



DEPARTMENT OF VETERANS AFFAIRS  
**OFFICE OF INSPECTOR GENERAL**

*Office of Audits and Evaluations*

VETERANS BENEFITS ADMINISTRATION

Follow-Up Review of the  
Accuracy of Special Monthly  
Compensation Housebound  
Benefits

REVIEW

REPORT #20-04219-07

DECEMBER 15, 2021



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## Executive Summary

The Veterans Benefits Administration (VBA) compensation program provides monthly tax-free benefits to veterans as compensation for the effects of disabilities caused by diseases or injuries incurred or aggravated during active military service. These benefits are called service-connected disability compensation benefits. The amount of the benefit varies according to the rating VBA assigns to the degree of the disability, which is expressed as a percentage. Compensable evaluations range from 10 percent to 100 percent in increments of 10.

As the concept of rating disabilities evolved, the base rate of compensation was not always sufficient to compensate for the actual level of disability present. Special monthly compensation (SMC) recognizes the severity of certain disabilities or combinations of disabilities by paying additional benefits. VBA policy requires staff to consider if the veteran is entitled to SMC when the criteria are met. Housebound entitlement is one type of SMC and is payable to a veteran who has a single service-connected disability evaluated as totally disabling and

- has an additional service-connected disability or combination of disabilities, independently evaluated as 60 percent or more; or
- is permanently housebound due to a service-connected disability.<sup>1</sup>

In a September 2016 report, the VA Office of Inspector General (OIG) found that VBA's processing of SMC housebound benefits needed improvement.<sup>2</sup> VBA incorrectly processed about 27 percent of the cases for veterans receiving compensation at the housebound rate with combined evaluations of 90 percent or less. These cases are at higher risk than cases where veterans have 100 percent evaluations because the additional requirements are more detailed. The OIG conducted this review to determine whether VBA effectively implemented the recommendations from the 2016 OIG report and improved the accuracy of high-risk SMC housebound cases.

### What the Review Found

The OIG found VBA's SMC housebound claims-processing accuracy has not improved. VBA claims processors do not consistently follow the policies and procedures for processing SMC housebound claims. This occurred, in part, because VBA leaders did not establish adequate governance to effectively implement the OIG's September 2016 recommendations and failed to make system-level changes to improve the accuracy of the claims process. On the basis of the

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<sup>1</sup> 38 C.F.R. § 3.350(i). The introduction of this report provides additional information about combined disability ratings, total disability ratings, and types of special monthly compensation housebound.

<sup>2</sup> VA OIG, *Review of Special Monthly Compensation Housebound Benefits*, Report No. 15-02707-277, September 29, 2016.

results of a sample of 199 cases that were active as of September 24, 2020, the OIG review team estimated that about 27 percent of high-risk SMC housebound cases (5,600 out of 20,900) were incorrectly processed.<sup>3</sup> This is the same error rate noted in the September 2016 report. The team estimated the incorrect processing identified for this report resulted in about \$165 million in improper payments.<sup>4</sup>

## **VBA Did Not Effectively Implement Four of the OIG’s Prior Recommendations, Resulting in Continued High-Risk SMC Housebound Claims Processing Deficiencies**

In September 2016, the OIG made seven recommendations to the then-acting under secretary for benefits to improve the processing of SMC housebound cases. The recommendations were intended to address errors such as granting housebound entitlement when criteria were not met or failing to discontinue the benefit when eligibility ended. On the basis of the current review, the OIG found VBA did not effectively implement four of the prior report’s recommendations, leading to continued deficiencies.<sup>5</sup>

### ***Recommendation 2***

VBA was to review all veterans being paid compensation at the housebound rate with combined evaluations of 90 percent or less and provide certification of the review to the OIG. In February 2018, VBA provided certification of completion of the review. Thereafter, the OIG closed this recommendation on February 27, 2018. The review team determined that although VBA fulfilled the letter of recommendation 2 by conducting a review, VBA missed several opportunities to improve oversight of the process, such as by following up to ensure appropriate corrective actions were taken. Although VBA developed procedures for the review, it did not identify who was responsible for oversight or provide guidance regarding validation of the review results or quality checks. During this review, the OIG team identified some cases from the 2016 sample that contained errors missed by VBA.

### ***Recommendation 3***

VBA agreed to conduct an annual review of SMC housebound benefits, with the initial review in October 2016 and then each October thereafter. Because VBA presented a plan to conduct ongoing reviews of SMC cases, the OIG closed this recommendation in April 2017. Although

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<sup>3</sup> The team found 132 of 199 cases in the sample had one or more errors. Appendixes A and B provide additional details on methodology. “Active SMC housebound cases” refers to cases in which the veteran is receiving SMC housebound benefits. High-risk cases are those in which the veteran’s combined disability rating evaluation was 90 percent or less.

<sup>4</sup> Improper payments include both underpayments and overpayments. Veterans may be liable for repaying debts created by overpayments. Appendix C presents questioned costs related to the improper payments.

<sup>5</sup> Table 1 of this report lists the seven recommendations from the OIG’s 2016 report.

VBA conducted periodic reviews of SMC cases, VBA did not conduct annual reviews and did not focus solely on high-risk cases.

#### ***Recommendation 4***

VBA was to provide decision makers with updated SMC training and monitor the effectiveness of the training. In February 2016, the updated instructional materials were made available to staff, and the training was mandatory for rating veterans service representatives (RVSRs). As the updated training and the plan to monitor the effectiveness of this training through special focused reviews appeared sufficient, the OIG closed the recommendation. Although VBA required RVSRs to take the updated SMC training, VBA failed to monitor the training's effectiveness.

#### ***Recommendation 5***

VBA was to update the electronic system to ensure staff discontinued temporary housebound benefits when the criteria were no longer met. Based on VBA's update to the electronic system, the OIG closed the recommendation on December 9, 2016. Although VBA completed the update, RVSRs have been able to bypass the warning without taking action, rendering this warning ineffective.

### **VBA Leaders Did Not Provide Adequate Governance over SMC Housebound Claims Processing to Improve Accuracy**

Although VBA took steps to implement each of the OIG's recommendations in the September 2016 report, due to inadequate governance, these steps were not effective in improving the quality of processing high-risk SMC housebound cases. In response to the 2016 report, VBA conducted a review of all cases involving veterans being paid compensation at the housebound rate with combined evaluations of 90 percent or less. However, VBA leaders did not identify who was responsible for oversight or establish controls to ensure accuracy.

Furthermore, although VBA indicated it would conduct annual special focused reviews of SMC housebound benefits, VBA neither ensured cases met the high-risk criteria nor conducted the reviews annually. Therefore, VBA missed opportunities to identify common error trends and take steps to remediate them. In addition, VBA did not ensure the information system enhancement improved SMC housebound claims processing because VBA did not actively monitor the effectiveness of the update. Some RVSRs bypassed the warning, rendering it ineffective.

RVSRs continued to make claims-processing errors for high-risk cases because VBA did not successfully implement the action plans submitted to the OIG in response to the recommendations from the September 2016 report and did not provide adequate governance over the SMC housebound claims process. Without improvements in oversight, accountability, monitoring, and the information system, VBA risks continuing to make improper payments,

potentially wasting taxpayer dollars, and putting veterans at risk of undue financial hardship if overpayments must be repaid.

## What the OIG Recommended

The acting under secretary for benefits should review all active high-risk SMC housebound cases. In addition, the OIG recommended conducting ongoing periodic reviews. The OIG also recommended updating the SMC housebound training and monitoring the effectiveness of the training. The acting under secretary should also ensure system enhancements are created and cannot be bypassed. Finally, the acting under secretary for benefits should correct all processing errors identified by the review team and report the results to the OIG.

Due to VBA's challenges in effectively implementing the 2016 recommendations, the OIG encourages VBA's leaders to clarify any aspects of these recommendations they consider unclear. The OIG will closely evaluate the documentation provided by VBA for sufficiency before closing these recommendations.

## Management Comments

The acting under secretary for benefits concurred with recommendations 1, 2, 3, and 6 and concurred in principle with recommendations 4 and 5. For recommendations 4 and 5, VBA will implement system enhancements that contain requirements that will eliminate the need for warnings. To address the intent of these recommendations, VBA has proposed a plan of action. Appendix D contains the full text of the acting under secretary's comments.

## OIG Response

The acting under secretary for benefits provided corrective action plans for each recommendation. The acting under secretary's concurrence in principle to OIG recommendations 4 and 5 meets the intent of those recommendations. The OIG will monitor implementation of planned actions and will close the recommendations when VBA provides sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.



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## Abbreviations

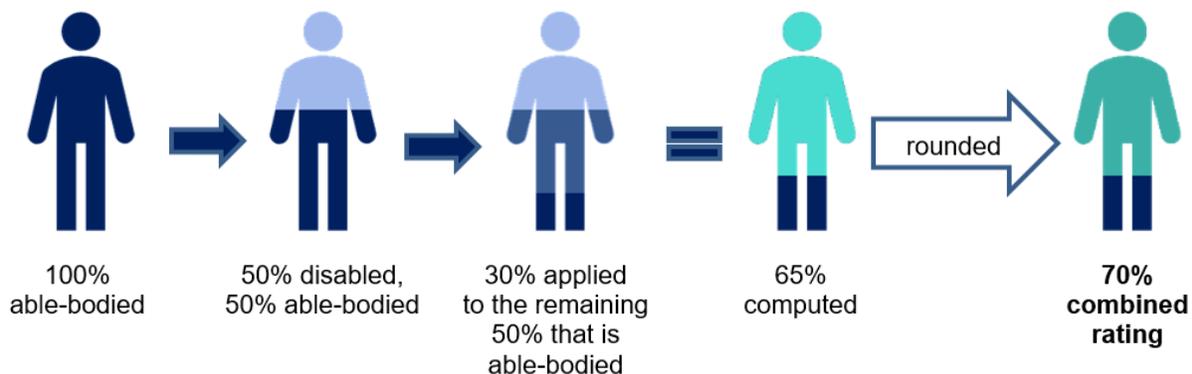
FY	fiscal year
GAO	Government Accountability Office
OIG	Office of Inspector General
RVSR	rating veterans service representative
SMC	special monthly compensation
VBA	Veterans Benefits Administration
VBMS	Veterans Benefits Management System
VBMS-R	Veterans Benefits Management System for Rating



## Introduction

The Veterans Benefits Administration (VBA) oversees a compensation program that provides tax-free benefits to veterans for the effects of disabilities caused by diseases or injuries incurred or aggravated during active military service.<sup>6</sup> These benefits are called service-connected disability compensation benefits. VBA pays disability compensation benefits monthly, and the amount varies according to the rating VBA assigns to the degree of the disability, which is expressed as a percentage. Compensable evaluations range from 10 percent to 100 percent in increments of 10.

VBA uses the “whole person theory” to determine a combined disability rating.<sup>7</sup> As a person cannot be more than 100 percent able-bodied, they also cannot be more than 100 percent disabled. Therefore, disability ratings are not additive. When a claimant has multiple disability ratings, VA uses a table to calculate the combined VA disability rating. Figure 1 shows how, if a veteran has one disability rated at 50 percent and a second disability rated at 30 percent, the combined rating is 70 percent, not 80.<sup>8</sup> The computed rating is rounded to the closest increment of 10.



*Figure 1. Overview of whole person theory.*

*Source: VA OIG analysis of 38 C.F.R. § 4.25.*

As the concept of rating disabilities evolved, the base rate of compensation was not always enough to compensate for the actual level of disability present. Special monthly compensation (SMC) recognizes the severity of certain disabilities or combinations of disabilities by paying additional benefits. VBA policy requires staff to consider if the veteran is entitled to SMC when the criteria are met.

<sup>6</sup> “VA disability compensation,” accessed April 7, 2021, <https://www.va.gov/disability/>.

<sup>7</sup> “About VA Disability Ratings,” accessed May 5, 2021, <https://www.va.gov/disability/about-disability-ratings/>.

<sup>8</sup> 38 C.F.R. § 4.25.

Housebound benefits are a type of SMC that are payable to a veteran who has a single, service-connected disability evaluated as totally disabling and

- has an additional service-connected disability or combination of disabilities, independently evaluated as 60 percent or more; *or*
- is permanently housebound due to a service-connected disability.<sup>9</sup>

## OIG's Previous Review of SMC Housebound Benefits

In September 2016, the VA Office of Inspector General (OIG) published its *Review of Special Monthly Compensation Housebound Benefits*.<sup>10</sup> In the report, the OIG identified a group of active SMC housebound cases the OIG determined to be “high risk.”<sup>11</sup> These consisted of cases in which veterans had a combined evaluation of 90 percent or less and were receiving SMC housebound benefits. These decisions are more complicated because rating veterans service representatives (RVSRs) must consider additional requirements and pay greater attention to detail for veterans with a combined evaluation of 90 percent or less. In contrast, cases in which veterans had a single or combined 100 percent evaluation were not considered high risk because they generally have fewer requirements for entitlement to SMC housebound benefits. The OIG conducted this review to determine whether VBA effectively implemented the recommendations from the 2016 report and improved the accuracy of high-risk SMC housebound cases.

In 2016, the OIG reported that VBA’s processing of SMC housebound benefits had an estimated 27 percent error rate resulting in \$44.3 million in improper payments.<sup>12</sup> The OIG made seven recommendations for improvement. The first recommendation related to system controls for claimants with single 100 percent evaluations. This recommendation was outside the scope of this review. Recommendations 2–7 pertained to veterans who were receiving the SMC housebound benefit, as shown in table 1.

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<sup>9</sup> 38 C.F.R. § 3.350(i).

<sup>10</sup> VA OIG, *Review of Special Monthly Compensation Housebound Benefits*, Report No. 15-02707-277, September 29, 2016.

<sup>11</sup> “Active SMC housebound cases” refers to cases in which the veteran is receiving SMC housebound benefits.

<sup>12</sup> Improper payments consist of both overpayments and underpayments.

**Table 1. Previous OIG Report Recommendations**

2016 Recommendations
1. Establish a plan to update the electronic system to prevent staff from completing a decision without considering potential eligibility to statutory housebound benefits any time a veteran has a single 100 percent evaluation.
2. Conduct a review of all veterans being paid compensation at the housebound rate with combined evaluations of 90 percent or less and provide certification of completion of the review to the OIG.
3. Establish a plan to conduct periodic reviews of high-risk cases in which veterans are being paid.
4. Implement a plan to provide decision makers the updated special monthly compensation training and monitor the effectiveness of the training.
5. Establish a plan to update the electronic system to ensure staff discontinue temporary housebound benefits when the criteria are no longer met.
6. Remind staff of the requirements to use the SMC calculator in all SMC cases and include the results in the file and implement a plan to ensure compliance.
7. Clarify the meaning of the term “substantially confined” for housebound in fact benefits. <sup>13</sup>

*Source: VA OIG, Review of Special Monthly Compensation Housebound Benefits, Report #15-02707-277, September 29, 2016.*

The then-acting under secretary for benefits concurred with all seven recommendations. Because VBA took actions or provided implementation plans that included VBA’s ongoing monitoring, the OIG closed the recommendations.

## **Roles and Responsibilities of VBA’s Compensation Service and Office of Field Operations**

Two offices within VBA share responsibility for processing SMC housebound cases. The executive director of the Compensation Service noted it establishes policy and procedures, provides training, and generally oversees the delivery of disability compensation to veterans—it provides the “how to.” She stated the Office of Field Operations manages the employees who process veterans’ claims, sets production goals, and oversees personnel management—it provides the “go do.” After claims are processed, the Compensation Service also provides quality assurance reviews intended to improve the quality and consistency of claims processing. Additionally, it conducts special limited focused reviews of claims topics that VBA leaders have identified as areas of particular interest or that need improvement. Figure 2 shows the division of roles and responsibilities between the Compensation Service and the Office of Field Operations.

<sup>13</sup> 38 C.F.R. § 3.350(i)(2). Special monthly compensation at the housebound rate is payable where the veteran has a single service-connected disability rated as 100 percent and is permanently housebound by reason of service-connected disability or disabilities. This requirement is met when the veteran is substantially confined as a direct result of service-connected disabilities to his or her dwelling and the immediate premises or, if institutionalized, to the ward or clinical areas, and it is reasonably certain that the disability or disabilities and resultant confinement will continue throughout his or her lifetime.



**Figure 2.** Roles and responsibilities of VBA's Compensation Service and Office of Field Operations.

Source: Department of Veterans Affairs Functional Organization Manual, Version 6, 2020, organizational charts as of May 15, 2020, remaining data as of September 1, 2020.

## Total Disability Ratings

There is more than one way in which a veteran can have service-connected conditions that are determined to be 100 percent disabling. This is important because to qualify for SMC at the housebound rate, a veteran must be rated as totally disabled. Although combined rating evaluations may result in a total disability rating, a single total evaluation for one condition is required for establishing entitlement to SMC housebound benefits. A veteran may receive a total disability rating that fulfills the SMC housebound criteria in several ways, as seen in figure 3.



**Figure 3.** Overview of types of total disability ratings.

Source: VA OIG analysis.

## Unemployability

If a veteran is unable to hold a steady job that supports them financially because of a service-connected disability, they may qualify for VA’s “individual unemployability” benefit. This means the veteran is paid disability compensation at the same rate as a veteran who has a 100 percent disability rating.<sup>14</sup> For housebound purposes, a total evaluation based on one disability making the veteran unemployable satisfies the requirement of a single disability rated as totally disabling. A single disability that is the basis for finding the veteran unemployable must generally be rated at 60 percent disabling or higher.<sup>15</sup>

In the context of SMC housebound claims processing, unemployability cases are considered more difficult because the RVSR must ensure that the single disability causing unemployability is at least 60 percent disabling.

<sup>14</sup> “VA Individual Unemployability if you can’t work,” VA, accessed March 25, 2021, <https://www.va.gov/disability/eligibility/special-claims/unemployability/>.

<sup>15</sup> VA Manual 21-1, part IV, sub. ii, chap. 2, sec. H. topic 10.b, “Defining a Single Disability for Housebound Purposes” January 5, 2016, September 9, 2019.

## **Extraschedular Unemployability**

VBA uses the VA Schedule for Rating Disabilities to assign disability ratings for veterans. The severity of a disability is based on an average reduction in earning capacity across a group of veterans with similar physical or mental impairments caused by their service.<sup>16</sup> The degree of severity is expressed as a percentage and is known as a “schedular rating.” Sometimes, however, there may be exceptional or unusual cases where the rating criteria for a veteran’s disability do not accurately reflect their level of disability.<sup>17</sup>

For example, a veteran may be rated as 50 percent disabled due to service-connected migraine headaches, and medical evidence indicates that these migraines affect employability. As a result, the veteran may be eligible for SMC housebound benefits even though the single disability does not meet the schedular requirement for unemployability. In cases like this, the RVSR is required to forward the case to the Compensation Service. The director of the Compensation Service determines whether the veteran’s disability is of sufficient severity to grant entitlement to individual unemployability, even though they do not meet the criteria for this benefit based on the schedular requirement. This is called an extraschedular unemployability determination.

## **Single 100 Percent Disability Rating**

A single 100 percent disability means that the veteran has one disability that is rated 100 percent disabling. For example, the veteran is service-connected at 100 percent for posttraumatic stress disorder.

Single 100 percent disability rating cases are not considered high-risk cases because they meet the total disability evaluation criteria for SMC housebound entitlement. There is no need to consider unemployability or request extraschedular evaluation to meet the total disability evaluation requirement.

## **Temporary Single 100 Percent Disability Rating**

A veteran may receive a temporary 100 percent evaluation for hospitalization or convalescence for a service-connected condition. These temporary total disability ratings are often assigned in situations involving joint replacements or cancer treatment, and many have a set duration. For example, for bone cancer, an RVSR rates a veteran at a temporary 100 percent for one year after chemotherapy ends.<sup>18</sup>

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<sup>16</sup> 38 C.F.R. § 4.1.

<sup>17</sup> 38 C.F.R. §3.321(b).

<sup>18</sup> 38 C.F.R. § 4.71a, Diagnostic Code 5012.

In the context of SMC housebound claims processing, these cases are considered more difficult because the RVSR must enter the necessary coding to end SMC housebound entitlement when the temporary 100 percent ends.

## Types of SMC Housebound

VBA grants two types of SMC at the housebound rate: in fact and statutory. Both require that the veteran has a service-connected disability rated as total.

### Housebound in Fact

The housebound in fact benefit requires (1) a single disability rated as totally disabling, and (2) the veteran must be permanently housebound due to service-connected disabilities. Although veterans receiving housebound in fact benefits must be substantially confined to their homes, they may still leave their homes for medical appointments. Figure 4 illustrates VBA’s housebound in fact criteria.<sup>19</sup>



**Figure 4.** Overview of VBA’s housebound in fact criteria.

Source: VA OIG analysis.

\* Either based on a single disability evaluated as 60 percent or more disabling or on the Compensation Service’s approval of an extraschedular evaluation.

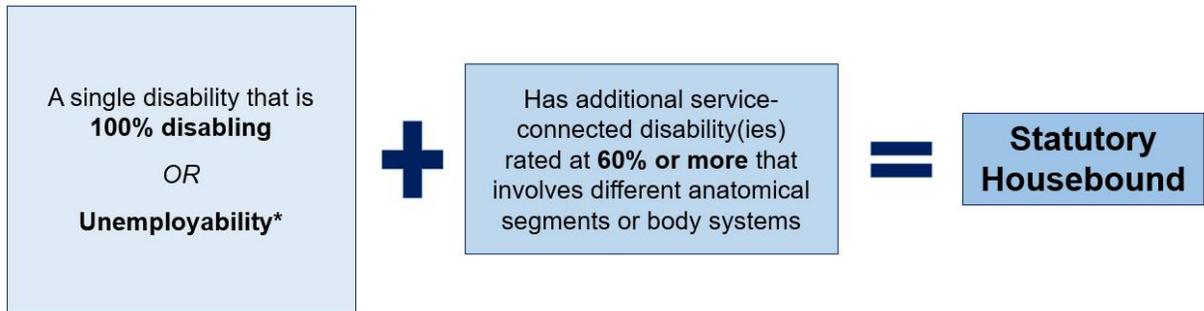
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<sup>19</sup> VA Manual 21-1, part IV, subpart ii. Chapter 2. Section H, topic 10.e. “Determining Whether the Veteran Is Permanently Housebound in Fact,” October 27, 2016.

## Statutory

The statutory benefit requires (1) a single disability rated as totally disabling and (2) the veteran has one or more service-connected disabilities with a combined evaluation of 60 percent or more that is separate and distinct from the single total disability.

Entitlement to the statutory benefit is based entirely on a veteran’s disability evaluations.<sup>20</sup> In addition, there is no requirement that the evaluations be permanent or that the veteran be confined to the home. Figure 5 illustrates VBA’s statutory housebound criteria.



**Figure 5.** Overview of VBA’s statutory housebound criteria.

Source: VA OIG analysis.

\* Either based on a single disability evaluated as 60 percent or more disabling or on the Compensation Service’s approval of an extraschedular evaluation.

## Roles and Responsibilities of RVSRs

RVSRs make formal decisions, called rating decisions, on veterans’ claims relating to their entitlement to benefits.<sup>21</sup> Rating decisions deal with service-connection determinations for veterans’ injuries and diseases incurred in service. Further, RVSRs evaluate previously service-connected disabilities to determine if those conditions have worsened. The rating decision is composed of a narrative explanation of the determination on benefit entitlement and a code sheet containing information about the claimant, the current decision, past decisions, coding, and the current state of entitlement to compensation benefits. RVSRs assign different levels of SMC depending on the severity of a veteran’s disabilities.

<sup>20</sup> 38 C.F.R. § 3.350(i)(1).

<sup>21</sup> For the purpose of this report, the term “RVSR” includes decision review officers. Decision review officers are higher-level decision makers.

## RVSR Coding

Each level of SMC has a corresponding code, which is an accounting method used to direct payment of benefits. RVSRs must enter the correct codes to ensure veterans receive the correct level of SMC. To illustrate, table 2 lists three commonly used SMC codes.

**Table 2. Frequently Applied SMC Codes**

Code	Code explanation
01	Loss of use of a creative organ [reproductive] <sup>22</sup>
48	SMC housebound
49	SMC housebound plus loss of use of a creative organ

*Source: VA OIG analysis of 38 C.F.R. § 3.350.<sup>23</sup>*

*Note: There are at least 70 SMC codes. This table provides an example of three of the codes.*

Some SMC codes, like code 01, pay an amount in addition to the combined evaluation rate. Others, like code 48, pay a set rate regardless of combined evaluation. For example, a veteran with a 70 percent evaluation plus code 48 receives the same payment as a veteran with an 80 percent evaluation plus code 48.

VA may pay additional disability compensation to veterans for their dependents if they have a combined disability rating of at least 30 percent.<sup>24</sup> Table 3 provides an example of payment rates for a veteran with a combined evaluation of 70 percent and no dependents. The table also shows the monthly payment for three common SMC rates (01, 48, and 49).

<sup>22</sup> VA Manual M21-1, part 4, subpart ii, chapter 2, section H, subsection 4.c, “Awarding SMC for L/LOU [loss/loss of use] of a Creative Organ,” September 9, 2019. “Award special monthly compensation on loss/loss of use of a creative organ if medical evidence of record shows the acquired absence of one or both testicles, ovaries, or other creative organ; a condition of the reproductive tract which results in loss of use of a creative organ; loss of erectile power secondary to a disease process, such as diabetes or multiple sclerosis, in a male veteran; or, a diagnosis of Female Sexual Arousal Disorder.”

<sup>23</sup> 38 C.F.R. § 3.350(a). “Special monthly compensation (...) is payable for each anatomical loss or loss of use of one hand, one foot, both buttocks, one or more creative organs, blindness of one eye having only light perception, deafness of both ears, having a absence of air and bone conduction, complete organic aphonia with constant inability to communicate by speech or, in the case of a woman veteran, loss of 25 percent or more of tissue from a single breast or both breasts in combination (including loss by mastectomy or partial mastectomy), or following receipt of radiation treatment of breast tissue.”

<sup>24</sup> VA Manual 21-1, part 7, subpart i, chapter 1, section A, topic 1.c, “Importance of Establishing the Relationship of an Individual to a Veteran,” March 6, 2020.

**Table 3. Example of Monthly Payment Rates**

<b>Evaluation</b>	<b>Base monthly payment</b>	<b>SMC payment</b>	<b>Total monthly payment</b>
70 percent	\$1,444.71	NA	\$1,444.71
70 percent <i>plus code 01 (loss of use of a creative organ)</i>	\$1,444.71	\$1,444.71 + \$111.74 (70% + code 01)	\$1,556.45
70 percent <i>plus code 48 (housebound)</i>	NA*	\$3,521.85 (code 48)	\$3,521.85
70 percent <i>plus code 49 (code 48 plus code 01) (loss of use of a creative organ and housebound)</i>	NA	\$3,521.85 + \$111.74 (code 48 + code 01)	\$3,633.59

Source: VA OIG analysis of VA website (<https://www.va.gov/disability/compensation-rates/veteran-rates/past-rates-2021/>).

Note: All rates shown are as of December 1, 2020.

\* Some SMC codes, like code 01, pay an amount in addition to the combined evaluation rate, whereas others, like code 48, pay a set rate regardless of combined evaluation.

## Results and Recommendations

### **Finding: VBA Did Not Effectively Implement Four of the OIG's Prior Recommendations, Resulting in Continued High-Risk SMC Housebound Claims-Processing Deficiencies**

The review team found VBA's SMC housebound claims-processing accuracy has not improved since the OIG's September 2016 report. This would suggest that VBA did not effectively implement and monitor the documented action plans they submitted to the OIG for taking corrective actions. Those action and monitoring plans were the basis for closing the 2016 report recommendations. This review was conducted to ensure the actions were taken and resulted in the sustained accurate processing of SMC housebound cases. The determinations that support this finding demonstrate that was not the case.

For the purposes of this review, SMC housebound cases were considered "high-risk" when veterans had a combined evaluation of 90 percent or less. On the basis of a sample of 199 cases that were active as of September 24, 2020, the team estimated about 27 percent of high-risk SMC housebound cases (5,600 out of 20,900) were incorrectly processed. This is the same error rate noted in the September 2016 OIG report. The team estimated the incorrect processing identified during this review resulted in about \$165 million in improper payments.

VBA claims processors do not consistently follow the policies and procedures for SMC housebound claims processing. This occurred, in part, because VBA leaders did not establish adequate governance to effectively implement the OIG's September 2016 recommendations and failed to make systems-level changes to improve the accuracy of the claims process. For example, in the September 2016 report, the OIG recommended VBA establish a plan to conduct periodic reviews of high-risk cases in which veterans were being paid. To address this recommendation, VBA agreed to conduct annual reviews of SMC housebound benefits. The reviews could have helped VBA leaders identify trends and monitor the effectiveness of training. However, VBA only conducted two reviews and did not limit them to high-risk cases. VBA's last review was of cases decided in 2018.

### **What the OIG Did**

VBA addressed recommendation 1 from the OIG's 2016 report by adding a control to the electronic system to prevent staff from completing a decision without considering potential eligibility for statutory housebound benefits any time a veteran has a single 100 percent evaluation. Single 100 percent evaluations were outside the scope of this review; therefore, recommendation 1 is not addressed further in this report. This review assessed VBA's actions to address recommendations 2–7 from the September 2016 report. The team reviewed veterans'

cases and relevant documentation required to assess whether high-risk SMC housebound cases were correctly processed in accordance with VBA policies and regulations.

The review team's analysis is based on three data groups of SMC housebound cases:

- **VBA's 2016 review**—A review of high-risk cases reviewed by VBA in response to recommendation 2 (review of all veterans being paid compensation at the housebound rate with combined evaluations of 90 percent or less).
- **Special focused reviews**—Two reviews of SMC housebound cases completed by VBA in response to recommendation 3 (periodic reviews of high-risk cases in which housebound benefits were being paid).
- **Post-recommendation sample**—A random stratified sample of SMC housebound cases that were active as of September 24, 2020. Not all cases were processed in 2020—for some cases, the decisions were made in prior years, and the benefits have continued. The team reviewed this sample to determine if VBA improved its processing of cases after the 2016 OIG report. The sample consisted of veterans receiving compensation at the housebound rate with combined evaluations of less than 60 percent, and then at intervals of 10 for 60 percent, 70 percent, 80 percent, and 90 percent. While examining the post-recommendation sample, the review team identified 45 cases that overlapped with cases reviewed by VBA in its 2016 review. These cases were for veterans being paid SMC housebound benefits as of September 24, 2020, who were also being paid this benefit during VBA's 2016 review.

To gain an understanding of VBA regulations and procedures for processing SMC housebound cases, the team conducted virtual site visits at the regional offices in Little Rock, Arkansas; Muskogee, Oklahoma; San Diego, California; and St. Petersburg, Florida. The team interviewed managers and staff who were involved in VBA's actions to implement the OIG's recommendations as well as staff who were responsible for processing SMC housebound decisions. The team also interviewed Compensation Service and Office of Field Operations managers and staff. The team discussed the findings with VBA officials and included their comments in the report as appropriate. Appendixes A and B provide a more detailed description of the samples reviewed and the review methodology.

This report discusses the determinations that support the OIG's finding:

- VBA did not effectively implement the OIG's September 2016 recommendations.
- VBA leaders did not provide adequate governance over SMC housebound claims processing to improve accuracy.

- VBA’s error rate for high-risk SMC housebound cases did not improve after the 2016 report, leading to improper payments.

## **VBA Did Not Effectively Implement the OIG’s Prior Recommendations**

The OIG’s September 2016 report found VBA inaccurately processed cases for veterans receiving SMC at the housebound rate with combined evaluations of 90 percent or less. The OIG recommended VBA review high-risk SMC housebound cases (recommendation 2). The remaining five recommendations were related to improving the processing of active SMC housebound cases. This section discusses VBA’s implementation in greater detail. In this review, the team determined VBA did not effectively implement four of the OIG’s recommendations, leading to continued deficiencies.

**2016 Recommendation 2:** Conduct a review of all veterans being paid compensation at the housebound rate with combined evaluations of 90 percent or less and provide certification of completion of the review to the OIG.

In response to this recommendation, the Office of Field Operations—responsible for overseeing actions for this recommendation—assigned five regional offices the task of identifying whether SMC housebound benefits were appropriately granted for 11,597 active high-risk cases.<sup>25</sup> In February 2018, VBA provided certification that the review was complete. Thereafter, the OIG closed this recommendation on February 27, 2018.

The Office of Field Operations and the Compensation Service developed procedures to guide this review. However, these procedures did not identify who was responsible for oversight or detail how to validate review results or conduct quality checks. According to the procedures, if staff determined SMC housebound benefits were not appropriately granted, they were to establish “end product controls” in the Veterans Benefits Management System (VBMS) to indicate review was required.<sup>26</sup> End products are the work units VBA establishes to properly control pending workloads. End products have specific codes to identify types of claims or actions required, and VBA uses this system to monitor and manage its workload. After the initial review, cases that required further action were distributed nationwide for completion. However,

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<sup>25</sup> The five regional offices were Los Angeles, California; Muskogee, Oklahoma; Roanoke, Virginia; St. Louis, Missouri; and St. Petersburg, Florida.

<sup>26</sup> M21-4, app. B.1.a “Correct EP Use and Work Measurement,” November 9, 2020. The end product system is the primary workload monitoring and management tool for a veterans service center. Correct use of the end product system facilitates proper control of pending workloads and a appropriate work measurement credit. The end product control referenced here is a code that indicates additional review is required.

the procedures did not include a requirement to check the quality of either the review at the regional offices or the corrections nationwide.

Although the Office of Field Operations technically addressed recommendation 2 by conducting a review, it missed several opportunities to effectively oversee the process, such as validating the review results before providing certification to the OIG. The review team interviewed the supervisory program analyst who was a point of contact for implementing this 2016 recommendation and who participated in managing the VBA review. He stated the Office of Field Operations did not validate the review results. Additionally, he could not confirm that any follow-up was conducted with regional offices to ensure appropriate actions were completed. The analyst stated regional offices were responsible for completing the reviews, and he was unable to confirm if the Office of Field Operations followed up on VBA's 2016 review. According to the analyst, the primary concern was to conduct the review, and "quality was not part of the plan."

The review team also interviewed managers and staff at two of the regional offices assigned to VBA's 2016 review. Most staff could not recall the details of the review but noted they were only responsible for establishing end product controls when actions were required on cases. They were not aware of any follow-up by the Office of Field Operations to ensure regional office staff took appropriate actions once the cases were distributed nationwide.

As previously discussed, while reviewing the post-recommendation sample, the team identified 45 cases that were also a part of VBA's 2016 review. These cases contained VBA annotations that no further actions were needed at that time. However, the team identified errors in 14 of these cases that included

- failure to enter the necessary codes to stop the SMC housebound benefit,
- misuse of unemployability for statutory housebound entitlement, and
- incorrect coding of SMC.

VBA's Compensation Service concurred with the errors the review team identified.

In the 2021 recommendation, the OIG calls on VBA to conduct a review of all active, high-risk SMC housebound cases, render new decisions as appropriate, ensure the corrective actions were taken, and conduct a documented quality review of the corrective actions.

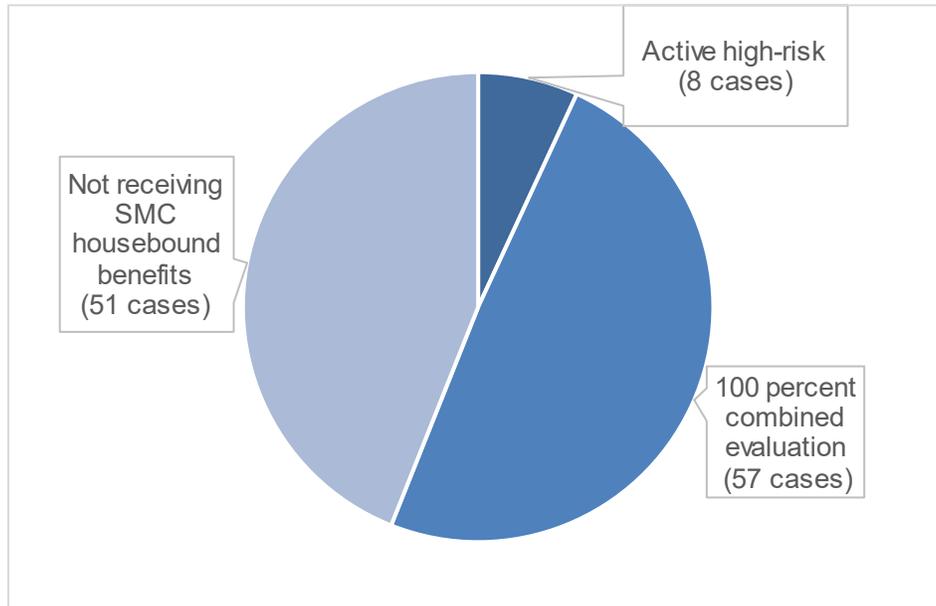
### **2016 Recommendation 3: Establish a plan to conduct periodic reviews of high-risk cases in which veterans are being paid.**

VBA agreed to conduct an annual review of SMC housebound benefits, with the initial review in October 2016 and then each October thereafter. VBA generally calls this type of limited review of claim topics a "special focused review." Compensation Service personnel complete special

focused reviews on topics of significant interest, or particular or potential issues where a need has been identified. These reviews are conducted in an effort to improve quality as well as ensure consistency and compliance based on active policies and procedures. As VBA presented an acceptable plan to conduct ongoing reviews of SMC cases, the OIG closed this recommendation in April 2017. However, instead of focusing on active SMC housebound cases at high risk for errors, VBA reviewed cases that involved the larger population of SMC housebound veterans. As a result, the sample was diluted and not representative of the appropriate cases.

The Compensation Service provided the review team with the results of its first special focused review conducted during November 2016 of 284 cases that involved SMC housebound entitlement. This national random sample consisted of SMC housebound cases decided during fiscal year (FY) 2016. VBA reported that 28 cases contained errors. The overall accuracy rate for this review was 90 percent. However, the review included cases that did not meet the criteria of being high-risk and receiving SMC housebound benefits. Therefore, these cases were not active high-risk SMC housebound cases.

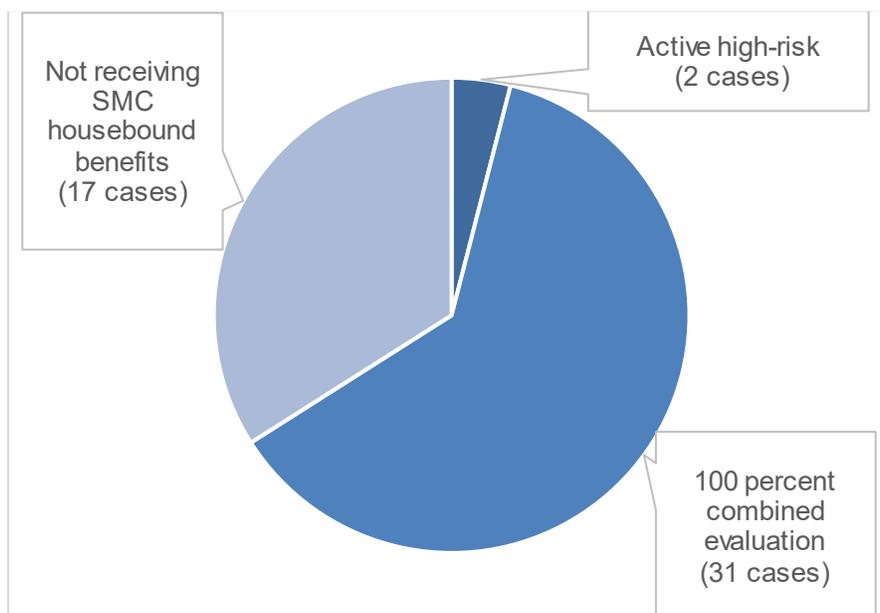
For this review, the OIG team examined a judgmental sample of 116 of the 284 cases in the Compensation Service’s 2016 special focused review. As seen in figure 6, only eight met the criteria for active high-risk SMC housebound cases. VBA cited errors on five of the eight high-risk cases and provided guidance for correction. As of May 2021, none of these errors had been corrected.



**Figure 6.** Breakdown of the OIG’s judgmental sample of 116 of 284 cases in VBA’s November 2016 special focused review.

Source: VA OIG analysis.

In April 2019, Compensation Service staff conducted another review of 50 SMC housebound cases decided in FY 2018 and only identified one error, for a 98 percent accuracy rate. As a result, Compensation Service staff submitted a memorandum to the under secretary for benefits suggesting the discontinuance of the annual review. Instead, they proposed conducting a review every three years. However, once again, the special focused review primarily consisted of cases other than active high-risk SMC housebound cases, as seen in figure 7.



**Figure 7.** Breakdown of cases in VBA's April 2019 special focused review.

Source: VA OIG analysis.

When interviewed, the chief of quality assurance stated that he thought the special focused reviews were for SMC housebound cases in general and had not heard of the high-risk aspect of this recommendation until recently. However, he suspected there was a disconnect on the data as he thought they were not seeing the same results that the OIG did in the previous review. He also agreed it would be valuable to go back and complete the special focused reviews of active high-risk SMC housebound cases. In an interview with the executive director of the Compensation Service, she stated that she did not know why the special focused reviews looked at all SMC decisions and did not focus on active high-risk SMC housebound cases.

Compensation Service personnel did not conduct special focused reviews of SMC housebound cases decided in FY 2017 or FY 2019. According to the executive director of the Compensation Service and the quality assurance officer, these reviews were not conducted because of competing workload priorities and limited resources. The quality assurance officer was unaware of plans to conduct reviews for active high-risk SMC housebound cases in FY 2020 and FY 2021. In addition, the executive director was unaware of plans to conduct reviews for active high-risk SMC housebound cases in FY 2021.

Since the special focused reviews did not target active high-risk SMC housebound cases, the review team determined VBA did not effectively implement recommendation 3. As a result, VBA missed opportunities to identify common error trends and take steps to remediate them.

VBA's Compensation Service acknowledged issues with establishing statutory SMC housebound entitlement. Compensation Service bulletins released over three consecutive years from 2017 to 2019 noted administrative errors resulting in overpayments. Administrative errors occur when VBA acknowledges it made an error that resulted in overpayment.<sup>27</sup> If VBA does not approve a waiver of the overpayment, the veteran must repay the funds.<sup>28</sup> The errors occurred because RVSRs failed to enter the correct codes to close temporary total evaluation entitlement related to statutory SMC housebound entitlement.

In the 2021 recommendation, the OIG reiterates the need for VBA to implement a plan to conduct ongoing periodic reviews of completed active high-risk SMC housebound cases, render new decisions as appropriate, ensure the corrective actions were taken, and conduct a documented quality review of corrective actions.

#### **2016 Recommendation 4: Implement a plan to provide decision makers the updated special monthly compensation training and monitor the effectiveness of the training.**

The Compensation Service updated the "Higher Levels of SMC" training module to include a job aid that identifies common errors. VBA also stated it would monitor training effectiveness through its annual special focused reviews. In February 2016, the Compensation Service made the updated materials available to staff and mandatory for RVSRs. The OIG closed this recommendation because the updated training and the plan to monitor its effectiveness through special focused reviews were considered sufficient.

VBA provided updated SMC training to decision makers and created a plan to monitor the effectiveness of the training via the special focused reviews. However, as discussed in the prior section, the special focused review results were diluted, as the majority of the cases reviewed were not high risk. In addition, due to workload and competing priorities, VBA did not conduct the planned annual special focused reviews. Therefore, VBA missed opportunities to improve the accuracy of processing high-risk SMC housebound cases.

During interviews, RVSRs told the review team that the SMC housebound training they received was good. To assess the RVSRs' knowledge related to SMC housebound claims processing, the

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<sup>27</sup> VA Manual 21-1, part 3, subpart v, chapter 1, section I, topic 3.a, "Definition: Administrative Error," November 9, 2020.

<sup>28</sup> VA Manual 21-1, part 3, subpart v, chapter 1, section I, topic 3.g, "Instructions for Handling an Administrative Error," November 9, 2020.

review team provided each RVSR interviewed with high-risk scenarios. On the basis of these scenarios, the team identified several areas where more in-depth SMC housebound training would assist RVSRs. For example, a common error is the failure to discontinue SMC housebound entitlement at the end of a temporary 100 percent evaluation period. Although the SMC housebound training curriculum advises RVSRs to review the code sheet, the training could provide specific examples of erroneous coding to help prevent this error.

Another common error is the failure to obtain extraschedular consideration for entitlement to individual unemployability. More in-depth training could address the nuances of individual unemployability in relation to statutory SMC housebound entitlement. Although RVSRs receive training on determining eligibility to individual unemployability, the training does not provide in-depth scenarios and examples related to individual unemployability and its impact on SMC housebound entitlement. Several RVSRs told the review team they would benefit from additional focused training on statutory housebound criteria for veterans with a combined evaluation of 90 percent or less. They indicated that examples such as those provided by the team in the interviews would be helpful in training.

The 2021 recommendation is that VBA should update the SMC housebound training to include guidance on and examples of statutory, housebound in fact, individual unemployability, and extraschedular criteria. VBA should also monitor the effectiveness of the training.

**2016 Recommendation 5: Establish a plan to update the electronic system to ensure staff discontinue temporary housebound benefits when the criteria are no longer met.**

Effective September 11, 2016, VBA noted that the VBMS rating application (VBMS-R) triggers a warning message when a veteran is receiving SMC housebound payments and a proposed or final reduction is made, or a temporary 100 percent evaluation is assigned and the RVSR did not enter an end date in VBMS-R to stop the SMC housebound entitlement.<sup>29</sup> On the basis of VBA's update, the OIG closed the recommendation on December 9, 2016.

In the OIG's post-recommendation sample, the review team found 132 of 199 cases active as of September 24, 2020, had improper payments. As 50 of the 132 errors were based on failure to discontinue benefits when the criteria were no longer met, the team determined the VBMS-R update was not an effective mechanism to ensure staff discontinue SMC housebound benefits when the criteria are no longer met.

Although VBMS-R does trigger a warning when the SMC housebound criteria are no longer met, an RVSR can bypass the warning, rendering it ineffective. The warning initially presents as

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<sup>29</sup> VBMS-R is a web-based application designed to support end-to-end claims processing through a consolidated portal. RVSRs use VBMS-R to prepare rating decisions.

a generic statement that is the same for any SMC housebound issue: “Validation issues exist! Please click here for more details.” An RVSR can bypass the warning by selecting the option to “Continue to Documents Page.” If the RVSR does select the initial warning, a more detailed message is generated:

WARNING[:] There are one or more pending issues that may potentially impact the Veteran’s continued entitlement to statutory housebound benefits. Please review the record to ensure that a proposed reduction or final reduction of SMC benefits is not warranted.<sup>30</sup>

However, the RVSR can also bypass this message without taking any action. In interviews, some RVSRs noted they bypass the initial warning because they feel it is often triggered when it is not warranted. For example, it might trigger based on a prior rating decision that is no longer an issue.

The review team recognizes that VBMS-R cannot be programmed to account for every single scenario. However, VBMS-R already has functionality to document exceptions when the RVSR overrides the system’s results. To do so, the RVSR provides justification in the system, and the record is identified for local quality review and approval. In interviews, RVSRs stated that they felt a warning would be helpful that informed them they must address SMC housebound entitlement because the criteria were no longer met.

The Compensation Service released bulletins over three consecutive years, from 2017 to 2019, that noted trending errors related to statutory SMC housebound entitlement.<sup>31</sup> The errors were due to failure to enter the correct codes to close the temporary total evaluation entitlement. A senior program analyst with the Compensation Service business management staff stated that the effectiveness of the VBMS-R enhancement was passively monitored, as it relied on RVSRs reporting issues with the system. At the time of this review, VBA did not have any pending enhancements in VBMS-R for SMC housebound cases.

The review team concluded VBA did not provide effective oversight to ensure the system enhancement improved SMC housebound claims processing. This was evidenced by the responses from the RVSR interviews in which they stated they tend to ignore the VBMS-R warning. Additionally, one of the top error categories the team found was failure to enter the necessary SMC codes to stop the housebound payment rate, an error this enhancement was

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<sup>30</sup> When evidence is received that requires a negative adjustment to a veteran’s disability compensation benefits, the veteran must be notified of the proposed action and provided time to show why the adjustment should not be made. Proposals to reduce include the following actions: reduction in the percentage of a service-connected disability, severance of service connection, termination of individual unemployability benefits, discontinuance of special monthly compensation, and adjustment of benefits that were erroneously awarded due to administrative or judgmental errors.

<sup>31</sup> Compensation Service staff issue bulletins on a regular basis to provide guidance to regional offices.

meant to specifically address. Instead of relying on reports from users, VBA should have created a structure to actively monitor the effectiveness of this enhancement.

In this report, the OIG recommends VBA create system enhancements that (1) limit the statutory SMC housebound validation warning to trigger only when statutory housebound criteria are met but not addressed, and (2) prohibit RVSRs from bypassing statutory housebound validation warnings without taking action or providing justification.

**2016 Recommendation 6: Remind staff of the requirements to use the SMC calculator in all SMC cases and include the results in the file and implement a plan to ensure compliance.**

VBA noted it would monitor SMC calculator tool compliance through the annual special focused reviews.<sup>32</sup> In May 2016, the Compensation Service reminded regional office managers in a monthly call that RVSRs must use the SMC calculator.<sup>33</sup> In 2016, the Compensation Service also updated its site visit protocol document to include reviewing SMC cases to determine compliance and identify training needs. As such, the OIG closed the recommendation.

The review team found that compliance with uploading the calculator results is not a main cause of SMC housebound errors, so the OIG is not making a related recommendation in this report. However, it is important to note that RVSRs have access to two SMC calculators. One is embedded in VBMS-R, and the other is external. VBA does not mandate which calculator must be used. The team was unable to determine whether using one calculator over the other led to additional errors. If an RVSR uses the embedded calculator, then the information can be automatically entered into the rating decision. With the external calculator, the RVSR must enter the codes manually into VBMS-R, which introduces the potential for transcription errors that could affect a veteran's benefits. The team found errors where the RVSR uploaded the correct calculator results into the VSMS-R claims folder but entered incorrect codes, affecting the veterans' benefits.

VBA updates both calculators as needed, for example due to changes in policy and procedures. However, these updates do not occur simultaneously, creating the risk that an RVSR may use a calculator that does not reflect the most up-to-date procedures. VBA leaders should consider using one calculator to promote data integrity and reduce risk to veterans.

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<sup>32</sup> VBA, *Special Monthly Compensation (SMC) Calculator User Guide*, April 5, 2012. The SMC calculator is a tool that determines the total SMC award based on disabilities and provides additional information on each SMC level as it relates to different disabilities entered by the decision maker.

<sup>33</sup> VBA, "Compensation Service Bulletin," May 2016. The Compensation Service noted it reminded staff at all regional offices of the requirement to use the SMC calculator during the veterans service center manager call of May 2016.

## **2016 Recommendation 7: Clarify the meaning of the term “substantially confined” for housebound in fact benefits.**

VBA concurred with this recommendation and updated its manual in October 2016 to provide clarification and examples of the term “substantially confined.”<sup>34</sup> The OIG closed this recommendation. As part of its follow-up work, the review team determined no further action is required at this time.

### **VBA Leaders Did Not Provide Adequate Governance over SMC Housebound Claims Processing to Improve Accuracy**

In assessing the deficiencies outlined in the prior sections, it is clear that VBA submitted adequate plans and took steps that met the intent of implementing the OIG’s September 2016 report recommendations. However, VBA did not monitor the actions taken to make sure they resulted in the accurate processing of SMC housebound cases. VBA managers are responsible for ensuring strong fiscal stewardship of taxpayer funds. Inaccurate processing of high-risk SMC housebound claims can result in excessive payments that waste taxpayer dollars.

As previously described, the Office of Field Operations oversees VBA’s regional offices. The office supervises performance and workload management for personnel in the regional offices and is responsible for ensuring VBA benefits decisions are timely, accurate, and consistent. The Compensation Service oversees the delivery of monetary benefits. The service administers procedural guidance, develops training, and oversees quality assurance reviews—including special focused reviews. These two offices must work together to make sure veterans’ claims for high-risk SMC housebound cases are processed correctly, with clearly defined roles and responsibilities to promote compliance with updated policies and procedures. Governance is particularly difficult when oversight responsibility is shared among multiple offices for complex processes, as is the case for VBA managers within the Compensation Service, the Office of Field Operations, and the regional offices. Each share the responsibility for ensuring accurate and consistent claims processing that meets high quality standards.

The following sections detail how inadequate governance of oversight and accountability mechanisms, monitoring, and the information system led to ineffective implementation of the OIG’s recommendations.

### **Oversight and Accountability Mechanisms**

Oversight and accountability are intertwined. VBA leaders should oversee the internal control system, and managers should evaluate performance and hold individuals accountable for their

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<sup>34</sup> VA Manual M21-1, part 4, subpart ii, chapter 2, section H, subsection 10.f, “Determining Whether the Veteran is Substantially Confined for Housebound in Fact Entitlement,” October 28, 2016.

internal control responsibilities.<sup>35</sup> Although VBA conducted a review in response to the recommendations in the September 2016 report, VBA did not establish controls to ensure accuracy before certification. The Office of Field Operations and the Compensation Service developed procedures to guide this review; however, these procedures did not identify who was responsible for oversight. The procedures also did not include a requirement to check the quality of either the regional office reviews or the corrections nationwide. VBA leaders should have created an effective oversight mechanism for the review, assigned responsible parties, and held them accountable.

## Monitoring

VBA managers should establish and monitor the internal control system and evaluate the results.<sup>36</sup> In response to the OIG's September 2016 report, VBA submitted a plan to conduct annual special focused reviews of SMC housebound benefits. In addition, the Compensation Service provided updated training to RVSRs, and VBA put forward a plan to monitor the effectiveness of this training via the special focused reviews. However, the reviews were not conducted annually, and not all cases in the review sample met the stated criteria. Therefore, VBA may have missed opportunities to identify issues, improve accuracy, and assess the effectiveness of the training.

## Information Systems

VBA leaders should design information systems and related control activities to achieve objectives and respond to risks.<sup>37</sup> In its September 2016 report, the OIG recommended the then-acting under secretary for benefits establish a plan to update the electronic system to ensure staff discontinue temporary housebound benefits when the criteria are no longer met. VBA noted that VBMS-R triggers a warning message when a veteran is receiving SMC housebound benefits and a proposed or final reduction is made, or a temporary 100 percent evaluation is assigned and the RVSR did not enter an end date in VBMS-R to stop the SMC housebound entitlement. However, the team determined the VBMS-R update has not been an effective mechanism because RVSRs can bypass the warning. The review team concluded VBA did not provide effective oversight to ensure the system enhancement improved SMC housebound claims processing because leaders did not actively monitor the effectiveness, instead relying on user reports.

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<sup>35</sup> Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014, principles 2 and 5.

<sup>36</sup> GAO, *Standards for Internal Control in the Federal Government*, principle 16.

<sup>37</sup> GAO, *Standards for Internal Control in the Federal Government*, principle 11.

## VBA's Error Rate for High-Risk SMC Housebound Cases Did Not Improve after the OIG's 2016 Report, Leading to Improper Payments

VBA did not effectively implement the recommendations from the September 2016 report and did not provide effective oversight over the SMC housebound claims process. This contributed to RVSRs making the same claims-processing errors at about the same rate for high-risk SMC housebound cases. On the basis of an analysis of the cases in the OIG's post-recommendation sample of active cases as of September 24, 2020, 132 of the 199 cases were incorrectly processed. Errors involved statutory housebound benefits, housebound in fact, and SMC incorrectly coded as housebound benefits. Based on the sample results, the team estimated that 5,600 of 20,900 high-risk SMC housebound cases (about 27 percent) had errors, resulting in \$165 million in improper payments. Appendix C presents questioned costs related to the improper payments.

The review team identified three main errors:

- RVSRs recognized that housebound benefits should be discontinued but failed to enter the necessary SMC codes to stop the housebound payments.
- RVSRs did not obtain extraschedular consideration for entitlement to housebound benefits when necessary.
- RVSRs incorrectly coded SMC to pay housebound benefits when no entitlement existed. A quality assurance officer acknowledged that these errors resulted from coding, such as not closing out temporary 100 percent evaluations and entering incorrect codes.

Illustrations of each type of error follow.

The review team found RVSRs failed to enter the correct code to stop the housebound payment rate in 47 cases when veterans' combined evaluations were reduced. Example 1 shows the overpayment that occurred because an RVSR failed to enter the appropriate code in VBMS-R.

### *Example 1*

*An RVSR granted a veteran temporary SMC housebound from February 29, 2016, to December 1, 2019. The RVSR assigned the correct start date but did not assign a code for the end date. Therefore, although the veteran's combined evaluation was reduced to 60 percent effective December 1, 2019, the veteran continued to receive payment at the SMC housebound rate. At the time of the review, VBA had overpaid the veteran more than \$20,000.*

In 30 cases, the review team found RVSRs did not forward the cases to Compensation Service personnel for an extraschedular determination as required. Example 2 describes one of these errors.

### Example 2

*In a March 2015 rating decision, an RVSR granted a veteran SMC housebound benefits because the veteran was totally disabled based on unemployability and had an additional service-connected disability independently rated at 60 percent. The unemployability evaluation noted that the veteran’s “service-connected disabilities” caused his unemployability, but no specific disability was identified. The code sheet indicated the unemployability was due to the veteran’s back disability. However, the back disability was evaluated as 40 percent disabling.<sup>38</sup> As the RVSR did not obtain extraschedular consideration from the director of the Compensation Service, the grant was in error. At the time of the review, VBA had overpaid the veteran by more than \$54,000.*

In 14 cases, the team found RVSRs assigned the wrong code. The monetary consequences of these errors can be significant, as seen in example 3.

### Example 3

*In a November 2011 rating decision, an RVSR granted a veteran SMC for loss of use of a creative organ but erroneously assigned the SMC code for housebound. As a result, at the time of the review, VBA had overpaid the veteran more than \$136,000.*

Table 4 provides an overview of the SMC errors by combined disability evaluation.

**Table 4. SMC Errors for Veterans Receiving Housebound Benefits**

Veterans’ combined disability evaluation	Cases reviewed in scope	Cases with errors
Less than 60 percent	14	14
60 percent	35	32
70 percent	50	45
80 percent	50	30

<sup>38</sup> A single disability that is the basis for finding the veteran unemployable must generally be rated at 60 percent disabling or higher.

Veterans' combined disability evaluation	Cases reviewed in scope	Cases with errors
90 percent	50	11
<b>Total</b>	<b>199</b>	<b>132*</b>

Source: VA OIG analysis.

\* One additional error was not counted for the purpose of this review because it did not affect payment.

The OIG’s 2021 recommendation is that VBA correct the processing errors the review team identified.

## Conclusion

VBA did not effectively implement the previous OIG recommendations designed to improve the processing of high-risk SMC housebound cases. VBA managers are responsible for ensuring strong fiscal stewardship of taxpayer funds; however, on the basis of the sample results, the team found errors resulting in approximately \$165 million in improper payments. Without improvements in oversight, accountability, monitoring, and to the information system, VBA will continue to misspend millions in taxpayer dollars. In addition, veterans will remain at risk of receiving the wrong benefit payments.

This report highlights the need for VA to ensure that its action and monitoring plans are carried out as submitted to the OIG with proper oversight and quality controls—not just regarding this report’s recommendations, but as a general practice. In FY 2020 alone, the OIG issued over 1,650 recommendations to VA. The goal is for VA to provide sufficient action and follow-up plans, or evidence of completion, within one year of issuance to close a recommendation. This helps ensure prompt action, but that action should also be sustained after the recommendations’ closure. The OIG’s follow-up team and the subject matter experts in each of its directorates examine VA’s responses to recommendations and will often seek additional documentation or other evidence before determining whether VA’s plans will likely produce the desired results. Updates are requested every 90 days. The OIG considers a recommendation closed when it determines that VA has taken sufficient action or developed an adequate plan to address the findings and improve VA programs and operations. The OIG’s decision to close a recommendation, whether occurring upon issuance of a final report or during the follow-up process, is based on supporting documentation that indicates the corrective action has occurred or has sufficiently progressed. In addition, the OIG periodically conducts reviews such as this one to test whether prior recommendations have resulted in sustained improvements.

As an independent oversight office, the OIG does not dictate VA’s management decisions by prescribing precisely how to implement recommendations and generally provides VA some latitude given competing workload demands and emerging priorities. That said, the OIG

encourages VBA's leaders to clarify any aspects of these recommendations they consider unclear given the apparent challenges VBA faced in effectively implementing the 2016 recommendations. The OIG will closely evaluate the documentation provided by VBA for sufficiency before closing the 2021 recommendations. Moreover, the OIG will continue to follow up on report recommendations quarterly until it receives evidence of satisfactory implementation of all recommendations.

## **Recommendations 1–6**

The OIG recommended that the under secretary for benefits take the following actions:

1. Review all active high-risk special monthly compensation housebound cases, render new decisions as appropriate, ensure the corrective actions were taken, and conduct a documented quality review of corrective actions.
2. Implement a plan to conduct ongoing periodic reviews of completed active high-risk special monthly compensation housebound cases, render new decisions as appropriate, ensure the corrective actions were taken, and conduct a documented quality review of corrective actions.
3. Update the special monthly compensation housebound training to include guidance on and examples of statutory, housebound in fact, individual unemployment, and extraschedular criteria, and monitor the effectiveness of the training.
4. Create a system enhancement to limit the statutory special monthly compensation housebound validation warning to trigger only when statutory housebound criteria are met but not addressed.
5. Create a system enhancement to prohibit rating veterans service representatives from bypassing statutory housebound validation warnings without taking action or providing justification.
6. Correct all processing errors on cases identified by the review team and report the results to the OIG.

## **Management Comments**

The acting under secretary for benefits concurred with recommendations 1, 2, 3, and 6, and concurred in principle with recommendations 4 and 5. Appendix D provides the full text of the comments from the acting under secretary for benefits.

To address recommendation 1, the acting under secretary for benefits stated VBA will develop a plan to review and take corrective action as needed on all active high-risk SMC housebound cases. The plan will include controls to ensure corrective actions were taken. In addition, the plan will include a quality review process. The target completion date is July 31, 2022.

To address recommendation 2, the acting under secretary for benefits stated VBA will implement a plan to conduct ongoing periodic reviews of completed active high-risk SMC housebound cases, which will include directives to correct decisions, oversight, and quality. The target completion date is January 31, 2022.

To address recommendation 3, the acting under secretary for benefits noted VBA will review the SMC housebound training and update it with examples as appropriate. Moreover, the acting under secretary for benefits noted VBA's Level 2 Training Assessment provides effectiveness monitoring and will be included in the training update. The target completion date is September 30, 2022.

To address recommendations 4 and 5, the acting under secretary for benefits stated VBA will implement system enhancements in FY 2022, specifically the Interactive Assistant Rating Tool, which contains requirements that will address these recommendations without the need for warnings. The requirements will automatically establish a SMC housebound issue when a specific disability rating is made. The requirements will also automatically generate a proposed discontinuance, reduction, or severance when specific disability criteria are met, to ensure SMC housebound is processed, paid, and tracked correctly. The target completion date is September 30, 2022.

To address recommendation 6, the acting under secretary for benefits noted VBA will correct all errors identified by the OIG review team and report the results to the OIG. The target completion date is March 31, 2022.

## **OIG Response**

The acting under secretary for benefits provided corrective action plans for each recommendation. The acting under secretary's concurrence in principle to OIG recommendations 4 and 5 meets the intent of the recommendations. The OIG will monitor implementation of planned actions and will close the recommendations when VBA provides sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.

## Appendix A: Scope and Methodology

### Scope

The review team conducted its work from September 2020 through September 2021. The review focused on a universe of about 22,200 cases nationwide of all living veterans nationally receiving SMC at the housebound rate with disability evaluations of 90 percent or less (also referred to as high-risk SMC housebound cases) as of September 24, 2020.

### Methodology

To accomplish the review objectives, the team considered applicable laws, regulations, policies, procedures, and guidelines for SMC housebound claims processing. The team performed virtual site visits at VBA's Central Office and the regional offices in Little Rock, Arkansas; Muskogee, Oklahoma; San Diego, California; and St. Petersburg, Florida. The team also interviewed VBA managers, employees, and officials. The site visits were conducted from January 25, 2021, through March 24, 2021.

The sampling design resulted in the review of a random stratified sample of 199 veterans' cases and allowed the team to project its findings from the sample to the population. The five strata included veterans receiving SMC housebound benefits with combined evaluations of less than 60 percent, 60 percent, 70 percent, 80 percent, and 90 percent. The team also assessed a sample of VBA's special focused reviews related to recommendation 3 of the OIG's 2016 SMC housebound report.

The review team used VBA's electronic systems, including VBMS, to review the sampled veterans' electronic case records and relevant documentation required to assess whether SMC housebound benefit entitlements were accurate.

### Internal Controls

The review team assessed VBA's internal controls significant to the objective. This included an assessment of the five internal control components, which include control environment, risk assessment, control activities, information and communication, and monitoring. In addition, the team assessed the principles of those internal control components. The team identified internal control deficiencies with three components and four principles:

#### **Component: Control Environment**

- Principle 2: The oversight body should oversee the entity's internal control system.
- Principle 5: Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

**Component: Control Activities**

- Principle 11: Management should design the entity’s information system and related control activities to achieve objectives and respond to risks.

**Component: Monitoring**

- Principle 16: Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

**Fraud Assessment**

The review team assessed the risk that fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, significant within the context of the review objectives, could occur during this review. The team exercised due diligence in staying alert to any fraud indicators, including

- soliciting the OIG’s Office of Investigations for indicators,
- reviewing the OIG hotline complaints and concerns for indicators, and
- completing the Fraud Indicators and Assessment checklist.

The OIG did not identify any instances of fraud or potential fraud during this review.

**Data Reliability**

The review team used computer-processed data from the following sources:

- VBA provided a workbook with 11,597 high-risk cases reviewed by VBA in response to recommendation 2 of the OIG’s September 2016 SMC housebound report.
- VBA provided workbooks from its special focused reviews of SMC housebound cases decided in FY 2016 and FY 2018.
- The review team accessed VBA’s Enterprise Data Warehouse for active high-risk SMC housebound cases as of September 24, 2020.

To test for reliability, the team determined whether any data were missing from key fields, included any calculation errors, or were outside the time frame requested. The team also assessed whether the data contained obvious duplication of records, alphabetic or numeric characters in incorrect fields, or illogical relationships among data elements. Furthermore, the team compared the data received (veterans’ names, file numbers, dates of claims, and end-product closed dates) to the VBMS records reviewed.

Testing of the datasets disclosed they were sufficiently reliable for the review objectives. Comparison of the data with information contained in the veterans' VBMS records reviewed did not disclose any problems with data reliability.

## **Government Standards**

The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

## **Appendix B: Statistical Sampling Methodology**

### **Approach**

To accomplish the objective, the review team assessed a stratified statistical sample of 199 cases for veterans receiving SMC at the housebound rate with a combined evaluation of 90 percent or less as of September 24, 2020. The strata consisted of veterans receiving compensation at the housebound rate with combined evaluations of less than 60 percent, 60 percent, 70 percent, 80 percent, and 90 percent. The team also reviewed a judgmental sample of VBA's special focused reviews for SMC housebound cases completed in FY 2016 and FY 2018. The team used statistical sampling, when applicable, to quantify the extent of cases where VA employees inaccurately processed SMC housebound cases.

### **Population**

The team reviewed 116 cases that were decided in VBA's special focused review for cases decided in FY 2016. The team also reviewed all 50 cases that were decided in VBA's special focus review for cases decided in FY 2018.

The review population for the post-recommendation sample included 22,179 cases for veterans who were receiving high-risk SMC housebound benefits as of September 24, 2020. For the purposes of the review, the team estimated the population to be 20,947 veterans. The difference between the review population and the estimated population occurred because the team excluded 1,232 cases for reasons such as

- the veteran was not actually receiving SMC housebound benefits (system documentation error), or
- the Board of Veterans' Appeals granted the benefit, not an RVSR.

### **Sampling Design**

In collaboration with the OIG statisticians, the review team developed a sampling methodology that required the review of a statistically selected stratified random sample of 199 high-risk SMC housebound benefit cases as of the data pull date, September 24, 2020. The statistical samples were based on a design precision of 8 percent at the 90 percent confidence interval. The OIG did not have an estimated error rate during planning, so a 30 percent error rate was used. The margin of error is largest when the error rate is 30 percent, so it results in the most conservative sample size.

The team also reviewed a judgmental sample of VBA's special focused reviews. For each of the cases reviewed, the team reviewed the veterans' claims folders and electronic records to determine accuracy.

The statistical sample of 199 cases was stratified by disability evaluation and categorized in five strata.

**Table B.1. Strata**

Strata	Number of cases reviewed
Less than 60%	14
60%	35
70%	50
80%	50
90%	50
<b>Total</b>	<b>199</b>

*Source: VA OIG statistician's stratified population.*

## Weights

Samples were weighted to represent the population from which they were drawn, and the weights were used in the estimate calculations. For example, the team calculated the error rate estimates by first summing the sampling weights for all sample cases that contained the given error, then dividing that value by the sum of the weights for all sample cases.

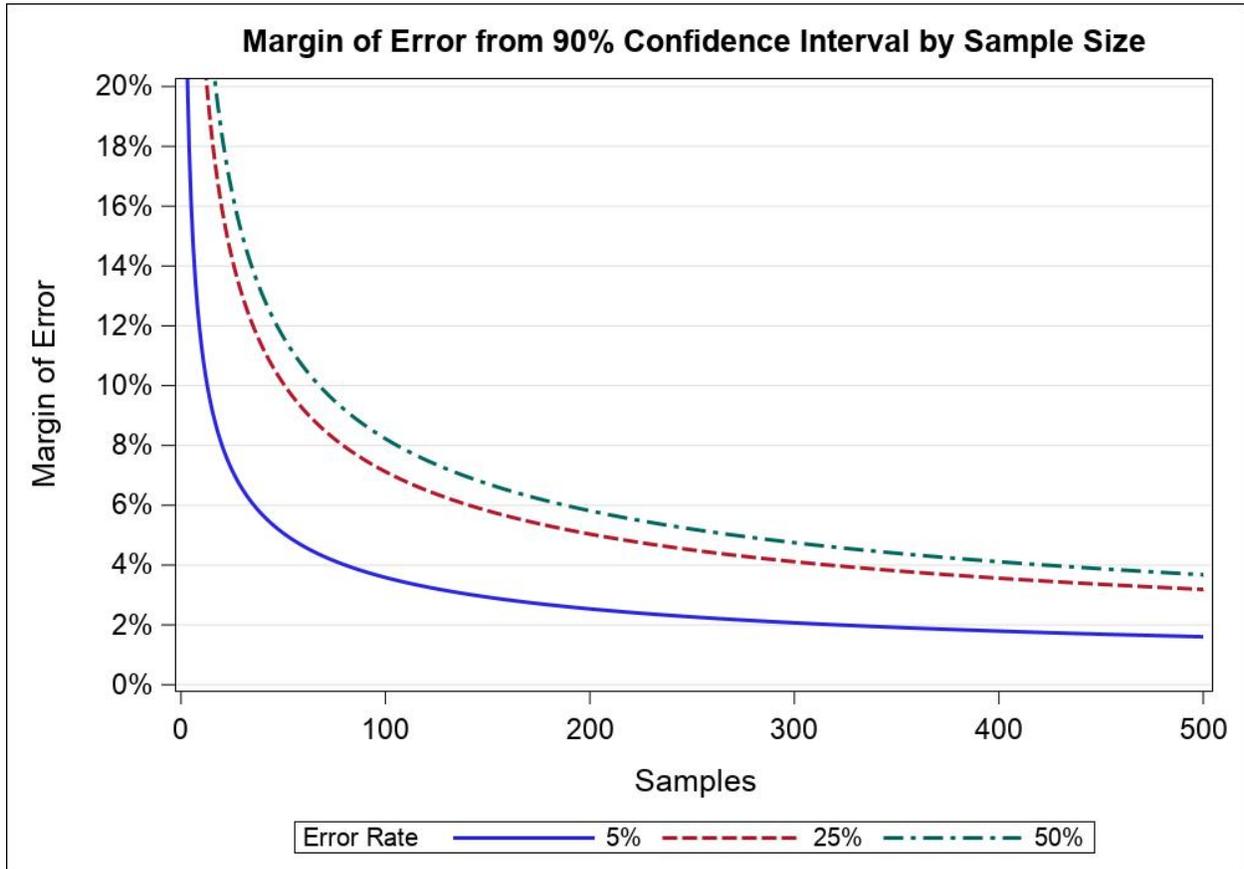
## Projections and Margins of Error

The projection is an estimate of the population value based on the sample. The associated margin of error and confidence interval show the precision of the estimate. If the OIG repeated this review with multiple sets of samples, the confidence intervals would differ for each sample but would include the true population value 90 percent of the time.

The OIG statistician employed statistical analysis software to calculate estimates, margins of error, and confidence intervals that account for the complexity of the sample design.

The sample size was determined after reviewing the expected precision of the projections based on the sample size, potential error rate, and logistical concerns of the sample review. While precision improves with larger samples, the rate of improvement decreases significantly as more records are added to the sample review.

Figure B.1 shows the effect of progressively larger sample sizes on the margin of error.



**Figure B.1.** Effect of sample size on margin of error.

Source: VA OIG statistician’s analysis.

## Projections

Tables B.2 and B.3 detail the review team’s analysis and projected results.

**Table B.2. Statistical Projections Summary for Projected Population and Error Rate for Post-Recommendation Sample**

Estimate	Projection	Margin of error	Lower limit 90 percent confidence interval	Upper limit 90 percent confidence interval	Sample size
Post-recommendation sample population	20,947	1,045	19,902	21,992	199
Cases with errors	5,643	1,844	3,799	7,487	132
Error rate	26.9%	8.7%	18.2%	35.7%	132

Source: VA OIG statistician's projection of estimated populations.

**Table B.3. Statistical Projections Summary for Amount of Improper Payments**

Estimate	Projection	Margin of error based on 90 percent confidence interval	90 percent confidence interval lower limit	90 percent confidence interval upper limit	Sample size
Total improper payments	\$165,009,554	\$73,463,089	\$91,546,465	\$238,472,644	132

Source: VA OIG statistician's projection of estimated improper payments.

Note: Both underpayments and unsupported overpayments were found in the sample review.

## Appendix C: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendations	Explanation of Benefits	Better Use of Funds	Questioned Costs*
1-6	The OIG estimated that claims-processing errors resulted in approximately \$165 million in improper payments. However, the monetary benefit amount of approximately \$136 million is identified as totaled questioned cost from March 1, 2015, to prevent possible double counting of improper payments related to OIG's September 2016 review.		\$136,000,000
	<b>Total</b>		<b>\$136,000,000</b>

*\* This estimate is rounded. The monetary benefit amount has been reduced to prevent double counting of improper payments already accounted for in the OIG's Review of Special Monthly Compensation Housebound Benefits, Report No. 15-02707-277, September 29, 2016.*

*Note: Both underpayments and unsupported overpayments were found in the sample review; however, there were not enough samples to precisely project the population totals. Therefore, the countable overpayment amount of \$136 million was used.*

## Appendix D: Management Comments

### Department of Veterans Affairs Memorandum

Date: October 14, 2021

From: Under Secretary for Benefits (20)

Subj: OIG Draft Report – Follow-up Review of the Accuracy of Special Monthly Compensation Housebound Benefits [Project No. 2020-04219-SD-0005] – VIEWS 05818527

To: Assistant Inspector General for Audits and Evaluations (52)

Attached is VBA's response to the OIG Draft Report: Follow-up Review of the Accuracy of Special Monthly Compensation Housebound Benefits.

*The OIG removed point of contact information prior to publication.*

(Original signed by)

Thomas J. Murphy

Attachment

**Veterans Benefits Administration (VBA)**

**Comments on OIG Draft Report**

**Follow-up Review of the Accuracy of Special Monthly Compensation Housebound Benefits**

VBA concurs with the findings in OIG's draft report and provides the following comments in response to the recommendations:

Recommendation 1: The Under Secretary for Benefits should review all active high-risk special monthly compensation housebound cases, render new decisions as appropriate, ensure the corrective actions were taken, and conduct a documented quality review of corrective actions.

VBA Response: Concur. VBA will develop a plan to review and take corrective action as needed on all active high-risk special monthly compensation (SMC) housebound cases. The plan will include controls to ensure corrective actions were taken and a quality review process.

Target Completion Date: July 31, 2022

Recommendation 2: The Under Secretary for Benefits should implement a plan to conduct ongoing periodic reviews of completed active high-risk special monthly compensation housebound cases, render new decisions as appropriate, ensure the corrective actions were taken, and conduct a documented quality review of corrective actions.

VBA Response: Concur. VBA will implement a plan to conduct ongoing periodic reviews of completed active high-risk SMC-Housebound cases. The plan will include directives to correct decisions, oversight, and quality.

Target Completion Date: January 31, 2022

Recommendation 3: The Under Secretary for Benefits should update the special monthly compensation housebound training to include guidance on and examples of statutory, housebound in fact, individual unemployability, and extraschedular criteria, and monitor the effectiveness of the training.

VBA Response: Concur. VBA will review the SMC-Housebound training and will update with examples as appropriate. VBA's Level 2 Training Assessment provides effectiveness monitoring and will be included within the training update.

Target Completion Date: September 30, 2022

Recommendation 4: The Under Secretary for Benefits should create a system enhancement to limit the statutory special monthly compensation housebound validation warning to trigger only when statutory housebound criteria are met, but not addressed.

VBA Response: Concur in principle. VBA will implement system enhancements in fiscal year (FY) 2022 titled "Interactive Assistant Rating Tool," which contains requirements that will address recommendations four and five without the need for warnings. The requirements will automatically establish a *Special Monthly Compensation (SMC) – Housebound* Issue when a specific disability rating is made. The requirements will also automatically generate a proposed "discontinuance/reduction/severance" when specific disability criteria are met, to ensure SMC-Housebound is processed, paid, and tracked correctly.

Target Completion Date: September 30, 2022

**Recommendation 5:** The Under Secretary for Benefits should create a system enhancement to prohibit rating veterans service representatives from bypassing statutory housebound validation warnings without taking action or providing justification.

**VBA Response:** Concur in principle. VBA will implement system enhancements in FY 2022 titled, “Interactive Assistant Rating Tool,” which contains requirements that will address recommendations four and five without the need for warnings. The requirements will automatically establish a *Special Monthly Compensation (SMC) – Housebound* Issue when a specific disability rating is made. The requirements will also automatically generate a proposed “discontinuance/reduction/severance” when specific disability criteria are met, to ensure SMC-Housebound is processed, paid, and tracked correctly.

Target Completion Date: September 30, 2022

**Recommendation 6: The Under Secretary for Benefits should correct all processing errors on cases identified by the review team and report the results to the OIG.**

**VBA Response:** Concur. VBA will correct all errors identified by the OIG review team and report the results to OIG.

Target Completion Date: March 31, 2022

*For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.*

## OIG Contact and Staff Acknowledgments

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<b>Contact</b>	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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