



Office of Inspector General

AUDIT OF VETERANS BENEFITS ADMINISTRATION'S (VBA) INCOME VERIFICATION MATCH (IVM) RESULTS

VBA's IVM results can be enhanced with better use of staff resources, increased recovery of beneficiary overpayments, and referral of program fraud cases to the Office of Inspector General.

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DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Under Secretary for Benefits (20)

**Audit of Veterans Benefits Administration's (VBA) Income Verification Match (IVM)
Results**

1. The purpose of the audit was to review the effectiveness of VBA's IVM in completing required benefit payment adjustments and identification of program fraud. The audit focused on: (a) assessing VBA's efforts to complete IVM case review work and required benefit payment adjustments, (b) following-up on VBA implementation of recommendations from a prior Office of Inspector General (OIG) review "Audit of Rejected Records from the Social Security Administration (SSA)" to assess the impact of unmatched records on the Department's ability to verify income reported by beneficiaries and identify potential fraud, and (c) identifying opportunities to enhance the overall effectiveness and efficiency of VBA's matching effort.

2. The IVM provides the Department of Veterans Affairs (VA) with a tool to help ensure the integrity of beneficiary payments to individuals who receive VA benefits based on their annual income. The IVM is an annual computer match with the Internal Revenue Service (IRS) and SSA to verify income information reported to VA by individuals who receive VA benefits so that appropriate benefit payment adjustments can be made. Due to the significant number of income reporting differences that have been identified, effective implementation of the IVM is important to help reduce inappropriate benefit payments and the occurrence of program fraud. Computer matches conducted by VA in Fiscal Years (FY) 1995-1999 identified potential differences between income reported to VA by beneficiaries and that reported to IRS and SSA. This match resulted in referral of 146,044 differences between income data reported to IRS and SSA and that reported to VA (an average of 29,208 a year over the 5-year period reviewed). This represents approximately 4.6 percent of the beneficiaries in receipt of pension benefits during this period (625,921 pension beneficiaries were on VA's rolls as of July 2000). However, this small percentage of beneficiaries generated 262,438 income reporting discrepancies that totaled about \$1.1 billion. Our review found that VBA had reviewed all cases referred from the match.

3. The audit found that opportunities exist for VBA to: (a) significantly increase the efficiency, effectiveness, and amount of potential overpayments that are recovered; (b) better ensure program integrity and identification of program fraud; and, (c) improve delivery of services to beneficiaries. The following key findings were identified.

- VBA needs to increase the oversight and tracking of the IVM process.
- The claims examination process could be made more effective.
- IVM related debts need to be established.
- Waivers of IVM related debts should not be granted when fraud is identified.
- Recoveries could be increased by reducing the number of unmatched records.

- Referrals to VA OIG for fraud need to be increased.
- The IVM process represents a potential material weakness area that should be monitored by the Department.

We found that the potential monetary impact of these findings to the Department was significant. We estimate that \$299.8 million in beneficiary overpayments involving potential fraud had not been referred to the OIG for investigation, and \$920.9 million in IVM related benefit overpayments were not recovered for the 5 match years reviewed.

As a result of these findings, we recommend that the Under Secretary for Benefits:

- Increase program oversight of the results of IVM actions completed.
- Eliminate review of Section 306 and protected pension cases.
- Eliminate review of IVM cases with income discrepancies of less than \$500. (*Repeat recommendation from 1996 OIG report.*)
- Complete necessary validation of beneficiary identifier information in the Compensation and Pension master record. (*Repeat recommendation from 1990 OIG report.*)
- Assure that accounts receivable are established to recover IVM related debts from beneficiaries.
- Assure that waivers of IVM related debts are not granted when fraud is identified.
- Refer potential fraud cases to the OIG based on the referral process that has been established.
- Report the IVM for consideration as an Internal High Priority Area that needs monitoring.

4. The report includes recommendations that can enhance the overall effectiveness and efficiency of VBA's annual IVM review effort with the potential for more effective use of staff resources and delivery of services to beneficiaries, as well as increased benefit payment recoveries and referral of program fraud cases to the OIG. The Deputy Under Secretary for Management concurred with the report recommendations and provided appropriate implementation actions. The Deputy Under Secretary's comments did not agree with our presentation of the monetary impact level of the report findings. The Deputy Under Secretary provided alternative monetary benefit calculations, which still reflect a significant potential cost impact to the Department, but less than that estimated by the OIG. We continue to believe that the report fairly presents the potential staff efficiencies that could be achieved with a more effective claims examination process and the monetary impact to the Department of beneficiary income that is not reported, and the associated level of benefit overpayments that have occurred. We consider the report issues resolved and will follow up on planned actions until they are completed.

For the Assistant Inspector General for Auditing

(Original signed by:)

Stephen L. Gaskell
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RESULTS AND RECOMMENDATIONS

Enhancement Of The Income Verification Match (IVM) Process Will Result In Better Use Of Staff Resources, Increased Benefit Payment Recoveries, And Referral Of Program Fraud Cases To The Office Of Inspector General

Our review identified opportunities to: enhance the management, oversight, and results of VBA's IVM process; increase program integrity; and, increase identification of program fraud.

Oversight And Tracking Of The IVM Process Needs To Be Enhanced

Our audit results showed that national oversight and tracking of the IVM process was needed to assure the overall effectiveness and efficiency of VBA's pension award effort. Our review confirmed that the IVM process resulted in significant payment adjustments and recoveries by individual ROs. Based on our national statistical sampling review of IVM cases worked by VBA for match years 1995-1999, we estimate that during this 5-year period the IVM resulted in \$332.7 million in beneficiary overpayments established. *(A summary of the national statistical sampling case review results is presented in Appendix III on page 18.)*

However, VBA has not tracked the results of the matching process to assure the productivity of the case reviews that are being accomplished. As a result, VBA was not aware of the potential for improving the utilization of its available staff. In addition, VBA did not recover a significant amount of beneficiary overpayments because of inappropriate RO decisions involving the establishment and waiver of beneficiary debts. The efficient utilization of staff was also adversely impacted because VBA did not implement recommendations made by the OIG in prior reports that would have improved the effectiveness and efficiency of the adjudication process resulting in increased identification of overpayments.

The IVM Claims Examination Process Can Be Made More Effective

The IVM claims examination process could be accomplished more efficiently and effectively resulting in the better use of staff resources by adjusting the case referral process to eliminate case referrals to ROs that do not require benefit adjustments and those that involve income reporting discrepancies of less than \$500.

Our review of the IVM results for match years 1995-1999 found that VBA could have avoided review of 33,476 cases involving Section 306 pension and protected pension cases because no benefit payment changes were identified for these type of cases.¹ *(A summary of the national statistical sampling case review results is presented in Appendix III on page 22.)* Eliminating Section 306 pension and protected pension cases from the income matches would have reduced the number of required case reviews resulting in better utilization of 62.8 Full-Time Equivalent Employees (FTEE) with salary costs totaling \$2.3 million. (The calculation of better FTEE

¹ Our review found that it is unlikely that benefit payment adjustments would be required for Section 306 and protected pension cases because spouse earned income is not used in determining award amounts and because the upper ceiling for veteran unearned and earned income is periodically adjusted.

utilization is based on the standard of 3 hours² charged by RO staff for each IVM case worked—33,476 cases x 3=100,428÷1,600 direct staff hours=62.8 FTEE x \$36,696 annual salary rate for a GS-9, step 5=\$2,304,509.)

We also found that for the 5 match years reviewed, VBA could have avoided review of an estimated 14,898 cases with income discrepancy amounts of less than \$500 because approximately 9,523 of these cases (64 percent) did not require benefit adjustments and the remaining 5,375 cases had an average recovery of only \$216. (*A summary of the national statistical sampling case review results is presented in Appendix III on pages 21-22.*) Eliminating these cases from the matches would have reduced the number of required case reviews with better utilization of 27.9 FTEE with salary costs of over \$1 million. (The calculation of better FTEE utilization is based on the standard of 3 hours charged by RO staff for each IVM case worked—14,898 cases x 3=44,694÷1,600 direct staff hours=27.9 FTEE x \$36,696 annual salary rate for a GS-9, step 5=\$1,023,818.) A 1996 OIG report³ on the IVM recommended and the Under Secretary agreed that VBA discontinue working cases with income discrepancy amounts of less than \$500 to provide a more cost effective return on the required investment of staff resources.

The annual review of cases that result from the IVM represents a significant workload requirement for VBA. The staff used in the review could be used to help address the continuing backlog of other processing actions associated with veteran benefit claims. As of June 30, 2000 VBA's backlog of veteran claims pending review was significant and totaled 360,241 cases. VBA needs to streamline the IVM claims review process.

IVM Related Debts Need To Be Established

When VBA sends the IVM results to the RO they process the actions and attempt to contact the beneficiary. The beneficiary is provided the information that has been identified as a discrepancy. The beneficiary is informed that corrective action will be taken to recoup the overpayment created by the unreported income, unless he/she can provide proof that there is an error in the match information. In the event that there is no error, the RO begins the “due process” period. When the time has expired or if notified by the beneficiary to take immediate action, the information regarding the termination or reduction of the benefit is entered into the record and the Debt Management Center (DMC) is notified via updates to the Veterans Master Record. Once the DMC is notified of the debt the overpayment collection procedures begin. Collection can be complete recoupment of the award amount, withholding of a portion of the award amount to collect the overpayment, or a lesser amount if requested by the beneficiary and approved by VBA.

² A Review of VBA's Income Verification Match Program, OIG Report Number 6R1-G01-027, dated March 27, 1996 identified a standard of about 3 hours of staff time is required for each IVM case worked. VBA program officials advised that this standard reflects the current staff time requirements for each IVM case worked.

³ A Review of VBA's Income Verification Match Program, OIG Report Number 6R1-G01-027, dated March 27, 1996 identified the potential for reduced program staffing costs of at least \$6.7 million annually, that would free-up scarce staff resources to process other claims workload and help improve service to beneficiaries.

Our review found that accounts receivable were not established to recover IVM related debts from a significant number of beneficiaries. Our review of a national statistical sample of 262 IVM cases that had been worked during match years 1995-1999 found no evidence that ROs had established required accounts receivable involving 44 cases (16.8 percent) valued at \$134,614. The following is an example of the type of cases found during our review:

- A beneficiary failed to report income from wages of \$5,418 in 1995 and \$16,361 in 1996. Action was taken to reduce the veteran's pension but an accounts receivable was not established to recover the overpayment of benefits that is estimated at approximately \$4,530.

Projecting our national statistical sampling results, we estimate that for the 5 match years reviewed, VBA had not established required accounts receivable for 11,958 cases valued at \$72.5 million. (*A summary of the national statistical sampling case review results is presented in Appendix III on pages 18-19.*) VBA needs to assure that ROs appropriately establish required debts involving IVM cases where overpayments have occurred and should be collected.

Waivers Of IVM Related Debts Should Not Be Granted When Fraud Is Identified

VBA needs to assure that beneficiary waiver requests involving IVM related debts are not granted when fraud is identified. Our review of a national statistical sample of 262 IVM cases that had been worked during match years 1995-1999 found that ROs had inappropriately approved 38 beneficiary waiver requests (14.5 percent) valued at \$275,301. These 38 cases represent egregious actions by the beneficiaries and do not include cases where material fault or inadvertent misreporting by the beneficiary resulted in the overpayment. We found that the approval of these waiver requests was not adequately supported. In each case, potential fraud was identified by our audit that should have been considered as a basis for denial of the waiver requests. We found that the waiver decisions generally noted the beneficiary's failure to truthfully report their income, yet the IVM related debts were waived. Ineffective handling of IVM related debts compromises key aspects of the IVM process by reducing VA's opportunity to recover inappropriate benefit payments and holding beneficiaries accountable for not truthfully reporting their income and keeping benefit payments that they are not entitled to receive. The following are examples of cases we found during our review:

- A veteran failed to report \$1,767 in income that resulted in the establishment of an accounts receivable totaling \$5,490. The beneficiary provided a statement that he did not understand procedures for reporting income. However, our review found that the beneficiary had been identified in a previous IVM for failing to report \$4,500 in income that resulted in an adjustment of benefits. Even though the beneficiary had failed to report income in multiple years and had previously been advised of his income reporting requirements, the RO still granted a waiver of \$5,490 due to financial hardship.
- A veteran failed to report annual increases in his non-VA pension from 1996 to 1999. When the IVM identified the reporting discrepancy, the veteran submitted an income statement indicating a negative cash flow that showed his wife's income as '0'. The veteran did not truthfully report his wife's income that actually totaled \$3,914 in 1996.

An accounts receivable of \$14,060 was waived due to financial hardship even though the veteran had not truthfully reported his income over multiple years.

Projecting our national statistical sampling results, we estimate that for the 5 match years reviewed, inappropriate waivers were granted for 10,328 IVM cases worked by VBA that precluded potential collection of \$74.8 million in beneficiary debts. (*A summary of the national statistical sampling case review results is presented in Appendix III on pages 19-20.*) Ineffective handling of IVM related debts compromises key aspects of the IVM process by reducing VA's opportunity to recover inappropriate benefit payments and holding beneficiaries accountable for not truthfully reporting their income and keeping benefit payments that they are not entitled to receive.

Reducing The Number Of Unmatched Records With The Social Security Administration (SSA) Can Significantly Increase IVM Recoveries

VBA needs to complete necessary data validation of beneficiary name, date of birth, and Social Security Number (SSN) contained in VA's Compensation and Pension (C&P) master records to reduce the number of beneficiaries whose records do not match those maintained by SSA. The most recent match completed in FY 1999 identified a total of 95,528 beneficiary files that could not be matched to SSA files because:

- The SSN was not in SSA's files or had not been issued (2,439 records).
- Secondary match criteria did not coincide and the name and/or date of birth did not match (93,089 records).

This condition was found in a prior 1990 OIG audit⁴, but corrective action continues to be needed to assure the appropriateness of VA benefit payments to this significant number of beneficiaries who were not included in the IVM results. In response to that report's findings, VBA agreed to annually verify the accuracy of beneficiary identifier information needed to match with SSA and make necessary changes in its master records to assure that they are accurate and complete. Based on our audit results, VBA did not take the agreed upon action.

Since our review found that the annual data validation process was not occurring, we completed some initial audit work at the St. Petersburg RO where a significant number of cases had SSNs that did not match SSA's files. We reviewed a sample of 15 cases that were identified as Error Code 1 (these cases involved SSNs that were not in SSA's files or never issued) that had rejected in the 1999 IVM match with SSA. We found that 11 (73 percent) had rejected because an invalid SSN was reflected in VBA's automated claims master files. In these cases, VBA had entered nine digits in the SSN field in accordance with VBA policy when no valid SSN is available. However, we did identify that 10 (67 percent) of the rejected cases had an identifiable SSN in the claim file, but action had not been taken by the RO to update the automated claims file information.

⁴ Audit of Rejected Records From Social Security Administration, OIG Report Number OAM-B99-089, dated September 17, 1990.

Based on the RO review results, we expanded our audit coverage to include a national sample of rejected SSN cases from the 1999 IVM match. Our national review found that identifiable SSNs were contained in 87 out of 212 (41 percent) of the veteran case files reviewed. Projecting our national statistical sampling results, we estimate that 1,001 of the 2,439 records that did not match with SSA contain an alternative SSN that could be used to update automated claims file information. For the remaining 93,089 records that did not match with SSA because of inaccurate beneficiary identifying data (name and/or date of birth), VBA needs to review these cases and complete necessary data validation actions to update its automated master records. This will provide the opportunity to reduce the number of unmatched records with SSA and ensure proper benefit payments for these beneficiaries. Based on our national review results for match years 1995-1999, we estimate that matching 95,528 of the rejected cases (1,001 SSN and 93,089 beneficiary identifier cases) in each match year would have identified an additional 25,527 cases requiring benefit adjustments with potential recoveries of \$773.6 million. *(A summary of the national statistical sampling case review results is presented in Appendix III on pages 20-21.)*

Fraud Referrals Need To Be Made To The OIG

The IVM provides VA with the opportunity to identify potential fraud cases where individuals do not truthfully report their income. Our audit found that potential fraud involving IVM related cases was significant and needed to be identified and referred by VBA to the OIG for action. During the course of the audit, we completed a fraud detection review that included an assessment of IVM cases at the St. Petersburg RO and then an expanded national statistical sampling case review.

At the St. Petersburg RO, we conducted an initial pilot review of 117 IVM cases that had resulted in terminated or reduced veteran pension awards. The review identified 29 (25 percent) of the cases involved potential fraud. In a follow on review of 434 IVM cases at the RO, we identified 288 potential fraud cases (66 percent). Based on the RO review results, we expanded our fraud detection review to include a national statistical sample of 262 IVM cases that VBA had taken action on during match years 1995-1999. The case review identified 154 potential fraud cases (58.8 percent). *(The distribution of potential fraud cases identified by RO is presented in Appendix V on pages 27-28.)* The following are examples of cases found during our review:

- A veteran did not report his or his wife's income during 1995 and 1996. The veteran's reportable income for this period totaled more than \$30,000. As a result of the veteran's failure to truthfully report income received, he was held liable for an accounts receivable of \$33,130. Although the RO indicated that the veteran's failure to report constitutes a 'misrepresentation' the case was not referred to the OIG for review.
- A veteran did not report his wife's income in 1996 and 1997 totaling more than \$24,000. When notified of the discrepancy, the veteran indicated that he and his wife did not live together and her income was not part of his income. The RO found that they did in fact live in the same house and held that the income they both received was reportable. The

veteran was held liable for an accounts receivable of \$33,755 but the case was not referred to the OIG for review even-though potential fraud was indicated.

Projecting our national statistical sampling results, we estimate that 41,852 potential fraud cases occurred with \$299.8 million in fraudulent overpayments involving the 5 match years we reviewed. During the course of the audit, we referred 234 potential IVM related fraud cases to the Office of Investigations for review. An additional 154 potential fraud cases that we had identified could not be referred because they occurred outside of the current statutory time frame for prosecution. Timely referral of potential fraud cases by VBA will help assure that the OIG has the opportunity to consider these cases for investigation and potential prosecution.

In response to the potential fraud identified during the course of the audit, the OIG and VBA program officials established an effective fraud referral process. This included revision of the outdated fraud referral criteria that had been prepared a number of years ago and preparation of a fraud referral worksheet. (*The IVM case fraud referral worksheet is presented in Appendix VI on page 29.*) The IVM fraud referral worksheet will be used by VBA to provide the OIG with key information on potential fraud cases for initial review. Given the potentially significant number of IVM related fraud cases that are expected from the annual IVM match effort, the OIG plans to establish an electronic referral of these cases. This will provide for an efficient and streamlined approach for fraud referrals.

The Department Should Consider The IVM As An Internal High Priority Potential Material Weakness Area

Based on our review results, the problems identified with management oversight and implementation of the IVM process represents a potential material weakness area that should be monitored by the Department and should be considered for inclusion on its watch list of Internal High Priority Areas.

The IVM is a significant internal control and financial risk area to the Department. Our audit identified an estimated \$299.8 million in beneficiary overpayments involving potential fraud. Additionally, we estimate that \$920.9 million in IVM related benefit overpayments were not recovered for the 5 match years reviewed.

Conclusion

The audit identified opportunities for VBA to enhance the management, oversight, and results of the IVM and better ensure program integrity and identification of fraud. Enhancements in the IVM process that we have identified would provide for improved overall effectiveness and efficiency of the review effort with the potential for significantly increasing the opportunity to identify and recover benefit overpayments and deter program fraud.

For More Information

- *A summary of the national statistical sampling case review results is presented in Appendix III on pages 17-23.*
- *A summary of IVM case data for match years 1995-1999 is presented in Appendix IV on pages 25-26.*
- *The distribution of potential fraud cases identified by RO is presented in Appendix V on pages 27-28.*

Recommendation 1

We recommend that the Under Secretary for Benefits take the following actions to enhance the efficiency and effectiveness of VBA's IVM review effort by:

- a. Increasing program oversight of the results of IVM actions completed.
- b. Eliminating review of Section 306 and protected pension cases because they result in no benefit overpayment recoveries.
- c. Eliminating review of IVM cases with income discrepancy amounts of less than \$500 because they result in little or no benefit overpayment recoveries. *(Repeat recommendation from 1996 OIG report.)*
- d. Completing necessary data validation of beneficiary identifier information contained in C&P master records to reduce the number of unmatched records with SSA. *(Repeat recommendation from 1990 OIG report.)*
- e. Assuring that accounts receivable are established to recover IVM related debts from beneficiaries.
- f. Assuring that waivers of beneficiary IVM related debts are not granted when fraud is identified.
- g. Referring potential fraud cases to the OIG based on the referral process that has been established.

Recommendation 2

We recommend that the Under Secretary for Benefits report the IVM for consideration as an Internal High Priority Area that needs monitoring.

Deputy Under Secretary for Management Comments

The Deputy Under Secretary for Management concurred with the report recommendations 1 & 2.

Implementation Plan

The Deputy Under Secretary provided the following implementation actions that address the report recommendations.

Recommendation 1 (a-g)

- a. We will increase oversight through annual reviews of completed IVM actions. Our first review will occur during the second quarter of Fiscal Year 2001.
- b. We prepared a Project Initiation Request (PIR 00-82) to implement this change, and forwarded it for implementation on July 19, 2000.
- c. We initially modified programming to accomplish this in 1997. The audit results highlighted continuing referrals of such cases. Therefore, the PIR mentioned above (PIR 00-82) requested further modification to accomplish this.
- d. The effectiveness of all of VBA's matching programs has been diminished by problems with return files from the Social Security Administration which have prevented us from conducting the semiannual Social Security Number Verification project since the fall of 1998. We intend to resume the Social Security Number Verification project before the end of the second quarter in FY 2001.
- e. We agree that accounts receivable should be established to recover outstanding IVM-related debts from beneficiaries. We believe that this is happening in most cases at this time. We will monitor the effective date of IVM-related transactions as part of the planned annual review of IVM.
- f. During the October and November 2000 monthly conference calls with all VBA regional office finance activities, we will emphasize the guidelines for proper referral of potential fraud cases to IG. By the end of the second quarter of Fiscal Year 2001, an Under Secretary for Benefits' letter will be issued reemphasizing the guidelines for reviewing IVM cases and the proper disposition of the cases.
- g. We will publish a change to M21-1, part IV, chapter 36, which addresses fraud referral procedures, by the end of FY 2001.

Recommendation 2

Although we do not agree with the IG's assessment of the five-year dollar impact projection, we will report the IVM program to the Department for consideration as an Internal High Priority Area before the end of the second quarter of FY 2001.

(See Appendix VIII on pages 33-36 for the full text of the Deputy Under Secretary's comments.)

Office of Inspector General Comments

The Deputy Under Secretary's implementation actions is acceptable and responsive to the recommendation areas. These actions should help enhance the overall effectiveness and efficiency of VBA's annual IVM review effort. We consider these report issues resolved and will follow up on planned actions until they are completed.

Where appropriate, we revised the report in response to the Deputy Under Secretary's comments. However, we need to address the Deputy Under Secretary's comments concerning the reported monetary benefits impact of our findings. The Deputy Under Secretary's comments did not agree with our presentation of the monetary impact level of the report findings. The Deputy Under Secretary provided alternative monetary benefit calculations, which still reflect a significant potential cost impact to the Department, but less than that estimated by the OIG. We continue to believe that the report fairly presents the potential staff efficiencies that could be achieved with a more effective claims examination process and the monetary impact to the Department of beneficiary income that is not reported, and the associated level of benefit overpayments that have occurred.

Our report properly addresses the impact to the Department of a serious problem with beneficiary unreported income and fraud that is occurring in this program. The significant level of estimated overpayments that we have identified reflect the cost impact to the Department of inappropriate payments to beneficiaries because of unreported income. Our audit results reflect the estimated level of overpayments that could be collected by VA through implementation of the report recommendations. We believe that through more aggressive fraud detection and referral of cases to the OIG, some beneficiaries may be deterred from continuing to misreport their income that would in turn reduce the level of overpayments that we estimate are occurring.

Our projections of the level of monetary impact to the Department of unreported beneficiary income was based on a valid statistical sampling methodology that reflects a conservative estimate of the dollar impact of overpayments that have occurred. Our projected figures are based on cases we identified that reflect egregious examples of beneficiary unreported income and associated fraud. The Deputy Under Secretary's comments attempt to paint a picture of an elderly veteran population that "do not intentionally misreport, or deliberately conceal, income from us". Unfortunately, our audit results paint a much different picture of a significant number of veterans who are not truthfully reporting their income to VA (an estimated 41,852 IVM related fraud cases or 58.8 percent of the 71,202 cases that resulted in a benefit adjustment). The dollar impact of this potential fraud is also significant since many of these veterans are receiving more than the minimum level of pension benefits reflected in the Deputy Under Secretary's comments due to the number of dependents, Aid and Attendance, and unreimbursed medical expenses that have been claimed.

The Deputy Under Secretary's comments specifically question the estimated level of potential overpayments associated with unmatched records. Our computations are based on the statistical sampling results that identified an average overpayment amount per case and an average rate of occurrence of overpayment cases in the population of cases involving income-reporting discrepancies. We applied these factors to the population of cases that have not been matched. Based on our audit results, we believe that this population of cases represents a high risk for potential fraud and income reporting discrepancies. By their nature, these cases have potential fraud indicators (inaccurate SSNs, names, and other identifier information) that have been associated with beneficiary fraud. As such, we believe that it is inappropriate (as VBA has suggested in its comments) to not consider all of these cases as potential cases where income reporting discrepancies may have occurred. Also, this significant problem with unmatched records has existed for over 10 years and reflects a failure on VBA's part to assure that the IVM

process is effectively administered, potential fraud and income reporting discrepancies detected, and overpayments recovered. The audit results simply do not support VBA's conclusion that there is any relationship between the cases that have been matched and those that have not been matched over the last 10 years.

The Deputy Under Secretary's comments also question our inclusion of all of the 95,528 rejected records cases for calculation of monetary benefits because "You did not identify any factual finding of income reporting problems in your review of the 212 cases." (These are the no adjustment action cases we reviewed which actually included only 143 cases out of a sample size of 212.) This statement is not accurate because we did identify potential fraud associated with these type of cases and provided this information to VBA officials during the course of the audit. As discussed in the report, a number of fraud referrals have been made to the OIG Office of Investigations, including some cases classified as no adjustment action cases. As a result, we do not believe it is appropriate to eliminate any of the 95,528 rejected record cases from our calculations due to the high risk for fraud that these cases represent. We believe that our monetary benefits figures reflect a very conservative estimate of the cost impact to the Department associated with unmatched records, particularly since our audit results only reflect the estimated cost impact for 5 of the 10 years that this serious condition has existed. In our view, VBA's monetary benefits calculation methodology is the low end of any projection of monetary impact that could be made at this time.

The Deputy Under Secretary's comments discuss the annual cost avoidance actions that have been achieved as a result of the IVM. While these savings are substantial, they are not reflected in our monetary benefits figures. Our review effort focused on determining the more significant impact of potential overpayments to the Department, and identified opportunities to reduce this cost impact through a more effective claims examination process with improved establishment and collection of accounts receivable. Our estimate was based on a midpoint projection of the dollar impact that recognizes that the level of actual expected impact is in a range that could be below and above the midpoint projection due to the sample precision. The report fully discloses the sampling methodology that was used and the range of projected impact that was identified.

During the course of the audit, we fully discussed the methodology used to compute the potential monetary impact of our findings with VBA officials, and provided details on the results including the supporting documentation of the computation of each area where a monetary impact was identified. In fact, our computation of better staff utilization was based on the work rate standard that was provided by VBA. The Deputy Under Secretary's comments indicate that the actual time that it takes to complete the IVM actions is only one hour. If this is true, then VBA's work rate standards may need to be changed. However, our field site reviews and discussion with staff involved with case processing did not find that these cases were taking only an average of one hour to complete. Regardless of the relative complexity of any adjudication work that may be required on an individual case, we found that the work associated with processing an IVM action requires the same amount of time and effort to prepare the necessary notices and follow up work that must be completed before any processing of a claims action can occur. This is why we recommended that VBA discontinue completing IVM work involving case referrals that do not require benefit adjustments or the return on investment did not justify the

case work that was required. Thus, we believe that the average work rate standard we used is appropriate.

The Deputy Under Secretary's comments also raised concerns about our review methodology that identified cases where accounts receivable had not been established. The comments detailed how what we found should not happen. However, no information was provided that showed that our findings were not supported involving the 44 cases we identified where receivables should have been established (we forwarded two packages to VBA involving the 44 cases and received no notice that the second package was not received as mentioned in VBA's comments). As we discussed in the report, we found no documents in the claims file or information in VBA's automated files that showed any evidence that a receivable had been established (documents and automated file information were identified for cases where we found receivables had been properly established). Thus, we continue to believe that accounts receivable had not been established for these cases, with an annual cost impact of over \$14.5 million for the 5-year period reviewed. We provided a third package to VBA identifying the 44 cases.

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OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The purpose of the audit was to review the effectiveness of VBA's use of the results of the IVM in making required benefit payment adjustments and the identification of program fraud. The audit focused on: (a) assessing VBA's efforts to complete IVM case review work and required benefit payment adjustments, (b) following-up on VBA implementation of recommendations from a prior OIG review "Audit of Rejected Records from the Social Security Administration (SSA)" to assess the impact of unmatched records on the Department's ability to verify income reported by beneficiaries and identify potential fraud, and (c) identifying opportunities to enhance the overall effectiveness and efficiency of VBA's matching effort.

Scope and Methodology

To evaluate the effectiveness of VBA's IVM in completing required benefit payment adjustments and identification of program fraud, the audit focused on 262,438 IVM cases included in computer matches conducted by VA in Fiscal Years (FY) 1995-1999. The matches identified differences between income reported to VA by beneficiaries and that reported to the Internal Revenue Service (IRS) and SSA. The review also focused on 95,528 beneficiary files that could not be matched to SSA files because the beneficiaries' Social Security Number (SSN) was not in SSA's files or had not been issued or because secondary match criteria did not coincide and the name and/or date of birth did not match. *(A summary of IVM case data for match years 1995-1999 is presented in Appendix IV on pages 25-26.)*

Initially, we conducted a pilot review of IVM cases at the St. Petersburg, FL Regional Office (RO) that included: (a) cases that resulted in terminated or reduced veteran pension awards (117 cases), (b) cases on which no award action was taken based on the IVM (111 cases), and (c) records that could not be matched to SSA files because the SSN was not in SSA's files or had not been issued (15 cases). We also completed a follow-up review of an additional 434 potential fraud cases selected from the terminated or reduced veterans awards. Based on the review results, we developed a national IVM case review strategy that statistically sampled 617 cases (262 action taken, 143 no award action, and 212 SSA/VA non-matched cases). *(A summary of the national statistical sampling case review results is presented in Appendix III on pages 17-23.)*

We obtained information regarding VBA case processing involving the statistical sample cases through review of beneficiary claims files. To complete this review effort, we requested claims files from individual ROs be sent to our office for review. Given the significant number of files that needed to be reviewed at the ROs in Washington, DC and Houston, TX, we completed onsite review of claims files at these locations.

During the course of the audit, we discussed our review process and conclusions with management at the St. Petersburg and Houston ROs and with VBA Central Office program officials. We also coordinated with VBA officials at the Benefits Delivery Center in Hines, IL to

obtain Compensation and Pension (C&P) beneficiary file information and IVM data needed to complete our review effort.

The audit was performed in accordance with generally accepted government auditing standards for staff qualifications, independence, due professional care, fieldwork standards for planning, supervision and evidence; and reporting standards for performance audits.

BACKGROUND

In 1990 the Omnibus Budget Reconciliation Act (Public Law 101-508) permitted VA to use IRS and SSA records for income verification to accurately determine beneficiary eligibility for receiving income-based C&P benefits. The IRS maintains unearned income records and SSA maintains earned and retirement income records.

Beneficiaries are selected for matching with SSA based on the following criteria: (a) the beneficiary is receiving monetary benefits, (b) the SSN is available, and (c) the beneficiary received an income dependent benefit during the tax year to be verified. Similar criteria are used to determine cases that will be matched with IRS except for cases with an unemployment compensation award which are not sent to IRS for matching because the only issue is whether the veteran is substantially gainfully employable. In 2000, VBA sent 661,889 cases to IRS and 759,046 cases to SSA for matching. Cases that are matched with SSA and IRS records are combined and compared to the reported income amounts in VA's C&P master file records at the Benefits Delivery Center (BDC) in Hines, IL. Cases with potential income discrepancies are identified and prioritized for review into one of 11 categories based on the amount of the discrepancy. *(A summary of IVM case data for match years 1995-1999 is presented in Appendix IV on pages 25-26.)* The BDC then refers the cases to the ROs of jurisdiction and sends the initial notification letter to the beneficiary. The RO staff is to review each case, and as necessary, validate income from the payer or beneficiary, make necessary benefit payment adjustments, and initiate action to recover overpayments that have occurred.

Due to the significant amount of income reporting differences that have been identified, effective implementation of the processing of cases from the IVM is important to help reduce inappropriate benefit payments and the occurrence of program fraud. Computer matches conducted by VA in Fiscal Years (FY) 1995-1999 identified potential differences between income reported to VA by beneficiaries and that reported to IRS and SSA involving 262,438 cases that totaled as much as \$1.1 billion. *(A summary of IVM case data for match years 1995-1999 is presented in Appendix IV on pages 25-26.)* Based on our national statistical sampling review of IVM cases worked by VBA during this 5-year period, we estimate that \$332.7 million in accounts receivable were established involving beneficiaries who inappropriately received benefit payments because they did not properly report their actual amount of income to VA. *(A summary of the national statistical sampling case review results is presented in Appendix III on pages 17-23.)*

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SUMMARY OF NATIONAL STATISTICAL SAMPLING CASE REVIEW **RESULTS**

AUDIT UNIVERSE

We developed a sampling plan for overall testing of the population of IVM cases nationally based on error rates established from the pilot sample conducted at the St. Petersburg, FL Regional Office (RO). The universe is comprised of three populations: (a) cases that ROs had taken an IVM related processing action (71,202 cases), (b) cases that ROs had not taken an IVM related processing action (191,236 cases), and (c) cases that were rejected in the IVM match due to erroneous information associated with the name, date of birth, and/or Social Security Number (SSN) in the C&P files (95,528 cases).

SAMPLING PLAN

The sampling methodology was divided into three separate and distinct populations of cases:

- Cases where the RO had taken an award action based on the IVM we called “Action Taken” (71,202 cases).

Attributes that were tested included:

Were appropriate waiver decisions made?

Were accounts receivable established when an overpayment was identified?

Did the supporting documentation and RO work indicate that the veteran might have been fraudulent in his/her efforts in income reporting?

How many of the cases was less than \$500 and should not be worked?

- Cases where there was no IVM Reason Code entered in the automated record by the RO we called “No Adjustment Taken” (191,236 cases).

Attributes that were tested included:

How many of these cases were Section 306/protected pension cases?

How many of the cases were less than \$500 and should not be worked?

- Cases where the record was rejected by SSA with an error code “1” – SSA had no record of the SSN being issued we called “SSA/VA Rejected Records Error Code “1” (95,528 cases).

Attributes that were tested included:

Was there an alternate SSN listed in the claim folder other than the one that was rejected?

The initial pilot sample provided us with expected error rates that were used in the development of the nationwide sample.

SAMPLING RESULTS

Accounts Receivable Established

A sample of 300 action taken cases was developed based on the confidence interval and the expected error rate from the St. Petersburg RO pilot review. Additional cases or spares were selected in the event a case record was not available for our review due to Board of Veterans Appeals, other processing actions by the RO or the permanent retirement of the case. In that case, the next randomly selected case would be sent to the RO where the case was located so it could be forwarded for our review. Even with the spares we were only able to review 262 cases nationwide. The remaining cases were unavailable for review due to being charged out for processing action at the responsible RO, located at the Board of Veteran Appeals, or the permanent retirement of the file to archives. The results and evaluation follow:

• Population	71,202
• Confidence Interval	95%
• Actual Errors in Sample	202
• Sample Size	262
• Results – Error Rate	77.10%
• Projected Errors in Population	54,897
• Sample Precision (+/-)	5.08%

Based upon our sample size of 262 cases, from a total population of 71,202, we estimate that 54,897, or 77.10 percent of the population contain the attribute(s) tested. The sampling error is plus or minus 5.08 percent. In other words, we are 95.0 percent confident that the frequency of occurrence of the attribute(s) tested lies between 72.02 percent and 82.18 percent of the population. This equates to an occurrence of between 51,280 and 58,512 cases of the 71,202 cases of the population.

The 202 cases resulted in \$1,224,328.46 in established accounts receivable. That averages to \$6,061.03 per accounts receivable.

The range of 51,280 and 58,512 cases from the total population results in a dollar range of between \$310,809,618.40 and \$354,642,987.36 with the mean being 54,897 cases and \$332,732,363.91 in established accounts receivable for those cases that VBA has taken IVM action.

Accounts Receivable Not Established

There were 44 cases in the sample of 262 cases reviewed that ROs did not properly establish accounts receivable. The following is the inference to the total population:

• Population	71,202
• Confidence Interval	95%

• Actual Errors in Sample	44
• Sample Size	262
• Results – Error Rate	16.79%
• Projected Errors in Population	11,958
• Sample Precision (+/-)	4.52%

Based upon our sample size of 262 cases, from a total population of 71,202, we estimate that 11,958, or 16.79 percent of the population contain the attribute(s) tested. The sampling error is plus or minus 4.52 percent. In other words, we are 95.0 percent confident that the frequency of occurrence of the attribute(s) tested lies between 12.28 percent and 21.31 percent of the population. This equates to an occurrence of between 8,740 and 15,174 cases of the 71,202 cases of the population.

There were 44 cases we identified with a total discrepancy of \$134,613.64 where no accounts receivable had been established. Using an average of \$6,061.03 we found for established receivables times the 44 cases, equates to \$266,685.32 for the cases identified. The number of projected cases where accounts receivable were not established ranged between 8,740 and 15,174 in the population resulting in a range of \$52,973,402.20 to \$91,970,069.22 when inferred to the total population of 71,202 cases. The mean is 11,958 cases in the population where accounts receivable were not appropriately established resulting in \$72,477,796.74 that could be understated. For the 5-year period reviewed, the estimated annual amount of accounts receivable not established totaled \$14.5 million.

Bad Waiver Decisions

These were cases that when reviewed appeared to have inappropriate waiver decisions because the veteran was noted as being at fault for not reporting income that had been received. Many of these waiver actions involved the veteran's second request where no additional information was provided from the first request, but the second was approved.

• Population	71,202
• Confidence Interval	95%
• Actual Errors in Sample	38
• Sample Size	262
• Results – Error Rate	14.50%
• Projected Errors in Population	10,328
• Sample Precision (+/-)	4.26%

Based upon our sample size of 262 cases, from a total population of 71,202, we estimate that 10,328, or 14.50 percent of the population contain the attribute(s) tested. The sampling error is plus or minus 4.26 percent. In other words, we are 95.0 percent confident that the frequency of occurrence of the attribute(s) tested lies between 10.25 percent and 18.76 percent of the population. This equates to an occurrence of between 7,296 and 13,357 cases of the 71,202 cases of the population.

There were 38 cases totaling \$275,301.22 (average \$7,244.77) where, in our opinion, the RO's made bad decisions in waivers of veteran overpayments. Applying the percentage to the total population of 71,202 cases results in a potential range of between 7,296 and 13,357 cases where inappropriate waiver decisions were made in the population ranging between \$52,857,841.92 to \$96,768,392.89. The mean of the population is 10,328 cases and \$74,823,984.56 in accounts receivable that were inappropriately waived. For the 5-year period reviewed, the estimated annual amount of inappropriate waivers of accounts receivable totaled \$14.9 million.

Fraud Cases Identified

• Population	71,202
• Confidence Interval	95%
• Actual Errors in Sample	154
• Sample Size	262
• Results – Error Rate	58.78%
• Projected Errors in Population	41,852
• Sample Precision (+/-)	5.95%

Based upon our sample size of 262 cases, from a total population of 71,202, we estimate that 41,852, or 58.78 percent of the population contain the attribute(s) tested. The sampling error is plus or minus 5.95 percent. In other words, we are 95.0 percent confident that the frequency of occurrence of the attribute(s) tested lies between 52.83 percent and 64.73 percent of the population. This equates to an occurrence of between 37,615 and 46,087 cases of the 71,202 cases of the population.

There were 154 cases we identified that had fraud indicators from the sample of 262 cases or 58.78 percent with \$1,103,028.11 in accounts receivable established (an average of \$7,162.52 per case). If that error is a true indicator of the population there is the potential for between 37,615 and 46,087 cases having similar traits with a range of \$269,418,189.80 and \$330,099,059.24. The mean of the population is 41,852 cases and \$299,765,787.04 in accounts receivable that involve potential fraud.

SSA/VA Rejected Records

Our national review focused on Error Code “1” cases (SSNs that have never been issued by SSA) because of the potential for fraud. We reviewed 212 cases out of a population of 2,439 and identified 87 (41 percent) where an alternate SSN was found in the veteran claim files reviewed.

SSA Verify Code “1” cases in the population totaled 2,439. Based on the results of our sample case review, we projected that 1,001 cases (41 percent) in the total population of 2,439 had evidence in the veteran claims file that an alternate SSN existed. The alternate SSNs we identified could be used to update the automated C&P records so the cases could be matched with SSA records. The projected 1,001 cases multiplied by the percent of cases worked (27.13 percent) = 272 cases times the average established accounts receivable of \$6,061.03 results in

\$1,648,600.16 annually that is being foregone in potential accounts receivable recoveries because of the inability of VA to match these C&P cases with SSA records. Inferring that result to the 5-year period (1995 – 1999) equates to \$8,243,000.80 in receivables that had not been established.

The remainder of the population (93,089 cases) is composed of other error codes where the corrective information is readily available in the claims folders (where the SSA/VA rejected error is a other than error code “1”, which means there is a problem with information entered in the system related to the SSN such as the name or date of birth). To identify the potential impact of not including these cases in the IVM, we determined the error rate by applying the percentage of cases worked by the ROs with resulting veteran benefit adjustments to the number of rejected records ($71,202/262,438 = 27.13$ percent and then $93,089 * 27.13$ percent = 25,255 cases). We estimate that annually VBA has not recovered over \$153 million in beneficiary overpayments because these cases have not been included in the IVM due to incorrect identifier information in its automated claims records (25,255 cases * average accounts receivable of \$6,061.03 = \$153,071,312.65). When the annual amount is inferred to the 5-year period reviewed, the potential recovery of receivables totals \$765,356,563.25 (\$153,071,312.65 times 5 years = \$765,356,563.25). The total estimated amount of dollar impact to VA of rejected records from the IVM for the 5 years included in our review is \$773,599,564.05 (\$8,243,000.80 associated with inaccurate SSNs and \$765,356,563.25 associated with inaccurate names and dates of birth).

Cases Less Than \$500

In our national sample of action taken cases (262) we identified 118 cases where the discrepancy amount was less than \$500 (priority code 11 cases). In 28 of these cases a total of \$6,035.17 in accounts receivable had been established for an average of only \$215.54 per case. Based on the low amount of recovery for these types of cases, we identified the potential number of cases that could be eliminated from the IVM involving all action taken cases.

We identified 22,648 cases in the entire IVM database (action taken) that were reported as priority code 11 where the ROs had taken benefit adjustment action and statistically inferred the results to the population.

• Population	22,648
• Confidence Interval	95%
• Actual Errors in Sample	28
• Sample Size	118
• Results – Error Rate	23.73%
• Projected Errors in Population	5,375
• Sample Precision (+/-)	7.66%

Based upon our sample size of 118, from a total population of 22,648, we estimate that 5,375, or 23.73 percent of the population contain the attribute(s) tested. The sampling error is plus or minus 7.66 percent. In other words, we are 95.0 percent confident that the frequency of occurrence of the attribute(s) tested lies between 16.07 percent and 31.38 percent of the

population. This equates to an occurrence of between 3,640 and 7,108 cases of the 22,648 cases of the population.

Using the results from the action taken cases we analyzed and statistically inferred the results to the no award action taken cases. We then identified the number of cases in the entire IVM database (no award action taken) that were reported as priority code 11 (40,130) for those cases where the ROs had taken action and statistically inferred the results to the population.

• Population	40,130
• Confidence Interval	95%
• Actual Errors in Sample	28
• Sample Size	118
• Results – Error Rate	23.73%
• Projected Errors in Population	9,523
• Sample Precision (+/-)	7.66%

Based upon our sample size of 118, from a total population of 40,130, we estimate that 9,523 or 23.73 percent of the population contain the attribute(s) tested. The sampling error is plus or minus 7.66 percent. In other words, we are 95.0 percent confident that the frequency of occurrence of the attribute(s) tested lies between 16.06 percent and 31.39 percent of the population. This equates to an occurrence of between 6,446 and 12,598 cases of the 40,130 cases of the population.

VBA could have avoided review of an estimated 14,898 cases with income discrepancy amounts of less than \$500 due to the fact that 9,523 of these cases (64 percent) did not require benefit adjustments and the remaining 5,375 cases had an average recovery of only \$215.54. Eliminating these cases from the IVM would reduce the number of required case reviews with better utilization of 27.9 Full-Time Equivalent Employees (FTEE) with salary costs totaling \$1 million.

Section 306/Protected Pension Cases

Section 306 and protected pension cases total 33,476 cases. In our pilot sample we did not identify any Section 306 and protected pension cases that had any adjustments as a result of the IVM match. Further review during the national sample confirmed that the ROs were not making adjustments to these cases. We obtained the total number of cases in these categories from our database by searching on the entitlement codes.

Eliminating Section 306 and protected pension cases from the IVM would reduce the number of required case reviews with better utilization of 62.8 FTEE with salary costs totaling \$2.3 million.

Salary Computations

The calculation of better FTEE utilization for cases with reported income discrepancy amounts less than \$500 is based on the standard of 3 hours charged by RO staff for each IVM case

worked—14,898 cases x 3=44,694÷1,600 direct staff hours=27.9 FTEE x \$36,696 annual salary rate for a GS-9, step 5=\$1,023,818.

The calculation of better FTEE utilization for Section 306/protected pension cases is based on the standard of 3 hours charged by RO staff for each IVM case worked—33,476 cases x 3=100,428÷1,600 direct staff hour = 62.8 FTEE x \$36,696 annual salary rate for a GS-9, step 5=\$2,304,509.

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SUMMARY OF IVM CASE DATA FOR MATCH YEARS 1995-1999

Information matched to VA C&P records by IRS and SSA are stratified into individual priority codes. The priority codes represent a range of the monetary discrepancy between what the veteran has reported to VA as income and that reported to SSA and IRS. Priority code "0" can not be explained other than as a programming glitch that VBA is currently working to resolve. Since information on the amount of individual case discrepancy amounts was not available, we used the 11 priority code dollar ranges to calculate the estimated amount of unreported income for the 5 match years reviewed.

<u>Priority Code</u>	<u>Dollar Range</u>	<u>Number of Records</u>	<u>Low Dollar Range</u>	<u>High Dollar Range</u>
0	Unknown	17,798	Unknown	Unknown
1	Over \$10,000	40,214	\$402,140,000	\$402,140,000
2	\$9,000 - \$9,999	4,498	\$40,482,000	\$44,985,502
3	\$8,000 - \$8,999	5,708	\$45,664,000	\$51,366,292
4	\$7,000 - \$7,999	7,168	\$50,176,000	\$57,336,832
5	\$6,000 - \$6,999	8,960	\$53,760,000	\$62,711,040
6	\$5,000 - \$5,999	12,026	\$60,130,000	\$72,143,974
7	\$4,000 - \$4,999	15,375	\$61,500,000	\$76,859,625
8	\$3,000 - \$3,999	21,546	\$64,638,000	\$86,162,454
9	\$2,000 - \$2,999	29,694	\$59,388,000	\$89,052,306
10	\$1,000 - \$1,999	36,673	\$36,673,000	\$73,309,327
11	\$250 - \$999	62,778	\$15,694,500	\$62,715,222
Totals		262,438	890,245,500	\$1,078,782,574

The following schedule reflects the distribution of IVM case referrals by RO including the number of cases where an action or no award action was taken to adjust beneficiary payments for the 5 match years reviewed (1995-1999). The schedule also reflects the distribution of cases by RO that did not match with SSA records.

<u>Regional Office</u>	<u>Award Action</u>	<u>No Award Action</u>	<u>Total Referrals</u>	<u>SSA No Match</u>
ALBUQUERQUE	363	1,731	2,094	626
ANCHORAGE	91	391	482	21
ATLANTA	2,627	5,781	8,408	4,104
BALTIMORE	689	1,742	2,431	667
BOISE	178	747	925	201
BOSTON	789	4,228	5,017	1,204
BUFFALO	1,121	3,598	4,719	1,066
CHEYENNE	97	240	337	46
CHICAGO	2,999	5,779	8,778	2,672
CLEVELAND	2,868	8,019	10,887	1,792
COLUMBIA	1,629	4,226	5,855	2,620
DENVER	744	2,663	3,407	629
DES MOINES	765	3,119	3,884	532

APPENDIX IV

<u>Regional Office</u>	<u>Award Action</u>	<u>No Award Action</u>	<u>Total Referrals</u>	<u>SSA No Match</u>
DETROIT	2,411	4,681	7,092	1,773
FARGO	501	1,083	1,584	351
FORT HARRISON	215	901	1,116	164
HARTFORD	421	1,049	1,470	452
HONOLULU	189	301	490	127
HOUSTON	2,459	5,644	8,103	3,420
HUNTINGTON	735	2,546	3,281	799
INDIANAPOLIS	782	3,413	4,195	1,131
JACKSON	2,224	3,169	5,393	2,658
LINCOLN	524	2,274	2,798	475
LITTLE ROCK	1,938	3,701	5,639	2,218
LOS ANGELES	1,923	4,127	6,050	2,206
LOUISVILLE	1,918	3,299	5,217	1,737
MANCHESTER	223	795	1,018	149
MANILA	116	284	400	1,396
MILWAUKEE	1,444	4,307	5,751	856
MONTGOMERY	1,721	7,182	8,903	3,334
MUSKOGEE	2,322	4,945	7,267	1,747
NASHVILLE	2,440	4,825	7,265	2,330
NEW ORLEANS	2,467	6,538	9,005	3,807
NEW YORK	3,146	6,436	9,582	3,936
NEWARK	1,463	2,088	3,551	1,572
PHILADELPHIA	1,472	5,756	7,228	2,161
PHOENIX	777	1,740	2,517	890
PITTSBURGH	1,294	4,027	5,321	2,192
PORTLAND	265	3,162	3,427	829
PROVIDENCE	296	1,410	1,706	325
RENO	451	835	1,286	184
ROANOKE	1,717	3,833	5,550	2,070
SALT LAKE CITY	317	791	1,108	146
SAN DIEGO	600	1,540	2,140	644
OAKLAND	1,503	5,103	6,606	1,912
SAN JUAN	1,030	2,218	3,248	13,137
SEATTLE	728	2,986	3,714	770
SIOUX FALLS	386	1,192	1,578	248
ST LOUIS	1,701	4,897	6,598	1,709
ST PAUL	1,338	3,982	5,320	724
ST PETERSBURG	3,764	9,950	13,714	4,081
TOGUS	435	1,502	1,937	486
WACO	2,773	7,611	10,384	2,821
WASHINGTON	661	1,533	2,194	2,032
WHITE RIVER JUNCTION	203	341	544	162
WICHITA	675	2,663	3,338	574
WILMINGTON	171	470	641	151
WINSTON-SALEM	2,103	7,842	9,945	4,462
TOTALS	71,202	191,236	262,438	95,528

**DISTRIBUTION OF POTENTIAL FRAUD CASES IDENTIFIED BY
REGIONAL OFFICE**

<u>Regional Office</u>	<u>Pilot Sample</u>	<u>Fraud Review</u>	<u>National Sample</u>	<u>RO Total</u>
ST PETERSBURG	29	288	9	326
ALBUQUERQUE			3	3
ATLANTA			5	5
BALTIMORE			1	1
BOSTON			3	3
BUFFALO			2	2
CHEYENNE			2	2
CHICAGO			10	10
CLEVELAND			6	6
COLUMBIA			1	1
DENVER			1	1
DETROIT			6	6
FARGO			2	2
HOUSTON			3	3
INDIANAPOLIS			3	3
JACKSON			7	7
LINCOLN			1	1
LITTLE ROCK			7	7
LOS ANGELES			7	7
LOUISVILLE			8	8
MILWAUKEE			1	1
MONTGOMERY			2	2
MUSKOGEE			3	3
NASHVILLE			7	7
NEW ORLEANS			4	4
NEW YORK			8	8
NEWARK			2	2
PHILADELPHIA			3	3

APPENDIX V

<u>Regional Office</u>	<u>Pilot Sample</u>	<u>Fraud Review</u>	<u>National Sample</u>	<u>RO Total</u>
PHOENIX			1	1
PITTSBURGH			1	1
PORTLAND			1	1
PROVIDENCE			2	2
RENO			2	2
ROANOKE			3	3
SAN DIEGO			2	2
OAKLAND			4	4
SIOUX FALLS			1	1
ST LOUIS			7	7
ST PAUL			1	1
WACO			1	1
WASHINGTON			3	3
WHITE RIVER JUNCTION			1	1
WICHITA			1	1
WINSTON-SALEM			6	6
TOTALS	29	288	154	471

IVM CASE FRAUD REFERRAL WORKSHEET

IVM CASE FRAUD REFERRAL WORKSHEET

IVM CASE IDENTIFYING INFORMATION:

Regional Office (Select from drop down box)	Point of Contact	E-mail Address	
Telephone Number	Claim Number	Stub Name	Veterans SSN
SSN if different for income	Discrepancy Amount	Potential Overpayment Amount	

Explanation of referral (lottery, property sale, unreported income, interest income, etc)

OIG Action:

Referral (Accept/decline)	Investigation Assigned to: (Select from drop down box)	
OIG Point of Contact	OIG E-mail Address	OIG Telephone Number

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MONETARY BENEFITS
IN ACCORDANCE WITH IG ACT AMENDMENTS

REPORT TITLE: Audit of Veterans Benefits Administration's (VBA) Income Verification Match (IVM) Results

PROJECT NUMBER: 1999-54-D2-165

<u>Recommendation Number</u>	<u>Category/Explanation of Benefits</u>	<u>Cost Avoidance</u>	<u>Questioned Costs</u>
1(b)	Better Use of Funds. Eliminating review of Section 306 and protected pension IVM cases would result in more effective use of staff resources.	\$ 2.3 million	
(c)	Better Use of Funds. Eliminating review of IVM cases with income discrepancy amounts of less than \$500 would result in more effective use of staff resources.	\$ 1.0 million	
(d)	Better Use of Funds. Complete necessary data validation of beneficiary identifier information and reduce the number of unmatched records with SSA.	\$773.6 million	
(e)	Better Use of Funds. Assure that accounts receivable are established to recover IVM related debts.	\$ 14.5 million	
(f)	Better Use of Funds. Assure that waivers of beneficiary IVM related debts are not granted when fraud is identified.	<u>\$ 14.9 million</u>	
Total		<u><u>\$806.3 million</u></u>	

Note: (Details on the calculation of potential monetary benefits is in Appendix III on pages 17-23.)

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DEPUTY UNDER SECRETARY FOR MANAGEMENT COMMENTS

**Department of
Veterans Affairs**

Memorandum

Date: September 29, 2000

From: Deputy Under Secretary for Management (201)

Subj: Draft Report of Audit of VBA's Income Verification Match (IVM) Results

To: Assistant Inspector General for Auditing (52)

1. This is in response to your memorandum of August 22, 2000, concerning the draft report on the effectiveness of VBA's IVM program. In general, we concur with the recommendations, but we believe the estimated dollar impact of implementing them is tremendously overstated. Since informal efforts to resolve our differences on the impact of implementation were not successful, we have prepared our reply addressing each aspect - the recommendation itself and the impact of implementation - separately below.

2. Our disagreement with your five-year dollar impact projection relates to the base figures used in your extrapolation method. Using the same method, with the base figures explained in detail below, we estimate the five-year impact as less than \$85 million, well below your estimate of \$806.3 million. By recommendation, our reasons for disagreement follow:

Recommendation 1b. Eliminate review of Section 306 and protected pension cases because they result in no benefit overpayment recoveries. You project savings of \$2.3 million over five years. We believe a figure of about \$800,000 is more realistic. Your methodology relied on our work rate standard (WRS) for IVM cases (EP 154). A WRS is an average processing time for all work involved in a specific category. It takes into account the reality that some of the actions frequently take less time (well under an hour), while others frequently take longer (up to five hours or longer). While the correct current standard is 2.86 hours, the actual hands-on processing time for these simpler cases (306 and protected pension IVMs) rarely exceeds one hour. If we eliminate these from the review, our next work measurement study will likely reflect a higher WRS, as the work measured will continue to reflect the tougher, more time consuming cases. Using your methodology, and the more accurate measurement of time (1 hour) expended on these particular cases, the FTEE savings is 21, and the dollar value is \$767,800.

Recommendation 1c. Eliminate review of IVM cases with income discrepancy amounts of less than \$500 because they result in little or no benefit overpayment recoveries. We believe your projected savings of \$1 million are overstated for the same reason explained above. Eliminating review of income discrepancies under \$500 would reduce volume, but again it involves generally simpler cases. Average processing time for these cases is closer to one hour.

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Following your method, we would save less than 9 FTEE, and the estimated dollar impact is under \$330,000.

Recommendation 1d. Complete necessary data validation of beneficiary identifier information contained in C&P master records to reduce the number of unmatched records with SSA. We strongly disagree with the 'cost avoidance' of \$773.6 million you project that we would realize if we corrected discrepant social security number and birth data. Your methodology assumed that all 95,528 claimants, whose records were not matched in 1999, incorrectly reported income which would have resulted in referral. You did not identify any factual finding of income reporting problems in your review of the 212 cases. We believe it would be realistic to assume that the referral rate would mirror the rate found for the cases that did match. Using that assumption as our base figure, the estimate of potential overpayments is \$13.1 million per year, or roughly \$68 million over five years.

We arrived at this figure by deriving an average annual referral rate for the total pension beneficiary population, and applying it to the 95,528 records which were not matched with Social Security Administration records. Our rationale is that, if we could match these records, the referral rate would be about the same as it is for the records that were matched. To derive the annual referral rate, we divided your 262,438 five-year referral figure by 5. We divided this figure, 52,486, by 625,921, which is the total number of pension beneficiaries on the rolls as of July 2000, to get an average annual referral rate of 8.4%. Taking this percent of the total rejected records, you arrive at a total referral figure of 8,024. Of these, we might expect 27%, or 2,167, to fall into the 'action completed' category. Using your average accounts receivable figure of \$6,061, the annual accounts receivable figure would be \$13,134,187. A five-year figure would be \$65,670,935.

Recommendation 1e. Assure that accounts receivable are established to recover IVM-related debts from beneficiaries. We believe we have been doing this all along. Therefore, we believe the dollar impact with concurring is zero. While we have discussed this matter informally, we have not received the listing of cases your office is sending us for review.

3. A more relevant impact assessment may be found in the cost (overpayment) avoidance actions resulting from the reviews. Although not addressed in your report, Fiscal Year 2000 cost avoidance data shows savings, this year alone, in excess of \$20 million as a result of IVM program actions that reduced or terminated benefits. Cost avoidance is a primary Omnibus Budget Reconciliation Act objective.
4. Please consider these other relevant factors when drafting the final report. The average age of a veteran receiving pension is 69. The income reporting year we review is three years in the past. Therefore, if we inform a beneficiary today that he or she misreported income in 1997, there is a strong likelihood that his or her income for the years 1998 and 1999 are also misreported. To maintain entitlement, a single veteran's income must be under \$9,000 per year. A surviving spouse's annual income may not exceed \$6,000. Income limits are slightly higher if there are other entitled family members. Finally, while we know of some egregious

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cases of fraud, we believe the vast majority of overpaid beneficiaries do not intentionally misreport, or deliberately conceal, income from us.

5. Our response to each recommendation follows:

Recommendation 1a. Increase program oversight of the results of IVM actions completed. Concur. We will increase oversight through annual reviews of completed IVM actions. Our first review will occur during the second quarter of Fiscal Year 2001. Due to the sensitive nature of the information received through our matching agreements with the IRS and SSA, we will conduct special, controlled reviews of the records. We will track and analyze review findings to assess the effectiveness and clarity of our directives and procedures.

Recommendation 1b. Eliminate review of Section 306 and protected pension cases because they result in no benefit overpayment recoveries. Concur. We prepared a Project Initiation Request (PIR 00-82) for this change, and forwarded it for implementation on July 19, 2000.

Recommendation 1c. Eliminate review of IVM cases with income discrepancy amounts of less than \$500 because they result in little or no benefit overpayment recoveries. Concur. We initially modified programming to accomplish this in 1997. The audit results highlighted continuing referrals of such cases. Therefore, the PIR mentioned above (PIR 00-82) requested further modification to accomplish this.

Recommendation 1d. Complete necessary data validation of beneficiary identifier information contained in C&P master records to reduce the number of unmatched records with SSA. Concur. The effectiveness of all of VBA's matching programs has been diminished by problems with return files from the Social Security Administration which have prevented us from conducting the semiannual Social Security Number Verification project since the fall of 1998. The Social Security Number Verification project is the most effective means of identifying and correcting erroneous Social Security numbers in VA master records. We prepared a Project Initiation Request (PIR 00-102) to modify processing of the return file from SSA in such a way as to enable VA regional offices to resume processing of the Social Security Number Verification project. We forwarded the PIR to the Office of Information Management (20S) on August 25, 2000. We intend to resume the Social Security Number Verification project before the end of the second quarter in FY 2001.

Recommendation 1e. Assure that accounts receivable are established to recover IVM-related debts from beneficiaries. Concur. We agree that accounts receivable should be established to recover outstanding IVM-related debts from beneficiaries. We believe that this is happening in most cases at this time. The OIG draft report indicates that accounts receivable were not established in a significant number of cases but does not indicate how it was determined that these accounts receivable were not established. During informal follow-up between C&P Service staff and OIG staff, OIG stated that if there was no evidence record or the claims folder that an accounts receivable had been

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established, they assumed that one had not been established. We do not believe that this method will necessarily show whether an accounts receivable had been established. Activity subsequent to the award creating the IVM-related accounts receivable could have eliminated it without there being any evidence in the master record or the claims file. Examples of actions which might have eliminated the accounts receivable are recovery of the debt from current or retroactive benefits, and repayment by the beneficiary. If the IVM-related award was processed with the correct effective date and rate and that rate was lower than the rate previously paid, an accounts receivable would automatically be created. Neither the draft report nor our informal contact with OIG staff suggested that IVM-related awards were being processed with the wrong effective date (e.g., date of last payment) or that there was some sort of failure in the Benefits Delivery Network causing accounts receivable to drop out of the system. We will monitor the effective date of IVM-related transactions as part of the planned annual review of IVM (see the response to Recommendation 1a above).

Recommendation 1f. Assure that waivers of beneficiary IVM-related debts are not granted when fraud is identified. Concur. During the October and November 2000 monthly conference calls with all VBA regional office finance activities, we will emphasize the guidelines for proper referral of potential fraud cases to IG. By the end of the second quarter of Fiscal Year 2001, an Under Secretary for Benefits' letter will be issued reemphasizing the guidelines for reviewing IVM cases and the proper disposition of the cases. We will continue to reemphasize the procedures with the Central Office ongoing periodic review of cases. This will be included in our resultant report to the stations reviewed.

Recommendation 1g. Refer potential fraud cases to the OIG based on the referral process that has been established. We concur with the need to refer potential fraud cases to the OIG. We have not established a referral process with OIG. We will continue to work with your office to develop effective procedures. We will publish a change to M21-1, part IV, chapter 36, which addresses fraud referral procedures, by the end of FY 2001.

Recommendation 2. Report the IVM for consideration as an Internal High Priority Area that needs monitoring. Concur. Although we do not agree with the IG's assessment of the five-year dollar impact projection, we will report the IVM program to the Department for consideration as an Internal High Priority Area before the end of the second quarter of FY 2001.

/s/

Nora E. Egan

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