

# Improper Payments Information Act of 2002 Reporting Details

## Detail I

### *A. Describe your agency's risk assessment(s), performed subsequent to compiling your full program inventory.*

VA reviewed Government Accountability Office (GAO) and Office of Inspector General (OIG) audit reports to identify those programs which are susceptible to significant erroneous payments. After completing the review, VA decided to statistically sample all 19 programs to provide statistically valid estimates of the amount of improper payments.

In FY 2004, VA completed sampling for 17 of the 19 programs in our inventory. We were unable to perform statistical samples on the Housing program and Vocational Rehabilitation and Employment program. However, VBA is diligently working on a methodology and implementing the necessary actions needed to comply with the Improper Payments Information Act. The statistical samples revealed that 12 of the programs had estimated improper payments of less than \$10 million. Dependency and Indemnity Compensation (DIC) is one of the programs previously identified in the former Section 57 of OMB Circular A-11 but is reported here as part of Compensation & Pension. VBA's five programs either had estimated improper payments exceeding \$10 million and/or were programs previously identified in the former Section 57 of OMB Circular A-11.

VBA recognizes the inherent risk associated with administering benefits programs to veterans and beneficiaries. The criteria used to determine

entitlement, the scope of administering through 57 regional offices, the legislative changes, reporting requirements, time constraints, and the responsibility of ensuring appropriate use of resources all contribute to VBA's emphasis on identifying and minimizing vulnerabilities that lead to improper payments.

### **1. Compensation (including Dependency & Indemnity Compensation) and Pension**

Erroneous payments are defined as payments made to ineligible beneficiaries or payments that were made for an incorrect amount. Erroneous payments may be caused by procedural or administrative errors made during the claims process or late reporting, misreporting, or fraud on the part of employees, beneficiaries, or claimants.

Over and under payments are based on the results of the national Systematic Technical Accuracy Review (STAR) program. The STAR review process conducts a comprehensive technical accuracy review of a statistically valid random sample of completed cases. The annual STAR review sample includes approximately 16,000 currently processed cases including a mix of compensation and pension claims. The STAR review process identifies erroneous payments for the following categories: Improper Grant/Denial, Improper Percentage Evaluation Assigned, Improper Effective

Dates Affecting Payment, and Improper Payment Rates. The results of this review sample are extrapolated to the universe of completed claims to calculate estimated annual over and under payments. Separate annual amounts are calculated for the compensation program and pension program. (Please refer to Detail II for a full discussion regarding the statistical sampling process.) Our methodology for determining overpayments and underpayments also assesses the causes of the erroneous payments. Overpayments created not due to error on the part of VA are included in our overpayment figures.

## 2. Education

Education Service currently conducts Quality Assurance (QA) Reviews of a random sample of completed Education benefit claims, which identifies the Payment Accuracy Rate. QA reviews are conducted using a checklist with eight questions, three covering internal data integrity issues, and five covering customer service issues in claims processing. Only one of the questions is used in determining the Payment Accuracy Rate: "Were the payment determinations correct?" The checklist does, however, require additional information about each case reviewed, including:

- Amount of payment authorized.
- Amount actually due.
- Amount of over or underpayment, if any, erroneously authorized.

Although the payment information currently collected through the QA review process is not on a fiscal year basis, it was adjusted in order to compare with the total benefit dollars paid in a given fiscal year, in order to produce an estimate of both the percentage and amount of erroneous payments in the Education program. From FY 2000 through FY 2003, the percentage of erroneous payments exceeded 2.5 percent in two of the four years, while the total amount of erroneous payments exceeded \$10 million in all four years. (Please refer to Detail II for a full discussion regarding the statistical sampling process.)

## 3. Vocational Rehabilitation & Employment

Vocational Rehabilitation and Employment (VR&E) Service implements the Quality Assurance Program, created under the provision of Public Law 106-117, The Veterans Millennium Health Care and Benefits Act. This law states that the Veterans Benefits Administration must establish and execute a Quality Assurance Program. The process is designed to assess the quality of services provided to veterans, as well as case managers' work in terms of quality and accuracy of entitlement determination, rehabilitation services, fiscal activities, and rehabilitation outcomes.

VR&E Service staff members review cases from each regional office. The Systematic Analyses of Operations for Debt Avoidance and Fiscal Control, and the re-establishment of the VR&E Field Surveys are systems used to minimize the occurrence of improper payments. (Please refer to Detail II for a full discussion regarding the statistical sampling process.)

## 4. Loan Guaranty

The Loan Guaranty program's internal control procedures significantly reduce the risk of improper payments. Only limited amounts of improper payments have been discovered during the annual financial statement audit. About 75 percent of Loan Guaranty's payments are intra-governmental that are processed electronically from one Loan Guaranty account to another or to the Treasury. (Please refer to Detail II for a full discussion regarding the statistical sampling process.)

## 5. Insurance

Based on VBA's ongoing evaluation of methods and procedures of the Insurance Program's internal controls and the percentage of improper payments in prior years, VBA considers the risk assessment of improper payments to be low. However, this program was previously reported under Section 57 of OMB

Circular A-11 and must be reported. The erroneous payment rate for this program would not exceed the current improper payment reporting threshold. (Please

refer to Detail II for a full discussion regarding the statistical sampling process.)

***B. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.***

## 1. Compensation and Pension

Compensation and Pension is composed of several programs as discussed below.

**A. Disability Compensation** is provided to veterans for disabilities incurred or aggravated while on active duty. The amount of compensation is based on the degree of disability. Several ancillary benefits are also available to certain severely disabled veterans.

**B. Dependency and Indemnity Compensation** is provided for surviving spouses, dependent children, and dependent parents of veterans who died of service-connected causes or while on active duty on or after January 1, 1957. Prior to January 1, 1957, death compensation was the benefit payable to survivors.

**C. Nonservice-Connected Disability Pension** is provided for veterans with nonservice-connected disabilities who served in time of war. The veterans must be permanently and totally disabled or must have attained the age of 65 and must meet specific income limitations.

**D. Death Pension** is provided for surviving spouses and children of wartime veterans who died of nonservice-connected causes, subject to specific income limitations.

## 2. Education

This program assists eligible veterans, servicemembers, reservists, survivors, and dependents in achieving their educational or vocational goals.

## 3. Vocational Rehabilitation and Employment

This program assists veterans with service-connected disabilities to achieve functional independence in daily activities, become employable, and to obtain and maintain suitable employment.

## 4. Loan Guaranty

This program is to help veterans and active duty personnel purchase and retain homes in recognition of their service to the nation. The program enables eligible veterans to obtain financing for the purchase, construction, or improvement of a home by insuring a percentage of the loan. This mandatory program encourages the lender to extend favorable loan terms and competitive interest rates to veterans who might otherwise prove ineligible. The Loan Guaranty program disburses payments for:

- Specially Adapted Housing (SAH) Grants.
- Claim and Acquisition Payments.
- Portfolio Servicing of Direct Loans.
- Property Management.
- Subsidy Transfers.
- Transfers between the various accounts within the Loan Guaranty Program.
- Repayment of Treasury Borrowings and Payment of Interest Expense to Treasury.
- Administrative Funds transfers within VA.

## 5. Insurance

This program provides veterans and servicemembers life insurance benefits that may not be available from the commercial insurance industry because of lost or impaired insurability resulting from military service.

Insurance's mission is to provide coverage that is available at competitive premium rates and with policy features comparable to those offered by commercial companies. A competitive, secure rate of return is ensured on investments held on behalf of the insured.

### Detail II

*Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.*

#### **Compensation (including Dependency & Indemnity Compensation) and Pension**

VBA's calculation of the estimate of the improper payment rate for both the Compensation (including Dependency & Indemnity Compensation) and Pension programs is based upon actual dollar amounts of debt referred to the VA Debt Management Center (DMC) and erroneous payments identified in VA's quality assurance program known as STAR. Half of the estimated debt identified by STAR is included in the calculation of erroneous payments. That half is the amount which is written off as an administrative error. The other half of the STAR-identified erroneous payment results in award actions to create debts which are reflected in the DMC data. Debts referred to the DMC can reflect erroneous payments spanning multiple years as in overpayments associated with VA's Income Verification Match (IVM) and fugitive felon match. In FY 2003 the DMC received \$129.1 million in compensation debts for collection and \$250.5 million for the pension program.

The STAR review represents a review of a statistically valid sample of completed cases. STAR is VBA's national

quality assurance program for the Compensation and Pension programs. For this year's study, results were based on review of cases completed during the second half of FY 2003 in order to meet the reporting deadline. Review results were doubled to annualize the results. Future year reports will be based on a twelve-month review cycle. Of the 7,360 cases reviewed, 6,133 were compensation cases and 1,227 were pension cases. The number of cases reviewed represented 0.78 percent of all cases subject to review. Since sampling was random to each regional office's completed workload, a weighting factor was used to reflect regional office share of workload in computing the national result.

While the errors found on review were clearly identified as either compensation or pension, the overall review sample contained some cases with both compensation and pension elements. For the overall volume of cases subject to review (940,241 cases completed during the second half of FY 2003) 455,957 were clearly identified as compensation cases and 259,541 were clearly identified as pension cases. The remaining 224,743 cases were recorded under end product codes that could apply to either compensation or pension claims. We assumed a ratio of 80 percent compensation to 20 percent pension cases, and accordingly, completed compensation cases were increased to 635,751 with total pension count adjusted to 304,490. Accordingly, the sample size was 0.96

percent (6,133 cases reviewed divided by the completed compensation cases totaling 635,751) for the compensation program and 0.40 percent (1,227 cases reviewed divided by the completed pension cases totaling 304,490) for the pension program.

STAR analysis for 2003 indicated an estimated \$32.6 million in erroneous overpayments for compensation. STAR also identified an estimated \$110.8 million in underpayments for compensation.

STAR analysis for 2003 identified an estimated \$37.4 million in erroneous overpayments for pension. STAR also identified an estimated \$14.6 million in underpayments for pension.

## Education

QA Reviews are designed to provide statistically valid results at the 95 percent confidence level plus or minus 2.5 percent. An annual nationwide random sample is composed of 1,600 cases. Reviews are also conducted and reports issued quarterly, showing payment accuracy on a fiscal year to date (FYTD) basis.

## Vocational Rehabilitation & Employment

Data for the improper payment rate is gathered through the QA review results. In 2002, Booz Allen Hamilton conducted a study on the VR&E QA program. As a result of the recommendations from the study, the total number of cases to be reviewed annually was increased from 2,850 to 3,648 cases. The increase was intended to obtain a more valid random sampling size for each regional office.

The National QA Review is divided into two review sessions with 32 cases per regional office per session. Currently, there have been 2,016 cases reviewed with 1,632 case reviews to be completed by the end of this fiscal year.

## Loan Guaranty

The Loan Guaranty program uses different methods of Statistical Quality Control (SQC) for the various types of payments. SQC samples range from small statistically valid random samples to a 100 percent review of all payments. All of the SAH grants (about 600 per year) are reviewed to ensure eligibility and proper payment. The Regional Loan Centers randomly sample claim and acquisition payments every year to ensure appropriate amounts have been disbursed. Annually, a survey team from the Loan Guaranty Service also performs a random sampling/review of claim and acquisition payments. The Portfolio Loan Oversight Unit (PLOU) performs a 100 percent review of payments made for the approximately 19,000 loans in the direct loan portfolio. The Property Management Program was recently changed to accommodate the establishment of a contract-operated program. All (100 percent) property expense payments are reviewed by the Property Management Oversight Unit (PMOU). In addition, PMOU personnel perform site visits to validate the invoiced services. A process will be established for a statistically valid review by an independent agency of all intra-governmental transfers. Intra-governmental transfers include: subsidy transfers and upward reestimates from the program to financing accounts, downward reestimates from the financing to Treasury Receipt accounts, reimbursements between financing accounts, repayments of borrowings and payments of interest expense to Treasury, and transfers of administrative funds from the program to General Operating Account.

The steps for determining Loan Guaranty improper payments are:

- The VBA Finance section will determine the type and amount of payments in the prior fiscal year through current and additional reports.
- Loan Guaranty or an Independent Agency will determine which payments were improper payments based on invoices for property expenses or acquisition and claim payments.

- Loan Guaranty will determine the dollar amount of all invoice-supported improper payments.
- An Independent Agency will determine the dollar amount of intra-governmental transfers/disbursements that were processed using improper amounts.
- Divide total dollar amount of improper payments by the dollar amount of total disbursements to determine the improper payment rate for the fiscal year.

## Insurance

The Insurance program uses its Statistical Quality Control (SQC) program to help validate the improper payment rate. The Insurance SQC program is the method for assessing the ongoing quality and timeliness of work products. A random sample of completed or pending work products is reviewed each month to ensure that the service provided to the veteran or the veteran's representative was accurate, appropriate, and complete, according to established guidelines. Each month a computer-generated program randomly selects 100 cash disbursements created by

policy loan or cash surrender and 100 samples relating to the processing and payment of a death claim. Each case is reviewed for accuracy and timeliness. The accuracy rate for cash disbursements for the past 12 months was over 99 percent.

The steps to determine the actual rate of improper payments for Insurance are as follows:

- Determine the number of accounts receivable established in the prior fiscal year through a report created by the Accounts Receivable database.
- Determine which accounts receivables were created because of an improper payment, using the reason codes listed in the report.
- Determine the dollar amount of all the receivables determined to be improper payments.
- Determine the dollar amount of all disbursements made for the same fiscal year.
- Divide the dollar amount of all improper payments by the dollar amount of all disbursements to determine the improper payment rate for the fiscal year.

## Detail III

*Explain the corrective actions your agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.*

### 1. Compensation (including Dependency & Indemnity Compensation) and Pension

#### A. Compensation (including Dependency & Indemnity Compensation)

Based on STAR data, the three most common causes for erroneous compensation overpayments are the

assignment of improper evaluations (17% of errors), the improper grant of service connection (17% of errors) and improper effective dates (47% of errors). These reasons are the same reasons for erroneous underpayments.

VBA is engaged in initiatives that address these errors. The first of these initiatives is the Regulation Rewrite project charged with redrafting VA's regulations into clear and understandable language. One of the most

complex regulations in VA's inventory deals with effective dates. Clarifying the regulation regarding effective dates is a primary focus of the Regulation Rewrite staff. Publication of the revised regulation dealing with effective dates is anticipated in the last quarter of calendar year 2005. VBA anticipates the rewritten regulation will help reduce common errors identified above that result in overpayments.

VA has been involved in a significant effort to expand its rating capacity in the last four years. With a large number of relatively inexperienced rating specialists, errors in evaluation and granting or denying of benefits are possible. We believe that our training programs, the increasing experience of disability decision makers, as well as the publication of the STAR Reporter, which advises the field of error trends, will significantly improve these areas. Recent reviews of the evaluation of diabetes claims also identified areas where all disabilities related to diabetes were not awarded service connection. A review of more than 13,000 cases is addressing the shortcomings in that area. Therefore, we also anticipate improvement in the area of compensation underpayments.

Other reasons for overpayments include:

1. Non-entitlement for the month of death.
2. Reductions/terminations due to incarceration or fugitive felon status.
3. Remarriage of surviving spouse.

The month of death overpayment occurs when the veteran dies late in the month, too late to stop the release of the check for the month of death, a benefit to which he/she is not entitled. Approximately 47,000 veterans are removed from the compensation rolls each year, virtually all due to death. An estimated \$14.9 million in overpayments for the month of death are created when death occurs in the last 10 days of the month and the average compensation payment is \$941 monthly. Although the overpayment is created, the majority of these payments are recouped.

Overpayments are created as a result of notification of incarceration or fugitive felon status. According to current statute, these cases are given due process and then adjusted. Notification of either status is a function of agreements made with states, the Bureau of Prisons, and law enforcement agencies. As previously indicated, these overpayments typically span multiple years.

Recent legislation that entitles surviving spouses who remarry after age 57 to retain entitlement to Dependency Indemnity Compensation (DIC) will significantly reduce the amount of erroneous payments due to surviving spouse remarriage.

## **B. Pension**

The pension program administered by VA is a highly complex program that is intended to provide the financial resources needed by beneficiaries based upon anticipated income. Consequently, like similar programs such as Supplemental Security Income, it is prone to overpayments due to late or misreporting of income changes or failure to report such changes by claimants. For this reason, VA has engaged in a process of consolidating the processing of pension workload in order to improve the quality and timeliness of the pension processing, as well as to focus training in this area. Another goal of consolidation is to reduce the size of erroneous payments through greater claims processing efficiencies and reduced cycle time. We believe that an improved quality of pension processing and focused training should reduce erroneous payments. Pension processing quality has increased dramatically through the consolidation and specialization, and we expect it to continue.

The most common causes for erroneous pension overpayments and underpayments are improper effective dates and improper calculation of family income.

Other causes for overpayments are:

1. Non-entitlement for the month of death.
2. Reductions or terminations due to claimant reports on Eligibility Verification Reports (EVR).
3. Reductions or terminations based upon matching programs.
4. Inaccurate reporting of monthly social security benefits.

VA is engaged in initiatives that address these issues. One of these initiatives is the Regulation Rewrite project charged with redrafting VA's regulations into clear and understandable language. One of the most complex regulations in VA's inventory deals with effective dates. Clarifying this regulation is a primary focus of the Regulation Rewrite staff. Publication of the revised regulation is anticipated during the last quarter of calendar year 2005.

Approximately 79,000 pension records are terminated annually. The estimated annual overpayment for the month of death, considering deaths that occur in the last 10 days of the month with an average monthly payment of \$455 when veterans and survivors are combined, is estimated at \$12 million annually.

VA currently does not have a dollar amount identified with EVR processing. A funding study will be conducted to prepare a request for submission in the FY 2007 budget.

Due to the particular nature of the pension program, a significant number of overpayments will be created due to reporting failures by beneficiaries. The following list of audits and investigations are designed to detect misreporting. FY 2003 overpayment values associated with these programs are noted where known.

- **Death Match Project:** The OIG death match project is conducted to identify individuals who may be defrauding VA by receiving VA benefits intended for beneficiaries who have passed away. (\$3,822,297 in overpayments)

- **Fugitive Felon Program:** On December 27, 2001, Public Law 107-103 was enacted. The law prohibits veterans who are fugitive felons, or their dependents, from receiving specified veterans benefits. At any given time more than 100,000 individuals are on a fugitive felon list maintained by the federal government and/or state and local law enforcement agencies. This program, as it is rolled out with other police jurisdictions, is an example of how overpayments will be identified in later years based upon newly acquired information. (\$1.3 million in overpayments)
- **Payments to Incarcerated Veterans:** An agreement was reached with the Social Security Administration (SSA) that allowed VA to use the State Verification and Exchange System (SVES) to identify claimants incarcerated in state and local facilities. We are processing both Bureau of Prisons Match and SSA Prison Match cases on a monthly basis. (See above data relating how fugitive felon dollars are combined.)
- **Benefit Overpayments Due to Unreported Beneficiary Income:** VBA has implemented the recommendations from the November 2000 OIG report that will (i) significantly increase the efficiency, effectiveness, and amount of potential overpayments that are recovered; (ii) better ensure program integrity and identification of program fraud; and (iii) improve delivery of services to beneficiaries.
- **Disability Compensation Benefits for Active Military Reservists:** VA and DoD have worked to correct procedures and processes to ensure dual compensation benefits are properly offset.
- **Railroad Retirement and OPM Matches:** These matches report income from these sources compared to what pension beneficiaries report. (\$700,000 in overpayments)
- **Eligibility Verification Report:** This is an annual report required of most pension recipients in which they are required to report their actual previous year and anticipated current year income. Reporting requirements of the statutes result in overpayments due to the late reporting of changes in income.

- **Monthly Benefit Rate Match:** This is a match with social security in which the amount of monthly social security reported by the claimant is compared to Social Security Records. (\$25,394,218 in overpayments)
- **Unmatched records with Social Security Administration:** C&P Service analyzes an extract of hits from data runs in order to obtain the Unverified Social Security Numbers listing.

## 2. Education

VBA has used the Quality Assurance Review program to assess payment errors since FY 1992. Quarterly Education Service quality review reports identify error trends and causes and are used by Regional Processing Offices to conduct refresher training. For FY 2003, as compared to the previous fiscal year, this training was effective in reducing estimated erroneous payments from 4.1 percent to 2.4 percent. In FY 2003, the majority of erroneous payments were due to:

- Incorrectly processing monthly verification of enrollment information concurrent with award action.
- Incorrectly awarding benefits for intervals between terms.
- Incorrectly determining whether the student was training at the full-time rate or at part-time.
- Incorrectly determining the date on which to reduce or terminate benefits.

VBA is developing an automated claims processing system as part of The Electronic Education System (TEES), which will help reduce payment errors. In addition, VBA is developing standardized training materials for use by field stations. We have begun using these materials in FY 2004, and expect them to help improve performance in the future.

## 3. Vocational Rehabilitation & Employment

A letter containing the results of the National QA Review is provided to each regional office. The letter outlines

the errors found during the review and indicates the required corrective actions. Each regional office is required to submit certification of compliance to the corrective actions to the VR&E Service through the regional office director's office.

Beginning January 2004, VR&E Service required that all compliance reports for corrective actions on errors found on fiscal activities must also include the amount of over or under payments for Chapter 31 benefits. The review sample results are applied to the national total workload to generate VR&E's overall estimated improper payments by using weighted factors based on the regional offices' caseload size.

VR&E Service is moving forward in the development and implementation of plans to reduce improper payments. However, there are two major issues that have impacted progress.

- The QA Web site, which maintains the data for the improper payment statistics, was not available for use until the last month of the first quarter of FY 2004.
- In order to ensure consistency in the review process, the QA Review site relocated to Nashville in February 2004. All new QA Reviewers are assigned to one location, as opposed to many reviewers assigned to several locations. The relocation required a full restructuring of the QA Review Team and its processes. Consequently, the QA Review had been temporarily suspended until the office could become fully operational. Data collection for the improper payment report has not been completed. VR&E is currently developing a formal methodology and collecting data for FY 2004 to provide the reports and analysis for improper payments.

## 4. Loan Guaranty

Loan Guaranty is in the process of establishing procedures for determining the amount of improper payments and developing an action plan. It is believed that a majority of improper payments will be the result of

human error during numerous calculations that result from the volume and type of payments made for the Loan Guaranty program.

An audit in FY 2003 of the Property Management function determined that the PLOU was operating in an efficient and effective manner. The audit sampled 21.4 percent of property management payments during the audit. The PMOU was established this year to review all of the invoices submitted by the property management contractor for property expenses. Also, the financial statement auditors have discovered only insignificant improper payment amounts during their review of payments for the financial statement audit. All of these reviews lead us to believe that the amount of improper payments is insignificant. That assumption appears reasonable based on the type of payments, most of which are intra-governmental, and the internal control and review processes currently in place.

## 5. Insurance

The majority of improper payments are the result of human error, which is directly related to the speed of service we endeavor to provide, as well as the large volume of transactions we process. In the overall universe of transactions processed, improper payments are relatively insignificant, constituting well less than one percent of all transactions processed. This low figure is primarily due to the reviews conducted by the Insurance Internal Control Staff (ICS).

Established in 1992, the ICS monitors, reviews, and approves all employee-generated insurance

disbursements and certain other controlled transactions. It is the duty of these reviewers to perform accurate reviews to verify the correctness and propriety of all critical insurance actions. In short, this staff is the primary control point for all of our processes involving employee-generated disbursement actions. This staff also has the responsibility of ensuring the propriety of our system-generated disbursements. The ICS exists to augment traditional management controls (i.e., internal system edits, supervision, performance reviews, and quality control reviews, etc.).

In addition to the above, the ICS conducts a variety of post-audit reviews using, among other things, matching reports to help us prevent and detect fraud, waste, and abuse. Moreover, the ICS reviews the work of its own staff. Through these reviews, the staff supervisors ensure that work is being done in date order, that it is being reviewed properly, and that no fraud has been committed.

The ICS identified best practices by consulting with the Office of Inspector General, who provided them with a variety of computer matching programs that assist in identifying patterns that may indicate abuse. Internal Control managers also regularly attend classes in statistical sampling and in the prevention and detection of fraud, waste, and abuse, and have received formal training in management and accountability. They have shared their expertise with other elements of VBA, and the OIG has referred to their operation as a “best practice.”

## Detail IV

**Improper Payment Reduction Outlook FY 2003 - FY 2007**  
**\$ in Millions**

Program	FY 03 Outlays 1/\$	FY 03 IP %	FY 03 IP \$	FY 04 Outlays \$	FY 04 IP %	FY 04 IP \$	FY 05 IP %	FY 06 IP %	FY 07 IP %
Compensation <b>2,3</b>	24,750	.586	145	26,536	.500	132	.450	.400	.350
		.448	111		.400	106	.350	.200	.100
Pensions <b>2</b>	3,219	8.36	269	3,326	7.50	249	6.75	6.00	5.50
		.454	15		.400	13	.350	.300	.275
Education	2,129	2.4	52	2,306	2.4	55	2.3	2.3	2.2
Vocational Rehabilitation <b>4</b>	515			550					
Loan Guaranty <b>5</b>	6,623			9,176					
Insurance	1,676	.02	0.261	1,705	.02	0.369	.02	.02	.02

### Notes to Improper Payment Reduction Outlook Table:

**1** For some programs, dollars reported are payments, not necessarily outlays.

**2** Overpayments (shaded cells) and underpayments are identified for both Compensation and Pension programs.

**3** Dependency & Indemnity Compensation is included with Compensation.

**4** Vocational Rehabilitation & Employment (VR&E) VR&E Service is beginning to collect data this fiscal year and will determine baseline rate and improvement targets for the next submission.

**5** Loan Guaranty

Loan Guaranty is establishing a process for determining improper payments and for determining improper payment rates for the various programs.

## Detail V

*Discuss your agency's recovery auditing effort, if applicable, including the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. (This reporting replaces the original legislative requirement for reporting not later than 12/31/04.)*

### **Financial Services Center, Austin, TX**

VA continues to enhance audit recovery efforts related to improper/duplicate vendor payments. By centralizing some vendor payment activities at the Financial Services Center (FSC) in Austin, TX, VA increased its focus on identifying and preventing vendor payment errors. The FSC reviews VA vendor payments daily to systematically identify, prevent, and recover improper payments made to commercial vendors. Current payment files are matched to identify and, where possible, prevent duplicates prior to payment. Also, payments from prior fiscal years are matched to identify potential duplicate payments for further analysis, assessment, and, as appropriate, collection. The FSC staff also reviews vendor payments to identify and collect improper payments resulting from payment processing, such as erroneous interest penalties, service charges, and sales taxes. Since starting this effort in FY 2004, the FSC has recovered over \$31,000 in erroneous interest penalties, service charges, and sales taxes for reuse by VA entities.

In FY 2004, FSC collections of improper payments and the recovery of unapplied vendor statement credits totaled over \$3.7 million—a 22 percent increase over FY 2003 collections. Improved payment oversight also enabled the VA to identify and cancel nearly \$3.9 million in potential improper payments prior to disbursement during FY 2004. Since the FSC audit recovery effort's inception in FY 2001, VA has recovered over \$10.5 million in improper payments and prevented the improper payment of another \$9.7 million.

### **Health Administration Center, Denver, CO**

Public Law 106-74 mandated VA conduct, by contract, a recovery audit program of past payments for hospital care. In the associated conference report for Public Law 106-379, the primary intent of this program was further described as an interest to ensure that clinical diagnoses and treatments match the codes, which are submitted to VA for payment and, where an overpayment has been made, enable VA to recover the funds for medical care.

VA awarded a recovery audit contract in December 2000. As of September 30, 2004, the contractor has identified 51,247 receivables totaling \$36,628,282 of which VA has recovered \$28,310,191.

### **Supply Fund**

The Office of Acquisition and Materiel Management works with the Inspector General's office to recover funds owed the Department of Veterans Affairs due to: (1) defective pricing - whether the prices for the items awarded were based on accurate, complete, and current disclosures by the offeror during contract negotiations; and (2) price reduction violations - whether the contractor complied with the terms and conditions of the price reduction clause. As part of the IG's post-award contract reviews, they also look for, and collect, overcharges that were the result of the contractor charging more than the contract price. In FY 2004, this audit recovery program recovered \$16.6 million.

## Detail VI

*Describe the steps the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.*

### **Compensation & Pension**

Quality of claims processing is a key element in the performance standards of the regional office director and the service center manager and all supervisors in the service center that execute the Compensation and Pension programs. Directors report to the Associate Deputy Under Secretary for Field Operations. Additionally, award money is available for stations that exceed targeted quality, timeliness, and production goals.

### **Education**

Performance accountability measures are set at the Administration level for Directors of the offices that process Education claims, and by the Directors for subordinates. Education Service is developing standardized nationwide performance standards for personnel who process claims. The Payment Accuracy Rate is included in all of these performance standards.

### **Vocational Rehabilitation & Employment**

The VR&E Quality Assurance Reviews are conducted twice each fiscal year. After each station's review, a letter is sent to the regional office, which contains the results and outlines the errors found. Additionally, the letter outlines required corrective actions. The regional office is required to submit certification of compliance on the corrective actions to the VR&E Service through the regional office director's office. In FY 2004, VR&E Service began to require all regional offices with corrective actions on fiscal activities to submit the amount of under and over payments.

## Detail VII

***A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.***

Except for Education, VA has the information systems and other infrastructure needed to reduce improper payments to targeted levels.

***B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2005 budget submission to Congress to obtain the necessary information systems and infrastructure.***

### **Education**

In the FY 2005 Budget Submission, VBA's Education Service requested \$5.2 million in resource requirements for The Electronic Education System (TEES) development.

## Detail VIII

***A description of any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments.***

There are no statutory or regulatory barriers that limit corrective actions in reducing improper payments for any of the programs discussed.