# REPORT
# TO
# THE CONGRESS OF THE UNITED STATES

# REVIEW
# OF
# COMPENSATION AND PENSION PROGRAM
# WASHINGTON OFFICES
# VETERANS ADMINISTRATION

JULY 1954

BY

THE COMPTROLLER GENERAL OF THE UNITED STATES

GAO Washington, D.C.

*TO THE READER:*

*SEVERAL PAGES OF THE FOLLOWING MATERIAL MAY BE ILLEGIBLE BECAUSE OF THE POOR QUALITY OF THE COPY SUBMITTED FOR MICROFILMING*

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-114859 JUN 4 1956

Honorable Sam Rayburn
Speaker of the House of Representatives

Dear Mr. Speaker:

Herewith is a copy of our report on Review of Compensation and Pension Program, Washington Offices, Veterans Administration, July 1954. This review was made by our Division of Audits pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

The review did not disclose any specific pattern of weakness in the compensation and pension adjudication operations. However, it did reveal conditions which, when brought to the attention of the Administration, convinced them of the need to undertake a review in all offices of "static" cases and of those cases where compensation benefit payments are being made because of the dependency of a veteran's parents. As indicated in the comments of the Administrator of Veterans Affairs, submitted with this report as appendix C, the Administration has now broadened its review of "static" cases to include cases of all veterans under fifty-five years of age who are receiving compensation and pension payments. The Administration's action in promptly initiating these reviews is commendable.

An examination, similar in scope to that made by the Division of Audits in the Washington offices, except that it did not include any evaluation of the propriety of assigned disability ratings, was conducted in thirteen of the Administration's regional offices by our Office of Investigations. The findings generally are of about the same nature and significance as those disclosed by the review in the Washington offices.

A copy of this report is being sent today to the President of the Senate.

Sincerely yours,

Joseph Campbell

Comptroller General
of the United States

Enclosure

# Contents

# REPORT ON REVIEW

# OF

# COMPENSATION AND PENSION PROGRAM

# WASHINGTON OFFICES

# VETERANS ADMINISTRATION

## JULY 1954

The Division of Audits, General Accounting Office, has made a review of the COMPENSATION AND PENSION PROGRAM operations in the Veterans Administration's Central and Washington Regional Offices (the operations are now conducted in the Washington Veterans Benefits Office) pursuant to the provisions of the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The review included a study of the legislation, regulations, and operating and procedural instructions pertaining to the Compensation and Pension Program and an examination of representative compensation and pension awards and related financial transactions.

The Veterans Administration (referred to hereinafter as the VA) was created by Executive Order 5398, dated July 21, 1930, pursuant to the act of July 3, 1930 (46 Stat. 1016; 38 U.S.C. 11), as an independent agency in the executive branch of the Government to administer all laws authorizing benefits for former members of the Armed Forces and for dependents of deceased former members of the Armed Forces. Before the creation of the VA, laws relating to veterans had been administered by the Bureau of Pensions, the United States Veterans Bureau, and the National Home for Disabled Volunteer Soldiers.

This report comments on the findings of our examination and the corrective actions taken where necessary. Briefly, the examination resulted in awards being increased, reduced, discontinued or suspended in about 1-1/2 percent of the cases examined, in determinations being made of the dependency status of parents of living and of deceased veterans, and in a change in the requirements for reporting income by veterans and dependents of deceased veterans who receive pensions. The findings are summarized on pages 15 through 22.

## NATURE AND SCOPE OF THE COMPENSATION AND PENSION PROGRAM

### NATURE OF BENEFITS

The Compensation and Pension Program is the oldest, most costly, and probably the most permanent of all veterans' benefit programs administered by the VA. A brief description of the nature of the compensation and pension benefits and the rates[1] of payment follows:

#### Compensation for service-connected disabilities

Veterans disabled as a result of diseases, gunshot wounds, or any injuries incurred in or aggravated by active service in the Armed Forces in line of duty, and not as a result of willful misconduct, and discharged under conditions other than dishonorable are entitled to cash benefits.

The cash benefits currently payable to disabled veterans of World War I, World War II, and service on or after June 27, 1950 (referred to hereinafter as the Korean Conflict), range from $17 per month for a 10 percent disability to $181 for total disability. These monthly benefits may be increased by $47 in the case of the loss of, or loss of use of, one extremity or one eye. In the case of certain specific disabilities the monthly benefits payable range from $279 to $420. Further compensation is payable to a veteran who is 50 percent or more disabled and has a wife and/or

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[1]The rates of payment stated in this and other sections of this report are those in effect after October 1, 1954, at which time Public Laws 695 (68 Stat. 915) and 698 (68 Stat. 916), 83d Congress, authorized, with certain exceptions, an increase of 5 percent in rates of compensation and pension payable to veterans and specific increases in certain of the rates of compensation and pension payable to dependents of deceased veterans.

children, and/or dependent parents. In some instances the monthly compensation amounts to about $500. The rates of additional compensation for dependents follow:

| | |
|---|---|
| Wife with no child | $21.00 |
| Wife with one child | 35.00 |
| Wife with two children | 45.50 |
| Wife with three or more children | 56.00 |
| No wife, one child | 14.00 |
| No wife, two children | 24.50 |
| No wife, three or more children | 35.00 |
| Each dependent parent | 17.50 |

Compensation payable to a veteran for disabilities incurred during peacetime service is 80 percent of the amount payable for similar disabilities incurred in wartime.

Pension for non-service-connected disabilities

Veterans of World War I, World War II, and the Korean Conflict who are permanently and totally disabled, but not as a result of service in the Armed Forces, are entitled to monthly pension payments. To be entitled to these payments, a veteran must have served in the Armed Forces at least 90 days or have been discharged sooner because of a service-connected disability, must have been discharged under conditions other than dishonorable, and must not have incurred the disability as a result of willful misconduct.

The current monthly pension is $66.15. This amount is increased to $78.75 when a veteran reaches the age of 65 or has been paid the pension continuously for 10 years. The amount of the monthly pension is increased to $135.45 if the disabled veteran requires regular aid and attendance. The pension is not payable

to a veteran whose income exceeds $1,400 per annum if he is unmarried or to a veteran whose income exceeds $2,700 if he has a wife or minor children.

Allowance for the purchase of automobiles or other conveyances

Veterans of World War II and the Korean Conflict who are entitled to compensation for certain specified disabilities are entitled to an allowance not exceeding $1,600 toward the cost of an automobile or other conveyance, including any special equipment.

Allowance for the purchase of specially adapted housing

Veterans with certain specified service-connected permanent diseases or injuries are entitled to special assistance in acquiring suitable homes. The assistance to a veteran cannot exceed more than one half the purchase price of a dwelling specifically adapted to his needs or $10,000, whichever is the lower.

Compensation to dependents of veterans for service-connected death

An unremarried widow, unmarried children under the age of 18 years (21 years of age if attending a school approved by the Veterans Administration), and dependent parents of a deceased veteran may be entitled to "death compensation." Dependents are eligible for compensation only if the veteran's death was due to disease or injury incurred in the line of duty and not as a result of willful misconduct, and if the veteran died after release from service he must have been discharged under other than dishonorable conditions.

The rates of compensation payments to dependents of deceased veterans of World War I, World War II, and the Korean Conflict follow:

| | |
|---|---|
| Widow with no child | $ 87 |
| Widow with one child | 121 |
| For each additional child | 29 |
| No widow, one child | 67 |
| No widow, two children | 94 |
| No widow, three children | 122 |
| For each additional child | 23 |
| One parent | 75 |
| Two parents, each | 40 |

Compensation payments to dependents of deceased veterans who served in the Armed Forces during peacetime are based on 80 percent of the above rates.

Pension to dependents of veterans for non-service-connected death

An unremarried widow and unmarried children under 18 years of age (21 years of age if attending a school approved by the Veterans Administration) of a deceased veteran of World War I, World War II, and the Korean Conflict whose death is not due to a service-connected cause are, under certain conditions, entitled to monthly pension.

These pensions are payable to dependents of a deceased veteran of World War I who at the time of his death either (1) had 90 days or more service, or (2) had been discharged because of disability incurred in line of duty, or (3) was receiving or entitled to receive compensation, pension, or retirement pay for a service-connected disability. These pensions are payable to dependents of deceased veterans of World War II and the Korean Conflict only if the veteran at the time of his death (1) was receiving or entitled to receive compensation for a service-connected disability which was 10 percent or more disabling, or (2) who,

having served at least 90 days or having been discharged for disability incurred in line of duty, had a disability for which compensation would be payable if 10 percent or more in degree. No relationship need exist between the veteran's service-connected disability and the disability resulting in his death.

There is a marked distinction between the eligibility requirements for a pension for dependents of deceased World War I veterans and those for dependents of deceased veterans of World War II and the Korean Conflict. The difference is that in the majority of cases a dependent of a deceased World War I veteran is entitled to a pension if the veteran had merely served 90 days or more, while a dependent of a deceased veteran of World War II or the Korean Conflict is entitled to a pension only if the veteran at the time of his death had a service-connected disability.

The rates of the monthly pension payments follow:

| | |
|---|---|
| Widow, no child | $50.40 |
| Widow, one child | 63.00 |
| For each additional child | 7.56 |
| No widow, one child | 27.30 |
| No widow, two children | 40.95 |
| No widow, three children | 54.60 |
| For each additional child | 7.56 |

These pensions are payable to a widow without a child or to a child whose annual income does not exceed $1,400 and to a widow with a child or children whose income does not exceed $2,700.

Reimbursement of burial expenses of deceased veterans

The person who paid the burial expenses of a deceased veteran of any war, including the Korean Conflict, who was discharged under other than dishonorable conditions may be reimbursed for burial expenses in a sum not exceeding $150. A payment may also

be made to cover the burial expenses of a veteran who served in the Armed Forces during peacetime and who at the time of his death was receiving compensation for a service-connected disability or had been retired for a disability incurred in line of duty.

SCOPE OF PROGRAM

Since 1776, when the first national pension law was enacted by the Continental Congress, compensation and pension payments to veterans and dependents of deceased veterans have amounted to about 32 billion dollars. A summary of the cumulative payments and the number of veterans and dependents of deceased veterans to whom payments were being made at June 30, 1953, follows:

| | Total payments to June 30, 1953 | Number of persons receiving payments at June 30, 1953 | |
|---|---|---|---|
| | | Living veterans | Dependents of deceased veterans |
| Revolutionary War | $ 70,000,000 | - | - |
| War of 1812 | 46,218,390 | - | - |
| Indian Wars | 109,136,606 | 278 | 1,406 |
| Mexican War | 61,771,227 | - | 12 |
| Civil War | 8,179,351,779 | 1 | 7,798 |
| Spanish-American War | 3,393,042,793 | 72,447 | 83,876 |
| Regular establishment | 635,390,607 | 62,207 | 28,295 |
| Unclassified | 16,513,426 | - | - |
| World War I | 9,836,118,230 | 632,312 | 424,114 |
| World War II | 9,421,798,773 | 1,675,230 | 504,946 |
| Korean Conflict | 83,357,371 | 63,359 | 38,871 |
| | $31,852,699,202 | 2,505,834[a] | 1,089,318 |

[a]Includes 1,577 persons receiving emergency, temporary, or reserve officers' retirement pay.

The Government's obligation for benefit payments under existing laws will continue indefinitely. In the case of the War of 1812,

benefit payments to living veterans continued until 1905 and to dependents of deceased veterans until 1945.

In fiscal year 1953 benefit payments were made to 2,504,257 living veterans and to dependents of 747,750 deceased veterans in the approximate amount of $2,373,000,000. A summary of the benefit payments follows:

| | Payments to veterans | | | | | |
|---|---|---|---|---|---|---|
| | Compensation for service-connected disabilities | | Pensions for non-service-connected disabilities | | Total | |
| | Number of veterans | Amount | Number of veterans | Amount | Number of veterans | Amount |
| World War I | 260,990 | $ 239,303,317 | 369,750 | $300,794,926 | 630,740 | $ 540,098,243 |
| World War II | 1,633,645 | 1,012,398,613 | 41,580 | 34,935,882 | 1,675,225 | 1,047,334,495 |
| Korean Conflict | 62,858 | 40,143,222 | 501 | 302,925 | 63,359 | 40,451,147 |
| Other wars | 498 | 1,021,415 | 72,228 | 93,743,283 | 72,726 | 94,764,698 |
| Regular establishment | 62,207 | 42,293,135 | - | - | 62,207 | 42,293,135 |
| | 2,020,198 | $1,335,164,702 | 484,059 | $429,777,016 | 2,504,257 | $1,764,941,716 |

| | Payments to dependents of deceased veterans | | | | | |
|---|---|---|---|---|---|---|
| | Compensation to dependents for service-connected death | | Pensions to dependents for non-service-connected death | | Total | |
| | Number of deceased veterans | Amount | Number of deceased veterans | Amount | Number of deceased veterans | Amount |
| World War I | 59,036 | $ 51,977,403 | 267,465 | $158,812,254 | 326,501 | $210,789,657 |
| World War II | 270,425 | 287,077,920 | 20,835 | 13,356,229 | 291,260 | 300,434,149 |
| Korean Conflict | 20,341 | 21,728,680 | 45 | 23,263 | 20,386 | 21,751,943 |
| Other wars | 1,284 | 994,270 | 89,539 | 57,577,590 | 90,823 | 58,571,860 |
| Regular establishment | 18,780 | 16,533,428 | - | - | 18,780 | 16,533,428 |
| | 369,866 | $378,311,701 | 377,884 | $229,769,336 | 747,750 | $608,081,037 |

The percentage of the number of awards at June 30, 1953, to veterans for compensation for service-connected disabilities in each of the gradations of disability, as classified in the VA statistical records, follows:

| Percent of disability | World War I | World War II | Korean Conflict | Regular establishment |
|---|---|---|---|---|
| 0 | .6% | - % | - % | .2% |
| 10 | 21.6 | 43.3 | 37.6 | 33.3 |
| 20 | 28.0 | 15.3 | 15.0 | 11.7 |
| 30 | 13.0 | 16.1 | 13.5 | 19.1 |
| 40 | 8.3 | 7.9 | 8.0 | 7.2 |
| 50 | 7.0 | 5.4 | 5.6 | 6.1 |
| 60 | 5.3 | 4.0 | 3.9 | 5.1 |
| 70 | 2.8 | 1.9 | 2.4 | 2.2 |
| 80 | 1.7 | 1.1 | 1.2 | 1.2 |
| 90 | .3 | .3 | .5 | .2 |
| 100 | 11.4 | 4.7 | 12.3 | 13.7 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

## ADMINISTRATION OF THE COMPENSATION AND PENSION PROGRAM

Under the organizational plan in effect during the major period of our review, the functions relating to the administration of the Compensation and Pension Program were assigned to the Assistant Administrator for Claims, the Assistant Administrator for Finance, the Solicitor, and the regional and district offices. The Assistant Administrators, the Solicitor, and the Managers of the regional and district offices were responsible to the Administrator for the operation of their offices which also performed many functions in addition to those relating to the Compensation and Pension Program.

On September 7, 1953, the Administrator of Veterans Affairs adopted a line or departmental and staff plan of organization for the Veterans Administration. Three separate departments were established. The Department of Medicine and Surgery is responsible for providing medical care and treatment of veterans (including operation of hospitals, domiciliaries, and clinics). The Insurance Department is responsible for operating the veterans' insurance and servicemen's indemnity programs. The Department of Veterans Benefits is responsible for providing financial assistance to veterans and dependents of deceased veterans to compensate them for loss of earning power because of the veterans' service in the Armed Forces and to veterans to aid them in becoming readjusted to their normal civilian pursuits. The Department of Medicine and Surgery is headed by a Chief Medical Director and the other two departments by Deputy Administrators. The plan of organization provides that the Administrator's staff will function principally

in a policy-making, appraising, and advisory capacity and that the departments will operate their respective programs within policies and regulations prescribed by the Administrator.

Under the new plan of organization the Deputy Administrator for Veterans Benefits is responsible for all functions pertaining to the Compensation and Pension Program and other benefit programs. The placing of all operations pertaining to the Compensation and Pension Program within a single department headed by the Deputy Administrator for Veterans Benefits relieves the Administrator of Veterans Affairs and the Deputy Administrator of Veterans Affairs of direct responsibility for administering the program and should facilitate the coordination of the operations and improve operating efficiency.

The new plan of organization, as originally adopted on September 7, 1953, has since been modified to avoid conflicting policies, methods, and procedures, and duplication of effort in carrying out certain functions which are common to all departments. Other modifications may be necessary to achieve a form of organization best suited to actual needs.

Benefits under the Compensation and Pension Program are provided to veterans and dependents of deceased veterans through operations conducted in the Washington Veterans Benefits Office (a consolidation of the former Washington Regional Office and certain Central Office operating units), 69 regional offices, and 3 district offices.

Generally, compensation and pension claims by living veterans are administered in the Washington Veterans Benefits Office and the regional offices. However, claims by veterans who are employed by the Administration; claims by veterans and survivors of deceased veterans who served in the Armed Services before July 16, 1903, or who reside outside the continental limits of the United States, unless within the jurisdiction of the regional offices located in Alaska, Hawaii, Puerto Rico, and the Philippines; and claims of special types are administered in the Washington Veterans Benefits Office. The jurisdictional area of the regional offices is established on a geographical basis. A veteran's claim is under the jurisdiction of the regional office within whose area he resides. When a veteran changes his residence from the jurisdictional area of one regional office to another, jurisdiction over the administration of his case and payment of benefits is also transferred.

Claims by survivors of other deceased veterans are administered in the three district offices. Generally, jurisdiction over a claim is assigned to the district office within whose area is located the regional office having jurisdiction over the veteran's claims folder, or to the district office having jurisdiction over his National Service life insurance if no claims folder exists, or to the district office within whose area the veteran died if there is neither a claims folder nor National Service life insurance in force.

The administration of compensation and pension cases includes the adjudication of claims, the payment of benefits granted and maintenance of necessary records, and certain auxiliary services, such as rendering aid to claimants applying for benefits and making physical examinations of veterans.

## SUMMARY OF FINDINGS

The following comments summarize the significant findings resulting from our review of the Compensation and Pension Program administered in the VA's Washington offices.

1. Examination of cases

Our examination of compensation and pension cases resulted in:

a. Benefit payments being awarded or increased in 13 cases, reduced or discontinued in 55 cases, and suspended or otherwise changed in 13 cases (about 1-1/2 percent of the cases examined).

b. Erroneous payments of $24,166 being established in 20 cases as overpayments subject to recovery.

c. Additional benefits for prior periods totaling $43,156 being paid in 82 cases.

A determination of the necessity for corrective action remains to be made in an additional 246 cases.

Although our examination resulted in the foregoing adjustments, it did not disclose any specific pattern of weakness in the adjudication operations. However, of 55 cases where benefit payments were reduced or terminated, 47 had been regarded as "static." In a "static" case a change is normally not made in the benefit payments unless requested by the veteran. The reduction or termination of payments in the 55 cases is equivalent to a decrease in benefit payments of about $28,110 on an annual basis. (See pp. 23 to 29.)

2. Rating of veterans' disabilities

The statute authorized the adoption of a schedule of ratings of reductions in earning capacity from specific injuries or combinations of injuries based, as far as practicable, upon the average

impairment of earning capacity resulting from such injuries in civil occupations. However, the disability ratings provided in the rating schedules for the various types and manifestations of disabilities are not based on an actual determination of the effect of such disabilities on the average earning capacity of individuals in civilian occupations. (See p. 40.)

3. Pensions to veterans for non-service-connected disabilities

The statutes provide for the payment of pension to a veteran for a non-service-connected disability when it is reasonably certain that the disability will continue throughout his life even though it is less than total in degree if it is of a nature that would make it impossible for the average person to follow a substantially gainful occupation. However, our examination disclosed little evidence that consideration is given to the prescribed procedural criteria for determining that a veteran's unemployability is due to his disability or that he is in fact unemployable. (See pp. 50 to 52 .)

4. Increased compensation to veterans for dependents and compensation to dependents of deceased veterans

Our examination disclosed that determinations of the dependency of parents of deceased World War II veterans receiving compensation payments had not been made since the awards were granted. We, therefore, suggested to the Administrator that it would be advisable to make a current determination and that the result might indicate how frequently thereafter such determinations should be made. This suggestion was adopted and reviews were made of the dependency status of parents of deceased veterans and parents of

living veterans. These reviews resulted in terminating compensation payments to 13,900 parents of deceased veterans and discontinuing the additional compensation allowances to veterans for 3,575 parents that were found to be no longer dependent. The estimated reduction in annual payments is equivalent to $7,700,000 and $770,000, respectively. (See p. 70.)

The VA is now considering the propriety of its regulations which provide that cash receipts of certain types will be disregarded in determining the dependency of a parent. We believe that parents should be considered as dependent only if they are unable to provide for themselves and that a determination of a parent's dependency requires consideration of his entire net worth and of all his income and receipts regardless of the source. We believe also that a veteran's continued entitlement to an additional compensation allowance for dependent parents should be contingent upon his contributing to their support.

The dependency studies by the VA disclosed cases where veterans were being paid additional compensation allowances for dependent parents although the parents were no longer living. The VA has indicated that consideration is being given to making a further survey of the entire family status of veterans to determine their continued entitlement to receive additional compensation allowances for dependents. (See p. 73.)

5. Payment of pensions to veterans and dependents of deceased veterans whose annual income exceeds the prescribed limitations.

We pointed out to the VA that pension payments were in some instances being made to pensioners when their income exceeded the

prescribed statutory limitations on income, that no consideration was being given to the recovery of the excess payments, and that the form of annual "income questionnaire," required to be submitted as of the beginning of each calendar year by each pensioner, did not adequately provide for the reporting of all information essential to a proper determination of continued entitlement to receive pension. We also recommended that consideration be given to adopting procedures to provide that the annual determinations of a pensioner's continued entitlement to pension be based not solely on the income questionnaire submitted but also upon consideration of all information contained in the claims folder relating to sources and amount of income and family status and to verifying, at least on a test or sampling basis, the income reported by pensioners. (See pp. 62 to 69.)

The Administration has since adopted a new regulation providing for prompt discontinuance of pension payments when it becomes apparent that a pensioner's annual income will exceed the prescribed limitation. We estimate that pension payments in 1953 would have been about $2,800,000 less if the new regulation had then been in effect.

The Administration also adopted a revised form of "income questionnaire" to be submitted by pensioners at the beginning of each calendar year. We believe that the use of the revised form enables the VA to make better annual determinations of pensioners' continued entitlement to pension.

6. Effective date of discontinuance or reduction of awards of compensation and pension benefits

The reduction in or discontinuance of an award because of a change in a veteran's disability is made effective as of the end of the month in which a 60-day grace period following the date of the award action expires. The current statutes do not authorize the postponement of the effective date of discontinuing or reducing an award. However, the practice is in conformity with that authorized by a section of the World War Veterans Act, 1924, which section was repealed in 1933. (See p. 79.)

7. Aid and attendance allowance to veterans in soldiers' homes

We believe that consideration should be given to reducing the additional compensation allowance to a disabled veteran for aid and attendance when he is being maintained in a state soldiers' home and is being furnished with nursing and attendant's service. Under the act of August 27, 1888 (25 Stat. 450), as amended, the VA pays a state for each disabled veteran in a state soldiers' home one half of the cost of maintaining the veteran or $700, whichever is the lesser amount. Thus, an award of an aid and attendance allowance to a disabled veteran being maintained in a state soldiers' home results in the Government paying part of the cost of furnishing nursing and attendant's service to the veteran in addition to paying the full allowance to the veteran.

8. Disbursing benefit payments

Our examination in the two VA Washington offices disclosed only a few instances where benefit payments had not been made in accordance with award actions; the errors were of minor importance. The attainment of the high degree of accuracy in processing

benefit payments under the present system is largely dependent on the integrity and competence of individual employees. We believe that assurance of the propriety of benefit payments should be attained to a greater degree through accounting and procedural control. Such control could be readily attained under a mechanized method of operation. We also believe that the adoption of a fully mechanized system providing for a complete integration of all paying, disbursing, and related functions would result in a more efficient and economical operation. (See p. 91.)

9. Erroneous benefit payments

The Administration's policy provides that erroneous benefit payments on an award will constitute an overpayment subject to recovery where there is no legal basis whatsoever for the award. We believe the policy is consistent with the statute. It appears, however, that the policy precludes many erroneous payments from being regarded as overpayment since they result more frequently from some incorrect action taken or failure to take some required action on awards after they have been granted rather than from the improper granting of the awards.

We recommend that the Administration give consideration to developing and adopting a single instructional directive setting forth the policy for consideration of erroneous payments. We believe that it would tend to assure that proper and consistent consideration is given to erroneous payments. We recommend also that consideration be given to establishing a reporting and review procedure so that management will be apprised of all erroneous payments and can determine the propriety of the treatment accorded

them and the need for measures to minimize erroneous payments. (See p. 86.)

10. VA control over operations

The VA procedures provide that a disability rating will be assigned to a veteran's disability by a rating board comprised of three members, one of whom is a physician; that the adjudication determinations will be made by adjudicators and approved by authorization officers; that adjudication operations will be reviewed by field supervisors; and that the payment of benefits will be audited by fiscal auditors.

We believe that the use of a three-man rating board for rating veterans' disabilities provides the Administrator of Veterans Affairs with reasonable assurance that the degree of a veteran's disabilities is established in accordance with the provisions of the rating schedules. However, our examination in the VA Washington offices did disclose cases where the ratings assigned were questionable. Consideration of these cases resulted in the assigned disability ratings being changed in a number of instances, either through a reevaluation of existing medical evidence or on the basis of new physical examinations of the veteran. (See pp. 43 to 50.) As indicated in the comments on page 28, many of the questioned determinations were made during World War II and the immediate postwar period when they may not have been given the required degree of consideration because of the need to adjudicate a large number of claims with a minimum of delay. As a result of a preliminary report on our findings, the VA initiated a review of compensation and pension cases administered in its various offices. The reviews are being made by adjudication personnel.

During the period of our examination the VA established an internal audit service in the VA Controller's Office. We have been informed that one of the functions of this service is the evaluation of adjudication procedures, practices, and other prescribed control measures to determine their adequacy and effectiveness. We recommend that the internal audit service evaluate the effectiveness of the reviews of compensation and pension cases that are now being made by the adjudication personnel. We further recommend that consideration be given to determining whether the review of the current adjudication operations in field offices now being made by field supervisors is sufficiently broad in scope to disclose whether award adjudications are being made in accordance with regulations and prescribed procedures and whether there are weaknesses in the operations requiring corrective action.

ADJUDICATION OF COMPENSATION AND PENSION BENEFIT CLAIMS

The Washington Veterans Benefits Office administers compensation and pension cases for living veterans within its jurisdictional area, for all veterans who are employed by the Veterans Administration, and for veterans and survivors of deceased veterans who served in the Armed Forces before 1903 or who reside in foreign countries. At the time of our examination, the cases now administered in this office were being administered in the Washington Regional Office and the Central Office. The following tabulation indicates the number and type of cases that had been administered in each office:

| | Washington Regional Office | | Central Office | |
|---|---|---|---|---|
| | Number of cases | Payments in fiscal year 1952 | Number of cases | Payments in fiscal year 1952 |
| World War I | 6,104 | $ 4,842,259 | 16,237 | $ 14,241,654 |
| World War II | 20,756 | 11,142,455 | 50,830 | 51,890,786 |
| Korean Conflict | 159 | 52,989 | 1,661 | 4,403,363 |
| Regular establishment | 1,174 | 851,136 | 5,628 | 5,173,546 |
| | 28,193 | 16,888,839 | 74,356 | 75,709,349 |
| Other wars | | | 171,335 | 150,726,974 |
| | 28,193 | $16,888,839 | 245,691 | $226,436,323 |

These cases are further classified:

| | Number of cases | Payments in fiscal year 1952 |
|---|---|---|
| Payments to veterans: | | |
| Compensation for service-connected disabilities | 53,873 | $ 34,291,383 |
| Pensions for non-service-connected disabilities | 85,164 | 98,822,399 |
| | 139,037 | 133,113,782 |
| Payments to survivors of deceased veterans: | | |
| Compensation for service-connected death | 39,338 | 51,064,071 |
| Pensions for non-service-connected death | 95,509 | 59,147,309 |
| | 134,847 | 110,211,380 |
| Total | 273,884 | $243,325,162 |

The adjudication of a claim under the various benefit laws and the prescribed regulations and procedures involves (1) examining the claimant's application, obtaining required documentary support--such as evidence of service in the Armed Forces, conditions of discharge, medical reports, and evidence of dependency--and arranging for the physical examination of the veteran; (2) evaluating the assembled data to determine basic entitlement to the benefits claimed, the existence and degree of a veteran's disability, and whether it is attributable to service in the Armed Forces; (3) notifying the claimant of the adjudicated decision and authorizing payment action if an award is granted; and (4) amending awards previously granted when a change occurs in a veteran's disability or family status.

The adjudication functions are performed in an adjudication division comprised of authorization units and rating boards. The

authorization units are responsible for assembling the data necessary for evaluation of claims, determining that legal, as opposed to physical, requirements are met, notifying claimants of adjudication action, and authorizing payment of awards. The rating boards are responsible for evaluating medical reports and other data to determine the degree of a veteran's disability and whether it is attributable to service in the Armed Forces. As an indication of the importance of these functions, a determination that a veteran's existing disability resulted from service in the Armed Forces may entitle the veteran not only to disability compensation benefits during his entire lifetime but may, under certain conditions, also entitle his wife, children, and dependent parents to benefits after his decease.

Our examination of compensation and pension cases included cases of all types except those classified in the summary on page 23 as "Other wars." It included a comprehensive review of all adjudication determinations having a bearing on an award of benefits. The extent of the examination and the number of cases in which corrective action was taken or is pending follow:

| | Washington Regional Office | Central Office |
|---|---|---|
| Number of cases of type examined (see p. 23) | 28,193 | 74,356 |
| Number of cases examined | 1,655 | 3,475 |
| Percent of total | 5.9% | 4.7% |
| Number of cases in which corrective action was taken or is pending | 41 | 352 |
| Percent of cases examined | 2.5% | 10.1% |

In addition to the foregoing 393 cases in which corrective action was taken or is pending, we noted 238 cases in the Washington Regional Office and 115 cases in the Central Office where the prescribed regulations or procedures had not been completely followed or where the awards were not fully supported. However, no adjustments were required in the current benefit payments. A summary of the cases examined and questioned by type of benefit is presented as appendix B.

The nature of the action taken or to be taken in respect to the 393 cases is as follows:

| | | Number of cases |
|---|---|---|
| Benefits awarded | | 2 |
| Increase in benefit payments | | 11 |
| Reduction in benefit payments | | 24 |
| Discontinuance of benefit payments | | 31 |
| Suspension of pension payments | | 6 |
| Change in effective date of graduated reductions in payments on tubercular cases | | 7 |
| | | 81 |
| Erroneous payments established as overpayments (note a) | | 15 |
| Payment of additional benefits for prior periods (note b) | | 50 |
| Corrective action dependent on: | | |
| Obtaining reports of death from service departments (see p. 75) | 218 | |
| Evaluating reports of physical examinations to be made at a future date | 14 | |
| Obtaining other evidentiary data | 15 | 247 |
| | | 393 |

[a]Erroneous payments were also established as recoverable overpayments in five cases where benefit payments were reduced or discontinued.

[b]Retroactive payments were also made in 32 cases where benefit payments were awarded, increased, or otherwise changed.

As indicated in the foregoing tabulation, changes have been made in awards in 81 cases and determinations remain to be made of the propriety of awards in 28 cases and of the possible need for further retroactive payments in 218 cases. Of erroneous payments totaling $67,638 in 42 cases, the VA established $24,166 in 19 cases as overpayments subject to recovery. (See p. 87.) The payments of additional benefits for prior periods to the beneficiaries in the 82 cases amounted to $43,156.

Our examination disclosed also a number of minor errors which we brought to the attention of the VA for consideration. We pointed out also that stop-payment orders were not being accorded the priority of consideration necessary for a prompt termination of the payments.

Although our examination resulted in the adjustments summarized in the foregoing tabulation, it did not disclose any specific pattern of weakness in the adjudication operations. However, of the 55 cases where benefit payments were reduced or discontinued, 47 cases had been considered or treated as "static." In a "static" case benefit payments normally continue unchanged until they are questioned by the veteran. The reduction or discontinuation of benefit payments in the 55 cases is equivalent to a decrease in payments of about $28,110 on an annual basis. The increase in benefit payments in the 13 cases where awards were amended or increased amount to about $3,550. This net decrease of $24,560 in annual benefit payments resulting from the changes made in awards is equivalent to about 1/2 of 1 percent of the total annual payments on the cases examined. The monetary adjustments

indicated above are not necessarily indicative of what might be found if the entire case load were to be examined, since our samples included more than a proportionate share of cases in the higher disability ratings where an error in award action might result in a larger-than-average monetary adjustment.

The majority of the questioned determinations were made during World War II and the immediate postwar period. The Chairman of the VA Rating Board, in a report dated January 21, 1952 (see appendix A), stated that the release of many servicemen from the Armed Forces upon the cessation of hostilities resulted in the need to adjudicate a great number of claims with a minimum of delay. He stated also that this resulted in some failure to develop available evidentiary leads and to carefully review all available evidence as well as a tendency to resolve doubts in favor of the veteran instead of settling them by procurement of evidence. He further stated that this haste necessitates a systematic review of the adjudications but that such a review has been impossible because of reduced administrative appropriations. However, the VA did initiate a review of the compensation and pension cases administered in its various offices after the issuance of a memorandum by the General Accounting Office in January 1954 which summarized the tentative findings of a review of compensation and pension cases in the Washington Regional Office. These reviews are being made by adjudication personnel. The findings of their initial review, together with the findings of our examination of cases in the VA's two Washington offices, should enable the VA to definitely

determine the need for and scope of their review and those areas where procedures or practices should be changed or internal control measures strengthened in order to assure that benefit payments are awarded properly in all cases.

The cases in which the benefit payments were questioned are summarized below by type of determination. Comments on the cases are contained in the following sections of this report on the indicated pages.

| | Number of cases | |
|---|---|---|
| | Washington Regional Office | Central Office |
| Basic entitlement of veterans to compensation and pension benefits (see pp. 30 to 39 ) | 9 | 3 |
| Rating of veterans' disabilities (see pp. 40 to 52) | 32 | 11 |
| Physical examinations of veterans (see pp. 53 to 61) | 198 | 126 |
| Pensions to veterans and dependents of deceased veterans (see pp. 62 to 69) | 33 | 21 |
| Dependency allowances (see pp. 70 to 74) | 2 | 13 |
| Commencement, adjustment, and termination of benefit payments (see pp. 75 to 84) | 5 | 291 |
| Jurisdiction over cases (see p. 84) | --- | 2 |
| | 279 | 467 |

## BASIC ENTITLEMENT OF VETERANS TO COMPENSATION AND PENSION BENEFITS

The statutes and the VA regulations prescribe the persons who are entitled to receive disability compensation and pension benefits. To be entitled to either type of benefit, a veteran must have served in the Armed Forces during certain prescribed periods and must have been discharged under conditions other than dishonorable. He is entitled to disability compensation if his existing disease or injury was incurred in line of duty and not the result of willful misconduct. He is entitled to a pension if he is permanently and totally disabled not as a result of service in the Armed Forces.

### Required period of service

Our examination of individual cases disclosed only one instance where a veteran who had not served during the prescribed periods was awarded benefits. In this case the Washington Regional Office awarded the veteran an allowance of $1,600 toward the purchase of an automobile under Public Law 187, Eighty-second Congress. This law specifically prescribes that such allowances may be granted only to veterans who incurred certain specified disabilities during World War II, which by Presidential proclamation was deemed to have ended on December 31, 1946, or after June 26, 1950, the beginning of the Korean Conflict. However, this veteran became disabled during an enlistment period which began on March 17, 1947, and ended on September 28, 1948. The error in granting the allowance was brought to the attention of the VA and the veteran was notified on May 26, 1953, that the

allowance would have to be refunded. The veteran indicated that repayment of the allowance would necessitate great hardship and would in effect be impossible. Under Public Law 187 the Administrator of Veterans Affairs has no authority to waive the recovery of any incorrect payments made under that law. An appeal by the veteran to the Board of Veterans Appeals was denied and arrangements have been made for the repayment of the $1,600 by offset against disability compensation benefit payments.

Line of duty and willful misconduct

The statutory requirement that a veteran's disability must be incurred in line of duty and not the result of willful misconduct is not met if the disease or injury was contracted when he (1) was avoiding duty by desertion or by absenting himself without leave so as to materially interfere with the performance of military duty or (2) was confined under sentence of court martial or civil court, unless the sentence of the court martial did not involve an unremitted dishonorable discharge or the conviction by a civil court did not involve a felony.

Our examination disclosed that adjudication personnel does not always consider the circumstances surrounding the incurrence of disabilities to the extent necessary to determine whether they were incurred in line of duty and not the result of willful misconduct. Reports by the service departments indicating that a veteran's injuries were the result of his willful misconduct do not always give rise to further investigation to determine whether the circumstances are of a nature that would be a bar to his entitlement to benefits.

The facts relating to two cases in the Washington Regional Office are illustrative of what appears to be inadequate consideration in arriving at these determinations. In one case a veteran was awarded benefits although the service department had indicated that the injury was incurred while the veteran was engaged in a "drinking bout" and that it was due to his own willful misconduct. We brought this case to the attention of the VA and upon further investigation the award was terminated. The incorrect payments totaled $4,461. The case was being treated as "static" and the payments might have continued indefinitely. The termination of the award has been appealed by the veteran to the Board of Veterans Appeals. In the other case the veteran was injured in a traffic accident in Italy. The Army reported that he was absent without leave, was in unauthorized possession of a vehicle, and that the injury was not incurred in line of duty. This case was also brought to the attention of the VA. However, further investigation by the VA indicated that the award was proper because the veteran had not absented himself from duty so as to unduly preclude his performance of duty and the possession of the vehicle was not the cause of the injury sustained. In neither of these two cases did the claims folder contain sufficient information to support the original determination that the veteran was entitled to compensation for a service-connected disability. However, since the time those determinations were made, the VA procedures have been changed. Adjudicators are now required to submit a memorandum of their findings and conclusions to the authorization officer for consideration and approval before an award is granted.

We also noted a case in the Central Office where it had been determined that a veteran's disabilities had been incurred in line of duty although no report had been obtained from the service department. Upon our submission of the case to the VA, they obtained the necessary information from the service department. It indicated that the veteran's disabilities had been incurred in line of duty. However, there appeared to be no basis whatsoever for the original determination.

Discharge from service under conditions other than dishonorable

The VA regulations and procedures provide general criteria for determining whether discharges from the Armed Forces are under conditions other than dishonorable. They provide that undesirable discharges will generally be considered as under dishonorable conditions and a bar to entitlement to benefits. However, certain cases must be submitted to the Central Office for consideration and decision.

Our examination disclosed one case in the Washington Regional Office of a nature which should have been submitted to the Central Office for a determination of the veteran's entitlement to disability compensation benefits. The regional office first denied the veteran's claim for compensation. Thereafter, the case was reviewed by a committee comprised of members of that office. The committee held that the veteran's discharge was under conditions other than dishonorable and benefits were awarded as of June 25, 1951, on the basis of a 100 percent disability rating. The VA reconsidered the propriety of the award in 1953 after we pointed

out the failure of the regional office to follow the prescribed procedure. They determined that the service department had changed the discharge given to the veteran to a type that would entitle him to benefits. However, under the VA regulations the benefits would be payable only from the date on which the service department made the change in the type of discharge.

Service-connected disability

In evaluating a veteran's claim for disability compensation, it is necessary to determine whether the disease or injury complained of actually exists and whether it was incurred in service, or, if not, the extent to which it was aggravated while in service. In determining whether a veteran's existing disease or injury was incurred while in service, it is necessary to establish that it did not exist before he entered the service and that there is evidence of its manifestation while he was in service. Where a veteran's disease or injury existed before he entered the service, it is necessary to establish the extent of the disease or injury at time of his entrance into service and the extent of its aggravation while he was in service.

Physical condition at time of induction

The statutes provide that every person employed in the active military or naval service shall be taken to have been in sound condition when examined, accepted, and enrolled except as to defects, infirmities, and disorders noted at that time or where clear and unmistakable evidence demonstrates that the injury or disease existed before his acceptance or enrollment in the service

and was not aggravated by such service. Therefore, the VA determination of the service connection of a veteran's disabilities is dependent to a very great extent upon the accuracy and completeness of the report on his physical examination at the time of his induction into the service.

Our examination of cases disclosed instances where an induction physical examination report indicated that a veteran's disability existed at the time of his entrance into service but the report was not sufficiently detailed or complete to enable the VA to retroactively rate his physical condition as of that time. As a result, veterans are sometimes awarded compensation on the basis of their disabilities having been incurred in service rather than on the basis of their aggravation while in service. In a statement (see appendix A) regarding various aspects of disability rating problems, the Chairman of the VA Rating Board pointed out the difficulty in correctly evaluating a veteran's disability on the basis of an induction physical examination report. He also indicated that in many instances the induction physical examination reports do not give any indication of the existence of a disability at the time of induction. In respect to one large group of cases, he stated:

> "We have, for example, around 60,000 peptic ulcer cases on the World War II service-connected rolls. A very large proportion of the cases reviewed in Central Office report history given in the treatment records during service of some years of similar intermittent gastric distress. Had they been examined with barium and fluoroscope, it is likely that the defect or crater found in service would have been found at enlistment. Had their history been carefully taken, it is likely that the episodes after discharge, as to frequency, severity, and dietary requirements would not be too different than the episodes before service."

The VA regulations properly provide that the mere recording on a veteran's induction physical report of the preservice existence of a disability does not of itself constitute a notation of its existence at the time of induction. However, they also provide that the recording of a notation of a preservice disability will be considered along with other material evidence in determining the time of inception of an existing disease or injury. They further provide that when after careful consideration of all procurable and assembled data, a reasonable doubt exists as to whether the disease or injury was incurred in service or aggravated while in service, the doubt will be resolved in favor of the veteran.

Our review of cases indicates that the VA relies almost entirely on veterans' induction physical examination reports, does not greatly endeavor to procure other evidence where there are indications that a veteran's disabilities existed before his entrance into service, and prematurely resolves all doubts in favor of the veteran. Although neither a statement made by a veteran pertaining to his physical condition at time of induction nor a notation on his physical induction report of the preservice existence of a disability is conclusive evidence that a disability existed at time of his entrance into the service, the VA is not precluded from recognizing the possibility that the disability may have existed at that time or from attempting to obtain additional evidence to enable a sound evaluation to be made of the veteran's physical condition at that time.

Our examination in the Washington Regional Office disclosed five cases where the veterans had been awarded compensation benefits on the basis of their disabilities having been incurred in service although the case folders contained data which indicated the existence of the disabilities before their entrance into the service. These cases were brought to the attention of the VA. A review of one case by the rating board resulted in the discontinuance of the award on the ground that the record clearly established that the veteran's disability existed at the time of his entrance into the service. The compensation payments from July 1, 1946, to April 30, 1953, based on the unsound initial determination amounted to $8,331. Since the case was being treated as "static," the monthly payments could conceivably have been continued during the remainder of the veteran's lifetime. In the second case the VA adjudication personnel agree that the facts clearly indicate that the veteran's disabilities existed at the time of his entrance into the service. They stated, however, that the award would not be discontinued because the original determination that the veteran's disabilities had been incurred in the service was correct under the operating instructions in effect in 1943. In our opinion, this is not a sound basis for the continuation of the award, particularly in view of VA Regulation 1009(A) which specifically provides that disability ratings may be reversed or amended where such reversal or amendment is clearly warranted by a change in the law or by a specific change in its interpretation by the VA. The compensation payments amounted to $4,972 during the 10-year period following the granting of the award in December 1943. They

are being continued at the annual rate of $567. In the third case the adjudication officer was loath to question the rating board's decision made in 1936, and the award continues unchanged. In the fourth case a current effort to obtain additional information to substantiate the information indicating that the veteran's disabilities existed at the time of his entrance into the service was to no avail, and no change was made in the award. In the fifth case the award was discontinued on the basis of a current physical examination.

In the Central Office disability compensation awards were discontinued in two cases after we raised a question as to whether the veterans' disabilities had been incurred in or aggravated by service in the Armed Forces. In one case the award had been made in 1946 by the Des Moines, Iowa, Regional Office. The administration of this case had been assumed by the Central Office in 1948 upon the employment of the veteran by the VA. The service department's report indicated that the veteran had been discharged after being in the service 89 days, only 5 of which were in an actual duty status, the remaining 84 days having been spent in the hospital under treatment and observation, and that the veteran's disability existed before his entrance into the service and had not been aggravated by service. The report also included a copy of a civilian doctor's statement based on his examination of the veteran about 3 months before he entered the service which substantiated the service department's findings. The improper compensation payments from the commencement of the award payments on

August 23, 1946, to their discontinuance on September 30, 1953, amounted to $3,728. A proper initial determination would also have been a bar to the veteran's entitlement to educational benefits awarded on the ground that his disability was service incurred. In the second case compensation benefits had been awarded to a veteran in 1946 without having obtained his complete medical service record. This case was brought to the attention of the VA and the induction and separation physical examination reports were obtained. They substantiated the fact that the veteran was not entitled to the award because his disabilities had not been incurred while in service. However, a later review of this case disclosed that the procedures pertaining to the severance of the award had not been complied with and that the compensation payments had not been discontinued. After bringing the case to the attention of the VA a second time, the payments were discontinued on May 31, 1954. The payments resulting from the improper initial determination amounted to $1,432.

## RATING OF VETERANS' DISABILITIES

The act of March 20, 1933 (Public No. 2, 73d Cong.), authorized the President to prescribe by regulation the degrees of disability to be recognized, the rates of compensation payable for each degree of disability, and such differentiation in the rates as he may deem just and equitable. Veterans Regulation No. 3(a), promulgated pursuant to the act, authorized the adoption of a schedule of ratings of reductions in earning capacity from specific injuries or combination of injuries based, as far as practicable, upon the average impairment of earning capacity resulting from such injuries in civil occupations and the revision of the adopted schedules of ratings from time to time. Veterans' disabilities are currently rated under the Schedule for Rating Disabilities, 1945 Edition, a revised schedule which became effective on April 1, 1946. The schedule provides 10 grades of disability ranging from 10 percent to 100 percent and classifies each of the many types and manifestations of injuries and diseases into one of the 10 grades of disability ratings.

The disability ratings provided in the rating schedules are not based on an actual determination of the effect of the various disabilities on the average earning capacity of individuals in civil occupations. The Chairman of the VA Rating Schedule Board, in a statement dated January 21, 1952, regarding various aspects of the disability rating problems (see appendix A), indicated that the 1945 schedule is an outgrowth of other rating schedules which had been in use at various times from 1921 to April 1, 1946. He stated that the disability ratings provided in the 1921 schedule

were not calculated on statistical or economic data regarding the average reduction in earning capacities from any disability because such data were not available and that they undoubtedly represented the opinions of the physicians who had developed the schedules as to the effect of the various disabilities upon the earning capacity of the average man. He also stated that the disability percentage ratings provided in the 1945 schedule are based on very little calculation but that they represent the consensus of informed opinion of experienced rating personnel, for the most part physicians, and reflect many compromises of their views. He further indicated the possibility that some of the disability ratings established in the earlier schedules and carried forward into the 1945 schedule may be too high in view of the effect of medical rehabilitation programs and current opportunities for employment of disabled men. However, he indicated also that, although some of the assigned disability ratings may be too high, they cannot conceivably be reduced. As an illustration as to why some cannot be reduced, he pointed out that the 1921 schedule fixed the evaluation for practically all major amputations of the upper and lower extremities in a rational relationship to a 40 percent disability rating assigned to the amputation of one leg and that the Congress in 1930, although aware of the evaluations, had considered the payments inadequate and had provided an additional allowance for loss of or loss of use of any one extremity. He also pointed out that the next largest group of disabilities is made up of psychoneurotic reactions for which he considered it impossible to calculate any average reduction in earning capacity.

The payment of the correct amount of benefits to a veteran is dependent on the proper evaluation and rating of his disabilities. In those cases where it is reasonable to expect an improvement in a veteran's physical condition, the proper rating of his disabilities is dependent on the scheduling of future physical examinations, the making of the examinations, and the evaluation of the examination reports.

A disability rating percentage is assigned to a veteran's disabilities by a rating board composed of three members, one of which is a physician. The determination of the rating to be assigned to a veteran's disabilities is based on an evaluation of his physical examination reports at the time of his induction into the service, while in service, at the time of his discharge from service, and at the time of his claim for compensation benefits, or at the time of other scheduled physical examinations.

Whenever a veteran's disabilities are rated, a determination is also required to be made as to whether it is reasonable to expect an improvement in his physical condition. If it is believed that a veteran's physical condition may improve, he is scheduled for a future physical examination and a reevaluation of his disabilities. If a veteran's disabilities are determined to be of such a nature that no improvement can be reasonably expected, the case is considered to be "static." In such cases future physical examinations are not made. The disability rating and benefits awarded a veteran continue unchanged until such time as he requests a change in his award.

About 88 percent or 2.2 million of all compensation and pension awards to veterans are considered or treated as "static" cases. Therefore, the need for sound procedures for definitely determining and indicating when a case is to be treated as "static" and strict adherence to such prescribed procedures cannot be overstressed.

Evaluation and rating of disabilities

Our review of individual case folders disclosed some instances where the assigned disability ratings did not appear to be warranted by the medical evidence. These cases were discussed with members of the rating boards. In some of the cases their explanation of the reasons for the assignment of the disability ratings seemed to be reasonable. In other cases neither the disability ratings nor the rates of payment could be justified, and the awards were discontinued or amended. The VA procedures provide that each case and the medical evidence will be reviewed and evaluated by each of the three members of the rating boards. Thus, a disability rating assigned to a case represents the consensus of opinion of the rating board members. However, since our questioning of assigned disability ratings has resulted in changes in some of the ratings, doubt arises as to whether all cases are being given the required degree of consideration by rating board members.

In the Washington Regional Office the rating board was unable to justify the disability rating assigned to 11 questioned cases. These cases were reevaluated either on the existing medical evidence or on the basis of physical reexaminations of the veterans.

These reevaluations resulted in the disability ratings being reduced in three cases, with corresponding reductions in the amount of the compensation benefit payments, and in pension awards being discontinued in two cases. In an additional case a pension award was discontinued because the veteran failed to cooperate by not appearing for the scheduled physical examination. Four of these six cases were being treated as "static," and monthly payments totaling $150 might have been continued indefinitely. In another case the reevaluation resulted in the determination that a higher disability rating should have been assigned. This award was adjusted retroactively to April 1, 1946, and an additional payment of $1,293.20 was made to the veteran.

In a Central Office case we noted that a veteran's disabilities had been assigned a disability rating in excess of that authorized by the rating schedule. A physical examination and reevaluation of the veteran's disabilities resulted in the discontinuance of the pension award. The error in this case resulted in a probable overpayment of $1,952. In another Central Office case a veteran was rated as totally disabled on the ground that he was unemployable. The case was referred to the rating board for review because of the cancellation of a scheduled physical examination and of the failure of the procedures to provide for a follow-up to determine whether his disability continued to cause him to be unemployable. The action taken by the board resulted in determining that the veteran had been employed on a full-time basis for over 13 months. The award was reduced to a rating based on an

evaluation of his disabilities only. The excess payment made during the 13 months in which he was employed and not entitled to compensation amounted to $949.

Our review also disclosed two Washington Regional Office cases where medical evidence had not been considered. In one case a report of the physical examination of a veteran in 1948 had been given no consideration by the rating board. This case was brought to the attention of the VA. As a result, the veteran was given a new physical examination, and based thereon the rating was reduced as of September 1, 1953. The payments from the date of the earlier examination, which had not been evaluated, amounted to $1,807. The monthly payments might have been continued indefinitely since the case was being treated as "static." In the other case a hospital outpatient report establishing the date of arrest of a veteran's tubercular condition had not been considered. No overpayments occurred since the rating schedule provided for the continuation of the 100 percent disability for 2 years from date of the arrest of the tubercular activity. However, the failure to give consideration to the hospital report had the effect of the case being treated as "static" and the compensation payments would have been continued on the basis of a 100 percent disability rating and not reduced periodically as prescribed by the rating schedule.

We noted also five cases in the Central Office where there was a failure to present documents pertaining to veterans' disabilities to the rating board for their consideration. In two cases the veterans' physical examination reports had not been evaluated. In the other three cases the information was of a medical nature

and had a direct bearing on the rating of the veterans' disabilities. A submission of these cases to the rating board for consideration resulted in the three veterans being given physical examinations. The evaluation of the examination reports resulted in awards being discontinued in three cases; in a reduction in the award in one case from a 100 percent disability rating to a 30 percent rating; and in no change in the remaining case.

Tubercular cases

The Schedule for Rating Disabilities, 1945 Edition, provides for the rating of all active tubercular cases as 100 percent disabling regardless of the extent of the activity. Extension 6 to the schedule adopted on December 1, 1949, pursuant to Public Law 339, Eighty-first Congress, provides for graduated reductions in the rating during the years following the date of arrest of the tubercular activity. Before the adoption of Extension 6 the rating schedule provided for similar reductions in the period following arrest of tubercular activity, but they were spaced at different intervals.

Our review of the disability ratings assigned to tubercular cases in the Washington Regional Office raised a question as to whether those cases that had been rated under the provisions of the rating schedule in effect before December 1, 1949, were being correctly rerated under the more liberal provisions of Extension 6 to the rating schedule. The raising of the question indicated a difference in opinion among adjudication personnel as to the manner in which a case should be rerated. Therefore one specific case questioned was submitted to the Central Office for consideration.

That office agreed that the case had been incorrectly rated and directed that it should be rerated and that all similar cases should be reviewed and corrective action taken. The rerating of the questioned case resulted in the veteran receiving an additional payment of $245 and in an increase in the amount of the monthly payment that will result in his receiving an additional $440. Similar adjustments were also made in 19 other cases.

Our review of the cases in the Central Office also disclosed one instance where the rating board had erroneously determined that the graduated reductions provided by Extension 6 were not applicable. The veteran was also being paid an aid and attendance allowance for a non-service-connected disability. The payment of both compensation for a service-connected disability and an aid and attendance allowance for a non-service-connected disability is precluded by VA regulations. It also developed that the aid and attendance allowance was being paid at the rate applicable to a service-connected disability. Upon our submission of the case to the rating board for review, the veteran was awarded pension benefit payments for his non-service-connected disability since such payments would exceed the amount of disability compensation payments. The failure to pr rly rate the case from date of arrest of tubercular activity resulted in an overpayment to the veteran of $3,359. The rerating of the case precluded the continuation of excessive payments of about $110 per month. These excessive payments could conceivably have continued during the remaining life of the veteran since the case was being treated as "static." In a Washington Regional Office case the graduated reduction in the

rating had not been made effective until about 13 months after the date on which it should have become effective. Compensation payments totaling $1,448 could have been avoided by proper consideration of the medical evidence contained in the claims folder.

The Schedule for Rating Disabilities, 1945 Edition, provides that a veteran who has tuberculosis and is receiving pneumothorax treatment will be rated as though he has active tuberculosis. Our review in the Washington Regional Office disclosed four cases that had not been properly rated. These cases were brought to the attention of the VA. In one case the corrective action taken resulted in an additional payment of $1,248.95 being made to the veteran and in an increase in the amount of the monthly payment that will result in his receiving an additional $565. In another case the rating was based on the commencement of pneumo treatment on February 14, 1947, and the arrest of the tubercular activity on December 3, 1951, although information in the claims folder indicated that the treatment had been commenced on November 11, 1944, and that the tubercular activity had been arrested on February 11, 1947. This incorrect rating resulted in an overpayment of $3,768. The correction of the rating precludes additional incorrect payments of $2,036 from being made. In two other cases the amendment of the ratings to conform with the prescribed rating schedule will preclude erroneous payments of $1,436 from being made.

Public Law 339, Eighty-first Congress, provides that, if a veteran fails to follow prescribed treatment or to submit to a requested physical examination, the disability rating in the 2-year

period following the date of arrest of tubercular activity may be reduced from 100 percent to 50 percent. Our discussions with rating board members and the Medical Division tuberculosis specialists indicate that the procedures for notifying the rating board of cases where the veterans failed to follow prescribed treatment or do not submit to requested physical examinations were not being followed. The Medical Division was reporting cases of this type only upon the specific request of the rating board. The Medical Division indicated their belief that no real harm had resulted from the failure to follow the procedures since most veterans do follow prescribed treatment and do submit to scheduled examinations. However, they indicated that in the future they would adhere to the prescribed procedures.

Convalescent cases

The rating schedule provides that a convalescent rating may be assigned to a veteran's disabilities for a period not to exceed 1 year. Our review of Central Office cases disclosed that a veteran had been assigned a 50 percent convalescent rating in 1945 and that he had been given a physical examination within 1 year from the assignment of the convalescent rating. However, the evaluation of the physical examination report and the assignment of a 20 percent disability rating was deferred for about 4 years. The excess compensation payments that could have been avoided by a prompt evaluation of the physical examination report amounted to $1,838.

Assignment of disability ratings or rate of compensation

The VA regulations prohibit the combination of separate ratings made under different rating schedules. We noted one case in

the Central Office where the disability rating of 50 percent represented the combination of separate ratings made under the 1925 and 1945 rating schedules. This violation of procedure was brought to the attention of the rating board, and a revised rating of 36 percent was established under the 1925 rating schedule. The error had resulted in incorrect payments having been made for 7 years totaling $2,862.

In a Washington Regional Office case the combining of separate ratings under the 1945 schedule resulted in the assignment of too low a disability percentage rating. In addition to correcting the rating, a retroactive payment of $1,503.53 to the veteran was required.

We noted also two cases in the Washington Regional Office where the payments were not based on the correct rates. Adjustments in these cases resulted in the veterans receiving additional payments totaling $292. In another case the payments had been based on wartime rates instead of peacetime rates. In two other Washington Regional Office cases incorrect disability percentage ratings had been assigned. These ratings were adjusted. In one case the total overpayments during the period when the case had been rated incorrectly amounted to $494. In the other case the correction resulted in an additional payment to the veteran of $1,350.80.

Veterans' non-service-connected disabilities

The statutes provide for the payment of a pension to a veteran who is permanently and totally disabled as a result of a non-service-connected disability provided his income does not exceed

the prescribed limitations. They provide also that a non-service-connected disability which is reasonably certain to continue throughout the life of a veteran may be classified as total if it is of a nature that would make it impossible for the average person to follow a substantially gainful occupation. The disability of a veteran who applies for a non-service-connected disability pension is rated in accordance with the disability percentage ratings prescribed in the Schedule for Rating Disabilities, 1945 Edition, used in rating service-connected disabilities. Extension 5 to the schedule provides that when a veteran attains the age of 55 his permanent disabilities may be rated as total if the disabilities are ratable under the rating schedule at 60 percent and if, in the judgment of the rating agency, he is unable to secure or follow a substantial or gainful occupation because of his disability. The requirement that the permanent disabilities must be ratable at 60 percent under the schedule is reduced to 50 percent upon the attainment of age 60 and further reduced to 10 percent upon the attainment of age 65.

The VA procedures provide for extensive criteria for determining a veteran's unemployability when his permanent disabilities are ratable at less than 100 percent. However, our review in the Washington Regional Office of pension awards made in 1953 to 24 veterans over 65 years of age whose disabilities were not rated above 30 percent indicated little evidence that consideration had been given to the prescribed criteria. These cases were reviewed with the adjudication officer. A further review of 12 of the cases was made by the Chairman of the Central Office Rating Schedule

Board. He agreed that some of the awards had been granted on rather sparse evidence. He stated that notwithstanding the prescribed criteria, it is not expected that a great deal of evidence will be accumulated in support of a finding that a veteran's unemployment is due to his disability or that he is in fact unemployable. He also stated that the rating board determinations are generally based on statements of the veteran and on physical examination reports and that it is doubtful whether many rating boards determine whether a veteran of 65 years of age or older, who is at least 10 percent disabled, is unemployable because of his disability. He further stated that most individuals are at least 10 percent disabled upon attaining age 65. Thus, most veterans upon attaining that age are treated as permanently and totally disabled and entitled to pension if otherwise eligible.

In a Central Office case a veteran's non-service-connected disabilities had been rated as total and permanent even though information in his claims folder indicated that he was employed on a full-time basis by the VA. The rating board, upon our submission of this case for reconsideration, held that the total and permanent disability rating was a clear and unmistakable error. The pension award was discontinued and a disability compensation award was granted for a lesser amount. The incorrect payments amounted to only $173. However, since the case was being treated as "static," the improper payments might well have been continued for the remainder of the veteran's life.

PHYSICAL EXAMINATIONS OF VETERANS

The VA procedures provide that when the evaluation of a veteran's disability indicates that his physical condition may improve, a Request for Physical Examination, VA Form 8-2507, will be prepared and that a future physical examination file comprised of requests for physical examinations will be maintained. They also provide that, before the date of the scheduled physical examination of a veteran, the request for his physical examination and his claims folder will be forwarded to the rating board for a redetermination of the necessity for the examination. If it is determined that the examination is to be made, the veteran is notified when and where to appear for the scheduled examination. If the examination is determined to be unnecessary, the cancellation of the scheduled examination must be authorized by the Chairman of the Rating Board.

The procedures now provide for a positive notation to be made on each case rating sheet where a future physical examination of a veteran is determined to be unnecessary because his disabilities are of such a nature that an improvement cannot be reasonably expected. The procedures in effect before August 29, 1949, did not provide for such a notation to be made on a case rating sheet. For cases rated before that date, it is therefore impossible to determine by reference to the case folders whether actual determinations had been made that physical examinations were unnecessary or whether inadvertently future physical examinations may not have been scheduled.

The VA current procedures appear to be adequate to assure that necessary future scheduled physical examinations will be made and that the physical examination reports will be evaluated in terms of the disability percentage ratings provided in the rating schedules. However, our examination disclosed variances from the prescribed procedures which result in required physical examinations not being scheduled, scheduled physical examinations not being made, and, as indicated on page 45, physical examination reports not being evaluated.

Importance of future physical examination files

The proper continued administration of all cases that have been determined not to be "static" is dependent upon the manner in which the future physical examination file and the follow-up control file over authorized examinations are maintained. Unless the prescribed procedures for the maintenance of these files are strictly adhered to, there can be no assurance that required reevaluations of veterans' disabilities will be made. In the Central Office we noted two cases where future physical examinations had been determined to be necessary but the Requests for Physical Examinations had not been included in the future physical examination file. This was brought to the attention of the VA and the necessary change was made in the file to assure the future consideration of the cases.

At the time of our examination, the Central Office was not maintaining future physical examination files in accordance with the prescribed procedures. A review of a physical examination file maintained by the Central Disability Rating Board disclosed

that no action had been taken in connection with 748 physical examinations that had been scheduled to be made during the period from July 1951 to July 31, 1953. A review by the VA of 144 of these cases which had been scheduled for physical examinations between July 1951 and February 28, 1953, disclosed that the continued administration over 71 of the cases had been transferred to regional offices without the required change having been made in the file. No reasons were advanced as to why the remaining 73 cases had not received consideration. This matter was brought to the attention of the VA, and the necessary changes have been made in the practices to bring them into conformity with prescribed procedures. The Chairman of the Central Disability Rating Board indicated that a review would be made of all cases where the file indicates that required examinations had not been made to determine the required corrective action.

Notation on case rating sheet of "static" status

Our examination disclosed 65 cases in the Washington Regional Office and 53 cases in the Central Office that had been rated since August 29, 1949, where future physical examinations had not been scheduled although there was no indication on the case rating sheets that the nonscheduling of the examinations was based on a determination that they were unnecessary. We submitted 45 cases where there was no positive indication that future physical examinations were unnecessary to the rating board for review on the ground that there seemed to be a likelihood of improvement in the physical condition of the veterans. In 20 of the 45 cases the

rating board decided that an improvement in the physical condition of the veterans could reasonably be expected. They, therefore, scheduled physical examinations to be made immediately in 17 cases and at a future date in three cases. The physical examinations that were made resulted in a reduction in the compensation awards in two cases and the discontinuance of awards in two cases that were being treated as "static."

Cancellation of scheduled examinations

In the Washington Regional Office we noted 120 cases where scheduled physical examinations had not been made although the cancellation of the examinations had not been authorized in accordance with prescribed procedures. We were informed that the scheduled examinations had been canceled during 1950 and 1951 when a general review of cases was made to ascertain whether the necessity for physical reexaminations was being determined in accordance with prescribed criteria so that unnecessary physical examinations would not be made.

We noted also 33 cases in the Central Office where the scheduled physical examinations had not been made although a cancellation of the examinations had not been authorized. These cases were brought to the attention of the VA. Nineteen of the cases were scheduled for immediate physical examinations and 10 for examinations at a future date. The physical examinations that were made resulted in increases in awards in two cases, reduction in awards in four cases, and the discontinuance of awards in two cases. In another case the award was discontinued because the veteran failed to cooperate by not appearing for the scheduled

examination. It is quite possible that compensation payments of about $1,600 would have been avoided in seven of these cases which were being treated as "static" if examinations had been made and evaluated when originally scheduled.

Case administration assumed by Central Office

The procedures provide that when the Central Office assumes jurisdiction over the administration of a case previously administered by a regional office it will be reviewed to ascertain whether a determination had been made that a future physical examination was unnecessary or, if necessary, whether the scheduling of the examination was evidenced by a Request for Physical Examination. If there is no indication that a determination had been made by the regional office, it must be made by the Central Office Rating Board.

Our examination in the Central Office disclosed that these reviews are not always made in a manner that will assure the proper continued administration of the cases. In 17 cases future physical examinations that had been scheduled by the regional offices before the administration of the cases was transferred to the Central Office were never made by that office. The fact that they had not been made was unknown. These cases were brought to the attention of the VA and immediate physical examinations were scheduled. The examinations resulted in an increase in the award in one case, reduction in awards in four cases, and discontinuance of the awards in four cases. In an additional case the award was discontinued because the veteran failed to cooperate by not

appearing for the scheduled physical examinations. The compensation payments during the period when these cases were treated as "static" without physical examinations having been made amounted to $8,016.

In seven cases where the continued administration was assumed by the Central Office, determinations as to whether physical examinations were necessary had not been made by the Central Office Rating Board even though determinations had not been made before the cases were transferred to the Central Office. These cases were brought to the attention of the VA. Physical examinations were scheduled to be made immediately in four cases and at a future date in one case. The immediate examinations resulted in reductions in awards in two cases and a discontinuance of the award in one case. Payments during the period when they had been treated as "static" amounted to $6,093.

At the time of our examination, we were informed that the Central Office Rating Board was reviewing all cases received from regional offices on which benefit payments are currently being made to determine whether future physical examinations are necessary. However, there is no definite assurance under the current practices that Requests for Physical Examinations scheduled by regional offices before the cases were transferred to the Central Office have been received and are included in the future physical examination file.

Examination of veterans initially rated on the basis of service department medical reports

The VA regulations and procedures provide that a disability percentage rating assigned to a veteran's disabilities on the

basis of an evaluation of service department reports will be only a temporary rating and that every veteran awarded compensation or pension benefits on that basis must be later examined by the VA. In some instances the physical examinations must be made within 1 year of the veteran's discharge, in other cases within 6 months.

Our examination disclosed 12 cases in the Washington Regional Office, of which nine were Korean Conflict cases, where the required physical examinations of the veterans had not been made within the prescribed periods although examinations had been scheduled to be made at some future date. This departure from the prescribed regulations was brought to the attention of the VA. As a result, the veterans were given physical examinations. These examinations indicated that in three cases the veterans had no existing disabilities and the awards were discontinued. The benefit payments that had been made after the time when the examinations should have been made amounted to $567. Additional improper payments that would have been made up to the time of the later scheduled examinations would have amounted to $1,595. In another case the physical examination resulted in the assignment of a higher disability rating with a corresponding increase in the amount of the compensation benefit payments. In an additional case the continued administration of the case was transferred to another VA regional office before an evaluation of the new physical examination had been made. The VA also determined that physical examinations had not been scheduled in 22 other Korean cases. We noted also a case in the Washington Regional Office where a veteran had

been awarded a pension for a non-service-connected disability without having been given a physical examination. This case was also brought to the attention of the VA and, as a result of a physical examination of the veteran in 1953, the award was discontinued. There is a very strong indication that, if the veteran had been examined in 1948, pension payments of about $3,400 could have been avoided.

Our examination in the Central Office disclosed also 10 cases where the required physical examinations of the veterans had not been made within the prescribed periods. The VA arranged for the examination of the veterans. The examinations resulted in the continuation of the temporary rating in nine cases. One award was discontinued because the veteran failed to cooperate by not appearing for the scheduled physical examination. The compensation payments made in this case during the period when prescribed procedures had not been followed amounted to $922. We noted also another case where the reexamination of a veteran was scheduled to be made at a date beyond the time prescribed by the regulations. This case was brought to the attention of the VA. An immediate examination was scheduled and resulted in the discontinuance of the award and the avoidance of the monthly payments which would have been made up to the date of the incorrectly scheduled examination.

Failure of veterans to report for scheduled physical examination

The regulations provide that the award of benefits to a veteran will be discontinued if he fails to report for a scheduled physical examination. In a Washington Regional Office case a

veteran had not reported for a physical examination in September 1949. Although the required notation of "failure to cooperate" had been made on the case documents, the compensation payments were still being made in 1953. Upon bringing this case to the attention of the VA, a physical examination was scheduled for February 19, 1953. Upon the failure of the veteran to report for the scheduled physical examination, the compensation payments were discontinued. The payments made from September 1949, when the veteran first failed to report for a physical examination, to the date the award was discontinued amounted to $605.

PAYMENT OF PENSION TO VETERANS AND DEPENDENTS OF DECEASED VETERANS WHOSE ANNUAL INCOME EXCEEDS THE PRESCRIBED LIMITATIONS

Our review disclosed instances where persons have been paid pensions even though their annual income exceeded the prescribed income limitations. This results primarily from the requirement that the monthly pension be paid to a pensioner throughout a year provided his income for that year does not exceed the prescribed income limitation. This necessitates making monthly payments to a pensioner before he has definite knowledge that his actual income will exceed the income limitation. Therefore, the VA procedures provide that pensions will be paid on the basis of pensioners' estimates of their anticipated income for the year. Entitlement of each pensioner to continue to receive a pension is determined at the beginning of each year based on an "income questionnaire" required to be submitted by him showing information relating to his anticipated income for the year, his actual income for the preceding year, and his marital status. Excess pension payments resulted also from (1) certain weaknesses in the regulations, (2) deficiencies in the form of the income questionnaire, (3) absence of procedures for verifying the income information reported by pensioners to the extent possible by reference to related information in the claims folders, and (4) improper reporting of income by pensioners.

Weakness in regulations

The VA regulations provide that the payment of pension will be deferred until the end of the year when there is reason to believe that the pensioner's actual income will exceed the prescribed

limitation. We were informed, however, that in actual practice the payment of pension would be deferred under this regulation only when a pensioner's income questionnaires for several years indicated that he had consistently reported anticipated annual income in an amount less than the prescribed limitation when his income actually exceeded the limitation. At the time of our examination the regulations did not require pensioners to immediately notify the VA of changes in their circumstances which result in an increase in the amount of anticipated income previously reported nor did the regulations make provision for the recovery of payments made to a pensioner during a year in which his income exceeded the prescribed limitation.

The fact that pension payments were being made to veterans when their income exceeded the prescribed limitations and that no consideration was being given to recovery of the excess payments was brought to the attention of the Administrator of Veterans Affairs by the Comptroller General on November 25, 1953 (B-116692). The Administrator advised the Comptroller General on April 7, 1954, that the matter was receiving careful study. On July 22, 1954, a new regulation was promulgated which requires a pensioner to immediately notify the VA when a change in his circumstances indicates that his income will exceed the income limitation. It provides that, in the event a pensioner fails to promptly notify the VA, all payments made during the year in which it is later determined that the pensioner's income exceeded the prescribed limitation will be treated as improper payments and will be subject to recovery. It also provides that, if a pensioner promptly notifies the VA, the

payment of the pension will be discontinued as of the end of the month preceding the date of notification and that any payments that have been made will not be treated as overpayments and subject to recovery. We believe, however, that these payments should also be treated as overpayments subject to recovery.

An examination, in the Washington offices, of the income questionnaires of the persons whose pensions were discontinued for 1954 because they had reported anticipated income in excess of the prescribed limitations disclosed that 49 reported also that their actual income for 1953 had exceeded the limitations. It is estimated that these 49 pensioners were paid $17,350 more than they would have received in 1953 under the foregoing regulation. On the assumption that the same situation prevailed in other VA offices, it is estimated that pension payments in 1953 were about $2,800,000 more than they would have been if the new regulation had been in effect. This estimate would be greater if consideration were given to amounts paid in 1953 to persons whose income exceeded the limitations but who reported anticipated income for 1954 below the limitations.

As previously indicated, the annual determination of a pensioner's continued entitlement to receive pension is based on an income questionnaire which he is required to submit at the beginning of each year. When the annual determination indicates that a person is not entitled to continue to receive pension, the date on which the payment is discontinued is within a range of from 1 to 3 months after the beginning of the year because of the time required to obtain the income questionnaire, to make the

determination, and to process the stop-payment action. The monthly payments made from the beginning of the year to the effective date of the discontinuance of the payments are not, even under the new regulation, treated as overpayments subject to recovery. We believe that the pensioners are not entitled to these payments and recommend that they be made subject to recovery.

Form of income questionnaire

Our review of the form of the annual income questionnaire required to be submitted to the VA by a person receiving a pension caused us to believe that it did not adequately provide for the reporting of all information essential to a proper determination of his continued entitlement to receive pension. The shortcomings in the form of the income questionnaire were discussed with the VA. As a result of our recommendations, a revised form of income questionnaire was adopted. The revised form provides for a more detailed reporting of income which must be considered in determining continued entitlement to pension, specifically such items of income as retirement and social security benefits, and contains instructions essential for proper reporting. The revised form provides also for reporting social security number and information relating to the filing of Federal income tax returns which may be helpful in verifying reported income.

The revised form of income questionnaire was first used in making the 1954 determinations of veterans' continued entitlement to pension. During the period when most determinations are made, they resulted in payments being discontinued to about 2,200 more persons than during the same period in the preceding year. We

believe that the use of the revised form of income questionnaire enables the VA to make better determinations of veterans' continued entitlement to pension.

Weaknesses in determining continued entitlement to pension

Our examination of claims folders of persons receiving pensions indicates some laxity in determining a pensioner's entitlement or continued entitlement to pension. It disclosed instances where the determinations of continued entitlement to pension were not based on a consideration of all available information relating to income. We, therefore, recommend that consideration be given (1) to adopting procedures providing that the annual determinations of a pensioner's continued entitlement to pension be based not solely on the income questionnaire submitted but also upon consideration of all information contained in the claims folder relating to sources and amount of income and family status and (2) to verifying, at least on a test or sampling basis, the income reported by pensioners.

In one Washington Regional Office case a pension had been awarded to a married veteran in 1950. Payment of the pension was continued through 1953 although the income questionnaires submitted by the veteran for 1952 and 1953 did not fully disclose the source or the amount of his income. An investigation by the General Accounting Office indicated that the veteran was receiving civil service retirement benefits and that he and his wife jointly enjoyed an annual income of about ten times the prescribed income limitation. The case was brought to the attention of the VA.

Their investigation confirmed our findings, and the award was discontinued on June 30, 1953. The improper payments amounted to $2,110 which is being repaid in installments by the veteran. The VA is considering the case to determine whether the veteran's failure to properly report his income warrants a forefeiture of his rights under the benefit laws. In another case reference to the claims folder would have disclosed that a retired VA employee had not given proper consideration to civil service retirement benefits in submitting income information. Upon our submitting this case for review, the VA determined that the veteran was not entitled to pension and the award was discontinued. The improper payments amounted to $2,738. Awards were discontinued in two additional cases upon a reevaluation of data in the claims folders. In one of these two cases the overpayment has been recovered.

Our examination disclosed also four cases in the Washington Regional Office and one case in the Central Office where veterans were being paid pensions on the basis of their income questionnaires which indicated that their anticipated income was less than the prescribed limitation for a married veteran. However, the claims folders relating to three of the Washington Regional Office cases contained no evidence indicating that the veterans' marital status had been established as required by the VA regulations. In the fourth case the VA ruled that under the regulations the veteran was to be regarded as unmarried and the award was discontinued. The failure to establish the veteran's marital status resulted in an erroneous payment of pension of $3,465. In the Central Office case reference to the claims folder would have

indicated that the veteran was unmarried. Payments of $1,096, made on the basis of his income questionnaire and to which he was not entitled, could have been avoided.

We noted that many income questionnaires submitted by persons receiving pensions did not contain information essential for determining continued entitlement to pensions. However, the payments were continued although there is no indication that the necessary information had been requested or obtained.

We noted also 20 cases in the Washington Regional Office and 20 cases in the Central Office where the claims folders did not contain the required income questionnaires for one or more years. The regional office was unable to definitely establish whether they had been received and misfiled or whether the required annual determinations of continued entitlement to pension had been made. Consideration has been given to adopting procedures to provide for more effective control. In all but two of the Central Office cases it was possible to establish entitlement to pension in the years for which income questionnaires were not available by reference to questionnaires for later years. In these two cases the VA required the veterans to submit income questionnaires for 1953. In one case the pension award was discontinued.

Increase in rate of pension

The statute provides for the rate of monthly pension to a veteran to be increased upon his attaining age 65 or when a pension has been paid continuously for 10 years. Our examination in the Washington Regional Office disclosed four cases where the increase in the rate of payment had not been scheduled to become effective

in accordance with prescribed procedures. Action has been taken by the VA to assure that the changes in rate of payment will be made at the proper dates.

COMPENSATION TO DEPENDENTS OF DECEASED VETERANS AND INCREASED COMPENSATION TO VETERANS FOR DEPENDENTS

The law provides that an unremarried widow, minor children, and dependent parents of a veteran who died as a result of a service-connected disability are entitled to monthly compensation benefits and that a veteran receiving compensation for disabilities rated at 50 percent or more is entitled to additional compensation if he has a wife or minor children or has parents dependent upon him for support.

Dependent parents

The law originally required a determination of the dependency of parents receiving compensation benefits to be made annually. However, this requirement was changed by Public Law 844, Seventy-fourth Congress, approved June 29, 1936 (38 U.S.C. 472a), which authorized the Administrator of Veterans Affairs to require submission of proof of dependency whenever he deemed it necessary. During the course of our examination, we suggested to the Administrator that it would be advisable to make a current determination of the dependency of parents of deceased World War II veterans who were receiving compensation payments because no dependency redeterminations had been made since the awards had been granted and that the result might indicate how frequently thereafter such determinations should be made. This suggestion resulted in the VA making a determination of the current dependency status of parents of deceased World War II veterans and also of parents of living veterans. The determination of the dependency status of parents of deceased World War II veterans resulted in awards being discontinued in 13,900 cases, about 6 percent of the number of

parents receiving compensation payments, with a reduction in annual compensation payments of about $7,700,000. The determination of the dependency status of parents of living veterans of World War II, of living veterans of the regular establishment discharged after December 1946, and of living veterans of the Korean Conflict who had been awarded additional compensation for dependent parents resulted in the allowances being discontinued to 3,575 veterans, about 15 percent of the total number of veterans receiving the allowances, with an annual reduction in compensation payments of about $770,000. We believe that the results of these two determinations indicate the desirability of establishing the practice of making regular periodic redeterminations of the continued dependency status of parents of both deceased and living veterans.

The VA regulations provide that parents of a veteran will be held to be dependent if their income is insufficient to provide reasonable maintenance for themselves and certain members of their family. They provide also that reasonable maintenance includes not only housing, food, clothing, and medical care sufficient to sustain life, but such items beyond the bare necessities as well as other requirements reasonably necessary to provide those conveniences and comforts of life suitable to and consistent with their reasonable mode of life. The regulations further provide that parents shall be considered prima facie dependent when their income does not exceed certain prescribed amounts.

The regulations provide that receipts of the following types will be disregarded in determining a parent's dependency:

1. Proceeds of insurance settlements under the War Risk Insurance Act, the World War Veterans Act, or the National Service Life Insurance Act.

2. Pension or compensation under laws administered by the VA.

3. Benefits under the World War Adjusted Compensation Act or the Adjusted Compensation Payment Act.

4. Service Department's 6-months gratuity pay.

5. Payments under the Mustering Out Payment Act, 1944.

6. Servicemen's indemnity under Public Law 23, Eighty-second Congress.

7. Annuities under the Uniformed Services Contingency Option Act, 1953.

8. Donations or assistance from charitable sources.

We have been informed that the Administration is currently considering the propriety of its regulations which provide for disregarding receipts of the foregoing types in determining the dependency of a parent. We believe that parents should be considered to be dependent only if they are unable to provide for themselves and that a determination of a parent's dependency requires consideration of his net worth and all of his income and receipts regardless of the source. Although the regulations indicate that a parent's net worth has a bearing on his dependency status, the extent of the consideration to be given to net worth appears to be left entirely to the judgment of the adjudicators. We believe that sound and consistent determinations of parents' dependency cannot be attained in the absence of sound criteria for considering net worth.

The VA procedures do not require that the individual claims folders contain a record indicating the consideration given by

the adjudicators to income and net worth in making either initial determinations or redeterminations of the dependency status of parents. We believe that it would be desirable for the procedures to require that these determinations be reduced to writing and retained in the claims folders.

The regulations provide that an award of additional compensation allowance to a veteran who has dependent parents is contingent only upon the establishment of the parent's dependency, that is, insufficient income to provide for reasonable maintenance. We believe that the law requires and that the regulations should provide that the continued payment of an additional compensation allowance to a veteran for a dependent parent be contingent on his contributing to their support. A limited investigation in a midwestern section of the country by the Office of Investigations, General Accounting Office, disclosed instances where the additional allowances were being paid to veterans who were not contributing to the support of their parents or whose parents had died. The dependency determinations by the VA also disclosed that in about 250 cases the veterans had failed to notify the VA of the death of their dependent parents. The VA has indicated that consideration is being given to making a survey at some future date to ascertain the entire family status of veterans.

Other dependency awards

Our examination disclosed 15 cases where other dependency benefits either had not been awarded or had been awarded incorrectly. In the Washington Regional Office additional allowances had not been awarded to two veterans for minor children. The

making of these awards resulted in retroactive payments of $850. In the Central Office adjustments were made in nine cases. In four cases they involved retroactive payments of $4,748; current payments were increased in two of the cases. In four cases the benefit payments had been improperly awarded or had been commenced or terminated at incorrect dates which resulted in overpayments of $2,979; current payments were reduced in one case. Consideration of three other cases had been deferred until further evidentiary data could be obtained.

## COMMENCEMENT, ADJUSTMENT, AND TERMINATION OF BENEFIT PAYMENTS

### Commencement of and adjustment of benefit payments

The VA regulations provide that an award to a veteran of compensation benefits relating to the same disability as that of a previously disallowed claim will be commenced as of the date of submission of evidence that a compensable disability actually exists. In one Central Office case a veteran had been given two physical examinations. The first physical examination did not indicate the existence of a disability of compensable degree; the second examination did. However, the award was made effective as of the date of the first physical examination instead of the date of the second examination. This failure to follow the prescribed regulation resulted in an overpayment of $140.

The VA regulations provide also that the effective date of an increased award due to an amendment to the rating schedule, which is applied on the initiative of the VA, is the date of the administrative determination to increase the award. However, in a Central Office case, the increase in the award was made effective as of the date of promulgation of the amendment to the rating schedule. The failure to make the increased award in accordance with the prescribed regulation resulted in an excess payment of $530.

### Benefits to dependents of deceased Filipino veterans

Public Law 419, Seventy-eighth Congress, approved September 7, 1944 (38 U.S.C. 733), provides that the effective date of an award of death compensation or pension is the day following the date of a serviceman's death as established by the service department in

its report or finding of death provided the claim for the benefits is filed within a year after the date of the report or the finding. The law provides also that benefits are not payable for any period during which the dependent has received or is entitled to receive all or a portion of the service pay of the deceased serviceman.

Our examination in the Central Office disclosed 218 cases where the payment of benefits awarded to 284 dependents of Filipino servicemen had not commenced as of the effective date provided in Public Law 419. In the case of 257 claims, the benefit payments were commenced as of the date on which the claims had been filed in accordance with other provisions of law. In the case of 22 claims, the payments were commenced on the day following the date on which the veterans' service records were furnished by the service departments. In the case of the remaining five claims, there appeared to be no basis for the date on which the payments were commenced. An adjustment has been made of 25 awards to make them effective as of the date on which the claims had been filed or the date on which dependency was established. The retroactive payments amounted to $15,114. An adjustment of the remaining two claims was deferred until additional evidence could be obtained.

We were informed by the VA that the payment of benefits had not been made effective as of the day following the dates of the servicemen's death as shown in the reports furnished by the service department because of the belief that the reports did not indicate the correct dates on which the reports or findings of death had been made and that to rely upon the information furnished

might result in improper retroactive payments. However, many of the foregoing unadjusted claims were filed within a year after October 1, 1944, when the Armed Forces re-entered the Philippines, and it is extremely unlikely that the service departments had taken any action to establish the dates of death of deceased Filipino veterans before that date. Therefore, it would appear that a dependent of a deceased Filipino veteran who filed a claim within a year after October 1944, which is otherwise proper, would be entitled to retroactive benefit payments even though there may be some doubt as to the correctness of the date of the report or finding of death that was furnished by the service department.

We have been informed that in March 1954 the service department agreed to furnish reports to the VA which will definitely indicate when the report or finding of a serviceman's death was made. We have also been informed that the VA is considering the action to be taken in respect to the adjustment of the awards to dependents of deceased Filipino veterans authorized by Public Law 419. The VA instructions provide that a "diary file" will be maintained of all cases requiring adjudication action under this law. However, our examination disclosed that the diary file is incomplete, and it appears that the number of cases requiring adjustment will be determined only by a review of all Philippine cases.

Public Law 195, Eighty-first Congress, approved August 1, 1949 (38 U.S.C. 744), provides that a claimant who, at the time of its enactment, had been receiving compensation or pension benefits because of the disability or death of a veteran and who had been prevented by conditions of war from filing the claim within the

prescribed period in order for the benefits to become effective as of the incurrence of the disability or death may, within one year after the date of enactment of the act, file a claim for a retroactive adjustment of the award to the date of the veteran's discharge from the service, incurrence of the disability, or death. Our examination in the Central Office disclosed 53 cases of claims by dependents of deceased Filipino veterans for an adjustment of death compensation benefit payments retroactively to the established dates of the veterans' death on which no adjudication action had been taken. These cases were brought to the attention of the VA. In 39 cases the prescribed adjustments were made. The retroactive payments amounted to $12,218. In 11 cases the adjustments were deferred until certain additional evidence could be obtained, and in three cases the adjustments were not required because the claimants had died. A record has not been maintained to show the number of other claims of this nature that have not been adjudicated.

Our examination in the Central Office also disclosed 12 Filipino cases where the awards had not been made effective as of the date prescribed in the VA regulations. In seven cases the benefit payments were commenced on the day following the date on which the veterans' service records were furnished by the service department. In another case there appeared to be no basis for the date on which the payments were commenced. These eight cases were brought to the attention of the VA, and the required adjustments were made. They resulted in additional payments of $3,238 being made to the dependents of deceased veterans. In the four remaining

cases the payments to the dependents were commenced before the date of the veterans' death or before the end of the period during which they were receiving or were entitled to receive the service pay of the deceased veterans. The VA is taking action to recover the overpayments totaling $1,205.

Reduction in or termination of benefit payments

The VA regulations provide that the reduction in or discontinuance of an award of pension or compensation benefits because of a change in a veteran's disability will become effective at the end of the month in which a 60-day grace period following the date of the award action expires. The current statutes do not specifically authorize the postponement of the effective date of discontinuing or reducing an award. However, the practice is in conformity with that authorized by a section of the World War Veterans Act, 1924, which section was repealed in 1933. The grace period was provided in order to allow a veteran a period in which to contest the propriety of reducing or discontinuing his award before it actually became effective.

The VA estimated that the immediate reduction or discontinuance of benefit payments on the awards that were reduced or discontinued during the year ended April 30, 1954, would have resulted in a decrease of about 4 million dollars in the total benefit payments. We believe that award actions reducing or discontinuing benefit payments could be made effective promptly and, if modified as a result of being contested and reconsidered, the modification could be made effective retroactively to the date on

which the award action was initially taken. This would not deprive a veteran of any benefit payments to which it is finally determined he is entitled.

The procedures provide that when the termination date of an award is known at the time the award is made it shall be shown on the award card and that the card will be verified after being prepared. The award card serves as authority to the Finance Division to make the benefit payments. Where a termination date of an award is not shown on the award card, the payments will be continued indefinitely. Our review disclosed one case in the Washington Regional Office where the termination date had been omitted from the award card and payments had been improperly made for 6 years. This case was brought to the attention of the VA, and the payments were discontinued in January 1953. The erroneous payments of $2,179 were established as an overpayment subject to recovery. The veteran's request for waiver of recovery of the overpayment was denied by the Central Office Committee on Waivers. The denial was affirmed by the Board of Veterans Appeals. In a similar case the benefit payments had not been discontinued until the veteran notified the VA that he was not entitled to receive them.

Suspension of benefit payments to veterans upon their re-entry into service

The VA regulations provide that compensation payments may not be paid to a veteran who is receiving active service pay and that upon a veteran's re-entry into active service the benefit payments are to be suspended as of the date preceding his re-entry into service or, if the date of re-entry into service is not known, as of the date of the last payment subject to future recovery of any excess payments. We noted a case in the Central Office where compensation payments had not been suspended for almost 3 months after it was known that the veteran had re-entered the service and where the date of re-entry had not been determined 22 months later. This case was brought to the attention of the VA. An overpayment was established, and effort is being made to effect collection.

Compensation payments to hospitalized veterans

The VA regulations require that disability compensation payments to a veteran be reduced by the amount included for aid and attendance during a period when he is in a VA hospital. We noted one case in the Washington Regional Office where the required adjustment had not been made. This resulted in an overpayment of $208 which has been recognized by the VA and collected.

The rating schedule provides that compensation payments to a veteran for certain disabilities will be computed on the basis of a 100 percent disability rating for any period in excess of 21 days during which he is hospitalized. The increased compensation payments are made effective on the 22d day of hospitalization. They are required to be adjusted on the day following his discharge

from the hospital. The procedures provide that the adjudication division will authorize the adjustment in the compensation payment to the veteran upon the receipt of a notification from the hospital that he has been discharged. However, at the time of our review, the procedure did not provide for the necessary follow-up to definitely ascertain that notifications were being promptly submitted, or even submitted at all, by the hospitals to the adjudication division and that timely reductions in compensation payments were being made.

Our examination in the Washington Regional Office disclosed two cases where the weaknesses in the procedures resulted in excessive compensation payments. These cases have been brought to the attention of the VA, and certain measures have been taken to provide greater assurance that the necessary reductions will be made properly and timely. In one case the veteran was discharged from the hospital on October 5, 1948. However, the notification of the veteran's discharge from the hospital was not received in the Adjudication Division until October 13, 1949, over a year after the date of his discharge. And even in January 1953, when we reviewed the case, the amount of the monthly compensation payment had not been reduced from a rating based on a 100 percent disability. We brought the case to the attention of the VA. As a result, the monthly compensation payment was reduced from a rating based on a 100 percent disability to the rating in effect before he entered the hospital. On June 30, 1953, following a physical examination of the veteran, the award was discontinued. The payments for the period October 6, 1948, the date following the

veteran's discharge from the hospital, to the date of discontinuing the award amounted to $7,924. Of this amount the VA regarded $6,234.20 as an excess payment that resulted from the failure to reduce the monthly compensation payments upon the veteran's discharge from the hospital to an amount based on the disability rating of 20 percent in effect at the time he entered the hospital. Recovery from the veteran of all but $31.50 of the amount recognized as an overpayment was waived by the Central Office Committee on Waivers. (See p. 89.)

In the second case the veteran's compensation payments were based on a 10 percent disability when he entered the hospital on March 3, 1949. On March 24, 1949, they were increased to an amount based on a 100 percent disability rating. The notification of the veteran's discharge from the hospital on May 13, 1949, was received in the Adjudication Division on May 17, 1949. But in January 1953 the compensation payments were still being made on the basis of a 100 percent disability rating. Upon bringing this case to the attention of the VA, the compensation payments were suspended pending a physical examination of the veteran and a complete review of the hospital report on his hospitalization. On February 1, 1953, the veteran's physical condition was rerated as being 10 percent disabling. The excess payment from the date of the veteran's discharge from the hospital to February 1, 1953, amounted to $6,098. The entire amount was then established by the VA as an overpayment. The veteran requested a waiver of recovery of the overpayment which was denied by the Central Office Committee on Waivers. The decision was appealed by the veteran to the

Board of Veterans Appeals on September 25, 1953. On June 30, 1954, the Board of Veterans Appeals referred the case to the Deputy Administrator for Veterans Benefits for consideration of the propriety of establishing the overpayment. On February 7, 1955, the Deputy Administrator ruled that an overpayment should not have been established inasmuch as the award payments could not be discontinued retroactively under the statute in the absence of fraud. A further review of the case by the rating board resulted in the award being discontinued on the ground that the veteran's disability existed before his entrance into military service.

JURISDICTION OVER CASES AND PAYMENT OF BENEFITS

The VA procedures provide that benefit payments will be made and award account cards maintained by the office having administrative jurisdiction over the cases. An exception is compensation and pension benefits payable to dependents of deceased veterans who reside in the Philippines. In these cases the award adjudications are made in the Central Office (now the Veterans Benefits Office), and the payments are made by the Manila Regional Office.

Our examination in the Central Office disclosed instances where the prescribed procedures had not been followed. Payments in 33 cases were being made by the Central Office although the administration of the cases and the related claims folders had been transferred to field offices. In two of these cases the failure to transfer the payment function and payment records to the field offices resulted in overpayments totaling $2,804. We also noted 65 cases that had not been decentralized to field offices in accordance with the VA procedures relating to jurisdiction over

cases. These cases were brought to the attention of the VA, and corrective action has been taken.

The failure of the Central Office to transfer all functions relating to the administration of a case to a field office indicates also that prescribed procedures are not being followed in the field office. In each of the two cases where there were overpayments, the field office could not have made the required changes in the award payments and the payment records and either did not establish statistical cards or did not properly reconcile the statistical and award account cards.

## ERRONEOUS BENEFIT PAYMENTS

The VA policy provides that erroneous benefit payments will be discontinued retroactively where there is no legal basis whatsoever for the award and that other benefit payments, to the extent they are erroneous, may be discontinued as of the date of the last payment where the payment was based on either an erroneous action or an erroneous or improper application of the law or administrative instruction. Erroneous payments which are discontinued retroactively are regarded as overpayments subject to recovery from the payees. We believe that the VA policy for determining when an erroneous payment constitutes an overpayment is consistent with the statute. The statutes also provide that recovery of compensation and pension overpayments from a payee may be waived when the payee is not at fault and when in the judgment of the Administrator recovery would defeat the purpose of benefits otherwise authorized or would be against equity and good conscience. However, the laws authorizing assistance to certain disabled veterans in acquiring automobiles makes no provision for waiver of recovery of erroneous payments. The authority to consider a payee's request for waiver of recovery of an overpayment and to grant a waiver has been delegated to committees on waivers.

The VA instructions provide that adjudication personnel at the time of discontinuing or reducing an award will determine whether any erroneous payments were made and whether they are to be treated as overpayments recoverable from the payees. We questioned the practice of allowing adjudication personnel to determine whether or not erroneous payments are overpayments subject to

recovery since it permits the same personnel who make awards that result in erroneous payments to determine that no effort should be made to effect recovery. The Administrator stated that where an erroneous payment results from an erroneous action or an erroneous or improper application of the law or administrative instruction, and where the payee is not at fault, it would be inequitable to require recovery and that to treat such an erroneous payment as an overpayment to be acted upon especially to grant a waiver of recovery would involve unnecessary administrative expense. However, under the present practice, there is no assurance that recovery of an overpayment may not be automatically waived even where the payee is at fault. We, therefore, recommend that consideration be given to establishing a reporting and review procedure as a control device. Under such a procedure management would be apprised of all erroneous payments and could determine the propriety of the treatment accorded them and the need for measures to minimize erroneous payments.

Our examination indicated that adjudication personnel does not fully understand the policy regarding erroneous benefit payments and that a possibility exists that some erroneous payments may not be given proper consideration. The lack of full understanding of the policy was evidenced by the adjudication personnel's consideration of the erroneous payments disclosed by our examination. Of the erroneous payments in 42 cases totaling $67,638 (see p. 27), only $9,726 in 14 cases was at first considered to be overpayments subject to recovery. A discussion of other cases with

adjudication personnel resulted in an additional $14,440 in five cases being treated as recoverable overpayments. As indicated in the following paragraph, the Deputy Administrator for Veterans Benefits later ruled that the erroneous payments in one case should not have been treated as a recoverable overpayment. We, therefore, recommend that the VA give consideration to developing and adopting a single instructional directive setting forth the policy for consideration of erroneous payments. We believe that such a directive would tend to assure that proper and consistent consideration is given to erroneous payments.

Of the erroneous payments totaling $24,166 established as overpayments subject to recovery, the Central Office Committee on Waivers granted a waiver of recovery of an overpayment of $6,203 from one payee and denied a waiver of recovery of an overpayment of $2,113 from one payee and of $6,098 from another payee; the action in the latter case resulted in the Deputy Administrator for Veterans Benefits ruling that the overpayment should not have been established.

It appears that the policy providing for recognition of erroneous payments as overpayments subject to recovery precludes many erroneous payments from being regarded as overpayments since they result more frequently from some incorrect action taken or failure to take some required action on awards after they have been granted rather than from the improper granting of the awards. It permits erroneous payments to be disregarded even where the payees are not

without fault in accepting the payments as illustrated by the following comments on two of the cases referred to in the preceding paragraph and also commented on on pages 82 and 83.

In these two cases overpayments were established even though there appeared to be a legal basis for the original awards of disability compensation benefits and for the subsequent increases in rates of payment during periods while the veterans were hospitalized. However, the administrative failure to reduce the rates of payment upon the discharge of the veterans from the hospitals to disability ratings based on evaluations of their physical conditions at that time resulted in erroneous payments of about $12,300. In one case the Committee on Waivers granted the veteran a waiver of recovery of the overpayment on the ground that he was not at fault in accepting the compensation payments at the increased rate after his discharge from the hospital because the letter notifying him of the increase in the rate of payment did not clearly indicate that it would be subject to reduction upon his discharge from the hospital. As indicated in our discussion of this case on page 82, there is a strong possibility that, had an evaluation of the veteran's physical condition been made at the time of his discharge from the hospital, the compensation payments would then have been terminated. It would appear that the veteran must have been aware that his physical condition had not worsened as a result of being in the hospital and that he, therefore, could not be found to be free of fault in accepting the payments at the increased rate after his discharge from the hospital. However, it

would appear also that, even if a waiver of recovery had not been granted, the Administration could have ruled that the erroneous payments should not have been treated as overpayments subject to recovery on the ground that a legal basis existed for granting the original award.

In the second case the Committee on Waivers denied the veteran a waiver of recovery on the ground that he was not without fault in accepting the payments. The veteran appealed the committee's decision to the Board of Veterans Appeals. The Board referred the case to the Deputy Administrator for Veterans Benefits for a determination of the propriety of establishing the erroneous payments as an overpayment subject to recovery. The Deputy Administrator ruled that the erroneous payments should not have been established as an overpayment inasmuch as the award payments could not be discontinued retroactively in the absence of fraud.

## DISBURSING BENEFIT PAYMENTS

Our review of payments relating to the cases examined in the Administration's two Washington offices indicated that they were processed with a high degree of accuracy. It disclosed errors in payments in only seven instances; the errors amounting to $280. In two other instances errors were made in the processing of adjustments that were made in benefit payments as a result of our case examination. In one case an incorrect computation of the adjustment resulted in an underpayment to the veteran of $1,012.84; this amount was later disbursed. In the other case an adjudication action terminating an award that previously had been suspended was improperly treated as a reinstatement of the award. Erroneous payments amounted to $425.25 before the error came to the attention of the VA as a result of a letter from the veteran.

The attainment of the high degree of accuracy in processing benefit payments under the present system is largely dependent on the integrity and competence of individual employees. However, we believe that assurance of the propriety of the benefit payments should be attained to a greater degree through accounting and procedural control. Such control could be readily attained under a mechanized method of operation. We believe also that the adoption of a fully mechanized system providing for a complete integration of all payment, disbursing, and related functions would result in a more efficient and economical operation.

The functions pertaining to the payment of benefits are now being performed partly by the VA and partly by the Treasury Department. The VA maintains an accounting record pertaining to each

beneficiary's award and notifies the Treasury Department of the payments to be made. The Treasury Department prepares and mails the benefit payment checks to the beneficiaries. This practice necessitates a continuous flow of information between the VA and the Treasury Department. It requires the Treasury Department to maintain an addressograph plate for each beneficiary, to make changes in the plates whenever notified by the VA of a change in the amount of a benefit payment or the address of a beneficiary, to submit lists of checks prepared (referred to as "book runs") to the VA for verification before they are issued, and to maintain prepared checks under control until they are issued. The VA verifies the individual payments listed on the "book runs" by visually comparing them with the related award cards. The total of the "book runs" are verified by listing the amounts of the authorized benefit payments shown on the individual beneficiary award cards. After the "book runs" have been verified, the VA notifies the Treasury Department of those checks to be voided and of any replacement or additional checks necessary because of changes made in awards after the date the checks had been prepared.

A fundamental need for effecting ways and means of achieving a greater degree of economy in the benefit payment operations was pointed out by the Accounting Systems Division, General Accounting Office, in a report in April 1950. The report recommended the initiation of an intensive and detailed review to develop a more efficient system. It suggested several methods for consideration. Generally, these proposals provided for the maintenance of records and controls by use of mechanical methods in lieu of the present

system of maintaining records manually and verifying payments--about 5 million checks a month--by comparing names on "book runs" with award cards and by adding the individual amounts on the cards for reconciliation with "book-run" totals. The report suggested also that consideration be given to consolidating payment functions in fewer regional offices in order to provide a sufficient workload in each office to attain the greatest operating efficiency.

In April 1952, the management consultant firm of Booz, Allen & Hamilton also pointed out the need for a change in disbursing practices. They recommended that the VA prepare and issue checks to overcome the costly and cumbersome operations which result from the division of the payment operations between the VA and the Treasury Department, that payment operations be consolidated in fewer VA offices, that benefit payment checks be prepared and issued each day on a cycle payment plan to avoid peak workloads occasioned by the practice of making all payments at the end of the month, and that compensation benefits to veterans with disability ratings of 10 and 20 percent be paid quarterly instead of monthly.

In July 1952, the Administrator of Veterans Affairs requested the Bureau of the Budget to make a study of the disbursing practices to determine the benefits that would result from the integration of the entire disbursing operation in the VA. In July 1953, the Bureau of the Budget organized a committee to make the requested study. Shortly thereafter the committee, comprised of representatives of the Bureau of the Budget, the Veterans Administration, the Treasury Department, and the General Accounting Office,

began a survey. Representatives of the committee informed us that the survey reaffirmed the need for completely revamping the VA's benefit payment accounting practices regardless of whether or not the entire disbursing operation is integrated in the VA. They also informed us that the savings in over-all cost to the Government that would result from the integration of the entire disbursing operation in the VA can be ascertained only by determining (1) the costs that are being incurred by the Treasury Department and the VA under the existing disbursing practices and (2) the costs that would be incurred under a fully integrated mechanized disbursing system entirely within the VA. These cost studies are being made in the New York VA Regional Office and the Treasury Department disbursing office. By December 31, 1954, the costs incurred by the Treasury Department and the VA under the existing disbursing practices had been accumulated for several months.

Early in 1955 a special projects staff was organized in the Department of Veterans Benefits to develop a mechanized benefit payment accounting and disbursing system integrated with statistical and other related operations. A system was designed and initial steps were taken in August 1955 to install it in the New York VA Regional Office. It was first used in October 1955 to prepare and issue the regular monthly checks in payment of compensation and pension awards and by the end of 1955 was also being used in paying education and training allowances and other awards.

# APPENDIX

# STATEMENT REGARDING

# HISTORICAL, LEGAL, AND MEDICAL

# ASPECTS OF DISABILITY RATING PROBLEMS

BY DR. R. B. TEACHOUT

CHAIRMAN, RATING SCHEDULE BOARD

JANUARY 21, 1952

The group of Chief Consultants of the Department of Medicine and Surgery has expressed an interest in the medical aspects of the disability ratings for the various common disorders, how they are calculated and how they are terminated for beneficiaries who recover. They have requested a general presentation of the subject in its historical and legal aspects. We in Claims are very glad to receive this expression of interest. The disability compensation program has many medical aspects and the quality of medical advice and participation especially in the early stages of the program for a particular war is extremely influential in shaping the program and controlling the equitable and economical operation of the program.

Unfortunately at the beginning of a disability claims program for the veterans of a particular war the time and attention of the leaders and the rank and file of the medical profession is given to other problems than the one of disability compensation. Examinations at enlistment, for example, have a tremendous effect in shaping a disability compensation program. They are made in haste, and under pressure to fill draft quotas and to prevent evasion of military service by malingering. They do not emphasize careful history-taking by the physician himself which is essential if obscure maladies are to be detected. The form they use is an abbreviated one prepared by a committee, mostly physicians, working under the direction of the Bureau of the Budget, whose interest appeared to be to develop a uniform form conforming to specifications developed by form makers rather than in serving the purpose to which examination reports will be put. This form has been adopted by the uniformed services for examination at enlistment and discharge not, however, for discharge or retirement because of disability. The form is completely inadaptable to the purposes of the Veterans Administration and after pressure for several years including pressure from within the Veterans Administration the privilege was finally won of being "exempted" from use of the form.

Better understanding of the commitments made by examining physicians at time of induction, more time for the purpose, and better quality of examinations can only be brought about by the interest of leaders of the medical profession.

Many persons with various defects and diseases, and predispositions to diseases, can serve their country valuably in the uniformed service. There must, of course, be provision for limited service, in past wars more a system on paper than in practice. And there must be record of the defects warranting classification for limited or full service, not only by name or number, but in sufficient detail and with sufficient history to permit evaluation of disability and comparison of the condition after discharge with that at enlistment. We have, for example, around 60,000 peptic ulcer cases on the World War II service connected rolls. A very large proportion of the cases reviewed in Central Office report history given in the treatment records during service of some years of similar intermittent gastric distress. Had they been examined with barium meal and fluoroscope it is likely that the deformity or crater found in service would have been found at enlistment. Had their history been carefully taken, it is likely that the episodes after discharge, as to frequency, severity, and dietary requirements would be not too different than the episodes before service.

The disability claims program is also seriously handicapped by the unavailability of physicians to make examinations of veterans before their claim is initially rated, and to evaluate the disability shown on such examinations. The treatment records maintained by the Service Departments are excellent, but when it becomes time to discharge a veteran for disability, it appears that the report is colored by selective emphasis and use of words strong enough to justify this discharge. On the other hand, examinations at the time of routine discharge are exceedingly perfunctory. They enumerate disabilities visible to the naked eye, but without details which would permit evaluation. They do not go far enough to show the absence of particular disabilities, a matter of importance in rebutting service connection.

In the World War I program, the laws regarding service connection were extremely strict until the end of the demobilization, and there was no intensive effort to induce veterans to file claims. In World War II on the other hand, the laws became exceedingly liberal as early as July 13, 1943, and veterans were encouraged by the service department themselves and by veterans' and other organizations, the Red Cross in particular to file claims. Demobilization, also, did not proceed in accordance with carefully laid plans for slow release of the forces, but broke into an avalanche. The disability claims program is rightly or wrongly exceedingly sensitive to public relations and adverse publicity especially as regards delays in adjudication. It became necessary to adjudicate these new claims in special installations originated for the purpose with a minimum of delay. Hasty work involves failure to develop available evidentiary leads, failure to carefully review every item of available evidence, and snap judgment, with a tendency to resolve doubts in favor of the veteran instead of settling

them by procurement of evidence. Unavailability of physicians in sufficient numbers to make and evaluate examination reports is an important factor in causing this hasty work.

After a veteran has been placed on the rolls it is much more difficult to remove him, even on a heavy preponderance of evidence against the veteran. The disability compensation program operates under protective policies developed over the years and always added to by the Congress which require that a determination of benefits on the basis that the disability is not service connected be clearly and unmistakably supported. And the longer the veteran has been on the rolls the stronger the evidence required to break service connection. Hasty initial adjudication such as has been described requires deliberative development and review as soon as possible. Since the initial adjudications were accomplished, in 1946 for the most part, the program has been under constant extreme pressure by the Bureau of the Budget and in reduced appropriations so that systematic deliberative review has been impossible. Our personnel has been reduced from 10,600 to 3,400 with annual, and some semi-annual reductions in force of 10% or more. To improve this phase of our program in future emergencies will require planning to utilize medical man-power in the interest of this phase of our national activity.

The policies regarding service connection of various disabilities have medical aspects of high importance. Starting from the strict policies of the Act of October 6, 1917, the laws have been progressively liberalized as regards service connection. The veteran is now presumed by law to have been in sound condition at the time of enlistment, except for conditions actually noted, a presumption rebuttable only by clear and unmistakable evidence. Even if not sound at enlistment, any increase in disability is presumed to be due to service. Aggravation under this presumption is also rebuttable only by clear and unmistakable evidence. In the absence of complete records, "medical facts and principles" are the best evidence of existence prior to enlistment and natural progress of disease. History admitted by the veteran and consistent with the facts of disease when first discovered is good evidence but the laws prohibit acceptance of a statement in writing signed by the veteran as evidence against his case. As a practical matter we make extensive use of history in adjudication but the legality of the practice is always on a tenuous foundation. The test of evidence required by law, whether it is "clear and unmistakable," is an unrealistic one to apply to medical evidence which at best establishes probabilities. And evidence which is clear and unmistakable to one is not clear and unmistakable to another. This standard of evidence deserves examination by the medical profession.

Other statutory presumptions confer service connection on specified diseases initially manifest within one year (three years for active pulmonary tuberculosis, and two years for multiple

sclerosis) after discharge following 90 days honorable war time service, but not in World War II cases later than the presumptive period after July 25, 1947. This presumption applies also following service of the present Korean expeditionary service. Now whether a disease initially manifest after discharge was incurred in or aggravated by service obviously requires an examination of medical concepts. Does arteriosclerosis belong on such a list? Does epilepsy, grand mal? Does arthritis, regardless of etiological type? Does peptic ulcer? These, and many others, are so listed. Anyone will realize that if service connection is required by law for the disease manifest after discharge, it is exceedingly difficult to deny it for the disease during service. The medical concepts underlying grants and denials of service connection in the various laws deserve study by the medical profession. It is always very difficult, however, to secure the enactment of legislation so that veterans of a subsequent period of service will not be entitled to all the benefits previously provided for veterans of earlier service, notwithstanding that advancing medical knowledge may show the previous provision to be no longer tenable.

This Government has always paid monthly or quarterly benefits to the veterans of its wars in recognition of their disabilities or in gratitude for their services. Before World War I a very complicated system of monthly money rates had been established by law for various service connected disabilities. These money rates were enacted by the Congress at various times for various disabilities and had come to be exceedingly inconsistent. Additionally, rates for age and disabilities not the result of service have been enacted at various times and have come to predominate the system.

Early in World War I, Congress recognized the unsatisfactory character of this system and determined to replace it by one based on a more modern conception. On October 6, 1917, a law was passed requiring, among other things, that evaluations of disability be in percentage terms, from 10% to 100%, and in accordance with a schedule for rating disabilities, based, as far as practicable, upon average reductions in earning capacity from disabilities in civil occupations. There was some intention in this of making the system analogous to workmen's compensation, however, the Congress did not, as workmen's compensation systems do, provide for the evaluation of disabilities in weeks or months over which payments should continue based on their earnings of individuals before they were injured.

The concept of average impairment in earning capacity is a much simpler one on paper than it is in practice. The effect of any disability upon the earning capacity of a group is its differential effect upon the employability of individuals in the group. Each disability produces a certain amount of permanent or intermittent unemployment among the individuals of the group and the amount of this unemployability is generally proportional to the

severity of the disability, thus a minor disability will cause unemployment in only a few individuals of the group, whereas what are generally known as permanent and total disabilities will produce unemployment up to 85%. The employable veterans of the group, however, generally suffer no reduction in their earning capacity, thus a particular percentage evaluation, say 40%, for a certain disability is not consistent with the fact that many individuals of the group will be chronically unemployed while the other members affected earn a going wage at the occupation which they follow.

This law obviously required the preparation of the Schedule for rating disabilities at the time the responsibility for rating disabilities was centered in the Medical Advisor to the Director of the Bureau of War Risk Insurance. Accordingly, physicians in the office of the Chief Medical Advisor began the preparation of the rating schedule. They had some foreign schedules as a guide and there were some books which attempted to evaluate some disabilities in percentage terms. They certainly had no statistical or other economic data regarding the average reduction in earning capacity from any disability. There is very little such data now, and as far as I know none of it has been published.

This Schedule eventuated as a 1921 schedule for rating disabilities although many of its evaluations were adopted early in 1918. Our most common class of disabilities consists of residuals of direct injury of one or more extremities. I will discuss the evaluation of amputation of one leg at point of election below the knee as an example of this class of disabilities. The physicians of whom I speak assigned at a very early date an evaluation of 40% for this condition. This was not a calculated value. It undoubtedly represented the opinions of these physicians as to the effect of this disability upon the earning capacity of the average man, who, at the time was thought to be a common laborer. The knowledge of these physicians undoubtedly reflected a period 10 to 15 years before World War I when prosthetic appliances were ineffective, medical rehabilitation programs had not been developed, and opportunities for employment of men so disabled were slight. I do not believe the evaluation was high at the time. It is probably high now.

At all events the 1921 Rating Schedule fixed the evaluations for practically all major amputations of the upper and lower extremities, in a rational relationship to the evaluation assigned the amputation of one leg.

These evaluations may be high but they cannot conceivably be reduced. The Congress in 1930 was fully aware of the Administration's evaluations for amputations and considered them inadequate and added a flat $25 per month for loss or loss of use of any one extremity. It is fairly obvious that evaluations which the Congress has increased cannot be reduced by the VA. This schedule also covered impairments of the eye and ear and many common diseases. This latter was generally covered by what we call flexible evaluations from 10% or less than 10% to 100% and evaluation naturally depended upon the judgment of the medical referees who, at that time had the responsibility for rating cases. The work of rating was at the time centralized in Central Office so that the absence of more definite standards did not produce lack of uniformity. Among the other evaluations introduced in the 1921 Schedule was 25% for the surgical removal of one kidney.

In 1924, a World War Veterans Act was enacted which provided a greatly enlarged system of disability compensation. It provided, first, for the decentralization of the program to not more than 100 Regional Offices and this decentralization still prevails. It provided for the adoption of a rating schedule with occupational differentiation according to the veteran's occupation at the time of his enlistment. The central evaluations for the various amputations continued unchanged. As to the central evaluations for impairments of seeing and hearing these were generally unchanged except that the latter were considerably increased because the Congress included in the law a provision that total deafness should be rated as 100% disabling. The evaluations for diseases of the various systems of the body continued to allow wide flexible ranges although with somewhat more discrimination as to maximum and minimum values and differentiation of these evaluations according to the occupational criteria. For some reason the evaluation for the loss of one kidney was increased to 40%. The schedule prepared in accordance with this law is what is known as the 1925 Schedule. It provided evaluations of from 0% to 33-1/3% for arrested pulmonary tuberculosis. The Congress soon received vigorous protests at this low evaluation and enacted a law providing a minimum of $50 a month for veterans whose service connected active pulmonary tuberculosis has become arrested. This law and this Schedule was repealed in 1933 but as an illustration of the fact that in our disability compensation system laws are never finally repealed it was reenacted in large part and now with its accompanying 1925 Schedule still controls evaluations in large numbers of World War I disability compensation cases.

The repeal of this law and the economy provisions of the new legislation required the preparation of a new rating schedule known as the 1933 schedule. This schedule was as required by law, an economy schedule but it did not attempt to reduce the evaluations for the various amputations and the disabilities related to them. It was believed at that time that economy and standardization could best be achieved by eliminating the evaluations for

more temporary disabilities and for setting up not more than 5 grades of disability for the common conditions thus, diseases of the heart were evaluated in 5 grades, 10%, 30%, 60%, 80%, and 100%, depending upon the functional capacity of the heart. With the comparatively recent enactment of the law providing a minimum of $50 a month for arrested pulmonary tuberculosis it was not considered practicable to reduce all the evaluation for arrested pulmonary tuberculosis below 50%. Accordingly the evaluation was fixed at 50% for 5 years, 30% for 5 years. The 1933 Schedule prevailed until the adoption of the 1945 Schedule which was formally submitted to the Congress with the request that all earlier schedules be repealed.

The 1945 Schedule for Rating Disabilities was the first rating schedule prepared by the Administration on its own initiative. It was felt that many temporary disabilities which had been excluded from the 1933 Schedule would come back into the picture, that there would be new disabilities and that the comments incorporated in the 1933 Schedule would not stand up in administering a new World War II program. There is very little calculation in the sense that you gentlemen understand it in the assignment of disability percentage evaluations. The various evaluations are matters of converse among the most experienced rating personnel of the Administration, for the most part physicians. They are determined by what is called a consensus of informed opinion and there are many compromises among the views of the various consultants.

In our section which covers disabilities of the bones, joints and muscles, the effort is to define each grade of each disability as carefully as possible and assign an evaluation consistent with, and never higher than, the nearest amputation value involved. A system for rating the residuals of muscle damage had been prepared by members of our group in 1928. These evaluations were liberalized to a certain extent in the 1945 Schedule. It was very probable that we were influenced in this liberalization to an excessive extent by the experience following World War I. It is apparent from the claims folders that during World War II missiles produced much less severe residual disability than did World War I. It is difficult not to be liberal in assigning evaluations to a group having such well substantiated service connection. We are continually aware of other diseases having less well substantiated service connection with which the evaluations for the injury group will be compared.

This section of the Schedule includes also evaluations for pes planus, recurrent dislocated shoulder or knee and evaluations for different types of painful low back. Due largely to the provisions of our laws regarding service connection, these types are also among our most common ones. It includes also evaluations for such diseases as chronic osteomyelitis and chronic arthritis of the various etiological types. These diseases obviously present

entirely different evaluation problems than does for example amputation of one leg, because each case presents an individual picture. We continue an evaluation of 20% for chronic osteomyelitis for 5 years after the last evidence of infection disappears. This liberal provision was based on World War I experience. We evaluate disability for degenerative arthritis on the basis of the number and importance of joints showing hypertrophic changes and also functional impairment with a minimum of 10% for the well identified disease.

One of the basic points of reference in the 1945 Schedule is an agreement on the part of all conferees who prepared it, that a 60% evaluation must be for a grade of severity of any disability which can, in a large proportion of cases, though not on the average, produce permanent and total disability.

Going on to disabilities of the eye, we have continued an established 30% for blindness, one eye, and 40% for an enucleated and disfiguring blind eye and we assign 60% which may, in unemployable cases, be increased to 100% for industrial blindness with the usual definition of this term. Vision 5/200 or less or concentric contraction to 5 degrees is recognized as permanent total disability regardless of the unemployability of the individual and entitles to statutory rates of $240 per month or more.

Over the period of the last several years there was an effort to eliminate the conversational voice tests in feet as the basis for rating impairments of hearing. We have now succeeded in securing controlled speech apparatus in all Regional Offices and have prepared a new schedule based on speech reception decibel loss adjusted for discrimination of consonant dominated words. As far as I know this is the only schedule of its kind in existence. In this connection I might say that the committee of the American Medical Association and other groups are working on a workmen's compensation schedule for evaluating disability from impaired hearing based on the pure tone audiometer. I understand that this group proposes to fix 20% as the evaluation for deafness in one ear whereas we do not propose to change our established 10% evaluation.

Our schedule goes on to evaluate what we call systemic diseases not limited to any one system of the body. In this field, avitaminosis and general debility among former prisoners of war have proved to be difficult problems and we have had no course available except to direct the greatest reasonable liberality. Malaria has been our most common disease of this class. We had, without advice from tropical disease experts, adopted a schedule based on the number of relapses, from 10% for one in the past year to 50% for 3 in the past 6 months. When the tropical disease experts recommended total disability evaluations over much shorter periods the great numbers of new claims and the general confusion

in our offices forced us to disregard the advice. We could not at the time adopt a policy that would force us to handle cases more than once a year. There are important medical aspects of the malaria rating problem unrelated to percentage evaluation. The first relates to confirmation of diagnosis by blood smear interpreted by experts. We have been unable to make this requirement until after the compensation award has run 3 years, and I do not believe the Department of Medicine and Surgery makes such a requirement for out-patient treatment. The second requires a determination of a maximum period over which an infection incurred while the veteran was in service in an endemic area can produce relapses. This determination has not been made. The third relates to treatment. Our reading of claims folders does not show that treatment by quinine and atabrine has been abandoned. By annual reviews in which each veteran has been required to show evidence of continued malaria relapses we have reduced the number of malaria cases on the rolls from 196,000 to less than 2,000.

The next section of our schedule covers diseases of the respiratory system. The evaluations for active and inactive pulmonary tuberculosis are laid down by statute. These evaluations have a considerable historical background. In 1925 it was determined by the Medical Service which then still had the complete responsibility for disability evaluations, that the evaluation for the first two years of arrest should not exceed 33-1/3% and that all compensable evaluations should be discontinued after 2 years. The Congress stepped in at this point and enacted a law providing a minimum $50 per month for life. In 1933 in revising the schedule, I did not dare revert to the earlier rather strict practice, but I did propose 50% for 5 years and 30% for 5 more years which was adopted. In 1947 we were persuaded by tuberculosis experts to change the 50% for the first 2 years of this period to 100% provided the veteran furnished evidence every 6 months that his activity was limited under doctor's orders. The Congress made this 100% mandatory for the first 2 years, and extended the 50% evaluation an additional year so that 11 years are covered. This scale of graduated evaluations also applies to non-pulmonary tuberculosis active on or after October 10, 1950. This schedule contains a number of evaluations for post-operative conditions, and evaluations for non-tuberculous diseases. Bronchial asthma is the most common of these, and is evaluated almost entirely on history of attacks accepted by the physician.

Our 1945 Schedule for Rating Disabilities has for the first time separate scales for the evaluation of the common etiological types of organic disease of the heart in 4 or 5 grades. In its preparation, we outlined 5 grades of disability for rheumatic heart disease, the lowest, 10%, evaluation often applied in cases in which history and diagnosis are poorly substantiated. Following World War I diagnosis of mitral insufficiency and chronic myocarditis were commonly made on a very poor foundation and they are

still so made by some physicians. With poorly supported diagnoses there are always questions whether to take men off the rolls or put them back on, but I am glad to say these difficulties have almost disappeared. In the field of heart disease we have a psychological factor influencing the degree of disability, and if a veteran has ever been told he has serious heart disease it is difficult to justify a reduction when reports come in long afterwards that he has none. A change of diagnosis to one reflecting syphilitic or congenital origin is found to cause rating difficulties. We recognize a well-supported diagnosis of arteriosclerosis as causing disability and this is of great importance in the cases of older men applying for pension for disabilities not the result of service. Essential hypertension is another common disability with an evaluation of 10% for a diastolic pressure consistently over 100 to one of 60% for a diastolic pressure of 130 or more with severe symptoms. We are currently revising the schedule for Buerger's disease, Raynaud's disease and intermittent claudication.

In the digestive system our basic disease is peptic ulcer, which brings about 60,000 cases on the rolls. Other digestive disability evaluations are correlated with the 10 to 100% evaluations for this disease. Gastrectomy with its minimum 40% is a disability first listed in the 1945 Schedule. Regarding this evaluation I can only say that the views of the medical conferees reflected the state of medicine at the time, or at a time some years earlier. Gastrectomy was a rare operation, undertaken usually for relief of malignancy, and much less skillfully performed than at present. The criticism by the Consultant in Gastroenterology may lead us to recommend a reduction, with, probably, a requirement of some evidence of impaired function, for the minimum rating. I cannot guarantee the reduction. I suppose the evaluations for resection of the small and large intestine may require review at the same time. We are encountering cases of removal of very short sections with gunshot wounds and these also appear to be without significant residuals. Visceral hernias are included in the A.M.A. Standard Nomenclature with this system. Inguinal hernias are rather common disability, however, not compensable unless recurrent following surgery.

I do not suppose it will be particularly useful to go into any detail regarding other sections of the Schedule. In the genitourinary system our basic disability is removal of one kidney, rated 30%. The blood dyscrasias, skin diseases, and endocrine disorders present, of course, very varied pictures. The epilepsies are evaluated on frequency of attacks. Most neurological disorders are evaluated on the extent of paralysis, referring to evaluations for the individual nerves involved. There are minimum evaluations of 30% for multiple sclerosis, and for post-traumatic encephalopathy with any recognizable disabling effect. The psychoses are evaluated 100% while producing incompetency or requiring institutional care with a three-months 100% convalescent

rating, some graduated reductions after hospital discharge, thereafter on impairment in social and industrial capacity obviously a matter of individual estimate.

Our second largest group of disabilities is made up of psychoneurotic reactions. This is a group for which, I am sure, it would be impossible to calculate any average reductions in earning capacity. The group causes many of our most serious problems.

In 1937 I had the advantage of consultation for 6 weeks with two outstanding VA psychiatrists. These gentlemen reviewed 50 cases of psychoneurotics claiming to be totally disabled. When they finished their review of the 50 cases, I asked them, "Are any of these cases typical of the text-book cases?" They answered, "Yes, one." I then asked them, "If they do not present text-book pictures, what is the difference?" They conferred between themselves and replied, "The cases present the same symptoms every time they are examined. That is not right for psychoneurotics." They finally, and, I believe, reluctantly, classified about half as psychoneurotics, the other half as psychopaths, with no recommendation for a total disability rating.

We have 225,000 cases classified under these diagnoses: The examinations speak of anxiety now when they used to speak of fatigability and asthenia, but the case histories are the same. While the veteran is in service the Army and Navy have different standards of diagnosis, the Army preferring psychoneurosis as a diagnosis at the time of discharge, the Navy a diagnosis reflecting psychopathic personality. In the VA change of diagnosis between psychoneurosis and immaturity reaction or psychopathic personality is very common and would be more common if there were not fairly rigid requirements of certifying clear and unmistakable error in the prior diagnosis. This is the field of medicine in which clarification of diagnostic standards is most urgently needed before the rating policies can be on a satisfactory basis. If examiners in the Department certify the veteran, as psychoneurotic, we take him as suffering from a disease which may be granted service connection or have it continued. If they certify him as a psychopath or immature personality, we take him as suffering from no disease which may be service connected.

As regards evaluation of disability our problems are similarly difficult. If surveyed, this group would probably show the lowest earning capacity of the whole group of disabled veterans, and the same would be true of the psychopath and immature personality. We have to remember, however, that our cases were originally discovered because they showed signs of inadequacy. The apparently reduced earning capacity in this may not be due to psychoneurosis.

Many years ago the VA recognized only three degrees of disability, 0%, 10%, and 100%, the latter for short periods. I have been told that the psychoneurotic veterans took advantage of a special temporary total rating then applicable over any period of hospitalization so that they came to fill the hospitals. In 1925, I have been also told the determination to establish three grades with rates averaging 30%, 55%, and 80%, was made to induce the veterans to stay out of hospitals. I am not prepared to vouch for this history, because at the time rating policy was determined in the Medical Service. At all events we have continued these basic evaluations, changing 55% to 50%, and adding 10%. The far majority of psychoneurotics are now rated 10%.

Our rating schedule is rather strict regarding this disability. For the evaluations of 30% and higher it requires positive psychiatric findings with an emphasis upon objective signs. The 10% evaluation is, however, authorized upon relatively minor findings, if there is actual interference with employment. This section of the rating schedule is constantly criticized by organizations because it provides no 100% evaluation. To date, all 100% evaluations have required approval by the Central Office which has been rather sparingly granted.

You are interested in how benefits are terminated when beneficiaries recover. Of course some beneficiaries recover, some get worse, and some have what we call static disabilities which remain unchanged. If a man in service has rheumatic fever and is discharged soon after he gets on his feet, he will be rated 100% for 6 months, and if there are no significant residuals in the heart or in recurrent joint pains, his award will be terminated. If he is discharged with a serious kidney condition, and a kidney is removed in one of our hospitals, he will probably be rated 100% from discharge and through the period of VA hospitalization and if at discharge his condition is simply removal of one kidney, he will be rated 30%. The same with a peptic ulcer with obstruction with a gastrectomy which removes the ulcer symptoms, he will be rated 40% after discharge from hospital. Nearly all cases filing claim at discharge are rated on the records of the service department and are examined by the VA after discharge. If there is improvement the rating is reduced, if the disability is worse than reported on the service department records, through change or otherwise, the rating will be increased, in some cases, retroactively to date of discharge. In most of these reductions we give a veteran 60 days notice in which to submit evidence that his disability has not improved.

These reductions are easily accomplished if the improvement takes place at an early date, or within 5 years of date of discharge. We carefully reviewed 196,000 malaria cases, and have reduced the number on the rolls to, probably less than 2,000. We carefully reviewed the psychoneurosis cases and eliminated at

least 40,000 out of 280,000. Generally, if 5 years after initial rating the examination shows the same degree of disability as at initial rating no future examination is scheduled. This is a policy adopted in 1939 or 1940 as applicable to World War I veterans in view of the large number of examinations scheduled for disabilities which should be permanent with many changes or redescriptions coming into the picture. It has been continued for World War II veterans. With this five year rule, it may easily come about that veterans will draw a certain rate of compensation for many years, and will be reexamined at the veteran's request, or on some out-patient treatment record, or hospital summary, which shows a material improvement in the condition. If there has been a substantial improvement in medical nomenclature, or methods, the veteran may well be found never to have had the disability for which he has been compensated, or to have improved materially. One of our most serious problems at this time is a group of World War I veterans, rated 100% for active pulmonary tuberculosis for considerably more than 5 years after their discharge, and not seen by a VA physician who reported his findings for many years. These veterans are now receiving out-patient tuberculosis follow-ups under a new program. They are being classified under the new, 1950, diagnostic classification. The whole series of their X-Rays are now being read and interpretations for the first time reported for rating purposes. In one case I recall this interpretation reported the veteran "inactive, 21 years." There are a number of cases involving inactivity, with shorter periods. You will appreciate that substantial reductions in rates of compensation after the beneficiary has been in receipt of a high rate for 30 odd years is a very serious matter. We handle these cases as well as we can, and not always on lines indicated by the most recent medical data.

Our laws at one time permitted us to require acceptance of reasonable medical or surgical treatment and to refuse compensation for the effect of refusal to accept treatment. They do so no longer.

Our program attempts to recognize actual total disability whenever we can. We cannot do this before the date of receipt of the evidence. Thus it happens that a veteran develops some severe complication and is operated on and receives more compensation after the operation than he did before. We try to pay total disability rates during hospitalization for treatment of service connected disability after 21 days, but we know from long experience that hospitalization does not establish totality of disability, and that treatment is often not solely for service connected disability. We provide some convalescent ratings for post-operative and so-called cast cases, but these are necessarily on a somewhat limited basis. And we encourage individualization in severely disabled cases, 60% or 70% disabled, to ensure that persons actually unable to work on a permanent basis receive total disability benefits.

Our laws prohibit compensation or pension benefits for disabilities resulting from misconduct. However, syphilis is not a misconduct disability if the veteran reports promptly for treatment and completes the course of treatment. In this connection alcoholism has been the subject of considerable recent interest in its psychiatric aspects. Our standards on this are legal standards. Whether alcoholism is explainable by psychiatric concepts or not, or whether it is a disease or manifestation of disease or not, it is misconduct. The drunken driver is guilty of a crime and the habitual or deteriorated drunkard is guilty of his own misconduct. Drinking by an insane person might be handled on a different basis. He is not responsible for his acts.

I have tried to bring out, gentlemen, that our disability compensation program is administered under laws not remotely consistent with the most recent medical knowledge, and under a law regarding evaluation of disability which is most difficult to apply literally. I have tried also to bring out that the medical concepts underlying service connection for the veterans of any war are for the most part reflective of the advancement of medical knowledge some years before that war. The shaping up of the disability compensation program for the veterans of any war is handicapped by unavailability of physicians in numbers sufficient to make complete examinations and poor quality of examinations at enlistment, and discharge, and by unavailability of trained physicians to make proper examinations and assign proper ratings immediately after discharge. The lack of such examinations and any incorrect ratings can be to some extent corrected by reexaminations and evaluations within 5 years after initial rating, but unless corrections are accomplished within this period many questionable ratings will continue indefinitely. Most planning to improve the program for future wars and great mobilization has to be done well in advance of the war or mobilization. In the past, neither the predecessor organizations of the Department of Medicine and Surgery or those preceding the Veterans Claims Service have had personnel in advance of the need to make effective plans to this end.

## SUMMARY OF CASES EXAMINED AND QUESTIONED

| | Number of cases at June 30, 1952 | Cases examined | | Cases questioned | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Number | Percent of total cases | Number | Percent of cases examined | Cases requiring correction: Number | Cases requiring correction: Percent of cases examined | Number of cases with procedural errors not requiring adjustment of current payments |
| **WASHINGTON REGIONAL OFFICE** | | | | | | | | |
| World War I: | | | | | | | | |
| Compensation for service-connected disabilities | 3,459 | 240 | 6.9 | 20 | 8.3 | 3 | 1.3 | 17 |
| Pension for non-service-connected disabilities | 2,645 | 154 | 5.8 | 28 | 18.2 | 7 | 4.5 | 21 |
| World War II: | | | | | | | | |
| Compensation for service-connected disabilities | 20,315 | 1,055 | 5.2 | 195 | 18.5 | 21 | 2.0 | 174 |
| Pension for non-service-connected disabilities | 441 | 88 | 20.0 | 15 | 17.0 | 3 | 3.4 | 12 |
| Korean Conflict: | | | | | | | | |
| Compensation for service-connected disabilities | 153 | 47 | 30.7 | 13 | 27.7 | 5 | 10.6 | 8 |
| Pension for non-service-connected disabilities | 6 | - | - | - | - | - | - | - |
| Peacetime Establishment: | | | | | | | | |
| Compensation for service-connected disabilities | 1,174 | 71 | 6.0 | 8 | 11.3 | 2 | 2.8 | 6 |
| | 28,193 | 1,655 | 5.9 | 279 | 16.9 | 41 | 2.5 | 238 |
| **CENTRAL OFFICE** | | | | | | | | |
| World War I: | | | | | | | | |
| Compensation for service-connected disabilities | 4,610 | 268 | 5.8 | 4 | 1.5 | 4 | 1.5 | - |
| Pension for non-service-connected disabilities | 3,169 | 123 | 3.9 | 8 | 6.5 | - | - | 8 |
| Compensation for service-connected death | 4,028 | 178 | 4.4 | - | - | - | - | - |
| Pension for non-service-connected death | 4,430 | 269 | 6.1 | 11 | 4.1 | - | - | 11 |
| World War II: | | | | | | | | |
| Compensation for service-connected disabilities | 20,384 | 985 | 4.8 | 140 | 14.2 | 50 | 5.0 | 90 |
| Pension for non-service-connected disabilities | 19 | 19 | 100.0 | 4 | 21.1 | 4 | 21.1 | - |
| Compensation for service-connected death | 29,954 | 1,234 | 4.1 | 296 | 24.0 | 291 | 23.6 | 5 |
| Pension for non-service-connected death | 473 | 32 | 6.8 | - | - | - | - | - |
| Korean Conflict: | | | | | | | | |
| Compensation for service-connected disabilities | 79 | 26 | 32.9 | - | - | - | - | - |
| Compensation for service-connected death | 1,582 | 97 | 6.1 | - | - | - | - | - |
| Peacetime Establishment: | | | | | | | | |
| Compensation for service-connected disabilities | 3,154 | 120 | 3.8 | 2 | 1.7 | 1 | 1.0 | 1 |
| Compensation for service-connected death | 2,474 | 124 | 5.0 | 2 | 1.6 | 2 | 2.0 | - |
| | 74,356 | 3,475 | 4.7 | 467 | 13.4 | 352 | 10.1 | 115 |

VETERANS ADMINISTRATION
WASHINGTON 25, D. C.

OFFICE OF
THE ADMINISTRATOR OF
VETERANS AFFAIRS

January 17, 1956

Mr. Robert L. Long
Director of Audits
General Accounting Office
Washington 25, D. C.

Dear Mr. Long:

Further reference is made to my letter of July 27, 1955, relative to your report on Review of Compensation and Pension Program, Washington Offices, Veterans Administration. The draft of the report is returned herewith, together with the following comments.

Paragraph 1, page 14 of the report, indicates that the examination revealed a need for adjustment of a large proportion of the "static" cases. In an effort to reduce the volume of work and emphasize better quality on the part of the limited personnel available, the Administration had followed a policy of canceling as many examinations as possible. In retrospect, no other course is believed to have been possible; however, your report has been convincing that this effort had gone too far. To correct this situation, as well as to ensure that the adjudication in each case is on a sound basis in every respect, the review of cases was instituted. This review, originally conceived on a sampling basis, has been extended to include all cases of World War II and Regular Establishment veterans under 55 years old in receipt of service-connected compensation, and all cases of veterans under 55 years old in receipt of non-service-connected pension. Such a review, properly conducted, is a time consuming affair, and has made slow progress. Its completion is anticipated in about three years time.

Paragraph 2, page 14, refers to the VA Schedule for Rating Disabilities. It is stated that it is not based on an actual determination of the effect of disabilities on the average earning capacity, as required by statute. The statutory language referred to has been interpreted as requiring (1) abandonment of the former arbitrary pension ratings, (2) rating on an average, not an individual basis "so that there shall be no reduction in the rate of compensation for individual success in overcoming the handicap of disability", (3) the consideration only of those effects of disabilities which affect earning capacity,

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avoiding ratings based on sentimental consideration, social loss, etc. The amendatory Act of December 24, 1919 (Public No. 104, 66th Congress) also provided that "The Bureau in adopting the schedule of ratings of reduction in earning capacity shall consider the impairment in ability to secure employment which results from such injuries." Since that date impairment in ab'lity to secure employment has been considered an integral part of impairment in earning capacity.

The method of operation in preparing the rating schedule and subsequent amendments, was to start from studies of informed opinion of leading medical specialists in the various lines coordinated with the rating schedules of France, Canada, England and Belgium, and the accumulated (individual case) experience of the predecessor organization of the Veterans Administration, and to modify the schedule from time to time as indicated by studies related to individual cases referred for review as involving inadequacy of the schedule, advances in examining technique, medical concepts, etc. The schedule has been enlarged upon on various occasions by the Congress. The 1945 Schedule for Disability Ratings in particular was specifically approved by the Congress, after copies were furnished the House World War Veterans Committee, by establishing an effective date, and by directing that all amended ratings after its effective date be under its terms. Subsequently the Congress prescribed it for application in the disability retirement of members of the uniformed services. The Administration is anxious at all times to keep its rating schedule abreast of changing medical concepts and to this end has appointed a committee which will thoroughly examine the basis of the Schedule.

Paragraph 3, page 15, emphasizes that your review of cases disclosed little evidence that consideration is given to prescribed criteria for determining that a veteran's unemployability is due to his disability or that he is in fact unemployable. From the narrative on pages 46 through 48, it is apparent that this comment is directed principally to the cases of veterans 65 years of age or older. The results of a special study of veterans between ages 65 to 69 made in 1954 indicates that determination of unemployability in individual cases would not justify costs incident thereto. This group of veterans, who had been awarded pension benefits under Veterans Regulation 1(a), Part III, showed that although the minimum requirement is only 10%, the average percentage of disability in this group was 50%. In 86% of the cases

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there had been termination of employment as a result of disability. In 82% of the cases there was either a certain or a probable relationship between disabilities and continued unemployability. In less than 2% of the cases had there been attempt to return to substantially gainful employment and barely 25% attempted to supplement their income by marginal employment.

In paragraph 4, page 15, the statement is made that the VA is now considering the propriety of its regulations which provide that in determining the dependency of a parent cash receipts of certain types will be disregarded. The report expresses the belief that parents should be considered as dependent only if they are unable to provide for themselves and that a determination of the parent's dependency requires consideration of his entire "net worth" and of all of his income and receipts, regardless of the source. The report further states that, "We believe that the law requires and that the regulations should provide that the continued payment of an additional compensation allowance to a veteran for a dependent parent be contingent on his contributing to their support." Dependency is not defined by statute. The definition, therefore, is a matter for the exercise of the discretion vested in the Administrator of Veterans Affairs. In the exercise of this discretion, it is not required that the veteran has contributed to the support of his parents as a condition precedent, nor is it thought the law intends such a requirement. Rather it is believed the determination turns upon whether the parent is dependent, considering all of the elements of the particular situation, that is, whether the parent actually receives or has resources which assure reasonable maintenance. With regard to veterans in receipt of additional compensation for dependent parents who do not contribute to their support, VA Regulation 1311(D) provides, "That part of the benefit which is payable to a veteran under Public Law 877, 80th Congress, as amended by Section 4, Public Law 339, 81st Congress, by virtue of his having a dependent father or mother, or both, will be apportioned and paid directly to the dependent when it appears that the claimant has neglected or refused to contribute to his, her, or their support in substantially the amount which he, she, or they would receive if apportionment were made: Provided, That no apportionment will be made where the duly appointed guardian under orders of the court of appointment makes or has made like contributions for the support of the parent or parents." Provision is therefore made for the parents in these circumstances.

The conditions which determine dependency as prescribed in the VA Regulations were included in a study made by a committee appointed in the VA to consider the propriety of existing regulations and legislation under which multiple benefit payments may be made to veterans and their dependents. The Committee noted that it has been the policy for more than 35 years to disregard Government insurance payments in determining

dependency of parents for compensation purposes. In VA Regulation 1057(B)(3), it is provided that payments of servicemens' indemnity, as well as National Service Life Insurance be disregarded in determining dependency. The Congress has provided, in Section 11 of Public Law 144, 78th Congress, that in determining annual income for pension purposes, any payment made because of disability or death under laws administered by the VA, shall not be considered. It would be contrary to the spirit of this law pertaining to the lesser benefit (pension) to recommend that the Congress provide otherwise as to the greater benefit (compensation). The Committee concluded, accordingly, that the policy thus established and maintained may not be changed by regulations and that there was no sound basis for recommending changes to the Congress. The matter of establishing dependency has been considered also by the Select Committee on Survivor Benefits appointed pursuant to H. Res. 35, 84th Congress. Section 205(g) of H. R. 7089, which was reported by the Committee and has passed the House, provides that:

> "(g)(1) In determining income under this section, all payments of any kind or from any source shall be included, except--
>
> (A) payments of the six months' death gratuity;
>
> (B) donations from public or private relief or welfare organizations;
>
> (C) payments under this title; and
>
> (D) payments of death compensation under any other law administered by the Veterans' Administration.
>
> (2) The Administrator may provide by regulation for the exclusion from income under this section of amounts paid by a dependent parent for unusual medical expenses."

It is not known, of course, what action the Senate will take on Section 205(g) or, for that matter, on H. R. 7089 in its entirety. Since, however, the Congress is actively considering the conditions under which dependency should be determined, further attention to the matter on the part of the Veterans Administration is not regarded as indicated at this time.

Paragraph 6, page 17, refers to the VA practice under VA Regulation 1009(E) of reducing a running award "effective as of the end of the month in which a 60-day grace period following the date of the award action expires." Comment is made that there is no statutory basis for such practice but that it is in conformity with that authorized by a section of the World War Veterans Act, 1924, which section was repealed in 1933. The section of the World War Veterans Act referred to was section 205, which provided, in pertinent part, that "except in cases

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of fraud participated in by the beneficiary, no reduction in compensation shall be made retroactive, and no reduction or discontinuance of compensation shall be effective until the first day of the third calendar month next succeeding that in which such reduction or discontinuance is determined." It is true that Public No. 2, 73d Congress, and amendments thereto, contain no similar provision. The provision in VA regulations was, therefore, based upon the former expressed legislative policy and grants the veteran a grace period within which to adjust his finances or to submit evidence to show why the proposed reduction should not be effectuated. Although this regulation could be changed without legislation, the Congress has long been aware of its effect and the VA would hesitate to initiate an administrative change curtailing benefits without Congressional sentiment expressly included in a statute.

Paragraph 7, page 17, refers to aid and attendance allowance to veterans in state soldiers' homes and expresses the view that the allowance should not be paid under the circumstances. It has been held that the allowance paid to a State under the Act of August 27, 1888, as amended, does not constitute maintenance of the veteran by the VA. Since the enactment of Public Law 662, 79th Congress, both the reduction of an award by the amount payable for aid and attendance and the hospital reduction provided by Section 1 of the cited law have been applicable only to institutionalization at VA expense; therefore, this recommendation would require legislative enactment.

It is recommended in paragraph 9, page 18, that the Administration give consideration to developing and adopting a single instructional directive setting forth the policy for consideration of erroneous payments. As you are aware, the policy of the VA with regard to creating overpayments is set forth in Administrator's Decision No. 544 dated November 24, 1943. However, in view of your statement, page 76 of the report, that "our examination indicated that adjudication personnel do not fully understand the policy regarding erroneous benefit payments", consideration will be given to the promulgation of a clarifying instruction.

It is also recommended that consideration be given to establishing a reporting and review procedure so that management will be apprised of all erroneous payments and can determine the propriety of the treatment accorded them and the need for measures to minimize erroneous payments. Procedures which afford management the necessary information to make regular and prompt analyses of erroneous payments which are established as overpayments have long been in existence. The latest instruction in this regard is Technical Bulletin VB-2, June 7, 1955. The report, however, appears to be directed to those erroneous payments which, because of the provisions of paragraph IXI, Part I, Veterans Regulation No. 2(a), as interpreted by Administrator's Decision 544, are not established as overpayments. These are characterized by stop payments or

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reductions made effective as of the date of last payment. No effort has been made in the past to distinguish these from other discontinuances or reductions. However, study will be made of the situation with a view to determining the feasibility of identifying these cases, making them available for study of the causes of the erroneous payments and preventive measures.

As is pointed out in paragraph 10, page 19, the Veterans Administration has initiated review of compensation and pension cases administered in the various offices. While these reviews are being made by Adjudication personnel, the Internal Audit Service will evaluate the effectiveness of such reviews.

Page 41 contains the following statements: "In another Central Office case a veteran was rated as totally disabled on the ground that he was unemployable. The case was referred to the rating board for review because of the cancellation of a scheduled physical examination and of the failure of the procedures to provide for a follow-up to determine whether his disability continued to cause him to be unemployable." Permanent procedure has been adopted and is contained in paragraph 193, VA Manual M8-5, as revised November 28, 1955, to provide for a periodic follow-up on the cases of service-connected veterans who have been granted extra-schedular total ratings upon the basis of individual unemployability.

On page 57 the thought is expressed that payments made to a person who promptly notifies the VA when a change in his circumstances indicates that his income will exceed the limitation should be treated as overpayments, subject to recovery. The same view is expressed, on page 58, with respect to payments discontinued within a range from one to three months after the beginning of each year, because of the time required to obtain annual income questionnaires, to make the necessary determinations, and to process the stop payment actions. Adoption of the first of these views would mean discontinuance of pension as of the first of the calendar year, with resultent overpayments in all cases when the veteran's income for the calendar year exceeds the statutory limitation. Under VA Regulation 1228(A)(3), this action is limited to those cases wherein the veteran fails to notify the VA promptly when his income begins to increase so that it will exceed the statutory limitation. When he gives prompt notice, his pension is discontinued as of the date of last payment. It is believed the present rule is far more equitable than the proposal. The regulation constitutes a penalty as to those veterans who fail to furnish the necessary information promptly. It is not thought those veterans who do comply and furnish prompt information should be penalized. Furthermore, adoption of the proposal would result in additional expense for the Adjudication Divisions, the Finance Divisions, and both the Regional and Central Office Committee on Waivers. The second proposal is in the nature of the first and again it is not thought

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the veteran should be penalized when in answer to a VA questionnaire he furnishes information within a reasonable period which results in the discontinuance of his pension. Accordingly, this agency does not agree with either of these propositions.

On page 59 it is recommended that consideration be given to adopting procedures providing that the annual determination of a pensioner's continued entitlement to pension be based, in addition to the information contained in the income questionnaire, upon consideration of all information contained in the claims folder relating to sources and amount of income and family status. Under VA practice, in the absence of suspicious circumstances, statements on the annual income questionnaire are not questioned. Development is undertaken only if there is reason to believe that the claimant may have made an inaccurate report of income or anticipated income. In the evaluation of annual income questionnaires, where the income for the preceding year was in excess of the statutory limitation, the C or XC folder will be obtained and reviewed. If the expected income for the current year is less than the statutory limitation and pension is not discontinued retroactively, the following procedure is observed. If it is determined by the examination of questionnaires submitted in prior years that the payee reported, in one or more of such questionnaires, expected income as less than the statutory limitation when in fact the succeeding questionnaire showed the actual income to have been in excess of the statutory limitation, payments will be discontinued, effective date of last payment. At the end of the calendar year, the income is then determined on a factual basis. VA experience throughout the years has indicated that the administrative expense of routinely checking all income questionnaires against the claims folders is far greater than any savings in disability pension funds which may result from such review. For example, following the revision of VA Form 8-59 in September 1953, the regional offices were requested to furnish reports relative to their experience with the new forms on a 10% sampling basis. Among other items they were requested to report the various income categories used in order that their importance on the form might be ascertained. Of 44,733 questionnaires reviewed, 18,434, or 41-plus per cent, showed that the veteran had no income other than his disability pension. It is therefore concluded that any calculated risk involved in the present procedure is economically and administratively sound. Where income is a material factor in entitlement to pension, the Internal Audit Service will spot check a selected number of income questionnaires with the Bureau of Internal Revenue to determine the adequacy of controls.

On page 63 the report stresses the desirability of establishing the practice of making regular periodic determinations of the continued dependency status of parents of both deceased and living veterans. On August 1, 1955, the VA began a program to redetermine the dependency status of parents of deceased World War II veterans in foreign cases and

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parents of deceased Korean Conflict and peacetime veterans, regardless of the place of residence. Approximately 100,000 cases will be reviewed. Thereafter, it is proposed to establish periodic reviews, the extent and timing of which will, as to death claims, be affected considerably by the provisions of H. R. 7089, if enacted.

On page 64 the belief is expressed that sound and consistent determinations of parents' dependency cannot be attained in the absence of sound criteria for considering "net worth." This relates, presumably to the provisions of VA Regulation 1057(B)(4) that, "in addition to considering income of a father or mother, consideration will be given to the corpus of such claimant's estate if under all of the circumstances it is reasonable that the same or some part thereof be sold and the proceeds consumed for the claimant's maintenance." It is true that the extent of the consideration to be given to "net worth" is left to the judgment of adjudication personnel in the application of the regulation. This was intended, as it is not believed that criteria can be stated which would be controlling on this subject and at the same time permit equitable determinations to be made in all cases affected.

The following excerpt is quoted from page 65:

> "The VA procedures do not require that the individual claims folders contain a record indicating the consideration given by the adjudicators to income and net worth in making either initial determinations or redeterminations of the dependency status of parents. We believe that it would be desirable for the procedures to require that these determinations be reduced to writing and retained in the claims folders."

In view of the fact that the evidence in the file and the decision of the adjudicator relative to the dependency of parents is reviewed by the authorization officer or attorney reviewer, it is not believed necessary for the adjudicator to prepare a statement of the evidence and his conclusion for the file.

On page 65 there appears this statement: "the VA had indicated that consideration is being given to making a survey at some future date to ascertain the entire family status of veterans." Forms and procedures have been devised for this purpose and it is anticipated that this additional check will be made at an early date.

The following statements are quoted from the discussion, on page 68, of Philippine cases subject to adjustment under Public Law 419, 78th Congress:

> "The VA instructions provide that a 'diary file' will be maintained of all cases requiring adjudication action under this

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> law. However, our examination disclosed that the diary file is incomplete, and it appears that the number of cases requiring adjustment will be determined only by a review of all Philippine cases."

The subject of the commencing date of awards in Philippine cases involving Public Law 419, 78th Congress, is under study. It is believed that the question of a review of all cases would not be appropriate for decision at this time.

Reference is made on page 71 to total disability compensation ratings made under Extension 2-A, 1945 Rating Schedule, as of the 22d day of continuous hospitalization in cases where the conditions precedent are met. In the report the following statements appear: "The procedures provide that the Adjudication Division will authorize adjustment in the compensation payment to the veteran upon the receipt of a notification from the hospital that he has been discharged. However, at the time of our review, the procedure did not provide for the necessary follow-up to definitely ascertain that notifications were being promptly submitted or even submitted by the hospitals to the Adjudication Division, and that timely reductions in compensation payments were being made." The necessary follow-up is now provided. Furthermore, changes to Extension 2-A, Adjudication Procedures and Hospital Procedures which are now in process of coordination will provide for the reduction of the total rate "effective the day following hospital discharge or the day following termination of treatment for a service-connected disability, whichever is earlier." The procedures are designed to obviate overpayments in the first instance. However, in any event the actual termination of the total rate will be in accordance with the above quoted amendment to Extension 2-A. On pages 72 and 73, two cases are described in which, because of breakdowns in procedure, excessive compensation payments resulted. In this connection it is desired to state that under date of July 30, 1953, instructions were issued (TB 8-239) to review all cases of World War II and Korean Conflict veterans in receipt of compensation at the 100% rate. Consequently, any other cases of this character should have been detected and adjusted.

Reference is made on page 74 to the fact that the field stations were not receiving the payment records in all cases in which the related claims folders were decentralized by the Veterans Benefits Office. Procedures have been established which require the transfer of the appropriate payment records simultaneously with the decentralization of claims folders.

The subject report contains, beginning with page 79, a chapter on the topic of "Disbursing Benefit Payments." In this chapter it is stated that " . . . . we believe that assurance of the propriety of the benefit payments should be attained to a greater degree through accounting

and procedural control. Such control could be readily obtained under a mechanized method of operation. We also believe that the adoption of a fully mechanized system providing for a complete integration of all payment (accounting), disbursing and related functions would result in a more efficient and economical operation." The report further states that ". . . . a procedural outline of a mechanized system had been developed for installation on a test basis in the VA New York Regional Office. This outline is being examined by the VA at the suggestion of the Accounting Systems Division, General Accounting Office, to determine whether it is possible to provide for more complete integration of related functions."

Since the preparation of the report, representatives of the GAO and the VA have evaluated possible methods to be used in most efficiently integrating the benefit accounting and disbursing in the VA New York Regional Office, simultaneously considering other possible areas into which the integration should extend. Such a system has been devised, and present schedules call for installation of the system in four phases, each one month apart, the first phase of which became effective September 1, 1955. After complete installation, it is anticipated that two months will be required to smooth out operating practices. Evaluation of the system will be accomplished by comparing the costs incurred by the Treasury Department and the VA under existing disbursing practices with costs incurred under the fully integrated mechanized system in the VA. Costs of the separate systems have been obtained, while costs under the integrated system will be obtained over a three-month period.

The Treasury Department has agreed to a temporary delegation of disbursing authority for the pilot installation in the New York Regional Office. However, they have withheld such authority on a more widespread basis until the results of the New York operation have been evaluated. Thus, it appears that authority to extend the system cannot be obtained until about July 1, 1956. However, plans will be laid for extending the system in the VA, based on expected results of the pilot installation. This tentative schedule for installation and evaluation can be summarized as follows:

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| Installation - four phases | September - December 1955 |
| Improvement or refinement period | January - February 1956 |
| Cost evaluation | March - May 1956 |
| Evaluation of cost data | June 1956 |

I wish to thank you for the thorough examination which your office made of our adjudicating procedures. Although your examination

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divulged the necessity for certain adjustments, it is most gratifying to know it did not disclose any specific pattern of weakness in adjudication operations.

Sincerely yours,

H. V. HIGLEY
Administrator

Encl.