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REPORT BY THE U.S.

General Accounting Office

Military Services And VA Can Reduce Benefit Overpayments By Improving Exchange Of Pay Data

Through Federal law, military retirees and survivors are often entitled to receive military retirement benefits and VA compensation concurrently. VA benefits, however, must be deducted from any military benefits received. When they are not, overpayments result.

GAO found that inadequacies in the Department of Defense and Veterans Administration interagency pay systems for making these benefit payments resulted in overpayments exceeding \$6.6 million. Many overpayments were identified by reconciliation processes, but the military services did not adequately examine and correct the errors.

To preclude further overpayments and to correct other deficiencies, GAO recommends that VA and the military services

- develop and follow procedures, including automated controls, to ensure the accurate and complete exchange of pay data between the agencies and
- properly implement reconciliation procedures designed to identify and correct pay discrepancies.



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GAO/AFMD-83-39
JULY 12, 1983

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-205616

The Honorable Caspar W. Weinberger
The Secretary of Defense

The Honorable Harry N. Walters
Administrator of Veterans Affairs

This report discusses ways for the military services and Veterans Administration (VA) to prevent benefit overpayments to military retirees and survivors. Our review was made to learn whether adequate controls are in place to ensure that pay information is being exchanged effectively and that proper payments are made.

This report contains recommendations to you. As you know, 31 U.S.C. 720 requires the head of a Federal agency to prepare a written statement on actions taken on our recommendations. You must send the statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of the report.

Copies of the report are being sent to the Director, Office of Management and Budget; the Chairmen, Senate and House Committees on Appropriations, the Senate Committee on Governmental Affairs and the House Committee on Government Operations; and the Secretaries of the Air Force, Army, and Navy.


W.D. Campbell
Acting Director

D I G E S T

The Veterans Administration (VA) and the military services maintain separate benefit payment systems to concurrently pay about 362,000 military retirees and survivors (annuitants). Military retirees and annuitants are often entitled to receive military retirement benefits and VA compensation concurrently, but only to the extent VA payments are deducted from military payments. In other words, to be eligible for VA compensation, retirees and survivors must waive their military retirement benefits by the amount VA will pay. Generally, they are willing to do this because, among other reasons, the VA payment is not taxed.

To administer the concurrent payment of benefits, large volumes of pay information are exchanged among the four military finance centers; the VA Data Processing Center in Hines, Illinois; and the 58 VA regional offices located throughout the United States. GAO conducted a review to find out if adequate controls are in place to ensure that pay information is being exchanged effectively and that proper payments are being made.

Overpayments have long been and continue to be a problem in the military retirement benefit payment systems. The primary cause of overpayments is the lack of good internal control to ensure that VA compensation will be deducted from military retirement benefits as required by law. GAO concludes that most overpayments can be precluded by simply adding an automated control to assure the adequate exchange of pay information between VA and the services. Further, GAO believes that Defense can use the results of an annual reconciliation of Defense and VA pay data more effectively to correct overpayments.

OVERPAYMENTS HAVE BEEN
A PROBLEM FOR YEARS

Each year since 1979, VA and military retirement pay accounts have been matched by computer to identify discrepancies and pay errors needing corrective action. These reconciliations, performed in 1979, 1980, and 1981, as well as audit findings

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reported by GAO and the Defense Audit Service over the past several years, showed a high, recurring error rate in the payment systems.

In this review, GAO concentrated on the results of the March 1981 reconciliation to determine if the high incidence of error was continuing. The reconciliation disclosed 34,338 discrepancies. The services had examined 13,675 of the discrepancies and found overpayments totaling \$6.6 million and underpayments totaling \$151,000 to both military retirees and survivors. Further, GAO found another \$1 million in overpayments by reviewing cases the services had not examined. (See pp. 4-8.)

VA IS NOT ALWAYS SENDING PAY INFORMATION TO MAKE PROPER REDUCTIONS

Under the present system, VA provides the military services with the names of only those recipients of VA benefits who are identified as military retirees or survivors.

About \$5 million of the \$6.6 million in overpayments occurred because VA did not inform the military services that it had awarded compensation to retirees and survivors. Consequently, the services continued making full payment to these same individuals, and the overpayments resulted. VA did not inform the services for one of two reasons: (1) neither the manual records maintained in 58 VA regional offices around the country nor the VA central files in Hines, Illinois, showed the member to be a military retiree or annuitant or (2) if such information was shown, VA clerks either failed to notice it or failed to so notify the services. The remaining \$1.6 million in overpayments were caused by numerous administrative errors and failures by both agencies. (See pp. 5-6.)

Because of the wide dispersion of locations and the numerous clerks involved, it is unlikely that VA, even with the best of internal controls, can identify and submit to the military services complete data for all military retirees and survivors awarded VA compensation. To ensure that the military services receive complete and timely information, VA should submit to the services, in computer readable form, all changes to VA awards (including new awards) of disability compensation, disability pension, and Dependency and Indemnity Compensation. The services should then make a computer match of the VA submission against the names of retirees and beneficiaries on their (the military services) records to reveal the need for reductions to military

retirement pay. This automated control would have eliminated, if properly implemented, \$5 million of the \$6.6 million in overpayments detected in the 1981 reconciliation.

ANNUAL RECONCILIATION MUST BE
MADE MORE EFFECTIVE

Even if the above automated control is adopted by Defense and VA, some overpayments will continue because, although VA has informed the military services that an award has been made, in many instances either VA sends inaccurate information on the amount of a payment or the services fail to make the proper adjustment. The military services must use the results of the annual reconciliation of Defense and VA pay data more effectively to make sure these overpayments will be corrected.

Past reconciliations of Defense and VA pay records disclosed many potential errors which were not adequately examined by the services. Furthermore, many of the identified errors and overpayments had not been adequately followed up or collections made. (See pp. 7-8.)

GAO tests of 627 cases showed that 216 of the discrepancies not examined by the services represented overpayments of more than \$1 million. GAO also tested 48 cases previously examined by the services and found 18 in which corrective action had not been taken and neither VA nor the appropriate service planned further action because each assumed the other had taken proper action or was responsible for doing so. And in some instances, the services did not stop overpayments as soon as they were identified. (See pp. 7-8.)

RECOMMENDATIONS

GAO recommends that the Secretary of Defense and the Administrator of Veterans Affairs:

- Establish joint procedures requiring VA to notify the services of all VA compensation initiated or changed that would be subject to reductions in military retirement benefits, regardless of whether VA records show the recipient to be a military retiree or survivor. The services will computer match VA's input against military retired pay records and make needed benefit adjustments.
- Continue the annual reconciliation process and enforce the proper examination and correction of the discrepancies identified.

AGENCY COMMENTS AND
GAO EVALUATION

The Defense Department concurred with both of GAO's recommendations. However, it said that with regard to computer matching VA's input to military retired pay records, it would like to test the matching procedures before implementing them.

Although Defense concurred with GAO's recommendations, it pointed out that from 1979 through 1982 the number of discrepancies revealed by the computer matches of VA and military retirement files has decreased markedly. Defense claims that this reduction demonstrates that corrective actions have been taken. The Department recognizes, however, that further improvements can be made.

VA also concurred with both of GAO's recommendations (see app. I) but shared Defense's concern that the report does not recognize corrective actions taken subsequent to GAO's review. GAO agrees that some improvements have been made to reduce overpayments. (See pp. 5 and 10.)

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GAO	General Accounting Office	
VA	Veterans Administration	

CHAPTER 1

INTRODUCTION

The Veterans Administration (VA) and the military services maintain independent benefit payment systems to administer certain benefits to military retirees and their survivors (annuitants). Through Federal law, military retirees and survivors are often entitled to receive military retirement benefits and VA compensation concurrently. The law allows this only to the extent VA payments are deducted in full from military retirement benefits. To administer the concurrent payment of benefits, the two agencies mail pay information in "hard copy" and magnetic tape between the four military finance centers; the VA Data Processing Center in Hines, Illinois; and the 58 VA regional offices located throughout the United States.

As of September 1981, VA and the military services each maintained about 362,000 pay accounts for the same military retirees and survivors. Of these recipients, about 260,000 received two payments each month; that is, one payment from VA and one from a military service. The remaining 102,000 recipients received only VA compensation because it exceeded their military retirement benefit. For fiscal 1981, the military services paid about \$2.7 billion and VA paid about \$606 million to persons receiving payment from both agencies. Military benefits are generally much higher than those paid by VA.

REQUIREMENTS FOR REDUCING CONCURRENT PAYMENTS

Under 38 U.S.C. 3104, VA payments are prohibited unless military payments are reduced by the amount of the VA payment. Under 38 U.S.C. 3105, VA compensation may be made if a like amount of military retirement pay is waived. Similarly, 10 U.S.C. 1450 prohibits the concurrent payment of Survivor Benefit Plan annuities (payable by the military services) and Dependency and Indemnity Compensation (payable by VA) to survivors of military retirees except to the extent the payments made by the services are reduced by the amount of the VA award.

Military retirees and survivors generally waive their military benefits because VA benefits are considered nontaxable income under Federal, State, and local income tax regulations, and in many cases VA benefits may exceed the military retirement pay or Survivor Benefit Plan entitlements. Also, a retired regular officer, subject to dual compensation statutes, could receive higher compensation by waiving military benefits.

RESPONSIBILITIES FOR REDUCING AND RECONCILING CONCURRENT PAYMENTS

VA and the military services each have specific responsibilities for reducing duplicate benefit payments to military retirees and survivors and for reconciling differences between VA and military services' pay records. Generally, VA and the military

services are responsible for notifying each other of information affecting pay accounts. Their specific responsibilities are discussed below.

Reducing retirement pay

The DOD-VA Memorandum of Understanding--Retired Pay, which was signed in 1969, requires VA to obtain a signed waiver form from a military retiree who applies for and is eligible to receive a VA compensation or pension. On this form, the retiree elects to waive military retirement pay in the amount equal to compensation payable by VA. VA is responsible for transmitting the signed waiver to the appropriate military service's finance center, which will reduce the member's retirement pay. If a VA payment is made or is effective before the military finance centers complete the reduction, an overpayment results and, in that case, VA is responsible for collecting the overpayment.

Reducing annuity payments

A March 11, 1974, memorandum for record, signed by VA and the Department of Defense requires the military finance centers to ask survivors of military retired members if they are receiving Dependency and Indemnity Compensation payments from VA. If they are, the military finance center will initiate Survivor Benefit Plan payments, but only for the amount they exceed VA's award. If a survivor has not been awarded the compensation from VA, the individual must agree in writing that, in the event VA compensation is awarded in the future, VA will reduce its initial payment as necessary to collect any Survivor Benefit overpayments.

To assure that both VA and the military services remain fully informed of annuitants' status, the military finance center will inform the appropriate VA regional office of the amount of Survivor Benefit annuities being paid. VA maintains that information, and, if Dependency and Indemnity Compensation payments are awarded later, VA will collect any Survivor Benefit overpayments and remit them to the appropriate military finance center.

Annual reconciliation of accounts

To assure that recipients receive accurate and timely payments, Defense and VA pay accounts are matched annually by the Defense Manpower Data Center. The match, which is required by a 1979 DOD/DOT/VA Memorandum of Understanding--Reconciliation of Accounts, is done by computer, and potential error or discrepancies are sent to the respective services for reconciliation, examination, and corrective action.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine if VA and the military services had adequate controls in place to ensure compliance with procedures for reporting and controlling reductions of benefits to military retirees and survivors payable by both agencies. We reviewed

(1) procedures, controls, and document flow relating to reducing military retirement pay and Survivor Benefit Plan annuity payments by the amount of VA compensation payments, (2) procedures, controls, and document flow relating to reconciliations of VA's pay files and military services' pay accounts, (3) pertinent legislation, policies, and management reports, and (4) past audit reports and results of prior reconciliations. We audited samples of pay accounts at military finance centers and selected VA regional offices; evaluated the cost of duplicate or inefficient procedures in the system; and interviewed responsible VA and military officials to discuss policies, procedures, and the results of our review. We also reviewed past and current efforts to improve interagency procedures, controls, and processing methods.

We made our review at the following VA and DOD activities:

- VA central office, Washington, D.C.
- VA regional offices in Cleveland, Ohio; Denver, Colorado; and Washington, D.C.
- Office of the Assistant Secretary of Defense (Comptroller), Pentagon.
- Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics), Pentagon.
- U.S. Army Finance and Accounting Center, Indianapolis, Indiana.
- U.S. Navy Finance Center, Cleveland, Ohio.
- U.S. Air Force Accounting and Finance Center, Denver, Colorado.
- U.S. Marine Corps Finance Center, Kansas City, Missouri.

As defined and limited by the scope outlined above, this audit was made in accordance with generally accepted government audit standards.

CHAPTER 2

MOST OVERPAYMENTS TO MILITARY

RETIREES AND SURVIVORS CAN BE ELIMINATED

The law requires that certain types of VA compensation be deducted from military retirement payments. Because those reductions have not been made, overpayments have long been and continue to be made to military retirees and their survivors who are eligible for both VA and military retirement benefits. In 1981, reconciliations between VA and Defense pay records showed that the four military services overpaid military retirees and survivors more than \$6.6 million. We found another \$1 million in overpayments by reviewing cases the services had not examined. Based on the military services' past experience, nearly half of these overpayments will not be collected.

The primary cause of the overpayments was VA's failure to notify the services it had awarded compensation to retirees and survivors. Without such notification, the required reduction of military retirement benefits could not be expected. Most overpayments could be precluded if an automated control were added to ensure that all pertinent award information was sent to the military services. The Defense Department could also correct overpayments by more effectively using the results of the annual reconciliation of Defense and VA pay data.

VA and Defense have recently implemented a system change which could potentially improve system efficiency and pay service but which will not preclude future overpayments caused by VA's failure to send all pertinent data to the services. It also will not improve the accuracy of data the services receive from VA.

SUBSTANTIAL OVERPAYMENTS MADE

For several years, millions of dollars in overpayments have been made to retirees and survivors eligible for both VA and military retirement benefits. In 1958, we issued a report to the Administrator of Veterans Affairs noting that retired military personnel were being overpaid because VA was furnishing incomplete award information to the services. Since then, we have issued six reports on various aspects of communication weaknesses between the two agencies as they relate to the VA and DOD system for concurrently paying military retirees and annuitants.

This report concentrates on the results of the March 1981 reconciliation of Defense and VA records of retiree and survivor benefit payments. Annual reconciliations grew out of a 1979 Defense Audit Service review which found 8,730 pay errors in retirees' accounts amounting to \$1.4 million. An annual reconciliation of VA and Defense records was recommended. The following year a similar Audit Service study found 756 pay errors in survivor accounts amounting to over \$200,000, and recommendations were made to include those benefits in the reconciliation.

The March 1981 reconciliation disclosed 34,338 discrepancies involving both military retirees and survivors of the four military services. These discrepancies contained 1,523 pay errors amounting to over \$6.6 million in overpayments and \$151,000 in underpayments to both military retirees and survivors. (See apps. II and III for a detailed breakdown.) Moreover, the numbers and amounts of pay errors shown are understated because many of the identified discrepancies were not pursued to verify the errors and to determine what corrective action was needed. Also, as discussed on pages 7 and 8, many of the overpayments were not stopped even when they were recognized. Based on the military services' experience with collection, nearly half of the overpaid amounts will be waived and, thus, never collected.

In providing its official comments to us on April 19, 1983, Defense pointed out that reconciliations performed after 1979, show a marked decrease in the number of discrepancies. Defense claims that this reduction demonstrates that corrective actions have been taken. Similar comments were received in a May 25, 1983, letter from VA. (See app. I.)

We agree with Defense and VA that discrepancies have declined, but much of the decline has been in discrepancies that pertain to errors that do not relate to overpayments. For example, a Defense official said that many past discrepancies resulted because VA and military pay files listed the same individuals with different social security numbers. As the reasons for the differences were examined and the social security numbers corrected, the number of discrepancies due to this type of error was reduced in later reconciliations.

Other discrepancies revealed by reconciliations relate to pay errors. The reductions in these discrepancies are undoubtedly due to Defense and VA efforts to reduce overpayments. While advising us that its efforts to pursue and correct discrepancies revealed by the reconciliation have been improved since our audit, Defense agrees that further improvements are possible.

VA IS NOT ALWAYS SENDING PAY INFORMATION TO MAKE PROPER REDUCTIONS

Under the present system, VA provides the military services with the names of only those recipients of VA benefits who are identified as military retirees or survivors.

Our analysis of the \$6.6 million in overpayments shows that about \$5 million occurred because VA did not inform the military services that VA compensation was awarded to retirees and survivors. Thus, the required reductions to retirees' or survivors' military benefits were not made and overpayments resulted.

VA's failure to inform the services was due to a combination of (1) clerk oversight or error in not reporting the VA award data to the military services and (2) incomplete VA records that did not indicate that the award recipient was a military retiree or survivor.

Regarding survivors, the system is supposed to ensure that the military services notify VA as soon as they begin paying benefits to survivors. The notification states that if VA makes a subsequent award to the same person, the services must be notified so that the proper reduction can be made to the military payment. We found that in over 90 percent of the 36 overpayment cases we tested, the services had notified VA of the survivor benefit award. However, in none of the cases we tested had VA notified the services that it had made an award to the same survivor. Consequently, the services did not make the required reductions.

When VA failed to send payment information to the services to reduce retirees' accounts, overpayments to retirees occurred in much the same way as with survivor benefits. For example, a veteran had been receiving both VA compensation and military retirement pay since July 14, 1974. Since the military file did not contain award information from VA, the veteran's retirement pay was never reduced. The error was discovered in the 1981 annual reconciliation, by which time the overpaid amount had grown to \$18,476.60.

The remaining \$1.6 million of the \$6.6 million in overpayments was caused by numerous administrative errors. For example, several errors resulted when VA reported to the military services erroneous amounts in VA compensation. And when the military services failed to take the proper action on valid input from VA, overpayments resulted. We did not break down the number and amounts of overpayments according to the various causes.

HOW OVERPAYMENTS CAN BE PRECLUDED AND CORRECTED

As previously discussed, the dual benefit payment systems are not preventing overpayments, but by modifying procedures for exchanging pay data, the agencies could prevent the majority of them. The modification would require VA to submit to the services all changes in VA compensation subject to military retirement benefits reduction, regardless of whether the individual receiving the award is designated by VA records as a military retiree or survivor. The services would then computer match the VA submission with their records to see whether retirement and survivor pay should be reduced. Further overpayments that are made can be corrected promptly by effectively implementing the annual reconciliation process so that identified discrepancies can be adequately examined and resolved.

Most overpayments can be precluded if VA submits information on all awards to the services

The primary cause of overpayments would be eliminated if VA submitted to the services all the compensation awards it makes that are subject to military retirement benefit reductions. As now configured, the clerks in 58 VA regional offices located throughout

the United States are responsible for (1) recognizing from information contained in files or submitted by a person requesting an award that the applicant is a military retiree or survivor and (2) submitting this information to the services. When a clerk in any of the 58 offices fails to recognize and/or submit this information or when VA records fail to show the military retirement connection, the military services are not notified. As a result, retirement pay is not reduced as required and, in turn, an overpayment occurs.

One improvement to the system was implemented in July 1982. (See pp. 8-9.) Beginning then, the services were notified of award changes by VA's central payment files in Hines, Illinois. This automated information replaced that formerly prepared manually and sent by the 58 VA regional offices. Although this new procedure will result in more timely data and other benefits, it will not, in and of itself, preclude overpayments because the regional offices still feed information to the central file. Failure on the part of clerks or documentation in the 58 VA regional offices to identify VA recipients as military retirees means this information will not be forwarded to VA's central payment file, and consequently will not be forwarded to the military finance centers for reductions against military retirement pay. This failure will continue to result in overpayments in those cases just as it did when the 58 VA regional offices sent hardcopy documents to the military finance centers directly.

To preclude overpayments, another important control is needed. VA should be required to send to the services a computer tape of all changes in awards and not just those where, according to VA clerks or records, the recipient is a military retiree or survivor. The services would then run a computer comparison of the entire file of VA awardees against the entire file of military retirees and survivors. By submitting all awards to the services in this fashion, little will be left to chance in terms of identifying those retirees or annuitants whose retirement benefits require a reduction. Thus, the cause of about \$5 million of the \$6.6 million in overpayments would be eliminated.

This process would not substantially increase costs or time because it could be carried out using existing computers which are capable of accurately handling large volumes of awards data in a short time. Officials of the Army, Air Force, and Marine Corps have indicated they believe the cost to implement this control would be minor. And VA officials at regional and central offices said they would have to expend little effort to provide all the necessary pay data to the finance centers.

Overpayments can be corrected if annual reconciliation procedures are continued and made more effective

We found little evidence that discrepancies in the 1979 and 1980 annual reconciliations of military retirees accounts had been fully pursued and corrective actions taken by the military finance centers or VA. Further, many of the discrepancies found and

corrected in the 1981 annual reconciliation had been ongoing since before the 1979 reconciliation was performed.

We selected 48 cases at the Marine Corps and Navy Finance Centers in which the services had notified VA of identified pay errors. In 18 cases, involving overpayments of \$33,356, VA had taken no action to calculate or collect the overpayments.

The Air Force Accounting and Finance Center did not plan to examine retiree discrepancies identified in the 1981 annual reconciliation because it was considered low priority work. Furthermore, officials at the center doubted if the discrepancies represented payment errors. We tested 445 retiree and 57 survivor discrepancies not reviewed by the Air Force and identified 131 overpayment errors amounting to \$897,063. Further, we estimated that for each month that corrective action was not taken, overpayments for these cases will increase by \$17,465. When we completed our field work at the end of January 1982, the Air Force had investigated only 2 of the 131 cases.

The Army Finance and Accounting Center investigated only some of the discrepancies identified in the 1981 annual reconciliation. We selected 125 discrepancies the Army did not examine and identified 85 potential overpayments totaling \$414,560. In addition, the Army failed to promptly stop overpayments to survivors when its own examinations revealed overpayments. The Army identified the overpayments in July and August 1981, but did not stop them until September. As a result of this delayed action, 263 survivors received one or two more overpayments. Based on the average amount of required reductions, we estimate the total overpayments to exceed \$150,000.

Overpayments can continue even if the procedural changes recommended in this report are properly implemented. For example, \$1.6 million of the \$6.6 million in overpayments identified by the 1981 reconciliation may not have been precluded even if procedures like those we are recommending had been implemented. Although VA has informed the services that an award has been made, in many instances, either VA sent inaccurate information on the amount of the payment or the services failed to properly adjust the reported reductions. Consequently, the reconciliation process must be made more effective and followed closely if pay errors are to be detected and corrected and if the effectiveness of existing and newly implemented system procedures are to be evaluated.

ACTIONS TAKEN BY DEFENSE AND VA

With only limited success, VA and the military services have been trying for many years to improve the communications in the interagency system. In the past, the two agencies have signed agreements on collecting overpayments and processing pay information. More recently, the agencies agreed on an annual reconciliation of pay accounts to identify the discrepancies in the dual pay system. However, as shown in the 1981 annual reconciliation of accounts, their efforts had failed to prevent recurring pay errors.

A project was implemented by the four military services and VA in July 1982 to automate the exchange of data used to make reductions to military payments. However, the project does not address the main cause of overpayments and cannot ensure that adequate and correct pay information is being exchanged. The project will exchange data only on those recipients identified by VA as military retirees or survivors; it will not exchange data on military retirees and survivors not identified as such by VA records or clerks. (See pp. 5 and 6.) Also, the project provides no check of the data transmitted; if erroneous pay amounts are entered, they will be received and recorded as such in the military accounts. In fact, this situation occurred when VA, using the project in its pilot stage, notified the Air Force of numerous October 1981 cost-of-living changes that were erroneous. These errors were not discovered until the 1982 annual reconciliation process.

On the other hand, the project makes important improvements in the pay system. VA pay data will be received by the services from a central point, the VA Data Processing Center in Hines, Illinois, rather than from 58 VA regional offices located throughout the United States. The data will also be received from VA about six times each month and will be on magnetic tape which will allow for faster processing of large volumes of data with a minimum of manual intervention.

The Air Force reported that, in the pilot stage, the project improved system efficiency by requiring fewer manual processes and improved pay service by reducing the time required to exchange pay data. The project will also allow our suggested system improvement whereby VA can submit to the services for computer match against military retirement pay files all compensation changes that are subject to military retirement benefits reduction. Thus, the primary cause of overpayments would be eliminated.

CONCLUSIONS

The interagency system for paying concurrent entitlements to military retirees and survivors was deficient and resulted in millions of dollars in overpayments. Many overpayments and other discrepancies were identified by reconciliation processes, but the services had not adequately examined and corrected the errors. Improvements by the two agencies over a period of many years had, at the time of our review, failed to significantly reduce or eliminate the longstanding overpayment problems in the dual pay system.

The automated exchange of data project, which was implemented in July 1982, can be a significant improvement. However, it needs to be modified to ensure that the military services are notified of all recipients of VA compensation who also receive military pay or annuities.

RECOMMENDATIONS

To preclude further overpayments and to improve the pay system and service, we recommend that the Secretary of Defense and the Administrator of Veterans Affairs:

- Establish joint procedures requiring VA to notify the services of all VA compensation initiated or changed that would be subject to reductions in military retirement benefits, regardless of whether VA records show the recipient to be a military retiree or survivor. The services will computer match VA's input against military retired pay records and make needed benefit adjustments.
- Continue the annual reconciliation process and enforce the proper examination and correction of the discrepancies identified.

AGENCY COMMENTS AND OUR EVALUATION

The Defense Department concurred with both of our recommendations. However, regarding the matching of VA's input to military retired pay records, Defense advised it will test the matching procedures before implementing them. Defense also said that no matching would be made during the month that VA processes legislative pay increases (cost-of-living adjustments) for its beneficiaries. These adjustments as they pertain to Defense retirees and annuitants create a heavy workload for Defense because numerous changes must be posted to its files.

Although Defense concurred with our recommendations, it disagrees that it has not taken action to significantly reduce or eliminate the longstanding problems in the dual pay systems. Defense officials stated that the number of discrepancies revealed by the reconciliations performed from 1979 through 1982 has decreased markedly (76,845 discrepancies in 1979 to 14,027 discrepancies in 1982). Defense claims that this reduction demonstrates that corrective actions have been taken. The Department recognizes, however, that further improvements can be made.

In its May 25, 1983, response to our draft report (see app. I), VA concurred with both of our recommendations. VA stated that it could easily furnish Defense with information on all pertinent VA compensation cases so that the information can be matched against services' payment files. VA also commented that we did not recognize corrective action it has taken since our review to reduce discrepancies.

We agree with Defense and VA that discrepancies have declined, but much of the decline has been in discrepancies that pertain to errors that do not relate to overpayments. For example, a Defense official said that many past discrepancies resulted because VA and military pay files listed the same individuals with different social security numbers. As the reasons for the differences were

examined and the social security numbers corrected, the number of discrepancies due to this type of error was reduced in later reconciliations.

Other discrepancies revealed by reconciliations relate to pay errors. The reductions in these discrepancies are undoubtedly due to Defense and VA efforts to reduce overpayments. While advising us that its efforts to pursue and correct discrepancies revealed by the reconciliation have been improved since our audit, Defense agrees that further improvements are possible.

Further, Defense and VA advised us that our use of certain terms in the report were misleading. We agree that some terms were technically incorrect and we have amended the report accordingly.

Office of the
Administrator
of Veterans Affairs

Washington DC 20420



MAY 25 1983

Mr. Philip A. Bernstein
Director, Human Resources Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Bernstein:

Your March 30, 1983 draft report "Military Services and the VA Can Reduce Benefit Overpayments by Improving Exchange of Pay Data" has been reviewed. I concur in the recommendations, but the report contains areas concerning the current status of the automated data exchange and the annual reconciliation that I believe need clarification. A review conducted after the 1982 reconciliation indicated that VA's efforts over the last year resulted in significant improvement in the transmission of information between the VA and the military services, and overpayment situations have been greatly reduced.

In several places this report states that payment of VA benefits to persons receiving military retirement pay is prohibited unless these payments are offset against payments by the military. These statements are confusing because they imply that VA payment and offset are automatic. By law, payment of VA benefits in concurrent payment situations is conditioned on the recipients' waiver of military retirement pay.

The law governing concurrent payments could be better described by substituting the following in place of the first two sentences, third paragraph, page 1: "Under 38 United States Code, section 3104, concurrent payments of VA pension or compensation and military retirement pay are prohibited except to the extent that military retirement pay is waived by the recipient. Under 38 United States Code, section 3105, VA compensation or pension may be paid if a like amount of military retirement pay is waived." Similar clarification would be useful in the first paragraph of the summary page; page i, paragraph 1; page 1, paragraph 1; and page 4, paragraph 1.

My comments on your findings, conclusions, and recommendations are enclosed. Thank you for the opportunity to review this report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Harry N. Walters".

HARRY N. WALTERS Deputy Administrator, For
Administrator

Enclosure

**VETERANS ADMINISTRATION RESPONSE TO THE MARCH 30, 1983
GAO DRAFT REPORT "MILITARY SERVICES AND THE VA CAN REDUCE
BENEFIT OVERPAYMENTS BY IMPROVING EXCHANGE OF PAY DATA"**

The General Accounting Office concluded there are deficiencies in the current interagency system for paying offsetting entitlements to military retirees and survivors and recommended that the Secretary of Defense and I:

- Establish joint procedures requiring VA to notify the services of all VA compensation initiated or changed that would be subject to offset from military retirement benefits, regardless of whether VA records show the recipient to be a military retiree or survivor. The services will computer match VA's input against military retired pay records and make needed pay adjustments.
- Continue the annual reconciliation process and enforce the proper examination and correction of discrepancies identified.

I concur in the first recommendation. In fact, when the test data exchange was first considered, the VA stated it could easily furnish the Department of Defense (DOD) information on all compensation cases so that improperly coded cases could be immediately identified. However, the military finance centers believed the resulting high volume of transactions would exceed their capacity to make the required prompt adjustments. For that reason, VA limited the data exchange to cases identified in the VA master record as retired pay cases and decided to retain the annual reconciliation to identify improperly coded cases. If the military finance centers can now handle the volume of transactions, which could be as high as two million during a legislative adjustment, the VA can easily accomplish the necessary programming. Should DOD need to handle adjustments required by legislation differently, the matter would have to be considered by the VA Director of Data Management and Telecommunications to determine if and how the legislative adjustment could be accommodated to meet the limitations of the military finance centers.

The annual reconciliation will be retained while we continue expanding the data exchange. Once the data exchange accomplishes the identification and correction of all problems presently being encountered, we will consider discontinuing the annual reconciliation.

I agree that the annual reconciliation which began in 1979 was not fully used for the period 1979-1981, but the VA and the military finance centers made a concerted effort to review and correct all errors discovered during the reconciliation conducted in 1982. The Defense Manpower and Data Center (DMDC) also made several programming improvements that should result in further substantial error reductions. The DMDC is now reviewing the tape for the 1983 reconciliation and indicates an error rate reduction of approximately 75 percent in some of the services.

The VA and the military finance centers recognize that procedures for processing annuitant cases involving the Survivor Benefit Plan (SBP) and Dependency and Indemnity Compensation (DIC) are inadequate and prone to result in overpayments. Representatives of the VA and the military services met during March 1983 to establish new procedures and a new Memorandum of Understanding will outline them. Implementation will begin as soon as instructions are written and distributed to personnel handling SBP and DIC cases.

RESULTS OF 1981 ANNUAL

RECONCILIATION OF SURVIVOR ACCOUNTS

	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Mar Cor</u>
Total number of discrepancies	2,594	485	562	3
Discrepancies examined	2,587	446	150	3
Discrepancies in process	7	39	-	.
Discrepancies not examined	-	-	<u>a/</u> 412	.
Number of underpayment errors	-	4	-	
Amount of underpayments	\$ -	\$ (b)	\$ -	\$ 19
Number of overpayment errors	263	107	8	1
Amount of overpayments	\$3,714,312	\$1,525,206	\$63,503	\$30,29
Total number of under/overpayment errors	263	111	8	1
Total amount of under/overpayment errors	\$3,714,312	\$1,525,206	\$63,503	\$30,48

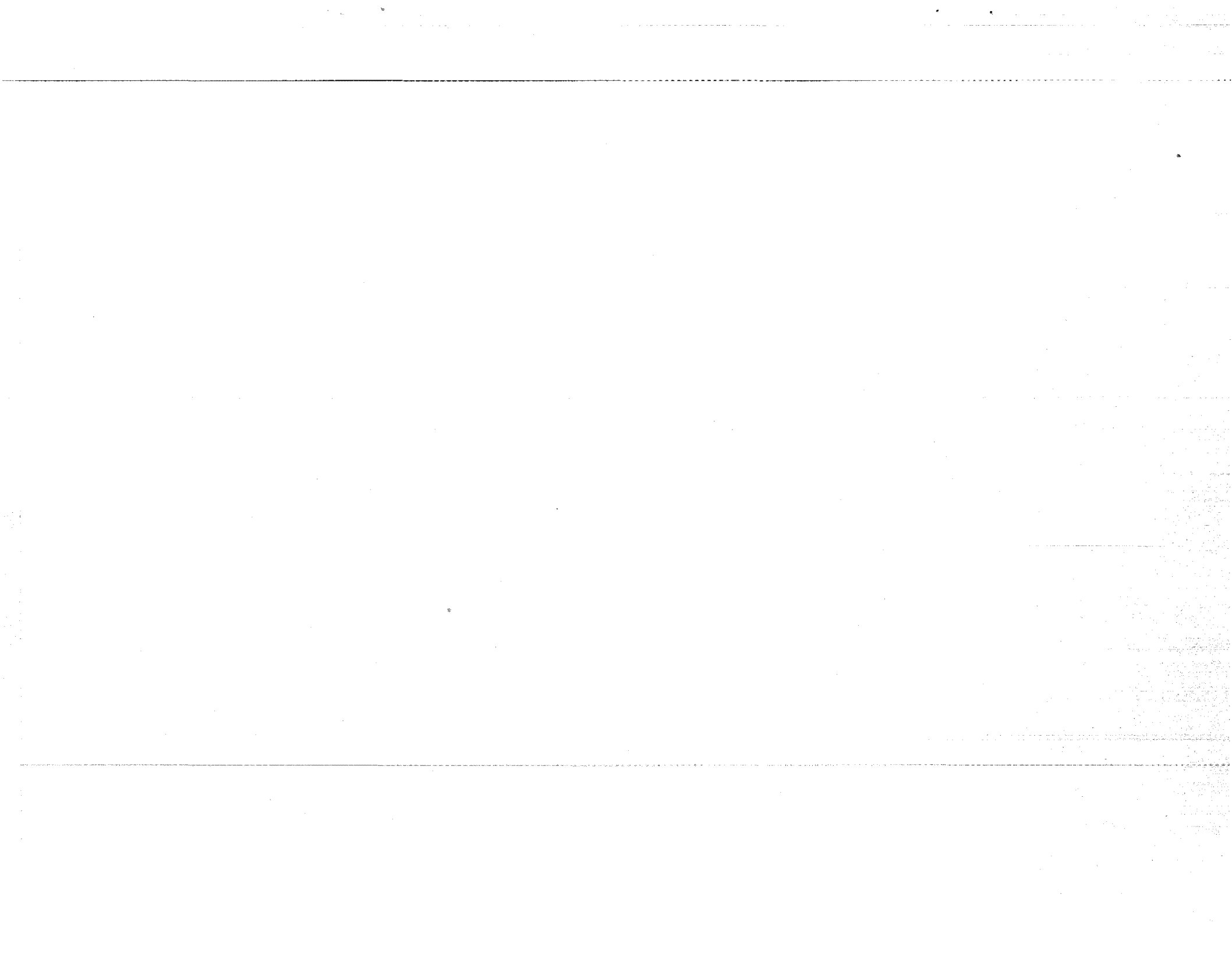
a/Our test of 57 of these 412 discrepancies not examined by the Air Force
9 overpayments amounting to \$78,379.

b/Unknown.

RESULTS OF 1981 ANNUALRECONCILIATION OF MILITARY RETIREE ACCOUNTS

	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Marine Corps</u>	<u>Total</u>
Total number of discrepancies	10,603	7,630	10,147	2,281	30,661
Discrepancies examined	1,303	5,017	2	2,274	8,596
Discrepancies in process	754	1,053	-	7	1,814
Discrepancies not examined	8,546	1,560	10,145	-	20,251
Number of underpayment errors	229	104	<u>a/2</u>	22	357
Amount of underpayments	\$ 106,353	\$ 27,494	<u>a/\$ 2,120</u>	\$ 15,066	\$ 151,033
Number of overpayment errors	381	230	<u>a/122</u>	40	773
Amount of overpayments	\$ 264,598	\$ 147,580	<u>a/\$818,684</u>	\$132,008	\$ 1,362,870
Total number of under/ overpayment errors	610	334	<u>a/124</u>	62	1,130
Total number of under/ overpayments	\$ 370,951	\$ 175,074	<u>a/\$820,804</u>	\$147,074	\$ 1,513,903

a/The Air Force figures for number and amounts of underpayments and overpayments were derived from a test of 445 cases we reviewed. The Air Force had taken action on only two of these cases when our field work was completed.



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