



**Department of Veterans Affairs
Office of Inspector General**

**Audit of the Effectiveness of
Veterans Benefits Administration
Compensation Writeouts**

**To Report Suspected Wrongdoing in VA Programs and Operations
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Executive Summary

Introduction

The Office of Inspector General (OIG) conducted an audit to determine if VA Regional Office (VARO) processing of compensation writeouts (also referred to as system messages) was an effective control for ensuring veterans and their dependents (beneficiaries) receive entitled compensation benefits. The objective of the audit was to determine if VAROs accurately and promptly processed compensation writeouts.

Writeouts alert VAROs to complete actions that ensure the accuracy of beneficiary compensation payments and information in the Veterans Benefits Administration's (VBA) Benefits Delivery Network (BDN). Prompt VARO writeout processing is a vital VBA control for ensuring beneficiaries receive entitled benefits and are not underpaid or overpaid. Writeouts may alert VAROs to increase a beneficiary's compensation payment because of a cost-of-living adjustment, verify a beneficiary's unemployability status, or correct BDN data that does not support entitled benefits.

Delayed or inaccurate VARO writeout processing can result in compensation underpayments or overpayments. Underpayments can cause beneficiaries undue financial hardships by depriving them of entitled compensation, which they may rely on as a significant source of their income. Overpayments and VA's collection efforts can also cause beneficiaries undue financial hardships.

As of September 2007, VBA had not established specific timeliness standards for VARO processing of writeouts. To evaluate VARO writeout processing timeliness, we used a standard of 30 days from the date BDN generated the writeout to the date VARO staff initiated the action required by the writeout. If VAROs had not initiated the action(s) required by the writeout within 30 days, we determined if the unprocessed writeout caused the beneficiary to be underpaid or overpaid and the associated amounts. When calculating overpayment amounts, we accounted for the 65 days VBA allows for VAROs to notify beneficiaries of the proposed benefit reduction or termination and for beneficiaries to respond to the notification (due process).

Results

VAROs Processed Writeouts Accurately, but Needed to Better Ensure Timely Processing of Writeouts. When VAROs processed compensation writeouts, they processed them accurately. VAROs had processed 431 of 517 writeouts we sampled. For 427 (99 percent) of these 431 writeouts, VAROs accurately completed the action(s) required by the writeout. To ensure the accuracy of benefit payments, VAROs needed to process compensation writeouts promptly. For 254 (49 percent) of 517 writeouts reviewed, VAROs exceeded the 30-day writeout processing standard by an average of 117 days. In addition, as of the onsite review dates, VAROs had not processed 86 of the

254 writeouts. Because VAROs did not process these 254 writeouts promptly, 164 beneficiaries may have been underpaid or overpaid. Of these 164 beneficiaries, 117 were underpaid a total of \$82,033 and 47 were overpaid a total of \$349,403.

For the remaining 90 writeouts (254 total writeouts not processed promptly – 164 resulting in underpayments or overpayments), VARO delays in writeout processing did not cause underpayments or overpayments. However, processing delays caused BDN data discrepancies to remain uncorrected and further VARO delays could cause future underpayments and overpayments.

VAROs did not process writeouts promptly because VBA did not require VAROs to prioritize writeout processing workload, had not established writeout processing timeliness standards, and did not require VAROs to track and monitor writeout processing timeliness. In addition, VARO staff needed training that emphasizes the importance of reducing writeout processing delays.

By projecting sample results, we estimated that VBA-wide, delays in processing writeouts generated during June–November 2006 caused an estimated 25,661 beneficiaries to be underpaid or overpaid. Of these 25,661 beneficiaries, 16,158 (63 percent) were underpaid a total of \$15 million and 9,503 (37 percent) were overpaid a total of \$32 million for a net overpayment total of \$17 million.

Conclusion

VAROs processed compensation writeouts accurately. However, VAROs needed to process writeouts promptly. By projecting sample results VBA-wide, we estimated that for writeouts generated during the 6-month period June–November 2006, prompt writeout processing would have prevented \$17 million of net overpayments. (See Appendix A, pages 16-17, for a detailed explanation of how the underpayments and overpayments were calculated.)

Recommendations

To improve controls for ensuring the accuracy of BDN data and beneficiaries' compensation payments, we recommended that the Under Secretary for Benefits take action to:

1. Develop and implement policies requiring VAROs to prioritize writeout workload with writeouts that prevent beneficiary underpayments and overpayments having the highest priority.
2. Establish timeliness standards for VARO writeout processing based on the priorities established in writeout processing policies.
3. Require VAROs to track and monitor writeout processing for compliance with established timeliness standards.

4. Require VARO staff to receive training on writeout processing that emphasizes the importance of reducing processing delays.

Under Secretary for Benefits Comments

The Under Secretary for Benefits agreed with the findings and recommendations of the report and provided acceptable implementation plans. (See Appendix C, pages 19-22, for the full text of the Under Secretary's comments.) The Under Secretary stated that VBA will develop and implement new guidelines that require the field to prioritize all writeouts that prevent underpayments or overpayments and that require staff to initiate action within 30 days of receipt for writeouts that will potentially result in an overpayment or underpayment of compensation benefits. When a predetermination notice is required, the standard 65-day beneficiary response time will continue to be allowed following the issuance of the predetermination notice. The guidance will also emphasize the importance to both beneficiaries and the Government of timely processing of writeouts. VBA plans to implement these guidelines by March 31, 2008.

The Under Secretary also stated that VAROs will begin to track and monitor local writeout processing by incorporating writeouts as a review area under the Internal Controls Systematic Analyses of Operations and VBA will monitor writeout processing timeliness and contact VARO Directors whose stations are significantly out-of-line in processing writeout adjustments. VBA plans to implement the tracking and monitoring of writeout processing by March 31, 2008. Lastly, during the summer of 2007, VBA developed a writeout training guide that will be used for new employee training as well as refresher training for all seasoned Veterans Service Representatives (VSRs). Writeout processing is also a topic covered in the mandatory 80-hour annual core training requirement for VSRs. These training tools emphasize the importance of reducing writeout processing delays.

Office of Inspector General Comments

We consider the planned actions for Recommendations 1–3 acceptable, and we will follow up on their implementation. The completed actions for Recommendation 4 are acceptable and we consider this recommendation closed.

(original signed by:)

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Assistant Inspector General
For Auditing

Introduction

Purpose

The OIG conducted an audit to determine if VARO processing of compensation writeouts (also referred to as system messages) was an effective control for ensuring veterans and their dependents (beneficiaries) receive entitled compensation benefits. The objective of the audit was to determine if VAROs accurately and promptly processed compensation writeouts.

Background

Requirements for Prompt and Accurate Writeout Processing. VBA Manual M21-1 requires VAROs to process writeouts promptly and accurately. However, as of September 2007, VBA policy did not require VAROs to prioritize writeout processing workload and did not include writeout processing timeliness standards. Although VBA policies did not require VAROs to prioritize writeout processing workload, senior VBA officials stated that VAROs should prioritize the processing of writeouts depending on the type of writeout and its impact on beneficiaries' payments. For example, VAROs should process a writeout that affects beneficiaries' payments before a writeout that only corrects data discrepancies in BDN.

To evaluate VARO writeout processing timeliness, we used a standard of 30 days from the date BDN generated the writeout to the date VARO staff initiated the action(s) required by the writeout. If VAROs had not initiated the action(s) required by the writeout within 30 days, we determined if the unprocessed writeout caused the beneficiary to be underpaid or overpaid and the associated amounts. When calculating overpayment amounts, we accounted for the 65 days VBA allows for VAROs to notify beneficiaries of the proposed benefit reduction or termination and for beneficiaries to respond to the notification (due process).

Compensation Underpayments and Overpayments May Cause Financial Hardships. During fiscal year (FY) 2006, VBA provided about \$31 billion in compensation benefits to about 3 million beneficiaries. For all beneficiaries, the amount of entitled compensation changes for annual cost-of-living benefit increases. For individual beneficiaries, the amount of entitled compensation may change for reasons such as dependency status changes, divorce, or death. When entitled compensation changes, it is in the interest of both beneficiaries and VA for VAROs to promptly adjust compensation amounts in BDN to avoid or reduce underpayments and overpayments.

Compensation underpayments deprive beneficiaries of entitled VBA benefits, which they may rely on as a significant source of their income. Compensation overpayments result in beneficiaries' indebtedness to VA, which can cause financial hardship when the VA Debt Management Center (DMC) performs collection actions. If the DMC is unable to obtain acceptable repayment arrangements, DMC refers the delinquent debt to the

Treasury Offset Program (TOP). TOP can collect the debt by reducing other Federal payments, such as income tax refunds. The DMC also notifies credit bureaus of the delinquent debts, which could limit the beneficiaries' ability to secure credit and other benefits, such as VA guaranteed home loans.

Writeout Processing Reduces Underpayments and Overpayments. VARO compensation writeout processing is a vital VBA control for ensuring beneficiaries receive entitled benefits and are not underpaid or overpaid. Writeouts alert VAROs to complete actions that ensure the accuracy of beneficiary compensation payments and information in BDN. For example, writeouts may alert VAROs to increase a beneficiary's compensation payment because of a cost-of-living adjustment, verify a beneficiary's unemployability status, or correct BDN data that does not support entitled benefits. There are two main types of writeouts:

- "Notice of Benefit Payment Transaction" (VA Form 20-6560) – When VAROs process beneficiaries' claims, they often schedule future claim actions by recording a month and year in BDN. When the recorded month arrives, BDN generates a "Notice of Benefit Payment Transaction" writeout alerting the VARO to complete the action.
- "C&P Master Record-Audit Writeout" (VA Form 20-8270) – BDN routinely compares data elements recorded in each beneficiary's C&P master record to ensure the data supports the beneficiary's entitled benefits. If comparisons identify data discrepancies or determine that BDN data does not support entitled benefits, BDN generates a "C&P Master Record-Audit Writeout" alerting the VARO to correct the BDN data.

Hines ITC Mails VAROs Writeouts. Eight to 10 times a month, in accordance with VBA's "Schedule of Operations," VA's Hines ITC prints and mails BDN-generated writeouts to VAROs. If VAROs do not promptly process writeouts, BDN regenerates and Hines ITC mails the writeouts until the necessary actions are completed and recorded in BDN. Depending on the type of writeout, BDN regenerates writeouts monthly, quarterly, semi-annually, or annually, except for dependency status writeouts which BDN regenerates once every 8 years. During the 6-month period June–November 2006, BDN generated and Hines ITC mailed 121,403 compensation writeouts to VAROs. Of the 121,403 total writeouts, 92,793 (76 percent) were unique writeouts and 28,610 (24 percent) were regenerated writeouts. Each unique writeout was associated with one beneficiary's name, claim number, and message code.

VARO Writeout Distribution Procedures. VAROs should distribute writeouts mailed from Hines ITC in accordance with procedures outlined in VBA's Claims Processing Improvement (CPI) Model. One purpose of the CPI Model is to ensure VAROs consistently and efficiently process incoming mail. When VAROs receive writeouts, mailroom staff should sort the writeouts by routing codes and provide them to Veterans Service Center (VSC) Triage. Depending on the type of action required, Triage staff should process writeouts requiring minimal or no review of claims folders and distribute all other writeouts to VSC Pre-Determination or Post-Determination staff.

VBA Electronic Pension Writeouts Initiative. In July 2006, VBA began a Pension Maintenance Centers (PMC) initiative to convert pension writeouts from hard copy to electronic. According to senior VBA officials, on June 22, 2007, VBA had completed this initiative by converting pension writeouts from hard copy to electronic at all three PMCs (Philadelphia, PA; Milwaukee, WI; and St. Paul, MN). According to program officials, electronic pension writeouts will allow PMC managers to more effectively track and monitor writeout processing. As of September 2007, VBA was evaluating the conversion of compensation writeouts from hard copy to electronic.

Veterans Service Network Implementation Will Eliminate Many Writeouts. VAROs used BDN to establish, adjudicate, award, and maintain C&P claims. However, VBA was also developing Veterans Service Network (VETSNET) to replace BDN. According to VBA program officials, VETSNET will automatically alert VARO staff of many of the same actions that writeouts identify and will eliminate the need for many writeouts. As of July 2007, VBA planned to complete full VETSNET implementation, including the transfer of all claims from BDN to VETSNET, by June 2009.

Scope and Methodology

The audit scope included 92,793 unique compensation writeouts generated by the Hines ITC during the 6-month period of June–November 2006. (During the planning phase of the audit, June–November 2006 was the most recent 6-month period for which Hines ITC had generated compensation writeouts.) The scope did not include pension writeouts because the OIG recently completed an audit of VBA’s PMCs, which processed all pension writeouts. (For more information, see the OIG report *Audit of Veterans Benefits Administration’s Pension Maintenance Program Administered by the Pension Maintenance Centers*, Report No. 05-03180-111, March 30, 2007.)

We conducted onsite audit work from October 2006 to May 2007 at the Hines ITC and VAROs Houston, TX; Oakland, CA; and St. Paul, MN. We also reviewed VBA policy and procedures and interviewed responsible VBA program officials and VARO staff.

To determine if VAROs accurately and promptly processed writeouts, we selected a statistical sample of 517 of the 92,793 writeouts. The 517 sampled writeouts included writeouts from 48 VAROs. We reviewed the claims folders associated with the 517 sampled writeouts from all 48 VAROs during the onsite visits at VAROs Houston, TX; Oakland, CA; and St. Paul MN. Each of the sampled writeouts required a VARO to complete actions related to a beneficiary’s compensation. For each of the sampled writeouts, we reviewed beneficiary claims folders and related BDN data and discussed review results with VARO management and staff who had writeout processing responsibilities. (See Appendix A, pages 16–17, for a detailed description of the audit sampling methodology.)

To accomplish the audit objective, we used computer-generated BDN writeout data. To test the reliability of this data, we compared relevant BDN data with documents in beneficiary claims folders. The data was sufficiently reliable for the audit objective. The

audit focused on controls related to the audit objective. The audit was not intended to form an opinion on the adequacy of VBA's controls overall and the report does not render such an opinion. We conducted the audit in accordance with generally accepted government auditing standards.

Results and Conclusions

VA Regional Offices Processed Writeouts Accurately, but Needed to Ensure Timely Processing of Writeouts

When VAROs processed compensation writeouts, they processed them accurately. VBA policy requires VAROs to ensure beneficiaries receive accurate compensation benefits. Accurate VARO writeout processing is a vital control for ensuring beneficiaries receive entitled compensation benefits and are not underpaid or overpaid. As of the dates of our onsite reviews, VAROs had processed 431 (83 percent) of 517 sampled writeouts. For 427 (99 percent) of these 431 writeouts, VAROs accurately completed the action(s) required by the writeout.

Prompt VARO writeout processing will strengthen controls for ensuring beneficiaries receive entitled benefits and reduce underpayments and overpayments. Underpayments may cause beneficiaries financial hardships by depriving them of entitled compensation, which they may rely on as a significant source of their income. Overpayments and DMC collection efforts may also cause financial hardships.

To evaluate VARO writeout processing timeliness, we used a standard of 30 days from the date BDN generated the writeout to the date VARO staff initiated the action required by the writeout. (As of September 2007, VBA had not established specific timeliness standards for VARO processing of writeouts.) If VAROs had not initiated the action(s) required by the writeout within 30 days, we determined if the unprocessed writeout caused the beneficiary to be underpaid or overpaid and the associated amounts. When calculating overpayment amounts, we accounted for the 65 days VBA allows for VAROs to notify beneficiaries of the proposed benefit reduction or termination and for beneficiaries to respond to the notification (due process).

VAROs did not process 254 (49 percent) of 517 sampled writeouts promptly. For these 254 writeouts, VAROs exceeded the 30-day writeout processing standard by an average of 117 days. In addition, as of the onsite review dates, VAROs had not processed 86 of the 254 writeouts. Because VAROs did not process these 254 writeouts promptly, 164 beneficiaries were underpaid or overpaid. Of these 164 beneficiaries, 117 were underpaid a total of \$82,033 and 47 were overpaid a total of \$349,403.

For the remaining 90 writeouts (254 total writeouts not processed promptly – 164 resulting in underpayments or overpayments), VARO delays in writeout processing did not cause underpayments or overpayments. However, processing delays caused BDN data discrepancies to remain uncorrected and further VARO delays could cause future underpayments and overpayments.

VAROs did not process writeouts promptly because VBA did not require VAROs to prioritize writeout workload, had not established processing timeliness standards, and did

not require VAROs to track and monitor writeout processing. In addition, VARO staff needed writeout training that emphasizes prompt writeout processing.

By projecting sample results VBA-wide, we estimated that delays in processing writeouts generated during June–November 2006 caused an estimated 25,661 beneficiaries to be underpaid or overpaid. Of these 25,661 beneficiaries, 16,158 (63 percent) were underpaid a total of \$15 million and 9,503 (37 percent) were overpaid a total \$32 million for a net overpayment total of \$17 million.

Prompt Writeout Processing Will Reduce Underpayments

Prompt VARO writeout processing will strengthen controls for reducing beneficiary underpayments and BDN data discrepancies. Of 517 sampled writeouts, 240 (46 percent) required VAROs to complete actions which could have identified or prevented underpayments or corrected BDN data discrepancies. Of these 240 writeouts, 142 required VAROs to adjust beneficiaries’ compensation in BDN for cost-of-living increases. The remaining 98 writeouts required VAROs to review BDN data and determine if suspended compensation should be resumed (40 writeouts), compensation paid was less than the amount justified by entitlement data (29 writeouts), or other data discrepancies were causing underpayments (29 writeouts). As Table 1 shows, of the 240 writeouts, VAROs did not process 157 (65 percent) promptly and 117 beneficiaries (49 percent) were underpaid a total of \$82,033.

**Table 1. Summary of Writeout Processing Delays and Underpayments
(For Writeouts Reviewed For Underpayments)**

Type of Writeout	Reviewed	Writeouts Processed		Beneficiaries	
		30 Days or Less	Over 30 Days	Underpaid	Underpayments
Cost-of-Living Increase	142	52 (37%)	90 (63%)	79	\$19,496
Suspended Compensation	40	10 (25%)	30 (75%)	8	41,301
Comp. Less Than Justified	29	8 (28%)	21 (72%)	18	14,359
Other Data Discrepancies	29	13 (45%)	16 (55%)	12	6,877
Totals	240	83 (35%)	157 (65%)	117	\$82,033

For the other 40 writeouts, (157 total writeouts not processed promptly – 117 resulting in underpayments), although processing delays did not cause underpayments, uncorrected BDN data discrepancies could result in future underpayments.

Cost-of-Living Increases Not Provided. Prompt VARO processing of cost-of-living writeouts will improve controls to ensure beneficiaries receive annual cost-of-living increases. Of 142 cost-of-living writeouts reviewed, 90 (63 percent) were not processed promptly. For 79 of these 90 writeouts, VARO processing delays resulted in beneficiary underpayments totaling \$19,496.

Every year Congress approves legislation providing a cost-of-living increase for beneficiaries receiving compensation. On October 16, 2006, the Veterans’ Compensation Cost-of-Living Adjustment Act of 2006 provided a 3.3 percent increase, effective December 1, 2006, for all beneficiaries receiving compensation. Generally, during

November of each year, BDN generates writeouts alerting VAROs that BDN will not automatically adjust certain beneficiaries' compensation for cost-of-living increases. To process these writeouts, VAROs must adjust beneficiaries' compensation amounts in BDN to include the cost-of-living increase. The following example illustrates how writeout processing delays deprived beneficiaries of cost-of-living increases:

Example 1. On November 11, 2006, BDN generated a cost-of-living writeout alerting a VARO to adjust the compensation in BDN for a beneficiary receiving military severance pay for the 2006 cost-of-living increase. The adjustment was necessary because BDN does not automatically account for cost-of-living increases when beneficiaries receive military severance pay. As of February 5, 2007, or 54 days past the 30-day standard, the VARO had not made the required BDN adjustment. As a result, the beneficiary was underpaid \$306. In addition, the VARO had not processed writeouts for the beneficiary's 2004 and 2005 cost-of-living increases. As of February 5, 2007, the VARO had exceeded the 30-day standard by 765 days for the 2004 cost-of-living writeout and 400 days for the 2005 cost-of-living writeout. As a result, the beneficiary was underpaid an additional \$1,092.

Compensation Not Resumed After Suspension. Prompt VARO account-in-suspense writeout processing will improve controls to ensure beneficiaries receive suspended compensation and monthly compensation payments resume soon after the compensation suspension ends. For the 40 account-in-suspense writeouts reviewed for possible underpayments, VAROs did not process 30 (75 percent) promptly. For 8 of these 30 writeouts, VARO processing delays resulted in beneficiary underpayments totaling \$41,301.

On a 6-month cycle, BDN generates account-in-suspense writeouts if a VARO has suspended a beneficiary's compensation for reasons such as an incorrect beneficiary address in BDN or the beneficiary missing a scheduled VA examination. When VAROs receive these writeouts, they should perform actions such as contacting the beneficiary or the beneficiary's guardian to obtain a new mailing address or reschedule a VA examination. After completing the required actions, VAROs should update BDN to resume or terminate benefits. The following example illustrates how VARO delays in processing account-in-suspense writeouts caused an underpayment:

Example 2. On June 21, 2006, after generating the same writeout in June and December 2005, BDN generated an account-in-suspense writeout alerting a VARO that a disabled child's monthly payment of \$695 had been suspended by the Hines ITC since December 2004 because a benefit check was returned due to an incorrect address. On December 21, 2006, BDN generated another writeout because the VARO had not processed the writeout generated on June 21, 2006. On January 16, 2007, after we alerted the VARO of the unprocessed writeouts, the VARO obtained the correct address and updated the address in BDN. The

VARO completed this action 209 days past the 30-day standard and 25 months after the monthly payments were suspended. As a result, the disabled child was underpaid \$17,172.

Compensation Less Than Justified. Prompt VARO processing of compensation justification writeouts will improve controls to ensure beneficiaries receive the compensation justified by BDN entitlement data. Of the 29 compensation justification writeouts reviewed, VAROs did not process 21 (72 percent) promptly. For 18 of these 21 writeouts, VARO processing delays resulted in underpayments totaling \$14,359.

On a 6-month cycle, BDN generates compensation justification writeouts if BDN data indicates that beneficiaries are receiving less compensation than justified. To process these writeouts, VAROs must review beneficiaries' claims folders and BDN information and determine if the compensation amounts paid to beneficiaries are less than the amounts justified based on factors such as entitlement, dependency, and disability ratings. If VAROs determine that the amounts are less than justified, they should increase compensation amounts in BDN to the justified level. The following example illustrates how delays in processing compensation justification writeouts caused an underpayment:

Example 3. On February 23, 2006, a VARO terminated Dependency and Indemnity Compensation (DIC) for a widow who died on January 23, 2006. However, when the VARO terminated the widow's DIC, the VARO did not increase DIC for the widow's disabled child as required. On June 1, 2006, and November 3, 2006, BDN generated compensation justification writeouts alerting the VARO that the disabled child's monthly payment of \$438 was less than the amount justified by entitlement data in BDN. As of March 8, 2007, or 217 days past the 30-day standard, the VARO had not made the required increase to the child's DIC. As a result, the disabled child was underpaid \$3,437.

Other Unresolved BDN Data Discrepancies Caused Underpayments. Prompt VARO writeout processing will improve controls to ensure the accuracy of beneficiaries' BDN data and reduce underpayments. For the 29 writeouts reviewed for possible BDN data discrepancies, VAROs did not process 16 (55 percent) promptly. For 12 of these 16 writeouts, writeout processing delays caused underpayments totaling \$6,877. The following example illustrates how VARO writeout processing delays caused BDN data to remain inaccurate and beneficiaries to be underpaid:

Example 4. On July 5, 2006, BDN generated a writeout alerting a VARO that a beneficiary's BDN data did not include a withholding amount for an apportionment. When a beneficiary's dependent is no longer under their custody, VBA may apportion or divide entitled compensation between the beneficiary and dependent. When VAROs receive this type of writeout, they should adjust BDN data for the beneficiary and dependent to include the proper withholding amount for the apportionment. On April 18, 2007, after we alerted

the VARO of the unprocessed writeout and 253 days past the 30-day standard, the VARO accurately adjusted the beneficiary’s data for the apportionment. The delay in processing the writeout caused the beneficiary to be underpaid \$1,605. (Because the VARO had properly adjusted the dependent’s portion of the benefits, the beneficiary’s dependent was not overpaid.)

Estimated VBA-wide Beneficiary Underpayments. VARO management concurred with the timeliness and underpayment results for the 157 sampled writeouts that VAROs did not process promptly. In addition, during our onsite reviews, VARO staff initiated appropriate writeout processing actions for the 157 sampled writeouts. By projecting sample results VBA-wide, we estimated that delays in processing writeouts generated during June–November 2006 caused 16,158 beneficiaries to be underpaid a total of \$15 million. (See Appendix A, pages 16–17, for a detailed explanation of how we projected the sample results to the population.)

Prompt Writeout Processing Will Reduce Overpayments

Prompt VARO writeout processing will strengthen controls and reduce beneficiary overpayments. Of the 517 sampled writeouts, 277 (54 percent) required VAROs to complete actions that could have identified or prevented compensation overpayments or corrected BDN discrepancies. For these 277 writeouts, VAROs needed to review dependency status (105 writeouts), unemployability status (99 writeouts), Social Security Administration (SSA) death match results (30 writeouts), military pay status (24 writeouts), and clothing allowances (19 writeouts). As Table 2 shows, of these 277 writeouts, VAROs did not process 97 (35 percent) promptly and 47 (17 percent) beneficiaries were overpaid a total of \$349,403.

**Table 2. Summary of Writeout Processing Delays and Overpayments
(For Writeouts Reviewed For Overpayments)**

<u>Type of Writeout</u>	<u>Reviewed</u>	<u>Writeouts Processed</u>		<u>Beneficiaries</u>	
		<u>30 Days or Less</u>	<u>Over 30 Days</u>	<u>Overpaid</u>	<u>Overpayments</u>
Dependency Status	105	66 (63%)	39 (37%)	14	\$199,259
Unemployability Status	99	62 (63%)	37 (37%)	17	101,772
SSA Death Match	30	19 (63%)	11 (37%)	6	8,683
Military Pay Status	24	14 (58%)	10 (42%)	10	39,689
Clothing Allowance	19	19 (100%)	0 (0%)	0	0
Totals	277	180 (65%)	97 (35%)	47	\$349,403

For the other 50 writeouts (97 total writeouts not processed promptly – 47 resulting in overpayments), although the processing delays did not cause overpayments, uncorrected BDN beneficiary data discrepancies could cause future beneficiary overpayments.

Dependency Status Not Confirmed. Prompt VARO processing of dependency status writeouts will improve controls to ensure the accuracy of beneficiaries’ dependency status in BDN and reduce overpayments. Of the 105 dependency status writeouts

reviewed, VAROs did not process 39 (37 percent) promptly. For 14 of these 39 writeouts, VARO processing delays caused beneficiary overpayments totaling \$199,259.

On an 8-year cycle, BDN generates and Hines ITC mails beneficiaries a “Status of Dependents Questionnaire” to confirm their dependency status. If the beneficiary does not return the questionnaire within 60 days, BDN generates a writeout to alert VAROs to confirm whether the beneficiary has returned the questionnaire.

When VAROs receive these writeouts, they should determine if the beneficiary’s claims folder includes a completed questionnaire. If a completed questionnaire is not in the claims folder, VAROs should attempt to contact the beneficiary by telephone to determine if the beneficiary’s dependency status has changed. If VARO attempts to contact the beneficiary are unsuccessful or they determine that the status has changed, they should immediately send a notification letter to the beneficiary of a proposed compensation reduction or termination. If the beneficiary does not respond to the letter within the 65-day due process period, VAROs should reduce or terminate the beneficiary’s compensation. By promptly completing these actions, VAROs can reduce overpayments. The following example illustrates how VARO delays in processing dependency status writeouts caused an overpayment:

Example 5. On July 21, 2006, BDN generated a dependency status writeout alerting a VARO that a widow had not completed a “Status of Dependents Questionnaire.” As of February 5, 2007, 194 days after BDN generated the writeout and 164 days past the 30-day standard, the VARO had not attempted to contact the widow. As a result, the widow was overpaid \$3,424.

Unemployability Status Not Confirmed. Prompt VARO processing of unemployability status writeouts will improve controls to ensure the accuracy of beneficiaries’ unemployability status in BDN and reduce overpayments. Of the 99 unemployability status writeouts reviewed, VAROs did not process 37 (37 percent) promptly. For 17 of these 37 writeouts, VARO processing delays caused overpayments totaling \$101,772.

On a 1-year cycle, BDN generates and Hines ITC mails an “Employment Questionnaire” to beneficiaries receiving individual unemployability benefits. If the beneficiary does not respond within 60 days, BDN generates a writeout to alert VAROs to confirm whether the beneficiary has returned the questionnaire.

When VAROs receive these writeouts, they should determine if the beneficiary’s claims folder includes a completed questionnaire. If a completed questionnaire is not in the claims folder, VAROs should attempt to contact the beneficiary by telephone to determine if the beneficiary’s unemployability status has changed. If VARO attempts to contact the beneficiary are unsuccessful or they determine that the status has changed, they should mail a notification letter to the beneficiary explaining the proposed reduction or termination of compensation. If the beneficiary does not respond to the letter within 65 days, VAROs should terminate or reduce the beneficiary’s compensation. By promptly completing these actions, VAROs can reduce overpayments. The following

example illustrates how VARO delays in processing unemployability status writeouts caused an overpayment:

Example 6. On June 21, 2006, BDN generated an unemployability status writeout alerting a VARO that a beneficiary had not completed an “Employment Questionnaire.” On March 10, 2007, after we alerted the VARO of the unprocessed writeout and 109 days past the 30-day standard, the VARO made the appropriate change in BDN to discontinue unemployability compensation. The VARO’s delay in processing the writeout caused the beneficiary to be overpaid \$6,280.

SSA Death Match Reviews Not Performed. Prompt processing of SSA death match writeouts will improve controls to ensure VAROs terminate compensation when a beneficiary dies and will reduce overpayments to the beneficiary’s estate. Of 30 death match writeouts reviewed, VAROs did not process 11 (37 percent) promptly. For 6 of these 11 writeouts, VARO processing delays caused overpayments totaling \$8,683.

On a 1-month cycle, BDN generates death match writeouts when a beneficiary’s social security number in the C&P master record matches a social security number on the SSA Social Security Death File. When VAROs receive this writeout, they should attempt to contact the beneficiary’s relatives by telephone to confirm that the beneficiary has died. If attempts to contact the beneficiary’s relatives by telephone are unsuccessful, VAROs should mail the beneficiary’s relatives a notification letter explaining the proposed reduction or termination of compensation. If the beneficiary’s relatives do not respond to the letter within 65 days, VAROs should terminate the beneficiary’s compensation. The following example illustrates how VARO delays in processing SSA death match writeouts caused a beneficiary’s estate to be overpaid:

Example 7. On June 7, 2006, BDN generated a SSA death match writeout alerting a VARO that a SSA beneficiary died on April 11, 2006. As of April 24, 2007, 245 days after BDN generated the writeout and 215 days past the 30-day standard, the VARO had not terminated the beneficiary’s benefits. As a result, the beneficiary’s estate was overpaid \$3,099.

Military Pay Status Not Confirmed. Prompt VARO processing of military pay writeouts will improve controls to ensure beneficiaries do not receive concurrent compensation from the military and VA. Of the 24 military pay writeouts reviewed, VAROs did not process 10 (42 percent) promptly. For these 10 writeouts, VARO processing delays caused beneficiary overpayments totaling \$39,689.

VBA policy prohibits the payment of compensation to beneficiaries who are receiving military separation pay. The Department of Defense pays separation pay to officers with at least 5 years of active duty and enlisted personnel with at least 6 years of active duty who are involuntarily discharged and do not qualify for retirement benefits.

On a 6-month cycle, BDN generates military pay writeouts if BDN data shows a beneficiary received concurrent payments of VBA compensation and military separation pay and VBA is not withholding current compensation to recover the inappropriately paid compensation. When VAROs receive these writeouts, they should reduce the beneficiary's payment amount in BDN to ensure VBA recovers the inappropriately paid compensation. The following example illustrates how VARO delays in processing military pay writeouts caused an overpayment:

Example 8. On November 3, 2006, BDN generated a military pay writeout alerting a VARO that a beneficiary had received VBA compensation and military separation pay concurrently. On March 8, 2007, after we alerted the VARO of the unprocessed writeout and 95 days past the 30-day writeout processing standard, the VARO reduced the beneficiary's payments in BDN to begin recovering the inappropriately paid compensation. Because the VARO delayed the processing of this writeout, the beneficiary was overpaid \$26,346.

Clothing Allowance Writeouts Processed Promptly. VAROs processed clothing allowance writeouts promptly. When VAROs receive clothing allowance writeouts, they should deliver them to the VA medical facility identified on the writeout. VA medical facility staff should review the beneficiary's medical records and, if necessary, examine the beneficiary and determine if the disability requires special clothing. (The audit scope did not include a review of VA medical facility processing of clothing allowance writeouts after receiving them from VAROs.) VAROs promptly delivered all 19 sampled clothing allowance writeouts to the appropriate VA medical facilities.

Estimated VBA-wide Beneficiary Overpayments. VARO management concurred with the timeliness and overpayment results for the 97 sampled writeouts that VAROs did not process promptly. In addition, during our onsite reviews, VARO staff initiated appropriate writeout processing actions for the 97 sampled writeouts. By projecting sample results VBA-wide, we estimated that for writeouts generated during the 6-month period of June–November 2006, VARO writeout processing delays caused 9,503 beneficiaries to be overpaid a total of \$32 million. (See Appendix A, pages 16–17, for a detailed explanation of how we projected the sample results to the population.)

Causes of VARO Writeout Processing Delays

The audit identified four causes for the writeout processing delays. First, VBA did not require VAROs to prioritize writeout processing workload; second, VBA had not established writeout processing timeliness standards; third, VBA did not require VAROs to track and monitor writeout processing timeliness; and fourth, VARO staff did not receive training that emphasized the importance of prompt writeout processing.

VBA Should Establish Writeout Workload Prioritization Policies. VBA did not have policies that required VAROs to prioritize writeout processing depending on the type of writeout and its potential impact on beneficiaries' payments. Generally, the three

VAROs visited were prioritizing writeout workload by processing the oldest writeouts first and the most recent writeouts last. As a result, all three VAROs had processed writeouts that only corrected BDN data discrepancies and did not affect beneficiary payments before processing writeouts that prevented beneficiary underpayments and overpayments.

VBA Should Establish Writeout Processing Timeliness Standards. VBA had not established specific timeliness standards for VARO processing of compensation writeouts. VBA had several performance measures for strategic goals related to compensation claims processing timeliness, such as days to process rating-related actions, non-rating actions, and DIC actions. However, none of the strategic goals applied to writeouts. In addition, VARO staff did not consider VBA's established timeliness goals to apply to writeouts and VBA did not include writeout processing days when calculating and reporting the processing results for any of the goals.

VARO staff stated that they did not process writeouts promptly because completing other compensation rating-related actions were a higher priority. This was because VBA had established performance measure strategic goals for other compensation rating-related actions and not writeout processing. VBA should establish writeout processing timeliness standards that ensure higher priority writeouts are processed before lower priority writeouts. For example, VBA could prioritize workload by establishing a 30-day standard for processing writeouts that affect beneficiary payments and a 60-day standard for writeouts that only correct BDN data discrepancies.

VAROs Should Track and Monitor Writeout Processing Timeliness. VBA did not require VARO management to track and monitor staff timeliness in processing compensation writeouts. Generally, the three VAROs visited were following the procedures outlined in the CPI Model in regards to the distribution of writeouts received in the mail. VAROs received hard copy writeouts from the Hines ITC 8 to 10 times per month. During the 6-month period June–November 2006, VAROs received an average of 355 writeouts per month.

VARO staff stated that processing hard copy writeouts was manually intensive and made it difficult to effectively track and monitor writeout processing. To track and monitor the processing of hard copy writeouts, VARO staff would have to document the date the VARO received the writeout, the physical location of the writeout throughout processing, and the date and type of actions completed by the VARO.

None of the three VAROs visited were documenting this writeout processing information. For example, during a May 2007 onsite review at a VARO, an employee told us that there were at least 300 or 400 November 2006 cost-of-living writeouts that still had not been processed. Because the VARO was not tracking and monitoring writeout processing, VARO management did not know that these beneficiaries had not received their December 2006 cost-of-living increase.

According to VBA officials, on June 22, 2007, VBA completed the PMC initiative to convert pension writeouts from hard copy to electronic. This conversion will allow PMC managers to track and monitor writeout processing more effectively. As of September 2007, VBA was evaluating the conversion of compensation writeouts from hard copy to electronic. Meanwhile, VBA should require VAROs to implement procedures for tracking and monitoring hard copy writeout processing.

VARO Staff Needed Training on Prompt Writeout Processing. VSRs, who are responsible for processing writeouts, had not received training on prompt writeout processing. VARO managers and VSRs stated that introductory writeout training was insufficient because less experienced VSRs usually needed guidance from senior VSRs on how to process the various writeouts. As a result, less experienced VSRs delayed the processing of writeouts until senior VSRs were available to provide guidance. In addition, the introductory training did not discuss the importance of prompt writeout processing or the potential for beneficiary underpayments and overpayments if VSRs do not process writeouts promptly.

Conclusion

VAROs processed compensation writeouts accurately. However, VAROs needed to process writeouts promptly. By projecting sample results VBA-wide, we estimated that for writeouts generated during the 6-month period June–November 2006, prompt writeout processing would have prevented \$17 million of net overpayments. (See Appendix A, pages 16–17, for a detailed explanation of how the underpayments and overpayments were calculated.)

Recommendations

To improve controls for ensuring the accuracy of BDN data and beneficiaries' compensation payments, we recommended that the Under Secretary for Benefits take action to:

1. Develop and implement policies requiring VAROs to prioritize writeout workload with writeouts that prevent beneficiary underpayments and overpayments having the highest priority.
2. Establish timeliness standards for VARO writeout processing based on the priorities established in writeout processing policies.
3. Require VAROs to track and monitor writeout processing for compliance with established timeliness standards.
4. Require VARO staff to receive training on writeout processing that emphasizes the importance of reducing processing delays.

Under Secretary for Benefits Comments

The Under Secretary for Benefits agreed with the findings and recommendation of the report and provided acceptable implementation plans. (See Appendix C, pages 19-22, for the full text of the Under Secretary's comments.) The Under Secretary stated that VBA will develop and implement new guidelines that require the field to prioritize all writeouts that prevent underpayments or overpayments and that require staff to initiate action within 30 days of receipt for writeouts that will potentially result in an overpayment or underpayment of compensation benefits. When a predetermination notice is required, the standard 65-day beneficiary response time will continue to be allowed following the issuance of the predetermination notice. The guidance will also emphasize the importance to both beneficiaries and the Government of timely processing of writeouts. VBA plans to implement these guidelines by March 31, 2008.

The Under Secretary also stated that VAROs will begin to track and monitor local writeout processing by incorporating writeouts as a review area under the Internal Controls Systematic Analyses of Operations and VBA will monitor writeout processing timeliness and contact VARO Directors whose stations are significantly out-of-line in processing writeout adjustments. VBA plans to implement the tracking and monitoring of writeout processing by March 31, 2008. Lastly, during the summer of 2007, VBA developed a writeout training guide that will be used for new employee training as well as refresher training for all seasoned VSRs. Writeout processing is also a topic covered in the mandatory 80-hour annual core training requirement for VSRs. These training tools emphasize the importance of reducing writeout processing delays.

Office of Inspector General Comments

We consider the planned actions for Recommendations 1–3 acceptable, and we will follow up on their implementation. The completed actions for Recommendation 4 are acceptable and we consider this recommendation closed.

Sampling and Estimating Methodology

Sampling

Purpose

To determine if VARO processing of compensation writeouts was an effective control for ensuring veterans and their dependents (beneficiaries) receive entitled compensation benefits.

Population

The population consisted of 92,793 unique compensation writeouts generated by BDN during the 6-month period June–November 2006. The 92,793 unique writeouts excluded 28,610 regenerated compensation writeouts from the 121,403 writeouts which BDN generated during the same period.

Sampling Design

We used a random sampling design that included two strata. The strata were based on the two main types of compensation writeouts — “Notice of Benefit Payment Transactions” (VA Form 20-6560) and “C&P Master Record-Audit Writeouts” (VA Form 20-8270). We used the Department of Health and Human Services OIG’s RAT-STATS computer software to perform our statistical analysis. (RAT-STATS is a statistical software package that assists auditors in selecting random samples and evaluating audit results.)

We selected the sample size of 517 writeouts from the 92,793 population of unique writeouts using a confidence level of 90 percent, a desired precision rate of ± 10 percent, and an expected error rate of 10 percent. Table 3 shows the populations and sample sizes for the two strata.

Table 3. Strata Populations and Sample Sizes

<u>Strata</u>	<u>Number of Writeouts</u>	
	<u>Population</u>	<u>Sample Size</u>
Notices of Benefit Payment Transactions	62,131	276
C&P Master Record-Audit Writeouts	<u>30,662</u>	<u>241</u>
Totals	92,793	517

Estimating

For the two sample strata, we projected the sample results to the population of writeouts generated during the period June–November 2006. For 164 (32 percent) of the 517 sampled writeouts, VARO delays in writeout processing and inadequate controls for identifying dependency status changes resulted in 117 beneficiaries being underpaid and

47 beneficiaries being overpaid. By projecting the sample results to the VBA-wide population of writeouts generated during June–November 2006, we estimated that 16,158 beneficiaries were underpaid a total of \$15 million. Table 4 shows the underpayment sample results and population point estimates (projections) by strata.

**Table 4. Sample Results and Population Point Estimates – Underpayments
(June–November 2006)**

<u>Strata</u>	<u>Sample</u>		<u>Population – Point Estimates</u>	
	<u>Beneficiaries</u> <u>Underpaid</u>	<u>Average</u> <u>Underpayment</u>	<u>Beneficiaries</u> <u>Underpaid</u>	<u>Total</u> <u>Underpayments</u>
Notices of Benefit Payment Transactions	13	\$3,404	2,926	\$9,960,104
C&P Master Record-Audit Writeouts	<u>104</u>	363	<u>13,232</u>	<u>4,803,216</u>
Totals	117		16,158	\$14,763,320

The point estimates represent the midpoint of the lower and upper limit projections. The lower limit of the population projection was 13,305 beneficiaries and the upper limit was 19,011 beneficiaries.

By projecting the sample results to the population of writeouts BDN generated during June – November 2006, we estimated that 9,503 beneficiaries were overpaid a total of \$32 million. Table 5 shows the overpayment sample results and population point estimates by strata.

**Table 5. Sample Results and Population Point Estimates – Overpayments
(June–November 2006)**

<u>Strata</u>	<u>Sample</u>		<u>Population – Point Estimates</u>	
	<u>Beneficiaries</u> <u>Overpaid</u>	<u>Average</u> <u>Overpayment</u>	<u>Beneficiaries</u> <u>Overpaid</u>	<u>Total</u> <u>Overpayments</u>
Notices of Benefit Payment Transactions	36	\$3,791	8,104	\$30,722,208
C&P Master Record-Audit Writeouts	<u>11</u>	1,242	<u>1,399</u>	<u>1,737,558</u>
Totals	47		9,503	\$32,459,766

The lower limit of the population projection was 6,650 beneficiaries and the upper limit was 12,356 beneficiaries.

For the writeouts generated during June–November 2006, VARO writeout processing delays caused an estimated 25,661 beneficiaries to receive inaccurate compensation benefits. Of these 25,661 beneficiaries, 16,158 (63 percent) were underpaid a total of about \$15 million and 9,503 (37 percent) were overpaid a total of about \$32 million for a net overpayment of \$17 million.

Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendation</u>	<u>Explanation of Benefit(s)</u>	<u>Better Use of Funds</u>
1-4	Reducing compensation benefit underpayments and overpayments by requiring VAROs to prioritize writeout workload, establishing VARO writeout processing timeliness standards, monitoring compliance with the standards, and providing VARO staff writeout processing training.	\$17 million

Under Secretary for Benefits Comments

**Department of
Veterans Affairs**

MEMORANDUM

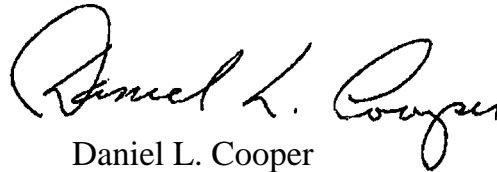
Date: November 27, 2007

From: Under Secretary for Benefits (20)

Subj: OIG Revised Draft Report-Audit of the Effectiveness of Veterans Benefits Administration Compensation Writeouts (Project No. 2006-01791-R3-0235) WebCIMS 390405

To: Assistant Inspector General for Audit (52)

1. This is in response to your request for VBA's review of OIG's Revised Draft Report: Audit of the Effectiveness of Veterans Benefits Administration Compensation Writeouts. Attached are VBA's comments.
2. Questions may be referred to Dee Fielding, VBA's OIG Liaison, at 461-9057.



Daniel L. Cooper

Under Secretary for Benefits Comments to Office of Inspector General's Report

The following Under Secretary for Benefits comments are submitted in response to the recommendations in the Office of Inspector General's Report:

VBA concurs with the overall findings from the OIG audit that improvements to compensation writeout processing policies and procedures are needed. This response details measures already in place to ensure writeout processing effectiveness as well as the steps taken by VBA subsequent to the period covered by the audit, including those to be instituted in response to the OIG audit findings. All improvement efforts are being tracked and monitored for completeness and positive results. We offer the following comments on the specific recommended improvement actions in the draft report.

OIG Recommendations

Recommendation 1. Develop and implement policies requiring VAROs to prioritize writeout workload with writeouts that prevent beneficiary underpayments and overpayments having the highest priority.

VBA concurs.

Target Completion Date: March 31, 2008

VBA will develop and implement new guidelines requiring the field to prioritize all writeouts that prevent underpayments, overpayments, or potential financial hardships. VBA will emphasize the importance to both beneficiaries and the Government of timely processing of writeouts that affect payments. VBA will promulgate this guidance via fast letter by March 31, 2008.

Recommendation 2. Establish timeliness standards for VARO writeout processing based on the priorities established in writeout processing policies.

VBA concurs.

Target Completion Date: March 31, 2008

VBA will issue procedural guidance requiring staff to initiate action within 30 days of receipt for writeouts that will potentially result in an overpayment or underpayment of compensation benefits. When a predetermination notice is required, the standard 65-day response time will continue following issuance of the predetermination notice. VBA will provide a fast letter to the VAROs addressing these procedures by March 31, 2008. VBA's procedures manual will subsequently be updated.

Recommendation 3: Require VAROs to track and monitor writeout processing for compliance with established timeliness standards.

VBA concurs.

Target Completion Date: March 31, 2008

VAROs will begin to track and monitor local writeout processing. Local management is responsible for ensuring the writeout policies are implemented, assessed through an effective internal controls process, and adjusted as needed to achieve appropriate results. The fast letter referenced in recommendations 1 and 2 will clearly outline the controls necessary to facilitate monitoring.

VBA will re-emphasize the importance of timely completion of writeout processing on the weekly Associate Deputy Under Secretary for Field Operations conference call and the monthly Veteran Service Center Managers conference call. The fast letter provided to the VAROs by March 31, 2008, will also discuss the importance of timely completion of writeouts, and timeliness will be added as an area of review under the Internal Controls Systematic Analyses of Operations. VBA will monitor writeout timeliness and contact VARO directors whose stations are significantly out-of-line in processing the adjustments.

Additionally, VBA's Compensation and Pension (C&P) Service conducts approximately 18 site visits to regional offices each year. The intent of these visits is to ensure that VBA policies and procedures pertaining to the C&P business line are followed consistently nationwide. The site visit

protocol will be revised to include validation of compliance with national and local directives regarding writeout processing.

Recommendation 4: Require VARO staff to receive training on writeout processing that emphasizes the importance of reducing processing delays.

VBA concurs.

Target Completion Date: In effect

Training on writeout processing is provided to all new Veterans Service Representatives (VSR). In the summer of 2007, a writeout training guide was developed that will be used for new employee training as well as refresher training for all seasoned VSRs. Writeout processing is also a topic covered in the mandatory 80-hour annual core training requirement for seasoned VSRs. The training tools utilized emphasize the importance of reducing processing delays. Since FY 2007, the VSR training curriculum has been a mandatory requirement. VBA requests closure of this recommendation.

OIG Contact and Staff Acknowledgments

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Acknowledgments	E. Marcia Drawdy George Boyer Nathaniel Holman Earl Key Whittie Lockett George Patton Cheri Preston
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