

GAO

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

134197

September 1987

VETERANS' BENEFITS

Improving the Integrity of VA's Unemployability Compensation Program



RELEASED

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

Human Resources Division

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September 21, 1987

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

Dear Senator Murkowski:

In response to your September 10, 1985, request, we reviewed the Veterans Administration's (VA) Unemployability Compensation Program to determine if veterans receiving unemployability benefits are reporting their earnings, as required, to VA. The report also presents other related data, gathered as a result of self-initiated work we had under way at the time of your request. We are recommending steps VA can take to improve its process for determining initial and continuing eligibility for unemployability benefits. We are also suggesting that the Congress consider amending the Internal Revenue Code to grant VA access to Social Security Administration earnings files as was granted to seven other federal benefit programs in accordance with the Deficit Reduction Act of 1984.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Chairmen, Senate and House Committees on Veterans' Affairs; the Chairmen, Senate and House Appropriations Subcommittees on HUD and Independent Agencies; the Director, Office of Management and Budget; the Administrator of Veterans Affairs; and other interested parties and make copies available to others on request.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard L. Fogel".

Richard L. Fogel
Assistant Comptroller General

Executive Summary

Purpose

The Veterans Administration (VA) pays basic compensation benefits to veterans disabled by injuries or diseases that were suffered or aggravated while on active military duty. A basic benefit can be increased if VA determines that the veteran is unemployable (not able to engage in a substantially gainful occupation) due to the service-connected disability. In 1985, VA paid 78,146 veterans about \$680 million in unemployability benefits. VA generally requires veterans to report their annual earnings because those with earnings above marginal amounts are not eligible for unemployability benefits.

Senator Frank H. Murkowski, the Ranking Minority Member of the Senate Veterans' Affairs Committee, requested GAO to determine if (1) veterans receiving unemployability benefits are reporting their earnings, as required, to VA and (2) access to tax information would enable VA to better administer this program. GAO also evaluated the way that VA assesses whether a veteran should receive unemployability benefits.

Background

VA rating boards determine eligibility for unemployability benefits based primarily on (1) a medical examination by a VA physician and (2) vocational information furnished by the veteran and the veteran's previous employer. VA rates the severity of veterans' disabilities from 0 to 100 percent and pays compensation benefits in legislated amounts, based on the rating percentage assigned. Veterans who are not 100-percent disabled, but whom VA determines to be unemployable, can receive compensation equal to that for total disability.

In 1984, GAO indicated that (1) the lack of information to verify income reported by applicants and recipients in the major entitlement programs, including VA's, had contributed to significant overpayments and (2) using tax return information to verify reported earned income would help fill this information gap. However, access to tax information is restricted to certain federal agencies by section 6103 of the Internal Revenue Code because of concerns that use of this information for verification could adversely affect individual privacy and the voluntary reporting of income to the Internal Revenue Service (IRS). (See p. 13.)

The Deficit Reduction Act of 1984 (Public Law 98-369) amended the Internal Revenue Code to allow seven benefit programs to use tax information for verification, but the VA benefit programs were not included. Access was given to information on earned income in Social Security Administration (SSA) files and unearned income in IRS files.

GAO matched SSA's earned income file and VA's unemployability file to determine how access to tax information could help VA determine the extent of a veteran's earnings. IRS's unearned income file was not used because VA's eligibility assessment for unemployability benefits is based solely on a veteran's ability to earn income. GAO selected and reviewed case files for a random sample of 403 veterans who received unemployability benefits between January 1982 and October 1984 to (1) project the potential overpayments due to unreported earned income and (2) evaluate VA's eligibility determinations.

Results in Brief

Based on SSA's earned income files, over 90 percent of the veterans who should have reported their earnings to VA failed to do so. Potential overpayments to these veterans in 1984 and 1985 could have exceeded a total of \$10 million, depending on the extent to which VA considered the earnings to be marginal. VA's regional offices' determinations are made on a case-by-case basis, using differing interpretations of marginal earnings. Access to SSA's files would enable VA to identify those veterans not reporting their earnings, as required under the Unemployability Compensation Program.

VA does not routinely obtain all medical and vocational information needed to determine a veteran's ability to engage in a substantially gainful occupation. As a result, GAO believes VA does not always have an adequate basis for awarding or denying a veteran's claim for unemployability benefits. Without the needed information, VA's determination process gives the appearance of arbitrary or inequitable decision making.

Principal Findings

Unreported Earnings

GAO estimates, on the basis of analyzing SSA earnings files, that 634 veterans who received unemployability benefits in 1984 had unreported earnings that could be considered more than marginal amounts. An estimated \$5.5 million was paid in 1984 and 1985 to 398 veterans with earnings at or above the annual minimum wage (\$6,968). An additional \$4.5 million was paid to another 236 veterans with annual earnings at or above \$3,600, the amount SSA uses to determine substantially gainful employment.

These benefit overpayments confirm what GAO discovered in a 1981 sample. If VA had removed ineligible veterans from the unemployability rolls in 1981 because of unreported earnings, it could have reduced overpayments to 934 veterans by about \$6 million that year. (See p. 18.)

Potential overpayments may not represent actual savings to VA since some veterans may be able to provide additional information showing that SSA's files did not accurately reflect their earnings. In addition, some overpayments may not be collectible. There are also costs associated with collecting overpayments. (See pp. 25-26.)

Marginal Earnings

The veteran may continue to receive the unemployability benefit while working if VA determines that the earned income is only a marginal amount. GAO found that VA uses at least five different approaches to define marginal earnings and could not obtain a consistent interpretation from rating board members at the nine VA regional offices GAO visited. As a result, different rating boards could determine that one veteran has marginal earnings while another does not, but both veterans have the same amount of earnings. (See p. 27.)

Eligibility Procedures

VA does not require that the examining physician be informed that the medical examination is for unemployability. Unless informed, the physician will conduct a general medical examination of the veteran. Professional medical standards call for a more specialized medical examination if the results will be used to determine disability. To decide if VA physicians are providing the information needed by the rating boards, GAO judgmentally selected 24 files from its sample for review. GAO found that the medical evidence needed to evaluate the physical demands of employment, such as sitting, walking, and lifting, was not available in 75 percent of the files that it reviewed. (See pp. 32 to 34.)

Medical impairment must be related to vocational factors to determine the veteran's ability to work at a substantially gainful occupation. VA relies on the veteran and the employer to furnish all vocational information; professionals in VA's Vocational Rehabilitation and Counseling Divisions do not become involved until after the decision on unemployability has been made. From its sample of veterans' files, GAO judgmentally selected 56 files to determine if they contained the vocational information needed to evaluate employability. GAO found that almost 75 percent lacked essential vocational information because the information furnished by the veteran was incomplete.

Recommendations to the Administrator of Veterans Affairs

GAO recommends that the Administrator amend the VA guidelines on determining eligibility for unemployability compensation so that

- there is clarification of the criteria used to determine that marginal earnings are consistent between rating boards,
- the examining physician is requested to provide observations on how the veteran's medical condition impairs his or her functional capacity, and
- vocational information is obtained during an interview with the veteran by a professional in the Vocational Rehabilitation and Counseling Divisions after the medical examination but before the rating board determination of eligibility for unemployability benefits.

Matter for Consideration by the Congress

To improve VA's eligibility determination processes, the Congress should consider amending the Internal Revenue Code (section 6103(1)(7)) to grant VA the same access to SSA earnings files now granted seven other benefit programs. The Congress would need to weigh the potential benefits of such disclosure with the potential effects on individuals' privacy and their voluntary compliance with the tax system.

Agency Comments

The Administrator of Veterans Affairs concurred with GAO's recommendations that (1) the guidelines be revised to clarify how marginal earnings are defined and (2) physicians be requested to provide observations on how a veteran's medical condition impairs functional capacity. The Administrator agreed that a VA Vocational Rehabilitation and Counseling Division could play a positive role in the eligibility determination; however, he deferred further comment because he believes that a study will be needed to determine the number of cases involved, the ages of the individuals and their disabilities, and the staff resources required.

The Commissioner of Internal Revenue is not in favor of amending section 6103(1)(7) of the code to permit disclosure of tax information to VA to verify beneficiaries' reported earnings. The Commissioner stated that using tax information for nontax purposes compromises the integrity of our tax system. He said that VA administrative problems should be resolved and additional information on cost savings and alternative sources of earning information gathered before such a change is made.

Contents

<hr/>	
Executive Summary	2
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Chapter 1	8
Introduction	8
Rating Schedule	8
Compensation Benefit Amounts	8
Unemployability Benefit	9
Number of Veterans Who Received Unemployability Compensation Benefits	11
Verification, Privacy, and Tax Compliance	13
Objectives, Scope, and Methodology	14
<hr/>	
Chapter 2	18
Unreported Earnings Can Cause Overpayments	18
Estimated Overpayments Are in the Millions of Dollars	18
VA Has Not Adequately Defined Marginal Employment	26
Conclusions	27
Recommendation to the Administrator of Veterans Affairs	28
Matter for Consideration by the Congress	29
VA Comments	29
IRS Comments and Our Evaluation	29
<hr/>	
Chapter 3	32
VA Needs Better Information to Determine Unemployability	32
Medical Information Should Address Impairment	32
Vocational Information Should Be Complete and Accurate for a Fair Decision	36
Conclusions	42
Recommendations to the Administrator of Veterans Affairs	42
VA Comments	43
<hr/>	
Appendixes	44
Appendix I: Characteristics of Working Veterans Receiving Unemployability Benefits	44
Appendix II: Comments From the Veterans Administration	48
Appendix III: Comments From the Internal Revenue Service	50
<hr/>	
Figures	12
Figure 1.1: Trends for Veterans Who Received Unemployability Compensation Benefits (Dec. 1980- Dec. 1985)	12

Figure 2.1: Estimated Range of Earnings for 398 Veterans Who Received Unemployability Compensation for 1984	25
Figure 3.1: Evaluating Impairment Using AMA's Guides to the Evaluation of Permanent Impairment	35
Figure 3.2: Examples of Tasks That Require Handling	38
Figure 3.3: Assessment of Vocational Information in Files	40
Figure I.1: Number of Years After Receiving the Unemployability Benefit That Veterans Returned to Work	46

Abbreviations

ADP	automatic data processing
AMA	American Medical Association
GAO	General Accounting Office
IRS	Internal Revenue Service
OIG	Office of the Inspector General
SSA	Social Security Administration
VA	Veterans Administration

Introduction

The Veterans Administration (VA) pays compensation benefits to veterans disabled by injuries or diseases that are suffered or aggravated while on active military duty. Veterans who are not 100-percent disabled, but whose service-connected disabilities make them unemployable, can receive compensation equal to that for total disability. If VA determines that a veteran is unemployable, the veteran's compensation benefit can be more than doubled.

Rating Schedule

VA rates the severity of all service-connected disabilities by using the Schedule for Rating Disabilities. The schedule lists types of disabilities and assigns each disability a percentage rating, which is intended to represent an average earning impairment the veteran would experience in civilian occupations because of the disability. All veterans awarded service-connected disabilities are assigned single or combined (in case of multiple disabilities) ratings ranging from 0 to 100 percent, in increments of 10 percent, based on the ratings schedule; such a rating is known as a schedular rating.

Diseases and injuries suffered or aggravated while on active duty are called service-connected disabilities. Examples of disabilities that VA considers service-connected include, among others, gunshot wound to the leg, asthma, hypertension, and diabetes. There were examples in our study where each of these disabilities had been rated at 60 percent.

The ratings are assigned by VA rating boards, which are located at each of the 58 VA regional offices. Rating boards consist of three members—two rating specialists and a physician; the boards gather and analyze employment, medical, and other information in order to make decisions to award or deny claims for VA benefits. If a veteran disagrees with a rating board decision, the veteran can initiate an appeal. A personal hearing on appeal may be arranged anytime. The Board of Veterans Appeals in Washington, D.C., is the veteran's final level of appeal.

Compensation Benefit Amounts

The amount of compensation paid varies according to the percentage of disability; that is, a veteran with a schedular rating of 80 percent receives more than a veteran with a rating of 60 percent. However, the amount of compensation is not proportional to the percentage of disability. The amount paid at the 10-percent rating, for example, is not 10 percent of the amount paid at the 100-percent rating. The basic annual compensation rates (effective Dec. 1, 1986), paid in equal monthly amounts, for an unmarried veteran are as follows:

- 10 percent, \$828;
- 20 percent, \$1,536;
- 30 percent, \$2,328;
- 40 percent, \$3,336;
- 50 percent, \$4,728;
- 60 percent, \$5,952;
- 70 percent, \$7,512;
- 80 percent, \$8,688;
- 90 percent, \$9,780; and
- 100 percent, \$16,260.

The basic compensation amount can be increased if a veteran has dependents. For example, a veteran rated 100-percent disabled who has a spouse and two children would have his benefit raised from \$16,260 to \$18,444 annually. VA can also provide for veterans' education and medical needs. Once a veteran reaches a 100-percent-disability level, education and medical benefits are available for the spouse and dependent children as well.

Unemployability Benefit

The veteran's benefit can be increased if VA determines that the veteran is unemployable due to a service-connected disability. For example, in 1986, an unmarried veteran receiving \$5,952 annually for a disability rated at 60 percent would have that benefit increased to \$16,260 if found unemployable. The Code of Federal Regulations (38 C.F.R. 4.16) defines unemployability as the inability of a veteran to engage in a substantially gainful occupation because of a service-connected disability. VA determines a substantially gainful occupation on a case-by-case basis considering such factors as number of hours worked and earnings.

Under 38 U.S.C. 355, the broad authority to create a rating schedule, the Administrator of Veterans Affairs established the unemployability provisions of the Unemployability Compensation Program. The provisions allow VA to compensate, at the 100-percent rate, veterans whose service-connected disabilities caused them to become unemployable even though their disability was less than 100 percent. To qualify for unemployability benefits, a veteran must have a single service-connected disability of at least 60 percent or multiple disabilities with a combined rating of 70 percent, with one of the disabilities rated 40 percent or more. VA can waive the minimum ratings requirement and grant unemployability benefits to a veteran with a lower rating; this is known as an extra-schedular rating. VA did not have statistics on the number of veterans granted unemployability benefits on an extra-schedular rating.

To establish entitlement to the unemployability benefit, VA's Department of Veterans Benefits manual requires three kinds of evidence: an application from the veteran; a statement from the prior employer; and medical reports. On the application, the veteran furnishes his or her employment history for the 5-year period preceding the date when the disability precluded work, as well as education and training. Supporting statements are required to describe self-employment. Each employer during the 12-month period before the date the veteran last worked is asked to explain the reason the veteran stopped working. The medical evidence, according to the manual, shall reflect the veteran's condition within the past 12 months and include results of VA examinations, hospital reports, or outpatient treatment records. If the medical evidence on record is incomplete or inconsistent, a general medical examination is to be scheduled. When it makes its decision, the rating board usually does not see the veteran. Instead, it relies on the adequacy of the written documentation.

Once VA grants unemployability benefits, a veteran may continue to receive the benefits while working if VA determines that the work is only marginal employment rather than a substantially gainful occupation. VA regulations require veterans, with some exceptions, to report their employment annually. Such reporting is accomplished through the use of an employment questionnaire that VA sends yearly to veterans receiving benefits.

In completing the questionnaire, the veterans are instructed to provide information on their employment for the past 12 months, including the name and address of employer, type of work, hours worked per week, dates of employment, self-employment, time lost from work due to illness, and the veteran's highest gross earnings per month. The regulations state the veteran's claim file will be referred to a rating board if a completed questionnaire is not returned within 60 days. The rating board will review the case to determine whether the veteran's unemployability benefit should be continued.

In 1984, the Congress passed the Veterans' Benefits Improvement Act of 1984 (Public Law 98-543), which includes certain protections for veterans who are receiving unemployability benefits. A veteran will not be determined to have regained the ability to engage in a substantially gainful occupation unless employed for at least 12 consecutive months. The legislation also requires that veterans granted the unemployability benefit after February 1, 1985, receive a vocational evaluation, which includes a personal interview with a VA employee trained in vocational

counseling. The provisions of this legislation are in effect for a 4-year period beginning February 1, 1985, and the Congress required VA to submit a report on the results over the initial 3-year period.

Number of Veterans Who Received Unemployability Compensation Benefits

In 1985, VA paid 78,146 veterans about \$680 million in unemployability benefits above the veterans' basic compensation benefits.¹ As shown in figure 1.1, the number of veterans who received unemployability compensation benefits declined by over a third between 1980 and 1985.

According to VA officials, the main reasons for the sharp decline between 1980 and 1982 were (1) terminations due to death of the beneficiary and (2) a change in status of over 19,000 veterans who received unemployability benefits. The status of these veterans changed because VA changed service-connected neuropsychiatric conditions with an unemployability status to 100-percent schedular ratings. The change in the status of these veterans did not affect the amount of the benefits the veterans received. It did, however, result in their removal from inclusion in the statistics for the Unemployability Compensation Program. Hence, the sharp decline in the program's rolls during that period.

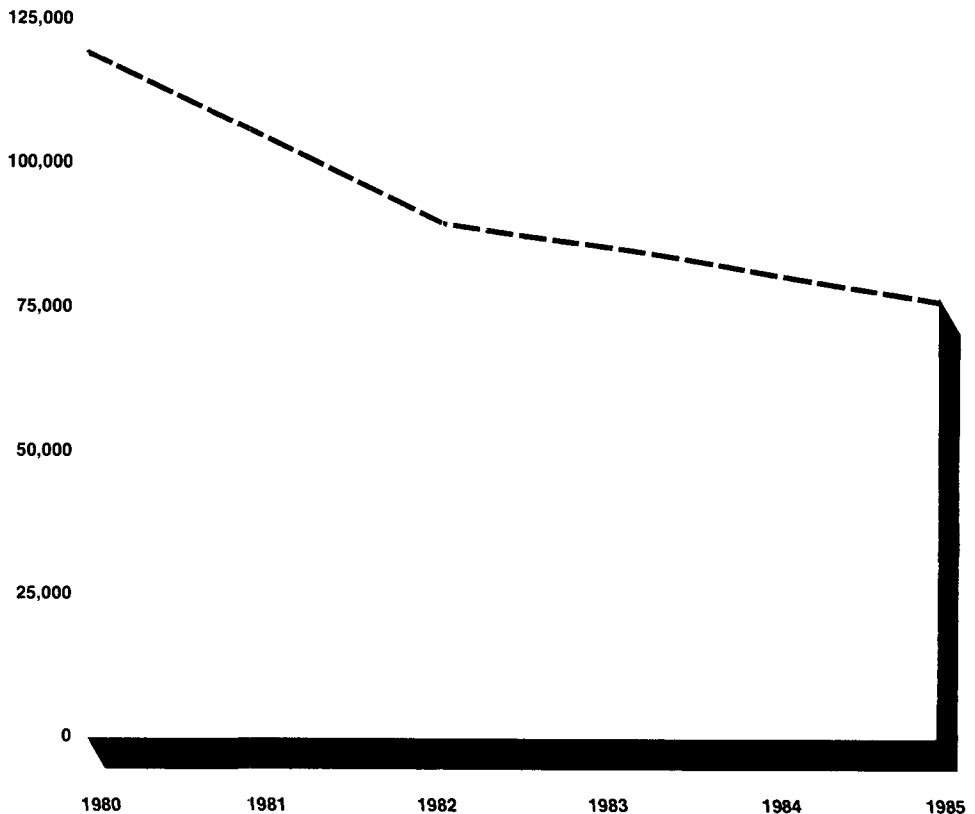
As shown in figure 1.1, from 1982 to 1985, there was a continual, steady decline in the number of veterans who received unemployability benefits. This decline occurred because the number of program terminations (mostly death cases) exceeded new awards. Before December 1983, VA did not maintain statistics on the number of new individual unemployability awards or terminations made each month. Since December 1983, new awards have averaged about 3 a month, and terminations have averaged about 300 a month. Before the 1980's, based on our estimate, VA was granting hundreds of new awards each month.

According to the VA Administrator, the reduction in the number of new awards was due to changes in the evidence requirements. Other VA officials stated that two VA program reviews, which began on September 9, 1980, and May 10, 1982, criticized the evidence gathered by rating boards as inadequate to support awards of unemployability. In addition, a requirement was established for VA's central office to review selected unemployability benefit awards proposed by the local rating boards.

¹VA does not maintain statistics on the amount paid for unemployability benefits annually. We estimated such costs according to the average benefit payment for the unemployability rating levels and the additional amount paid for the benefits at these levels.

Figure 1.1: Trends for Veterans Who Received Unemployability Compensation Benefits (Dec. 1980-Dec. 1985)

150,000 Number of Veterans on the Rolls at the End of Calendar Year



Rating board members told us that after the central office began its continuing review, it routinely denied rating boards' proposals for unemployability awards, and, therefore, the rating boards became less willing to propose new unemployability awards. VA headquarters officials in the Compensation and Pension Service questioned whether their tightening of procedures may have gone too far in reducing the number of new unemployability awards. Veterans service organization representatives said that because of the central office review, the attitude of rating boards now is to deny the unemployability benefit and to look for ways to disqualify veterans from getting the award.

Verification, Privacy, and Tax Compliance

GAO has indicated that (1) the lack of information to verify income reported by applicants and recipients in entitlement programs has contributed to significant overpayments and (2) the tax return information on earned income would help in verification.² However, access to this information is restricted by section 6103 of the Internal Revenue Code. The primary disadvantages of using tax return information for verification in entitlement programs are the potential harmful effects on tax-reporting compliance and individual privacy.

The Deficit Reduction Act of 1984 (Public Law 98-369) amended legislation to allow seven benefit programs to use certain tax information for verification.³ The VA benefit programs were not included, and the legislative history is not clear as to why. The tax information allowed for use by the seven programs was

- net income from self-employment, earnings, and employers' payments of retirement income from files at the Social Security Administration (SSA) and
- unearned income (such as dividends and interest) from the files at the Internal Revenue Service (IRS).

Except for earnings from self-employed persons, these files at SSA contain information reported by third parties. Third-party tax information is reported by employers and payers of pensions, interest, and dividends; this information is used by IRS to verify taxpayer self-reported income. Such information is required to be reported for this reason: to improve taxpayers' voluntary compliance with tax law income-reporting requirements. Public knowledge that IRS uses this information for verification purposes has, over the years, improved voluntary compliance with the tax laws.

It must be recognized, however, that granting access to tax information, even that provided by third parties, represents a special case concerning privacy and confidentiality issues. Taxpayers and third parties have little choice about revealing personal information for tax administration purposes because this revelation is mandated by law and subject to criminal and civil sanctions. Further, this information is gathered for a

²GAO Observations on the Use of Tax Return Information for Verification in Entitlement Programs (GAO/HRD-84-72, June 5, 1984).

³The seven programs are Aid to Families with Dependent Children, Medicaid, Food Stamps, Supplemental Security Income, Unemployment Compensation, State-administered Supplements to Supplemental Security Income, and benefits provided under a state plan approved under titles I, X, XIV, or XVI of the Social Security Act (as those titles apply to Puerto Rico, Guam, and the Virgin Islands).

specific purpose—revenue gathering. The dilemma is whether, in the context of tax administration, personal information required for one purpose should be used for another unrelated purpose. This question requires a balance between a potential increase in the efficiency and effectiveness of a legitimate government function and the intrusion by the government into the private lives of individuals.

The legislative history of the Deficit Reduction Act of 1984 shows that the Congress intended that (1) safeguards would be used to protect the information used for verification and (2) the individual would receive appropriate notification before any action was taken relating to benefits.

Objectives, Scope, and Methodology

On September 10, 1985, the Chairman (now the Ranking Minority Member), Senate Committee on Veterans' Affairs, requested that GAO study two programs: VA's Pension Program, based on need, and VA's Unemployability Compensation Program. We were asked to (1) report on the extent to which veterans in these programs are reporting their earnings to VA as required and (2) determine how access to tax information could enable VA to better administer the Unemployability Compensation Program.

This report describes our review of the Unemployability Compensation Program. A separate review on the needs-based Pension Program is being done. Some of our work concerning the Unemployability Compensation Program was under way at the time we received the Chairman's request and remained outside the scope of the work he requested. Our primary objective, in accordance with the Chairman's request, was to determine if veterans receiving unemployability benefits are reporting their earnings, as required, to VA, which does not have access to federal tax information. In addition, under a self-initiated effort, we evaluated if VA's initial assessment for unemployability benefits determination is based on adequate information.

We used federal tax and earnings information to make our determinations. Two files contain tax information on earnings—one at SSA and one at IRS. GAO was granted access to tax information for this review under section 6103(f)(4) of the Internal Revenue Code, as an agent of the Joint Committee on Taxation. Section 6103 prohibits GAO from reporting the results of examinations of tax return information in a way that could

result in the identification of any specific taxpayer. Hence tax information used in chapter 2 of this report has been presented in such a way as to prevent its being traced to individual veterans.

For our analysis, we used the earnings information at SSA because this was the file authorized for use by the seven benefit programs covered under the Deficit Reduction Act of 1984 (Public Law 98-369). We did not use the unearned income in the file at IRS because VA's assessment relies solely on earned income. We compared the SSA earnings file with VA's file of veterans who received unemployability benefits as of October 31, 1984. At the time of our study, SSA had earnings in its file only through 1983. Therefore, in our projections, we considered only the earnings of veterans who received unemployability benefits during all of 1983.

We also analyzed the earnings of veterans who received unemployability benefits as of December 31, 1981. For this study, we used both earnings information at SSA and the taxpayer-reported information from the individual tax form 1040 maintained at IRS. Using both files provided a higher proportion of matches than we found in the 1984 match using only one file. However, we did not use the taxpayer-reported file at IRS in our match of 1984 VA files because the Congress did not authorize its use for matching by the seven benefit programs granted access to tax information under Public Law 98-369. We wanted our study to reflect, as closely as possible, congressional intent already established for other benefit programs' use of tax information.

For our analysis of how VA awards unemployability benefits (see ch. 3), we studied the cases of veterans who came on the unemployability benefit rolls from December 31, 1981, through October 31, 1984. We did not match these cases with tax information since this analysis dealt only with how unemployability was initially awarded.

To project certain information for veterans in our study, such as the number of veterans who may not have been entitled to benefits, we selected simple random samples from each of three veteran populations: (1) veterans on the unemployability rolls as of December 31, 1981; (2) veterans who came on the rolls between December 31, 1981, and October 31, 1984; and (3) veterans on the unemployability rolls as of October 31, 1984. To analyze case samples, we obtained more information than on VA computer records from VA's hard copy (written) case files. The additional analysis was necessary to determine such information as (1) earnings reported by veterans on the annual employment questionnaire;

(2) earnings determined to be marginal employment by VA and excludable; (3) the amount of unemployability benefits that an employed veteran might lose since the entire compensation benefit is not lost, only the unemployability portion, and the amount lost can differ by each veteran; and (4) the exact dates on which the veteran actually received the unemployability benefit. The results obtained from the analysis of the samples were then projected to the stratified universe of unemployability cases with earnings. Sampling errors for estimates reported here ranged from +2 to +12 percent at the 95-percent confidence level. Overall, we reviewed 403 case files (which is less than 1 percent) of veterans who received unemployability compensation.

Although our computer matches only involved earnings for 1981 and 1983, our review of case files gave us a complete history on the veterans from the time they first began receiving unemployability benefits through the time of our review. In addition, the earnings information we obtained from SSA was the veterans' complete earnings histories. Thus, we were able to determine if the veterans showed earnings in prior years that went unreported to VA.

In our review of case files, we used the expertise of a physician (GAO's chief medical advisor), who analyzed medical information, and a vocational consultant, who analyzed vocational information. We selected the vocational consultant because (1) his vocational services were used by SSA's Office of Hearings and Appeals and (2) he had worked for 19 years as a counseling psychologist for VA, where he had responsibilities such as counseling disabled veterans, designing and supervising individual training programs, and selecting training facilities.

We also reviewed VA's policies, procedures, and practices in awarding and monitoring the unemployability benefit. To do this, we obtained VA's written regulations, guidelines, and memoranda regarding the program. In addition, we interviewed officials at the Department of Veterans Benefits at VA headquarters in Washington, D.C., and at nine VA regional offices in Atlanta, Boston, Los Angeles, New York City, Saint Petersburg (Florida), San Francisco, Seattle, Waco (Texas), and Winston-Salem (North Carolina). We selected these 9 out of the 58 VA regional offices because they accounted for over 40 percent of the unemployability benefit caseload and represented diverse geographic coverage.

At the VA regional offices, we interviewed the regional directors, adjudication officers, vocational rehabilitation and counseling officers, field

examiners, rating board members (including rating specialists and physicians), and representatives of veterans' service organizations (such as the Disabled American Veterans, American Legion, Veterans of Foreign Wars, and state veterans' organizations). When there were several VA staff with the same responsibilities at a regional office, we interviewed selected officials, allowing VA to select the officials we would interview. For example, we interviewed two rating specialists at each VA regional office and allowed VA to select the two rating specialists for our interviews.

We verified the accuracy of VA automated records for the 403 veterans sampled against hard copy case files. However, we did not verify the accuracy of the tax information in SSA and IRS automated files. At the time of our review, GAO's Information Management and Technology Division was conducting studies of the accuracy of tax information in federal files but had not completed its efforts. In addition, we did not confirm the results of any matches with the veterans or their employers. With those exceptions, we did our work from November 1985 to April 1986 in accordance with generally accepted government auditing standards.

Unreported Earnings Can Cause Overpayments

The law does not grant VA access to tax information, and there are no reasonable alternatives for verification of veterans' earnings. Therefore, VA cannot readily verify the self-reported earnings information submitted by veterans receiving unemployability benefits. In our sample of veterans, over 90 percent did not report their earnings to VA as required. If VA had access to tax information, it could identify those veterans not reporting their earnings and potentially reduce benefit payments by millions of dollars, paying the veterans at their basic compensation rate instead of the higher unemployability rate.

In addition, VA needs a consistently applied definition of marginal employment—the amount of earnings a veteran may have and still receive unemployability benefits. Under VA's current practice of defining and applying marginal employment, veterans could receive inequitable treatment between VA rating boards, which determine eligibility for unemployability benefits.

Estimated Overpayments Are in the Millions of Dollars

From a random sample, we estimated that VA could have paid between \$3.0 and \$3.3 million less in benefits in 1984 to 398 veterans if VA had known about their earnings. If VA had removed these potentially ineligible veterans from the unemployability rolls, it would have also reduced benefit payments between \$2.5 and \$3.0 million in 1985. Any reduction in benefits is based on the difference between each veteran's basic schedular rate of compensation and the higher unemployability rate of compensation. It was not based on removing veterans from the unemployability benefit rolls.

These reductions in benefit payments confirm what we discovered in a sample of veterans receiving unemployability benefits in 1981. If VA had removed ineligible veterans from its unemployability rolls in 1981 because of unreported earnings, it could have reduced benefit payments to 934 veterans by an estimated \$6.3 to \$6.8 million that year and between \$23 and \$28.1 million from 1982 to 1985. The 1981 figures are higher primarily because (1) the benefit rolls declined and (2) we used both IRS and SSA earnings files in 1981 but only SSA earnings files in 1984 to conform with Public Law 98-369 (see pp. 15 and 16); none of the cases included in our 1981 sample were included in our 1984 sample.

The number of veterans that we have identified as potentially overpaid represents a conservative figure. Other earnings data bases, at the state and federal level, may have allowed us to identify additional veterans receiving unemployability benefits and not reporting their earnings. In

addition, veterans who received unemployability benefits may also have earnings that are never reported to the government. Our study was designed to reflect the authorization currently granted by the Congress to other benefit programs to detect unreported earnings (see p. 15). Our study was not designed to detect every veteran receiving unemployability compensation and not reporting earnings.

Costs of Matching

If granted access to tax information, VA will incur costs, as well as savings, from matching unemployability benefit rolls and tax information. These costs will include, as we previously reported, not only data processing costs but also the costs of planning activities and following up on results of the match.¹ The major costs of matching are the salary and fringe benefits of personnel involved in all phases of the process.

Although the exact future costs cannot be determined, the costs in relation to benefits of matching unemployability benefit rolls and tax information can be estimated from matches that VA's Office of Inspector General (OIG) does; the matches are between selected state earnings files and VA unemployability benefit and pension benefit rolls. In the matches with 25 states and two cities, beginning in April 1982, OIG reported \$141,890 in total costs. These costs included salaries, travel related to matching projects, and acquisition costs for state files and automatic data processing (ADP) support. Costs for other VA departments (such as adjudication, appeals, and ADP support) and Department of Justice costs for prosecution were not included, according to OIG, for these reasons: (1) costs incurred for these projects involved ongoing functions undertaken by VA and Justice, and (2) costs were not material in terms of overall costs incurred by them. OIG reported accounts receivable established as a result of the matching were \$5 million for veterans who received unemployability benefits. OIG also said that access to a national data base on earnings would make their efforts more efficient than matching with individual state earnings files.

The tax information specified for use by the seven benefit programs under Public Law 98-369 is the earnings file at SSA (see p. 15). Currently SSA and VA exchange their benefit files annually, as part of the Social Security Verification Project, to identify certain cases in which there are entitlement questions or apparent contradictions between VA and SSA payments (a beneficiary's receipt of certain needs-based VA or SSA-authorized payments, such as VA pension or SSI benefits, can be affected if

¹Computer Matching: Assessing Its Costs and Benefits (GAO/PEMD- 87-2, Nov. 1986).

other benefits are received). The incremental costs of also providing VA information from SSA's earnings files, as well as the benefit files, should be slight. For example, the ADP costs for our sample match were less than \$65,000. (However, we did not distinguish our follow-up costs from other costs associated with the review, so we cannot provide an estimate of those. In addition, unlike OIG, we did not deal directly with the veterans, so our follow-up costs are not as realistic as those of OIG.) Nonetheless, the costs of matching unemployability benefit files, while they cannot be exactly estimated, should be small in relation to the benefits.

Alternatives to Matching With Tax Information

We considered possible alternatives to matching VA unemployability benefit files to tax information; these included (1) use of other sources of earnings information and (2) possible program management improvements. We concluded that matching VA unemployability benefit files to tax information is the most efficient and effective means of identifying veterans receiving unemployability benefits and not reporting their earnings, as required, to VA.

There are two sources of employer-reported earnings information available to the federal government: (1) annual earnings information on individual employees reported by employers to SSA on form W-2, the Wage and Tax Statement, and maintained in files both at SSA and IRS and (2) quarterly earnings information in files of state agencies that administer state unemployment insurance programs. OIG has used some state earnings files for matching; VA program officials told us that they would attempt to do similar matching in fiscal year 1988, using OIG's procedures. Although matching tax information with the selected state earnings files produced savings, we previously reported that it was impractical for federal agencies to match earnings with individual state earnings files, even in the unlikely event that all state agencies would cooperate in such a match.² We found no federal agency that tried such a match on a routine basis. In addition, federal officials in the Department of Labor, who established connections with state agencies responsible for state earnings files, told us they convinced Department of Defense officials not to try and match military disability retirement files with the state earnings files for this reason: concerns about the impact on state agency operations in time, cost, and ability to do the requested

²A Central Wage File for Use by Federal Agencies: Benefits and Concerns (GAO/HRD-85-31, May 21, 1985).

matching. Several states did not have the capability to do such matching. In addition, in some states, the quality of earnings file data could not be assured.

We considered medical reexaminations of veterans receiving unemployment benefits as another way to identify working veterans. Rating boards scheduled the veterans in our sample for medical reexamination only about 33 percent of the time. When the veterans were reexamined, VA did not detect that the veterans were working. In addition, GAO's chief medical advisor also reviewed a sample of our cases of veterans with high earnings and concluded that about 66 percent would probably not be routinely scheduled for medical reexaminations based on the types of medical conditions they had. Next, we tried to identify the characteristics of working veterans that might help VA, without matching tax information, identify those veterans with high earnings. We found no unique characteristics that would enable VA to separate veterans who were working from the total population of veterans who received unemployment benefits (see app. I). We do not believe that medical reexamination of the total population of veterans receiving unemployment benefits would be a realistic or efficient method to detect those veterans who are working and not reporting their earnings to VA.

Privacy Concerns

Access to tax information raises privacy concerns. To deal with these concerns, IRS is required to ensure proper safeguarding of the information by (1) issuing and enforcing regulations and guidelines governing information use, security, disclosure, and reporting and (2) exercising surveillance and imposing penalties for violations. GAO has reviewed IRS's safeguarding requirements and found them adequate. The same requirements could be extended to the Unemployability Compensation Program in order to safeguard tax information as well as taxpayer privacy. We have found, however, that proper enforcement of privacy laws and IRS's regulations require constant oversight by the responsible agency officials; in the case of VA, before access is granted, the agency should be prepared to demonstrate that it is ready to comply with and implement privacy safeguards.

IRS has expressed concern that providing wider access to tax information could have an impact on taxpayer compliance. However, there is no study that clearly indicates whether granting a program access to tax information will have an impact on compliance. Although we recognize such concerns, we believe using third-party tax information may have less of an impact on compliance because the information does not originate with taxpayers. Rather, this third-party information is

reported by employers and payers of pensions, interest, and dividends; it is used by IRS to verify taxpayer self-reported income. Public knowledge that IRS uses third-party information for verification purposes has, over the years, improved voluntary compliance with the tax laws. The use of such information by VA for verifying veterans' income should, we believe, have a similar effect on participants in VA programs.

In addition, 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 the third-party tax data on earnings in SSA's files. The seven benefit programs authorized for matching under Public Law 98-369 contain records on over 50 million recipients, and SSA matches its file on over 30 million recipients under title II of the Social Security Act for compliance with income criteria in the retirement and disability programs. We believe that an additional 80,000 records would seem to have little, if any, incremental effect on voluntary tax compliance when the Congress has already approved matching of such a large number of records against these third-party tax data.

Criteria We Used to Determine Potential Ineligibility

We believe the procedures we used in computer matches of VA benefit files with tax information helped eliminate many cases that were identified by the computer as possible overpayments, but would not be found to be overpayments because of the circumstances surrounding the individual veteran. To determine which veterans to consider as potentially ineligible for unemployability benefits based on their earnings, we used the following criteria as being probable indicators of ineligibility: (1) they did not report those earnings to VA; (2) they had not received the unemployability benefit 20 years or longer, which would put them in a protected status;³ and (3) they had earnings of \$6,968 or more (the minimum earning figured on an annual basis).⁴ We used the minimum earning as a cutoff because VA does not have a specific dollar amount of earnings at which veterans become ineligible for unemployability. Instead, each veteran's earnings are considered on a case-by-case basis, as discussed on page 26.

³By law (38 U.S.C. 110), a veteran who has received a compensation benefit, including the unemployability benefit, 20 years or more cannot have that benefit reduced, even if the veteran has more than marginal employment in the case of unemployability, unless fraud was involved in obtaining the benefit.

⁴Based on information supplied by the Department of Labor, the minimum wage for 1981-84 was \$3.35 an hour. The annual figure was derived by multiplying this amount times 2,080 (52 weeks times 40 hours a week).

We also screened out matches where, on reviewing the veteran's case file, we found that the veteran (1) started or terminated unemployability benefits in the same year as the reported earnings, (2) was converted to 100-percent schedular ratings, or (3) was incorrectly identified in VA computer files as a recipient of unemployability benefits.

Our screening procedures resulted in a significant reduction in the number of veterans who had earnings that could affect unemployability benefits. For example, in the 1984 match, based on tax information, we identified 2,647 veterans on the unemployability benefit rolls with earnings of \$1 or more. When we limited our study to those veterans earning \$6,968 or more, the number of cases was reduced to 668. Based on additional screening of sample cases for the reasons previously cited, we estimated the 668 cases would be reduced to 406 cases. Finally, excluding those veterans who reported earnings to VA, we estimated 398 veterans were overpaid.

The reduction in benefits could be even higher if veterans' dependents were taken into account (see p. 9). However, changes in the additional amounts payable to veterans for dependents, if any, made it difficult to estimate these benefit reductions.

Additional Veterans Could Be Ineligible

The minimum wage of \$6,968 (as evidence of employment in a substantially gainful occupation) may be too high to determine which veterans could be ineligible for unemployability benefits. SSA's disability program, for example, uses a lower cutoff figure. Under section 223(d)(4) of the Social Security Act, the Secretary of Health and Human Services is required to establish regulations for determining if an individual can engage in substantially gainful activity and, if so, the individual, by law, cannot be found to be disabled. The federal regulations define \$3,600 in annual earnings, with some exceptions, as indicative of a person's ability to engage in a "substantially gainful activity." The \$3,600 figure is also approximately half (52 percent) of the minimum wage or half the hours at the minimum wage figured on an annual basis.

If we applied the \$3,600 cutoff used by SSA, instead of \$6,968, we estimated, based on our sample, an additional potential reduction of between \$1.8 and \$2.0 million in benefits to 236 veterans in 1984. In 1981, our sample analysis showed between \$5.0 and \$5.4 million less in benefits would have been paid to 733 veterans.

Veterans Who Have Not Reported Their Earnings

VA requires veterans receiving unemployability benefits, with some exceptions, to annually report their earnings (see p. 10). Based on our sample, of those veterans on the rolls in 1984 with annual earnings equal to or greater than \$6,968, only about 2 percent reported those earnings to VA. In 1981, the reporting rate was about 8 percent for this group. For those veterans earning from \$3,600 to \$6,967, about 11 percent in 1984 and 15 percent in 1981 reported their earnings to VA. The overall reporting rate for those veterans earning \$3,600 or more was 9 percent.

Of the 398 veterans we estimated were overpaid in 1984, 68 percent did not submit a report of their earnings; 24 percent reported zero earnings, but tax information shows average earnings were \$19,088; 8 percent returned VA's annual employment questionnaires showing earnings that averaged \$3,587, but tax information shows an average of \$11,607. Although the unreported earnings may be costing the federal government millions of dollars, the veterans involved, based on our sample, represent a small fraction, less than 1 percent, of the veterans receiving unemployability benefits.

Veterans on Unemployability Benefits With Substantial Earnings

Based on our sample, over half (51 percent) of the veterans with earnings at or above \$6,968 earned \$15,000 or more. Our 1981 study showed a third of the veterans earning at or above \$6,968 earned \$15,000 or more. The following are examples:

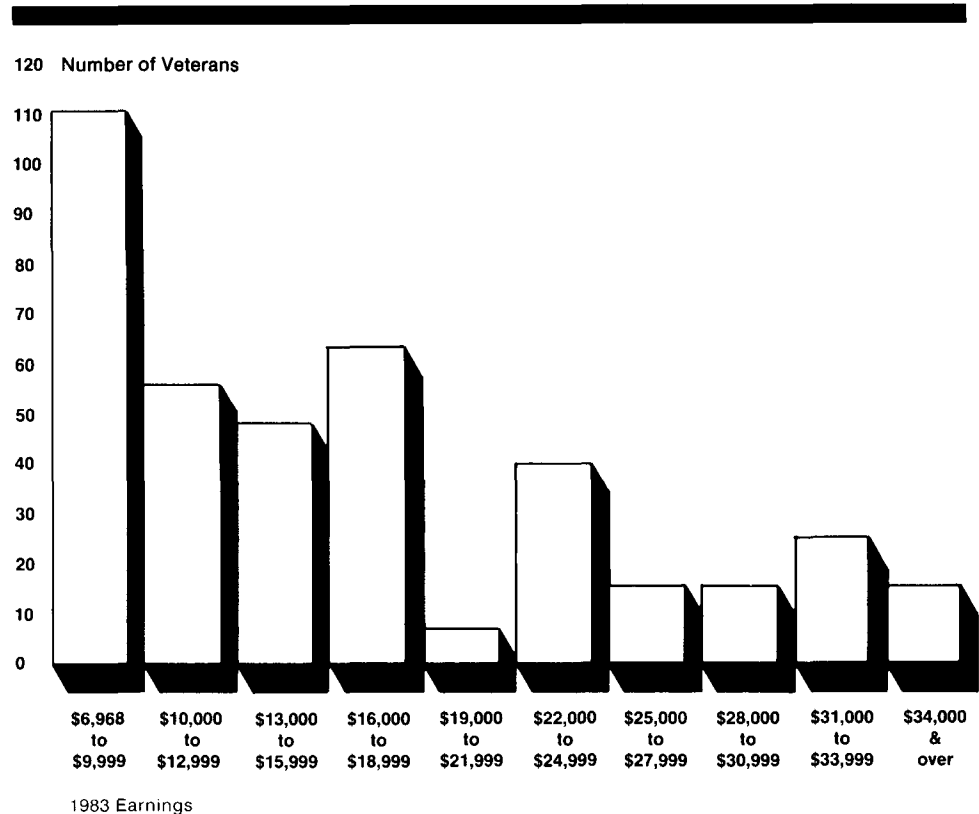
- VA awarded a veteran unemployability benefits in 1967. His file shows he reported no earnings to VA until 1985, when he reported about \$145,000. VA removed him from the unemployability benefit rolls. SSA earnings records, however, showed the veteran had several years of high earnings before 1985, for example, \$140,000 in 1981, that he did not report to VA while drawing benefits.
- VA awarded a veteran unemployability benefits in 1973, and his file shows that he returned VA's employment questionnaires for 1980-83 with no earnings reported. According to his SSA earnings record, this veteran returned to work in 1978. He received annual earnings from about \$26,000 to \$32,000 during the years 1980-83, when he reported no earnings to VA and drew unemployability benefits.
- A veteran began receiving unemployability benefits in 1978 and returned employment questionnaires with no earnings reported for 1981-83. His SSA record shows annual earnings of about \$16,000 to \$30,000 for 1981-83 while he drew unemployability benefits. He

reported about 1 month of earnings to VA in 1980 at \$6.00 an hour, but his SSA record shows about \$15,000 in earnings for 1980.

- VA awarded a veteran unemployability benefits effective in 1972. His SSA record shows about \$16,000 to \$25,000 annually in earnings for 1980-83, during which time he returned employment questionnaires to VA with no earnings reported and drew unemployability benefits.

The range of earnings, based on SSA earnings records for the 398 veterans in our 1984 sample whom we estimated were potentially overpaid, are shown in figure 2.1.

Figure 2.1: Estimated Range of Earnings for 398 Veterans Who Received Unemployability Compensation for 1984



Qualifications to Our Study Results

The estimated reductions in benefits represent figures gathered for study purposes to demonstrate the possible extent of the problem of unreported earnings. However, our results must be qualified. First, some

of the earnings reported in tax files could be found to be in error if we had confirmed them with veterans or employers; this would reduce the number of veterans with unreported earnings. We did not confirm the earnings with either the veterans or the employers because disclosure restrictions covering tax information prohibited this. Second, the potential overpayments in benefits identified probably do not represent actual savings that might accrue to VA. If VA was granted access to tax information, it might find that some overpayments identified are not collectible. In addition, there will be costs associated with collecting any overpayments. Third, our results are predicated on the criteria used by GAO to determine ineligibility. (See p. 22)

VA Has Not Adequately Defined Marginal Employment

To run an effective verification program, VA needs to clarify its policy and regulations on marginal employment—the amount of earnings a veteran may have and still receive unemployability benefits. VA rating boards now interpret marginal employment differently, and a veteran with \$6,968 in annual earnings might be considered marginally employed by one rating board but engaged in a substantially gainful occupation by another. The lack of a clear policy on marginal employment has not greatly affected VA's program because most veterans were not reporting earnings. However, it would become important if VA was granted access to tax information and identified hundreds of veterans on the unemployability rolls with unreported earnings.

VA Lacks Specific Criteria for Marginal Employment

VA does not define marginal employment as an exact dollar figure, but determines marginal employment on a case-by-case basis. In making the case-by-case assessment, VA can consider such factors as number of hours worked, prior work history, availability of work, earnings, and time lost from work due to service-connected conditions.

Besides the service-connected Unemployability Compensation Program, VA, as mentioned earlier, also runs a separate Pension Program for needy veterans with nonservice-connected disabilities. This program, too, has a provision for marginal employment but, unlike Unemployability Compensation, VA has provided specific criteria for determining marginal employment. For the Pension Program, VA's Department of Veterans Benefits manual defines marginal employment as, "less than one-half the usual hours or . . . less than one-half the prevailing community wage for the particular occupation." However, the manual does not cite this definition for unemployability benefits, nor does it provide a specific interpretation of marginal employment for unemployability benefits.

Marginal Employment Is Interpreted Differently Between Rating Boards

VA rating board members use different criteria to define marginal employment, which could result in unequal and inconsistent determinations of eligibility for unemployability benefits. Because VA's definition of marginal employment is not clearly defined for rating board members, veterans with the same amount of earnings may be treated differently depending on the rating board that decides whether the earnings represent marginal employment or a substantially gainful occupation. Although VA headquarters officials said that a fixed dollar amount is not used, some rating board members said they used different dollar amounts for different percentages of disability, which board members developed on their own as a guide in making decisions. Other rating board members used the number of hours worked, instead of earnings, in deciding whether employment is marginal or a substantially gainful occupation. VA headquarters officials and rating board members at nine VA regional offices provided different ways to interpret marginal employment, including

- employment not sufficient to sustain a living;
- less than half the hours or earning of the veteran's prior employment;
- time worked does not exceed 25 hours each week, and earnings do not exceed \$7,000 to \$8,000 annually;
- earnings not sufficient for survival or under \$5,000 annually; and
- part-time work (20 hours a week), sheltered or charity employment, or poverty level wages as an indicator.

Conclusions

Many veterans with earnings are not reporting those earnings to VA, as required under the Unemployability Compensation Program. The reduction in benefits resulting from identifying overpayments could potentially be in the millions of dollars annually. If VA was granted similar access to tax information that the Congress has granted other programs, VA could use the information to improve payment accuracy.

However, granting access to tax information raises privacy concerns. 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. If VA was granted access to tax information, it would have to be prepared to demonstrate that it is ready to comply with and implement privacy safeguards. In the case of VA, the agency should be prepared to demonstrate that it is ready to comply with and implement privacy safeguards before access is granted.

With regard to IRS's concerns about providing wider access to tax information and the possible impact on taxpayer compliance, there is no study that clearly indicates whether granting a program access to tax information will have an impact on compliance. We believe using third-party tax information may have less of an impact on compliance than using information provided by taxpayers. Such information is required to be reported for the expressed purpose of improving taxpayers' voluntary compliance with tax law income-reporting requirements. In addition, 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 the third-party tax data on earnings in SSA's files. We believe that an additional 80,000 records would seem to have little, if any, incremental effect on voluntary tax compliance.

The costs of verifying veterans' income should be less than the estimated returns from collecting overpayments and other benefits. OIG, in its computer matches of veterans' earnings with state earnings files, found the costs to be minimal in relation to the benefits derived. Matching with a national data base of earnings, if access is granted, should be even less costly and time-consuming than using data bases maintained at each of the individual states, thereby resulting in even higher net benefits.

VA needs to clarify its guidance to rating boards on defining marginal employment. The definition and application of marginal employment should be consistent between rating boards, whether the limit involves a formula (such as in VA's veterans' Pension Program) or a specified dollar amount (such as in SSA's Disability Program) or some other method.

Recommendation to the Administrator of Veterans Affairs

We recommend that the Administrator amend the VA guidelines to clarify how marginal employment for Unemployability Compensation is defined so that the criteria used in making determinations of marginal employment are consistent between rating boards.

Matter for Consideration by the Congress

To improve VA's eligibility determination processes, the Congress should consider amending section 6103(I)(7) of the Internal Revenue Code to permit VA access to tax information. The Congress would need to weigh the potential benefits of such disclosure with (1) privacy concerns and (2) IRS's concern that expanding access in this way could affect voluntary compliance with the tax system.

VA Comments

In a June 26, 1987, letter (see app. II), the VA Administrator stated that he concurred with our recommendation, and would revise VA's guidelines to better define marginal employment.

IRS Comments and Our Evaluation

In a June 17, 1987, letter (see app. III), the Commissioner of Internal Revenue stated that it is unwise and inappropriate for the Congress to amend section 6103(I)(7) of the Internal Revenue Code to permit disclosure of tax information to VA to verify beneficiaries' reported earnings. The specific questions and concerns raised by the Commissioner are discussed below.

VA's Problems With Program Administration

IRS cited the problems with VA's administration of the Unemployability Compensation Program raised in our report as a reason why VA should not be granted access to tax information. However, we do not believe the administrative problems raised by us, with one exception, relate to the issue of whether VA should be granted access to tax information. The two recommendations in the next chapter concerning the need for medical and vocational information (see pp. 42-43) relate to the initial determination of eligibility for unemployability, not the ongoing need to verify earnings reported annually by veterans already receiving benefits.

The recommendation concerning the definition of marginal employment (see p. 28) does relate to how effectively VA could use tax information for verification. VA concurs with this recommendation and has agreed to make the necessary changes.

Need for Disclosure

IRS commented that our report makes only the most general estimates of the number of veterans overpaid, cannot assure the amount of savings, and cannot determine the exact future costs of verification. We believe our report contains reasonable estimates of the amount that could have been saved and the number of veterans that could have been affected in

1984 and 1985 if VA had access to tax information for verification (see p. 18). We agree that future costs of verification cannot be exactly determined nor can savings be assured. Such information can only be determined if access to tax data is granted and the results monitored. However, we believe our estimates provide a reasonable indication of the level of costs and savings.

Other Avenues of Information

IRS commented that the report does not show that all other avenues to obtain information have been exhausted; for example, VA could tighten its reporting procedures and obtain information directly from the veteran. On page 10 of the report, we describe VA's current annual reporting requirements, which we believe represent a reasonable attempt to obtain earnings information from the veterans. However, to verify the accuracy of the earnings reported by the veteran, VA needs an alternative source of earnings data. Potential sources include earnings information provided by employers to (1) state employment agencies, (2) IRS, and (3) the veteran (IRS form W-2).

In chapter 2 (p. 20), we discuss why using state earnings information, on a national basis, is impractical. According to VA officials, VA has not requested veterans to submit W-2 forms because VA could not be assured of the credibility of the information (since the veterans would submit the forms). Further, VA officials have expressed concern about whether a veteran who reported little in earnings or none at all on VA's annual employment questionnaire would, if requested, submit a W-2 tax form. For the seven benefit programs that currently have access to tax information, the Congress decided that the earnings information maintained in SSA's files would be the source for verification. We believe this same earnings information remains the best available source for VA to monitor veterans' compliance with the annual reporting requirements.

Impact on Voluntary Compliance

IRS commented that we did not look at how this additional disclosure to VA might have an impact on voluntary compliance with the tax system. In our discussion with IRS concerning its written comments, officials stated that voluntary compliance is the single most important issue concerning whether VA or other federal programs should be granted access to tax information. They also said that there are no studies existing or under way that show whether there is, or has been, any change in voluntary compliance as a result of access to tax information by other programs, including the seven programs that now have access.

We agree that the impact on voluntary compliance with the tax system is a significant issue and must be considered carefully before granting access to tax information for nontax purposes. If granted access, our assumption is that VA would be granted access to tax information as currently specified for the other seven benefit programs identified in section 6103(1)(7) of the Internal Revenue Code. The tax information that currently is available to those seven benefit programs is, with the exception of earnings reported by the self-employed, reported by third parties, such as employers, directly to the federal government. The tax information that VA would access would be limited to SSA's earnings records, which are taken from the employer-reported W-2 (see p. 20) or earnings from self-employment. This would not include access to information reported directly by taxpayers on forms such as the individual tax form 1040.

IRS officials acknowledged that tax information taken from the employer-reported W-2 is primarily used by IRS for enforcement. IRS matches that information to information reported by taxpayers on their tax forms. If discrepancies exist, IRS reconciles them with the taxpayers to assure compliance with IRS reporting requirements.

IRS's use of this information is similar to that of SSA and the seven benefit programs currently granted use of this information and to that of VA. Earnings information reported by beneficiaries is compared with that reported by employers to the federal government. If discrepancies exist, the administrators of the benefit programs reconcile them with the beneficiaries to assure compliance with reporting requirements.

Currently, as many as 80 million recipients of federally supported benefit programs are matched against third-party tax data on earnings in SSA's files. An additional 80,000 records from this program would seem to have little, if any, incremental effect on voluntary tax compliance.

VA Needs Better Information to Determine Unemployability

VA officials and representatives of veterans' service organizations have questioned how VA determines eligibility for unemployability compensation benefits (see p. 12). Some have suggested that VA policies have led, at different times, to either too few or too many veterans being admitted to the program. We evaluated VA's assessment process to determine whether adequate information is used to determine veterans' eligibility for unemployability benefits.

VA rating boards need better information on how service-connected medical conditions impair veterans' physical abilities and how the impairments affect veterans' job skills, training opportunities, and employment potential. VA guidelines require that only minimal evidence be obtained prior to a decision. The rating board usually makes its decision based on (1) an application from the veteran, which is sometimes incomplete and does not address employment potential as well as past experience, (2) a statement from the veteran's prior employer, and (3) general medical information documenting the existence of a medical condition but without information the rating board needs on how the condition impairs the veteran's ability to engage in a substantially gainful occupation. By improving the information provided to a rating board, VA can better assure that an adequate basis exists for determining a veteran's eligibility for unemployability benefits.

Medical Information Should Address Impairment

Physicians should provide additional information to the rating boards for unemployability decisions. Medical information now used for unemployability decisions is often incomplete because VA does not routinely inform the examining physician that the examination purpose is unemployability. Consequently, the physician provides general medical information documenting the existence of the service-connected condition, rather than an evaluation directed at the veteran's physical impairments in meeting the demands of employment. If VA informed examining physicians that the results of the medical examinations will be used to determine unemployability, the physicians could provide the rating boards with medical observations of the veteran in accordance with accepted criteria for evaluating impairment.

Medical Examination Requests Do Not Identify Unemployability as the Purpose

When a veteran applying for an unemployability benefit needs a medical examination, the VA physician receives a request for examination of the veteran that lists the disabilities to be evaluated. However, there is no requirement that the reason for the examination be included on the request form. Thus, the VA physician is not always aware when the

results of an examination are to be used for an unemployability benefit decision. This could result in the physician's omitting important information.

For example, one VA physician stated that if he was aware that an examination would be used by the rating boards to assess unemployability, he would provide more details about the veteran's capabilities, for example, the veteran's activities in daily living and the ability to perform tasks, such as sitting, walking, lifting, driving, and so forth. Another VA physician stated that it should be fairly simple to amend the examination request to inform the physician that the results will be used for an unemployability decision. VA headquarters officials agreed that examining physicians should be informed when the examination results will be used for unemployability determinations.

To assess the adequacy of information VA used, our chief medical advisor reviewed 24 case files of veterans awarded unemployability benefits. In 75 percent of the cases, he found that the files lacked sufficient medical evidence to make a decision to award unemployability. These 24 cases were selected judgmentally as a subsample from our random samples. In all cases, there was medical evidence documenting the service-connected disabilities, and, in most cases (83 percent), the medical evidence was current at the time of the unemployability award. However, in about 70 percent of the cases, there was no medical information identifying how the medical condition affected the veteran's ability to engage in a substantially gainful occupation, for example:

- Psychiatrists gave conflicting opinions, unreconciled in the files, on a 2-year Army veteran rated for anxiety neurosis. This veteran worked as a supervisor at the post office for 19 years before receiving his unemployability benefit award in 1977.
- The most recent medical examination of a 5-year World War II Army veteran did not deal with the service-connected, combat-related leg wounds, which had not been examined in 20 years and for which the unemployability benefit award was granted. The veteran was employed for over 18 years before receiving his award in 1967.
- The medical records of a 3-year Army veteran of World War II rated for anxiety neurosis, back condition, and ulcers indicated the nature of the medical problem, but did not relate the problem to the physical demands of employment. After leaving the service, this veteran worked at least 30 years as a coal miner and steel worker before receiving his unemployability benefit award in 1980.

Medical Criteria for Impairment Evaluations Are Available

A physician has available generally accepted criteria specifically developed to evaluate impairment. The results of the medical evaluation, in conjunction with other vocational information, are used by rating boards to evaluate whether a veteran is unemployable.

For example, VA's Physicians' Guide for Disability Evaluation Examinations contains advice for physicians evaluating veterans for unemployability determinations and stresses the importance of the social and work history of the veteran in assessing unemployability. The guide also describes the need to determine how medical impairments affect the veteran's daily activities. The guide emphasizes that it complements, and is not to be used in lieu of, other references available to the medical profession.

Another reference is the American Medical Association's (AMA) Guides to the Evaluation of Permanent Impairment, which contains steps and procedures to follow in rating medical impairment. When AMA's Guides is properly used, AMA believes impairment can be evaluated with reasonable accuracy and uniformity. AMA recognizes that each administrative or legal system using impairment as a basis for rating disability will have its own process for translating the rating into these estimates: the degree to which an individual's capacity to meet personal, social, or occupational demands or statutory or regulatory requirements is limited by the impairment. However, AMA also believes that although entitlements and benefits under different programs may vary, there is still only one health status that can describe a person, and only a physician may carry out an authoritative medical evaluation that assesses a person's health.

As shown in figure 3.1, AMA's Guides contains steps for evaluating impairment of one joint of the thumb and translating that evaluation into degrees of impairment.

Figure 3.1: Evaluating Impairment Using AMA's Guides to the Evaluation of Permanent Impairment

TABLE 1
IMPAIRMENT DUE TO AMPUTATION,
ABNORMAL MOTION AND ANKYLOSIS OF THE
INTERPHALANGEAL JOINT OF THE THUMB

		Impairment of Thumb	
Amputation—At Joint		75%	
Abnormal Motion			
Average range of FLEXION-EXTENSION is 80 degrees			
Value to total range of joint motion is 100%			
Flexion from neutral position (0°) to:	Degrees of Joint Motion		Impairment of Thumb
	LOST	RETAINED	
0°	80	0	45%
10°	70	10	39
20°	60	20	34
30°	50	30	28
40°	40	40	23
50°	30	50	17
60°	20	60	11
70°	10	70	6
80°	0	80	0
Ankylosis			
Joint ankylosed at:			
0° (neutral position)	.....	45%	
10°	.....	43	
20°	.....	40	
30°	.....	38	
*40°	.....	35	
50°	.....	45	
60°	.....	55	
70°	.....	65	
80° (full flexion)	.....	75	
*position of function			

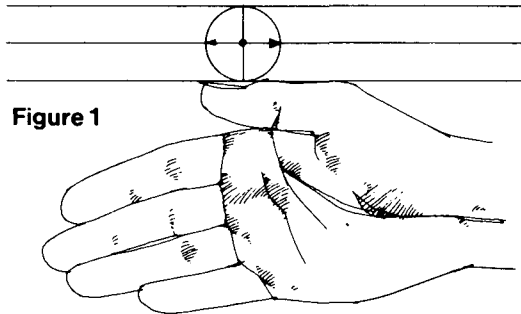


Figure 1

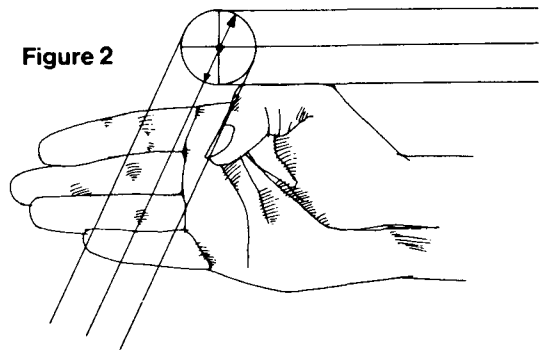


Figure 2

4. Consult the abnormal motion section of Table 1 to determine the impairment of the thumb.

Example: 40° active flexion from neutral position (0°) or from maximum extension is equivalent to 23% impairment of the thumb.

Ankylosis

1. Place the goniometer base as if measuring the neutral position (Figure 1). Measure the deviation from the neutral position with the goniometer arm and record the reading.

2. Consult the ankylosis section of Table 1 to determine the impairment of the thumb.

Example: An interphalangeal joint with ankylosis at 40° flexion is equivalent to 35% impairment of the thumb.

The Upper Extremity

Interphalangeal Joint of Thumb — Flexion and Extension

Abnormal Motion

1. Place the patient's hand in the neutral position (Figure 1).
2. Center the goniometer over the dorsum of the interphalangeal joint (Figure 2). Record the goniometer reading.
3. With the patient flexing the interphalangeal joint as far as possible (Figure 2), follow the range of motion with the goniometer arm. Record the angle that subtends the arc of motion.

Source: Reprinted with permission of the American Medical Association.

Vocational Information Should Be Complete and Accurate for a Fair Decision

The rating boards should be provided more complete and accurate information on vocational factors before making unemployability determinations. It is these vocational factors, as they relate to the impairments caused by the veteran's service-connected medical condition, that separate one veteran who should receive the unemployability benefit from another who should not.

The resources exist within VA to provide rating boards with this information, but a system is not in place to assure that it is provided. VA relies on the veteran to furnish vocational information, but this information is often incomplete and relies solely on past experience, not addressing employment potential. A professional evaluation of vocational factors occurs only after VA awards unemployability compensation.

We believe that the intervention of a professional from a VA Vocational Rehabilitation and Counseling Division, after the medical evaluation but before the rating board decision to award or deny unemployability compensation, is needed to assure that vocational information completely and accurately addresses the relationship between job skills, employment potential, and the veteran's service-connected medical disabilities.

Evaluations of Vocational Factors Should Occur Before the Unemployability Decision Is Made

We asked officials of the Vocational Rehabilitation and Counseling Divisions in nine VA regional offices (see p. 16) if they thought their units should be involved before awarding unemployability compensation. All but one official (who was neutral) felt it would be useful. VA headquarters officials in the Compensation and Pension Service agreed with the regional Vocational Rehabilitation and Counseling Divisions' officials that the intervention of the Vocational Rehabilitation and Counseling staff before the unemployability compensation decision would be useful.

For example, the Vocational Rehabilitation and Counseling official in one regional office said that it would be more logical to have the staff conduct a vocational evaluation before the unemployability benefit award is made because the expertise of the counselors is needed and a face-to-face interview is absolutely essential when a veteran claims unemployability. A skilled interviewer on the staff can obtain a veteran's total vocational profile; a vocational counselor can determine the feasibility of other jobs, with or without training, and can classify a veteran as ready to work immediately (that is, one who just needs a job opening) or able to be retrained, specifying the amount of retraining needed.

Comments by other chiefs included these remarks:

- Not having the vocational counselors involved in the unemployability determination is a big mistake and a waste of valuable resources. Determining suitable employment for a veteran is a difficult task, one which the vocational counselors are especially trained for.
- Because vocational counselors are directly involved in the world of work, they can match the disabilities the veteran has with the type of job the veteran can do.
- If rating specialists do not know the implications of disabilities on employability, the job market, and training, they will not make good determinations.

Although VA regulations do not require a vocational assessment before the award, we found one instance from our sample where this did occur, and it ultimately resulted in an award. In 1984, VA's central office rejected a regional office's proposed award of an unemployability benefit because the veteran had not been considered for any rehabilitation training. The acting director of VA's Compensation and Pension Service wrote:

"If, after rehabilitation counseling, it is determined that the veteran cannot be retrained for substantial gainful employment you may return the file to this service for further consideration."

The unit proposing the award sent the veteran for a vocational assessment, and, after seeing the results, VA awarded the veteran the unemployability benefit. Thus, we believe better information could not only identify veterans who may be able to work, it may also help VA identify veterans who are genuinely unemployable due to their service-connected disabilities.

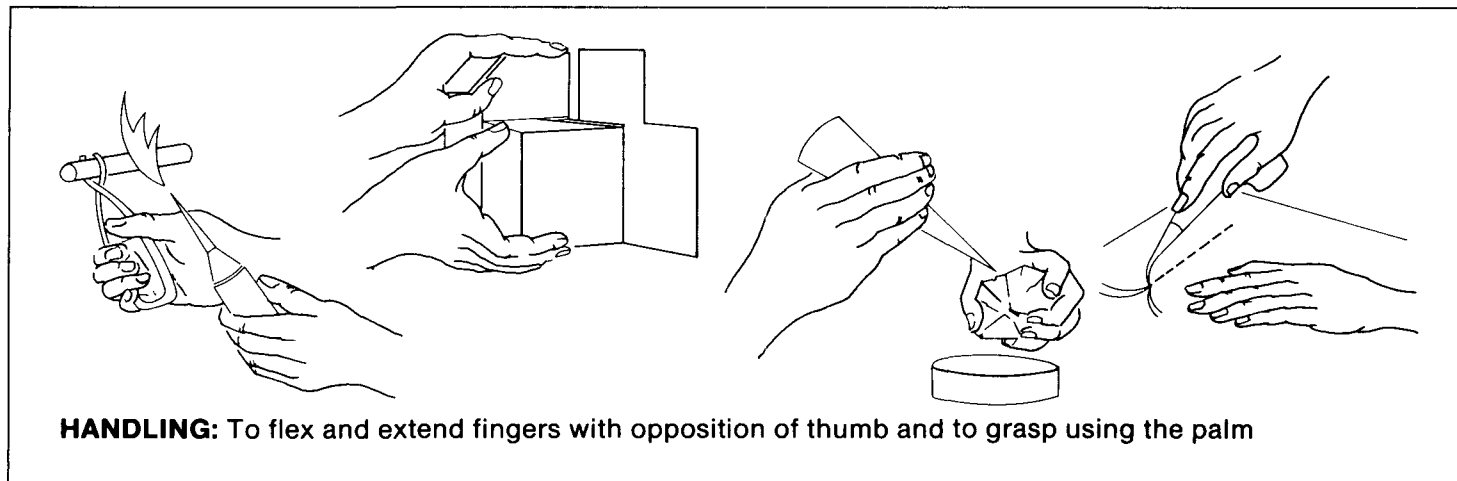
Our Case Review Showed Limited Vocational Information

Our vocational consultant reviewed 56 cases, judgmentally selected from our random samples of 403 cases (see p. 16), to determine if veterans furnished the vocational information necessary to make unemployability determinations. He found that there was little or no vocational information in most files that would allow an assessment of

unemployability. When the consultant reviewed the case files for vocational information, he not only considered information from the application for unemployability compensation filed by the veteran but also considered any vocational information throughout the case files and in supplementary files (such as those maintained in the Vocational Rehabilitation and Counseling Divisions) that might have come to the attention of the rating boards.

The consultant found most cases lacking in the major areas needed to assess vocational factors. In making the assessment, one would need to know such things as how the veteran's medical impairment affected his or her ability to perform tasks, such as walking, bending, carrying, or climbing, required by different vocations. For example, one would need to know how an impairment to the veteran's hand might preclude the veteran from working in a job that required handling tasks, as shown in figure 3.2.

Figure 3.2: Examples of Tasks That Require Handling



Prepared by GAO's vocational consultant.

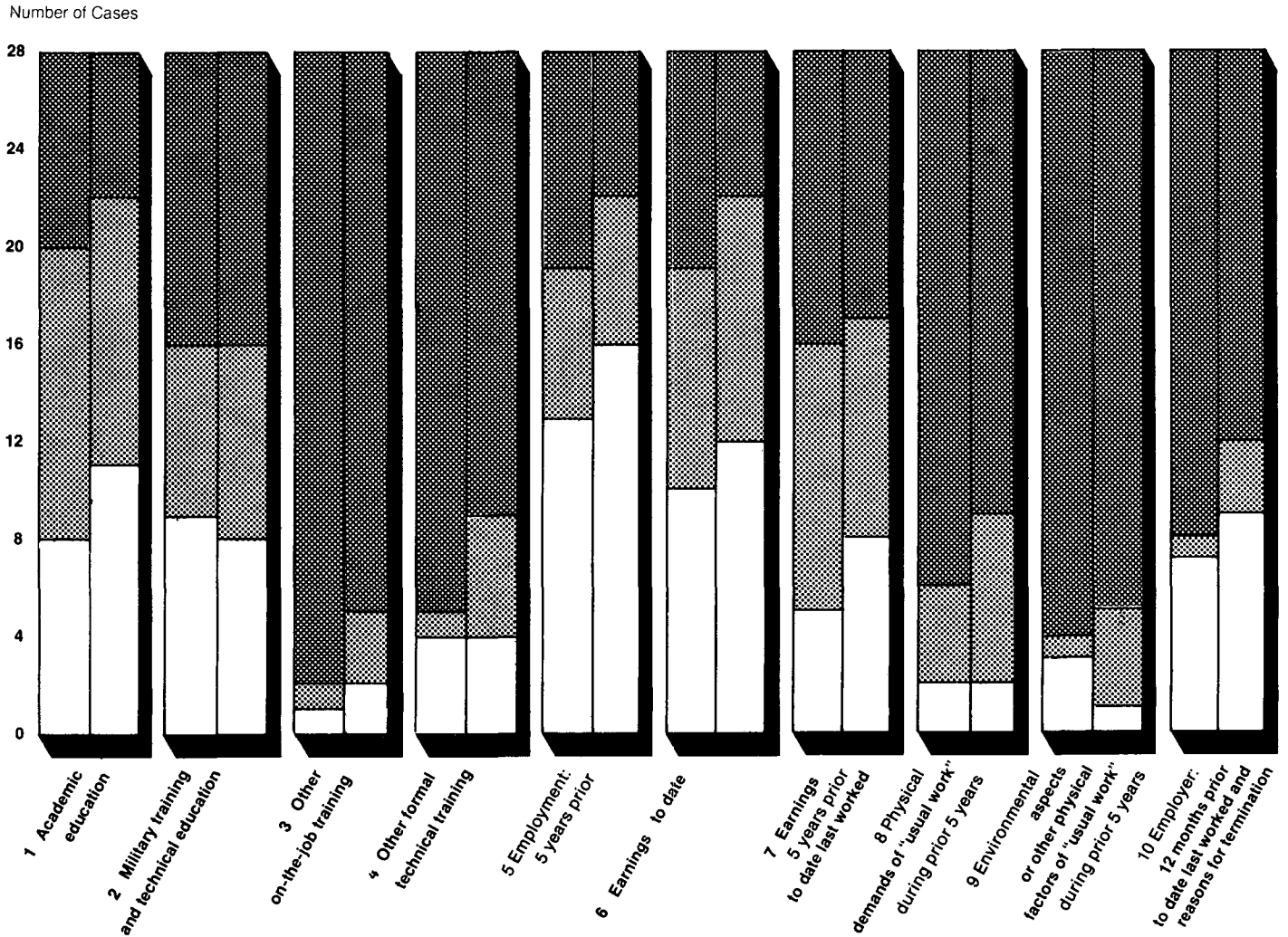
In 73 percent of the cases, the consultant found that there was little or no information on the veteran's functional capacities; these are, according to the consultant, an essential part of evaluating the effect of the medical impairment on the veteran's ability to pursue a substantially gainful occupation.

Chapter 3
VA Needs Better Information to
Determine Unemployability

In figure 3.3, the consultant's analysis of the information on vocational factors for two samples is shown: 28 cases from our 1981 sample (sample 1) and 28 cases from our 1984 sample (sample 2). The dark gray areas indicate that there was no information in the files; the light gray areas indicate some information of value; and the white areas indicate complete information.

Chapter 3
VA Needs Better Information to
Determine Unemployability

Figure 3.3: Assessment of Vocational Information in Files

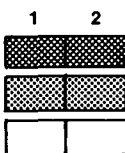


Veteran's education and training

Evidence from date of claim

Employment history prior to the date of claim for "Individual Unemployability"

Sample



1 2 3 Incomplete information; major exceptions, of little or no value or no information at all.

Some information in file; of possible value.

Complete or nearly complete with minor exceptions.

Without an understanding of the veteran's prior work history and the physical demands of the work that the veteran could perform, we do not believe VA can adequately assess if the veteran is able or unable to engage in a substantially gainful occupation. For example, jobs performed are generally only identified by the title given by the veteran, and no mention is made of the industry in which the employment took place. Job titles, even for the same work, vary not only between areas of the country but within industrial firms in the same area. For example, the job title "assembler," without further identification, may refer to as many as 100 different jobs, varying in physical demands from sedentary to very heavy and varying in educational prerequisites from elementary school to 2 years of technical training. In another example, the title "electronic technician" could identify the professional occupation of a graduate engineer, a highly skilled individual who works with engineers in the testing and modification of developmental equipment, or an industrial production worker who installs and wires electronic subassemblies. Both "assembler" and "electronic technician" were given as the only identification of job titles in two cases reviewed by the consultant.

GAO Previously Recommended Vocational Assessments

In a 1980 report, GAO recommended that the Administrator of Veterans Affairs revise VA's regulations to require that all disabled veterans applying for a 100-percent "individually unemployable" rating be referred to the vocational rehabilitation unit for a comprehensive diagnostic evaluation of their rehabilitation and work potential before they are considered for the rating.¹ One reason cited in the report for the recommendation was that referring veterans to this division would not only act as an effective outreach mechanism for the Rehabilitation Program, but also lessen the subjectivity of the rating process for unemployability.

VA responded that GAO's recommendation had merit, but VA did not implement the recommendation after its acting general counsel questioned, in a memo dated June 25, 1981, the legality of requiring veterans to receive a vocational assessment as a condition of receiving unemployability compensation. However, as described on page 11, legislation (Public Law 98-543) now requires veterans to receive a vocational assessment, as part of a pilot project, after unemployability benefits are awarded by VA. (This did not affect our samples, the most current of which was selected on Oct. 31, 1984; see p. 15.) In our opinion, Public

¹New Legislation and Stronger Program Management Needed to Improve Effectiveness of VA's Vocational Rehabilitation Program (HRD-80-47, Feb. 26, 1980).

Law 98-543 removed any questions about the legality of requiring vocational assessments of such veterans.

Conclusions

Before awarding or denying unemployability benefits, VA should obtain the best possible assessment of whether the service-connected disability leaves a veteran unable to engage in a substantially gainful occupation. Because VA does not collect needed medical and vocational information, the process for determining eligibility for unemployability benefits gives the appearance of arbitrary and inequitable decisionmaking.

For example, VA does not inform the examining physicians that the medical evidence will be used for an unemployability decision. Therefore, the physicians do not routinely, in accordance with criteria such as those contained in VA's Physicians' Guide for Disability Evaluation Examinations for determining unemployability, provide information on the veterans' impairments due to a service-connected condition. This information is needed to determine how a veteran's service-connected condition affects the tasks of daily living.

Although we agree with the intent of Public Law 98-543 for involving vocational professionals, we believe their involvement should start sooner in the process rather than after the award is granted. The veteran's application form and supporting information are incomplete sources of vocational information. A rating board needs information on how the service-connected condition affects the veteran's ability to work. This vocational information could be obtained by professionals in a VA Vocational Rehabilitation and Counseling Division in an interview with the veteran (after the medical evaluation is obtained but before a rating board decides to award or deny the unemployability benefit). Without such vocational information, the rating board will not have adequate information for assessing the relationship of job skills, employment potential, and the veteran's service-connected medical condition.

Recommendations to the Administrator of Veterans Affairs

We recommend that the Administrator revise the guidelines on determining eligibility for unemployability compensation in the following ways:

- The examining physician is (1) informed that the results of the medical examination will be used for a determination of unemployability and (2) requested to provide observations on how the service-connected medical condition impairs the veteran's functional capacity in daily living.

- Vocational information is obtained during an interview with the veteran by a professional in a Vocational Rehabilitation and Counseling Division; the interview should take place after the medical evaluation but prior to the unemployability benefit award decision by a rating board. In addition to a work history, the vocational information should provide information on such things as how the veteran's service-connected condition affects job skills and employment potential.

VA Comments

In his June 26, 1987, letter, the VA Administrator stated that he would provide additional guidelines to implement our recommendation concerning information furnished to and requested from examining physicians in making eligibility determinations for unemployability compensation. Although the Administrator agreed that referrals to a Vocational Rehabilitation and Counseling Division could play a positive role in the eligibility determination process, he deferred comment on this recommendation because he believes a study will need to be done to determine the number of cases involved, the ages of the individuals and their types of disabilities, and the staff resources required.

Characteristics of Working Veterans Receiving Unemployability Benefits

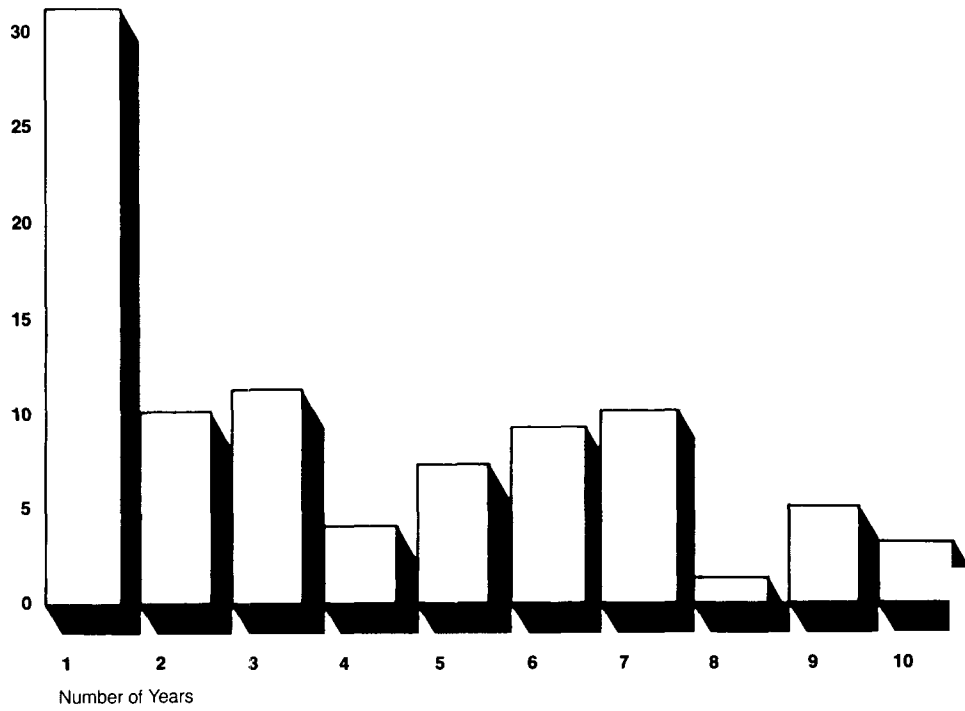
We examined the work patterns of veterans who are receiving unemployability benefits and not reporting earnings to VA so VA officials could see the periods during which veterans are most likely to be working. We used the Social Security earnings history of the veterans to do this assessment.

About 29 percent of the veterans sampled (106 cases) who returned to work, for whom information was available and analyzed, did so within 1 year after receiving unemployability benefits; about 59 percent, within 5 years or less; and over 75 percent, within 7 years. The number of years after receiving unemployability benefits that veterans returned to work can be seen in figure I.1.

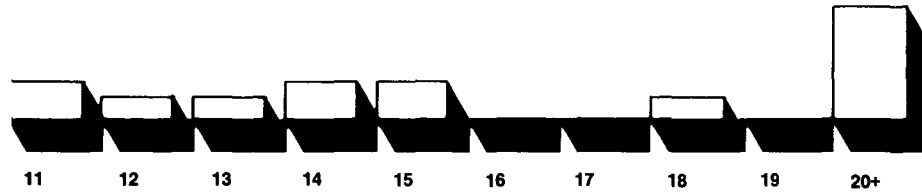
Appendix I
Characteristics of Working Veterans
Receiving Unemployability Benefits

Figure I.1: Number of Years After
Receiving the Unemployability Benefit
That Veterans Returned to Work

35 Number of Veterans



**Appendix I
Characteristics of Working Veterans
Receiving Unemployability Benefits**



Note: The total number of veterans in the sample is 106.

We also considered the veterans' ages and medical impairments to see if there were certain veterans who seemed more likely to return to work than others. We found that the mean age of veterans at the time they were rated unemployable was lower for the sample of veterans from 1981 who returned to work (mean age of 41) than for the general population of veterans rated unemployable (mean age of 50). Almost half of the veterans sampled were between the ages of 44 and 57 when they returned to work. The medical impairments of the veterans sampled from 1981 who returned to work did not differ significantly from those of the general population of veterans rated unemployable.

Comments From the Veterans Administration

Office of the
Administrator
of Veterans Affairs

Washington DC 20420



**Veterans
Administration**

JUN 26 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) April 30, 1987, draft report Improving the Integrity of VA's Unemployability Compensation Program.

GAO reviewed this program to determine if veterans are properly reporting their earnings to the VA, to estimate possible overpayments to veterans who do not report earnings properly, and to determine if access to tax information would enable VA to better administer the program. GAO also evaluated the way VA assesses whether a veteran should receive unemployability benefits.

GAO recommends that I amend the VA guidelines to clarify how marginal employment for unemployability compensation is defined so that the criteria used in making determinations of marginal employment are consistent among rating boards.

Concur. To implement this recommendation, Subchapter XV, Chapter 50 of the VA manual (M 21-1) will be revised. Information clarifying how marginal employment for unemployability compensation is defined will be added.

GAO recommends that I revise the guidelines on determining eligibility for unemployability compensation so that:

- the examining physician is (1) informed that the results of the medical examination will be used for a determination of unemployability and (2) requested to provide observations on how the service-connected medical condition impairs the veteran's functional capacity in daily living.

Concur. Subchapter XV, Chapter 50 of the VA Manual (M 21-1) will be revised to provide additional guidelines and implement this recommendation.

GAO also recommends that I revise these guidelines so that:

- vocational information is obtained during an interview with the veteran by a professional in the Vocational Rehabilitation and Counseling Division after the medical

Appendix II
Comments From the Veterans Administration

2.

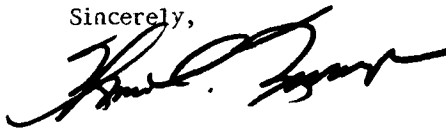
Mr. Richard L. Fogel

evaluation but prior to the unemployability award decision by the rating board. In addition to a work history, the vocational information should provide information on such things as how the veteran's service-connected condition affects job skills, training opportunities, and employment potential.

The Agency must defer comment on this recommendation. It is possible that professional staff in the Vocational Rehabilitation and Counseling (VR&C) Division can play a positive role in the process of determining eligibility for individual unemployability benefits. However, a study will need to be performed to determine the number of cases involved, the age of the individuals, the types of disabilities, and the resources necessary for the VR&C staff to participate in the evaluation process.

We have one comment on the text of your draft report and request that a correction be made. On page 12 is the statement that there were two reasons the VA now grants far fewer new unemployability awards than in the past: (1) the results of two VA program reviews criticized the evidence developed by rating boards as inadequate to support the awards, and (2) a requirement for VA Central Office review of selected unemployability benefit awards proposed by the local rating boards. The reduction in the number of grants was not due to the program reviews that criticized development, but rather due to changes in the evidence requirements.

Sincerely,



THOMAS K. TURNAGE
Administrator

low on p. 11.

Comments From the Internal Revenue Service



COMMISSIONER

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

JUN 1987

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

Dear Mr. Anderson:

This is in response to your request for our comments on your draft report entitled VETERANS' DISABILITY BENEFITS: Improving the Integrity of VA's Unemployability Compensation Program. The report includes a recommendation that Internal Revenue Code (IRC) section 6103(1)(7) be amended to permit disclosure of tax information to the VA to verify beneficiaries' reported earnings.

In our opinion, it is unwise and inappropriate for Congress to consider amending IRC section 6103(1)(7) as suggested. Resolution of procedural problems in administering unemployability compensation benefits should be addressed and more reliable information about cost savings and alternative sources of earnings data should be developed and analyzed before a change in the law is even considered.

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. Therefore, we respectfully suggest that it is unwise and inappropriate to recommend that tax information be so used, particularly in the absence of more reliable information on the VA program and on alternative sources of similar information.

When Congress enacted IRC section 6103, it attempted to balance the need of an agency for tax information with the citizen's right to privacy and the related impact of disclosure on a taxpayer's continued compliance with our voluntary tax assessment system. The GAO report assumes that this balance should fall in favor of disclosure to the VA since it may help the VA administer its unemployability benefits program.

The GAO report, however, identifies a number of problems with the VA's administration of its benefits program. These problems include, but are not limited to, deficiencies in

-2-

Mr. William J. Anderson

eligibility procedures where VA does not routinely obtain all medical and vocational information needed to determine a veteran's ability to engage in substantially gainful employment (GAO report p. 35); differing approaches in defining and applying marginal earnings (GAO report p. 31); and a general lack of consistency in program administration (GAO report pp. 44-45). Given these problems and declining benefit roles (GAO report pp. 11-12). Congress would need to have more reliable data to weigh potential benefits to VA in future years.

In the past, the IRS has placed a high burden on the requesting agency to demonstrate (1) that the need for disclosure of tax information outweighs the concerns for privacy and the resulting impact on voluntary compliance, and (2) that all other avenues to obtain information have been exhausted.

Need for Disclosure

The report states that disclosure is needed because many veterans with earnings are not reporting those earnings to the VA. The report suggests that if the VA were given access to earnings data, verification could potentially result in the saving of several million dollars annually.

The report makes only the most general representations on the number of veterans overpaid, noting that it is less than one percent of the veterans receiving unemployability compensation, (GAO report, p. 28). The GAO report states that in 1985, the VA paid 78,146 veterans about \$680 million in unemployability benefits above the veterans' basic compensation benefits. However, this statement is qualified by adding that the VA does not maintain statistics on the amounts paid for such benefits. The costs were estimated according to the average benefit payment for the various rating levels and the additional amount paid for the benefit at these levels (GAO report, p. 11). The GAO report goes on to state that if tax information were disclosed, the best estimate on savings is that the VA would have paid about \$3 million less in benefits in 1984 to 398 veterans if the VA had known about their earnings (GAO report pp. 20-21).

The report notes that "the costs of verifying veterans' income should be less than the estimated return from collecting overpayments and other payment" (GAO report, p. 33) but there is no assurance of these savings. The report suggests that the exact future costs of verification cannot be determined (GAO report, p. 22). The benefits to be derived from implementing

Now on p. 32.
Now on p. 26.
Now on p. 42.

Now on p. 24.

Now on p. 18.

Now on p. 28.

Now on p. 19.

-3-

Mr. William J. Anderson

the recommendations are uncertain. Thus a case has not been made for invading the privacy of a large number of taxpayers to police a very small number of potential abusers, because there may be some uncertain amount of money to be saved through disclosure.

Impact on Voluntary Compliance

GAO did not look at how this additional erosion of the confidentiality of tax information, when taken in sum with the other provisions authorizing disclosure, might impact on voluntary compliance with the tax system.

Other Avenues of Information

The VA does not show that all other avenues to obtain information have been exhausted. The report states, in part, that "the law does not grant VA access to tax data, and there are no other reasonable alternatives for verification of veteran's earnings" (GAO report, p. 20). The report then states that the GAO considered other alternatives to matching VA unemployability benefit files, namely the use of other sources of wage information and possible management improvements.

The GAO report mentions the annual questionnaire filled out by veterans, but does not address how to tighten up this procedure so that the veterans would be forced to disclose information to the VA. Why use tax information for purposes unrelated to tax administration when, as the provider of benefits, the VA can obtain information directly from the veteran?

Wage information also can be obtained from most states. The report mentions this method (i.e., "the quality of wage file data could not be assured"); however, it does not say why such method of obtaining information would be unreasonable. There has been no attempt to use these state wage files in a widespread manner to match the information. Instead the report concludes, "...that matching VA unemployability benefits files and tax information is the most efficient, and effective means of identifying veterans receiving unemployability benefits and not reporting their earnings" (GAO report, p. 23). GAO's main justification for disclosure is that it is more efficient than other avenues of information. While efficiency is a laudable goal, it is only one factor that must be balanced against the resulting invasion of privacy and the use of tax information for nontax purposes.

Now on p. 18.

Now on p. 20.

-4-

Mr. William J. Anderson

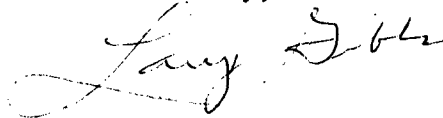
Conclusion

In light of the above, we strongly request that you remove the recommendation to amend IRC section 6103(1)(7). Until reliable estimates of savings can be ascertained and program deficiencies overcome and until the extent of the need for and use of earnings data is clearly established, we believe the amendment of IRC section 6103(1)(7) is unwise and inappropriate.

Thank you for the opportunity to provide comments.

With best regards,

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry J. Gable".