Improper Payments Information Act of 2002 (IPIA)

Narrative Summary of Implementation Efforts for FY 2007/Agency Plans for FY 2008 – 2010

Detail I

Describe the 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 its 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 programs. All programs not reported 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 included in the Compensation program. The remaining 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. These include Compensation, Pension, Education, Insurance, Loan Guaranty (LGY), Non-VA Care Fee, and Vocational Rehabilitation & Employment programs. 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. Because the Insurance program does not meet the 2.5 percent or $10 million threshold in annual erroneous payments, the Office of Management and Budget granted VA's request for relief from annual improper payment reporting in the PAR for the Insurance program until 2009. Because the Vocational Rehabilitation & Employment (VR&E) program has not met the reporting requirements for the past 2 years, VA requested relief from future annual reports for the program and was granted relief from annual reporting until 2010.

In 2007, statistical samplings were performed on all required programs to estimate improper payments. (2006 data were used to ensure that an accurate representation of a full fiscal year's results was obtained.) These programs include Compensation, Pension, Education, 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.

In the current year's risk assessment, the Veterans Health Administration (VHA) re-evaluated the error measurement methodology it used to determine the level of risk inherent in its programs in the interest of reporting a more accurate presentation of the susceptibility of its programs to significant improper payments. After completing the assessments, one VHA program, Non-VA Care Fee, had estimated improper payments that exceeded $10 million and a 2.5 percent error rate.

Non-VA Care Fee Program is managed by VHA. Historically, Non-VA Care Fee has been called the Fee Program and has included Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA). However, due to the size of CHAMPVA, VHA performed separate IPIA sampling procedures on it. For purposes of this IPIA report only, VHA will consider Non-VA Care Fee to include two separate programs, CHAMPVA and the Fee Program. CHAMPVA will be reported as a separate program next year, since its outlays are expected to exceed $500 million.

1. Two Benefit Programs: 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 11,056 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.

The Compensation Program is composed of the following:

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 of veterans 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.

The Pension Program is composed of the following:

a. **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.

b. **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. For 2006, the percentage of erroneous payments exceeded 2.5 percent, while 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 2006 totaled over $573 million and are expected to rise to over $618 million and $669 million in 2007 and 2008, 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 site visits 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, one regional office, and one eligibility center. Additionally, several important program functions are contracted out, and LGY Service maintains monitoring units to oversee those operations. In 2006, the program guaranteed over 142,000 loans for a dollar value in excess of $24 billion. LGY Service was ultimately responsible for the processing of over $876 million 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.

5. Non-VA Care Fee

There are two programs addressed in this section: the Fee Program and the CHAMPVA program.

The Non-VA Care Fee program is part of the medical benefits program for veterans and is administered at all VA medical centers. This covers the full range of services covered under our Benefits Package. The CHAMPVA program is a medical benefit program for spouses and dependents of veterans and is limited to a small sub-set of spouses and dependents. This program is centrally administered at the VA Health Administration Center in Denver. These are very different programs, with separate and distinct business models serving different beneficiary populations.

Under the Fee Program, certain veteran patients may be authorized to receive treatment from non-VA health care providers at VA expense when VA medical facilities are unable to provide specific treatment or cannot provide treatment economically due to geographic inaccessibility. Fee care may be allowed for inpatient and outpatient care at non-VA hospitals, outpatient-care facilities, and for home health care. A common misconception is that veterans "enroll" in the Fee Program. In actuality, VHA staff is delegated authority to determine Fee eligibility for veterans who meet legal and medical entitlement criteria to receive health-care services at non-VA facilities.

VHA established detailed erroneous payment criteria to gauge the accuracy of payments in the Fee Program. VHA medical facilities self-reported erroneous payments based on the following areas:

- Payment errors stemming from a procedural or administrative origin.
- Payment errors originating from deficiencies in contractual-based transactions.
- Payment entitlement disbursements to ineligible beneficiaries.
- Money management matters that translated to incorrect interest payments.
- Unsupported payments as evidenced by inadequate or missing documentation.
- VHA's IPIA self-reporting worksheet that related to erroneous Fee Program payments included a separate, additional category of medical progress notes or clinical discharge summaries that were missing or did not support the diagnostic medical codes on Fee Program vendors' invoices.

As noted in the discussion of the cause(s) of errors in Detail III under Corrective Action Plans, a susceptible area in which Fee Program payments are vulnerable is the lack of documentation to support Fee Program vendors' invoices in which payments are requested. The most typical type of missing or unsupported documentation revolved around medical progress notes or clinical discharge summaries that were missing or did not support the diagnostic medical codes on Fee Program vendors' invoices for care that was not pre-authorized.

CHAMPVA is a non-VA health care program in which VA shares the cost of covered health care services and supplies with eligible beneficiaries. The program is administered by VHA's Health Administration Center in Denver, Colorado.

To be eligible for CHAMPVA, an individual cannot be eligible for the Department of Defense's TRICARE program (sometimes referred to by its old name, Civilian Health and Medical Program of the Uniformed Services (CHAMPUS)), and must be in one of these categories:

- The spouse or child of a veteran who has been rated permanently and totally disabled for a service-connected disability by a VA regional office.
- The surviving spouse or child of a veteran who died from a VA-rated service-connected disability.
- The surviving spouse or child of a veteran who was at the time of death permanently and totally disabled from a service connected disability.
- The surviving spouse or child of a

military member who died in the line of duty, not due to misconduct.

On September 28, 2007, VA's Office of Inspector General (OIG) issued an audit report on CHAMPVA. As part of the audit, the OIG performed a stratified statistical sampling of CHAMPVA payments made between July 2005 and June 2006 using a confidence level of 95 percent, a desired precision rate of 10 percent, and an expected error rate of 15 percent. Based on the sampling, it estimated the improper payment rate to be 10 percent and the absolute value of over and underpayments to be $12.4 million. Based on the OIG report, VHA will perform further analysis of the program's susceptibility to erroneous payments and during next year's IPIA review will employ the more stringent IPIA statistical sampling methodology that was used by the OIG (a 95 percent confidence level and a 3 percent margin of error).

Detail II

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

1. Two Benefit Programs: 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 result in award action to create debts 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 2006, the DMC received $189.5 million in compensation debt and $296.5 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 2006, the STAR process included 11,056 cases -- 9,363 compensation cases and 1,693 pension cases. A total of 234 payment errors were documented for compensation cases (2.5 percent error rate), including 133 underpayments totaling $415,739 and 101 overpayments totaling $424,437. A total of 60 payment errors were documented for pension cases (3.5 percent error rate), including 28 underpayments totaling $67,301 and 32 overpayments totaling $93,797.

The number of cases reviewed for compensation and pension represents 0.72 percent of the 1,540,211 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. For the overall volume of cases subject to review, 867,867 were clearly identified as compensation cases and 312,231 were clearly identified as pension cases. The remaining 360,113 cases were recorded under end-product codes that could apply to either compensation or pension claims. The assumption was made that 80 percent of these cases were compensation cases and 20 percent were pension cases. Thus, the number of completed compensation cases was increased to 1,155,957 and the number of completed pension cases was increased to 384,254. Accordingly, the sample size for the Compensation program was 0.81 percent, and the sample size for the Pension program was 0.44 percent.

When extrapolated to the completed compensation claims for 2006, including a weighting factor for each regional office's share of national workload, total estimated Compensation program underpayments were $32.7 million and overpayments were $37.1 million.

When extrapolated to the completed pension claims for FY 2006, including a weighting factor for each regional office and pension maintenance center's share of national workload, total Pension program estimated underpayments were $3.9 million and estimated overpayments were $6.9 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 2006 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 2006, there were 4,171 cases reviewed. 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. A random sampling of cases is then sent to Central Office (CO) for a second-level review. LGY CO reviews 100 percent of these files. For 2006, only 1 minor error has 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 three errors, which were minor in nature, were discovered in the sample. When extrapolated across all payments, this equates to $1.9 million in estimated erroneous payments.

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. 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. If the invoice exceeds the $25,000 threshold, the invoice must be submitted to a supervisor for approval and certification for payment. Otherwise, the invoice is approved by the Realty Specialist and submitted to another Realty Specialist for a second review and certification 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. In addition to this random sample, VA also performs additional special audits of invoices the Realty Specialists have deemed unusual. These invoices are flagged for further, more specialized review of charges and required supporting documentation. This may include invoices that reflect unusual cost ratios, invoices for services relating to lead-based paint mitigation, duplication of services, or other out-of-the-ordinary circumstances. In 2006, VA staff at the PMOU conducted a review of nearly 26 percent of vouchers received.

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 for the disputed amount.

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 'fully resolved' item. 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. The amount of a BOC established in 2006 will likely be reduced during that same fiscal year through the iterative process described above. While the same BOC's total could be further reduced in the subsequent fiscal year(s), for purposes of reporting for the Improper Payments Act, VA has delimited the 'reduction process' of these BOCs to within the fiscal year in question. It is the standing BOC amount at the close of the fiscal year that is considered 'improperly paid' during the year, and that is used to calculate the total error rate for Property Management vouchers. When a BOC is deemed fully resolved, the contract with Ocwen provides VA the ability to apply any amount outstanding (i.e., any amount 'overpaid') to Ocwen's future voucher submissions.

5. Non-VA Care Fee

For the Fee Program, VHA contracted with VA's Financial Services Center to ensure the validity of the sample design, sample size, and measurement methodology and to generate a random, statistically valid sample from VA's Financial Management System's payment history file. Fee had the following statistical sampling parameters: a 95 percent confidence level and a 3 percent margin of error. For each sampled payment, a determination was made regarding the accuracy of the payment. Payments made in error, as well as non-responses to requests for payment accuracy, were treated as improper payments. Error rates are expressed as a simple percentage of the dollar amount of all payments in error to the dollar amount of all payments in the sample. VHA projected the improper payment amount for Fee by multiplying the error rate by the dollar amount in the population.

Detail III

Describe the Corrective Action Plans for:

A. Reducing the estimated rate of improper payments for each type of category of error. This discussion must include the corrective action(s) for each different type or cause of error, and the corresponding steps necessary to prevent future recurrence. If efforts are ongoing, it is appropriate to include that information in this section.

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

1. Two Benefit Programs:
Compensation (including Dependency & Indemnity Compensation) and Pension

A significant cause of 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. Another 5,775 were released from June 2004 to April 2006. It takes approximately 9 months to a year to completely process these fugitive felon cases. The amount of overpayments created from this program can vary each fiscal year for the following reasons:

- Benefits are terminated from the date the claimant becomes a fugitive felon, not from the date VA becomes aware of fugitive felon status.
- The length of time it takes to process fugitive felon cases varies (i.e., due process and award adjustment).
- It is difficult to estimate the impact of new agreements with additional states as this process is controlled by the Office of the Inspector General.

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.

VA continues its efforts to expand rating capacity by increasing staffing levels. We hired over 1,000 new staff in 2007, and further staff increases are expected in 2008. Based on this increase, the number of inexperienced disability decision-makers will continue to be a significant factor for the immediate future as it takes 2 to 3 years to become fully productive. Therefore, the potential for errors in evaluating, granting, and denying benefits may be greater in the short term.

A. Compensation
VA continues to be engaged in initiatives that address erroneous compensation payments, which will play an even more important role over the next couple of years as we continue our hiring focus. Another effort is the reinstatement of the annual certification of veteran's employment and other evidentiary-based controls to verify and monitor entitlement to individual unemployability. In addition, VA has developed and validated a methodology to measure rating consistency and has increased the Quality Review Staff workforce devoted to measure consistency. We began collecting consistency data in June 2007 through comparative statistical analysis of grant rates and evaluations across all regional offices. We will use the results of this analysis to identify unusual patterns of variance in claims decisions and to incorporate focused case reviews into routine quality oversight by the STAR staff.

Overpayments may also be created due to non-entitlement for the month of death and the remarriage of a 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 79,100 veterans were removed from the compensation rolls in 2006, virtually all due to death. This resulted in approximately $26.7 million in overpayments because death occurred in the last 10 days of the month (applicable to an estimated 26,366 veterans). The average compensation payment in 2006 was $1,010 monthly. Although the overpayment is created, the majority of these payments are recouped.

VBA will take the following actions in response to the OIG Audit of Veterans Benefits Administration Controls To Minimize Compensation Benefit Overpayments report of September 28, 2007, indicating that VBA did not have effective controls to ensure that VARO staff took prompt action to adjust compensation benefits.

(1). VBA will issue procedural guidance requiring action to be initiated within 30 days of receipt on first- and third-party information that will potentially result in a reduction of compensation benefits, including dependency and indemnity compensation. When a predetermination notice is required, the standard 65-day response time will continue following issuance of the predetermination notice. A Fast Letter will be provided to the field addressing these procedures by November 1, 2007, and the manual will be updated by December 31, 2007.

(2). VBA will clearly outline the end product controls for initiating action on information that potentially results in a reduction of compensation benefits in the Fast Letter due out November 1, 2007. This will facilitate VBA's monitoring of the timelines of compensation benefit adjustments.

(3). VBA will re-emphasize the importance of timely completion of compensation benefit adjustments that result in overpayment of benefits as follows:

- Discuss on the weekly Associate Deputy Under Secretary for Field Operations conference call and the Veteran Service Center Managers conference call.
- Discuss the importance of timely completion of adjustments in the Fast Letter due out November 1, 2007.
- Add this as an area of review under the Internal Controls Systematic Analyses of Operations.
- Monitor the end product timeliness of corrective actions and contact regional office directors whose stations are significantly out of line in processing the adjustments that result in overpayment of compensation benefits. The regional office directors are responsible for ensuring that programs and policies are implemented, assessed through an effective internal controls process, and adjusted as necessary to achieve appropriate results.

B. 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, 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 to the Pension Maintenance Centers (PMCs) 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 death pension claims processing to the PMCs has begun, and consolidation of original disability pension claims processing is expected to begin during the first quarter of 2008. VA has implemented the following actions to strengthen efficiencies at the three PMCs:

- Developed a national standardized training program and a refresher training curriculum to ensure standardized processing of pension claims.
- Assigned quality review coordinators responsible for quality improvement oversight.
- Tested an electronic application that stores and sorts C&P system messages (write-outs) associated with pension maintenance activities by frequency, claim number, terminal digit, etc., to assist with timelier processing of these messages.
- Enhanced Virtual VA to ensure accurate documentation is contained in the electronic claims folder.

The Pension program in particular has other 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 payments 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 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.

Effective date rules govern adjustments to pension benefits and as a result, a change in income may require a retroactive adjustment to the benefit amount, creating an overpayment. In 2006 VBA began processing 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. 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 18 months to 2 years old as opposed to 3 years old. Since VBA will return to processing one year's worth of tax information in 2008, we anticipate the number and amount of overpayments in 2008 and 2009 will return to 2004 levels.

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 84,000 pension records were terminated in 2006 with 55,297 of them due to death. The estimated annual overpayment for the month of death (considering an estimated 18,432 deaths that occur in the last 10 days of the month), with an average monthly payment of $537 when veterans and survivors are combined, is $9.9 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:

(1). 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.

(2). 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.

2. 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 use the review reports to conduct refresher training. Required training based on quarterly quality reviews was conducted in FY 2006. However, compared to the previous fiscal year, estimated erroneous payments increased from 1.2 percent to 3.7 percent. The principal factor underlying the increase was the hiring of a substantial number of new claims processing personnel, which lowered the general level of experience. In addition, the Reserve Educational Assistance Program (REAP), a new type of program with eligibility and payment provisions different from existing programs, was implemented in 2006, increasing the complexity of claims processing procedures. These factors resulted in an increase of 41 percent in the number of payment errors noted on QA reviews. Additionally, more types of errors were found. For example, in 2006 a major cause of error was a failure to process a notification of enrollment or change in enrollment, while no such errors were noted in 2005. Due to the complexity of applicable requirements, the following three causes remained responsible for the majority of erroneous payments in 2006, 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. In addition, Education Service developed standardized training materials, which all field stations have used since 2004. The Training Performance Support System (TPSS), an on-line delivery and record-keeping system for training, is under development and is expected to help improve claims processing performance in the future. However, constraints in resource allocation have delayed implementation of these systems.

3. 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 its 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.
- Award did not reflect dependent child attending school, and an amendment was required to reflect this change.
- Nationwide training broadcasts on fiscal accuracy and employment assistance allowance for VR&E field station staff were held on November 15, 2006 and December 7, 2006, respectively.

4. Loan Guaranty

SAH grant payments have been found to be relatively error-free (one minor error in 2006). 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 process, 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 (0.246 percent error rate for 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 2006, 83 percent of the errors were found in the 001- and 002-series of vouchers. This means that the majority of the errors were 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.

In 2005, OIG conducted an audit of the Automated Loan Accounting Center (ALAC). The resulting audit report recommended that Loan Guaranty Service and ALAC examine the Property Management voucher process to include the establishment and management of bills of collection. This review was conducted and has resulted in new policies and procedures, which will have a positive impact on erroneous payments.

VBA has established BOCs for any unsupported invoices to date. If, within 30 days, Ocwen still has not submitted proper documentation for invoices, future payments to Ocwen will be offset by the established BOC amount. This procedure will be continued in future years. Additionally, VBA will conduct annual reviews of the PMOU voucher/BOC process going forward. Voucher payments must be made to Ocwen when vouchers are received, as required by the Prompt Payment Act. However, the new BOC-offset policy will ensure that the Government is able to effectively recoup payments made under vouchers which were determined, by the PMOU's voucher audit procedures, not to have appropriate supporting documentation.

5. Non-VA Care Fee

The most common self-reported cause for erroneous Fee Program payments resulted from missing or unsupported documentation. Medical progress notes or clinical discharge summaries were missing or did not support the diagnostic medical codes on Fee Program vendors' invoices. These medical codes have cost reimbursement rates associated with them, and they are the underlying basis for the charges that are shown on invoices.

VHA has undertaken corrective measures to address medical documentation issues surrounding the processing of Fee claims. For instance, during 2006, VHA's Chief Business Office (CBO) issued a VHA-wide applicable memorandum clarifying the extent of medical documentation needed by Fee offices for payment of non-VA claims. The memorandum addresses those instances where medical documentation is needed for appropriate Fee claim adjudication. This encompasses scenarios involving preauthorized outpatient care, authorized inpatient care, and unauthorized outpatient and inpatient care that is later approved for payment. In addition, the memorandum recommends that post-payment audits should be conducted as part of the regularly planned internal control reviews. Such audits may require the request of medical documents. Based on post-payment audit findings, VA's medical centers (VAMCs) may find it prudent to adjust their internal policies regarding the need for medical documentation in specific circumstances. Moreover, the memorandum states the results of the post-payment audits could disclose that certain documentation is almost always needed for an appropriate determination, or conversely, could disclose that information that facilities had already been requiring is sufficient to make an appropriate decision. The memorandum recommends that for all determinations related to Fee, offices should include the following statement, "VA reserves the right to request additional medical documentation at a later date for audit purposes."

Detail IV

Program Improper Payment Reporting:

A. The table below is required for each reporting agency. Agencies must include the following information: (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 2007 is the baseline measurement, indicate by either note or by "n/a" in the "FY 06 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 2008-2010; and (6) agencies are expected to report on FY 07 activity, and if not feasible, then FY 06 activity is acceptable. (Beginning 2008 reporting year, future year outlay estimates should match the outlay estimates for those years as reported in the most recent President's Budget.)

B. Discuss your agency's recovery of improper payments, if applicable. Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004.

Improper Payment (IP) Reduction for FY 2007 (Based on FY 2006 data)
($ in millions)

Program	Outlays $ [1] Estimated	Outlays $ [1] Actual	Estimated IP%	Actual IP %	Estimated IP $	Actual IP $
Compensation [2]	31,217	30,915	*0.71*	*0.67*	*221.6*	*208.1*
			0.33	0.11	103.0	32.7
Pensions	3,473	3,525	*10.4*	*8.51*	*361.2*	*300.0*
			0.27	0.11	9.4	3.9
Education	3,051	2,754	*1.1*	*1.9*	*33.6*	*52.3*
			1.1	1.77	33.6	48.7
Vocational Rehabilitation	614	573	*0.46*	*0.33*	*2.8*	*1.9*
			0.52	0.37	3.2	2.1
Loan Guaranty (3)&(4)	825	876	0.10	0.54	0.8	4.7

Notes to Improper Payment Reduction for FY 2007 Table (Based on FY 2006 data):

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

[4] LGY's 2006 actual IP figures are reflective of the inaugural year of reporting on the Property Management voucher payments. 2006 estimated IP figures do not account for any estimate of Property Management data. The increases in reported error rates and payments for 2006 and subsequent years are a direct result of the inclusion of Property Management data.

Improper Payment Reduction Outlook FY 2006 – FY 2010 (Based on FY 2005 – FY 2009 data)
($ in millions)

	FY 2006 (Based on FY 2005 data)			FY 2007(Based on FY 2006 data)			FY 2008 (Based on FY 2007 data)			FY 2009 (Based on FY 2008 data)			FY 2010 (Based on FY 2009 data)		
Program	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*	30,915	*0.67*	*208.1*	34,193	*0.69*	*235.9*	37,430	*0.67*	*250.8*	40,862	*0.65*	*265.6*
		0.34	97.7		0.11	32.7		0.32	109.4		0.31	116.0		0.3	122.6
Pensions	3,383	*10.6*	*361.1*	3,525	*8.51*	*300.0*	3,645	*10.1*	*368.1*	3,773	*8.0*	*301.8*	3,912	*7.88*	*308.3*
		0.28	9.8		0.11	3.9		0.26	9.45		0.25	9.4		0.24	9.4
Education	2,611	*0.53*	*13.8*	2,754	*1.9*	*52.3*	3,007	*1.5*	*45.1*	3,137	*1.30*	*40.8*	3,213	*1.20*	*38.6*
		0.71	18.5		1.77	48.7		1.45	43.6		1.30	40.8		1.20	38.6
Vocational Rehabilitation	583	*0.50*	*2.9*	573	*0.33*	*1.9*	618	*0.42*	*2.6*	669	*0.38*	*2.5*	716	*0.34*	*2.4*
		0.56	3.3		0.37	2.1		0.48	3.0		0.44	2.9		0.4	2.9
Loan Guaranty [3]	1,137	0.30	3.5	876	0.54	4.7	881	0.61	5.4	925	0.54	5.0	971	0.47	4.6
Non-VA Care Fee	N/A	N/A	N/A	1,578	5.87	92.6	1,757	6.00	105.4	1,917	5.9	113.1	2,092	5.8	121.3

Notes to Improper Payment Reduction Outlook Table:

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

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

[3] 2006 was the first year VA reported Property Management improper payment information. The program is able to track and report on payment-level data. However, projection outlays are estimated since no historical data are yet available with which to accurately form projection models. VA will adjust projection estimates accordingly as data for a projection model become available.

VA Recovery Targets for all Susceptible Programs FY 2007 – FY 2011
(Based on FY 2006 – FY 2010 data)
($ in millions)

	FY 2007 (Based on FY 2006 data)				FY 2008 (Based on FY 2007 data)		FY 2009 (Based on FY 2008 data)		FY 2010 (Based on FY 2009 data)		FY 2011 (Based on FY 2010 data)	
Program	Est. $	Act. $	Est. %	Act. %	$	%	$	%	$	%	$	%
Compensation & Pension (1)	211	319	25	26	384	27	345	25	348	24	351	23
Education & VR&E (2)	166	202	56	61	183	59	170	53	181	50	179	47
Loan Guaranty	1.3	1.4	70	65	1.5	63	1.7	63	1.7	63	1.8	63
Non-VA Care Fee	(3)	11.3	45	47	11.9	45	11	45	10	45	9	45

Notes to VA Recovery Targets for all Susceptible Programs Table:
[1] Compensation and Pension are two programs with collections shown as one figure.
[2] Collections reported for Education are collections for both Education and Vocational Rehabilitation & Employment (VR&E).
[3.] This number is not available because it is the first year of reporting.

Detail V

Recovery Auditing Reporting:

A. Discuss 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.

1. Financial Services Center (FSC), Austin, TX
VA continued to enhance its vendor payment processes throughout 2007. Interest payments VA-wide decreased by nearly $25,400 (from $858,500 to $833,100) – a 3.0 percent improvement over 2006 levels, largely attributable to the centralization of payments at the FSC. Further, interest penalties paid per million dollars disbursed improved more than 15 percent from $99 per million in 2006 to $84 per million in 2007. At the same time, VA earned more than 92 percent ($4.3 million) of its available discounts.

VA also continued to gain efficiencies and improve performance through the centralization of e-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 contracted with a commercial recovery audit firm to review prior fiscal year payment files in an effort to identify any additional improper/duplicate payments for recovery. 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 has recovered over $338,000 for reuse by VA entities during 2007. Overall, during 2007, collections of improper payments and the recovery of unapplied vendor statement credits totaled nearly $3 million. Improved payment oversight also enabled VA to identify and cancel nearly $10.4 million in potential improper payments prior to disbursement. Since the inception of the FSC's audit recovery effort in 2001, VA has recovered over $21.3 million in improper payments and prevented the improper payment of another $32.9 million.

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

Public Law 108-199 extended the mandate for VA to conduct, by contract, a recovery audit program of past payments for hospital care through 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 August 7, 2007, the contractor had identified 5,926 receivables totaling $22,283,670 of which VA has recovered $11,792,406.

When comparing the FSC, HAC, and Supply Fund audits, the major difference in the amounts recovered has to do with the universe of payments for each. For the HAC (which includes two different programs - CHAMPVA and the Fee Program), the value of the payments in 2007 was $700 million; the audit is for inpatient payments only. For FSC the value of payments was approximately $13.6 billion, and for the Supply Fund the value was approximately $14 billion. Also, in the report narrative, the FSC provided information from 2001-2007, the Supply Fund reported for 2007 only, and the HAC reported for the period 2003-2006. Recoveries for 2007 for the HAC audit will begin after January 2008 (audits are retrospective).

In addition, the original legislation regarding HAC's recovery audit was Public Law 106-74, and the program actually began in 2000 with audits back to 1994. The total amount of recoveries for all years of the program is more than $60 million.

VHA's CBO is utilizing multiple initiatives to reduce improper payments. This includes piloting of a Fee software solutions product called the Fee Basis Claims System (FBCS) at 10 VAMC Fee sites. We expect that the product will be developed for national deployment and will provide functionality not currently available in VHA's Veterans Health Information Systems and Technology Architecture or at most VAMC Fee sites. Alerts may be programmed into the claims software that will trigger the need for special review (e.g., certain medical diagnostic codes). The CBO has requested deployment of the software at an additional 25 sites in 2008.

In addition, the CBO will continue use of the contract service (DRG Recovery Audit) for re-evaluating correct payment activities. This contract tool allows CBO to assess the accuracy of payments and has shown improvements in payment processing since its inception. It is estimated that recovery post-payment processing will decrease as software is deployed.

Additionally, the Department's Management Quality Assurance Service (MQAS), which conducts VA facility reviews, has included in its 2008 program review scope, a work plan to visit a sample of VAMC Fee sites to review the effectiveness and efficiency of program processes.

3. Supply Fund

The VA Office of Acquisition and Logistics 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 looks for and collects overcharges that were the result of the contractor charging more than the contract price. Other reviews conducted by the Office of Contract Review include public law compliance, health care resource proposals, contractor claims, and other special purpose reviews. In 2007, this audit recovery program recovered over $18 million.

B. Audit Recovery Summary Table by Programs.

Audit Recovery Table
($ in millions)

Agency Component	Amount Subject to Review for FY 2007 Reporting	Actual Amount Reviewed and Reported FY 2007	Amounts Identified for Recovery FY 2007	Amounts Recovered FY 2007	Amounts Identified for Recovery FY 2005-2006	Amounts Recovered FY 2005-2006	Cumulative Amounts Identified for Recovery FY 2005-2007	Cumulative Amounts Recovered FY 2005-2007
FSC	13,838.68	13,599.09	4.75	3.05	15.12	11.34	19.87	14.39
HAC	520.38	129.85	12.47	5.93	37.21	21.35	49.68	27.28
Supply Fund	498.25	498.25	20.52	18.02	39.37	38.02	59.89	56.04

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. Two Benefit Programs: Compensation and 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.

5. Non-VA Care Fee

VHA has implemented key elements of the IPIA with the focus being placed on the reduction of improper payment. VA's Monthly Performance Review (a process whereby senior VA management brief VA's Deputy Secretary on top VA issues) reports on improper payment recovery data.

During 2007, MQAS conducted Fee Program pilot reviews at three VAMC Fee sites. As a result of these reviews, MQAS developed a comprehensive Fee review audit guide, which will be used in its upcoming 2008 Fee audits. In addition, VAMC facility managers are responsible for responding to audit or review recommendations and implementing corrective action plans as needed.

Based on the OIG report released in 2007, VHA will reevaluate its risk assessment methodology for all programs.

Detail VII

Agency Information Systems and Other Infrastructure:

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. Two Benefit Programs: 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.

In addition, the Training Performance Support System (TPSS), an on-line delivery and record-keeping system for training, is under development and is expected to help improve claims processing performance in the future.

3. Non-VA Care Fee
As mentioned in Detail V, VHA is testing a Fee software solutions product at 10 VAMC Fee sites. After reviewing the results of this pilot, VHA plans on deploying this software at an additional 25 VAMC Fee sites in 2008.

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

Funding for TEES ($3.5 million) is included in the 2008 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.

1. Two Benefit Programs: 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.

2. Non-VA Care Fee
There are no statutory or regulatory impediments that would limit VHA's corrective actions in reducing improper payments.

Detail IX

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

No additional comments.