Improper Payments Information Act of 2002 (IPIA)

Narrative Summary of Implementation Efforts for FY 2005/ Agency Plans for FY 2006 – 2008

Detail I

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

VA reviewed the requirements of the Improper Payment Information Act of 2002 to identify those programs which are susceptible to significant erroneous payments. After completing the review, VA performed risk assessments for all 19 programs. Thirteen 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. 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.

In FY 2005, statistical samplings were performed on all required programs to estimate improper payments. (FY 2004 data were used to ensure that an accurate representation of a full fiscal year's results was obtained.) These programs include Compensation & Pension, Education, Insurance, the Loan Guaranty (LGY), and Vocational Rehabilitation & Employment programs. The benefit programs are managed by the Veterans Benefits Administration (VBA). 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, delays in claims processing due to requirements to provide due process, late reporting, misreporting, or fraud on the part of employees, beneficiaries, or claimants.

Over and underpayments are based on the results of the national Systematic Technical Accuracy Review (STAR) program. The STAR process involves a comprehensive technical accuracy review of a statistically valid random sample of completed cases. The annual STAR review sample totaled 11,261 currently processed cases.

The STAR process identifies erroneous payments for the following categories: Improper Grant/Denial, Improper

Percentage Evaluation Assigned, Improper Effective Dates Affecting Payment, and Improper Payment Rates, Improper Income Calculations, Improper Dependency Payment, Improper Payment of Burial Benefits, and Improper Waivers. The results of this review sample are extrapolated to the universe of completed claims to calculate estimated annual overpayments and underpayments. 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.

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 while on active duty on or after January 1, 1957, or whose post-service death was caused by or contributed to by their service-incurred disabilities, or to survivors who die of nonservice-connected conditions but who were continuously rated totally disabled due to service-connected condition(s) for a number of years immediately preceding death as specified in law of service-connected causes. 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

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

Education Service conducts Quality Assurance (QA) Reviews of a random sample of completed Education benefit claims, to identify the Payment Accuracy Rate. This is the percentage of claims in which no erroneous payments (under or over) are authorized. It is therefore the inverse of a payment error rate. QA reviewers use a checklist with eight questions, one of which is used in determining the Payment Accuracy Rate: "Were the payment determinations correct?" The checklist also requires additional information about each case reviewed, including:

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

The payment information currently collected through the QA review process can be compared 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. The data as collected do not cover claims processed in the fiscal year; rather it covers claims processed from the 4th quarter of the previous fiscal year through the 3rd quarter of the current fiscal year. However, for a preliminary assessment, the QA erroneous payment percentage was compared to total benefits paid for the corresponding fiscal year. From FY 2000 through FY 2003, the percentage of erroneous payments exceeded 2.5 percent in two of the 4 years, while the total amount of erroneous payments exceeded $10 million in all 4 years. Since data for all quarters of a given fiscal year are available through this system, mispayment data from the four quarterly reviews for FY 2004 were aggregated to provide the actual baseline measurement data.

3. Vocational Rehabilitation & Employment

Vocational Rehabilitation and Employment Service (VR&E) handles applications for benefits and processes payments from the Benefits Delivery Network (BDN) from its 57 regional offices nationwide. FY 2004 outlays totaled over $550 million and are expected to rise to over $603 million and $632 million in fiscal years 2005 and 2006, respectively. The VR&E program offers a wide range of services tailored to the specific needs of veterans and their dependents. These services require extensive assessments and evaluations to validate entitlement and payments. VBA recognizes the inherent risk associated with administering a sizable and diverse national program.

VA's VR&E Service implemented the Quality Assurance Program, which was created under the provision of Public Law 106-117, The Veterans Millennium Health Care and Benefits Act, which states that VBA must establish and execute a Quality Assurance Program. It is a procedure designed to assess the quality of services provided to veterans and a case manager's work in terms of quality and accuracy of entitlement determination, rehabilitation services, fiscal activities, and rehabilitation outcomes.

Internal controls including the Systematic Analyses of Operations (SAO) for Debt Avoidance and Fiscal Control, and the reestablishment of VR&E Field Surveys are used to minimize the occurrence of improper payments. These controls help ensure the accuracy of the following:

- Entitlement Determination – accuracy of decision for entitlement of a veteran to receive Chapter 31 benefits/services.
- Outcome Determination – accuracy of decision for closing a veteran's case when a veteran has achieved his or her rehabilitation goal or when a veteran is no longer able to participate in the Chapter 31 program.
- Rehabilitation Services – accuracy and quality of services provided to the Chapter 31 program participants, which includes fiscal activities.

4. Loan Guaranty

The purpose of the VA LGY program is to encourage and facilitate the extension of favorable credit terms by private lenders to eligible veterans, active duty personnel, surviving spouses, and selected reservists for the purpose of purchasing a home. The LGY program has an additional purpose of assisting veterans retain their homes in times of financial hardship and distress. The program operates in nine Regional Loan Centers (RLC), two regional offices, and two Eligibility Centers. Additionally, several important program functions are contracted out, and LGY Service maintains Monitoring Units to oversee those operations. In FY 2004, the program guaranteed over 335,000 loans for a dollar value in excess of $44 billion. LGY Service was ultimately responsible for the processing of over $1.2 billion in payments during that same fiscal year. With this level of inherent risk involved, LGY Service has instituted a number of internal controls to ensure that this risk is mitigated, and that payments made are accurate and justifiable.

The LGY 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 that includes auditing payments for many of the processes identified in Detail II. About 75 percent of LGY's payments are intra-governmental that are processed electronically from one LGY account to another or to Treasury. For those payments made externally, LGY has a number of procedures in place to mitigate the risk of improper payments. LGY conducts random sample post-audit reviews of payments made under the Property Management contract, and in Claims & Acquisitions. LGY also conducts 100 percent Final Accounting Reviews of all Specially Adapted Housing grant payments and 100 percent reviews of all vouchers submitted by the Portfolio Loan Servicer.

5. Insurance

The Insurance program provides veterans and servicemembers life insurance benefits that are not available from the commercial insurance industry because of lost or impaired insurability resulting from military service. Insurance coverage 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.

Based on our ongoing evaluation of methods and procedures of the Insurance program's internal controls and the percentage of improper payments in prior years, we consider the risk assessment of improper payments to be low. However, this program was previously required under section 57 of OMB Circular A-11 and must be reported.

Detail II

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

1. 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 know 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 action 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 2004, the DMC received $131.3 in compensation debt and $255 in pension debt.

The STAR process captures over and underpayment errors found during the claims processing review and calculates the dollar amounts associated with those payment errors. Since the review is based on a random sample of cases, the results are applied to the universe of claims processed and a weighting factor is applied to each regional office's workload share to generate overall estimated improper payments.

In FY 2004, the STAR process included 11,261 cases -- 9,423 compensation cases and 1,838 pension cases. A total of 361 payment errors were documented for compensation cases (3.8 percent error rate), including 226 underpayments totaling $1,124,703 and 135 overpayments totaling $616,158. A total of 91 payment errors were documented for pension cases (4.95 percent error rate), including 46 underpayments totaling $64,441 and 45 overpayments totaling $85,671.

The number of cases reviewed for compensation and pension represents 0.73 percent of the 1,547,186 cases subject for review. While the errors were clearly identified as either compensation or pension, the overall review sample contained some cases with both compensation and pension elements. Accordingly, the sample size for the compensation program was 0.84 and 0.42 percent for the pension program.

When extrapolated to the completed compensation claims for FY 2004, including a weighting factor for each regional office's share of national workload, total estimated Compensation program underpayments were $133.9 million and overpayments were $74.4 million.

When extrapolated to the completed pension claims for FY 2004, including a weighting factor for each regional office and pension maintenance center's share of national workload, total Pension program estimated underpayments were $15.3 million and estimated overpayments were $20.4 million.

2. Education

QA Reviews were designed to provide statistically valid results at the 95 percent confidence level and 5 percent precision (also expressed as a margin of error of plus or minus 2.5 percent), for an estimated Payment Accuracy Rate of 94 percent (equivalent to an error rate of 6 percent). The annual nationwide random sample of 1,600 cases is selected from the database of completed end products in quarterly increments. Reviews are also conducted and reports issued quarterly. Provided that the estimated erroneous payment rate is similar to the estimated error rate used in constructing the QA sample, that is, 6 percent or less, the data may be considered statistically valid. Data on percentage and amount of erroneous payments from quarterly QA Reviews for awards authorized in FY 2004 were compared to total benefits paid for that fiscal year.

3. Vocational Rehabilitation & Employment

Data for the improper payment rate are gathered through the Quality Assurance review. In 2002 Booz-Allen-Hamilton conducted a study on the VR&E Quality Assurance Program. Starting in FY 2003 the total number of cases to be reviewed annually was increased from 2,850 to a minimum of 3,648 cases, or 64 cases per regional office, as a result of the study recommendations. The increase allowed for a valid random sampling size for each regional office review of cases based on a confidence level on a 5 percent margin of error. The National QA Review is divided into two review sessions with 32 cases per regional office per session. In FY 2004, there were 3,973 cases reviewed. The review sample results are applied to the national total workload to generate VR&E's estimated overall improper payments by using weighting factors based on the regional offices' caseload size.

4. Loan Guaranty

The LGY program helps veterans and active duty personnel purchase and retain homes in recognition of 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 LGY program disburses payments for:

- Specially Adapted Housing (SAH) Grants.
- Claim and Acquisition Payments.
- Portfolio Servicing of Direct Loans.
- Property Management.

a. Specially Adapted Housing Grants (SAH) – SAH staff at the regional loan centers (RLCs) certify that all grant requirements have been met prior to authorizing the dispersal of grant funds to the veteran's escrow account for payment of authorized expenses incurred for construction or modification of the veteran's home. The RLC staff then conducts a 100 percent Final Accounting Review for all cases. The cases are then sent to LGY Service Central Office (CO) for a second-level review. LGY CO reviews 100 percent of these files. For FY 2004 and FY 2005, no errors have been found in any part of the SAH grant payment process.

b. Claims & Acquisition Payments – LGY conducts a stringent first-level review of all claim payments. A 100 percent manual review is conducted on all claims received. The Loan Service and Claims (LS&C) system requires that at least two different LGY staff members review and certify the claim in the system before it will release it for payment. LGY also conducts statistically valid post-audit reviews of Claims & Acquisition payments. LGY reviews a random sampling of Claims & Acquisition payments during Quality Control visits to each of the 9 RLCs and the San Juan and Honolulu Regional Offices. LGY also includes a post-audit review of claims paid as part of the Statistical Quality Control Review 321. A first-level review of cases is done at the RLC, and a second-level validation is conducted by LGY CO. Between the Quality Control site visits and SQC reviews, the total claim payments which are being post-audited are significant at the 90 percent confidence level with +/- 2.5 percent margin of error. For FY 2004 and FY 2005, the error rate is less than 1 percent. These errors were minor in nature (under $20 each).

c. Portfolio Loan Voucher Payments – Countrywide Home Loans (CHL) is LGY's contracted portfolio loan servicer. The Portfolio Loan Oversight Unit (PLOU) classifies CHL vouchers into seven types, based on nature of the service provided or the type of items included within. For example, the 003-Type contains reimbursable fees such as property preservation costs, foreclosure/bankruptcy costs, and recording fees; the 002-Type consists of property tax payments. As per the requirements of the Prompt Payment Act, VA pays each invoice as it is received. The PLOU staff then conducts a 100 percent post-audit of each voucher payment to ensure correctness and accuracy of payments. Error rates were extrapolated across the entire amount of voucher payments to arrive at the total amount of improper payments.

d. Property Management Voucher Payments – Ocwen is LGY's property management contractor. VA's Property Management Oversight Unit (PMOU) receives two types of vouchers (After Sale and Supplemental) from Ocwen. Both are handled in the same manner. Invoices are reviewed upon receipt by a Realty Specialist for compliance with the contract requirements and to assure that proper supporting documentation is included; then the invoice is approved by the Realty Specialist and submitted to a supervisor to certify it for payment per the requirements of the Prompt Payment Act. The Centralized Property Tracking System (CPTS) pulls a 10 percent random sample of vouchers for post-audit review. The 10 percent sample requirement is statistically significant at the 95 percent confidence level with approximately +/-4 percent margin of error. [A 10 percent sample of a total of 6,229 invoices yields 623 cases for review valid at the 95 percent confidence level with +/-3.8 percent margin of error]. Please note that as a result of the second-level review performed on these payments, to date VA has found no payment errors.

5. Insurance

The steps to determining the actual rate of improper payments are:

- Determine the number of accounts receivable established in the prior fiscal year by the Finance section through a report created by the Accounts Receivable database manager.
- 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 from the Finance section.
- 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.

The Insurance program uses its Statistical Quality Control (SQC) program to help validate the improper payment rate. The Insurance SQC program is our method for assessing the ongoing quality and timeliness of our work products. A random sample of completed or pending work products are 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 a policy loan or a cash surrender and 100 samples relating to the processing and payment of a death claim. Each case is reviewed for accuracy and timeliness. Our accuracy rate for cash disbursements for the past 12 months was over 99 percent.

Detail III

Describe the Corrective Action Plans for:

A. Reducing 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 underway, and/or have been ongoing for some length of time, it is appropriate to include information in this section.

B. Grant-making agencies with risk susceptible grant programs, discuss what your agency has accomplished in the area of funds stewardship past the primary recipient. Include the status on projects and results of any reviews.

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

A higher ratio of compensation underpayments compared to overpayments was anticipated based on last year's statistical sampling results. The primary reason is the different standard applicable to a finding of underpayment and a finding of overpayment. For underpayment based on denial of service-connection or under-evaluation, the evidence does not have to show conclusively that all listed entitlement criteria are met. If the evidence is in equipoise, VA is required to resolve the claim in the claimant's favor (38 CFR 3.102). For overpayments the standard is clear and unmistakable error, that is, there is no basis in any reasonable judgment that the benefit granted could be sustained (38 CFR 3.105 (a) & (d)). Part of the identified underpayments in both compensation and pension may subsequently be corrected through the appeals process. For the Pension program, less judgment is involved in determining entitlement, with the primary evaluation factor based upon compliance with a very detailed set of rules for establishing dependency and complex detailed rules for developing and considering income to determine entitlement and payment rates. This is the primary reason for the higher ratio of overpayments to underpayments.

2. Compensation

Based on STAR data, the three most common causes for erroneous compensation overpayments are improper effective dates (35 percent of errors), the assignment of improper evaluations (22 percent of errors), and the improper grant of service connection (14 percent of errors). These reasons are the same reasons for erroneous underpayments. VBA continues to be 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. The project to rewrite the regulations is a result of a recommendation outlined in the October 2001 VA Claims Processing Task Force: Report to the Secretary of Veterans Affairs aimed at improving VA's claims adjudication process.

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 final regulation dealing with effective dates is anticipated in calendar year 2007. VBA anticipates the rewritten regulation will help reduce common errors identified above that result in overpayments.

VA continues its efforts to expand its rating capacity. Since the number of inexperienced rating specialists is significant, this means that the potential for errors in evaluation and granting or denying of benefits is greater. We believe that our training programs, the increasing experience of disability decision makers, and publication of the STAR Reporter (which advises the field of error trends), will significantly improve these areas.

Other reasons for overpayments include:

- Non-entitlement for the month of death.
- Reductions/terminations due to incarceration or fugitive felon status.
- 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 79,000 veterans were removed from the compensation rolls in FY 2004, virtually all due to death. This resulted in approximately $25.3 million in overpayments because death occurred in the last 10 days of the month. The average compensation payment in FY 2004 was $943 monthly. Although the overpayment is created, the majority of these payments are recouped.

Overpayments also 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 as the IG's negotiation of agreements with various jurisdictions expands.

3. 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. It then requires adjustment based upon actual 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 consolidated the processing of all pension maintenance 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 the average size of overpayments but not substantially the number of erroneous payments. Pension processing quality has increased dramatically through the consolidation and specialization, and we expect it to continue. Consolidation of initial claims processing to the pension centers is anticipated in calendar year 2007.

The most common causes for erroneous pension overpayments and underpayments are improper effective dates and improper calculation of family income. The size of overpayments in the pension program is aggravated by the effective date rules that govern the adjustment of accounts and the need to provide due process. Since the fact of entitlement or the rate of entitlement is affected by income, and changes in status and rate of payment are effective the first of the month following changed income, the claimant and VA are in an overpayment situation in virtually every income adjustment based on new or increased income.

Other causes for overpayments are:

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

Approximately 80,000 pension records were terminated in FY 2004. 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 $521 when veterans and survivors are combined, is $13 million.

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 is designed to detect misreporting.

- Death Match Project: The Office of Inspector General (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.

- 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.

- 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.

- Railroad Retirement and OPM Matches: These matches report income from these sources compared to what pension beneficiaries report.

- EVR: 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. This program results in overpayments due to a late reporting of income changes that result in larger overpayments due to two statutory provisions:

    a. Reductions are effective first of the month following receipt of the changed income. Because VA normally is required to provide due process of 60 days in such cases, an overpayment is created for not only the historical period back to the receipt of the income but for a minimum of two months into the future.

b. Failure to return an EVR results in termination of the award and resulting overpayment from the beginning of the calendar year.

- Monthly Benefit Rate Match: This is a match with SSA in which the amount of monthly social security reported by the claimant is compared to SSA records.

- Unmatched records with SSA: C&P Service analyzes an extract of hits from data runs in order to obtain the Unverified Social Security Numbers listing.

4. Education

Education Service has used the Quality Assurance Review program to assess payment errors since FY 1992. Quarterly Education Service quality review reports are used to identify error trends and causes; the results then become topics for discussion at refresher training. Required training based on quarterly quality reviews was conducted in FY 2004. However, compared to the previous fiscal year, estimated erroneous payments rose from 2.4 percent to 3.0 percent. The principal factor inhibiting improvement was an increase in workload, which led to errors as personnel attempted to increase the speed of processing. In FY 2004, as in the previous fiscal year, the majority of erroneous payments were due to:

- Incorrectly determining the student's rate of training (full-time rate or part-time).
- Incorrectly awarding benefits for intervals between terms.
- Incorrectly determining the date on which to reduce or terminate benefits.
- Incorrectly processing monthly verification of enrollment data concurrent with award action.

Education Service is developing a rules-based automated claims processing system, which will help reduce payment errors. A prototype system is in place, and the full system is expected to improve performance when fully implemented. In addition, Education Service has developed standardized training materials for use by field stations. Use of these materials began in FY 2004, and is expected to help improve performance in the future.

5. Vocational Rehabilitation & Employment

The National Quality Assurance Team monitors the errors annotated in the Quality Assurance reviews and tracks the corrective actions taken on identified errors. Also, as the team monitors the results of the reviews, any frequently identified error or best practice is brought to the attention of management. Any further action (i.e., national training or publication of best standards of practice) to address the area(s) identified is discussed and implemented.

After each review, an outbriefing 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 Director's Office at each regional office within 90 days of receipt of the letter. VR&E Service also revised the manual chapter on Systematic Analysis of Operations in December 2003 and strengthened the fiscal accuracy and review section.

In 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 underpayment for Chapter 31 benefits. The types of errors that were noted varied but included such items as:

- Entry of incorrect end date identifying timeframe for completion of training session and, therefore, veteran was either paid at an incorrect rate or no payment was issued and veteran should have received the subsistence allowance.
- Incorrect subsistence allowance rate entered and veteran was compensated at the wrong rate.
- Award did not reflect dependent child attending school and an amendment was required to reflect this change.

As VR&E Service continues to move forward in developing and implementing plans to reduce the estimated rate of improper payments, two major actions improved the data collection and dissemination process:

- First, the QA Web site, which maintains the data for the improper payment statistics, became available in December 2003.

- Second, a decision was made to centralize the QA Review site to Nashville to ensure consistency in the review process. All new QA Reviewers are now assigned in one location as opposed to the reviewers previously assigned in outbased locations.

6. Loan Guaranty

SAH grant payments have been found to be error-free. LGY will continue to conduct the 100 percent Final Accounting review and second-level Central Office reviews of the SAH grant process. Additionally, LGY has developed a Statistical Quality Control (SQC) Schedule for the SAH program, which will provide additional opportunity for review of the grant process, including grant payments.

Claims & Acquisitions payments have been found to have very few errors (.249 percent error rate in FY 2005). Since the error rate is so low, and the instances of error so minor in value, LGY will continue its procedures for first and second-level reviews prior to payment and will continue to perform all post-audit review of cases as per existing Site Visit and SQC schedules.

Portfolio loan servicing payments are processed for payment by the Portfolio Loan Oversight Unit (PLOU) within the timeframe sanctioned by the Prompt Payment Act. Payments are then post-audited by the PLOU staff for accuracy and correctness. For FY 2004 and FYTD 2005, errors were found only in the 002 and 003-series of vouchers, with the bulk of mistakes being located in the 002 vouchers. This means that errors were only found on vouchers related to tax payments and calculations (002) and on invoices consisting of reimbursable fees (foreclosure costs, property preservation fees, etc.). LGY monitors 002-series vouchers and maintains information on overcharges/unallowable charges submitted by holders. LGY offsets claims submitted by holders for any overcharges/unallowable charges contained therein. If the claim for the specific account has already been processed, then LGY makes adjustments on future claims submitted by the holder. While most errors on the 003-series vouchers for FY 2004 and FY 2005 were procedural in nature, and did not involve a dollar value, LGY also monitors this series of vouchers for unallowable charges/overcharges and pursues collection/reimbursement of any items VA has paid in error. The 003a-series vouchers are payments recovered vis a vis this procedure.

7. Insurance

The majority of our improper payments are usually 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. They exist to augment our traditional management controls (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 OIG, who provided 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."

Details IV

The table on the next page is required for each reporting agency. Please note that with this fiscal year, we require actual Outlay Dollars, Improper Payment percent, and Improper Payment Dollars for FY 2004 and 2005, and estimate Outlay Dollars, Improper Payment percent, and Improper Payment Dollars for FY 2006 – FY 2008. We highlight the following for clarification: (1) all risk susceptible programs must be listed in this chart whether or not an error measurement is being reported; (2) where no measurement is provided, agency should indicate the date by which a measurement is expected; (3) if FY 2005 is the baseline measurement, indicate by either footnote or by "n/a" in the "FY 04 percent" column; (4) if any of the dollar amount(s) included in the estimate correspond to newly established measurement components in addition to previously established measurement components, separate the two amounts to the extent possible; (5) include outlay estimates for FY 2006-2008; and (6) agencies are expected to report on FY 05 activity, and if not feasible, then FY 04 activity is acceptable.

During the third quarter of FY 2005, VA revised the improper payment reduction targets for FY 2004 through FY 2008. The revised reduction targets present a more realistic estimate of VA's improper payments compared to our initial estimates provided in the FY 2004 PAR. VA has met the revised improper payment reductions for FY 2004.

Improper Payment Reduction Outlook FY 2004 – FY 2008
($ in millions)

Program	FY 04 Outlays $ [1]	FY 04 IP %	FY 04 IP $	FY 05 Outlays $ [1]	FY 05 IP %	FY 05 IP $	FY 06 Outlays $ [1]	FY 06 IP %	FY 06 IP $	FY 07 Outlays $ [1]	FY 07 IP %	FY 07 IP $	FY 08 Outlays $ [1]	FY 08 IP %	FY 08 IP $
Compensation [2]	26,298	0.64%	168.5	28,960	0.63%	181.0	29,772	0.61%	181.6	30,000	0.59%	177.0	34,697	0.57%	197.8
		0.51%	133.9		0.49%	141.9		0.47%	139.9		0.45%	135.0		0.43%	149.2
Pensions	3,391	7.82%	265.4	3,293	7.50%	247.0	3,470	7.48%	259.6	3,223	7.46%	240.4	3,510	7.44%	261.1
		0.45%	15.3		0.43%	14.0		0.41%	14.2		0.39%	12.6		0.37%	13.0
Education	2,316	1.60%	37.0	2,661	1.30%	34.0	2,888	1.20%	35.0	2,973	1.20%	36.0	3,031	1.20%	36.0
		1.40%	33.0		1.10%	30.0		1.10%	31.0		1.10%	32.0		1.10%	33.3
Vocational Rehabilitation	551	0.49%	2.7	603	0.44%	2.7	632	0.39%	2.5	669	0.34%	2.3	723	0.29%	2.1
		1.23%	6.8		1.18%	7.1		1.13%	7.1		1.08%	7.2		1.03%	7.4
Loan Guaranty [3]	1,249	0.50%	6.3	1,219	0.35%	4.2	2,582	0.33%	8.5	2,591	0.30%	7.8	2,657	0.28%	7.4
Insurance	1,678	0.02%	0.312	1,664	0.02%	.333	1,679	0.02%	.336	1,683	0.02%	.337	1,684	0.02%	.337

Notes to Improper Payment Reduction Outlook Table:

[1] The outlays for 2004 are actuals. The outlays for FY 2005 through 2008 are estimates. Overpayments (shaded cells) and underpayments are identified for programs for which separate data are available.

[2] Dependency & Indemnity Compensation is included with Compensation.

[3] FY 2006 through 2008 outlay estimates for Loan Guaranty are based on obligations as shown in the FY 2006 President's Budget and will be revised with updated information.

VA Recovery Targets for all Susceptible Programs ($ in millions)

	Collections											
Program	FY 04 Estimated $	FY 04 Actual $	FY 04 Estimated %	FY 04 Actual %	FY 05 $	FY 05 %	FY 06 $	FY 06 %	FY 07 $	FY 07 %	FY 08 $	FY 08 %
Compensation & Pension (1)	250	281	25	28	250	25	240	26	230	27	220	28
Education & VR&E (2)	100	113	50	56	100	50	95	50	90	50	85	50
Loan Guaranty	1.5	1.9	60	69	1.5	60	1.4	65	1.3	65	1.2	65
Insurance	.700	.717	15	15	.700	15	.700	15	.680	15	.675	15

Notes to VA Recovery Targets for all Susceptible Programs Table:

1 Compensation and Pension collections are shown as one figure.

[2] Collections reported for Education are collections for both Education and Vocational Rehabilitation & Employment (VR&E).

Details V

Discuss your agency's recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. In addition, complete the table below.

1. Financial Services Center, Austin, TX

VA continued to enhance its vendor payment processes throughout FY 2005. The Department processed over 5.5 million Prompt Payment Act (PPA) eligible invoices worth over $8.7 billion, with over 99 percent paid on time. In FY 2005, interest payments VA-wide declined by $116,000 (from $862,000 to $746,000 - a 13.5 percent improvement over FY 2004 levels). At the same time, discounts earned surged by $3.4 million to $6.2 million, a 124 percent improvement over FY 2004 levels. VA's percentage of discounts earned also improved from 86.1 percent in FY 2004 to 91.1 percent in FY 2005. Combined, payment processing improvements saved VA $3.5 million in FY 2005 - savings the Department can use to improve veterans care.

VA also continued to gain efficiencies and better results through an initiative started in FY 2004 to centralize vendor payment activities at the FSC. By centralizing vendor payment activities, VA strengthened its focus on identifying and preventing vendor payment errors. The FSC also enhanced audit recovery efforts of improper/duplicate vendor payments. 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 also reviews vendor payments to identify and collect improper payments resulting from payment processing such as erroneous interest penalties, service charges, and sales taxes. This initiative, started in FY 2004, recovered over $124,000 in erroneous interest penalties, service charges, and sales taxes for reuse by VA entities during FY 2005. Overall, during FY 2005, collections of improper payments and the recovery of unapplied vendor statement credits totaled over $2.7 million. Improved payment oversight also enabled VA to identify and cancel nearly $3.5 million in potential improper payments prior to disbursement during FY 2005. Since the inception of the FSC's audit recovery effort in FY 2001, VA has recovered over $13.2 million in improper payments and prevented the improper payment of another $13.2 million.

2. Health Administration Center (HAC), 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. From December 2004 to July 2005, the contractor has identified 77,004 receivables totaling $56,060,631 of which VA has recovered $41,291,575.

Public Law 108-199 extended the mandate for VA to conduct, by contract, a recovery audit program of past payments for hospital care through FY 2006. VA awarded the new recovery audit contract in December 2004. The contract started on July 11, 2005, with requests sent to providers and VA Medical Centers for information.

3. Supply Fund

The Office of Acquisition and Materiel Management works with the Office of Inspector General (OIG) to recover funds owed VA 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 OIG post-award contract reviews, staff also look for and collect overcharges that were the result of the contractor charging more than the contract price. In FY 2005, this audit recovery program recovered over $1.2 million.

Audit Recovery Table

Agency Component	Amount Subject to Review for FY 05 Reporting	Actual Amount Reviewed and Reported (X) $	Amounts Identified for Recovery (Y) $	Amounts Identified for Recovery/Actual Amount Reviewed and Reported (Y divided by X)	Actual Amounts Recovered $
FSC	N/A	5,189,735,613	4,223,107	0.081%	2,659,556
HAC	N/A	176,245,294	17,688,720	10%	9,051,547
Supply Fund	2,263,495	2,335,471	1,089,310	2.14%	1,246,161

Details VI

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

1. Compensation & Pension

VBA is committed to ensuring agency managers are held accountable for reducing and recovering improper payments. This is accomplished in a number of ways for the C&P Business line. First, regional directors, service center managers, and all management personnel share the same performance standards with respect to the management of delivery of compensation and pension. Non-supervisory field staffs have performance standards that measure them against quality and timeliness standards. Within C&P Service, management and staff are responsible for measuring quality, development of counter measures and training, and development of legislative and technological changes where possible to avoid, reduce, and recover overpayments.

2. Education

Performance accountability measures, including payment accuracy, are set by VBA top management for directors of the offices that process Education claims, and set by the directors for subordinates. Education Service has developed standardized nationwide performance standards including payment accuracy for personnel who process claims.

3. Vocational Rehabilitation & Employment

VR&E Service is currently using the Quality Assurance Review results to track improper payments. There are national performance measures for VR&E employees and managers, which include a fiscal accuracy measure. After the Quality Assurance Team has conducted a review of cases, each regional office is required to submit its certification of compliance on the corrective actions within 90 days from receipt of the QA Review Results Letter. A database was developed and is being populated to track the regional office's compliance to required fiscal corrective actions, including the amount of under and overpayments. Also, an annual statement of written assurance on this subject will be added as a critical element for the program.

4. Loan Guaranty

Quality of work performed at the RLCs and regional offices that have an LGY presence is of key importance to the LGY program. Performance standards for the directors of these LGY stations include quality standards that cover virtually all facets of the program, accuracy of payments being part of these standards. LGY Service works with the Office of Field Operations to set performance requirements and stretch goals for the LGY quality measures. Award money is available for stations that exceed requirements and achieve the stretch goals.

Details 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.

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

The agency has information systems and infrastructure to reduce improper payments. The information systems, however, reflect old technology and do not prevent or reduce the size of overpayments to the extent possible. VBA's VETSNET system, currently being deployed with a target completion date at the end of calendar year 2006, will enhance our ability to affect overpayments. VETSNET enhancements will directly affect both the creation and the size of overpayments. The elimination of batch cycle processing and conversion to real time processing will enable us to discontinue payments up to the day before payment is to be issued. The system will be integrated such that the disability rating decision will be entered once and support the rating, eliminating or substantially reducing errors due to data entry and effective date problems. The amount of retroactive payments is calculated as the award is being prepared and is known to the decision maker and the authorizer prior to authorizing the payment. Where three signatures are required, the system will have the internal control to ensure that three signatures are present. We will also eliminate problems with the calculation of manual out-of-system payments, an area with increased potential for error.

2. Education

Education Service is developing a rules-based automated claims processing system. The goal of this system, when fully implemented, is to automatically process 90 percent of all enrollments and changes in enrollment. While the principal effect of implementation is to reduce processing times, it is also expected to reduce erroneous payments.

Given the improvements currently being implemented and those that are planned for the future, LGY, VR&E, and Insurance programs have the information systems and other infrastructure needed to keep improper payments at the levels targeted and should be able to reduce improper payments.

B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2006 budget submission to Congress to obtain the necessary information systems and infrastructure.

Funding for VETSNET is included in the FY 2006 budget request. In addition, the FY 2006 budget includes a requested $10.9 million in resource requirements for the Education Service TEES development project.

Details VIII

Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

Compensation (including Dependency & Indemnity Compensation) and Pension

There are statutory and regulatory barriers that limit our corrective actions in reducing improper payments. Many of these barriers are in the Pension program. Under current governing legislation, adjustments to payments are effective the first of the month following the month of the change in income or net worth. Additionally, benefits are paid on a prospective basis based on the beneficiary's estimate of anticipated income. Thus, an award adjustment due to changes in income is always after the fact and creates an overpayment. While this process does create overpayments, we believe it should not be changed since the program meets the requirement to provide income support for current need.

Likewise, the need to provide due process to claimants where adjustment or termination of their award is needed results in continued payment at improper rates for approximately 90 days following discovery. When the award is done, however, adjustment is from the first of the month following the month in which the change in circumstance occurred. Again, we believe that the principles of due process are so important that these continued payments are a cost of administering the program.