February 2008

VETERANS' BENEFITS

Improved Management Would Enhance VA's Pension Program

G A O

Accountability ★ Integrity ★ Reliability

GAO-08-112

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Improved Management Would Enhance VA's Pension Program

Why GAO Did This Study

In 2006, the Department of Veterans Affairs (VA) paid about $3.5 billion in means-tested pension benefits to over 500,000 veterans and survivors. GAO was asked to review the management of VA pension program. This report assesses (1) the characteristics and trends in size of the current pensioner population, (2) the policies and procedures VA has in place to ensure that initial pension eligibility decisions are well managed, and (3) the procedures VA has in place to ensure that pensioners continue to receive the proper benefit payments. Our study included reviews of agency policies, procedures, and internal controls; site visits to 4 of VA's 57 regional offices and all three of its pension maintenance centers; and a selected file review of new claims at three locations.

What GAO Recommends

This report contains six recommendations to improve VA's management of the pension program. Specifically, VA should take steps to make more accurate and timely pension eligibility and payment decisions, improve its quality assurance of initial claims, incorporate feedback in its training, improve the effectiveness of pension eligibility processes, update its data match threshold, and evaluate the causes of improper pension payments.
In its comments on a draft of this report, VA agreed in part or fully with our recommendations, though raised concerns with some options to help implement several of them.

To view the full product, including the scope and methodology, click on GAO-08-112.
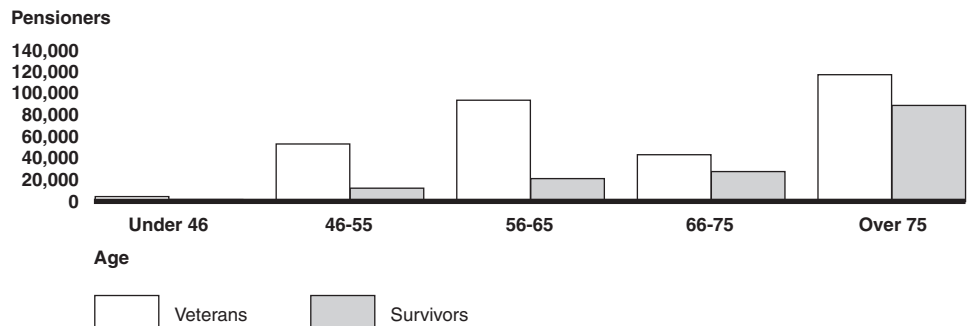For more information, contact Daniel Bertoni at (202) 512-7215 or bertonid@gao.gov.

What GAO Found

In 2006, most of the over 500,000 VA pensioners had nonpension incomes well below the federal poverty level, were beyond retirement age, and had multiple impairments, and the population has been decreasing in number. The average annual reported income of these pensioners, excluding their VA pensions, was less than $5,000. The average age of VA pensioners was 70. More than 80 percent had no spouse or dependent children. Three-fourths of veteran pensioners had multiple impairments. After reaching a peak of almost 2 million in 1978, the overall size of the pensioner population has gradually decreased, although the number of pensioners from more recent service periods has been increasing.

VA policies and procedures are not sufficient to ensure sound decisions on new pension claims. Unlike other federal agencies with similar income-based programs, VA largely does not independently verify the accuracy of financial information provided by claimants to support initial pension program eligiblity. In addition, the guidance used by staff to make pension eligibility decisions is not always current or clear. Further, VA's quality assurance review process for initial claims does not select a sufficient number of pension cases to ensure the accuracy of pension claims decisions. Finally, VA does not adequately evaluate training for pension staff.

VA procedures for assessing whether pensioners continue to receive the proper benefits have significant limitations. Although the agency requires pensioners to report changes that might affect their pensions, VA does not require documentation such as bank or asset statements when pensioners report financial changes. Also, a key data match operation with the Internal Revenue Service is not conducted in a timely or efficient manner. Finally, despite millions of dollars in improper pension payments made each year, VA lacks a system to monitor and analyze their causes.

Age Groupings of VA Pensioner Population, 2006

Source: Fiscal year 2006-2008 budget submissions.

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Abbreviations

BDN	Benefit Delivery Network
BOP	Bureau of Prisons
C&P	Compensation and Pensions
EVR	Eligibility Verification Report
IG	Inspector General
IRS	Internal Revenue Service
IU	Individual Unemployability
IVM	Income Verification Match
NDNH	National Directory of New Hires
PMC	pension maintenance center
RR	Railroad Retirement
RRB	Railroad Retirement Board
SSA	Social Security Administration
SSI	Supplemental Security Insurance
SSN	Social Security number
VA	Department of Veterans Affairs
VBA	Veterans Benefit Administration

United States Government Accountability Office
Washington, DC 20548

February 14, 2008

The Honorable Richard Burr
Ranking Member
Committee on Veterans' Affairs
United States Senate

The Honorable Larry E. Craig
United States Senate

The Department of Veterans Affairs (VA) pension program is intended to provide a minimum level of economic security for veterans with financial need. It is available to those low-income veterans who are at least 65 years old or have disabilities unrelated to their military service, as well as to their surviving spouses and dependent children. In fiscal year 2006, the program paid about $3.5 billion in benefits to over 500,000 pensioners. In administering the program, VA is required to assess the continued eligibility of pensioners to determine if changes in family income and assets, or number of dependents, might warrant payment adjustment or termination of the pension. Although the VA Pension Benefit program is a relatively small program, it has a critical role in supporting disabled and aging veterans and their survivors who depend on the program to provide a minimum level of economic security. Providing this benefit honors their service to their country and provides some financial assurance to those in need.

The Senate Veterans' Affairs Committee asked GAO to (1) determine the characteristics and trends in size of the pensioner population, (2) assess the policies and procedures VA has in place to ensure that initial pension eligibility decisions are well managed, and (3) assess the procedures VA has in place to ensure that pensioners continue to receive the proper benefit payments.

Pensions are one of the many benefits available to qualified veterans through VA. Other VA benefits include medical care, educational resources, and compensation for disabilities sustained or worsened as a result of active duty military service. VA actually administers three

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pension programs,[1] and we included pensioners from all three programs when analyzing trends in population size, as this allowed for a more thorough understanding of changes within different war cohorts over time. The remainder of the report, however, focuses on the Improved Pension program, which is the largest and the only one still open to new members. To determine the characteristics and size of the pensioner population, we analyzed data from VA's Benefit Delivery Network (BDN), VA budget reports, and other reports through fiscal year 2006. To address our remaining objectives, we reviewed relevant laws, guidance, procedures, and internal controls that VA uses to ensure the soundness of pension benefit decisions. We also analyzed VA's internal control policies and performance reports. We visited 4 of VA's 57 regional offices, located in Boston, Milwaukee, Providence, and St. Paul. We selected these sites based on variations in size and geographic locations. We also visited VA's three pension maintenance centers (PMC), located in Philadelphia, Milwaukee, and St. Paul, and the Debt Management Center in St. Paul. We interviewed VA officials and staff at these sites as well as officials at VA Central Office in Washington, D.C. We also conducted case file reviews in three locations—Milwaukee, Providence, and St. Paul—to verify the adequacy of documentation in support of initial pension decisions. For more details on our scope and methodology, see app. I. We conducted our review from November 2006 to February 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

In 2006, most of the approximately 500,000 VA pensioners had nonpension incomes well below the federal poverty level, were beyond retirement age, and had multiple impairments, and the population has been decreasing in

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[1] Pension benefits are administered through three programs commonly referred to as the Old Law (Act of Mar. 20, 1933, ch. 3, 48 Stat. 8), Prior Law (Veterans' Pension Act of 1959, Pub. L. No. 86211, 73 Stat. 432), and Improved Pension (Veterans' and Survivors' Pension Improvement Act of 1978, Pub. L. No. 95-588, 93 Stat. 2497) programs. The Improved Pension program is the largest of VA's three current pension programs. We focus on the Improved Pension program in this report. Since it was established, it is also the only pension program that has remained open to new claimants. In fiscal year 2006, the Improved Pension program represented over 90 percent of the $3.5 billion in pension benefits administered by VA.

number. The average annual income of these pensioners, excluding their VA pension, was less than $5,000—an amount well below the 2006 federal poverty level of $9,800 for an individual, and most had few assets and limited education. Additionally, the average age of VA pensioners was 70, with approximately 60 percent over age 65 and less than 20 percent under age 55. More than 80 percent had no spouse or dependent children, and approximately one-third were surviving spouses who live alone. Three-fourths of veteran pensioners had multiple impairments, and about a third were housebound or needed assistance with dressing themselves or other activities of daily living. After reaching a peak of almost 2 million in 1978, the overall size of the pensioner population has gradually decreased to about 500,000 today, although the number of pensioners from more recent service periods has been increasing.

VA policies and procedures are not sufficient to ensure sound decisions on new pension claims. Unlike other federal agencies with similar income-based programs, VA largely does not independently verify the accuracy of financial information provided by claimants to support initial pension program eligibility, a fact that makes the program vulnerable to improper payments. In addition, the guidance used by staff to make pension eligibility decisions, which is under revision and dispersed across several sources, is not always current or clear. Further, VA's quality assurance review process for initial claims does not select a sufficient number of pension cases to ensure the accuracy of pension claims decisions. Finally, VA does not adequately evaluate the training for pension staff. For example, VA does not consistently collect feedback from participants at the end of a training course.

VA procedures for assessing whether pensioners continue to receive the proper benefits have significant limitations because VA does not require pensioners to submit financial documentation, conducts untimely and inefficient verification of pensioners' incomes and assets, and lacks a system for identifying and reducing improper pension benefits. Although the agency requires all pensioners to submit documentation for nonfinancial changes, such as for marriages or deaths, it does not require documentation such as bank or asset statements when pensioners report financial changes. Also, while the agency does verify certain pensioner information by comparing it with data from other federal agencies, we found that a key procedure using Social Security Administration (SSA) and Internal Revenue Service (IRS) data is not conducted in a timely or efficient manner. Finally, despite millions of dollars in improper payments made each year, VA does not collect sufficient data on causes of improper payments that could be used to help it better manage the pension program.

This report contains six recommendations to improve VA's management of the pension program. Specifically, VA should take steps to make more accurate and timely pension eligibility and payment decisions, improve its quality assurance of initial claims, incorporate feedback in its training, improve the effectiveness of pension eligibility review and verification processes, update its data match threshold, and evaluate the causes of improper pension payments. In its comments on a draft of this report, VA agreed in part or fully with our recommendations, though raised concern with some of the options we present to help implement several of the recommendations.

Background

VA's pension program is means-tested and provides a minimum level of economic security for veterans with financial need. It is one of two cash benefits programs administered by VA. The other is disability compensation, which pays benefits to veterans who have disabilities related to their military service—often referred to as "service-connected" disabilities.[2] The pension program, on the other hand, which is the subject of this report, pays benefits to low-income veterans who either are elderly or have disabilities unrelated to their military service.[3] Each program also provides benefits to eligible survivors. A veteran who applies for and meets requirements for both disability compensation and pension benefits will receive benefits through whichever program provides higher benefits.

In 2006, VA paid over $34 billion in compensation and pension benefits to about 3.5 million veterans and survivors.[4] Of this amount, $30.9 billion was paid in compensation benefits to 3,014,282 veterans and their survivors. The remaining $3.5 billion was paid in means-tested pension benefits to 535,380 veterans and their survivors.

The amount of financial assistance provided by the pension program is relatively modest and intended to raise pensioners' incomes to a level set out in statute. Pensioners are awarded an amount equal to the difference

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[2] 38 U.S.C. § 1110.

[3] 38 U.S.C. §§ 1513 and 1521.

[4] VA uses pension cases as its unit of analysis in all budget data. A small percentage of cases include a pensioner's dependents. However, VA generally discusses data on pension cases in terms of "veterans" and "survivors." Since a case may include dependents in addition to a qualifying veteran or surviving spouse, more individuals are served by the program than the number of cases shown here.

between their countable income, as determined by VA, and the maximum pension amounts as updated annually by statute.[5] The maximum pension amount varies according to the pensioner's current income and number of dependents. In 2006, veterans with no income and no dependents could receive as much as $10,579 annually, while survivors with no income and no dependents could receive a maximum of $7,094 per year. Pensioners are required to report any changes in income, dependency, or other relevant circumstances to VA so that benefit levels can be adjusted accordingly.[6] Generally, for each dollar of income received from other sources, the VA pension is reduced by the same amount.

Eligibility Determinations for VA's Improved Pension Program

To determine a veteran's initial eligibility for the pension program, VA's regional office staff employ several criteria, including the veteran's military status, age or disability, and income. (App. II provides a summary of this process.) Eligibility for pension benefits is restricted to veterans who are at least 65 or have total and permanent disabilities unrelated to their military service. Also, VA considers the income of all family members, including spouses and children, but excludes the income of other individuals residing in the household. Various sources of income are considered when determining income eligibility, including employment, interest and dividends, retirement, annuities, workers' compensation, Social Security retirement and Disability Insurance benefits. Unreimbursed medical expenses that exceed 5 percent of the maximum pension amount may be deducted from income in determining eligibility. Eligibility for the surviving spouses and children of such veterans is based on similar factors. Once pensioners have been awarded benefits, VA makes ongoing eligibility determinations and adjusts benefit levels as needed. Pensioners are required to inform VA of any changes in their circumstances—such as hospitalization or incarceration, as well as changes in income and assets—that could affect their eligibility or benefit levels. To further assess ongoing eligibility and benefit levels, VA also requires pensioners who have any income other than Social Security to file an annual report with VA.[7] Then, VA evaluates the information in this report to determine if pensioners continue to meet eligibility requirements.

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[5] 38 U.S.C. § 5312(a).

[6] 38 U.S.C. § 1506(3).

[7] 38 C.F.R. § 3.256(b) (2006). The required report is termed the Eligibility Verification Report (EVR).

The VA Pension Population Is Characterized by Low Income, Older Ages, Multiple Impairments, and Decreasing Numbers

In 2006, most VA pensioners had nonpension incomes well below the federal poverty level, were beyond retirement age, and had multiple impairments, and the population had been decreasing in number. In addition to low incomes, the majority of VA pensioners had few assets and limited education. Since 1978, the total pension population has been decreasing, although there have been increases in numbers of pensioners from more recent service periods, including the Vietnam era and the Gulf War.

VA Pensioners Generally Have Nonpension Incomes Well Below the Poverty Level, Few Assets, and Low Levels of Education

Most pensioners have very low annual incomes outside of their pension benefits. According to our analysis of VA data, veteran pensioners' average annual nonpension income was $4,573 in 2006.[8] This was well below the 2006 federal poverty level of $9,800 for a single adult. Survivors had a lower average annual nonpension income of $3,046. Both veterans and survivors under 65 had lower average annual nonpension incomes than those 65 and older. Social Security benefits and non-Social Security retirement income accounted for much of the difference, as shown in table 1. When VA pension benefits are included, most veterans had annual incomes above the federal poverty level. This is not true of survivors, who receive smaller pension awards than veterans. Pension benefits in 2006 averaged $8,232 per year for veterans and $4,260 per year for survivors, for an average total income, respectively, of $12,805 and $7,306.

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[8] Income information is estimated from GAO's analysis of the VA Benefits Delivery Network October 2006 5 percent sample, which provides income amounts as calculated by VA for pension eligibility purposes. All numerical estimates other than percentages have margins of error of plus or minus 17.65 percent or less of the value of those numerical estimates, unless otherwise noted.

Table 1: Estimated Amount of Annual Nonpension Income by Source and Age

Pensioner age	Social Security benefits		Non-Social Security retirement income		Other income		Total income
	Income	Percentage of total income	Income	Percentage of total income	Income	Percentage of total income	
Under 65	$2,432	91%	$146	5%	$107	4%	**$2,685**
65 and over	$8,194	87%	$1,152	12%	$88	1%	**$9,434**

Source: GAO analysis of VA Benefits Delivery Network, October 2006, 5 percent sample.

Note: All numerical estimates have margins of error of plus or minus 17.65 percent or less of the value of those numerical estimates. All percentage estimates from the sample file have margins of error of plus or minus 1 percentage point or less, unless otherwise noted. When GAO analyzed these income amounts, we only included the improved pension program pensioners and counted incomes for veterans and veteran spouses when the payee was the veteran or surviving spouse. We did not analyze children's income or cases for which children were the payee. Approximately 5 percent of cases had children or listed children as payee.

In a 2002 VA study, pensioners reported having few assets and low levels of education.[9] Less than half of pensioners reported owning their own homes, with ownership rates for spouses being lower than those for veterans. Even fewer pensioners owned vehicles. About one-third of veterans reported owning a car, and only about one-fifth of spouses reported owning a car. Moreover, pensioners generally reported low levels of education, with those over age 65 reporting less education than those under age 65. More than half of veterans and spouses over age 65 reported not having a high school diploma, compared with 22 percent of veterans under age 65 and 44 percent of spouses under age 65. Over a third of pensioners under age 65 reported having a high school diploma, and less than 7 percent reported completion of a bachelor's or higher degree.

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[9] ORC Macro, Economic Systems Inc., and Hay Group, *Evaluation of VA Pension and Parents' DIC Programs: VA Pension Program Final Report* (Washington, D.C.: Dec. 22, 2004).

The Average VA Pensioner Is 70 Years of Age and Has No Spouse or Dependents

The average age of VA pensioners is approximately 70, with approximately 60 percent over age 65 and less than 20 percent age 55 or younger. Significant numbers are over age 75, as shown in figure 1. The average age is highest for surviving spouses of deceased veterans, who constitute approximately one-third of all pensioners. In 2006, their average age was 72, while that of veterans was 69. About three-quarters of all surviving spouses are over age 65, compared to just over half of all veterans. Less than 2 percent of all pensioners are younger than age 45.

Figure 1: Age Groupings of Veterans and Survivors in 2006
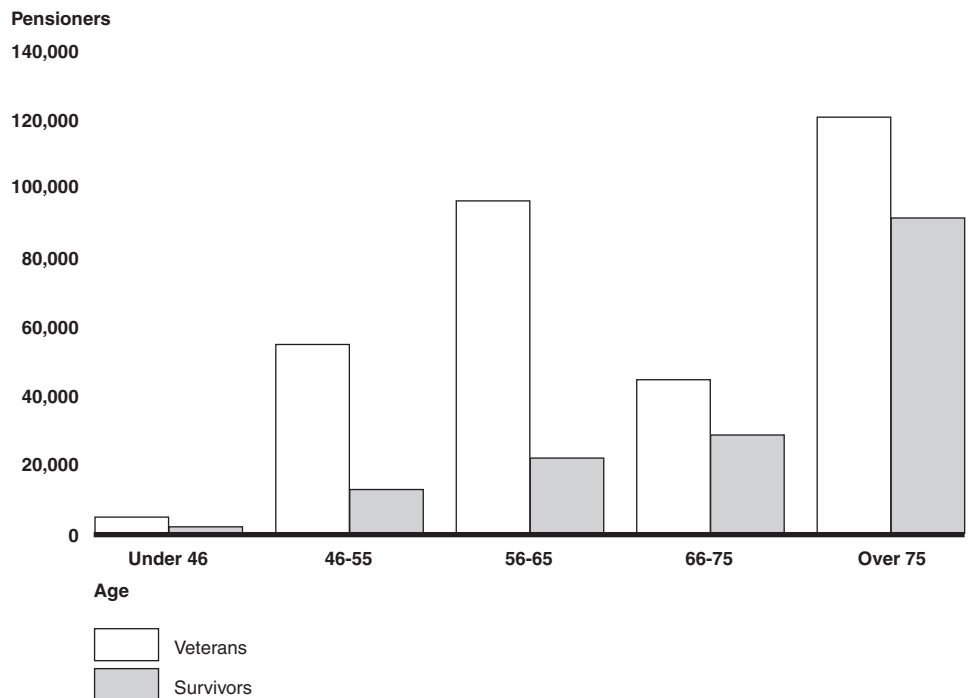
Source: Fiscal year 2006-2008 budget submissions.

Most VA pensioners have no spouse or dependent children, according to information the pensioners provided to VA in 2006. As shown in figure 2, about 82 percent of pensioners receive benefits for themselves alone, and most of the remaining 18 percent are veterans living with dependents. Proportionately few pensioners have dependent children eligible for pension benefits: About 22,000 of the half-million pensioners receive VA payments for support of their children, in most cases for one or two children.

Figure 2: Household Composition of VA Pensioners in Fiscal Year 2006

0.5%
Spouse living with dependents

1.0%
Adult children living alone

17.5% • Veterans living with dependents

49.1%

31.9% • Spouse living alone

Veterans living alone
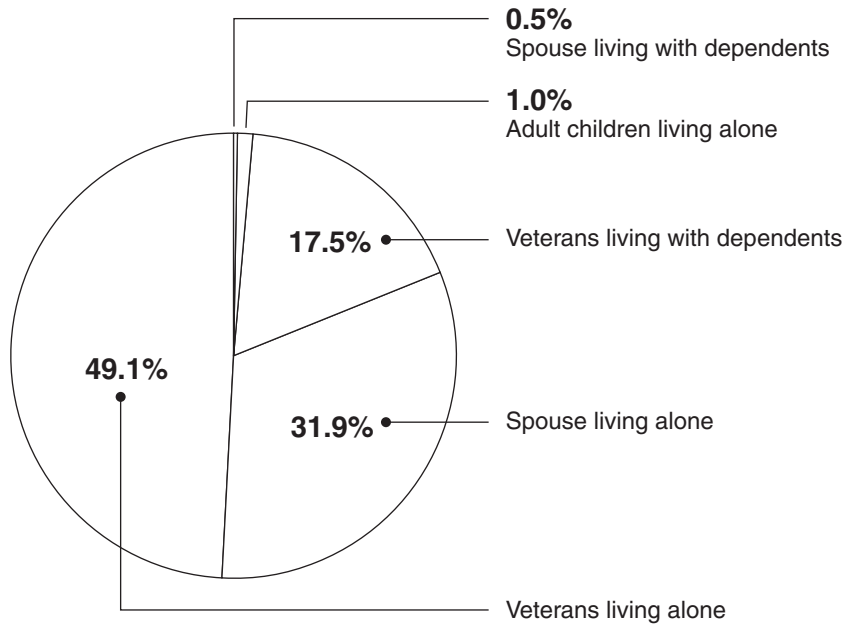
Source: VA fiscal year 2008 budget submission.

The Majority of Veteran Pensioners Have Multiple Impairments, and About One-Third of All Pensioners Require Assistance to Perform Daily Activities

Most veteran pensioners have multiple disabling conditions, with approximately 95 percent reporting at least one impairment and nearly 75 percent reporting two or more impairments. As shown in figure 3, excluding those impairments classified as "other," musculoskeletal conditions were the most common type of impairment among veteran pensioners. For veterans under age 65, the next most common type of impairment was mental, while for veterans age 65 and older it was cardiovascular.

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Figure 3: Types of Impairments among Veteran Pensioners by Age

Types of impairments among veteran
pensioners under age 65
(as of September 2006)

Types of impairments among veteran
pensioners age 65 and older
(as of September 2006)

Under age 65: 12%, 29%, 15%, 9%, 8%, 27%

Age 65 and older: 16%, 23%, 9%, 7%, 7%, 38%

Legend:
- Cardiovascular
- Musculoskeletal
- Mental
- Neurological
- Digestive
- Other
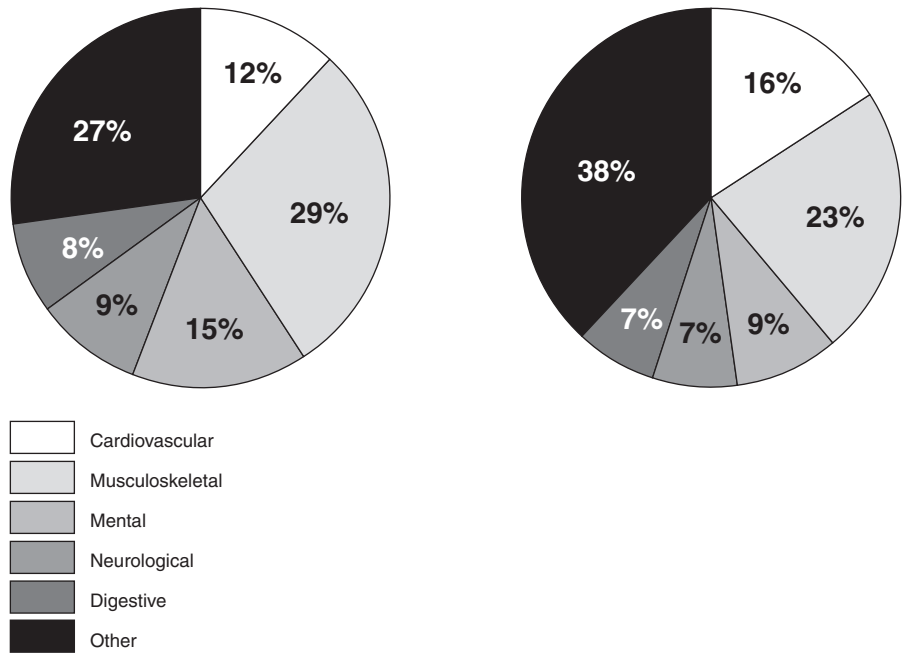
Source: GAO analysis of VA Benefits Delivery Network October 2006 Mini Master file.

Note: VA's database lists multiple impairments for each beneficiary. This figure reflects all impairments listed in the VA database for pension beneficiaries. "Other" includes several categories of impairments that are individually associated with less than 7 percent of veteran pensioners.

Many pensioners require aid and attendance in their activities of daily living, such as dressing and feeding themselves. According to VA, slightly less than one-third of pensioners are housebound or in need of aid and attendance, and most of these pensioners are age 65 and older.[10] While more than 40 percent of pensioners age 65 and over require aid and attendance, less than 15 percent of younger pensioners do. Only a small number of pensioners reside in a nursing home—less than one-half of 1 percent of pensioners under age 65 and 3 percent of pensioners age 65 and over.

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[10] Aid and attendance data does not include adult children receiving pension benefits.

In a 2002 VA study, about 95 percent of veterans and 87 percent of surviving spouses reported having some form of health insurance.[11] Medicare was a source of coverage for 50 percent of veterans and 69 percent of surviving spouses. Over half of veterans also reported health care coverage through VA or military hospitals. Less than 15 percent of veterans relied on Medicaid for their health insurance and less than 15 percent of veterans had private health insurance. By contrast, 47 percent of surviving spouses relied on Medicaid, making it the second most common source of coverage after Medicare, while 18 percent reported having private insurance.

The Size of the Pensioner Population Has Decreased

As shown in table 2, the total number of pensioners has been decreasing in recent years, although the number of pensioners from more recent service periods has been increasing. In 2006, the three pension programs served about 535,000 veterans and survivors,[12] a 75 percent decrease from 1978, when participation peaked at almost 2 million. VA attributes the overall reduction in numbers largely to the death of World War II era pensioners and the greater availability of Social Security retirement benefits, which often raise veterans' incomes above the VA pension program's eligibility levels.

Table 2: Decrease in Number of Veteran and Survivor Cases by Pension Program, Fiscal Years 2000-2006

	Program/year	2000	2001	2002	2003	2004	2005	2006	Percentage change 2000-2006
Veterans	Old Law	304	260	231	191	160	136	110	-64%
	Prior Law	23,604	19,925	16,856	14,288	1,1976	10,100	8,601	-64%
	Improved	340,312	327,867	329,492	332,077	330,767	325,551	321,145	-6%
Survivors	Old Law	1,384	1,084	841	664	520	427	345	-75%
	Prior Law	76,112	68,306	60,884	55,076	49,024	43,813	39,341	-48%
	Improved	180,282	172,724	169,151	168,398	166,288	162,898	161,470	-10%

Source: GAO analysis of VA 2007 and 2008 budget submissions.

[11] ORC Macro, Economic Systems Inc., and Hay Group, *Evaluation of VA Pension and Parents' DIC Programs: VA Pension Program Final Report*, (Washington, D.C.: Dec. 22, 2004). pp. 46-47.

[12] The numbers served represent the average number of cases during the year. Since a case may include dependents in addition to a qualifying veteran or surviving spouse, more individuals are served by the program than the number of cases shown here.

While total program enrollment has declined, the Vietnam era and Gulf War cohorts of pensioners have increased in number in recent years, as shown in table 3. VA expects the Vietnam era cohort to continue to increase in number as more Vietnam era veterans meet the 65-year age requirement for pension eligibility. An estimated 5.2 million of these veterans will be age 65 or older in the year 2015. However, VA has no estimate of how many also will have qualifying wartime service, meet income requirements, and submit pension claims. Further, the number of Gulf War veterans receiving pensions increased by nearly 300 percent between 2000 and 2006, although they are still less than 5,400 in number. Even with increases in these two cohorts, VA estimates that the total pensioner population will continue to decline in size through at least 2017.

Table 3: Percentage Change in the Number of Pensioners by Service Period, Fiscal Years 2000-2006

	Period of service	2000	2006	Percentage change 2000-2006
Veterans	Mexican border period	4	0	-100%
	World War I	223	6	-97%
	World War II	178,298	105,003	-41%
	Korean Conflict	86327	67,875	-21%
	Vietnam era	104,228	153,793	48%
	Gulf War	1,356	5,357	295%
Survivors	Indian Wars	2	0	-100%
	Civil War	13	3	-77%
	Spanish-American War	721	246	-66%
	Mexican border period	240	86	-64%
	World War I	34,243	11,017	-68%
	World War II	180,372	143,792	-20%
	Korean Conflict	31,998	27,392	-14%
	Vietnam era	16,635	20,522	23%
	Gulf War	137	289	111%

Source: GAO analysis of VA fiscal years 2002-2008 budget submissions.

The main reason for caseload termination is death, followed by increased income, as shown in figure 4. In January 2007, about 70 percent of veteran pension cases and 50 percent of surviving spouse cases were terminated as a result of the death of the pensioner. Increased income was the reason for termination in about a fifth of veteran cases and in about two-fifths of surviving spouse cases. For surviving children, however, about two-thirds

of the cases were terminated due to the child's age, and one in five was because of a death.

Figure 4: Reasons for Program Termination, January 2007

Percent
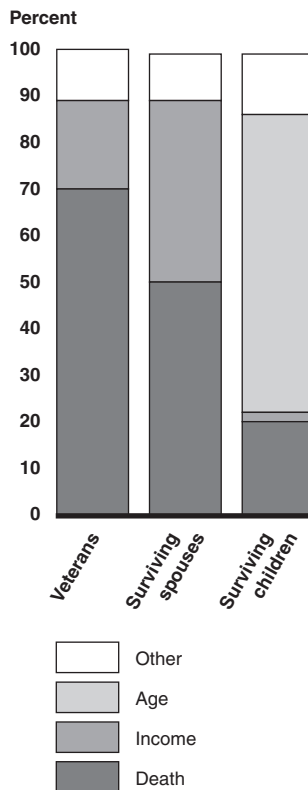
Source: VA data.

For Initial Pension Claims, VA Policies and Procedures Do Not Always Ensure Well-Supported Decisions

VA policies and procedures are not sufficient to ensure sound decisions on new pension claims. Unlike other federal agencies with similar income-based programs, VA largely does not independently verify the accuracy of financial information provided by claimants to support initial pension program eligibility, a fact that makes the pension program vulnerable to improper payments. In addition, the guidance used by staff to make pension eligibility decisions, which is under revision and dispersed across several sources, is not always current or clear. Further, VA's quality assurance review process for initial claims does not select a sufficient number of pension cases to examine to ensure the accuracy of pension decisions. Finally, VA does not adequately evaluate pension training. For

example, VA does not systematically collect feedback from participants at the end of a training course.

VA Does Not Verify All Financial Information Provided by Applicants

VA does not require new pension applicants to submit documents that would support their declarations of income and assets. While the agency does corroborate their reported Social Security income with SSA records, it does not require claimants to submit evidence for other financial resources, such as by asking for copies of bank statements or tax returns.[13] Furthermore, until recently, there was no legislative authority for VA to arrange for the cross-checking of claimants' statements of non-Social Security income against the Department of Health and Human Service's (HHS) National Directory of New Hires (NDNH).[14] The NDNH includes quarterly wage data for up to eight quarters, which can be compiled into annual data for matching purposes. HHS conducts matches using the NDNH for other agencies—such as SSA, IRS, and the Department of Housing and Urban Development to assist them in improving their enforcement efforts. The Dr. James Allen Veteran Vision Equity Act of 2007, which became effective December 26, 2007, requires VA to provide applicant information to HHS and requires HHS to match it against the NDNH and disclose to VA information for verifying applicant employment and income.[15]

Furthermore, while VA allows income deductions for certain unreimbursed medical expenses, the agency does not always require documentation for these expenses. For example, VA requires documentation for the costs of nursing home care, but not for the cost of prescription drugs. In contrast, VA does require applicants to verify some nonfinancial information, such as by submitting an official notice of military separation or marriage and divorce records.

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[13] By comparison, SSA requires applicants for Disability Insurance or Supplemental Security Income benefits to submit supporting evidence of their income and assets, such as pay stubs, W2 forms, tax returns, bank statements, and other documents verifying the income numbers provided.

[14] In 2006, while examining VA's Individual Unemployability benefits, GAO recommended that VA "seek legislative authority to use earnings data from the National Directory of New Hires." See GAO, *Veterans' Disability Benefits: VA Should Improve Its Management of Individual Unemployability Benefits by Strengthening Criteria, Guidance, and Procedures*, GAO-06-309 (Washington, D.C.: May 2006).

[15] Pub. L. No. 110-157, § 301,121 Stat 1831.

Guidance Used by Staff Is Poorly Organized and Not Necessarily Current or Clear

We found that staff in the regional offices we visited used guidance that was not compiled in a single source; not always current; and, according to those we spoke with, unclear. This may be, in part, because VA has been in the process, since 2001, of revising various sections of its compensation and pension manual to help clarify complex regulations. However, staff told us that while the revisions are taking place, they must check a variety of sources for updates, including e-mails and posted memos, to be certain they have the most current version for a specific procedure. Staff also said the piecemeal and dispersed nature of the guidance can lead to different interpretations for pension eligibility decisions. VA expects to have most of the revisions implemented by 2009. Finally, staff also expressed a concern over the clarity of some pension guidance, which they said both leaves too much room for interpretation and can result in inconsistent decisions on eligibility. For example, some said they must interpret ambiguous guidance when determining how to treat claimants in assisted living centers versus nursing homes, and that it is possible for staff to reach different conclusions about a claimant's eligibility or proper benefit. They told us that when faced with unclear guidance, staff are expected to use their own discretion in interpreting the guidance, along with the advice of supervisory staff, which they believe can vary.

VA Has a Limited Approach to Evaluating the Quality of Initial Pension Decisions

The internal controls VA employs to evaluate the quality of initial pension decisions are insufficient because VA reviews only a very small random sample of initial claims that are selected from compensation and pension cases.[16] Since pension claims constitute only about 11 percent of the combined compensation and pension caseload, few are likely to be included in the quality assurance review sample. Although VA reported about a 12 percent error rate for compensation and pension claims combined, a recent VA Inspector General (IG) study found a higher incidence of errors in some cases that subsequently required pension payment adjustments. Specifically, the IG reported that VA procedures did not ensure that the benefits of veterans hospitalized for more than 90 days were appropriately adjusted.[17]

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[16] VA reviews a total of 10 "rating-related" claims from each of its 57 regional offices, doubling this amount for the largest and poorly performing offices. These cases include compensation, pension, appeals, and other types of cases.

[17] VA Office of Inspector General, *Audit of Adjustments of Hospitalized Veterans' Compensation and Pension Benefits, Adjustments of Compensation and Pension Awards for Hospitalized Veterans Needed to be Improved*, 05-01143-71, Feb. 1, 2007.

VA Does Not Adequately Evaluate the Training for Pension Staff

VA's training program does not include a comprehensive evaluation to ensure its effectiveness. Although we have found that evaluation is essential to performance,[18] VA does not systematically collect feedback from participants at the end of a training course. For example, new staff receiving training at VA's training center in Baltimore are required to submit their evaluation of the training. By comparison, staff receiving training in the use of an electronic Web tool are not required to evaluate the training.

When we discussed VA's limited evaluation of training with headquarters officials, they noted that the agency has made assessments of new training materials before they are put into place. However, VA has not consistently evaluated all training courses offered at the regional offices. Many staffers told us that some of their training is repetitive or does not include updates and revisions in procedures.

For Ongoing Pension Cases, VA Procedures and Controls Do Not Adequately Ensure That Benefits Are Proper

VA procedures for assessing whether pensioners continue to receive the proper benefits have significant limitations because VA does not require pensioners to submit financial documentation, conducts untimely and inefficient verification of pensioners' incomes and assets, and lacks a system for identifying and reducing improper pension benefits. Although the agency requires all pensioners to submit documentation for nonfinancial changes, such as for marriages or deaths, it does not require documentation such as bank or asset statements when pensioners report financial changes. Also, while the agency does verify certain pensioner information by comparing it with data from other federal agencies, we found that a key procedure using SSA and IRS data is not conducted in a timely or efficient manner. Finally, despite millions of dollars in improper payments made each year, VA does not collect sufficient data on causes of improper payments that could be used to help it better manage the pension program.

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[18] GAO, *Human Capital:* A *Guide for Assessing Strategic Training and Development Efforts in the Federal Government*, GAO-04-546G (Washington, D.C.: Mar. 1, 2004).

VA Has a Limited Approach to Verifying Financial Information Reported by Pensioners

Although VA requires all pensioners to report changes that might affect their payments or eligibility, it does not require them to submit documentation to corroborate changes in financial circumstances. Whereas VA does require pensioners to submit documents for such changes in circumstances as marriage or spousal deaths, it does not do so for reported changes in income or assets. This leaves the agency heavily dependent on the pensioner for self-reporting financial updates. The exception is Social Security income, which VA staff verify using a direct computer link to SSA benefit data. Pensioner reports of other financial changes, however, need not be accompanied by such documents as pay stubs, bank statements, or tax returns. This is in contrast to other income-based federal programs that typically ask for verification of key financial information. For example, SSA requires Supplemental Security Insurance (SSI) recipients to document their earnings on a regular basis.[19]

Similarly, VA does not ask pensioners for financial documentation when completing the annual Eligibility Verification Report (EVR), the requested update that the agency sends out annually to those who have previously reported having income and assets other than their pensions and Social Security benefits. VA uses information collected from the EVR responses to adjust or, if necessary, terminate VA pension benefits. (See table 4 for an overview of the EVR steps.) VA has indicated that the pension program is prone to overpayments caused by pensioners failing to report income changes as they occur. One agency official responsible for the management of the EVR process told us that the EVR process provides the agency an opportunity to adjust the pension benefits as pensioner status changes, thus preventing higher overpayments.

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[19] According to Social Security Administration Publication No. 05-11011, March 2006, ICN 480265, SSI beneficiaries are required to report and document their earnings on a regular basis.

Table 4: VA Steps to Process Eligibility Verification Reports

Step	Description
1	The Hines Information Technology Center prints EVR forms and letters to beneficiaries in December.
	Approximately 70,000 EVRs are sent to pensioners annually.
	These EVR forms contain preprinted information regarding Social Security and VA benefits based on current VA data.
2	Pensioners are instructed to verify or correct the preprinted information and return the report to VA within 60 days.
3	The PMC staff conduct an initial review of EVRs to
	• identify incomplete EVRs and return to pensioners for additional information (which must be returned within 60 days),
	• approve and process completed EVRs, and
	• refer EVRs needing award adjustment for further action.
4	PMC staff process all completed EVRs.
5	PMC staff adjust pension payment, create a retroactive payment, or terminate from the program, as necessary.

Source: GAO analysis of VA documents.

In addition to VA not asking respondents to submit financial documentation, we found a number of other deficiencies in the EVR process that may likely limit VA's ability to make timely and accurate adjustments to benefits. First, the EVR process only queries pensioners who have previously reported income to VA, so the agency fails to reach pensioners who may acquire new sources of income, such as earnings from new employment.[20] Second, during the annual review of EVRs, VA does not attempt to corroborate via independent third-party sources any information that pensioners report on the EVR beyond SSA benefits. Third, the EVR asks pensioners to estimate their income for the year, and the agency adjusts their pensions based on these estimates. Yet pensioner estimates could prove to be incorrect. For example, income estimates for the coming year could change due to the death of a spouse. Fourth, the narrow seasonal window within which pension maintenance center (PMC) staff attempt to review and process the EVRs—the first 3 months of the year—postpones other pension-related activities, including data comparisons with other federal agencies that could provide third-party verification. This limited approach to verification of pensioner-provided updates puts the program at risk of issuing improper payments based on pensioners' reports.

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[20] EVRs are only sent to pensioners who previously reported some source of household income beyond their SSA or VA benefit levels.

VA's Key Data Match Procedure Is Not Timely or Efficient in Detecting Improper Payments

In addition to deficiencies in the EVR process, VA's ability to detect improper payments is hindered by untimely processing of a key data match. Through formal agreements, VA compares its electronic data on pensioners' reported income, and other eligibility information, to similar information from a number of federal agencies, as shown in table 5. VA identifies discrepancies and, after due process, uses this information to adjust or terminate pension benefits. VA projects that its data-matching activities save the pension program millions of dollars annually.

Table 5: VA Computer Matching Procedures

Match	Frequency	Approximate volume	Agency	Procedure
Income Verification Match	Annual	36,000-46,000	SSA and IRS	Compensation and pension records are matched with the SSA database for earned income. Then, SSA transmits the file to IRS to obtain data on unearned income for the specific year. SSA matches against IRS data and sends the combined results back to VA. When VA identifies unreported income, it sends letters to employers and pensioners to verify the income. No further action is taken until the recipients respond, or until 60 days, whichever comes first. After that time, VA adjusts the pension based on corrected income data.
Social Security Verification Match	Annual	23,000-28,000	SSA	VA sends an extract of its pension files to SSA, which then runs this extract against the master beneficiary record and inserts SSA payment information. The extract tape is then returned and VA master records are updated. VA then processes the cases, calculating the revised income for VA's purposes, taking into account the SSA cost-of-living adjustment and Medicare deduction, and adjusts the pension accordingly.
Social Security Death Match	Monthly	4,000	SSA	Compensation and pension records are matched with the SSA death records, which include only those deaths reported to SSA since the last SSA/VA match. When a match is made between the SSA death records and VA records, the individual (payee or spouse) is identified as possibly deceased. After 60 days, VA may terminate the award if the pensioner is deceased.
Social Security Prison Match	Periodically	900	SSA	Compensation and pension records are matched with the SSA inmate database. VA generates a worksheet containing information on the matches. VA staff verify the status for each case and terminate pensions as appropriate.
Bureau of Prisons Match	Monthly	30	Department. of Justice, Bureau of Prisons (BOP)	VA master records are matched with the BOP database, containing data on incarcerated individuals or fugitive felons. The match generates a worksheet if the Social Security number (SSN) in the BOP records matches one in the compensation and pension master record. VA staff must work each case to suspend or reduce the pension.

Match	Frequency	Approximate volume	Agency	Procedure
Civil Service Verification Match	Annual	5,500	Office of Personnel Management (OPM)	VA master records are matched with OPM records of persons receiving Civil Service Annuity (CSA) and Federal Employees Retirement System benefits. When the SSN and surname are the same in both records, the VA beneficiary is identified as a CSA recipient
Railroad Retirement Verification Match	Annual	1,200	Railroad Retirement Board (RRB)	VA's master records are matched with RRB records of people receiving Railroad Retirement (RR) benefits. If the SSN is the same in both records, the VA beneficiary is identified as a recipient of RR.

Source: GAO analysis of VA documents.

Nevertheless, VA's key data match, the Income Verification Match program (IVM), which uses SSA and IRS data to detect pensioners who have failed to report earned or unearned income, is running far behind schedule. This match is scheduled to occur on an annual basis. However, since 2006, VA has attempted to become current by conducting 2 years' worth of IVM data matches simultaneously. Yet combining data match records for multiple years has added to the complexity and the length of case evaluations, according to officials we interviewed.

VA estimates that the IVM data match has the potential of saving the program over $10 million each year, which suggests that a delay of 2 years could delay saving as much as $25 million dollars in payment errors.[21] Such errors include both underpayments, which require VA staff to make retroactive payments or benefit adjustments, and overpayments, which can be burdensome for VA to recover from such a low-income population of pensioners and which threaten the financial stability of pensioners. While VA officials told us they plan to have all IVM data match cases entered into their system by the end of 2007,[22] they could not provide assurance that these cases will be completed in the same year.

The effectiveness of the IVM is also undermined by the fact that the data used are not current. VA uses income data that are about 2 years old, despite the fact that the SSA data are available earlier and that more

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[21] VA identified a savings of $11,611,609 from the IVM matches with SSA and IRS during fiscal year 2004 and a savings of $13,499,698 during fiscal year 2005.

[22] In 2006, VA began processing 2 tax years' worth of information. However, because IRS data is 2 years behind, this means that it processed information for the tax years 2002 and 2003 during that year. In 2007, VA began to process tax years 2004 and 2005 while it was still working on some of the earlier cases.

recent earned income data are available from another federal database, the NDNH.[23] Moreover, while VA could make use of SSA earned income data as early as September following the end of the tax year, it postpones the match of pension benefits and waits for unearned income from IRS so that it can simultaneously evaluate eligibility for pension and Individual Unemployability (IU) benefits.[24] We determined that the combination of old earned income data, along with the delays noted above, means that individuals with unreported earned income could continue to receive benefits for at least 2 years before VA can determine that their pension benefits should be adjusted or terminated.

We also found that VA's handling of the IVM data match results is inefficient because the dollar threshold used to select pensioners for review of ongoing pension eligibility has not kept pace over nearly two decades with wages necessary for a person to sustain a living. Specifically, the IVM data match threshold in use until December 2006—which VA told us was meant to represent wages for marginal employment—was set in 1988 (when VA's maximum annual pension rate for a veteran with no dependents was $6,463). Yet between 1988 and 2006, the U.S. Census Bureau's poverty threshold had increased over 70 percent.[25] As a result of VA's continued reliance upon the 1988 threshold, PMC staff told us that they manually reviewed many more cases than necessary in order to find and delete those cases that did not warrant a review. In fact, staff typically eliminated about one-third of the initial matches because their combined countable income and pension did not exceed their maximum allowable pension benefit. VA increased the $6,000 threshold to $9,383 in December 2006, but has not decided whether it would make such changes to update the threshold on a regular basis in the future.

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[23] NDNH can provide more current earnings data than SSA, but, until December 2007, VA did not have the statutory authority to access this database.

[24] The IU program provides disability compensation benefits to certain veterans whose service-connected disabilities have caused them to be unemployable. VA places an earnings limit on the continued receipt of IU benefits, and uses the IVM to ensure this requirement is met.

[25] VA's IVM data match threshold was set at $6,000 in 1988. VA told us that the $6,000 threshold reflected at the time a cutoff for marginal employment, which the agency partially defined as employment insufficient to sustain a living. VA told us poverty-level wages were also used in its calculation. The U.S. Census Bureau's poverty threshold for one individual increased from $6,022 in 1988 to $10,294 in 2006.

The timeliness of the IVM process is also hampered by the fact that VA's match records are paper based and lack the organizing and transmission efficiencies of an electronic database. Therefore, VA's follow-up work is slowed by the need to ship boxes of uncollated paper records—worksheets, correspondence with pensioners and employers, and related documents—from the Hines center to the PMCs for manual assembly and analysis. Although software exists to transfer the confidential information electronically, VA officials said the need to comply with IRS's specific security measures for income-related data has precluded VA's use of it. However, we have noted in prior work that electronic software exists to transfer confidential information securely.[26]

VA Conducts No Analysis of the Causes of Improper Pension Payments

Many millions of dollars in improper payments accrue each year before they are discovered and corrected, but VA has not taken steps to identify the causes of these improper payments. According to VA estimates, about 8.4 to 11 percent of pension program payments were made in error each year between 2003 and 2006, with most of these being overpayments, as shown in table 6. Specifically, VA estimated a total of almost $1.2 billion in overpayments and about $44 million in underpayments during this period. Such payment errors, particularly underpayments, can have a negative impact on pensioners living on very low incomes. By contrast, the agency has estimated that only about 1 percent of disability compensation program payments were made in error, with about $730 million in overpayments and $375 million in underpayments for the same period.

Table 6: VA Estimates of Pension Improper Payments, Fiscal Years 2003-2006

(Dollars in millions)

Fiscal year	Total outlays	Overpayments	Underpayments	Improper payments (percentage of total pension outlays)
2003	3,219	269	15	8.8%
2004	3,326	265	15	8.4%
2005	3,383	361	10	11%
2006	3,525	300	4	8.6%

Source: GAO analysis of VA documents and VA Performance and Accountability Report, 2006.

Note: Overpayment and underpayments rounded to the nearest million.

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[26] GAO-06-309.

Furthermore, according to VA officials, less than 30 percent of the overpayments for compensation and pension are recovered. We found that VA has not been successful in collecting overpayments. In fact, a significant portion of overpayments are written off because of pensioners' death or bankruptcy, or because the overpayment is considered uncollectible. For example, in cases where VA's Committee on Waivers concludes that repayment of the overpayment debt would cause undue financial hardship for the pensioner, the debt may be waived.[27] Most of the remaining overpayments remain on VA's financial account for up to 10 years, at which time VA discontinues its collection efforts.

Despite VA's estimates of relatively high amounts in improper payments for the pension program, the agency lacks a process for determining the nature and actual extent of payment errors. For example, VA currently does not have the ability to identify the dollar amount of overpayments generated because of a failure to report income, gambling winnings, or death of a spouse. Likewise, VA cannot identify the amount of improper payments caused by administrative factors, such as those associated with VA delays in conducting the IVM data matches. Although the agency has identified several causes for improper payments, such as inaccurate reporting of Social Security benefits, remarriage of surviving spouse, or change in dependents, it has not developed a system to assess the degree to which they occur, and therefore cannot develop strategies to target problems and take steps to correct them.

Conclusions

VA's pension eligibility operations currently provide a limited return on investment when it comes to making appropriate payments. The agency's financial verification processes are heavily weighted toward detection of payment errors late in the process rather than up-front prevention of errors. By not requiring supporting financial documentation from individuals at the time of application, and relying much later in the process on untimely data matching for this information, VA increases the likelihood of making improper payments. Additionally, VA concentrates staff resources in the first 3 months of each year on a process for updating eligibility that is time-consuming and still lacks for financial documentation or independent verifications. Meanwhile, the data-matching operations that do offer third-party verifications on financial status are delayed until after the EVR process is completed. A key data

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[27] 38 U.S.C. § 5302.

match procedure, the IVM, has been delayed in the past, and the agency continues to be at risk of making improper payments as it tries to rectify the situation. Even when the IVM data match becomes current, VA's ability to use it in a timely way will be limited if processing of the information remains grounded in a manual handling of paper documents. Moreover, if VA does not regularly update its IVM data match threshold in its incoming financial information system, the agency will continue to have an inefficient procedure for selecting cases for IVM review.

In view of the fact that the program incurs a proportionately high level of improper payments—about 8.4 to 11 percent of annual program benefits—VA's investment in the prevention of errors seems too modest. VA could readily justify increasing its investment in the error prevention process. The agency does not have a quality assurance process robust enough to ensure with a high degree of confidence the accuracy of decisions made in initial pension cases, it has not developed a consistently rigorous approach to the evaluation of training, and it does little to identify and analyze the causes of improper payments.

Taken together, VA forfeits the opportunity to address administrative weaknesses and prevent payment errors. Unless these weaknesses are addressed, VA pension benefit payments will remain vulnerable to a relatively high rate of errors. Reconciling improper payments draws resources from the agency that could be better utilized elsewhere, and to the extent overpayments are never collected, they undermine the agency's financial stewardship over public funds. Moreover, underpayments can lead to hardships among this low-income segment of the veteran population. Certainly, the program is not too small to ensure that appropriate levels of assistance are provided to a vulnerable and deserving population. This can and should be done with a level of efficiency that minimally burdens all concerned.

Recommendations for Executive Action

In order to enhance VA's management of the pension eligibility process, we recommend that the Secretary of Veterans Affairs direct the Under Secretary for Benefits take the following actions.

1. Take steps to make more accurate and timely decisions about initial and ongoing pension eligibility and payment levels. Such actions might include requiring pensioners to submit supporting documentation of their income and assets, conducting a more robust independent verification with third parties, or maximizing process automation.

2. Take steps to improve its quality assurance review of initial claims, which could include reviewing a larger sample of pension claims.

3. Incorporate evaluative feedback more consistently into the planning, design, and implementation of its training efforts.

4. Evaluate options for improving the effectiveness of its annual eligibility verification review. This effort could involve reformulating the EVR process by (a) surveying every pensioner rather than a selected subset; (b) performing reviews on a rolling basis, such as on an individual's anniversary date, rather than diverting staff for this activity for a 3-month period; (c) reviewing pensioners' eligibility once every few years rather than every year; or (d) focusing on verifying pensioners' income and assets.

5. Update the IVM data match threshold level to be in line with the U.S. Census Bureau poverty threshold or a comparable measure.

6. Evaluate the causes of improper payments and use the results to develop and implement an action plan to prevent them from occurring.

Agency Comments and GAO Response

We provided a draft of this report to the Secretary of Veterans Affairs for review and comment. In its written comments on a draft of this report (see app. III), VA agreed in part or fully with our recommendations. Although VA raised concern with some of the options we present to help implement several of the recommendations, the agency's comments indicate it will take steps to implement these recommendations.

Regarding our recommendation that VA should take steps to make more accurate and timely pension eligibility and payment decisions, the agency agreed in part but took exception with several of the actions we suggested. VA noted that requiring pensioners to provide documentation of income and net worth could be onerous to individuals and possibly diminish the timeliness of initial pension eligibility decisions. However, VA also stated elsewhere in its comments that pensioners use the end-of-year tax statements (Form 1099) to accurately report income from all sources. This indicates that it may not be an added burden to pensioners to include a Form 1099 in their initial claim. But to the extent that burden is added to preparing the initial application, the possible gains in accuracy and avoidance of corrective actions later taken to address improper payments need to be considered. Additionally, VA cited its data-matching process

with SSA as an existing mechanism to independently verify income. However, as we point out in this report, other federal agencies with similar income-based programs independently verify self-reported information to support initial eligibility decisions. By verifying claims up front, rather than years after the claim is established, the agency can effectively save the program millions of dollars that it might never recover otherwise. Moreover, VA does not always require documentation of unreimbursed medical expenses, which can be deducted from income for pension eligibility. It is important for VA to gather supporting documentation in this area as well. The agency may consider piloting the feasibility of requiring additional documentation of key financial information.

Regarding our recommendation that VA take steps to improve its quality assurance review of initial claims, which could include reviewing a larger sample of pension claims, the agency agreed with this recommendation and indicated it will double the entire rating sample size in 2008. While we commend VA's effort to increase the overall number of claims reviewed in its quality assurance review of rating-related decisions, we remain concerned that this approach will not ensure that enough initial pension claims are reviewed for quality assurance. As we point out in this report, VA samples 10 claims from most regional offices' caseload of compensation and initial pension claims. Given that initial pension claims constitute about 11 percent of the caseload, a regional office, on average, would likely have only 1 pension claim selected for review. Doubling the sample size would increase the expected number of claims to 2, which we believe is too few. Alternatively, VA might consider increasing the number of pension claims in the overall sample, such as weighing the sample size to include more pension claims or conducting stand-alone reviews of pension claims.

The agency agreed with our recommendation to incorporate evaluative feedback more consistently into the planning, design, and implementation of its training efforts.

The agency agreed with our recommendation that VA evaluate options for improving the effectiveness of its annual eligibility verification review. The agency stated there are inconsistencies between the possibilities we present, though it did not elaborate. Our intent in presenting these options is to stimulate actions that VA may take to improve the effectiveness of the EVR process. The agency discussed issues—such as veterans' ease in providing corroborating information—that need to be considered as it moves forward.

The agency agreed with our recommendation that it update the IVM data match threshold level to be in line with the U. S. Census Bureau poverty threshold or a comparable measure.

The agency agreed with our recommendation that it evaluate the causes of improper payments and use the results to develop and implement an action plan to prevent them from occurring.

In the version of the draft report sent to VA for review, we recommended that VA seek legislative authority to use the NDNH in its enforcement efforts. However, we have withdrawn this draft recommendation because VA has been mandated to use this database effective December 2007. In its comments on this draft recommendation, VA indicated that it has initiated the process necessary to gain access to the NDNH earnings database. Given this development, we encourage VA to act swiftly to position itself to fully utilize the NDNH in a timely manner.

We will send copies of this report to the Secretary of Veterans Affairs, appropriate congressional committees, and other interested parties. The report will also be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or bertonid@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Other contacts and staff acknowledgments are listed in appendix IV.

Daniel Bertoni
Director, Education, Workforce,
  and Income Security Issues

Appendix I: Objectives, Scope, and Methodology

The Senate Veterans' Affairs Committee asked GAO to (1) determine the characteristics and trends in size of the pensioner population, (2) assess the policies and procedures the Department of Veterans Affairs (VA) has in place to ensure that initial pension eligibility decisions are well managed, and (3) assess the procedures VA has in place to ensure that pensioners continue to receive the proper benefit payments.

To determine the characteristics and size of the pensioner population, we analyzed data from VA's Benefit Delivery Network (BDN), VA budget reports, and other reports through fiscal year 2006. To address our remaining objectives, we reviewed relevant laws, guidance, procedures, and internal controls that VA uses to ensure the soundness of pension benefit decisions. We also analyzed VA's internal control policies and performance reports. We visited 4 of VA's 57 regional offices, located in Boston, Milwaukee, Providence, and St. Paul. We selected these sites based on variations in size and geographic locations. We also visited VA's three pension maintenance centers (PMC), located in Philadelphia, Milwaukee, and St. Paul, and the Debt Management Center in St. Paul. We interviewed VA officials and staff at these sites as well as officials at VA Central Office in Washington, D.C. We also conducted case file reviews in three locations—Milwaukee, Providence, and St. Paul—to verify the adequacy of documentation in support of initial pension decisions. We conducted our review from November 2006 to February 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Analysis of Pensioners' Characteristics

To analyze the characteristics of pensioners, we extracted data on basic characteristics and enrollment trends from VA's Benefit Delivery Network and routine annual VA budget submissions. We supplemented our analysis with additional data from a study contracted by VA and conducted by ORC Macro.

BDN

VA maintains data on pensioners in its Benefits Delivery Network at the Hines Information Technology Center in Illinois. Hines issues routine reports to various units in VA, including budget and policy, for use in program management. Most of these reports provide characteristics for two or three factors, for example, for veterans by age grouping and by

state of residence. We based our analysis on year-end reports through
fiscal year 2006.

To obtain data not available from published VA reports, we analyzed
additional BDN data as of September 2006. VA regularly provides GAO
with two sources of BDN data. The first provides data on a few
characteristics of the entire universe of pensioners. The other provides
data on a broader range of characteristics for a random sample of 5
percent of all pensioners. We used data from the entire universe of cases
when they were available and supplemented our analysis with additional
data from the random sample. When reporting data from the 5 percent
sample, we report confidence intervals around point estimates.

Budget Data

We also analyzed data extracted from tables in the fiscal year 2002 through
2008 budget submissions.

ORC Macro Study Data

In 2002, VA contracted with ORC Macro to survey a sample of pensioners
that included veterans and surviving spouses. For more detailed data not
available from VA's BDN, we used data reported in the ORC Macro report.
However, data are not generalizable to current pensioners because of the
time frame when the survey was conducted. The ORC Macro study was a
telephone-administered survey. The survey sample generally mirrored the
pensioner population at the time. However, for the sample of veterans,
nursing home residents were underrepresented. In addition, the spouse
sample and spouse recently enrolling sample underrepresented spouses
receiving aid or attendance services. In all three cases, ORC Macro
conducted a sensitivity analysis to find out whether these
underrepresented groups would have changed key question response
frequencies if they were correctly represented. In each of the three cases,
ORC found they would not significantly change response frequencies.

GAO's applied research and methods group evaluated the BDN and ORC
Macro survey data and found the information to be sufficiently reliable for
our purposes.

Case File Review

To verify the adequacy of documentation in support of initial pension
decisions, we reviewed case files on a random sample of Improved
Pension claims and Death Pension claims that had been completed by
three VA regional offices, in Milwaukee, St. Paul, and Providence. We
chose Milwaukee and St. Paul because they were associated with a PMC.

Because the Milwaukee site processes new claims in both the regional office and the PMC, we included files that originated at both locations in our review. Additionally, because the St. Paul office completed pension cases that had been transferred from another regional office, we included those cases in our review. We chose the Providence regional office because it was not associated with a PMC and because of its geographic location.

At the three sites we reviewed a total of 72 case files for completed initial pension claims. In order to select case files to review, VA provided a list of all initial (or original) claims for Improved Pension (for veterans) and Death Pension (for survivors) considered and determined between February 1, 2007, and February 28, 2007.[1] To select from this list, which included both approved and denied cases, we used random number assignment procedures to help ensure a broad range of these types of cases were included in our sample. Specifically, at St. Paul, we used a randomized ordering process to select and review 32 case files. On subsequent site visits, we randomized all EP 180 and EP 190 claims and reviewed the first available 14 EP 180 and 6 EP 190 case files. In some instances, case files we selected were unavailable because they were being reviewed at the regional office or were categorized as pension claims but over the course of VA developing the claim no longer met our selection criteria of initial pension claims. We attempted to review a 2-to-1 ratio of EP 180 to EP 190 cases, which is approximately the ratio that exists in the pension claims population. The number of case files we reviewed at each site is given in table 7.

Table 7: VA Regional Offices Visited and Disposition of Pension Case Files Reviewed

Regional office	Pension awards	Pension denials	EP 180 (Veterans' claims)	EP 190 (Survivors' claims)
Milwaukee	14	6	14	6
St. Paul	24	8	23	9
Providence	15	5	14	6
Total	**53**	**19**	**51**	**21**

Source: GAO.

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[1] For productivity purposes, VA refers to these claims as End Product Code (EP) 180 and 190, respectively.

To ensure consistency, we used a standardized checklist to examine case files at each location, and the same individuals conducted the reviews at all three sites. The checklist, which was developed by examining the procedural guidance and case files at a regional office, included information about each of the major eligibility criteria: military service, disability, net worth, and income. In addition, we reviewed demographic information about the claimants. We also looked for evidence that VA had followed guidance on procedures, for example, whether letters were sent to the claimant appropriately. At each of the sites we communicated with VA office management when questions about the files we were reviewing arose. In some cases these conversations helped us better understand why a case had been handled in a particular way, while in other cases management acknowledged that errors had been made.

The results of visits to the sample of regional offices are not generalizable to all 57 regional offices; similarly, results of case file reviews are not generalizable to all pension files. The testimonial evidence, such as that gathered during interviews with staff, also is not generalizable.

Appendix II: Pension Eligibility Determination

Administrative Structure

VA's Compensation and Pensions (C&P) Service administers the pension program and oversees the operation of 57 regional offices and three pension maintenance centers (PMC). The C&P central office has responsibility for managing policy and procedures, guidance, quality assurance, and general operations. The regional offices process initial pension applications and determine eligibility. The offices have jurisdiction in the geographic area where a veteran or survivor lives. At least one regional office is located in every state except Wyoming, as well as the District of Columbia, Puerto Rico, and the Philippines.
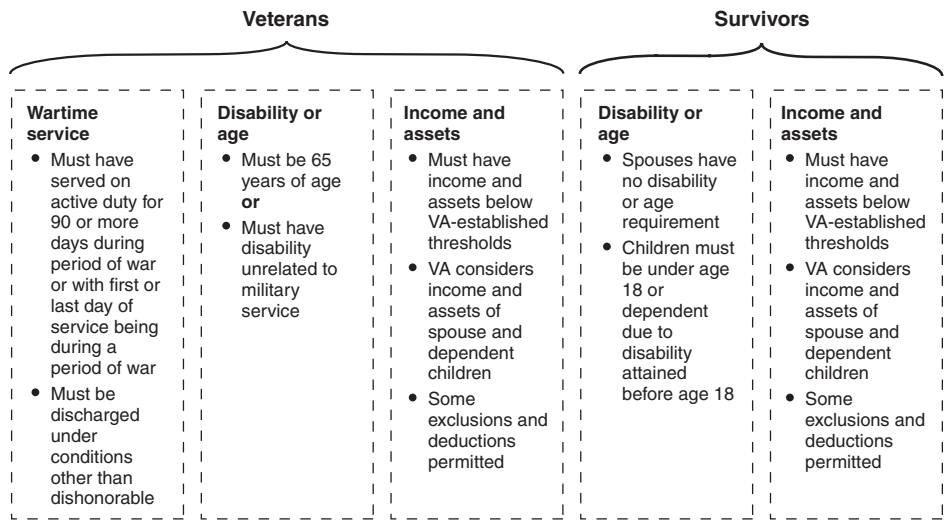
The PMCs are responsible for conducting annual reviews of eligibility and adjusting benefit levels when a pensioner's circumstances change. As part of the annual review, staff at the PMCs examine annual reports from pensioners, which contain information on, for example, income and medical expenses. Staff also examine the results of a variety of computerized data matches with other government agencies to determine whether adjustments are warranted. Additionally, VA's Hines Information Technology Center handles all computer transactions that affect benefit payment levels, and VA's Debt Management Center is responsible for collecting overpayments that occur.

Initial Eligibility Determinations for VA's Improved Pension Program

To determine a veteran's initial eligibility for the pension program, VA's regional office staff review several eligibility criteria, including the veteran's military status, age or disability, and income. For the surviving spouses and children of such veterans, VA uses similar factors to determine eligibility, as shown in figure 5. All survivors are subject to income and asset limits, but only surviving children must meet disability or age requirements.

Figure 5: Pension Eligibility Criteria for Veterans and Survivors

	Veterans			Survivors	

Wartime service	**Disability or age**	**Income and assets**	**Disability or age**	**Income and assets**
• Must have served on active duty for 90 or more days during period of war or with first or last day of service being during a period of war • Must be discharged under conditions other than dishonorable	• Must be 65 years of age **or** • Must have disability unrelated to military service	• Must have income and assets below VA-established thresholds • VA considers income and assets of spouse and dependent children • Some exclusions and deductions permitted	• Spouses have no disability or age requirement • Children must be under age 18 or dependent due to disability attained before age 18	• Must have income and assets below VA-established thresholds • VA considers income and assets of spouse and dependent children • Some exclusions and deductions permitted

Source: Title 38, U.S. Code.

Military Service Requirement

To qualify for the pension program, veterans must meet one of four military service criteria set out in statute, but in practice they have been collapsed into a single requirement.[1] The VA characterizes these criteria as generally requiring that veterans have served on active duty in the military, naval, or air forces for 90 days or more, with at least one of those days being during a period of war,[2] and been discharged under conditions other than dishonorable.[3] In addition, veterans who enlisted after September 7,

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[1] 38 U.S.C. § 1521(j). Veterans with active service generally have significantly more than 90 days of such service, and all six periods of war applicable under the statute to the pension program, 38 U.S.C. § 1501(4), exceed 90 days, 38 U.S.C. § 101(7), (8), (9), (29), (30), and (33).

[2] Under the statute, the period of the Persian Gulf War began August 2, 1990, and will end "on the date thereafter prescribed by presidential proclamation or by law." 38 U.S.C. § 101(33). Since no such proclamation has been issued or law enacted, this period of war has never ended. The statute also provides for additional periods of war commencing with the declaration of war by Congress and terminating by presidential proclamation or concurrent resolution of Congress. 38 U.S.C. § 101(11).

[3] Veterans with dishonorable discharges may obtain an upgrade to their discharge status in certain cases, however, and thus become eligible for the pension program. 38 U.S.C. § 5303(e).

1980, generally must have served at least 24 months or the full period for which called or ordered to active duty to qualify.[4]

Disability or Age Requirement

Eligibility for pension benefits is restricted to veterans who are either totally and permanently disabled due to circumstances unrelated to their military service or to willful misconduct, or who are at least age 65. Veterans under age 65 must be considered totally and permanently disabled, which means that the veteran is unable to pursue substantially gainful employment due to a disabling condition and that the condition is reasonably certain to continue throughout the veteran's life.[5] Veterans who receive Social Security disability benefits or long-term care in nursing homes are presumed to be totally and permanently disabled.

Income and Asset Limits

In determining eligibility, VA considers the income of all family members, including spouses and children, but excludes other individuals residing in the household. Pensioners meet income eligibility requirements if their family incomes are less than the maximum annual pension amounts established annually by Congress. Various sources of income are considered when determining eligibility, including employment, interest and dividends, retirement, annuities, workers' compensation, and Social Security Disability Insurance benefits. Income from other federal or state means-tested programs—such as Temporary Assistance to Needy Families, food stamps, housing assistance, or Supplemental Security Income—is not counted toward family income. Pensioners may deduct unreimbursed medical expenses that exceed 5 percent of the maximum annual pension amount from their income for the purposes of determining eligibility.

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[4] 38 U.S.C. § 5303A. The requirement applies to officers only if they entered (or enter) active duty after October 16, 1981.

[5] VA defines "substantially gainful employment" for both pensions and disability compensation as employment that is "ordinarily followed by [individuals without disabilities] to earn their livelihood with earnings common to the particular occupation in the community where the veteran resides." Web Automated Reference Materials System M21-1MR, pt. V, subpt. II, ch. 1, § B. In a 2002 survey, 1 percent of veterans and survivors under age 65 said they were working, while 4 percent of veterans and 10 percent of survivors said they were seeking work. Most of the remaining pensioners under of the age of 65 said they were not working or seeking work because of health problems or disabilities. (ORC Macro, Economic Systems Inc., and Hay Group, *Evaluation of VA Pension and Parents' DIC Programs: VA Pension Program Final Report* [Washington, D.C.: Dec. 22, 2004]).

VA does not apply specific limits on the net worth of assets when determining eligibility for pensions. However, veterans will not be awarded a pension if VA determines that they have sufficient assets to live on for a reasonable period of time. To make this determination, VA guidance calls for net worth in excess of $80,000 to be reviewed during the initial eligibility determination process, taking into consideration such factors as the veteran's life expectancy and the convertibility of the assets into cash.

Net worth includes all personal property and real estate owned by veterans and their families, excluding the value of their home and the land on which their homes are located.

Survivor Eligibility

When a veteran with qualifying wartime service dies, his survivors may be entitled to a pension. The veteran does not have to be receiving a pension at the time of his death in order for his survivors to be eligible for benefits. Survivors are not required to have a disability in order to qualify, but they must meet income and asset requirements. For spouses, there is no age requirement, but they lose eligibility if they remarry. Generally children under age 18 are eligible, as are those under 23 who are in school. Older unmarried children may also be eligible, but only if they are incapable of self-support and if this incapacity occurred prior to their reaching age 18.

Ongoing Eligibility Determinations for VA's Improved Pension Program

Once pensioners have been awarded benefits, VA makes ongoing eligibility determinations and adjusts benefit levels as needed. Pensioners are required to inform VA of any changes in entitlement factors that could affect their eligibility or benefit levels as soon as they occur. Hospitalization or incarceration, as well as changes in income, assets, or marital status, can affect the continued eligibility of pensioners or result in adjustments to the amount of payments that they receive. Any changes in circumstances must be reported to VA in writing as soon as they occur, and VA is required to make any necessary adjustments. To further assess ongoing eligibility and benefit levels, VA also requires pensioners who have any income other than Social Security to file an annual report with VA.[6] Then, VA evaluates the information in this report to determine if pensioners continue to meet income eligibility requirements.

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[6] The required report is termed the Eligibility Verification Report (EVR).

Appendix III: Comments from the Department of Veterans Affairs

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON
January 31, 2008

Mr. Daniel Bertoni
Director, Education, Workforce, and
  Income Security Issues
U. S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Bertoni:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, *VETERANS BENEFITS: Improved Management Would Enhance VA's Pension Program* (GAO-08-112) and partially agrees with GAO's conclusions and concurs with GAO's recommendations.

The Department of Veterans Affairs (VA) concurs in part with GAO's recommendation that VA should take steps to make more accurate and timely pension eligibility and payment decisions. VA also concurs with recommendations to improve its quality assurance of initial claims; incorporate feedback in its training; improve the effectiveness of pension eligibility review and verification process; and evaluate the causes of improper pension payments.

The enclosure addresses each of GAO's recommendation and provides additional discussion and comments to the draft report. VA appreciates the opportunity to comment on your draft report.

Sincerely yours,

James B. Peake, M.D.

Enclosure

Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report
*VETERANS' BENEFITS: Improved Management Would Enhance VA's
Pension Program*
(GAO-08-112)

**In order to enhance VA's management of the pension eligibility process, we
recommend that the Secretary of Veterans Affairs direct the Under
Secretary for benefits to take the following actions:**

- **Take steps to make more accurate and timely decisions about
initial and ongoing pension eligibility and payment levels. Such
actions might include requiring pensioners to submit supporting
documentation of their income and assets, conducting a more
robust independent verification with third parties, or maximizing
process automation.**

Concur in part: VA agrees that additional steps are appropriate to improve the
timeliness of pension claims processing and has already taken the following
actions:

- VBA increased the number of resources dedicated to claims processing in
2007 and further increases are expected in 2008.
- VBA will complete the consolidation of all pension claims processing to the
Pension Maintenance Centers (PMC) in 2008.
- VA exceeded the FY 2007 goal of 45 days to complete eligibility
verification reports. Actual performance was 34 days.

VA does not agree that new, regular, and perhaps onerous submissions of
income and net worth documents by pension beneficiaries, the average age of
whom is 70 years, would yield substantive improvements in the pension program.
GAO submitted no evidence to support the need for the suggested actions.
Further, requesting and evaluating such documents from claimants and/or
beneficiaries may diminish timeliness.

VA already has many means in place to independently verify the income of
pension beneficiaries. An original pension decision is based on estimated
income that the claimant reports he or she expects to receive during the first year
of eligibility. When VA needs information about the Social Security
Administration (SSA) benefits, VA can obtain the information directly from SSA
through an interface with our VETSNET system's Share application. Decision-
makers have this interface at their disposal, as well as the output of matching
agreements with SSA when making subsequent income adjustments. The
matching programs act in two ways to ensure accuracy: first, the SSA verified

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(GAO-08-112)
(Continued)

rate is inserted in the VA master record; and second, information is sent to the
PMCs when verified Social Security income differs from that upon which benefits
are being paid. Additionally, VA obtains civil service and railroad retirement
annuity information through inter-agency matching agreements. These matches
are effective in obtaining accurate income data. On page 7 of the draft report,
table 1 shows that pensioners under age 65 receive 91 percent of their total
income from SSA, and those age 65 and older receive 87 percent of total income
from SSA, which, as stated above, is a verifiable source.

We agree that maximizing the use of automation is essential to achieving
additional process improvements. In August 2008, VBA will release VETSNET
enhancements that will make this system considerably easier to use.
Enhancements include capturing income data and displaying it from year to year.
When entitlement to both has been established, automatically change payment
to the veteran to either service-connected disability compensation or nonservice-
connected pension whichever is greater.

- **Take steps to improve its quality assurance review of initial
  claims, which could include reviewing a larger sample of pension
  claims.**

<u>Concur</u> – VBA's quality assurance program will double the case review for the
entire rating sample during FY 2008, including initial pension claims.

- **Incorporate evaluative feedback more consistently into the
  planning, design, and implementation of its training efforts.**

<u>Concur</u> – VA has developed standardized pension training based on M21-1MR
materials posted on the Compensation and Pension Service (C&P) training Web
site and locally developed training aids. PMC review exercises also measure the
success of the training. To ensure a consistent means of providing evaluative
feedback to local training, VA will post the general evaluation forms for C&P
training to the Web site by the end of June 2008.

Additionally, all field personnel have standardized Training and Performance
Support System (TPSS) modules with pension segments. The TPSS training

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(Continued)

system allows local training coordinators to measure the quality of training and
success of each veterans service representative enrolled in the system.

- **Evaluate options for improving the effectiveness of its annual
  eligibility verification review. This effort could involve
  reformulating the EVR process by (a) surveying every pensioner
  rather than a selected subset; (b) performing reviews on a rolling
  basis, such as on an individuals' anniversary date, rather than
  diverting staff for this activity for a 3-month period; (c) reviewing
  pensioners' eligibility once every few years rather than every
  year; and (d) focusing on verifying pensioners' income and
  assets.**

Concur – Although there are inconsistencies between the options presented,
VBA will consider ways to improve the effectiveness of the eligibility verification
review. Originally, VBA issued EVRs throughout the year, or whenever income
information was needed from a beneficiary. Public Law 103-271 gave the
Secretary discretion in requiring annual EVRs. As a result of that legislation, VA
eliminated annual EVRs for most beneficiaries who have no income or only
Social Security income. This reduced the EVR workload to a level that allows
staff to issue and work them all seasonally.

At the end of 1995, VA converted the staggered (rolling) reporting period to a
calendar year reporting period for all beneficiaries required to file an EVR.
Before then, VBA based staggered reporting period on the anniversary date of
when entitlement to pension was first established. One important reason for this
change was to make it easier for veterans, whose income information (e.g., Form
1099) was sent to them at the end of the calendar year for tax purposes, to
accurately report income from all sources. Most beneficiaries also have official
unreimbursed medical expense reports provided to them on a calendar year
basis. Unreimbursed medical expenses are used to reduce countable income
and increase pension payments. Staggering reporting periods would result in a
substantial increase in workload because most beneficiaries would still file their
medical expenses at the end of the year.

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(GAO-08-112)
(Continued)

- **Seek legislative authority to facilitate use of NDNH earnings data
  for pension eligibility purposes.**

Concur - The draft GAO report misstates VA's position about accessing the
National Directory of New Hires (NDNH) database. VBA has initiated the
process necessary to gain access to the NDNH earnings database. Proposed
legislation was submitted in both the 109th and 110th Congress to obtain access
to the NDNH database, and Congress recently authorized access to the
database in Public Law 110-157. VA is initiating contact with the Department of
Health and Human Services (HHS) to gain access. Before VA can begin using
the system, the following two key steps must be completed.

- VBA will enter into a memorandum of understanding (MOU) with the HHS,
  Office of Child Support Enforcement (OCSE), which maintains the NDNH
  database. The MOU will describe the purpose, legal authority,
  justification, and expected results of the data matches and the records to
  be matched. In addition, retention and disposition of data, as well as
  reporting requirements, will be addressed. VBA will meet with OCSE on
  January 31, 2008, to discuss the MOU.

- Because the enabling legislation contains a provision that requires VBA to
  obtain the consent of the individual pension applicant prior to using the
  NDNH database, it will be necessary to modify language in the pension
  applications and other forms to implement this requirement.

VA anticipates completing these steps during FY 2009.

- **Update the IVM data match threshold level to be in line with the
  U.S. Census Bureau poverty threshold or a comparable measure.**

Concur – VBA will adjust the IVM data match threshold level to conform to the
updated setting of the U.S. Census Bureau poverty threshold level. We will
submit the project initiation request to adjust the threshold by April 2008.

- **Evaluate the causes of improper payments and use the results to
  develop and implement an action plan to prevent them from
  occurring.**

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(GAO-08-112)
(Continued)

<u>Concur</u> - VBA will review and analyze all available information, including
Systematic Technical Accuracy Review (STAR) error reports and debt
management information, concerning the causes of improper pension payments.
Based on the outcome of that analysis, VBA will identify and implement feasible
system and/or process interventions to minimize the occurrence of improper
payments. We anticipate completion of an action plan to implement the
interventions by the end of June 2008.

In addition, VA would like to note that we have been reporting on improper
payments as required annually in the Annual Performance and Accountability
Report (PAR). For FY 2008, OMB requires all agencies to report causes of
improper payments. On page 4, GAO states "VA does not collect sufficient data
on causes of improper payments that could be used to help it better manage the
pension program." VA's Office of Finance has drafted a report format with
instructions for the Veterans Health Administration and the Veterans Benefits
Administration to report the causes of errors, dollar amounts, and percentages to
the Office of Financial Policy, which compiles data for reporting in the PAR and
routine reporting under the Improper Payments Information Act of 2002.

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Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Daniel Bertoni, Director (202) 512-7215 or bertonid@gao.gov

Staff Acknowledgments

The following individuals made important contributions to the report: Brett Fallavollita, Assistant Director; Anna Kelley; Scott Purdy; Shannon Diamant; as well as Susan Bernstein; Pat Elston; Lara Laufer; Wayne Turowski; Walter Vance; Joan Vogel; and Craig Winslow.

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