



DEPARTMENT OF VETERANS AFFAIRS  
**OFFICE OF INSPECTOR GENERAL**

*Office of Audits and Evaluations*

DEPARTMENT OF VETERANS AFFAIRS

VA Needs to Improve  
Testing Procedures to  
Assess Compliance with  
Mandatory Improper  
Payment Requirements

MANAGEMENT ADVISORY  
MEMORANDUM

MEMO #22-00576-55

MAY 11, 2023



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*The Office of Inspector General (OIG) has released this management advisory memorandum to provide information on matters of concern that the OIG has gathered as part of its oversight mission. The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation, except for the standards for follow-up.*

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DEPARTMENT OF VETERANS AFFAIRS  
**OFFICE OF INSPECTOR GENERAL**  
WASHINGTON, DC 20001



May 11, 2023

**MANAGEMENT ADVISORY MEMORANDUM**

**TO:** Jon Rychalski, Assistant Secretary for Management/Chief Financial Officer  
Office of Management (004)

**FROM:** Larry Reinkemeyer, Assistant Inspector General for Audits and Evaluations  
VA Office of Inspector General's Office of Audits and Evaluations (52)

**SUBJECT:** VA Needs to Improve Testing Procedures to Assess Compliance with  
Mandatory Improper Payment Requirements

While assessing whether VA complied with the 10 requirements of the Payment Integrity Information Act of 2019 (PIIA) for fiscal year (FY) 2021, the VA Office of Inspector General (OIG) determined that the Veterans Health Administration (VHA) can improve improper payment testing procedures when estimating improper and unknown payment rates for VA programs and activities.<sup>1</sup> PIIA requires federal agencies to identify and review all programs and activities they administer that may be susceptible to significant improper payments based on Office of Management and Budget (OMB) guidance.<sup>2</sup> In addition, PIIA requires inspectors general to review their agency's improper payment reporting and issue an annual report.

The OIG's FY 2021 PIIA review determined that VA published improper and unknown payment estimates for programs susceptible to significant improper and unknown payments in the accompanying materials to its annual financial statement, as required.<sup>3</sup> According to OMB guidance, if a program cannot discern whether a payment is made to the correct recipient or for the correct amount, the payment is considered unknown. However, the review team determined that VA's improper and unknown payment testing procedures for Purchased Long-Term Services and Supports (PLTSS) and Medical Care Contracts and Agreements (MCCA) did not always include an assessment of medical and other supporting documentation necessary to

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<sup>1</sup> The Payment Integrity Information Act of 2019, Pub. L. No. 116-117 (2020), repealed the Improper Payments Information Act of 2002, Pub. L. No. 107-300; Improper Payments Elimination and Recovery Act of 2010, Pub. L. No. 114-204; and the Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248.

<sup>2</sup> OMB Circular A-123, app. C, "Requirements for Payment Integrity Improvement," March 5, 2021, and OMB Circular A-136, "Financial Reporting Requirements," part II, August 10, 2021.

<sup>3</sup> VA OIG, [Review of VA's Compliance with the Payment Integrity Information Act for Fiscal Year 2021](#), Report No. 22-00576-178, June 28, 2022.

ensure that services and goods were received. While the OIG did not identify issues with other programs, similar issues may be identified with further testing.

The updated OIG point estimates (which included the additional unsupported payments) were not significantly greater than the original VA point estimates, and the OIG still considered VA's point estimates to be valid. Accordingly, the FY 2021 OIG PIIA review concluded that VA complied with the requirement to publish improper and unknown payment estimates for programs susceptible to significant improper and unknown payments in the accompanying materials to the annual financial statement. However, without improved testing procedures, these estimates could increase more significantly in future years and result in invalid VA point estimates.

The OIG is issuing this management advisory memorandum to ensure VA leaders are aware of this weakness in the payment testing methodology. This memorandum is meant to convey the information necessary for the VA Office of Management to determine if additional actions are warranted.<sup>4</sup> The OIG is taking no additional steps at this time.

## **Improper Payment Testing Inadequate in Two High-Risk Programs**

VA has reported PLTSS and MCCA as being at high risk for significant improper payments since at least FY 2017. During the FY 2021 PIIA review, the OIG informed VA that testing to estimate improper and unknown payments in PLTSS and MCCA was inadequate. This occurred because VHA auditors did not request or review the medical documentation and other support necessary to determine whether services and goods were received. In response, a VHA official stated that verifying receipt of service in the form of medical documents is not a requirement of the payment process and it would therefore create an unreasonable burden to require a review of medical documentation in the PLTSS payment testing plan. The VHA official told the OIG that VHA auditors concluded the PLTSS payment transactions were proper because the billed services on the invoice or claim matched the preauthorized service and that documentation is adequate to prove that the services were received.

Also, during the FY 2021 PIIA review, VA provided the OIG team with a "white paper" to justify its position that the invoice and preauthorization for PLTSS services was sufficient to determine that services were received. Specifically, the white paper, dated September 18, 2020, regarding PIIA payment testing requirements for the VA community care program concluded

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<sup>4</sup> This memorandum provides information that has been gleaned from OIG data analyses and provided to VA's Office of Management to determine if the Office of Management should take additional action on payment testing deficiencies that could result in under reporting improper and unknown payment estimates. The OIG issues management advisory memoranda when exigent circumstances or areas of concern are identified by OIG hotline allegations or in the course of its oversight work, particularly when immediate action by VA can help reduce further risk of harm to veterans or significant financial losses. Memoranda are published unless otherwise prohibited from release or to safeguard protected information.

that improper payment review testing requirements were adequate and did not require additional proof that services were received. The white paper stated that a preauthorization from VA and an invoice from the provider attesting to the accuracy of the claim were sufficient for purposes of PIIA testing to validate whether services were received, and these same procedures could be applied to the PLTSS program. A VHA official stated that the conclusions in the white paper regarding payment testing was a decision made by VHA senior executives or senior executive equivalents.

The VA MISSION Act of 2018 authorizes use of a veteran care agreement (VCA) when hospital care, medical services, or extended care service is not feasibly available to the veteran from a VA facility.<sup>5</sup> VA uses VCAs to authorize care for veterans receiving services via the PLTSS program. The MISSION Act and VCA do not support VA's reliance on the invoice or the claim to validate that services and goods were received. The VCA states that the provider must always provide VA with copies of all medical documentation from any covered services performed. Medical documentation must include encounter notes, test results, recommended prescriptions and medical devices, treatment plans, and ancillary studies or procedures that would affect recommended follow-up.

Similarly, for MCCA, VA relied on a receiving report in the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP) system or a screenshot of the Station Inquiry System Certification from the Invoice Payment Processing System to verify that goods and services were received.<sup>6</sup> However, the system did not contain any additional documentation, such as a receiving report, to verify that goods were received or that services were provided.

For the reasons discussed previously, the OIG review team concluded that for PLTSS, an invoice from the provider and preauthorization for the service is not sufficient documentation to validate that the payment was made for the correct amount. Also, for MCCA, an invoice and electronic signature in IFCAP to verify that the service was received without documentation is not sufficient to validate that the payment was made for the correct amount. These payments should be reported to OMB as unknown payments instead of as proper payments. During the FY 2021 OIG PIIA review, the team determined that because of the payment testing deficiencies, VA understated the unknown payment estimates for PLTSS and MCCA as follows:

- **PLTSS:** VA reported approximately \$1.9 billion in improper and unknown payments and an improper and unknown payment rate of approximately 73 percent in FY 2021.

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<sup>5</sup> The John S. McCain III, Daniel K. Akaka, and Samuel R. Johnson VA Maintaining Internal Systems and Strengthening Integrated Outside Networks (MISSION) Act of 2018, Pub. L. No. 115-182 (2018).

<sup>6</sup> The Integrated Funds Distribution, Control Point Activity, Accounting and Procurement package automates functions for Acquisition and Material Management Service, Fiscal Service, and for all other VA entities that request supplies and services. The goal of IFCAP is to integrate functions and allow users to share procurement and financial information.

However, when the OIG included four additional improper payment errors, three of which did not have adequate support to verify the veteran received the service, those figures rose to about \$1.95 billion and approximately 75 percent.

- **MCCA:** VA reported approximately \$159 million in improper and unknown payments and an improper and unknown payment rate of approximately 16 percent in FY 2021. However, when the OIG included four additional improper payment errors, three of which did not have adequate supporting documentation that the services or goods were received, those figures rose to about \$190 million and approximately 19 percent.

Although VA's point estimates were understated, the updated OIG point estimates (which included the additional unsupported payments) were not significantly greater, and the OIG still considered VA's point estimates to be valid.<sup>7</sup> Accordingly, the FY 2021 OIG PIIA review concluded that VA was in compliance with the requirement to publish improper and unknown payment estimates for programs susceptible to significant improper and unknown payments in the accompanying materials to the annual financial statement. Without improved testing procedures, these estimates could increase more significantly in future years and result in an OIG determination that VA point estimates are not valid. Therefore, the OIG determined that VA needs to improve controls to ensure that adequate documentation is reviewed during PIIA payment testing and that VA received services or goods for the PLTSS and MCCA programs.

## Requested Action

The OIG requests that VA inform the OIG whether medical documentation and other support necessary to verify that goods and services were received for VA programs and activities will be required in payment testing reviews to determine compliance with PIIA.

## Office of Management Response

In his response, the assistant secretary for management and chief financial officer discussed certain payments related to the PLTSS program. He expressed that the MISSION Act clearly states that a payment must be made within a certain timeframe once a "clean" claim is submitted, regardless of any other provision in the MISSION Act or of any other law, and without obtaining additional information from the provider. Therefore, he stated, the MISSION Act requires payment upon receipt of a clean claim without an assessment of medical documentation or other supporting documentation to validate services were received. The assistant secretary also cited

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<sup>7</sup> PIIA requires an agency to produce statistically valid improper payment estimates. An improper payment estimate is considered statistically valid if there is an associated point estimate—the improper payment estimates—and confidence intervals around that estimate. For the Purchased Long-Term Services and Supports Program and the Medical Care Contracts and Agreements, the team disagreed with VA's improper payment testing methodology for four of the 10 samples for each program; however, those payments did not have a statistically significant effect on the improper payment rates for the programs.

reports from OMB, the Government Accountability Office, and the Social Security Administration (SSA) OIG. He stated these reports agree that testing for compliance with improper payments legislation requires determining whether a payment was proper at the time of payment. Therefore, he stated, VA's testing for whether a payment was proper at the time of payment is consistent with OMB and GAO guidance and interpretations and meets PIIA requirements to report comparable data needed for government-wide reporting.

Regarding MCCA payments, the assistant secretary commented on the certifications made by VA employees that services were received. He stated these payments are subject to Federal Acquisition Regulation (FAR) requirements for documenting receipt of services, which specifically identifies a government-certified voucher as acceptable documentation for receipt of services and for authorizing payment.

The assistant secretary concluded his comments by stating that VA has determined the payments referenced in the OIG's management advisory memorandum were tested and reported correctly. He reported that he has asked the VHA CFO to review testing plans for all payments subject to the MISSION Act and ensure the testing (1) determines whether a payment was proper at the time of payment and (2) complies with MISSION Act requirements. However, he stated these payments would not be tested for medical documentation, as the MISSION Act prevents VA from requiring this documentation to pay the claim. In addition, payments for services covered by the FAR requirement will not require additional documentation beyond a government-certified voucher.

The assistant secretary for management and chief financial officer's comments are provided in full in the appendix. He also noted that he had asked the Office of Business Oversight to share its research and analysis with the OIG team.

## OIG Response

VA's response, along with the analysis prepared by the Office of Business Oversight, does not fully represent MISSION Act requirements. Specifically, although VA correctly stated the MISSION Act does not allow medical documentation to be required for proof of payment, it *does* authorize VA to determine what documentation health care entities and providers are required to submit to establish a "clean" claim. VA further contends that the MISSION Act requires PLTSS payments to be made prior to VA obtaining evidence that services were received because it specifies the time frame in which the Secretary must pay a clean claim. However, the MISSION Act also requires the Secretary to "consult with entities in the health care industry ... to determine the information and documentation" required to establish a clean claim and inform health care entities of those requirements. VA has not provided the OIG with evidence that the Secretary has identified the information and documentation required for a "clean claim."

Therefore, VA cannot rely on the provision of the MISSION Act that requires payment of a "clean claim." While VA previously provided examples of the types of information that should

be included in claims submitted under sample VCAs, there is no indication that this is the complete list of required documentation. Moreover, VA provided no evidence that PIIA testing included assurance that the documentation requirements of the contract were met—including the content requirements specified in the VCAs. This evidence requires more than simply confirming that the veteran is pre-authorized.

Because the MISSION Act gives VA the authority and responsibility to determine what documentation is required for a “clean claim,” the circumstances here are distinguishable from those in the SSA situation relied on by VA. Unlike SSA, VA can make administrative changes that would eliminate payments made without evidence that services were received. Moreover, in its September 16, 2005, letter, GAO cautioned against concluding that any payment that is unavoidable—that is, the agency cannot do anything about it—should not be included as an improper payment . . . .<sup>8</sup> Instead, GAO said that “exclusion of payments should be made individually on a fact-specific basis” and that agencies should “track and monitor these types of payments as part of their debt collection efforts and have the ability to readily report this type of information upon request.” Given the OIG’s review of VA’s PIIA testing occurred almost a year after the payments were made, VHA had ample opportunity to obtain documentation confirming the services were received or a credit was issued. Had such documentation been available at the time of the OIG’s review, there would be no need to debate whether such payments should be considered proper.

Similarly, for MCCA payments, the assistant secretary reported VA relies on a certification made by a VA employee within the Invoice Payment and Processing System that services were received. He stated that the government-certified voucher was sufficient to document receipt of goods and services. The OIG updated the MCCA documentation description above based on the assistant secretary’s statement. However, under the FAR, payment is based on receipt of a proper invoice and satisfactory contract performance. Accordingly, the receiving report or other documentation must include, among other requirements, a description of the services performed, quantities, and dates of service. In some instances, the invoices that VA is certifying can include charges for services for hundreds of veterans. There is no way to certify that these services were performed without reviewing supporting documentation. The electronic signature in the Invoice Payment Processing System, with no accompanying documentation to show that a comprehensive review of the invoice was performed, does not ensure the services were received. Therefore, VA’s reliance on an electronic signature, which does not certify that a review of the invoice was completed and the charges are valid, is inadequate and, based on guidance in the OMB Circular A-123, the payment should not be considered proper.

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<sup>8</sup> GAO, Post-Hearing Questions Related to Agency Implementation of the Improper Payments Information Act, GAO-05-1029R, September 16, 2005.

## Appendix A: VA Management Comments

### Department of Veterans Affairs Memorandum

Date: January 23, 2023

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

Subj: Response to Office of Inspector General Management Advisory Memo on Improving Testing Procedures to Assess Compliance with Mandatory Improper Payment Requirements

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

1. Thank you for the opportunity to review and provide comments on the draft Management Advisory Memo (MAM). My staff researched the issue to determine an appropriate course of action, and I wanted to share this with you and your team.

2. One concern raised in the MAM is that the Veterans Health Administration (VHA) is not validating receipt of service for certain payments in the Purchase Long-Term Services and Supports program; thereby making it unknown whether the payments are proper or improper. However, the Payment Integrity Information Act of 2019 (PIIA) states that a payment is improper if it should not have been made or if a service is not received, except for those payments where authorized by law. The Department of Veterans Affairs (VA) Maintaining Internal Systems and Strengthening Integrated Outside Networks Act of 2018 (MISSION Act) clearly states that a payment must be made within a certain timeframe once a “clean” claim is submitted, notwithstanding any other provision in the MISSION Act or of any other law, and without obtaining additional information from the provider. Therefore, the MISSION Act requires payment upon receipt of a clean claim without an assessment of medical documentation or other supporting documentation to validate services were received.<sup>9</sup>

3. Further, the Office of Management and Budget (OMB), the Government Accountability Office (GAO) and the Social Security Administration (SSA) Office of the Inspector General (OIG) agree that testing for compliance with improper payments legislation requires determining whether a payment was proper at the time it was made. For example, GAO determined that payments made in the Veterans Benefits Administration’s education program were proper at the time of payment and do not become improper after the fact.<sup>10</sup> Additionally, OMB, GAO and SSA OIG all agree that certain Social Security payments mandated by law should not count as “improper payments” or be reflected in the agency’s erroneous payment rate. As a result, VA’s testing for whether a payment was proper at the time of payment is consistent with OMB and GAO guidance and interpretations and meets PIIA requirements to report comparable data needed for Government-wide reporting.<sup>11</sup>

4. The other concern raised in the MAM is in reference to Medical Care Contracts and Agreements payments, where VA relied upon a certification made by a VA employee that services were received

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<sup>9</sup> Prior to specific requirements in the MISSION Act not allowing VA to collect medical documentation prior to payment, VA attempted to collect medical documentation prior to payment; however, this practice was revised, and accepted as an appropriate course of action, as a result of findings and recommendations from the OIG ([Department of Veterans Affairs Office of Inspector General Review of VHA’s Implementation of the Veteran’s Choice Program; Rpt #15-04673-333 \(va.gov\)](https://www.va.gov/opa/inspecreview/vha-implementation-of-the-veteran-choice-program-rpt-15-04673-333))

<sup>10</sup> GAO-16-42 ([Post-9/11 GI Bill: Additional Actions Needed to Help Reduce Overpayments and Increase Collections | U.S. GAO](https://www.gao.gov/assets/a93594.html)).

<sup>11</sup> GAO-05-1029R (<https://www.gao.gov/assets/a93594.html>); OIG SSA A-15-13-13105 ([The Social Security Administration’s Plan to Reduce Improper Payments Under Executive Order 13520, as Reported in March 2013 \(ssa.gov\)](https://www.ssa.gov/inspecreview/vha-implementation-of-the-veteran-choice-program-rpt-15-04673-333)); and CFO Council’s *Optimizing Payment Integrity Activities, A Guide for Identifying a Program’s Tolerable Rate* (October 2021) ([https://www.cfo.gov/assets/files/TolerableRateGuide\\_final.pdf](https://www.cfo.gov/assets/files/TolerableRateGuide_final.pdf)).

within the Invoice Payment and Processing System.<sup>12</sup> These payments are subject to Federal Acquisition Regulation (FAR) 32.905, Payment Documentation and Process, requirements for documenting receipt of services, which specifically identifies a Government-certified voucher as acceptable Government documentation for receipt of services and for authorizing payment. VHA does test for a receiving report for payments for goods; however, the FAR clearly allows for using a certified voucher for receipt as tested by VHA for these services.

5. Based on OMB guidance and GAO and SSA OIG interpretations payments were tested to determine they were proper at the time of payment. With Congress's clear intent to have all agencies testing and reporting improper payments consistently, the Office of Business Oversight (OBO) determined the payments referenced in the MAM were tested and reported correctly. Further, I have asked the VHA CFO to review testing plans for all payments subject to the MISSION Act and ensure the testing (1) determines whether a payment was proper at the time of payment and (2) complies with MISSION Act requirements. These payments would not be tested for medical documentation, as MISSION Act prevents VA from requiring this documentation to pay the claim. In addition, payments for services covered by FAR 32.905 will not require additional documentation beyond a Government-certified voucher.

6. Finally, I've asked OBO to share their research and analysis with your audit team.

*The OIG removed point of contact information prior to publication.*

(Original signed by)

Jon J. Rychalski

*For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.*

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<sup>12</sup> The MAM incorrectly states that VA relied on an invoice in the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement system.

## OIG Contact and Staff Acknowledgments

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<b>Contact</b>	For more information about this management advisory memorandum, please contact the Office of Inspector General at (202) 461-4720.
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