



Testimony

Before the Subcommittee on Oversight
and Investigations, Committee on
Veterans' Affairs, House of
Representatives

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Improper Payment Estimates and Ongoing Efforts for Reduction

Statement of Beryl H. Davis
Director, Financial Management and Assurance

GAO Highlights

Highlights of [GAO-17-633T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Veterans Affairs, House of Representatives

Why GAO Did This Study

For several years, GAO has reported in its audit reports on the consolidated financial statements of the U.S. government that the federal government is unable to determine the full extent to which improper payments occur and reasonably assure that actions are taken to reduce them.

Strong financial management practices, including effective internal control, are important for federal agencies to better detect and prevent improper payments. VA faces significant financial management challenges. In 2015, GAO designated VA health care as a high-risk area because of concern about VA's ability to ensure that its resources are being used cost effectively and efficiently to improve veterans' timely access to health care and to ensure the quality and safety of that care. Further, improving and modernizing federal disability programs has been on GAO's high-risk list since 2003, in part because of challenges that VA has faced in providing accurate, timely, and consistent disability decisions related to disability compensation. In addition, in VA's fiscal year 2016 agency financial report, the independent auditor cited material weaknesses in internal control over financial reporting.

This statement discusses improper payments on both the government-wide level and at VA. The statement also discusses certain actions that VA has taken and other actions that VA can take to reduce improper payments. This statement is based on GAO's recent work on improper payments and its analysis of agency financial reports and VA's Office of Inspector General reports.

View [GAO-17-633T](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov

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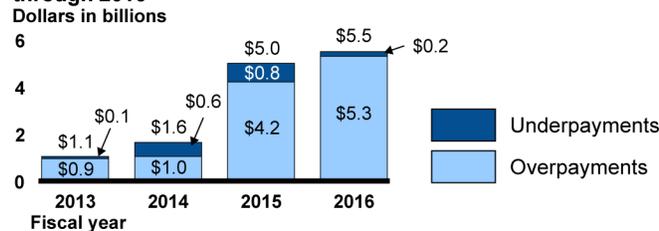
Improper Payment Estimates and Ongoing Efforts for Reduction

What GAO Found

Improper payments, which generally include payments that should not have been made, were made in the incorrect amount, or were not supported by sufficient documentation, remain a significant and pervasive government-wide issue. Since fiscal year 2003—when certain agencies began reporting improper payments as required by the Improper Payments Information Act of 2002—cumulative improper payment estimates have totaled over \$1.2 trillion. For fiscal year 2016, agencies reported improper payment estimates totaling \$144.3 billion, an increase of about \$7.6 billion from the prior year's estimate of \$136.7 billion.

For fiscal year 2016, the Department of Veterans Affairs' (VA) reported improper payment estimate totaled \$5.5 billion. VA's Community Care and Purchased Long-Term Services and Support programs accounted for reported improper payment estimates of \$3.6 billion and \$1.2 billion, respectively, or about 87 percent of VA's reported improper payment estimate for fiscal year 2016. VA's reported improper payment estimates increased significantly from \$1.6 billion for fiscal year 2014 to \$5.0 billion for fiscal year 2015. According to the VA Office of Inspector General, this increase was primarily due to a change in VA's evaluation procedures, which resulted in more improper payments being identified.

Department of Veterans Affairs' Reported Improper Payment Estimates for Fiscal Years 2013 through 2016



Source: Department of Veterans Affairs Agency Financial Report for fiscal years 2014 through 2016. | GAO-17-633T
Note: Numbers may not add to totals because of rounding.

In accordance with Office of Management and Budget guidance, to reduce improper payments, VA can use detailed root cause analysis to identify why improper payments are occurring and to develop corrective actions. For example, according to VA, the root cause for over 75 percent of VA's reported improper payments for fiscal year 2016 was program design or structural issues. Most of these errors occurred in VA's health care area. To reduce these improper payments, VA stated that it will make its procurement practices compliant with Federal Acquisition Regulation provisions. GAO has also recommended steps that VA can take to reduce the risk of improper payments related to disability benefits. For example, in November 2014, GAO reported that VA had shortcomings in quality review practices that could reduce its ability to ensure accurate and consistent processing of disability compensation claim decisions, and GAO made eight related recommendations to improve the program. To date, VA has implemented six of the report's eight recommendations and expects to implement the other two recommendations related to the effectiveness of quality assurance activities later this summer.

Chairman Bergman, Ranking Member Kuster, and Members of the Subcommittee:

As the steward of taxpayer dollars, the federal government is accountable for how it spends hundreds of billions of taxpayer dollars annually. However, improper payments remain a significant and pervasive government-wide issue. For several years, we have reported improper payments as a material weakness¹ in our audit reports on the consolidated financial statements of the U.S. government because the federal government is unable to determine the full extent to which improper payments occur and reasonably assure that actions are taken to reduce them.² In addition, agency auditors continued to report internal control deficiencies over financial reporting in their 2016 financial statement audit reports, such as financial system limitations and information system control weaknesses. Such deficiencies could significantly increase the risk that improper payments may occur and not be detected promptly.

Under the Improper Payments Information Act of 2002 (IPIA), as amended, an improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. Among other things, an improper payment includes payment to an ineligible recipient, payment for an ineligible good or service, and any duplicate payment. In addition, Office of Management and Budget (OMB) guidance instructs agencies to report as improper payments any payments for which insufficient or no documentation was found. Reducing improper payments is critical to safeguarding federal funds and could help achieve cost savings and improve the government's fiscal position.

¹A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

²GAO, *Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government*, [GAO-17-283R](#) (Washington, D.C.: Jan. 12, 2017).

Strong financial management practices, including effective internal controls, are important for federal agencies to better detect and prevent improper payments. The Department of Veterans Affairs (VA) faces significant financial management challenges. In 2015, we designated VA health care as a high-risk area because of our concern about VA's ability to ensure that its resources are being used cost-effectively and efficiently to improve veterans' timely access to health care, and to ensure the quality and safety of that care.³ Further, improving and modernizing federal disability programs has been on GAO's high-risk list since 2003, in part because of challenges that VA has faced in providing accurate, timely, and consistent decisions related to disability compensation.⁴ In addition, in VA's fiscal year 2016 agency financial report, the independent auditor reported material weaknesses and significant deficiencies in internal control over financial reporting. Finally, the VA Office of Inspector General (OIG) has reported that VA has been noncompliant with the criteria listed in Section 3 of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) since fiscal year 2011, the first year that the OIG reported on the agency's compliance under that provision.⁵

Today, my statement will discuss improper payments on both the government-wide level and at VA. It will also discuss certain actions that VA has taken and other actions that VA can take to reduce improper payments. My statement is primarily based on VA's financial reports, VA

³GAO, *High Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, [GAO-17-317](#) (Washington, D.C.: Feb. 15, 2017).

⁴[GAO-17-317](#).

⁵IPERA, Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010), established a requirement for entity inspectors general to report annually on entities' compliance with specific criteria. The six criteria are that the entity has (1) published an annual financial statement and accompanying materials in the form and content required by the Office of Management and Budget for the most recent fiscal year and posted that report on the entity website; (2) conducted a risk assessment for each specific program or activity that conforms with IPIA, as amended; (3) published estimates of improper payments for all programs and activities identified as susceptible to significant improper payments under the entity's risk assessment; (4) published corrective action plans for programs and activities identified as susceptible to significant improper payments; (5) published and met annual reduction targets for all programs and activities identified as susceptible to significant improper payments; and (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. For purposes of this report, program encompasses both programs and activities.

OIG reports, and our recent improper payments related work at VA.⁶ The products cited throughout this statement include details on the scope and methodology used to conduct that work. The work upon which this statement is based was conducted in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

Background

VA's mission is to promote the health, welfare, and dignity of all veterans in recognition of their service to the nation by ensuring that they receive medical care, benefits, social support, and lasting memorials. It is the second largest federal department and, in addition to its central office located in Washington, D.C., has field offices throughout the United States, as well as the U.S. territories and the Philippines.

The department has three major components that are primarily responsible for carrying out its mission:

- the Veterans Benefits Administration (VBA), which provides a variety of benefits to veterans and their families, including disability compensation, educational opportunities, assistance with home ownership, and life insurance;
- the Veterans Health Administration (VHA), which provides health care services, including primary care and specialized care, and performs research and development to serve veterans' needs; and
- the National Cemetery Administration (NCA), which provides burial and memorial benefits to veterans and their families.

Collectively, the three components rely on approximately 340,000 employees to provide services and benefits. These employees work in 167 VA medical centers, approximately 800 community-based outpatient clinics, 300 veterans centers, 56 regional offices, and 131 national and 90 state or tribal cemeteries.

⁶GAO, *Veterans' Disability Benefits: Improvements Could Further Enhance Quality Assurance Efforts*, [GAO-15-50](#) (Washington, D.C.: Nov. 19, 2014) and GAO, *Veterans' Disability Benefits: VA Can Better Ensure Unemployability Decisions Are Well Supported*, [GAO-15-464](#) (Washington, D.C.: June 2, 2015)..

For fiscal year 2016, VA reported about \$176 billion in net outlays, an increase of about \$16 billion from the prior fiscal year.⁷ VBA and VHA account for about \$102 billion (about 58 percent) and \$72 billion (about 41 percent) of VA's reported net outlays, respectively. The remaining net outlays were for NCA and VA's administrative costs. The fiscal year 2017 appropriations act that covered VA provided approximately \$177 billion to the agency, about a \$14 billion increase from the prior fiscal year.⁸

Improper Payments Remain a Significant and Pervasive Government-Wide Issue

As we recently reported, improper payments remain a significant and pervasive government-wide issue.⁹ Since fiscal year 2003—when certain agencies began reporting improper payments as required by IPIA—cumulative reported improper payment estimates have totaled over \$1.2 trillion, as shown in figure 1.¹⁰

⁷The amount of money paid out by the government is known as outlays. Because of the timing of agency payments, appropriations may not correspond to outlays in a given fiscal year. Net outlays are disbursements net of offsetting collections.

⁸Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2017, Pub. L. No. 114-223, div A, 130 Stat. 857 (Sept. 29, 2016). Appropriations provide budget authority to federal agencies to make financial commitments (“obligations”) and make payments from the Department of the Treasury for specified purposes in specified amounts. Some payments for obligations are made soon after being incurred (for example, employees' salaries) and some are made over several years (for example, payments to contractors for major construction projects).

⁹GAO, *The Nation's Fiscal Health: Action is Needed to Address the Federal Government's Fiscal Future*, [GAO-17-579T](#) (Washington, D.C.: May 3, 2017).

¹⁰IPIA—as amended by IPERA—requires executive branch agencies to (1) review all programs and activities, (2) identify those that may be susceptible to significant improper payments, (3) estimate the annual amount of improper payments for those programs and activities, (4) implement actions to reduce improper payments and set reduction targets, and (5) report on the results of addressing the foregoing requirements. “Significant improper payments” are defined as gross annual improper payments in a program exceeding (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments during the fiscal year reported or (2) \$100 million (regardless of the percentage of outlays).

Figure 1: Cumulative Reported Government-Wide Improper Payment Estimates for Fiscal Years 2003 through 2016



Source: GAO. | GAO-17-633T

Note: Generally, the specific programs and total number of programs that constitute the government-wide improper payment estimate vary from year to year. In earlier years, the number of programs included in the government-wide estimate generally increased as programs reported improper payment estimates for the first time.

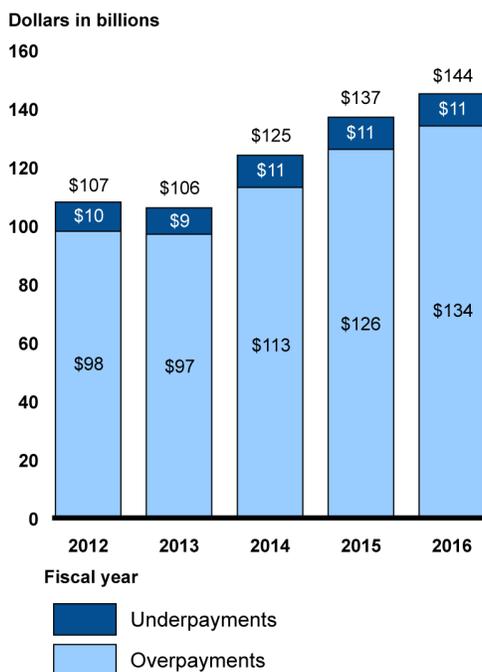
For fiscal year 2016, agencies reported improper payment estimates totaling \$144.3 billion, an increase of over \$7 billion from the prior year's estimate of \$136.7 billion.¹¹ The reported estimated government-wide improper payment error rate was 5.1 percent of related program outlays.¹² As shown in figures 2 and 3, the government-wide reported improper payment estimates—both dollar estimates and error rates—have

¹¹These amounts do not include the Department of Defense's Defense Finance and Accounting Service Commercial Pay program because of concerns about the reliability of the program's estimate.

¹²Reported error rates reflect the estimated improper payments as a percentage of total program outlays.

increased over the past 3 years, largely because of increases in Medicaid's reported improper payment estimates.

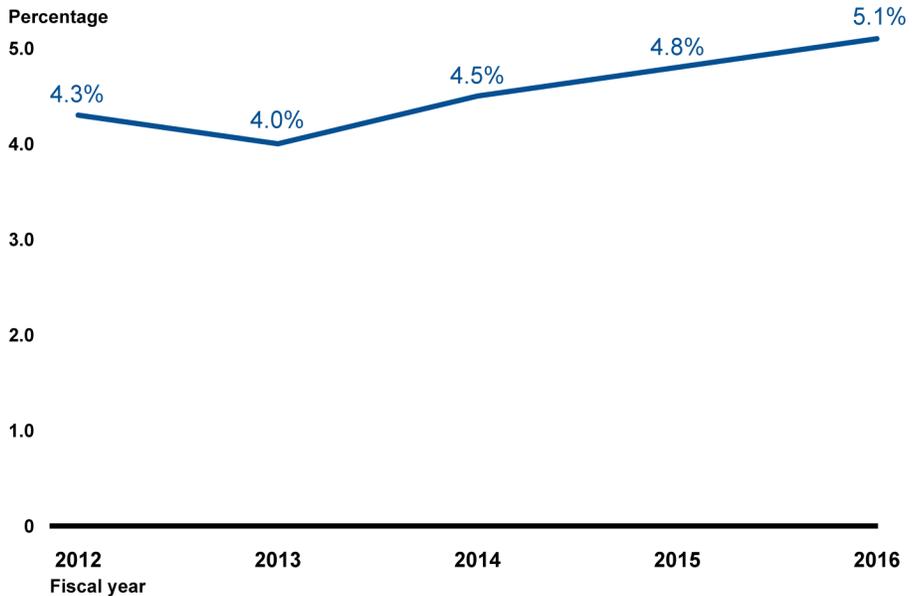
Figure 2: Government-Wide Reported Improper Payment Estimates for Fiscal Years 2012 through 2016



Source: GAO analysis of Office of Management and Budget data and *The Financial Report of the United States Government* for fiscal years 2013 through 2016. | GAO-17-633T

Notes: Improper payment estimate amounts do not include the Department of Defense's Defense Finance and Accounting Service Commercial Pay program because of issues related to the reliability of the program's estimate. Numbers may not add to totals because of rounding.

Figure 3: Government-Wide Reported Improper Payment Error Rates for Fiscal Years 2012 through 2016



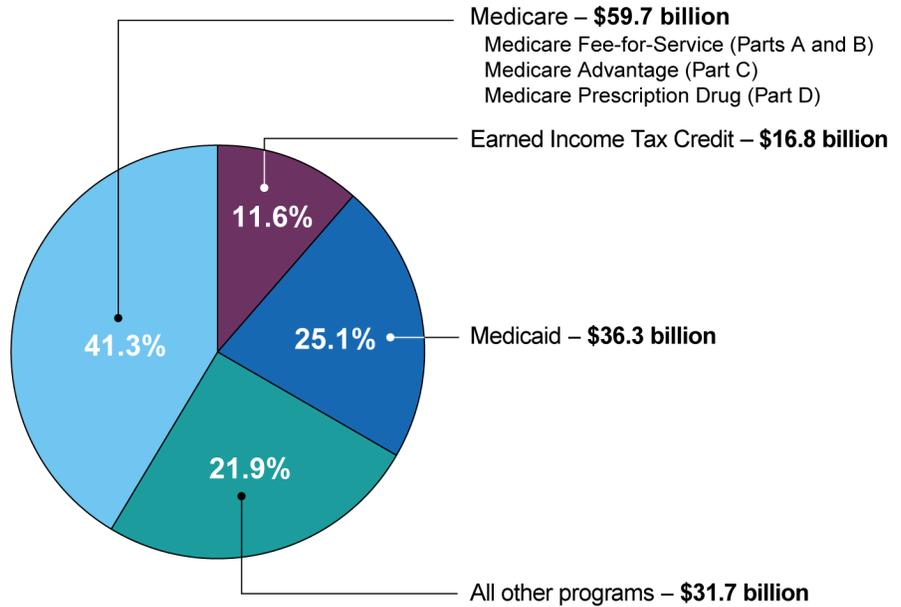
Source: *Financial Report of the United States Government* for fiscal years 2013 through 2016. | GAO-17-633T

Note: Improper payment estimate amounts do not include the Department of Defense's Defense Finance and Accounting Service Commercial Pay program because of issues related to the reliability of the program's estimate.

For fiscal year 2016, overpayments accounted for approximately 93 percent of the government-wide reported improper payment estimate, according to www.paymentaccuracy.gov, with underpayments accounting for the remaining 7 percent.

Although primarily concentrated in three areas (Medicare, Medicaid, and the Earned Income Tax Credit), the government-wide reported improper payment estimates for fiscal year 2016 were attributable to 112 programs spread among 22 agencies. (See fig. 4.)

Figure 4: Government-wide Reported Improper Payment Estimates Were Primarily Concentrated in Three Areas for Fiscal Year 2016



Source: GAO analysis of agencies' fiscal year 2016 data. | GAO-17-633T

Notes: Improper payment estimate amounts do not include the Department of Defense's Defense Finance and Accounting Service Commercial Pay program because of issues related to the reliability of the program's estimate. Because of rounding, numbers may not add to 100 percent or match the government-wide improper payment estimate (\$144.3 billion).

We found that not all agencies had developed improper payment estimates for all of the programs they identified as susceptible to significant improper payments. Eight agencies did not report improper payment estimates for 18 risk-susceptible programs. (See table 1.)

Table 1: Agencies That Did Not Report Improper Payment Estimates for Fiscal Year 2016 for 18 Risk-Susceptible Programs

Program	Agency
Supplemental Nutrition Assistance Program	Department of Agriculture (USDA)
Child and Adult Food Care Program	USDA
Temporary Assistance for Needy Families	Department of Health and Human Services (HHS)
Advance Premium Tax Credit	HHS
Cost-Sharing Reduction	HHS
Navy Commercial Bill Pay – Singapore	Department of Defense
Single Family Insurance Claims	Department of Housing and Urban Development (HUD)
Community Planning and Development Entitlement Grants	HUD
HOME Investments Program	HUD
Additional Child Tax Credit	Department of the Treasury (Treasury)
American Opportunity Tax Credit	Treasury
Premium Tax Credit	Treasury
Communications, Utilities, and Other Rent	Department of Veterans Affairs (VA)
Medical Care Contracts and Agreements	VA
Prosthetics	VA
VA Community Care Choice payments made from the Veterans Choice Fund	VA
Grants	Environmental Protection Agency
AmeriCorps	Corporation for National and Community Service

Source: GAO summary of agencies' fiscal year 2016 agency financial reports. | GAO-17-633T

As we have previously reported, the federal government faces multiple challenges that hinder its efforts to determine the full extent of and reduce improper payments.¹³ These challenges include potentially inaccurate risk assessments, agencies that do not report improper payment estimates for risk-susceptible programs or report unreliable or understated estimates, and noncompliance issues.

¹³[GAO-17-579T](#).

Changes in VA's Evaluation Procedures Caused Significant Increases in Reported Improper Payment Estimates since Fiscal Year 2013

For fiscal year 2016, VA's reported improper payment estimate totaled \$5.5 billion, an increase of about \$500 million from the prior year. The reported VA improper payment error rate was 4.5 percent of related program outlays for fiscal year 2016, a slight increase from the 4.4 percent reported error rate for fiscal year 2015. As shown in table 2, VA's Community Care and Purchased Long-Term Services and Support programs accounted for the majority of VA's estimated improper payments.¹⁴ Specifically, for fiscal year 2016, VA's reported improper payment estimate for VA's Community Care was approximately \$3.6 billion (about 65 percent of VA's total reported improper payments estimate) and for VA's Purchased Long-Term Services and Support was approximately \$1.2 billion (about 22 percent of VA's total reported improper payments estimate).

¹⁴Community Care is a program through which VA authorizes veteran care at community care facilities when the needed services are not available through VA, or when a veteran is unable to travel to a VA facility. Purchased Long-Term Services and Support strives to advance quality care for aging and chronically ill veterans by providing policy direction for the development, coordination, and integration of geriatrics and long-term care clinical programs.

Table 2: Department of Veterans Affairs' Reported Improper Payment Estimates and Error Rates by Program for Fiscal Year 2016

Dollars in millions

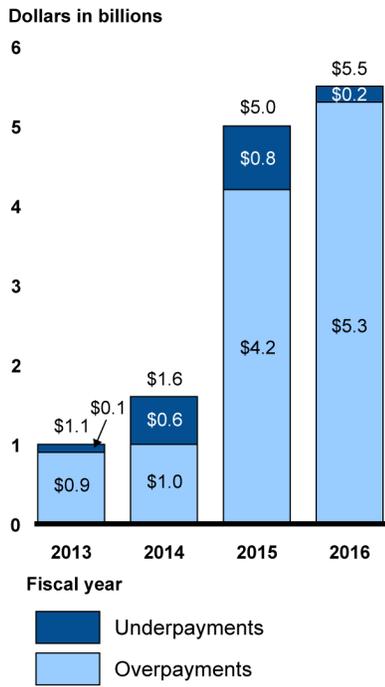
Program	Outlays (dollars)	Improper payment estimate (dollars)	Error rate (percentage of outlays)
Community Care	4,729	3,587	75.9
Purchased Long Term Services and Support	1,706	1,179	69.2
Compensation	63,864	377	0.6
Pension	5,595	127	2.3
Beneficiary Travel	890	66	7.4
Civilian Health and Medical Program of the Department of Veterans Affairs	1,146	57	4.7
Payments to Federal Employees – Payroll	27,368	32	0.1
State Home Per Diem Grants	1,126	29	2.6
Supplies and Materials	2,477	22	0.9
Vocational Rehabilitation and Employment	1,260	7	0.6
Education – Chapter 33	11,344	4	0.03
Disaster Relief Act	24	1	3.7
Education – Chapter 1607	48	1	1.3
Education – Chapter 1606	143	0.1	0.1
Total	121,720	5,486	4.5

Source: Department of Veterans Affairs Agency Financial Report for fiscal year 2016. | GAO-17-633T

Note: Numbers may not add up totals because of rounding. Also, fiscal year 2016 outlays in this table do not include programs for which the Department of Veterans Affairs did not report estimated improper payments.

As shown in figures 5 and 6, VA's reported improper payment estimates have increased over the past 3 years, and the reported improper payment error rates have increased over the past 2 years.

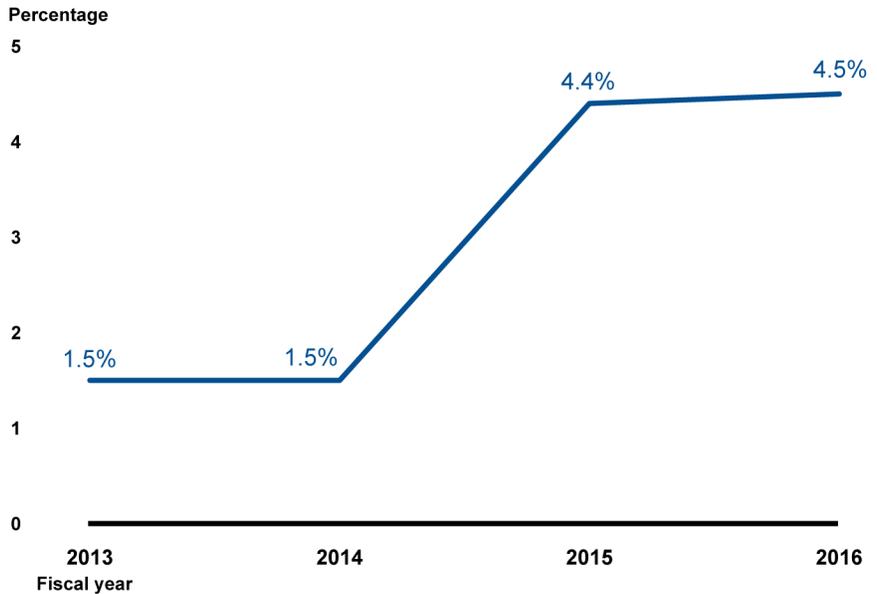
Figure 5: Department of Veterans Affairs' Reported Improper Payment Estimates for Fiscal Years 2013 through 2016



Source: Department of Veterans Affairs Agency Financial Report for fiscal years 2014 through 2016. | GAO-17-633T

Note: Figures may not add up to totals due to rounding.

Figure 6: Department of Veterans Affairs' Reported Improper Payment Error Rates for Fiscal Years 2013 through 2016



Source: Department of Veterans Affairs Agency Financial Report for fiscal years 2014 through 2016. | GAO-17-633T

The significant increase in VA's reported improper payment estimates and error rates primarily occurred, according to the VA OIG, because VA changed its sample evaluation procedures in fiscal year 2015, which resulted in more improper payments being identified. In response to a finding by the VA OIG,¹⁵ VA began classifying every payment as improper when it made a payment that did not follow all applicable Federal Acquisition Regulation (FAR) and Veterans Affairs Acquisition Regulation (VAAR) provisions. The OIG reported that when those purchases do not follow applicable legal requirements, such as having FAR-compliant contracts in place, the resulting payments are improper because they "should not have been made or were made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements, according to the definition of improper payments set forth in OMB Circular A-123, Appendix C." As a result of the change in its sample evaluation procedures, VA reported significant increases in estimated

¹⁵Department of Veterans Affairs Office of Inspector General, *FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act*, 14-03380-356 (Washington, D.C.: May 14, 2015).

improper payments for both its Community Care and Purchased Long-Term Services and Support programs.

As shown in table 3, VA’s Community Care and Purchased Long-Term Services and Support programs’ reported improper payment error rates are the two highest reported error rates government-wide for fiscal year 2016. Specifically, VA’s Community Care and Purchased Long-Term Services and Support programs had reported improper payment error rates of about 75.9 percent and 69.2 percent, respectively. The reported improper payment error rates for these two programs were each over 45 percentage points higher than the reported improper payment error rate for the next highest federal program—the Department of the Treasury’s Earned Income Tax Credit program.

Table 3: Federal Programs with Reported Improper Payment Error Rates over 10 Percent for Fiscal Year 2016

Program	Agency	Reported improper payment error rate (percentage of outlays)
Community Care	Department of Veterans Affairs (VA)	75.9
Purchased Long-Term Services and Support	VA	69.2
Earned Income Tax Credit	Department of the Treasury	24.0
School Breakfast Program	Department of Agriculture (USDA)	22.5
National School Lunch Program	USDA	15.2
Livestock Indemnity Program	USDA	12.9
Unemployment Insurance	Department of Labor	11.7
Supplemental Revenue Assistance Payments	USDA	11.4
Medicare Fee-for-Service	Department of Health and Human Services (HHS)	11.0
Medicaid	HHS	10.5
Disbursements for Goods and Services	Small Business Administration	10.4

Source: GAO summary of agencies’ data. | GAO-17-633T

In its fiscal year 2016 agency financial report, VA did not report improper payment estimates for four programs it identified as susceptible to significant improper payments. These four programs were

- Communications, Utilities, and Other Rent;
- Medical Care Contracts and Agreements;
- Prosthetics; and
- VA Community Care Choice payments made from the Veterans Choice Fund.

Because VA did not report improper payment estimates for these risk-susceptible programs, VA's improper payment estimate is understated and the agency is hindered in its efforts to reduce improper payments in these programs. In its fiscal year 2016 agency financial report, VA stated that it will report improper payment estimates for these programs in its fiscal year 2017 agency financial report.

Ongoing Efforts for Reducing Improper Payments at VA

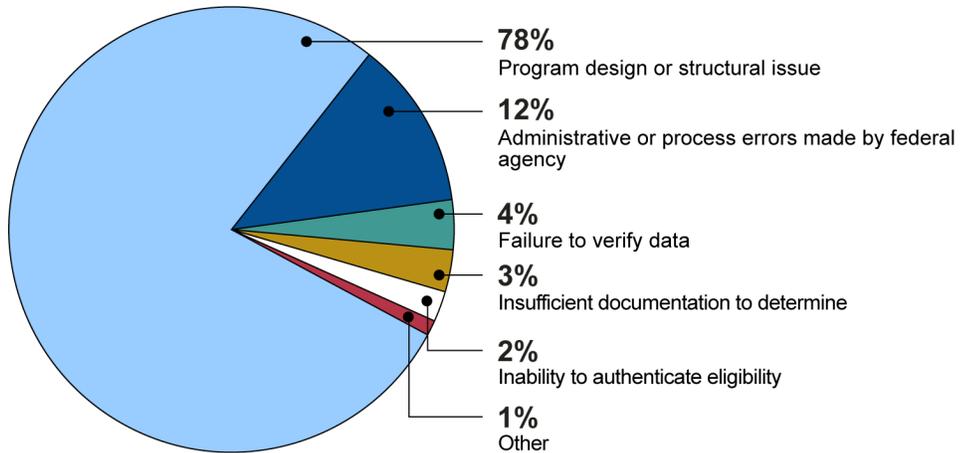
According to OMB guidance, to reduce improper payments, VA can use root cause analysis to identify why improper payments are occurring and develop effective corrective actions to address those causes. In addition, our two prior reports identified problems with how VA processed its claims to reasonably assure the accuracy of or eligibility for the disability benefits, increasing the risk of improper payments. VA can implement our recommendations from these two reports to better ensure the accuracy of or eligibility for disability benefits.

Root Cause Analysis

Root cause analysis is key to understanding why improper payments occur and to developing and implementing corrective actions to prevent them. In 2014, OMB established new guidance to assist agencies in better identifying the root causes of improper payments and assessing their relevant internal controls.¹⁶ Agencies across the federal government began reporting improper payments using these more detailed root cause categories for the first time in their fiscal year 2015 financial reports. Figure 7 shows the root causes of VA's estimated improper payments for fiscal year 2016, as reported by VA.

¹⁶Office of Management and Budget, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, OMB Memorandum M-15-02 (Washington, D.C.: 2014).

Figure 7: Department of Veterans Affairs' Reported Root Causes of Estimated Improper Payments for Fiscal Year 2016



Source: Department of Veterans Affairs Agency Financial Report for fiscal year 2016. | GAO-17-633T

According to VA's fiscal year 2016 agency financial report, the root cause for over three-fourths of VA's reported fiscal year 2016 improper payment estimates was program design or structural issues. As noted above, most of the improper payments occurred in VA's Community Care and Purchased Long-Term Services and Support programs. In the fiscal year 2016 agency financial report, VA provided details on how it plans to correct some program design issues by making its procurement practices compliant with relevant laws and regulations. The agency stated that it has made certain changes, such as issuing of new policies that can reduce the amount of improper payments in this area. For example, in VA's fiscal year 2016 agency financial report, VA stated that it issued guidance in May 2015 to appropriately purchase care, such as hospital care or medical services, in the community through the use of VAAR-compliant contracts. VA stated that the implementation of this guidance is ongoing with full impact and compliance anticipated during fiscal year 2017.

According to VA's fiscal year 2016 agency financial report, the second largest root cause for VA's reported improper payments was administrative or process errors made by the federal agency. VA reported that most of these errors occurred in its Compensation program. These errors, such as failure to reduce benefits appropriately, affected the payment amounts that veterans and beneficiaries received. To address

this root cause, VA stated in its fiscal year 2016 agency financial report that it is updating procedural guidance to reflect such things as changes in legislation and policy. In addition, VA stated that it will train employees on specific subjects related to errors found during improper payment testing and quality reviews.

VA Has Implemented Steps to Improve the Accuracy of and Eligibility Determinations for its Disability Benefits

Accurate claim decisions help ensure that VA is paying disability benefits only to those eligible for such benefits and in the correct amounts. Thus, it is critical that VA follows its claims processes accurately and consistently. However, we previously reported problems with how VA processed its claims to reasonably assure the accuracy of or eligibility for the disability benefits, increasing the risk of improper payments.

In November 2014, we reported that while VA pays billions of dollars to millions of disabled veterans, there were problems with VA's ability to ensure that claims were processed accurately and consistently by its regional offices.¹⁷ VA measures the accuracy of disability compensation claim decisions mainly through its Systematic Technical Accuracy Review (STAR). Specifically, for each of the regional offices, completed claims are randomly sampled each month and the data are used to produce estimates of the accuracy of all completed claims.

In our November 2014 report, we reported that VA had not always followed generally accepted statistical practices when calculating accuracy rates through STAR reviews, resulting in imprecise performance information. We also identified shortcomings in quality review practices that could reduce their effectiveness. We made eight recommendations to VA to review the multiple sources of policy guidance available to claims processors and evaluate the effectiveness of quality assurance activities, among other things. In response to the draft report, VA agreed with each of our recommendations and identified steps it planned to take to implement them.

To date, VA has implemented six of the report's eight recommendations. For example, VA has revised its sampling methodology and has made its guidance more accessible. VA has initiated action on the remaining two recommendations related to quality review of the claims processes. VA reported that it is in the process of making systems modifications to its

¹⁷[GAO-15-50](#).

electronic claims processing system that will allow VA to identify deficiencies during the claims process. In addition, VA is developing a new quality assurance database that will capture data from all types of quality reviews at various stages of the claims process. VA stated that this new database will support increased data analysis capabilities and allow the agency to evaluate the effectiveness of quality assurance activities through improved and vigorous error rate trend analysis. VA stated that it anticipates deploying the systems modifications and the new quality assurance database by July 2017.

In June 2015,¹⁸ we reported that VA's procedures did not ensure that Total Disability Individual Unemployability (TDIU) benefit decisions were well-supported.¹⁹ To begin receiving and remain eligible for TDIU benefits, veterans must meet the income eligibility requirements. VA first determines a claimant's income by requesting information on the last 5 years of employment on the claim form and subsequently requires beneficiaries to annually attest to any income changes. VA uses the information provided by claimants to request additional information from employers and, when possible, verifies the claimant's reported income, especially for the year prior to applying for the benefit. In order to receive verification, VA sends a form to the employers identified on the veteran's benefit claim and asks them to provide the amount of income earned by the veteran. However, VA officials indicated that employers provided the requested information only about 50 percent of the time.

In our 2015 report, we reported that VA previously conducted audits of beneficiaries' reported income by obtaining income verification matches from Internal Revenue Service (IRS) earnings data through an agreement with the Social Security Administration (SSA), but was no longer doing so despite the standing agreement. In 2012, VA suspended income verification matches in order to develop a new system that would allow for more frequent, electronic information sharing. VA officials told us that they planned to roll out a new electronic data system that would allow for compatibility with SSA data sources in fiscal year 2015. They noted that they planned to use this system to conduct more frequent and focused income verifications to help ensure beneficiaries' continued entitlement.

¹⁸[GAO-15-464](#).

¹⁹VA generally provides TDIU benefits to disabled veterans of any age who are unable to maintain employment with earnings above the federal poverty guidelines because of service-connected disabilities.

VA officials also anticipated being able to use the system to conduct income verifications for initial TDIU applicants. However, at the time of our 2015 report, VA could not provide us with a plan or timeline for implementing this verification system. In the 2015 report, we recommended that VA verify the self-reported income provided by veterans (1) applying for TDIU benefits and (2) undergoing the annual eligibility review process by comparing such information against IRS earnings data, which VA currently has access to for this purpose.

To date, VA is developing processes to use IRS earnings data from SSA in verifying income eligibility requirements. According to VA, in February 2016, it launched a national workload distribution tool within its management system to improve its overall production capacity and assist with reaching claims processing goals that will be used in implementing our recommendation. To determine if new beneficiaries are eligible for TDIU benefits, VA stated that it is expanding the data-sharing agreement with SSA to develop an upfront verification process. Specifically, when VA receives a TDIU claim, it will electronically request the reported IRS income information from SSA and receive a response within 16 days. In addition, according to VA, it is also planning to begin a process for checking incomes of veterans to determine whether they remain eligible for TDIU benefits. Specifically, VA has reinstated the data match agreement with SSA that was set to expire in December 2016 to allow VA to compare reported income earnings of TDIU beneficiaries to earnings actually received. According to VA, it also has drafted a new guidance manual for the annual eligibility review process. VA stated that it planned to fully implement the upfront and annual eligibility verification processes by the summer of 2017.

In conclusion, in light of VA's significant financial management challenges, we continue to be concerned about VA's ability to reasonably ensure its resources are being used cost-effectively and efficiently. Because VA's payment amounts are likely to increase with the increase in appropriations for fiscal year 2017, it is critical that VA takes actions to reduce the risks of improper payments. While VA has taken several actions to help prevent improper payments, further efforts are needed to help minimize the risks of improper payments across its programs.

Chairman Bergman, Ranking Member Kuster, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contacts and Staff Acknowledgements

If you or your staff have any question about this testimony, please contact Beryl H. Davis, Director, Financial Management and Assurance, at (202) 512-2623 or davisbh@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Matthew Valenta (Assistant Director), Daniel Flavin (Analyst in Charge), Marcia Carlsen, Francine Delvecchio, Robert Hildebrandt, Melissa Jaynes, Jason Kelly, and Jason Kirwan.

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