

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Department of Veterans Affairs

*Review of
VA's Compliance with
the Improper Payments
Elimination and Recovery Act*

March 14, 2012
12-00849-120

ACRONYMS AND ABBREVIATIONS

AFR	Annual Financial Report
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
OMB	Office of Management and Budget
OIG	Office of Inspector General
PAR	Performance and Accountability Report
VA	Veterans Affairs
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration

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Report Highlights: Review of VA's Compliance With the Improper Payments Elimination and Recovery Act

Why We Did This Review

We conducted this review to determine whether VA met the requirements of the Improper Payments Elimination and Recovery Act (IPERA). In addition, we evaluated VA's accuracy, completeness of reporting, and performance in reducing and recapturing improper payments.

What We Found

VA did not fully comply with IPERA requirements. VA reported improper payment rates greater than 10 percent for three Veterans Health Administration (VHA) programs resulting in noncompliance with IPERA. In addition, we determined a fourth program exceeded 10 percent. Further, VHA's statistical sampling methodology did not achieve the required margin of error. Veterans Benefits Administration (VBA) did not consult with a statistician and did not calculate margins of error. The improper payment estimates we calculated did not match what was reported in the Performance and Accountability Report (PAR) for VBA's Compensation and Pension programs. Also, the Pension program's improper payment rate was significantly understated due to VBA's use of an incorrect estimation methodology for gross improper payment estimates. Further, reduction targets for two programs were not met. Lastly, VA incorrectly labeled the FY 2011 PAR, thus the data may be subject to misinterpretation.

What We Recommend

We recommend the Under Secretary for Health, the Under Secretary for Benefits, and the VA Executive in Charge, Office of Management and Chief Financial Officer take steps to ensure VHA and VBA management comply with IPERA.

Agency Comments

To comply with OMB's mandated reporting requirements, we briefed VA officials on the review results. However, we did not obtain VA officials comments to this report. The Department agreed with our findings and recommendations and agreed to take action to become compliant with the IPERA requirements in the future. We requested VA provide us with acceptable implementation plans within 30 days of this report to address our recommendations

BELINDA J. FINN
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INTRODUCTION

Objective

We reviewed the Improper Payments Information section in the FY 2011 Performance and Accountability Report (PAR) to determine whether VA met the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). In addition, we evaluated VA's accuracy, completeness of reporting, and performance in reducing and recapturing improper payments.

OMB Requirements

The Office of Management and Budget (OMB) Circular A-123, Appendix C, Part II, *Compliance with the Improper Payment Requirements*, specifies that each agency's Inspector General review agency improper payment reporting in the agency's annual PAR or Annual Financial Report (AFR), and accompanying materials to determine if the agency is in compliance with IPERA. According to OMB guidance, compliance with IPERA means that the agency completed the following:

- Published a PAR or AFR for the most recent FY and posted that report and any accompanying materials required by OMB on the agency Web site
- Conducted a specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 of the United States Code (if required)
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required)
- Published programmatic corrective action plans in the PAR or AFR (if required)
- Published and met annual reduction targets for each program assessed to be at risk and measured for improper payments
- Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR
- Reported information on its efforts to recapture improper payments

The Inspector General independently evaluates the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments. In addition, the Inspector General issues a report within 120 days of the issuance of the PAR or AFR.

**Improper
Payment
Definition**

OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, defines an improper payment as follows: “An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.”

Prior Reviews

The Office of Inspector General's (OIG) report, *Audit of VA's Implementation of Executive Order 13520, "Reducing Improper Payments,"* (Report No. 10-02892-251, August 12, 2011) concluded that the Veterans Benefits Administration (VBA) did not have an adequate process to ensure compliance with Executive Order 13520 reporting requirements. In addition, the Veterans Health Administration's (VHA) FY 2009 risk assessment did not adequately assess the level of risk associated with its programs and the results were not valid.

In FY 2011, VA took the following corrective actions to address improper payment challenges:

- VBA reviewed a statistically valid sample of debts exceeding \$1,667 and reported high-dollar overpayments.
- VHA conducted formal risk assessments and a review of all programs to establish a new baseline and accurately assess susceptibility to improper payments.

**Other
Information**

See Appendix A for background information and Appendixes B and C for information on the scope and methodology and VA programs reported in the FY 2011 PAR. See Appendix D for specific requirements for agencies not compliant with IPERA.

RESULTS AND RECOMMENDATIONS

Finding 1 VA Programs Need To Fully Comply With IPERA

VA complied with five of seven IPERA requirements in FY 2011. The Department published a PAR and posted the report on VA's Web site. VA also conducted a specific risk assessment for each program that conforms with Section 3321 or Title 31 of the United States Code. Further, VA published improper payment estimates for programs identified as susceptible to significant improper payments under its risk assessment and published programmatic corrective action plans and information on its efforts to recapture improper payments.

**Improper
Payment Rates
Exceed
10 Percent**

We concluded that VA did not fully comply with IPERA requirements. OMB Circular A-123, Appendix C, Part II, *Compliance with the Improper Payment Requirements*, requires a gross improper payment rate of less than 10 percent for each program for which a gross improper payment estimate was obtained and published in the PAR. VA reported the following 3 VHA programs in the PAR with gross improper payment rates exceeding 10 percent, which does not comply with the requirement:

- Non-VA Care Fee — 12.4 percent
- State Home Per Diem Grants — 13.7 percent
- Supplies and Materials — 13.6 percent

In addition, we calculated an estimated gross improper payment rate of 24 percent for VHA's Other Contractual Services Program. VHA's estimation methodology needed improvement and our method gives a more accurate improper payment rate estimate. This program exceeded 10 percent and our calculation supported that it was significantly greater than the 10 percent threshold required by IPERA. Thus, our independent assessment also identified this as an area of noncompliance. We determined the corrective action plans in the PAR address the root causes and efforts to eliminate improper payments greater than 10 percent. VA cited documentation and administrative errors as the main error categories. For example, VHA told us the majority of the errors for Other Contractual Services occurred because payments were not charged to the appropriate cost center.

**Reduction
Targets Not
Met**

VA complied with IPERA guidance and published annual reduction targets for programs assessed to be at risk and measured for improper payments in the FY 2011 PAR. However, reduction targets for two programs were not met. We determined that VHA's Non-VA Care Fee program did not meet its

annual reduction target rate estimate of 12 percent which was included in the FY 2010 PAR. We calculated an improper payment rate of 13 percent, thus, concluded the target was not met.

VBA's pension program did not meet its estimated target rate of 8.03 percent. VBA officials told us that the reported improper payment rate should have been 8.98 percent, which also resulted in an unmet reduction target.

**PAR
Description
Labeling
Incorrect**

VA incorrectly labeled the FY 2010–2014 Improper Payment Reduction Outlook table included in the FY 2011 PAR. The data was described as “Net Amount” and the correct description is “Gross Amount.” When data are incorrectly labeled, the data appears erroneously represented and can be misinterpreted. VA agreed and stated that future PAR reporting will include the correct label description.

Recommendations

1. We recommend the Under Secretary for Health implement the procedures outlined in the Office of Management and Budget Circular A-123, Appendix C, Part II, Section B, *Responsibilities for Agencies*, to comply with the Improper Payments Elimination and Recovery Act and strengthen efforts to reduce improper payments.
2. We recommend the Under Secretary for Health establish controls to ensure annual reduction targets are met for the programs assessed to be at risk and measured for improper payments.
3. We recommend the Under Secretary for Benefits establish controls to ensure annual reduction targets are met for the programs assessed to be at risk and measured for improper payments.
4. We recommend the VA Executive in Charge, Office of Management, and Chief Financial Officer ensures the FY 2012 Performance and Accountability Report's Improper Payment Reduction Outlook table is corrected and properly labeled as “Gross Amount” to ensure reported improper payment results and estimates are accurately represented.

**Management
Comments
and OIG's
Responses**

The Department agreed with our findings and recommendations and agreed to provide implementation plans. However, due to unforeseen delays and the need to complete this review by the OMB mandated report date, we did not obtain written official comments for inclusion in this report. We requested VA provide acceptable implementation plans within 30 days of this report's date.

Finding 2 VHA and VBA Statistical Estimation Methodology Needs Improvement

To calculate the improper payment estimates for their programs, VHA designed the sampling methodology in accordance with OMB guidance. However, VHA did not have sample sizes large enough to achieve the required precision. VHA needs to improve the statistical estimation methodology to ensure estimated gross improper payment rates are more accurate. VBA used statistical data obtained from VA's Systematic Technical Accuracy Review to calculate improper payment estimates. However, VBA could not support or replicate the Compensation and Pension programs' improper payment rates of one percent reported in the PAR.

Larger Sample Sizes Needed

VHA's sample sizes were not large enough to achieve a 2.5 percent margin of error on their estimates of improper payment rates. We estimate that to meet this requirement, VHA would have needed to select samples several times larger than those selected. OMB Circular No. A-123, Appendix C, Part I, dated April 14, 2011, requires a 2.5 percent margin of error for a 90 percent confidence interval when projecting improper payment rates.¹

VHA Needs Improved Estimation Methodology

The estimation methodologies used for the Other Contractual Services and State Home Per Diem Grants programs needed improvement. We determined the sample estimate of the total value of all payments was significantly lower than the known population values. VHA should have used the sample estimates of the total payment values in the denominator instead of the known population total payment values when calculating the improper payment rates.

For example, VHA calculated the Other Contractual Services improper payment rate of 8.8 percent by dividing the estimated improper payments value by the known value of all payments in the population (\$276.3/\$3,146.2 million). We calculated an improper rate of 24 percent by dividing the estimated improper payments value by the sample estimate of all payments in the population (\$276.3/\$1,149.7 million). Our method of calculation gives a more accurate improper payment rate estimate because it accounts for the difference between the known total value of all payments in the population and that same value as estimated in the sample.

¹ As an alternative, OMB guidance also allows a 95 percent confidence interval to achieve a 3 percent margin of error.

Table 1 shows gross improper payment rates reported by VHA and gross improper payment rates calculated by the OIG.

Table 1

VHA Programs Improper Payment Rates for FY 2011 PAR Reported Rates Compared With OIG Calculated Rates			
Program	PAR Improper Payment %	OIG Improper Payment %	Difference
Non-VACare Fee	12.4	13.0	.6
Other Contractual Services	8.8	24.0	15.2
State Home Per Diem Grants	13.7	17.3	3.6
Supplies and Materials	13.6	13.5	(.1)

Source: VA OIG

**VBA Reported
Incorrect
Estimation
Rates**

VBA could not support or replicate the Compensation and Pension programs' improper payment rates of one percent reported in the PAR.

VBA provided us with data that were used to compute the improper payment rates for the Compensation and Pension programs. We verified the accuracy of the estimation methodology that VBA used and our independent calculations of the estimates were close to those calculated by VBA based on the data they provided. However, VBA's estimates based on the data provided to us, did not match the values reported in the PAR. In addition, the samples were incomplete.²

We identified a significant difference between the reported FY 2010 Pension improper payment rate of 8.17 percent and the reported FY 2011 Pension improper payment rate of 1 percent. According to VBA, the rate was calculated and reported incorrectly in the PAR and should have been reported as 8.98 percent. VBA officials stated they did not apply the appropriate estimation methodology. As a result, FY 2011 gross improper payment dollars should have been \$390.2 million compared to the \$46.2 million reported by VA.

² Six VA regional offices were not included in the sample rendering the sample incomplete. We determined that even if all claims at these six regional offices had improper payments, the impact on the improper payment rate would be insignificant compared to the rates we estimated.

***VBA Needs
Improved
Estimation
Methodology***

We reviewed VBA's sampling and estimation methodology used to calculate improper payment estimates for the Education program. We found VBA did not measure the margins of error as required by OMB guidance or use sampling weights. In addition, VBA management did not consult with a statistician as required by OMB guidance to ensure the validity of its sample design, sample size, and measurement methodology.

Recommendations

5. We recommend the Under Secretary for Health modifies the FY 2012 estimation methodology to ensure gross improper payment estimates are accurate.
6. We recommend the Under Secretary for Benefits consult with a statistician and take action to update the FY 2012 estimation methodology to ensure gross improper payment estimates are accurate.
7. We recommend the Under Secretary for Benefits ensures the statistical data and methodologies are maintained to be readily available for review of the FY 2012 Performance and Accountability Report.

***Management
Comments
and OIG's
Responses***

Due to delays in receiving requested information needed to complete this review, we briefed VA officials on the review results to comply with the OMB mandated report issuance date. However, we did not obtain VA officials comments. Thus, we requested VA provide acceptable implementation plans within 30 days of this report to address our recommendations. The Department agreed with the findings and recommendations and agreed to provide implementation plans.

Appendix A Background

IPERA of 2010

The Improper Payments Elimination and Recovery Act of 2010 amended the Improper Payments Information Act (IPIA) of 2002 and repealed the Recovery Auditing Act. The OMB Circular A-123, *Management's Responsibility for Internal Control*, provided requirements for implementing IPERA. OMB defined programs susceptible to improper payments as programs with gross annual improper payments exceeding both 2.5 percent of program payments and \$10 million in gross improper payments or programs with \$100 million in gross improper payments. VA identified these programs in the PAR.

IPERA Reporting FY 2011 PAR

Under IPERA, the head of each agency shall periodically review and identify all programs and activities it administers that may be susceptible to significant improper payments based on guidance provided by the Director of OMB. IPERA generally defines significant improper payments as \$10 million of all program or activity payments made during the FY reported and 2.5 percent of program outlays, or \$100 million. For each program and activity identified, the agency is required to produce a statistically valid estimate or an estimate that is otherwise approved by OMB, of the improper payments and include such estimates in the accompanying materials to the annual financial statements of the agency.

The agency is required to prepare a report on actions it took to reduce improper payments for programs or activities with significant improper payments. The report must specify, among other things:

- (1) A description of the causes of improper payments, actions planned or taken to correct those causes, and the planned or actual completion date of the actions taken to address those causes
- (2) Program and activity-specific targets for reducing improper payments that have been approved by the Director of OMB

VA reported just under \$2.1 billion in improper payments for the nine programs reported in the FY 2011 PAR (based on FY 2010 actual data). See Appendix C for those reported programs.

- VHA reported four programs susceptible to significant improper payments in the FY 2011 PAR including Non-VA Care Fee, Other Contractual Services, State Home Per Diem Grants, and Supplies and Materials.
- VBA reported five programs susceptible to significant improper payments in the FY 2011 PAR including Compensation, Pension, Education, Insurance, and Vocational Rehabilitation and Employment.

Although the Pension and Insurance programs did not meet the reporting threshold for significant improper payments, VA historically reported improper payment estimates for these large programs.

- OMB granted the Loan Guaranty program temporary relief from reporting under IPERA for FYs 2009 through 2012. Annual improper payments reported under the Loan Guaranty program through FY 2008 were below the \$10 million reporting threshold.

Appendix B Scope and Methodology

Scope

We conducted our review work from January through March 2012. The scope included a review of VA program methodologies to satisfy IPERA requirements. This included the FY 2011 PAR and risk assessments and sampling methodologies from October 1, 2010, to September 30, 2011.

Methodology

We reviewed relevant criteria including:

- Improper Payments Elimination and Recovery Act (Public Law 111-204), dated July 22, 2010
- OMB Circular No. A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, dated April 14, 2011
- Executive Order 13520 of November 20, 2009, Reducing Improper Payments and Eliminating Waste in Federal Programs
- OMB Circular No. A-136, *Financial Reporting Requirements*, dated October 27, 2011, Section 11.5.8, IPIA (as amended by IPERA) Reporting Details.

We assessed fraud risks such as non-reporting or understatements of improper rates and payments. We did not identify any occurrences of fraud during our review.

We interviewed VA, VHA, and VBA management and staff to obtain an understanding of the reporting controls applicable to the audit objective. To assess the risk, accuracy, and completeness of improper payment reporting we reviewed:

- Prior audits to ensure reported improper payments were included.
- Risk assessments—25 from VHA and 4 from VBA to support the designation of programs as low risk, moderate risk (programs potentially susceptible to improper payments), and high risk (programs susceptible to significant improper payments).
- Published improper payment estimates for all programs identified as susceptible to significant improper payments to ensure a reported gross improper payment less than 10 percent was reported.
- Corrective action plans reported in the PAR to ensure plans are robust and sufficient to address the root causes of improper payments.
- Annual reduction targets and recapture/recovery efforts to ensure compliance with IPERA.

We used the OIG statistician to analyze the information provided to us. To address the technical requirements, our statistician conducted an independent calculation of VHA's and VBA's improper payment rates and margins of errors and reviewed statistical sampling methodologies to ensure accuracy and completeness. The statistical review included four VHA programs (Non-VA Care Fee, State Home Per Diem Grants, Supplies and Materials, Other Contractual Services) and three of the five reported VBA programs (Compensation, Pension, and Education).

Standards for Inspection

Our assessment of internal controls focused on those related to our review objectives. The review was completed in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection*.

Reliability of Data

We obtained computer processed data supporting improper payment estimates in the PAR. However, we were unable to assess the overall reliability of the computer-processed data used to support the improper payment estimates. Our conclusions focused on the sampling and estimation methodologies and were not dependent on the accuracy of the computer-processed data.

Appendix C VA Programs Reported in FY 2011 PAR

Table 2 shows program outlays, gross improper payment rates and dollars for the programs reported by VA.

Table 2

VA Programs—Improper Payment Reporting for FY 2011 (Based on 2010 Actual Data) (in millions)			
Program	Outlay \$	Improper Payment %	Improper Payment \$
VBA Programs			
Compensation	\$62,983		
Gross Amount		1.0	\$629.9
Pensions*	4,614		
Gross Amount		1.0	46.2
Education	10,299		
Gross Amount		2.1	216.2
Insurance	1,613		
Gross Amount		.01	0.161
Vocational Rehabilitation and Employment	819.6		
Gross Amount		7.0	57.4
VBA Totals	\$80,328.6		\$949.8
VHA Programs			
Non-VA Care Fee	\$4,205		
Gross Amount		12.43	\$522.9
Other Contractual Services	3,146		
Gross Amount		8.78	276.3
State Home Per Diem Grants	713.2		
Gross Amount		13.69	97.6
Supplies and Materials	1,626		
Gross Amount		13.60	221.1
VHA Totals	9,690.2		1,117.9
VA Programs			
Total VA	\$90,018.8		\$2,067.7

Source: VA FY 2011 PAR

*Note: VBA stated that the reported improper payment was incorrectly estimated and should have been 8.98 percent and \$390.2 million in improper payments.

Appendix D Requirements for Agencies Not Compliant With IPERA

Noncompliant Requirements for 1 Fiscal Year

Agencies that are not compliant with IPERA/IPIA must complete several actions. For agencies that are not compliant for 1 fiscal year, within 90 days of the determination of noncompliance, the agency will submit a plan to the House Committee on Oversight and Governmental Reform describing the actions that the agency will take to become compliant. The plan will include:

- Measurable milestones to be accomplished in order to achieve compliance for each program or activity;
- The designation of a senior agency official who will be accountable for the progress of the agency in coming into compliance for each program or activity;
- The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the senior agency official in leading agency efforts to achieve compliance for each program and activity.

Noncompliant Requirements for 2 Fiscal Years

For agencies that are not compliant for 2 consecutive fiscal years for the same program or activity, the Director of OMB will review the program and determine if additional funding would help the agency come into compliance. If the Director of OMB determines that additional funding would help the agency become compliant, the agency will obligate an amount of additional funding determined by the Director of OMB to intensify compliance efforts. When providing additional funding for compliance efforts, the agency will:

- Exercise reprogramming or transfer authority to provide additional funding to meet the level determined by the Director of OMB;
- Submit a request to Congress for additional reprogramming or transfer authority if additional funding is needed to meet the full level of funding determined by the Director of OMB.

Noncompliant Requirements for 3 Fiscal Years

For agencies that are not compliant for 3 consecutive fiscal years for the same program or activity, within 30 days of the determination of noncompliance, the agency will submit to Congress:

- Reauthorization proposals for each (discretionary) program or activity that has not been in compliance for 3 or more consecutive fiscal years, or
- Proposed statutory changes necessary to bring the mandatory program or activity into compliance.

In addition, OMB may require agencies that are not compliant with the law (for 1, 2 or 3 fiscal years in a row) to complete additional requirements beyond those requirements listed above. For example, if a program is not compliant with the law, OMB may determine that the agency must re-evaluate or reprioritize its corrective actions, intensify and expand existing corrective action plans, or implement or pilot new tools and methods to prevent improper payments. OMB will notify agencies of additional required actions as needed. Lastly, agencies need to share any plans or proposals required by this section with their respective Inspectors General.

Appendix E 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	Cherie E. Palmer, Director Joseph M. DeAntonis Lee Giesbrecht David Lakoskey John Pawlik Maria T. Stone Ora D. Young
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Appendix F Report Distribution

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