



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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CIVIL DIVISION

1969

Mr. A. W. Stratton
Deputy Administrator
Veterans Administration

Account 18



Dear Mr. Stratton:

We have reviewed selected aspects of the Veterans Administration's (VA) management of the Servicemen's Group Life Insurance (SGLI) program. Our review performed at the VA Central Office, Washington, D. C., was directed toward examining into the reasonableness of the VA's determination of its administrative costs charged against the program.

The SGLI program is administered by a commercial primary insurer. The Veterans Administration is responsible for supervising the program and for determining the VA's administrative costs. During fiscal year 1968 the VA charged \$170,157 in administrative costs against the program. Premiums are collected from servicemen and, along with the Government's extra-hazard contribution, are remitted by the uniformed services to the VA each month. The VA, in turn, remits these payments to the primary insurer and charges the program annually for its administrative costs.

Based on the results of our review, we believe that improvements are needed in certain areas of the VA's management of the SGLI program. These areas are discussed below.

IMPROVEMENTS NEEDED IN DETERMINATION OF CERTAIN PERSONAL SERVICES COSTS

The VA estimated that certain of its personal services costs of supervising the SGLI program for fiscal year 1968 amounted to about \$47,500. These costs were charged against the program. Based on our review of the available documentation supporting this estimate, we believe that the basis used to estimate this cost is questionable.

We found that the \$47,500 charged against the program primarily represented personal services costs of work performed by the Program Administration staff of the Insurance Service. In discussing the basis used to estimate this charge, VA officials informed us that it was based on their judgment, considering certain supporting data, of (1) the amount of time spent on the SGLI program and (2) the average

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pay grade of personnel performing the work. In subsequent discussions VA officials agreed with us that the supporting data did not adequately justify the basis for the computation.

For fiscal years 1966 and 1967 these personal services costs amounted to \$30,000 and \$50,000, respectively. VA officials informed us that there was no documentation available showing the basis for the 1966 and 1967 estimates.

We discussed our findings with the Deputy Director, Insurance Service, and he informed us that action would be taken (1) to improve the methods followed in computing personal services costs and (2) to adequately document the basis for such computations.

CERTAIN ADMINISTRATIVE COSTS WHICH SHOULD BE CHARGED AGAINST THE PROGRAM

Our review showed that fringe benefits and other costs directly attributable to the SGLI program were not included in the administrative costs allocated to the program.

Fringe Benefits

On December 15, 1965, the Chief Benefits Director, issued Department of Veterans Benefits (DVB) Memorandum 20-65-52, which contains instructions for the accumulation of administrative costs of the program. This memorandum provides that personal services costs shall be increased to reflect the cost of fringe benefits.

For fiscal year 1968, the VA charged personal services costs of \$47,500 against the program. We found that this charge did not include an allowance for fringe benefits as provided for in the December 15, 1965 DVB memorandum.

For fiscal years 1966 and 1967, the VA charged \$30,000 and \$50,000 respectively, against the program for personal services costs. Although no documentation was available to support these costs, a VA official informed us that these charges did not include an allowance for fringe benefits.

We discussed this matter with the Deputy Director, Insurance Service, and he agreed that the costs of such fringe benefits should be charged against the program. On the basis of the criteria provided in the December 15, 1965, DVB memorandum, we estimate that for fiscal years 1966, 1967, and 1968 a total of about \$11,000 in fringe benefits should have been charged against the program.

Other Costs

We noted that the costs of (1) the financial audits of the primary insurer and (2) printing the SGLI annual report were not charged against the program. We discussed this matter with the Deputy Director, Insurance Service, and he agreed that these costs should be charged against the program.

Regarding the costs of the audit of the primary insurer's records, the Chief of the Audit Staff, Controller's Office, informed us that the cost of the two audits that were made during fiscal years 1967 and 1969, amounted to about \$6,100.

With respect to the cost of printing the annual report, the Chief of the Publication and Forms Management Division, DVB, advised us that this cost for fiscal years 1966, 1967, and 1968 amounted to \$1,538.

Recommendation

We recommend that the VA charge the SGLI program for the costs of fringe benefits, financial audits, and printing annual reports for fiscal years 1966, 1967, and 1968 and include these costs in the SGLI program costs in future years.

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We wish to express our appreciation for the courtesies and cooperation extended to our representatives during the review.

We would appreciate your comments as to the final action taken on these matters.

Sincerely yours,

Max Hirschhorn

Max Hirschhorn
Associate Director