



DEPARTMENT OF VETERANS AFFAIRS  
**OFFICE OF INSPECTOR GENERAL**

*Office of Audits and Evaluations*

DEPARTMENT OF VETERANS AFFAIRS

VA's Compliance with the  
Improper Payments  
Elimination and Recovery  
Act for FY 2017

REVIEW

REPORT #17-05460-169

MAY 15, 2018



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## Executive Summary

### Why the OIG Did This Review

The OIG conducted this review to determine whether VA complied with the requirements of the Improper Payments Elimination and Recovery Act (IPERA) for FY 2017. The Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, specifies that each agency's Inspector General annually review improper payment reporting in the agency's Performance and Accountability Report (PAR) or Agency Financial Report (AFR), and issue a report of the agency's compliance with IPERA.

VA reported improper payment estimates totaling \$10.66 billion in its FY 2017 AFR, almost twice the FY 2016 reported amount of \$5.49 billion. The net increase is primarily the result of the Veterans Health Administration (VHA) adding three programs susceptible to significant improper payments as well as reporting higher improper payments for five VHA and three Veterans Benefits Administration (VBA) programs.<sup>1,2</sup> In FY 2017, OMB relieved VA of reporting on four programs susceptible to significant improper payments due to the programs' improper payment rates reporting below the threshold for two consecutive years.

### What the OIG Found

VA met four of six IPERA requirements for FY 2017 by publishing the AFR, performing risk assessments, reporting improper payment estimates, and providing information on corrective action plans. Although VA reported improper payment estimates as required, the OIG determined the estimates for two programs and activities (Post-9/11 GI Bill and Supplies and Materials) could improve by obtaining and reviewing documentary support as part of VA's sample evaluation procedures.

VA did not fully comply with two of six IPERA reporting requirements as specified by OMB. Specifically, VA did not:

- Report a gross improper payment rate of less than 10 percent for each program and activity that had an improper payment estimate in its FY 2017 AFR. Seven VHA programs and activities—Beneficiary Travel; Communications, Utilities, and Other Rents; Medical Care Contracts and Agreements; Prosthetics; Purchased Long Term Services and Support (PLTSS); Supplies and Materials; and VA Community Care—exceeded the 10 percent threshold. Two of the seven programs, PLTSS and VA

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<sup>1</sup> As reported in the FY 2016 AFR, VA identified Communications, Utilities, and Other Rents; Medical Care Contracts and Agreements; and Prosthetics were susceptible to improper payments due to noncompliance with contract requirements VA identified while conducting its risk assessments.

<sup>2</sup> The eight programs primarily lacked sufficient documentation or encountered administrative or process errors that caused the majority of the improper payments.

Community Care, have exceeded the 10 percent threshold for three consecutive fiscal years and are repeat findings. PLTSS and VA Community Care improper payments were primarily related to administrative or process errors; insufficient documentation; or noncompliance with Federal Acquisition Regulation (FAR) requirements.

- Meet annual reduction targets for seven programs and activities—Beneficiary Travel; Civilian Health and Medical Program of the Department of Veterans Affairs; Pension; Post-9/11 GI Bill; PLTSS; Supplies and Materials; and VA Community Care. Four of the seven programs—Beneficiary Travel, PLTSS, Supplies and Materials, and VA Community Care—have not met reduction targets for three consecutive fiscal years and are repeat findings. These four programs' improper payments were primarily related to administrative or process errors, insufficient documentation, or noncompliance with FAR requirements.

OMB designated the Compensation, PLTSS, and VA Community Care Programs as high-priority programs. As part of the annual compliance review for high-priority programs, the OIG is required to evaluate VA's assessment of the level of risk associated with these programs and the quality of the improper payment estimates and methodology; determine the extent of oversight warranted; and provide recommendations, if any, for modifying the VA's methodology.<sup>3</sup> The OIG found:

- VA's assessment of risk was consistent with the improper payments reported in its AFR.
- The statistical methodology VA used to produce its improper payment estimates complied with OMB Circular A-123, Appendix C requirements. The OIG also reviewed improper payments tested by VA for the three high-priority programs and found one exception.
- Supplemental measures were approved by OMB to enhance oversight of these programs and to assess the progress VA is making to reduce improper payments. In addition, VA uses different tools and conducts matches against other agency data to mitigate overpayments as reported in its AFR.

VA reported 65 corrective actions to assist in reducing the improper payment rates for 10 programs and activities that either did not meet the 10 percent threshold and/or did not achieve reduction targets in its FY 2017 AFR. At least 53 of the 65 corrective actions (81.54 percent) addressed issues related to either insufficient documentation to determine if a payment is proper or errors made during data entry or processing.

For the PLTSS and VA Community Care Programs, VA stated in its 2017 AFR that it will require a change in legislation to fully eliminate improper payments. As reported in its AFR, due to the limited number of veterans they treat each year, smaller medical providers do not believe it is worthwhile to pursue a contract. As a result, payments to these medical providers are considered improper payments due to noncompliance with the FAR. VA has proposed legislation to request authority to purchase necessary care in the community without being required to

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<sup>3</sup> OMB Circular 123-A, Appendix C, Part II-A (4), *Responsibilities of Agency Inspectors General*.

strictly adhere to FAR requirements, such as obligation by a certified official and statutory terms and conditions of service contracts. According to VA, this bill will support the reduction of improper payments, by allowing VA to enter into quick and flexible veteran care agreements instead of going through the contract-awarding process to comply with the FAR. This in turn would improve VA's compliance with IPERA.

In addition, VA made improper payments that currently cannot be avoided due to the concurrent payment design of the Department of Defense's Drill Pay and VBA's Compensation and Pension Programs. Drill pay is military reserve pay earned by National Guard members and reservists while training on weekends and during full-time training events. Federal law prohibits participants from receiving Compensation and Pension Program benefits while also receiving drill pay. VBA is working with Office of Information and Technology to finalize business requirements and secure funding to change the automated drill pay adjustment process from annually to monthly. VA anticipates implementing this new drill pay process by September 2018.

## What the OIG Recommended

The OIG made three recommendations to the Executive in Charge, Office of the Under Secretary for Health:

1. Develop a timeline to reduce improper payments under the 10 percent IPERA threshold for the Beneficiary Travel; Communications, Utilities, and Other Rents; Medical Care Contracts and Agreements; Prosthetics; Purchased Long Term Services and Support; Supplies and Materials; and VA Community Care Programs and activities. (Repeat from our FY 2016 report.)<sup>4</sup>
2. Implement steps to reduce improper payments for the Beneficiary Travel, Civilian Health and Medical Program of the Department of Veterans Affairs, Purchased Long Term Services and Support, Supplies and Materials, and VA Community Care Programs and activities. (Repeat from our FY 2016 report.)
3. Implement procedures to ensure thorough testing of sample items used to estimate improper payments for Supplies and Materials purchases under indefinite-delivery contracts.

The OIG made three recommendations to the Executive in Charge, Veterans Benefits Administration:

1. Implement steps to achieve reduction targets for the Pension and Post-9/11 GI Bill Programs.
2. Continue working with the Department of Defense to increase the frequency of drill pay adjustments from annually to monthly. (Repeat from our FY 2016 report.)

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<sup>4</sup> Recommendations annotated as "Repeat from our FY 2016 report" were closed as not implemented. Please see Appendix D for more information.

3. Continue to report statutory barriers preventing the complete resolution of drill pay improper payments in future Agency Financial Reports until resolved.

### **Agency Comments**

VA management concurred with our recommendations and provided plans for corrective action. The OIG considers the planned actions responsive and will follow up on their implementation during the FY 2018 review of VA's compliance with IPERA.



**LARRY M. REINKEMEYER**  
Assistant Inspector General  
for Audits and Evaluations

## Abbreviations

AFR	Agency Financial Report
CHAMPVA	Civilian Health and Medical Program of the Veterans Administration
DoD	Department of Defense
FAR	Federal Acquisition Regulation
FY	fiscal year
IPERA	Improper Payments Elimination and Recovery Act
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
PLTSS	Purchased Long Term Services and Support
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration

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## Introduction

### Objective

The OIG conducted this review to determine whether VA complied with the requirements of the Improper Payments Elimination and Recovery Act (IPERA) for FY 2017.

### OMB Requirements and VA Compliance

The Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, specifies that each agency's Inspector General annually review improper payment reporting in the agency's Performance and Accountability Report (PAR) or Agency Financial Report (AFR), and issue a report of the agency's compliance with IPERA.<sup>5</sup> According to the Circular, compliance with IPERA means an agency meets the following six requirements:

1. Published an AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency's website.
2. Conducted a specific risk assessment for each program or activity that conforms to Title 31, United States Code, Section 3321 (if required).
3. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
4. Published programmatic corrective action plans in the AFR (if required).
5. Published and met annual reduction targets for each program and activity assessed to be at risk and measured for improper payments (if required and applicable).
6. 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 AFR.

### Improper Payment Definition

OMB Circular A-123, Appendix C, 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 payments or service, any payment that does not account for credit for applicable discounts, payments that are for an 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

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<sup>5</sup> OMB Circular A-123, Appendix C, Part II-A(1), *Responsibilities of Agency Inspectors General*.

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.

## Monetary Loss Versus Technically Improper Payment Guidance

In August 2017, VA issued a memo, *Improper Payments: Monetary Loss to the Government versus Technically Improper Guidance*. In this memo, VA requires that improper payments reported in the VA's AFR be broken down to differentiate improper payments that result in a monetary loss from those deemed technically improper.

- Monetary Loss to the Government—including payments:
  - In excess of the amount authorized;
  - To an ineligible recipient;
  - That are duplicate;
  - For an ineligible good or service;
  - For goods or services VA determines were not received;
  - When credit was not exercised for applicable discounts; and
  - On individual authorizations for medical services paid above the applicable Medicare rates or VA Fee Schedule.
- Technically Improper Payments—include payments made where:
  - The payment would otherwise be correct if sufficient documentation or evidence was provided to support the payment;
  - The payment was out of contract scope;
  - Individual authorizations for medical services were paid correctly in accordance with applicable Medicare or VA Fee Schedule rates, but were not supported by a contract; and
  - An underpayment occurs.

## Magnitude of Improper Payments

VA reported improper payment estimates totaling \$10.66 billion for 13 programs in its FY 2017 AFR, almost twice the FY 2016 reported amount of \$5.49 billion for 14 programs. The net increase is primarily the result of the Veterans Health Administration (VHA) adding three programs susceptible to significant improper payments.<sup>6</sup> In addition, VA reported higher

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<sup>6</sup>As reported in the FY 2016 AFR, VA identified Communications, Utilities, and Other Rents; Medical Care Contracts and Agreements; and Prosthetics were susceptible to improper payments due to noncompliance with contract requirements VA identified while conducting its risk assessments.

improper payment for eight programs: five VHA and three Veterans Benefits Administration (VBA) programs.<sup>7</sup> For FY 2017, with concurrence from the OIG, OMB relieved VA of its reporting requirements under IPERA for four programs with improper payment estimates that fell below the threshold for two consecutive years. In light of this, VA has been relieved of reporting improper payments for the following programs: Montgomery GI Bill, Payroll, Reserve Educational Assistance Program, and Vocational Rehabilitation and Employment.

## Data Used for FY 2017 Report

VA reported improper payment data based on the previous fiscal year's activity, as permitted by OMB Circular A-123, Appendix C. As such, VA presented FY 2016 improper payment data in its FY 2017 AFR. The OIG's assessment of VA's compliance with IPERA for FY 2017 is based on its reported FY 2016 data.

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<sup>7</sup> VBA programs with higher improper payments were Compensation, Pension, and Post 9/11 GI Bill. VHA programs with higher improper payments were Beneficiary Travel; Civilian Health and Medical Program of the Department of Veterans Affairs; Purchased Long Term Services and Support; Supplies and Materials; and VA Community Care. The eight programs primarily lacked sufficient documentation or encountered administrative or process errors that caused the majority of the improper payments.

## Results and Recommendations

### Finding 1: VA Did Not Comply with Two of Six IPERA Requirements for FY 2017

VA met four of six IPERA requirements by publishing the FY 2017 AFR on VA's website, performing risk assessments, reporting improper payment estimates for programs identified as susceptible to significant improper payments, and providing information on corrective action plans. Although VA reported improper payment estimates as required, the OIG determined estimates for the Post-9/11 GI Bill Program and Supplies and Materials purchases could be improved by obtaining and reviewing documentary support as part of sample evaluation procedures.

VA did not fully comply with IPERA because it did not satisfy two of the six requirements that constitute compliance with OMB Circular A-123 Appendix C. VA did not:

- Maintain a gross improper payment rate of less than 10 percent for seven programs and activities for which an improper payment estimate was obtained and published in the 2017 AFR.<sup>8</sup>
- Meet reduction targets for seven programs and activities assessed to be at risk and measured for improper payments.

### Determination of Susceptible Programs

VA determines programs that are susceptible to significant improper payments using risk assessments. Risk assessments incorporate risk factors including age of the program; complexity, particularly in relation to determining correct payment amounts; number of payments; and recent major program changes, among others.<sup>9</sup> Based on the results of the risk assessments, programs and activities may be categorized as susceptible to significant improper payments, which would require additional IPERA testing and reporting.

### Seven VA Programs Exceeded the 10 Percent Threshold

VA did not meet the improper payment rate threshold of less than 10 percent for seven of its 13 programs and activities. The OMB Circular A-123 requires each Agency to report 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 AFR.

Table 1 illustrates reported improper payment rates published in FYs 2016 and 2017 AFRs for programs and activities that exceeded the 10 percent threshold.

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<sup>8</sup> Gross improper payment rates relate to the sum of both underpayments and overpayments as a percentage of total outlays.

<sup>9</sup> OMB Circular A-123, Appendix C, Part I-A(9)(b), *Risk-Assessing, Estimating, and Reporting Improper Payments*.

**Table 1. Improper Payment Rates for Programs and Activities Exceeding the 10 Percent Threshold (\$ in Millions)**

Program or Activity	FY 2016 Improper Payments	Improper Payment Percentage	FY 2017 Improper Payments	Improper Payment Percentage
Purchased Long Term Services and Support	\$1,179.49	69.15	\$1,890.46	100.00
VA Community Care	\$3,587.25	75.86	\$5,257.56	93.40
Prosthetics	-	-	\$1,448.33	59.95
Beneficiary Travel	\$65.64	7.37	\$223.76	25.15
Communications, Utilities, and Other Rents	-	-	\$352.74	24.42
Supplies and Materials	\$22.27	0.90	\$479.79	18.76
Medical Care Contracts and Agreements	-	-	\$157.31	16.61

Source: VA AFR FY 2016 and 2017

VA reported improper payment rates ranging from 16.61 to 100 percent for the seven programs. In FY 2017, four of these seven programs had improper payment rates that increased from the previous AFR. VA reported in its FY 2017 AFR that increases in the four programs were primarily due to administrative or process errors made by VHA (which managed all seven programs) or insufficient documentation to determine whether the payments were proper. The remaining three programs were newly identified as susceptible to significant improper payments and therefore not reported on in FY 2016.

As shown in the Table 1, VA reported a 100 percent improper payment rate for Purchased Long Term Services and Support (PLTSS). Similar to VA's FY 2016 AFR, VA stated in its FY 2017 AFR that it continues to face challenges to acquire these services in compliance with the Federal Acquisition Regulation (FAR). Specifically, in FY 2016, VA attributed the high PLTSS improper payment rate to the lack of individual authorizations under \$2,500. In FY 2017, VA attributed the increase in improper payments to VHA not having letters of delegation in place to authorize ordering individuals for its contracts. According to OMB Circular A-123, Appendix C, Part I-A(2), *Risk-Assessing, Estimating, and Reporting Improper Payments*, "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." Therefore, when purchases are made without FAR-compliant contracts in place, the resulting payments are improper.

### Two Programs Exceeded Threshold for 3 Consecutive Fiscal Years

Two of the seven programs, PLTSS and VA Community Care, have exceeded the 10 percent threshold for three consecutive fiscal years. Table 2 shows the published improper payment rates for PLTSS and VA Community Care for FY 2015 through FY 2017.

**Table 2. Improper Payment Rates for Purchased Long Term Services and Support and VA Community Care FYs 2015–2017 (by Percent)**

Program or Activity	FY 2015	FY 2016	FY 2017
Purchased Long Term Services and Support	59.14	69.15	100.00
VA Community Care	54.77	75.86	93.40

Source: VA AFR FY 2015– 2017

### Seven VA Programs Did Not Meet Reduction Targets

VA did not comply with the IPERA requirement that previously reported improper payment rates establish and meet reduction targets. VA’s target reduction rates for FY 2017 were prepared and published by VA in its FY 2016 AFR. According to VA’s FY 2017 AFR, seven programs did not meet these reduction targets.

Table 3 lists the programs that did not meet reduction targets.

**Table 3. VA Programs That Missed FY 2017 Reduction Targets (by Percent)**

VA Administration	Program	FY 2017 Target Rate	FY 2017 Actual Improper Payment Rate <sup>10</sup>
VBA	Pension	2.26	2.63
VBA	Post-9/11 GI Bill	0.02	1.42
VHA	Purchased Long Term Services and Support	69.00	100.00
VHA	VA Community Care	75.00	93.40
VHA	Beneficiary Travel	7.35	25.15
VHA	Supplies and Materials	0.89	18.76
VHA	Civilian Health and Medical Program of the Department of Veterans Affairs	4.69	5.61

Source: VA AFR FY 2016 and 2017

VA’s program officials provided the following reasons for the missed reduction targets for the seven programs and activities:

<sup>10</sup> FY 2017 actual improper payment rates are based on FY 2016 data, per OMB guidance. VA’s FY 2017 actual improper payment rates are calculated and published in its FY 2017 AFR.

- Pension—The increase in improper payments was due to VA not receiving timely income and dependency changes to make the necessary adjustments. In addition, pension files have not completely migrated to an electronic environment, making it more difficult to obtain and review supporting documentation.
- Post-9/11 GI Bill—Lack of supporting documentation contributed to the rise in improper payments. VBA was not able to obtain supporting documents due to school closures.
- PLTSS—The increase in the improper payment rate was due to unauthorized staff placing orders.
- VA Community Care—The improper payment rate increased because VHA included its Veterans Choice Program, which had a 99.8 percent improper payment rate. The primary cause of the improper payment rate was due to unauthorized staff placing orders.
- Beneficiary Travel—Insufficient documentation, such as signed clinician consults or contract pricing to support the payments, caused the increase in improper payments.
- Supplies and Materials—The lack of sufficient documentation to justify purchases caused an increase in improper payments. According to VHA Officials, the Office of Acquisitions, Logistics, and Construction memo, “Acquisition Guidance for IPERA Testing,” increased the number of documents required to justify the purchase of supplies and materials.
- Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA)—75 percent of underpayments made were the result of incorrect vendor setup or updates, failure to follow policies and procedures, and data entry errors.

### **Four Programs Did Not Meet Reduction Targets for Three Consecutive Fiscal Years**

Four of the seven programs—Beneficiary Travel, PLTSS, Supplies and Materials; and VA Community Care programs—did not meet reduction targets for three consecutive fiscal years. VA reported an increase of improper payments for all four programs. The four programs primarily lacked sufficient documentation or encountered administrative or process errors that caused the majority of the improper payments.

### **Improper Payment Estimates for Two Programs and Activities Could Use Improvement**

Although VA published improper payment estimates as required, the OIG determined that its estimates for the Post-9/11 GI Bill Program and the purchases of Supplies and Materials could improve by obtaining and reviewing documentary support as part of conducting sample evaluation procedures. According to OMB Circular A-123, Appendix C, Part I-A(2), *Risk-Assessing, Estimating, and Reporting Improper Payments*, “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.”



- For the Post-9/11 GI Bill, VBA did not test the appropriateness of tuition and fees billed for 15 of 20 sample items. Finding 2 provides further details on this issue.
- For purchases of Supplies and Materials, eight of 20 samples that VHA had determined to be proper lacked sufficient documentation. Finding 3 provides further details on this issue.

## VA's OMB-Designated High-Priority Programs

OMB designated the Compensation, PLTSS, and VA Community Care Programs as high-priority. OMB may classify a program as high-priority if it:

- Reports \$750 million or more in improper payments in a given fiscal year;
- Does not report an error amount in the current reporting fiscal year but previously reported an error amount over the threshold; and
- Has not yet established a program error rate and has measured components that were above the threshold.<sup>11</sup>

For high-priority programs, agencies must establish semi-annual or quarterly actions for reducing improper payments.<sup>12</sup> The OIG noted VA established these actions, which were approved by OMB and published on [paymentaccuracy.gov](http://paymentaccuracy.gov). The OIG is also required by OMB Circular A-123, Appendix C, to:<sup>13</sup>

- Evaluate the agency's assessment of the level of risk associated with the high-priority programs;
- Evaluate the quality of reported improper payment estimates and methodology used to make the estimates;
- Determine the extent of oversight warranted; and
- Provide the agency head with recommendations, if any, for modifying the agency's methodology, promoting continued program access and participation, or maintaining adequate internal controls.

## Level of Risk

VA's assessment of the level of risk is consistent with the reported improper payment in its AFR. VA published improper payment estimates in its AFR, as required by OMB Circular A-123, Appendix C.

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<sup>11</sup> OMB Circular A-123, Appendix C, Part I-B(1), *Improving the Determination of Improper Payments*.

<sup>12</sup> OMB Circular A-123, Appendix C, Part III-B(1), *Supplemental Measures*.

<sup>13</sup> OMB Circular A-123, Appendix C, Part II-A(4), *Responsibilities of Agency Inspectors General*.

## Quality of Estimates

To assess the quality of those estimates and their methodology, the OIG reviewed the statistical methodology VA used to produce its improper payment estimates and found that it complied with OMB Circular A-123, Appendix C requirements.

The OIG also reviewed improper payments VA tested for the three high-priority programs and the results are as follows:

- **Compensation**—The OIG reviewed 45 of 800 payments VBA deemed as proper and identified one exception. Our sample consisted of payments for claims related to 100 percent temporary disability, special monthly compensation, and traumatic brain injury.
- **PLTSS**—Because VHA reported that 100 percent of its payments for this program as improper, the OIG did not review our standard of 45 payments for PLTSS. However, the OIG did review 10 of 918 payments to validate the amounts claimed as improper and did not note any exceptions.
- **VA Community Care**—The OIG reviewed 45 of 1,924 payments VHA deemed proper for VA Community Care and did not note any exceptions. Similar to last year, VA Community Care did not achieve its expected level of precision for reported improper payment estimates published in the FY 2017 AFR. OMB Circular A-123, Appendix C requires agencies to develop improper payment estimates to a certain level of precision.<sup>14</sup> Specifically, the VA Community Care Program's improper payment estimate was \$5.26 billion, with a precision of plus or minus \$404.54 million. To meet the OMB standard, the precision should have been at or below plus or minus \$140.72 million.<sup>15</sup> VA did not meet OMB's precision requirement because its projected error rate for FY 2017 was 93.05 percent, 43 percent higher than the error rate used in the sample design.

## Evaluation of VA Oversight

For the OMB requirement to evaluate oversight recommendations to modify VA's methodology, promote continued program access and participation, and maintain adequate internal controls, the OIG noted:

- The supplemental measures approved by OMB will support additional oversight of these programs and the progress VA is making to reduce improper payments.
- VA uses different tools, such as a quality inspection tool, to ensure proper payment of outpatient claims, and conducts matches against other agency data to mitigate overpayments as reported in its AFR.

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<sup>14</sup> OMB Circular A-123, Appendix C, Part I-A(9), Step 2.2(d), *Risk-Assessing, Estimating, and Reporting Improper Payments*.

<sup>15</sup> OMB Circular A-123, Appendix C, Part I-A(9), Step 2.2(d).

## Provide Recommendations

VA agreed to the recent OIG recommendations covering the VA Community Care Program pertaining to improving internal controls in the report, *Audit of VHA's Timeliness and Accuracy of Choice Payments Processed Through Fee Basis Claims System*, (Report No. 15-03036-47, December 21, 2017).

## Planned Corrective Actions

VA reported 65 corrective actions to assist in reducing the improper payment rates for 10 programs and activities that either did not meet the 10 percent threshold and/or achieve reduction targets in its FY 2017 AFR.<sup>16</sup> At least 53 of the 65 corrective actions (81.54 percent) addressed issues related to either insufficient documentation to determine if a payment is proper or errors made during data entry or processing.

For the PLTSS and VA Community Care Programs, VA reported in its AFR that smaller medical providers do not believe it is worthwhile to pursue a contract due to the limited number of veterans they treat each year. As a result, payments to these medical providers are considered improper payments due to noncompliance with the FAR. VA has proposed legislation to request authority to purchase necessary care in the community without being required to strictly adhere to FAR requirements, such as obligation by a certified official and statutory terms and conditions of service contracts. According to VA, this bill will support the reduction of improper payments by allowing VA to enter into quick and flexible veteran care agreements instead of going through contract awarding process to avoid noncompliance with the FAR, which is the bulk of improper payments. This will in turn improve VA's compliance with IPERA.

## Conclusion

VA met four of the six IPERA requirements for FY 2017 by publishing the AFR, performing risk assessments, reporting improper payment estimates, and providing information on corrective action plans. However, VA was noncompliant with IPERA as seven of 13 programs reported higher improper payment rates than the targeted threshold. In addition, seven VA programs missed reduction targets. Although VA met the requirement to report improper payment estimates, the OIG concluded the improper payment rates for the Post-9/11 GI Bill and Supplies and Materials programs and activities could use improvement.

## Recommendations 1–3

1. The Executive in Charge, Office of the Under Secretary for Health, develops a timeline to reduce improper payments under the 10 percent threshold for the Beneficiary Travel; Communications, Utilities, and Other Rents; Medical Care Contracts and Agreements;

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<sup>16</sup> Unique programs and activities that either did not meet the 10 percent threshold and or achieve reduction target: Beneficiary Travel; Civilian Health and Medical Program of the Department of Veterans Affairs; Communications, Utilities, and Other Rents; Medical Care Contracts and Agreements; Pension; Post 9/11 GI Bill; Prosthetics; Purchased Long Term Services and Support; Supplies and Materials; and VA Community Care.

Prosthetics; Purchased Long Term Services and Support; Supplies and Materials; and VA Community Care Programs and activities. *This is a repeat finding and recommendation for the Purchased Long Term Services and Support and VA Community Care programs from our FY 2015 and 2016 reports.*

2. The Executive in Charge, Office of the Under Secretary for Health, implements steps to achieve stated reduction targets for the Beneficiary Travel; Civilian Health and Medical Program of the Department of Veterans Affairs; Purchased Long Term Services and Support; Supplies and Materials; and VA Community Care Programs and activities. *This is a repeat finding for all five programs from our FY 2016 report.*
3. The Executive in Charge, Veterans Benefits Administration, implements steps to achieve reduction targets for the Pension and Post-9/11 GI Bill Programs.

## Management Comments

The Assistant Secretary for Management and Chief Financial Officer concurred with the recommendations. The complete response from the Assistant Secretary for Management and Chief Financial Officer is included in Appendix G of this report.

Regarding Recommendation 1, VHA stated it would work closely with Senior Accountable Officials and develop a timeline to reduce improper payments to under 10 percent for the seven programs. VHA noted most programs needed improved procurement processes to reduce improper payment rates. In addition, VHA is taking a comprehensive approach to resolving improper payment causes without affecting veterans' access to care.

Regarding Recommendation 2, VHA stated it reported 43 corrective actions to assist in reducing improper payment rates for the five programs, as reported in its 2017 AFR. Reductions are anticipated to be achieved through the implementation of these corrective actions. In addition, VHA stated that preliminary testing showed VHA programs continue to have issues with FAR compliance. VHA noted that as IPERA reviews are of prior year payments, results from corrective actions would not be fully realized until the FY 2020 AFR and later.

Regarding Recommendation 3, VBA stated it is taking several steps aimed at achieving reduction targets for the Post-9/11 GI Bill. The goal for FY 2018 IPERA testing is to reduce the amount of insufficient documentation that accounted for 82 percent of FY 2017 reported errors. To do so, VBA revised its documentation request procedures for School Certifying Officials at educational institutions. In addition to transcripts, billing, and attendance records, VBA is also requesting school catalogs or tuition and fee schedules. VBA noted the additional documents will help to verify whether amounts certified to VBA by the educational institutions are accurate and paid correctly.

VBA also stated it is taking steps aimed at achieving reduction targets for its Pension Program. VBA stated it has implemented post award audits to ensure proper adjustments are made based on receipt of Federal Tax Information. In addition, VBA began performing targeted program reviews to identify deficiencies within the pension claims process, analyze trends, and develop training curriculum based on employee needs. Furthermore, VBA stated it implemented standardized training for its Pension Management Center Veteran Service Representatives. VBA noted it expects to implement the expanded use of Federal Tax Information data to ensure proper

payments are made for supplemental claims involving dependency, special monthly pension claims, and medical expense reporting.

## **OIG Response**

The Assistant Secretary for Management and Chief Financial Officer's planned corrective actions are acceptable and the OIG will follow up on their implementation during the FY 2018 review of VA's compliance with IPERA.

## **Finding 2: VBA's FY 2017 Improper Payment Estimate for the Post-9/11 GI Bill Program Could Use Improvement**

VBA's procedures to estimate improper payments for its Post-9/11 GI Bill Program could use improvement. The OIG reviewed 20 payments from VBA's statistical sample of payments that VBA determined to be proper and found VBA did not verify payments for the correct tuition or the appropriateness of fees. The OIG also reported this weakness in 2016 and 2014.

### **Documentation to Support Proper Payments Was Insufficient**

VA's calculated improper payment estimate of \$166.16 million represents a 1.42 percent error rate out of the program's \$11.72 billion approximated payments. The OIG tested 20 payments that VBA deemed proper from its statistical sample of 305 payments and reviewed the supporting documentation VBA used to make its determination. However, we found the documentary support to be insufficient to conclude that 15 of 20 payments were proper. The documentation included student account ledgers and transcripts, but for 15 payments, VBA lacked a course catalog to verify that tuition and fees paid were allowable and correct. When the OIG attempted to obtain additional documentary support for the 15 payments, VBA could not provide the requested supporting documentation. Due to the missing documentation, VBA did not have a sufficient basis to determine 15 of 20 payments as proper. OMB Circular A-123, Appendix C states, "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."

Using the results from our sample of 20 payments to update VBA's improper payment sample results, the OIG's estimate of improper payments for VBA's Post-9/11 GI Bill Program is approximately \$495 million and 4.52 percent, respectively.

### **Improvements Made in the Fourth Quarter**

During the first three quarters of FY 2017, VBA did not verify tuition and fees against a school catalog or another source as part of its testing procedures. Our sample included 14 payments that occurred during the first three quarters and we found insufficient documentation for all 14 payments. The Chief, Quality Assurance, VBA Education Service, stated that VBA began requesting course catalogs as part of its testing procedures during its fourth quarter testing.

The OIG reviewed six of 20 payments for the fourth quarter and found insufficient documentation for one payment. Although course catalogs were a part of the documentation for all six payments, the OIG noted that for one payment, the course catalog received was not for the appropriate academic year. Specifically, the payment sample occurred in fall of 2016; however, the course catalog was for fall 2015 through spring 2016.

## **Conclusion**

VBA's improper payment estimate for its Post-9/11 GI Bill Program could be improved because sample review procedures did not adequately support its determination that payments were proper for the first three quarters. VBA did not have sufficient documentation to determine that

15 of 20 payments were proper. When the OIG included the 15 payments to VBA's improper payment sample results, the OIG estimated improper payments to be approximately \$495.03 million, which represents a 4.52 percent error rate.

Although the overall estimate for the improper payment could use improvement, because VBA demonstrated improvement in the fourth quarter, the OIG did not make a recommendation.

### **Finding 3: VHA's FY 2017 Improper Payment Estimate for the Purchases of Supplies and Materials Could Use Improvement**

The FY 2017 improper payment estimate for VHA's purchases of Supplies and Materials could use improvement. OIG reviewed 20 payments from VHA's statistical sample of payments that VHA determined to be proper and found VHA did not have appropriate documentation for eight of the 20 payments reviewed. The OIG has reported the improper payment estimate process for the purchases of supplies and materials to be a weakness every year since FY 2015.

#### **Documentary Support for Reported Proper Payments Was Insufficient**

VA's calculated improper payment estimate for supplies and material purchases was approximately \$479.79 million, which represents an 18.76 percent error rate of the program's \$2.56 billion in payments. The OIG reviewed 20 payments from VHA's statistical sample of 602 payments that VHA determined to be proper. VHA provided OIG the documentation VHA used to evaluate the 20 reportedly proper payments; however, the documentation provided was insufficient to conclude that eight of the 20 payments were proper. Lack of documentation included ordering letters of delegation, a pricing schedule, or catalog to validate prices. Such information is necessary to determine that amounts paid were correct, goods were received, and contractual requirements, laws, and regulations were complied with—all elements of a proper payment, as defined by OMB. In such circumstances, the payment is improper, as OMB Circular A-123, Appendix C, states, "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." In light of the above, VHA's published estimate of improper payments for Supplies and Material purchases was not accurate at the time of publication.

VHA subsequently provided the OIG with additional documentation and the OIG confirmed that six of eight payments were properly supported, but determined the remaining two payments were improper based on insufficient documentation.

- For one payment, VHA did not properly designate non-warranted personnel to place orders using a letter of delegation for one sample payment. VA Acquisition Regulation 801.603-70, "Representatives of Contracting Officers," establishes that the Head of the Contracting Authority must establish procedures to delegate authority to non-warranted VA personnel to place orders against their own indefinite-delivery contracts where fixed terms and prices are established. Without the proper delegation of authority, purchases are processed by individuals who are not authorized to place orders.
- For one payment, VHA reviewers did not validate the contract's prices paid for orders against an indefinite-delivery contract with an applicable pricing catalog. VHA could not initially provide us with a pricing catalog. The VHA Supervisory Auditor in the Financial Assistance Office stated that it was difficult to verify prices because it was automatically checked by the system at time of order, and prices can change daily. When the OIG spoke to the National Acquisition Center, the contract officers stated that the catalog was updated every two weeks to add, delete, or change catalog items. In order to validate prices, the National Acquisition Center stated it had to pull a previous catalog version



from archived data. The OIG was able to validate all but three items on the sample payment using the archived catalog price data. VA officials agreed with the OIG.

Because VHA considered eight of the 20 payments proper despite not having sufficient documentation to make that assertion, OIG determined that all eight should have been considered improper payments. Adding the 8 payments to VHA's improper payment sample results, the OIG's estimate of improper payments for VHA's purchases of Supplies and Materials is approximately \$467.77 million, which represents a 20.78 percent error rate.

## Conclusion

VHA's improper payment estimate for its purchases of Supplies and Materials could use improvement because testing procedures did not adequately support its determination that the payments were proper. Based on our review, eight of 20 payments were technically improper based on VHA's initial review. In addition, the OIG concluded that for two payments, VHA did not have a letter of delegation in place or adequately test for valid contract pricing. The addition of the two payments to VHA's remaining improper payment samples increases OIG's projections of the estimate and rate from roughly \$443.29 million to about \$445.67 million and from 19.69 percent to 19.80 percent, respectively. Given our increase in improper payment estimate and rate, VA's improper payment estimate and error rate would increase by a comparable percentage with the additional improper payments.

## Recommendation 4

4. The OIG recommended the Executive in Charge, Office of the Under Secretary for Health, implement procedures to ensure thorough testing of sample items used to estimate improper payments for Supplies and Materials purchases under indefinite-delivery contracts.

## Management Comments

The Assistant Secretary for Management and Chief Financial Officer concurred with the recommendation. The complete response from the Assistant Secretary for Management and Chief Financial Officer is included as Appendix G of this report.

Regarding Recommendation 4, VHA stated it has established an Integrated Project Team workgroup to address lack of documentation errors in the Supplies and Materials program to include ordering officer's letters of delegation and contract pricing schedules. VHA added that the workgroup would begin testing for line item pricing on indefinite delivery contracts in an effort to improve VHA's improper payment error rate. VHA stated the meetings started in April 2018 and will recur on a weekly basis.

## OIG Response

The Assistant Secretary for Management and Chief Financial Officer's planned corrective actions are acceptable and the OIG will follow up on their implementation during the FY 2018 review of VA's compliance with IPERA.

## Finding 4: Update on Concurrent Pay Issues for Drill Pay

In the FY 2016 OIG IPERA report, the OIG noted that VA could make further improvements in reducing improper payments for drill pay by correcting a program design issue.<sup>17</sup> The following is an update on those observations.

### Drill Pay Payment Adjustment Deficiency

VBA's Compensation and Pension Programs made improper payments that could not be avoided due to the concurrent payment design of the Department of Defense's (DoD) Drill Pay and VBA's Compensation and Pension Programs. Drill pay is military reserve pay earned by National Guard members and reservists while training on weekends and during full-time training events. Federal law prohibits participants from receiving Compensation and Pension Program benefits while also receiving drill pay.<sup>18</sup> VBA does not currently have the ability to prevent Compensation and Pension Program payments from being made concurrent with drill pay and must rely on an annual data match with DoD to identify payments after the fact.

Last year, the OIG made a recommendation for VBA to continue working with DoD to increase the frequency of drill pay adjustments from annually to monthly. In response to our recommendation, as of January 2018, VBA and DoD continue to work together towards developing a solution for processing monthly drill pay adjustments. VBA is working with VA's Office of Information and Technology to finalize business requirements and secure funding to change the automated drill pay adjustment process from annually to monthly. Additionally, the draft regulation allowing VA to take immediate action on these drill pay adjustments is currently going through internal concurrence. VA included this barrier in its FY 2017 AFR. OIG recommends VA continue to report on this barrier until resolved. VA anticipates implementing this new monthly drill pay process by September 2018.

### Conclusion

VBA continues to work with DoD to increase the frequency of drill pay adjustments to correct program design issue. Until the issue is resolved, VBA should continue to report any barriers related to drill pay that prevent a complete resolution of the related improper payments.

### Recommendations 5–6

5. The OIG recommended the Executive in Charge, Veterans Benefits Administration, continue working with the Department of Defense to increase the frequency of drill pay adjustments from annually to monthly. *This is a repeat recommendation from our FY 2016 report.*

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<sup>17</sup> *Review of VA's Compliance With the Improper Payments Elimination and Recovery Act for FY 2016* (Report No. 16-04416-231, May 15, 2017)

<sup>18</sup> 10 U.S.C. §12316 and 38 U.S.C. §5304(c)

6. The OIG recommended the Executive in Charge, Veterans Benefits Administration, continue to report statutory barriers preventing complete resolution of drill pay improper payments in future Agency Financial Reports until resolved.

## **Management Comments**

The Assistant Secretary for Management and Chief Financial Officer concurred with the recommendations. The complete response from the Assistant Secretary for Management and Chief Financial Officer is included as Appendix G of this report.

Regarding Recommendation 5, VBA stated it continues to work with DoD to increase the frequency of drill pay adjustments from annually to monthly. However, to implement this change, VBA needs to update the regulation to adjust VA's compensation, based upon receipt of military payment. VBA indicated that once the regulation is finalized and published, VBA could change the frequency of drill pay adjustments.

Regarding Recommendation 6, VBA stated it continues to seek regulatory relief from issuing due process prior to making drill pay adjustments. The FY 2017 AFR noted that this due process requirement is the largest barrier to timely resolving drill pay improper payments. Furthermore, VBA stated the barrier would continue to be reported in future AFRs until resolved.

## **OIG Response**

The Assistant Secretary for Management and Chief Financial Officer's planned corrective actions are acceptable and the OIG will follow up on their implementation during the FY 2018 review of VA's compliance with IPERA.

## Appendix A: Background

### IPERA and OMB Requirements

In 2010, IPERA significantly amended the Improper Payments Information Act of 2002. OMB Circular A-123, Appendix C provides requirements for implementing IPERA.

Under IPERA, each agency must periodically review and identify its programs and activities that may be susceptible to significant improper payments. OMB Circular A-123, Appendix C defines significant improper payments as gross annual improper payments exceeding both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported; or \$100 million in gross improper payments.

Agencies are to identify susceptible programs through periodic risk assessments performed on all programs. For each program identified as susceptible, the agency generally is required to report in its PAR or AFR:

- A statistically valid estimate, or an estimate approved by OMB, of the annual improper payments.
- A corrective action plan for reducing estimated improper payments, including a discussion of the causes of those improper payments, for programs with improper payments estimates greater than \$10 million and 1.5 percent of program outlays.
- Program-specific targets for reducing improper payments approved by OMB.

### Gross Improper Payment Rate

Improper payments can be either underpayments or overpayments made by federal agencies. Gross improper payments refer to the total of all improper payments regardless of whether the payment was an underpayment or overpayment. Gross improper payments are divided by the total outlays to determine the gross improper payment rate. Therefore, the gross improper payment rate reflects the total of all improper payments in correlation to the total of all outlays.

### Improper Payments Elimination and Recovery Improvement Act

The enactment of the Improper Payments Elimination and Recovery Improvement Act required OMB to identify annually a list of high-priority programs for greater levels of oversight and review and to provide guidance to agencies for improving the estimates of improper payments. Improper Payments Elimination and Recovery Improvement Act also made payments to federal employees subject to risk assessment and, where appropriate, improper payment estimation.

### Program Office Responsibility

VA's Improper Payments Remediation and Oversight Office within the Office of Finance provides oversight and coordination of IPERA compliance activities. Individual administrations and staff offices are responsible for performing IPERA requirements applicable to their programs.

## **Beneficiary Travel**

Beneficiary Travel covers common carrier, mileage reimbursement, and special mode transportation to veterans and other beneficiaries.

## **CHAMPVA**

CHAMPVA shares the cost of covered health care services and supplies as a secondary payer or as a last resort with certain eligible beneficiaries.

## **Communication, Utilities, and Other Rents**

Communications, Utilities, and Other Rents consists of payments for use of communications, utility services, and charges for possession and use of land, structures, or equipment owned by others.

## **Medical Care Contracts and Agreements**

Medical Care Contracts and Agreements includes contracts for research, medical and educational data or services, reimbursements at contract per-diem rates for hospitalization, dialysis treatment furnished by non-VA facilities, and indirect charges added for research and demonstration projects.

## **Pension**

Pension provides supplemental income to veterans and their families with financial challenges.

## **Post-9/11 GI Bill**

The Post-9/11 GI Bill provides educational assistance to veterans who served on active duty on or after September 11, 2001. VA establishes an annual maximum tuition and fee amounts for students attending private schools but has no limit for in-state students attending public schools.

## **Prosthetics**

Prosthetics funds are used for the provision of medically prescribed prosthetics and sensory aids, devices, assistive aids, repairs, and services to eligible disabled veterans for the treatment of their medical conditions.

## **PLTSS**

PLTSS is organizationally aligned under VHA's Geriatrics and Extended Care, focusing on serious illness and chronically ill veterans who require long-term service and support.

## **Supplies and Materials**

Supplies and Materials are acquired by formal contract or other form of purchase consumed or expended within one year.

## VA Community Care

VA Community Care was established to provide timely and specialized care to eligible veterans by authorizing veterans for care in the community if needed services are not available through the VA.

## Prior Reviews

Since March 2012, the OIG has issued annual reports on VA's compliance with IPERA, as required by OMB, and reported that VA did not fully comply with IPERA. Our three most recent reports are:

- *Review of VA's Compliance With the Improper Payment Elimination Recovery Act for FY 2016* (Report No. 16-04416-231, May 15, 2017), VA did not comply with two of six requirements.
- *Review of VA's Compliance With the Improper Payment Elimination Recovery Act for FY 2015* (Report No. 15-04252-284, May 12, 2016), VA did not comply with two of six requirements.
- *FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act* (Report No. 14-03380-356, May 14, 2015), VA did not comply with two of six requirements. (OMB reduced the number of requirements from seven to six for FY 2014).

## Appendix B: Scope and Methodology

### Scope

The OIG conducted our review work from September 2017 through April 2018. Our review focused on improper payment information reported in VA's FY 2017 AFR, as required by IPERA.

### Methodology

To assess VA's compliance with IPERA, the OIG reviewed VA's FY 2017 AFR, Section III, Other Information, Section C, Payment Integrity as published on VA's website. The OIG obtained VA's reduction targets from its FY 2016 AFR. The OIG also reviewed VA policies and interviewed Office of Management, VBA, and VHA officials to gain an understanding of VA's IPERA reporting controls.

VA completed 13 risk assessments for FY 2017 as part of its three-year cycle, and the OIG reviewed eight (three high priority and five other programs) for reasonableness, but the OIG did not validate management's conclusions. The OIG also reviewed VA's corrective action plans for reasonableness as reported in its AFR.

An OIG statistician reviewed the statistical validity of sampling methodologies for the programs reported in the AFR and performed independent calculations to verify sample estimates and margins of error for several programs. Those programs included the three programs and activities designated as high priority by OMB (Compensation, PLTSS, and VA Community Care) and two additional programs and activities (Post-9/11 GI Bill and Supplies and Materials).

For the five programs reviewed by the OIG, the projected error rates between VA and OIG differ by no more than 0.95 percentage points. The projected error rates and improper payments between VA and OIG also have overlapping 90 percentage confidence intervals, indicating there isn't a statistically significant difference between the projections. VA used a ratio-based estimate based on a simple random sample to project the error rate and then multiplied the projected error rate by the total payments to project the total improper payment. The OIG used a weighted strategy based on the strata to estimate error rate and improper payments. The OIG chose this method because of the original stratified sampling design; the OIG believes this provides the most accurate projections.

The OIG did not evaluate whether VA accurately reported improper payments on monetary loss versus technically improper because OMB has not issued requirements on reporting improper payments at this time. The OIG did not reevaluate VA's sample transactions to determine if VA correctly identified all improper payments in its samples used to estimate improper payments.

However, the OIG performed the following procedures:

- For the Compensation Program, the OIG reviewed 45 payments VBA originally categorized as proper to verify if the payments were proper. The OIG selected payments for claims that the OIG considered to be at higher risk for improper payments. Specifically, there were 17 cases with 100 percent evaluations, 14 Special Monthly Compensation, and 14 Traumatic Brain Injury payments. The OIG noted one Special Monthly Compensation exception.
- For the Post-9/11 GI Bill Program, the OIG reviewed 20 payments VBA originally categorized as proper to verify whether those payments were supported as proper through a review of the verification of tuition and fees. Exceptions are discussed in Finding 2.
- For PLTSS, the OIG reviewed 10 transactions VHA categorized as improper to verify if payments were recorded for the correct payment amount.<sup>19</sup>
- For the purchases of Supplies and Materials, the OIG reviewed 20 payments VHA originally categorized as proper to verify whether valid contracts supported those payments. The OIG also matched payment amounts to invoices, receiving reports, and obligation documents, and considered whether VHA's conclusions were adequately supported. Exceptions are discussed in Finding 3.
- For VA Community Care, the OIG reviewed 45 payments VHA originally categorized as proper to verify whether the responsible office ensured appropriate rate schedules were utilized.

## Fraud Assessment

The audit team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. The OIG did not identify any instances of fraud during this audit.

## Data Reliability

Information published by VA in its FY 2017 AFR provided the primary basis for our evaluation of VA's compliance with IPERA. To assess the reliability of VA's published information, the OIG reviewed the statistical methodologies that VA applied to payment data for several programs and identified data sources from VA's sampling plans. According to those plans, VHA obtained data for its programs from VA's Financial Management System. Data for VBA programs came from the Veterans Service Network Database and Benefits Delivery Network.

The OIG did not perform its own independent risk assessments of VA's programs. The OIG did not reevaluate VA's sample transactions to determine if VA correctly identified improper payments, except as previously discussed in the overall methodology section. The OIG did not develop independent statistical estimates. The OIG designed our procedures to determine

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<sup>19</sup> All transactions for PLTSS payments were deemed as improper by VHA.



whether VA complied with IPERA according to OMB's six compliance criteria and to meet requirements pertaining to high-priority programs—not to attest to the accuracy of VA's reporting. The OIG believes our procedures to assess data reliability were sufficient to support the review's objective.

## **Government Standards**

The OIG conducted this inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

## Appendix C: Summary of FY 2016 and 2017 IPERA Compliance

Table 4 provides a comparison of VA's compliance with IPERA requirements for FYs 2016 and 2017.

**Table 4. Summary Comparison of IPERA Compliance by Fiscal Year**

Requirement	FY 2016	FY 2017
Publish a PAR or AFR	No exceptions	No exceptions
Conduct a Specific Risk Assessment for Each Program	No exceptions	No exceptions
Publish Improper Payment Estimates as Appropriate	No exceptions	No exceptions
Publish Corrective Action Plans	No exceptions	No exceptions
Report a Gross Improper Payment Rate of Less Than 10 Percent	Two programs did not report a gross improper payment rate of less than 10 percent: PLTSS (69.15%) VA Community Care (75.86%)	Seven programs did not report a gross improper payment rate of less than 10 percent: Beneficiary Travel (25.15%) Communications, Utilities, and Other Rents (24.42%) Medical Contracts and Agreements (16.61%) Prosthetics (59.95%) PLTSS (100%) Supplies and Materials (18.76%) VA Community Care (93.35%)
Publish and Meet Reduction Targets	Six programs did not meet reduction targets: Beneficiary Travel CHAMPVA PLTSS State Home Per Diem Grants Supplies and Materials VA Community Care	Seven programs did not meet reduction targets: Beneficiary Travel CHAMPVA Pension Post 9/11 GI Bill PLTSS Supplies and Materials VA Community Care

*Source: VA OIG, based on VA's FYs 2016 and 2017 AFRs and OIG determination of IPERA compliance*

## Appendix D: Status of FY 2016 IPERA Report Recommendations

Table 5 provides the status of our FY 2016 IPERA report recommendations.

**Table 5. Status of FY 2016 Recommendations**

### Previous Recommendations and Current Status

**Recommendation 1:** We recommended the Acting Under Secretary for Health develop a timeline to reduce improper payments under 10 percent for the VA Community Care and Purchased Long Term Services and Support Programs.

Status: Closed as not implemented

**Recommendation 2:** We recommended the Acting Under Secretary for Health implement steps to achieve reduction targets for the VA Community Care, Purchased Long Term Services and Support, Beneficiary Travel, Civilian Health and Medical Program of the Department of Veterans Affairs, State Home Per Diem Grants, and Supplies and Materials Programs.

Status: Closed as not implemented

**Recommendation 3:** We recommended the Acting Under Secretary for Health, in coordination with the Principal Executive Director, Office of Acquisition, Logistics, and Construction, implement additional training with respect to identifying unauthorized commitments and verifying pricing for personnel who evaluate Improper Payment Elimination and Recovery Act samples for the Supplies and Materials Program.

Status: Closed as not implemented

Recommendation 4:

We recommended the Acting Under Secretary for Health, in coordination with the Acting Secretary for Management and Acting Chief Financial Officer, and the Principal Executive Director, Office of Acquisition, Logistics, and Construction, develop appropriate testing procedures for "direct to patient" and Federal Supply Schedule contract payments.

Status: Closed as not implemented

**Recommendation 5:** We recommended the Acting Under Secretary for Veterans Benefits Administration implement steps to identify and report a reliable improper payment estimate for the Post-9/11 G.I. Bill Program.

Status: Closed

**Recommendation 6:** We recommended the Acting Under Secretary for Health, in coordination with the Acting Assistant Secretary for Management and Acting Chief Financial Officer, provide the Improper Payment Elimination and Recovery Act team guidance to achieve the expected level of precision for the improper payment estimates for the VA Community Care and Purchased Long Term Services and Support Programs.

Status: Closed as not implemented

**Recommendation 7:** We recommended the Acting Under Secretary for Benefits continue working with the Department of Defense to increase the frequency of drill pay adjustments from annually to monthly.

Status: Closed as not implemented

**Previous Recommendations and Current Status**

**Recommendation 8.** We recommended the Acting Under Secretary for Benefits report any statutory barrier preventing complete resolution to drill pay improper payments in its Agency Financial Report.

Status: Closed

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*Note: "Closed as not implemented," as used in this table, means that the FY 2016 recommendation was modified for this report's recommendations.*

## Appendix E: VA Programs Reported in the FYs 2016 and 2017 AFR

Table 6 shows the outlays, gross improper payment rates, and amounts that VA reported in its FYs 2016 and 2017 AFR. Improper payment totals include both overpayment and underpayments.

**Table 6. Improper Payment Reporting for FYs 2016 and 2017 (\$ in Millions)**

Program and Activity (\$ in millions)	VA FY 2016 AFR Based on FY 2015 Actual Data Outlays	Improper Payment Percentage	Improper Payments	VA FY 2017 AFR Based on FY 2016 Actual Data Outlays	Improper Payment Percentage	Improper Payments
Beneficiary Travel	\$890.06	7.37	\$65.64	\$889.86	25.15	\$223.76
CHAMPVA	1,145.73	4.70	53.87	1,247.49	5.61	69.98
Communications, Utilities, and Other Rents	N/A	N/A	N/A	1,444.21	24.42	352.74
Compensation	63,864.04	0.59	376.58	67,696.73	.67	456.17
Disaster Relief Act- Hurricane Sandy	23.61	3.66	0.87	34.84	.08	.027
Medical Care Contracts and Agreements	N/A	N/A	N/A	947.27	16.61	157.31
Montgomery GI Bill	143.47	0.06	0.09	N/A	N/A	N/A
Payments to Federal Employees--Payroll	27,368.24	0.12	32.08	N/A	N/A	N/A
Pension	5,594.76	2.27	127.10	5,542.50	2.63	145.90
Post-9/11 GI Bill	11,344.07	0.03	3.92	11,719.64	1.42	166.16
Prosthetics	N/A	N/A	N/A	2,415.92	59.95	1,448.33
Purchased Long Term Services & Support	1,705.60	69.15	1,179.49	1,890.46	100.00	1,890.46
Reserve Educational Assistance Program	47.73	1.31	0.62	N/A	N/A	N/A
State Home Per Diem Grants	1,126.26	2.57	28.93	1,188.83	1.31	15.61
Supplies and Materials	2,476.71	0.90	22.27	2,556.85	18.76	479.79

VA's Compliance with the Improper Payments Elimination and Recovery Act for FY 2017

<b>Program and Activity</b> (\$ in millions)	VA FY 2016 AFR Based on FY 2015 Actual Data Outlays	Improper Payment Percentage	Improper Payments	VA FY 2017 AFR Based on FY 2016 Actual Data Outlays	Improper Payment Percentage	Improper Payments
VA Community Care	4,728.95	75.86	3,587.25	5,628.87	93.40	5,257.56
Vocational Rehabilitation and Employment	1,260.38	0.55	6.95	N/A	N/A	N/A
Total VA	\$121,719.61		\$5,485.66	\$103,203.47		\$10,663.80

Source: VA's FY 2016 and 2017 AFR

Note: Due to rounding, the columns may not sum.

## Appendix F: VA Improper Payments Compared to Other Agencies

Table 7 shows VA's outlays, improper payments, and rates compared to other Government agencies. VA had the third highest improper payments in dollars and tied for fourth with USDA for the highest improper payment rate.

**Table 7. VA Improper Payments Compared to Other Government Agencies (\$ in Millions)**

Agency	Sum of FY 2017 Outlays	Sum of FY 2017 IP	Product of FY 2017 IP Rate
Broadcasting Board of Governors	\$218.37	\$0.41	0%
Corporation for National and Community Service	404.52	49.54	12%
Department of Commerce	56.47	0.09	0%
Department of Defense	516,981.78	957.34	0%
Department of Education	122,304.05	6,072.97	5%
Department of Health and Human Services	1,1015,684.60	90,113.10	9%
Department of Homeland Security	12,219.43	108.86	1%
Department of Housing and Urban Development	9,637.16	102.78	1%
Department of Justice	1.86	-	0%
Department of Labor	35,310.10	4,123.11	12%
Department of Transportation	46564.19	141.42	0%
Department of Treasury	67,992.50	16,231.58	24%
Department of Veteran Affairs	103,203.47	10,663.80	10%
Environment Protection Agency	4,356.59	15.79	0%
Federal Communication Commission	9,649.00	442.40	5%
General Services Administration	5,514.97	109.08	2%
Office of Personnel Management	133,191.02	341.43	0%
Railroad Retirement Board	12,517.82	78.69	1%
Small Business Administration	24,733.21	450.25	2%
Social Security Administration	967,954.36	7,598.33	1%
United States Department of Agriculture	33,499.89	3,270.19	10%
Total	\$3,121,995.36	\$140.871.17	5%

Source: <https://paymentaccuracy.gov/resources/#data> Payment Accuracy 2017 Dataset

Note: Due to rounding, the columns may not sum.

## Appendix G: Management Comments

Department of Veterans Affairs Memorandum

Date: May 3, 2018

From: Assistant Secretary for Management and Chief Financial Officer (004)

Subj: Office of Inspector General (OIG) Draft Report, FY 2017 Review of VA's Compliance with the Improper Payments Elimination and Recovery Act (IPERA)

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

Thank you for the opportunity to comment on the draft report of the OIG's review of VA's FY 2017 compliance with IPERA. We appreciate the work your staff has conducted to strengthen our efforts to comply with IPERA requirements. We have reviewed the draft report and concur with the findings.

As noted, VA reported almost twice the amount of improper payments in FY 2017 than it did in FY 2016, primarily due to the addition of three Veterans Health Administration (VHA) programs. Also referenced in the report, VA's analysis indicated that 92.4 percent of the improper payments reported did not represent a loss due to our commitment to report in accordance with IPERA's definition of what constitutes an improper payment. We remain committed to improving compliance with legislative requirements while still ensuring that our actions do not impact Veterans' timely access to care. Additionally, we appreciate the OIG acknowledging the need for changing legislation to allow us to purchase necessary care in the community without being required to strictly adhere to Federal Acquisition Regulation (FAR) requirements. Allowing VA to enter into quick and flexible Veteran care agreements, instead of going through the contract awarding process to avoid non-compliance with FAR, improves our compliance with IPERA and will significantly reduce improper payments that do not result in a loss to the Government.

Attached is a Department-wide action plan with a response and target completion date for each recommendation from the appropriate Administration or Staff Office. If you have any questions, please call me or have a member of your staff contact Roberta Lowe, Director, Office of Internal Controls, at (512) 460-5726.

(Original signed by)

Jon J. Rychalski

Attachment



Department of Veterans Affairs

Action Plan

Draft OIG Report – Fiscal Year 2017 Review of VA's Compliance with the Improper Payments Elimination and Recovery (IPERA)

Date of Draft Report: 4/18/2018

Recommendations/ Status Target Completion Date

Actions

OIG Recommendations

**Recommendation 1.** The OIG recommended the Executive in Charge, Office of the Under Secretary for Health, develop a timeline to reduce improper payments under the 10 percent threshold for the Beneficiary Travel; Communications, Utilities, and Other Rents; Medical Care Contracts and Agreements; Prosthetics; Purchased Long Term Services and Support; Supplies and Materials; and VA Community Care programs and activities. *This is a repeat finding and recommendation for the Purchased Long Term Services and Support and VA Community Care programs from our FY 2015 and 2016 reports.*

Veterans Health Administration (VHA) Comments: Concur

VHA will work closely with program Senior Accountable Officials to develop a timeline to reduce improper payments under 10 percent for the above mentioned 7 programs.

In FY17 reporting, VHA found that most programs needed improved procurement processes to improve improper payment rates. VHA is taking a comprehensive approach to resolving improper payment causes without affecting Veterans access to care.

Status: In process Target Completion Date: November 2018

**Recommendation 2.** The OIG recommended the Executive in Charge, Office of the Under Secretary for Health, implement steps to achieve stated reduction targets for the Beneficiary Travel; Civilian Health and Medical Program of the Department of Veterans Affairs; Purchased Long Term Services and Support; Supplies and Materials; and VA Community Care programs and activities. *This is a repeat finding for all five programs from our FY 2016 report.*

VHA Comments: Concur

VHA reported 43 corrective actions to assist in reducing the improper payment rates for the above listed 5 programs as reported in the 2017 Agency Financial Report (AFR). Reductions are anticipated to be achieved through the implementation of these corrective actions. VHA preliminary testing shows that VHA programs continue to have issues with Federal Acquisition Regulation compliance. It should be noted that the IPERA reviews in FY18 are of prior year payments; therefore, results from corrective actions will not be fully realized until the 2020 AFR and later.

The following documentation is provided:

(Note: One Microsoft Word document had been inserted as an attachment; it is available through the VA OIG Information Release Officer.)

Status: In process Target Completion Date: December 2018

**Recommendation 3.** The OIG recommended the Executive in Charge, Veterans Benefits Administration, implement steps to achieve reduction targets for the Pension and Post-9/11 G.I. Bill programs.

Veterans Benefits Administration (VBA) Comments: Concur

VBA is taking the following steps aimed at achieving the reduction targets for the Post 9/11 GI Bill program:

The goal for IPERA testing during fiscal year (FY) 2018 is to reduce the amount of insufficient documentation that accounted for 82 percent of FY 2017 errors. VBA revised its procedures for requesting documentation from School Certifying Officials (SCOs) at educational institutions. In addition to the transcript, billing, and attendance record, VBA also requests the school catalog or tuition and fees schedule. These additional documents will help to verify whether the amounts certified to VBA, by the educational institutions, are accurate and therefore, paid correctly.

In FY 2018, VBA began using a new compliance survey database to track improper payments. This database will be used, in conjunction with a report from the Web Enabled Approval System, to identify schools with newly appointed primary SCOs or secondary SCOs. This data will also be analyzed to determine if there is an increase in overpayments, in conjunction with an appointment of a new SCO. If a relationship exists, an institution would be subjected to a compliance survey.

The Harry W. Colmery Veterans Assistance Act of 2017, TITLE III, Section 305, authorizes VA, in consultation with State Approving Agencies (SAAs), to provide training requirements for school certifying officials employed by covered educational institutions that offer courses of education approved under Chapter 36 of title 38 U.S.C. VBA is currently developing training materials in support of Section 305 that takes effect on August 1, 2018. In addition, VBA conducts monthly meetings with several SAAs and school representatives, to provide updates on the development process and to receive feedback on the upcoming training.

Lastly, VA continues to update the Long-Term Solution (LTS) to reduce manual data input requirements by VBA Education claims processing employees, and it is working closely with school and training facility officials to provide them access to web-based enrollment reporting systems. This facilitates timely and accurate transmission of enrollment data. Electronic submission of enrollment data supports the LTS end-to-end automation function that automatically processes Chapter 33 claims, using a rules-based engine. This requires no human intervention; therefore, reducing data input errors. In FY 2017, end-to-end automation processed 44 percent of Chapter 33 supplemental claims.

VBA internal controls include quarterly reviews of claims processing, quarterly reviews for IPERA at the national level, annual site visits at the regional processing offices, and random surveys of schools and training facilities to monitor compliance with claims processing procedures and enrollment reporting requirements.

Status: In process Target Completion Date: September 30, 2018

VBA is taking the following steps aimed at achieving the reduction targets for the Pension program:

In April 2017, VBA implemented Post Award Audits, to ensure proper adjustments were being made, based on receipt of Federal Tax Information (FTI) from the Internal Revenue Service (IRS) and the Social Security Administration (SSA).

In October 2017, VBA began performing Targeted Program Reviews (TPRs), to identify deficiencies within the pension claims process, analyze trends, and develop training curriculum based on employee needs. TPRs will address the following areas: dependency claims, burial claims, Medicaid adjustment claims, and general medical examinations. In October 2017, VBA also implemented standardized training for Pension Management Center Veteran Service Representatives. This training will help ensure consistency of pension claims processing.

VBA also ensures that documentation, in support of pension benefit payments, is uploaded or scanned into the electronic file for review. Finally, VBA expects to implement the expanded use of FTI data, to ensure proper payments are made for supplemental claims involving dependency, special monthly pension claims, and medical expense reporting.

VBA believes the above actions will help employees understand the impact of improper payments and contribute substantially to the reduction of improper payments within the Pension program.

Status: In process Target Completion Date: September 30, 2018

**Recommendation 4** The OIG recommended the Executive in Charge, Office of the Under Secretary for Health, implement procedures to ensure thorough testing of sample items used to estimate improper payments for Supplies and Materials purchases under indefinite delivery contracts.

VHA Comments: Concur

VHA will establish an Integrated Project Team workgroup to address lack of documentation errors in the Supplies and Materials program to include lack of ordering officer's letters of delegation and contract pricing schedules. The workgroup will begin testing for line item pricing on indefinite delivery contracts in an effort to improve VHA's improper payment error rate as this information is necessary to determine that amounts paid were correct, goods were received, and contractual requirements, laws, and regulations were complied with. These meetings will commence in April 2018 and recur on a weekly basis.

Status: In process Target Completion Date: November 2018

**Recommendation 5.** The OIG recommended the Executive in Charge, Veterans Benefits Administration, continue working with the Department of Defense to increase the frequency of drill pay adjustments from annually to monthly. *This is a repeat recommendation from our FY 2016 report.*

VBA Comments: Concur

VBA continues to work with the Department of Defense to increase the frequency of drill pay adjustments from annually to monthly. However, to implement this change, VBA needs to update the regulation to adjust VA compensation, based upon receipt of military payment. Once the regulation is finalized and published, VBA can change the frequency of drill pay adjustments.

Status: In process Target Completion Date: December 2018

**Recommendation 6.** The OIG recommended the Executive in Charge, Veterans Benefits Administration, continue to report statutory barriers preventing complete resolution of drill pay improper payments in future Agency Financial Reports until resolved.

VBA Comments: Concur

VA continues to seek regulatory relief, from issuing due process, prior to making drill pay adjustments. The VA FY 2017 Agency Financial Report (AFR) was published on November 15, 2017. Section III (page 192) noted that this due process requirement is the largest barrier to timely resolving drill pay improper payments (<https://www.va.gov/finance/docs/afr/2017VAafrSectionIII.pdf>). This will continue to be reported in future VA AFRs until resolved.

Status: In process Target Completion Date: November 15, 2018 (AFR completion date)

*For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended*

## OIG Contact and Staff Acknowledgments

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**Contact** For more information about this report, please contact the Office of Inspector General at (202) 461-4720.

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