Improper Payments Information Act of 2002 (IPIA)

Narrative Summary of Implementation Efforts for FY 2006/Agency Plans for FY 2007 – 2009

Detail I

Describe your agency's risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on Office of Management and Budget (OMB) guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.

VA reviewed the requirements of the Improper Payment Information Act of 2002 to identify those programs which are susceptible to significant erroneous payments. After completing the review, VA performed risk assessments for all 19 programs. Thirteen of the programs had estimated improper payments of less than $10 million. Dependency and Indemnity Compensation (DIC) is one of the programs previously identified in the former Section 57 of OMB Circular A-11, but is reported here as part of Compensation & Pension. Five programs either had estimated improper payments exceeding $10 million and/or were programs previously identified in the former Section 57 of OMB Circular A-11. Although the Insurance program was one of the programs identified in Section 57 of OMB Circular A-11, the risk assessment for the program is low. VA reported 2 years of low risk results in the FY 2004 and 2005 PARs. Therefore, in accordance with OMB Circular A-123, Appendix C, VA requested and was granted relief from annual reporting for 3 years, unless substantive funding, legislative, or other changes occur.

In FY 2006, statistical samplings were performed on all required programs to estimate improper payments. (FY 2005 data were used to ensure that an accurate representation of a full fiscal year's results was obtained.) These programs include Compensation & Pension, Education, Insurance, the Loan Guaranty (LGY), and Vocational Rehabilitation & Employment programs. The benefit programs are managed by the Veterans Benefits Administration (VBA). VBA recognizes the inherent risk associated with administering benefits programs to veterans and beneficiaries. The criteria used to determine entitlement, the scope of administering through 57 regional offices, legislative changes, reporting requirements, time constraints, and the responsibility of ensuring appropriate use of resources all contribute to VBA's emphasis on identifying and minimizing vulnerabilities that lead to improper payments.

1. **Compensation (including Dependency & Indemnity Compensation) and Pension**

Erroneous payments are defined as payments made to ineligible beneficiaries or payments that were made for an incorrect amount. Erroneous payments may be caused by procedural or administrative errors made during the claims process, delays in claims processing due to requirements to provide due process, late reporting, misreporting, or fraud on the part of employees, beneficiaries, or claimants.

Over and underpayments are based on the results of the national Systematic Technical Accuracy Review (STAR) program. The STAR process involves a comprehensive technical accuracy review of a statistically valid random sample of completed cases. The 2006 STAR sample totaled 11,030 currently processed cases.

The STAR process identifies erroneous payments for the following categories: Improper Grant/Denial, Improper Percentage Evaluation Assigned, Improper Effective Dates Affecting Payment, Improper Payment Rates, Improper Income Calculations, Improper Dependency Payment, Improper Payment of Burial Benefits, and Improper Waivers. The results of this review sample are extrapolated to the universe of completed claims to calculate estimated annual overpayments and underpayments. Separate annual amounts are calculated for the compensation program and pension program. (Please refer to Detail II for a full discussion regarding the statistical sampling process.) Our methodology for determining overpayments and underpayments also assesses the causes of the erroneous payments. Overpayments created not due to error on the part of VA are included in our overpayment figures.

Compensation and Pension is composed of several programs as discussed below.

a. **Disability Compensation** is provided to veterans for disabilities incurred or aggravated while on active duty. The amount of compensation is based on the degree of disability. Several ancillary benefits are also available to certain severely disabled veterans.

b. **Dependency and Indemnity Compensation** is provided for surviving spouses, dependent children, and dependent parents of veterans who died while on active duty on or after January 1, 1957, or whose post-service death was caused by or contributed to by their service-incurred disabilities, or to survivors who die of nonservice-connected conditions but who were continuously rated totally disabled due to service-connected condition(s) for a number of years immediately preceding death as specified in law of service-connected causes. Prior to January 1, 1957, death compensation was the benefit payable to survivors.

c. **Nonservice-Connected Disability Pension** is provided for veterans with nonservice-connected disabilities who served in time of war. The veterans must be permanently and totally disabled or must have attained the age of 65 and must meet specific income limitations.

d. **Death Pension** is provided for surviving spouses and children of wartime veterans who died of nonservice-connected causes, subject to specific income limitations.

2. Education

The Education program assists eligible veterans, servicemembers, reservists, survivors, and dependents in achieving their educational or vocational goals.

To identify the payment accuracy rate, the Education Service conducts quarterly quality assurance (QA) reviews of a random sample of completed Education benefit claims. This is the percentage of claims in which no erroneous payments (under or over) are authorized. It is therefore the inverse of a payment error rate. QA reviewers use a checklist with eight questions, one of which is used in determining the payment accuracy rate: “Were the payment determinations correct?" The checklist also requires additional information about each case reviewed, including:

- Amount of payment authorized.
- Amount actually due.
- Amount of over or underpayment, if any, erroneously authorized.

The payment information currently collected through the QA review process can be compared with the total benefit dollars paid in a given fiscal year in order to produce an estimate of both the percentage and amount of erroneous payments in the Education program. Since the data for all quarters of a given fiscal year are available through this system, mispayment data from the four quarterly reviews for 2004 were aggregated to provide the actual baseline measurement data. The percentage of erroneous payments exceeded 2.5 percent in that year, and the total amount of erroneous payments exceeded $10 million. For 2005, although the percentage of erroneous payments did not exceed 2.5 percent, the total amount of erroneous payments exceeded $10 million.

3. Vocational Rehabilitation & Employment

The Vocational Rehabilitation and Employment (VR&E) Service handles applications for benefits and processes payments from the Benefits Delivery Network (BDN) from its 57 regional offices nationwide. Outlays in 2005 totaled over $583 million and are expected to rise to over $614 million and $657 million in 2006 and 2007, respectively. The VR&E program offers a wide range of services tailored to the specific needs of veterans and their dependents. These services require extensive assessments and evaluations to validate entitlement and payments. VBA recognizes the inherent risk associated with administering a sizable and diverse national program.

VA's VR&E Service implemented the Quality Assurance Program, which was created under the provision of Public Law 106-117, The Veterans Millennium Health Care and Benefits Act, which states that VBA must establish and execute a quality assurance program. It is a procedure designed to assess the quality of services provided to veterans and a case manager's work in terms of quality and accuracy of entitlement determination, rehabilitation services, fiscal activities, and rehabilitation outcomes.

Internal controls including the Systematic Analyses of Operations (SAO) for Debt Avoidance and Fiscal Control, and the reestablishment of VR&E field surveys are used to minimize the occurrence of improper payments. These controls help ensure the accuracy of the following:

- Entitlement Determination – accuracy of decision for entitlement of a veteran to receive Chapter 31 benefits/services.
- Outcome Determination – accuracy of decision for closing a veteran's case when a veteran has achieved his or her rehabilitation goal or when a veteran is no longer able to participate in the Chapter 31 program.
- Rehabilitation Services – accuracy and quality of services provided to the Chapter 31 program participants, which includes fiscal activities.

4. Loan Guaranty (LGY)

The purpose of the VA LGY program is to encourage and facilitate the extension of favorable credit terms by private lenders to eligible veterans, active duty personnel, surviving spouses, and selected reservists for the purpose of purchasing a home. The LGY program has an additional purpose of assisting veterans retain their homes in times of financial hardship and distress. The program operates in nine regional loan centers, two regional offices, and one eligibility center. Additionally, several important program functions are contracted out, and LGY Service maintains monitoring units to oversee those operations. In 2005, the program guaranteed over 165,000 loans for a dollar value in excess of $24 billion. LGY Service was ultimately responsible for the processing of over $1.2 billion in payments during that same fiscal year. With this level of inherent risk involved, LGY Service has instituted a number of internal controls to ensure that this risk is mitigated, and that payments made are accurate and justifiable.

The LGY program's internal control procedures significantly reduce the risk of improper payments. Only limited amounts of improper payments have been discovered during the annual financial statement audit that includes auditing payments for many of the processes identified in Detail II. About 75 percent of LGY's payments are intra-governmental -- processed electronically from one LGY account to another or to Treasury. For those payments made externally, LGY has a number of procedures in place to mitigate the risk of improper payments. LGY conducts random sample post-audit reviews of payments made under the property management contract and under Claims & Acquisitions. LGY also conducts 100 percent Final Accounting Reviews of all Specially Adapted Housing grant payments and 100 percent reviews of all vouchers submitted by the portfolio loan servicer.

Detail II

Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

1. Compensation (including Dependency & Indemnity Compensation) and Pension

VBA's calculation of the estimate of the improper payment rate for both the Compensation (including Dependency & Indemnity Compensation) and Pension programs is based upon actual dollar amounts of debt referred to the VA Debt Management Center (DMC) and erroneous payments identified in VA's quality assurance program known as STAR. Half of the estimated debt identified by STAR is included in the calculation of erroneous payments. That half is the amount written off as an administrative error. The other half of the STAR-identified erroneous payments are reflected in the DMC data. Debts referred to the DMC can reflect erroneous payments spanning multiple years as in overpayments associated with VA's income verification match and fugitive felon match. In 2005, the DMC received $181.9 million in compensation debt and $323.3 million in pension debt.

The STAR process captures over and underpayment errors found during the claims processing review and calculates the dollar amounts associated with those payment errors. Since the review is based on a random sample of cases, the results are applied to the universe of claims processed and a weighting factor is applied to each regional office's workload share to generate overall estimated improper payments.

In FY 2005, the STAR process included 11,030 cases -- 9,505 compensation cases and 1,525 pension cases. A total of 335 payment errors were documented for compensation cases (3.5 percent error rate), including 210 underpayments totaling $1,083,835 and 125 overpayments totaling $530,166. A total of 57 payment errors were documented for pension cases (3.7 percent error rate), including 31 underpayments totaling $39,581 and 26 overpayments totaling $62,329.

The number of cases reviewed for compensation and pension represents 0.71 percent of the 1,557,290 cases subject for review. While the errors were clearly identified as either compensation or pension, the overall review sample contained some cases with both compensation and pension elements. Accordingly, the sample size for the compensation program was 0.82 and 0.38 percent for the pension program.

When extrapolated to the completed compensation claims for FY 2005, including a weighting factor for each regional office's share of national workload, total estimated Compensation program underpayments were $97.7 million and overpayments were $52.7 million.

When extrapolated to the completed pension claims for FY 2005, including a weighting factor for each regional office and pension maintenance center's share of national workload, total Pension program estimated underpayments were $9.8 million and estimated overpayments were $75.5 million.

2. Education

QA reviews were designed to provide statistically valid results at the 95 percent confidence level and 5 percent precision (also expressed as a margin of error of plus or minus 2.5 percent), for an estimated payment accuracy rate of 94 percent (equivalent to an error rate of 6 percent). The annual nationwide random sample of 1,600 cases is selected from the database of completed end products in quarterly increments. Reviews are also conducted and reports issued quarterly. Provided that the estimated erroneous payment rate is similar to the estimated error rate used in constructing the QA sample, that is, 6 percent or less, the data may be considered statistically valid. Data on percentage and amount of erroneous payments from quarterly QA reviews for awards authorized in 2005 were compared to total benefits paid for that fiscal year.

3. Vocational Rehabilitation & Employment

Data for the improper payment rate are gathered through the Quality Assurance review. In 2002 Booz-Allen-Hamilton conducted a study on the VR&E Quality Assurance Program. Starting in FY 2003 the total number of cases to be reviewed annually was increased from 2,850 to a minimum of 3,648 cases, or 64 cases per regional office, as a result of the study recommendations. The increase allowed for a valid random sampling size for each regional office review of cases based on a confidence level on a 5 percent margin of error. In 2005, there were 4,180 cases reviewed, or 75 cases per regional office. The review sample results are applied to the national total workload to generate VR&E's estimated overall improper payments by using weighting factors based on the regional offices' caseload size.

4. Loan Guaranty

The LGY program helps veterans and active duty personnel purchase and retain homes in recognition of service to the Nation. The program enables eligible veterans to obtain financing for the purchase, construction, or improvement of a home by insuring a percentage of the loan. This mandatory program encourages the lender to extend favorable loan terms and competitive interest rates to veterans who might otherwise prove ineligible. The LGY program disburses payments for:

- Specially Adapted Housing Grants.
- Claims and Acquisition Payments.
- Portfolio Servicing of Direct Loans.
- Property Management.

a. **Specially Adapted Housing (SAH) Grants** – SAH staff at the regional loan centers (RLCs) certify that all grant requirements have been met prior to authorizing the dispersal of grant funds to the veteran's escrow account for payment of authorized expenses incurred for construction or modification of the veteran's home. The RLC staff then conducts a 100 percent Final Accounting Review for all cases. The cases are then sent to Central Office (CO) for a second-level review. LGY CO reviews 100 percent of these files. For 2006, no errors have been found in any part of the SAH grant payment process.

b. **Claims & Acquisition Payments** – LGY conducts a stringent first-level review of all claim payments. A 100 percent manual review is conducted on all claims received. The Loan Service and Claims (LS&C) system requires that at least two different LGY staff members review and certify the claim in the system before releasing it for payment. LGY also conducts statistically valid post-audit reviews of Claims & Acquisition payments. LGY reviews a random sampling of these payments through quality control visits to each of the nine RLCs and the Honolulu Regional Office. LGY also includes a post-audit review of claims paid as part of the Statistical Quality Control (SQC) Review 321. A first-level review of cases is done at the RLC, and a second-level validation is conducted by LGY CO. Between the quality control site visits and SQC reviews, the total claim payments which are being post-audited are significant at the 90 percent confidence level with +/- 2.5 percent margin of error. For 2006, the error rate is less than 1 percent. Only one error, which was minor in nature, was discovered.

c. **Portfolio Loan Voucher Payments** – Countrywide Home Loans (CHL) is LGY's contracted portfolio loan servicer. The Portfolio Loan Oversight Unit (PLOU) classifies CHL vouchers into seven types, based on nature of the service provided or the type of items included within. For example, the 003-Type contains reimbursable fees such as property preservation costs, foreclosure/bankruptcy costs, and recording fees; the 002-Type consists of property tax payments. As per the requirements of the Prompt Payment Act, VA pays each invoice as it is received. The PLOU staff then conducts a 100 percent post-audit of each voucher payment to ensure correctness and accuracy of payments. The average error rate was extrapolated across the entire amount of voucher payments to arrive at the total amount of improper payments.

d. **Property Management Voucher Payments** – Ocwen is LGY's property management contractor. VA's Property Management Oversight Unit (PMOU) receives two types of vouchers (After Sale and Supplemental) from Ocwen. In 2006, however, Ocwen also submitted vouchers for services and fees relating to VA's agreement with FEMA to provide low-cost rental housing to hurricane disaster victims. All invoices are handled in the same manner. Invoices are reviewed upon receipt by a Realty Specialist for compliance with the contract requirements and to assure that proper supporting documentation is included. The invoice then is approved by the Realty Specialist and submitted to a supervisor to certify it for payment per the requirements of the Prompt Payment Act. The Centralized Property Tracking System (CPTS) pulls a 10 percent random sample of vouchers for post-audit review. The 10 percent sample requirement is statistically significant at the 99 percent confidence level with approximately +/-5 percent margin of error. [A 10 percent sample of a total of 6,880 invoices yields 688 cases for review valid at the 99 percent confidence level with +/-5 percent margin of error]. If, upon review, VA finds that the voucher submitted by Ocwen does not meet established requirements (proper documentation, accurate billing amounts, etc.), VA establishes a bill of collection (BOC) against Ocwen. While VA has identified that the payment error rate is rooted in the number of BOCs established in a given fiscal year, the actual error rate for FY 2006 voucher payments has not yet been determined.

FY 2005 was the first full year of invoicing, and therefore LGY had not yet determined how to calculate the overall error rate for property management payments made during that fiscal year. As discussions about reporting for FY 2006 improper payments began, LGY became aware that it was not possible to tie payments in a given fiscal year to errors made (bills of collection established) in that same fiscal year. This problem is due to the appeals process, which is established in the property management contract with Ocwen.

The appeals process allows for Ocwen to appeal any BOC they receive from VA. Ocwen may appeal by resubmitting the voucher with additional supporting or clarifying documentation or information. LGY Central Office Property Management (LGYCO PM) staff is tasked with reviewing these resubmitted vouchers and recommending action (approving or denying the voucher) to the VA contracting officer, who also reviews the file for concurrence/non-concurrence. After LGYCO PM staff and the contracting officer have reached a decision, Ocwen may still appeal that ruling to the Board of Contract Appeals. It is not until the Board rules on a particular voucher payment (or the established time allotted for appeal has lapsed) that LGY can deem it a 'resolved' item, meaning that it can be determined that the payment was made in error, or that it was made accurately. This lengthy and multi-tiered appeal process often causes BOCs established in any given fiscal year to be unresolved for a lengthy period of time, a period which may cross the demarcation of fiscal years. Largely for this reason, BOCs have not been classified by 'year established,' but rather 'year resolved' for the purpose of internal management reporting. As this does not fit the parameters of analysis for IPIA reporting, however, LGY cannot at this time report a true FY 2006 error rate for property management vouchers paid.

LGY is working to reconfigure management reports and tools to enable it to tie BOCs to the fiscal year in which they were established. This will enable VA to report, for the dollar amount of payments made in a given fiscal year, the percentage and dollar amount made in error. This initial reclassification of data within LGY's systems and reporting tools will be extremely labor intensive. LGY will provide a more detailed project schedule as it is developed. Additionally, upon completion of this reconfiguration initiative, LGY will provide FY 2006 data on improper payments and error rates for inclusion in LGY's IPIA statistics.

Detail III

Describe the Corrective Action Plans for:

A. Reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are underway, and/or have been ongoing for some length of time, it is appropriate to include information in this section.

B. Grant-making agencies with risk susceptible grant programs, discuss what your agency has accomplished in the area of funds stewardship past the primary recipient. Include the status on projects and results of any reviews.

1. Compensation (including Dependency & Indemnity Compensation) and Pension

A significant cause in the increase in overpayments in both compensation and pension accounts has been the implementation of the Fugitive Felon program. This program, mandated by Public Law 107-103 in December 2001, prohibits veterans who are fugitive felons, or their dependents, from receiving specified veterans benefits. It requires VA to retroactively terminate veterans and other beneficiaries from the date the claimant became a "fugitive felon." The first batch of over 980 cases was released in May 2003. The second batch of over 2,000 cases was released in March 2004. It takes approximately 9 months to a year to completely process these fugitive felon cases. Based on the higher number of cases in the second batch and the length of time it takes to process these cases, the amount of overpayments created in fiscal year 2005 from this program increased considerably over the overpayments created in 2004. In addition to the identification of fugitive felons, notification of incarceration may also lead to the establishment of overpayments. According to current statute, these cases are given due process and then adjusted. Notification of either status is a function of agreements made with states, the Bureau of Prisons, and law enforcement agencies. As previously indicated, these overpayments typically span multiple years as the OIG's negotiation of agreements with various jurisdictions expands. As the OIG brings in more law enforcement jurisdictions, we can anticipate that large overpayments will continue for at least the next 3 years. Overpayments could be reduced if benefits were terminated from the date of the notice to VA of fugitive status rather than the date of issuance of the warrant.

2. Compensation

Based on STAR data, the most common causes for erroneous compensation payments are the assignment of improper evaluations (37 percent of errors) and the improper grant of service connection (22 percent of errors). VBA continues to be engaged in initiatives that address these errors.

The first of these initiatives is the Regulation Rewrite project charged with redrafting VA's regulations into clear and understandable language. The project to rewrite the regulations is a result of a recommendation outlined in the October 2001 VA Claims Processing Task Force: Report to the Secretary of Veterans Affairs aimed at improving VA's claims adjudication process.

One of the most complex regulations in VA's inventory deals with effective dates. Clarifying the regulation regarding effective dates is a primary focus of the Regulation Rewrite Staff. Publication of the final regulation dealing with effective dates is anticipated in calendar year 2009. VBA anticipates the rewritten regulation will help reduce common errors identified above that result in overpayments.

Another initiative is improved training programs. VA continues its efforts to expand its rating capacity. Since the number of inexperienced rating specialists is significant, this means that the potential for errors in evaluation and granting or denying of benefits is greater. We believe that our training programs, the increasing experience of disability decision-makers, and publication of the STAR Reporter (which advises the field of error trends), will significantly improve these areas.

Other reasons for overpayments include:

- Non-entitlement for the month of death.
- Reductions/terminations due to incarceration or fugitive felon status.
- Remarriage of surviving spouse.

The month of death overpayment occurs when the veteran dies late in the month, too late to stop the release of the check for the month of death, a benefit to which he/she is not entitled. Approximately 79,000 veterans were removed from the compensation rolls in 2005, virtually all due to death. This resulted in approximately $25.6 million in overpayments because death occurred in the last 10 days of the month (applicable to an estimated 26,300 veterans). The average compensation payment in 2005 was $974 monthly. Although the overpayment is created, the majority of these payments are recouped.

Overpayments also are created as a result of notification of incarceration or fugitive felon status. According to current statute, these cases are given due process and then adjusted. Notification of either status is a function of agreements made with states, the Bureau of Prisons, and law enforcement agencies. As previously indicated, these overpayments typically span multiple years as the OIG's negotiation of agreements with various jurisdictions expands.

3. Pension

The Pension program administered by VA is a highly complex program that is intended to provide the financial resources needed by beneficiaries based upon anticipated income. It then requires adjustment based upon actual income. Consequently, like similar programs such as Supplemental Security Income, it is prone to overpayments due to late or misreporting of income changes or failure to report such changes by claimants. For this reason, VA consolidated the processing of all pension maintenance workload in order to improve the quality and timeliness of the pension processing, as well as to focus training in this area. Another goal of consolidation is to reduce the size of erroneous payments through greater claims processing efficiencies and reduced cycle time. We believe that an improved quality of pension processing and focused training should reduce the average size of overpayments but not substantially the number of erroneous payments. Pension processing quality has increased dramatically through the consolidation and specialization, and we expect it to continue. Consolidation of initial claims processing to the pension centers is anticipated in calendar year 2007. However, 2005 erroneous payments were higher than anticipated. As discussed earlier, the increased cases identified through the fugitive felon program in 2004 over 2003, coupled with the requirements for due process, led to an increase in the amounts of overpayments established in 2005.

These effects are anticipated to continue in 2006 and are affected by the increased workload from the changes in income verification matches conducted in 2006 and 2007. Beginning in 2006, VBA will process two tax years worth of information (2002 and 2003) from the IRS. This will continue in 2007 with tax years 2004 and 2005 being released to the regional offices. VBA will return to processing one year's worth of tax information in 2008. Although this action may result in an increase in the number of overpayments created in 2006 and 2007, it should also result in a decrease in the amount of the overpayment created for the claimant, as the income information is only two years old as opposed to three years old. Since VBA will return to processing one year's worth of tax information in FY 2008, we anticipate the number and amount of overpayments in 2008 and 2009 will return to 2004 levels.

The Pension program in particular has other ongoing reasons that contribute to erroneous payments. The program involves less judgment in determining entitlement, with the primary evaluation factor based upon compliance with a very detailed set of rules for establishing dependency and complex, detailed rules for developing and considering income to determine entitlement and payment rates. This is the primary reason for the higher ratio of overpayments to underpayments. The most common causes for erroneous pension overpayments and underpayments are improper effective dates and improper calculation of family income. The size of overpayments in the pension program is aggravated by the effective date rules that govern the adjustment of accounts and the need to provide due process. Since the fact of entitlement or the rate of entitlement is affected by income, and changes in status and rate of payment are effective the first of the month following changed income, the claimant and VA are in an overpayment situation in virtually every income adjustment based on new or increased income.

Other causes for overpayments are:

- Non-entitlement for the month of death.
- Reductions or terminations due to claimant reports on Eligibility Verification Reports (EVR).
- Reductions or terminations based upon matching programs.
- Inaccurate reporting of monthly social security benefits.

Approximately 81,000 pension records were terminated in 2005. The estimated annual overpayment for the month of death (considering an estimated 27,000 deaths that occur in the last 10 days of the month), with an average monthly payment of $548 when veterans and survivors are combined, is $14.7 million.

Due to the particular nature of the pension program, a significant number of overpayments will be created due to reporting failures by beneficiaries. VBA has both internal and external controls that identify reporting discrepancies.

The EVR is a VBA internal annual report required of most pension recipients in which they are required to report their actual previous year and anticipated current year income. This program results in overpayments due to a late reporting of income changes that result in larger overpayments due to two statutory provisions:

a. Reductions are effective first of the month following receipt of the changed income. Because it normally is required to provide due process of 60 days in such cases, an overpayment is created for not only the historical period back to the receipt of the income but for a minimum of two months into the future.

b. Failure to return an EVR results in termination of the award and resulting overpayment from the beginning of the calendar year.

Other ongoing successful efforts with internal/external organizations/agencies that identify reporting inconsistencies include:

- **Office of the Inspector General**
  - Death Match Project: The Office of Inspector General (OIG) death match project is conducted to identify individuals who may be defrauding VA by receiving VA benefits intended for beneficiaries who have passed away.
  - Fugitive Felon Program: On December 27, 2001, Public Law 107-103 was enacted. The law prohibits veterans who are fugitive felons, or their dependents, from receiving specified veterans benefits. At any given time more than 100,000 individuals are on a fugitive felon list maintained by the federal government and/or state and local law enforcement agencies. This program, as it is rolled out with other police jurisdictions, is an example of how overpayments will be identified in later years based upon newly acquired information.

  - **Bureau of Prisons for Payments to Incarcerated Veterans**
    An agreement was reached with the Social Security Administration (SSA) that allowed VA to use the State Verification and Exchange System (SVES) to identify claimants incarcerated in state and local facilities. We are processing both Bureau of Prisons Match and SSA Prison Match cases on a monthly basis.

- **Railroad Retirement, Office of Personnel Management and Income Verification Match**
  These matches report income from these and other sources compared to what pension beneficiaries report.

- **Social Security Administration**
  - Monthly Social Security Benefit Match: This is a match with SSA in which the amount of monthly social security reported by the claimant is compared to SSA records.
  - Unverified Social Security Number Listing: C&P Service analyzes an extract of hits from data runs in order to obtain the Unverified Social Security Numbers listing.

4. Education

Education Service has used the Quality Assurance Review program to assess payment errors since FY 1992. Education Service quality review reports, issued quarterly, identify error trends and causes. The regional processing offices discuss the results at refresher training. Required training based on quarterly quality reviews was conducted in FY 2005. However, compared to the previous fiscal year, estimated erroneous payments fell from 3.0 percent to 1.2 percent. The principal factor underlying the improvement was an increase in the level of experience among claims processors, which resulted in a decline of 29 percent in the number of payment errors noted on QA reviews. In addition, fewer types of errors were found. For example, in 2005, no errors resulted from incorrectly processing monthly verification of enrollment data concurrent with award action, which was a major cause of errors in 2004. However, due to the complexity of applicable requirements, the following three causes remained responsible for the majority of erroneous payments in 2005, as in the previous fiscal year:

- Incorrectly determining the student's rate of training (full-time rate or part-time).
- Incorrectly awarding benefits for intervals between terms.
- Incorrectly determining the date on which to reduce or terminate benefits.

Education Service is developing a rules-based automated claims processing system, The Education Expert System (TEES), which will help reduce payment errors. A prototype system is in place, and the full system is expected to improve performance when fully implemented by FY 2011. In addition, Education Service has developed standardized training materials for use by field stations. Use of these materials began in FY 2004; their use will continue to improve performance in the future.

5. Vocational Rehabilitation & Employment (VR&E)

The National Quality Assurance Team monitors the errors annotated in the quality assurance reviews and tracks the corrective actions taken on identified errors. Also, as the team monitors the results of the reviews, any frequently identified error or best practice is brought to the attention of management. Any further action (i.e., national training or publication of best standards of practice) to address the area(s) identified is discussed and implemented.

After each review, an outbriefing letter containing the results of the National QA Review is provided to each regional office. The letter outlines the errors found during the review and indicates the required corrective actions. Each regional office is required to submit certification of compliance to the corrective actions to the VR&E Service through the Director's office within 90 days of receipt of the letter. VR&E Service also revised the manual chapter on Systematic Analysis of Operations, which was published in June 2006, strengthening the fiscal accuracy and review section.

In January 2004, VR&E Service required that all compliance reports for corrective actions on errors found on fiscal activities must also include the amount of over or underpayment for Chapter 31 benefits. The types of errors that were noted varied but included such items as:

- Entry of incorrect end date identifying timeframe for completion of training session and, therefore, veteran was either paid at an incorrect rate or no payment was issued and veteran should have received the subsistence allowance.
- Incorrect subsistence allowance rate entered and veteran was compensated at the wrong rate.
- Improper amount or omission of Employment Assistance Allowance paid to veterans.

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The review revealed an increase in overpayments due to an increase in incorrect subsistence allowance rates being applied. There were two scenarios that affected the majority of the increase. Rates were either not reduced when a veteran adjusted their participation time (full time to half time) or an administrative error was made when a veteran discontinued their training status and all documents were not completed to stop the allowance. Local training on the policies and procedures for adjusting subsistence allowance was provided to the regional office staff.

6. Loan Guaranty

SAH grant payments have been found to be error-free. LGY will continue to conduct the 100 percent Final Accounting Review and second-level Central Office reviews of the SAH grant process. Additionally, LGY has developed a statistical quality control (SQC) schedule for the SAH program, which will provide additional opportunity for review of the grant process, including grant payments.

Claims & Acquisition payments have been found to have very few errors (0.105 percent error rate for FY 2006). Since the error rate is so low, and the instances of error so minor in value, LGY will continue its procedures for first and second-level reviews prior to payment and will continue to perform all post-audit review of cases as per existing site visit and SQC schedules.

Portfolio loan servicing payments are processed for payment by the Portfolio Loan Oversight Unit (PLOU) within the timeframe sanctioned by the Prompt Payment Act. Payments are then post-audited by the PLOU staff for accuracy and correctness. For FY 2006, errors were found only in the 001- and 002-series of vouchers, with the bulk of mistakes being located in the 002 vouchers. This means that errors were only found on vouchers related to tax payments and calculations (002-series) and on invoices consisting of reimbursable loan servicing fees (001-series). LGY monitors 002-series vouchers and maintains information on overcharges/unallowable charges submitted by holders. LGY offsets claims submitted by holders for any overcharges/unallowable charges contained therein. If the claim for the specific account has already been processed, then LGY makes adjustments on future claims submitted by the holder.

Detail IV

The following three tables are required for each reporting agency. Please note that with this fiscal year, we require actual Outlay Dollars, Improper Payment percent, and Improper Payment Dollars for FY 2005 and 2006, and estimate Outlay Dollars, Improper Payment percent, and Improper Payment Dollars for FY 2007 – FY 2009. We highlight the following for clarification: (1) all risk susceptible programs must be listed in this chart whether or not an error measurement is being reported; (2) where no measurement is provided, agency should indicate the date by which a measurement is expected; (3) if FY 2006 is the baseline measurement, indicate by either footnote or by "n/a" in the "FY 04 percent" column; (4) if any of the dollar amount(s) included in the estimate correspond to newly established measurement components in addition to previously established measurement components, separate the two amounts to the extent possible; (5) include outlay estimates for FY 2007-2009; and (6) agencies are expected to report on FY 06 activity, and if not feasible, then FY 05 activity is acceptable.

Improper Payment (IP) Reduction for FY 2005
($ in millions)

Program	Outlays $ [1] Estimated	Outlays $ [1] Actual	Estimated IP%	Actual IP %	Estimated IP $	Actual IP $
Compensation [2]	28,960	28,711	0.63	0.73	181.0	208.3
			0.49	0.34	141.9	97.7
Pensions	3,293	3,383	7.50	10.6	247.0	361.1
			0.43	0.28	14.0	9.8
Education	2,661	2,611	1.30	0.53	34.0	13.8
			1.10	0.71	30.0	18.5
Vocational Rehabilitation	603	583	0.44	0.50	2.7	2.9
			1.18	0.56	7.1	3.3
Loan Guaranty [3]	1,219	1,137	0.35	0.30	4.2	3.5

Notes to Improper Payment Reduction Outlook Table:
[1] For some programs, dollars reported are payments, not necessarily outlays. Overpayments (shaded cells) and underpayments are identified for programs for which separate data is available.
[2] Dependency & Indemnity Compensation is included with Compensation.
[3] Outlay calculations changed since the FY 2004 PAR submission. In the Loan Guaranty Program, housing intergovernmental transactions were determined not to be subject to erroneous payment sampling and review.

Improper Payment Reduction Outlook FY 2005 – FY 2009
($ in millions)

Program	FY 2005			FY 2006			FY 2007			FY 2008			FY 2009		
	OUTLAYS $ (1)	IP %	IP $	OUTLAYS $ (1)	IP %	IP $	OUTLAYS $ (1)	IP %	IP $	OUTLAYS $ (1)	IP %	IP $	OUTLAYS $ (1)	IP %	IP $
Compensation (2)	28,711	0.73	208.3	31,217	0.71	221.6	34,233	0.69	236.2	36,395	0.67	243.8	39,057	0.65	253.9
		0.34	97.7		0.33	103.0		0.32	109.5		0.31	112.8		0.30	117.2
Pensions	3,383	10.6	361.1	3,473	10.4	361.2	3,540	10.1	357.5	3,589	8.0	287.1	3,620	7.88	285.3
		0.28	9.8		0.27	9.4		0.26	9.2		0.25	9.0		0.24	8.7
Education	2,611	0.53	13.8	3,051	1.10	33.6	3,220	1.10	35.4	3,393	1.05	35.6	3,497	1.00	35.0
		0.71	18.5		1.10	33.6		1.10	35.4		1.05	35.6		1.00	35.0
Vocational Rehabilitation	583	0.50	2.9	614	0.46	2.8	657	0.42	2.8	712	0.38	2.7	761	0.34	2.6
		0.56	3.3		0.52	3.2		0.48	3.2		0.44	3.1		0.40	3.0
Loan Guaranty (3)(4)	1,137	0.30	3.5	825	0.10	0.9	2,321	0.30	7.0	2,241	0.28	6.3	2,550	0.26	6.6

Notes to Improper Payment Reduction Outlook Table:

[1] For some programs, dollars reported are payments, not necessarily outlays. Overpayments (shaded cells) and underpayments are identified for programs for which separate data are available.

[2] Dependency & Indemnity Compensation is included with Compensation.

[3] FY 2006 – 2009 outlay estimates for Loan Guaranty are based on obligations as shown in the FY 2007 President's budget and will be revised with updated information.

[4] FY 2006 LGY numbers do not include Property Management.

VA Recovery Targets for all Susceptible Programs
($ in millions)

	FY 2005				FY 2006		FY 2007		FY 2008		FY 2009	
Program	Est. $	Act. $	Est. %	Act. %	$	%	$	%	$	%	$	%
Compensation & Pension (1)	250	298	25	25	211	25	269	25	272	25	276	25
Education & VR&E (2)	100	124	50	54	166	56	183	54	204	52	208	48
Loan Guaranty	1.5	1.7	60	70	1.3	70	1.9	70	1.6	70	1.4	70

Notes to VA Recovery Targets for all Susceptible Programs Table:

[1] Compensation and Pension collections are shown as one figure.

[2] Collections reported for Education are collections for both Education and Vocational Rehabilitation & Employment (VR&E).

Detail V

Discuss your agency's recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. In addition, complete the table below.

1. Financial Services Center, Austin, TX

VA continued to enhance its vendor payment processes throughout FY 2006. The Department processed over 4.8 million Prompt Payment Act (PPA) eligible invoices worth over $8.2 billion, with over 99 percent paid on time. In 2006, interest payments VA-wide increased by $113,000 (from $746,000 to $858,000) – a 15.2 percent increase over 2005 levels, largely attributable to an increase in interest on payments for the delivery of goods during the second quarter of 2006, subsequently corrected through a process improvement. Further, 2006 interest paid as a percentage of total payments remained virtually unchanged, increasing less than 1 percent over 2005 levels. At the same time, the dollar value of discounts offered declined by nearly $1.4 million to $4.8 million, a 22.7 percent decrease over 2005 levels, due to fewer available discounts. VA's percentage of discounts actually earned also improved from 91.1 percent in 2005 to 93.3 percent in 2006. The improvement in discount processing saved VA $116,000 in 2006.

VA also continued to gain efficiencies and improve performance through an initiative to centralize vendor payment activities at the FSC. By centralizing vendor payment activities, VA strengthened its focus on identifying and preventing vendor payment errors. The FSC also enhanced audit recovery efforts of improper/duplicate vendor payments. The FSC reviews VA vendor payments daily to systematically identify, prevent, and recover improper payments made to commercial vendors. Current payment files are matched to identify and, where possible, prevent duplicates prior to payment. Also, payments from prior fiscal years are matched to identify potential duplicate payments for further analysis, assessment, and, as appropriate, collection. The FSC also reviews vendor payments to identify and collect improper payments resulting from payment processing such as erroneous interest penalties, service charges, and sales taxes. This initiative, started in 2004, recovered over $277,000 in erroneous interest penalties, service charges, and sales taxes for reuse by VA entities during 2006. Overall, during 2006, collections of improper payments and the recovery of unapplied vendor statement credits totaled nearly $5.1 million. Improved payment oversight also enabled VA to identify and cancel nearly $7.9 million in potential improper payments prior to disbursement during 2005. Since the inception of the FSC's audit recovery effort in 2001, VA has recovered over $18.3 million in improper payments and prevented the improper payment of another $21.1 million.

2. Health Administration Center (HAC), Denver, CO

Public Law 106-74 mandated VA conduct, by contract, a recovery audit program of past payments for hospital care. In the associated conference report for Public Law 106-379, the primary intent of this program was further described as an interest to ensure that clinical diagnoses and treatments match the codes, which are submitted to VA for payment and, where an overpayment has been made, enable VA to recover the funds for medical care. VA awarded a recovery audit contract in December 2000. As of September 30, 2006, the contractor has identified 76,431 receivables totaling

$54,742,288, of which VA has recovered $46,845,039.

Public Law 108-199 extended the mandate for VA to conduct, by contract, a recovery audit program of past payments for hospital care through FY 2006. VA awarded the new recovery audit contract in December 2004. The contract started on July 11, 2005, with requests sent to providers and VA medical centers for information. As of September 30, 2006, the contractor has identified 3,246 receivables totaling $11,278,568, of which VA has recovered $5,228,305.

3. Supply Fund

The VA Office of Acquisition and Materiel Management works with the OIG to recover funds owed VA due to (1) defective pricing -- whether the prices for the items awarded were based on accurate, complete, and current disclosures by the offeror during contract negotiations; and (2) price reduction violations -- whether the contractor complied with the terms and conditions of the price reduction clause. As part of the OIG post-award contract reviews, staff also look for and collect overcharges that were the result of the contractor charging more than the contract price. In 2006, this audit recovery program recovered over $20 million.

Audit Recovery Table

Agency Component	Amount Subject to Review for FY 2006 Reporting $	Actual Amount Reviewed and Reported (X) $	Amounts Identified for Recovery (Y) $	Amounts Identified for Recovery/Actual Amount Reviewed and Reported (Y divided by X)	Actual Amounts Recovered $
FSC	4,090,017,045	4,080,440,699	6,537,196	0.16%	4,979,518
HAC	994,838,848	133,948,829	11,278,568	8.4%	5,228,305
Supply Fund	1,475,501,446	1,475,501,446	21,339,690	1.45%	20,170,600

Detail VI

Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

The Under Secretary for Benefit's continued emphasis on accountability and integrity at every level underscores his commitment to achieving the goals set forth in the FY 2002 Improper Payment Reduction Act. One of the President's Management Agenda's objectives is to secure the best performance and highest measure of accountability within the agencies of the federal government. VBA continues to report progress through the President's Management Scorecard and through the Monthly Performance Reviews with the Deputy Secretary. In addition to the monthly reviews, annual information is shared in the Performance and Accountability Report. It is a VBA-wide effort and commitment to reduce the occurrence of improper payments.

1. Compensation & Pension
VBA is committed to ensuring agency managers are held accountable for reducing and recovering improper payments. This is accomplished in a number of ways for the C&P business line. First, regional directors, service center managers, and all management personnel share the same performance standards with respect to the management of delivery of compensation and pension. Non-supervisory field staffs have performance standards that measure them against quality and timeliness standards. Within C&P Service, management and staff are responsible for measuring quality, development of counter measures and training, and development of legislative and technological changes where possible to avoid, reduce, and recover overpayments.

2. Education
Performance accountability measures, including payment accuracy, are set by VBA top management for directors of the offices that process Education claims, and set by the directors for subordinates. Education Service has developed standardized nationwide performance standards including payment accuracy for personnel who process claims.

3. Vocational Rehabilitation & Employment
VR&E Service is currently using the Quality Assurance Review results to track improper payments. There are national performance measures for VR&E employees and managers, which include a fiscal accuracy measure. After the Quality Assurance Team has conducted a review of cases, each regional office is required to submit its certification of compliance on the corrective actions within 90 days from receipt of the QA Review Results Letter. A database was developed and is being populated to track the regional office's compliance to required fiscal corrective actions, including the amount of under and overpayments.

4. Loan Guaranty
Quality of work performed at the RLCs and regional offices that have an LGY presence is of key importance to the LGY program. Performance standards for the directors of these LGY stations include quality standards that cover virtually all facets of the program, accuracy of payments being part of these standards. LGY Service works with the Office of Field Operations to set performance requirements and stretch goals for the LGY quality measures. Award money is available for stations

that exceed requirements and achieve the stretch goals.

Detail VII

A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

1. Compensation (including Dependency & Indemnity Compensation) and Pension
The agency has information systems and infrastructure to reduce improper payments. The information systems, however, reflect old technology and do not prevent or reduce the size of overpayments to the extent possible. The elimination of batch cycle processing and conversion to real time processing will enable us to discontinue payments up to the day before payment is to be issued. The system will be integrated such that the disability rating decision will be entered once and support the rating, eliminating or substantially reducing errors due to data entry and effective date problems. The amount of retroactive payments is calculated as the award is being prepared and is known to the decision-maker and the authorizer prior to authorizing the payment. Where three signatures are required, the system will have the internal control to ensure that three signatures are present. We will also eliminate problems with the calculation of manual out-of-system payments.

2. Education
Education Service is developing a rules-based automated claims processing system. The goal of this system, when fully implemented, is to automatically process 90 percent of all enrollments and changes in enrollment. While the principal effect of implementation is to reduce processing times, it is also expected to reduce erroneous payments.

Given the improvements currently being implemented and those that are planned for the future, the LGY, VR&E, and Insurance programs have the information systems and other infrastructure needed to keep improper payments at the levels targeted and should be able to reduce improper payments.

B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2006 budget submission to Congress to obtain the necessary information systems and infrastructure.

Funding for TEES ($3 million) is included in the 2007 VA budget request. Constraints in resource allocation (both human capital and monetary resources) have hampered any substantial progress to date. Full implementation of TEES will be coordinated with the retirement of VBA's legacy system, the Benefits Delivery Network.

Detail VIII

Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

Compensation (including Dependency & Indemnity Compensation) and Pension
There are statutory and regulatory barriers that limit our corrective actions in reducing improper payments. Many of these barriers are in the Pension program. Under current governing legislation, adjustments to payments are effective the first of the month following the month of the change in income or net worth. Additionally, benefits are paid on a prospective basis based on the beneficiary's estimate of anticipated income.

Thus, an award adjustment due to changes in income is always after the fact and creates an overpayment. While this process does create overpayments, we believe it should not be changed since the program meets the requirement to provide income support for current need.

Likewise, the need to provide due process to claimants where adjustment or termination of their award is needed results in continued payment at improper rates for approximately 90 days following discovery. When the award is done, however, adjustment is from the first of the month following the month in which the change in circumstance occurred. Again, we believe that the principles of due process are so important that these continued payments are a cost of administering the program.

A significant cause in the increase in overpayments in both compensation and pension accounts has been the implementation of the Fugitive Felon program. This program, mandated by Public Law 107-103 in December 2001, prohibits veterans who are fugitive felons, or their dependents, from receiving specified veterans benefits. It requires VA to retroactively terminate veterans and other beneficiaries from the date the claimant became a "fugitive felon." Overpayments could be reduced if benefits were terminated from the date of the notice to VA of fugitive status rather than the date of issuance of the warrant.

Detail IX

Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.

Beginning 2006, VA only reports on those programs meeting the improper/erroneous payments criteria.