

RD-A191 582

VETERANS' PENSIONS: VERIFYING INCOME WITH TAX DATA CAN

1/2

IDENTITY SIGNATURE (U) GENERAL ACCOUNTING OFFICE

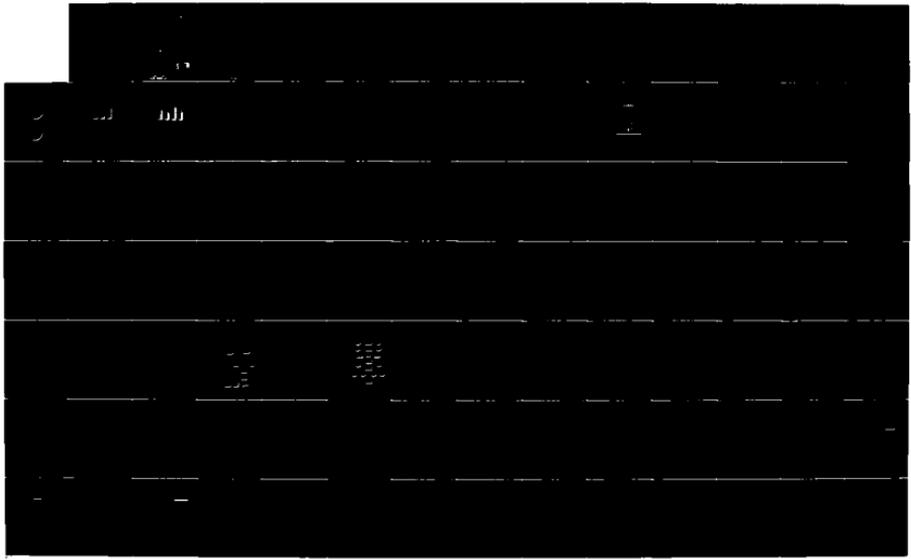
DEPARTMENT OF HUMAN RESOURCES DIV. MAR 88

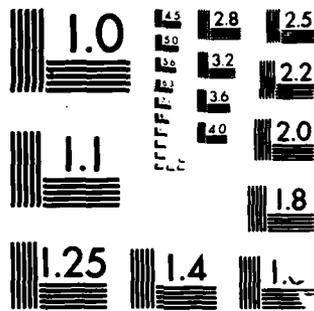
UNCLASSIFIED

GAO/HRD-88-24

F/G 5/3

NL





MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A



United States General Accounting Office

GAO

Report to the Ranking Minority Member,
Committee on Veterans' Affairs,
U.S. Senate

DTIC FILE COPY

March 1988

AD-A191 502

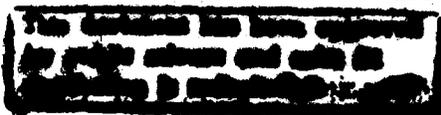
VETERANS' PENSIONS

Verifying Income With Tax Data Can Identify Significant Payment Problems



**DTIC
ELECTE
APR 15 1988
S D
E**

GAO/HRD-88-24



88 4 14 065



United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-225048

March 16, 1988

The Honorable Frank H. Murkowski
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate

Dear Senator Murkowski:

This report responds to your September 10, 1985, request that we undertake, with the concurrence of the Joint Committee on Taxation, a one-time review of the accuracy of beneficiary income reporting under the veterans' pension program administered by the Veterans Administration (VA). The report focuses on the feasibility of using certain federal income tax databases—maintained by the Internal Revenue Service and the Social Security Administration—to verify the income information pension beneficiaries annually report to VA.

As agreed with your office, we are sending copies of this report to the Chairman, Joint Committee on Taxation. Unless you publicly release its contents earlier, however, we will make no further distribution of this report until 30 days from its issue date. At that time, copies will be made available to the Chairmen, Senate and House Committees on Veterans' Affairs; the Administrator of Veterans Affairs; the Commissioner of Internal Revenue; the Commissioner of Social Security; the Director, Office of Management and Budget; and other interested parties.

Sincerely yours,

Lawrence H. Thompson

Lawrence H. Thompson
Assistant Comptroller General



Accession For	
NTIS GRA&I	<input checked="" type="checkbox"/>
DTIC TAB	<input type="checkbox"/>
Unannounced	<input type="checkbox"/>
Justification	
By _____	
Distribution/	
Availability Codes	
Dist	Avail and/or Special
A-1	

This document has been approved for public release and sale its distribution is unlimited.

Executive Summary

Purpose

Annually, the Veterans Administration (VA) pension program pays about \$4 billion to 1.6 million persons. Eligibility and payment amount mostly depend on beneficiaries' incomes, and VA relies almost entirely on beneficiaries' self-reporting. Overpayments due to beneficiaries' underreporting their income were disclosed by earlier GAO and VA Inspector General reviews in certain localities. The former Chairman (now Ranking Minority Member) of the Senate Veterans' Affairs Committee asked GAO to determine how accurately beneficiary income was recorded and the extent of overpayments in the pension program nationwide. GAO also assessed whether its findings might warrant the Congress authorizing the VA pension program access to tax data for the same purposes. (See ch. 1.)

Background

VA provides pension benefits under three laws, each with its own eligibility and payment rules.

- "Old Law" pensions are paid to eligibles who applied before July 1, 1960.
- "Section 306" pensions are paid to those who applied between July 1, 1960, and December 31, 1978.
- "Improved Law" pensions are paid to those who applied on or after January 1, 1979.

Those receiving Old Law or Section 306 pensions may transfer to the Improved Law Program, which has more generous payment features but stringent income offset rules.

Wartime veterans and their dependents and survivors are eligible to receive pension payments when they (1) incur a permanent and total disability not traceable to military service and (2) need financial assistance. Wartime veterans age 65 or older also may be eligible. Benefits depend on income, medical expenses, marital status, dependents, and the pension law under which the beneficiary is enrolled. VA bases continued eligibility and benefits on information beneficiaries provide on an annual VA questionnaire.

To verify the income of applicants and recipients of some needs-based programs, such as Aid to Families with Dependent Children, the Deficit Reduction Act (DEFRA) of 1984 (Public Law 98-369) amended the Internal Revenue Code to grant those programs access to tax data maintained by the Social Security Administration (SSA) and the Internal Revenue Service (IRS) on earned and unearned income. But, DEFRA did not include

the VA pension program. Therefore, to conduct its review, the Joint Committee on Taxation granted GAO special access, as the Committee's agent, to the SSA and IRS tax data.

Paralleling the DEFRA verification process, GAO compared estimated income recorded for each 1984 VA pension case with third-party-reported tax data. For each difference identified, GAO determined a potential overpayment and, for a sample of cases, how accurately beneficiaries self-reported actual income at year end. Because its study methodology was purposefully designed to conservatively estimate potential overpayments, GAO did not estimate the extent of any pension underpayments. (See ch. 1 and app. V.)

Results in Brief

Nearly \$1 billion more in beneficiaries' income was recorded in tax data files for 1984 than was reported to VA that year. By not including this income in its pension calculations, VA made potential overpayments of \$182.5 million to nearly 149,000 beneficiaries, GAO estimates. VA could not have identified most of these potential overpayments because it lacks access to tax data.

Using tax data to verify beneficiary-reported income data appears to be an efficient, economical, and effective way to identify potential erroneous payments.

The potential overpayments GAO identified may not represent actual savings to VA, as the cases and amounts GAO reviewed have not been referred to or adjudicated by VA. Actual savings could be lower or higher.

Principal Findings

Tax Data Match Reveals Potential Overpayments

Of the 1.4 million 1984 VA pension recipients included in GAO's computer match, nearly half—698,000—had income reported for them to IRS and SSA by third-party sources. Of these, 549,000 had \$947 million more income on tax records than was recorded on VA records.

GAO identified potential 1984 overpayments of \$182.5 million to nearly 149,000 VA beneficiaries by using tax data to recalculate VA pension payments for cases with an annual income difference of \$100 or more between VA and tax records. Of the potential overpayment cases:

- More than 26,000 reported no earned income to VA, but tax data showed individual earnings of at least \$1,000. Some cases had reported no earnings over several years, although tax data showed significant earnings in those years.
- About 60 percent were solely attributable to unrecorded interest and dividend income. (See pp. 20 to 25.)

VA Could Not Identify Most Overpayments

VA's year-end beneficiary self-reporting system provided about 10 percent of the data needed to fully identify the potential overpayments GAO found using tax data. Beneficiaries seldom changed their yearly income estimates once provided to VA.

Pension beneficiaries' self-reported year-end income adjustments would have allowed VA to identify and act on approximately \$25.3 million in potential overpayments. VA would have been unable to identify the remaining \$157.2 million in potential overpayments to 134,200 beneficiaries because it lacks access to tax data. (See pp. 25 to 30.)

Self-Reporting Forms Need Improvement

VA's self-reporting questionnaires and related instruction sheet have some design weaknesses that may add to inaccurate reporting. VA might have found these had it field-tested the forms before using them program-wide. But in GAO's view, improving the forms would not substitute for independently verifying income using tax data. (See pp. 30 and 31.)

Tax Data Most Effective Means to Verify Income

The most practical means to verify self-reported beneficiary income is to allow the VA pension program access to third-party-reported tax data. Use of such tax data would increase VA pension program effectiveness and could save millions of dollars. Moreover, the monetary benefits of using this data to verify income appear to outweigh costs by a ratio of at least 11 to 1.

IRS has concern that using tax data for nontax purposes may intrude into personal privacy and erode public compliance with the nation's voluntary tax system. Granting tax data access represents a special case

regarding privacy and confidentiality because, among other things, taxpayers have little choice in revealing income information. Thus, the trade-off: a potential sizeable increase in VA's operational effectiveness versus (1) IRS concern over adverse consequences to the tax system and (2) possible government intrusion into individuals' private lives.

Allowing VA access to third-party-reported tax data, as several federal programs now are authorized, appears to be the most minimally intrusive way to obtain reliable information to verify self-reported income. Moreover, there now is no evidence of any change in voluntary tax compliance as a result of using tax data to verify income in needs-based programs. IRS plans to initiate a study to determine this, however. Also, any authorization would depend on VA's demonstrated ability to comply with applicable safeguards. (See ch. 3.)

Recommendations

Given the potential savings and the lack of data on potential tax system consequences, GAO recommends that the Congress amend the Internal Revenue Code to allow VA's pension program access to tax data so VA can prevent improper payments by verifying the income information that beneficiaries report.

GAO also recommends that VA, to attain better reporting by beneficiaries, (1) revise its annual income questionnaires to reduce design weaknesses and (2) pretest the revised documents before program-wide implementation. (See ch. 4.)

Agency Comments

VA agreed with GAO that it needs the means to verify beneficiaries' self-reported income and its income questionnaire documents could be improved. VA disagreed with pretesting any revised documents.

IRS said it is opposed to giving VA access to tax data, believing that such access would compromise the voluntary tax system.

The Department of Health and Human Services said the Executive Branch is now reviewing GAO's legislative recommendation. (See ch. 4 and apps. VIII through X.)

Contents

Executive Summary		2
Chapter 1		10
Introduction	The Veterans' Pension Program	10
	Importance of Accurate Income Data	11
	Past Efforts to Identify VA Pensioners' Underreported Income	14
	Income Verification in Other Needs-Based Programs	15
	Using Federal Tax Information for Purposes Other Than Tax Administration	16
	Objective, Scope, and Methodology	17
Chapter 2		20
Unreported Income May Cause Significant Potential Overpayments in VA Pension Program	Beneficiary Income Variances Between VA and Tax Data	20
	Estimated 1984 VA Pension Overpayments	22
	Assessment of VA's Annual Income Self-Reporting Process	25
	Improvements Needed in VA's Beneficiary Income Questionnaire	30
Chapter 3		32
Concerns About Using Tax Data to Verify Eligibility for VA Pensions	Are There Suitable Alternatives to VA's Use of Tax Data?	32
	Would the Use of Tax Data Increase Program Management Efficiency and Effectiveness?	35
	Would Program Savings Exceed the Costs of Using Tax Data?	35
	Would the Use of Tax Data Increase Compliance by Program Participants?	36
	What Would Be the Impact on Data Confidentiality, Taxpayer Privacy, and Voluntary Tax Compliance?	37
Chapter 4		40
Conclusions and Recommendations	Conclusions	40
	Recommendation to the Congress	41
	Recommendations to the Administrator of Veterans Affairs	41
	Agency Comments	42

Appendixes

Appendix I: Letter Dated September 10, 1985, From the Chairman, Senate Committee on Veterans' Affairs, to the Comptroller General	48
Appendix II: Letter Dated September 10, 1985, From the Chairman, Senate Committee on Veterans' Affairs, to the Chief of Staff, Joint Committee on Taxation	50
Appendix III: Letter Dated February 13, 1986, From the Chief of Staff, Joint Committee on Taxation, to the Comptroller General	52
Appendix IV: VA Income and Expense Criteria for Calculating Pension Payments (1984)	54
Appendix V: Objective, Scope, and Methodology	55
Appendix VI: Details of Potential Overpayments by Type of Unrecorded Income	72
Appendix VII: Observations on VA Income Reporting Documents	76
Appendix VIII: Comments From the Veterans Administration	88
Appendix IX: Comments From the Internal Revenue Service	92
Appendix X: Comments From the Department of Health and Human Services	95

Related GAO Products

100

Tables

Table 2.1: Estimated 1984 Potential Overpayments	22
Table 2.2: Potential Overpayment Rates by Pension Law	24
Table 2.3: Potential Overpayment Estimates by Type of Unrecorded Income	25
Table V.1: Results of Income Matches Between VA Pension Cases and Tax Data	63
Table V.2: Sample Size (Level III)	69
Table V.3: Analysis of Year-End Self-Reported Income Changes for GAO's Validation Sample of Potential Overpayment Cases (1984)	70
Table V.4: Statistical Projections of 1984 Potential Overpayments VA Could Have Identified Through Its Year-End Reporting Process	71
Table VI.1: Total VA Pension Potential Overpayment Cases and Amounts, by Type of Unrecorded Income	72

Contents

Table VI.2: Old Law Pension Potential Overpayment Cases and Amounts, by Type of Unrecorded Income	73
Table VI.3: Section 306 Pension Potential Overpayment Cases and Amounts, by Type of Unrecorded Income	74
Table VI.4: Improved Law Pension Potential Overpayment Cases and Amounts, by Type of Unrecorded Income	75

Figures

Figure 1.1: Percentage of VA Pensioners, by Pension Law (1984)	12
Figure 1.2: Percentage of Payments to VA Pensioners, by Pension Law (1984)	12
Figure 1.3: Average Pension Awards to Veterans and Survivors, by Pension Law (1984)	13
Figure 1.4: Income Limits for VA Pension Beneficiaries (1984)	14
Figure 2.1: VA Pension Cases With 1984 Tax Data	21
Figure V.1: GAO's Matching and Data Analysis Process	57
Figure V.2: Records Obtained, Created, and Excluded in Match Process	59
Figure V.3: Sample VA Letter Requesting Beneficiary Reported Income Data	65
Figure VII.1: Annual Income Questionnaire for Improved Pension Veterans With No Dependents	81
Figure VII.2: Annual Income Questionnaire Claimant's Worksheet for Improved Pension Veterans With No Dependents	82
Figure VII.3: Eligibility Verification Report for Improved Pension Veterans With No Dependents	84
Figure VII.4: Eligibility Verification Report Instruction Sheet	86

Contents

Abbreviations

ADP	automated data processing
AIQ	Annual Income Questionnaire
DEFRA	Deficit Reduction Act of 1984
EVR	Eligibility Verification Report
GAO	General Accounting Office
HHS	Department of Health and Human Services
IRS	Internal Revenue Service
OIG	Office of Inspector General
SE	self-employment
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	social security number
VA	Veterans Administration

Introduction

The Veterans' Pension Program

The veterans' pension program pays monthly cash benefits to eligible wartime veterans and their surviving spouses and minor children. Eligibility is based on financial need, determined by the beneficiary's income and assets as reported to the Veterans Administration (VA). In fiscal year 1984, VA paid almost \$3.9 billion to about 1.6 million beneficiaries.

Pension benefits for veterans and their dependents or survivors are authorized under title 38 of the United States Code. Only needy veterans who are permanently and totally disabled from nonservice-connected causes and who satisfied active-duty military service requirements are eligible.¹ The program considers veterans 65 years of age or older and not working to be totally disabled. Generally, the pensions are lifetime benefits unless subsequent changes in the income or net worth of the veterans and their surviving spouses render them ineligible.

Monthly benefit amounts depend on which of three veterans' pension laws applies to the beneficiary's eligibility:

- The "Improved Law" pension, established by Public Law 95-588 and in effect since January 1, 1979, provides for eligible veterans and survivors a maximum benefit level that is reduced by the recipient's income on a dollar-for-dollar basis to determine the monthly pension rate. Should a veteran's income, including the income of his/her spouse and any dependent children, rise above a specified limit, the pension payment would be totally offset.²
- The "Section 306" pension, authorized by Public Law 86-211, was operative from July 1, 1960, through December 31, 1978. It remains open to persons who qualified for it before 1979.
- The "Old Law" pension, created by Public Law 73-2, was operative before July 1, 1960. Pensions under it remain available for persons who qualified for them before 1979.

Persons receiving pensions under either of the two earlier laws can elect to convert to the current Improved Law program, if it is financially advantageous to them to do so.

¹This is in contrast to the VA disability compensation program that pays monthly benefits to disabled veterans according to how much their service-connected disability reduces their earning capacity in civilian occupations.

²Needy surviving children of veterans are separately eligible for benefits if (1) there is no surviving spouse, (2) the surviving spouse is ineligible for a pension by reason of income or remarriage, or (3) they are not in the custody of the surviving spouse. Their annual pension rates also are reduced by their annual countable income -- all income received, less specific exclusions (see app. IV) -- and by the incomes of any persons with whom they are residing who are legally responsible for their support.

Old Law and Section 306 pensions, which are fixed at the December 31, 1978, rate, are collectively referred to as "protected" pensions. This means that, as long as the beneficiaries remain permanently and totally disabled, the numbers of their dependents do not change, and their incomes do not exceed applicable income limits, they will continue to receive the protected pension amount.

In fiscal year 1984, the Improved Law pension accounted for about 39 percent, or 625,597, of all pensioners, but 71 percent, or almost \$2.8 billion, of the \$3.9 billion in pension benefits paid that year (see figs. 1.1 and 1.2). Likewise, Section 306 accounted for about 58 percent, or 919,239, of all pensioners, but about 28 percent, \$1,079,058,000, of pension benefits that year. The Old Law pension accounted for only 51,089 pensioners and \$36,943,000 of benefits paid.

As figure 1.3 shows, average monthly benefits under the Improved Law also were significantly higher. Monthly benefits for veterans under the Old Law were \$75.54 in 1984, but for those under the Improved Law, they were \$415.39.

Importance of Accurate Income Data

Every year, VA requires each pension beneficiary to report information on net worth, unreimbursed medical expenses, and dependents, and on income (1) actually received in the previous 12 months and (2) anticipated for the next 12 months. The anticipated annual income determines program eligibility and the payment amount. Should actual income for the previous 12 months differ from the beneficiary's estimate reported at the start of that period, VA can adjust the payment amount retroactively. In the absence of contradictory or obviously incorrect information, it is VA's policy to rely on data the beneficiary provides.³

A complex set of VA rules treating beneficiary-reported income and expenses provides the basis for determining eligibility and computing payment amounts. The different criteria governing income and expenses under each pension law are presented in appendix IV. During 1984, the year covered by our review, the maximum income limits for each of the three pension programs varied. (See fig. 1.4.) Section 306 had the highest income limits in 1984. They were \$6,273 for a veteran or surviving spouse and \$8,435 for a veteran or surviving spouse with a dependent.

³There are several exceptions. VA routinely compares its pension income records with federal civil service annuity, Black Lung, Railroad Retirement, and social security benefit program records. Benefit payments to VA pensioners under such programs are used to reduce VA pension program payments.

Figure 1.1: Percentage of VA Pensioners, by Pension Law (1984)

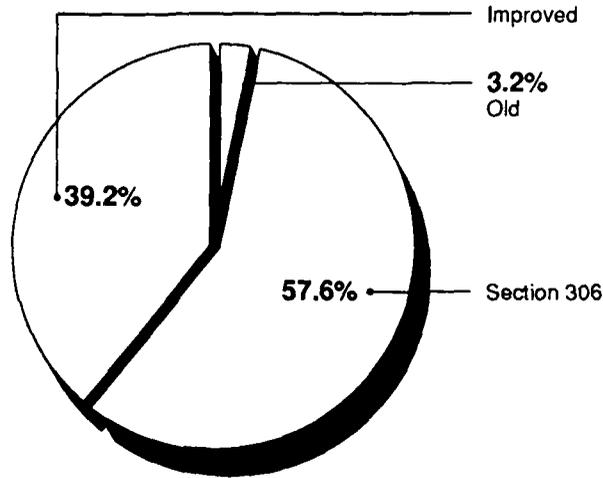
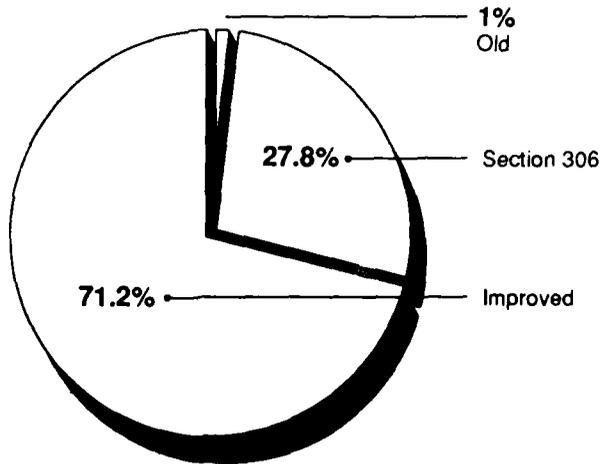
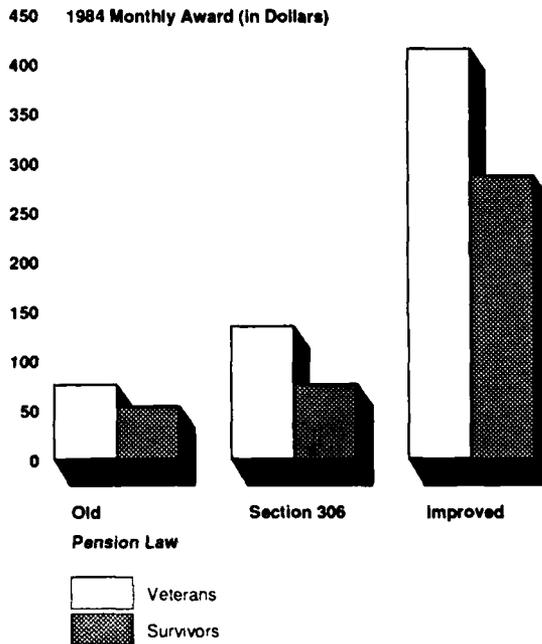


Figure 1.2: Percentage of Payments to VA Pensioners, by Pension Law (1984)



The Old Law income limits were \$5,470 for a veteran or a surviving spouse and \$7,919 for a veteran or surviving spouse with a dependent. The Improved Law income limits varied considerably. They were set at \$5,515 for a veteran, \$3,695 for a surviving spouse, \$7,225 for a veteran with a dependent, and \$4,841 for a surviving spouse with a dependent.

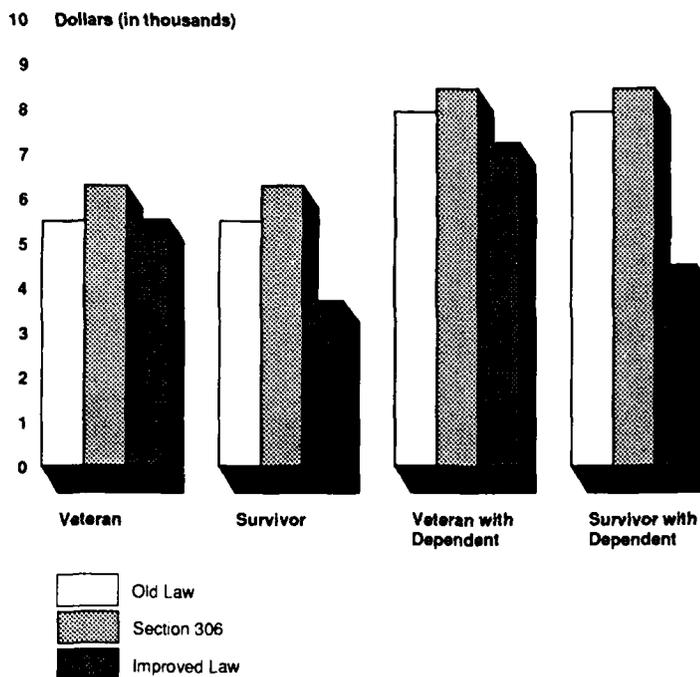
Figure 1.3: Average Pension Awards to Veterans and Survivors, by Pension Law (1984)



The income limits under each pension law increase periodically according to changes in the Consumer Price Index. For example, under the Improved Law program, the income limit in 1987 for a veteran with no dependents was \$5,963, compared with \$5,515 in 1984.

The Internal Revenue Code does not permit the VA pension program to access tax data to verify beneficiary-reported income. Such data, kept in computerized files by the Internal Revenue Service (IRS) and the Social Security Administration (SSA), represent income information reported by such third-party payers as banks reporting interest payments and employers reporting wages, as well as by self-employed earners. Tax data files are widely recognized as the most comprehensive and centralized sources of individual income information available.

Figure 1.4: Income Limits for VA Pension Beneficiaries (1984)



Note: For Section 306, veterans' and survivors' limits could be increased by \$500 for an aid-and-attendance allowance.

For Improved Law, veterans' and survivors' limits could be increased by \$935 for each additional dependent and either \$1,226 for a housebound allowance or \$3,308 for an aid-and-attendance allowance.

Past Efforts to Identify VA Pensioners' Underreported Income

In 1982, GAO verified wage data reported for 1981 by VA pension beneficiaries in the Philadelphia metropolitan area using Pennsylvania's computerized state wage data file. We referred potential overpayment cases to VA's Office of Inspector General (OIG) for investigation and resolution. Ultimately, about \$1 million in overpayments due to pensioners' underreporting of wages was identified.

In April 1982, the OIG began to computer-match wage data in VA's master pension records file with selected states' wage data files. At the time we began our current study for the Committee, the OIG had completed matches in two southern states and targeted several large states for completion on a priority basis. In the two states—Florida and Georgia—

the OIG had referred for adjudication about 4,800 pension cases having potential overpayments of about \$24 million due to nonreporting of wages. By the end of fiscal year 1987, the OIG had added the states of Missouri, Texas, and Washington, resulting in a cumulative total of 5,373 VA pensioners being identified as overpaid about \$33 million.

While VA's OIG believes that program-wide overpayments may amount to several hundred million dollars, identifying specific overpayment cases on a state-by-state basis has proven resource-intensive and time-consuming. Also, using state wage data would not identify all potential overpayment cases because state records do not contain wages on certain categories of employees, such as federal civilian, military, self-employed, and railroad workers. Moreover, these files contain no information on unearned income such as interest and dividends.

Income Verification in Other Needs-Based Programs

In fiscal year 1984, the federal government spent about \$62 billion on needs-based benefit programs, including VA pensions. Anticipating the potential monetary benefits of improved payment integrity in the face of mounting federal budget deficits, the Congress enacted the Deficit Reduction Act (DEFRA) of 1984 (Public Law 98-369). Section 2651 of DEFRA amended the Internal Revenue Code to provide access to federal tax data for income and eligibility verification purposes for selected needs-based programs. Among them were Aid to Families with Dependent Children, Supplemental Security Income (SSI), Food Stamp, and Medicaid.

Federal and state managers of these programs are required to verify claimants' reported information on earned and unearned income, using (1) earnings and pension income data reported to SSA and (2) interest, dividend, and other unearned income data reported to IRS. This tax information cannot be used, DEFRA specifies, to determine or deny a person's benefit entitlement or payment amount without the program first verifying its accuracy and allowing that person to exercise his or her due process rights to challenge the verified information.

The VA pension program was one of several large needs-based programs not included in DEFRA. Since its enactment in 1984, however, the Office of Management and Budget has been developing a legislative proposal to expand DEFRA's scope to include additional programs, including the VA pension program, and additional databases for verification purposes.

Using its DEFRA authority, SSA has computer-matched IRS unearned income data with its SSI beneficiary files. As of August 1986, SSA had identified \$114 million in potential overpayments of SSI benefits to 161,000 beneficiaries. From a random sample of those cases, SSA projected that over a 2-year period it would achieve (1) a 44-percent overpayment recovery rate or about \$50 million and (2) program savings of an additional \$35 million through ongoing SSI payment reductions and program withdrawals of uncooperative beneficiaries. This match, including follow-up action, would cost \$6 million, SSA estimated.

Using Federal Tax Information for Purposes Other Than Tax Administration

The use of tax information for nontax administration purposes traditionally has been and continues to be a sensitive issue. Both the Congress and IRS have expressed concerns about the effects of tax data-sharing on the integrity of the federal income tax system and on taxpayer privacy.

For example, in enacting the Tax Reform Act of 1976 (Public Law 94-455) the Congress restricted access to tax information by requiring that such access be authorized on a specific program basis in the Internal Revenue Code. Since then, the Congress has authorized IRS to share certain types of tax information with other government programs, but only for specific purposes. The tax data sharing under DEFRA is one of the more recent examples.

Recurring questions concerning tax data uses for nontax purposes include:

- Do such disclosures discourage voluntary compliance with federal income tax laws?
- Do disclosures abridge individuals' rights to confidentiality of their tax information?
- Can and do agencies adequately safeguard these data?
- Are due process rights protected for individuals whose records are matched?

In exploring the need for and feasibility of using tax data to verify income data reported by VA pension beneficiaries, we have attempted to address such concerns (see ch. 3). Other GAO reports discussing the use of tax data for income verification in needs-based programs are listed at the end of this report.

Objective, Scope, and Methodology

On September 10, 1985, Senator Frank H. Murkowski, then Chairman (now Ranking Minority Member) of the Senate Committee on Veterans' Affairs, asked us to undertake, using federal income tax data, a one-time nationwide review assessing the payment integrity of the veterans' pension program administered by VA (see app. I). In requesting this review, the Chairman said his goals were to:

"... preserve the integrity and legislative intent of these important programs by ascertaining whether recipients are receiving the benefits to which they are eligible as well as protecting the privacy considerations of all those recipients who are eligible for these VA benefits."

This report presents the results of our review and focuses on the feasibility of using certain tax databases maintained by IRS and SSA to verify self-reported income information VA receives from its pension beneficiaries.

GAO is permitted to access tax information for its audits only to the extent that the agency being audited may do so, unless GAO is acting as an agent of an authorizing congressional committee. Federal tax information is not available to VA for its use in auditing and administering the veterans' pension program. Therefore, the Chairman of the Senate Veterans' Affairs Committee asked the Joint Committee on Taxation to authorize GAO tax data access (see app. II). On February 13, 1986, GAO was designated the Joint Committee's agent, pursuant to section 6103(f)(4) of the Internal Revenue Code of 1954, as amended, to conduct our review for the Senate Veterans' Affairs Committee (see app. III). Specifically, we were authorized to use only such tax information as was necessary to evaluate the accuracy of income reported by VA pension beneficiaries and were subject to all Internal Revenue Code restrictions that apply to disclosure of tax information.

In assessing the accuracy of income data recorded in VA pension files, our approach paralleled the DEFRA income and eligibility verification provisions for accessing tax information. Under DEFRA, the tax information used for verification is available about 14 to 18 months after the end of the calendar year to which it pertains. We conducted the field work of our review between February 1986 and May 1987. The latest tax information then available was for calendar year 1984.

Working with IRS and SSA, we compared the earnings data for VA's entire file of pension beneficiaries on the rolls as of November 1984—the most comparable VA file containing 1984 earnings data at that time—with

appropriate 1984 tax data. We excluded several unique VA pension categories so as not to detract from the main veteran and survivor pension categories; also, we eliminated cases that did not contain adequate individual identifiers, such as social security numbers (SSNs). We compared VA and tax records only when SSN and surname in both records were identical.

To provide a conservative estimate of potential overpayments, we recalculated the VA pension payment for only matched records that reflected income variances of \$100 or more. This recalculation, using a pension payment model we designed for our review, identified significant numbers and amounts of potential overpayments for November 1984. We then derived an estimate of potential overpayments for the entire calendar year (1984).

To validate our results, we obtained documents (submitted by 55 VA regional offices) from a random sample of identified potential overpayment cases. To assure that VA could not identify the potential overpayment cases in our sample, we "masked" each sample case by adding two nonoverpayment cases. VA's regional offices gave us copies of the documents on which beneficiaries had reported their actual and estimated income data. We used that data to validate the accuracy of VA's computerized income data used in our overpayment calculations.

We did our sample validation work so as to ensure that the results we obtained from November 1984 income data reasonably depicted year-end data reported by VA beneficiaries we identified as potentially overpaid. Normally, VA would have had the opportunity to identify beneficiaries reporting year-end income changes and accordingly make payment adjustments without the benefit of tax data. Therefore, we calculated the pension payment using year-end income data, assuming that VA could have identified those amounts as a result of its self-reporting mechanism. To estimate potential overpayments not readily identifiable by VA without use of tax data, we statistically projected our sample results to the potential overpayments we identified from tax data.

As a result of using a \$100 income variance between VA and tax data for each case as a "buffer zone," we excluded 215,000 1984 cases from our potential overpayment calculations and our validation work. To the extent that such beneficiaries may have underreported to VA at year-end their actual 1984 incomes by \$100 or more, those cases also would have to be considered as potential overpayments. This is because VA would have retroactively adjusted their pension benefits to reflect the lower

income reported. Thus, our estimates of 1984 potential overpayments are understated to the extent that potential overpayments exist in this large group of beneficiaries.

At the outset of our work, we knew that the Internal Revenue Code would not permit us to disclose tax data to VA, third-party income reporting sources, or potentially overpaid beneficiaries. Such disclosures would be necessary to provide proper due process rights to such beneficiaries and to ultimately affirm whether actual overpayments were made. Our review, therefore, would have to rely almost entirely on computerized data in VA and tax records. In the interest of conservatism, we designed our methodology to include only tax data representing earnings, interest, and dividends and to exclude tax data representing potentially nonrecurring unearned income (e.g., rents, royalties, prizes, and awards). We recognized that excluding such income would have the effect of not only intentionally understating any estimate of potential overpayments, but also tend to inflate underpayments. Also, at the time of our review, SSA had posted to its records only about 10 percent of the taxable private pension income, thus understating the tax data matched with VA data. For these reasons, we did not attempt to estimate the possible extent of underpayments. (See app. V, pp. 62 to 63.)

Our review was made in accordance with generally accepted government auditing standards with the following exceptions. Because we did not consider it pertinent to our evaluation, we did not assess VA, IRS, or SSA internal controls over the computer-based data systems used in our study or any administrative controls. However, on a test basis, we did assess the reliability of VA and SSA income data by tracing computer entries to source data. We adjusted our estimates of potential overpayments when errors were found and otherwise attempted to preserve the conservatism embodied in our review methodology. (For a more complete description of our review scope and methodology, see app. V.)

Unreported Income May Cause Significant Potential Overpayments in VA Pension Program

Significant income differences exist between the VA pension records and federal tax records. These income differences can result in many millions of dollars in overpayments annually to thousands of VA pension beneficiaries. In summary, our review showed that:

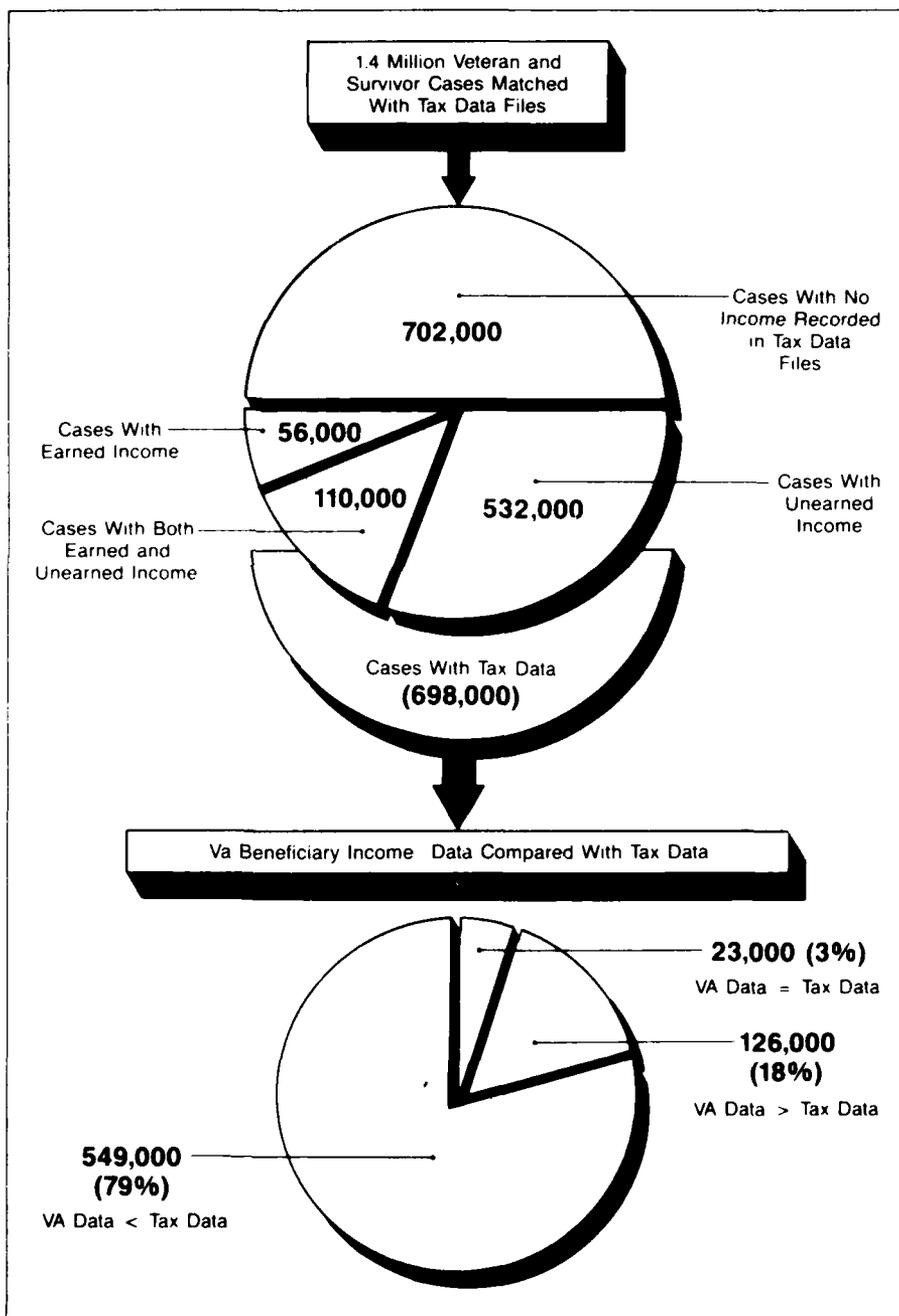
- About \$1 billion in differences exists between the income data recorded in VA's records and that shown in 1984 tax records for the same individuals.
- More than \$182.5 million was potentially overpaid to about 149,000 VA pension beneficiaries in 1984. Of these potential overpayments, VA's annual process of income self-reporting could have identified only about \$25.3 million to about 14,500 beneficiaries. The remaining \$157.2 million would not have been identifiable by VA because VA lacks access to third-party-reported tax data at IRS and SSA. (There may have been some underpayments as well, but we could not quantify them.)
- Improved Law pensions accounted for the greatest portion of our estimated 1984 potential overpayments—\$128.4 million involving 98,700 cases—and likely will continue to do so in future years.
- Interest and dividends were the most frequent types of unrecorded income in VA pension records, accounting for more than 60 percent of the potential overpayment cases.
- VA's self-reporting system cannot be relied upon as the sole mechanism for adjusting year-end pension payments because many beneficiaries are not properly reporting their incomes.
- Tax records for a number of pension beneficiaries showed a pattern of beneficiaries earning significant wages for several years for which they reported no earnings to VA.
- VA's income questionnaire should be clarified to attain better reporting of income.

Beneficiary Income Variances Between VA and Tax Data

About 50 percent, or 698,000, of the 1.4 million VA pension beneficiaries included in our study had earnings, interest, and dividends reported to IRS or SSA in 1984 by such third parties as banks, corporations, and employers. A comparison of such income information with income contained in VA beneficiary payment records showed the same amounts recorded in only 3 percent of the cases. For 79 percent, or 549,000 cases, VA records showed estimated income amounts that were understated by \$947 million. This amount is conservatively low because we chose to exclude from the analysis about \$187 million in miscellaneous income we identified from tax data obtained from IRS. Such income represented about 27 percent of the 1984 unearned income recorded in IRS records as being received by VA pension beneficiaries (see app. V). This also caused

Chapter 2
Unreported Income May Cause Significant
Potential Overpayments in VA
Pension Program

Figure 2.1: VA Pension Cases With 1984 Tax Data



Chapter 2
Unreported Income May Cause Significant
Potential Overpayments in VA
Pension Program

the remaining 18 percent, or 126,000 cases, to appear to have more income on VA records than on tax records. Figure 2.1 shows the variances between the IRS/SSA and VA databases.

To support a draft legislative proposal that would permit it access to tax data, VA attempted to obtain broad-based information on beneficiary income. VA contracted with IRS to perform a one-time statistical tabulation comparing beneficiary income amounts shown on VA's November 1984 master compensation and pension record with income data shown on individual tax returns filed with IRS for 1984. The Internal Revenue Code precluded VA from getting individual case data, but the tabulations IRS provided VA showed aggregate income on tax returns to be about \$1.3 billion greater than that recorded on VA records. This variance included several items not covered by our study, i.e.: such nonrecurring income as capital gains, rents, etc., and income in cases of (1) compensation, where the veteran is rated 100-percent disabled due to individual unemployment, and (2) parents' dependency and indemnity compensation.

VA could not convert these aggregate income differences into potential overpayments or underpayments, but its study concluded that these large income discrepancies "...more than support [the] need for an income verification means to control against abuses in our traditional self-reporting process." Not having access to tax data for verification purposes, VA could not identify and resolve specific cases of potential pension overpayments resulting from these differences.

Estimated 1984 VA
Pension
Overpayments

Using the November 1984 income estimates recorded for VA pensioners and the income data in 1984 tax records, we identified 148,675 pension beneficiaries who potentially may have received over \$182.5 million in overpayments (see table 2.1). Most of these VA would not have identified and adjudicated through its existing procedures, which rely heavily on the accuracy of beneficiaries' year-end reporting of their actual incomes and net worth.

Table 2.1: Estimated 1984 Potential Overpayments

Pension law	Cases	Amount
Old Law	4,103	\$3,114,193
Section 306	45,838	51,022,800
Improved Law	98,734	128,399,528
Total	148,675	\$182,536,521

Chapter 2
Unreported Income May Cause Significant
Potential Overpayments in VA
Pension Program

Following are illustrations of potential overpayments we identified, all cases involving pension payments made in November 1984. The information is presented so as to preclude disclosing identities of the individuals involved.

- A 78-year-old housebound veteran received a monthly Improved Law pension payment of \$313. VA determined his benefit by subtracting the \$3,000 annual social security amount he estimated on his 1984 VA income questionnaire from the \$6,740 Improved Law entitlement limit. On his VA income questionnaire for 1985, he reported no prior (1984) or expected (1985) interest income. Information contained in the 1984 tax records showed, however, that he received over \$4,000 in interest income. Since his social security and interest income for 1984 together exceeded the VA maximum entitlement limit, he would be precluded from receiving any VA pension payment.
- A 59-year-old surviving spouse received a monthly Improved Law payment of \$307. As she reported to VA no estimated income of any type on her 1984 VA income questionnaire, VA determined her eligible for the maximum \$3,695 annual survivor's benefit. On her 1985 income questionnaire, she continued to report that she received no income in 1984. Information in the 1984 tax records showed, however, that she received over \$6,500 of interest income. Since her interest income exceeded VA's maximum benefit level, she would be precluded from receiving any VA pension payment.
- A 57-year-old veteran and spouse received a monthly Section 306 pension payment of \$128 and declared their only other 1984 income to be \$5,000 in social security benefits. On their 1985 VA income questionnaire, they reported no prior (1984) or expected (1985) income. Tax data for 1984 showed, however, that the spouse had received over \$15,000 in wages and about \$1,300 in retirement benefits, and that together they had received over \$3,800 in interest. Although the spouse's wages are excluded in determining the countable income of this Protected Law pensioner, their combined 1984 social security and interest income, and her retirement income—which is countable—exceeded the \$8,435 maximum income limit. Thus, they would be precluded from receiving any VA pension payment.
- A 50-year-old surviving spouse received a monthly Section 306 pension payment of \$129. At the start of 1984, she estimated to VA that she would earn \$5,000 during the year and, at the end of the year, declared that figure on her 1985 VA income questionnaire as her actual 1984 income. Tax data indicated, however, that her 1984 wage income was in

Chapter 2
 Unreported Income May Cause Significant
 Potential Overpayments in VA
 Pension Program

excess of \$12,000. Since the VA income limit for this Protected Law pensioner was \$6,273, she would be precluded from receiving any VA pension payment.

Potential Overpayment
 Rates Varied by Pension
 Law

In 1984, 10.6 percent of all VA pension cases may have been overpaid, and the potential overpayment rate varied from 6.2 percent under the Section 306 Law to 16.0 percent under the Improved Law. Potential overpayment rates by case and amount for each pension law category are shown in table 2.2.

Table 2.2: Potential Overpayment Rates by Pension Law

	Improved		Pension law Section 306		Old		Total, all programs	
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount ^a
Potential overpayment	616,933	\$2,622,019	744,191	\$929,474	38,552	\$28,280	1,399,695	\$3,479,724
Percent	16.0	5.1	6.2	5.5	10.6	11.0	10.6	5.2

^a Amount with a total of \$441.7 million due to rounding.

With its higher monthly payments (see ch. 1), the Improved Law pension currently accounts for 71 percent of all pension program payments. In the future, this law will take on increasing importance as VA's major pension effort because pensions under the other two pension laws are closed to new applicants. Also, current protected pension beneficiaries can elect to change to an Improved Law pension if it is financially advantageous to do so.

Types of Beneficiary
 Income Not Recorded on
 VA Records

For the 148,675 potential overpayment cases, we isolated the types of unrecorded income that were contained in tax records but not VA pension records (see table 2.3).

Chapter 2
 Unreported Income May Cause Significant
 Potential Overpayments in VA
 Pension Program

Table 2.3: Potential Overpayment Estimates by Type of Unrecorded Income

Dollars in thousands

Type of unrecorded income	Improved		Pension law Section 306		Old		Totals			
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Percent	Amount	Percent
Earnings	14,438	\$39,274	4,180	\$5,486	31	\$25	24,156	24.4	\$44,785	24.5
Interest and dividends	62,166	\$5,427	28,485	\$7,230	3,874	2,950	94,544	95.6	\$13,607	7.5
Alimony	17,130	\$3,699	13,613	\$16,327	198	\$151	31,041	31.0	\$17,177	9.0
Totals	98,734	\$128,400	45,838	\$51,023	4,103	\$3,114	148,675	100.0	\$182,537	100.0

Source: VA's Office of Financial Management, "Potential Overpayment Estimates by Type of Unrecorded Income," VA Form 10-100, 1987. Amounts are rounded to the nearest thousand dollars.

Interest and dividends were the largest single sources of beneficiary income not contained in VA records. However, per case average amounts of underreported interest and dividends were smaller than those of underreported earnings. Of the overpayment cases, about 63 percent were attributable exclusively to *interest and dividends*, but these accounted for only 47 percent of the estimated overpayment amount. On the other hand, about 16 percent of all potential overpayment cases were attributable solely to earnings, but accounted for 25 percent of the estimated overpayment amount. Third-party-reported tax data are the only nationally available, centralized source for verification of interest and dividends reported by VA pension beneficiaries. For more detailed information on the types of unrecorded income that caused the potential overpayments, see appendix VI.

Assessment of VA's Annual Income Self-Reporting Process

Pension beneficiaries' income estimates seldom were adjusted during the year and generally were properly recorded in the VA master pension file, our assessment showed. But most beneficiaries, in reporting year-end actual income to VA, did not adjust their earlier income estimates and seldom provided data that would allow VA to identify errors in income reporting. As a result, VA's self-reporting process could not be relied on to identify most of the potential overpayments that we detected using tax data. Of the \$182.5 million of potential overpayments we identified using tax data, only an estimated \$25.3 million could have been identified by VA's annual self-reporting process. In a management letter to VA's Administrator, dated November 18, 1987, we identified this reliance on

Chapter 2
Unreported Income May Cause Significant
Potential Overpayments in VA
Pension Program

beneficiary self-reporting of income as a significant internal control weakness in the veterans' pension program.

The most critical element in our analysis of potential overpayments was the income that beneficiaries reported to VA. But we could not validate this by referring the potential overpayment cases back to VA because we were prohibited by the Internal Revenue Code from revealing tax information to VA. Thus we took the only measure available to us to validate our findings; we checked income data from a sample of our cases against the actual income reports that VA requires all beneficiaries to file annually.

On each annual income questionnaire VA sends out, pensioners are required to reconcile any income changes and report income received for the previous year. Changes between estimated and actual income—depending on the VA pension law that applies—can cause VA to retroactively adjust for erroneous payments and/or terminate a beneficiary's award. Also, VA's self-reporting process is its principal means of obtaining the beneficiary's estimated income needed to calculate the next year's pension payments.

From our universe of potential pension overpayment cases, we selected a random sample of 873 cases and asked VA to provide income reports filed by the beneficiaries over a 4-year period, 1982-85. VA's regional offices gave us copies of beneficiary income questionnaires showing actual 1984 income reported for 631 of our sample cases and another 627 questionnaires showing beneficiaries' initial 1984 income estimates. We excluded the remaining sample cases because of data errors and because VA regional offices could not provide the requested files in a timely manner. Most of the latter case files were either lost or transferred to another regional office or had been retired to the VA records center, VA officials said. Our validation sampling procedures are described in appendix V.

VA Master Pension Records
Generally Reflect
Beneficiaries' Reported
Incomes

Of 627 income reports beneficiaries submitted at the beginning of 1984, 83 percent, or 518 reports, showed an estimated 1984 income identical to that recorded on VA's November 1984 master pension record. During the year, some beneficiaries may have reported changes in their 1984 income estimates as required under the pension program. Without examining the complete case file, however, we could not determine how many of the remaining 17 percent, or 109 sample cases, had income differences due to such changes as opposed to other reasons, such as possible

Chapter 2
Unreported Income May Cause Significant
Potential Overpayments in VA
Pension Program

VA posting errors. This notwithstanding, we are reasonably confident that the computerized records we used were correctly posted from reports filed with VA.

Most Potential
Overpayments Not
Identifiable by VA's Self-
Reporting Process

From beneficiary income information recorded in VA's payment system in November 1984, we calculated that 148,675 beneficiaries were potentially overpaid \$182.5 million in 1984. Self-reported year-end income adjustments by beneficiaries would have allowed VA to identify and adjudicate about \$25.3 million in potential overpayments. About 14,500 of the 148,675 potentially overpaid beneficiaries fully reported their actual income to VA at year-end, we estimate. Thus, VA would have been unable to identify the remaining \$157.2 million in potential overpayments to about 134,200 beneficiaries because it lacks access to third-party-reported tax data at IRS and SSA.

We sampled 631 potential overpayment cases (200 Protected Law and 431 Improved Law) to determine if beneficiaries adjusted their initial income estimates. Of the 631 cases, 9.8 percent (62) had adjusted their estimated 1984 incomes at year-end to agree with the income information we found in tax records. The other 90.2 percent, or 569 potential overpayment cases, were not identifiable by VA's self-reporting process because the beneficiaries' reported year-end "actual" incomes for 1984 were lower than those shown in the tax records.

To qualify for any pension under either protected pension program, a beneficiary's income must fall under a fixed income limit. Only 7.5 percent (15) of our 200 sample overpayment cases had reported "actual" year-end 1984 incomes above that limit, and VA could have determined that the pensioners' 1984 incomes exceeded the limit. VA could have adjudicated and appropriately adjusted about \$4.1 million of the \$54.1 million we identified through tax data as potential overpayments to protected pension beneficiaries in 1984.

The Improved Law pension program requires a dollar-for-dollar pension adjustment for income beneficiaries report to VA. In our sample, only 10.9 percent (47) of the 431 potentially overpaid beneficiaries reported at year-end "actual" incomes for 1984 that agreed with the tax data and affected their 1984 pension payments. In an additional 21.1 percent (91) of the cases, beneficiaries had adjusted their 1984 incomes at year-end, but the adjusted incomes still did not agree with 1984 tax data. Acting on these income changes, VA could have adjudicated and appropriately adjusted about \$21.2 million of the \$128.4 million we identified through

tax data as potential overpayments to Improved Law beneficiaries in 1984.

Beneficiaries Not Properly Self-Reporting Income

VA pension beneficiaries must annually report their sources and amounts of income and other financial data, such as net worth. Using tax data, we found that over the years many beneficiaries had significant earnings they did not report to VA. Such earnings were not detected through VA's system of annual self-reporting of income. Also, many beneficiaries did not report all interest and dividend income and in many cases reported little or no net worth. This meant VA had no indication that (1) their interest and dividend income was unreported or underreported and (2) they had significant financial resources to allow self-sufficiency.

Nonreporting of Earnings

Of the 148,675 potential overpayment cases we identified, more than 26,000 pensioners reported no earnings, according to VA's November 1984 records, although tax data showed that they earned \$1,000 or more. Our validation sample of 631 potential overpayment cases included 113 of those cases. Among the 113 were 50 cases where, according to tax records, beneficiaries had substantial 1984 earnings (\$1,000 or more)—in one case exceeding \$34,000—as well as prior and subsequent year earnings. In 11 (22 percent) of the 50 cases, no earnings had been reported to VA over a 4-year period, while tax records showed substantial annual earnings over the same 4 years. Another 16 cases (32 percent) consistently reported no earnings to VA over a 3-year period but, according to tax records, had substantial earnings during that same period. The following illustrations show these types of cases, each involving a pension payment in November 1984 and slightly altered to protect the identities of the individuals involved.

- A 48-year-old veteran, his spouse, and their dependents were paid a \$913 monthly Improved Law pension. The couple had reported no earnings to VA for 1982 through 1985 and had received a monthly VA pension during these years. Tax data for 1984 showed that the beneficiary had wages exceeding \$12,000, creating an estimated potential overpayment for that year of about \$11,000. Tax records indicated he had earnings for 1982, 1983, and 1985 that likewise could have precluded pension payments for those years.
- A 66-year-old veteran and his spouse received a \$602 monthly Improved Law pension. The veteran had reported no earnings to VA for 1982 through 1985 and received monthly pensions during each of those years. Tax data showed, however, that the beneficiary earned over \$8,000

Chapter 2
Unreported Income May Cause Significant
Potential Overpayments in VA
Pension Program

annually in 1982, 1983, and 1984 and over \$26,000 in 1985. These earnings levels would preclude payment of any VA pension.

- A 58-year-old surviving spouse was paid a Section 306 monthly pension of \$133. Annual income questionnaires returned by the beneficiary indicated no earnings in 1982, 1984, or 1985. (No data were available for 1983.) Tax data showed the surviving spouse had earnings of \$8,400 in 1982, \$9,700 in 1984, and \$9,900 in 1985. Such income exceeded the income limitation under Section 306 and would preclude payment of any VA pension.

Interest, Dividends, Net Worth
Often Unrecorded

Interest and dividends must be reported as income on the VA annual income questionnaire and the principal reported as net worth for the year. VA defines net worth as cash in the bank, investments, or securities. Generally, VA uses a net-worth figure, currently \$35,000, as an indicator for reviewing a case further to determine whether the beneficiary truly needs financial assistance. Although net worth was not a factor in determining eligibility under the Old Law, it is for Section 306 and Improved Law cases.

Unrecorded interest and dividends were the single largest factors in creating potential VA pension overpayments. Our sample included 301 potential overpayment cases in which pension beneficiaries received interest and/or dividends, according to tax records, but did not report such income to VA. Our analysis of these cases showed that 247 beneficiaries reported little or no net worth to VA: 160 reported zero net worth; 41 reported a net worth amount lower than their interest and dividend income, as recorded in tax records; and 46 reported no information on their net worth. For the remaining 54 cases, the beneficiaries reported to VA a net worth higher in amount than the interest and dividend income amounts shown in tax records but, except for two instances, not necessarily high enough to have caused VA to question why the beneficiaries had reported no interest or dividend income on their annual questionnaires. Without properly reported information on net worth, VA had no leads with which to develop whether interest and dividends were received and should have been reported. Following is an illustration of this type of case. The facts have been slightly altered to mask the identity of the individual involved:

In November 1984, a 52-year-old surviving spouse received an Improved Law pension payment of \$154. She had earlier reported an estimated annual retirement income of \$1,836 for 1984. Information contained in the 1984 tax records showed, however, that she also received over

\$5,000 in dividend income. On her 1985 VA income questionnaire, she reported no 1984 dividend income and no actual or estimated net worth for 1984 and 1985, respectively. Since her 1984 retirement and dividend income together exceeded the VA maximum entitlement limit of \$3,695, she would be precluded from receiving any VA pension payment. Also, since she did not report the amount of her net worth, VA had no indication that this beneficiary might have sources of unearned income.

Improvements Needed in VA's Beneficiary Income Questionnaire

Improvements in the current design of VA's income questionnaire could help minimize unintentional misreporting and reduce erroneous payments. But such improvements would not eliminate VA's need for a means to independently verify information provided, as they would neither preclude all unintentional misreporting nor prevent intentional misreporting by individuals to obtain a VA pension.

Before October 1985, VA collected eligibility data centrally. It sent each beneficiary an Annual Income Questionnaire (AIQ) worksheet instruction form and an AIQ card. The beneficiary was asked to summarize income data on the form, then transfer the information to the AIQ card and submit the card to VA (see figs. VII.1 and VII.2). The beneficiary kept the worksheet, and VA used the AIQ card to enter income data in the pension payment record. VA would make no pension payments to a beneficiary unless (1) it received the AIQ card and (2) income eligibility limits were met.

In October 1985, VA spread the workload of this function to all VA regional offices administering the pension program, and replaced the AIQ card with an Eligibility Verification Report (EVR) form similar to the former AIQ worksheet (see fig. VII.3). EVRs are mailed to VA beneficiaries throughout the calendar year according to a distributed workload plan. Beneficiaries now report their actual and expected income on a fiscal year basis and return the EVR to a VA regional office for processing and updating of the central VA pension master record.

In addition to requiring information on income and net worth, the EVR contains questions as to the pension beneficiary's medical expenses and marital and dependency status. At the time of our review, the form came in 9 versions—now 11, according to VA—each tailored to a specific pension law and/or category of beneficiary.

We examined over 1,000 submissions of the VA questionnaire, as this was an integral part of our validation of potential overpayment cases. After

Chapter 2
Unreported Income May Cause Significant
Potential Overpayments in VA
Pension Program

reviewing many respondents' answers to certain questions, we decided to evaluate the design of the current questionnaires and accompanying instruction sheet in accordance with GAO's published guide, Developing and Using Questionnaires. The standards in this guide reflect conventional practice in the field of survey research.

Generally, we found the questionnaires to contain bureaucratic jargon, long and complex questions, poorly defined terms, and unclear instructions, and to be printed in a type size that would be difficult for much of the respondent population to read.

Neither the AIQ nor the EVR was pretested with a sample of respondents before implementation, according to VA officials. Such pretesting is a conventional practice in the field of survey research. Rather, VA chose to rely on feedback from its own officials to effect any improvements. This method permitted design weaknesses in the AIQ and EVR to go unnoticed, although we cannot relate them to any of the overpayment problems cited in this report.

We believe that the EVR can and should be improved and that VA should have the benefit of our observations before undertaking any design improvement efforts. Following are some suggestions for improvement:

- Shorten the questions and increase the type size to accommodate older respondents.
- Make instructions less complex and better define certain key terms.
- Phrase questions to instruct respondents as to where they should obtain information.
- More prominently display the legal penalty for submitting false information.

Our more detailed observations regarding the design of VA's mail questionnaires are included in appendix VII.

Concerns About Using Tax Data to Verify Eligibility for VA Pensions

The magnitude of possible erroneous VA pension payments strongly suggests that VA should be authorized access to tax data to verify income eligibility in the veterans' pension program. Using tax data for nontax purposes has serious implications, however, in terms of potential effect on both the voluntary tax system and individual fairness and privacy. A balance between these concerns and the government's quest for program integrity should be considered by the Congress when deliberating whether the VA pension program should be granted access to tax data.

After considering a number of issues, we concluded that:

- The most effective and only suitable alternative means to verify self-reported beneficiary income is to allow VA access to third-party-reported tax data.
- Use of tax data would increase VA's program management efficiency and effectiveness and likely result in millions of dollars in annual savings.
- The benefits of using tax data for income verification would appear to outweigh costs at ratios ranging from 11 to 1 to as much as 58 to 1, depending upon the criteria used to select cases for adjudication.
- VA's use of third-party tax data for verifying income likely would increase beneficiary compliance with VA income reporting requirements, just as public knowledge that IRS uses such data for verification purposes over the years has enhanced voluntary compliance with the tax laws.
- There are no studies to show whether there is, or has been, any change in voluntary tax compliance as a result of authorizing a program access to tax information for nontax administration purposes. However, IRS is planning to initiate such a study.

Use of the third-party tax data we obtained under procedures identical to those authorized by DEFRA proved to be an efficient, economical, and effective way to identify potential erroneous VA pension payments.

Are There Suitable Alternatives to VA's Use of Tax Data?

We considered possible ways, other than using tax data, by which VA could verify income reported by pension beneficiaries and whether VA's existing procedures for collecting income data could be improved. An acceptable alternative source should be

- readily accessible, preferably from an automated system;
- complete, in that all major earned and unearned income is included; and

Chapter 3
Concerns About Using Tax Data to Verify
Eligibility for VA Pensions

- accurate, in that no inherent bias exists in how the income is reported and some management effort is expended to assure that the information is free from error.

One possible source we considered, but rejected as unacceptable, was the quarterly wage information available from the files of individual state agencies that administer the Unemployment Compensation Program. While this information is housed in automated systems, VA would have to access it on a state-by-state basis. Although previous uses of these files by us and VA's Office of Inspector General have resulted in some program savings, we also have reported¹ that it was impractical for federal agencies to do verification matches individually with each of the state wage files, even in the unlikely event that all 50 state agencies would cooperate.

Further, state wage data exclude earned income for such categories of individuals as military personnel, federal civilian employees, railroad workers, and the self-employed. Nor do state files contain information on such unearned income as interest and dividends, which can only be obtained from tax records. Moreover, the accuracy of state wage data (which states do not verify or warrant) would not suffice for VA pension program purposes, although it generally is considered adequate for administering Unemployment Compensation.

In addition, we considered whether VA could obtain data on interest and dividend income from a single source other than the IRS form 1099 file. The only other source would be the individual payers of interest and dividends, such as banks and corporations. It would be virtually impossible for VA to independently identify, and impracticable for it to obtain such information from, each and every needed institution. Moreover, financial institutions ordinarily are precluded from disclosing records about individual customers' accounts to federal agencies by the Right to Financial Privacy Act of 1978 (Public Law 95-630).

Thus, we determined that tax data were the best alternative source because:

- Tax data on earned income are maintained in automated readily accessible files at both SSA and IRS, and tax data on unearned income are similarly maintained at IRS.

¹A Central Wage File for Use by Federal Agencies, Benefits and Concerns (GAO HRD-85-31, May 21, 1985).

Chapter 3
Concerns About Using Tax Data to Verify
Eligibility for VA Pensions

- IRS and SSA data constitute the most complete national record containing individual income information—wages, pensions, annuities, interest, dividends, etc.
- With the exception of self-employed individuals who report their earnings on IRS form 1040, such data are not reported by the taxpayer, but independently by such third parties as employers and payers of pensions, interest, dividends, etc., none of whom would have an apparent incentive to report inaccurately.
- Both SSA and IRS perform accuracy checks on these reports before the data are posted to their files.

Could VA significantly improve its existing procedures for collecting income information from beneficiaries? We believe it is possible for VA to clarify the questionnaire and instructions used annually to collect income information, as discussed in chapter 2 and appendix VII of this report. Doing so would provide no assurance, however, that information would not be omitted—either inadvertently or deliberately—by beneficiaries. Essentially, *improving the questionnaire might provide clearer responses but not the independent means for verifying the accuracy of beneficiary-furnished income and asset information.*

VA might also require beneficiaries to annually provide copies of their IRS form 1040 income tax return to support income information provided in claiming pension benefits. But we believe this approach would be unacceptable because:

- It would not provide the independent means necessary for verifying the accuracy of beneficiary-furnished income information.
- Many VA pension beneficiaries are not required to file form 1040 tax returns because their gross income is less than the established minimum for filing a return.
- It would be more intrusive, from a personal privacy standpoint, because the form 1040 contains more information than VA would need to administer the pension program.

Would the Use of Tax Data Increase Program Management Efficiency and Effectiveness?

Income data on tax records and VA records we reviewed differed significantly, indicating that many VA beneficiaries improperly reported their income and received potential overpayments of pension benefits and, to a lesser extent, potential benefit underpayments that we did not quantify. If VA managers had access to tax data, they could

- detect whether information provided by beneficiaries was different from that reported by third parties to SSA and IRS and act to resolve the differences, enhancing the pension program's efficiency and effectiveness, and
- investigate and detect income-reporting irregularities that have occurred over the years, resulting in more accurate automated VA pension records.

Would Program Savings Exceed the Costs of Using Tax Data?

Potential benefits to the VA pension program by using tax data to identify potential overpayments would exceed costs at ratios ranging from 11 to 1 to as much as 58 to 1, depending upon the criteria used to select cases for adjudication. We base this conclusion on our estimate of potential 1984 erroneous payments and the cost to VA to retrieve tax data and so use it.

In terms of identified pension overpayments, 1984 potential VA program benefits of using tax data would amount to about \$157.2 million, we estimate. VA's cost to retrieve tax data for all pensioners and adjudicate all cases with any earned or unearned income differences would be \$13.7 million. We base this cost projection on VA's estimated average cost of \$20.32 per case in fiscal year 1986 to adjudicate pension claims having income discrepancies (\$20.32 X 674,801 cases).² In addition, computer costs would be incurred for the VA pension data/tax data computer-matching operation. Such operational costs would have to be specifically identified. In 1985, however, VA contracted with IRS to obtain aggregate tax data on all VA pension beneficiaries at a cost of \$44,000.

Actual overpayments may be less than or greater than \$157.2 million. They could be less because some beneficiaries may have reasonable and

²VA's adjudication cost per case in fiscal year 1986 represented an average of 1.12 hours of adjudicator time to administratively resolve an identified income discrepancy, primarily through correspondence with the beneficiary and, for matters remaining in dispute, through contacts with third parties. It did not include the time and cost of investigating suspected fraud cases referred to VA's Office of Inspector General.

acceptable explanations for apparent income discrepancies. The overpayment amount could be greater than \$157.2 million because we conservatively excluded miscellaneous income on IRS records from the amounts we used to calculate overpayments. VA is required to count such income, if reported or otherwise identified, in computing the pension benefit amount. Nor did we determine whether year-end beneficiary reporting created overpayments in any of the 215,507 cases, identified in our match of November 1984 beneficiary income data with tax data, with original income variances of less than \$100 (see pp. 18-19).

In our savings estimate, we do not include the monetary value of future overpayments, which could be avoided by granting the VA pension program access to tax data as soon as possible.

Our estimate of VA's cost to adjudicate cases may be high because we assumed that VA would adjudicate all 674,801 cases with third-party-reported tax data. But VA appropriately could elect to adjudicate only cases in which income variances are large enough to materially affect the benefit payment computation. (In our demonstration review, we found 134,163 cases with variances of \$100 or more.) This would reduce VA's adjudication costs from \$13.7 million to as low as \$2.73 million ($\$20.32 \times 134,163$ cases) and increase the benefit-to-cost ratio to 58 to 1.

Finally, our estimated cost to adjudicate cases does not include investigative costs to gather evidence necessary to pursue criminal prosecution for fraud where such action may be warranted. Nor does it reflect the additional pension payments that might be made to indemnify beneficiaries whom VA may have underpaid. Also, VA may incur some additional one-time costs, should its present record-keeping system need modification to fully accommodate the use of calendar-year tax data. Such costs, however, can best be identified when VA determines what system modifications, if any, actually may be needed.

Would the Use of Tax Data Increase Compliance by Program Participants?

Third-party tax data is reported by employers on IRS form W-2, by payers of pensions and annuities on IRS form W-2P, and by payers of interest and dividends on IRS form 1099. Eventually, the data on these report forms are entered into IRS' automated Information Returns Program file. IRS uses the file to verify income taxpayers report on their annual income tax returns.

These data offer the best compliance tool for detecting underreporting of income on a mass scale, GAO and IRS studies in recent years have shown. If VA pension beneficiaries are made aware that the income they annually report to VA is subject to verification using third-party tax data, compliance with VA income-reporting requirements likely would increase.

Indeed, public knowledge that IRS uses third-party data for verification purposes over the years has enhanced voluntary compliance with federal income tax laws. IRS recently estimated that in 1986, its use of form 1099 interest and dividend reports alone resulted in \$2.7 billion in additional individual income taxes paid the government.

If VA used third-party income reports for verification, VA pensioners should be less likely to fraudulently report their income. Such false claims or statements would be readily detectable and could subject them to serious criminal penalties (up to a \$10,000 fine and/or up to 5 years' imprisonment) under sections 287 and 1001 of title 18, U.S. Code.

What Would Be the Impact on Data Confidentiality, Taxpayer Privacy, and Voluntary Tax Compliance?

Potential harmful impact on compliance with the nation's tax laws is the single most important issue in deciding whether VA or other federal programs should be granted access to tax information. IRS officials advised us. Preserving the confidentiality of tax information is prerequisite to the integrity of the tax system, according to IRS, and using tax information for nontax purposes compromises that integrity. However, IRS has no empirical data to support its contention. No studies exist that might show whether there is, or has been, any change in voluntary compliance as a result of access to tax information by other programs, including those needs-based programs now having access under DEFRA. However, in its response to a draft of this report, IRS stated that its Research Division is developing plans for such a study (see app. IX).

Although section 6103 of the Internal Revenue Code generally prohibits disclosure of tax data, it contains certain exceptions allowing tax data to be disclosed to federal, state, and local agencies for such limited uses as state and local tax enforcement, and income and asset verification in specified entitlement programs. Users of tax data must conform to the stringent safeguarding requirements of the Code. To this end, IRS has issued the booklet, "Tax Information Security Guidelines for Federal, State, and Local Agencies." All users—which would include VA, should it be authorized tax access—are subject to criminal penalties for illegal disclosures and to on-site data security reviews by IRS and GAO.

Chapter 3
Concerns About Using Tax Data to Verify
Eligibility for VA Pensions

VA officials could foresee no problems in meeting the Internal Revenue Code safeguarding requirements if allowed access, they told us. Traditionally, VA has processed and safeguarded much sensitive personal data used in its medical, compensation, pension, education, and similar programs, they pointed out.

Nonetheless, granting access to tax data, even data provided by third parties, presents a special case regarding privacy and confidentiality issues. Taxpayers and third parties have little choice in revealing income information for tax administration purposes because they are mandated by law to do so and are subject to criminal and civil sanctions if they fail. The issue is whether information required to be provided for federal tax administration should be used for another unrelated purpose—*income verification in needs-based benefit programs*. In our view, the issue requires considering the trade-off between a potential increase in the efficiency and effectiveness of a legitimate government function and possible government intrusion into the private lives of individuals. In enacting DEFRA in 1984, the Congress considered that trade-off and established a significant precedent in deciding that it was in the public's best interest to authorize selected benefit programs to access third-party tax data for income verification purposes.

DEFRA's legislative history is not clear as to why the VA pension program was not included among the benefit programs authorized use of tax data. However, VA did not and still does not have a quality assurance program to determine whether beneficiary income reporting is a problem. Programs to which the act granted tax data access had a quality assurance program or some means to measure quantitatively the extent of savings possible.

The Congress intended that privacy safeguards be in place to protect the information used for verification and that individuals receive appropriate notification before any adverse action is taken to reduce or curtail benefits, the act's legislative history shows. In a recent report,³ we discussed improvements that federal agencies, including VA, need to make in how they administer their Privacy Act operations. For example, federal agencies should systematically assess and provide for Privacy Act training to ensure that personnel are aware of the act's requirements

³Privacy Act: Federal Agencies' Implementation Can Be Improved (GAO/GGD-86-107, Aug. 22, 1986)

Chapter 3
Concerns About Using Tax Data to Verify
Eligibility for VA Pensions

and Office of Management and Budget guidance pertaining to such functions as automating systems of records and conducting computer matching programs. If VA is granted access to tax data, it should be prepared to demonstrate that it can comply with and implement applicable privacy safeguards before obtaining the tax data.

The specter of a potential harmful effect on taxpayers' voluntary compliance with the tax laws is a major concern in considering disclosure of tax data for verification in needs-based entitlement programs, such as the VA pension program. We could find no relevant data, however, that would indicate the effects of prior disclosures authorized under the Internal Revenue Code on voluntary tax compliance. Moreover, files containing records on over 80 million recipients of federally supported benefit programs are now matched or are eligible to be matched for enforcement purposes against third-party tax data in SSA and IRS files on earned and unearned income. We believe, therefore, that an additional 1.6 million VA pension records should have little incremental effect on voluntary tax compliance when the Congress has already approved matching of such a large number of records against third-party tax data.

Conclusions and Recommendations

Conclusions

Significant differences exist between income recorded in VA files for pension beneficiaries and taxable income independently reported under the Internal Revenue Code for the same persons. Currently, VA is unable to identify and resolve most of these differences because it lacks access to relevant tax data, and such other information sources as state wage data bases are not suitable alternatives. VA made potential overpayments of \$182.5 million to 148,675 beneficiaries in 1984 alone, we estimate. Most of these potential overpayments—more than \$157 million to over 134,000 beneficiaries—would not have been detected by VA's system for self-reporting year-end income because VA could not verify the data against tax records. Indications are that similar conditions existed before 1984 and are continuing.

Allowing VA access to third-party-reported tax data is the most efficient, economical, and minimally intrusive way to obtain reliable, independently reported information to verify income data beneficiaries report to VA. The use of tax data would (1) increase VA pension program efficiency and effectiveness, (2) result in monetary benefits (potentially save millions of dollars annually) that outweigh significantly the related costs, and (3) likely increase beneficiary compliance with VA's income-reporting requirements.

We recognize that there are concerns about the potential effects of using tax data for nontax purposes on individual taxpayer privacy and on compliance with the tax laws. Taxpayers and third parties have little choice in revealing personal information for tax administration purposes because it is mandated by law and subject to criminal and civil sanctions. The dilemma is whether personal information required to be provided for one purpose should be used for other unrelated purposes. Although IRS plans to conduct a study to attempt to determine whether there is, or has been, any change in voluntary compliance as a result of authorizing entitlement programs access to tax information for eligibility verification purposes, no such studies currently exist.

We believe using third-party tax information may have less potential impact on compliance than using information provided directly by taxpayers. Third-party information is required to be reported for the expressed purpose of improving taxpayers' compliance with tax law income-reporting requirements. Also, selected needs-based benefit programs are currently authorized access to such data. If VA's pension program is given similar access, we believe VA could fully comply with and implement the appropriate privacy and data security safeguards.

Also, improvements in the current design of VA's income questionnaires and accompanying instruction sheet could help minimize unintentional misreporting by beneficiaries and reduce erroneous payments. We believe VA should take advantage of our observations in chapter 2 and appendix VII in redesigning these documents and pretest them with a sample of respondents before implementing them program-wide. Such improvements, however, would neither preclude all unintentional misreporting nor prevent intentional misreporting by individuals to obtain a VA pension and thus would not eliminate VA's need for access to tax data as a means to independently verify such information.

Recommendation to the Congress

Given the potential savings and the absence of data on potential adverse consequences to the tax system and taxpayer privacy, we recommend that the Congress amend section 6103(1)(7) of the Internal Revenue Code to allow VA to access tax information so it can verify the income information that VA pension program beneficiaries report, investigate and resolve income differences, and prevent similar recurrences. In amending the law, we suggest the following wording:

"Section 6103(1)(7) of the Internal Revenue Code is amended by:

- striking out the period at the end of subparagraph (A) and adding 'or Title 38, United States Code.' thereto;
- striking out the 'and' at the end of subparagraph (D)(vi);
- striking out the period at the end of the subparagraph (D)(vii) and adding '; and' at the end thereof; and
- adding the following new subparagraph (D)(viii): '(viii) benefits provided under the veterans pension program.' "

Recommendations to the Administrator of Veterans Affairs

To attain better reporting of beneficiary income and asset information, we recommend that the Administrator

- revise VA's income questionnaires and accompanying instruction sheet to eliminate current design weaknesses, including those we have identified, and
- pretest the revised documents with a sample of beneficiaries before program-wide implementation to assure that the beneficiaries clearly understand each question and instruction.

Agency Comments

We requested comments on a draft of this report from VA, IRS, and the Department of Health and Human Services (HHS). Their comments and our evaluations of them are summarized below. Their written comments are presented in full in appendixes VIII, IX, and X, respectively.

VA Comments and Our Evaluation

The VA Administrator stated that VA shares our concerns regarding income verification and the agency needs the ability to verify wages, interest, and dividends. He stated also that VA concurs, in part, with our recommendation that its annual income questionnaire documents be revised. He stated that VA would amend its EVR instruction sheet to emphasize to the beneficiary (1) the need to report accurate income information, especially wages, interest, and dividends, and (2) the legal penalty for submitting false information. He stated also that VA agrees with our conclusion that having a questionnaire designed for more than one type of respondent creates the potential for error (see app. VII, p. 77) and that the number of EVR types has increased from 9 to 11.

Regarding our observation that nearly all of the EVR's design problems are a direct result of VA's attempt to limit its length to a single letter-sized sheet printed on both sides (see app. VII, p. 79, and fig. VII.3), the VA Administrator pointed out that, when the EVR was being designed, VA considered using a multiple-page form (and an address label), which would have permitted larger type and had a less cluttered appearance. VA rejected the approach because it would have required using printed forms without the veteran's claim number or the mailing address of the VA regional office. VA believed that beneficiaries could not be relied upon to affix a preprinted address label to the form or accurately provide the claim number and address information. VA felt that many EVR forms would be misrouted, processing delays would occur, and pension accounts would go into suspense erroneously.

Instead, VA chose to generate the EVRs on its laser printer (at its Hines, Illinois, computer center, according to VA officials) that is programmed to print the claim number and regional office address on the EVR as the form itself is printed. This and the furnished window envelope, according to VA, ensure prompt return and expeditious processing. But using the laser printer, VA stated, restricts the EVR to a one-page (two-sided single sheet) form. Thus, VA believes it is in the beneficiaries' best interests to continue using the laser-printed, one-page form, although VA agreed to review each question to determine if it can be improved.

Chapter 4
Conclusions and Recommendations

We believe that VA's desired laser printing of the claim number and regional office return address on the front side of the EVR is not an insurmountable barrier to further improving its clarity. For example, VA could consider using a legal-size (8-1/2" X 14") form printed on both sides or stapling a preprinted letter-size continuation sheet to a laser-printed first sheet. Either option would allow VA additional space to simplify questions, more clearly define terms, enlarge type size, and provide a less cluttered format—toward the goal of increasing VA's likelihood of obtaining more accurate responses from pension beneficiaries.

VA does not concur with our recommendation that it pretest any revised EVR documents with a sample of participants before using them nationwide. VA stated that, while pretesting does have merit, doing so would not significantly improve beneficiary reporting. The main cause of overpayments, according to VA, is client failure to report wages, interest, and dividends. VA said that the related EVR questions are "quite simple and uncluttered." Rather than improve form design, VA believes it needs the ability to verify wages, interest, and dividends.

As we point out in chapter 2 and appendix VII, pretesting is a standard practice in survey research and is an accepted quality assurance process that can be used to quickly determine whether respondents understand the questions presented and can accurately respond to them with a minimum of effort. We continue to believe that VA should pretest the EVR documents in view of its reliance on those documents for critical information needed to administer this program.

VA also furnished technical comments on the report text, and they were considered in finalizing the report.

**IRS Comments and Our
Evaluation**

The Commissioner of Internal Revenue stated that our recommended revision to the Internal Revenue Code to authorize the VA pension program access to tax data is unwise and inappropriate. The confidentiality of tax information, he stated, is a prerequisite to preserving the tax system's integrity, and using tax information for nontax purposes could compromise that integrity.

The Commissioner also stated that this report and an earlier GAO report¹ noted weaknesses within VA's automated data processing (ADP) systems, such that disclosing tax data to VA would pose safeguard problems. He

¹Veterans Administration Financial Management Profile (GAO AFMD-85-34, Sept. 20, 1985).

stated that, since a computer matching program is the only avenue for providing tax data to VA for its pension program, deficient computer operations would adversely affect safeguarding of tax data.

The Commissioner pointed out that VA's ADP system, for the most part, is segmented with various computer centers utilizing different access systems. These systems, he stated, can further be accessed by a total of 732 processing centers, thus creating hazards for inadvertent disclosures by those processing centers. Several magnetic tapes would also be duplicated, he stated, creating monumental oversight problems for the offices involved. As further support for IRS' position, the Commissioner cited our statement in chapter 3 that VA "... still does not have a quality assurance program to determine whether beneficiary income reporting is a problem."

We disagree with IRS' position and its characterization of VA's data-safeguarding capabilities, including how VA would control and use the tax data it would receive from IRS and SSA through computer matching.

Nothing in our report was meant to imply that VA was or is incapable of properly safeguarding the tax data it would access under our proposal. We point out, on page 38, that VA officials could foresee no problems in meeting the Internal Revenue Code safeguarding requirements and that, traditionally, VA has processed and safeguarded much sensitive personal data in its medical, compensation, pension, education, and similar programs.

Moreover, VA's computer matching of tax data with its compensation and pension master data files would be done off-line, similar to our demonstration match and the VA Inspector General's computer matches with state wage data. Income information from the tax databases would not be entered into an individual beneficiary's automated pension record and would not, therefore, be accessible by other system users until VA had verified it with the beneficiary and/or the third-party payer. Once verified, the income information would no longer be considered as tax data. Thus, the confidentiality of the tax data VA accesses would be maintained throughout the matching and verification process.

Our report discussion of VA's current use of year-end questionnaire data was misinterpreted by IRS to indicate that VA's inability to effectively use the information it now receives further argues against furnishing VA with even more information. This conclusion was based on our report

information that VA, using its current year-end self-reporting questionnaires, would have been able to identify and act on only \$25.3 million in potential overpayments (for 1984). This discussion was not intended to indicate that VA was not effectively using available information.

Rather, it was intended to show that VA's self-reporting process does identify some but not all overpayments, and VA adjusts ongoing benefit payments using income and net worth data that beneficiaries do report. Using the results of our demonstration match of VA and tax data, however, we estimated that VA's self-reporting process was yielding only about 10 percent of the accurate data it would have needed to identify and act on all potential overpayments.

IRS also notes that our recommending that VA improve its self-reporting questionnaires will make more accurate income information available to VA and negate VA's need for access to tax data. We agree that improving the questionnaire should help increase the accuracy of client-reported data, but we do not believe that this would substitute for VA's independently verifying beneficiary-reported data using third-party-reported tax data.

Without the use of tax data, VA's pension program will continue to have a significant internal control weakness—reliance on self-reported income data from pensioners. Improving the questionnaire will not prevent persons from deliberately not reporting or misreporting their incomes in order to obtain pension benefits.

IRS also questioned our recommended disclosure of tax data to VA because the potential savings we cite may be overestimated and the costs of investigating income discrepancies and safeguarding tax information are not included in our cost estimates. Further, IRS stated that our cost-benefit analysis was based on generalized revenue potentials and failed to account for the possible effects of tax data disclosure on voluntary compliance with the tax laws and, ultimately, on tax revenues.

We disagree with IRS' assessment. We believe the benefits or savings for VA are likely to be higher than our \$157 million estimate because of the conservative methodology we used in estimating potential overpayments (see app. V, p. 62). Also, our cost estimates were portrayed as a range and would depend upon the type and number of pension cases VA would decide to adjudicate through direct contact with beneficiaries and third-party payers of earned and unearned income. Investigative and

Chapter 4
Conclusions and Recommendations

related prosecutorial costs would be incurred only where VA suspected, based on its adjudication efforts, that fraud was present in a specific case. We believe such cases would be the exception rather than the general rule, but cannot reliably estimate such costs. As pointed out previously, VA has already had considerable experience safeguarding sensitive personal data, and, based on discussions with VA officials, the incremental costs of adequately safeguarding the tax data should be minimal.

Also, our analysis recognizes the possibility that disclosure of tax data for nontax purposes could have an effect on taxpayer voluntary compliance and tax revenues. As we point out in chapter 3, however, no empirical evidence currently exists on what the effects might be. In this regard, IRS questioned our draft report statement that there were no studies existing or underway on the effects of disclosures for nontax purposes. IRS pointed out that its Research Division is now developing plans to conduct a study to "determine what empirical effect disclosure for verification of needs-based programs would have on compliance with the tax laws," and will seek GAO's input to that effort. IRS believes that its planned study should be completed before any consideration is given to further amending the Internal Revenue Code to grant tax data access authority to the VA pension program.

We have modified our report text to recognize IRS' planned study, and agreed to review the study design and provide IRS with our observations. IRS estimates, however, that the study may take 2 years or more to complete. In view of the substantial amount of dollars in VA pension overpayments that might go undetected and unrecovered pending the planned study's completion—the results of which may prove inconclusive—we believe congressional consideration of our recommendation to authorize the VA pension program access to tax data should proceed. As we point out in chapter 3, the Congress has already approved the matching of over 80 million records with tax data; an additional 1.6 million records verified by VA using tax data would appear to have little incremental effect on voluntary tax compliance.

HHS Comments

HHS commented that the Executive Branch is currently reviewing our recommendation to amend the Internal Revenue Code to allow the VA pension program access to tax data.

Letter Dated September 10, 1985, From the Chairman, Senate Committee on Veterans' Affairs, to the Comptroller General

FRANK H. MURKOWSKI ALASKA CHAIRMAN
ALAN K. SIMPSON WYOMING
STROM THURMOND SOUTH CAROLINA
ROBERT T. STAFFORD VERMONT
ARLEN SPECTER PENNSYLVANIA
JERMANAH DENTON ALABAMA
RUDY BOSCHWITZ MINNESOTA
ALAN CRANSTON CALIFORNIA
SPARE B. MATSUNAGA HAWAII
DENNIS DECONCINI ARIZONA
GEORGE J. MITCHELL MAINE
JOHN D. ROCKEFELLER IV WEST VIRGINIA
ANTHONY J. PRINCE CHIEF COUNSEL STAFF DIRECTOR
JONATHAN R. STENBERG MINORITY CHIEF COUNSEL
STAFF DIRECTOR

United States Senate

COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, DC 20510

September 10, 1985

The Honorable Charles A. Bowsher
Comptroller General of the United States
U. S. General Accounting Office
441 G. Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

The Human Resources Division of the General Accounting Office (GAO) informed me that as of February 1984, it has identified, and the Veterans' Administration (VA) has confirmed, 237 cases of VA pension overpayments of approximately \$1 million in the Philadelphia metropolitan area because of unreported earned income. The Veterans' Administration Office of the Inspector General has also identified several million dollars in pension overpayments in Georgia and Florida because of misreporting of income by pension recipients. In light of this preliminary information supplied to me, I am requesting you to undertake a one-time demonstration study at the national level, to assess the operation of two programs involving veterans' benefits--the Veterans' Administration needs-based pension program and the Veterans' Administration individual unemployability (Code 18) compensation program.

The VA pension program provides benefits to eligible wartime veterans and to such veterans' surviving spouses and minor children. Pension eligibility is based on the veteran's permanent and total disability, which is not traceable to service, and the service requirements and income criteria established by title 38 U.S.C. The program is designed to provide a minimum level of income to eligible beneficiaries based in large part, on financial need, as determined by the beneficiary's report of income and assets to the VA. The VA individual unemployability compensation program provides for the award of a total disability rating for compensation benefits where the veteran's schedular rating is less than total, but the veteran is unable to secure or follow a substantially gainful occupation as a result of service-connected disabilities. Thus, changes in a veteran's employment status has direct bearing on a total disability rating based on unemployability.

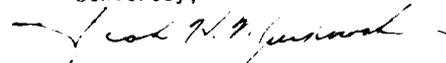
**Appendix I
Letter Dated September 10, 1985, From the
Chairman, Senate Committee on Veterans'
Affairs, to the Comptroller General**

The Honorable Charles A. Bowsher
September 10, 1985
Page 2

In conducting this study, I request you to include all VA pension law programs, and the entire universe of VA pension and Code 18 recipients, taking into consideration, however, the statutory changes made by P.L. 98-543, which added new trial-work period pilot projects and which may have an impact on this study. I also request GAO to consider all forms of earned and unearned income which have been reported to the Internal Revenue Service. I recognize that the best source for obtaining this data is tax information held by the Internal Revenue Service. I further recognize that the Internal Revenue Code restricts the circumstances under which the IRS may disclose this information (Code sec. 6103). Under the Code, disclosure is now permitted to many other agencies, but not to the Veterans' Administration, for use in auditing programs administered by them. GAO generally may access tax information for its audits only to the extent that the agency being audited may do so. Since tax information is not available to the VA to use in administering these programs and thereby to GAO, I am requesting the Chief of Staff of the Joint Committee on Taxation to designate GAO as an agent of that Committee for purposes of conducting this study. Tax information used by GAO for this purpose will be subject to all restrictions on disclosure that apply to other GAO studies conducted as agent of the Joint Committee.

Finally, in requesting this study, my goals are to preserve the integrity and legislative intent of these important programs by ascertaining whether recipients are receiving the benefits to which they are eligible, as well as protecting the privacy considerations of all those recipients who are eligible for these VA benefits. I believe the methodology proposed by GAO for this study will achieve these goals through the use of procedures which are currently available to other federal agencies.

Sincerely,



Frank H. Murkowski
Chairman

Enclosure

Letter Dated September 10, 1985, From the Chairman, Senate Committee on Veterans' Affairs, to the Chief of Staff, Joint Committee on Taxation

FRANK H. MURKOWSKI, ALASKA, CHAIRMAN	
ALAN F. SIMPSON, WYOMING	ALAN CRANSTON, CALIFORNIA
STROM THURMOND, SOUTH CAROLINA	SPARK M. MATSUNAGA, HAWAII
ROBERT V. STAFFORD, VERMONT	DENNIS DUNCAN, ARIZONA
ARLEN SPECTER, PENNSYLVANIA	GEORGE J. MITCHELL, MAINE
JERMIAN DENTON, ALABAMA	JOHN D. ROCKEFELLER IV, WEST VIRGINIA
RUDY BOSCHWITZ, MINNESOTA	
ANTHONY J. RINICCI, CHIEF COUNSEL/STAFF DIRECTOR	
JONATHAN S. STENBERG, MINORITY CHIEF COUNSEL/ STAFF DIRECTOR	

United States Senate

COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, DC 20510

September 10, 1985

David H. Brockway, Esq.
Chief of Staff
Joint Committee on Taxation
1015 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Brockway:

The General Accounting Office (GAO) has supplied me with preliminary information which identified significant overpayments of Veterans' Administration (VA) pension benefits in the Philadelphia metropolitan area, based on a computer match of state wage files. As of February 1984, GAO identified, and the VA confirmed, 237 cases of pension overpayments of approximately \$1 million because of unreported earned income. The VA Office of the Inspector General has also identified several million dollars in pension overpayments in Georgia and Florida because of misreporting of income by pension recipients. In light of this information, I have requested GAO to conduct a one-time demonstration study at the national level to assess the operation of two programs involving veterans' benefits--the Veterans' Administration needs-based pension program and the Veterans' Administration individual unemployability compensation program. A copy of my letter requesting this work and summarizing these programs is enclosed.

GAO informs me that the best source for obtaining the data needed to complete this project is tax information held by the Internal Revenue Service. I recognize that the Internal Revenue Code restricts the circumstances under which IRS may disclose tax information (Code sec. 6103). Under the Code, disclosure is permitted to many agencies, but not to the Veterans' Administration, for use in auditing programs administered by them. The GAO generally may access tax information for its audits only to the extent that the agency being audited may do so.

Since tax information is not available to the VA for use in administering these programs, GAO may not, on its own, access such information. To enable GAO to complete this project, I am requesting that you designate GAO as an agent of the Joint Committee on Taxation pursuant to Code section

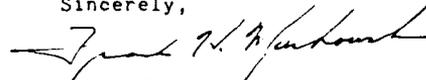
Appendix II
Letter Dated September 10, 1985, From the
Chairman, Senate Committee on Veterans'
Affairs, to the Chief of Staff, Joint
Committee on Taxation

David H. Brockway, Esq.
September 10, 1985
Page 2

6103(f)(4)(A). I understand that tax information used by GAO in this project will be subject to all restrictions on disclosure that apply to other GAO studies conducted as agents of the Joint Committee.

By requesting this study, my goals are to preserve the integrity and intent of these important programs administered by the VA by ascertaining, on the national level, whether recipients are receiving the benefits for which they are eligible, while at the same time, protecting individual privacy rights of all recipients eligible for these VA benefits.

Sincerely,



Frank H. Murkowski
Chairman

Enclosure

Letter Dated February 13, 1986, From the Chief of Staff, Joint Committee on Taxation, to the Comptroller General

88TH CONGRESS 1ST SESSION		DAVID H. BROCKWAY CHIEF OF STAFF
MEMBERS		RANDALL D. WEISS DEPUTY CHIEF OF STAFF
HOUSE	SENATE	
DAN ROSTENKOWSKI MICHIGAN	BOB PACE WISCONSIN	
CHARLES STENBERG CALIFORNIA	WILLIAM V. Roth JR. DELAWARE	
J. P. WELLS TEXAS	PHILIP B. LONG LOUISIANA	
JOHN J. DUNCAN TENNESSEE	CLYDE BEN SEN TEXAS	
BILL ARCHER TEXAS		

Congress of the United States
JOINT COMMITTEE ON TAXATION
1015 LONGWORTH HOUSE OFFICE BUILDING
Washington, DC 20515
FEB 13 1986

Honorable Charles A. Bowsher
Comptroller General of the United States
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

The Joint Committee on Taxation, pursuant to section 6103(f)(4) of the Internal Revenue Code of 1954, as amended, requests the General Accounting Office to evaluate the accuracy of income reporting required of recipients of pension payments under the Veterans' Administration needs-based pension program and individual unemployability compensation program. Senator Frank Murkowski, Chairman of the Senate Committee on Veterans' Affairs, previously has requested you to conduct this evaluation and has requested my cooperation in enabling you to use tax information as part of your work. A copy of Senator Murkowski's letters to me and to GAO are enclosed.

The VA programs to be evaluated provide needs-based payments to veterans who suffer from non service connected disabilities. As a condition of receiving these pension payments, veterans must report their income annually to the VA. GAO has informed me that the best source for determining the accuracy of these income reports is tax information. Under the Internal Revenue Code, except when acting as agent of the Congressional tax-writing committees, GAO has access to tax information for purposes of auditing a Federal program only if the agency administering the program has such access. The VA does not have access to tax information.

I expect that your designated representatives will have access only to such tax information as is necessary to evaluate the accuracy of income reported by recipients of pension payments under these VA programs. Because of the interest of other committees, including the Senate Committee on Veterans' Affairs, in this subject, I anticipate that you will be asked to brief other committees on the progress of

Appendix III
Letter Dated February 13, 1986, From the
Chief of Staff, Joint Committee on Taxation,
to the Comptroller General

Congress of the United States

JOINT COMMITTEE ON TAXATION

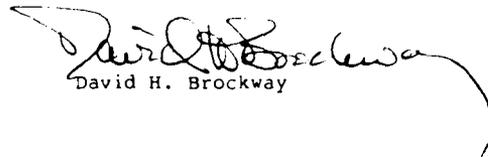
Washington, D.C. 20515

Honorable Charles A. Bowsher
Washington, D.C. 20548

Page Two

your work. I do not object to such briefings; however, I would like to be notified in advance as to the nature and time of all such briefings and be given an opportunity to attend. (Of course, these discussions may not involve any disclosure of tax returns or return information.)

Sincerely,



David H. Brockway

Enclosures

VA Income and Expense Criteria for Calculating Pension Payments (1984)

Pension law	Income and expense criteria		
	Veteran/widow	Spouse	Children
Improved law:			
Countable income	All sources ¹	All sources	All sources (less earnings under \$3,300)
Countable expenses	Unreimbursed medical expenses in excess of 5 percent of the guaranteed annual pension payment amount		
Section 306:			
Countable income	All sources, less 10 percent of social security and retirement	All sources less (a) 10 percent of social security and retirement, and (b) the greater of \$1,998 or earnings	None
Countable expenses	Unreimbursed medical expenses in excess of 5 percent of total income		
Old law:			
Countable income	All sources, less 10 percent of social security and retirement (excluding railroad retirement)	None	None
Countable expenses	Medical expenses considered "excessive"		

¹All sources include earnings, social security benefits, retirement, and other (including interest and dividends)

Objective, Scope, and Methodology

Objective and Scope

As requested by the then Chairman (now Ranking Minority Member) of the Senate Veterans' Affairs Committee on September 10, 1985 (see app. I), we undertook a one-time review to ascertain nationwide the accuracy of income reporting and possible resultant payment error in VA's nonservice-connected disability pension program. In requesting this review, the former Chairman cited previous GAO and VA Inspector General reviews in certain geographic areas that questioned the program's payment integrity.

To accomplish this objective, we were authorized access to federal tax data so we could independently verify the accuracy of beneficiary-reported income and estimate the extent of erroneous payments. As the VA pension program is not authorized access to tax data under the Internal Revenue Code, by law GAO does not routinely have access to tax data for purposes of auditing that program. Thus, the then Chairman of the Senate Veterans' Affairs Committee requested the Chief of Staff of the Joint Committee on Taxation to authorize our access to tax data as an agent of that committee under section 6103(f)(4)(A) of the Internal Revenue Code (see app. II). In granting us this authority for the project, the committee's Chief of Staff stressed that disclosure of any individual tax information is prohibited by section 6103 (see app. III).

Because of this disclosure limitation, any potential erroneous pension payments we identified using tax data could not be referred to VA for adjudication and resolution. Rather, we were restricted to matching and analyzing computerized data obtained from VA and tax databases and depicting our results so as to avoid any disclosure of individual tax returns and return information.

Methodology

We initially focused on accessing the three relevant databases—the master compensation and pension record file, the Information Returns Program file, and the earnings reference file—maintained by VA, IRS, and SSA, respectively, containing calendar year 1984 data. We designed this phase of our study to parallel, to the extent possible, the tax access procedures recently established for other needs-based programs by DEFRA. Essentially, those procedures allow programs to access SSA's earned income tax data and IRS' unearned income tax data and require privacy protection safeguards as well as the provision of due process.

After obtaining 1984 tax data and linking it with November 1984 VA pension beneficiary records, we performed three different levels of analysis, each designed to enhance the study results:

- Level I. We measured the differences between beneficiaries' estimates of income recorded in 1984 VA pension records and third-party-reported 1984 income in the tax databases.
- Level II. We estimated the effect of the differences on VA pension payments.
- Level III. We randomly tested original file copy records submitted by VA pension beneficiaries to validate whether the data contained in VA's computerized master records were accurate.

We undertook the level III analysis largely because we were restricted from referring the potential overpayment cases to VA for investigation and resolution. (See fig. V.1 for a flow chart of our matching and data analysis process.) At no time during or as a result of this study were benefit payments adjusted or beneficiaries, employers, or payers of income contacted. Such actions would be appropriate only if the VA pension program were granted access to tax data.

Accounting for VA Records Used in Computer Match

VA maintains a computerized current monthly compensation and pension master record used to identify and manage all active cases. The purpose of our study was to validate pension payments made to veterans, surviving spouses, and their dependent children. However, we did not include VA cases of surviving dependent children who on their own behalf receive pension payments. These totaled 92,359 as of September 1984. We duplicated VA's November 1984 compensation and pension master record containing 1,569,087 cases.

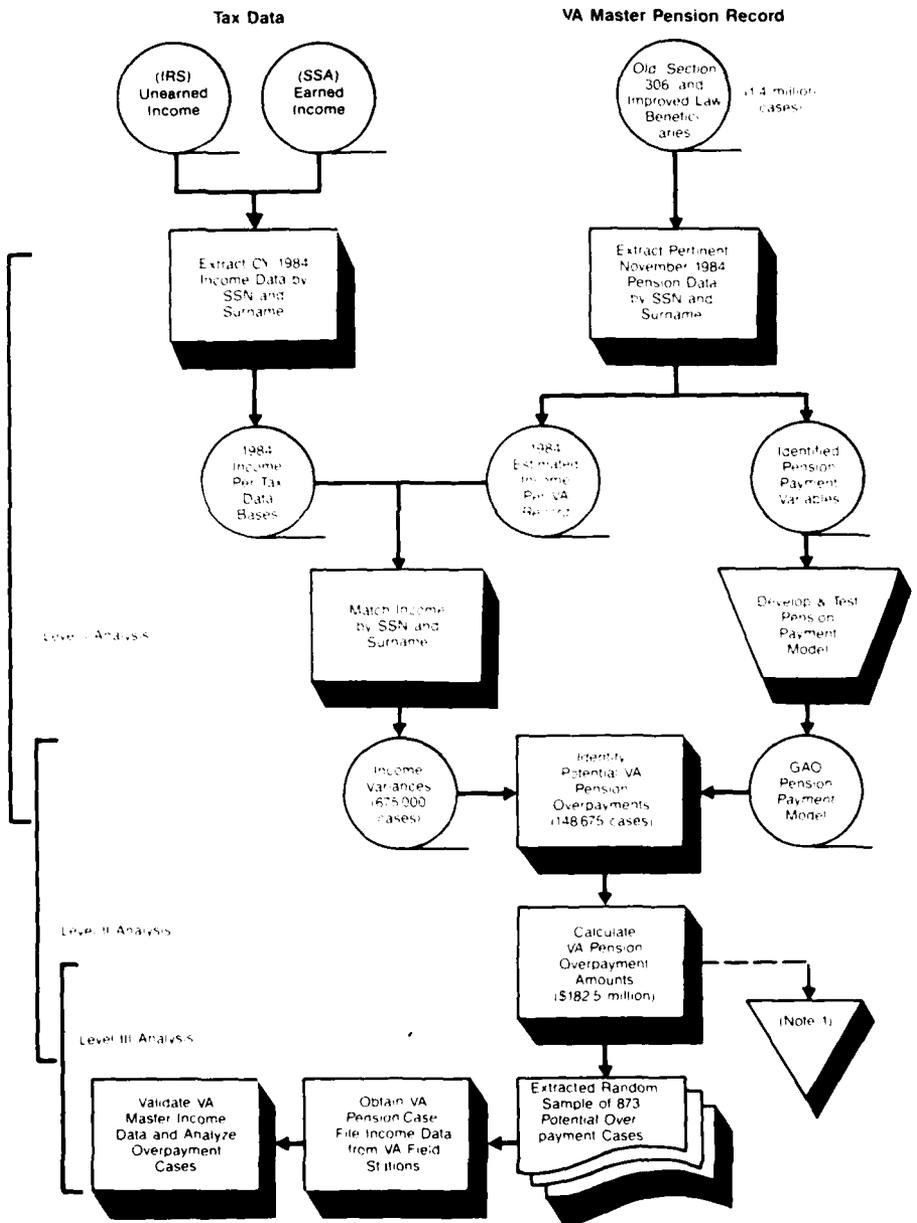
Subsequently, we excluded 44,203 cases involving payments under the parents' dependency and indemnity compensation program. We also excluded 82,829 cases involving compensation at the 100-percent-disabled rate due to individual unemployability, since VA applies unique income eligibility rules to these benefit payments. These latter cases were the subject of a separate GAO report¹ also requested by the then Chairman, Senate Committee on Veterans' Affairs, in his letter of September 10, 1985 (see app. I).

To further refine the duplicate VA computerized master record, we excluded 14,556 pension cases having no SSN identifiers; 27,801 cases for which VA had already posted 1985 estimated income data, thereby superseding the comparable 1984 income data; and 3 cases for which

¹Veterans Benefits: Improving the Integrity of VA's Unemployability Compensation Program (GAO/HRD-87-62, Sept. 21, 1987).

Appendix V
Objective, Scope, and Methodology

Figure V.1: Flow Chart of GAO's Matching and Data Analysis Process



¹ If VA had been authorized access to tax data, the identified potential overpayment cases would have been referred to VA at this point for investigation and adjudication.

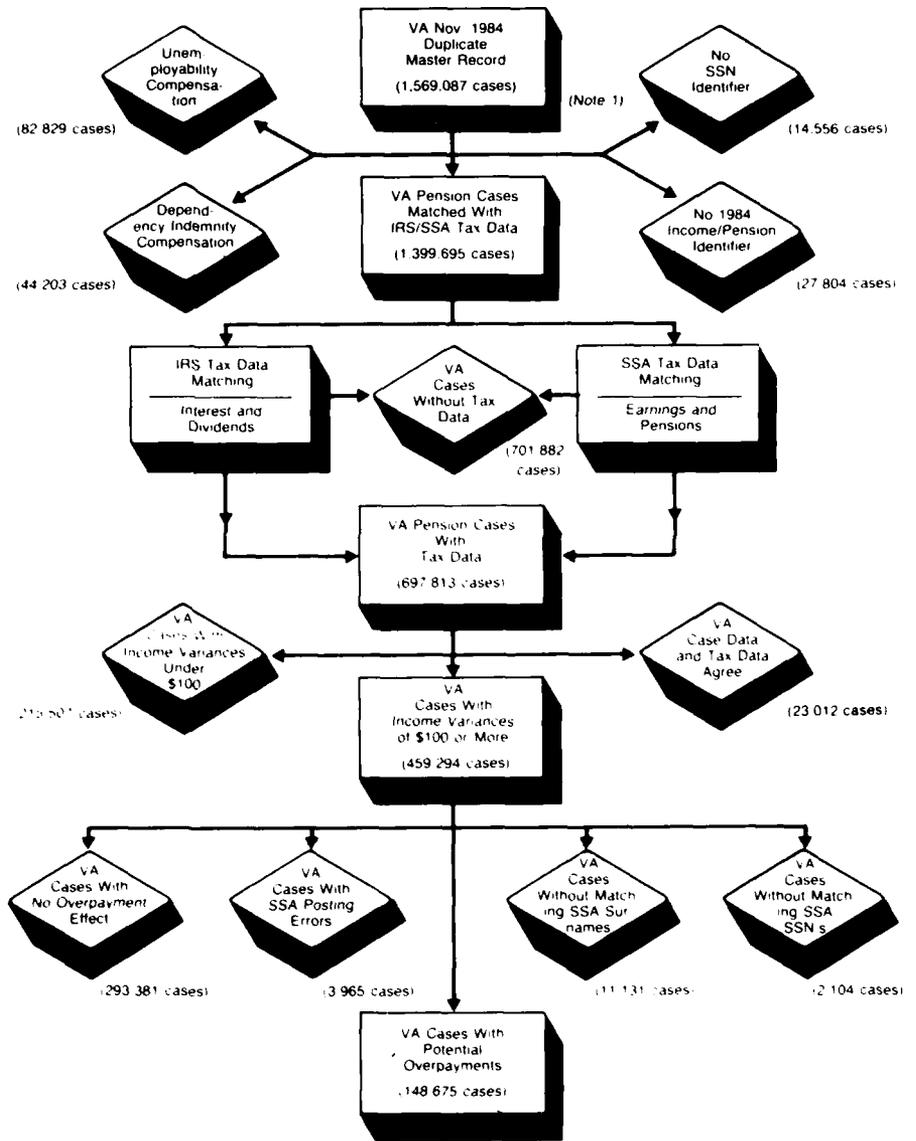
the applicable pension program could not be identified. Thus, our duplicate and refined copy of VA's November 1984 master record contained 1,399,695 pension cases, which we matched against IRS and SSA computerized tax data files for calendar year 1984. This process identified 697,813 VA pension cases with income as reported to IRS or SSA by third parties. The balance of 701,882 pension cases had no recorded income in the tax data files for 1984.

For the 697,813 pension cases with 1984 tax data (earned or unearned income), we compared the income data in the tax files with the income data shown in VA's master record and found 23,012 cases in which the income entries were identical. These cases we excluded from further analysis together with 215,507 cases with income variances between VA and tax data of under \$100. We conservatively chose a \$100 income variance for each pension case as a buffer zone for purposes of our demonstration review, below which we did not calculate potential overpayments. This left us with 459,294 pension cases with income variances of \$100 or more. We performed several error/edit checks on the VA and SSA computerized records and excluded an additional 17,200 cases from further analysis efforts because of identified SSA posting errors, or no matching SSNs or surnames in the SSA files.

For all other VA pension cases (442,094) with income variances of \$100 or more between VA and tax records, we recomputed the VA pension amounts, using the income data recorded in the tax records. As a result, in 293,381 pension cases, use of the tax data income had no overpayment effect, primarily due to excludable income amounts and countable medical expenses, while 148,675 showed potential overpayments. (See fig. V.2 for an illustration of the records obtained, created, and excluded in our match process.)

Appendix V
Objective, Scope, and Methodology

Figure V.2: Records Obtained, Created, and Excluded in Match Process



¹ Does not include 92,359 surviving child cases as of September 1984

◊ = Cases excluded from further analysis during the data match process

VA Records

The VA master compensation and pension record contains all pertinent data used to make monthly payments to active beneficiaries. Income data shown in this record are reported by the beneficiary and include an estimate of income expected over the next 12-month period and a statement of actual income received over the preceding 12-month period. VA updates a beneficiary's expected income using data obtained from an annual income questionnaire or whenever the beneficiary notifies VA of income changes. The income questionnaire also requires the beneficiary to report actual prior year income as well as the next year's estimated income. Actual incomes are recorded as historical data in the VA master record and used only to adjust pension payments retroactively if the income amount differs from the previously reported estimate of income for that same period.

The calendar year 1984 VA income reporting cycle ended in November 1984, VA officials advised us, and that month's record contained the last complete details of 1984 income estimates VA used for pension payment calculations. Estimates of income submitted by pension beneficiaries are recorded in the VA master compensation and pension record as follows: (1) earnings; (2) social security benefits; (3) retirement; and (4) other, which includes unearned income such as interest and dividends. With the exception of social security benefits, we matched the other three categories of income on VA records with corresponding income obtained from tax records. Since VA systematically exchanges data with SSA to adjust benefits to reflect cost-of-living adjustments in social security benefits, we assumed the information was accurately recorded in VA records and excluded social security benefits from our match.

Tax Records

Third-party tax data are year-end statements of income filed by employers, banks, companies, and other payers. These documents are used by IRS primarily as an enforcement tool for auditing income reported on individual tax returns and by SSA for posting to individual earnings accounts for purposes of calculating social security benefits.

For all November 1984 VA pension beneficiaries, we accessed 1984 unearned income housed in IRS' Information Returns Program file. This consisted primarily of data from the IRS form 1099 series of information returns. To insure that our study results were conservative, we used only unearned income data reported on forms 1099—interest income, dividends, and distributions—in matching against "other" income in VA's master records. For study purposes, we excluded all other third-party reports, such as forms 1099, Miscellaneous Income, showing rents.

royalties, prizes, and awards, because such income may be nonrecurring or difficult to estimate or account for by VA pension beneficiaries. Also, we excluded data from other types of forms 1099 depicting proceeds from brokers, total distributions from retirement plans, and gambling winnings. These exclusions represented about 27 percent of the total amount of 1984 unearned income we identified on IRS records as having been received by VA pension beneficiaries. Excluding these unearned income reports from our match had the effect of understating our estimates of potential overpayments. But excluding the reports also would tend to inflate underpayments, which is why we did not attempt to estimate the possible extent of underpayments.

SSA annually receives Wage and Tax Statements (IRS form W-2) and Statements for Recipients of Annuities, Pensions, Retired Pay or IRA [Individual Retirement Account] Payments (IRS form W-2P) for use in posting to its earnings records. Third-party payers submit these forms to SSA identifying such income sources as wages, pensions, and agricultural income. One exception to third-party reporting, self-employment (SE) income, is reported by taxpayers to IRS on schedule SE, form 1040. IRS then submits the data to SSA for posting to individual earnings records.

We accessed calendar year 1984 earnings data in SSA files for November 1984 VA pension beneficiaries. After combining wages, SE, and agricultural income, we compared the total with VA beneficiary income recorded as "earnings." Also, we compared employment pension income, reported by pension payers to SSA on IRS form W-2P, with VA beneficiary income recorded as "retirement."

Most income reports are posted to IRS and SSA records within 18 months after the end of the tax year, officials there told us. We therefore obtained 1984 income data for VA pension beneficiaries from IRS in June 1986 and from SSA in July 1986. In addition, beginning in 1985, SSA began posting 1984 employment pension data to its records, but only about 10 percent of that year's totals were available for posting to SSA records. Again, lacking nearly 90 percent of the third-party data on employment pensions could have the effect of understating our estimate of pension overpayments and overstating underpayments.

Level I Analysis

For this phase, we identified income differences between VA pension records and tax records. We requested 1984 tax data for 1.4 million VA pension cases on record as of November 1984. In total, 698,000 cases

had some income recorded in the 1984 tax records while the remaining 702,000 had none and thus were excluded from further analysis. For the 698,000 cases, we formatted the tax data in a manner corresponding to the income categories shown in VA's master compensation and pension record. For each case, we compared income data shown in VA records with tax record data to determine the differences. We then tabulated the number of cases and dollar value of the differences.

Level II Analysis

During this phase, we quantified the pension overpayment effects of the income differences. Our calculation yielded a per-case monthly pension amount, which we annualized and aggregated to estimate potential overpayments for 1984.

We constructed a VA pension payment model embodying all payment variables applicable to each pension law. We grouped pension beneficiaries by pension law and pensioner type as follows: veteran, veteran with dependents, surviving spouse, and surviving spouse with dependent children. To test and validate the payment model, we calculated November 1984 pension payments for each of the 1.4 million beneficiaries using data recorded in VA's master record. The payment model successfully replicated VA's actual payments in 99 percent of the cases.

Next, we substituted income amounts shown in the tax records and recalculated the monthly pension amounts for 359,278 cases that showed income differences of \$100 or more between VA and tax records. The differences between VA's actual monthly pension payments for such cases using November 1984 VA master record data and our calculations using 1984 tax data formed the bases for our overpayment estimates and were annualized for the calendar year.

Although our Level I match indicated that about 100,000 VA pension beneficiaries had more income shown on VA records than shown on tax records, we did not calculate underpayments for those cases. Our conservative approach in calculating overpayments would exaggerate underpayment calculations because (1) we excluded about \$187 million of unearned income (other than interest and dividends) from our tax database and (2) at the time of our match, SSA had only posted about 10 percent of the reported 1984 pension income to beneficiaries' accounts. These additional sources of tax income would tend to increase overpayment calculations and, conversely, reduce both the amount of income considered as overstated on VA records and the corresponding potential

Appendix V
Objective, Scope, and Methodology

underpayments. Table V.1 summarizes the results of our Level I and Level II analyses.

Table V.1: Results of Income Matches Between VA Pension Cases and Tax Data

Dollars in thousands

Cases	Improved		Pension law Section 306		Old		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
VA pension cases matched								
Cases with income in tax databases								
Earned income	25,344	•	30,857	•	210	•	56,411	•
Unearned income	187,573	•	318,930	•	24,973	•	531,476	•
Both	29,191	•	80,028	•	707	•	109,926	•
Subtotal	242,108	•	429,815	•	25,890	•	697,813	•
Cases with no income in tax databases	374,844	•	314,376	•	12,662	•	701,882	•
Total cases matched	616,952	•	744,191	•	38,552	•	1,399,695	•
Level I Analysis for income variances								
Cases with variances								
Tax data > VA data	193,763	•	337,287	•	17,943	•	548,993	•
Tax data < VA data	35,498	•	82,721	•	7,589	•	125,808	•
Subtotal	229,261	•	420,008	•	25,532	•	674,801	•
Cases with no variances								
Tax data = VA data	12,847	•	9,807	•	358	•	23,012	•
Total cases analyzed	242,108	•	429,815	•	25,890	•	697,813	•
Cases with variances under \$100								
Tax data > VA data	84,375	•	100,857	•	4,483	•	189,715	•
Tax data < VA data	9,176	•	15,278	•	1,338	•	25,792	•
Total cases	93,551	•	116,135	•	5,821	•	215,507	•
Cases with variances of \$100 or more								
Tax data > VA data	109,388	•	236,430	•	13,460	•	359,278	•
Tax data < VA data	26,322 ¹	•	67,443 ¹	•	6,251 ¹	•	100,016 ¹	•
Total cases	135,710	•	303,873	•	19,711	•	459,294	•
Level II Analysis for overpayment effect (cases with variances of \$100 or more) ¹								
Overpayments	98,734	\$128,400	45,838	\$51,023	4,103	\$3,114	148,675	\$182,537

¹Although variances due to overreported income could result in potential underpayments, we did not attempt to estimate the underpayment effect due to our conservative methodology in computing potential overpayments (see discussion on p. 62)

Level III Analysis

Because the cases for which we calculated potential overpayments could not be referred to VA for adjudication and resolution, we undertook this additional verification phase to provide assurance that the data we used and the assumptions we made were supportable. Specifically, we sought to determine whether

- beneficiaries subsequently had adjusted the estimated income information shown in the November 1984 VA master record to reflect higher or lower actual income information for 1984,
- the underestimated income shown in the November 1984 VA record was supported by documentation provided by the beneficiary, and
- significant underreporting of income to VA represented a longer term pattern for certain beneficiaries.

To accomplish this, we sought to obtain copies of beneficiaries' income questionnaire documents maintained in case files at 55 VA regional offices. VA Central Office personnel assisted us by sending letters—along with information on the sampled cases we selected—to each regional office requesting that income questionnaires be duplicated and mailed to us. (See figure V.3 for a sample copy of the letter VA sent to its regional offices.)

Appendix V
Objective, Scope, and Methodology

Figure V.3: Sample VA
Letter Requesting Ben-
eficiary Reported
Income Data

Office of the Chief
Benefits Director

Washington, D. C. 20

 **Veterans
Administration**

In Reply Refer To
20/211A

LTR. 20-86-18
November 10, 1986

Directors (OO)
All VA Regional Offices and Centers

SUBJ: GAO Income Reporting Study

1. At the request of the Senate Veterans' Affairs Committee, the GAO (General Accounting Office) is studying VA pensioners' income reporting accuracy. The GAO has requested that the VA provide copies of income reports for certain cases involved in the study.
2. The income reports to be copied are the AIQ and EVR forms, or alternative statements in lieu of them, for the reporting years 1982/1983, 1983/1984, 1984/1985 and 1985/1986. In any case in which an initial report was questioned by development and, ultimately, superseded by a clarified report, the clarification will be sent. If the clarification represents a complete revision (replacement of the initial report) send only it. Otherwise, annotate changes on the initial report and send a copy of it. Annotations are to be legible and clearly associated with the particular item being clarified. When an income statement is sent, it must be clearly marked for the reporting period (e.g., "1982/1983") at the top of the form.
3. To facilitate this request, it may be helpful to have clerical staff first pull the claims folders and the AIQ cards if filed in the ready reference decks. The AIQ cards should be filed in the claims folders after they are located.
4. You are to photocopy and mail copies of income reports for the cases listed on the enclosure to this letter.
 - a. Photocopy clarity is essential and must be verified before you mail the copies of the forms. To reduce the volume of photocopying, please copy up to 3 AIQs on a page (1 sheet for the fronts and 1 sheet for the backs). The EVR is to be photocopied on 2 separate pages.
 - b. Staple all copies of forms for an individual case together before mailing. The most effective packaging for

Appendix V
Objective, Scope, and Methodology

Figure V.3 (Continued)

2. November 10, 1986
- DVB Letter 20-86-18
- mailing will be used, and first class postage will be paid regardless of the weight involved.
- c. Address all mail to:
U.S. General Accounting Office
ATTN:
841 Chestnut St. - Suite 760
Philadelphia, PA 19107
- d. You are to mail the responses within 2 weeks of receipt of this letter. If circumstances prevent your timely response, notify Compensation and Pension Service, Policy Staff (211A), FTS 373-2058 as soon as you recognize a problem.
5. The enclosure to this letter lists the cases for which you are to provide information. You should make no effort to locate materials at other stations (i.e., from transferred claims folders or from ready reference decks located at other stations).
6. The enclosure requires you to annotate information about the availability of forms for the stated periods and to indicate current award status. This review and annotation should be assigned to personnel no lower than the adjudicator level. Check the appropriate column if you provide the form. For the year 1984/1985, annotate a narrative reason if you are unable to provide the form, for example, "form lost," "claimant deceased," "form unavailable; presumed in transferred claims folder," or "form unavailable; presumed at another station."
7. When you do not have jurisdiction of the claims folder or it cannot be obtained locally, due to charge out, use the Target System to determine information for reporting the unavailability of the 1984/1985 form or current award status.
8. Retain a copy of the annotated enclosure and copies of all forms which you send to the GAO as backup material. You may

Appendix V
Objective, Scope, and Methodology

Figure V.3 (Continued)

November 10, 1986

3.

LTR. 20-86-18

destroy the backup material after January 12, 1987
in accordance with the Records Control Schedule, VB-1, Item
13-005.000.



A. J. VOWEL
Chief Benefits Director

Enclosure

Distribution: CO: RPC 2910
SS(218) FLD: DVBFS, 1 each

Appendix V
Objective, Scope, and Methodology

Figure V.3 (Continued)

ENCLOSURE

ENCLOSURE

GAO PENSION STUDY

VA Field Office _____

Station Identification Number _____

VA Claim Number	Stub Number	Reports Available (X)				Current Active Award (Y) (N)
		1982/83	1983/84	1984*/85	1985/86	

* All claims were active in November 1984, therefore please provide a reason if AIQ is not available for the 1984/85 cycle. Also show if award is currently active by indicating Yes (Y) or No (N).

Appendix V
Objective, Scope, and Methodology

We randomly selected 873 cases from the 148,675 for which we calculated a potential overpayment. The sample was stratified in proportion to population so that it contained 549 Improved Law cases and 324 Protected pension cases consisting of both Section 306 and Old Law pension cases. Included in the sample was a subset of 146 cases for which beneficiaries submitted a report to VA showing zero estimated earnings for 1984, but for whom 1984 tax data indicated earnings of \$1,000 or more. Over 26,000 cases included in the universe had these characteristics.

To satisfy Internal Revenue Code safeguards and related privacy considerations, we masked our sample cases by selecting two additional cases for which we had not calculated a potential overpayment. In this way, the identity of the potential overpayment cases would be protected. VA regional offices reproduced beneficiary-submitted income questionnaires for the years 1982 through 1985 and mailed them to us.

VA offices were able to provide documentation for 631 of the 873 sample cases within the mutually agreed upon timeframes (see table V.2). Of the remaining 242 cases, we excluded 15 cases because of posting errors by SSA and 227 cases for which VA did not provide the requested documents, primarily because the case files could not readily be located. VA officials said the case files were either lost or transferred to other VA regional offices or had been retired to the VA records center.

Table V.2: Sample Size (Level III)

	Sample pension cases		
	Improved	Protected	Total
Original sample	500	295	795
Oversample (10%)	49	29	78
Subtotal	549	324	873
Less			
SSA posting errors	(2)	(13)	(15)
Questionnaire not returned by VA	(116)	(111)	(227)
Subtotal	(118)	(124)	(242)
Total sample cases analyzed	431	200	631

Since we were restricted in disclosing any individual pension case data, we performed the Level III validation phase to measure the extent that VA computerized records, used to match against tax data, represented the most accurate data available for this purpose. Because our computer

Appendix V
Objective, Scope, and Methodology

match was performed using November 1984 VA income data, we performed several validation sampling assessments to be reasonably confident that VA computerized income postings shown on the pension master records represented the most accurate year-end data submitted by pension beneficiaries (see p. 64).

For each of the sample cases, we reviewed the annual income questionnaires from 1982 to 1985 submitted by pension beneficiaries, including the year-end income data reported for 1984. About 10 percent of the beneficiaries adjusted their 1984 incomes at year-end to agree with their incomes as shown in 1984 tax records. An additional 14 percent adjusted their 1984 incomes, but the adjusted incomes still did not agree with the 1984 tax records. VA thereby had an opportunity to identify some potential overpayments, without having access to tax data, and to take appropriate action to recoup them and/or correct future pension payments, as necessary.

The statistical results of our validation sample are presented in table V.3, which shows by pension category the numbers of cases for (1) those beneficiaries who self-reported 1984 income amounts at year-end that agreed with tax data and (2) those who did not. The self-reported changes in 1984 incomes, if acted upon by VA, would have reduced or eliminated the beneficiaries' Improved Law pension payments, or made them ineligible for Protected pensions because their countable income limits were exceeded. The remaining potential overpayments would have been unidentifiable by VA because it does not have access to tax data.

Table V.3: Analysis of Year-End Self-Reported Income Changes for GAO's Validation Sample of Potential Overpayment Cases (1984)

	Improved		Protected		Total	
	Number	Percent	Number	Percent	Number	Percent
Beneficiaries reported 1984 year-end incomes that agreed with 1984 tax data						
Cases	47	(10.9)	15	(7.5)	62	(9.8)
Beneficiaries reported 1984 year end incomes lower than 1984 tax data						
Cases	384 ^a	(89.1)	185	(92.5)	569 ^a	(90.2)
Total sample cases analyzed	431	(100.0)	200	(100.0)	631	(100.0)

^aIncludes 91 cases (14 percent of 631 cases analyzed) that reported 1984 year-end income adjustments but continue as potential overpayments because the reported income was still lower than 1984 tax data

Appendix V
Objective, Scope, and Methodology

Currently, the self-reporting annual income questionnaire is VA's primary internal control mechanism to identify income and other beneficiary data changes at year-end that may trigger adjudicative action to resolve potential overpayments and underpayments and make pension payment adjustments. Therefore, on the basis of our validation sample results, we calculated the portion of the 1984 potential overpayments we identified using tax data that VA would have been capable of identifying for adjudication purposes through its year-end annual income questionnaire process. We are 95-percent confident that VA would have been able to identify, from information available to it through its year-end self-reporting system, only \$25.3 million of the \$182.5 million in potential overpayments for 1984. Table V.4 shows the projections of our validation sample to the results of our computer match using tax data and our confidence intervals at the 95-percent level.

Table V.4: Statistical Projections of 1984 Potential Overpayments VA Could Have Identified Through Its Year-End Reporting Process

Dollars in thousands

Pension program	Potential overpayments GAO identified using tax data	Projected overpayments VA could not identify through year-end reporting	Projected overpayment estimate	Projected overpayments VA could identify through year-end reporting 95-percent confidence interval ^a	
				Lower limit	Upper limit
Improved:					
Cases	98,734	87,967	10,767 ^c	7,868	13,666
Amount	\$128,400	\$107,185	\$21,214	\$12,773	\$29,655
Protected:					
Cases	49,941	46,195	3,746	1,927	5,565
Amount	\$54,137	\$50,006	\$4,131	\$1,703	\$6,560
Total:					
Cases	148,675	134,163^d	14,512^d	11,089	17,935
Amount	\$182,537	\$157,191^d	\$25,345^d	\$16,666	\$34,025

^aConfidence intervals were computed at the 95 percent level of statistical confidence. That is, if we drew 100 samples, we would expect 95 of those samples to have estimates that would fall within the calculated confidence interval. Separate interval computations were made for each projected overpayment estimate, and the figures in these columns cannot be added.

^bThis projection excludes cases that reported 1984 year-end income adjustments, but VA would not have been able to identify the full amounts of the potential overpayments because the reported income was still lower than 1984 tax data (see table V.3).

^cThis projection includes potential overpayments that would be fully identifiable by VA as well as those that would be only partially identifiable because the reported adjusted incomes at year-end remained lower than those shown in the tax data (see table V.3).

^dProjected cases and amounts do not add to totals due to rounding.

Details of Potential Overpayments by Type of Unrecorded Income

Table VI.1: Total VA Pension Potential Overpayment Cases and Amounts, by Type of Unrecorded Income

Type of unrecorded income	Cases	Amount
Interest/dividends	94,084	\$85,596,168
Earnings:		
Agricultural earnings	1,923	4,310,838
Wages	20,478	39,035,407
Self-employment	749	1,439,195
Non-VA pensions	2,712	3,368,179
Multiple income sources:		
Wages & interest/dividends	14,245	25,256,618
Wages & self-employment	196	503,507
Wages & non-VA pensions	1,297	2,302,156
Self-employment & interest/dividends	1,320	2,677,134
Self-employment & non-VA pensions	53	65,847
Interest/dividends & non-VA pensions	8,214	11,752,945
Wages, self-employment & interest/dividends	515	1,206,440
Wages, self-employment & non-VA pensions	22	39,865
Wages, interest/dividends & non-VA pensions	2,562	4,437,941
Self-employment, interest/dividends & non-VA pensions	233	392,508
Wages, self-employment, interest/dividends & non-VA pensions	72	151,773
Totals	148,675	\$182,536,521

**Appendix VI
Details of Potential Overpayments by Type of
Unrecorded Income**

Table VI.2: Old Law Pension Potential Overpayment Cases and Amounts, by Type of Unrecorded Income

Type of unrecorded income	Veterans		Survivors ^a		Totals	
	Cases	Amount	Cases	Amount	Cases	Amount
Interest/dividends	1,606	\$1,540,347	2,268	\$1,395,484	3,874	\$2,935,831
Earnings						
Agricultural earnings	•	•	•	•	•	•
Wages	14	13,230	15	9,072	29	22,302
Self-employment	2	2,570	•	•	2	2,570
Non-VA pensions	1	945	3	1,814	4	2,759
Multiple income sources						
Wages & interest/dividends	23	22,415	74	45,058	97	67,473
Wages & self-employment	•	•	•	•	•	•
Wages & non-VA pensions	•	•	1	605	1	605
Self-employment & interest/dividends	15	16,891	7	4,234	22	21,125
Self-employment & non-VA pensions	•	•	•	•	•	•
Interest/dividends & non-VA pensions	37	35,645	21	14,354	58	49,999
Wages, self-employment & interest/dividends	1	945	•	•	1	945
Wages, self-employment & non-VA pensions	•	•	•	•	•	•
Wages, interest/dividends & non-VA pensions	4	3,780	10	6,199	14	9,979
Self-employment, interest/dividends & non-VA pensions	•	•	1	605	1	605
Wages, self-employment, interest/dividends & non-VA pensions	•	•	•	•	•	•
Totals	1,703	\$1,636,768	2,400	\$1,477,425	4,103	\$3,114,193

^aSurviving spouses and/or children

**Appendix VI
Details of Potential Overpayments by Type of
Unrecorded Income**

Table VI.3: Section 306 Pension Potential Overpayment Cases and Amounts, by Type of Unrecorded Income

Type of unrecorded income	Veterans		Survivors ^a		Totals	
	Cases	Amount	Cases	Amount	Cases	Amount
Interest/dividends	12,439	\$17,054,105	15,606	\$10,175,436	28,045	\$27,229,541
Earnings						
Agricultural earnings	110	185,112	13	12,924	123	198,036
Wages	885	1,301,160	3,068	3,845,757	3,953	5,146,917
Self-employment	61	92,592	43	48,912	104	141,504
Non-VA pensions	383	536,712	67	61,764	450	598,476
Multiple income sources						
Wages & interest/dividends	1,119	1,667,160	4,605	5,420,162	5,724	7,087,322
Wages & self-employment	10	17,244	20	25,416	30	42,660
Wages & non-VA pensions	311	510,936	221	248,056	532	758,992
Self-employment & interest/dividends	263	470,316	180	195,144	443	665,460
Self-employment & non-VA pensions	24	32,100	11	8,544	35	40,644
Interest/dividends & non-VA pensions	4,183	6,403,224	583	493,332	4,766	6,896,556
Wages, self-employment & interest/dividends	28	45,552	69	85,452	97	131,004
Wages, self-employment & non-VA pensions	3	2,952	4	3,660	7	6,612
Wages, interest/dividends & non-VA pensions	777	1,207,680	547	565,720	1,324	1,773,400
Self-employment, interest/dividends & non-VA pensions	142	237,804	31	23,352	173	261,156
Wages, self-employment, interest/dividends & non-VA pensions	21	31,704	11	12,816	32	44,520
Totals	20,759	\$29,796,353	25,079	\$21,226,447	45,838	\$51,022,800

^aSurviving spouses and/or children

**Appendix VI
Details of Potential Overpayments by Type of
Unrecorded Income**

Table VI.4: Improved Law Pension Potential Overpayment Cases and Amounts, by Type of Unrecorded Income

Type of unrecorded income	Veterans		Survivors ^a		Totals	
	Cases	Amount	Cases	Amount	Cases	Amount
Interest/dividends	44,409	\$41,769,261	17,756	\$13,661,535	62,165	\$55,430,796
Earnings						
Agricultural earnings	1,677	4,005,585	123	107,217	1,800	4,112,802
Wages	10,658	23,436,559	5,838	10,429,629	16,496	33,866,188
Self-employment	511	1,042,194	132	252,927	643	1,295,121
Non-VA pensions	1,733	2,227,730	525	539,214	2,258	2,766,944
Multiple income sources						
Wages & interest/dividends	4,480	10,442,557	3,944	7,659,266	8,424	18,101,823
Wages & self-employment	133	389,056	33	71,791	166	460,847
Wages & non-VA pensions	494	1,058,905	270	483,654	764	1,542,559
Self-employment & interest/dividends	695	1,670,987	160	319,562	855	1,990,549
Self-employment & non-VA pensions	13	18,834	5	6,369	18	25,203
Interest/dividends & non-VA pensions	2,600	3,817,891	790	988,499	3,390	4,806,390
Wages, self-employment & interest/dividends	374	989,992	43	84,499	417	1,074,491
Wages, self-employment & non-VA pensions	14	29,569	1	3,684	15	33,253
Wages, interest/dividends & non-VA pensions	833	1,940,460	391	714,102	1,224	2,654,562
Self-employment, interest, dividends & non-VA pensions	35	77,006	24	53,741	59	130,747
Wages, self-employment, interest, dividends & non-VA pensions	37	102,549	3	4,704	40	107,253
Totals	68,696	\$93,019,135	30,038	\$35,380,393	98,734	\$128,399,528

^aSurviving spouses and/or children

Observations on VA Income Reporting Documents

In this appendix, we address the question: Can VA's data collection document, a mail questionnaire,¹ be clarified to solicit and obtain better data about a beneficiary's demographic and financial status?

Questionnaire Clarity Important in Obtaining Reliable Data

Information derived from a mail questionnaire is self-reported data and thus normally subject to two types of respondent errors:

- unintentional misreporting because the respondent misinterprets a question, misunderstands instructions, does not enter a response clearly, or cannot recall the information, either accurately or at all; and
- intentional misreporting of the respondent's status to justify eligibility and/or increase benefit amount.

Preventing Unintentional Response Error

Respondents can err unintentionally when they cannot read questions because of type size or clarity; when the language level is too advanced or the terminology too technical; when questions or instructions are complex or vague; when the questionnaire format is confusing; when questions are lengthy or burdensome; or when questions overestimate the respondent's recall capability or access to information. If the questionnaire is pretested with a sample of respondents before it is formally administered, these design problems often can be identified and eliminated. Pretesting is a standard practice in survey research.

VA designed and implemented both the previous AIQ and the current EVR without pretesting, VA officials informed us. To identify and eliminate questionnaire design flaws, the agency has relied on feedback from program officials before putting a questionnaire into use and on complaints from veterans, veterans' organizations, and other beneficiaries afterwards. This method for testing the validity of questionnaires may allow major design weaknesses to go unnoticed when reviewing officials miss them or respondents choose not to complain about them. VA obtains no direct evidence of how the respondent actually reacts to and interprets the questionnaire when received.

¹Before October 1985, VA used an Annual Income Questionnaire and Claimant's Worksheet. Figures VII.1 and VII.2 illustrate the AIQ and worksheet, respectively, then in effect for Improved Law pension veterans with no dependents. In October 1985, VA adopted the Eligibility Verification Report. Figures VII.3 and VII.4, respectively, illustrate the EVR and accompanying instruction sheet now used for Improved Law pension veterans with no dependents.

EVR Style and Language

At the time of our review, there were nine versions of the EVR,² each designed to conform with the requirements of the specific pension laws and beneficiaries, one each for

- Old Law veteran or surviving spouse pensioners,
- Section 306 veteran or surviving spouse pensioners,
- Old Law or Section 306 surviving dependent children pensioners,
- veterans' parents receiving dependency and indemnity compensation, and
- each of five pensioner categories under the Improved Law pension program.

Our observations about the EVR's style and clarity are as follows:

- All versions contain bureaucratic jargon and are designed more like administrative records than self-administered questionnaires that make it easy for the general public to provide VA valid and accurate information.
- Many of the individual questions are, in fact, several questions imbedded in one. For specific details about what information VA is seeking, the respondents must read through lengthy parenthetical statements, which create further confusion. To reduce the complexity of ideas in such questions, these ideas should be presented one at a time, in individual questions and in a logical order. Short items that encompassed only one well-defined idea could stand alone without much further explanation or qualification. This might require more space, but it is far less confusing, less susceptible to response error, and less burdensome on the respondents.
- Questionnaire complexity and item length problems are compounded because some of the nine EVRS are intended for more than one type of respondent. A questionnaire designed for more than one type of respondent has its questions couched in language that accounts for each type. This adds to complexity and thus the potential for respondent error. Questions would be less confusing if VA did not attempt to consolidate questionnaires.
- Many terms and phrases are poorly defined. Some definitions are long and complicated and could confuse, rather than enlighten. Often the definition of a term is only implied. A respondent does not get from the EVR or its separate instruction sheet a clear meaning of the terms.

²In commenting on a draft of this report, VA stated that the number of EVR versions has recently been increased from 9 to 11 (see app. VIII).

**Appendix VII
Observations on VA Income
Reporting Documents**

For example, question 5D on figure VII.3 reads:

“DID ANY INCOME CHANGE (INCREASE/ DECREASE) DURING THE PAST 12 MONTHS? (If there were no income changes or if a Social Security/VA cost of living adjustment was the only change, check ‘NO’. If there was some other increase/ decrease in Social Security or an initial award of Social Security, check ‘YES’. Also check ‘YES’ for any change in the amount (up or down) of any other source of income, any NEW source or any ONE-TIME receipt of income)”

The term “ANY INCOME” implies income from any distinct source and the question specifically defines “CHANGE” as an increase or decrease. “ANY INCOME CHANGE” is further defined in parentheses as the receipt of income from a “NEW source” or a “ONE-TIME receipt of income.” Neither of these ideas quite conform to the question—increase or decrease in the income from a given source. The definition is further muddled by specific references in parentheses to social security awards and benefit changes, and VA and social security cost-of-living adjustments. Standing alone, the question is vague. A better approach could be to ask the respondent four distinct questions, such as:

- “Did your income from any source change (increase/decrease) in the past 12 months?”
- “Was this because of a cost-of-living adjustment (COLA) from Social Security or VA?”
- “Did you begin to receive income on an ongoing basis from a new source during the past 12 months?”
- “Did you receive income on a one-time basis from any source during the past 12 months?”

In commenting on this report (see app. VIII), VA did not believe that our suggested clarification of this question was necessary and that the detailed instructions for the question have resolved much unnecessary reporting of social security cost-of-living increases. While this may be the case, our concern is with whether most pension beneficiaries understand the question and related instructions sufficiently to report all relevant income changes to VA. In our view, pretesting questions and instructions with actual beneficiaries is essential to ensure that they have a clear and uniform understanding of the response expected.

**Respondent’s Ability to
Recall Information**

The more a respondent relies on recall alone to answer EVR questions, the greater the likelihood of response error. Probably, the respondent will not remember precisely much of the information VA is seeking. The

**Appendix VII
Observations on VA Income
Reporting Documents**

EVR makes no attempt to control the respondent's inclination to simplify or shorten tasks by relying on memory alone. If the EVR were to suggest that the respondent consult tax records, bank books, pay stubs, etc., when completing the form, the respondent might be less apt to totally rely on memory. This should decrease the likelihood of response error due to poor recall.

EVR Instructions

The EVR instructions on the separate sheet are general; they do not provide the respondent with detailed instruction about specific questions. For example, neither the general instruction sheet nor the questionnaire specifies how precisely dollar amounts for income and medical expenses should be reported. If estimates of the current year's and the next year's income are acceptable, therefore, a respondent might conclude that approximations of other amounts are also acceptable. The fact that the spaces provided for entering these amounts are not formatted with decimal points also might lead the respondent to the same conclusion. VA has no way of knowing how precisely the respondent has reported these amounts.

The instructions for some questions appear on the front sheet of the EVR and the question itself on the back. This split interferes with the respondent's ability to refer to instructions when answering a question and could result in the respondent overlooking or ignoring the instructions altogether. Also, the numbers on the EVR instruction sheet do not correspond to any of the EVR question numbers, as a respondent might expect.

Questionnaire Format

In general, the EVR format is very cluttered. In some places, it is difficult to determine where one item ends and the next begins. The respondent could read and answer questions more easily if there were more white space on each page and if the items were more distinctly separated.

EVR type size varies between 1/16 of an inch to 1/8 of an inch in height. Given the age and physical condition of most of the respondent population, the EVR's type size could significantly interfere with a respondent's ability to read, much less answer, the questions accurately.

Questionnaire Length

In length, the EVR is limited to a single letter-sized sheet printed on both sides. Nearly all of the design problems already described are a direct result of VA's attempt to limit the length of the EVR. Most of these flaws could be eliminated if the EVR were lengthened, questions simplified,

Appendix VII
Observations on VA Income
Reporting Documents

terms defined more clearly, type size enlarged, and the format made less cluttered.

**Reducing Intentional
Response Error**

Other than a two-line reference to the legal penalty for submitting false information printed in the smallest type on the page and easily overlooked, the EVR contains no other language or statement that encourages a respondent to report as accurately as possible. VA might reduce intentional respondent error if the EVR contained a specific appeal for accurate data.

**Concluding
Observations**

We cannot relate any of these issues concerning the style and clarity of VA's income reporting documents to any of the overpayment problems cited in this report. We believe, however, that the present income reporting documents can and should be clarified and that VA should have the benefit of our observations before undertaking any design improvement efforts. Also, pretesting the data collection instruments is a reliable method that VA can use to assure itself that design problems such as those we observed are identified and corrected.

Appendix VII
Observations on VA Income
Reporting Documents

Figure VII.1: Annual Income Questionnaire for Improved Pension Veterans With No Dependents

Veterans Administration

IMPORTANT READ ENCLOSED INSTRUCTIONS BEFORE COMPLETING THIS CARD DO NOT FOLD, STAPLE OR TEAR CARD DO NOT USE WHITE OUT OR CORRECTION TAPE.

**IMPROVED PENSION QUESTIONNAIRE
VETERANS (NO DEPENDENTS)** FORM APPROVED
CMB NO 2900-016

1 YOUR MARITAL STATUS (CHECK ONLY ONE BOX)
 (1) MARRIED - LIVES WITH SPOUSE (2) MARRIED - NOT LIVING WITH SPOUSE (SHOW AMOUNT CONTRIBUTED)
 (3) NOT MARRIED TO SPOUSE'S SUPPORT IN 1984: \$

2 DO YOU HAVE ANY UNMARRIED, DEPENDENT CHILDREN? (1) YES (2) NO

3 ARE YOU A PATIENT IN A NURSING HOME? (1) YES (2) NO

4 FAMILY MEDICAL EXPENSES PAID BY YOU IN 1984 (DO NOT INCLUDE AMOUNTS THAT WERE PAID OR WILL BE PAID BY INSURANCE AND MEDICARE)
 \$

5 EDUCATION EXPENSES PAID FOR YOURSELF IN 1984: \$

6 DID YOU WORK AT ANY TIME IN 1984? (1) YES (2) NO

VA FORM 21-881D, AUG 1984

PC5-10539F

7 STATEMENT OF INCOME AND NET WORTH (DO NOT SHOW INFORMATION ON ANSWERS UNLESS IT APPLIES, WRITE "NONE")

A. MONTHLY AMOUNTS	VETERAN	B. ANNUAL INCOME SOURCES	VETERAN	
			1984	1985
SOCIAL SECURITY CHECK AMOUNT		ANNUAL WAGES FROM ALL EMPLOYMENT		
MEDICARE DEDUCTION		ANNUAL INTEREST AND DIVIDENDS		
U.S. CIVIL SERVICE		ALL OTHER ANNUAL INCOME		
U.S. RAILROAD RETIREMENT		C. NET WORTH	VETERAN	
MILITARY RETIREMENT		CASH, BANK ACCOUNT(S), BONDS, PROPERTY, ETC.		
BLACK LUNG BENEFIT		D. DID ANY INCOME CHANGE (INCREASE/DECREASE) IN 1984? (1) <input type="checkbox"/> YES (2) <input type="checkbox"/> NO (If "YES," Complete Items E, F and G below)		
COMPANY/UNION PENSION		E. TYPE OF INCOME CHANGED (WAGES, RETIREMENT, ETC.)	F. DATE INCOME CHANGED	G. REASON INCOME CHANGED (NEW JOB, RAISE, QUIT WORK, ETC.)
STATE/LOCAL PENSION				
ANY OTHER RETIREMENT				
SSI/PUBLIC ASSISTANCE		8A. SIGNATURE OF CLAIMANT, CUSTODIAN OR GUARDIAN	8B. DATE	

PC5-10338

PENALTY SEVERE PENALTIES MAY RESULT IF FALSE STATEMENTS ARE MADE WILLFULLY

Appendix VII
Observations on VA Income
Reporting Documents

Figure VII.2: Annual Income
Questionnaire Claimant's Worksheet for
Improved Pension Veterans With No
Dependents

		Form Approved OMB No. 2900-0101
IMPROVED PENSION QUESTIONNAIRE (Veterans With No Dependents) CLAIMANT'S WORKSHEET		5
RETURN THE COMPLETED CARD IN THE ENCLOSED ENVELOPE OR MAIL TO VETERANS ADMINISTRATION P.O. BOX 7420 PHILADELPHIA, PA 19101		PRIVACY ACT INFORMATION - No further money or other benefits may be paid under this program after January 1, 1985, unless the enclosed card is completed and returned as required by existing law (38 U.S.C. 506). The information requested is considered relevant and necessary to determine the maximum benefits to which you are entitled under the law. Responses may be disclosed outside the VA only if the disclosure is authorized under the Privacy Act, including routine uses identified in VA system of records: 58VA21/22/28, Compensation, Pension, Education and Rehabilitation Records - VA, published in the Federal Register.
INSTRUCTIONS FOR COMPLETING THE IMPROVED PENSION QUESTIONNAIRE PLEASE FOLLOW THE INSTRUCTIONS STEP-BY-STEP. We have provided the worksheet to help you answer the questions on the enclosed card. If you wish, complete this worksheet before putting your answers on the card and keep the worksheet for your records. If you do not want to complete the worksheet, you need only answer the questions on the card and return the completed card to the VA. However, we recommend that you complete the worksheet and keep it for your records because your answers may be subject to later verification. DO NOT SEND THIS WORKSHEET TO THE VA. RETURN ONLY THE COMPLETED CARD. PLEASE DO NOT FOLD, TEAR, STAPLE OR DAMAGE THE CARD. You may use a pencil or pen to complete the card and may make erasures, but do not use white-out or correction tape. If you need help with the card, contact the VA Regional Office in your area. Toll-free numbers may be found under "U.S. Government" in your phone book. Any accredited Veterans Service organization will also help you.		
IMPORTANT - ANSWER ALL QUESTIONS. If the proper entry for any item is none, write "NONE" or "0". DO NOT LEAVE BLANK. An incomplete card will have to be returned to you, so please be sure to complete all items.		
1 YOUR MARITAL STATUS (Check only one box to show your current status) (1) <input type="checkbox"/> MARRIED - LIVING WITH SPOUSE <small>(You are legally married and live with your spouse or you live apart only for medical reasons, for example, resident of a nursing home)</small> (2) <input type="checkbox"/> MARRIED - NOT LIVING WITH SPOUSE <small>(You are legally married, but separated from your spouse. If this applies to you, show amount contributed to spouse's support in 1984. If you did not provide support, write "NONE".)</small> (3) <input type="checkbox"/> NOT MARRIED (You have never married or are now divorced or widowed)		
2 DO YOU HAVE ANY UNMARRIED, DEPENDENT CHILDREN? (The VA may request your natural or legal address for dependent children who are not married and who are either under age 18 or, between age 18 and 21 and, in which, in your age 18 and 21, you physically or morally helped before age 18. If you have unmarried children in any of these categories, list A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z, AA, AB, AC, AD, AE, AF, AG, AH, AI, AJ, AK, AL, AM, AN, AO, AP, AQ, AR, AS, AT, AU, AV, AW, AX, AY, AZ, BA, BB, BC, BD, BE, BF, BG, BH, BI, BJ, BK, BL, BM, BN, BO, BP, BQ, BR, BS, BT, BU, BV, BW, BX, BY, BZ, CA, CB, CC, CD, CE, CF, CG, CH, CI, CJ, CK, CL, CM, CN, CO, CP, CQ, CR, CS, CT, CU, CV, CW, CX, CY, CZ, DA, DB, DC, DD, DE, DF, DG, DH, DI, DJ, DK, DL, DM, DN, DO, DP, DQ, DR, DS, DT, DU, DV, DW, DX, DY, DZ, EA, EB, EC, ED, EE, EF, EG, EH, EI, EJ, EK, EL, EM, EN, EO, EP, EQ, ER, ES, ET, EU, EV, EW, EX, EY, EZ, FA, FB, FC, FD, FE, FF, FG, FH, FI, FJ, FK, FL, FM, FN, FO, FP, FQ, FR, FS, FT, FU, FV, FW, FX, FY, FZ, GA, GB, GC, GD, GE, GF, GG, GH, GI, GJ, GK, GL, GM, GN, GO, GP, GQ, GR, GS, GT, GU, GV, GW, GX, GY, GZ, HA, HB, HC, HD, HE, HF, HG, HH, HI, HJ, HK, HL, HM, HN, HO, HP, HQ, HR, HS, HT, HU, HV, HW, HX, HY, HZ, IA, IB, IC, ID, IE, IF, IG, IH, II, IJ, IK, IL, IM, IN, IO, IP, IQ, IR, IS, IT, IU, IV, IW, IX, IY, IZ, JA, JB, JC, JD, JE, JF, JG, JH, JI, JJ, JK, JL, JM, JN, JO, JP, JQ, JR, JS, JT, JU, JV, JW, JX, JY, JZ, KA, KB, KC, KD, KE, KF, KG, KH, KI, KJ, KK, KL, KM, KN, KO, KP, KQ, KR, KS, KT, KU, KV, KW, KX, KY, KZ, LA, LB, LC, LD, LE, LF, LG, LH, LI, LJ, LK, LL, LM, LN, LO, LP, LQ, LR, LS, LT, LU, LV, LW, LX, LY, LZ, MA, MB, MC, MD, ME, MF, MG, MH, MI, MJ, MK, ML, MM, MN, MO, MP, MQ, MR, MS, MT, MU, MV, MW, MX, MY, MZ, NA, NB, NC, ND, NE, NF, NG, NH, NI, NJ, NK, NL, NM, NN, NO, NP, NQ, NR, NS, NT, NU, NV, NW, NX, NY, NZ, OA, OB, OC, OD, OE, OF, OG, OH, OI, OJ, OK, OL, OM, ON, OO, OP, OQ, OR, OS, OT, OU, OV, OW, OX, OY, OZ, PA, PB, PC, PD, PE, PF, PG, PH, PI, PJ, PK, PL, PM, PN, PO, PP, PQ, PR, PS, PT, PU, PV, PW, PX, PY, PZ, QA, QB, QC, QD, QE, QF, QG, QH, QI, QJ, QK, QL, QM, QN, QO, QP, QQ, QR, QS, QT, QU, QV, QW, QX, QY, QZ, RA, RB, RC, RD, RE, RF, RG, RH, RI, RJ, RK, RL, RM, RN, RO, RP, RQ, RR, RS, RT, RU, RV, RW, RX, RY, RZ, SA, SB, SC, SD, SE, SF, SG, SH, SI, SJ, SK, SL, SM, SN, SO, SP, SQ, SR, SS, ST, SU, SV, SW, SX, SY, SZ, TA, TB, TC, TD, TE, TF, TG, TH, TI, TJ, TK, TL, TM, TN, TO, TP, TQ, TR, TS, TT, TU, TV, TW, TX, TY, TZ, UA, UB, UC, UD, UE, UF, UG, UH, UI, UJ, UK, UL, UM, UN, UO, UP, UQ, UR, US, UT, UY, UZ, VA, VB, VC, VD, VE, VF, VG, VH, VI, VJ, VK, VL, VM, VN, VO, VP, VQ, VR, VS, VT, VU, VW, VX, VY, VZ, WA, WB, WC, WD, WE, WF, WG, WH, WI, WJ, WK, WL, WM, WN, WO, WP, WQ, WR, WS, WT, WU, WV, WW, WX, WY, WZ, XA, XB, XC, XD, XE, XF, XG, XH, XI, XJ, XK, XL, XM, XN, XO, XP, XQ, XR, XS, XT, XU, XV, XW, XX, XY, XZ, YA, YB, YC, YD, YE, YF, YG, YH, YI, YJ, YK, YL, YM, YN, YO, YP, YQ, YR, YS, YT, YU, YV, YW, YX, YY, YZ, ZA, ZB, ZC, ZD, ZE, ZF, ZG, ZH, ZI, ZJ, ZK, ZL, ZM, ZN, ZO, ZP, ZQ, ZR, ZS, ZT, ZU, ZV, ZW, ZX, ZY, ZZ)		
(1) <input type="checkbox"/> YES (2) <input type="checkbox"/> NO		
3 ARE YOU A PATIENT IN A NURSING HOME? (1) <input type="checkbox"/> YES (2) <input type="checkbox"/> NO		
4 FAMILY MEDICAL EXPENSES In this section, on your card, you are to show amounts of 1984 medical expenses for yourself and any relatives you are obligated to support. You may be asked to verify the amounts you actually paid, so keep all receipts or other documentation of payments. Enter the amounts you actually paid for medical expenses (including health insurance premiums and the Medicare deductions from your social security checks). This total must be the amount of expenses you paid during 1984. Do NOT include amounts for expenses that were paid for or will be paid by Medicare, Medicaid or other insurance. <input type="text" value="6"/>		
NOTE: It is NOT necessary that you report payment of medical expenses unless the total for 1984 exceeded \$275.00, the minimum amount required for consideration as an exclusion from your income.		
5 EDUCATION EXPENSES PAID FOR YOURSELF IN 1984 (Do not include expenses for expenses of tuition, fees, school books and supplies paid from your income for your education. Show the amount in the box below. If no education expenses were paid in 1984, enter "NONE".) <input type="text" value="6"/>		
6 DID YOU WORK AT ANY TIME DURING 1984? (1) <input type="checkbox"/> YES (2) <input type="checkbox"/> NO		
VA FORM 21-8915a AUG 1984		SUPERSEDES VA FORM 21-8915a, AUG 1983, WHICH WILL NOT BE USED
(Continued on Reverse)		

**Appendix VII
Observations on VA Income
Reporting Documents**

Figure VII.2 (Continued)

7. REPORT OF INCOME AND NET WORTH (Do NOT check this if a person answers all items of none other NONE) (Use 0)

On the back of your card you must report ALL income (money and services), showing amounts monthly or annually, as requested, before any deductions. If you cannot show income in American dollars, specify the type of currency, such as pesos, lira, etc. Do not deduct amounts withheld for taxes, retirement plans, insurance, etc. The VA will deduct any amounts which may be excluded in determining your continued pension entitlement.

You should NOT report your VA pension as income, but you SHOULD report any other VA payments, such as education benefits and VA insurance. If you receive other VA benefits, contact your VA office for help in reporting.

PART A - MONTHLY AMOUNTS - This section on the card lists different monthly income sources and provides space for you to write in the amount of each benefit you receive. For each of the sources listed on the card write in the amount of the monthly check you receive from that source.

IMPORTANT - Be sure to enter ON THE CARD the actual current monthly amount from each source in Part A. If you do not receive benefits from a source, write "NONE" or "0" in the blank provided.

A MONTHLY AMOUNTS	
SOCIAL SECURITY CHECK AMOUNT \$	BLACK LUNG BENEFIT \$
MEDICARE DEDUCTION	COMPANY UNION PENSION
U.S. CIVIL SERVICE	STATE, LOCAL PENSION
U.S. RAILROAD RETIREMENT	ANY OTHER RETIREMENT
MILITARY RETIREMENT	SSI PUBLIC ASSISTANCE

PART B - ANNUAL INCOME - In this section on your card you are to report annual amounts of income for ALL of 1984 and the amounts you expect to receive for ALL of 1985. If you are completing the card before December 31, 1984, you must include income in the "1984" blocks that you expect to receive during the remainder of the year. In other words, count the income you have actually received from that source since January 1, 1984, up to the date you are completing the card and then estimate the amount from that source that you will receive from this date through December 31, 1984. Then show the total of these amounts from that source under "1984". Under "1985" show the amounts you expect from January 1, 1985, through December 31, 1985.

IMPORTANT - The amounts to be entered in this section are from income sources other than the monthly benefits shown in Part A. Do NOT show as annual income any amounts already entered as monthly income, and do not show your VA pension. Instead, show in the spaces provided the totals of (1) annual wages from employment, (2) annual interest and dividends (including interest on bonds and certificates of deposit, as well as savings accounts), and (3) other annual income that is not already shown in another section (for example, rental income, insurance, business profits, etc.). If you do not receive income in a particular category, write "NONE" or "0" in the space provided.

B ANNUAL INCOME SOURCES	1984	1985
ANNUAL WAGES FROM ALL EMPLOYMENT	\$	\$
ANNUAL INTEREST AND DIVIDENDS		
ALL OTHER ANNUAL INCOME		

PART C - NET WORTH - In this section you are to report your total assets and the value of any real estate or property. Show in the total your cash on hand, bank accounts, savings deposits, stocks and bonds, etc. Also include the value of your real estate and property (not including your own home).

NOTE - Be sure to enter ON THE CARD your net worth in the space provided, if none, write "NONE" or "0".

C NET WORTH	VETERAN
CASH, BANK ACCOUNT(S), BONDS, PROPERTY, ETC.	\$

D. DID ANY INCOME CHANGE (INCREASE/DECREASE) IN 1984? (If there was no income change or if a Social Security benefit was increased, decreased, or suspended, check "No." If there was some other increase or decrease in Social Security or an annual award of Social Security, check "Yes." Also, check "Yes" for any change in the amount (up or down) of any other source of income, any NEW source of income, and any ONE TIME receipt of income.)

(If "Yes," you must provide specific answers to items E, F, and G below.)

(If "No," write "NONE" or "NA" in items E, F, and G.)

E. TYPE OF INCOME CHANGED (Specify the type of income that changed in 1984, for example, interest, company pension, Railroad retirement, etc.)

F. DATE INCOME CHANGED (Show the date you received the new source of income or the date the increase or decrease in a source of income went into effect.)

G. REASON INCOME CHANGED (Give a brief explanation of why the income changed, for example, new job, raise, quit work, etc.)

IMPORTANT - Be sure you have entered all your answers on the enclosed card. SIGN and DATE the card and RETURN THE COMPLETED CARD to the VA address shown on the front of this form. If you cannot sign your name, make your "X" mark in the signature space on the card, and on a separate sheet furnish this statement: "I hereby certify that the information on the enclosed card is true and correct to the best of my knowledge and belief." Place your mark under the statement and have it signed by two witnesses who must also give their addresses.

RIGHT OF DUE PROCESS - Your payments are directly related to the income and dependency information you report. A change in the benefits you receive may be required in the event of income and dependency changes. You have a right at any time to submit additional information or to have a personal hearing to explain or clarify your statements. You also have the right to be represented at such a hearing by a representative of your choice.

PENALTY - The law provides severe penalties, which include fine or imprisonment, or both, for the willful submission of any statement or evidence of a material fact, knowing it to be false, or for fraudulent acceptance of any payment to which you are not entitled.

RETURN THE COMPLETED CARD TO THE VA BY JANUARY 1, 1986
IF YOU COMPLETED THE WORKSHEET, KEEP IT FOR YOUR RECORDS.

Appendix VII
Observations on VA Income
Reporting Documents

Figure VII.3: Eligibility
Verification Report for
Improved Pension Vet-
erans With No
Dependents

VETERANS ADMINISTRATION P. O. BOX 802284 CHICAGO IL 60680		Veterans Administration IMPROVED PENSION ELIGIBILITY VERIFICATION REPORT (VETERANS WITH NO DEPENDENTS)	
PAYEE ADDRESS TUMATEVAUD TEST FILE AUDITORS TEST FILE KENDSHA WI 53140		103-02-8040-00 T J MATEV VETERANS ADMINISTRATION RETURN ADDRESS P. O. BOX 802284 CHICAGO IL 60680	
IF YOU DO NOT RETURN THE COMPLETED FORM TO THE VA BY DEC 1, 1988 YOUR BENEFITS WILL BE DISCONTINUED			
IMPORTANT-Please read the enclosed EVR instructions (VA Form 21-8983) prior to completing this form			
1 VETERAN PAYEE'S MARITAL STATUS (Check one box. Complete this item only if you are receiving pension as a VETERAN payee)			
(1) <input type="checkbox"/> MARRIED-LIVING WITH SPOUSE (You are legally married and live with your spouse or you live apart only for medical reasons, for example, resident of a nursing home)			
(2) <input type="checkbox"/> MARRIED-NOT LIVING WITH SPOUSE (You are legally married but separated from your spouse. If this applies to you, show amount contributed to spouse's support during the past 12 months. If you did not provide support, write "NONE")			
(3) <input type="checkbox"/> NOT MARRIED (You have never married or are now divorced or widowed)			
2 DO YOU HAVE ANY UNMARRIED DEPENDENT CHILDREN? (The VA may recognize a veteran's natural or legally adopted children or stepchildren who are not married and who are either under age 18, OR between age 18 and 23 and in school, OR who are over age 18 and who became physically or mentally helpless before age 18. If you have unmarried children in any of these categories, check "YES")			
<input type="checkbox"/> YES <input type="checkbox"/> NO			
3A ARE YOU A PATIENT IN A NURSING HOME? (If "YES" complete items 3B thru 3E)	3B DATE ENTERED NURSING HOME	3C NAME AND ADDRESS OF NURSING HOME	
<input type="checkbox"/> YES <input type="checkbox"/> NO			
3D MONTHLY NURSING HOME PAYMENTS \$	3E AMOUNT PAID BY YOU \$	4 DID YOU WORK AT ANY TIME DURING THE PAST 12 MONTHS? <input type="checkbox"/> YES <input type="checkbox"/> NO	
5 REPORT OF INCOME AND NET WORTH			
A MONTHLY AMOUNTS			
NOTE-Prior to completing item 5 read paragraphs 2, 3 and 4 of the EVR instructions			
SOURCE	GROSS MONTHLY AMOUNTS (including deductions for taxes, insurance, Medicare, etc.)	EXAMPLES	
SOCIAL SECURITY	\$	1. Your monthly Social Security check is \$140.00 and the monthly Medicare payment is \$15.50. Therefore, your gross monthly amount to report is \$155.50.	
U. S. CIVIL SERVICE			
U. S. RAILROAD RETIREMENT			
MILITARY RETIREMENT (Do not report VA benefits)		2. Your monthly Civil Service or Railroad Retirement check is \$365.00 and the deduction for taxes is \$15.00 and for health insurance \$15.40. Therefore, your gross monthly amount to report is \$339.40.	
BLACK LUNG BENEFITS			
OTHER RETIREMENT (Company, state, local, etc.)			
SSI/PUBLIC ASSISTANCE			
B OTHER THAN MONTHLY INCOME			
Report total amounts of other than monthly income you received for the period indicated and the amounts you expect to receive for the period indicated.			
SOURCE	FROM OCT 1, 1988 THRU SEP 30, 1988	FROM OCT 1, 1988 THRU SEP 30, 1987	
TOTAL WAGES FROM ALL EMPLOYMENT	\$	\$	
TOTAL INTEREST AND DIVIDENDS			
ALL OTHER INCOME			
VA FORM 21-8915 JUL 1986	SUPERSEDES VA FORM 21-8913 APR 1985 WHICH WILL NOT BE USED	(Continued on Reverse)	

Appendix VII
Observations on VA Income
Reporting Documents

Figure VII.4: Eligibility
Verification Report
Instruction Sheet



Eligibility Verification Report Instructions

The Eligibility Verification Report (EVR) form will refer you to the instruction paragraphs that apply to your benefits.

GENERAL INFORMATION

IMPORTANT—ANSWER ALL QUESTIONS. If the proper entry for an item is none, write "NONE" or "0". DO NOT LEAVE BLANK. If you need help with this form, contact the VA regional office in your area. Toll-free numbers may be found under "U.S. Government" in your phone book. Any accredited veterans service organization will also help you.

ADDITIONAL SPACE. Attach a separate continuation sheet if additional space is required to answer any question.

RIGHT OF DUE PROCESS. Your payments are directly related to the income and dependency information you report. A change in benefits you receive may be required in the event of income and dependency changes. You have a right at any time to submit additional information or to have a personal hearing to explain or clarify your statements. You also have the right to be represented at such a hearing by a representative of your choice.

INSTRUCTION PARAGRAPHS

1. **NUMBER OF UNMARRIED, DEPENDENT CHILDREN.** The VA may recognize a veteran's natural or legally adopted children (or stepchildren) who are not married and who are either under age 18 or between age 18 and 23 and in school or who are over age 18 and who became physically or mentally helpless before age 18. If you have unmarried children in any of these categories, show the number of such children. If a child is away at school but still a member of your household, consider that child to be IN YOUR CUSTODY. If you have no dependent children, show "0".

2. **INCOME.** Report all income (money and services), as requested. (Note for foreign beneficiaries: If you cannot show income in American dollars, specify the type of currency, such as pesos, lira, etc.) Report the gross amount you receive. The gross amount includes amounts withheld for taxes, insurance, Medicare, etc.

DO NOT include any amounts withheld to recover an overpayment of Social Security benefits. DO NOT report your VA pension or other VA disability or death benefits.

DO report VA education benefits. If you receive VA education benefits, (e.g., GI Bill or Dependent's Educational Assistance), contact your VA office for help in reporting.

If you receive an EVR form which is type 5, 6, 7, 8 or 9 (see top right corner of the front of the form for the type), report VA Insurance benefits.

3. **MONTHLY AMOUNTS.** List gross monthly income by source including any monthly deduction for each benefit received. If you do not receive benefits from a source, write "NONE" or "0" in the block provided.

NOTE—MILITARY RETIREMENT. This means a monthly check from the Army, Navy, Air Force, Marine Corps, Coast Guard or Public Health Service and is normally based upon 20 to 30 years of service.

VA FORM
JUL 1986 **21-8983**

(Continued on Reverse)

Appendix VII
Observations on VA Income
Reporting Documents

Figure VII.4 (Continued)

4. **OTHER THAN MONTHLY OR ANNUAL INCOME.** Enter only income sources other than the monthly benefits already shown. DO NOT repeat any amounts already entered as monthly income, and DO NOT show your VA pension.

Instead, show the gross amounts (including amounts withheld for taxes, insurance, etc.) of

- (a) Annual wages from employment;
- (b) Annual interest and dividends (including interest on bonds and certificates of deposit, as well as savings accounts); and
- (c) Other annual income that is not already shown in another section (for example, VA education benefits, rental income, insurance, business profits, etc.)

If you did not receive income in a particular category, write "NONE" or "0" in the space provided.

5. **FAMILY MEDICAL EXPENSES.** You are not required to report payment of medical expenses. But it may be to your advantage to report them since payment of medical expenses can reduce your countable income.

If you receive an EVR form which is type 1 (see top right corner of the front of the form for the type), medical expenses are not deductible and therefore you are not asked to report them nor should you try to do so.

If you receive a type 4 or type 9 (reporting child or children alone), the VA recommends that you always report the medical expenses you paid.

If you receive any other EVR form (types 2, 3, 5, 6, 7 and 8 or a widow receiving type 9), generally your income will not be reduced unless the medical expenses you paid (including Medicare payment) exceed \$200. If you have any questions, contact the VA regional office in your area.

You may be asked to verify the amounts you actually paid, so keep all receipts or other documentation of payments. Enter the amount you actually paid for medical expenses (including health insurance premiums and the Medicare deduction). Do NOT include amounts for expenses that were paid for or will be paid by Medicare, Medicaid or other insurance. When showing medical expenses for yourself, write "SELF" under RELATIONSHIP OF PERSON FOR WHOM EXPENSES PAID.

6. **SIGNATURE.** If you cannot sign your name, make an "X" mark in the signature space and on a separate sheet furnish this statement: "I hereby certify that the information on this form is true and correct to the best of my knowledge and belief". Place your mark under this statement and have it signed by two witnesses who must also give their address.

7. **IMPORTANT.** Be sure you have entered all of your answers and signed and dated the form. Return it to the nearest VA office or the VA address shown on the front of the EVR form.

U.S. GOVERNMENT PRINTING OFFICE: 1981 O - 300-000

Comments From the Veterans Administration

Office of the
Administrator
of Veterans Affairs

Washington DC 20420



DEC 30 1987

Mr. Richard L. Fogel
Assistant Comptroller General
Human Resources Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

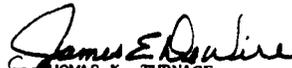
This responds to your request that the Veterans Administration (VA) review and comment on the General Accounting Office (GAO) November 16, 1987, draft report VETERANS PENSIONS: Using Tax Data to Verify Income Can Identify Significant Potential Erroneous Payments.

GAO reviewed the accuracy of income reporting in the VA nonservice-connected disability pension program. GAO used federal income tax data to independently verify the accuracy of income reported by beneficiaries and to estimate potential programwide overpayments. GAO concluded that VA had no effective means to verify self-reported beneficiary income and recommends that the Congress amend the Internal Revenue Code to allow VA access to tax data so it can verify the income information beneficiaries report and prevent improper payments.

GAO recommends that the VA revise its income questionnaires and accompanying instruction sheet to eliminate current design weaknesses, including those they identified; and pretest the revised documents with a sample of beneficiaries before programwide implementation to assure that the beneficiaries clearly understand each question and instruction.

Regarding income verification, VA shares GAO's concerns. VA needs the ability to verify wages, interest, and dividends. VA concurs, in part, with the recommendation to revise our annual income questionnaire documents. We do not concur with the recommendation to pretest the revised documents with a sample of beneficiaries before implementation. The enclosure contains our comments on recommendations made to the VA, as well as general comments on the report text.

Sincerely,


THOMAS K. TURNAGE
Administrator

Enclosure

Appendix VIII
Comments From the Veterans Administration

Enclosure

VETERANS ADMINISTRATION COMMENTS ON THE
NOVEMBER 16, 1987, GAO DRAFT REPORT VETERANS
PENSIONS: USING TAX DATA TO VERIFY INCOME CAN
IDENTIFY SIGNIFICANT POTENTIAL ERRONEOUS PAYMENTS

Comments on Recommendations:

To attain better reporting of beneficiary income and asset information, GAO recommended that the Administrator revise VA's income questionnaires and accompanying instruction sheet to eliminate current design weaknesses, including those they have identified.

We concur, in part, with the recommendation. We will amend our Eligibility Verification Report (EVR) instruction sheet to emphasize to the beneficiary the need to report accurate income information, especially wages, interest, and dividends. We will also amend the instruction sheet to emphasize the legal penalty for submitting false information. We agree with the conclusion that having a questionnaire designed for more than one type of respondent creates the potential for error. We came to this conclusion some time ago, independent of the GAO report, and have already increased the number of EVR types from 9 to 11. Prior to 1985, Annual Income Questionnaire (AIQ) cards were sent to beneficiaries. The dimension of the cards was approximately 3-1/4 inches by 7-1/4 inches. We recognized that the small size of the card was not conducive to accurate reporting. Therefore, in 1985 we began using a full-page EVR.

Regarding GAO's observations on the EVR's limited length, at the time we designed the EVR, we did consider the use of a multiple-page form and address label which would have permitted us to use large type and to have a less cluttered appearance. To do this, however, would have required us to use printed forms without the veteran's claim number and without the address of the VA regional office of jurisdiction. We would have had to rely on the beneficiary to affix the address label on the form or to supply this information as one must do when filing an income tax Form 1040. We felt that relying on this approach would result in delay in our receiving and processing the EVR forms. Many would be misrouted or returned without a claim number. This would require us to search for the number or write to the beneficiary and ask for the number. Many would be sent to the wrong office. Delay would result and accounts would go into suspense erroneously. (Our computer is programmed to suspend payment if the EVR is not received and processed within 60 days.) As a result, we rejected the use of a multiple-page form.

Instead, we chose to generate the EVRs on our laser printer. This printer is programmed to print the veteran's claim number and the address of the VA regional office of jurisdiction on the EVR form. A window envelope is provided. This ensures prompt return and expeditious processing. Unfortunately, use of the laser printer restricts the EVR to a one-page form.

Appendix VIII
Comments From the Veterans Administration

2.

In view of the foregoing, we feel that the interests of our beneficiaries will be best served by the continued use of the one-page EVR form. We will, however, carefully review each question to determine if it can be improved.

Now on p 78

Regarding GAO's suggested revision of EVR question 5D (See report pages 90-91.), a simplified revision of this question appeared on the old AIQ form. It simply asked, "Did any income change (increase/decrease) in 1983?" We regularly received thousands of these back with "yes" checked. When we wrote for an explanation, the beneficiary invariably said he/she received a social security cost-of-living increase. Since we already adjust pension and parents' dependency and indemnity compensation accounts for this increase via computer updating and matching, a considerable amount of costly unnecessary development was being undertaken. Consequently, we added the existing parenthetical which tells the beneficiary to check "no" if the only change was a Social Security cost-of-living allowance. This parenthetical has almost totally eliminated unnecessary reporting and the development needed to resolve the issue.

GAO also recommended that the Administrator pretest the revised documents with a sample of beneficiaries before programwide implementation, to assure that the beneficiaries clearly understand each question and instruction.

We do not concur. While pretesting does have merit, we do not believe that doing so now would significantly improve reporting. The main cause of overpayments is beneficiary failure to report wages, interest, and dividends. The questions asking for this information are quite simple and uncluttered. In our opinion, reduction of overpayments through improved form design would be insignificant. Instead, we need the ability to verify wages, interest, and dividends.

Comments on Report Text:

Now on p 10

Page 11, footnote, line 4 -- The third circumstance under which needy surviving children of veterans are separately eligible for benefits should read, "(3) they are not in the custody of the surviving spouse."

Now on p 14

Page 15, paragraph 2, line 5 -- This sentence is not accurate. VA's Office of Inspector General (OIG) wage match efforts were modeled after the President's Council on Integrity and Efficiency project "Federal Employees Receiving Government Assistance." The final report for that project, which began in early 1981, was issued in September 1983. The interim report for the VA portion of the interagency project was issued in March 1983. Computer screening criteria were developed in that project for match reliability between VA pension master records and records of other automated systems, and for specifying earned income levels for referral for adjudicative review. The decision to continue the review by examining private sector employment records was made in 1982 following an assessment of Department of Agriculture OIG wage matching efforts in Chicago. We suggest modifying the sentence as follows: "Using an approach modeled after the President's Council on Integrity and Efficiency project "Federal Employees Receiving Government

Appendix VIII
Comments From the Veterans Administration

3.

Assistance", VA's Office of Inspector General (OIG) began computer matching wage data in VA's master pension records file with selected states' wage data files in April 1982."

Now on p 15

Page 15, paragraph 2, lines 8-14 -- We suggest this portion be revised to reflect current match results. The revision follows: "...As of the end of fiscal year 1987, OIG referrals to DVB regional adjudication staff had resulted in \$33.1 million in overpayments to 5,373 VA pensioners due to nonreporting of wages. About 97 percent of these cases are based on match results in Florida, Georgia, Missouri, Texas, and Washington where DVB regional staff have either completed or have made substantial progress in their reviews."

Now on p 22

Page 26, paragraph 1, line 12 -- There are no "income differences" in compensation cases involving individual unemployability. Also, the description of the benefits involved needs to be clarified. We suggest deleting line 12 to the end of the paragraph and inserting, "income in cases of compensation where the veteran is rated 100 percent disabled due to individual unemployability and in cases of parents' dependency and indemnity compensation which were not included in our study results."

Now on pp 32 and 35

Now on p 36

Page 40, third indent, lines 3 and 4; and page 45, paragraph 1, Line 5 -- The second full paragraph on page 46 explains what criteria the VA could use to screen cases for review. However, the phrase "choose to adjudicate" used prior to this explanation, standing alone, might be interpreted to mean that the VA could arbitrarily pick cases. We suggest substituting a phrase such as "depending upon the criteria used to select cases for the match."

Now on p 56

Page 64 -- The second paragraph should be rewritten to conform to the terminology in our suggested revision of the first paragraph on page 26. Proper terms are "parents' dependency and indemnity compensation" and "compensation at the 100 percent disabled rate due to individual unemployability."

Comments From the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

DEC 29 1987

Mr. William J. Anderson
Assistant Comptroller General
General Accounting Office
Washington, DC 20548

Dear Mr. Anderson:

We appreciate the opportunity to review the draft report you recently forwarded to us from GAO's Human Resources Division entitled "Veterans Pensions: Using Tax Data to Verify Income Can Identify Potential Erroneous Payments" (HRD-88-24). Overall, based on our review, we believe the recommended revision to Internal Revenue Code (IRC) section 6103(1)(7) is unwise and inappropriate.

Preserving the confidentiality of tax information is a prerequisite to the integrity of our tax system. Using tax information for nontax purposes compromises that integrity. It is our opinion that disclosure of tax information to the Veterans Administration (VA) for the nontax purpose of verifying needs-based pension beneficiaries' eligibility for VA benefits would compromise the integrity of our tax system.

Inadequate Safeguards Preserving The Confidentiality of Tax Information

Our concerns about preserving the integrity of our tax system in this instance are based on several administrative and operational concerns noted in the draft report itself. For example, GAO notes on page 6 that VA access to tax information "...would be contingent on VA's demonstrated ability to comply with applicable safeguards." Based on our analysis of the draft report, it appears that disclosing tax information to the VA would in fact pose safeguard problems. GAO, in both this draft report and its September 20, 1985, report entitled "Veterans Administration Financial Management Profile," noted weaknesses within VA's automated data processing systems.

Now on p 5.

Appendix IX
Comments From the Internal Revenue Service

- 2 -

Mr. William J. Anderson

A computer matching program is the only avenue for providing tax information to VA for this program; therefore, deficient computer operations would adversely affect safeguarding of tax information. The VA's automatic data processing system, for the most part, is segmented with various computer centers utilizing different access systems. These systems can further be accessed by a total of 732 processing centers, thus creating hazards for inadvertent disclosures by those processing centers. There would also be several magnetic tapes being duplicated, creating monumental oversight problems for the offices involved. Further, the draft report states on page 49 that the VA "...still does not have a quality assurance program to determine whether beneficiary income reporting is a problem."

Now on p 38

Other Sources Of Information Are Available

The draft report notes on page 5 that VA, using its current year-end self-reporting questionnaires, would have been able to identify and act on \$25.3 million in potential overpayments. The report indicates, however, that VA did not use information in its possession to change or update pension payments. The VA's inability to effectively use the information it is currently receiving argues against furnishing VA with even more information, especially when the cost would include compromise of the integrity of our tax system. Additionally, we note that the draft report recommends a number of changes in VA's "self-reporting questionnaires." With such changes, more accurate income information might be available to VA from the pension beneficiaries themselves.

Now on p 4

Need For Disclosure

On page 4 of the draft report, GAO notes that: "Potential overpayments may not represent the actual savings to VA since the cases and amounts have not been referred to or adjudicated by VA, and some beneficiaries may be able to provide additional information to show that tax data did not accurately reflect their income for VA pension purposes." In addition to the possible overestimation of savings, the costs of investigating income discrepancies and of adequately safeguarding tax information have not been included in the cost estimates.

Now on p 3

We have expressed very similar concerns with respect to the September 1987 report on "Veterans Benefits: Improving the Integrity of VA's Unemployability Compensation Program" (HRD-87-62). In fact, I wrote you about these concerns on June 17 of this year, in relation to the draft report noted above, and again on August 28, about the larger issues at stake here. Copies of those letters are enclosed for your information and reference.

The cited letters have not been reproduced in this report but are on file in GAO's Human Resources Division

Appendix IX
Comments From the Internal Revenue Service

- 3 -

Mr. William J. Anderson

In each of these proposals, GAO or the VA has recommended disclosure on the basis of a cost-benefit analysis. That is, they have determined that the money which might be saved exceeds the cost of the disclosure. This cost benefit analysis, however, is based upon generalized revenue potentials and fails to take into account the affect of disclosure on revenues and voluntary compliance. Without a more precise revenue analysis, adequate disclosure safeguards, and an analysis of the impact on voluntary compliance, we would object to the recommended disclosure.

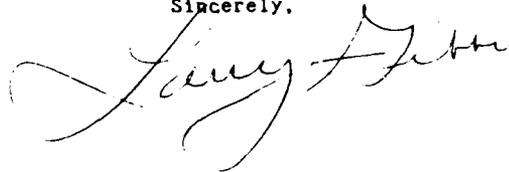
Earlier this year, the Service met with officials of the General Government Division of GAO to discuss this issue. It was noted at that meeting that the Service, with appropriate input from GAO, would conduct a study to determine what empirical effect disclosure for verification of needs-based programs would have on compliance with the tax laws. The Research Division of IRS is currently developing plans for such a study.

Given this activity, we take issue with the draft report which states at page 52 that "There are no studies existing or underway to show whether there is, or has been, any change in voluntary tax compliance as a result of authorizing program access to tax information for non-tax administration purposes". This conclusion effectively ignores the study discussed at the meeting. We believe the study should be conducted before any consideration is given to amending section 6103(1)(7) in the manner suggested.

We hope these comments are useful in preparing your final report.

With kind regards,

Sincerely,



AD-A191 582

VETERANS' PENSIONS: VERIFYING INCOME WITH TAX DATA CAN
IDENTIFY SIGNIFICANT (U) GENERAL ACCOUNTING OFFICE
WASHINGTON DC HUMAN RESOURCES DIV.. MAR 88
GAO/HRD-88-24

2/2

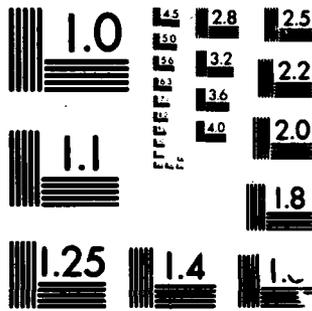
UNCLASSIFIED

F/G 5/3

NL



END
DATE
5 88



MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

**Appendix X
Comments From the Department of Health
and Human Services**

DEPARTMENT OF HEALTH AND HUMAN SERVICES COMMENTS ON GENERAL
ACCOUNTING OFFICE DRAFT REPORT, "VETERANS PENSIONS: USING TAX
DATA TO VERIFY INCOME CAN IDENTIFY SIGNIFICANT POTENTIAL
ERRONEOUS PAYMENTS"

The General Accounting Office (GAO) recommends that Congress amend the Internal Revenue Code of 1986 to allow the Veterans Administration (VA) pension program access to tax data on earnings and pension income so that VA can verify income information that program beneficiaries report. To the extent that GAO is recommending legislation to implement such access this proposal is currently being reviewed within the Executive Branch.

Related GAO Products

Veterans Benefits: Improving the Integrity of VA's Unemployability Compensation Program (GAO/HRD-87-62, Sept. 21, 1987).

Welfare Eligibility: Deficit Reduction Act Income Verification Issues (GAO/HRD-87-79FS, May 26, 1987).

Social Security: Pension Data Useful for Detecting Supplemental Security Payment Errors (GAO/HRD-86-32, Mar. 12, 1986).

Eligibility Verification and Privacy in Federal Benefit Programs: A Delicate Balance (GAO/HRD-85-22, Mar. 1, 1985).

GAO Observations on the Use of Tax Return Information for Verification in Entitlement Programs (GAO/HRD-84-72, June 5, 1984).

Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (GAO/HRD-82-9, Jan. 14, 1982).

DATE
FILMED
58