

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Department of Veterans Affairs

*Review of
VA's Compliance
With the Improper
Payments Elimination and
Recovery Act for FY 2016*

May 15, 2017
16-04416-231

ACRONYMS

AFR	Agency Financial Report
DOD	Department of Defense
CHAMPVA	Civilian Health and Medical Program of the Department of Veterans Affairs
FAR	Federal Acquisition Regulation
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
PAR	Performance and Accountability Report
PLTSS	Purchased Long Term Services and Support
OIG	Office of Inspector General
OMB	Office of Management and Budget
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration

**To report suspected wrongdoing in VA programs and operations,
contact the VA OIG Hotline:**

Website: www.va.gov/oig

Email: vaoighotline@va.gov

Telephone: 1-800-488-8244



Highlights: Review of VA's Compliance With the IPERA Act for FY 2016

Why We Did This Review

We conducted this review to determine whether VA complied with the requirements of the Improper Payments Elimination and Recovery Act (IPERA) for FY 2016.

VA reported improper payment estimates totaling approximately \$5.5 billion in its FY 2016 Agency Financial Report (AFR), compared with \$5 billion for FY 2015. The net increase is primarily the result of higher reported improper payments for two programs in the Veterans Health Administration (VHA). In both years, as allowed by Office of Management and Budget (OMB) guidance, VA reported improper payment data based on the previous fiscal year activity.

What We Found

VA did not fully comply with IPERA, as it did not comply with two of six requirements that constitute compliance according to OMB. VA did not:

- Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was published in the FY 2016 AFR. Two VA programs—VA Community Care and Purchased Long Term Services and Support—exceeded 10 percent.

Meet annual reduction targets for the following six programs—VA Community Care, Purchased Long Term Services and Support, Beneficiary Travel, Civilian Health and Medical Program of the Department of

Veterans Affairs, State Home Per Diem Grants, and Supplies and Materials.

VA met four of the six IPERA requirements for FY 2016 by publishing the AFR, performing risk assessments, publishing improper payment estimates, and providing information on corrective action plans. Although VA published improper payment estimates as required, we determined estimates for the Supplies and Materials Program and the Post-9/11 G.I. Bill Program were not reliable because of weaknesses in sample evaluation procedures.

In last year's report, we noted VA could make further improvements in estimating improper payments for two programs and in reducing improper payments for another program that resulted from a program design issue. OMB Circular A-123, Appendix C requires agencies to develop improper payment estimates to a certain level of precision. Similar to last year, the VA Community Care and Purchased Long Term Services and Support Programs did not achieve the expected level of precision for their improper payment estimates published in the FY 2016 AFR. However, VBA made progress in addressing improper payments caused by concurrent payments of benefits and military reserve pay.

What We Recommended

We recommended the Acting Under Secretary for Health take steps to reduce improper payment rates and achieve reduction targets. We recommended the Acting Under Secretary for Health, the Acting Assistant Secretary for Management and Acting Chief Financial Officer, and the

Principal Executive Director, Office of Acquisition, Logistics, and Construction, take steps to improve improper payment estimates. We recommended the Acting Under Secretary for Benefits improve the improper payment estimate for one program and continue to address the issue of prohibited concurrent payments of certain program benefits and military reserve pay.

Agency Comments

VA management concurred with our recommendations and provided plans for corrective action. We consider the planned actions responsive and will follow up on their implementation during the FY 2017 review of VA's compliance with IPERA.



LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

TABLE OF CONTENTS

Introduction.....	1
Results and Recommendations	3
Finding 1 VA Did Not Comply With Two IPERA Requirements	3
Recommendations	8
Finding 2 Improper Payment Estimate for the Supplies and Materials Program Was Unreliable.....	10
Recommendations	12
Finding 3 Improper Payment Estimate for the Post-9/11 G.I. Bill Program Was Unreliable.....	13
Recommendation.....	14
Finding 4 VA Should Improve Sampling Precision for Two Programs and Address Concurrent Payment Issues for Another	15
Recommendations	16
Appendix A Background	18
Appendix B Scope and Methodology.....	20
Appendix C Summary of FY 2015 and FY 2016 IPERA Compliance	22
Appendix D Status of 2015 Recommendations	23
Appendix E VA Programs Reported in the FY 2016 AFR	24
Appendix F Management Comments.....	25
Appendix G OIG Contact and Staff Acknowledgments.....	29
Appendix H Report Distribution.....	30

INTRODUCTION

Objective

We conducted this review to determine whether VA complied with the requirements of the Improper Payments Elimination and Recovery Act (IPERA).

OMB Requirements and VA Compliance

The Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, specifies that each agency's Inspector General annually review improper payment reporting in the agency's Performance and Accountability Report (PAR) or Agency Financial Report (AFR) and issue a report on the agency's compliance with IPERA.¹ According to this circular, compliance with IPERA means the agency met the following six requirements:

1. Published a PAR or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website
 - VA complied with this requirement
2. Conducted a specific risk assessment for each program or activity that conforms with Title 31, United States Code, section 3321
 - VA complied with this requirement
3. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment
 - VA complied with this requirement, although we determined estimates for two programs were unreliable.
4. Published programmatic corrective action plans in the PAR or AFR
 - VA complied with this requirement
5. Published and met annual reduction targets for each program assessed to be at risk and measured for improper payments
 - VA did not comply with this requirement
6. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR
 - VA did not comply with this requirement²

¹ OMB Circular A-123, Appendix C, Part II-A(1), *Responsibilities of Agency Inspectors General*.

² *Id.* at Part II-A(3).

***Magnitude of
Improper
Payments***

VA reported approximately \$5.5 billion in improper payments in its FY 2016 AFR compared with about \$5 billion in its FY 2015 AFR. In general, the increase represented higher reported improper payments for two programs in the Veterans Health Administration (VHA) despite decreases in three Veterans Benefit Administration (VBA) programs.

Specifically, improper payments for VHA's VA Community Care and Purchased Long Term Services and Support (PLTSS) Programs increased by about \$1.4 billion and \$304 million, respectively, while VBA's Compensation, Pension, and Post-9/11 G.I. Bill Programs decreased by approximately \$985 million, \$137 million, and \$131 million, respectively. OMB designated the VA Community Care, PLTSS, and Compensation Programs as high-priority in November 2015.

***Data Used
for FY 2016
Report***

VA reported improper payment data based on the previous fiscal year activity, as permitted by OMB Circular A-123, Appendix C. As such, VA presented FY 2015 improper payment data in the FY 2016 AFR. The OIG's assessment of VA's compliance with IPERA for FY 2016 is based on the reported FY 2015 data.

RESULTS AND RECOMMENDATIONS

Finding 1 VA Did Not Comply With Two IPERA Requirements

VA did not fully comply with IPERA because it did not comply with two of six requirements that constitute compliance according to OMB. This was due to VA:

- Not maintaining a gross improper payment rate of less than 10 percent for two programs reported in the AFR
- Not meeting reduction targets for six programs reported in the AFR

VA met four of six IPERA requirements by publishing the FY 2016 AFR on VA's website, performing risk assessments, publishing improper payment estimates for programs identified as susceptible to significant improper payments, and providing information on corrective action plans. Although VA published improper payment estimates as required, we determined estimates for the Supplies and Materials Program and the Post-9/11 G.I. Bill Program were not reliable because of weaknesses in sample evaluation procedures.

Two VHA Programs Exceeded the 10 Percent Threshold

Two VHA programs did not comply with the requirement that improper payment rates be less than 10 percent, based on rates published in VA's AFR. Specifically, the VA Community Care and PLTSS Programs reported improper payment rates of 75.86 percent and 69.15 percent, respectively. This is a repeat of last year's noncompliance; however, last year's rates for these two programs were lower at 54.77 percent and 59.14 percent, respectively.

According to the AFR, the improper payment rate for the VA Community Care Program was high because VHA purchased a significant amount of medical care from non-VA providers using individual authorizations. As VA noted in its AFR, these individual authorizations did not follow the Federal Acquisition Regulation (FAR). The VA attributed the high PLTSS improper payment rate to the lack of FAR-compliant contracts.

VA must generally follow the FAR when other legal authorities are not available for the procurement of goods and services.³ According to OMB Circular A-123, Appendix C, Part I-A(2), *Risk-Assessing, Estimating, and Reporting Improper Payments*, "an improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements." Therefore, when purchases do not follow applicable legal

³ 48 CFR §1.101 and 801.101.

requirements, such as having FAR-compliant contracts in place, the resulting payments are improper.

For the VA Community Care and PLTSS Programs, VA reported in its AFR that “non-FAR-based arrangements are necessary because some smaller providers and those who see only a few Veteran patients a year are often unwilling or unable to comply with the FAR.” VA also stated that “it is unrealistic that contracts can be awarded for all healthcare services a Veteran may need that cannot be provided by VA.” With respect to the PLTSS Program, VA reported, “some markets with strong trade associations have proved resistant to conversion to FAR-based contracts, despite years of VA open contract solicitations. Home care agencies have welcomed provider agreements which offer a recognized structure to the VA-agency relationship and do not require compliance with FAR.”

*Planned
Corrective
Actions*

Because OMB designated these two programs as high-priority, VA published in the FY 2016 AFR supplemental measures and targets for reducing improper payments as well as corrective actions. For the VA Community Care Program, VA reported it requested a legislative change, implemented provider agreements as authorized under the Veterans Access, Choice, and Accountability Act of 2014, and released a memo outlining a hierarchy for appropriately purchasing care from non-VA providers. For the PLTSS Program, VHA instructed medical centers to convert all nursing home agreements to FAR-based contracts in February 2014, but as reported by VA, some markets have proved resistant to this change. VA's AFR provides further details.

*Six VA
Programs
Did Not Meet
Reduction
Targets*

Six VA programs did not comply with the requirement that reported improper payment rates meet reduction targets. According to VA's FY 2016 AFR, five programs did not meet their reduction targets. We identified a sixth program (Supplies and Materials) that did not meet its reduction target based on additional improper payments we found during our review, and which are discussed in Finding 2 of this report.

Table 1 lists the programs that missed their reduction targets—all from VHA—with their actual improper payment percentages, as reported by VA, and target rates for FY 2016.

Table 1. Programs That Missed Their FY 2016 Reduction Targets
(in percentages)

Responsible Organization in VA	Program	FY 2016 Actual Improper Payment Rate	FY 2016 Target Rate
VHA	VA Community Care	75.86	53.00
VHA	PLTSS	69.15	57.00
VHA	Beneficiary Travel	7.37	6.20
VHA	Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA)	4.70	3.40
VHA	State Home Per Diem Grants	2.57	2.00
VHA	Supplies and Materials*	3.57	1.31

Source: VA's FY 2016 and FY 2015 AFRs and OIG-prepared information

*For the Supplies and Materials Program, VHA reported an improper payment rate of .90 percent in the FY 2016 AFR, but we identified additional improper payments that should have been included in the calculation of this rate. When we recalculated the percentage with our findings, the rate increased to 3.57 percent and exceeded the program's reduction target.

Note: The FY 2016 actual improper payment rates are based on FY 2015 data, as allowed by OMB guidance. FY 2016 actual improper payment rates were calculated and published by VA in its FY 2016 AFR, with the exception of the Supplies and Materials Program. Target rates for FY 2016 were prepared and published by VA in its FY 2015 AFR.

VHA's Supervisor, Improper Payments and Analysis, provided the following reasons for the missed reduction targets for five programs:

- VA Community Care—The improper payment rate increased—rather than decreased—due to the inclusion of individual authorizations under \$2,500 in the improper payment estimate.
- PLTSS—The higher improper payment rate was due to contracting errors and the inclusion of individual authorizations under \$2,500 in the improper payment estimate.

- Beneficiary Travel—Other priorities, such as access to care and timely payment processing, have taken precedence over meeting the reduction target.
- CHAMPVA—System improvements are needed to address identified system issues and expand automated business rules that would reduce the number of human entries and decisions.
- State Home Per Diem Grants—VHA identified an increase in improper payments associated with missing or incomplete documentation for domiciliary residents, due in part to a change in sampling stratification.

The Supplies and Materials Program missed its target rate because our review identified additional improper payments, primarily due to insufficient supporting documentation as described in Finding 2, which increased the improper payment rate above the target rate.

**Improper
Payment
Estimates for
Two Programs
Were
Unreliable**

Although VA published improper payment estimates as required, we determined that the estimates for the Supplies and Materials Program and the Post-9/11 G.I. Bill Program were not reliable because of weaknesses in sample evaluation procedures. According to OMB Circular A-123, Appendix C, Part I-A(2), *Risk-Assessing, Estimating, and Reporting Improper Payments*, “when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.”

For the Supplies and Materials Program, 20 of 45 samples that VHA had determined to be proper lacked sufficient support at the time of their assessment. Finding 2 provides further details on this issue. For the Post-9/11 G.I. Bill Program, VBA did not test the appropriateness of tuition billed. Finding 3 provides further details on this issue.

**VA Has Three
High-Priority
Programs**

OMB designated the VA Community Care, PLTSS, and Compensation Programs as high-priority in November 2015. OMB may classify a program as high-priority if it reports \$750 million or more in improper payments in a given year, did not report an error amount in the current reporting year but previously reported an error amount over the threshold, or has not yet established a program error rate and has measured components that were above the threshold.⁴ For high-priority programs, agencies must establish semi-annual or quarterly actions for reducing improper payments.⁵ We noted that VA had established supplemental measures and targets that were approved by OMB and published in the FY 2016 AFR.

⁴ OMB Circular A-123, Appendix C, Part I-B(1), *Improving the Determination of Improper Payments*.

⁵ *Id.* Part III-B(1), *Supplemental Measures*.

The OIG is also required by OMB Circular A-123, Appendix C,⁶ to evaluate the agency's assessment of the level of risk associated with the high-priority programs and the quality of the improper payment estimates and methodology used to make estimates; determine the extent of oversight warranted; and provide the agency head with recommendations, if any, for modifying the agency's methodology, promoting continued program access and participation, or maintaining adequate internal controls.

With respect to VA's assessment of the level of risk, VA performed risk assessments for these three programs and determined they were susceptible to significant improper payments. VA published improper payment estimates in the AFR, as required by OMB Circular A-123, Appendix C.⁷ To assess the quality of those estimates and their methodology, we performed the following work:

- VA Community Care and PLTSS—We reviewed the statistical methodology VHA used to produce its improper payment estimates and determined it to be in compliance with OMB Circular A-123, Appendix C requirements, although the programs did not achieve the expected level of sampling precision, which is discussed in Finding 4. For each program, we tested a judgment sample of 45 payments that VHA deemed as proper and identified one exception in the VA Community Care Program. Our testing consisted of verifying that proper contracts supported the payments or an allowable exception existed.
- Compensation—We reviewed the statistical methodology VBA used to produce its improper payment estimates and determined it to be in compliance with OMB Circular A-123, Appendix C requirements. We tested a judgment sample of 45 payments that VBA deemed as proper and identified one exception. Our sample consisted of payments for claims related to traumatic brain injury, 100 percent temporary disability, and special monthly compensation.

Except for sampling precision and the two exceptions noted above, nothing came to our attention that indicated the quality of the estimates or methodology was not adequate, based on our testing as described above.

With respect to the extent of oversight warranted and recommendations, if any, for modifying the estimation methodology, promoting continued program access and participation, or maintaining adequate internal controls, we make the following observations:

⁶ *Id.* Part II-A(4), *Responsibilities of Agency Inspectors General*.

⁷ *Id.* Part I-A(9), Step 3, *Risk-Assessing, Estimating, and Reporting Improper Payments*.

- The supplemental measures approved by OMB will support additional oversight of these programs and the progress VA is making to reduce improper payments.
- To ensure program access, VHA reported it will continue to use individual authorizations to support timely access to care for veterans until other remedies, legislative or contractual, can be put into place. VHA has accepted the negative impact on the VA Community Care improper payment rate in order to ensure program access.
- Based on this review, we have made recommendations with respect to the VA Community Care and PLTSS Programs at the end of Finding 1 and Finding 4, and recommendations for the Compensation Program at the end of Finding 4.
- Other recent OIG reports have made recommendations covering aspects of these three programs pertaining to promoting program access and improving internal controls. These reports include the following:
 - Review of the Implementation of the Veterans Choice Program (Report No. 15-04673-333, January 30, 2017)
 - Audit of VBA's Compensation and Pension Benefit Payments to Incarcerated Veterans (Report No. 13-02255-276, June 28, 2016)
 - Review of VBA's Special Monthly Compensation Housebound Benefits (Report No. 15-02707-277, September 29, 2016)

Conclusion

VA was noncompliant with IPERA as the VA Community Care and PLTSS Programs continued to have high improper payment rates due to the purchase of medical care from non-VA sources without FAR-compliant contracts. Six VHA programs also missed their reduction targets. Although VA met the requirement to publish improper payment estimates, we concluded the improper payment estimates for VHA's Supplies and Materials Program and VBA's Post-9/11 G.I. Bill Program were not reliable. With respect to VA's three high-priority programs, except for the sampling precision issue described in Finding 4 and two sample evaluation exceptions, nothing came to our attention that indicated the quality of the improper payment estimates or methodology was not adequate.

Recommendations

1. We recommended the Acting Under Secretary for Health develop a timeline to reduce improper payments under 10 percent for the VA Community Care and Purchased Long Term Services and Support Programs.
2. We recommended the Acting Under Secretary for Health implement steps to achieve reduction targets for the VA Community Care, Purchased Long Term Services and Support, Beneficiary Travel, Civilian

Health and Medical Program of the Department of Veterans Affairs, State Home Per Diem Grants, and Supplies and Materials Programs.

**Management's
Comments**

The Acting Assistant Secretary for Management and Acting Chief Financial Officer concurred with the recommendations. The complete response from the Acting Assistant Secretary for Management and Acting Chief Financial Officer, including the Department-wide action plan, is included as Appendix F of this report.

Regarding Recommendation 1, VHA stated the Office of Community Care will work closely with program Senior Accountable Officials to develop a timeline to reduce improper payments under 10 percent. VHA also stated VA has requested a change in legislation to become compliant and has been actively pursuing remedies since the issue was first raised during the OIG's review of VA's FY 2015 compliance with IPERA. To date, Congress has taken no action to adopt the VA plan as submitted; however, VA continues to offer technical assistance on a number of pieces of draft legislation that contain elements of the larger plan VA previously submitted. Until such time as proposed legislative remedies are implemented, VA will continue to pursue a new Contract for Care in the Community and will use individual authorizations as required to support veterans' timely access to care. As a result, VHA's IPERA improper payment rate will continue to exceed the 10 percent threshold until the new contract is awarded and all contracted services are available. VA currently anticipates award of the new contract by FY 2018.

Additionally, VHA stated a supporting action plan is being developed that outlines how VHA's Office of Community Care will engage with Veterans Integrated Service Network and VA Medical Center leadership at the identified facilities to develop local action plans aimed at decreasing individual authorization volumes moving forward. A draft action plan was completed on April 21, 2017. VHA also reported the Office of Geriatrics and Extended Care plans to increase the number of FAR-compliant contracts for PLTSS's Community Nursing Home and Inpatient Hospice Care to 85 percent. VHA stated that as of March 2017, approximately 70 percent of PLTSS contracts appear to be FAR-compliant.

Regarding Recommendation 2, VHA stated reduction targets for the relevant programs were developed and reported in the 2016 AFR, with reductions anticipated to be achieved through implementation of corrective actions presented in the AFR. VHA noted that the IPERA reviews in FY 2017 are of prior year payments; therefore, results from corrective actions will not be fully realized until the 2019 AFR and later. VHA's preliminary testing shows that VHA programs continue to have issues with FAR compliance.

OIG Response

The Acting Assistant Secretary for Management and Acting Chief Financial Officer's planned corrective actions are acceptable.

Finding 2 **Improper Payment Estimate for the Supplies and Materials Program Was Unreliable**

The improper payment estimate for the Supplies and Materials Program was unreliable based on our review of a non-random selection of 45 payments determined to be proper payments by VHA. This occurred because VHA did not have appropriate support for 20 of the 45 payments we reviewed.

Support for Proper Payments Was Incomplete

VHA provided us the documentation it used to evaluate as proper the 45 payments we selected; however, the support was insufficient for us to conclude that 20 of the 45 payments were proper. Missing documentation included pricing schedules, receiving reports, and contracting documentation including contracting officer warrants. Such information is necessary to determine that the amount paid was correct, goods were received, and laws and regulations were complied with—all elements of a proper payment, as defined by OMB.⁸

Because of the missing documentation, VHA did not have a sufficient basis to deem 20 of 45 payments as proper. In such circumstances, the payment should be counted as improper, as OMB Circular A-123, Appendix C states, “when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.”⁹ Given the level of missing documentation, VHA’s published estimate of improper payments was not accurate at the time of publication.

Although VHA did not initially have sufficient documentation to make the determination that 20 of 45 payments were proper, at our request, VHA subsequently provided additional documentation. After reviewing the additional documentation, we confirmed eight of the 20 payments were proper, but we determined the remaining 12 were improper. We included the 12 payments we deemed improper in VHA’s improper payment estimate. The estimate and rate rose from approximately \$22 million to \$78 million, and from 0.90 percent to 3.57 percent, respectively. When we included all 20 payments, the estimate and rate rose to approximately \$93 million and 4.24 percent. In either case, the Supplies and Materials Program also missed its reduction target.

⁸ *Id.* Part I-A(2), *Risk-Assessing, Estimating, and Reporting Improper Payments*.

⁹ *Ibid.*

*Testing
Procedures for
"Direct to
Patient"
Purchases
Need Attention*

VHA reviewers did not check invoice prices or the shipment of goods to eligible veterans for seven of the twelve sample payments we identified as improper. These payments were made for "direct to patient" services under a single contract, where the contractor shipped supplies directly to patients.

VHA management said reviewers did not check pricing because the ordering process for these "direct to patient" services was automated, pricing was checked automatically by a system at the time of order, and historical pricing was difficult to retrieve. VHA management said that it did not check receiving reports because goods were received by patients, not VHA facilities. The contractor fulfilled the orders via common carrier and provided VHA tracking information for the delivery of goods. However, as these payments are part of a sample used to estimate improper payments, VHA needs to develop appropriate procedures to test pricing and delivery of products.

*Five Other
Payments Were
Improper*

The remaining five payments—of the 12 we determined to be improper—resulted from unauthorized commitments or a lack of support for pricing. Specifically, three sample payments were improper because the payments made constituted unauthorized commitments. Documentation provided showed two of these payments were made on orders placed before the ordering officers received their Designation of Ordering Officer letters and one of these payments was made even though the ordering officer placed the order for outside his or her authorized geographic area. The FAR defines an unauthorized commitment as "an agreement that is not binding solely because the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government."¹⁰ Unauthorized commitments are inconsistent with the requirements of the FAR, and as such, payments made against them are improper because they "should not have been made ... under statutory, contractual, administrative, or other legally applicable requirements."

For the other two sample payments, VHA's Supervisor, Improper Payments and Analysis, said these payments were made using a blanket purchase agreement under a Federal Supply Schedule contract. She stated VHA did not verify pricing for the invoiced amounts due to the difficulty in retrieving historical pricing information. Accordingly, we considered these payments to be improper as supporting evidence of accurate pricing was not available.

Conclusion

VHA's estimate of Supplies and Materials was unreliable because sample review procedures did not adequately support its determination that many payments were proper. Based on our small, non-random sample, VHA did not have sufficient documentation to make a determination that 20 of 45 payments were proper. At our request, VHA subsequently provided

¹⁰ 48 CFR §1.602-3(a).

additional documentation. We concluded that for 12 payments, VHA did not adequately test for unauthorized commitments or accurate invoice pricing, and did not have appropriate procedures to test payments related to “direct to patient” orders. Adding the 12 payments to VHA’s improper payment estimate, the projection and rate rose from approximately \$22 million to \$78 million, and from 0.90 percent to 3.57 percent, respectively.

Recommendations

3. We recommended the Acting Under Secretary for Health, in coordination with the Principal Executive Director, Office of Acquisition, Logistics, and Construction, implement additional training with respect to identifying unauthorized commitments and verifying pricing for personnel who evaluate Improper Payment Elimination and Recovery Act samples for the Supplies and Materials Program.
4. We recommended the Acting Under Secretary for Health, in coordination with the Acting Secretary for Management and Acting Chief Financial Officer, and the Principal Executive Director, Office of Acquisition, Logistics, and Construction, develop appropriate testing procedures for “direct to patient” and Federal Supply Schedule contract payments.

Management's Comments

The Acting Assistant Secretary for Management and Acting Chief Financial Officer concurred with the recommendations. The complete response from the Acting Assistant Secretary for Management and Acting Chief Financial Officer, including the Department-wide action plan, is included as Appendix F of this report.

The Acting Assistant Secretary for Management and Acting Chief Financial Officer provided a Department-wide action plan that included a coordinated response from VHA and the Office of Acquisition, Logistics, and Construction to the above recommendations. These offices concurred with the recommendations. VHA and the Office of Acquisition, Logistics, and Construction stated they would implement additional training for IPERA testers to improve consistency and accuracy of payment evaluation related to contract payments. They stated they will also develop procedures to test pricing and delivery of products that are appropriate for the “direct to patient” and Federal Supply Schedule contract payments or obtain approval from OMB to rely on established internal controls.

OIG Response

The Acting Assistant Secretary for Management and Acting Chief Financial Officer’s planned corrective actions are acceptable.

Finding 3 Improper Payment Estimate for the Post-9/11 G.I. Bill Program Was Unreliable

VBA procedures were insufficient to provide a reliable improper payment estimate for the Post-9/11 G.I. Bill Program. VBA reviewers did not verify payments for the correct tuition or the appropriateness of some fees, including book fees, health insurance, and room and board.

VBA Did Not Verify Tuition Payments

In order to produce its estimate, VBA tested 304 program payments. We tested a judgment sample of 20 payments VBA deemed proper and reviewed the documentation VBA used to make its determination. Documentation included invoices and student account ledgers, but no evidence that VBA verified the tuition and fees it paid were correct. VBA confirmed that its testing procedures did not validate fees against a school catalog or other fee schedule sources. Since VBA did not perform these procedures, its procedures were insufficient to provide a reliable improper payment estimate.

However, the Chief, Quality Assurance, VBA Education Service, said that VBA subsequently reviewed the school catalog for the samples provided by the OIG and found the payments to be accurate. The official said VBA was willing to review additional documentation at the OIG's recommendation.

Audit of Post-9/11 G.I. Bill Tuition and Fee Payments

The OIG published a report, *Audit of Post-9/11 G.I. Bill Tuition and Fee Payments*,¹¹ which focused extensively on this program's payments. Specifically, this audit assessed whether tuition and fee payments to schools were appropriate and accurate for the 2013–2014 academic year, and the auditors examined almost 650 payments. Based on the more than \$5.2 billion in tuition and fee payments made to schools during that academic year, the OIG projected VBA issued an estimated \$247.6 million in improper payments and had a projected error rate of about 5 percent (\$247.6 million divided by \$5.2 billion). The report categorized improper payments as follows:

- Incorrect school certifications resulting from unsupported fees, duplicate charges, unsupported/inaccurate Yellow Ribbon Program tuition amounts, and erroneous tuition amounts
- Insufficient documentation
- Ineligible recipients

¹¹ *Audit of VBA's Post-9/11 G.I. Bill Tuition and Fee Payments* (Report No. 14-05118-147, September 30, 2016)

VBA generally did not agree with the OIG's findings related to the number and amounts of improper payments, but after reviewing management's response, the OIG reaffirmed its findings.

**VA Improper
Payment
Estimate**

In contrast to the OIG's report, VA published an estimated improper payment estimate of approximately \$3.9 million based on FY 2015 data in its FY 2016 AFR. By comparison, the OIG estimated approximately \$250 million in improper payments for the previous year, according to our report, *Audit of Post-9/11 G.I. Bill Tuition and Fee Payments*. Improper payment rates were similarly discrepant—.03 percent compared to 5 percent.

Conclusion

Given the results of the OIG's *Post-9/11 G.I. Bill* audit report and our own observation that VBA did not verify tuition and fees as accurate, we concluded that VBA procedures were insufficient to provide a reliable improper payment estimate for the Post-9/11 G.I. Bill Program in the FY 2016 AFR.

Recommendation

5. We recommended the Acting Under Secretary for Veterans Benefits Administration implement steps to identify and report a reliable improper payment estimate for the Post-9/11 G.I. Bill Program.

**Management's
Comments**

The Acting Assistant Secretary for Management and Acting Chief Financial Officer concurred with the recommendations. The complete response from the Acting Assistant Secretary for Management and Acting Chief Financial Officer, including the Department-wide action plan, is included as Appendix F of this report.

VBA reported the Education Service will implement a plan to request and review the school catalog or alternate document detailing approved tuition and fees.

OIG Response

The Acting Assistant Secretary for Management and Acting Chief Financial Officer's planned corrective actions are acceptable.

Finding 4 VA Should Improve Sampling Precision for Two Programs and Address Concurrent Payment Issues for Another

In last year's report,¹² we noted that VA could make further improvements in estimating improper payments for two programs and in reducing improper payments for another program that resulted from a program design issue. The following is an update on those observations.

Sampling Precision Could Be Improved

Similar to last year, the VA Community Care and PLTSS Programs did not achieve the expected level of precision for their improper payment estimates published in the FY 2016 AFR. OMB Circular A-123, Appendix C¹³ requires agencies to develop improper payment estimates to a certain level of precision. Specifically, the VA Community Care Program's improper payment estimate was \$3.6 billion, with a precision of plus or minus \$214 million. To meet the OMB standard, the precision should have been at or below plus or minus \$118 million.¹⁴ Similarly, the PLTSS Program's improper payment estimate was \$1.2 billion, with a precision of plus or minus \$43.4 million. To meet OMB standards, the precision should have been at or below plus or minus \$42.6 million. According to VHA's Supervisor, Improper Payments and Analysis, both programs missed the precision targets because the estimated variance of the improper payment results was larger than expected. As a result, these programs did not meet OMB's precision expectations.

Program Design Problem With Drill Pay Needs Further Attention

VBA's Compensation and Pension Programs made improper payments that could not be avoided due to the concurrent payment design of the drill pay and Compensation and Pension Programs. Drill pay is military reserve pay earned by reservists and National Guard members while training on weekends and during full-time training events. Federal law¹⁵ prohibits participants from receiving Compensation and Pension Program benefits concurrent with drill pay. VBA does not currently have the ability to prevent Compensation and Pension Program payments from being made concurrent with drill pay and must rely on an annual data match with the Department of Defense (DOD) to identify such payments after the fact.

Identifying and collecting these improper payments can be a time-consuming process. VBA officials provided us information that, as of January 18, 2017, VBA was recovering \$307 million through benefit offset for concurrent drill

¹² *Review of VA's Compliance With the Improper Payments Elimination and Recovery Act for FY 2015* (Report No. 15-04252-284, May 12, 2016)

¹³ OMB Circular A-123, Appendix C, Part I-A(9), Step 2.2(d), *Risk-Assessing, Estimating, and Reporting Improper Payments*

¹⁴ *Id.* at Part I-A(9), Step 2.2(d)

¹⁵ 10 U.S.C. §12316 and 38 U.S.C. §5304(c)

pay earned during FY 2013 through FY 2015. In addition, for the same time period, VBA was researching another \$3 million and affording the appropriate due process to the affected veterans prior to the offsetting of benefits. According to VBA, collections through benefit offset can take years. The improper payments caused by the concurrent payment of Compensation and Pension benefits and drill pay result from a program design issue that VBA cannot correct on its own. Last year, we made a recommendation for VBA to propose a solution to OMB. Since then, VBA has made progress on the drill pay issue.

According to VBA, it met with OMB in October 2016, and OMB directed VBA to work with DOD to determine the appropriate level of corrective action needed. VBA said it established a collaborative work group with DOD to work towards moving the current annual drill pay adjustment process to a monthly one. In the interim, VBA said it has established a process where due process notices are sent out simultaneously to veterans with the initial notice of drill pay days for the previous fiscal year. VBA said this action will save 60 days.

In addition, VBA management said it has drafted a regulation proposing legislative changes to drill pay. Due to the statutory framework for VA's benefits processing, VBA said that elimination of improper payments related to drill pay offsets would require legislative changes, funding, and computer system changes. While VBA said legislative changes are required to completely eliminate improper payments related to drill pay, VBA also said it has partnered with DOD and reported it is making progress.

Conclusion

The improper payment estimates for the VA Community Care and PLTSS Programs did not meet the precision expectations set by OMB. VBA also expended considerable effort to collect improper payments due to the program design issue with drill pay; however, VBA should continue to work with DOD and report in the AFR on any statutory barriers related to drill pay that prevent a complete resolution of the related improper payments.

Recommendations

6. We recommended the Acting Under Secretary for Health, in coordination with the Acting Assistant Secretary for Management and Acting Chief Financial Officer, provide the Improper Payment Elimination and Recovery Act team guidance to achieve the expected level of precision for the improper payment estimates for the VA Community Care and Purchased Long Term Services and Support Programs.
7. We recommended the Acting Under Secretary for Benefits continue working with the Department of Defense to increase the frequency of drill pay adjustments from annually to monthly.

8. We recommended the Acting Under Secretary for Benefits report any statutory barrier preventing complete resolution to drill pay improper payments in its Agency Financial Report.

**Management's
Comments**

The Acting Assistant Secretary for Management and Acting Chief Financial Officer concurred with the recommendations. The complete response from the Acting Assistant Secretary for Management and Acting Chief Financial Officer, including the Department-wide action plan, is included as Appendix F of this report.

Regarding Recommendation 6, VHA and the Office of Management reported VHA's Office of Finance will work with program Senior Accountable Officials and the Office of Management to ensure precision requirements are met for the VA Community Care and PLTSS Programs.

Regarding Recommendation 7, VBA reported it will continue collaborating with DOD to move the drill pay adjustment to a monthly process. In addition, VBA stated it is drafting business requirements, one of which is the approval of updated adjudication regulations to allow VA to take immediate action to suspend compensation payments when a veteran is in receipt of concurrent active service pay and has received prior notice that simultaneous receipt of disability compensation and active service pay is barred by statute.

Regarding Recommendation 8, VBA reported it is unaware of any statutory barrier preventing complete resolution of drill pay improper payments, but stated 38 CFR §3.103(b)(2) establishes due process requirements that VA must follow before an award of compensation can be terminated, reduced, or otherwise adversely affected. According to VBA, this due process requirement is the largest barrier to timely resolving drill pay improper payments and will be noted in the AFR.

OIG Response

The Acting Assistant Secretary for Management and Acting Chief Financial Officer's planned corrective actions are acceptable.

Appendix A Background

IPERA and OMB Requirements

IPERA significantly amended the Improper Payments Information Act of 2002 and repealed the Recovery Auditing Act. OMB Circular A-123, Appendix C provides requirements for implementing IPERA.

Under IPERA, each agency must periodically review and identify its programs and activities that may be susceptible to significant improper payments. OMB Circular A-123, Appendix C defines significant improper payments as gross annual improper payments exceeding both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported, or \$100 million in gross improper payments.

Agencies are to identify susceptible programs through periodic risk assessments performed on all programs. For each program identified as susceptible, the agency generally is required to report in its PAR or AFR:

- A statistically valid estimate, or an estimate approved by OMB, of the annual improper payments
- Corrective action plans for reducing estimated improper payments, including a discussion of the causes of those improper payments, for programs with improper payment estimates greater than \$10 million and 1.5 percent of program outlays
- Program-specific targets for reducing improper payments that have been approved by OMB

Improper Payment Definition

OMB Circular A-123, Appendix C, defines an improper payment as follows:

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

IPERIA

The enactment of Improper Payments Elimination and Recovery Improvement Act (IPERIA) required OMB to identify annually a list of high-priority programs for greater levels of oversight and review and to

provide guidance to agencies for improving the estimates of improper payments. IPERA also made payments to Federal employees subject to risk assessment and, where appropriate, improper payment estimation.

**Program
Office
Responsibility**

The Improper Payments Remediation and Oversight Office within the Office of Finance provided oversight and coordination of IPERA compliance activities. Individual administrations and staff offices were responsible for performing IPERA requirements applicable to their programs.

Prior Reviews

Since March 2012, we have issued annual reports on VA's compliance with IPERA, as required by OMB, and reported that VA was not fully compliant with IPERA. Our conclusions in these reports are summarized here:

- Review of VA's Compliance With the Improper Payments Elimination and Recovery Act for FY 2015 (Report No. 15-04252-284, May 12, 2016)—VA did not comply with two of six requirements.
- FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act (Report No. 14-03380-356, May 14, 2015)—VA did not comply with two of six requirements. (OMB reduced the number of requirements from seven to six for FY 2014).
- FY 2013 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act (Report No. 13-02926-112, April 15, 2014)—VA did not comply with two of seven requirements.
- Review of VA's Compliance with the Improper Payments Elimination and Recovery Act for FY 2012 (Report No. 12-04241-138, March 15, 2013)—VA did not comply with four of seven requirements.
- Review of VA's Compliance with the Improper Payments Elimination and Recovery Act (Report No. 12-00849-120, March 14, 2012)—VA did not comply with two of seven requirements. (FY 2011 IPERA reporting)

Appendix B Scope and Methodology

Scope

We conducted our review work from August 2016 through April 2017 at the VA Central Office located in Washington, DC. Our review focused on improper payment information reported in VA's FY 2016 AFR, as required by IPERA.

Overall Methodology

To assess VA's compliance with IPERA, we reviewed VA's FY 2016 AFR, Section III, Other Information, and Section E, Improper Payments Detailed Report, as published on VA's website. We obtained VA's reduction targets from its FY 2015 AFR. We also reviewed VA policy and interviewed VHA, VBA, and Office of Management officials to gain an understanding of VA's IPERA reporting controls.

VA completed 73 risk assessments for FY 2016 as part of its three-year assessment cycle, and we reviewed 40 of them for reasonableness, but we did not validate management's conclusions. We also reviewed for reasonableness VA's corrective action plans reported in the AFR.

An OIG statistician reviewed the statistical validity of sampling methodologies for the programs reported in the AFR and performed calculations to verify sample estimates and margins of error for several programs. Those programs included the three programs designated as high-priority by OMB (VA Community Care, PLTSS, and Compensation) and three other programs (Pension, Post-9/11 G.I. Bill, and Supplies and Materials).

We did not reevaluate VA's sample transactions to determine if VA correctly identified all improper payments in its samples used to estimate improper payments. However, we performed the following procedures:

- For the VA Community Care, PLTSS, and Disaster Relief Act—Hurricane Sandy Programs, we non-randomly selected 45 payments from each program's IPERA sample that were originally categorized as proper to verify whether the responsible office checked for valid contracts supporting those payments and for correct funding source. We noted only one exception.
- For the Supplies and Materials Program, we non-randomly selected 45 payments that were originally categorized as proper from the program's IPERA sample to test whether valid contracts supported those payments. We also matched payment amounts to invoices, receiving reports, and obligation documents; considered whether VHA's conclusions were adequately supported; and verified the vendor was not on the Federal Government's System for Award Management exclusion list. Exceptions are discussed in Finding 2.

- For the Compensation Program, we non-randomly selected 45 payments that were originally categorized as proper from the Compensation Program's IPERA sample. We selected payments for claims that we considered to be at higher risk for improper payments. Specifically, the sample included 20 Traumatic Brain Injury payments, 16 payments with 100 percent disability evaluations, and nine Special Monthly Compensation claim payments. We noted one exception pertaining to a Special Monthly Compensation payment.
- For the Post-9/11 G.I. Bill Program, we non-randomly selected 20 payments from the program's IPERA sample that were originally categorized as proper to verify whether those payments were supported as proper. Exceptions are discussed in Finding 3.

High-Priority Programs

The scope of our review for VA's three high-priority programs as designated by OMB—the VA Community Care, PLTSS, and Compensation Programs—and the results are described in Finding 1.

Fraud Assessment

The review team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this review. The review team exercised due diligence in staying alert to any fraud indicators. We did not identify any instances of fraud during this review.

Data Reliability

Information published by VA in its FY 2016 AFR is a key element of determining VA's compliance with IPERA. To assess the reliability of VA's published information, we reviewed the statistical methodologies that VA applied to payment data for several programs and identified data sources from VA's sampling plans. According to those plans, VHA obtained data for its programs from VA's Financial Management System. Data for VBA programs came from the Veterans Service Network, the Benefits Delivery Network, the Financial Management System, and Corporate WINRS system. Disaster Relief Act—Hurricane Sandy payments were extracted from the VA Financial Reporting System, and Payments to Federal Employees—Payroll data were extracted from Financial Management Reports database.

We did not perform our own independent risk assessments of VA's programs or test VA systems for data reliability. We did not reevaluate VA's sample transactions to determine if VA correctly identified improper payments or develop independent statistical estimates, except as previously discussed in the Overall Methodology section. We designed our procedures to determine whether VA complied with IPERA according to OMB's six compliance criteria and to meet requirements pertaining to high-priority programs—not to attest to the accuracy of VA's reporting. We believe our procedures to assess data reliability were sufficient to support our review objective.

Government Standards

We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

Appendix C Summary of FY 2015 and FY 2016 IPERA Compliance

Table 2 provides a comparison of VA's compliance with IPERA requirements for FYs 2015 and 2016.

Table 2. Summary Comparison of IPERA Compliance by Fiscal Year

Requirement	FY 2015	FY 2016
Publish a PAR or AFR	No exceptions	No exceptions
Conduct a Specific Risk Assessment for Each Program	No exceptions	No exceptions
Publish Improper Payment Estimates as Appropriate	No exceptions	No exceptions
Publish Corrective Action Plans	No exceptions	No exceptions
Publish and Meet Reduction Targets	<p>These eight programs did not meet reduction targets:</p> <ul style="list-style-type: none"> • Beneficiary Travel • VA Community Care • PLTSS • Supplies and Materials • Compensation • Education Chapter 1606 • Education Chapter 1607 • Disaster Relief Act—Hurricane Sandy 	<p>These six programs did not meet reduction targets:</p> <ul style="list-style-type: none"> • Beneficiary Travel • VA Community Care • PLTSS • Supplies and Materials • CHAMPVA • State Home Per Diem Grants
Report a Gross Improper Payment Rate of Less Than 10 Percent	<ul style="list-style-type: none"> • VA Community Care (54.77%) • PLTSS (59.14%) 	<ul style="list-style-type: none"> • VA Community Care (75.86%) • PLTSS (69.15%)

Source: VA OIG, based on VA's FY 2015 and FY 2016 AFRs and OIG determinations of IPERA compliance

Appendix D Status of 2015 Recommendations

Table 3 provides the status of our FY 2015 IPERA report recommendations.

Table 3. Status of FY 2015 Recommendations

<p>Recommendation 1: We recommended the Under Secretary for Health ensure implementation of the corrective action plans included in VA's Agency Financial Report to make procurement practices for the VA Community Care and Purchased Long Term Services and Support programs compliant with laws and regulations.</p> <p style="text-align: right;">Status: Closed</p>
<p>Recommendation 2: We recommended the Under Secretary for Health implement steps to achieve reduction targets or appropriately adjust them for the VA Community Care, Purchased Long Term Services and Support, Beneficiary Travel, and Supplies and Materials programs.</p> <p style="text-align: right;">Status: Closed as unimplemented</p>
<p>Recommendation 3: We recommended the Acting Under Secretary for Benefits implement steps to achieve reduction targets or appropriately adjust them for the Compensation, Education Chapter 1606, and Education Chapter 1607 programs.</p> <p style="text-align: right;">Status: Closed</p>
<p>Recommendation 4: We recommended the Principal Executive Director, Office of Acquisition, Logistics, and Construction, implement steps to achieve reduction targets for the Disaster Relief Act-Hurricane Sandy program.</p> <p style="text-align: right;">Status: Closed</p>
<p>Recommendation 5: We recommended the Under Secretary for Health implement additional training for personnel who evaluate Improper Payment Elimination and Recovery Act samples for the Supplies and Materials program.</p> <p style="text-align: right;">Status: Closed as unimplemented</p>
<p>Recommendation 6: We recommended the Under Secretary for Health provide contracting expertise to the Improper Payment Elimination and Recovery Act review team, as needed.</p> <p style="text-align: right;">Status: Closed</p>
<p>Recommendation 7: We recommended the Acting Under Secretary for Benefits develop a solution for correcting the concurrent payment of Compensation and Pension benefits and military drill pay and seek Office of Management and Budget assistance in coordinating a future resolution of the matter.</p> <p style="text-align: right;">Status: Closed</p>

Note: "Closed as unimplemented," as used in this table, means that the FY 2015 recommendation was modified for this year's report; therefore, we have closed the FY 2015 recommendation in order to avoid multiple variations of a similar recommendation from being carried forward year to year.

Appendix E VA Programs Reported in the FY 2016 AFR

Table 4 shows the outlays and gross improper payment rates and amounts that VA reported in the FY 2015 and FY 2016 AFRs. Improper payment totals include both overpayments and underpayments.

Table 4. Improper Payment Reporting for FYs 2015 and 2016
(*\$ in millions*)

Program	VA FY 2015 AFR Based on FY 2014 Actual Data Outlays	Improper Payment Percentage	Improper Payments	VA FY 2016 AFR Based on FY 2015 Actual Data Outlays	Improper Payment Percentage	Improper Payments
Beneficiary Travel	\$811.55	6.22	\$50.48	\$890.06	7.37	\$65.64
CHAMPVA	1,135.34	3.41	38.75	1,145.73	4.7	53.87
VA Community Care	3,912.17	54.77	2,142.69	4,728.95	75.86	3,587.25
Purchased Long Term Services & Support	1,479.71	59.14	875.13	1,705.60	69.15	1,179.49
State Home Per Diem Grants	1,077.84	2.02	21.77	1,126.26	2.57	28.93
Supplies and Materials	2,457.24	1.32	32.44	2,476.71	0.9	22.27
Compensation	58,449.56	2.33	1,361.35	63,864.04	0.59	376.58
Pension	5,832.79	4.53	264.19	5,594.76	2.27	127.1
Vocational Rehabilitation and Employment	1,081.22	1.04	11.26	1,260.38	0.55	6.95
Education Chapter 33 (Post-9/11 G.I. Bill)	11,172.65	1.21	135.05	11,344.07	0.03	3.92
Education Chapter 1606	147.15	1.05	1.55	143.47	0.06	0.09
Education Chapter 1607	67.33	2.23	1.5	47.73	1.31	0.62
Disaster Relief Act-Hurricane Sandy	27.27	5.71	1.56	23.61	3.66	0.87
Payments to Federal Employees—Payroll	25,812.71	0.15	38.46	27,368.24	0.12	32.08
Total VA	\$113,464.53		\$4,976.17	\$121,719.61		\$5,485.64

Source: VA's FY 2016 AFR

Note: Due to rounding, the columns may not sum.

Appendix F Management Comments

Department of Veterans Affairs Memorandum

Date: May 5, 2017

From: Acting Assistant Secretary for Management and Acting Chief Financial Officer (004)

Subj: Office of Inspector General (OIG) Draft Report, FY 2016 Review of VA's Compliance
With the Improper Payments Elimination and Recovery Act (IPERA)

To: Assistant Inspector General for Audits and Evaluations (52)

1. Thank you for the opportunity to comment on the draft report of the OIG's review of VA's Compliance with IPERA in FY 2016. We appreciate the work your staff has conducted to help us continue to strengthen our efforts to comply with the requirements of IPERA. We have reviewed the draft report and concur with the findings.
2. As noted in the report, VA reported an increase in our improper payment rate in FY 2016 primarily due to the increases in improper payments for two programs in the Veterans Health Administration. We are committed to stopping inconsistent compliance with laws and regulations by actively working to develop and implement corrective actions that reduce the improper payment rate. However, as addressed in the report, VA must ensure that its actions to address the root causes of improper payments do not impact Veterans timely access to care. As such, VA is ensuring corrective actions ensure that Veterans access is not affected while still working diligently to reduce improper payments.
3. Attached is a Department-wide action plan with a response and target completion date for each recommendation from the appropriate Administration or Staff Office.
4. If you have any questions, please call me or have a member of your staff contact Nicole Frish, Director, Improper Payments Remediation and Oversight Office, at (202) 461-6145.

(Original signed by)

Edward J. Murray

Attachment

*For accessibility, the format of the original memo has been modified
to fit in this document.*

**Department of Veterans Affairs
Action Plan**

OIG Draft Report: Fiscal Year 2016 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act (IPERA)

Date of Draft Report: May 1, 2017

Recommendations/ Actions	Status	Completion Date
-----------------------------	--------	-----------------

OIG Recommendations

Recommendation 1. We recommended the Acting Under Secretary for Health develop a timeline to reduce improper payments under 10 percent for the VA Community Care and Purchased Long Term Services and Support Programs.

Veterans Health Administration (VHA) Comments: Concur

VHA Office of Community Care (OCC) will work closely with program Senior Accountable Officials to develop a timeline to reduce improper payments under 10 percent.

VA has also requested a change in legislation to become compliant and has been actively pursuing remedies since the issue was first raised during the OIG's 2015 review of VA's compliance with IPERA. To date Congress has taken no action as yet to adopt the VA plan as submitted; however, VA continues to offer technical assistance on a number of pieces of draft legislation that contain elements of the larger plan VA previously submitted. Until such time as proposed legislative remedies are implemented, VA will continue to pursue a new Contract for Care in the Community and will utilize individual authorizations as required to support Veterans' timely access to care. As a result, VHA's IPERA improper payment rate will continue to exceed the 10 percent threshold until the new contract is awarded and all contracted services are available. VA currently anticipates award of the new contract by FY 2018.

Additionally, a supporting action plan is being developed that outlines how OCC will engage with Veterans Integrated Service Network and VA Medical Center leadership at the identified facilities to develop local action plans aimed at decreasing individual authorization volumes moving forward. A draft action plan was completed on April 21, 2017.

To address services that the new contract may not support, Purchased Long Term Services and Support Programs (PLTSS) monitors percent of compliant contracts for Community Care Nursing Home and Inpatient Hospice Care as its PLTSS IPERA supplemental measure. By September 30, 2017, the Office of Geriatrics and Extended Care will increase the number of Federal Acquisition Regulation (FAR) compliant contracts for PLTSS's Community Nursing Home and Inpatient Hospice care to 85 percent. As of March 2017, approximately 70 percent of PLTSS contracts appear to be FAR compliant.

Status: In process Target Completion Date: November 2017

Recommendation 2. We recommended the Acting Under Secretary for Health implement steps to achieve reduction targets for the VA Community Care, Purchased Long Term Services and Support, Beneficiary Travel, Civilian Health and Medical Program of the Department of Veterans Affairs, State Home Per Diem Grants, and Supplies and Materials Programs.

VHA Comments: Concur

Reduction targets for the above listed programs have been developed for fiscal year (FY) 17 and are reported in the 2016 Agency Financial Report (AFR). Reductions are anticipated to be achieved through the implementation of the corrective actions presented in the 2016 AFR. It should be noted that the IPERA reviews in FY17 are of prior year payments; therefore, results from corrective actions will not be fully realized until the 2019 AFR and later. VHA preliminary testing shows that VHA programs continue to have issues with FAR compliance.

Status: In process Target Completion Date: November 2017

Recommendation 3. We recommended the Acting Under Secretary for Health, in coordination with the Principal Executive Director, Office of Acquisition, Logistics, and Construction (OALC), implement additional training with respect to identifying unauthorized commitments and verifying pricing for personnel who evaluate Improper Payment Elimination and Recovery Act samples for the Supplies and Materials program.

VHA and OALC Consolidated Comments: Concur

VHA and OALC will implement additional training to IPERA testers to improve consistency and accuracy of payment evaluation related to contract payments.

Status: In process Target Completion Date: June 2017

Recommendation 4. We recommended the Acting Under Secretary for Health, in coordination with the Acting Secretary for Management and Acting Chief Financial Officer, and the Principal Executive Director, Office of Acquisition, Logistics, and Construction, develop appropriate testing procedures for "direct to patient" and Federal Supply Schedule contract payments.

VHA and OALC Consolidated Comments: Concur

VHA and OALC will develop procedures to test pricing and delivery of products that are appropriate for the "direct to patient" and Federal Supply Schedule contract payments or obtain approval from OMB to rely on established internal controls for IPERA testing. Additionally, VHA and OALC will review IPERA and ordering officer processes to ensure ordering officer delegation documentation is properly maintained.

Status: In process Target Completion Date: June 2017

Recommendation 5. We recommended the Acting Under Secretary for Veterans Benefits Administration implement steps to identify and report a reliable improper payment estimate for the Post 9/11 G.I. Bill Program.

Veterans Benefits Administration (VBA) Comments: Concur

VBA Education Service will implement a plan to request and review the school catalog or alternate document detailing approved tuition and fees, along with the previous testing documents including the billing and attendance records and student transcript during improper payment testing. All records will be submitted after a review by VBA Education Service to the Office of Inspector General (OIG).

Status: In process Target Completion Date: June 1, 2017.

Recommendation 6. We recommended the Acting Under Secretary for Health, in coordination with the Acting Assistant Secretary for Management and Acting Chief Financial Officer, provide the Improper Payment Elimination and Recovery Act team guidance to achieve the expected level of precision for the improper payment estimates for the VA Community Care and Purchased Long Term Services and Support Programs.

VHA and OM Consolidated Comments: Concur

VHA Office of Finance will work closely with program Senior Accountable Officials and Office of Management to develop a plan to ensure precision requirements are met for the VA Community Care and PLTSS improper payment estimates.

Status: In process Target Completion Date: June 2017

Recommendation 7. We recommended the Acting Under Secretary for Benefits continue working with the Department of Defense to increase the frequency of drill pay adjustments from annually to monthly.

VBA Comments: Concur

The collaborative drill pay work group between VA and the Department of Defense continues to work towards a solution to move drill pay adjustments to a monthly process. VBA continues to draft the business requirements. One of the requirements is approval of updated adjudication regulations, which will allow VA to take immediate action to suspend compensation payments when the Veteran is in receipt of concurrent active service pay, and has received prior notice that simultaneous receipt of disability compensation and active service pay is barred by statute.

Status: In process Target Completion Date: September 30, 2018

Recommendation 8. We recommended the Acting Under Secretary for Benefits report any statutory barrier preventing complete resolution to drill pay improper payments in its Agency Financial Report.

VBA Comments: Concur

VA is unaware of any statutory barrier to preventing complete resolution of drill pay improper payments, but section 3.103(b)(2) of Title 38, Code of Federal Regulations, establishes due process requirements that VA must follow before an award of compensation can be terminated, reduced or otherwise adversely affected. Under that section, VA must provide a Veteran with notice of a proposed adverse action and 60 days to provide evidence showing why the adverse action should not be taken. This due process requirement is the largest barrier to timely resolving drill pay improper payments, and will be noted in the AFR.

Status: In process Target Completion Date: November 15, 2017 (AFR
publication date)

Appendix G **OIG Contact and Staff Acknowledgments**

Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
---------	---

Acknowledgments	Sue Schwendiman, Director Alex Biggs Kyle Flannery Lee Giesbrecht Milan Gokaldas Gurpreet Kaur Jeffrey Lloyd Marie Orlofski Kelly Perry Corina Riba Jimmy Sembiring Mary Shapiro
-----------------	---

Appendix H Report Distribution

VA Distribution

Office of the Secretary
Veterans Health Administration
Veterans Benefits Administration
National Cemetery Administration
Assistant Secretaries
Office of General Counsel
Office of Acquisition, Logistics, and Construction
Board of Veterans Appeals

Non-VA Distribution

House Committee on Veterans' Affairs
House Appropriations Subcommittee on Military Construction,
Veterans Affairs, and Related Agencies
House Committee on Oversight and Government Reform
Senate Committee on Veterans' Affairs
Senate Appropriations Subcommittee on Military Construction,
Veterans Affairs, and Related Agencies
Senate Committee on Homeland Security and Governmental Affairs
National Veterans Service Organizations
Government Accountability Office
Office of Management and Budget

This report is available on our website at www.va.gov/oig.