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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

See Form #115 for title

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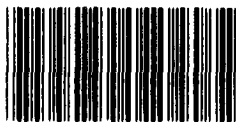
The Honorable James T. McIntyre, Jr.
Director, Office of Management
and Budget

Dear Mr. McIntyre:

During the past 5 years, we have issued several reports 1/ on problems in the Veterans Administration's (VA) and the Department of Defense's (DOD) administration of interrelated pay items. Current laws and regulations require that a veteran who receives retirement, disability retirement, disability severance, or readjustment pay benefits from the services must offset, all or part of, disability compensation received from VA.

The Defense Audit Service is working with the services and VA in reconciling nondisability and disability retirement accounts with VA accounts. Our analysis of the administration of Air Force and VA accounts for readjustment and disability severance payments disclosed that in more than half of the 88 cases reviewed where Air Force members received readjustment pay and subsequently awarded VA disability compensation, offsets totaling \$414,900 were not made or were made incorrectly. Although we analyzed only Air Force readjustment pay and disability severance pay, we believe that the other services may be experiencing similar errors. VA and the services should perform a full reconciliation of readjustment and disability severance payments to make sure that offsets were made correctly for members' subsequently awarded VA disability compensation. We were told that VA and the Defense Audit Service plan to reconcile these accounts in the second quarter of calendar year 1979. (See enc. for a detailed analysis.)

1/Letter reports to the Secretary of Defense on military disability retirement processing (FPCD-77-45, Apr. 18, 1977; FPCD-76-59, May 11, 1976; and B-168308, Mar. 19, 1973).



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Our March 19, 1973, report stated that a consolidated system for administering VA and DOD interrelated pay items could avoid many inconsistencies and administrative errors. However, each service continues to maintain its own disability retirement processing and payroll systems even though members may also qualify for VA disability compensation. Thus, the services' responsibilities and functions parallel those of VA in awarding and paying disability compensation. We stated that the advantages which would accrue from consolidating disability retirement functions merit further study by VA and DOD. In DOD's response to our 1973 report, the following statements were made concerning consolidating certain VA and DOD retirement functions:

- DOD did not feel that consolidating the disability retirement processing functions at this time under a single-manager concept within DOD or under VA would result in overall improvements in the system.
- Further, past problems of dual payment of benefits have generally been resolved, since both the VA and military services use compatible electronic data processing equipment and easily exchange information regarding payment of disability compensation and retired pay.
- Guidelines provided to the military departments are believed sufficient to optimize uniformity and bring about a more strict adherence to the letter and spirit of applicable laws and regulations.

The results of our current work support our prior position that management and administration of these pay items need improvement. VA and the services are continuing to use hard copies in lieu of utilizing the electronic data processing equipment for data interchange and ready access among the agencies.

The Defense Audit Service, as discussed above, is working with VA and the services to reconcile uniformed services retired pay and VA compensation accounts to correct an estimated 95,000 mismatches. 1/ In our view, the mismatches identified by the Audit Service further demonstrate the need for improvements in program administration.

1/Twenty-nine thousand of these represent dollar mismatches.

We commend the services and VA for their reconciliation efforts. However, this is a costly way to deal with the problem. We believe that it is less costly to perform a function correctly than to expend substantial resources later to make corrections. Also the impact of reducing veterans income at a later date because of the need to correct an error adversely affects them and their families when recovery of overpayments is attempted.

We believe that a single focus of responsibility for the pay items that are interrelated is an alternative that would eliminate many of the errors and would make it a more effective system.

To promote better program administration and utilization of resources, we recommend that the Director, Office of Management and Budget, request the Secretary of Defense and the Administrator of Veterans Affairs to jointly present a proposal for a single coordinating point to correct the long persistent problems described. The plan should provide for verifying the correct amount before the initial payment of compensation by VA.

In our judgment resolution of these problems would comply with the President's request of December 13, 1978, for agencies to manage their resources in a manner that is free of waste, fraud, and inefficiency.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Administrator of Veterans Affairs; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; and the Commandant of the Marine Corps. Copies are also being sent to the Chairmen, House and Senate Committees on Appropriations, on Veterans' Affairs, and on Armed Services; House Committee on Government Operations; and Senate Committee on Governmental Affairs.

Sincerely yours,



H. L. Krieger
Director

ANALYSIS OF ADMINISTRATIVE PROCEDURES TO OFFSET AIR
FORCE READJUSTMENT PAY AND DISABILITY SEVERANCE
PAY FOR RECEIPT OF VA DISABILITY COMPENSATION

The three categories of separated Air Force personnel considered in our review were (1) members involuntarily separated from active service, (2) members medically discharged from active service, and (3) members medically discharged from a temporary disability retirement status. We compared Air Force readjustment and disability severance payments to data furnished by the Director, Hines VA Data Processing Center, Illinois.

LAW AND IMPLEMENTING REGULATIONS

Readjustment pay is authorized, under the provisions of 10 U.S.C. 687, to a qualified reserve member released from active duty involuntarily who has completed, immediately before his release, at least 5 years of continuous active duty. The readjustment pay is computed by multiplying the years of active service by 2 months' basic pay of the grade in which the member served at the time of release, not to exceed \$15,000.

Disability severance pay is authorized, under the provisions of 10 U.S.C. 1212, to a member separated from active duty because of a determination of physical unfitness at less than 30 percent disability. The disability severance pay is generally equal to 2 months' basic pay of the grade in which the member served multiplied by the total years of eligible service, not to exceed 2 years' basic pay.

Chapter 11, title 38, U.S. Code, provides that VA shall pay compensation to any veteran for disability resulting from injury or disease, or aggravation of a pre-existing injury or disease suffered or contacted in the line of duty.

Under the provisions of 10 U.S.C. 687(b) and 38 C.F.R. 3.700(a)(2), a veteran who has received readjustment pay may receive disability compensation from VA for a service incurred or aggravated disability, subject to deduction of an amount equal to 75 percent of the readjustment pay. Also, provisions of 10 U.S.C. 1212(c) and 38 C.F.R. 3.700(a)(3), require that the initial award of VA compensation to a veteran shall be offset until the full amount of disability severance pay has been recouped.

Air Force Regulation 35-6, requires that the amount of readjustment pay or disability severance pay be entered in the "Remarks" section or item 24 of the DD Form 214, Report of Separation from Active Duty. VA uses this form in processing disability compensation claims.

Department of Veterans Benefits (DVB) Manual M21-1 requires the offset of readjustment pay and disability severance pay from VA disability compensation and provides the procedures for verification and processing of such offsets.

READJUSTMENT PAY

We obtained from the Air Force Accounting and Finance Center, Denver, data on 1,770 payments of readjustment pay made to members who were involuntarily separated from the Air Force during June 1975 to November 1977. The payment data was compared to the compensation records at the Hines VA Data Processing Center. The comparison showed that in 88 instances the former members also had been awarded VA compensation.

In 46 of the 88 instances, the required offset was either not accomplished or was incorrect as shown below.

	<u>Under deduction</u>		<u>Over deduction</u>		<u>Total</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
Failures to offset	32	\$354,123	-	\$ -	32	\$354,123
Incorrect offset	<u>3</u>	<u>24,450</u>	<u>11</u>	<u>\$36,312</u>	<u>14</u>	<u>60,762</u>
Total	<u>35</u>	<u>\$378,573</u>	<u>11</u>	<u>\$36,312</u>	<u>46</u>	<u>\$414,885</u>

The errors were caused by omission or incorrect actions by the Air Force and VA. The predominant cause of error was the failure of Air Force separation processing offices to enter readjustment payment information on the DD Forms 214 and thereby advise VA that offsets from VA disability compensation were required. The impact of the failure to enter payment information on the DD Forms 214 is shown in the following chart.

<u>Payment information</u>	<u>No offset by VA</u>		<u>Improper offset by VA</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
Not entered on DD Form 214	28	\$312,062	7	\$30,750
Entered on DD Form 214	<u>4</u>	<u>42,061</u>	<u>7</u>	<u>30,012</u>
Total	<u>32</u>	<u>\$354,123</u>	<u>14</u>	<u>\$60,762</u>

We also noted that in nine of the errors for \$33,750, VA established offsets for all of the readjustment pay received rather than 75 percent, as required by law.

There were 24 VA regional offices involved in the 46 errors. We referred each of the potential errors to the VA regional office involved for verification. Replies from the regional offices indicated that appropriate action has been taken in each case to either establish offset or adjust the amount being offset.

All veterans applying for VA disability compensation are required to report to VA on VA Form 21-526 (Veterans Application for Compensation or Pension), if they have received readjustment pay and, if so, the amount received. The disclosure of this information, if made, should have alerted the VA regional offices of the need for an offset. Evidence indicated that some veterans file VA Forms 21-526 before their separation dates; thus, when the application is filed, they have not received the readjustment pay, and the form so states. DVB Manual M21-1, requires that when a veteran meets the conditions of entitlement to readjustment pay and the appropriate item on VA Form 21-526 is not completed and the information is not shown on the separation records, the service will be requested to furnish information as to whether the veteran was awarded readjustment pay.

While we only analyzed Air Force readjustment pay, we believe similar errors may be occurring by the other services. For example, Navy and Marine Corps regulations require that readjustment payment data be entered on the DD Form 214, but we could not find an Army regulation requiring the reporting of such data. During fiscal year 1977, the services made readjustment pay in the following amounts:

<u>Service</u>	<u>Amount</u>
Army	\$14,835,000
Air Force	6,158,000
Navy	4,228,000
Marine Corps	<u>702,000</u>
Total	<u>a/\$25,923,000</u>

a/Data obtained from the Office of the Secretary of Defense Comptroller.

DISABILITY SEVERANCE PAY

We obtained data on 100 randomly selected cases of Air Force members who had received disability severance pay during 1976. The payment data was then compared to the compensation records at the Hines VA Data Processing Center to obtain additional information where matches occurred indicating former members had been awarded VA compensation.

In 3 of the 40 instances where members had been awarded VA compensation, offsets totaling \$6,851 were not made. In two of the three failures to offset, the members were separated from the temporary disability retired list and in the third case the member was separated from active duty. The three cases were referred to the VA regional offices involved for verification, and appropriate action has been taken.

CONCLUSIONS

Our review of offsetting payments of readjustment pay and severance pay from awards of VA compensation demonstrates again the need for an improved system of controls between DOD and VA over pay items that are interrelated. We suggest that VA and the services perform a full reconciliation of readjustment and disability severance payments to insure that offsets were made correctly for members subsequently awarded VA disability compensation. We were told that VA and the Defense Audit Service plan to reconcile these accounts in the second quarter of calendar year 1979.

While we commend the services and VA for their reconciliation efforts, we believe a long range plan should be developed which considers consolidating the pay functions that are interrelated under a single agency. As an interim measure, we suggest that, with the availability of sophisticated computerized systems in both DOD and VA, an efficient electronic data processing interchange system be established to control the problems discussed in this report. The system should verify the amount before the initial payment of compensation by VA.