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RELEASED

Cost Of Proposed Legislative Change
Of The Effective Date Of
Compensation And Pension
Awards Made To Veterans

B-114859

Veterans Administration

B-114859

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

910695

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JUNE 20, 1974



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The Honorable John V. Tunney
United States Senate

Dear Senator Tunney:

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✓ In accordance with your letter of April 11, 1973, and subsequent discussions with your office, we have analyzed the completeness and reasonableness of the Veterans Administration's (VA's) estimates of the annual costs which would be associated with changing the effective date of compensation and pension awards for veterans. As proposed in S. 3778, 92nd Congress, 2nd session the effective date would be the date their applications are postmarked rather than the date they are received by VA. This report describes the results of our analysis.

In its October 1972 report to the Senate Committee on Veterans' Affairs, VA estimated that S. 3778 would affect about 135,000 compensation and pension cases at an annual cost of \$1,238,130. This estimate included \$1 million in additional compensation and pension benefits to payees and \$238,130 in additional administrative costs.

METHODOLOGY USED BY VA

In estimating the benefit cost increase of \$1 million, VA first estimated the number of compensation and pension cases which would have been affected by S. 3778 had it been in effect during 1972. VA applied the daily benefit rate to the number of cases affected to obtain the total benefit cost per day. VA then computed the increased cost for the additional number of days for which veterans would have received payments, based on an estimate of the average number of days between the postmarking of applications and their receipt by VA.

In estimating the increased administrative cost of \$238,130 that would have been incurred if S. 3778 had been in effect during 1972, VA assumed that envelopes would have to be retained to provide an adequate record of the postmark date. VA then estimated the percentage of its mail which would have been affected and determined the additional cost that would have been incurred for filing cabinets and floor space. VA officials said that although they could not estimate any significant increases in processing costs, there would be a recognizable increase in manpower overhead due to the increased bulk in mail and in files.

Although VA's methodology appears to be reasonable, we noted that the following figures used in arriving at the total cost estimates were not adequately supported:

- The percentage of annually awarded survivors' pension and survivors' compensation claims filed within 1 year of the veterans' discharge or death.
- The percentage of claim-related mail received by VA annually.
- The percentage of awarded claims which were filed in person annually.
- The average number of days difference between the postmark date and the date of VA's receipt of claims for compensation and pension benefits.
- The annual percentage of terminated cases which are restored within the same year.
- The annual percentage of terminated cases which represent each type of compensation and pension claim.

Therefore, we cannot give an opinion about the estimates' reasonableness.

VA officials said that no detailed studies were made of alternative methods of establishing the postmark date and the effect such alternative methods could have on administrative costs. VA's estimate of administrative costs was based primarily on the need to store large volumes of envelopes to support the postmark date of the claims.

We contacted officials of the Internal Revenue Service, Social Security Administration, and Department of Housing and Urban Development to determine what methods they use to establish postmark dates. The officials stated that they often retain the envelope but sometimes date-stamp the correspondence according to the postmark date, or make a hand notation of the postmark date on the correspondence, depending on the volume and significance of affected documents and corresponding envelopes. Use of either of these methods should reduce file cabinet and floor space costs. However, since VA has not studied these methods, no definite conclusions can be made on their overall effect on related costs.

ACCURACY OF VA COST ESTIMATES

Our analysis of the accuracy of VA's calculations and the appropriateness of the figures for which it had support disclosed that several errors were made in arriving at the total cost of increased benefits to payees and the total administrative costs. These errors did not significantly affect VA's estimated cost of benefits to payees but did significantly understate the estimated administrative costs.

VA used an average daily benefit rate in estimating the total benefit cost. In arriving at this rate, VA used 360 days rather than 365 and made certain mathematical errors. The net effect of these errors was an overstatement of the total annual benefits to payees. The increased benefit cost should have been about \$986,000 rather than \$1 million as estimated by VA.

Also, in determining the increased administrative cost, VA estimated that 1 square foot of additional floor space would be required per file cabinet. However, according to the General Services Administration (GSA), 7 square feet should have been allowed. According to GSA's criteria, the increased administrative cost would be about \$351,500 rather than \$238,130 as estimated by VA.

OTHER CONSIDERATIONS

After VA made its cost estimates, two events occurred which warrant consideration. First, the recent enactment of Public Law 93-177 will reduce the number of veterans' pension cases that would be affected by S. 3778. Accordingly, VA's estimated benefit and administrative cost attributable to S. 3778 would be reduced. Public Law 93-177, which became effective January 1, 1974, states in part that:

"The effective date of an award of disability pension to a veteran shall be the date of application or the date on which the veteran became permanently and totally disabled, if an application therefore is received within one year from such date, whichever is to the advantage of the veteran."

VA believes that the majority of veterans file for disability pensions within 1 year of becoming disabled.

Second, VA's cost estimate for cabinets was based on fiscal year 1971 prices, and floor space costs were based on 1972 prices. Prices of filing cabinets and floor space have increased significantly since then, resulting in more administrative costs than previously estimated if additional cabinets and floor space are needed.

CONCLUSIONS

We believe that the passage of Public Law 93-177 will reduce the overall impact of S. 3778. Regarding the accuracy of VA's estimates which were made before passage of the law, we found that the administrative cost estimate was significantly understated.

When analyzing VA's estimates for reasonableness and completeness, we found that VA had no support for many of the statistics used in its calculations. It should also be noted that personnel costs that would be incurred for handling the additional documents needed to establish the effective date of the awards were not included in VA's estimates. Further, VA did not study all alternative procedures to reduce the related administrative costs. Until these matters are resolved, conclusions about the reasonableness of VA's estimates cannot be made.

AGENCY COMMENTS AND OUR EVALUATION

A copy of a letter dated April 2, 1974, from the Administrator of Veterans' Affairs commenting on our findings is included in the appendix. In the letter, the Administrator advised that, based on fiscal year 1973 data and a 365-day year, the cost of benefits which would have been paid to veterans if S. 3778 had been passed was recomputed taking into consideration the impact of Public Law 93-177. The revised estimate showed that benefit costs would increase about \$165,000. He also said that VA recomputed the administrative costs that would be incurred to implement the provisions of S. 3778 considering increased fiscal year 1973 mail volumes, new GSA filing cabinet costs, and projected fiscal year 1974 floor space costs. The revised estimate showed that administrative costs would increase about \$482,000. VA stated that although no detailed studies were made, its previous conclusion that retaining envelopes would be the most economical way of establishing postmark dates was based on VA's experience.

We have analyzed VA's revised estimates and believe they were accurately computed. We noted, however, that as with the original estimates, VA still lacked support for the figures previously discussed, did not include increased personnel costs in the administrative cost estimate, and did not study alternative procedures to reduce related administrative costs.

In addition, we noted that in making the revised benefit cost estimate VA assumed that all veterans' pension claims are made within 1 year of disability which, in accordance with the provisions of Public Law 93-177, would be the effective date of the awards. VA therefore concluded that S. 3778 would have no effect on veterans' pensions.

A VA official stated that this assumption was based on VA's experience and that no studies had been performed to determine whether

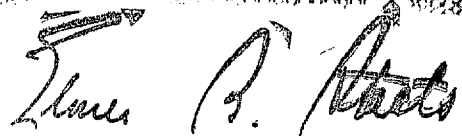
the assumption was correct. Although he declined to make an estimate the official stated that it was very probable that some veterans' pension claims would be affected by S. 3778.

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As agreed to by your office, we plan to provide a copy of this report to the Senate Committee on Veterans' Affairs. Additional copies will not be distributed unless specifically requested and then we shall make distribution only if you agree or publicly announce its contents.

Should you request and obtain additional information from VA, we will be glad to assist you or your staff in making any further analyses required.

Sincerely yours,



Comptroller General
of the United States



VETERANS ADMINISTRATION
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS
WASHINGTON, D.C. 20420

APRIL 2 1974

Mr. Gregory J. Ahart
Director, Manpower
and Welfare Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Ahart:

We appreciate the opportunity to review and comment on your draft report relating to the cost of proposed legislative change of the effective date of compensation and pension awards made to veterans. As you point out in your draft report, the passage of PL 93-177 will reduce the overall impact of the proposed legislative change.

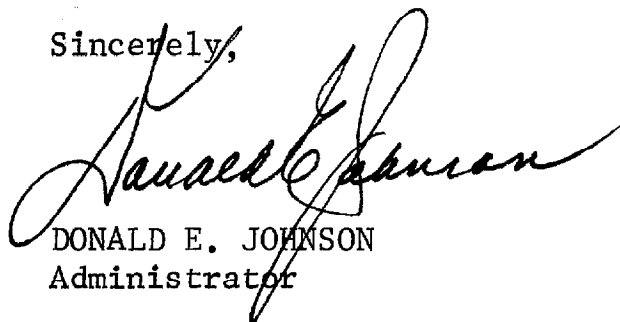
We have updated our estimates of the effects of S. 3778 on compensation and pension benefits to project that about 25,350 cases would be affected at an annual cost of approximately \$165,000. In this estimate, FY 1973 actual experience was used, rather than FY 1972, and the average daily rate(s) used were based on a 365-day year, rather than 360 mentioned in your draft report.

Regarding the errors made in estimating administrative costs, detailed studies of alternate methods were not made since the time was limited. The conclusion that retaining the envelopes as a record of the postmark date would be the most economical method was reached by our staff who are knowledgeable and experienced in processing high volume mail.

Mr. Gregory J. Ahart
Director, Manpower
and Welfare Division
U. S. General Accounting Office

Our original estimates have been adjusted based on current (actual FY 1973) mail volumes, space costs projected on the FY 1974 proposed charges under PL 92-313, and new GSA file cabinet costs. Based on 64,884,297 incoming mail items there would be 648,843 linear inches of envelopes. This would be reduced to 60 per cent by eliminating non-applicable items, leaving 389,306 linear inches. This would require storage space for 32,442 linear feet. Considering the 85 per cent storage factor for file cabinets, this would require 3,817 five-drawer lettersize cabinets. At a per file cabinet cost of \$80, this would total in equipment cost, \$305,360. The associated space cost at \$6.61 per square foot would be \$176,613. The total cost would be \$481,973.

Sincerely,

A handwritten signature in cursive script, appearing to read "Donald E. Johnson".

DONALD E. JOHNSON
Administrator