

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Veterans Benefits Administration

*Review of
Alleged Mismanagement
at the Eastern Area
Fiduciary Hub*

May 28, 2014
13-03018-159

ACRONYMS AND ABBREVIATIONS

EAFH	Eastern Area Fiduciary Hub
F-B	Fiduciary-Beneficiary
FBS	Fiduciary-Beneficiary System
IA	Initial Appointment
OIG	Office of Inspector General
P&FS	Pension and Fiduciary Service
VA	Veterans Affairs
VBA	Veterans Benefits Administration

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Report Highlights: Review of Alleged Mismanagement at VBA's Eastern Area Fiduciary Hub

Why We Did This Review

We performed this review to determine the merits of three allegations made to the VA Office of Inspector General Hotline in May 2013. The complainant alleged that the Eastern Area Fiduciary Hub (EAFH) in Indianapolis, IN, was not timely processing allegations of misuse of beneficiary funds, conducting field examinations, and processing some incoming mail.

What We Found

We substantiated the three allegations. Merit reviews for 190 of 214 allegations of misuse of funds and 17 of 23 investigations of fiduciary misuse of funds were not completed by EAFH within Veterans Benefits Administration (VBA) performance standards. We also found EAFH made 12 determinations concluding fiduciaries misused approximately \$944,000 of beneficiary funds. However, required actions in response to identifying misuse of funds, such as replacing the fiduciary or requesting repayment from former fiduciaries, were not completed or completed timely by EAFH.

Additionally, reviews to determine if VBA was negligent in its oversight of the fiduciaries in instances where misuse of funds occurred were not conducted as required. As a result, VA may be responsible for repayment of approximately \$944,000 to the affected beneficiaries.

We also substantiated the allegation that EAFH had a large backlog of pending field examinations by identifying more than 11,000 (69 percent) of 16,000 pending field

examinations exceeded VBA timeliness standards. As a result, the general health and well-being of beneficiaries are placed at increased and unnecessary risk.

We also identified more than 3,200 pieces of mail that had yet to be processed and exceeded EAFH's timeliness standards, some of which were time-critical. Delays in processing the 3,200 pieces of mail ranged from 11 to 486 workdays, with an average delay of 30 workdays. Without effective management of incoming mail, those receiving VA benefits may be affected.

What We Recommend

We recommended the Under Secretary for Benefits require EAFH implement controls to ensure timely processing of allegations of misuse of beneficiary funds. In addition, we recommended the Under Secretary for Benefits ensure EAFH implements a plan to expedite completion of the backlog of field examinations, and to ensure implemented actions continue to reduce the backlog of mail during FY 2014.

Agency Comments

The Under Secretary for Benefits concurred with our recommendations, but also included technical comments on our draft report. We included the Under Secretary's comments in Appendix C.

Handwritten signature of Linda A. Halliday in black ink.

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

Purpose of the Review

We performed this review in response to allegations made to the VA Office of Inspector General (OIG) Hotline in May 2013. This review assessed the merits of allegations that the Eastern Area Fiduciary Hub (EAFH) in Indianapolis, IN, was not timely processing allegations of misuse of beneficiary funds, conducting field examinations, and processing incoming mail. Appendix A provides details on our scope and methodology.

Background

The Pension and Fiduciary Service (P&FS) is responsible for the Veterans Benefits Administration's (VBA) Fiduciary Program. The Fiduciary Program oversees VA benefits paid to beneficiaries who are incapable of handling their financial affairs either because of injury, disease, infirmities of advanced age, or being under 18 years of age. Under the program, VA appoints a fiduciary (individual or entity) to receive and disburse VA benefits on behalf of the beneficiary. As of August 2013, the Fiduciary Program reported providing oversight of fiduciaries responsible for more than 150,000 beneficiaries.

In 2008, VBA began consolidation of the Fiduciary Program under the Fiduciary Hub Pilot Program. According to VBA, by March 2012, VBA completed consolidating 56 VA Regional Offices' fiduciary operations into 6 regional "hubs" plus Fiduciary Program operations in Manila, Philippines. The hubs are located in:

- Indianapolis, IN
- Louisville, KY
- Lincoln, NE
- Columbia, SC
- Salt Lake City, UT
- Milwaukee, WI

Under the consolidation, EAFH assumed responsibility for all beneficiaries in VBA's Eastern Area, which spans 14 states and encompasses fiduciary activities of 16 VA Regional Offices. EAFH management provided information showing the hub oversees a staff of 210 full time employees, which includes Field Examiners, Legal Instrument Examiners, managers, and clerical staff. Field Examiners conduct examinations to assess the competence and welfare of a beneficiary, as well as review the performance of fiduciaries and fund usage. Legal Instrument Examiners review scheduled accountings provided by fiduciaries to ensure funds are used in the best interest of beneficiaries. Other Legal Instrument Examiner responsibilities include following up on allegations of misuse of beneficiary funds and reviewing incoming mail.

RESULTS AND RECOMMENDATIONS

Allegation 1 EAFH Did Not Timely Review and Investigate Misuse of Beneficiary Funds Allegations

We substantiated the allegation EAFH was not consistently in compliance with VBA timeliness standards and policies when completing reviews and investigations of misuse of beneficiary funds. For example, the majority of merit reviews for 190 (89 percent) of 214 allegations of misuse of funds were not completed by EAFH within VBA's performance standard of 14 days after receipt of an allegation. Additionally, 17 of 23 investigations of fiduciary misuse of funds were not completed by EAFH within VBA's performance standard of 45 days after completion of a merit review.

We also found that EAFH determined fiduciaries misused funds of approximately \$944,000 for 12 beneficiaries. However, required actions in response to identifying misuse of funds, such as replacing the fiduciary or requesting repayment from former fiduciaries, were not completed or completed timely by EAFH. Additionally, P&FS reviews to determine if VBA was negligent in its oversight of the fiduciaries in instances where misuse of funds occurred were not conducted as required.

Criteria

The review and investigation of misuse allegations by EAFH represents an important monitoring strategy to ensure the appropriate oversight of beneficiary funds. According to VBA policy, misuse of funds is any instance where a fiduciary uses beneficiary funds for purposes other than for the use and benefit of the beneficiary or their dependents. When VBA receives an allegation of misuse of beneficiary funds, VBA policy requires the following.

- The hub that provides oversight of the fiduciary conducts a merit review of the allegation.¹ The merit review must be completed within 14 days of receipt of the allegation.
- If the allegation is considered by the hub to have merit, staff conducts an investigation to determine if misuse of funds has occurred. The misuse investigation must be completed within 45 days after completion of the merit review.
- VBA staff have 30 days after completion of the misuse investigation to make a determination. A misuse determination is an official decision document that states the staff's conclusion as to whether misuse of funds

¹ The purpose of a merit review is to determine whether an allegation of misuse may have validity and warrants an investigation.

occurred. All misuse determinations are required to be forwarded to VA Central Office.

- If VBA staff determines that misuse of funds occurred, the staff must take action to replace the fiduciary and request return of misused funds. Under VBA policy, when misuse of funds has been determined by VBA, the fiduciary must be replaced within 60 days of the date the allegation was received.
- VA is required to reissue misused funds in any case where the fiduciary was not an individual, was an individual serving 10 or more beneficiaries in the month that the misuse occurred, or was an individual serving fewer than 10 beneficiaries when negligence is found.
- A VA Central Office negligence review is required when the fiduciary is an individual who served fewer than 10 beneficiaries during the period when the misuse occurred. The purpose of the negligence review is to determine if VBA was negligent in its oversight of the fiduciary. If VBA is found to be negligent in its oversight of the fiduciary, VA is required to make restitution of the misused funds to the beneficiary.

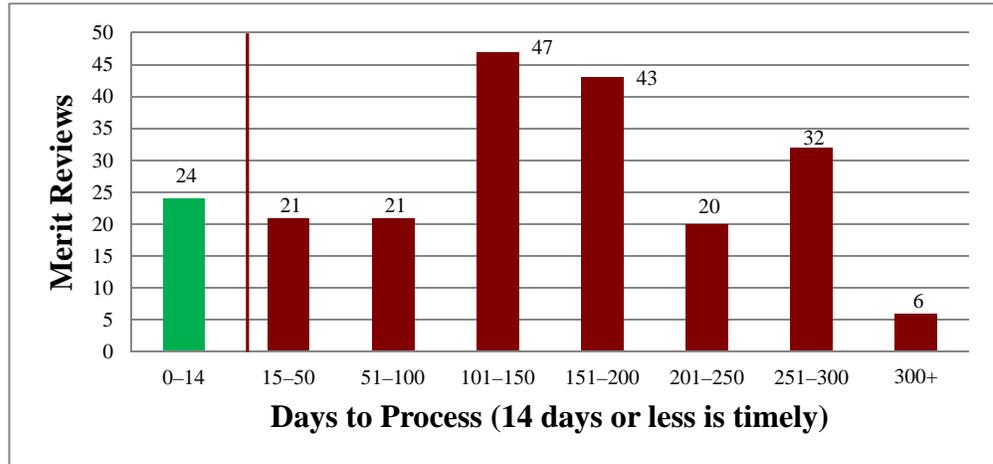
What We Did

To determine whether EAFH timely completed reviews and investigations of misuse of beneficiary funds, we analyzed merit reviews and investigations initiated by EAFH from March 2012 through April 2013. We analyzed 214 merit reviews and 23 investigations to determine compliance with VBA timeliness standards and policies. Additionally, in those cases where VBA determined that misuse of beneficiary funds had occurred, we followed up with EAFH and P&FS to determine whether misused funds had been repaid by the fiduciary and reissued to the beneficiary.

***Improvement
in Timely
Reviews and
Investigations
Needed***

Of the 214 merit reviews of allegations of fiduciary misuse of funds initiated by EAFH, 190 (89 percent) were not completed within 14 days of receipt. The average time to review the 190 allegations of misuse was 162 days, which includes 87 reviews that were not complete as of July 2013. Figure 1 summarizes the range of days for merit reviews during the period of March 2012 through April 2013, using Fiduciary-Beneficiary System (FBS) data.

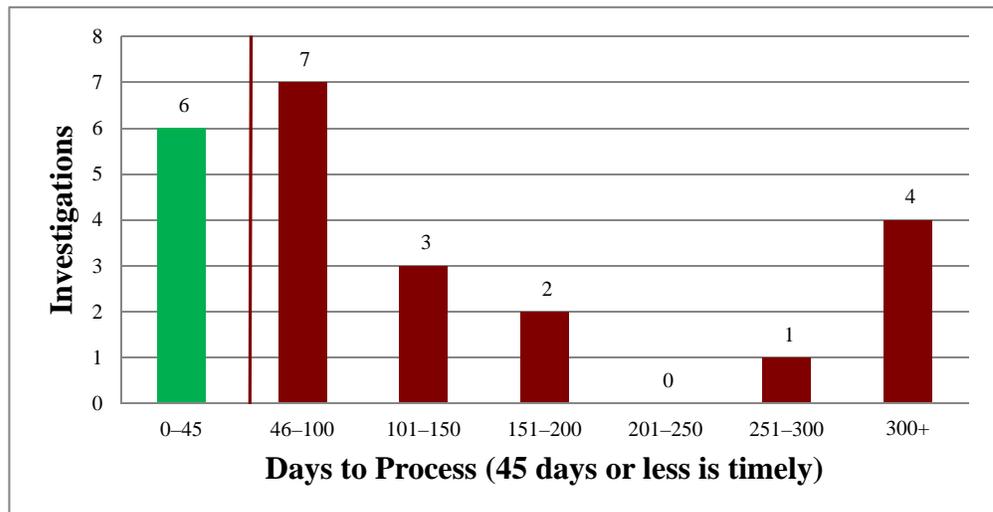
Figure 1. EAFH Merit Review Timeliness from March 2012 through April 2013



Source: OIG using FBS data

We found EAFH had not processed and completed 17 of 23 fiduciary misuse of funds investigations (74 percent) within 45 days of the completed merit review. The average time to complete the 17 investigations was 174 days, which includes 5 investigations that were not complete as of July 2013. Figure 2 summarizes the range of days for misuse investigations by EAFH from March 2012 through April 2013.

Figure 2. EAFH Misuse Investigations Timeliness from March 2012 through April 2013



Source: OIG using FBS data

**Required
Beneficiary
Protections
Need To Be
Completed**

EAFH made 12 misuse determinations from March 2012 through April 2013, concluding fiduciaries misused approximately \$944,000 of beneficiary funds. We found required actions in response to identifying misuse of funds, such as replacing the fiduciary or requesting repayment from former fiduciaries, were not completed or completed timely by EAFH.

- For 5 of the 12 cases where EAFH determined misuse of funds occurred, it took EAFH an average of 98 days from the date the allegation was received to replace the five fiduciaries (ranging from 72-175 days). For the remaining seven determinations, three fiduciaries were replaced timely, three beneficiaries passed away prior to the hub receiving the allegation, and one was an allegation against a previously replaced fiduciary.
- We found evidence that only 8 of 12 misuse determinations were sent to P&FS for negligence reviews. However, a senior P&FS official stated they did not conduct the required reviews to determine if VBA was negligent in its oversight of the fiduciaries.
- For 9 of 12 misuse determinations, repayment was not requested from former fiduciaries by EAFH as required.
- For 11 of 12 misuse determinations, EAFH did not determine whether a request for funds reissuance should have been made before sending misuse determinations to P&FS for negligence reviews, as required by VBA policy.

EAFH management stated the consolidation of fiduciary operations necessitated establishing priorities for the increase in workload. Management focused resources primarily on other program activities, such as accountings, due to insufficient staff. In addition, a lack of management oversight contributed to EAFH not timely resolving allegations of misuse of beneficiary funds.

In July 2013, EAFH management told us they had established a “Tiger Team” of seven full-time staff to reduce the pending allegations of misuse. According to P&FS reports, EAFH reduced pending allegations of misuse of beneficiary funds from more than 100 cases in April 2013 to 38 in October 2013. In February 2014, P&FS also stated it initiated negligence reviews of the 12 misuse determinations.

Because timely action was not consistently taken by EAFH to address allegations of misuse, beneficiary funds are at risk of being misused. As a result, VA may be responsible for restitution of approximately \$944,000 to the 12 affected beneficiaries.

Recommendations

1. We recommended the Under Secretary for Benefits require the Eastern Area Fiduciary Hub to implement controls to monitor misuse determinations to ensure reviews meet timeliness standards.
2. We recommended the Under Secretary for Benefits require the Director of Pension and Fiduciary Service to implement controls to monitor negligence reviews.
3. We recommended the Under Secretary for Benefits implement controls to ensure the reissuance of misused funds to beneficiaries and repayment from former fiduciaries occurs timely.
4. We recommended the Under Secretary for Benefits require the Director of Pension and Fiduciary Services to conduct a negligence review of the 12 identified cases of misuse of beneficiary funds and determine if misused funds are required to be reissued to affected beneficiaries.

Management Comments and OIG Response

In response to our draft report, the Under Secretary for Benefits agreed with our conclusion that the hotline allegation concerning misuse cases was substantiated, and noted that actions were underway to address our concerns. The Under Secretary also included a series of technical comments, which we incorporated as appropriate into the report. The Under Secretary acknowledged that required negligence determinations had not been completed at the time of OIG's review, and stated 11 of the 12 negligence determinations are now complete. The remaining case did not require a negligence determination.

Additionally, the Under Secretary stated that it was not the responsibility of EAFH to make the determination that funds should be reissued in cases requiring a P&FS determination of negligence. Also, the Under Secretary stated that it was advised by the OIG's Office of Investigations (OI) to stop processing certain misuse cases to avoid jeopardizing OIG's criminal investigations, which impacted timely resolution of misuse cases.

We acknowledge EAFH took some required actions timely, although other actions, as detailed in our report, were not. For example, EAFH did not remove 5 of 12 fiduciaries timely, although EAFH had determined that funds managed by these fiduciaries had been misused. We discussed with EAFH and VBA officials the 12 cases where it was determined misuse had occurred multiple times prior to the issuance of the draft report. Despite being told that required negligence reviews had not been conducted, VBA did not conduct reviews until recently. All of these negligence reviews were related to allegations that, by March 2014, were more than a year old. Therefore, by VBA not taking all required steps timely, beneficiary estates were placed at unnecessary risk of further misuse.

We updated the statement in the report to provide additional clarity in response to the Under Secretary's comments regarding EAFH responsibilities for determining reissuance of misused funds. Under VBA policy, the hub should have determined if reissuance of funds was required without a negligence review by P&FS and, if not, requested reissuance of funds directly from the Fiscal Activity. This did not occur.

Furthermore, the Under Secretary's contention that OIG criminal investigations concerning the 12 cases in question prevented timely completion of some required VBA steps in cases is not correct in all but one case. OI officials stated that OIG criminal investigations generally should not impact or prevent internal administrative processing of cases where VBA determined misuse of funds occurred. OI did not instruct VBA officials to withhold reissuance of funds to beneficiaries or wait to conduct any other required work, with one exception. In this one case, OI officials stated that VBA was instructed to not attempt to obtain repayment of funds from the fiduciary in question until after completion of the criminal investigation.

The Under Secretary for Benefits concurred with Recommendations 1 through 4. An acceptable action plan was provided for Recommendation 1 and we, therefore, consider the recommendation closed. The Under Secretary also concurred with Recommendations 2 and 3 and requested closure based on actions already taken by VBA. However, regarding Recommendation 2, we will assess the adequacy of the August 2013 policy during our recently initiated national audit of Fiduciary Program controls concerning misuse of beneficiary funds. Once we have completed this audit, we will be in a better position to assess the extent that controls, particularly related to P&FS completing negligence reviews, in some cases refunding misused funds to beneficiaries, are working.

Also, although VBA's response to Recommendation 3 addresses repayment from former fiduciaries, it does not address the reissuance of misused funds to beneficiaries, which according to VBA policy should occur when VBA determines misuse or negligence in its oversight of the fiduciary. We also consider Recommendation 4 open until VBA provides copies of the negligence reviews that VBA recently conducted in the 12 identified cases.

Allegation 2 EAFH Had a Significant Backlog of Pending Field Examinations

Assessment We substantiated the allegation that EAFH had a large backlog of pending field examinations by identifying more than 11,000 (69 percent) of 16,000 pending field examinations exceeded VBA timeliness standards.

Criteria Field examinations consist of Initial Appointments (IA) and Fiduciary-Beneficiary (F-B) examinations. An IA field examination assesses the competency and welfare of the beneficiary and, if needed, the appointment of a fiduciary to receive VA benefits. VBA policy requires program staff to complete IA field examinations within 45 days of the receipt of a request for appointment of a fiduciary.

Subsequent to an IA field examination, program staff conduct F-B field examinations periodically to reassess the welfare of the beneficiary and the continued suitability of the fiduciary. VBA policy requires program staff to complete F-B field examinations within 120 days of the scheduled due date.

What We Did To address these allegations, we analyzed P&FS records for outstanding field examinations from March 2012 through August 2013. We identified field examinations that exceeded VBA timeliness standards and reviewed Field Examiner monthly field examination completion records.

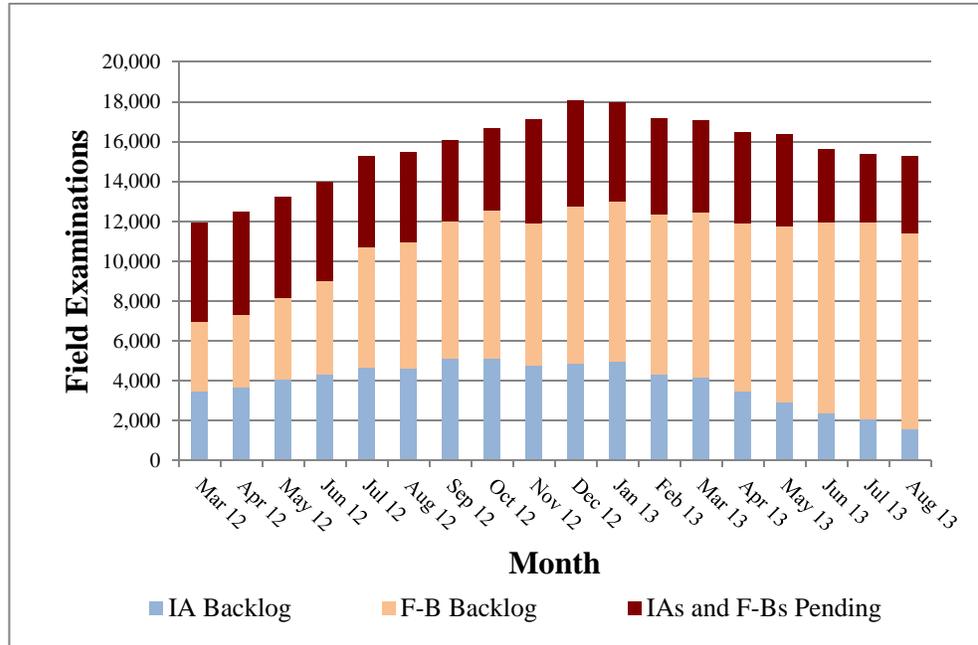
Backlog of Field Examinations In March 2012, there were approximately 12,000 field examinations pending, which included a backlog of approximately 7,000 field examinations that exceeded VBA timeliness standards. In December 2012, field examinations pending peaked at over 18,000, which included a backlog of approximately 12,800, comprised of about 4,900 IA and 7,900 F-B field examinations.

In January 2013, EAFH implemented a plan to address the backlog by giving priority to IA field examinations to ensure the timely delivery of VA benefits. The plan called for eliminating the backlog of IA field examinations before focusing on the backlog of F-B field examinations.

In May 2013, there were more than 16,000 pending field examinations, which included a backlog of more than 11,000 examinations. By EAFH focusing their efforts on eliminating the backlog of IA field examinations, they were able to reduce the IA field examination backlog to approximately 1,600 in August 2013. However, the backlog of F-B field examinations increased to approximately 9,900 F-Bs, for a total backlog of approximately 11,500.

Figure 3 provides the total pending field examinations and the backlog of IA and F-B field examinations for the period March 2012 through August 2013.

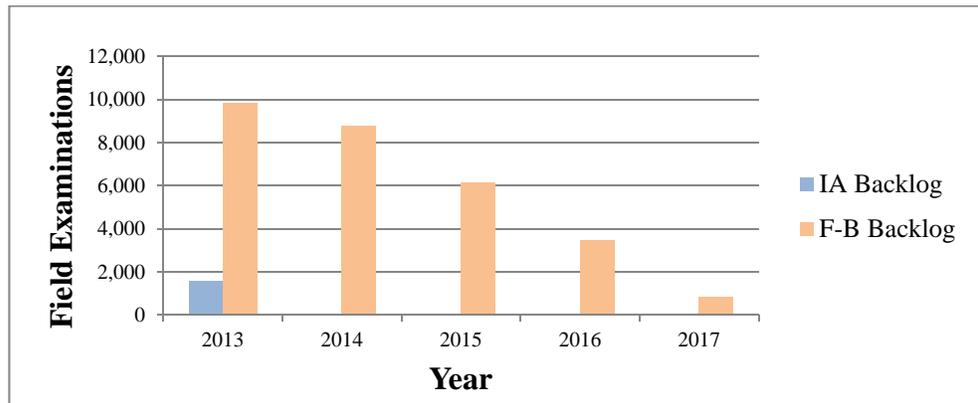
Figure 3. Pending EAFH Field Examinations from March 2012 through August 2013



Source: OIG using P&FS Daily Fiduciary Reports

As shown in Figure 4, based on the rate of reduction since December 2012, EAFH’s plan to eliminate the backlog of approximately 11,500 field examinations could take approximately 4 years.

Figure 4. Projection of EAFH Field Examinations Backlog from 2013 through 2017



Source: OIG using P&FS Daily Fiduciary Reports

EAFH management stated the backlog was primarily caused by a large backlog of untimely field examinations and inadequate staffing at the time of

consolidation in March 2012. In August 2012, EAFH management completed a workload analysis identifying a need for an additional 61 Field Examiners to eliminate the backlog within 24 months. In June 2013, EAFH reported having seven additional Field Examiners. In addition, EAFH management stated the VBA Office of Field Operations had approved another four Field Examiner positions in August 2013. Despite the increase of 11 Field Examiners since August 2012, the backlog of field examinations will likely persist and the general health and well-being of beneficiaries is at increased risk.

Recommendation

5. We recommended the Under Secretary for Benefits ensures the Eastern Area Fiduciary Hub implements a plan to expedite completion of their backlog of field examinations to meet performance standards.

Management Comments and OIG Response

In response to our draft report, the Under Secretary for Benefits concurred with our recommendation concerning the field examination backlog. The Under Secretary stated the EAFH implemented a plan to reduce the backlog of field examinations in January 2013, and this plan was modified in March 2014.

The Under Secretary also included a series of technical comments on the field examination section of our report. Specifically, the Under Secretary commented that EAFH created a forecast model showing the completion of the backlog of field examinations by the end of FY 2015, which was provided to the OIG prior to receipt of the draft report. VBA also commented that the OIG Field Examiner staffing level information is misleading and that staffing at EAFH has increased significantly and should allow EAFH to eliminate any backlog by FY 2015.

In March 2014, VBA provided us a forecasting model for eliminating the EAFH's field examination backlog. However, the data provided does not show that the backlog will be eliminated by the end of FY 2015. Instead, the data indicates EAFH could still have a backlog of approximately 4,400 F-B examinations at the end of FY 2015.

Also, the report indicates that EAFH only received an additional 11 Field Examiners, in spite of EAFH concluding that an additional 61 Field Examiners were needed to eliminate the backlog within 2 years. Regarding EAFH receiving authorization to hire additional Field Examiners since August 2013, the increase in staff should aid in reducing the EAFH's existing backlog.

Although the Under Secretary for Benefits concurred with Recommendation 5 and submitted EAFH's plan to eliminate the backlog by the end of FY 2015, the plan provided projects a continuing backlog of

approximately 4,400 F-B field examinations at the end of FY 2015. Accordingly, this recommendation will remain open until VBA provides a plan to eliminate EAFH's backlog of IA and F-B field examinations.

Allegation 3 Some EAFH Incoming Mail Is Not Processed Timely

Assessment

We substantiated the allegation that some incoming mail received by EAFH's Special Operations Team had not been reviewed and processed timely. During our onsite work in June 2013, we identified more than 3,200 pieces of mail that had yet to be processed by EAFH and exceeded the hub's timeliness standards. Mail not processed timely included allegations of misuse of beneficiary funds, competency restoration requests, and retroactive payment requests. Delays in processing the 3,200 pieces of mail ranged from 11 to 486 workdays, with an average of 30 workdays from the time EAFH received the mail. By not effectively managing incoming mail, those receiving VA benefits may be affected.

Mail Process and Criteria

Mail and other correspondence needing EAFH attention is received, opened, and date stamped at the Indianapolis VARO and then delivered to the EAFH daily. Once at the EAFH, the correspondence is forwarded to the various teams within the EAFH, including the Special Operations Team, for processing. Mail received by the Special Operations team can include items such as requests by beneficiaries to reevaluate their competency status, court documents, requests for change of address or direct deposit of funds, and award actions generated by VA Regional Offices.

VBA policy requires Fiduciary Program staff to review all correspondence in conjunction with the fiduciary folder and provide a response, if necessary, generally within 10 workdays of receipt. EAFH has a local goal of processing incoming mail within 5 days of receipt. VBA policy requires Fiduciary Program staff to address allegations of misuse of beneficiary funds to determine if an investigation is warranted within 14 days of receipt of the allegation.

What We Did

To address whether there was a backlog of incoming mail, we conducted an unannounced site visit to EAFH in June 2013. We identified over 3,200 pieces of unprocessed mail and other correspondence documents in piles on desks and shelves located in the Special Operations Team area. Some of these documents were organized by date into rubber band bound piles. While onsite we gathered, reviewed, and categorized these documents into various categories.

Incoming Mail Processing Backlog

In June 2013, we identified over 3,200 pieces of mail that had not been processed timely by EAFH, such as allegations of misuse of beneficiary funds, competency restoration requests, and requests for retroactive payments. Delays in processing mail ranged from 11 to 486 workdays, with an average of 30 workdays from the time mail was received at EAFH. The following are examples of types of mail that we found unprocessed that exceeded the processing goal of 10 workdays:

- Ten allegations of misuse of funds by fiduciaries that had been received by mail, but had yet to be reviewed by EAFH staff. Delays in processing these allegations ranged from 14 to 45 workdays averaging 32 days.
- Thirty-two requests from beneficiaries to have their competency status restored, some requests included supporting medical evidence. Delays in processing these requests ranged from 11 to 64 workdays averaging 28 days.
- Forty beneficiary requests for previously approved retroactive payments that EAFH had not processed. Delays in processing these requests ranged from 11 to 48 workdays, averaging 30 days.

The table below categorizes EAFH's mail backlog by type of unprocessed mail at the time of our review in June 2013. The OIG team separated the types of correspondence listed below into categories for easier identification and cataloging purposes. The types are not official categories of mail used by EAFH to identify or prioritize their pending workload. In the absence of VBA official categories, this classification facilitated our analysis.

Table 1. EAFH Unprocessed Mail

Type of Correspondence	Total	Range of Delay (in days)	Average Delay (in days)
Award Actions	1,509	11-83	34
Address or Direct Deposit Changes	560	11-203	21
Fiduciary Establishment or Changes	258	11-70	28
Court Documents	203	11-167	28
Other	175	11-90	28
Bond Receipts	109	12-174	28
Request or Approval of Expenses	109	12-80	31
Accounting Related	102	11-486	33
Notice of Death/Probate Inquiries	56	11-94	26
Medicaid Award Adjustments	47	11-71	32
Request for Retroactive Benefits	40	11-48	30
Requests for Competency	32	11-64	28
Referral to VA Regional Office	19	11-78	30
Requests for Incompetency Determinations	16	11-44	26
Misuse Allegations	10	14-45	32
Total	3,245	11-486	30

Source: VA OIG analysis of unprocessed correspondence pending over 10 workdays at EAFH

The backlog of mail occurred because EAFH management stated it focused on other program priorities, such as accountings. Staff turnover and shortages also contributed to the backlog of unprocessed mail.

Since our review in June 2013, EAFH management indicated it has taken the following actions to reduce the backlog of mail:

- Sorted mail into more specific categories for easier processing.
- Redistributed mail to other teams for processing.
- Began a daily mail counting process in order to identify trends and strategically process mail.
- Reallocated staff from the scanning team to assist with the mail backlog.

By September 2013, EAFH reported a backlog of approximately 900 pieces of unprocessed mail. This backlog is still considered significant, and without effective management of incoming mail, EAFH cannot ensure that benefits are not affected or subject to risk of theft or misuse by fiduciaries.

Recommendation

6. We recommended the Under Secretary for Benefits require the Director of the Indianapolis VA Regional Office to implement a plan to ensure the Eastern Area Fiduciary Hub eliminates its backlog of Fiduciary Program mail during FY 2014.

Management Comments and OIG Response

In response to our draft report, the Under Secretary for Benefits concurred with our recommendation. The Under Secretary stated the EAFH refined procedures to process incoming mail into the hub based on the date it is first received at a VBA facility.

The Under Secretary also included a series of technical comments on the mail processing section of our report. Specifically, VBA requested clarification on the piece of mail that we determined was 486 business days old, stating that it was an internal document unrelated to the delivery of benefits to a veteran. In addition, the Under Secretary stated that the way the OIG described the location and storage of the unprocessed mail and correspondence at the EAFH depicted an unorganized process. The Under Secretary also stated the OIG incorrectly reported a backlog of approximately 900 pieces of mail, when, in fact, all mail had been screened and prioritized for action as of September 30, 2013.

We agree that VBA took actions to address our concerns about correspondence handling at the EAFH. The reduction of the backlog from more than 3,200 pieces of pending correspondence identified in June 2013 to approximately 900 pieces as of September 30, 2013, indicated the effect of actions taken by the EAFH to address the mail backlog.

The Under Secretary's response concerning a single piece of mail not processed in 486 business days is not correct. The document is a court copy of an approved final accounting that, at the time of our fieldwork, was included in mail EAFH management had not distributed for review and possible action. Therefore, we reported the 486 business days elapsed since receipt without action taken.

Also, our intent was not to depict the mail awaiting review and action as disorganized. The review team noted that some mail was grouped by the date it was received at the EAFH. However, other mail was in unmarked and undated stacks in these same areas.

In addition, the Under Secretary's response indicated that approximately 900 pieces of mail they reported as of September 30, 2013, did not indicate a backlog, and that these pieces were screened and prioritized for action. However, information provided to OIG during our review contradicts this statement and, instead, indicated this mail had not been processed within the 10-workday timeliness standard at the EAFH as of that date. This information was used in the report to illustrate that, although the backlog was still significant as of September 30, 2013, EAFH had made significant strides in reducing the mail backlog.

The Under Secretary for Benefits concurred with Recommendation 6 and requested closure, based on actions already taken. However, this recommendation will remain open until VBA provides documentation showing EAFH has eliminated its mail backlog.

Appendix A Scope and Methodology

We conducted our review from June 2013 through January 2014 at the Eastern Area Fiduciary Hub in Indianapolis, IN. We assessed the merits of complaints received in May 2013, concerning processing allegations of misuse of beneficiary funds, field examinations, and incoming mail.

We reviewed applicable regulations, policies and procedures, and interviewed EAFH management and staff. In addition, we analyzed FBS data for allegations of misuse of beneficiary funds, analyzed P&FS data for field examinations, and collected and categorized unprocessed EAFH mail.

Fraud Detection

We assessed risks applicable to legal and regulatory violations, fraud, and abuse occurring within the context of our project objectives. Specifically, we identified and reviewed laws, regulations and provisions considered significant to our project objectives. We also obtained an understanding of our review area and designed steps and procedures germane to obtaining reasonable assurance of program compliance or noncompliance specific to our review. As a result of our review of EAFH's processing of allegations of misuse between March 2012 and April 2013, we identified 12 cases where EAFH determined that fiduciaries misused approximately \$944,000 of beneficiary funds. We found EAFH did not timely complete required actions once it determined fiduciaries misused beneficiary funds.

Data Reliability

To test the reliability of data, we used information from the Virtual VA System to validate 30 allegations of misuse of beneficiary funds recorded in FBS. In addition, we verified a random sample of 15 IA field examinations and 15 F-B field examinations to supporting documentation in other VA information systems.

We believe the computer-generated data are sufficiently reliable as indicators of the accuracy of the number of pending IA and F-B field examinations reported on the P&FS website. We also believe the computer-generated data are sufficiently reliable as indicators of the accuracy of allegations of beneficiary funds misuse reported in FBS. We consider the computer-processed data to be sufficiently reliable to support the review objective, our conclusions, and recommendations concerning management controls.

Government Standards

Our assessment of internal controls focused on those controls relating to our review objectives. We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation*. These standards require that we plan and perform the audit to obtain sufficient, competent, and relevant evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on our review objective. We believe that the

evidence obtained provides a reasonable basis for our findings and conclusions based on our review objectives.

Appendix B Potential Monetary Benefits in Accordance With Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
4	Reissue misused funds to beneficiaries	\$944,000	\$0
Total:		\$944,000	\$0

Appendix C Under Secretary for Benefits Comments

Department of Veterans Affairs

Memorandum

Date: April 11, 2014

From: Under Secretary for Benefits (20)

Subj: OIG Draft Report—Review of Alleged Mismanagement at VBA's Eastern Area Fiduciary Hub-VAIQ7453093

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

1. Attached is VBA's response to the OIG's Draft Report: Review of Alleged Mismanagement at VBA's Eastern Area Fiduciary Hub.
2. Questions may be referred to Christopher Denno, Program Analyst, At 461-9125.



Allison A. Hickey

Attachment

**Veterans Benefits Administration (VBA)
Comments on OIG Draft Report
Review of Alleged Mismanagement at VBA's Eastern Area Fiduciary Hub**

The Veterans Benefits Administration provides the following comments:

Effective March 1, 2012, VBA completed the consolidation of fiduciary activities to the Eastern Area Fiduciary Hub (EAFH). This consolidation was based on a 2009 pilot project under which VBA consolidated 14 of its fiduciary activities into the Western Area Fiduciary Hub. Based upon the pilot results, VBA deployed the hub concept nationwide, with consolidation of fiduciary activities to regional offices in Columbia, Indianapolis, Lincoln, Louisville, and Milwaukee. We undertook this national initiative to improve service delivery, more efficiently utilize our resources, and enhance the consistency and quality of services to our most vulnerable population of Veterans and their families.

The Office of Inspector General's (OIG) review occurred only one year and two months after the consolidation of all fiduciary work in the Eastern Area to the Indianapolis Regional Office (RO). At the time of this review, the Eastern Area Fiduciary Hub had implemented a 2-year plan to reach all VBA assigned targets. At the initiation of this review, VBA requested the OIG review the allegations and provide context regarding the consolidation timeline of the fiduciary hubs. VBA believes this is important context that was omitted from the report.

It is important to note that during consolidation, EAFH assumed responsibility for all beneficiaries in the Eastern Area, which includes 14 states with 16 prior separate RO jurisdictions. All active work items, Principal Guardianship Files (PGFs), and related mail and documentation were received from all of these separate VBA facilities and two Pension Management Centers. EAFH sent correspondence to all beneficiaries, fiduciaries, and congressional stakeholders, making them aware of this change, which resulted in an increased volume of calls and incoming mail. Each fiduciary hub set up an in-house phone unit that specializes in addressing the needs of the beneficiaries and fiduciaries.

In summary, VBA has placed high priority and focus on improving and enhancing our delivery of benefits to Veterans. VBA generally agrees with OIG's findings from their review of the hotline allegations. Actions to address most of the areas identified by the OIG have been completed.

VBA provides the following technical comments:

Page i, third paragraph, last sentence:

"Without effective management of incoming mail, VBA benefits may be affected."

VBA Comment: The issue is not with the EAFH management of the incoming mail but with the way in which mail is deemed timely or untimely. The EAFH previously utilized an internal date stamp to prioritize mail, oldest to newest. During the OIG review, the EAFH was notified to begin processing mail using the date stamp from first arriving in any VBA facility. Therefore, when a piece of mail is received by another RO it must be rerouted to the EAFH and may already be outside of the timeliness standard. Despite receiving notification of the consolidation, beneficiaries and fiduciaries often send correspondence to the prior RO of jurisdiction.

Page 1, paragraph 3, second sentence:

"According to a senior VBA official, VBA completed consolidating all 58 VA Regional Offices' fiduciary operations into 7 regional "hubs" by March 2012."

VBA Comment: There are 56 regional offices in the country with 6 fiduciary hubs. The Manila RO is not considered a hub; however, it does have fiduciary employees.

Page 2, first paragraph, fifth sentence:

"However, EAFH did not timely complete required actions in response to identifying misuse of funds, such as replacing the fiduciary or requesting repayment from former fiduciaries."

VBA Comment: This is not entirely true. The EAFH prevented further misuse for 11 of the 12 beneficiaries within 60 days from the first identification of misuse.

Page 5, second bullet, second sentence:

“However, a senior P&FS official advised they did not conduct the required reviews to determine if VBA was negligent in its oversight of the fiduciaries.”

VBA Comment: This should be corrected to state that the required reviews were not completed at the time of OIG’s review. However, 11 of the 12 negligence determinations are now complete and the remaining case did not require a negligence determination.

Page 5, fourth bullet:

“For 11 of 12 misuse determinations, EAFH did not determine if VBA is required to reissue misused funds.”

VBA Comment: It is not the responsibility of EAFH to make the determination that funds can be reissued in cases requiring a Pension and Fiduciary Service determination of negligence.

Page 5, paragraph two, last sentence:

“In addition, a lack of management oversight contributed to EAFH not timely resolving allegations of misuse of beneficiary funds.”

VBA Comment: It’s important to note that at the time of OIG’s review, EAFH was relying on the OIG investigative unit to verify if the allegations were to be considered criminal. In some cases, OIG directed EAFH to stop processing misuse cases to avoid jeopardizing the OIG criminal investigation. This impacts timely resolution of misuse cases.

Page 7, sixth paragraph, first sentence:

“In January 2013, EAFH implemented a plan to address the backlog by giving priority to IA field examinations, which management deemed more critical than F-B field examinations to ensure the timely delivery of VA benefits.”

VBA Comment: The EAFH did not deem the Initial Appointment (IA) field examinations more critical. The IAs were prioritized due to the fact that they delivered a monetary benefit to the Veteran. EAFH sees all Veteran field examinations as important and critical to complete in a timely manner.

Page 8, caption for figure 4 & figure 4:

“As shown in Figure 4, based on the rate of reduction since December 2012, EAFH’s plan to eliminate the backlog of approximately 11,500 field examinations could take approximately 4 years.”

VBA Comment: The plan referenced above is based on the assumption that it takes the same amount of time to complete a Fiduciary-Beneficiary (F-B) examination as it does an IA. EAFH created a forecast model for the completion of the backlog of all field examinations by the end of fiscal year (FY) 2015 by using the Fiduciary Beneficiary System (FBS) G15W timeliness report. This model also includes simulating average receipts, completion rates, and assumptions (overtime, travel funds, etc.). The forecast assumptions and projections were provided to OIG prior to receipt of the draft report.

Page 9, first paragraph, second through fourth sentences:

“In August 2012, EAFH management completed a workload analysis identifying a need for an additional 61 Field Examiners to eliminate the backlog within 24 months. In June 2013, EAFH reported having 7 additional Field Examiners. In addition, EAFH management advised VBA Office of Field Operations had approved another four Field Examiner positions in August 2013.”

VBA Comment: This is misleading. The numbers above do not accurately reflect the staffing of the EAFH. During the process of consolidation, the EAFH was allocated a total of 196 FTE and as

of November 2011, had 16 Field Examiners on board. By March 2012, the number of Field Examiners on board increased to 83. As of March 2013, EAFH was allocated a total of 216 FTE and had 109 Field Examiners on board. As of March 25, 2014, the EAFH was allocated a total of 229 FTE and had 110 Field Examiners on board, with ten more to be hired before the end of FY 2014.

Page 9, first paragraph, last sentence:

“Despite the increase of 11 Field Examiners since August 2012, the backlog of field examinations will likely persist and the general health and well-being of beneficiaries is at increased risk.”

VBA Comment: EAFH started with 83 Field Examiners at the time of consolidation and are currently hiring to reach a total of 120, a 45 percent increase in the number of Field Examiners from post-consolidation to currently on board. At the time of the OIG review, the number of authorized Field Examiners had increased by 33, which is a 40 percent increase from the time of consolidation. This significant increase in Field Examiner staffing will enable the EAFH to eliminate any backlog of field examinations by the end of FY 2015, reducing the risk to beneficiaries.

Page 10, first paragraph, fourth sentence:

“Delays in processing the 3,200 pieces of mail ranged from 11 to 486 workdays, with an average of 30 workdays from the time EAFH received the mail.”

VBA Comment: VBA requested clarification on the piece of mail that was determined to be 486 days old. This piece of mail was an internal document and was not related to the delivery of benefits for any Veteran. Since OIG was unable to provide clarification, VBA believes the mail identified as 486 days old should be removed.

Page 10, first paragraph, last sentence:

“By not effectively managing incoming mail, VBA benefits may be affected.”

VBA Comment: As stated above, the issue is not with the EAFH management of the incoming mail but with the way in which mail is deemed timely or untimely. The EAFH previously utilized an internal date stamp to prioritize mail oldest to newest from date of receipt in the EAFH. During the OIG review, EAFH was notified to begin processing mail using the date stamp from first arriving in any VBA facility. Consequently, when a piece of mail is received in another RO first, it may already be outside the timeliness standards when received by EAFH.

Page 10, fourth paragraph, second sentence:

“We identified over 3,200 pieces of unprocessed mail and other correspondence documents in piles on desks and shelves located in the Special Operations Team area. Some of these documents were organized into rubber band bound piles.”

VBA Comment: At the time of the OIG review, the EAFH was in swing space while their permanent space at the RO was being renovated. The space provided to EAFH did not have an area specifically designed to process incoming mail. EAFH used existing cubicles, desks, and shelves to sort and store mail. The sorted mail was grouped by the date the mail was received in the hub. By describing the mail as being in piles and on shelves, this is depicting an unorganized process, which is not accurate.

Page 11, EAFH Unprocessed Mail Table:

“Accounting Related”

VBA Comment: As stated previously, VBA requested clarification on the piece of mail that OIG identified as 486 days old. OIG indicated this was “Accounting Related.” VBA disagrees with this categorization as we do not identify mail in this way. VBA believes this piece of mail was an internal document and was not related to the delivery of benefits for any Veteran. Since OIG was unable to provide clarification, VBA believes the mail identified as 486 days old should be

removed and the Accounting Related Total, Range of Delay (Days), and Average Delay (Days), adjusted accordingly.

Page 12, third paragraph:

“By September 2013, EAFH reported a backlog of approximately 900 pieces of unprocessed mail. This backlog is still considered significant, and without effective management of incoming mail, EAFH cannot ensure that benefits are not affected or subject to risk of theft or misuse by fiduciaries.”

VBA Comment: EAFH reported having 902 pieces of mail as of September 30, 2013, but did not indicate this was a backlog. All 902 pieces were screened and prioritized for action. After the OIG review, EAFH further improved procedures for prioritizing and completing actionable mail items. VBA strives to serve VA's most vulnerable population through providing timely delivery of benefits.

Page 13, third paragraph, last sentence:

“We referred these 12 cases to our Office of Investigations in January 2014.”

VBA Comment: EAFH has an established relationship with OIG investigators. These cases had already been referred to the OIG Office of Investigations and in some cases, OIG requested EAFH not contact the fiduciary due to OIG's ongoing investigation.

The following comments are submitted in response to the recommendations in the OIG draft report:

Recommendation 1: We recommend the Under Secretary for Benefits require the Eastern Area Fiduciary Hub to implement controls to monitor misuse determinations to ensure reviews meet timeliness standards.

VBA Response: Concur. EAFH has worked with the Pension and Fiduciary Service to implement additional control measures to ensure that misuse determinations and repayment of funds are completed within the timeliness standards.

Additional controls are being established in the new Beneficiary Fiduciary Field System (BFFS) to monitor the fiduciary misuse process at the fiduciary hubs. BFFS incorporates a misuse case management system to monitor the misuse process from allegation through determination. This includes notifying the RO Support Services Division (SSD) of the need to establish a debt against a fiduciary who misused benefit funds and to monitor repayment of the debt. These BFFS controls and processes will be in place by the end of June 2014.

Target Completion Date: June 30, 2014

Recommendation 2: We recommend the Under Secretary for Benefits require the Director of Pension and Fiduciary Service to implement controls to monitor negligence reviews.

VBA Response: Concur. On August 12, 2013, Pension and Fiduciary Service implemented controls to monitor negligence determinations through the release of 21PF Circular 13-2, Negligence Determinations. This circular provides the procedure used by Pension and Fiduciary Service to determine whether VA must reissue benefits to a beneficiary in the Fiduciary Program based upon VA negligence in appointing or overseeing the beneficiary's fiduciary. Pension and Fiduciary Service provided this circular to OIG on February 14, 2014, during the course of the audit. VBA requests closure of this recommendation.

Recommendation 3: We recommend the Under Secretary for Benefits implement controls to ensure the reissuance of misused funds to beneficiaries and repayment from former fiduciaries occurs timely.

VBA Response: Concur. In November 2013, VBA implemented new procedures (VBA Fiduciary Misuse Debt Processes) for establishing a debt, sending collection letters to the debtor, collecting payments, processing compromise requests, and reconciling accounts receivable when VBA determines that a fiduciary misused benefits. In addition, VBA revised the benefit module in the Centralized Administrative Accounting Transaction System (CAATS) to assign a unique fiduciary indicator within the transaction billing document (BD transaction) so fiduciary debts can be tracked

in both CAATS and the Financial Management System. Pension and Fiduciary Service provided the new procedures to OIG on February 14, 2014, during the course of the audit. VBA requests closure of this recommendation.

Recommendation 4: We recommend the Under Secretary for Benefits require the Director of Pension and Fiduciary Service to conduct a negligence review of the 12 identified cases of misuse of beneficiary funds and determine if misused funds are required to be reissued to affected beneficiaries.

VBA Response: Concur. Pension and Fiduciary Service completed negligence determinations in the 12 identified cases. VBA requests closure of this recommendation.

Recommendation 5: We recommend the Under Secretary for Benefits ensures the Eastern Area Fiduciary Hub implements a plan to expedite completion of their backlog of field examinations and to meet performance standards.

VBA Response: Concur. EAFH has implemented a work plan that will allow Field Examiners to maintain their timeliness in completing IA field examinations while also working on the F-B field examinations from oldest to newest. The EAFH implemented a plan to reduce the backlog of field examinations in January 2013, and this plan was modified in March 2014. Implementation of the items outlined in the forecast model that was provided to OIG in March 2014, will allow EAFH to expedite completion of the backlog of field examinations by the end of FY 2015. VBA requests closure of this recommendation.

Recommendation 6: We recommend the Under Secretary for Benefits require the Director of the Indianapolis VA Regional Office to implement a plan to ensure the Eastern Area Fiduciary Hub eliminates its backlog of Fiduciary Program mail during FY 2014.

VBA Response: Concur. EAFH refined procedures to process all incoming mail into the hub. This process was implemented during the OIG review. The mail is now processed based on the date stamp reflecting initial receipt at the first VBA facility. As of March 24, 2014, the EAFH has 729 pieces of pending mail, none of which is backlogged. VBA requests closure of this recommendation.

Appendix D Office of Inspector General Contact and Staff Acknowledgments

OIG Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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Acknowledgments	Timothy Crowe, Director Kristine Abramo Ed Akitomo Bridget Byrd Dennis Capps Charles Chiarenza Danny Clay Kelly Crawford Hope Favreau Kyle Flannery Pilar Gamble Matthew Hammond Johnny McCray Thomas McPherson Mark Mullery Brandon Parrinello Lisa Van Haeren
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