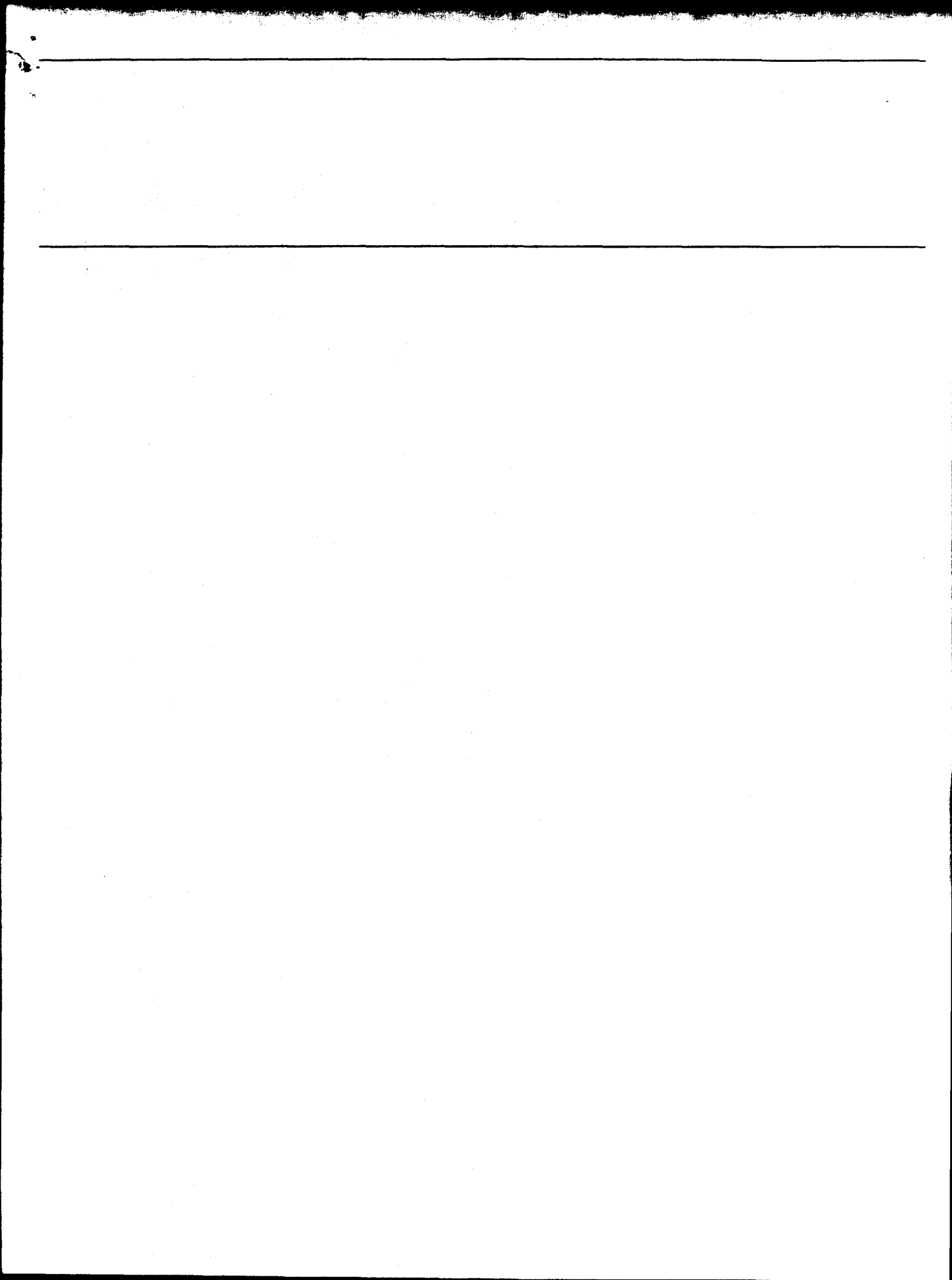April 1989

# VETERANS' BENEFITS

## Improvements Needed to Measure the Extent of Errors in VA Claims Processing

# GAO

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

**Human Resources Division**

B-234076

April 13, 1989

The Honorable Alan Cranston
Chairman, Committee on Veterans' Affairs
United States Senate

The Honorable Don Edwards
Committee on Veterans' Affairs
House of Representatives

In response to your letter of November 23, 1987, and subsequent agreements with your offices, we reviewed the Department of Veterans Affairs' (VA's) Statistical Quality Control system to determine its reliability for estimating the extent of errors made in adjudicating veterans' claims for compensation and pension benefits. This report identifies improvements needed in VA's quality control system to provide better information for program management and reporting.

As agreed with your offices, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time we will send copies to appropriate congressional committees; the Secretary of Veterans Affairs; and the Director, Office of Management and Budget, and we will make copies available to other interested parties.

This report was prepared under the direction of Franklin Frazier, Director of Income Security Issues (Disability and Welfare). Other major contributors are listed in appendix II.

Lawrence H. Thompson
Assistant Comptroller General

# Executive Summary

## Purpose

Each year the Department of Veterans Affairs (VA), formerly the Veterans Administration, pays about $14 billion in compensation and pension benefits to about 3.8 million veterans and their dependents or survivors, and about $125 million in burial benefits to veterans' survivors or estates. VA relies on its Statistical Quality Control (SQC) system to determine the extent of errors made in adjudicating claims for these benefits.

Because of allegations by veterans and others of inaccurate and inconsistent claims adjudication, VA was asked at congressional hearings about the extent of errors in processing veterans' claims. Using SQC data, VA reported that generally error rates met established standards. Subsequently, Senator Alan Cranston, Chairman of the Senate Committee on Veterans' Affairs, and Representative Don Edwards of the House Committee on Veterans' Affairs asked GAO to evaluate the reliability of VA's measurements of claims processing quality.

## Background

VA's 58 regional offices accept claims for benefits and determine the eligibility of veterans, their dependents, and survivors, as well as the benefit amount. The regions perform SQC reviews to determine the accuracy of their claims processing. Every week, the regions examine samples of cases to identify processing errors due to noncompliance with VA's operating policies and procedures. Every month, the regions report case error rates to the VA central office. Both the regions and the central office compare the reported error rates to SQC standards. If error rates exceed standards, the regions are required to identify the causes of the errors affecting the high rates so they can be corrected. In addition, the central office validates regional results by independently examining sample cases, and then reporting to VA management on the quality of claims processing.

Although VA uses SQC data to inform the Congress on how well VA adjudicates claims, the system was designed primarily to monitor adjudications in process but not to measure the correctness of final adjudication decisions and payment amounts.

## Results in Brief

VA's SQC system does not provide reliable estimates of the extent of errors made in processing claims because (1) its case sampling is not consistently random, (2) regional staff performing SQC reviews are not independent of claims processing, and (3) the central office does not ensure that the regions comply with SQC procedures or that they report errors accurately. Moreover, the SQC system does not break out error

rate data by program. As a result, VA lacks the information needed to produce accurate reports or take corrective actions within a given program.

When VA has used SQC data to estimate error rates by program or to project total error rates, the Congress has expressed concerns about the reliability of these estimates. To address the concerns for better data, VA needs to assess its requirements for measuring additional aspects of quality.

# Principal Findings

## Deficient Sampling Practices

Although sampling must be random to provide a reliable estimate of error rates, the six regions GAO visited were not selecting all cases randomly. (See pp. 14-15.)

## SQC Reviewers Not Independent of Claims Processing

Because the regional staff that adjudicates claims is also responsible for identifying adjudication processing errors, the objectivity of the error rate results has been called into question. This practice is contrary to the Comptroller General's standards for internal control. Moreover, in 1982, the VA Inspector General reported finding errors missed by regional office SQC reviewers and recommended that independent staff be assigned to perform the SQC reviews. VA disagreed because it believed (1) regional office adjudication staff had the best technical knowledge to perform the reviews and (2) using independent reviewers would require additional staff. In 1988, however, a VA task force that reviewed the SQC system made the same recommendation. VA has not yet acted on the recommendation but plans to further study its feasibility. (See pp. 16-17.)

## Central Office Ineffective in Ensuring Regions Comply With Procedures and Report Accurate Error Rates

VA's central office has not effectively carried out its SQC oversight responsibilities. For example, the central office has not enforced regional office adherence to SQC requirements, such as following written sampling plans and submitting corrective action plans to the central office for review. Further, central office verification of the regions' 12-month error rates is inadequate. The central office reviews do not cover a time period broad enough to validate error rates for more than 1 or 2 months. Thus, the central office cannot provide assurance that the

regions' reported error rates are accurate or that corrective action is appropriate. (See pp. 17-18.)

## SQC Limited as a Quality Measurement System

Congressional committees have occasionally requested or inquired about data on national error rates by program and estimates of payment accuracy from VA. Because VA lacks a system that can provide the requested information, it often inappropriately used SQC data to respond to such requests. (See p. 19.)

For example, when congressional committees requested national error rates for the compensation and pension benefit programs, VA could not separate errors in these programs from its burial benefit program. Thus, it reported error rates based on combined errors for all three benefit programs, despite differences in the programs' eligibility requirements and adjudication processes. (See pp. 19-20.)

Similarly, when the committees inquired about the extent of overpayments and improperly denied benefits, VA's SQC system could not measure erroneous payments or the kinds and causes of payment errors. VA lacks a system to provide such data. (See pp. 21-22.)

## Recommendations

GAO recommends that VA improve the reliability of its measurements of claims adjudication quality by (1) selecting all sample cases randomly, (2) assigning independent quality reviewers to enhance the integrity of the process, (3) ensuring, through the central office, that regions comply with required procedures and report accurately, and (4) developing a system that measures various aspects of quality to provide better data for program management and reporting to the Congress and others. (See pp. 22-23.)

## Agency Comments

VA said it has taken some action and plans further action to implement GAO's recommendations to ensure random case selection and regional office compliance with required SQC procedures and reporting.

VA agreed in principle that regional office SQC reviewers should be independent, but expressed the opinion that its reviews should continue without change. GAO continues to believe that regional reviews should be done independently to conform with internal control standards.

VA also concurred with GAO's recommendation for the development of a system to provide better data for program management and reporting. Although it had not done a detailed study, VA stated that a system designed to provide quality measures for individual programs and payment accuracy—as suggested by GAO—would take a long time to develop and be expensive to operate. VA said it was considering alternatives that would provide such data as a national error rate compiled from the SQC data currently available. GAO continues to believe that VA should determine the feasibility of developing a system that, at a minimum, measures payment accuracy and quality by program. (See pp. 23-24.)

# Contents

**Abbreviations**

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| GAO | General Accounting Office |
| SQC | Statistical Quality Control |
| VA | Department of Veterans Affairs |

# Introduction

## Background

In fiscal year 1987, the Department of Veterans Affairs (VA), formerly the Veterans Administration,[1] paid about $14.3 billion in disability benefits to 3.8 million veterans, their dependents, and survivors through its compensation and pension programs. VA paid roughly another $125 million in benefits to the survivors or estates of deceased veterans through its burial program. Each of these programs, administered by VA's Veterans Benefits Administration, has a claims adjudication process to determine claimants' eligibility and benefit amounts.

To monitor the quality of the claims processing, VA uses a Statistical Quality Control (SQC) system that reviews a sample of cases from work in process. Using these reviews, VA can determine whether the number of errors found in the cases falls within VA's acceptable error rate limits for work in process. A limitation of SQC is that it does not sample enough cases at the completion point in the process to project estimates of the accuracy of benefits paid.

VA's Veterans Benefits Administration operates an SQC system for the compensation, pension, and burial programs and another for its Education and Training programs. This report relates to SQC for the compensation, pension, and burial programs.

## Benefits Paid Through VA's Programs

### Compensation Program

VA's compensation program pays benefits to veterans disabled by injuries or diseases incurred or aggravated while on active military duty. The monthly benefit amount varies according to the degree of service-connected disability. As of November 1988, monthly compensation payments for veterans without dependents ranged from $71 to $1,411. Also, the surviving spouses, dependent children, and parents of veterans who died of service-connected causes are entitled to monthly benefit amounts, depending on individual circumstances.

### Pension Program

The pension program pays monthly benefits according to financial need. To be eligible, veterans who served honorably during a war must meet

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[1] Public Law 100-527 redesignated the Veterans Administration as the Department of Veterans Affairs, effective March 15, 1989.

certain income limitations and either be permanently and totally disabled from nonservice-connected causes or be 65 years old or older. Needy veterans without dependents can receive monthly pension benefits up to $518.[2] Also, the surviving spouses and dependent children of wartime veterans who died of nonservice-connected causes are eligible for monthly benefit amounts, subject to income limitations.

## Burial Program

VA's burial program provides an allowance for reimbursement of burial expenses of deceased veterans. Payments, which vary depending on whether death is service- or nonservice-connected, cover a plot or interment allowance, an allowance towards the purchase of a headstone and marker, and an American flag to drape the casket. The maximum payment under this program is $1,500.

## Claims Adjudication

The adjudication of claims under all three programs is done at VA's 58 regional offices. Each regional office has an authorization and a rating unit with the following claims adjudication responsibilities:

- The authorization unit determines if claims meet basic eligibility requirements, gathers supporting documentation, determines benefit amounts, and notifies claimants of adjudication decisions.
- The rating unit determines the degree of disability and assigns ratings, which are used in setting payment amounts.

## Statistical Quality Control and How VA Uses It

VA's SQC system is designed and used primarily as a quality control system to monitor and improve the quality of claims adjudication work in process, rather than measure the correctness of final adjudication decisions, such as awards, denials, and payment amounts for the individual programs. SQC determines through statistical means the extent of systemic or nonrandom errors occurring in claims processing so that the errors can be reduced to a level that meets SQC quality standards. The system samples from work in process, identifies actions taken that are not in compliance with operating policies and procedures, and determines the percent of cases with errors.

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[2]Additional benefits may be provided if the veteran is in a nursing home, needs regular aid and attendance, or is permanently housebound.

The SQC system is not designed to provide national claims processing error rates for individual programs, nor to provide a measure of erroneous payments. However, because VA does not have a system to provide such data, it has used SQC data to estimate the national error rate for individual programs.

## Operation of the SQC System

Weekly, each VA region selects a sample of cases being processed or recently completed by its authorization and rating units. The supervisory staff in each unit perform the SQC reviews to determine how well the units complied with VA's operating policies and procedures. The weekly samples for each unit must total a minimum number of cases monthly. The minimum monthly sample size depends upon whether VA has classified a region's workload as small, medium, or large. The required monthly sample sizes for each small, medium, and large region are 25, 50, and 100, respectively. The SQC system does not require separate samples for the compensation, pension, and burial programs. The mix of cases in a region's weekly samples depends solely on the types of cases processed by the region during that week. Thus, if a region processed predominantly one type of case during a week, that type of case will be most represented in the SQC sample.

With the errors identified through the SQC reviews of processing actions by their authorization and rating units, the regions develop combined case error rates for the three programs. Examples of processing errors identified through SQC follow.

Errors identified in the authorization unit concern

- incorrect effective date of initial or reopened benefit grant,
- benefits based upon incomplete or inadequate evidence, and
- improper referrals to the rating board.

Errors identified in the rating unit concern

- erroneous denial of service connection for a disability,
- questionable judgement in granting or increasing benefits, and
- failure to request a medical examination.

SQC procedures instruct regional office reviewers to classify the authorization and rating unit errors into one of three categories:

- Substantive errors—errors that directly affect benefit entitlements.
- Material errors—errors caused by delays or failures to act that may directly affect entitlement right or that occur when a different determination would be considered more tenable and better justified.
- Procedural errors—errors that do not, or are unlikely to, affect entitlements.[3]

Monthly, the regions determine error rates for each of the error categories and separately for their authorization and rating units and report them to VA's central office. Both the regions and the central office compare the reported error rates to SQC quality standards. Table 1.1 contains standards for the authorization and rating units by error category.

**Table 1.1: SQC Standards for Errors** (Rate Per 100 Cases)

Figures are percentages

| Error category | Authorization unit | Rating unit |
|---|---|---|
| Substantive | 3.0 | 4.0 |
| Material | 3.0 | 3.0 |
| Procedural | 6.0 | 6.0 |

Biannually, VA's central office also conducts two independent reviews of the regions' reported error rates. The first consists of a limited examination of cases previously reviewed by regional SQC reviewers to identify any overlooked errors. Results are provided to the regions for use in adjusting, if necessary, their reported error rates and in training regional quality reviewers.

For the second review the central office takes a sample of cases recently processed by each region's authorization and rating unit. The central office uses the results of this review to (1) test the accuracy of the error rates reported by the regions, (2) identify areas that require central office action, such as the clarification or revision of manuals and directives, and (3) inform the regions of errors that should be addressed in training programs.

A region is required to take corrective action when (1) its monthly rates for either substantive or material errors or both exceed standards for 3

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[3]See VA's comments to our draft report in appendix I for the precise definition of substantive, material, and procedural errors.

consecutive months or for a 12-month cumulative period,[4] or (2) the central office's independent error rates exceed standards or do not confirm the region's rates. The region is required to identify the systemic errors affecting the high error rates and determine their cause(s) so that action can be taken to eliminate or reduce them to a level that meets standards.

The error rates for all the regions are reported to top management through VA's computerized management information system. VA top management uses these data to monitor trends in claims adjudication quality and inform the Congress and others of how well claims are being adjudicated.

## Objective, Scope, and Methodology

Congressional hearings were held in 1986 and 1987 to address flaws in VA's claims adjudication process that were reported by veterans, veterans' service organizations, the VA Inspector General, and others. Some reported that such flaws resulted in inaccurate and inconsistent claims adjudication. During these hearings, much of the discussion focused on the reliability of VA's efforts to identify and measure the extent of errors in the adjudication process.

As a result of the hearings, Senator Alan Cranston, Chairman, Senate Committee on Veterans' Affairs, and Representative Don Edwards asked us to evaluate the reliability of VA's efforts to measure compensation and pension claims adjudication quality. Our objective was to determine whether VA's efforts produce adequate and reliable data needed for identifying and correcting claims processing errors and reporting to the Congress and others.

Our audit work was conducted at VA's central office in Washington, D.C., and at its Baltimore, Cleveland, Louisville, San Francisco, Seattle, and St. Petersburg regional offices.

To accomplish our objective, we reviewed:

- Legislation, regulations, manuals, policies, and other information governing quality control and measurement, as well as records of recent congressional hearings on VA's claims adjudication process and efforts to measure how well VA processes veterans claims;

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[4]VA does not include procedural errors in the definition of required corrective action because such errors do not or are unlikely to affect benefit entitlements.

- VA's central office's role, including its oversight of regional offices, independent reviews, and reporting;
- Prior studies of SQC, such as VA's Inspector General's 1982 audit report; and
- Manuals and other information dealing with other federal agency quality measurement systems, such as those for Aid to Families with Dependent Children, Food Stamps, Medicaid, and Social Security.

At the regional offices, we obtained information on SQC sampling and review procedures, error reporting, and corrective action plans.

Our work was done between October 1987 and May 1988 in accordance with generally accepted government auditing standards.

# Deficiencies and Limitations in VA's Statistical Quality Control System

VA's Statistical Quality Control system does not give adequate and reliable information on claims processing accuracy for VA's use in monitoring its programs and reporting to the Congress and others on the quality of service to veterans. Among the deficiencies regarding SQC and its use are the following:

1. The SQC system uses sampling and review practices that do not produce reliable results.

2. The system uses regional staff who are not independent of claims processing to perform SQC reviews; and

3. VA's central office has not adequately validated error rates reported by the regions nor ensured that the regions comply with SQC procedures.

Further, because of its design the SQC system is limited in providing some important quality measurement data. For example, it does not provide national statistics on program error rates and payment accuracy. These features would give VA better data for program management and reporting on claims processing quality.

## Deficiencies in Sampling and Review Practices

The sampling and review practices used in the SQC system do not produce reliable results. Deficient practices include (1) not randomly selecting samples for some SQC reviews and (2) not reviewing many cases within the required time periods.

### Nonrandom Sampling

The VA regional offices we visited rely on a central office computer program to randomly select a sample of cases for review. However, for the rating unit review the computer program frequently selected fewer cases than were required. During the 3-month period ending January 1988, the computer program provided less than the specified number of rating unit cases at four of the six regions we visited. For example, one region was required to review 150 cases processed by its rating unit during the 3-month period, but the computer program provided only 41 cases.

When the computer program selects too few cases, SQC procedures require that the regions use an alternative random-selection method. To accomplish this, regions are supposed to follow written sampling plans.

But, four of the six regions included in our review lacked written sampling plans, and three of the offices were not randomly selecting additional cases. For example, two offices merely obtained needed cases from a stack of cases recently completed by the unit being reviewed.

Conversely, for the authorization unit review, the computer program routinely selected more cases than required. During the 3-month period ending January 1988, the program selected an excess number of cases for each of the six regions we visited. The regions, depending on their required minimum sample sizes, needed 75 to 300 cases, but they received between 400 and 520 cases. SQC procedures do not specify how the regions are to choose cases for review from the excessive number of cases to maintain a random selection. The regions we visited did not select cases from the excess number in a random way. Instead, they selected those cases that could be readily located, without regard to the order of the random case selection. Further, the regional offices could not explain why certain cases were selected over others. This practice does not ensure random case selection and raises questions about the objectivity of the selection process.

Central office SQC officials said they did not know why the computer program did not select the correct number of cases for each region, but agreed that the problem needs to be resolved so that the correct number of cases are randomly selected for review.[1]

## Many Cases Not Reviewed Within Required Time Period

None of the six regional offices we visited reviewed all cases in the same month the sample was drawn. SQC procedures require this unless a case is permanently transferred to another office or declared lost. The purpose of this requirement is to provide data for timely corrective action. The regions we visited included many cases in their monthly reviews that had been selected in prior months—some 6 months or more earlier. For example, 50 percent of the cases reviewed in January 1988 by one region had been processed and were selected by the computer program 6 or more months previously. Further, 89 percent of the cases reviewed in January 1988 by another region had been selected in November 1987.

As a result of this practice, the regions determine their error rates based on cases they processed outside the monthly SQC reporting periods and

[1]On January 12, 1989, VA advised regional offices of the need to ensure a random case selection. In commenting on our draft report, VA said it planned to change the computer program to select the correct number of cases for each region (see app. I).

processed in different months among the regions. Errors occurring in different months are combined to compute the current reporting period error rates. Thus, the rates do not reflect the extent of claims processing errors for a specific SQC reporting period. This practice hinders VA from accurately determining quality levels for a specific reporting period to achieve timely corrective action—VA's purpose in requiring timely reviews.

Adjudication officials in the regions we visited said that many cases were not reviewed in the month that the sample was drawn because they prefer not to review cases until the adjudication process is completed. This is less disruptive to the processing of claims, they explained.

# SQC Reviewers Not Independent of Claims Processing

SQC regional office review procedures do not provide for a complete separation of duties and responsibilities for the adjudication of claims and SQC case reviews. VA regional adjudication staff have dual responsibilities: claims processing and SQC reviews to determine the quality of claims processing. Although it is not intended that the SQC reviewers review claims they processed, they do review claims processed by others under the direction of their adjudication division manager. They are thus responsible for identifying the extent of claims processing errors committed by the regional unit that they work for and from whom they receive ratings and promotions. Also, their SQC reports are reviewed by the manager of the adjudication unit before being submitted to the central office. Therefore, the regional reviewers are not independent of the process they are reviewing, creating the potential for them to be less than totally objective in pointing out all claims processing errors. Concern about the lack of independent SQC reviewers was raised in 1982 by the VA Inspector General and in 1988 by a VA task force that reviewed the agency's quality and timeliness measurement systems.

In 1982, VA's Inspector General recommended that VA assign independent staff at regional offices to perform SQC reviews. Reviewing case files previously reviewed for SQC by regional offices, the Inspector General found authorization unit error rates from two to three times higher than those reported by the regional SQC reviewers. One possible reason for regional office SQC reviewers not identifying all errors, the Inspector General concluded, was that they might not be completely objective due to their lack of independence. VA did not implement the Inspector General's recommendation to assign independent staff to regional offices to perform SQC reviews. VA stated that (1) regional office adjudication staff had the best

technical knowledge for the reviews and (2) using independent reviewers would require additional staff.

In a 1988 report, a VA task force that reviewed VA's quality and timeliness measurement systems concluded that the current SQC review process should be changed to remove alleged biases attributed to regional office "self-auditing." Many regional office and adjudication division managers were being appraised on the results of the regional SQC reviews, according to the task force. The task force recommended to VA management that the SQC review function be removed from regional offices and conducted instead by central office reviewers. At the time of our review, VA had not acted on the task force recommendation, but planned to further study the feasibility of the recommendation.

In this matter, VA's practice is contrary to standards published by the Comptroller General, which require that key duties and responsibilities in processing and reviewing transactions be separated among individuals. Incumbent upon federal executive agencies establishing and maintaining systems of internal controls for both program and financial management is the development of standards that are consistent with those prescribed by the Comptroller General.

# Central Office SQC Oversight Ineffective

VA central office staff have not effectively carried out their responsibilities for ensuring that the regions report accurate error rates and comply with SQC procedures.

## Inadequate Review of Error Rates

Biannually, the central office staff perform two independent reviews of each region's reported error rates. For the first review the central office staff examine a subsample of cases previously reviewed by each region to determine their reported error rates. Central office staff judgmentally select about 15 cases for each of the regions' authorization and rating units and review them to identify missed errors. These review results are given to the regions for use in training SQC reviewers. Also, in June 1988, the central office issued instructions requiring the regions to adjust their reported rates to reflect missed errors identified by the central office. The instructions were issued, central office staff said, because the regions were not adjusting their reported rates, as the central office had assumed they were doing.

For the second review the central office staff examine separate samples of about 40 rating and 80 authorization cases recently processed by each

regional office. From identified errors they compute error rates that are compared both to standards and to regional office reported error rates. If the central office rates exceed VA standards or do not confirm the reported rates by use of a statistical test, the regional office is supposed to review and analyze both its identified error data and the central office results to determine the appropriate corrective action.

In 1982, VA's Inspector General reported that this central office review was ineffective because the regional error rates being validated cover a 12-month period, but the central office error rates cover only a 1- or 2-month period. The central office validation sample was not fully representative of the regional sample being validated, according to the Inspector General. The validation sample, the Inspector General concluded, reflects short-term quality that might not represent the entire quality period covered by the regional sample. The Inspector General recommended that the central office review cover the same time period as the regional reviews being validated. However, VA believed that the shorter time period used for the validation review was appropriate.

We agree with VA's Inspector General that the central office cannot adequately validate regional error rates unless it samples cases that cover the same time period as the regional error rates being validated. Further, because the central office samples are from different time periods, they may not adequately represent the types of processing actions included in the regional samples.

## Noncompliance With SQC Procedures

The central office has not carried out all of its responsibilities to ensure that regional offices comply with SQC procedures. For example, the central office did not make certain that the regions we visited followed written sampling plans as required by SQC procedures. As discussed on page 15, we found a lack of written plans in the regions we visited. Nor did the central office ensure that regions reported corrective action taken as required. During periods of sustained unacceptable quality, SQC procedures require the regions to submit reports on corrective action taken to the central office. In reviewing central office files for 10 regions to determine if the required reports were submitted during a 3-year period, we found that files for 6 of the regions lacked some required reports. Also, two offices had submitted no reports for four separate periods of unacceptable quality dating back to 1985. As a result, the central office lacked the data the reports would have provided for it to evaluate the regions' corrective actions.

# SQC Limited as a Quality Measurement System

Congressional committees have occasionally requested data on national error rates for individual programs and inquired about the extent of erroneous payments. Neither SQC nor any other VA system provides such data. Nevertheless, VA often inappropriately uses SQC data to estimate national statistics on the quality of claims adjudication for its top management and the Congress.

As stated earlier, the SQC system is limited in providing some important quality measurement data. It is used by VA primarily as a quality control system to monitor the quality of claims adjudication work in process for early corrective actions. It does not measure the correctness of final adjudication decisions—awards, denials, payment amounts, or other decisions—to provide statistical data on the extent of completed cases in error.

The House and Senate Veterans' Affairs Committees and the House Government Operations Committee held hearings that questioned the reliability of VA's efforts to identify and measure the extent of errors in claims adjudication. In 1988, the House Government Operations Committee issued a report (H.Rept. 100-886) that concluded that the SQC system was not providing reliable quality measurement data for the Congress to perform its oversight role.

In order to address the concerns of congressional committees, VA needs a quality measurement system to supplement its current quality control systems. At a minimum, VA should consider adding two quality measures that are used in several other large federal benefit programs:

- a measure of claims adjudication quality by program and
- a measure of payment accuracy.

## Quality Not Measured by Program

As previously stated, congressional committees have requested program specific quality data from VA. However, VA does not have a system that provides such data on a program-by-program basis. The current SQC system provides a combined error rate for the compensation, pension, and burial programs. Consequently, VA cannot accurately report the error rate of a specific program nor take corrective action on a specific program on the basis of its error rate. These programs are very different in terms of eligibility requirements and adjudication process. For example:

- The adjudication of claims for compensation benefits requires a determination of the extent of injuries or diseases that must be service-connected (incurred or aggravated while on active military duty).
- The adjudication of claims for pension benefits requires a determination of financial need. Veterans who serve in time of war are eligible for pension benefits for a nonservice-connected disability. The veteran must either be permanently or totally disabled or be 65 years old or older, and meet specific income limitations.
- As the burial program provides for reimbursement of burial expenses of deceased veterans, the adjudication of such claims must include verification of death.

Each of these determinations requires some different claims processing steps and supporting evidence, as outlined in separate sections of VA's claims processing manuals.

Further, the significance of adjudication errors and their impact on claimants vary considerably by program. For example, both the compensation and pension programs generally provide long-term disability benefits, while the burial program provides a limited, one-time reimbursement of funeral expenses. Thus, the significance and impact of an erroneous eligibility or benefit amount determination for compensation or pension claims are likely to be much greater than such determinations for burial claims.

Lacking data on the extent of errors affecting claims for the individual programs, VA has used SQC rates representing errors in all three programs to respond to allegations or questions related to how well it adjudicates claims for specific programs. One example of such use of SQC error rates occurred during a congressional hearing when VA was discussing problems in processing veterans' claims for compensation and pension benefits. VA officials presented SQC error rates—comprised not only of compensation and pension claims errors, but burial claims errors as well.

By comparison, the Departments of Health and Human Services and Agriculture have systems that are designed to measure the accuracy of claims processing for individual programs separately. For example, under the state-administered welfare system, many states use integrated program management and quality measurement systems for several programs. But, information on the extent, kinds, and causes of errors is developed for each program. Thus, appropriate corrective action can be

taken and error rates reported to federal and state agency heads, the Congress, and others.

Additionally, the Office of Management and Budget requires that federal agencies' quality control systems be designed to determine the extent a product or service meets a "customer's" expectations.[2] The combined error rate data provided by the SQC system are inadequate for VA to meet this requirement for the different populations served by the individual programs.

## Payment Accuracy Not Measured

Similarly, during congressional hearings, committees have inquired about the extent of erroneous payments. For example, during one hearing VA was asked about the extent to which deserving claimants were denied benefits and undeserving claimants were paid benefits. VA said it did not have such information. While providing correct benefit payments is a basic objective of VA, neither the SQC system nor any other VA system provides a comprehensive measure of the accuracy of compensation, pension, or burial benefit payments. Without an overall measure of payment accuracy, VA lacks data that would help identify

- specific kinds of errors that most significantly affect payments,
- specific causes of payment errors, and
- types of corrective actions that would be most likely to reduce erroneous payments.

The SQC system provides only limited information on payment accuracy. It gives no overall estimate of overpayments and underpayment amounts. In 1982, VA's Inspector General recommended that VA determine the cost and benefits of establishing a measure of the dollar impact of erroneous payments. In response to the recommendation, VA amended SQC procedures to require regional offices to record the dollar amount of overpayments and underpayments in cases with substantive errors that would have an effect on benefit payments. However, this data cannot be used to project total overpayments and underpayments because the SQC samples are not representative of all cases receiving payments and denied benefits during the review period. Furthermore, the SQC system samples are based on some cases that have completed the adjudication process and others that have not. Thus, not all errors that could affect payments are identified. The data also reflect the combined review of

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[2]Office of Management and Budget Circular No. A-132, Apr. 22, 1988.

the compensation, pension, and burial programs and cannot be separately related to each program.

By comparison, quality measurement systems for certain other large federal claims processing systems, such as those for welfare programs and social security, provide estimates of the extent and dollar value of payment errors and are used to develop data to identify the kinds and causes of payment errors.

# Conclusions

The SQC system is designed to monitor claims adjudication while the work is in process. Its purposes are the early detection of claims processing errors and early corrective actions before errors become widespread, rather than providing measures of the correctness of final adjudication decisions and payment accuracy.

As currently operated VA's SQC system has several flaws, including (1) nonrandom sampling of cases in some regions, (2) quality control reviewers who are not independent of regional management, and (3) inadequate central office oversight of the SQC system. Therefore, SQC system results are not reliable indicators of the quality of claims adjudication work in process, and VA cannot accurately report on the extent of claims processing errors for oversight and corrective action.

VA often uses SQC data to estimate the national claims processing error rates for the Congress and internal management. However, because of the SQC system's design it cannot accurately project total claims processing error rates, error rates by program, or payment accuracy. Congressional committees have expressed concerns about receiving unreliable claims processing error rate information from VA.

# Recommendations to the Secretary of Veterans Affairs

We recommend that the Secretary of Veterans Affairs improve the SQC system by:

- requiring the regional offices to (1) select sample cases randomly and (2) review cases within the required time period;
- assigning personnel to perform SQC reviews who are independent of regional management; and
- improving the central office role by (1) having validation reviews cover the same time period and types of processing actions as the regional reviews being validated, and (2) enforcing regional office compliance with central office requirements.

To address the concerns of congressional committees, the Secretary should

- consider developing a quality measurement system to supplement VA's current quality control systems. At a minimum, VA should measure claims processing quality for individual programs and payment accuracy.

## Budget Impact of Our Recommendations

We recognize that the development of a quality measurement system may increase VA's administrative costs over the short term. Over the long term, however, an effective quality measurement system should result in improved claims processing and a reduction in erroneous payments. Similarly, improved reporting could increase operating costs. But such improvements should not be considered solely from a cost standpoint. Evaluation is a fundamental part of program administration.

## Agency Comments and Our Evaluation

We requested comments on a draft of this report from VA. The agency's comments are summarized below and are presented in full in appendix I. VA generally concurred with our recommendations.

VA stated that it has taken some corrective action and plans further action to ensure that sample cases are selected randomly and that cases are reviewed within the required time period.

Although VA said it concurred in principle with our recommendation that SQC reviews be conducted by personnel independent of the regional office management, it apparently plans no corrective action. VA stated that central office personnel who perform SQC validation reviews are independent and referred to a consultant's study that concluded that the central office reviews are a useful and efficient means to check for regional bias or incorrect methodology. We do not dispute the merits of central office reviews, but believe these reviews are not a substitute for the regional office reviews. As discussed on pages 11 and 12 of this report, regional reviews provide an ongoing assessment of the extent of errors made in processing claims for corrective action purposes and reporting. For SQC system purposes, we continue to believe that regional reviews should be done independently to conform with internal control standards.

VA also agreed to improve the central office role of ensuring that regions comply with required procedures and report accurately. VA cited specific actions already taken and planned to improve the central office role.

VA concurred with our recommendation to consider developing a system that measures various aspects of quality to provide better data for program management and for reporting to the Congress and others. VA stated, however, that it was considering alternative, short-term methods for providing such data as a national error rate, rather than development of a system that would provide measures of claims processing quality for individual programs and payment accuracy. Although it hasn't done a detailed study, VA said that it thought that a system designed along the lines we suggested would take a long time to develop and implement and would be quite expensive to operate.

Although we agree with VA's approach to explore alternative, short-term methods to enhance quality control information, we believe VA should determine the feasibility of developing a quality measurement system that, at a minimum, measures payment accuracy and quality by program. As stated in our draft report, we recognize that the development of a quality measurement system may increase VA's administrative costs over the short term. Over the long term, however, an effective quality measurement system should result in improved claims processing and a reduction in erroneous payments.

VA also made some technical comments that have been addressed, as appropriate, in this report.

# Comments From the Department of Veterans Affairs

Office of the
Administrator
of Veterans Affairs

Washington DC 20420

## Veterans
## Administration

FEB 22 1989

Mr. Lawrence H. Thompson
Assistant Comptroller General
Human Resources Division
U. S. General Accounting Office
Washington, DC  20548

Dear Mr. Thompson:

This responds to your request that the Veterans Administration (VA)
review and comment on the General Accounting Office (GAO)
December 28, 1988, draft report VETERANS' BENEFITS: Improving VA's
System to Measure the Extent of Errors in Processing Claims. GAO
evaluated the Statistical Quality Control (SQC) system's reliability in
terms of measuring claims processing quality and concluded that the
system does not provide reliable estimates of the extent of errors made
in processing claims.

The VA concurs in the recommendation that the Administrator of Veterans
Affairs require the regional offices to select sample cases randomly and
review them within the required time period. We also agree to improve
the Central Office role by having their validation reviews and the
regional reviews cover parallel time periods, and to enforce compliance
with Central Office requirements. We agree in principle with the
recommendation to assign personnel who are independent of regional
management to perform the SQC reviews, but believe the monthly regional
office reviews should continue. The Central Office validation reviews
are independent and, as stated in the October 1988 Price Waterhouse
report on the SQC system, were found to be a useful and efficient means
to check for bias or incorrect methodology.

GAO also recommends that VA consider developing a quality measurement
system to supplement its current quality control system. We agree, but
rather than design a system as GAO outlines, we are studying
alternatives, using data gathered from cases reviewed by Central Office.

The enclosure contains additional comments on the recommendations as well
as suggestions for modifications in the text of your report.

Sincerely,

THOMAS E. HARVEY
Acting Administrator

Enclosure

Enclosure

VETERANS ADMINISTRATION COMMENTS ON THE DECEMBER 28, 1988
GAO DRAFT REPORT  VETERANS BENEFITS:  IMPROVING VA'S SYSTEM TO
MEASURE THE EXTENT OF ERRORS IN PROCESSING CLAIMS
GAO/HRD-89-9

To improve the SQC system, GAO recommends that the Administrator of
Veterans Affairs

--require the regional offices to select sample cases randomly, and
review cases within the required time period;

We concur.  Similar recommendations are contained in the October 21,
1988, Price Waterhouse report Validation of Methodology of Statistical
Quality Review for the Department of Veterans Benefits (DVB).  DVB's
Compensation and Pension Service and Vocational Rehabilitation and
Education Service will propose a redesign of the Target Quality Control
Review (QCRE) system to enable the field stations and Central Office to
randomly select the exact number of cases needed to conduct the initial
and validation reviews.  The proposal will also recommend that the QCRE
system be modified to better identify the entire population from which
rating cases may be selected.  Pending implementation of the Target
modifications, we are reminding regional offices to randomly select or
deselect cases when QCRE furnishes an incorrect number.

A January 12, 1989, SQC/Field Operations Training Letter reminds our
field stations to review the selected cases within the required time
period, or, if necessary, to correct data entered previously so that all
SQC data appear in the proper time period in the Automated Management
Information System.  During site surveys, Central Office program
personnel will continue to verify that regional offices are properly
coding all rating cases to show that they are located with the rating
board, as this determines the size of the rating board QCRE listing.

--assign personnel who are independent of regional management to
perform the SQC reviews;

We concur in principle with the intent of this recommendation.  Although
regional offices conduct monthly reviews, independent SQC validation is
conducted by Central Office and is not in any way subject to station
management.  The Price Waterhouse report found the validation reviews to
be a useful and efficient way to determine if bias exists or incorrect
methodology is used by the regional offices.  We believe the monthly
regional office reviews should continue because they enable the regional
offices to gauge quality and take prompt corrective action.  If Central
Office were to conduct the only reviews, some problems might go
unrecognized until a station undergoes a periodic review.

2.

> --improve the Central Office role by (1) having validation reviews cover the same time period and types of processing actions as the regional reviews being validated, and (2) enforcing regional offices' compliance with Central Office requirements.

We concur. The first part of this recommendation is similar to a recommendation made by Price Waterhouse. We intend to request a QCRE modification that will permit Central Office to select validation cases covering a review period consistent with that being validated. Controls have recently been implemented to ensure that regional offices provide documentation of planned corrective actions and an implementation timetable. Now that we have controls, followup requests will be made when reports are not submitted on time.

To address the concerns of the Congress, GAO recommends that VA consider developing a quality measurement system to supplement its current quality control system. At a minimum, VA should measure claims processing quality for individual programs and payment accuracy.

We agree. However, a system designed along the lines outlined in the GAO report would be quite expensive to operate and would take a long time to develop and implement. We are studying the Price Waterhouse suggestions regarding alternative short-term methods for providing a national error rate, using data gathered from the cases Central Office reviews when validating regional office SQC.

We also offer the following comments on the draft report text.

On page 13, GAO defines the three categories of authorization and rating unit errors. We would prefer that GAO use the precise definitions found in the Glossary of VA Manual M21-4:

> Substantive Error: An inadequacy, incorrect action, or clearly erroneous decision affecting entitlement rights (monetary or otherwise) of veterans and dependents, which, if uncorrected, results in or would result in the improper grant or denial of entitlement rights (monetary or otherwise) to veterans or their dependents.

> Material Deficiency: An action or failure to take action, which is not so erroneous as to be considered a substantive error, but is reflective of a material deficiency in application of pertinent laws and regulations. A material deficiency usually exists whenever a different action would be more tenable.

> Procedural Discrepancy: An action or failure to take an action essentially procedural in nature when the discrepancy involved is not of such a nature that substantive benefits have been or would likely be affected.

Now on. p. 15.

3.

On page 20, GAO indicates that SQC procedures do not specify how the regional offices are to select cases for review when an excessive number of cases is provided by QCRE. The January 12, 1989, SQC/Field Operations Training Letter advises the regional offices that an objective and random SQC selection process, clearly specified by written division policy, should be followed. It instructs that the plan should include procedures that ensure a random selection when QCRE listings provide more or fewer cases than required. We will incorporate these procedures into VA Manual M21-4. During site surveys, Central Office personnel will ensure that Adjudication Divisions have adequate, written sampling plans in place as required by the Manual.

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