GAO

September 1990

VETERANS' BENEFITS

VA Acts to Improve Quality Control System

142275

GAO

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

Human Resources Division

B-234076

September 24, 1990

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

Dear Mr. Chairman:

In response to your September 28, 1989, request, we reviewed the Department of Veterans Affairs' (VA's) actions on recommendations in our report, Veterans' Benefits: Improvements Needed to Measure the Extent of Errors in VA Claims Processing (GAO/HRD-89-9, Apr. 13, 1989). You asked for our views on VA's initiated and planned actions that were outlined in its August 25, 1989, letter to your Committee (see app. I).

Background

Our April 1989 report discussed the statistical quality control (SQC) system that VA's Veterans Benefits Administration operates for compensation, pension, and burial programs. Claims are processed for these programs by the adjudication division in VA's 58 regional offices. The regions perform SQC reviews to measure the accuracy of their claims processing. The regions and VA's central office compare reported error rates to SQC standards. If error rates exceed standards, the regional offices are required to identify the causes of the errors so that they can be corrected.

To examine VA actions taken on our recommendations, we reviewed documentation on VA's modifications to the SQC system and implementation of system changes at its central and regional offices in Washington, D.C. In addition, we had detailed discussions with officials from VA on its responses to and actions on our recommendations. We did not review the revised system's effectiveness. Our work was done in accordance with generally accepted government auditing standards.

On May 31, 1990, we briefed your office on the results of our work, using the slides shown as figures 1 through 11 of this briefing report. Our results are summarized below and explained in more detail with each of the figures.

GAO Follow-Up Results

VA's initiated and planned actions are responsive to our concerns about its SQC system. At both the central office and Washington, D.C., regional office, VA has fully implemented our recommendations that the Secretary of VA

- require the regional offices to (1) select sample cases randomly for SQC reviews and (2) review cases for the same month they are selected, and
- improve the central office role by (1) having its reviews to validate regional SQC reviews cover the same time period and types of processing actions as the regional reviews and (2) enforcing regional office compliance with central office requirements to report corrective action planned or taken for periods of sustained unacceptable quality.
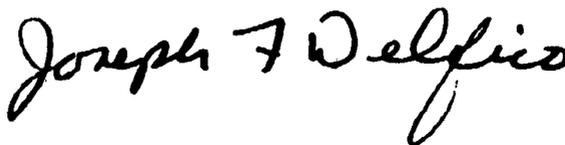
Also, as we recommended, VA has developed measurements of claims processing quality for individual programs.

In response to two other recommendations, VA plans to (1) do an in-depth study of the feasibility of measuring the extent of erroneous payments, giving emphasis to high-cost programs, and (2) have regional SQC reviewers report to the regional director rather than to the adjudication division manager to conform to internal control standards for separation of duties. We will continue to monitor VA's actions in these areas.

We are sending copies of this briefing report to interested congressional committees, the Secretary of VA, and other interested parties. If you have any questions about the information reported please contact me on (202) 275-6193. Other major contributors are listed in appendix II.

Sincerely yours,

Joseph F. Delfico
Director, Income Security Programs

Contents

Abbreviations

CO	central office
GAO	General Accounting Office
RO	regional office
SQC	statistical quality control
VA	Department of Veterans Affairs

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Figure 1

GAO **Follow-Up Objectives, Scope, and Methodology**

- Identify VA actions taken and how they address GAO recommendations

- Work done at VA central office (CO) & Washington regional office (RO) during 12/89-3/90

- Interviewed officials and reviewed SQC procedures and their implementation

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Follow-Up Objectives, Scope, and Methodology

In September 1989, the Chairman, Senate Committee on Veterans' Affairs, asked for our views on VA's actions on recommendations made in our report, Veterans' Benefits: Improvements Needed to Measure the Extent of Errors in VA Claims Processing (GAO/HRD-89-9, Apr. 13, 1989). VA's actions were outlined in its August 25, 1989, letter to the Committee (see app. I).

At VA's central office, we reviewed documentation on its reviews to validate two regional offices' SQC results for a recent 6-month period. To determine whether the central office was following its revised procedures, we reviewed how it validated sample cases and documented review results. We also reviewed controls that VA's central office established to ensure that regional offices report corrective action planned or taken, as required.

At VA's Washington, D.C., regional office, we reviewed documentation on SQC reviews of claims processed during the December 1989 reporting period. To determine whether revised procedures were followed, we reviewed how the region selected sample cases and documented review results.

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Figure 2

> **GAO** **Current Operation of the SQC System**
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> ---
>
> - CO computer selects sample cases weekly
>
> - ROs delete or add cases to meet monthly sample sizes
>
> - CO biannually validates RO review results
>
> - ROs develop corrective action plan, if necessary

Current Operation of the SQC System

Central Office Computer Selects Sample Weekly

The VA regional offices rely on a central office computer program to randomly select a sample of cases being processed or recently completed by their authorization and rating units.[1] The weekly samples for each unit must total a minimum number of cases monthly. The minimum monthly

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[1] An authorization unit determines if claims meet basic eligibility requirements, gathers supporting documentation, determines benefit amounts, and notifies claimants of adjudication decisions. A rating unit determines the degree of disability and assigns ratings, which are used to set payment amounts.

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sample size depends on whether VA has classified a region's work load as small, medium, or large. The required monthly sample sizes for each small, medium, or large region are 25, 50, and 75, respectively. The SQC system does not draw separate samples for the compensation, pension, and burial programs.

Regional Offices Delete or Add Cases to Meet Monthly Sample Sizes

The computer program is not designed to select the exact number of cases required. Also, some selected cases may not be available because they have been transferred to the Board of Veterans Appeals or another regional office or they are temporarily lost. As needed, regional offices are to randomly add or delete cases to ensure the proper sample size.

Central Office Biannually Validates Regional Office Review Results

With the errors identified through the SQC reviews of processing actions, by their authorization and rating units, the regional offices develop combined case error rates for the three programs. (The error rate represents the number of cases per 100 with one or more errors.) Monthly, the regions determine error rates for each of three error categories[2] and separately for their authorization and rating units. These error rates are reported to VA's central office.

Biannually, VA's central office takes a sample of cases processed by each regional office's authorization and rating units during a 6-month period and reviews the cases for errors. The central office uses the results of this review to, among other things, test the accuracy of the error rates reported by the regional offices.

Regional Offices Develop Corrective Action Plan, If Necessary

A regional office is required to report corrective action planned or taken to the central office when (1) its monthly rates for either substantive or material errors or both exceed standards for a 12-month cumulative period or (2) the error rates from the central office's validation error rates exceed standards or do not confirm the regional office's rates.[3] The standard for substantive errors is 3 percent for the authorization unit and 4 percent for the rating unit. The standard for material errors is 3 percent for both units.

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[2] Briefly, the categories are: Substantive—errors that affect benefit entitlement. Material—errors wherein a different action may have been more appropriate (not considered as serious as a substantive error). Procedural—errors that are not likely to affect benefits.

[3] VA does not include procedural errors in the definition of a required corrective action because such errors are unlikely to affect entitlement.

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Figure 3

GAO Deficiencies and Limitations
in SQC System

- Nonrandom sampling of cases

- Inadequate CO oversight

- SQC reviewers not independent
  of claims processing

- Quality not measured by
  program

- Payment accuracy not
  measured

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Deficiencies and Limitations in SQC System

In our April 1989 report, we concluded that VA's SQC system did not provide 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 services to veterans. VA's SQC system had several flaws, including (1) nonrandom sampling of cases by some regional offices when adding cases to or deleting cases from those selected by the central office computer, (2) inadequate central office oversight of the SQC system, and (3) quality control reviewers who were not independent of regional office management. Further, because of the SQC system's design, VA could not accurately estimate the universe of claims processing errors, errors by program, or the extent of erroneous payments.

In our report we recommended that the Secretary of Veterans Affairs improve the SQC system by:

1. Requiring regional offices to add or delete cases randomly, using written sampling plans, to ensure that SQC samples are representative of the case universe.

2. Reviewing only the current month's cases so that the quality of claims processing is determined for a specific reporting period to achieve timely corrective action.

3. Improving the central office's validation of regional office error rates by having the validation reviews cover the same time period and types of processing actions as the regional reviews.

4. Enforcing the SQC requirement that regional offices report corrective actions planned or taken after periods of sustained unacceptable quality.

5. Measuring processing quality by program to provide the basis for corrective actions for each program.

6. Considering measuring the extent of erroneous payments to help identify the kinds and causes of errors and needed corrective actions.

7. Using independent reviewers to ensure objectivity in determining errors.

These recommendations are discussed in detail throughout the remainder of this report. (See figs. 4-10.)

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Figure 4

GAO   **Require ROs to Add or Delete
Cases Randomly**

VA's action:

- **As interim action,
  directed ROs to randomly
  select cases**

- **Revised procedures specify
  how ROs are to randomly
  select cases and negate need
  for RO written sampling plans**

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Require Regional Offices to Add or Delete Cases Randomly, Following Written Sampling Plans

GAO's 1989 Report

In 1989, we reported that four of the six regional offices included in our review lacked required written sampling plans to randomly select rating unit cases when the computer selects too few cases. We also stated that three of the regions were not randomly selecting additional rating unit cases. For example, two offices merely obtained the needed cases from a stack of cases recently completed.

Also, the computer program routinely selected too many authorization unit cases for each of the six regions we visited. The regions did not select authorization cases for review from the list of computer-selected cases randomly. Instead, they selected those cases that could be readily located, without regard to the order of the random-case selection.

VA's Action

VA's central office advised the regional directors, in a January 12, 1989, letter, that the regional offices' written sampling plans should include procedures for randomly adding or deleting cases when the central office computer generates fewer or more cases than required.

Revised SQC procedures specify how the regions are to randomly select additional cases or delete cases by using a computer-generated random number. The revised procedures negate the need for each regional office to specify a random-selection process by written policy. Our review of the Washington, D.C., regional office's case listings and worksheets for the December 1989 SQC review showed that the office followed the revised procedures when adding and deleting cases.

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Figure 5

GAO **Review Only Current
Month's Cases**

VA's action:

- As interim action,
  advised ROs to review
  only current month's cases

- Revised procedures more
  clearly state requirement
  to review current month's
  cases

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Require Regional Offices to Review Only Current Month's Cases

GAO's 1989 Report

SQC procedures required regional offices to review all cases in the same month the sample is drawn. The regions we visited, however, included many cases in their monthly reviews that had been selected in prior months' reviews—some 6 months or more earlier. This practice hindered VA from accurately determining quality levels for a specific reporting period and achieving timely corrective actions.

VA's Action

In its January 12, 1989, letter to regional directors, VA's central office stated that GAO had pointed out the importance of reviewing the SQC sample within the same month it is selected to accurately determine quality levels for a specific reporting period. The letter directed the regions to address this criticism through timely reviews.

Also, SQC procedures were revised to more clearly require that cases reviewed for a particular month should include only cases selected for review during that month. Also, the regional offices are required to retain all case listings and worksheets showing the selection process.

Our review of the Washington, D.C., regional office's case listings and worksheets for the December 1989 SQC review showed that only the subject month's cases were reviewed.

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Figure 6

GAO Improve CO Validation
Procedures

VA's action:

• Revised validation
procedures so that CO
reviews will cover same
time period as reviews
being validated

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Improve Central Office Validation Procedures

GAO's 1989 Report

In 1982, VA's Inspector General reported that the regional error rates being validated by VA's central office covered a 12-month period, but the validation review covered only a 1- to 2-month period. We agreed with VA's Inspector General that the central office cannot adequately validate regional office error rates unless it samples cases that cover the same time period as the regional office error rates being validated.

VA's Action

VA revised its SQC procedures to require that the central office computer select validation-sample cases for each week of the time periods covered by the regional office reviews being validated.

Our review of documentation supporting the central office's validation of two regional offices' reviews covering a recent 6-month period showed that validation cases were generally selected on a weekly basis for the review time period in question.

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Figure 7

GAO   Enforce SQC Requirements for
       RO Corrective Action

VA's action:

- Implemented controls to
  ensure RO compliance

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Enforce SQC Requirements for Regional Office Corrective Action

GAO's 1989 Report

The central office had not ensured that regional offices reported corrective action planned or taken as required. During periods of sustained unacceptable quality, SQC procedures require that regional offices submit reports to the central office on corrective action taken. In reviewing central office files for 10 regional offices, we found that files for 6 of the offices lacked some required reports. Two of the offices had submitted no reports for four separate periods of unacceptable quality.

VA's Action

VA's central office has established controls to ensure that regional offices report corrective action planned or taken. In this regard, we reviewed documentation showing that the central office maintains a log of reports required and their due dates and calls regional offices to request submission of overdue reports. A central office official told us that all calls to date have resulted in submission of the overdue report without the need for a written request.

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Figure 8

GAO   Measure Quality by
       Program

VA's action:

•Added step to SQC process
 to determine error rates
 by program, nationwide

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Measure Quality by Program

GAO's 1989 Report

VA did not have a system that provided quality control data on a program-by-program basis. Instead, the SQC system provided a combined error rate for the compensation, pension, and burial programs. Consequently, VA could neither accurately report a specific program's error rate nor take corrective action on the basis of that error rate.

The programs are very different in terms of eligibility requirements and adjudication processes. Further, the significance of adjudication errors and their impact on claimants vary considerably by program. For example, both the compensation and pension programs provide long-term disability benefits, while the burial program provides a limited, one-time reimbursement of funeral expenses.

VA's Action

To supplement the current SQC system, VA revised its procedures to require the central office to determine two nationwide error rates for work actions[4] completed in each of five program categories.[5] The central office is required to derive the national error rates from the sample cases reviewed for validation purposes.

One error rate is an estimate of the percentage of completed work actions with a payment error—defined as a deficiency that resulted or, if uncorrected, could have resulted in some erroneous payment. The other error rate is an estimate of the percentage of completed work actions with a service error—defined as a deficiency in applying laws, regulations, or procedures not resulting in an erroneous payment. Data developed to determine the error rates identify the kinds and causes of payment and service errors.

VA's central office is reviewing sample cases and expects to complete its initial report covering the two national error rates for fiscal year 1990 by mid-April 1991, although interim data will be available earlier.

[4]A work action is any action necessitating an adjudicative process, decision, or service regarding benefits administered by VA. VA classifies these actions into 29 end product codes that describe the various types of claims or issues processed.

[5]The five categories are: Disability Compensation, Dependency and Indemnity Compensation and Death Compensation, Disability Pension, Death Pension, and Burial/Plot/Headstone Allowance.

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Figure 9

GAO   Consider Measuring
Erroneous Payment Amounts

VA's consideration:

•VA plans more in-depth study
of feasibility

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Consider Measuring Erroneous Payment Amounts

GAO's 1989 Report

The SQC system provides only limited information on payment accuracy. It gives no overall estimate of overpayment and underpayment amounts. Without an overall measure of payment accuracy by program, VA lacks data that would help identify

- specific kinds of errors that cause the most significant erroneous payments, and
- types of corrective actions that would be most likely to reduce erroneous payments.

Moreover, in 1988, the House Government Operations Committee issued a report (H. Rept. 100-886) that concluded the SQC system was not providing reliable quality measurement data for the Congress to perform its oversight role.

VA's Plans

VA plans an in-depth study of the feasibility of developing the capability to measure the extent of erroneous payments, giving emphasis to high-cost programs.

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Figure 10

GAO Assign Independent Reviewers

- VA plans to have reviewers report to regional director

- Okay in view of actions taken on other recommendations

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Assign Independent Reviewers

GAO's 1989 Report

VA's regional adjudication staff have dual responsibilities: claims processing and SQC system reviews to determine the quality of claims processing. They are 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. Therefore, the regional reviewers are not independent of the process they are reviewing, creating the potential for them to be less than completely objective in determining claims processing errors. This 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.

VA Action Taken and Planned

VA plans to have regional SQC reviewers report to the regional office director rather than to the adjudication division manager. We believe this action, together with other actions taken to improve internal controls—for example, improved procedures for central office validations and for regional office random selection and review of current cases—would adequately address our concern that SQC reviews should be done independently to conform to internal control standards.

Comments From the Department of Veterans Affairs on GAO's April 1989 Report

THE SECRETARY OF VETERANS AFFAIRS

WASHINGTON

AUG 25 1989

Honorable Alan Cranston
Chairman, Committee on Veterans'
  Affairs
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

I have furnished these comments to the Chairman, Senate Committee on Governmental Affairs, and to the Chairman, House Committee on Government Operations, as required by 31 U.S.C. At your request, the General Accounting Office (GAO) evaluated the Department of Veterans Affairs system used to assure the quality of benefits claims processing. (GAO Report VETERANS' BENEFITS: Improvements Needed to Measure the Extent of Errors in VA Claims Processing, dated April 13, 1989, [GAO/HRD-89-9])

We agree with GAO's conclusion that VA needs to assess its procedures for measuring claims processing quality. The Department is committed to reducing errors to the maximum extent possible in processing veterans' claims.

In response to the GAO recommendations, we have initiated action and have plans for additional corrective action that should create a more reliable measure of our claims processing quality. These actions are outlined in the enclosure.

Sincerely,

Edward J. Derwinski
Secretary

Enclosure

Appendix I
Comments From the Department of Veterans
Affairs on GAO's April 1989 Report

Enclosure

DEPARTMENT OF VETERANS AFFAIRS STATUS OF ACTIONS TAKEN
TO IMPLEMENT THE RECOMMENDATIONS IN APRIL 13, 1989
GAO REPORT <u>VETERANS BENEFITS: IMPROVEMENTS NEEDED
TO MEASURE THE EXTENT OF ERRORS IN VA CLAIMS PROCESSING</u>
(GAO/HRD-89-9)

<u>Recommendation</u>: Require regional offices to (1) select sample
cases randomly and (2) review cases within the required time
period.

<u>Response</u>:

    o We have initiated steps to modify the Target Quality
Control Review (QCRE) system to enable the regional offices 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. We
anticipate these changes will become operational during the period
July 1, 1990 - October 1, 1990. Pending implementation of Target
changes, we directed regional offices to randomly select cases and
to timely review them.

    o During site visits, Central Office program personnel will
continue to verify that regional offices are properly coding all
rating cases to reflect that they are located in the rating board.
Accurately identifying cases in the rating board determines the
size of the rating board QCRE listing.

<u>Recommendation</u>: Assign personnel to perform SQC reviews who are
independent of regional management.

<u>Response</u>:

    o Currently, regional offices lack sufficient staffing with
the necessary program knowledge to do local SQC reviews outside the
Adjudication Division.   VA Manual M21-4 established the
Adjudication Division Quality Review Committee, chaired by the
Assistant Director or other senior member of the Director's
immediate staff, to be responsible for overseeing the SQC program
within each regional office. This divorces the SQC program from
Adjudication Division management.   Central Office conducts an
independent SQC review to validate the findings of the local
review.

Appendix I
Comments From the Department of Veterans
Affairs on GAO's April 1989 Report

2.

o The Veterans Benefits Administration is developing a system
to estimate the national claims processing error rate based on
Central Office reviews. Adjudication Division personnel will
continue to conduct local SQC reviews, because they are the people
who possess the greatest expertise and know the C&P programs best.

Recommendation: 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 office compliance with Central Office
requirements.

Response:

o Included in the Target QCRE modifications referred to in
our statement on the first recommendation will be a change that
will permit Central Office to select validation cases covering a
review period consistent with that being validated. Pending
implementation of this change, the Central Office Quality Review
Staff is sampling QCRE selections from every cycle of each month
so that future reviews will include cases selected from the entire
period being validated. This will also ensure that the types of
processing actions reviewed by the regional offices are reviewed
on Central Office validation.

o Controls are now in place to ensure that regional offices
properly document planned corrective actions and provide Central
Office with a timetable for their implementation.

Recommendation: 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.

Response: We are developing a system to measure quality, by
individual program, using a subsample of the cases selected for
Central Office validation review. At the beginning of Fiscal Year
1990, we will start to compile the data needed to determine error
rates.

Major Contributors to This Briefing Report

Human Resources Division, Washington, D.C.

James F. Walsh, Assistant Director, (202) 233-5281
Neil N. Miller, Assignment Manager
Joseph P. Kelly, Evaluator-in-Charge

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