for the FY 2015 IPERA review, the Education Service is requesting supporting documentation from the schools or training establishments. The supporting documentation will include transcripts, billing records, and attendance records. As such, we will follow up on VA's performance related to both recommendations during our next annual IPERA review. The Under Secretary for Benefits' complete response is included in Appendix F of this report.

Finding 2 Risk Assessments May Not Identify All Reportable Programs

VA's risk assessment process did not identify contracting as a significant risk factor despite over $20 billion in vendor payments for FY 2013 according to VA's internal data. Without a strong focus on contracting risk, VA may not identify all programs susceptible to significant improper payments and therefore not report on them as required by IPERA.

Contracting Risk

Contracts are mutually binding legal relationships obligating a seller to furnish supplies or services and the buyer to pay for them. VA paid over $20 billion to vendors for FY 2013. VA must generally follow the Federal Acquisition Regulation and the VA Acquisition Regulation when procuring goods and services. When those purchases do not follow such regulations, the resulting payments are improper to the extent that they "should not have been made…under statutory, contractual, administrative, or other legally applicable requirements," as OMB's definition of improper payments states.

When contracts are not properly awarded and managed, VA is at risk of improper payments such as:

- Paying vendors who may be ineligible to provide the goods and services
- Overpaying for goods and services
- Paying for defective goods and services
- Making payments that are unsupported due to lack of documentation

OIG Has Reported Significant Contracting Issues

A recent OIG audit report illustrated weaknesses in VA's contracting practices that could affect improper payments. In our report, *Audit of Support Service Contracts* (Report No. 12-02576-30, November 19, 2014), we concluded that unless VHA improved its support service contracting process, an estimated $159 million in contracts would be inappropriately competed, awarded, and managed annually. Three examples of weaknesses that we cited in our report follow.

Example 1

Contracting officers did not sign contract documents, or sign them before the contract's effective date, for 59 out of 95 sampled contracts (62 percent), with a total value of $25.9 million. Without valid contracts, purchases lack proper authorization.

Example 2

Contracting officers did not always include contract documentation in VA's Electronic Contract Management System to provide a complete history of contract awards. We identified documentation was missing in the Electronic Contract Management System for 53 of the 58 competitive contracts (91 percent) and all of the 37 noncompetitive contracts sampled. Without appropriate documentation, OMB instructs reviewers to treat payments as improper.

Example 3

Contracting staff improperly paid invoices and did not de-obligate funds for completed contracts for a projected 790 contracts (24 percent). VHA could have saved $18.6 million through better invoice and fund management.

Many VA Programs Have High Vendor Payments

According to VA's data, VA has six programs with over $1 billion in vendor payments that were not identified as susceptible to significant improper payments and thus were not subject to IPERA reporting. Eight additional programs had over $100 million in vendor payments that also were not so identified.

OMB requires agencies to annually report in the PAR on programs that are susceptible to significant improper payments. OMB defines significant improper payments as:

- "Gross annual improper payments . . . exceeding both 1.5 percent of program outlays and" $10 million of all program payments for a fiscal year, or
- $100 million in gross improper payments

Based on this definition, a $1 billion program would cross the reporting threshold if it were at risk of making $15 million or more in improper payments.

Conclusion

These 14 programs, along with other smaller programs that have a significant concentration of vendor payments, should be re-assessed for improper payment risk using more robust procedures that focus on contracting risk. Without such procedures, VA cannot be assured that it has identified and reported on all programs susceptible to significant improper payments.

Recommendations

4. We recommended that the Acting Assistant Secretary for Management improve the risk assessment guidance and instructions to include an assessment of risk associated with contracting activities.

5. We recommended that the Acting Assistant Secretary for Management perform risk assessments for programs with a high concentration of vendor payments using revised procedures that include contracting risk.

Management's Comments and OIG Response

The Acting Assistant Secretary for Management concurred with our recommendations and said that the Office of Management will revise VA guidance in preparation for the FY 2016 risk assessment cycle. For the interim period, the Office of Management will conduct a judgment sample of payments from programs with significant contractor payments for FY 2015

IPERA reporting. We consider the actions to be responsive. Judgmental sampling in FY 2015 can help inform risk assessments planned for FY 2016. However, we note that VA may not have sufficient time to comply with all IPERA reporting requirements for FY 2015 if additional programs are identified as being susceptible to significant improper payments. However, we commend the Acting Assistant Secretary for Management for initiating action during FY 2015 as this action provides a more proactive strategy to help identify and mitigate improper payments. We will follow up on these actions during our FY 2015 review of VA’s compliance with IPERA. The Acting Assistant Secretary for Management’s complete response is included in Appendix H of this report.

Finding 3 VA's IPERA Reporting Could Use Additional Improvements

We identified the following areas where VA should improve its IPERA reporting process:

- VBA needs to improve its evaluation of sample items for the Compensation program to better identify improper payments.
- Improper payments associated with concurrent military reserve pay could be identified better for the Compensation and Pension programs.
- VHA should improve its sample evaluation plans for two programs—Non-VA Medical Care and Purchased Long Term Services and Support (PLTSS)—by testing for valid contracts that support payments.

I. Accuracy in Compensation Program's Reporting Could Be Improved

VBA underreported improper payments for its Compensation program as a result of not accurately identifying all improper payments in its sample. From VBA's sample of 404 Compensation payments, the OIG reviewed 30 payments related to temporary 100 percent disability evaluations, traumatic brain injury, or special monthly compensation claims. Of the 30 payments reviewed, we identified two related to temporary 100 percent disability evaluations that lacked routine medical examinations required to support veterans' benefits. We also identified an overpayment due to a calculation error and an underpayment due to the use of a wrong rate.

The two payments related to medical examinations are subject to VBA's policy that requires a temporary 100 percent disability evaluation for a service-connected disability following a veteran's surgery or when specific treatment is needed. At the end of a mandated period of convalescence or treatment, VA Regional Office staff must request a follow-up medical examination to help determine whether to continue the veteran's 100 percent disability evaluation. For FY 2014, VBA added a step to check for the required medical examination, but the evaluation team missed identifying the two payments. In these two cases, the required medical examination had not taken place prior to payment. According to OMB Circular A-123, Appendix C when an agency's review is unable to discern whether a payment was proper as a result of a lack of or insufficient documentation, this payment must be considered an improper payment.

We recalculated VBA's improper payment estimate for the Compensation program to include the two improper payments related to temporary 100 percent disability evaluations, the overpayment due to a calculation error, and the underpayment due to the use of a wrong rate. Consequently, the estimate increased from approximately $713.2 million to $863.7 million. The improper payment rate also increased from 1.32 percent to 1.60 percent.

The recalculated estimate of $863.7 million in improper payments crosses the $750 million threshold set by OMB for designating a high-priority program. High-priority programs must take additional actions, such as setting semi-annual or quarterly actions for reducing improper payments and reporting additional information. The OIG also must increase its level of review for such programs. VBA should obtain guidance from OMB concerning the possible designation of the Compensation program as a high-priority program for FY 2015 or later.

Recommendations

6. We recommended that the Under Secretary for Benefits ensure thorough testing of sample items used to estimate improper payments for the Compensation program.
7. We recommended that the Under Secretary for Benefits consult with the Office of Management and Budget regarding the potential designation of the Compensation program as a high-priority program.

Management's Comments and OIG Response

The Under Secretary for Benefits concurred with our recommendations and said that in November 2014, VBA revised the Compensation program test plan to better identify improper payments and fully trained subject matter experts on completing error analyses. Additionally, VBA will also coordinate with VA's Office of Management to set up a meeting with the Office of Management and Budget to discuss the potential designation of the Compensation program as a high-priority program. We will review the results of these actions during our FY 2015 review of VA's compliance with IPERA. The Under Secretary for Benefits' complete response is included in Appendix F of this report.

II. Identification of "Drill Pay" Related Improper Payments Could Be Improved

"Drill pay" is military reserve pay earned by reservists and National Guard members while training on weekends and during full-time training events. Federal regulations prohibit reservists and National Guard members from concurrently receiving VA Compensation or Pension benefits and drill pay. However, VA does not currently have the ability to prevent such prohibited concurrent payments and must rely on an annual data match with the Department of Defense (DOD) to identify them after the fact.

VBA has identified concurrent payments in its Compensation program samples and included them as improper payments in its statistical projection for IPERA. However, VBA cannot ensure that it identifies all improper concurrent payments in its Compensation program samples because of delays in processing the related offsets. Offsets are recoveries of VA benefit payments when a beneficiary chooses to retain drill pay. Most beneficiaries choose to retain drill pay and waive VA benefits, which usually are less.

The identification of waivers and offsets in a veteran's record is the primary method VA uses to identify improper concurrent payments in its IPERA samples. As described in our report, *Audit of the Management of Concurrent VA and Military Drill Pay Compensation*, (Report No. 13-02129-177, June 3, 2014), VBA was significantly behind in processing offsets for FYs 2011 and 2012. The situation has continued as VBA estimated for December 2014 that only $17 million in overpayments for FY 2013 were in the recovery process, with an additional $76 million dollars likely to be identified for offset. Regarding the Pension program, VBA's test plan does not check for these payments.

We noted that the annual DOD file contains the information needed by VBA to identify improper concurrent payments, while veteran records may or may not be updated for waivers and offsets. We recommended that VBA compare its samples with the DOD file to ensure full identification of any improper concurrent payments. VBA could also modify its sampling approach to segregate drill pay related payments, as identified by the DOD file, for a more accurate estimate. In response, VBA believed a historical analysis was needed to see if using the DOD file would improve its estimates.

Recommendation

8. We recommended that the Under Secretary for Benefits use the annual Department of Defense drill pay matching file to identify improper drill pay-related payments in its Compensation and Pension program samples to ensure accurate and auditable reporting.

Management's Comments and OIG Response

The Under Secretary for Benefits concurred with our recommendation. VBA will review the current drill pay matching file from the Department of Defense and determine, in conjunction with VBA's statisticians, the best way to incorporate the data into the improper payment estimate. We consider these actions to be responsive and we will review the results during our FY 2015 review of VA's compliance with IPERA. The Under Secretary for Benefits' complete response is included in Appendix F of this report.

III. Test Procedures Should Be Improved for Two VHA Programs

VHA did not identify four payments lacking valid procurement documents as improper in its IPERA sample results for the Non-VA Medical Care and Purchased Long Term Services and Support (PLTSS) programs. This occurred because VHA's evaluation procedures did not consider lack of valid procurement documents as a criterion for improper payments.

Specifically, we identified one payment in the Non-VA Medical Care sample and three payments in the PLTSS sample that lacked valid procurement documents. In these four cases, the contract had either expired or VHA could not locate the documentation. We also noted that VHA identified two of these payments as improper for reasons unrelated to valid contracts, and therefore did not count the entire payment as improper. According to OMB's definition, improper payments include those that "should not have been made . . . under statutory, contractual, administrative, or other legally applicable requirements." VHA agreed that these payments should have had valid contracts in place supporting the payments.

We recalculated VHA's improper payment estimate for the Non-VA Medical Care and PLTSS programs including these additional improper payment amounts. Consequently, the estimates increased from approximately $311 million to $316 million for the Non-VA Medical Care program and from $123 million to $133 million for the PLTSS program. The programs' respective improper payment rates also increased from 9.24 percent to 9.38 percent and from 8.95 percent to 9.64 percent. These rates could potentially and significantly increase if VHA were to test payments for valid supporting procurement documentation.

Conclusion

During this year's review, we identified several areas for improvement in VA's IPERA compliance activities. VBA needs to ensure a thorough evaluation of its Compensation sample to more accurately identify improper payments. VBA also has information available that would allow it to identify all improper drill pay-related improper payments. VHA also needs to improve its evaluation procedures for the Non-VA Medical Care and PLTSS programs by checking for valid procurement documentation.

Recommendation

9. We recommended that the Interim Under Secretary for Health improve test procedures for the Non-VA Medical Care and Purchased Long Term Services and Support programs by verifying the existence of valid contracts that support payments for these programs.

Management's Comments and OIG Response

The Interim Under Secretary for Health concurred with our recommendation. VHA will incorporate contracting aspects into the test plans for the Non-VA Medical Care and Purchased Long Term Services and Support programs for its FY 2015 review. We will follow up these actions during our FY 2015 review of VA's compliance with IPERA. The Interim Under Secretary for Health's complete response is included in Appendix G of this report.

Appendix A Background

IPERA and OMB Requirements

IPERA significantly amended the Improper Payments Information Act of 2002 and repealed the Recovery Auditing Act. OMB Circular A-123, Appendix C provides requirements for implementing IPERA.

Under IPERA, each agency must periodically review and identify its programs and activities that may be susceptible to significant improper payments. OMB defined significant improper payments as gross annual improper payments exceeding both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported, or $100 million in gross improper payments. Beginning with FY 2014 reporting, OMB reduced the percentage threshold to 1.5 percent from 2.5 percent in previous years.

Agencies are to identify susceptible programs through periodic risk assessments performed on all programs. For each program identified as susceptible, the agency generally is required to report in its PAR:

- A statistically valid estimate, or an estimate approved by OMB, of the improper payments
- Corrective action plans for reducing estimated improper payments, including a discussion of the causes of those improper payments, for programs with improper payment estimates greater than $10 million and 1.5 percent of program outlays
- Program-specific targets for reducing improper payments that have been approved by OMB

Overall, VA reported approximately $1.6 billion in improper payments in its FY 2014 PAR compared with $1.1 billion in its FY 2013 PAR. The increase was due primarily to higher reported improper payments for VBA's Compensation and Pension programs. As discussed in Finding 1, VBA said that it improved the sample evaluation plans for these programs, which produced an anticipated spike in reported improper payment rates.

As allowed by OMB Circular A-123, Appendix C, VA opted to report improper payment data based on the prior year, and therefore presented FY 2013 improper payment data in its FY 2014 PAR.

Improper Payment Definition

OMB Circular A-123, Appendix C, defines an improper payment as follows.

> *An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts,*

payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

Improper Payments Elimination and Recovery Improvement Act

The enactment of the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) required OMB to identify annually a list of high-priority programs for greater levels of oversight and review and to provide guidance to agencies for improving the estimates of improper payments. IPERIA also made payments to Federal employees subject to risk assessment and, where appropriate, improper payment estimation. OMB made its guidance for these changes effective for FY 2014 reporting.

Changes in Reported Programs

For FY 2014, VA reported three new programs and activities: PLTSS, the Disaster Relief Act—Hurricane Sandy, and Payments to Federal Employees—Payroll.

- **Purchased Long Term Services and Support—**For FY 2014, VHA separated the Non-VA Care Fee program into two separate programs—the Non-VA Medical Care program and the PLTSS program. VA said the purpose was to increase visibility and accountability for these programs.
- **The Disaster Relief Act—Hurricane Sandy—**The Disaster Relief Appropriations Act of 2013 automatically designated Hurricane Sandy relief funds as susceptible to significant improper payments and thus subject to IPERA reporting requirements.
- **Payments to Federal Employees—Payroll—**VA reported this activity based on the results of its risk assessment, which identified the complexity surrounding payments to medical professionals as a risk factor.

Program Office Responsibility

The Office of Cash, Cost and Debt Management Services within the Office of Management provides oversight and coordination of IPERA compliance activities. Individual administrations and staff offices are responsible for performing IPERA requirements applicable to their programs.

Prior Reviews

Since March 2012, we have issued annual reports on VA's compliance with IPERA, as required by OMB, and reported that VA was not fully compliant with IPERA. We also reported other areas for improvement. Our conclusions for these reports are summarized below.

- *FY 2013 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act* (Report No. 13-02926-112, April 15, 2014)—VA did not comply with two of seven IPERA requirements, and the Veterans Benefits Administration (VBA) should ensure thorough procedures for testing sample items used to estimate improper payments for two programs. Appendix C provides a summary of VA's compliance with IPERA for FY 2013.

- *Review of VA's Compliance with the Improper Payments Elimination and Recovery Act for FY 2012* (Report No. 12-04241-138, March 15, 2013)—VA did not comply with four of seven IPERA requirements and the Veterans Health Administration's (VHA) estimation methodology could be improved.
- *Review of VA's Compliance with the Improper Payments Elimination and Recovery Act* (Report No. 12-00849-120, March 14, 2012—For FY 2011 we reported that VA did not comply with two of seven requirements and needed to improve its improper payment estimation methodology for five programs.

Appendix B Scope and Methodology

Scope

We conducted our review work from June 2014 through March 2015 at the VA Central Office located in Washington, DC. Our review focused on improper payment information reported in VA's FY 2014 PAR, as required by IPERA.

Methodology

To assess VA's compliance with IPERA, we reviewed the relevant portion of VA's FY 2014 PAR, Part IV, "Other Accompanying Information," as published on VA's Web site, for compliance with OMB's six compliance requirements. We obtained VA's reduction targets from its FY 2013 PAR. We also reviewed VA policy and interviewed VHA, VBA, and Office of Management officials to gain an understanding of VA's IPERA reporting controls. We reviewed a sample of risk assessments for reasonableness, including those for new programs in FY 2014, but we did not validate management's conclusions. We also reviewed for reasonableness VA's corrective action plans reported in the PAR.

Our statistician reviewed the statistical validity of sampling methodologies for the programs reported in the PAR and performed independent calculations to verify sample estimates and margins of error. We reviewed a small number of payments for accuracy from VBA's sample for the Compensation program, as well as test plans for the Compensation program and three Education programs.

We also performed very limited procedures for two VHA programs—Non-VA Medical Care and PLTSS. Those procedures consisted of obtaining information about the programs' payment processes and sample evaluation plans, scanning a small non-statistical subset of VHA's IPERA payment documentation for valid contracts, and obtaining information from VHA concerning payments without appropriate contracts. The purpose of our procedures was to identify areas of improvement for VHA's IPERA evaluation process and not to review VHA's compliance with complex medical billing rules, valid contractual practices, or appropriate legal authorities.

Fraud Assessment

The review team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this review. The review team exercised due diligence in staying alert to any fraud indicators. We did not identify any instances of fraud during this review.

Data Reliability

Information published by VA in the FY 2014 PAR provided the primary basis for our evaluation of VA's compliance with IPERA. To assess the reliability of VA's published information, we reviewed the statistical methodologies that VA applied to payment data and made inquiries about data sources. VHA officials reported that payment data for VHA's statistical estimates came from VA's Financial Management System. VBA officials said Compensation and Pension payment data came from the Financial Accounting System; Vocational Rehabilitation and Employment data came from Financial Accounting System and the Benefits Delivery Network; and Education data came from Benefits Delivery Network. VA Central Office officials reported that Disaster Relief Act—Hurricane Sandy payments were extracted from the VA Financial Reporting System, and Payments to Federal Employees—Payroll data were extracted from the Office of Financial Management Reports database.

We did not perform our own independent risk assessments of VA's programs. We did not reevaluate VA's sample transactions to determine if VA correctly identified improper payments, except for a small nonstatistical selection from VBA's sample for the Compensation program and very limited procedures for two VHA programs. We did not develop independent statistical estimates. We designed our procedures to determine whether VA complied with IPERA according to OMB's six compliance criteria—not to attest to the accuracy of VA's reporting. We believe our procedures to assess data reliability were sufficient to support our review objective.

Government Standards

We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation.*

Appendix C Summary of FY 2013 and FY 2014 IPERA Compliance

Table 1 provides a comparison of VA's performance in complying with IPERA requirements for FYs 2013 and 2014.

Table 1. Summary of FY 2013 and FY 2014 IPERA Compliance

Requirement	FY 2013	FY 2014
Publish a PAR	No exceptions	No exceptions
Conduct a Specific Risk Assessment for Each Program	No exceptions	No exceptions
Publish Improper Payment Estimates as Appropriate	No exceptions	Post-9/11 G.I. Bill program estimate was not considered reliable
Publish Corrective Action Plans	No exceptions	No exceptions
Publish and Meet Reduction Targets	State Home Per Diem program target not met Beneficiary Travel program target not met	The following five programs did not meet reduction targets: • CHAMPVA • Compensation • Pension • Vocational, Rehabilitation & Employment • Education–Chapter 1606
Report a Gross Improper Payment Rate of Less Than 10 Percent	State Home Per Diem (15.94%)	No exceptions

Source: VA OIG based on VA's FY 2013 and FY 2014 PARs and OIG determinations of IPERA compliance

Appendix D Status of FY 2013 Finding—Areas for Improvement

Table 2 summarizes the status of the FY 2013 finding, "Areas for Improvement."

Table 2. Status of FY 2013 Finding: Areas for Improvement

FY 2013—Areas for Improvement	Status for FY 2014
VBA underreported improper payments for its Compensation program.	Repeated
Test procedures for the Compensation program and one Education program did not include steps needed to identify all types of improper payments.	Partially repeated for the one Education program.

Source: OIG prepared

Appendix E VA Programs Reported in the FY 2014 PAR

Table 3 shows the outlays and gross improper payment rates and amounts that VA reported in the FY 2014 PAR. Improper payment totals include both overpayments and underpayments.

Table 3. Improper Payment Reporting—VA FY 2014 PAR
(Based on FY 2013 Actual Data)
($ in millions)

Program	Outlays	Improper Payment Percentage	Improper Payments
Beneficiary Travel	$817	5.09	$41.57
CHAMPVA	1,021	4.83	49.26
Non-VA Medical Care	3,371	9.24	311.46
Purchased Long Term Services and Support	1,373	8.95	122.87
State Home Per Diem	955	3.02	28.81
Supplies and Materials	2,362	0.00	0.06
Compensation	53,913	1.32	713.16
Pension	5,584	4.64	258.85
Vocational Rehabilitation and Employment	925	1.72	15.98
Education Chapter 33 (Post 9/11 G.I Bill)	10,723	0.00	0.00
Education Chapter 1606 (Montgomery G.I. Bill—Selected Reserve)	151	0.70	1.00
Education Chapter 1607 (Reserve Educational Assistance Program)	83	0.50	0.39
Disaster Relief Act—Hurricane Sandy	18.5	2.04	0.40
Payments to Federal Employees—Payroll	24,360	0.13	32.62
Total VA	**$105,656.5**		**$1,576.43**

Source: VA's FY 2014 PAR

Appendix F Under Secretary for Benefits Comments

Department of Veterans Affairs

Memorandum

Date: May 04, 2015

From: Under Secretary for Benefits (20)

Subj: OIG Draft Report—FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act—(VAIQ 7593649)

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

1. Attached is VBA's response to the OIG Draft Report: FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act
2. Questions may be referred to Ruma Mitchum, Program Analyst, at 632-8978

(original signed by:)

Allision Hickey

Attachment

Attachment

Veterans Benefits Administration (VBA)
Comments on OIG Draft Report
FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act (IPERA)

VBA concurs with OIG's findings in the draft report and provides the following comments in response to the recommendations:

Recommendation 2: We recommended the Under Secretary for Benefits monitor the results of the Veterans Benefits Administration's revised testing plans for the Compensation, Pension, Montgomery G.I. Bill, and Vocational Rehabilitation and Employment programs and adjust the reduction targets to reasonably achievable levels, if necessary.

VBA's Response: Concur. Reduction targets will be assessed each year based on current testing results and changes in business processes that help reduce improper payments. The target completion date is November 2015, with publication of the VA Agency Financial Report.

Target Completion Date: November 2015

Recommendation 3: We recommended the Under Secretary for Benefits implement revised testing plans for the Post-9/11 G.I. Bill and its other reported Education programs that ensure valid and auditable estimates of improper payments.

VBA's Response: Concur. For the fiscal year (FY) 2015 IPERA review, Education Service is requesting supporting documentation from the schools or training establishments. The supporting documentation will include transcripts, billing records, and attendance records. Attached is the FY 2015 test plan showing that the supporting documents are being requested (Attachment A).

VBA requests closure of this recommendation.

Recommendation 6: We recommended that the Under Secretary for Benefits ensure thorough testing of sample items used to estimate improper payments for the Compensation program.

VBA's Response: Concur. In November 2014, VBA revised the compensation program test plan to better identify improper payments and fully trained subject matter experts on the procedures to complete error analyses. The test plan was revised to focus on both the rationale of the original selections, as noted in the rating decision, as well as payment information and appropriate authorization (Attachment B).

VBA considers this recommendation fully implemented and requests closure.

Recommendation 7: We recommended that the Under Secretary for Benefits consult with the Office of Management Budget regarding the potential designation of the Compensation program as a high-priority program.
VBA's Response: Concur. VBA will coordinate with the Office of Management to set up a meeting with the Office of Management and Budget.

Target Completion Date: July 1, 2015.

Recommendation 8: We recommended that the Under Secretary for Benefits use the annual Department of Defense drill pay matching file to identify improper drill pay related payments in its Compensation and Pension program samples to ensure accurate and auditable reporting.
VBA's Response: Concur. VBA will review the current drill pay matching file from the Department of Defense and determine, in conjunction with VBA's statisticians, the best way to incorporate the data into the improper payment estimate.

Target Completion Date: July 1, 2015.

Appendix G Interim Under Secretary for Health Comments

Department of Veterans Affairs

Memorandum

Date: April 27, 2015

From: Interim Under Secretary for Health (10)

Subj: OIG Draft Report—FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act—(VAIQ 7593649)

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

1. I have reviewed the draft report and concur with the recommendations. Attached is the Veterans Health Adminstration's corrective action plan for the report's recommendations 1 and 9.
2. If you have questions, please contact Karen Rasmussen, M.D., Director Management Review Service (10AR) by email at VHA10ARMRS2@va.gov

(original signed by:)

Carolyn M. Clancy, M.D.

Attachment

VETERANS HEALTH ADMINISTRATION (VHA)
Action Plan

OIG Draft Report, Department of Veterans Affairs, FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act

Date of Draft Report: April 20, 2015

Recommendations/ Actions	Status	Completion Date

Recommendation 1. We recommended the Under Secretary for Health ensure implementation of the revised sampling plan for the Civilian Health and Medical Program of the Department of Veterans Affairs to address sample outliers and adjust the program's reduction target to a reasonably achievable level, if necessary.

VHA Comments

Concur

VHA increased the program's sample size from 364 to 1,500 for fiscal year (FY) 2015 and revised its sample design to reduce the risk presented by outliers.

Completed

Recommendation 9. We recommended that the Under Secretary for Health improve test procedures for the Non-VA Medical Care and Purchased Long Term Services and Support programs by verifying the existence of valid contracts that support payments for these programs.

VHA Comments

Concur

VHA will incorporate contracting aspects into the test plans for Non-VA Medical Care and Purchased Long Term Services and Support programs for the FY 2015 Improper Payments Elimination and Recovery Act (FY 2014 payments) review.

In process — Target Completion Date: July 2015

Veterans Health Administration
May 2015

Appendix H Acting Assistant Secretary for Management Comments

Department of Veterans Affairs

Memorandum

Date: May 04, 2015

From: Acting Assistant Secretary for Management and Interim Chief Financial Officer (004)

Subj: Office of Inspector General (OIGG), FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act

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

1. I appreciate the opportunity to respond to the draft OIG report, "FY 2014 Review of VA's Compliance With the Improper Payments and Recovery Act." I concur with the report's findings and provided a response to recommendations 4 and 5 (Attachment A).
2. I am also transmitting the Veterans Health Administration's response to the draft report (Attachment B). The Veterans Benefits Administration will provide comments on the draft report directly to the OIG.
3. If you have any questions, please contact Ms. Laurie Park, Deputy Assistant Secretary of Finance, at (202) 461-6180.

(original signed by:)

Edward J. Murray

Attachment

Attachment A

Office of Management
Action Plan

OIG Draft Report, Department of Veterans Affairs, FY 2014 Review of VA's Compliance with the Improper Payments Elimination and Recovery Act

Date of Draft Report: April 20, 2015

Recommendations/ Actions	Status	Completion Date

Recommendation 4. We recommended that the Assistant Secretary for Management improve the risk assessment guidance and instructions to include an assessment of risk associated with contracting activities.

OM Comments

Concur

The Office of Management (OM) will make revisions to VA guidance in preparation for the FY 2016 risk assessment cycle to strengthen the evaluations of contracting activities by ensuring procurement risks are addressed.

	In process	Target Completion Date: September 2015

Recommendation 5. We recommended that the Assistant Secretary for Management perform risk assessments for programs with a high concentration of vendor payments using revised procedures that include contracting risk.

OM Comments

Concur with the intent of the recommendation

In order to ensure this recommendation is addressed in the current, ongoing testing of FY 2014 payments, OM will conduct a judgement sample of payments from programs with significant contractor payments. OM will report the results of this testing in the FY 2015 Annual Financial Report and address how any findings will need to be addressed in FY 2016 and beyond.

	In process	Target Completion Date: November 2015

Office of Management
May 2015

Appendix I 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.
Acknowledgments	Sue Schwendiman, Director Alex Biggs Kyle Flannery Lee Giesbrecht Marie Orlofski Felicia Parker Mark Ward

Appendix J Report Distribution

VA Distribution

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