



# Office of Inspector General

## EVALUATION OF CONTROLS OVER DISBURSEMENTS OF MATURED ENDOWMENT LIFE INSURANCE AWARDS

*Increased oversight of high risk  
disbursements will reduce the  
potential for fraud.*

**Report No.: 8R1-B12-056**

**Date: January 16, 1998**

**Office of Inspector General  
Washington DC 20420**



Date: January 16, 1998  
From: Assistant Inspector General for Auditing (52)  
Subj: Evaluation of Controls Over Disbursements of Matured Endowment Life Insurance Awards  
To: Under Secretary for Benefits (20A11)

## **1. SUMMARY**

The Office of Inspector General (OIG) conducted an evaluation of the procedures and controls established by the Department of Veterans Affairs (VA) to disburse matured endowment (ME) awards for policies in its Life Insurance Programs. The purpose of this evaluation was to determine whether adequate safeguards existed to detect or prevent irregular disbursements.

We reviewed 15,600 ME awards representing \$136 million of disbursements during the period January 1, 1995 through March 31, 1997. We examined procedures followed in creating and maintaining ME policies and disbursing awards, discussed award disbursement attributes with Insurance Service officials, and reviewed certain high risk disbursements vulnerable to fraud. We found that there is a need for increased internal controls to monitor computer generated ME awards. The evaluation showed that an estimated \$120 million (90 percent) of ME awards were disbursed where increased oversight safeguards were needed to detect or prevent irregularities. We did not identify any irregular disbursements made for personal gain. However, we did identify 53 awards, valued at \$571,000, that should be categorized as high risk and subjected to management oversight because of their potential vulnerability to fraud. Management agreed with the need for increased oversight on these types of high risk insurance policy disbursements. We recommend installing computer software to identify these high risk disbursements for review soon after they are made, to reduce the potential for irregularities. Insurance Service management generally agreed with our finding and is planning to implement a series of corrective actions.

The evaluation was made in accordance with generally accepted government auditing standards for staff qualifications, independence, and due professional care; field work standards for planning, supervision, and evidence; and, reporting standards for performance audits.

## **2. FINDING**

At maturity, the provisions of an endowment life insurance policy direct payment of the face amount to the insured after a certain term (e.g. 20-years) or age (e.g. age 65), or to the beneficiary upon the death of the insured. With the assistance of technical support from Insurance Service System Development staff, we reviewed 15,600 ME awards to insureds and found that about 90 percent were disbursed without sufficient management oversight or monitors to ensure their integrity. Several of these disbursements (i.e. 53) were high risk because of recent changes in the beneficiary's insurance policy record. These recent changes of record collectively represented suspicious profiles, increasing their vulnerability to irregularities and possible fraud and/or funds diversion.

## Most Matured Endowment Disbursements Are Made Without Oversight

Most ME awards to insureds (about 90 percent) were disbursed by computer without benefit of review or approval by Insurance Service personnel. The remaining awards were processed and reviewed by the Insurance Service to resolve policy conditions which impacted the disbursement. Resolving these pending conditions included offsetting policy loans in determining net disbursements due the insured, suspending award payments because of outdated insureds' addresses, etc. However, the computer generated awards disbursements (about 14,000) were made for policies which did not have conditions pending resolution. These disbursements were computer generated without sufficient oversight to safeguard their integrity against fraud.

## High Risk Disbursements

Several of these computer generated disbursements (i.e. 53) were accompanied by certain other transactions which collectively represented suspicious profiles increasing the risk of their vulnerability to irregularities. These high risk disbursements were made within 30 days of either ME policies being created, or changes in the policyholders' mailing address or dates of birth. These conditions represent suspicious profiles indicating that award payments could have been accelerated or diverted for personal gain.

- Award disbursement within one month of establishing ME policy

Disbursements to insureds for ME policies within 30 days of their creation represent abnormal circumstances of a suspicious nature which should be monitored. Normally, the term for an ME policy is a number of years. Also, disbursements of awards within shorter periods (e.g. 30 days) would normally result from death of the insured, and therefore be payable to a beneficiary. Consequently, ME policy awards disbursements to insureds within 30 days of their creation are suspicious and represent a high risk for irregularities if they are not monitored.

We identified 21 award disbursements to insureds within 30 days of creating ME policies, amounting to about \$283,000 between January and March 1997. Detailed examination of 6 disbursements (about \$82,000) showed that they were not fraudulent and resulted primarily from consolidating operations of the two insurance centers and transferring maturing policies from the Regional Office and Insurance Center (VAROIC) in St. Paul, MN to VAROIC Philadelphia, PA. Instead of being newly created, as they were coded, these policies were transferred between data bases, matured, and disbursed within 30 days of transfer. Although these \$283,000 of award disbursements represented suspicious profiles, they were made without oversight to reduce their risk of irregularity.

- Award disbursement within one month of address change

ME policy award disbursements to insureds within 30 days of changes in their mailing addresses represent abnormal circumstances of a suspicious nature which should be monitored. Insureds' addresses would normally change at random, rather than within 4 weeks of receiving an ME policy award. During the period January through March 1997, ME policy awards were disbursed

in 38 instances where insureds' addresses also changed. Most of these awards (30 or 79 percent representing about \$272,000) were disbursed within approximately 30 days after changes of the insureds' addresses. Detailed examination of 16 of the 30 disbursements (about \$173,000) showed that no irregularities had occurred. However, these types of disbursements were high risk and should have been reviewed to reduce the potential for irregularities.

- Award disbursement within one month of a change in birth date

ME awards that were disbursed to insureds within 30 days of a change in their birth date represent abnormal circumstances of a suspicious nature which should be monitored. Changes in insureds' dates of birth which cause earlier maturity of an endowment policy are especially suspicious. As the ages of insureds trigger maturity of many ME policies, changes to backdate birth dates could accelerate award payments, and represent a high risk for irregularities unless they are monitored.

We identified two awards totaling \$15,000 that were disbursed within approximately 30 days of changes to the insureds' dates of birth. Detailed examination of both awards, which were disbursed during Calendar Year 1995, showed that the insureds' ages were correctly changed based on credible documents. Therefore, these disbursements did not require further review. However, because they were disbursed under suspicious circumstances, they should have been reviewed to reduce the risk of irregularity.

### Conclusion

An estimated \$120 million of ME awards were disbursed without sufficient oversight safeguards to detect or prevent irregularities. Although no irregular disbursements were identified, about \$571,000 was disbursed under high risk conditions vulnerable to fraud, because of this gap in oversight.

## **3. RECOMMENDATION**

We recommend Insurance Service management develop computer software to identify and review high risk ME policy award disbursements, soon after they are made, to reduce the potential for irregularities. Disbursements considered vulnerable to irregularities and suggested for review include those made within 30 days of establishing a ME policy, or those that relate to policies which had an address change or date of birth change within the past 30 days.

## **4. COMMENTS**

### Under Secretary for Benefits Comments

The Under Secretary for Benefits concurred with our finding regarding the need for increased internal controls to monitor computer generated matured endowment awards. He recognized the need to identify and review high risk disbursements soon after they are made in order to reduce the potential for irregularities. *The full text of the Under Secretary's comments is enclosed in Appendix I of the report.*

### Implementation Plan

The Under Secretary for Benefits stated that management will make programming modifications and implement procedures to identify and review high risk disbursements of matured endowment awards. These programming modifications are expected to be completed by July 1998, and will produce a daily report of certain high risk disbursements for clerical review and validation.

### Office of Inspector General Comments

The implementation plan is acceptable, and we consider all issues resolved. However, we will follow up on planned corrective action.

For the Assistant Inspector General for Auditing

*(Original signed by:)*

THOMAS L. CARGILL, JR.

Director, Bedford Audit Operations Division

**MEMORANDUM FROM THE UNDER SECRETARY FOR  
BENEFITS DATED DECEMBER 31, 1997**

**Department of  
Veterans Affairs**

**Memorandum**

Date: December 31, 1997

From: Under Secretary for Benefits (20)

Subj: Draft Report, Evaluation of Matured Endowment Life Insurance Award Disbursements

To: Assistant Inspector General for Auditing (52)

1. Thank you for the opportunity to review and comment on the draft report of the evaluation of matured endowment life insurance award disbursements. Essentially, we concur in the recommendation that system-generated payments of matured endowments, under certain conditions, merit increased scrutiny.
2. Regarding the creation of matured endowment policies that were then payable within 30 days of their creation, we concur that such transactions should be clerically reviewed. Notwithstanding that the cases found by members of your staff were the result of consolidating policies from St. Paul to Philadelphia, and that no improprieties were found, we believe identification and monitoring of this situation is warranted.
3. Concerning award disbursements made within one month of an address change, we also concur that these occurrences need to be examined. While this is a normal procedure for other disbursements, it is not so for system-generated disbursements. Again, while no improprieties were noted, we shall take corrective action.
4. In reference to your findings on age changes within one month of disbursements, we again concur that these type of cases warrant investigation. Although only two instances of this situation were found, and the ages were indeed correctly modified based upon credible documents, we shall add this to our implementation plan to provide oversight on system-generated matured endowment disbursements.
5. In response to your report, we shall formulate a procedure wherein a daily system-generated report will be produced whenever a matured endowment is disbursed within 90 days of an address change, a name change, a change in the effective date of the policy, and on any payments disbursed to local addresses. It is expected that the request for programming modifications will be accomplished on or before February 2, 1998, and that the actual programming will be effectuated by July 1998.

**MEMORANDUM FROM THE UNDER SECRETARY FOR**  
**BENEFITS DATED DECEMBER 31, 1997**

2.

Assistant Inspector General for Auditing (52)

6. I commend your staff for their efforts in this study. Once your recommendations are implemented, we will have heightened our internal controls of matured endowments, thus reducing the possibility of fraud. Your contributions to strengthening management of the programs is appreciated.

/s/  
Joseph Thompson

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