

Office of Inspector General

Redacted

Audit of the Compensation and Pension Program's Internal Controls at VA Regional Office St. Petersburg, FL

*The Veterans Benefits Administration
needs to improve internal controls in the
Compensation and Pension program.*

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REPORT DISTRIBUTION

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DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Under Secretary for Benefits (20)

**Audit of the Compensation and Pension Program's
Internal Controls at
VA Regional Office St. Petersburg, Florida**

1. The Office of Inspector General (OIG) audited internal controls for adjudication and payment of Compensation and Pension (C&P) benefits at the Department of Veterans Affairs Regional Office (VARO) St. Petersburg, FL. The audit was performed to follow up on our June 17, 1999, vulnerability assessment, *Management Implications of Employee Thefts from the Compensation and Pension System, and Observed Internal Control Vulnerabilities*, and included procedures to:

- Determine whether internal control vulnerabilities existed that may facilitate fraud or claims examination error.
- Probe for potential on-going fraud that may have escaped detection by VA and VARO controls.

2. The Under Secretary for Benefits asked for OIG's assistance to help identify internal control weaknesses that might facilitate or contribute to fraud in the Veterans Benefits Administration's (VBA) C&P program. The request followed the discovery that three VBA employees had embezzled nearly \$1.3 million by exploiting internal control weaknesses in the C&P benefit program.

3. In January 1999, a Supervisory Claims Examiner at VARO St. Petersburg was arrested for stealing \$615,451 by creating a fraudulent disability compensation award in the name of the perpetrator's fiancé. At the time the fraud began in March 1997, the perpetrator was employed as a Unit Chief (GS-12) in the Adjudication Division of the regional office. She had been promoted to Section Chief (GS-13) at the time of her arrest. Investigation of this theft led to the discovery that the perpetrator also conspired with a subordinate VARO St. Petersburg employee to fraudulently increase her own disability compensation benefit payments, resulting in additional loss to the government. Both employees were convicted of Federal offenses. The Supervisory Claims Examiner is currently serving a 33-month prison sentence and the subordinate employee has been sentenced to serve 12 months in prison.

4. In April 1998, a man was arrested on drug possession charges. Further investigation led to the discovery that the man had been receiving fraudulent compensation payments since August 1986. At the time the fraud was discovered, payments were being made at the maximum compensation rate of \$5,011 monthly.

The man arrested was a former VA employee who worked as a Rating Specialist (GS-12) at VARO New York from January 1986 to May 1987. The perpetrator was convicted of theft of government funds and is currently serving a 33-month prison sentence.

5. VBA systems of internal control did not prevent or detect these fraudulent activities. In the first case, both fraudulent benefit awards were discovered only because VA received a tip that something was amiss in the fiancé's receipt of disability compensation. In the second case, the fraud was discovered by chance as a consequence of the perpetrator's arrest in a drug raid. Were it not for this event, the fraud would likely have continued indefinitely without discovery, as it had for 12 years.

6. We conducted an initial internal control vulnerability assessment and issued our preliminary report to the Under Secretary in June 1999. We reported identifying 18 categories of vulnerability involving numerous technical, procedural, and policy issues. This audit was conducted to follow up on the results of the June 1999 assessment. We selected VARO St. Petersburg for follow-up audit because:

- It is one of the largest VA regional offices, accounting for 6 percent of C&P workload.
- It was the location where two of the three known frauds took place.

7. We confirmed that 16 of 18 categories of vulnerability reported in our vulnerability assessment were present at VARO St. Petersburg. In particular, results of audit show:

- Employee folders were not transferred to assigned regional offices of jurisdiction and secured in locked files.
- **.(b)(2)..(b)(5)**..... were ineffective to prevent employee access and **.(b)(2)..(b)(5)**.....
- Controls were not effective to prevent employees from accessing and modifying the records of relatives and friends.
- VBA staff need practical guidance on avoiding conflict of interest issues.
- Rating decisions should be recorded in the **.(b)(2)...(b)(5)**..... to diminish the risk of fraud.
- Controls to prevent release of improper payments were not effective.
- Continued entitlement was not verified when checks were canceled or returned as undeliverable.

These and other vulnerabilities are described in detail beginning on page 1. Also see the Internal Control Vulnerability Matrix in APPENDIX III.

8. Two categories of vulnerability identified in our June 1999 vulnerability assessment were not present at VARO St. Petersburg. The first vulnerability related to the practice of issuing employees **(b)(2)** **(b)(5)**..... Employees **(b)(2)** **(b)(5)**..... This practice **(b)(2)** **(b)(5)**..... that promote separation of duties, and would substantially **(b)(2)** **(b)(5)**..... (See page 14 for further details). During our audit, VBA issued instructions (VBA Letter 20-99-68 dated September 22, 1999) to discontinue the practice of **(b)(2)** **(b)(5)**.....

9. The second vulnerability concerned employee accountability issues associated with non-traditional organizational models not used at VARO St. Petersburg. VARO St. Petersburg followed a case management organizational model that assigned work by claim number, which did not weaken employee accountability for performance.

10. We also performed a series of tests to identify potentially fraudulent C&P benefit payments, including a review of over 1,000 benefit awards that evidenced potential fraud indicators. As a result of our tests, 64 cases were referred to the OIG Office of Investigations for further investigation and 72 cases were referred to VARO St. Petersburg for administrative review. Details regarding the results of probe testing are reported beginning on page 21.

11. We made 15 recommendations to strengthen internal controls in the C&P program to reduce the risk of potentially fraudulent activity. The recommendations generally addressed controls over such areas as the **(b)(2)** **(b)(5)**.....; and employee conflict of interest.

12. You concurred with the findings and recommendations in the report. However, these issues cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

For the Assistant Inspector General for Auditing

(Original signed by:)

JAMES R. HUDSON
Director, Atlanta Audit Operations Division

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Details of Internal Control Review and Recommendations

A. Employee Folders Were Not Transferred to Assigned Regional Offices of Jurisdiction and Secured in Locked Files

Some employee benefit claim folders were not transferred to the assigned regional office of jurisdiction and were not maintained in locked files, as required by Veterans Benefits Administration (VBA) policy. VBA policy requires that employee claim folders be transferred to an assigned regional office of jurisdiction for locked storage and adjudication of claims. The purpose of this policy is two-fold:

- 1) To reduce the potential that employees or their coworkers could improperly access, modify, or destroy their records.
- 2) To eliminate real or perceived conflict of interest in determining employee entitlement to benefits.

VBA policy permits transfer of employee claim folders back to the employee's station if the employee needs to review the evidence held in the claim folder. However, chain-of-custody should be maintained, and employees should be supervised when they review their records to prevent potential manipulation or destruction of records.

The assigned regional office of jurisdiction for VA Regional Office (VARO) St. Petersburg employee claim folders is VARO Atlanta, Georgia. VBA policy requires transfer of all VARO St. Petersburg employee claim folders to VARO Atlanta to be held in locked storage. However, 35 VARO St. Petersburg employee claim folders were stored at VARO St. Petersburg under conditions that allowed unmonitored employee access to their personal claim folder. As a result of our audit, management took immediate action to strengthen controls by placing employee claim folders in locked files.

VARO St. Petersburg is the office of jurisdiction for employee claim folders from VARO Columbia, South Carolina. However, VARO St. Petersburg held the VARO Columbia employee claim folders in unlocked storage in the general population of VARO St. Petersburg claims records. VARO St. Petersburg's employee folders that were transferred to VARO Atlanta were also improperly held in unlocked storage in the general population of VARO Atlanta claim folders.

The requirement to transfer and lock down employee claim folders was reinforced by the Under Secretary for Benefits during a videoconference in April 1999. VBA Letter 20-99-68 (September 22, 1999) also directed that employee claim folders be held in restricted-access locked files. However, at the time that we left the audit site, VARO Columbia employee claim folders held by VARO St. Petersburg were still not placed in a locked file status. VARO St. Petersburg management told us the employee claim

folders were not locked down because they were awaiting additional detailed guidance from VBA Central Office.

In two of the recent frauds that occurred at VARO St. Petersburg, the pertinent claim folders were never found, significantly impeding the resulting criminal investigation. In both cases, the loss of the claim folders was directly attributable to the failure to control employee claim folders as required by policy.

Recommendation 1

The Under Secretary for Benefits should conduct a system-wide inventory to ensure that VBA employee claim folders have been transferred to the assigned regional offices of jurisdiction and held in locked file storage, as required.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. Policy will be revised to direct that VBA employee claim folders are transferred to the regional office assigned jurisdiction and held in locked files. A system-wide listing of veteran-employees will be distributed to each regional office, with instructions to ensure that claims-related electronic records are appropriately secured and are properly housed at the regional office assigned jurisdiction. The listing will be generated on a regular and recurring basis to ensure that effective controls are maintained.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

(Comments of the Under Secretary for Benefits are provided in their entirety in APPENDIX IV).

B. (b)(2).(b)(5)..... Access and (b)(2).(b)(5).....

Employees could improperly access and (b)(2).(b)(5)..... While VBA has established an (b)(2).(b)(5)..... to preclude employees from being able to access and (b)(2).(b)(5)..... was not effectively used. (b)(2).(b)(5) is based on coding the (b)(2).(b)(5)..... associated with (b)(2).(b)(5)..... (b)(2).(b)(5)..... allows the employee to view his/her record, but (b)(2).(b)(5).....

We identified 143 VARO St. Petersburg employees who received compensation benefits and also (b)(2)(b)(5) However, in 105 cases (73 percent), the employee's claim number was not recorded in (b)(2)(b)(5), as required. Of these 105 employees, 65 (62 percent) had adjudication and authorization authority – “production access”. This access increases the opportunity for employee fraud, particularly with collusion, as was the case in one of the VARO St. Petersburg fraud cases.

VBA policy requires that Regional Office Information Resource Management (IRM) staff conduct a semiannual reconciliation of sensitive electronic (b)(2)(b)(5) claims records (claims records designated with a special security code to indicate they are employees and other high-profile beneficiaries) with the physically locked claim folders. The purpose of the reconciliation is to ensure that sensitive claim folders are held in locked storage files and sensitive automated records are “locked” electronically. However, this review was not conducted. This procedure could provide information to identify employee claim numbers that (b)(2)(b)(5) security records. IRM staff updated the (b)(2)(b)(5) security file after we brought this issue to their attention, and we confirmed that all employee C&P claim numbers were subsequently coded to the (b)(2)(b)(5) security file.

Recommendation 2

The Under Secretary for Benefits should:

- a) Conduct a nationwide review of (b)(2)(b)(5) security records to ensure the (b)(2)(b)(5) security file is updated with the claim numbers of (b)(2)(b)(5) users who also receive C&P benefits.
- b) Ensure that all sensitive claims records are electronically “locked”.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. A letter will be issued instructing all Regional Office Directors to review the Security and Sensitive Data Files for each veteran-employee with (b)(2)(b)(5) access. The letter will include instructions to verify that the files are linked and to correct any linkages not made.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

C. Controls Were Not Effective to Prevent Employees From Accessing and Modifying the Records of Relatives and Friends

Controls were not in place to identify employees' relatives and significant others who receive VBA benefits. VBA should require employees to identify the claims of immediate family members that would present a conflict of interest to the employee (mother, father, sister, brother, and corresponding in-laws). The claim numbers of these beneficiaries should be coded to the employee's *(b)(2)(b)(5)* security record to prevent production access by the employee.

VARO St. Petersburg management told us that they rely on the integrity of the employee to report relatives receiving benefits. New employees are required to disclose potential conflicts of interest during the orientation process, and are periodically reminded of the requirement through security bulletins, discussion with supervisors, and other messages.

However, VBA has not established an affirmative procedure to ensure employees disclose potential conflict of interest matters. We suggest that employees provide an annual certification that identifies claims that would present a conflict of interest to the employee, so management can ensure the employee's access is restricted.

Recommendation 3

The Under Secretary for Benefits should:

- a) Obtain annual certifications from VBA employees with access to the claims system to identify immediate family members that may present a conflict of interest to the employee.
- b) Restrict VBA employee access to such beneficiary claim folders and records.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. An annual employee certification process to identify those family members either receiving benefits or with an active claim pending will be included with annual ethics training. The current policy requiring the linkage of employee numbers to claim numbers will be expanded to include family and others presenting a conflict of interest to the employee.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

D. VBA Staff Need Practical Guidance on Avoiding Conflict of Interest Issues

Results of review showed several instances where employees created a conflict of interest by improperly involving themselves in the adjudication of claims of coworkers, Veterans Service Officers (VSOs), or relatives (“sensitive claims”). We reviewed all 308 claim folders of employees, former employees, relatives, and VSOs at VARO St. Petersburg that we could identify and found that 127 (41 percent) contained claims that were adjudicated by VARO St. Petersburg staff. A rating specialist, detailed from VBA Headquarters at our request, reviewed these claims further and determined that:

- Two ratings were unsupported and unwarranted.
- Six ratings were “very liberal” suggesting that the sensitive claims were given more favorable rating consideration than that given similarly situated veteran claimants.
- Two claims were processed within 5 days, although it normally takes VARO St. Petersburg months to process a claim. In our opinion, this represented preferential treatment.

VARO employees intervened in the processing of two other sensitive cases, which we believe was an effort to influence decisions in the claims.

This occurred, in part, because the sensitive claim folders were not identified, controlled, or transferred to the regional office of jurisdiction as required. Additionally, the evidence showed that some employees chose to intervene in sensitive claims. Adjudication of sensitive claims, and intervention in the processing of sensitive claims, were improper and violated Federal regulations regarding conflict of interest. We referred 24 of the 127 claims adjudicated at VARO St. Petersburg to the OIG Office of Investigations for follow up.

Many VARO St. Petersburg employee claims were not transferred for storage and adjudication at VARO Atlanta, the regional office of jurisdiction, as required by VBA policy. Results of audit show that VARO St. Petersburg staff adjudicated the claims of 71 of 169 employees (42 percent) receiving compensation benefits. VARO St. Petersburg also rated 12 of the 43 former employee claims we reviewed (28 percent). Although VBA policy does not require that relatives’ claims be adjudicated at another VARO, there is great potential for conflict of interest in adjudicating these claims locally. Results of audit show that 34 of 64 employee relatives’ claims we identified (53 percent) were adjudicated at VARO St. Petersburg.

VARO St. Petersburg officials told us that, while not required by VBA policy, it was their local practice to send VSO claims to VARO Atlanta for adjudication. Emphasis was to be placed on those VSOs working within the building confines although management never made a concerted effort to identify all VSOs assigned to VARO St. Petersburg receiving benefit awards.

Audit results show that 10 of 32 VSO claim folders (31 percent) we reviewed were adjudicated or were pending adjudication at VARO St. Petersburg. Several of the current VSOs were former employees of the VARO, and some had relatives employed at the VARO.

VBA has not provided employees with detailed instructions on standards of professional conduct. Expectations regarding ethical conduct for Veterans Service Representatives (VSRs) are briefly described in a foreword to the adjudication procedure manual (M21-1, Part I). The foreword directs employees to maintain the highest possible standards of honesty, integrity, impartiality, and conduct.

VBA only requires annual ethics training for its most senior staff. For example, at VARO St. Petersburg only the top three Veterans Service Center (VSC) managers are required to attend annual ethics training. Local policy required that new VARO St. Petersburg employees receive ethics training during orientation, but no new employee ethics training has been held since May 1998. As a result, 131 new employees have not received ethics training.

Management plans to provide ethics training to all staff as soon as the position of Human Resources Director, who is responsible for the training, is filled. Annual ethics training for all claims processing staff would be most beneficial if it were focused on the specific ethical questions that might arise regarding adjudicative type work (i.e., processing the claims of other employees' relatives).

VBA management needs to reinforce its commitment to the integrity of the claims examination process. The frequency and depth of employee involvement in matters where they had a personal interest or potential conflict of interest demonstrates the need for increased guidance and training. To be most effective, the guidance should be practical and detailed, describing specific situations that constitute conflict of interest.

Recommendation 4

The Under Secretary for Benefits should:

- a) Issue detailed guidance on expectations of employee conduct and avoidance of conflict of interest.
- b) Provide annual ethics training for all employees.
- c) Establish a positive control (BDN system edit keyed to employee ID number) that ensures employee claims are adjudicated only at the assigned regional office of jurisdiction and prevents employees from adjudicating matters involving fellow employees and VSOs at their home office.

- d) Establish procedures for adjudication of claims of former employees, relatives, and VSOs that parallels policy for adjudication of employee claims.
- e) Direct the transfer of VSO claim folders to assigned regional offices of jurisdiction.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. An all-employee letter will be issued about the expectations of employee conduct and avoidance of conflict of interest. Mandatory annual ethics training will be provided to all employees by satellite broadcast. A positive control will be incorporated into the BDN replacement system, Modern Awards Processing (MAP), to ensure that employee claims are adjudicated only at the assigned regional office of jurisdiction and that prevents employees from adjudicating matters involving fellow employees and VSOs at their home office. The policy for adjudication of claims for former employees, relatives, and VSOs will be revised to parallel the policy for employee claims, except that they will be held in general files. VSO claim folders will be transferred to the station of jurisdiction and held in general files.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, these issues cannot be considered resolved until the implementation plans are received. We will then follow up on planned actions until they are completed.

E. Rating Decisions Should Be Recorded .(b)(2).(b)(5)..... to Diminish the Risk of Fraud

Rating decisions were subject to loss and word-processing error. At present, ratings are input .(b)(2).(b)(5). using a two-stage process. Ratings are recorded in a word processing system by rating specialists and input .(b)(2).(b)(5). by VSRs.

Manually entering the same rating information into two different systems decreases productivity and increases the potential for input error. The basis and justification for the rating and identification of the person that prepared the rating are retained only as a paper document. As a result, rating decisions are vulnerable to loss or destruction, as is likely to be the case where fraud is involved.

The lack of a comprehensive .(b)(2).(b)(5) audit trail of ratings and authorization actions inhibits or prevents reconstruction of key events if the claim folder is missing or destroyed. The consequences are particularly important to the identification and prosecution of employee fraud. VSRs could potentially award benefits without a rating decision because .(b)(2).(b)(5) does not have an edit or compensating control to ensure there is a rating decision in the system before the claim can be authorized. If the claim folder is

destroyed it may be impossible to establish whether a proper rating ever existed to support the benefits authorized. Processing ratings directly **.(b)(2).(b)(5)**. could provide improved control and security for ratings, help prevent errors, increase productivity, and diminish the risk for fraud.

Recommendation 5

The Under Secretary for Benefits should determine the feasibility of direct input and storage of rating decisions **.(b)(2).(b)(5)**.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. The key rating data in the new MAP system will directly populate the award support fields. Rating decisions maintained in the **.(b)(2).(b)(5)**..... will be automatically recalled for use in future rating decisions on the same claimant.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

F. Controls to Prevent Release of Improper Payments Were Not Effective

Large payments were not substantively reviewed as required by VBA policy and the third-person review and authorization was not performed. A third-person review and signature is required when a retroactive one-time payment of \$15,000 or more will be generated. VBA policy requires a supervisor or manager to review and sign these awards, in addition to the adjudicator and authorizer. System controls exist to alert the authorizer that a third-person review should be made before payment is released by the authorizer, but **.(b)(2).(b)(5)**..... does not require **.(b)(2).(b)(5)**..... review authorization to release payment.

We reviewed 110 retroactive one-time payments meeting the requirement for third-person review. Results showed that 81 (74 percent) did not have a third-person review and signature. In those cases where third-person review was evident, team coaches (GS-13) told us that they often received the file for review after payment was released.

VBA Letter 20-99-68 recognized that "third signature review" was not entirely effective because the policy does not require system coding by the third-person reviewer to release payment. It also stated that employees and supervisors should be "encouraged" to pay particular attention in adhering to these procedures. VBA is

currently evaluating how to modify **.(b)(2)(b)(5)**..... to require system input **.(b)(2)(b)(5)** before payment can be released.

Recommendation 6

The Under Secretary for Benefits should:

- a) Establish a **.(b)(2)(b)(5)**..... for third-person authorization and a control to prevent release of payments greater than \$15,000 without the third-person authorization.
- b) Ensure VAROs conduct required third-person review and authorization pending the **.(b)(2)(b)(5)** system modifications recommended above.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. The new MAP electronic claims system will require a third electronic signature when an award is generated in excess of the applicable limit. In the interim, third-signature will be included in the Systematic Technical Accuracy Review (STAR) quality assurance program, and also as a review item for quality control purposes, such as in the Systematic Individual Performance Assessment.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

G. Continued Entitlement Should Be Verified When Information Is Received that Might Affect Benefits

Proper action is not taken when information is received that might affect beneficiary entitlement. In particular, failure to take appropriate action on information indicating the death of a beneficiary results in overpayments and the risk of fraud.

VA Manual M21-1, Part IV, Section 9.04, requires that a reasonable effort be made to correct bad addresses evidenced by undeliverable mail. However, VARO St. Petersburg did not take effective action when checks were returned, or when the Department of Treasury notified the VARO that benefit checks had not been cashed in over a year. This occurred because documents indicating that the beneficiary may be deceased were drop-filed without review of the claim folder. We found employees were not adequately trained in handling drop mail because management gave drop-filing a low priority.

For example, we identified three claims where the Department of Treasury canceled one or more checks because they had not been cashed in over 1 year. Notifications from the Treasury were drop-filed in the veteran's claim folder without review. In one case, the claim folder had not been charged out or reviewed since 1994. From 1994 to the time of our review, the Department of Treasury voided 18 checks totaling \$8,592, each time notifying VARO St. Petersburg that checks were not cashed. However, the VARO continued to send replacement checks through October 1, 1999.

In another case, a veteran's benefits were suspended because mail to the address of record was returned as undeliverable. However, VARO St. Petersburg staff continued to attempt 12 one-time payments to the same address of record over a 3-year period, and the U.S. Postal Service returned each check.

In order to review claim folders placed in storage because they were "inactive", but still had running awards, we went to the St. Louis Records Management Center (RMC). We found that the RMC had not processed drop-mail since 1995, because of a reported lack of staff. Since then, drop-mail has been accumulating in about 500 cardboard boxes within the RMC mailroom.

We reviewed the accumulated drop-mail in 12 of the 500 boxes and found that, in some cases, documents indicated that the claimant was deceased. Benefits had been terminated for all but one of the deceased claimants, and that case was referred to the OIG Office of Investigations. RMC management told us that they had recently acquired additional resources, and planned to file the accumulated drop-mail by March 2000. Based on our nonrandom review of approximately 2.5 percent of the accumulated drop-mail, we would expect to find evidence of approximately 40 additional deceased claimants whose benefits have not been terminated among the remaining 488 boxes of drop-mail.

This area is vulnerable to fraud because these documents indicate that the benefit recipient was deceased and no other action would take place on the claim. Any staff member with the appropriate authority could change the address to fraudulently receive the beneficiary's benefit checks themselves.

Recommendation 7

The Under Secretary for Benefits should issue guidelines for the proper and effective handling of drop-mail to ensure continued entitlement.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. A letter will be issued that addresses returned mail procedures as well as procedures for handling system-generated messages which may affect benefit entitlement. Existing guidelines will be reviewed to ensure appropriate emphasis has been placed on drop-mail.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

H. Operating Procedures to Promote Separation of Duties Have Been Abandoned or Circumvented

VBA has abandoned or circumvented operating procedures that promoted separation of duties. VARO St. Petersburg VSRs, grades GS-5 through GS-9, were given authorization authority typically granted to VSRs at GS-11 and GS-12 level. Additionally, rating specialists and supervisors retained claims examination rights and authorities.

Benefit claims authorization authority was given to all VSRs (grades 5 through 12). Regional office management told us that all VSRs were given authorization authority for use in "backing out" processing errors for coworkers, but only VSRs at Grades 11 and 12 were supposed to authorize claims. However, having been granted authorization rights, VSRs below Grade 11 can authorize any claim adjudicated by another VSR, including claims adjudicated by their supervisors. The assignment of authorization authority to all VSRs expanded the vulnerability for fraud.

Rating specialists and supervisors were allowed to retain claims examination rights and authorities. Management stated that this allowed them the flexibility to use rating specialists and supervisors to adjudicate and authorize claims when necessary to keep up with workload. However, it may present a potential conflict of interest dilemma when subordinates are asked to cosign or "authorize" a manager's ratings or casework.

Recommendation 8

The Under Secretary for Benefits should reestablish an appropriate level of separation of duties by limiting authorization authority to GS-11 and GS-12 VSRs.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. Existing guidelines will be revised to limit authorization to qualified employees at the GS-11 level or above. In the interim, a letter with these instructions will be issued to regional offices.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the

implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

I. (b)(2).(b)(5)..... May Facilitate Improper Access to (b)(2).(b)(5)

(b)(2).(b)(5).....increases vulnerability to improper access because it allows the user's (b)(2).(b)(5)..... As a result, anyone can (b)(2).(b)(5)..... (b)(2).(b)(5) verified that it takes (b)(2).(b)(5).....

Security is enhanced when employees delete their passwords or log-off before leaving their workstations; however, staff told us they (b)(2).(b)(5)..... If employees (b)(2).(b)(5).....

VBA Letter 20-99-68 mandated the use of (b)(2).(b)(5)..... timed at (b)(2).(b)(5)..... and suggested that managers periodically check to ensure that the screen saver function was being used appropriately. During our audit, VARO St. Petersburg implemented the use of (b)(2).(b)(5)..... that would activate (b)(2).(b)(5).... after computer activity stopped. While this action diminishes the vulnerability to fraud, the most effective control is for the employee to log-off the system.

VBA's Office of Information Management (OIM) is concerned about the security of the (b)(2).(b)(5)..... because it has not been tested and authorized. Additionally, OIM reported that employees at some stations have taken steps to circumvent the password-protected screen saver control.

Recommendation 9

The Under Secretary for Benefits should ensure that security (b)(2).(b)(5)..... is improved by adopting procedural and/or technical solutions.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. The newly established Security Infrastructure Protection Office, in coordination with the business and service programs, will aggressively address (b)(2).(b)(5) security weaknesses.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the

implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

J. (b)(2)(b)(5)..... Should Be More Secure

VBA's Local Area Network (LAN) system does not contain system edits to reject (b)(2)(b)(5)..... VA Directive 6210 excludes use of (b)(2)(b)(5)..... for (b)(2)(b)(5)....., and requires (b)(2)(b)(5)..... consisting of a mix of alphabetic and non-alphabetic characters.

We tested both the (b)(2)(b)(5) and the LAN systems to determine whether there were system edits in place to ensure compliance with the policy requirements. (b)(2)(b)(5) system included such edits, and the LAN system edit required (b)(2)(b)(5)..... characters, but the LAN system accepted (b)(2)(b)(5).....

Although local policy directed VARO St. Petersburg employees to comply with VBA policy when selecting (b)(2)(b)(5)....., there was no system for ensuring individual compliance in the LAN system regarding use of (b)(2)(b)(5)..... characters. This condition makes it easier for unauthorized persons to determine an employee's (b)(2)(b)(5) in the LAN system, if employees do not comply with local and VBA policy.

Recommendation 10

The Under Secretary for Benefits should enforce departmental policy for password formats by establishing edits in the LAN system to reject the use of (b)(2)(b)(5).....

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. Regional offices have been informed that VA's Office of Information and Technology (IT) recently issued new guidance regarding the implementation of strengthened access controls for information security. Each local Information Officer is responsible for briefing local end users on the intent and implementation of the (b)(2)(b)(5)... management policies.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans are received. We will then follow up on planned actions until they are completed.

K. Each Employee Should Be Issued a (b)(2)(b)(5).....

Some Employees Have (b)(2)(b)(5).....

A review of the nationwide (b)(2)(b)(5) User Database showed that 229 employees at 36 VAROs might have (b)(2)(b)(5)..... that would allow them to both adjudicate and authorize the same claim. Of these, 49 appeared to also have authority to establish a claim. Lack of specific employee identifiers in the database and use of abbreviated stub names precluded confirming the specific numbers of staff that might have (b)(2)(b)(5)..... However, some facilities may have staff with the ability to both adjudicate and authorize a claim, and in some cases, to also establish the claim.

Employees with authority to establish, adjudicate, and authorize the same claim have increased capability to engage in fraud or abuse. During our site visit, VBA issued instructions to discontinue the practice of issuing (b)(2)(b)(5).....

(b)(2)(b)(5).....

To meet workload exigencies, cases are sometimes transferred (“brokered”) among VBA regions. The (b)(2)(b)(5).....D) number identifies the employee processing a brokered claim. If regions issue User ID numbers in the same series as the region with whom they broker claims, it may be difficult to determine what employee processed the brokered claim.

We verified that VARO St. Petersburg issues User ID numbers in the same series as other stations, and cannot always differentiate among employees sharing common User ID numbers. Additionally, when an employee or VSO with BDN access leaves VARO St. Petersburg, it is reported to IRM and they are removed from the system. At the end of 90 days the official Terminal Access Request is shredded and the User ID numbers are reassigned to new users, as they are needed.

As a result, there (b)(2)(b)(5)..... the employee who was assigned the User ID number during a given period of time. Senior VBA management officials believed that the national Transaction File contained historic information on every transaction; (b)(2)(b)(5)..... (b)(2)(b)(5)..... (b)(2)(b)(5).....

(b)(2)(b)(5).....

These problems could be avoided if employee (b)(2)(b)(5)..... were used for the (b)(2)(b)(5)..... number. VBA does not currently maintain a perpetual transaction file identifying the persons taking (b)(2)(b)(5) actions.

There are important reasons to tie (b)(2)(b)(5) access authorization to a (b)(2)(b)(5)....
..... Tying (b)(2)(b)(5) access to (b)(2)(b)(5) would:

- Ensure that all employees are only assigned one (b)(2)(b)(5) number.
- Help to lockout employee (b)(2)(b)(5) access to the employee's (b)(2)(b)(5) and access to other records that are considered sensitive, such as the employee's relatives. For example, the audit found that 105 VARO St Petersburg employees were not locked-out from production access to their own records.
- Provide the ability to use automated edits and searches to implement Recommendation 1 (see page 2), and ensure employee claim folders have been relocated to assigned regional offices of jurisdiction.
- Help to establish a positive lockout to prevent employees from adjudicating matters involving employees and VSOs at their home office.
- Facilitate investigation of fraud and other criminal activity.

Adequate internal control can only be accomplished if a (b)(2)(b)(5)...., preferably the (b)(2)(b)(5), is assigned to each (b)(2)(b)(5) user, and a perpetual file of (b)(2)(b)(5) transactions is maintained, including the identity of the persons taking (b)(2)(b)(5) actions. However, we were informed that VA's General Counsel has issued an opinion that employees cannot be compelled to provide t.(b)(2)(b)(5) for this purpose. If there are impediments to the use (b)(2)(b)(5) for this purpose, we recommend that, as an interim measure, another unique number, such as the (b)(2)(b)(5)....., be associated with each user and not reused or duplicated. However, we also recommend that the Under Secretary continue to seek authority to (b)(2)(b)(5) for this purpose, including legislative change if necessary.

Recommendation 11

The Under Secretary for Benefits should:

- a) Take steps necessary to make use (b)(2)(b)(5) as employee identification numbers, and tie (b)(2)(b)(5) access to (b)(2)(b)(5).
- b) Provide oversight and monitor stations to ensure that employees are not issued (b)(2)(b)(5).....
- c) Ensure that perpetua(b)(2)(b)(5) transaction files are maintained that include a (b)(2)(b)(5)... employees associated with the recorded transactions.
- d) Require regional offices to retain historical records of (b)(2)(b)(5).....

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. The future MAP payment processing system will require a unique perpetual identification number for each individual. VBA's Security Infrastructure Protection Office will increase its monitoring of the monthly security listings generated through t.(b)(2)(b)(5) system, and will contact local Security Officers to resolve any cases on the listing that appear to be .(b)(2)(b)(5). All .(b)(2)(b)(5) on-line transactions are currently stored for an indefinite period, and each transaction includes an identifier for the originator of the transaction. (b)(2)(b)(5) security procedures will also be modified to require regional offices to retain .(b)(2)(b)(5)

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

L. (b)(2)(b)(5) Security Policy Was Out-of-Date

.(b)(2)(b)(5) security policy has not been updated since 1985 and does not reflect the current operating environment, VBA organization, or operating procedures. Appropriate policy and operating guidance is a necessary element of an adequate internal control environment.

VBA Letter 20-99-68 directed local Security Officers to reinstitute regular reviews of daily security logs and ensure that appropriate records are placed in the system's sensitive file. Stations were instructed to keep the numbers of employees with sensitive file access to a minimum and to periodically review access to these files. The policy is currently being updated and will be made available to field stations in the near future. The revised policy will contain additional guidance regarding the types of cases subject to special handling (i.e., spouse, parent, brother, associate, etc.).

The June 1999 Vulnerability Assessment reported instances where active .(b)(2)(b)(5) were not purged when employees transferred between divisions or left employment. To determine whether VARO St. Petersburg was appropriately deleting User IDs of similarly situated employees, we compared the current active .(b)(2)(b)(5) access listing to a VARO listing of 22 VSC employees that had resigned or transferred between divisions in the last 7 months. We found that the VARO had appropriately removed or changed the .(b)(2)(b)(5) access for these employees.

Recommendation 12

The Under Secretary for Benefits should ensure that **(b)(2)(b)(5)** security policy is reviewed, updated, and incorporates procedures appropriate to VBA's current organization, operating environment, and claims adjudication procedures.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. The Security Infrastructure Protection Office will initiate controls to ensure that **(b)(2)(b)(5)** security policy is revised in accordance with the evolving C&P environment.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

M. Improved Visibility and Control Is Needed Over the Actions of the Decision Review Officers

A significant vulnerability exists in the authorities of the Decision Review Officer (DRO) position. DROs are hearing officers with single signature authority to resolve claimants' appeals at the Notice of Disagreement stage. The main goals of the DRO program are to shorten, simplify, and improve the appeals process. DROs are empowered with **(b)(2)(b)(5)**..... authority to increase disability rating decisions and the decisions are not subject to contemporaneous review and approval. Accordingly, DROs have been granted powerful authorities to streamline operations that also increase vulnerability for abuse.

This program was officially pilot tested from December 1997 through December 1998 at selected VAROs, including VARO St. Petersburg. VBA is planning to expand this program nationwide. Although VBA has not mandated oversight reviews, VARO St. Petersburg implemented a local quality review of DRO appeal decisions in April 1999. From April to September 1999, about 19 percent of the appeals decisions were reviewed, with minimal errors identified. However, cases were not routinely reviewed for each DRO. We also found that there was no policy outlining the scope of review to be conducted, and DRO decisions were not returned to the original rating specialist for feedback and training purposes.

Recommendation 13

The Under Secretary for Benefits should:

- a) Publish practical guidance on the duties, authorities, and limitations of authority of DROs to help ensure equitable treatment of claims nationwide.
- b) Conduct reviews of DRO decisions that include feedback to rating specialists and claims examiners and reporting on trends in the findings and conclusions of DRO decisions.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. Policy is being developed to address the new Decision Review Officer function. DROs will be responsible for providing feedback to rating specialists and claims examiners and identifying trends for future training purposes. The DRO's annual performance evaluation will include a review of the quality and effectiveness of such feedback and analysis.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

N. Long-Running Awards With No Recent Maintenance Should Be Reviewed

Benefit awards are not subject to periodic review to validate entitlement. In the past, VBA had an automated data processing edit that generated a message for review of running benefits prior to the claim acquiring "20-year protection". That review was abandoned several years ago because VBA management determined it to be unproductive.

We reviewed 175 VARO St. Petersburg claim folders that evidenced no substantive adjudicative action in the prior 8 years, to determine whether the claimant might be deceased or fictitious. There was sufficient information in most files to conclude that the claimants were legitimate and alive. However:

- One file contained information indicating that the veteran was deceased, but the award was not terminated. This case was referred to the OIG Office of Investigations for follow up.

- Eight cases showed no claims activity for at least 5 years and we could not determine if the veteran was alive, and 4 claim folders could not be located. These cases were referred to VARO St. Petersburg for administrative review and follow up.

Lack of control for future review creates a vulnerability that can facilitate acts of fraud, such as the one that occurred at VARO New York. We have been informed that the Social Security Administration conducts personal visits to recipients who reach 100 years of age. These visits are primarily conducted for customer relation's purposes, but also serve as an effective means to verify continued entitlement.

To verify continued entitlement of VA beneficiaries, VBA might consider conducting field examinations or telephone contacts when beneficiaries achieve a prescribed age, or when VA has not had contact from the beneficiary in a prescribed period. VBA could also use such visits for recognition/customer relations purposes as well as for entitlement verification, and might be able to use Veteran Service Organization volunteers to assist.

Recommendation 14

The Under Secretary for Benefits should verify continued entitlement of beneficiaries who are over 100 years of age, and beneficiaries with whom VBA has not had contact during a prescribed period.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. A procedure will be established to identify such beneficiaries and verify their entitlement as part of C&P program integrity efforts.

Office of Inspector General Comments

The Under Secretary for Benefits' comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

O. Oversight Is Diminished When Supervisors and Managers Perform Production Work

At VARO St. Petersburg, supervisors retained their adjudication and authorization commands because they sometimes adjudicated and authorized claims. Management stated that this allowed them the flexibility they needed to use good business practices and keep up with workload demands. However, management and oversight of subordinate's work may be sacrificed when managers devote significant time to

production work. It may also present a potential conflict of interest dilemma when subordinates are asked to cosign or “authorize” a manager’s ratings or casework.

Recommendation 15

The Under Secretary for Benefits should ensure production work performed by managers does not prevent adequate oversight, supervision, and direction of operations or present employees with conflict of interest situations.

Comments of the Under Secretary for Benefits

The Under Secretary for Benefits concurred with the recommendation. The importance of conflict of interest situations will be included in ethics guidance and training for all employees. It will be emphasized that production work performed by managers be kept to a minimum and that, when feasible, an employee of equal or higher grade, authorize production work performed by a supervisor or manager.

Office of Inspector General Comments

The Under Secretary for Benefits’ comments are responsive to the intent of our report recommendation. However, this issue cannot be considered resolved until the implementation plans, milestones, and completion dates are received. We will then follow up on planned actions until they are completed.

**Details of Probe Testing for Fraud and
Improper Payment in VARO St. Petersburg Cases**

A series of claim reviews were conducted to: (a) test internal controls, and (b) determine whether C&P awards under the jurisdiction of VARO St. Petersburg represented potential fraudulent activity by VBA employees or by benefit recipients. Cases were selected for review from databases extracted from VBA's Compensation and Pension Master Record File as of March 1999.

We performed 14 tests and reviewed a total of 1,023 files at VARO St. Petersburg and the St. Louis RMC. We referred 64 cases to the OIG Office of Investigations for follow up, and 72 cases to VARO St. Petersburg for administrative review.

Claims Review

Category	Files	
Internal Control Testing		
Current Employees	169 files	
Former Employees	43 files	
Relatives	64 files	
VSOs	32 files	
Subtotal		308
Large One-Time Payments	41	
Returned Checks	80	
Undeliverable Mail	18	
Decision Review Officer	5	
Long-Running Awards	175	<u>319</u>
Sub-total		<u>627</u>
Additional Probe Tests for Fraud		
Veterans Born Before 1901	14	
Dependent Beneficiaries Reported Deceased in VA or Social Security Databases	72	
Veterans Reported Deceased in VA or Social Security Databases	64	
Veterans Reported Deceased in BIRLS	16	
Multiple Electronic Fund Transfers Made to the Same Account	27	
Multiple Checks Issued to the Same Post Office Box	29	
Subtotal		222
Cases Reviewed for Office of Investigation		174
Total		<u>1023</u>

Veterans Born Before 1901

We reviewed 14 claim folders of veterans with running awards who were born before 1901. Continuing entitlement was supported for 12 awards, and benefits were properly terminated in a 13th case. However, evidence in one claim folder suggested that the veteran may have died in 1979, and that about \$475,000 in overpayments have inappropriately continued. We referred this case to the OIG Office of Investigations for follow up.

Dependent Beneficiaries Reported Deceased in VA or Social Security Databases

We reviewed claim folders for 72 veterans' dependents with running awards who were reported deceased in VA or Social Security databases. In 23 cases, the record contained sufficient evidence to conclude that the beneficiary was alive. We referred 24 cases to the OIG Office of Investigations because information in the claims record was questionable, conflicting, or indicated the beneficiary was deceased. In 4 of the 24 referrals, the record was sufficient to conclude that the beneficiary had died and that overpayments totaling about \$92,000 (ranging from \$5,175 to \$38,000) had occurred. In 25 cases, the record was inadequate to determine whether the beneficiary was alive. We referred these 25 cases to VARO St. Petersburg for administrative review.

Veteran Beneficiaries Reported Deceased in VA or Social Security Databases

We reviewed claim folders for 64 veterans with running awards who were reported deceased in VA or Social Security databases. In 28 cases, the reported death was in error because there was adequate evidence in the record to determine the veteran was alive. In nine cases, the VARO had appropriately reviewed and resolved the issues.

In seven cases the reported death appeared to be correct, yet the award had not been terminated. Overpayments on these cases totaled about \$86,400. We referred these seven cases to the OIG Office of Investigations for follow up.

In 20 cases, the record was not adequate to determine whether the veteran was alive. We referred these 20 cases to VARO St. Petersburg for administrative review.

We referred the claims numbers of nine additional claim folders (in addition to the 64 claims reviewed) to VARO St. Petersburg for search and follow-up. We could not locate these files at either VARO St. Petersburg or the St. Louis RMC.

Veterans Reported Deceased in the Beneficiary Identification and Records Locator Subsystem (BIRLS)

We reviewed claim folders for 16 veterans with running awards who were reported deceased in BIRLS. In 10 cases, evidence showed that the veteran was alive and the BIRLS record was corrected; or that the veteran was deceased and the award was terminated.

In two cases, there was evidence in the file that the veterans were deceased, but payments were continuing. At the time of our review, overpayments totaled about \$28,000 and were growing. In three cases, the evidence was insufficient or inconclusive to determine whether the veteran was dead or alive. We referred these five cases to the OIG Office of Investigations for follow up. In one case, the date of death was erroneous and we referred the case to VARO St. Petersburg for administrative review and correction.

Multiple Electronic Fund Transfers Made to the Same Account

We reviewed 27 claim folders where electronic fund transfer was delivering payments to the same checking account as that used for at least one other VA benefit recipient. In 24 cases, there was adequate evidence to support the payment address. However, there was insufficient evidence to determine why payment in the remaining three cases was going to the same account. Two files were in storage at the RMC and contained no evidence of activity for at least 16 years, other than direct deposit changes. These three questionable cases were referred to OIG Investigations for follow up.

Multiple Checks Issued to the Same Post Office Box

We reviewed claim folders for 29 beneficiaries whose benefit checks were mailed to the same post office box used by another VA benefits recipient. The evidence was sufficient to explain and support these payments.

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OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The OIG audited internal controls for adjudication and payment of C&P benefits at VARO St. Petersburg, FL. The audit was conducted to:

- Determine whether internal control vulnerabilities existed that may facilitate fraud or claims examination error.
- Probe for potential on-going fraud that may have escaped detection by VA and VARO internal controls.

We selected VARO St. Petersburg for audit because two significant employee frauds had occurred at that station, and because it is the largest VARO, accounting for 6 percent of C&P workload.

Scope

The scope of the audit was generally calendar years 1998 and 1999. We used the Personnel and Accounting Integrated Data (PAID) database as of May 1999 to identify current VARO St. Petersburg employees, and we obtained a listing of former employees from the Human Resources Management (HRM) Regional Office in Jackson, Mississippi.

To achieve the assignment's objectives we relied extensively on computer-processed data contained in the C&P Master Record File. We assessed and tested the reliability of this data, including relevant general and application controls, and found them to be adequate. Based on these tests and assessments, we concluded that the data was sufficiently reliable to be used in meeting the assignment's objectives.

The audit was made in accordance with generally accepted Government Auditing Standards.

Methodology

The audit was designed to test internal controls and methods for identifying specific cases of fraud nationwide and at VARO St. Petersburg. We used electronic databases, computer matching, and other methods suited to such audit objectives. Most reviews were performed using data extracted from the C&P Master Record File.

APPENDIX I

To identify relatives of VA employees, we reviewed over 650 personnel folders at the Jackson HRM of all persons currently employed at VARO St. Petersburg as of May 1999, and all persons leaving employment from January 1, 1998 to May 31, 1999.

We used the ~~(b)(2)(b)(5)~~ security file to identify VSOs with ~~(b)(2)(b)(5)~~ access that had running awards. We then used the ~~(b)(2)(b)(5)~~ system to determine which current and former employees, relatives, and VSOs were C&P benefit recipients. We used the C&P Master Record File dated March 1999 to extract databases for analysis and review as part of our probe testing for fraud.

BACKGROUND

The Under Secretary for Benefits asked for OIG's assistance to help identify internal control weaknesses that might facilitate or contribute to fraud in the Veterans Benefits Administration's C&P program. The request followed the discovery that three VBA employees had embezzled nearly \$1.3 million by exploiting internal control weaknesses in the C&P benefit program. Accordingly, we audited internal controls for adjudication and payment of C&P benefits at the VARO St. Petersburg, FL.

Embezzlement at VARO St. Petersburg

A Supervisory Claims Examiner (GS-13) at VARO St. Petersburg stole \$615,451 by creating a fraudulent disability compensation award. The award granted the employee's fiancé, a St. Petersburg metropolitan police officer, a 100 percent disability for an unspecified condition of the skeletal system. The perpetrator stated that the fraud began with a "legitimate" claim for compensation (her fiancé is in the reserves and served in the Persian Gulf War) that she helped to prepare. However, after the fiancé's claim record was established, she began to create fraudulent records to perpetrate the theft.

An "official" claim folder has not been located and has likely been destroyed, if one ever existed. Accordingly, the evidentiary record is generally limited to the (b)(2)(b)(5) record, historical Work-in-Process Program (WIPP) records, and testimony from the perpetrator and her fiancé. The description of events that follows is based on factual evidence obtained to date, the perpetrator's testimony regarding what occurred, our analysis of the internal control environment, and speculation regarding the most likely means to perpetrate the fraud.

The (b)(2)(b)(5) record shows that the fraud began in March 1997 and continued until January 1999, when the perpetrator was arrested and payments were stopped. At the time the fraud occurred, the perpetrator was employed as a GS-12 Unit Chief in the Adjudication Division of the regional office and had an extensive employment history with progressively greater responsibilities as a claims examiner, rating specialist, and adjudication supervisor. At the time of her arrest, the employee had been promoted to Section Chief, GS-13.

The perpetrator stated that she created a fraudulent rating and adjudicated a fraudulent compensation award using the (b)(2)(b)(5)..... delegated to her. She further stated that to get payment authorized on the fraudulent awards she created, she randomly distributed the casework in the routine authorization workload of Senior Adjudicators at VARO St. Petersburg. She also stated or implied that:

- A claim folder and award documentation existed at one time.
- The claim folder was placed in the stack of work to be authorized.
- She did not approach or ask any particular Senior Adjudicator to work the case for her.
- She had no fear of being caught in the fraud because, at VARO St. Petersburg, claims are routinely authorized as a “courtesy,” without substantive review. (The implication is that Senior Adjudicators authorize payment on **(b)(2)(b)(5)** without actually reviewing the claim folder or evidence specific to the action.)

In our opinion, this testimony is not plausible and is contradicted in part by factual evidence.

After the initial award, a series of 10 award actions were made between March 17, 1997 and October 3, 1997, to retroactively increase benefits. These actions generated a series of one-time payments totaling \$519,981 and incrementally increased recurring monthly benefit payments to the maximum compensation benefit - \$5,011 monthly. Two payments were by Treasury check and all other payments were direct deposit to a joint bank account in the name of the perpetrator and her fiancé.

The fraud was discovered when a third party familiar with the good health and physical condition of the perpetrator’s fiancé, reported that something was potentially wrong with the compensation payments. VBA management could not find a claim folder and reported the issue to VAOIG. There is reason to believe, that had the tipster not reported the fraud, the crime would have continued indefinitely without detection.

On February 3, 1999, the perpetrator was charged with violating Title 18, United States Code, Section 1957, Money Laundering. Pursuant to the terms of her plea agreement, the employee was debriefed and acknowledged that she was able to perpetrate the above crime because of lax controls and weaknesses in the C&P System. Investigation of this theft led to the discovery that the perpetrator also conspired with a subordinate VARO St. Petersburg employee to fraudulently increase her own disability compensation benefit payments, resulting in additional loss to the government.

Based on what is known to date, we believe it is possible that the crime was perpetrated by exploiting an internal control weakness inherent in **(b)(2)-(b)(5)**.
..... **(b)(2)-(b)(5)**
.....
.....
.....

..... (b)(2)-(b)(5).....
.....
.....

.....(b)(2)-(b)(5).....
..... (b)(2)-(b)(5).....
.....

.....(b)(2)-(b)(5).....
.....
.....

It is also possible that a Senior Adjudicator unwittingly authorized these payments as described by the perpetrator. However, we do not believe this is the most likely scenario.

Embezzlement at VARO New York

In April 1998, a man was arrested in New Jersey on drug possession charges. Numerous false identifications were found on his person, including an identification card in the name of a fictitious veteran and records relating to a savings account in the name shown on the identification card. Further investigation led to the discovery of a fraudulent compensation award that had been generating direct deposit payments to the savings account since August 1986. Payments were made at the maximum compensation rate of \$5,011 monthly at the time the fraud was discovered.

The man arrested was a former VA employee who worked as a Rating Specialist at the New York Regional Office from January 1986 to May 1987. A claim folder has not been found. We believe the former employee created the fictitious disability rating (100 percent for multiple sclerosis with special monthly compensation, loss of use of both feet, and chronic cystitis) during his tenure at VA. We do not know, and are not now able to speculate, how the claim was processed for payment to the (b)(2)(b)(5) System. The investigation is continuing.

VAOIG special agents arrested the former employee in August 1998, after the employee made a withdrawal from the bank account in the name of the fictitious veteran, and the fraudulent payments were terminated. The payments were made monthly for 12 years and absent the arrest on unrelated charges and discovery of the false ID, the fraud would likely have continued indefinitely without discovery. Payments totaled over \$620,000 during the 12 years the fraud ran.

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Internal Control Vulnerability Matrix

Vulnerabilities	Identified at St. Petersburg	National Vulnerability	Page No.
Observation 1 Operating Procedures to promote the separation of duties have been abandoned or circumvented	YES	YES	9
Observation 2 Some employees have (b)(2)(b)(5)	NO	YES	11
Observation 3 (b)(2)(b)(5) may facilitate improper access to (b)(2)(b)(5)	YES	YES	9
Observation 4 (b)(2)(b)(5) can be more secure	YES	YES	10
Observation 5 Employee access to personal claims records should be more secure	YES	YES	1-3
Observation 6 Improved control need over work sharing	YES	YES	11
Observation 7 (b)(2)(b)(5) security policy is out of date and (b)(2)(b)(5) security records are poorly structured	YES	YES	13
Observation 8 Headquarters oversight of (b)(2)(b)(5) security is limited	YES	YES	13
Observation 9 Long-running awards with no recent maintenance need to be reviewed	YES	YES	14
Observation 10 Need to verify continued entitlement when mail is returned undeliverable	YES	YES	7
Observation 11 Large one-time payments are not always substantively reviewed and 3 rd signature review does not always take place as required	YES	YES	7
Observation 12 Decision Review Officer accountability	YES	YES	14
Observation 13 Employee accountability may be lost in certain organization structures	NO	YES	iii
Observation 14 Oversight is diminished when supervisors and managers perform production work (not in report, was our recommendation in 1996)	YES	YES	15
Observation 15 Ratings should be held on (b)(2)(b)(5) and the (b)(2)(b)(5) audit trail should be expanded	YES	YES	6
Observation 16 Provide employees more detailed guidance on expectations for conduct	YES	YES	4
Observation 17 Provide practical guidance on specific conflict of interest issues	YES	YES	4
Observation 18 Provide employees Ethics training	YES	YES	4

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COMMENTS OF THE UNDER SECRETARY FOR BENEFITS

Department of
Veterans Affairs

Memorandum

Date: July 7, 2000

From: Under Secretary for Benefits (20)

Subj: Draft Report, Audit of the Compensation and Pension Program's Internal Controls at VA Regional Office St. Petersburg, FL (Project No. 1999-00169-R3-0171)

To: Inspector General (50)

1. Attached are the Veterans Benefits Administration's responses to the 15 recommendations contained in the draft audit report on internal controls in the compensation and pension program.

2. Recognizing weaknesses in our current system and in support of the corrective efforts underway, VBA has formalized our Program Integrity overview process through appointment of a staff function. The Staff Director oversees an action plan which involves reviewing current business processes, identifying areas vulnerable to fraud, focusing on systemic weaknesses in current processes, ensuring new business processes have appropriate program integrity controls embedded in each process, and assuring that our third party partners are adequately trained and skilled. Teams, comprised of VBA program experts nationwide, have been formed to address the issues for each of the six business lines and financial service functions. Team reports will be used as a framework for implementation of improvements.

3. In addition to these teams, VBA is pursuing a technical solution through data mining efforts. Via a contract, currently being formulated, VBA will have an automated system to identify questionable transactions, including authorizations and payments in our **(b)(2)-(b)(5)**..... This would include flagging multiple, large payments made to the same payee or by a common employee; as well as setting up unusual circumstance review, for instance, to identify veterans over 100 years old. The data mining process finds and applies trends and patterns, utilizing statistical and mathematical techniques to determine suspect actions and anomalies.

COMMENTS OF THE UNDER SECRETARY FOR BENEFITS

2.

Inspector General (50)

4. We appreciate the opportunity to work closely with your office during the audit process. We will continue these efforts as we formulate our implementation plans, milestones, and completion dates. We will provide you with this information in the near future.



Joseph Thompson

Attachment

COMMENTS OF THE UNDER SECRETARY FOR BENEFITS**Draft Report: Audit of the Compensation and Pension Program's Internal Controls at VA Regional Office St. Petersburg, FL
Project No. 1999-00169-R3-0171**

Recommendation 1: The Under Secretary for Benefits should conduct a system-wide inventory to ensure that VBA employee claim folders have been transferred to the assigned regional offices of jurisdiction and held in locked file storage, as required.

Response: The Under Secretary for Benefits concurs. We will revise our policy to provide for housing of all VBA employee claim folders in locked files. To monitor compliance, we will request a system-wide listing of employees who are also veterans for distribution to each regional office. When received, regional offices will be directed to ensure that any claims-related electronic records are appropriately secured and that claims folders are properly housed at the regional office assigned jurisdiction. This listing will be generated on a regular and recurring basis to ensure that effective controls are maintained. Before release to the regional offices, the listings will be reviewed by the Security Staff in VBA Headquarters to identify any offices where corrective actions are not being timely taken to comply with security requirements.

Recommendation 2: The Under Secretary for Benefits should:

a. Conduct a nationwide review of **.(b)(2)(b)(5)**-ecurity records to ensure the **.(b)(2)(b)(5)**-ecurity file is updated with the claim numbers o**.(b)(2)(b)(5)**-ers who also receive C&P benefits.

Response: The Under Secretary for Benefits concurs. We will issue a letter from the Under Secretary instructing all Regional Office Directors to conduct a review of the Security and Sensitive Data Files for each veteran-employee with **.(b)(2)(b)(5)**. The letter will include directions for verifying that the Security and Sensitive Files are linked and correcting any linkages which had not been made.

b. Ensure that all sensitive claims records are electronically "locked."

Response: The Under Secretary for Benefits concurs. See response to Recommendations 1 and 2a above.

Recommendation 3: The Under Secretary for Benefits should:

a. Obtain annual certifications from VBA employees with access to the claims system to identify immediate family members that may present a conflict of interest to the employee.

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Response: The Under Secretary for Benefits concurs. As part of our mandatory annual ethics training, we will, on a trial basis, incorporate an annual certification process whereby each employee will identify immediate family members receiving benefits or with an active claim pending.

b. Restrict VBA employee access to such beneficiary claim folders and records.

Response: The Under Secretary for Benefits concurs. Reference our response to Recommendation 2 above. The instructions provided to explain the linkage of employee numbers to claim numbers will be expanded to include family members and others presenting a conflict of interest to the employee.

Recommendation 4: The Under Secretary for Benefits should:

a. Issue detailed guidance on expectations of employee conduct and avoidance of conflict of interest.

Response: The Under Secretary for Benefits concurs. The Office of Human Resources, in consultation with each of the business lines and the Office of General Counsel, will develop a VBA letter for the Under Secretary's signature. The letter will advise all employees about the expectations of employee conduct and avoidance of conflict of interest.

b. Provide annual ethics training for all employees.

Response: The Under Secretary for Benefits concurs. The Office of Human Resources, in consultation with the Office of Employee Development and Training and the Office of General Counsel, will develop mandatory annual ethics training for all employees. The training will be provided by satellite broadcast to all employees and locations.

c. Establish a positive control (~~(b)(2)(b)(5)~~ keyed to employee ID number) that ensures employee claims are adjudicated only at the assigned regional office of jurisdiction and prevents employees from adjudicating matters involving fellow employees and VSOs at their home office.

Response: The Under Secretary for Benefits concurs that a positive control needs to be in place; however, reprogramming the ~~(b)(2)(b)(5)~~ to incorporate such security measures is not feasible at this time. The replacement system commonly referred to as Modern Awards Processing (MAP) will incorporate this control. In the interim, we will ensure adherence to existing policy regarding the sensitivity access levels and the monitoring of the generated reports.

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d. Establish procedures for adjudication of claims of former employees, relatives, and VSOs that parallel policy for adjudication of employee claims.

Response: The Under Secretary for Benefits concurs. Our policy for adjudication of claims for former employees, relatives, and VSOs will parallel the policy for employee claims; however, folders will be held in general files.

e. Direct the transfer of VSO claim folders to assigned regional offices of jurisdiction.

Response: The Under Secretary for Benefits concurs. VSO claim folders will be transferred to the station of jurisdiction and held in general files. They will continue to be electronically “locked” with sensitivity level 6 assigned.

Recommendation 5: The Under Secretary for Benefits should determine the feasibility of direct input and storage of rating decisions in ~~.(b)(2)(b)(5)~~.

Response: The Under Secretary for Benefits concurs with the need for a system to accommodate input and storage of rating decisions.

Given the current status of the ~~.(b)(2)(b)(5)~~ system and our plans for replacement, it is not feasible to make modifications to the ~~.(b)(2)(b)(5)~~ to accommodate direct input and storage of rating decisions. In the successor system ~~.(b)(2)(b)(5)~~, Modern Awards Processing (MAP), the key rating data will populate the award support fields directly. Rating decisions maintained in the ~~.(b)(2)(b)(5)~~ will continue to be electronically stored and will be automatically recalled for use in future rating decisions on the same claimant.

Recommendation 6: The Under Secretary for Benefits should:

a. Establish ~~.(b)(2)(b)(5)~~ system field for third-person authorization and a control to prevent release of payments greater than \$15,000 without the third-person authorization.

Response: The Under Secretary for Benefits concurs with the need for third-person authorization of large retroactive payments. It is not feasible at this point to modify our ~~.(b)(2)(b)(5)~~ system; however, VBA’s successor awards processing system, MAP, will audit and require a third electronic signature anytime an award would generate payment in excess of the applicable limit. At present, we plan to increase the amount limit requiring a third review and signature to \$25,000 (from \$15,000).

In addition, our program integrity plans include utilization of data mining to identify areas such as these for potential fraud.

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b. Ensure VAROs conduct required third-person review and authorization pending the ~~.(b)(2)(b)(5).~~ modifications recommended above.

Response: The Under Secretary for Benefits concurs. We will include third-signature concurrence as an item for review in our quality assurance program (Systematic Technical Accuracy Review). We will also include it as a review item for quality control purposes (i.e., Systematic Individual Performance Assessment) and other pertinent analyses conducted at the local level. Although not a solution to the problem, these various reviews should provide good interim oversight, and help ensure compliance, until the successor awards processing system (MAP) is deployed.

Recommendation 7: The Under Secretary for Benefits should issue guidelines for the proper and effective handling of drop-mail to ensure continued entitlement.

Response: The Under Secretary for Benefits concurs. The Under Secretary will issue a letter emphasizing the importance of proper mail handling. It will address returned mail procedures as well as procedures for handling system-generated messages (writeouts) which may affect benefit entitlement. We will review existing guidelines to ensure appropriate emphasis exists in these areas as well.

Recommendation 8: The Under Secretary for Benefits should reestablish an appropriate level of separation of duties by limiting authorization authority to GS-11 and GS-12 VSRs.

Response: The Under Secretary for Benefits concurs. The existing system has controls in place to prevent employees from authorizing awards they processed. We will revise existing guidelines to limit authorization authority (for other than burial awards) to qualified employees at the GS-11 level or above. Pending release of these revised guidelines, we will provide interim instructions to the regional offices in a letter from the Under Secretary.

Recommendation 9: The Under Secretary for Benefits should ensure that security over ~~.(b)(2)(b)(5).~~ is improved by adopting procedural and/or technical solutions.

Response: The Under Secretary for Benefits concurs. The newly established Security Infrastructure Protection Office (SIPO) in the Office of Information Management, in coordination with the business and service programs, will aggressively address ~~.(b)(2)(b)(5).~~ weaknesses.

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Recommendation 10: The Under Secretary for Benefits should enforce departmental policy for password formats by establishing edits in the LAN system to reject the use of ~~.(b)(2).(b)(5)~~.....

Response: The Under Secretary for Benefits concurs. In a March 21, 2000, memo signed by the Deputy Under Secretary for Operations to all VA Regional Offices and Centers on the subject of ~~.(b)(2).(b)(5)~~ to VBA's IT resources, VBA field offices were informed that the Principal Deputy Assistant Secretary for Information Technology (005) issued new guidance regarding the implementation of strengthened access controls for information security (IS) within the Department. These new guidelines were approved in December 1999 by the President's Chief Information Officers' Council. Two new policies, "VA IS Account and Password Management" and "Windows NT Enterprise Security" were developed. Each local IS Officer, or designated Network Service Center Manager or IRM Chief, is responsible for briefing local end users on the intent and implementation of these IT account and password management and enterprise security policies. A standard password change notice to all end users will be included in the release of VBA Menu 1.09. VBA Menu 1.09 will change the way local area network ~~.(b)(2).(b)(5)~~ are handled.

Recommendation 11: The Under Secretary for Benefits should:

- a. Take steps necessary to make us ~~.(b)(2).(b)(5)~~ as employee ~~.(b)(2).(b)(5)~~ numbers, and tie ~~.(b)(2).(b)(5)~~ access to ~~.(b)(2).(b)(5)~~.

Response: The Under Secretary for Benefits concurs that there is a need for a ~~.(b)(2).(b)(5)~~..... However, the length of time and the level of resources which would be required make this change to the ~~.(b)(2).(b)(5)~~ system not feasible. The recommendation is, however, consistent with the design of our future payment processing system. As part of that design, we will determine whether we can use the ~~.(b)(2).(b)(5)~~..... number identified by the individual.

- b. Provide oversight and monitor stations to ensure that employees are not issued ~~.(b)(2).(b)(5)~~.....

Response: The Under Secretary for Benefits concurs. VBA's Security Infrastructure Protection Office (SIPO) will increase its monitoring of the monthly security listings generated through the ~~.(b)(2).(b)(5)~~ system. These listings are also provided to the Regional Office Security Officers and identify alphabetically those employees who have been authorized target access. SIPO will contact the appropriate Regional Office Security Officer to resolve any cases on the listing which are ~~.(b)(2).(b)(5)~~..... Any cases which remain unresolved on

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subsequent listings will be brought to the attention of the Regional Office Director through the Office of Field Operations.

c. Ensure that perpetual ~~(b)(2)(b)(5)~~ transaction files are maintained that include a ~~(b)(2)(b)(5)~~..... identifying the employees associated with the recorded transactions.

Response: The Under Secretary for Benefits concurs. All on-line transactions to the ~~(b)(2)(b)(5)~~ are currently stored for an indefinite period. Each ~~(b)(2)(b)(5)~~..... “message” includes an identifier for the originator of the transaction.

d. Require regional offices to retain ~~(b)(2)(b)(5)~~.....

Response: The Under Secretary for Benefits concurs. We will modify our ~~(b)(2)(b)(5)~~ security procedures to require regional offices to retain historical records of ~~(b)(2)(b)(5)~~.....

Recommendation 12: The Under Secretary for Benefits should ensure that ~~(b)(2)(b)(5)~~ security policy is reviewed, updated, and incorporates procedures appropriate to VBA’s current organization, operating environment, and claims adjudication procedures.

Response: The Under Secretary for Benefits concurs. The Security Infrastructure Protection Office in the Office of Information Management will initiate controls to ensure that ~~(b)(2)(b)(5)~~ security policy is revised in accordance with the evolving C&P processing environment.

Recommendation 13: The Under Secretary for Benefits should:

a. Publish practical guidance on the duties, authorities, and limitations of authority of DROs to help ensure equitable treatment of claims nationwide.

Response: The Under Secretary for Benefits concurs. We are revising the Veterans Benefits Administration Manual M21-1 to replace the chapter addressing the Hearing Officer function (M21-1, Part IV, Chapter 35) with one addressing the new Decision Review Officer function. Among the many areas covered are jurisdiction, duties, authorities, and limitations. We anticipate delivery of the chapter to coincide with the nationwide roll-out of the DRO program.

b. Conduct reviews of DRO decisions that include feedback to rating specialists and claims examiners and reporting on trends in the findings and conclusions of DRO decisions.

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Response: The Under Secretary for Benefits concurs. Providing feedback to rating specialists and claims examiners and identifying trends for future training purposes are integral parts of a DRO's responsibilities. We will review the quality and effectiveness of such feedback/analysis individually as part of the DRO's annual performance evaluation process.

Recommendation 14: The Under Secretary for Benefits should verify continued entitlement of beneficiaries who are over 100 years of age, and beneficiaries with whom VBA has not had contact during a prescribed period.

Response: The Under Secretary for Benefits concurs. We agree that a certain element of risk is involved in continuing payments to beneficiaries over age 100 and those with whom we have no contact for extended periods of time. We will establish a procedure to identify such beneficiaries and verify their entitlement as part of our program integrity efforts.

Recommendation 15: The Under Secretary for Benefits should ensure production work performed by managers does not prevent adequate oversight, supervision, and direction of operations or present employees with conflict of interest situations.

Response: The Under Secretary for Benefits concurs. In our ethics guidance and training for employees, we will cover the importance of avoiding conflict-of-interest situations created when managers or supervisors perform production work that must be authorized. We do not believe we can completely eliminate the need throughout the VBA field organization for managers to perform some production work on occasion, particularly at small offices. We will emphasize to field managers the need to keep such occurrences to an absolute minimum. Additionally, we will instruct them to ensure that, when feasible, production work performed by supervisors or managers is authorized by someone of an equal or higher grade.

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