United States General Accounting Office

GAO

Report to the Chairman, Committee on Veterans' Affairs, House of Representatives

July 1993

# VETERANS' COMPENSATION

# Premature Closing of VA Office in the Philippines Could Be Costly

GAO/HRD-93-96

GAO

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

Human Resources Division

B-249660

July 15, 1993

The Honorable G.V. (Sonny) Montgomery
Chairman, Committee on Veterans' Affairs
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we assess certain aspects of the Department of Veterans Affairs' (VA) disability compensation and survivor benefit programs in the Republic of the Philippines. These programs provide U.S. compensation benefits to certain Filipino veterans and their survivors because the veterans were attached to the U.S. armed forces during and immediately after World War II. Specifically, you asked us to determine (1) why program costs are not declining due to the steadily declining number of Filipino beneficiaries, (2) how monthly compensation payments made to Filipino beneficiaries in the Philippines compare to compensation payments made to an identical group of U.S. beneficiaries in this country, and (3) whether the VA office in Manila should be closed and its functions moved here.

## Results in Brief

While the number of Filipino beneficiaries has declined, annual compensation payments have remained fairly stable due to annual cost-of-living adjustments (COLAs). The number of Filipinos receiving VA compensation payments decreased by 23 percent from 1985 to 1992. The inflation-adjusted expenditures for the program declined between 1985 and 1992 by about 25 percent.

The average compensation payment to Filipino beneficiaries is more than twice the median family income in the Philippines. In 1991, the average compensation payment to Filipino beneficiaries in the Philippines was about $3,000 —202 percent of the Philippine annual median family income. Compensation payments to an identical group of U.S. beneficiaries in this country would have been about $6,000—about 20 percent of U.S. annual median family income in 1991.

VA planned to close the Manila office by March 31, 1994—when the legislation authorizing the office expires—and move claims processing to Seattle, Washington. We believe that closing the office by that time may be premature for three reasons:

1. Closure could hamper detection of fraud, a persistent problem that we reported on in 1978. This could happen because claims examiners who are familiar with local customs and practices and who currently detect many fraudulent and inadequately supported claims would no longer be processing the claims. Thus, program costs could increase if improper claims are not identified.

2. Closure of the office and movement of its functions to Seattle would result in higher personnel costs because of higher wages in the United States.

3. Closure would adversely impact services to beneficiaries because, although claimants would be able to appeal their claims, they would have to travel to the United States to participate in their appeals hearings.

VA should not close the office until it can demonstrate that (1) it can maintain proper internal controls of benefit payments if the office is closed and its functions moved to the United States, (2) closure would be cost effective notwithstanding possible higher administrative costs in the United States, and (3) VA can maintain adequate services to beneficiaries from the United States.

## Background

VA pays disability compensation to veterans with service-connected[1] disabilities. The extent of disability, which ranges from 10 to 100 percent in 10-percent increments, determines the amount of compensation. In 1992, monthly payments ranged from $83 for a 10-percent rating to $1,680 for a 100-percent rating. Veterans with ratings of 30 percent or more are entitled to additional amounts for dependents; the amount is based on the number of dependents and the disability rating.

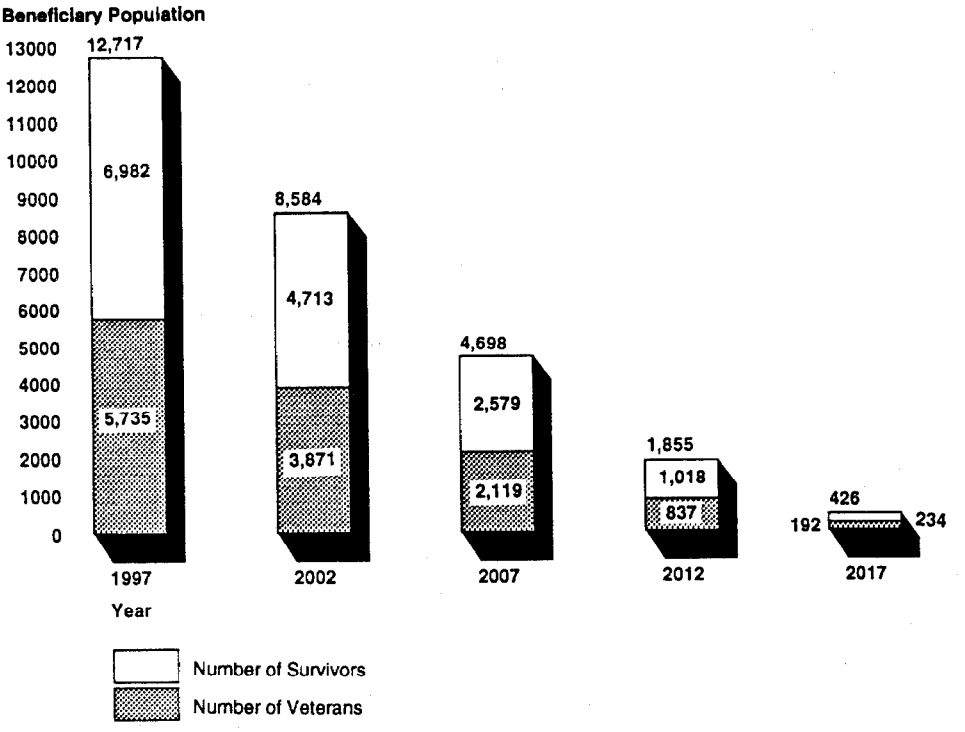
Survivors (spouses, children, and, in some cases, dependent parents) are eligible for compensation benefits if the veteran (1) died from a disease or injury incurred or aggravated in the line of duty while in the military or (2) was totally disabled from a service-connected disability but did not die from the disability. In the latter case, the veteran must have been totally disabled for at least 10 years immediately preceding death or continuously since separation from the military for at least 5 years.

[1]A service-connected disability is one resulting from an injury or a disease incurred or aggravated in line of duty during active military service.

During fiscal year 1992, VA paid about $50.9 million in compensation to about 16,300 Filipino veterans or their survivors.[2] These beneficiaries are entitled to these benefits because of the veterans' being attached to the U.S. armed forces during and immediately following World War II.

The number of beneficiaries has steadily declined since 1985—from about 21,000 in 1985 to about 16,000 in 1992—and is expected to continue declining. As shown in figure 1, the number of beneficiaries is expected to decline to less than 500 by 2017.

**Figure 1: Projection of Filipino Beneficiary Population in the Philippines, 1997 to 2017**




Note: GAO projected these beneficiary levels based on the 1984 Unisex Pension Mortality Table and using an average beneficiary age of 70 in 1991.

[2]This does not include another $61.5 million paid to about 10,000 veterans living in the Philippines who were members of the U.S. armed forces. These veterans, who include Filipinos and non-Filipinos, are entitled to the same benefits as veterans living in the United States.

Three laws primarily delineate the compensation payments that VA makes to Filipino beneficiaries. Public Laws 79-301 and 70-391, approved in 1946, authorized benefit payments to Filipino veterans and survivors for service-connected disabilities or death. In recognition that the Philippine and U.S. economies differ, these laws established the basis of payments to be one Philippine peso for each dollar paid to U.S. beneficiaries. At that time, the exchange rate was approximately 2 pesos per 1 U.S. dollar. Thus, since Filipino beneficiaries were only getting one peso per U.S. dollar, they were getting one-half of the benefits received by U.S. beneficiaries. By 1965, the exchange rate had increased to almost 4 pesos to the dollar, which effectively reduced compensation payments VA made to Filipino beneficiaries. Consequently, in October 1966, Congress enacted Public Law 89-641 (38 U.S.C. 107) changing the payment basis from 1 peso per dollar to the peso equivalent of $0.50 for each dollar paid to U.S. beneficiaries.

The VA office located in Manila, Republic of the Philippines, serves VA beneficiaries who live in the Philippines. The Manila office processes claims for benefits, makes benefit payments, conducts field investigations to detect and prevent fraud and abuse, and provides assistance to beneficiaries. Since 1960, the Manila office has performed similar activities for the Social Security Administration (SSA). SSA and VA served a similar number of beneficiaries in 1992 with SSA serving almost 24,000 beneficiaries and VA serving 26,000 Filipino and U.S. beneficiaries. As of June 30, 1992, the Manila office employed 143 individuals, including 7 Americans and 136 Filipino nationals.

VA has prepared a draft plan outlining procedures for closing the Manila office by March 31, 1994, the date that legislation authorizing the office expires. VA's Undersecretary for Benefits said that the plan was prepared in response to Congress's desire to eliminate VA's presence in the Philippines. The plan calls for closing the Manila office and splitting responsibility for accomplishing the office's major program activities primarily between the VA regional office in Seattle, Washington, and a U.S. Department of State office in Manila. Claims would be processed in Seattle, and the Department of State unit in Manila would conduct field investigations and assist beneficiaries. The State Department unit would also assume responsibility for SSA activities. VA and SSA would each reimburse the State Department for all costs incurred to accomplish each agency's program activities.

## Scope and Methodology

To determine why compensation payments were not decreasing, we calculated (1) the portion of the increase due to COLAs for the 8-year period ending in 1992 and (2) the amount due to changes in the beneficiary mix, number of dependents, and disability ratings from 1988 through 1992. We used the rate of reduction in the number of beneficiaries to determine mortality rates from 1993 to 2017. We also projected future program payments for the 6-year period ending in 1998 based on the mortality rates' impact on the number of beneficiaries. These estimates assumed no annual COLAs and annual COLAs of 2, 4, and 6 percent.

To compare compensation payments to Filipino beneficiaries in the Philippines to the compensation that would be paid to an identical group of U.S. beneficiaries in this country, we calculated average annual payments for Filipino veterans and survivors as a percentage of median family income in the Philippines for 1976, 1985, and 1991 because these were the only years that family income data were readily available for the Philippines. To establish an identical group of U.S. beneficiaries, we doubled the average Filipino payment and compared this average to median family income in the United States.

To address the issue of whether the functions of the Manila office should be relocated here, we held discussions with VA officials, analyzed past and future work loads, developed data on operating costs in the Philippines and the United States, and reviewed VA's closure plan. Because VA's Manila office administers SSA programs in the Philippines, we also discussed with SSA officials their plans if VA relocates its office here. We also discussed the potential relocation with officials of the Department of State.

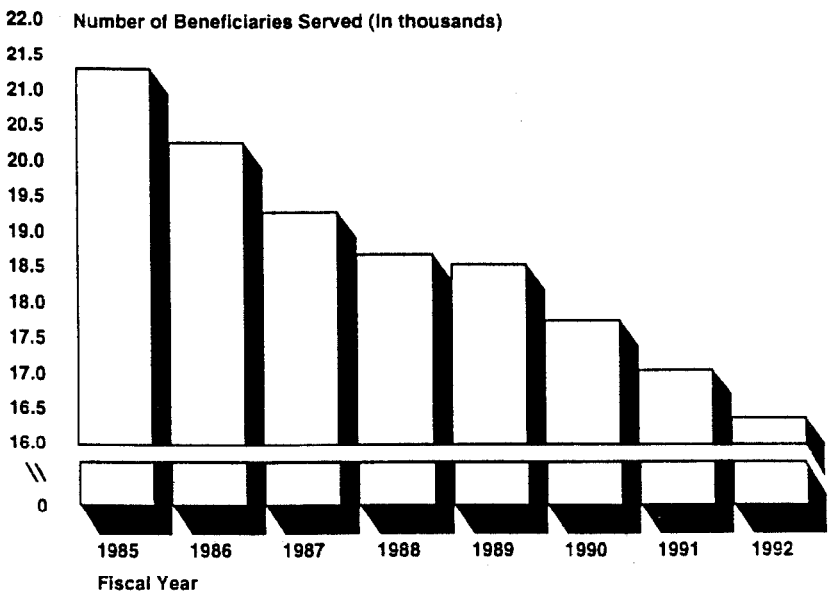
Our work was done at the VA Central Office in Washington, D.C.; VA's Western Area Office in San Francisco, California; and the VA office in Manila. We also visited the Department of State in Washington, D.C.; the U.S. Embassy in Manila; and SSA headquarters in Baltimore, Maryland. In addressing the closure issue, our work considered both Filipino and U.S. veterans in the Philippines because closing the office would affect both groups of veterans.

We conducted our review in accordance with generally accepted government auditing standards from January 1992 through February 1993.

## Number of Beneficiaries Declines but Payments Remain Stable Due to COLAs

Total compensation payments that VA paid fluctuated between fiscal years 1985 and 1992. Payments totaled $50.6 million in 1985, decreased to $48.4 million in 1988, and increased to $50.9 million in 1992. During this same period, as shown in figure 2, the number of Filipino beneficiaries declined each year—from 21,300 to 16,300, about 23 percent. (See app. I.) Without the COLAs, which ranged from 1.5 percent to 5.4 percent during the 8-year period (see app. II), the 1992 payments would have been $38.1 million.

**Figure 2: Filipino Beneficiaries Served by the VA Manila Office, Fiscal Years 1985 Through 1992**




Source: VA Regional Office, Manila.

To determine the effect of COLAs on program costs for a declining number of beneficiaries, we compared the increase in program costs due to COLAs to the decrease in payments due to fewer beneficiaries and other factors—changes in beneficiary mix, number of dependents, and disability ratings. Table 1 shows that the decrease in payments was more than offset by COLAs between 1988 and 1992.

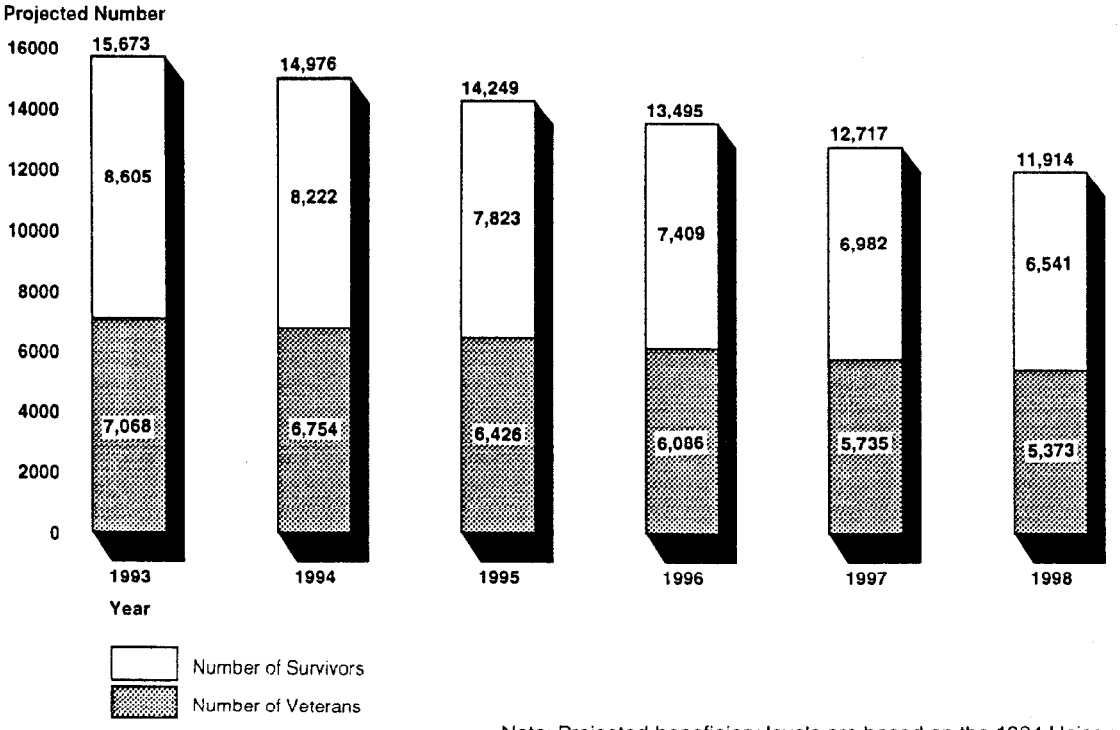
**Table 1: Analysis of Changes in Programs Payments Between October 1988 and April 1992**
(in thousands)

| | October 1988 | Change due to reduction in number of beneficiaries and other factors | COLAs | April 1992 payments |
|---|---|---|---|---|
| Veterans | $1,308 | ($174) | $211 | $1,345 |
| Survivors | $2,703 | ($351) | $503 | $2,855 |
| **Total** | **$4,011** | **($525)** | **$714** | **$4,200** |

The decline in the number of beneficiaries accounted for most of the decrease in program payments. Other factors included in our analysis had only a small effect on program cost decreases. For example, each veteran on average was receiving compensation for .8 dependents in 1988 compared to .6 dependents in 1992. Additionally, for veterans with disability ratings between 50 and 100 percent, the percentage difference between 1988 and 1992 was less than 3 percentage points; 26.1 percent of veterans were in this range in 1988 and 23.4 percent were in the range in 1992.

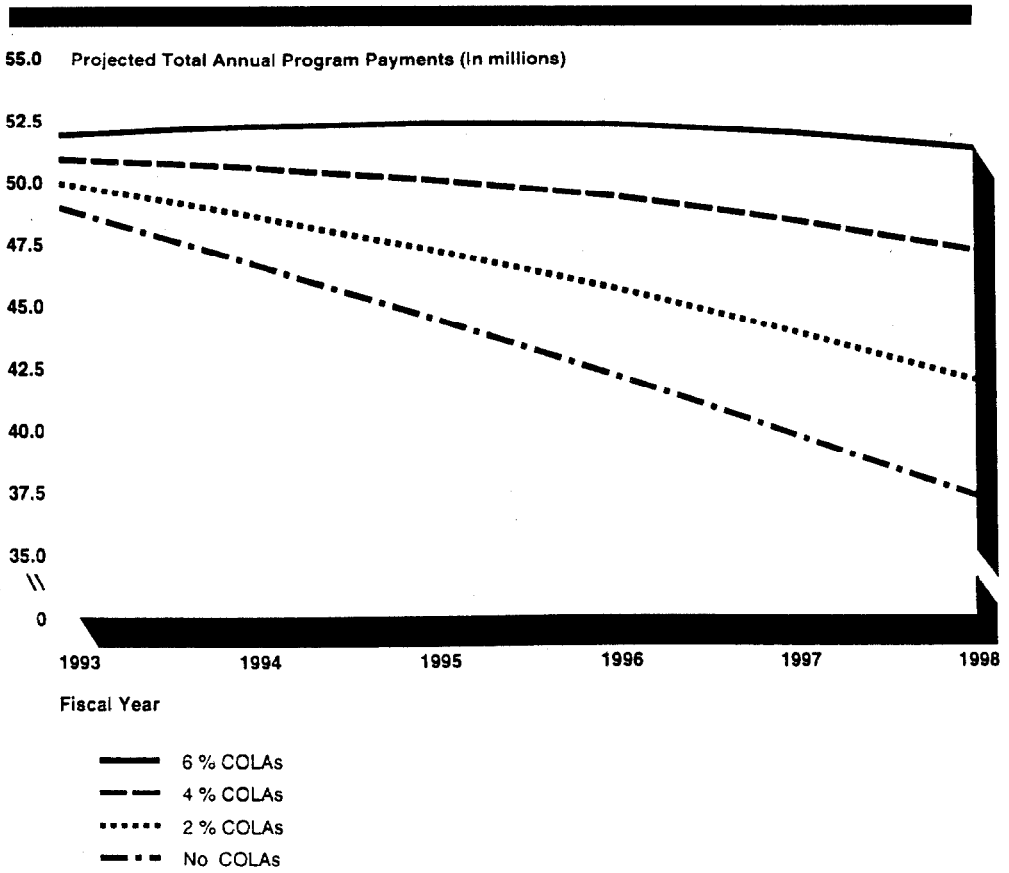
The amount of the annual COLAs and the attrition rate of beneficiaries will determine the level of future program payments. Using actuarial tables, we projected the number of Filipino veterans and survivors that the Manila office would serve in the future for fiscal years 1993 through 1998 and their costs assuming no annual COLAs and COLAs of 2, 4, and 6 percent. The beneficiary projections and estimated costs appear in figures 3 and 4, respectively.

**Figure 3: Projected Number of Filipino Veterans and Survivors From 1993 Through 1998**




Note: Projected beneficiary levels are based on the 1984 Unisex Pension Mortality Table and an average beneficiary age of 70 in 1991.

**Figure 4: Projected Annual Program Payments for 1993 Through 1998 Assuming No COLAs and Annual COLAs of 2, 4, and 6 Percent**




Source: GAO analysis.

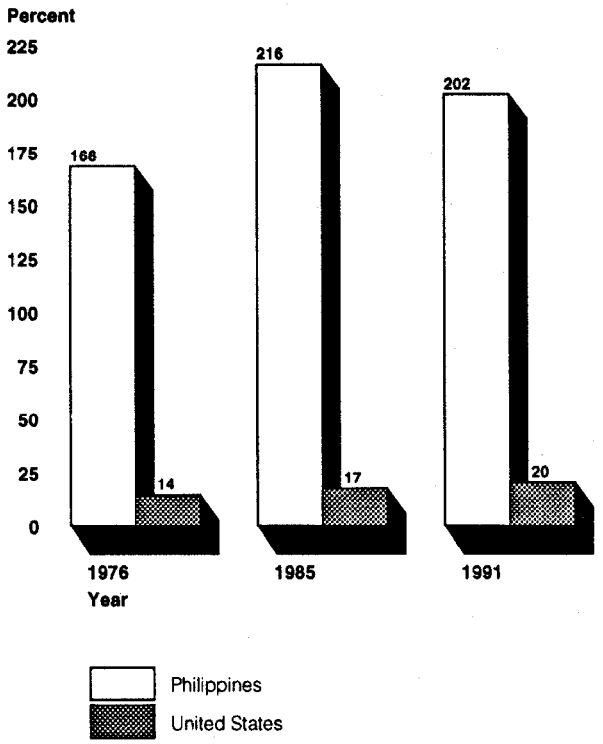
## Compensation Payments Made to Filipinos More Than Double Median Family Income

We reported in 1978[3] that average compensation payments made to Filipino beneficiaries living in the Philippines were 168 percent of the 1976 Philippine median family income. Since that time, as figure 5 shows, average payments to Filipino beneficiaries living in the Philippines increased to more than 200 percent of Philippine median family income in 1985 and have remained more than 200 percent in 1991.

By contrast, figure 5 also shows that if VA had made compensation payments to a group of U.S. beneficiaries in this country identical to the group of Filipino beneficiaries (in terms of beneficiary mix, disability ratings, and so on), the average payment would have represented between 14 and 20 percent of median family income in this country.

[3]Veterans Administration Benefits Program in the Philippines Need Reassessment (GAO/HRD-78-26, Jan. 18, 1978).

Figure 5: Payments as a Percentage of Median Family Income in the Philippines and the United States




## VA's Plan to Close the Manila Office May Be Premature

Premature closure of the VA's Manila office could (1) hamper the detection of fraudulent activities resulting in increased program costs, (2) result in increased personnel costs to obtain needed VA services from the United States, and (3) adversely affect services to beneficiaries. Except for transferring administration to the Department of State, SSA officials told us that, due to the potential for fraud, SSA plans to make no changes to its programs if VA closes its office.

### Premature Closure Could Hamper Detection of Fraudulent Activity and Increase Costs

In 1978, we reported that extensive fraud and abuse were occurring in VA programs in Manila. Since then VA has acted to correct these problems. The VA Inspector General reported in May 1985 that internal controls of the Manila office were generally satisfactorily maintained.

Closing the Manila office could increase program costs because claims not meeting eligibility criteria could be approved, including some fraudulent claims. The closure plan calls for transferring the claims processing function to a VA office in the United States. Claims examiners are critical

to VA's detecting fraud before payments are made. They identify fraudulent or questionable data supporting claims and request field investigations to resolve such matters. Without on-site claims examiners, who are familiar with local practices, VA officials believe, and we concur, that VA's ability to detect improper claims would be seriously hampered.

During our visit to the Manila office, we noted the following examples in 1992 of Filipino claims examiners' detecting potential fraud activities that were subsequently sustained by Filipino field investigators.

- Three veterans submitted false medical certificates to support their claims for VA benefits. In one case a doctor alleged that he treated a veteran for tuberculosis in 1949 and 1950. The field investigation disclosed that the hospital where the treatment allegedly took place was not established until 1957.

  In another case the two doctors who signed the medical certificates could not be located, and the clinics cited in the certificates did not exist.

  In the third case, when the doctor who allegedly prepared the medical certificate could not be located, the claimant admitted that the doctor had not examined him.

- Claims for VA benefits from two survivors included copies of death certificates that claims examiners suspected had been altered to indicate that the veterans' deaths were the result of injuries from the war. Field investigators reviewed the official death certificates and confirmed that the copies had been altered and that the official certificates showed that the causes of the two deaths were not service-connected injuries.
- One claimant, posing as a veteran, was awarded VA benefits but, before any payments were made, VA obtained information indicating that the claimant was an imposter. A field investigation revealed that, based on the official medical records, the genuine veteran had a tattoo on his right forearm and a service-connected scar on his left leg. The claimant had neither a tattoo nor a scar, confirming that he was an imposter.

VA officials stated that it is doubtful that any of these fraudulent claims would have been detected by claims examiners in the United States.

The Manila office approves few new compensation claims for at least two reasons: inadequate support for the claims and fraud. Our analysis of Manila office claims data showed that, for the 6-year period ending in

1992, the office had a low approval rate for new claims. The office processed a total of 11,491 new compensation claims during this period but approved only 160, less than 1.5 percent.

During our visit, we randomly selected for review 89 claims processed from April through July 1992 to better understand why so many claims are disapproved. We found that 77 of the 89 claims, or 87 percent, were disapproved because evidence showing that the veteran's illness or death was service-connected was nonexistent. Also, Manila office officials stated that, in many instances, claims are disapproved because they were supported with fraudulent documentation.

## Closure Will Increase Personnel Costs

Our comparison of personnel costs for processing claims in Seattle and Manila showed that costs would be greater in Seattle. VA's closure plan shows that it would need a smaller staff to process claims in the Seattle office because it would consolidate some Seattle and Manila office functions. For example, the Seattle office's existing hearing officer would hear both the Seattle and the Manila offices' cases. Although fewer staff would process claims in the Seattle office, personnel costs would be greater. We estimated that, for 1992, annual personnel costs for the 41 Manilla employees who process claims totaled about $407,000. VA's plan estimated that it would need 34 additional employees in Seattle to handle the Manila caseload. Costs for the additional employees would total about $1.02 million—more than double the cost in Manila. Costs would be greater in Seattle because the wages that the U.S. government pays Filipinos working in the Philippines are less than the wages of federal employees working here.

## Premature Closure Could Have Adverse Impact on Services

Closing the Manila office and transferring claims processing to Seattle will decrease the level of service provided to both U.S. and Filipino beneficiaries and claimants living in the Philippines. One reason that the service would decline is that, for all practical purposes, claimants would be deprived of attending hearings when they appealed VA decisions. VA's closure plan calls for transferring the hearing officer function from Manila to the United States. Although Philippine claimants appealing their cases could select any U.S. location for the hearing site, most Filipinos probably lack the resources to travel to the United States. Unless appeal hearings are held in Manila, the right of Philippine claimants to be present at hearings could effectively be eliminated. Other examples of reduced service levels are that personal contact between the claimant-beneficiary

and VA would be lost and that claims processing activities would have to be handled by mail, increasing the time required for VA approval or disapproval.

## Conclusions

VA should not close the Manila office until it has established adequate safeguards to ensure that only proper benefit payments are made and that only those eligible receive benefits. Even though World War II has been over for nearly 50 years, many claims are still submitted for compensation benefits, and most are disapproved by VA's Manila office because of an insufficient basis or because they involve fraud. Careful review by claims examiners knowledgeable of the local situation should continue until VA can develop an effective alternative to processing claims in Manila.

## Recommendation to the Congress

Because program costs remain high as does a vast potential for fraudulent activities in the Philippines, we recommend that the Congress extend the legislation authorizing the Manila office until the Secretary of Veterans Affairs can demonstrate that (1) VA can maintain proper internal controls of benefit payments after the office is closed, (2) other advantages of closure outweigh the higher administrative costs in the United States, and (3) VA can maintain adequate services to beneficiaries from the United States.

## Agency Comments

The Secretary of Veterans Affairs, VA's Inspector General, and the Department of State's Acting Chief Financial Officer commented on a draft of this report. The Secretary agreed with our conclusion that the Manila office should not be closed at this time. (See app. III.) He said that the Veterans Benefits Administration had requested that legislation be proposed to extend VA's authority to operate the Manila office until September 30, 1995. The Secretary suggested that the closure matter be reconsidered in the year 2000 when VA projects the number of beneficiaries to be substantially decreased. He also suggested some clarifying changes in the report that we incorporated as appropriate.

Our draft report contained a recommendation that the VA Inspector General periodically review and examine the activities of the VA Manila office to ensure, among other things, that VA established proper internal controls of benefit payments. In commenting on the draft, the Inspector General said that his office had examined internal controls and the efficiency and economy of operations at the Manila office and had

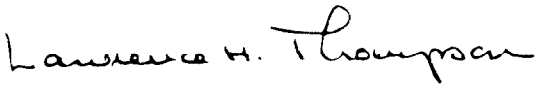
reported in 1985 that overall operations were satisfactory and complied with applicable laws and regulations. (See app. IV.) This report was not brought to our attention during our field work. In view of the (1) 1985 Inspector General's report and (2) the Secretary's plans to delay closure of the office, we are making no recommendation for additional Inspector General review in this final report. The Manila office, however, is a special case that the Inspector General should examine closely if the claims approval rate increases significantly or if VA transfers the functions of the Manila office to the United States because it is crucial to maintain strong internal controls.

The comments from the Acting Chief Financial Officer, Department of State, concur in our conclusion that it would not benefit the U.S. government to close the VA Manila office in March 1994. (See app. V.) The comments stress that having the office in Manila is essential to combating the high incidence of fraud in the Philippines.

We are sending copies of this report to interested congressional committees, the Secretary of Veterans Affairs, and other interested parties.

This report was prepared under the direction of Joseph F. Delfico, Director, Income Security Issues, who may be reached on (202) 512-7215 if you or your staff have any questions. Other major contributors are listed in appendix VI.

Sincerely yours,



Lawrence H. Thompson
Assistant Comptroller General

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**Abbreviations**

| | |
|---|---|
| COLAs | Cost of Living Adjustments |
| SSA | Social Security Administration |
| VA | Department of Veterans Affairs |

# Decease of Filipino Beneficiaries From Fiscal Years 1985 Through 1992

| | Veterans | | Survivors | | Total | |
|---|---|---|---|---|---|---|
| Fiscal year | number | % change | number | % change | number | % change |
| 1985 | 8,360 | | 12,915 | | 21,275 | |
| 1986 | 8,087 | -3.27 | 12,146 | -5.95 | 20,233 | -4.90 |
| 1987 | 7,808 | -3.45 | 11,448 | -5.75 | 19,256 | -4.83 |
| 1988 | 7,775 | -0.42 | 10,876 | -5.00 | 18,651 | -3.14 |
| 1989 | 7,976 | 2.59 | 10,541 | -3.08 | 18,517 | -0.72 |
| 1990 | 7,784 | -2.41 | 9,939 | -5.71 | 17,723 | -4.29 |
| 1991 | 7,571 | -2.74 | 9,467 | -4.75 | 17,038 | -3.87 |
| 1992 | 7,369 | -2.67 | 8,971 | -5.24 | 16,340 | -4.10 |
| Period Changes | (991) | -11.85 | (3,944) | -30.54 | (4,935) | -23.20 |

# Annual COLAs Awarded to Disability Compensation Beneficiaries From Fiscal Years 1980 Through 1992 and Compounded From 1985 Through 1992

| Fiscal year | Cost-of-living adjustment (percent) | Compounded Rate |
|---|---|---|
| 1980 | 9.90 | |
| 1981 | 14.30 | |
| 1982 | 11.20 | |
| 1983 | 7.40 | |
| 1984 | 3.50 | |
| 1985 | 3.20 | 3.20 |
| 1986 | 3.10 | 6.40 |
| 1987 | 1.50 | 8.00 |
| 1988 | 4.10 | 12.42 |
| 1989 | 4.10 | 17.03 |
| 1990 | 4.70 | 22.53 |
| 1991 | 5.40 | 29.15 |
| 1992 | 3.70 | 33.93 |

# Comments From the Secretary of Veterans Affairs

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

JUN 1 1993

Mr. Joseph F. Delfico
Director, Income Security Issues
U. S. General Accounting Office
441 G Street, NW
Washington, DC 20458

Dear Mr. Delfico:

I have read your draft report, **VETERANS' COMPENSATION: Premature Closing of VA Office in the Philippines Could Be Costly** (GAO/HRD-93-96) and agree with your conclusion that the Manila VA Regional Office should not be closed at this time.

The Veterans Benefits Administration (VBA) has requested that legislation be proposed to extend our authority to operate the Manila regional office until September 30, 1995. VBA is holding in abeyance actions outlined in its September 30, 1992, closure plan with the exception of automating the Filipino Peso payment system.

I suggest the issue of closing the Manila regional office should be reconsidered in the year 2000 when VBA projects the number of beneficiaries to be substantially decreased.

The Department's Inspector General is commenting directly on your recommendation that he periodically review the activities of the VA Manila office to ensure, among other things, that proper internal controls of benefit payments have been established.

The enclosure presents technical edits we are suggesting. Thank you for the opportunity to comment on this report.

Sincerely yours,

Jesse Brown

Jesse Brown

Enclosure
JB/vz

Enclosure

DEPARTMENT OF VETERANS AFFAIRS COMMENTS TO
GAO DRAFT REPORT, **VETERANS' COMPENSATION: Premature Closing of VA Office in the Philippines Could Be Costly**
(GAO/HRD-93-96)

We offer the following technical comments to your report:

- While the request is limited to VA's disability compensation program in the Republic of the Philippines (page 1), you present information relating to survivor benefits, "Dependency and Indemnity Compensation" (DIC). Either the DIC information is not relevant to the request or the request was broader and related to compensation programs for both disabilities and deaths.

- The sentence that begins at the bottom of page 3 and concludes on top of page 4 should read:

  In the latter case, the veteran must have been totally disabled for at least 10 years immediately preceding death, or continuously since service separation for a period of at least 5 years.

- On page 1, the report states the second question being responded to is "how monthly compensation payments made to Filipino beneficiaries compare to compensation payments made to an identical group of beneficiaries in the U.S." The actual comparisons drawn, however, are between compensation paid to veterans of the Armed Forces of the United States (in relation to the median family income in the U.S.) versus compensation paid to veterans of the Commonwealth Army, recognized guerillas, or "new" Philippine Scouts (in relation to median family income in the Philippines). The latter are paid benefits at 50 percent of the rate of the former whether they reside in the Philippines or have immigrated to the U.S., and the former are U.S. veterans even if they are Filipino. From this, we conclude that the question responded to was actually "how compensation payable to veterans of service in Filipino units compares, as a percentage of median family income in the Philippines, to compensation for similar disabilities payable to veterans of the U.S. Armed Forces (as a percentage of median U.S. family income)."

# Comments From the Department of Veterans Affairs' Inspector General

DEPARTMENT OF VETERANS AFFAIRS
INSPECTOR GENERAL
WASHINGTON DC 20420

MAY 24 1993

Mr. Joseph F. Delfico
Director, Income Security Issues
U. S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Delfico:

I have read with interest your draft report, **VETERANS' COMPENSATION: Premature Closing of VA Office in the Philippines Could Be Costly** (GAO/HRD-93-96). I agree with your conclusion that the Manila office should not be closed at this time. I also agree with your recommendation that I periodically review and examine the activities of the VA Manila Office to insure, among other things, that proper internal controls of benefit payments have been established. While it may not be in the same manner GAO alludes to, the Office of Inspector General (OIG) is already accomplishing the intent of GAO's recommendation.

In 1991, the Inspector General shifted from cyclical facility audits to programmatic or system audits. Our Office of Audit is not staffed to perform periodic facility audits. We direct scarce audit resources into those programs in which there is a significant risk of loss through fraud, waste, and mismanagement. In your draft report you clearly indicate that the major vulnerability lies in the award of new compensation claims and that as a result of Manila's current control environment "... few new compensation claims ..." are awarded. GAO's analysis indicates that "... less than 1.5 percent..." of claims made are awarded or approximately 160 claims in the last 6 years.

Even though we do not make onsite reviews of the activities of VA Regional Office (VARO) Manila, case samples selected for our national reviews of the compensation system can include VARO Manila cases. For example, our current audit of the Veterans Benefits Administration's (VBA) claims processing includes cases from Manila.

As a matter of clarification, the Office of Audit published a facility report of audit of the VA Regional Office and Outpatient Clinic in May 1985. The audit evaluated the internal controls and economy and efficiency of operations at the VARO as part of our then cyclic audit coverage. Audit results indicated that overall operations were satisfactorily conducted and were in compliance with applicable laws and regulations. We had one recommendation dealing with the need to modify the benefit computer system to

Mr. Joseph F. Delfico

terminate all apportionee awards upon notice of a veteran's death. The agency concurred with the recommendation and took corrective action.

In addition, during 1992, our Office of Investigations investigated an alleged pension fraud scheme at the VARO. Information from the U.S. Department of State, Office of Security, American Embassy, Manila alleged that a pension fraud scheme involving VARO Manila Foreign Service National (FSN) employees may have illegally diverted hundreds of thousands of dollars in pension funds. Allegedly the FSN employees intercepted death notices arriving at VARO Manila that were processed as changes of address, with the payment status left active. It also was alleged that VARO employees were involved in a scheme wherein bogus VA award letters and false certifications of receipt of VA benefits were used as collateral for more than $1.5 million in defaulted loans from the Armed Forces and Police Savings and Loan Association of Manila (AFPSLAI).

Every week during a 4-week period, VARO Manila transferred computerized records of payments of compensation, pension, and education master files to magnetic tape and provided the tape to the OIG Austin Data Processing Center (DPC) for review and analysis. The DPC also conducted a computer matching of the Manila VARO payment records with the VA master records maintained at Hines, IL. As a result, we identified 87 payments where no master file record was listed in the system. Our review of those payments could not identify any scheme to divert VA funds by employees at VARO Manila. The DPC further analyzed the Manila payment records for other areas of possible unauthorized payments. In this regard, the DPC identified payments being sent to the same address as one possible indicator of fraud. However, due to the inconsistent manner in which addresses were entered on the source documents in the address fields, computerized sorting and matching were somewhat unreliable. Therefore, a manual and computer comparison of the name and address fields is needed. This will be time consuming due to the number of records. When we complete the manual comparison, we will transmit the computer printouts to VARO Manila and request further review and investigation by field examiners.

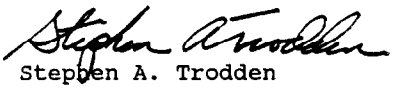
Our investigation did not substantiate that death notices were being intercepted and processed as change of address notices with the payment status left active. The investigation did identify two FSN employees who were accepting bribes or kickbacks for using their positions to assist Philippine civilians with claims. The VARO terminated employment of the responsible staff. No additional employees at VARO Manila were implicated in the fraud scheme involving AFPSLAI. VA did not sustain any losses as a result of

Mr. Joseph F. Delfico

the AFPSLAI scheme. One additional employee was terminated after he was identified as extorting money from VA beneficiaries.

In summary, we do not have the resources to conduct periodic onsite reviews of VA regional offices. Furthermore, there is insufficient indication of control weaknesses to warrant a separate audit of the Manila Regional Office. GAO has indicated that the vulnerability to fraud from new claims is extremely low, and that Manila's internal control system is geared to the detection of fraudulent claims. We believe that our current system of considering Manila cases in national samples of compensation claims processing provides reasonable assurance. The benefit of our national work outweighs the $50,000 travel cost we would incur with a single purpose visit to the Manila Regional Office.

Sincerely,



Stephen A. Trodden

# Comments From the Acting Chief Financial Officer, Department of State

United States Department of State

*Chief Financial Officer*

*Washington, D.C. 20520-7427*

MAY 27 1993

Dear Mr. Thompson:

Thank you for the opportunity to comment on your draft report, "VETERANS" COMPENSATION: Premature Closing of VA Office in the Philippines Could Be Costly," GAO Job Code 105725. Comments are enclosed.

If you have any questions concerning this response, please call Patrick Hegarty, CA/OCS/CCS/AF, at 647-1217 or Carmen DiPlacido, CA/OCS/CCS, at 647-3666.

Sincerely,

Roger R. Gamble, Acting

Enclosure:
As stated.

cc:
GAO - Mr. Delfico
State/CA/OCS/CCS/AF - Mr. Hegarty
/CA/OCS - Mr. DiPlacido
/EAP/EX - Mr. Clark

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

GAO Draft Report: "VETERANS' COMPENSATION: Premature Closing of VA Office in the Philippines Could Be Costly," GAO Job Code 105725

CA/OCS concurs in the conclusion of the GAO Draft Report that it would not be advantageous to the United States government to close the Veterans Affairs (VA) office in Manila in March of 1994 as currently planned.

As the GAO Draft Report points out, one of the major concerns with regard to VA claims emanating from the Philippines is fraud. It is our opinion that fraud and the ability of Veterans Affairs to combat it are the two most significant factors to consider in making the decision of whether to keep the VA office in Manila open. It should also be recognized that this situation is unique. The VA office in the Philippines is currently the only office overseas which VA has authorized to adjudicate claims. Again, we believe this decision was made by VA in an effort to enhance its ability to combat the fraud in the Philippines and because it believed that it was more efficient to adjudicate these claims on site.

The two options presented in the GAO Draft Report are to leave the VA office in the Philippines open for the immediate future and to continue to adjudicate and investigate claims there or to transfer the claims adjudication function to Seattle and the investigative function to the Federal Benefits Unit of the American Embassy in Manila. Again, because of the relatively significant number of cases and the high incidence of fraud in the Philippines, we believe it is in the interest of the United States government to keep the VA office in Manila open. That office is up and running with personnel who are trained in taking VA claims and who are familiar with local documents, customs, fraud schemes, etc. While VA personnel in Seattle are trained in VA claims-taking they are not familiar with local Philippine documents and would not have the advantage of face to face interviews or questioning in the local language. Development of claims long distance, particularly when they are rife with fraud, is time-consuming and not particularly effective. Further, an increase in processing time normally results in additional work in the form of increased telephonic and written status inquiries.

It is our conclusion that it would be more efficient and productive to keep the VA office open, at least until the number of claims dwindle to the point that it is no longer cost effective to do so.

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