

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Veterans Benefits Administration

*Audit of the Management
of Concurrent VA and
Military Drill Pay
Compensation*

June 3, 2014
13-02129-177

ACRONYMS AND ABBREVIATIONS

DMDC	Defense Manpower Data Center
DoD	Department of Defense
FY	Fiscal Year
IT	Information Technology
ITC	Information Technology Center
OIG	Office of Inspector General
SAO	Systematic Analysis of Operations
USC	United States Code
VARO	Veterans Affairs Regional Office
VBA	Veterans Benefits Administration

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Report Highlights: Audit of VBA's Management of Concurrent VA and Military Drill Pay Compensation

Why We Did This Audit

Federal regulations prohibit reservists and National Guard members from concurrently receiving VA compensation or pension benefits and military reserve pay, referred to in this report as "drill pay," earned while training on weekends and during full-time training events. We conducted this audit to determine whether the Veterans Benefits Administration (VBA) timely processed VA benefit offsets when drill pay was earned concurrently. The audit focused on VA benefits offsets for beneficiaries who concurrently received drill pay during fiscal years (FYs) 2011 and 2012. This information represented the most current data available at the time we began our audit in August 2013.

What We Found

We determined VBA did not timely process VA benefits offsets when drill pay was earned concurrently. VBA did not timely offset 601 (86 percent) of 700 cases we reviewed for FYs 2011 and 2012. Of the 601 offsets not timely processed, 553 (79 percent) were not processed and the remaining 48 were not processed within VBA's timeliness standard. According to VBA, higher priorities, such as processing compensation claims, took precedence over processing offsets. VBA also lacked an adequate tracking mechanism, a current cost-benefit analysis, and Systematic Analysis of Operations (SAO) reviews of the drill pay offset process.

VBA's unprocessed rate for FYs 2011 and 2012 is not significantly different from the

90 percent unprocessed rate reported in our 1997 audit. Therefore, it is likely VBA has not processed hundreds of millions of dollars in offsets since our previous report. We project VBA has not offset payments of approximately \$48.9 million for FY 2011 and \$95.7 million for FY 2012. If VBA improves controls over drill pay offset processing, we project VBA could recover approximately \$478.5 million from FY 2013 through FY 2017 of additional payments. In total, VBA could recover approximately \$623.1 million in improper payments.

What We Recommend

We recommended the Under Secretary for Benefits implement measures to ensure drill pay offsets are timely processed, process all offsets for FYs 2011 and 2012, more effectively track and monitor offsets, update the cost-benefit analysis, and include drill pay offset processing in SAOs.

Agency Comments

The Under Secretary concurred with our recommendations and submitted a corrective action plan.

A handwritten signature in black ink that reads "Linda A. Halliday".

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

Objective

We conducted this audit to determine whether the Veterans Benefits Administration (VBA) timely processed VA benefit offsets when drill pay was earned concurrently. The audit focused on VA benefits offsets for beneficiaries who concurrently received drill pay during fiscal years (FYs) 2011 and 2012 or both. This information represented the most current data available at the time we began work in August 2013.

Drill Pay

Military reserve pay, referred to in this report as “drill pay,” is money military reservists and National Guard members earn while training on weekends and during full-time training events. Section 12316, Title 10, United States Code (10 U.S.C. §12316) and 38 U.S.C. §5304(c) prohibit the concurrent payment of VA compensation or pension benefits and drill pay. In FY 2012, approximately 81,000 beneficiaries received more than \$117 million in VA benefits who also received drill pay.

VA and the Department of Defense (DoD) have a computer matching program identifying individuals who are receiving VA disability compensation or pension benefits and drill pay. After the end of each fiscal year, VA's Hines Information Technology Center (ITC) receives information from the Defense Manpower Data Center (DMDC), which includes the number of training days for which each veteran was paid. According to Hines ITC staff, FY 2012 data were received by the Hines ITC from DoD in February 2013, and FY 2011 data were received in April 2012. The ITC sends a notice to veterans that they must waive either their VA compensation or pension benefits or their drill pay. Because VA benefits are usually less than what beneficiaries typically receive through drill pay, beneficiaries most frequently elect to waive VA benefits. If the beneficiary elects to waive VA benefits, VBA processes the offset in order to recoup the overpayment from the veteran's future monthly VA benefits.

Previous OIG Review

OIG Report, *Review of Veterans Benefits Administration's Procedures to Prevent Dual Compensation* (Report No. 7RI-B01-089, May 15, 1997) concluded VBA did not offset VA disability compensation in 90 percent of the reviewed cases. We estimated dual compensation payments of \$21million were made from FYs 1993 through 1995. Among the recommendations made was for VBA to negotiate a matching agreement with DoD to identify beneficiaries requiring an offset.

Other Information

The following appendixes provide additional information:

- Appendix A provides background information
- Appendix B provides details on the audit's scope and methodology
- Appendix C provides the audit's statistical sampling methodology

RESULTS AND RECOMMENDATIONS

Finding **VBA Did Not Timely Process Drill Pay Offsets**

VBA did not timely process VA compensation or pension benefits offsets when drill pay was earned concurrently. We determined VBA did not timely offset 601 (86 percent) of 700 cases reviewed for FYs 2011 and 2012. Of the 601 offsets not timely processed, 553 (79 percent) were not processed and the remaining 48 were not processed within VBA's timeliness standard of within 105 calendar days from the date notifications were created in VBA's information technology (IT) system.

VBA officials cited higher priorities, such as processing VA compensation claims, took precedence over processing the offsets. Additionally, VBA did not have an adequate offset tracking mechanism, a current cost-benefit analysis to accurately forecast the amount of funds recoverable, and the offset process was not included as part of VBA's Systematic Analysis of Operations (SAO) reviews.

As a result, we projected VBA has not offset payments of approximately \$48.9 million for FY 2011 and \$95.7 million for FY 2012. If VBA improves controls over drill pay offset processing, we projected VBA could recover approximately \$478.5 million from FY 2013 through FY 2017 of additional payments. In total, VBA could recover approximately \$623.1 million in improper payments.

Criteria

Section 12316, Title 10, USC and 38 USC §5304(c) prohibits the concurrent payment of VA compensation or pension benefits and military drill pay. VBA policy and guidance requires Veterans Affairs Regional Offices (VAROs) to process offsets within 105 calendar days from the date notifications are created in VBA's IT system. To meet VBA's 105-day timeliness standard, VAROs should have processed FY 2011 offsets prior to November 2, 2012, and FY 2012 offsets prior to August 19, 2013.

Office of Management and Budget Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C, Circular A-123*, states 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, any payment made to an ineligible recipient or for an ineligible good or service or for goods or services not received, or payments that lack sufficient documentation.

Drill Pay Offsets Not Timely Processed

As of August 19, 2013, VBA had not timely processed 601 (86 percent) of 700 records reviewed of beneficiaries who received VA compensation or pension benefits and military drill pay during FY 2011 and/or FY 2012. Of the 601 offsets not timely processed, 553 (79 percent) were not processed

and were valued at approximately \$782,000. The average offset not processed was about \$1,400 with a single unprocessed offset as high as \$19,100. The remaining 48 were not processed within VBA's timeliness standard of 105 calendar days from the date notifications were created in VBA's IT system.

VBA had timely processed 63 of the 350 FY 2011 offsets reviewed. VBA had not processed 239 (68 percent) of the FY 2011 offsets, which had a value of approximately \$333,000. These unprocessed offsets were 290 days beyond VBA's timeliness standard. VBA processed the remaining 48 FY 2011 offsets but not within the required 105 days.

We found VBA did not improve its processing of FY 2012 offsets. VBA had processed 36 (10 percent) of the 350 FY 2012 offsets reviewed. VBA had not processed the remaining 314 (90 percent) FY 2012 offsets, which had a value of approximately \$449,000. Table 1 shows the number of FYs 2011 and 2012 offsets timely processed, untimely processed, and those not processed for each sample VARO.

Table 1. VARO Offset Processing As Of August 19, 2013

VARO	Fiscal Year	Records Reviewed	Timely Processed	Untimely Processed	Not Processed
Phoenix, AZ	2011	50	8	6	36
Phoenix, AZ	2012	50	5		45
St. Paul, MN	2011	50	14	35	1
St. Paul, MN	2012	50	13		37
Winston-Salem, NC	2011	50	6	0	44
Winston-Salem, NC	2012	50	2	-	48
Buffalo, NY	2011	50	3	4	43
Buffalo, NY	2012	50	3	-	47
Columbia, SC	2011	50	15	1	34
Columbia, SC	2012	50	3	-	47
Houston, TX	2011	50	13	0	37
Houston, TX	2012	50	9	-	41
Seattle, WA	2011	50	4	2	44
Seattle, WA	2012	50	1		49
Sub-Totals	2011	350	63 (18%)	48 (14%)	239 (68%)
Sub-Totals	2012	350	36 (10%)	N/A	314 (90%)
Grand Total	2011-2012	700	99 (14%)	48 (7%)	553 (79%)

Source: VA OIG analysis of VBA compensation and pension data and DoD drill pay data

**Challenges of
Timely
Processing
Offsets**

According to VBA officials and VARO management, drill pay offsets have not been timely processed because resources were redirected to other priorities, such as rating claims. VBA also did not have an adequate offset tracking mechanism, a current cost-benefit analysis, and the process was not included as part of SAO reviews. Without adequate and reliable program information, VBA cannot make timely and informed management decisions.

**Offsets Not
Processed Due
to Other
Priorities**

According to VBA officials, competing priorities over the past few years have limited resources available to conduct non-rating claims activities, which include the processing of drill pay offsets. They cited VBA's priority to reduce the backlog of 2-year-old rating claims and then the processing of 1-year-old rating claims. Non-rating claims involve both compensation and pension benefits, and include activities such as drill pay offsets, dependency changes, claims for veteran burial benefits, and initial death pension claims for widows and widowers.

VARO management stated they prioritize their workload based on priorities established by VBA Central Office. VA's National Key Measures for VBA, which are used to help achieve VA's strategic goals, relate only to rating claims activities. Non-rating claim activities, which include the processing of drill pay offsets, are not identified as National Key Measures. Therefore, the processing of rating claims activities has been a higher priority than non-rating claims. In addition, some VARO managers stated that, among non-rating claims, certain claims are a higher priority, such as non-rating claims older than 1 year and claims with the greatest effect on the veteran.

**Data Tracking
Challenges**

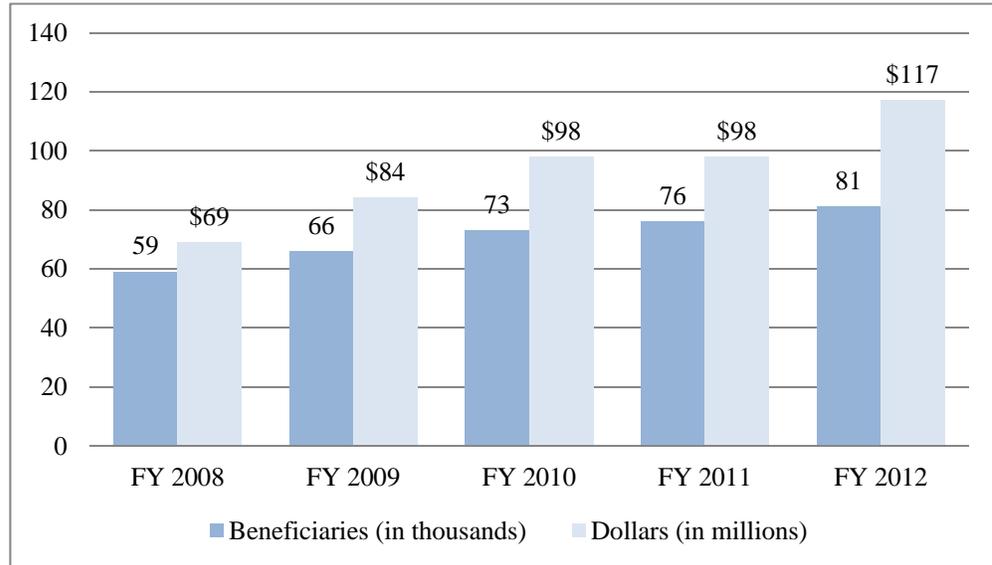
Limitations associated with the design of VBA's IT system to record and process drill pay offsets have made monitoring the drill pay offset function difficult for VBA management. For example, the IT system used to record and track drill pay offsets does not easily allow VBA to identify all drill pay offsets from other non-rating activities. In addition, only one pending drill pay message is reflected in the IT system, even if offsets have not been processed for a veteran for multiple years. Therefore, VBA management cannot generate reliable reports on drill pay offset activities. As a result, VBA management does not have access to complete and reliable information regarding the number of offsets identified for processing and the number actually processed for any given period of time.

**Inaccurate
Cost-Benefit
Analysis**

VBA missed opportunities to be good stewards of VA funds by not timely processing drill pay offsets. It used an outdated cost-benefit analysis that underestimated the opportunity to return a significant amount of funds to VA. VBA's current Computer Matching Agreement with DoD was signed in FY 2012. The agreement used an FY 2002 analysis and FY 2010 data that estimated \$12 million in recoveries for processing drill pay offsets. In the agreement, VBA stated it had no reason to expect the average number of training days per year, the total number of veterans in receipt of dual compensation, or the distribution among veterans with different levels of

disability evaluation would vary significantly from year to year. However, as shown in the figure below, the number of veterans receiving concurrent VA benefits and DoD drill pay and the amount paid to those veterans increased significantly over a 5-year period.

Figure. VA-DoD Dual Compensation For Fiscal Years 2008 Through 2012



Source: VA OIG analysis of VBA C&P data and DoD drill pay data

Note. Dollar amounts estimated based on VA benefit amount and number of drill days. Numbers have been rounded for reporting purposes.

Our analysis of VBA drill pay offset data concluded VBA paid approximately \$117 million to VA compensation or pension beneficiaries who also received military drill pay in FY 2012. This is significantly more than VBA's FY 2012 estimate of \$12 million. As a result, VBA lacked reliable information to make an informed decision regarding prioritizing the processing of drill pay offsets.

*Drill Pay Offset
Activities Not
Part of SAO
Reviews*

VARO staff were not required to include the processing of drill pay offsets in their SAO reviews. An SAO is a formal analysis of an organizational element or operational function. SAOs provide an organized means of reviewing operations to identify existing or potential problems and propose corrective actions. The Internal Controls SAO includes other match case reviews. However, it does not currently require the SAO to address the drill pay match. If VAROs had conducted annual SAO reviews of the process, the reviews may have identified process weaknesses and the potential monetary impact of not processing the offsets. Given the financial value of the offsets, VBA could benefit by adding the drill pay offset process to its SAO activities.

**Effect of Not
Timely
Processing
Offsets**

VBA needs to implement effective controls to ensure drill pay offsets are timely processed. In VA's 2013 Performance and Accountability Report, VA reported that veterans and/or beneficiaries are responsible for notifying VBA of any event that may affect benefit payments. VA stated that current data matching systems rely on outside parties for notification and until proper notice is provided, improper payments occur.

We projected VBA has not offset payments of approximately \$48.9 million for FY 2011 and \$95.7 million for FY 2012. If VBA improves controls over drill pay offset processing, we projected VBA could recover approximately \$478.5 million from FY 2013 through FY 2017 of additional payments. In total, VBA could recover approximately \$623.1 million of improper payments. Office of Management and Budget guidance defines these payments as improper payments.

Conclusion

VBA can improve its stewardship of VA funds by timely processing drill pay offsets. VBA's unprocessed rate for FYs 2011 and 2012 is not significantly different from the unprocessed rate reported in our 1997 audit. Therefore, it is likely VBA has not processed hundreds of millions of dollars in offsets since our previous report. VBA officials indicated actions are already being taken to address our findings and recommendations. We will monitor VBA's progress and follow up on implementation until all proposed actions are completed.

Recommendations

1. We recommended the Under Secretary for Benefits take measures to ensure drill pay offsets identified after fiscal year 2012 are timely processed.
2. We recommended the Under Secretary for Benefits ensure fiscal years 2011 and 2012 drill pay offsets are processed.
3. We recommended the Under Secretary for Benefits modify existing information technology systems to more effectively monitor, track, and report on drill pay offset activities.
4. We recommended the Under Secretary for Benefits update the cost-benefit analysis regularly and use it to prioritize the processing of drill pay offsets.
5. We recommended the Under Secretary for Benefits require Systematic Analysis of Operations be completed annually for drill pay matching activities.

**VBA
Management
Comments**

The Under Secretary for Benefits concurred with Recommendations 1 through 5 and provided corrective action plans. In response to Recommendations 1 and 2, the Under Secretary stated that VBA will redistribute resources to focus on processing drill waivers and offsets, with a target completion date of April 30, 2015. In response to Recommendation 3, the Under Secretary stated that VBA will modify existing information technology systems to allow for reporting based on fiscal year, with a target completion date of January 31, 2015. In response to Recommendation 4, VBA will regularly update the cost-benefit analysis when renewing the reserve pay reconciliation computer matching agreement, with a target completion date of January 31, 2015. In response to Recommendation 5, VBA provided guidance to VA Regional Offices requiring an annual Systematic Analysis of Operations be completed for drill pay matching activities. VBA requested closure of this recommendation.

Although the Under Secretary concurred with all OIG recommendations, the Under Secretary disagreed with our assertion the information technology system used to record and track drill pay offsets does not easily allow VBA to identify all drill pay offsets from other non-rating activities. Appendix E provides the full text of the Under Secretary for Benefits' comments.

OIG Response

The Under Secretary's comments and corrective action plans for Recommendations 1, 2, and 4 are acceptable and responsive to the intent of the recommendations. We will monitor implementation of planned actions and will close the remaining recommendations when we receive sufficient evidence demonstrating progress in addressing the identified issues.

VBA's corrective action plan for Recommendation 3 does not fully address the intent of the recommendation. In addition to adding a fiscal year function to the work item message text, VBA should ensure its IT system reflects more than one pending drill pay message in cases where offsets have not been processed for a veteran for multiple years. This will allow VBA management to more accurately and easily identify the total number of drill pay work items for processing. Furthermore, the Under Secretary stated drill pay offsets controlled by a work item 820 or end product 290 can be easily identified. Although this is correct, drill pay offsets involving due process are controlled using end product 600, which at the time of our review, did not provide a specific claim label that could be used to identify drill pay offset in VBA's IT system. To generate complete and reliable reports on drill pay offset activities, VBA management should ensure identification of all drill pay offsets, regardless which work item or end product is used to control a particular action.

We consider Recommendation 5 open until VBA issues written guidance to VA Regional offices requiring an annual Systematic Analysis of Operations be completed for drill pay matching activities.

Appendix A Background

VA and DoD Matching Program

Annually, VA provides the DMDC with a list of beneficiaries who received VA compensation or pension benefits during the prior fiscal year. The DMDC then provides VA's Hines ITC with data identifying veterans who received both VA benefits and drill pay during that fiscal year. For example, data were received by the Hines ITC from DoD in February 2013 for individuals who received VA compensation or pension benefits and drill pay during FY 2012, and FY 2011 data were received from DoD in April 2012. The Hines ITC sends VA Forms 21-8951 to identified beneficiaries and establishes a 90-day diary, which automatically triggers system-generated actions for review by VARO staff.

Beneficiaries are instructed to complete and sign the form and either elect to waive VA benefits or DoD drill pay. Beneficiaries are notified to send their responses to the appropriate VARO. For responses received, VARO staffs take any required actions. The Hines ITC provides the names of beneficiaries who did not respond to the appropriate VAROs for action.

VARO staffs are responsible for contacting beneficiaries with a notice of proposed adverse action. If beneficiaries do not respond within 65 days of notification, VARO staff must take action to adjust the awards. If beneficiaries waive VA benefits to receive drill pay, VARO staff adjusts the VA award to offset benefits for the same total number of days waived and at the monthly rate in effect on the last day of the fiscal year for which drill pay was received. The adjustments typically occur through the withholding of future benefits. The normal VA rate is restored when a sufficient number of days' benefits have been withheld.

Appendix B Scope and Methodology

Scope

We conducted our audit work from August 2013 through April 2014 to determine whether VBA timely processed drill pay offsets. The audit focused on compensation or pension benefits offsets for beneficiaries who concurrently received drill pay during FYs 2011 and 2012.

Methodology

We conducted interviews with staff at VBA Central Office, Hines ITC, and VAROs to obtain an understanding of the process, controls, and potential causes. We reviewed controls over the process for offsetting VA compensation or pension for beneficiaries who also received drill pay. In addition, we reviewed policies and procedures pertaining to required actions and timeliness standards for offsetting VA compensation or pension for beneficiaries who also received drill pay.

Our universe included approximately 95,600 beneficiaries identified as receiving concurrent VA compensation or pension benefits and drill pay during FYs 2011 and 2012. This information represented the most current data available at the time we began our audit in August 2013. These beneficiaries received approximately \$212 million in VA benefits, while also receiving concurrent drill pay.

We selected a stratified sample of 7 VAROs and reviewed a sample of 55 beneficiaries for each of the 7 VAROs. This amounted to a total of 385 beneficiaries. To determine whether the offsets were timely processed, we reviewed:

- Applicable electronic records from VBA IT systems
- Hard copy claims files

We reviewed drill pay offset processing information and actions up to and including August 18, 2013.

Fraud Detection

In order to obtain reasonable assurance of detecting fraud that may have occurred within the context of our objectives, we assessed risks associated with violations of legal or regulatory requirements, fraud, and abuse when developing our audit steps. We interviewed VBA management concerning potential fraudulent activity with drill pay offsets. We also interviewed VA OIG Office of Investigations to determine if any criminal investigations related to drill pay offsets were ongoing.

We did not identify any fraudulent VA compensation or pension payments within the context of our audit objective. However, while analyzing drill pay data, we identified a number of beneficiaries VBA rated as either totally disabled or permanently and totally disabled who received \$1.3 million in VA compensation or pension benefits and drill pay during FY 2012. These were provided to VBA as potential red-flag payments either on the part of VBA or DoD. These payments could also be valid, as veterans could receive

compensation or pension payments, while DoD may determine a veteran has the capability to perform assigned military duties. Generally, beneficiaries receive VA pensions when they have been determined to be permanently and totally disabled from one or more nonservice-connected disability. VBA assigns a total disability rating for compensation based on unemployability if a veteran is unable to secure or follow a substantially gainful occupation because of service-connected disabilities. According to VBA officials, VBA and DoD are currently working on an agreement to exchange disability information for DoD to use in fitness for duty determinations.

Data Reliability

We used computer-generated data from VBA's Corporate Database, which contains compensation or pension beneficiary records, for the period October 1, 2010, through September 30, 2012, to support the scope of our audit. Additionally, we used computer-processed data for FYs 2011 and 2012 that DoD provided to VA as part of a Computer Matching Agreement. To test the reliability of data, we compared key elements from our sample selection, such as claim status, VA compensation amount, and number of drill days, with hard copy documentation present in beneficiaries' claims files and information in VBA's IT systems. We did not identify any inconsistencies with the reviewed records. As a result, we determined the computer-generated data to be sufficiently reliable to meet the audit objective and support our recommendations.

Government Standards

Our assessment of internal controls focused on those controls relating to our audit objectives. We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix C Statistical Sampling Methodology

To evaluate VBA's processing of drill pay offsets, we selected a statistical sample of beneficiaries who concurrently received compensation or pension benefits and military drill pay during FYs 2011 and 2012 or both. Our sample consisted of beneficiaries associated with seven VAROs.

Population

The population consisted of 95,602 unique beneficiaries who concurrently received compensation or pension benefits and military drill pay during FYs 2011 and 2012 or both.

Sampling Design

We grouped VAROs into three strata based on VA compensation or pension dollar amounts paid to beneficiaries who received concurrent drill pay in both FYs 2011 and 2012. The three strata included VAROs with less than \$3 million (low), VAROs with \$3 million to \$6 million (medium), and VAROs with more than \$6 million (high). We then randomly selected seven VAROs, two from the low stratum, two from the medium stratum, and three from the high stratum. To avoid clustering of VAROs, at least one VARO was randomly selected from each of VBA's four regional areas.

To ensure all beneficiaries who received concurrent pay during FYs 2011 and 2012 or both were included in our universe, we created two additional strata. Stratum four included beneficiaries who received concurrent pay only during FY 2012. Stratum five included beneficiaries who received concurrent pay only during FY 2011.

We then randomly selected 385 beneficiaries (55 per VARO). Of the selected beneficiaries, 315 received concurrent pay during both FYs 2011 and 2012 (strata one through three). An additional 35 selected beneficiaries received concurrent pay only during FY 2012 (stratum four) and the remaining 35 selected beneficiaries received concurrent pay only during FY 2011 (stratum five). Table 2 shows the population and sample size for each stratum.

Table 2. Population and Sample Size of Beneficiaries by Stratum

Stratum	Population	Sample Size
1 – VAROs with total dollar amount subject to withholding below \$3 million (both FYs 2011 and 2012)	20,300	90
2 – VAROs with total dollar amount subject to withholding between \$3 million and \$6 million (both FYs 2011 and 2012)	32,100	90
3 – VAROs with total dollar amount subject to withholding above \$6 million (both FYs 2011 and 2012)	8,100	135
4 – Beneficiaries who received concurrent VA compensation or pension benefits and drill pay only during FY 2012	20,800	35
5 – Beneficiaries who received concurrent VA compensation or pension benefits and drill pay only during FY 2011	14,300	35
Total	95,600	385

Source: VA OIG sample selection performed in consultation with the Office of Audits and Evaluations statistician

Note. Numbers have been rounded for reporting purposes.

Weights

We calculated population estimates in this report using weighted sample data. We computed sampling weights by taking the product of the inverse of the probabilities of selection at each stage of sampling. We used WesVar software to calculate population estimates and associated sampling errors. WesVar employs replication methodology to calculate margins of error and confidence intervals that correctly account for the complexity of the sample design. We post-stratified the weights in the analysis to ensure sample totals equaled the known population of 95,602 beneficiaries.

Projections and Margins of Error

We projected VBA has not offset payments of approximately \$48.9 million for FY 2011 and \$95.7 million for FY 2012. For our FY 2012 projection, we computed a plus or minus \$16.8 million margin of error based on a 90 percent confidence interval and for our FY 2011 projection a \$9.4 million margin of error. Margins of error and confidence intervals are indicators of the precision of the estimates. If we repeated this audit with multiple samples, the confidence intervals would differ for each sample but would include the true population value 90 percent of the time. For example, as shown in Table 3, we are 90 percent confident the true population of beneficiaries with unprocessed drill pay offsets for FY 2012 is between \$78.9 million and \$112.5 million.

For our projection, we used the midpoint of the 90 percent confidence intervals or the range between the lower and upper limits of the confidence intervals. Table 3 shows our statistical projection for these unprocessed offsets.

Table 3. Statistical Projections of Unprocessed Offsets

Results	Projection	Margin of Error Based on 90% Confidence Interval	90% Confidence Interval Lower Limit	90% Confidence Interval Upper Limit
Unprocessed Offsets FY 2012	\$95.7	+/- \$16.8	\$78.9	\$112.5
Unprocessed Offsets FY 2011	\$48.9	+/- \$9.4	\$39.5	\$58.3

Source: VA OIG statistical analysis of audit sample results projected over our audit universe

Note. We multiplied the projected unprocessed amount for FY 2012 by five to project the potential unprocessed offsets from FYs 2013 through 2017. This resulted in a 5-year projection of approximately \$478.5 million unprocessed offsets for FYs 2013 through 2017 (\$95.7 million x 5 years).

**Appendix D Potential Monetary Benefits in Accordance With
Inspector General Act Amendments**

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
1	Drill pay offsets not timely recouped by VBA projected over a 5-year period (FYs 2013 through 2017)	\$0	\$478,500,000
2	Drill pay offsets not processed for FY 2012	\$0	\$ 95,700,000
2	Drill pay offsets not processed for FY 2011	\$0	\$ 48,900,000
Total		\$0	\$623,100,000

Appendix E Under Secretary for Benefits Comments

Department of Veterans Affairs

Memorandum

Date: May 16, 2014

From: Under Secretary for Benefits (20)

Subj: OIG Draft Report—Audit of Concurrent VA and Military Drill Pay Compensation
[Project Number 2013-02129-R9-0108] — VAIQ 7463476

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

1. Attached is VBA's response to the OIG's Draft Report: Audit of Concurrent VA and Military Drill Pay Compensation.
2. Questions may be referred to Christopher Denno, Program Analyst, at 461-9125.


for Allison A. Hickey

Attachment

**Veterans Benefits Administration (VBA)
Comments on OIG Draft Report
Audit of Concurrent VA and Military Drill Pay Compensation**

The Veterans Benefits Administration provides the following comments:

VBA is working diligently to balance all facets of its workload to ensure all Veterans receive timely and accurate decisions on their claims. One of VBA's highest priorities has been eliminating the disability rating claims backlog, and VBA is making great strides towards achieving that goal. In fiscal year (FY) 2013, VBA completed an unprecedented 1.17 million rating claims, and at the same time, completed 875,364 non-rating claims, which include military and drill pay adjustments. This is a 16 percent increase over the 752,590 non-rating claims completed during FY 2012. Production of non-rating claims continues to increase this fiscal year; through April 2014, completion of non-rating claims is already 16 percent ahead of the same period in FY 2013.

Because VBA has completed record numbers of disability rating claims in recent years and the number of Veterans receiving disability compensation continues to grow, VBA is experiencing comparable growth in its non-rating workload. This growth is most evident in the areas of dependency claims and drill-pay adjustments for National Guard and Reserve Component members. VBA's non-rating teams at the regional offices continue to be dedicated to working only non-rating claims. Guidance has been issued to all regional offices to ensure non-rating team members remain focused on non-rating claims and are not redirected to any other workload areas.

VBA is also attacking the non-rating claims workload through streamlined business processes and the application of new technology. VBA's Transformation Plan to move to a 21st century, Veteran-centric, electronic, and efficient claims processing system includes initiatives to address various categories of non-rating workload, including a technology initiative to automate drill-pay offsets. This initiative, which is being developed in collaboration with the Department of Defense, will eliminate the need to manually process drill-pay offsets and reduce the potential for errors.

VBA provides the following technical comment:

Page 4, paragraph 4, line 3:

"For example, the IT system used to record and track drill pay offsets does not easily allow VBA to identify all drill pay offsets from other non-rating activities."

VBA Comment: This is incorrect. VBA employees currently have access to reliable information regarding drill pay waiver workload. In cases where a waiver has not been received, VA information technology systems employ automatic controls that generate an end product (EP) 820 work item with a drill pay waiver identifier 90 days after notifications are sent to beneficiaries. If the Veteran does return the waiver, an EP is established (claim series 290, claim label "Drill Pay Adjustment") to clearly identify this as pending drill pay workload. Multiple 290 claims can be pending at one time and each has a date of claim associated to reflect the fiscal year.

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

Recommendation 1: We recommend the Under Secretary for Benefits take measures to ensure drill pay offsets identified after fiscal year 2012 are timely processed.

VBA Response: Concur. VBA will redistribute resources to focus on processing drill pay waivers and offsets. Drill pay waivers received after fiscal year 2012 will be processed by April 30, 2015. Additionally, the planned future automation with DoD will allow VA to process future drill pay waivers in a timely manner.

Target Completion Date: April 30, 2015.

Recommendation 2: We recommend the Under Secretary for Benefits ensure fiscal years 2011 and 2012 drill pay offsets are processed.

VBA Response: Concur. As stated in response to Recommendation 1, VBA will redistribute resources to focus on processing drill pay waivers and offsets. Drill pay offsets from fiscal years 2011 and 2012 will be processed by April 30, 2015.

Target Completion Date: April 30, 2015.

Recommendation 3: We recommend the Under Secretary for Benefits modify existing information technology systems to more effectively monitor, track, and report on drill pay offset activities.

VBA Response: Concur. In cases where a waiver has not been received, automatic controls are established in information technology systems by generating an 820 work item with a drill pay waiver identifier 90 days after notifications are sent to beneficiaries. Regional office employees can view controls in existing information technology (IT) systems and generate reports for pending actions through the Veterans Services Network (VETSNET) Operations Reports (VOR). To improve on drill pay waiver actions reporting, a fiscal year function will be added to the work item message text. This will allow users to generate pending and completed claims reports based on a fiscal year. The fiscal year function will be added to the 820 work item message text in January 2015.

Target Completion Date: January 31, 2015.

Recommendation 4: We recommend the Under Secretary for Benefits update the cost-benefit analysis regularly and use it to prioritize the processing of drill pay offsets.

VBA Response: Concur. VBA will regularly update the cost benefit analysis when we renew the reserve pay reconciliation computer matching agreement. The next renewal will occur in January 2015.

Target Completion Date: January 31, 2015.

Recommendation 5: We recommend the Under Secretary for Benefits require Systematic Analysis of Operations be completed annually for drill pay matching activities.

VBA Response: Concur. During the May 15, 2014, Veterans Service Center Managers call, guidance was provided to regional offices requiring an annual Systematic Analysis of Operations be completed for drill pay matching activities.

VBA requests closure of this recommendation.

Appendix F Office of Inspector General Contact and Staff Acknowledgments

OIG Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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Acknowledgments	Timothy Crowe, Director Kristopher Kasey Anne Mullett Bryan Shaw Craig Ward
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