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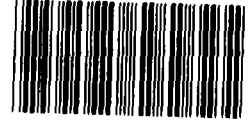
WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION

DECEMBER 8, 1983

B-213039



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The Honorable Harry N. Walters
Administrator of Veterans Affairs

Dear Mr. Walters:

Subject: VA Can Reduce Disability Payments By
Ensuring That Veterans Receive Scheduled
Reexaminations (GAO/HRD-84-14)

We have reviewed the Veterans Administration's (VA's) controls for ensuring that scheduled medical reexaminations for re-evaluating veterans' disabilities are being held. We found that many scheduled reexaminations are not being held because regional office staff do not always place reexamination dates in the master record file. VA is thus unable to identify some veterans whose disabilities are considered likely to improve. Many of these veterans continue receiving higher disability payments than they should be receiving.

Although our findings pertain only to the locations visited, we believe the same conditions exist elsewhere. VA officials agreed that the regional offices we selected were not atypical, and these offices represent a large portion of VA's disability caseload. Accordingly, we estimate that VA could reduce disability benefits by at least \$31 million annually by identifying veterans that should be scheduled for reexamination. Further, if VA continues to make such errors, additional excess payments to other veterans will occur in the future.

VA recently acted to correct some aspects of the problem. VA has planned a review to identify many of the cases that are missing reexamination dates. This effort could give VA information that would help in determining how much more case review would be warranted. As discussed in enclosure I, we believe some additional actions are needed and are making recommendations (see p. 11) that we believe should correct the remaining aspects of the problem.

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In commenting on a draft of this report, VA concurred in our recommendations and described actions it is taking and plans to take with regard to our recommendations (see enc. II). VA also commented on certain statements made in the draft report. In further discussion with VA staff, we obtained clarification of these comments and have revised the report where appropriate (see pp. 11 and 12).

We appreciate the courtesy and cooperation extended to our representatives by VA headquarters and regional staffs.

As you know, 31 U.S.C. 720 requires you to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with your first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the above-mentioned Committees; the Director, Office of Management and Budget; and the Chairmen and Ranking Minority Members of the House and Senate Committees on Veterans' Affairs.

Sincerely yours,



Richard L. Fogel
Director

Enclosures - 2

VA CAN REDUCE DISABILITY PAYMENTS
BY ENSURING THAT VETERANS
RECEIVE SCHEDULED REEXAMINATIONS

BACKGROUND

Disability compensation is payable to veterans who have suffered lost earning capacity as the result of service-connected disabilities. The amount of compensation payable is based on the degree of disability or combination of disabilities. In fiscal year 1982, the Veterans Administration (VA) provided over \$7.5 billion in disability compensation benefits to nearly 2.3 million veterans. VA administers this program through 58 regional offices under the direction of the Department of Veterans Benefits.

VA's regional office adjudication divisions have primary responsibility for processing disability compensation claims and awarding benefits following a favorable disability decision by the division's rating board. Each rating board consists of three rating specialists, one of whom must be a qualified physician.

A VA medical examination is required before disability benefits are awarded. The rating board requests examinations at a VA medical facility and evaluates the examination results and other medical evidence to determine the level of disability benefits that should be paid. The board must also consider whether to schedule a future examination to reevaluate the disability.

Federal regulations state that a service-connected disability will be scheduled for a future examination in not less than 2 or more than 5 years after the latest examination, unless another time period is specified. The rating board should not schedule a future examination if

--the disability is considered static (that is, not expected to improve);

- the disability has been rated at the same or higher level for 20 or more years;¹
- the findings and symptoms are shown by examinations and hospital reports to have persisted without material improvement for 5 years or more;
- the disability from disease is permanent in character and of such nature that there is no likelihood of improvement;
- the veteran is over 55 years of age, except under unusual circumstances;
- the rating is designated as a minimum rating as defined by VA's rating schedule; or
- a combined disability evaluation would not be affected if the future examination should result in reduced evaluation for one or more conditions.

The rating board will either set a future examination date or indicate that no examination is required on the rating decision. The decision is then sent to the adjudication division for processing.

VA relies extensively on a computerized system to process claims, award benefit payments, and maintain a master record file on all beneficiaries. All awards are entered into the VA system through video display terminals in the regional offices. When the award is processed, the adjudicator is to enter any future examination date set by the rating board.

The computer system stores future medical examination dates for veterans who have disabilities that need to be reexamined. Two months before the future date, the computer prints notices of examinations, which are mailed to the appropriate regional offices. Because the computer system, at the same time it prints the notices, erases the dates from the master record, it is not possible--except by individual case file review--to later determine which disability cases were identified for reexamination.

¹By statute, veterans who have a disability that has been rated at or above any level for 20 or more years are protected against any reduction in rating for that disability except if the rating was based on fraud (38 U.S.C. 110).

When the examination notice arrives in the regional office's adjudication division, a rating board specialist reviews the veteran's claim file to determine whether to proceed with, cancel, or postpone the examination. A recent medical treatment or hospitalization might negate or delay the need for the examination. Also, because reexamination decisions are often judgmental, a rating board may decide that the previously scheduled reexamination is not needed.

Once the disability reexamination is completed by a VA medical facility, the rating board will decide whether the disability rating should be increased, decreased, or remain at the same level (referred to as a confirmed rating). The rating board will also determine whether another future examination should be scheduled or if no further examination is needed. Any rating action resulting in an award change (increase or decrease) requires a formal rating decision, which is processed through the video display terminals to update the master record file in the same manner as the initial award action--including the entering of any future examination date.

A confirmed rating does not result in any rating change and is not entered into VA's master record file unless a future examination date has been established by the rating board--in which case only the date needs to be entered. To enter the date using the video terminal, the data entry procedures require the adjudicator to enter award information that would be required of a formal rating decision even though no rating change is to be made. To avoid this unnecessary data entry work, regional office staff often use an alternative data entry system which will accept an entry consisting solely of a future examination date.

OBJECTIVE, SCOPE, AND METHODOLOGY

We made our review to evaluate VA's controls for ensuring that scheduled future examinations are held.

Our review was made primarily at selected VA regional offices from February through November 1982. The regional offices were in Cleveland, Ohio; Houston, Texas; Indianapolis, Indiana; Louisville, Kentucky; St. Petersburg, Florida; Waco, Texas; and Winston-Salem, North Carolina. We reviewed disability compensation cases, analyzed VA controls over the disability reexamination process, evaluated VA policies and procedures on rating disabilities, and interviewed responsible adjudication division staff. We visited VA medical facilities to identify certain cases for the regional office review. We also visited VA's central office to interview officials in the Department of Veterans Benefits and analyze statistical reports.

We performed our review in accordance with generally accepted government auditing standards.

Sampling methodology

We initially analyzed VA's controls over computer-generated notices of future examinations by tracking notices that had been sent to 7 of VA's 58 regional offices from January to March 1982. The regional offices were not randomly selected. We selected three offices because of their proximity to a GAO regional office and four others because they scheduled a high number of routine examinations. We reviewed disability case files and regional office controls and found that reexamination requests were generally properly handled.

We then reviewed regional office rating decisions to determine whether scheduled future examination dates were properly entered into the master record file. Other than individual rating decisions maintained in case files, VA does not maintain any record of cases for which rating boards have established future examination dates, which we could use to compare with the master record file. We therefore selected cases for which the master record file did not show a future examination date and reviewed the corresponding case file to determine if any current rating decisions contained future dates that had not been properly entered.

We obtained a 5-percent sample of disability compensation cases from VA's master record file as of March 31, 1982, and identified 14,462 cases in which the veteran had been released from active duty on or after January 1, 1972, that did not contain a future examination date.

We selected independent random samples of cases at four of the seven VA regional offices which accounted for 2,808 (20 percent) of the cases in our universe. The total sample size was 558 cases. We analyzed case files between September and November 1982 and reviewed the latest rating decisions that would have supported the status of the cases as of March 31, 1982. We identified cases in which regional office staff had not entered a scheduled future examination date and counted a case as an error if the oversight had not been corrected by March 31, 1982.

VA does not compile statistics on the type of rating decisions that occur as a result of reexamination actions, and no data are available on the average rating reduction when the veteran's disability improves. Therefore, we visited one medical facility in each of the seven VA regions and selected cases in which disabilities had been reexamined. Each medical facility

maintained a file in which copies of completed medical examination forms were retained for varying periods. We judgmentally selected from each facility's file a total of 171 cases for which we reviewed rating decisions at the seven VA regional offices and computed the average monthly benefit change. Because these cases were not selected from an identifiable universe, we weighted the results of the 171 case sample by the proportion of high- and low-rated disability cases accounted for by each region in its relative caseload scheduled for reexamination.

We combined the average monthly change from our 171 case review with the error frequency from our 558 case review to estimate the additional monthly benefits likely to be paid to disabled veterans because scheduled future examinations were not conducted.

We determined that the distribution of cases by disability ratings for the 4 regions was comparable to that in the 58 regions combined. In addition, we met with VA central office officials in December 1982 and discussed our review findings. The officials told us that the regional offices we selected were not atypical and represented a high percentage of the total disability caseload. They stated that the frequency of errors or the average additional monthly benefits would probably not change significantly if we looked at a statistical random sample of cases from all 58 VA regional offices. Accordingly, our conclusions as to potential savings assume that the judgmental selection of the four regional offices and the judgmental sample of 171 cases from the seven medical facilities produce no bias in the estimate of money that could be saved.

EXCESSIVE VA COMPENSATION PAYMENTS
OCCUR BECAUSE SCHEDULED EXAMINATIONS
ARE NOT ALWAYS HELD

Many scheduled future examinations are not held because examination dates are not entered into VA's master record file. We estimate that VA needs to reexamine over 15,000 veterans and that a reexamination could result in reducing disability benefits to over 40 percent of these veterans by as much as \$31 million annually.

Errors cause some veterans
not to be reexamined

As of March 31, 1982, the four VA regional offices we visited had an estimated 56,000 disability cases--in which benefits were awarded since 1972--which were not identified as requiring reexamination. We estimate that scheduled examination

dates were not entered into the master record file for more than 3,000 of those cases.

In our review of 558 cases, we found that 38 were not identified as requiring reexamination because reexamination dates were not entered into the master record file. The probable reasons for the errors were a combination of human error and a system inadequacy which we are proposing be corrected. (See p. 9.)

We discussed these errors with regional rating boards. They believed that three of the cases did not need to be re-examined. VA regional offices took corrective action on the other 35 cases by either scheduling an examination at the medical facility or entering the previously scheduled future examination date because it was not yet past due. Four of these 35 cases had been identified by VA between March 31, 1982, and the time of our case file review 6 to 8 months later.² They are included as errors because the master record file contained no reexamination date as of the date of the file from which we selected our sample.

The following schedule shows the estimated number and percentage of additional cases that would require reexamination in each regional office. We computed a combined weighted average error rate of 5.5 percent for the four regional offices.

<u>Region</u>	<u>Estimated universe</u>	<u>Estimated cases in error</u>	<u>Error rate</u> (percent)
Cleveland	9,420	820	8.7
Louisville	3,440	140	4.1
St. Petersburg	24,340	1,320	5.4
Waco	<u>18,960</u>	<u>800</u>	4.2
Total	<u>56,160</u>	<u>3,080</u>	5.5

²VA noticed the errors while reviewing the master record and individual case files in connection with processing various other actions affecting the veterans' status.

Scheduled reexaminations often
result in lower VA payments

VA does not maintain statistics on the number of rating increases, decreases, or confirmed rating actions resulting from reexaminations, nor are there data on the average rating reduction when a veteran's disability improves. To estimate these data, we reviewed 171 scheduled future examination cases that had been reexamined and rerated at seven VA regional offices. Initially, 61 of the 171 cases had received reduced ratings. Regional office staff told us, however, that in 34 cases veterans had disagreed with the reductions. In such cases, veterans can request reconsideration of a rating reduction. Ultimately 10 of the 61 reduction actions were reversed. Thus, the net change resulting from reexamination of the 171 cases was that 51 (30 percent) of the cases received decreased ratings, 4 (2 percent) were increased, and 116 (68 percent) were given confirmed ratings. We also found that in 47 percent of the cases, rating boards scheduled another future examination.

We computed a weighted average monthly reduction of \$364 a case based on the number of cases and various disability ratings at the seven regional offices. This figure represents fiscal year 1982 benefit amounts including dependency allowances. The average monthly increase for four cases was \$54; we did not compute a weighted average increase because too few cases received increased ratings.

Need to review disability cases
to determine whether reexaminations
should be made

To estimate the potential disability benefit reduction that could be realized throughout VA, we applied the 5.5-percent error rate we computed for the four regional offices to the comparable universe of cases for all VA regional offices.

Our 5-percent sample from VA's master record file as of March 31, 1982, identified 14,462 disabled veterans released from active duty on or after January 1, 1972, whose records showed no future examination date. The estimated universe is 289,240 disability cases, of which 15,908 (.055 x 289,240) would need to be reexamined. Combining this number of cases with our estimate of the dollar change associated with a reexamination, we estimate potential benefit reductions from reexamining and rerating these cases to be about \$20.8 million annually. We estimate that about 70 percent of the errors would involve cases with an examination date already past due and would thus require an immediate reexamination.

Further, our review showed that 47 percent of cases re-examined are scheduled for another examination. We would expect that additional benefit reductions would be realized on those cases. Applying the same estimates of reduction rates and amounts, we estimate that an additional \$10 million could be realized following the later reexamination. We did not attempt to estimate potential reductions from any further reexaminations.

We later obtained information from further analysis of the master record file which showed that about one-third of the cases that did have future examination dates as of March 31, 1982, were for veterans released from active duty before 1972. This would indicate to us that additional errors could exist on cases beyond the time frames covered by our review. We do not have sufficient information to estimate the additional errors that may exist or the additional case review that would be reasonable to identify such errors.

Matters discussed with VA officials--
corrective actions agreed upon

In December 1982, we discussed our findings with VA headquarters officials, who agreed on the need to identify scheduled future examinations that were not entered into the master record file. However, they expressed reservations about the resources required if a review of several hundred thousand cases had to be undertaken to identify errors.

We later met with VA officials and gave them additional data from our review which showed that much of the potential benefit reduction could be realized by giving priority attention to the higher rated disability cases. Of the 289,240 cases in the universe we sampled, only 41,820 were rated 50 percent or higher. These cases, however, represented 81 percent of the potential excess payments. In our opinion, similar relationships would probably occur in any other time period that VA might consider for review. Thus, an initial selection of high-rated disability cases should involve a considerably smaller investment of staff time. Although each case file would need to be examined by adjudication staff, only those with errors would be referred to the rating boards for corrective action. Based on our findings, we estimate that errors will be detected in less than 10 percent of the cases reviewed.

VA headquarters officials later told us that the regional offices could probably begin a case review limited to higher rated disabilities within a short time. In June 1983 VA issued instructions to its regional offices to begin a review in August

to identify cases in which future examination dates were not entered into the master record file. The review is to include veterans released from active duty in 1972 or later and rated 50 percent or higher.

Input procedures need to be
changed to avoid continuing error

All rating board decisions specify either an examination date or a "no exam" statement. However, in the master record file, the future examination date field contains information only on cases for which an examination date has been established. If no examination is due, the field remains blank. VA regional staff were instructed that when a rating decision specified "no exam," they were to enter no information to the computer system for the future examination date field. However, there were no controls in the system that would alert VA personnel that a future examination date shown on a rating decision was not entered.

In December 1982, we told VA headquarters officials that the ability of VA's system to process a rating decision without requiring an entry into the future examination date field contributed to the problem of missing reexamination dates. Effective February 22, 1983, VA modified its system so that regional office adjudicators must enter an examination date or the word "none" in the future examination date field before the system allows completion of the rating action.

VA's modification, however, will control only those future examination dates that are entered through the video display terminals. As discussed on page 3, regional offices use an alternative data entry system to input future examination dates from a confirmed rating.

VA's alternative data entry system is more subject to error because it has less effective control and review procedures. For example, regional staff maintain controls on pending award actions. When award actions are completed and processed through the video display terminals, pending action controls are cleared automatically. Because confirmed rating actions do not require any processing through the terminals, pending action controls must be cleared by adjudicators as a separate process. Then, any confirmed ratings requiring reexamination dates to be entered are sent to data entry clerks to be entered through the alternative system. We found that examination dates were not entered because adjudication division staff had not transferred required input documents to the data entry clerks, and receipt and handling of documents by the clerks were not adequately controlled.

In March 1983, VA officials said they would act to make the future examination date field easy to use for confirmed ratings so that the video display terminals could be used. VA expects this change could take effect by the end of 1983.

Statistical quality control does not detect missing reexamination dates

VA conducts statistical quality control reviews to identify adjudication errors. The reviews, however, do not identify future examination date errors because VA regional office staff who perform such reviews are not required to look for possible omission of a scheduled future examination date. VA headquarters officials said that statistical quality control review instructions tell adjudication division staff to look for various errors during their weekly reviews, and it is implied that any future examination dates would be checked. However, section and unit chiefs at four VA regional offices told us that they seldom verify proper entry of a scheduled future examination date. VA headquarters also reviews a sample of regional office cases every 6 months to validate the regions' error rates. These reviews do not include a verification that future examination dates have been entered into the master record file.

CONCLUSIONS

Many scheduled reexaminations have not been held because VA regional office staff did not enter scheduled reexamination dates into the master record file. Since February 1983 VA has required regional office adjudicators to make an entry in the future examination date field before a rating action can be processed through the video display terminals. However, future examination dates for confirmed ratings need not be and usually are not processed through the terminals. After VA has modified its system to facilitate use of the terminals for confirmed ratings, it should require adjudicators to process all rating actions through the video display terminals.

Future examination dates are not routinely checked during statistical quality control reviews. VA should include future examination dates as part of such reviews.

As a result of not entering future examination dates over a period of years, the master record file includes many cases that should be but are not subject to future examinations. We estimate that VA is paying disabled veterans released from active duty between 1972 and March 1982 about \$21 million a year more than would have been paid if scheduled reexaminations were

held. Additional estimated annual savings of about \$10 million would result from reexaminations held after the scheduled re-examinations.

We did not review cases involving veterans who were discharged from military service before 1972. However, there may be many such veterans whose scheduled reexaminations are not included in the master record file. Additional savings might be realized by examining such veterans whose disability ratings are not yet protected.

VA plans to begin a review in August 1983 of cases for veterans released from active duty in 1972 or later and rated 50 percent or higher. By assigning priority to these cases, VA should realize much of the potential benefit reduction through a prompt review of a relatively small number of cases. The extent of further case review needed to identify errors in lower rated disability cases and in cases with released from active duty dates before 1972 could be assessed based on the results of this initial effort.

RECOMMENDATIONS TO THE ADMINISTRATOR OF VETERANS AFFAIRS

We recommend that the Administrator direct the Chief Benefits Director to:

- Assure that the planned review to identify future examination date errors provides for sufficient reporting to enable VA to determine the extent of further case review that might be warranted to identify additional errors occurring on lower rated disability cases or on cases with released from active duty dates before 1972.
- Require that future examination dates for confirmed ratings be entered into the system through video display terminals.
- Include future examination dates as part of the headquarters and regional office statistical quality control reviews.

VA COMMENTS AND OUR EVALUATION

In an October 12, 1983, letter, VA agreed with our recommendations and described actions it had taken or planned to implement them. (See enc. II.) VA disagreed with statements in our draft report that it (1) had modified its system in March

1982 to facilitate use of the video display terminals for confirmed ratings and (2) could enter rating information through the video display terminals. VA said that, because complete award information must be entered, use of the alternative system is much more reasonable than our draft report indicated.

We did not intend for the term "rating information" to mean something less than award information and have revised the report accordingly.

Based on later discussion with VA officials, we agree that the March 1982 modification was not designed to facilitate use of the video display terminals for confirmed ratings. Some VA regional offices we visited during our fieldwork indicated that the modification might simplify data entry requirements for confirmed ratings. However, it did not. We have deleted our discussion of the March modification.

VA officials said that the video display terminals can be used, without modification, to enter a future medical examination date into the master record. However, it requires about the same effort to get the date into the master record as it would require for a changed award. The modifications planned for December 1983 will make it easier to use the terminals for confirmed ratings, and our recommendation will be implemented at that time.

The actions taken and planned by VA should, if properly implemented, substantially correct the problems identified during our review.

Office of the
Administrator
of Veterans Affairs

Washington DC 20420



OCTOBER 12 1983

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

Dear Mr. Fogel:

Your September 7, 1983 draft report "VA Can Reduce Disability Payments by Ensuring Veterans Receive Scheduled Reexaminations" has been reviewed. We concur in all three recommendations but would like to take this opportunity to comment on some statements made in the report.

One point that needs technical clarification appears on page 2 of Enclosure I. In discussing the VA regulation covering reexamination policy (38 C.F.R. 3.327), GAO lists seven situations in which future examinations are not scheduled. The second of these, involving disabilities rated at or above given levels for 20 or more years, is not a product of VA regulations but rather of Federal statute (38 U.S.C. 110). To make clear that VA has no real discretion in such cases, I suggest the phrase "By statute" be inserted at the beginning of the footnote appearing at the bottom of that page.

Other comments on your findings, conclusions, and recommendations are enclosed. Thank you for the opportunity to review this report.

Sincerely,


Deputy Administrator • FOR
HARRY N. WALTERS
Administrator

Enclosure

VETERANS ADMINISTRATION (VA) RESPONSE TO THE
SEPTEMBER 7, 1983 GAO DRAFT REPORT "VA CAN REDUCE
DISABILITY PAYMENTS BY ENSURING VETERANS RECEIVE
SCHEDULE REEXAMINATIONS"

The General Accounting Office (GAO) recommends that I direct the Chief Benefits Director to:

- Assure that the planned review to identify future examination date errors provides for sufficient reporting to enable VA to determine the extent of further case review that might be warranted to identify additional errors occurring on lower rated disability cases or on cases with released from active duty dates before 1972.

This recommendation is a restatement of VA policy and procedures already in effect. It has been the consistent policy of the Department of Veterans Benefits (DVB) to review the results of all studies and determine whether further action is warranted. The reporting requirements prescribed by DVB Circular 21-83-10 "Review of Cases for Future Physical Examination in Compensation Cases" will provide adequate data to determine if further review should be undertaken. The review is intended to ensure that required controls for future date actions are correctly in place. Future examinations are designed to evaluate a veteran's disability which may change. The examination is not intended to reduce the payment made, but to assure that payments are commensurate with the degree of disability. Missed future date examinations may show payments above the currently payable rate for a degree of disability, but DVB hesitates to speculate on any amounts of money involved unless the completed examination reports and their evaluations are thoroughly reviewed.

- Require that future examination dates for confirmed ratings be entered into the system through video display terminals.

This recommendation will be implemented in December 1983 when the capability to use video display terminals is expected to be ready. At that time, all future examination controls will be entered on the video display terminals. The Manila Regional Office, because of its inaccessibility to the system, will be the only DVB facility not using a video display terminal. The statement in the report that the system had been modified in March 1982 to accept future date controls from confirmed ratings (page 14, last paragraph) is incorrect. This capacity does not exist and GAO's remark that the regional offices "chose not to use the terminals" (page 15, second paragraph) appears to be unjustified.

On page 4, paragraph 1, the report states that future date controls could be entered into the master record by means of entering the equivalent of a formal rating. This is not currently possible because no capability exists to enter rating data via video display terminals. Complete award information is necessary; therefore, use of the "alternative data entry system" for entry of future date controls from confirmed ratings is much more reasonable than it would appear from this paragraph.

2.

--Include future examination dates as part of the headquarters and regional office statistical quality control reviews.

In March 1983, all regional offices were reminded by teletype that future examination controls were to be given special attention during statistical quality review. A thorough knowledge of the principles and procedures governing adjudication actions is required of all quality reviewers. The reviews, both at the regional office level and in Central Office, are intended to identify all erroneous actions.