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Office of Audits and Evaluations

VETERANS BENEFITS ADMINISTRATION

Review of VBA's Processing of Adverse Actions for Service-Connected Disability Compensation

Review | 25-01011-154 | August 31, 2026

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Executive Summary

The VA Office of Inspector General (OIG) conducted this review to determine whether Veterans Benefits Administration (VBA) staff processed adverse actions in accordance with policies and procedures, including finalized actions and intended actions that were not finalized. Adverse actions are unfavorable changes to disability benefits, including reductions in monthly compensation or discontinuance (severance) of benefits, based on changes in entitlement or the evaluation of a service-connected disability.

The OIG found that VBA claims processors did not always follow the law to ensure veterans receive due process related to adverse actions. Under the authority of 38 C.F.R. § 3.103 (38 U.S.C. § 5104), disability compensation cannot be terminated, reduced, or otherwise adversely affected unless the veteran has first been notified of the action. The regulation also requires that veterans be given 60 days to submit evidence showing why the action should not be taken. This step is particularly important because processing errors can lead to improper payments of veterans' benefits.

In August and September 2025, the OIG team showed the processing errors to Compensation Service officials, who concurred with the errors. In March 2026, the OIG team briefed VBA officials on the findings and discussed potential recommendations. The OIG made four recommendations to improve processes and ensure compliance with laws, regulations, and policies. In July 2026, the principal deputy under secretary for benefits, performing the delegable duties of the under secretary for benefits, concurred with the findings and recommendations.

What the Review Found

VBA pays monthly disability compensation to veterans with service-connected disabilities according to the severity of the disability. A service-connected condition is any injury or illness that was incurred or aggravated during active military service. According to VBA's *Adjudication Procedures Manual*, veterans' service-connected disability evaluations, used to determine monthly payment amounts, can be reduced based on improvement in veterans' medical conditions, clear and unmistakable errors, or a veteran not attending required medical reexaminations.[1] Compensation may also be severed (meaning the veteran is no longer considered service-connected for a particular disability) in certain situations.[2]

The OIG team analyzed sampled cases associated with proposed adverse actions for disability compensation processed in 2024 and 2025. The first set of cases reviewed were closed in

[1] 38 C.F.R. §§ 3.105 (2025) and 3.655(a) (2025).

[2] VA Manual 21-1, "Severance of Service Connection (SC)," updated August 19, 2021, sec. X.ii.5.B in *Adjudication Procedures Manual*.

calendar year 2024. According to VBA's procedures, the claim status "closed" is defined as "the claim is complete with no further action possible."[3] Although the review period consisted of cases closed by the end of 2024, the review extended into 2025 because an adverse action can take several months to finalize. For example, one case was closed in the review period, but the adverse action was not finalized until September 2025.

Based on projected sample results from calendar year 2024, the OIG team estimated that claims processors made one or more errors in about 9,300 of 27,100 cases involving proposed and final decisions for reduction of veterans' service-connected disability compensation (about 34 percent). Errors consisted of claims processors not providing sufficient due process notification before taking adverse action, not updating rating decision codesheets, improperly applying effective dates, and never taking the adverse action. As a result, the OIG estimated that veterans were improperly paid at least $16.9 million for proposed adverse action cases closed from January 1 through December 31, 2024. Additionally, the OIG estimated that at least $964,000 in ongoing monthly improper payments will occur until these errors are resolved.[4]

To determine whether the issue of not taking the adverse action persisted beyond the review period, the OIG team assessed a judgmental sample of cases from January 1 through September 30, 2025, where there was no final rating decision date. The team found that claims were closed prematurely during both review periods—calendar year 2024 and January 1 through September 30, 2025. Based on these findings, the OIG recommended that VBA create and mandate standardized due process notifications, enhance review requirements for final decisions involving clear and unmistakable errors, develop an automated report to improve tracking of adverse actions without a final decision and applicable pending end product, and correct all errors identified by this review.

Next Steps

The OIG will monitor VBA's corrective actions and will close the recommendations once VBA provides sufficient evidence that it has strengthened its process for adverse actions and addressed the risks identified in this report.

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[3] VA Manual 21-4, "Index of Claim Statuses," updated December 11, 2024, appendix D.

[4] Appendix D of this report details the monetary benefits of the review's findings and recommendations.

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Abbreviations

CUE	clear and unmistakable error
OIG	Office of Inspector General
VBA	Veterans Benefits Administration
VBMS	Veterans Benefits Management System

Introduction

The Veterans Benefits Administration (VBA) pays monthly disability compensation to veterans with service-connected disabilities according to the severity of the disability. VBA defines a service-connected condition as any injury or illness that was incurred or aggravated during active military service. Claims processors make determinations regarding benefit entitlement and document them in a rating decision.

Adverse actions are unfavorable changes to disability benefits, including reductions in monthly compensation or discontinuance (severance) of benefits, based on changes in entitlement or the evaluation of a service-connected disability. Veterans' service-connected disability evaluations, which correspond to monthly payment amounts, can be reduced based on improvement in veterans' medical conditions, clear and unmistakable errors (CUEs), or a veteran not attending required medical reexaminations that help claims processors determine the severity of the disability.[5] Similarly, compensation may be severed (meaning the veteran's disability is no longer considered service-connected) in certain situations, such as when a CUE is found.[6] In this review, the VA Office of Inspector General (OIG) examined whether VBA staff processed adverse actions including finalized reductions and intended reductions that were not finalized in accordance with 38 C.F.R. § 3.103 (38 U.S.C. § 5104) and the *Adjudication Procedures Manual*.

In August and September 2025, the OIG team presented its review results detailing processing errors to Compensation Service leaders, who concurred with the errors and thanked the OIG for providing a breakdown of the errors. In March 2026, the OIG team briefed VBA officials on the findings and potential recommendations. During the briefing, an official said they had released "Minute Videos" in December 2025 and were planning to release more. The videos are meant to provide VBA employees with instruction on how to process adverse actions.

Reasons and Processes for Proposed Adverse Actions

This review focused on three common reasons for a proposed adverse action: improvement shown in a veteran's disability, not attending a required medical examination, or a CUE. A CUE occurs when correct facts were not available or were missed by the claims processor, statutory or regulatory provisions were incorrectly applied, and the error manifestly changed the outcome at the time the decision was made. The regulatory authorities that support reduction because of a veteran's improvement or not attending an examination are 38 C.F.R. § 3.105(e) and 38 C.F.R. §

[5] 38 C.F.R. §§ 3.105 (2025) and 3.655(a) (2025).

[6] VA Manual 21-1, "Severance of Service Connection (SC)," updated August 19, 2021, sec. X.ii.5.B in *Adjudication Procedures Manual*.

3.655(c), respectively. The regulatory authority for severance of service connection due to a CUE is 38 C.F.R. § 3.105(a) and (d).

Due Process Requirements

As established by 38 C.F.R. § 3.103 (38 U.S.C. § 5104), before terminating, reducing, or adversely affecting a veteran's benefits, VA must fulfill a veteran's right to due process, which includes the following:

- **Right to written notice:** VBA staff send a notice of proposed adverse action (referred to throughout this report as the "due process letter") that informs the veteran of a proposed adverse action that could reduce or terminate benefits.
- **Right to submit evidence:** VBA staff give the veteran 60 days to provide evidence showing why VBA should not take the proposed action. While the Code of Federal Regulations establishes a 60-day period for veterans to respond to a proposed adverse action, VBA's procedures allow an additional five days for evidence to reach claims processors, totaling 65 days.[7]
- **Right to a hearing:** Upon request, the veteran is entitled to a hearing to provide evidence and to discuss the proposed adverse action.
- **Right to representation:** Veterans are entitled to representation in the processing of a claim.
- **Right to notification of decision:** Veterans are to be notified in writing of decisions affecting the payment of benefits.

Claims processors use various letter-generating systems to create due process letters, including Personal Computer Generated Letters, Letter Creator, and the Veterans Benefits Management System (VBMS).

According to VBA's procedures, due process letters for adverse actions associated with this review must include the following elements:

- A statement of the proposed decision, including proposed rates of payment for all affected periods of entitlement
- The proposed effective date of the decision
- Information about possible overpayment
- Detailed reasons for the proposed decision

[7] VA Manual 21-1, "Adverse Action Proposal Period," updated October 5, 2017, sec. X.ii.3.B in *Adjudication Procedures Manual*.

- Notification of the right to present evidence, request a personal hearing, and have representation

When a due process letter to a veteran does not accurately include one of these elements, it is considered insufficient, and VBA staff must send the veteran a corrected letter and restart the due process period.[8]

Electronic Tracking for Proposed Adverse Action

VBA uses what it calls "end products" as its primary system for monitoring pending claims workloads and measuring staff work credit. According to VBA's procedures, staff must establish an end product in VBMS for the proposed adverse action when they send the veteran a due process letter.[9] Generally, an end product should remain pending until all required actions on the claim have been completed.[10] VBA's procedures define the claim status "closed" as "the claim is complete with no further action possible."[11] After sending the final notification letter, staff must close any applicable end products in VBMS that were pending during the proposal period.[12]

Rating Decisions

VA claims processors use the VA Schedule for Rating Disabilities from the Code of Federal Regulations to determine the appropriate level of compensation for service-connected disabilities.[13] They assign a percentage, ranging from 0 to 100 in 10 percent increments, based on the severity of the impairment to the veteran's earning capacity, which determines the monthly compensation amount. Claims processors use VBA's electronic claims-processing system, VBMS-Rating, to generate rating decisions. A rating decision includes details about the determination made by claims processors regarding one or more issues of benefits entitlement, decisions made, and an explanation supporting each decision.

A codesheet is the portion of the rating decision that summarizes key information about the claimant's benefits. According to VBA's procedures, the rating decision consists of a narrative explanation of the determination on benefit entitlement and a codesheet that contains information about the claimant, the current decision, past decisions, and the current state of entitlement to compensation or pension benefits. The codesheet must list all service-connected disabilities and

[8] VA Manual 21-1, "Notice of Proposed Adverse Action," updated April 19, 2022, sec. X.ii.3.A in *Adjudication Procedures Manual*.

[9] VA Manual 21-4, "End Product (EP) Codes," updated October 9, 2024, appendix B.

[10] VA Manual 21-4, "End Product (EP) Codes."

[11] VA Manual 21-4, "Index of Claim Statuses," updated December 11, 2024, appendix D.

[12] VA Manual 21-1, "Adverse Action Proposal Period," updated July 27, 2023, sec. X.ii.3.B in *Adjudication Procedures Manual*.

[13] 38 C.F.R. Part 4, "Schedule for Rating Disabilities," as amended at 29 FR 6718, May 22, 1964, and established by 38 U.S.C. § 1155.

combined evaluations, including the current evaluation and effective date, as well as any future evaluations and effective dates.[14] Some codesheet elements are based on data that claims processors enter into VBMS. Appendix A provides an example of a rating decision codesheet.

Decision Notification Letters

In addition to due process letters, once a final adverse action rating decision is completed, VBA is required to notify the veteran of the decision. According to federal law, specific elements must be included when VBA issues such decision notices.[15] Notification letters inform the veteran about the decisions made on their claims, such as the evidence used in making the decisions. VBA's procedures require notification letters to inform the veteran of the issues addressed in the decision; summarize the evidence VA considered, laws and regulations, and options the veteran may use to seek further review of the decision; and explain how to obtain or access evidence used to make the decision.[16]

[14] VA Manual 21-1, "Coded Conclusion," updated April 18, 2023, sec. V.iv.1.C in *Adjudication Procedures Manual*.

[15] 38 U.S.C. § 5104.

[16] VA Manual 21-1, "Decision Notices," updated January 8, 2024, sec. VI.i.1.B in *Adjudication Procedures Manual*.

Results and Recommendations

Finding: VBA Staff Did Not Always Correctly Process Adverse Actions

VBA staff made errors when processing proposed and final rating decisions for some adverse actions. The OIG team estimated that one or more errors occurred in about 9,300 of 27,100 cases (about 34 percent) for proposed adverse actions closed from January 1 through December 31, 2024, based on the projected sample results. Appendix B provides details about the scope and methodology of the review. The sample results used for the estimates in this report can be found in appendix C.

Of the estimated 9,300 cases with errors, about 4,000 resulted in veterans being improperly paid at least $16.9 million; this total includes instances where veterans were underpaid as well as instances where veterans were overpaid. In addition, the OIG team estimates that at least $964,000 in ongoing monthly improper payments will continue until the errors are resolved.[17] The team also found errors occurring in 2025, beyond the initial review period.

The errors stemmed from VBA's lack of standardized system-generated due process letters for CUEs. In addition, final decisions associated with CUEs did not receive the same level of scrutiny as proposed decisions. Finally, adverse actions were not completed because VBA does not have a proactive mechanism to identify proposed decisions that do not have corresponding final decisions.

What the OIG Did

The team reviewed applicable laws, regulations, policies, procedures, and guidelines associated with due process requirements for adverse actions related to disability compensation. The team analyzed due process letters, effective dates, and final decisions associated with proposed adverse actions. The team also interviewed officials with VBA's Compensation Service as well as staff at VA regional offices in Columbia, South Carolina; Detroit, Michigan; and St. Louis, Missouri.

The team reviewed a stratified random sample from a population of about 27,100 records with proposed adverse actions to veterans' service-connected disability compensation that were closed from January 1 through December 31, 2024 (review period). This included a sample of 91 adverse actions closed with a final decision date and 138 adverse actions closed without a final decision date. Although the review period consisted of cases that were closed by the end of 2024, the review extended beyond that period into 2025 because an adverse action can take

[17] Appendix D details the monetary benefits of this report's findings and recommendations.

several months to finalize. For example, one sample was closed in the review period, but the adverse action was not finalized until September 2025.

The OIG team also reviewed a judgmental sample of 20 cases from January 1 through September 30, 2025, where there was no final rating decision date, to determine whether the issue of no final actions being taken continued beyond the initial review period.

In March 2026, the OIG team briefed VBA officials on the findings and potential recommendations. During the briefing, an official said they had released "Minute Videos" in December 2025 and were planning to release more. The videos are meant to provide VBA employees with instruction on how to process adverse actions. The OIG team reviewed the "Minute Videos" released in December 2025 and found that they did not relate to the adverse actions discussed in this report. Additional "Minute Videos" were released in March 2026 that addressed proposing and finalizing adverse actions; the OIG team found that the videos did not address the deficiencies identified in this review or the actions recommended to mitigate them.

Adverse Action Errors

The OIG team estimated that one or more errors occurred in 9,300 of 27,100 cases during the review period (about 34 percent). The OIG estimated that of the 9,300 cases with errors,

- 4,000 consisted of claims processors not providing sufficient due process before taking adverse action,
- 2,900 involved claims processors not updating rating decision codesheets,
- 2,900 included effective dates being improperly applied, and
- 1,000 involved proposed rating decisions without an associated final decision date.

When summed, the cases in these categories add up to more than 9,300 because some cases had multiple types of errors. As noted, the sample results used for the estimates in this report can be found in appendix C.

Due Process Letter Errors

In about 4,000 of the estimated 9,300 cases with errors, claims processors did not follow 38 C.F.R. § 3.103 (38 U.S.C. § 5104), the law for ensuring veterans receive sufficient due process before adverse actions are taken. A due process letter is considered inaccurate if it does not include the correct reason for the proposed adverse action, the correct effective dates, or information about the veteran's rights (specifically, the rights to present evidence, request a personal hearing, and have representation). Omitting these details limits the veteran's opportunity to submit relevant evidence and contest the decision. The due process letter is particularly important because when done incorrectly, it can lead to improper payments of veterans' benefits.

Most errors were in cases where staff provided inaccurate information in due process letters. For example, a claims processor issued a decision proposing to reduce an evaluation from 100 percent to 10 percent for a heart condition due to a CUE. However, the due process letter told the veteran that their disability evaluation for a heart condition was proposed to be reduced due to improvement, rather than it being due to a CUE. In this situation, the due process letter was insufficient because it did not accurately state the reason for the proposed reduction; therefore, VBA's procedures required staff to provide a new letter and restart the due process period before taking final action.[18] Adjusting a veteran's benefits before the veteran has been provided with adequate due process results in an improper payment—in this veteran's case, VBA underpaid the veteran about $26,600 during 2024 and 2025. This underpayment amount is calculated by determining the difference in the amount the veteran should have been paid minus the amount the veteran was paid as a result of the due process error. Until proper due process is issued, the veteran will continue to be underpaid about $2,200 per month. VBA concurred with this error.

For the estimated 4,000 adverse actions made without sufficient due process, the adverse action was, in effect, premature. To rectify this situation, VBA staff need to provide a corrected due process letter and wait an additional 65 days before completing the final rating decision.

VBA claims processors use several systems to generate due process letters. However, none of the systems observed in the OIG's review contained standardized language specifically for CUEs or severance of service connection. During site visits to three VA regional offices, the review team found that claims processors used various locally created templates to draft due process letters as needed. This lack of standardization contributed to inaccurate letters, such as due process letters that provided the wrong reason for a proposed reduction or failed to disclose the veteran's right to a hearing.

According to officials with VBA's Compensation Service and the Office of Business Integration, the end goal is to transition letters from stand-alone letter-generation systems, such as the Personal Computer Generated Letters and Letter Creator, into VBMS. In addition, they have identified due process letters for CUEs and severed disabilities as ones needing to be made available in VBMS. Compensation Service officials said these efforts are in the early development stages. According to the Office of Business Integration, VBA's letter transition efforts began in 2023 and have a tentative delivery timeline of late 2026 to early 2027.

Although VBA has begun broader efforts to consolidate some types of letters, it has not yet deployed letters specifically for CUEs and severance of service connection.

[18] VA Manual 21-1, "Notice of Proposed Adverse Action."

To improve processes, the OIG's first recommendation is for VBA to create and mandate standardized letters for CUEs and for severance of service connection to ensure they are drafted in compliance with 38 C.F.R. § 3.103.

Errors In Final Adverse Action Decisions

The OIG team identified two systemic error categories related to final decisions: codesheet errors and effective date errors. The team estimated that there were about 2,900 codesheet errors and about 2,900 effective date errors.

Codesheet Errors

VBA's procedures dictate that when preparing a rating decision that corrects a CUE, claims processors, in most circumstances, must update the codesheet so that it reads how it should have read had no error been made.[19] Failing to properly update a codesheet to reflect the evaluation history of a service-connected disability could potentially lead to improper payments if subsequent rating decisions retroactively grant other benefits. Appendix A provides an example of a rating decision codesheet, and example 1 describes an error found by the OIG team that could lead to improper benefits.

Example 1

A rating decision proposed to discontinue a veteran's 10 percent service connection for left knee arthritis due to a CUE. A final rating decision then discontinued service connection. The codesheet showed arthritis evaluated at 0 percent effective August 1, 2024, but did not show that it historically had been evaluated at 10 percent disabling. According to the Ratings User Guide, the codesheet should reflect the service connection history; in this case, it should have shown that the arthritis had a 10 percent evaluation from May 1, 2023, until August 1, 2024.[20] If this veteran is ever retroactively granted service connection for another condition that increases their overall disability evaluation from May 1, 2023, until August 1, 2024, staff might not account for the 10 percent evaluation for arthritis, which may affect any retroactive payments the veteran may be entitled to for that same period and could result in an underpayment. VBA concurred with this error.

[19] VA Manual 21-1, "Due Process and Authorization Issues for Clear and Unmistakable Error (CUE)," updated July 27, 2023, sec. X.ii.5.c in *Adjudication Procedures Manual*.

[20] Ratings User Guide, updated November 8, 2024.

Effective Date Errors

VBA's procedures state that for cases involving a CUE, the payment reduction should take effect on the first day of the month following a 60-day period after the veteran has been notified of the final reduction decision.[21] In these cases, improper payments may occur if staff miscalculate the 60-day period from the final notification letter and adjust benefits using an incorrect effective date. The OIG team found that, in some cases, claims processors assigned incorrect effective dates for reduced evaluations for one month or more, either earlier or later than required. As a result, these veterans were either underpaid (if earlier) or overpaid (if later) disability compensation.

Example 2 describes a claims processor assigning an incorrect effective date for a case involving a CUE.

Example 2

A claims processor issued a decision on November 4, 2024, discontinuing service connection. VBA staff sent the final notification letter on November 5, 2024, and discontinued service connection effective March 1, 2025. However, because 60 days from November 5, 2024, is January 4, 2025, the discontinuance date should have been February 1, 2025, which is the first of the month following the 60 days from the final notification letter, rather than March 1, 2025. Therefore, the claims processor discontinued the veteran's disability one month late, resulting in an overpayment of about $300. VBA concurred with this error.

Need for Enhanced Oversight of CUE Final Rating Decisions

The OIG team found that most codesheet and effective date errors involved CUEs. For proposals involving CUEs, the VBA procedures manual states that when an error is identified, the claims processor prepares a draft rating decision identifying the error and then obtains approval from the division manager or designated reviewer. The claims processor then finalizes the proposed adverse action rating decision, and a due process letter is sent to the veteran. Once the due process period expires, a final rating decision is completed. The final decision does not require signature and approval unless new evidence has been received since the proposed decision was approved.[22]

The OIG team found that of the estimated 9,300 errors, 5,900 involved rating decisions that finalized an adverse action due to a CUE. In an estimated 4,400 of the 5,900 cases, VBA received additional evidence, but the signature and approval were not obtained on the final rating

[21] VA Manual 21-1, "Due Process and Authorization Issues for Clear and Unmistakable Error (CUE)."

[22] VA Manual 21-1, "Revision Due to Clear and Unmistakable Error (CUE)," updated August 12, 2024, sec. X.ii.5.A in *Adjudication Procedures Manual*.

decision. Further, the OIG team found that, generally, receiving additional evidence was not the determining factor in whether a claim was correctly processed for a CUE. Instead, the systemic errors identified were related to rating decision codesheets and effective dates, which occur after the proposed decision has been signed and approved. VBA risks these types of errors not being caught when the division manager or designated reviewer do not sign or approve the final rating decisions.

The team concluded that final rating decisions resulting from a CUE would benefit from an additional level of review, regardless of whether additional evidence is received, because these decisions carry out proposed adverse actions that affect disability compensation payments. An additional level of review for all final rating decisions associated with CUEs may help prevent the errors identified by the OIG team from occurring in the future.

To improve processes, the OIG's second recommendation is to update procedures to require an enhanced level of review for final decisions associated with proposed adverse actions resulting from CUEs so that decisions are compliant with 38 C.F.R. § 3.105 and *the* M21-1 Adjudication Procedures Manual.[23]

Not All Final Adverse Actions Completed

For calendar year 2024, the OIG team estimated that 1,000 of the 9,300 errors involved proposed rating decisions without an associated final decision date. Based on this estimation, in about 410 of the 1,000 cases, claims processors proposed an adverse action, but the final action never took place because the end product was incorrectly closed.

To determine whether this problem continued beyond the initial review period, the OIG team reviewed a judgmental sample of 20 cases without an associated final decision date from January 1 through September 30, 2025. The team found that nine of the 20 cases (45 percent) did not have a final rating decision, while 11 had final rating decisions. End products were prematurely closed in both periods. The OIG team presented its results detailing processing errors to VBA, who concurred with the findings. Example 3 describes a case where the end product for a proposed adverse action was canceled, and a final decision was not made.

Example 3

A claims processor issued a decision proposing to reduce an evaluation from 100 percent to 30 percent for lung cancer based on improvement shown. VA regional office staff sent the veteran a due process letter, and the veteran did not respond. Following the due process period, a claims processor issued a decision granting entitlement to Dependents' Educational Assistance based on permanent

[23] 38 C.F.R. § 3.105 (2025); VA Manual 21-1, "Due Process and Authorization Issues for Clear and Unmistakable Error (CUE)," updated July 27, 2023, sec. X.ii.5.C in *Adjudication Procedures Manual*.

> *and total disability status. A different claims processor later canceled the end product associated with the proposed reduction. Because this cancellation closed the claim, a final decision was not issued, and the reduction never occurred. As a result, VBA overpaid the veteran about $43,000 for 16 months with an ongoing monthly overpayment of about $2,700. In addition, the entitlement to Dependents' Educational Assistance was erroneously granted. VBA concurred with the error.*

In March 2024, the Compensation Service notified staff in a quality call that they had identified an alarming number of claims for proposed adverse action being closed after the 65-day due process period without a final rating decision, which is not consistent with procedures.[24] During the call, a senior quality review specialist from the Compensation Service's quality assurance staff recommended that VBA regional offices remind new staff that final actions are needed when adverse actions are proposed. Quality assurance staff told the OIG team that the Compensation Service did not follow up with VA regional office staff after the March 2024 quality call. The OIG team also interviewed three managers responsible for local quality from each of the regional offices visited. Asked if their regional office conducts reviews of end products used to manage proposed adverse actions, two of the three managers reported that they do not conduct such reviews, while the other manager stated that their office conducts periodic reviews.

Although the Compensation Service highlighted this issue during the March 2024 call, the OIG team found that errors continued to occur.

To improve processes, the OIG's third recommendation is for VBA to develop an automated report that periodically identifies proposed adverse actions without a final decision and applicable pending end product, and ensure identified cases are reviewed and resolved as appropriate, to maintain compliance with the M21-1 Adjudication Procedures Manual *and the* M21-4 Manual.[25] *Finally, to ensure compliance with laws, regulations, and policies, the OIG's fourth recommendation is for VBA to correct all errors identified by this review as appropriate.*[26]

Conclusion

The OIG team estimated that claims processors made one or more errors in about 9,300 of 27,100 cases involving proposed and final adverse action rating decisions (about 34 percent). As a result, the team estimated that veterans were improperly paid at least $16.9 million; this total

[24] Compensation Service Quality Call – March 2024, updated March 15, 2024.

[25] VA Manual 21-1, "Completing Proposed Rating Decisions," updated September 5, 2023, sec. X.ii.3.D in *Adjudication Procedures Manual; and* M21-4, "End Product (EP) Codes," updated October 9, 2024, appendix B.

[26] 38 C.F.R. § 3.103 (2025); 38 C.F.R. § 3.105 (2025); VA Manual 21-1, "Due Process and Authorization Issues for Clear and Unmistakable Error (CUE)," updated July 27, 2023, sec. X.ii.5.C in *Adjudication Procedures Manual*; VA Manual 21-1, "Decision Authorization," updated June 5, 2026, sec. VI.i.1.A in *Adjudication Procedures Manual*; and M21-4, "End Product (EP) Codes," updated October 9, 2024, appendix B.

includes both underpayments and overpayments for proposed adverse action cases closed from January 1 through December 31, 2024. Additionally, the team estimated that at least $964,000 in ongoing monthly improper payments will occur until these errors are resolved. Further analysis indicated that errors in processing continued beyond the review period. The OIG's recommendations can help VBA strengthen its processes and ensure compliance with laws, regulations, and policies regarding the accuracy of veterans' benefits.

Recommendations 1–4

The OIG made the following recommendations to the under secretary for benefits:[27]

1. Create and mandate standardized due process letters for clear and unmistakable errors and severance of service connection, drafted in compliance with 38 C.F.R. § 3.103.[28]
2. Update procedures to require an enhanced level of review for all final decisions associated with proposed adverse actions resulting from clear and unmistakable errors so that decisions are compliant with 38 C.F.R. § 3.105 and the *M21-1 Adjudication Procedures Manual*.[29]
3. Develop an automated report that periodically identifies proposed adverse actions without a final decision and applicable pending end product, and ensure identified cases are reviewed and resolved as appropriate, to maintain compliance with the *M21-1 Adjudication Procedures Manual* and the *M21-4 Manual*.[30]
4. Correct all errors identified by this review as appropriate, so claim processing actions are compliant with 38 C.F.R. § 3.103 and 3.105, the *M21-1 Adjudication Procedures Manual*, and the *M21-4 Manual*.[31]

VA Management Comments

In July 2026, the principal deputy under secretary for benefits, performing the delegable duties of the under secretary for benefits, concurred with all recommendations. For recommendation 1,

[27] The recommendations addressed to the under secretary for benefits are directed to anyone in an acting status or performing the delegable duties of the position.

[28] 38 C.F.R. § 3.103 (2025) (38 U.S.C. § 5104).

[29] 38 C.F.R. § 3.105 (2025); VA Manual 21-1, "Due Process and Authorization Issues for Clear and Unmistakable Error (CUE)," updated July 27, 2023, sec. X.ii.5.C in *Adjudication Procedures Manual*.

[30] VA Manual 21-1, "Completing Proposed Rating Decisions," updated September 5, 2023, sec. X.ii.3.D in *Adjudication Procedures Manual; and* M21-4, "End Product (EP) Codes," updated October 9, 2024, appendix B.

[31] 38 C.F.R. § 3.103 (2025); 38 C.F.R. § 3.105 (2025); VA Manual 21-1, "Due Process and Authorization Issues for Clear and Unmistakable Error (CUE)," updated July 27, 2023, sec. X.ii.5.C in *Adjudication Procedures Manual*; VA Manual 21-1, "Decision Authorization," updated June 5, 2026, sec. VI.i.1.A in *Adjudication Procedures Manual*; and M21-4, "End Product (EP) Codes," updated October 9, 2024, appendix B.

she reported that VBA will create and mandate standardized due process letters for CUEs and severance of service connection. In response to recommendation 2, VBA will update procedures to require an enhanced level of review for all final decisions associated with proposed adverse actions resulting from CUEs.

To address recommendation 3, VBA will develop an automated report to systematically identify proposed adverse actions without a final decision and the corresponding pending end product. Finally, for recommendation 4, VBA said it is addressing all errors identified by the OIG's review. The full management comments are included in appendix E.

OIG Response

Following VBA's comments on the recommendations, the OIG added citations to clarify the criteria supporting the recommendation. These additions did not substantively revise the recommendations. VBA's planned corrective actions are responsive to the intent of the recommendations. The OIG will monitor implementation of the planned actions and will close the recommendations when VA provides evidence demonstrating progress in addressing the identified issues.

Appendix A: Rating Decision Codesheet Example

Rating Decision	*Department of Veterans Affairs* *Veterans Benefits Administration*	Page 1 of 2 [redacted]

NAME OF VETERAN	VA FILE NUMBER	SOCIAL SECURITY NR	POA
[redacted]	[redacted]	[redacted]	[redacted]
			COPY TO

ACTIVE DUTY			
EOD	RAD	BRANCH	CHARACTER OF DISCHARGE
[redacted]	[redacted]	[redacted]	[redacted]

LEGACY CODES			
ADD'L SVC CODE	COMBAT CODE	SPECIAL PROV CDE	FUTURE EXAM DATE
	1		None

JURISDICTION: Review Examination Dated [redacted]

ASSOCIATED CLAIM(s): 310; Routine Future Exam: [redacted]

SUBJECT TO COMPENSATION (1.SC)

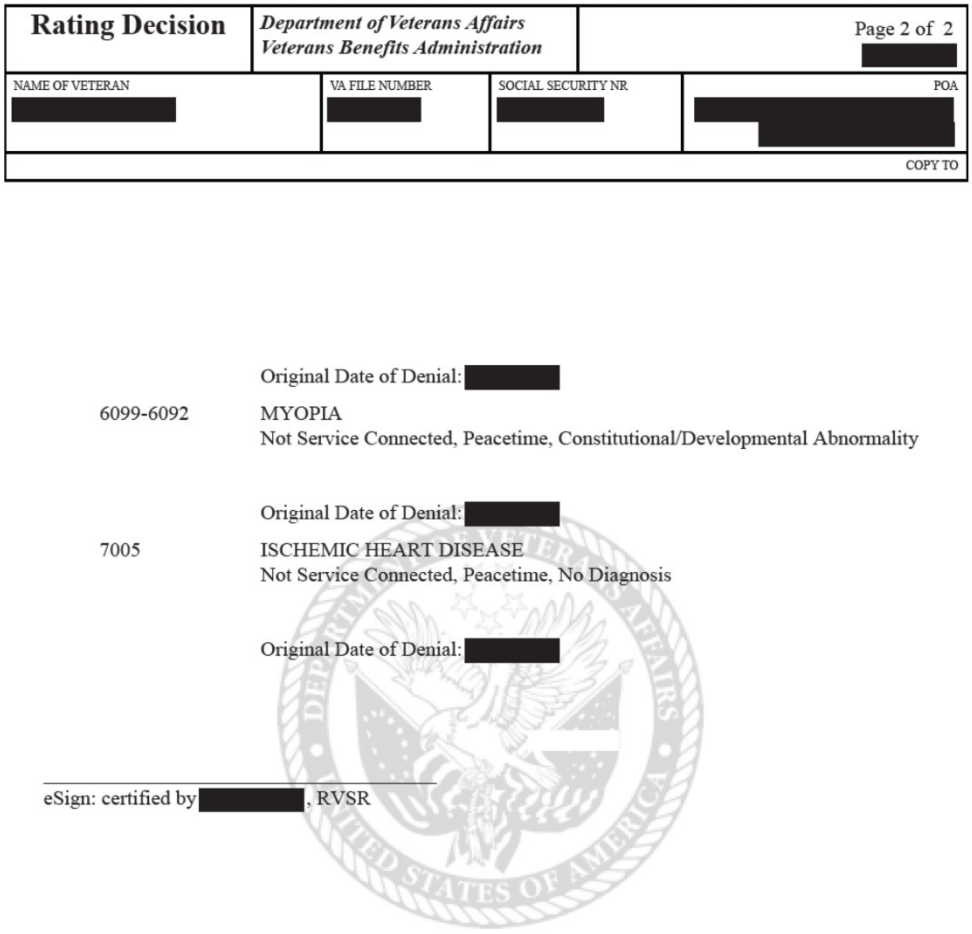
6819-6600 LUNG CANCER STATUS POST LEFT LOBECTOMY WITH WEDGE RESECTION
STATUS POST RADIATION TREATMENT [Agent Orange - Vietnam/Respiratory Cancers]
Service Connected, Vietnam Era, Presumptive
Static Disability
100% from [redacted]/2011 (6844-6819)
30% from [redacted]/2018, Reduction (6819-6844)
100% from [redacted]/2022 (6819)

COMBINED EVALUATION FOR COMPENSATION :

100% from [redacted]/2011
30% from [redacted]/2018
100% from [redacted]/2022

NOT SERVICE CONNECTED/NOT SUBJECT TO COMPENSATION (8.NSCPeacetime)

6018 CONJUNCTIVITIS
Not Service Connected, Peacetime, Not Incurred/Caused by Service



Rating Decision	*Department of Veterans Affairs* *Veterans Benefits Administration*	Page 2 of 2 [redacted]

NAME OF VETERAN	VA FILE NUMBER	SOCIAL SECURITY NR	POA
[redacted]	[redacted]	[redacted]	[redacted]

COPY TO

Original Date of Denial: [redacted]

6099-6092 MYOPIA
Not Service Connected, Peacetime, Constitutional/Developmental Abnormality

Original Date of Denial: [redacted]

7005 ISCHEMIC HEART DISEASE
Not Service Connected, Peacetime, No Diagnosis

Original Date of Denial: [redacted]

eSign: certified by [redacted], RVSR

Figure A.1. *Visual representation of a rating decision codesheet.*
Source: Veterans Benefits Management System.

Appendix B: Scope and Methodology

Scope

The VA Office of Inspector General (OIG) team conducted its work starting in May 2025 and concluded in June 2026. The team reviewed cases of proposed adverse actions to veterans' service-connected disability compensation that were closed from January 1 through December 31, 2024. This included proposed adverse actions that had been subsequently finalized and proposed adverse actions closed without final decisions.

The team also reviewed a judgmental sample of cases from January 1 through September 30, 2025, where there was no final rating decision date, to determine whether the issue of no final actions being taken continued beyond the initial review period.

Methodology

To accomplish the review objectives, the team considered applicable laws, regulations, policies, procedures, and guidelines related to service-connected disability compensation adverse actions. The team interviewed Veterans Benefits Administration (VBA) central office managers and staff, including those involved in VBA's quality assurance activities. The team also interviewed managers and staff at the regional offices in Columbia, South Carolina; Detroit, Michigan; and St. Louis, Missouri.

Internal Controls

The team assessed internal controls to determine whether they were significant to the review objective. This included consideration of the five internal control components: control environment, risk assessment, control activities, information and communication, and monitoring.[32] In addition, the team reviewed the principles of internal controls associated with the objective and identified two components and three principles as significant. Because the review was limited to the internal control components and underlying principles identified, it may not have disclosed all internal control deficiencies that could have existed at the time of this review. The team identified internal control deficiencies during this review and proposed recommendations to address those listed in table B.1.

[32] Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-25-107721, May 2025.

Table B.1. VA OIG Analysis of Internal Control Components and Principles Identified as Significant

Component	Principle	Deficiency identified by this review
Control activities	10. Management should design control activities to achieve objectives and respond to risks.	Managers did not update procedures to ensure requirements were met before making final decisions to reduce veterans' service-connected disability compensation and ensure proper implementation of those decisions.
Control activities	11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.	Managers did not ensure system-generated letters automatically included language for the various service-connected disability compensation adverse action reasons. Managers did not implement a procedure or technology solution that minimized the potential for end products associated with proposed adverse actions to be prematurely closed before final decisions were generated.
Monitoring	16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	Managers did not proactively identify proposed adverse actions without final decisions and no applicable pending end products and did not ensure identified cases were reviewed and resolved as appropriate.

Source: VA OIG analysis of internal control components and principles consistent with the Government Accountability Office's Standards for Internal Control in the Federal Government.

Data Reliability

The team used computer-processed data from the corporate and Veterans Benefits Management System databases to identify cases with proposed adverse actions to veterans' service-connected disability compensation that were closed from January 1 through December 31, 2024. In addition to testing the reliability of the data, the team compared information such as the veteran's file number, document title, and document association date against information contained in the 229 samples reviewed in the Veterans Benefits Management System. These comparisons were used to identify any discrepancies. Data testing disclosed that they were sufficiently reliable for the review objectives. Comparison of the data with source documentation 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*.[33]

[33] Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*, December 2020.

Appendix C: Statistical Sampling Methodology

Approach

To accomplish the objective, the VA Office of Inspector General (OIG) team reviewed a statistical sample of veterans' records associated with proposed adverse actions to veterans' service-connected disability compensation that were closed during the period January 1 through December 31, 2024. The team used statistical sampling to quantify the extent of records where Veterans Benefits Administration (VBA) staff incorrectly processed adverse action cases.

Population

The review population included 43,464 records with end products for the proposed adverse actions to veterans' service-connected disability compensation closed from January 1 through December 31, 2024 (review period). For the purposes of this review, the team estimated the in-scope population to be 27,136. The difference between the review population and the estimated population is due to the exclusion of records that did not meet project scope requirements. For example, records were out of scope if the cases involved an administrative issue that did not require a rating decision, the veteran was deceased, or the due process period had not expired. Since the excluded sample record represents others in the original review population that may also be out of scope, the team estimates the population eligible for this review is about 27,136.

Sampling Design

The review team selected a statistical sample of 229 records from the population of records with proposed adverse actions to veterans' service-connected disability compensation. The population was stratified by whether a final decision had been made and categorized in two strata. Table C.1 presents the population and sample sizes by strata.

Table C.1. Stratified Populations

Strata description	Sampling population	Sample size	Estimated in-scope population
Proposed adverse actions with associated final decision dates	41,477	91	26,030
Proposed adverse actions without associated final decision dates	1,987	138	1,106

Source: VA OIG statistician's stratified population.

Note: Data were obtained from VBA's Corporate Data Warehouse.

The team reviewed 393 sample records to determine whether they were in scope. Sample records that were deemed out of scope were removed. The team removed 164 out-of-scope records and used the 229 sampled records that met audit parameters to estimate the in-scope population size of 27,136. The team's analyses and conclusions were based on that data sample. Table C.2 shows the estimated number of in-scope and out-of-scope records in the audit population.

Table C.2. Estimated In-Scope Records Based on a 90 Percent Confidence Interval

Result	Estimate number	Margin of error	Lower limit	Upper limit	Sample size
In scope	27,136	3,900	23,236	31,036	229
Out of scope	16,328	3,196	13,132	19,524	164
Total	**43,464**				**393**

Source: VA OIG statistician's projection of the number of in-scope and out-of-scope records, based on the team's sample data analysis.

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 records that contained the given error, then dividing that value by the sum of the weights for all sample records.

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 audit with multiple sets of samples, the confidence intervals would differ for each sample but would include the true population value about 90 percent of the time.

The OIG statistician used 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 C.1 shows the effect of progressively larger sample sizes on the margin of error.

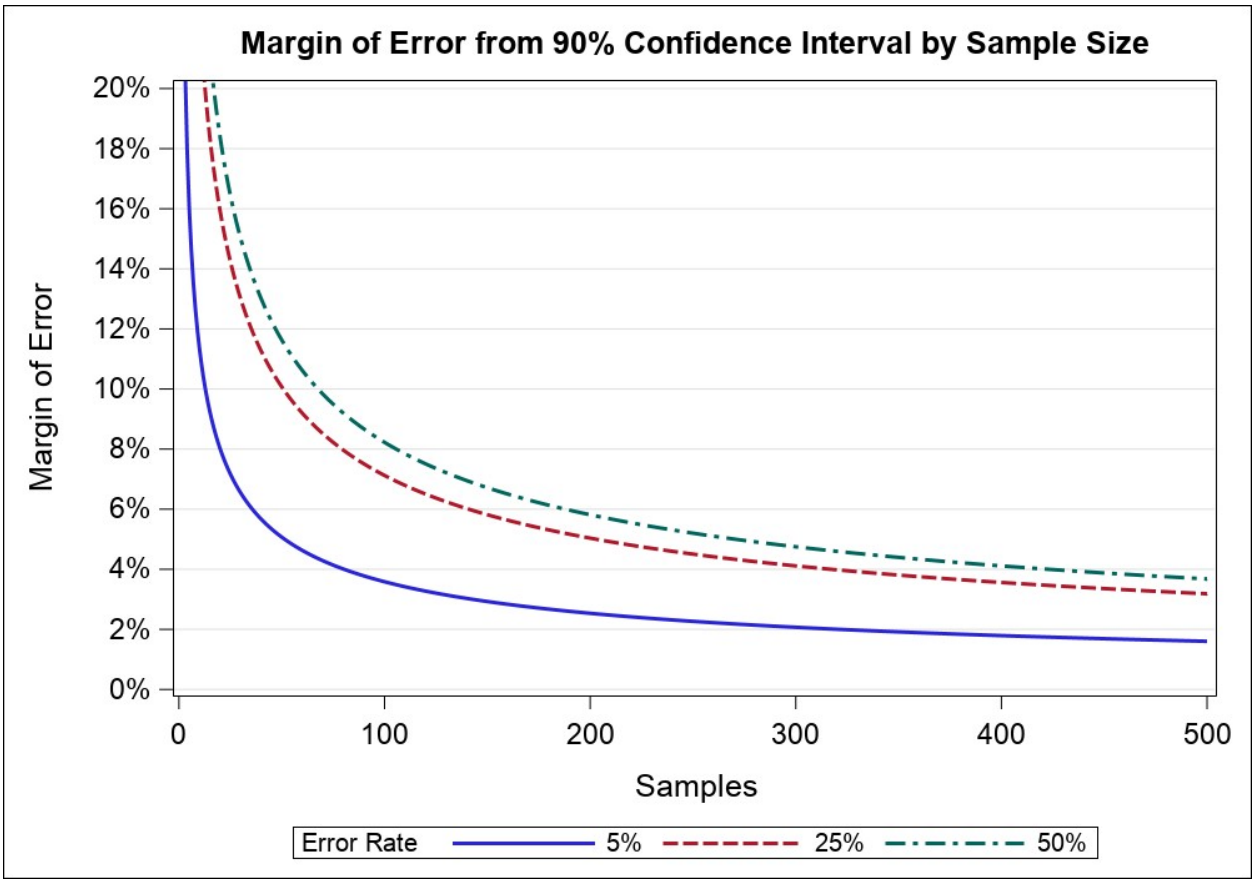


Figure C.1. *Effect of sample size on margin of error.*

Source: VA OIG statistician's analysis

Projections

Table C.3 shows the adjusted population projections for compensation rating decisions proposing adverse actions during the review period and provides details about the review team's analysis and projected results for errors.

Table C.3. Statistical Projections, with a 90 Percent Confidence Interval

Estimate name	Estimate number	Margin of error	Lower limit	Upper limit	Sample count
In-scope proposed compensation adverse actions	27,136	3,900	23,236	31,036	229
Errors in proposed and final decisions for adverse actions (percentage)	9,321 (34%)	2,426 (8%)	6,895 (27%)	11,747 (42%)	157

Estimate name	Estimate number	Margin of error	Lower limit	Upper limit	Sample count
Errors resulting in monetary impact	3,951	1,672	2,279	5,623	42
Due process errors	3,951	1,672	2,279	5,623	42
Codesheet errors	2,949	1,474	1,475	4,422	21
Effective date errors	2,885	1,474	1,410	4,359	13
Cases with errors that involved rating decisions that finalized an adverse action due to clear and unmistakable error	5,937	1,905	4,032	7,843	47
Cases with errors that involved rating decisions that finalized an adverse action due to clear and unmistakable error, without second approval signature	4,411	1,704	2,707	6,115	30
Cases with an end product closed without an associated final decision that contained an error	1,026	104	921	1,130	128
No final rating decision error	409	84	324	493	51

Source: VA OIG analysis.

Note: Projections and confidence intervals do not total precisely due to rounding.

Table C.4 on the next page provides details about the review team's analysis and projected results for overall errors in proposed and final decisions for compensation rating decisions proposing adverse actions in veterans' service-connected disability compensation.

Table C.4. Summary of Projection for Improper Payments, with a One-Tailed 90 Percent Confidence Interval

Estimate name	Estimate number	Margin of error	One-tailed lower limit
Improper payments	$36,228,353	$19,333,315	$16,895,038
Ongoing improper payments	$2,784,727	$1,820,987	$963,740

Source: VA OIG statistician's projection of estimated populations based on claims review data.

Note: Projections and confidence intervals do not total precisely due to rounding.

Due to low sample counts, the point estimates in table C.4 are highly variable. Consequently, the team conservatively reported one-tailed lower bounds associated with the 90 percent confidence intervals in place of point estimates throughout the report.

Appendix D: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs[34]
1–4	The VA Office of Inspector General (OIG) identified improper payments that were due to errors in proposed and final decisions for adverse actions in veterans' service-connected disability compensation.	$0	$16,895,038
	Total	**$0**	**$16,895,038**

[34] The OIG questions costs when VA action or inaction (such as spending or failure to fully compensate eligible beneficiaries) is determined by the OIG to violate a provision of law, regulation, contract, grant, cooperative agreement, or other agreement; when costs are not supported by adequate documentation; or when they are expended for purposes that are unnecessary or unreasonable under governing authorities. Within questioned costs, the OIG must, as required by section 405 of the IG Act, report unsupported costs. Unsupported costs are those determined by the OIG to lack adequate documentation at the time of the audit. Of the $16,895,038 in questioned costs, $0 were unsupported costs.

Appendix E: VA Management Comments

Department of Veterans Affairs Memorandum

Date: July 15, 2026

From: Under Secretary for Benefits (20)

Subj: Office of Inspector General (OIG) Draft Report – Review of VBA's Processing of Adverse Actions for Service-Connected Disability Compensation [Project Number: 2025-01011-AE-0047]

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

1. Thank you for the opportunity to review and comment on the OIG draft report: Review of VBA's Processing of Adverse Actions for Service-Connected Disability Compensation. The Veterans Benefits Administration (VBA) concurs with the report findings and provides the attached response to the draft report recommendations.

The OIG removed point of contact information prior to publication.

(Original signed by)

J. Margarita Devlin

Principal Deputy Under Secretary for Benefits
Performing the Delegable Duties of the Under Secretary for Benefits

Attachment

Attachment

Veterans Benefits Administration (VBA)

Comments on OIG Draft Report

Review of VBA's Processing of Adverse Actions for Service-Connected Disability Compensation [Project Number: 2025-01011-AE-0047)

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

Recommendation 1: Create and mandate standardized due process letters for clear and unmistakable errors and severance of service connection.

VA Response: Concur. VBA will create and mandate standardized due process letters for clear and unmistakable errors and severance of service connection.

Status: In process Target Completion Date: April 30, 2027

Recommendation 2: Update procedures to require an enhanced level of review for all final decisions associated with proposed adverse actions resulting from clear and unmistakable errors.

VA Response: Concur. VBA will update procedures to require an enhanced level of review for all final decisions associated with proposed adverse actions resulting from clear and unmistakable errors.

Status: Not Started Target Completion Date: September 30, 2026

Recommendation 3: Develop an automated report that periodically identifies proposed adverse actions without a final decision and applicable pending end product, and ensure identified cases are reviewed and resolved as appropriate.

VA Response: Concur. VBA will develop an automated report to systematically identify proposed adverse actions without a final decision and the corresponding pending end product. This process will facilitate timely review and resolution of identified cases, ensuring appropriate management and oversight.

Status: In process Target Completion Date: September 30, 2026

Recommendation 4: Ensure all errors identified by this review are corrected, as appropriate.

VA Response: Concur. VBA is addressing all errors identified by OIG's review. As of June 22, 2026, 184 of the 191 have been resolved. Seven remain pending and are being tracked through completion.

Status: In process Target Completion Date: October 31, 2026

The text of VA's management comments is reprinted verbatim as received from the department. For accessibility, the original format of this appendix has been modified to comply with section 508 of the Rehabilitation Act of 1973, as amended.

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