

VA Office of Inspector General

OFFICE OF AUDITS & EVALUATIONS



Veterans Benefits Administration

*Review of Alleged Improper
Emergency Payments for
Education Benefits*

September 14, 2010
10-01248-249

ACRONYMS AND ABBREVIATIONS

BIRLS	Beneficiary Identification Records Locator Subsystem
DOD	Department of Defense
GI	Government Issue (refers to active duty personnel)
VBA	Veterans Benefits Administration

To Report Suspected Wrongdoing in VA Programs and Operations:

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Report Highlights: Review of Alleged Improper Emergency Payments For Education Benefits

Why We Did This Review

The Post-9/11 GI Bill significantly expanded education benefits for qualified persons beginning with the fall 2009 school term. However, due to a processing backlog and challenges implementing the new program, VA issued 122,000 emergency payments worth \$356 million for students facing delayed payments during this time. VA intended to offset these payments against forthcoming education benefits. We reviewed a hotline allegation that inadequate controls during this emergency initiative resulted in payments to ineligible recipients.

What We Found

The emergency payment initiative offered effective relief to veterans affected by the untimely processing of claims. However, our review substantiated that VA inappropriately provided 35,000 emergency payments totaling approximately \$103 million to ineligible military service members and veterans who did not participate in VA's education programs. VA also provided 2,700 emergency payments worth \$8 million to service members who were enrolled in VA education programs, but who did not meet VA criteria for emergency payments.

VA rushed to plan and implement the emergency payment initiative in late September 2009 to prevent further hardship to students affected by significant delays in processing claims during implementation of the Post-9/11 GI Bill. Widespread payments to ineligible recipients occurred in part

because VA did not have a contingency plan for emergency payments, did not clearly communicate eligibility rules to service members, and did not have adequate controls to determine whether applicants were eligible for VA emergency payments or enrolled in school during the fall 2009 term. These program weaknesses created vulnerabilities that were exploited by applicants who were either misguided or engaged in potentially fraudulent activities. The emergency payment initiative also resulted in increased administrative burdens and an estimated loss of about \$87 million in unrecoverable debts out of the \$356 million in total emergency payments.

What We Recommend

We recommended that the Acting Under Secretary for Benefits develop a contingency plan for future advance payments that includes clear communication on service member eligibility and controls to check for eligibility.

Agency Comments

The Acting Under Secretary for Benefits concurred with our finding and recommendation. He added additional information to describe the urgency of the situation that led VA's leadership to take steps to alleviate veteran's financial burdens due to payment delays.

(original signed by:)

BELINDA J. FINN

**Assistant Inspector General
for Audits and Evaluations**

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INTRODUCTION

Objective

The OIG conducted a review to determine the validity of allegations that VA provided emergency payments for education benefits to ineligible persons during implementation of the Post-9/11 GI Bill. Our work included assessing internal controls and the cost of all the emergency payments.

Advance Payment Authority

VA is authorized to use funds appropriated for veterans' readjustment benefits to make advances to eligible education beneficiaries. Title 38 United States Code and implementing regulations authorize advance payments to persons who have applied for VA educational assistance, are eligible for benefits, and enrolled in appropriate schools. Advance payments for monthly allowance or subsistence to veterans pursuing school more than half time are authorized at the beginning of a school term. Although service members are not eligible for VA housing or subsistence payments, advance payments are authorized for the lump sum of VA tuition benefits for the school term.

Emergency Payment Initiative

In October 2009, VA began an emergency payment initiative for the fall school term. The initiative offered relief for veterans experiencing processing delays in five VA education programs during the implementation of the Post-9/11 GI Bill. VA intended to recover the funds for emergency payments, valued up to \$3,000 in some programs, by offsetting them against forthcoming education benefits. Applications for the emergency payments were accepted online and in person at the 57 VA regional offices. In total, between October 2009 and February 2010, VBA provided 122,000 emergency payments worth \$356 million.

Hotline Complaint

On December 29, 2009, a complainant alleged that service members in Colorado Springs were sharing information on how to obtain VA emergency payments for education benefits for which they were ineligible. The complainant alleged that some local service member applicants were not actually attending college and were falsifying information on their applications. The complainant believed that VA was not checking or verifying the information presented by applicants and that inadequate controls resulted in the misuse of funds.

RESULTS AND RECOMMENDATIONS

Finding **VA Provided 35,000 Emergency Payments to Ineligible Persons**

The emergency payment initiative offered effective relief to veterans affected by the untimely processing of claims last fall during the implementation of the Post-9/11 GI Bill. However, our review substantiated VA provided 35,000 emergency payments for education benefits totaling approximately \$103 million to ineligible military service members and veterans who did not participate in VA's education programs. Due to a lack of contingency planning, VBA had little time to set up and implement the emergency payment initiative. Unclear communication concerning service member eligibility and inadequate controls over online payments resulted in a process that was vulnerable to exploitation and improper payments. The emergency payment initiative resulted in increased administrative burdens and an estimated loss of approximately \$87 million in unrecoverable debts out of the total \$356 million emergency payments.

Payments to Ineligible Recipients

VA made about 87,000 emergency payments, worth \$253 million, to students enrolled in VA education programs during the fall school term. However, VA also provided 35,000 emergency payments, worth about \$103 million, to persons who were ineligible because they had not enrolled in VA education programs. Twenty-nine percent of all emergency payments for education benefits were issued to non-participating recipients. In addition, VA issued 2,700 emergency payments, worth \$8 million, to service members who enrolled in VA education programs, but were ineligible for the emergency payments. VA did not extend eligibility for emergency payments to service members, even when they qualified for VA education benefits, because service members receive housing and subsistence support from Department of Defense (DOD), rather than VA. Table 1 provides details of payments in various recipient categories.

Table 1

Emergency Payments						
	Enrolled in VA Education		Not Enrolled in VA Education		Total Checks & Amounts Issued	
	Payments	Amount	Payments	Amount	Payments	Amount
Veteran	83,613	\$242	14,348	\$41	97,961	\$283
Active Duty	2,724	8	20,059	60	22,783	68
Other¹	1,127	3	570	2	1,697	5
Total	87,464	\$253	34,977	\$103	122,441	\$356

Source: VBA emergency payment, school enrollment, payment, and VA military service records. (Amounts are listed in millions.)

**Planning,
Communication,
and Controls**

While VA was able to begin issuing emergency payments nationwide in about a week, the processes VBA established did not ensure that disbursements were limited to the recipients who met legal requirements for advance payments. VBA began the emergency payments with little notice and limited time to plan and consider options on how to proceed. Unclear communication of service members' eligibility and a lack of controls contributed to improper payments to ineligible recipients.

**Rushed Planning
and
Implementation**

During the implementation of the Post-9/11 GI Bill, slower than expected claims processing resulted in extremely high claims backlogs and payment delays. These delays were aggravated by constraints, such as software with limited functionality and difficulties in ensuring adequate staffing. External factors such as states' delays in setting tuition rates and schools' delays in submitting enrollment information compounded the situation. On September 25, 2009, VA announced the emergency payment initiative, effective October 2, to prevent hardship for students waiting on their VA education payments for the fall school term. The emergency payment initiative was established in about a week, with limited planning and controls to manage the initiative.

The former Under Secretary for Benefits, who resigned in January 2010, told us VBA initiated the emergency payment initiative when it became apparent that VBA did not have the capacity to process claims on a timely basis. He said the initiative was necessary to ensure that veterans did not experience disruptions in their tuition or housing payments while waiting for VA education benefits. Senior VBA staff said they were concerned about VBA's inadequate performance in processing claims as well as media reports of hardships experienced by some veteran students. Senior staff added that the

¹ The Other category includes dependents, reservists, and other recipients who have not yet been classified.

emergency payments also helped buy time for VBA to add additional staff and processing locations to address the education claims backlog. The number of pending education claims peaked at 162,000 in September 2009 and did not drop below 100,000 until February 2010.

During implementation of the Post-9/11 GI Bill program, VBA did not include an emergency payment option in its contingency plans. In February 2009, a consultant to the Secretary had provided VBA with a model showing that if processing claims took longer than expected it would result in significant backlogs and delays, necessitating such advance planning.

Once the decision was made to provide emergency payments, VA rapidly took steps to implement the initiative. The former Under Secretary told us that he coordinated with Department and VBA leadership, as well as the Office of Management and Budget and a bank, to plan and implement the payment initiative. On September 25, VA announced its initial approach for making the emergency payments was for students to apply in person at one of 57 VA regional offices or at schools with large veteran populations where VBA would deploy staff to accept applications. This approach included assisting students as needed in obtaining transportation to the nearest application site. On September 30, VA announced it had also recently created a web site permitting students to apply online. VA promptly addressed a number of logistical issues to begin authorizing emergency payments by October 2.

**Communication
on Service
Member Eligibility**

VA's outreach efforts were broad and attracted active duty service members, who, as a group, VA determined to be ineligible for the emergency payments. VA's initial publicity, such as the September 25 press release, indicated that the emergency payments were for "students" but did not specifically identify active duty service members as ineligible. Similarly, beginning September 30 and thereafter outreach materials indicated that emergency payments were intended for "veteran-students" or "veterans." Outreach efforts included press releases, briefings for stakeholder groups, information posted on the Internet and social media, and media appearances by VA executives.

In addition to targeting veterans and the general public, VA's outreach efforts extended to news networks, such as the Pentagon Channel, exclusive to the active duty community. These communications publicized the emergency payments without disclosing that they were not authorized for active duty personnel. Senior VBA officials provided us with differing opinions as to whether the term "veteran" included active duty service members. In addition, third-party Internet postings continued to include the more inclusive term "students" as the intended recipients of the emergency

payments. Such unclear messages in the initiative's publicity helped attract active duty service members, as well as veterans.

As VA's outreach information spread, it was repeated and interpreted by media, internet sites, and individuals. In the process, VA's guidance concerning the purpose and eligibility requirements for the emergency payments was misunderstood. As word of the emergency payments circulated in the military, it reached service members who never applied for VA education benefits and who were likely less familiar with eligibility requirements.

**Eligibility Not
Verified**

VA paid emergency payments to ineligible recipients not participating in VA education programs because the approval process did not include adequate controls to request or verify information to determine eligibility. VBA officials said that they relied on applicants to provide and certify the accuracy of information establishing their eligibility. However, the application form did not require sufficient information to establish eligibility. The application form did not require applicants to disclose if they were on active duty, when they performed military duty qualifying them for a specific education program, or if they had applied for VA education benefits for the fall term. However, the form did require applicants to certify that they had not received VA education payments for the fall term. The form required applicants to provide identifying information and select one of five VA education programs as best fitting their individual situations. VA checked to see if applicants' identifying information was in an electronic file containing service members' and veterans' records called Beneficiary Identification Records Locator Subsystem (BIRLS). However, VA did not otherwise determine whether applicants for emergency payments had applied for or were eligible for education benefits.

VA also did not attempt to confirm with schools whether online applicants were currently enrolled, a required action for regular advance payments. The online process required applicants to indicate whether they were part-time or full-time students and to identify the name of the school. However, the form did not ask applicants whether they were attending school during the fall. VA did not verify or use the information collected about enrollment in its online process.

The process of applying in person for an emergency payment had better control over enrollment than the online process. Walk-in applicants were required to show VBA staff a document that indicated they were currently enrolled in school. This requirement discouraged applications from persons who were not currently attending a qualified school.

***Risks Accepted to
Increase
Accessibility***

VBA leadership accepted the risk of not verifying eligibility and enrollment to ensure that relief for students was widely available. The former Under Secretary told us VBA worked with VA officials to establish the online web application process to ensure that payments would be accessible for all students, especially those not located near a regional office. VBA leadership acknowledged accepting risks in their emergency payment approach, which they implemented without advance contingency planning. Senior VBA leadership acknowledged that using BIRLS only, without checking education eligibility or enrollment information, contained vulnerabilities. VBA leadership said these issues were raised to the former Under Secretary when the initiative was being planned.

The former Under Secretary told us he was comfortable approving emergency payments based on the applicants' identification information in BIRLS because they knew who the applicants were and could locate them if there were erroneous payments. When asked about regulatory requirements to determine eligibility and to verify enrollment, the former Under Secretary said it would have been very challenging in the existing circumstances to verify eligibility and enrollment before making payments. VBA leadership told us that it would have been nearly impossible at the time for them to determine eligibility for all emergency payment applicants, because many of the large number of applications received had not been reviewed and they did not have adequate staff to review them on an expedited basis.

***Vulnerable to
Exploitation***

As displayed in Table 2 on page 7, the number of emergency payments to ineligible applicants began to rise in December 2009 and peaked in January 2010 before VA discontinued the online application process. Given the program's weak controls, some applicants exploited the opportunity to obtain payments by providing inaccurate information concerning school enrollment. The program was also vulnerable to suspicious activities and fraudulent schemes.

***Surge in Ineligible
Payments***

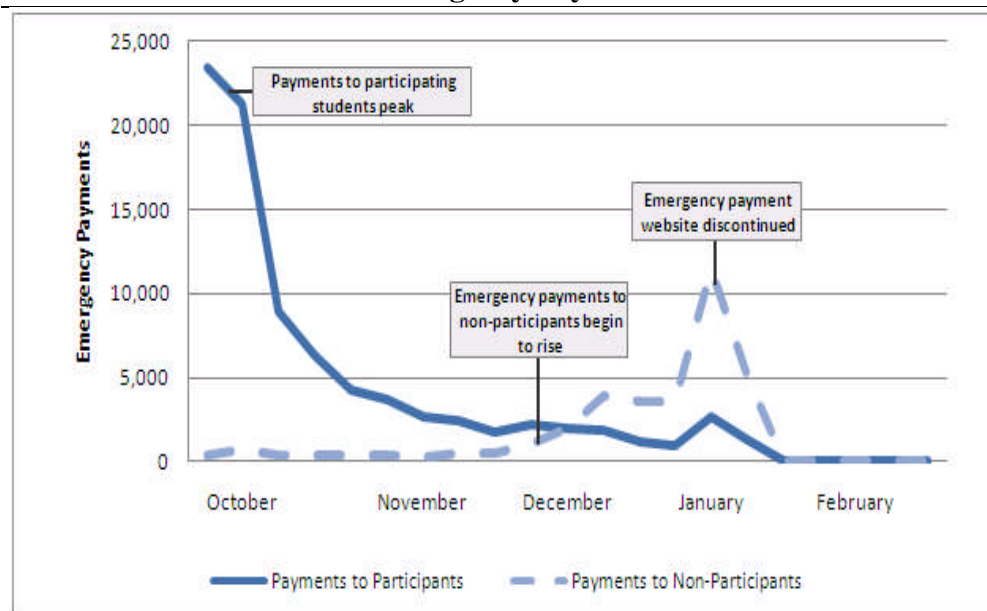
VA's outreach campaign attracted considerable attention from veterans, service members, and schools. For example, between October 2–10, VA processed a total of 45,957 applications for emergency payments. Students created long lines to obtain emergency payments at several VA regional offices. Several regional offices extended hours and paid staff overtime to accommodate the initial wave of emergency payment applications.

Emergency payments to ineligible persons rose in December as word spread about opportunities to gain benefits through VA's online application process. Staff at several DOD facilities told us about rumors that the emergency payments were grants or a form of "free money" available for unrestricted purposes, such as Christmas expenses or paying off loans. Payments to non-participants in VA education programs peaked at about 11,500 during a one

week period in January 2010 when VBA learned of the hotline allegation and began to respond to suspicious payment patterns. Table 2 shows the surge of payments to students participating in VA education programs in October 2009 and the later surge of payments to non-participating recipients that peaked in January 2010. The “participating students” in the table includes about 3,900 payments to students, such as service members, who did not meet VBA criteria for emergency payments.

Table 2

VA Education Emergency Payment Distribution



Source: VBA emergency payment records

**Inaccurate
Information on
School Enrollment**

In December 2009, DOD staff noted that information circulating among service members included reports VA was paying emergency payments with inadequate verification in response to applications to VA’s Internet site. Other DOD staff reported that some service members were falsifying information on their applications.

For example, the OIG hotline complainant told us that service members in Colorado Springs falsified information about their school enrollment to get the VA emergency payments. In response to our inquiry, two service members from Ft. Carson in Colorado Springs said that they obtained emergency payments without applying for VA education benefits. They told us that they had enrolled at the local Pikes Peak Community College for the spring 2010 term, but had not attended any classes. One service member said he intended to start classes in the spring, but that unexpected changes in his work schedule prevented this. The other service member stated that he would start classes in the summer. To verify whether these soldiers and others provided inaccurate information about their school enrollment, we

subpoenaed records for 468 applicants who received emergency payments and listed Pikes Peak Community College as their school on their online applications. In response, the college told us that 412 (88 percent) of 468 ineligible applicants were not actually enrolled for either fall 2009 or spring 2010 terms.

Service members accounted for 71 percent of the applicants providing inaccurate information about their enrollment at the college. One Ft. Carson service member we interviewed applied for emergency payments on December 30 and the other service member on January 11; both applied during the surge of improper payments. The service members told us they received information in late December about the online application process for the emergency payments from their friends stationed at other DOD bases. VBA later identified certain bases as having clusters of improper emergency payments.

Improper or Suspicious Activities

VBA and OIG analysis of the emergency payment initiative data has identified indicators of suspicious activity that could represent attempts to exploit program vulnerabilities for personal gain. For example, according to VBA, approximately 850 persons applied for and received more than one emergency payment check. The OIG will continue to monitor the emergency payments during payment collection efforts.

VA Response to Indicators of Suspicious Payments

VA ended the emergency payment initiative in February 2010 after reducing the claims backlog and identifying significant numbers of improper payments. In preparation for collection of the emergency payments, VBA began gathering additional data in November 2009. In late December 2009, VBA officials noticed an unexpected increase in emergency payments. By January 7, 2010, VA OIG and DOD had informed VBA of allegations of improper payments to ineligible service members. At that time, VA revised its Internet guidance to specifically exclude service members from the emergency payments. VA discontinued the online application process for the emergency payments on January 12. A few days later, VBA completed data mining that revealed it had issued significant numbers of emergency payments to ineligible persons. On February 19, having reduced the claims backlog, VA stopped accepting walk-in applications for the emergency payment initiative.

Administrative Burdens and Unrecoverable Debts

Collection efforts for the emergency payments have resulted in additional administrative burdens for recipients and VA. Losses to VA due to likely unrecoverable debts among all emergency payments could be significant.

VA finalized preparations to collect the emergency payments in January 2010. Attempts to manage and collect emergency payment debts resulted in increased administrative burdens for veterans, service members, and VA

employees. Veterans and service members need to read and understand their rights and obligations, the timeframes for responding, and choose repayment selections that fit their individual budgets. Recouping the emergency payments also significantly increased VA's debt collection workload. For example, the VA Debt Management Center received an average of 30,000 new accounts each month between October 2009 and January 2010. In February 2010, in response to the emergency payment recoupment efforts, they received 170,000 new accounts. As an additional burden, VA erroneously deducted more than agreed upon amounts from students during its initial recovery process and had to take additional action to refund the excessive collections.

Further, the emergency payment initiative will cost VA millions of dollars in debts that are uncollectible or written off. Federal regulations require VA to apply the standard of equity and conscience when evaluating requests from debtors to waive debts. The collection of the emergency payments has resulted in disputes and requests for waivers that require additional VA resources to consider. In response to the collection efforts, some veterans and service members posted comments on military and social media blogs indicating:

- VA guidance was unclear that the checks were a loan to be offset by current benefits or a lump sum payment. Some debtors said they believed it was an advance against total future benefits.
- The emergency payments have been spent on school-related expenses and paying it back would cause financial hardship.

As of June 2010, VBA reported that it had received and processed 4,506 waiver requests, which were all denied.

Between February 8, 2010, when collection for the emergency payments began, and July 13, 2010, VA reported \$154 million in collections. Initial collections were from debtors who acknowledged their debt, did not request waivers, and had sufficient funds to make lump-sum payments. More recently, collections have included offsets against monthly benefits for students currently receiving education benefits. Despite this early progress, experience suggests that, like most agencies, VA will be unable to collect 100 percent of the education debts it establishes. In recent years VA has not been able to collect on average about 41 percent of its education debts.

The emergency payment debtors consist of groups having different characteristics that could either decrease or increase the estimated collection rate. On the negative side, the emergency payment debt pool contains a substantial number of people who are not enrolled in a VA education program, have no education benefits to offset, lack incentive to repay debt to continue school, and who may have made dishonest statements to obtain the

funds. On the positive side, the debt pool contains veterans receiving benefits that can be offset for collection and service members who have incomes to service their debts and employment incentives to maintain their credit histories.

The VA Debt Management Center and VBA told us VA has not developed an estimated collection rate for the emergency payment debts. Uncertainties concerning collections exist, such as the effect of the new Post-9/11 GI Bill program on collection trends as well as the introduction of numerous debtors who were ineligible for education benefits. However, executives for both the Debt Management Center and VBA told us they expect the loss rate for the emergency payments to be lower than the 41 percent average from recent years. To be conservative, we estimate VA will realize a loss due to unrecoverable debts between 21 and 28 percent of all emergency payments, which is significantly less than the historic rate of loss. The mid-point of our estimated loss range is \$87 million. (\$356 million X 24.5 percent uncollected rate = \$87 million.)

Conclusion

The emergency payment initiative successfully mitigated the hardship of benefit delays for many veterans. However, we substantiated that VA issued payments to ineligible applicants on a widespread basis. VA rapidly implemented the emergency payment initiative with unclear communication of eligibility requirements and without adequate controls to determine whether applicants were eligible for VA education advance payments or enrolled in school during the fall 2009 term. The online application process, which accounted for 96 percent of the improper payments, allowed anyone with veteran or service member information an opportunity to receive up to \$3,000 on the honor system. The initiative resulted in improper payment of emergency payments to ineligible persons and misuse of approximately \$103 million in appropriated funds, which are not authorized for advances to ineligible persons. The initiative has increased administrative burdens on beneficiaries and VA staff and could potentially result in \$87 million in unrecoverable debts and potential fraud.

VA faces continued risks during the implementation of the Post-9/11 GI Bill as it attempts to develop and transition to new software, which is expected to replace the mostly manual process used to process claims. Furthermore, additional students are expected to transition into the Post-9/11 education program for the upcoming school year. To reduce the risk of additional payments to ineligible persons, VBA needs to develop a contingency plan for additional advance payments that includes effective communication of eligibility requirements and adequate controls to prevent payments to ineligible persons.

Recommendation We recommend the Acting Under Secretary for Benefits develop a contingency plan for additional emergency payments that includes effective communication of eligibility requirements and adequate controls to prevent payments to ineligible persons.

**Management Comments and
OIG Response** The Acting Under Secretary for Benefits concurred with our finding and recommendation to develop an emergency payment contingency plan. He stated that VBA now has adequate data available for determining eligibility for future emergency payments, if necessary. We will monitor VBA's implementation of its planned corrective actions. (A copy of the Acting Under Secretary's response is in Appendix D.)

The Acting Under Secretary for Benefits provided additional information about the circumstances leading up to the emergency payments. He also highlighted two areas where VBA differs with our report. First, he expressed that our estimate of unrecoverable debts from the emergency payments is high, and our methodology does not appear to be precise enough to support a numerical estimate of \$87 million. VBA has not developed its own estimate of the unrecoverable debts, so it is unclear what estimate it might consider reasonable. We acknowledge uncertainty exists in estimating future losses in the new education program. As a reflection of the uncertainty, our estimate of losses ranges from \$75 to \$100 million, with \$87 million as the mid-point. Using factors similar to those cited by VBA in its comments, such as service members being eligible for future education benefits, we estimate VA will collect a substantially higher percentage of education debts from the emergency payment initiative than in prior collection efforts.

Second, the Acting Under Secretary stated that VBA does not agree that communication weaknesses contributed to the large number of ineligible service member applications. VBA does not dispute the facts we presented to support our conclusion in this regard. For example, VBA does not cite any public communication to dispel the impression that service members were eligible for emergency payments. VBA also acknowledged that VA did not take steps to prevent emergency payments to service members throughout the initiative. In fact, VA did not post information on service member ineligibility on its web site until January 7, 2010, just after we notified them of the hotline allegations.

Appendix A Scope and Methodology

To review the allegations and related issues, we used information obtained during our Congressionally-mandated monitoring of the implementation of the Post-9/11 GI Bill as well as additional fieldwork. We interviewed the complainant and soldiers at Fort Carson, Colorado. We also obtained information from these additional DOD locations: the Pentagon; Ft. Drum, New York; Ft. Campbell, Kentucky; and Ft. Stewart, Georgia.

We visited and interviewed officials at VBA locations in Washington DC, Atlanta, Denver, Muskogee, Portland, and St. Louis. In addition, we obtained information from VBA locations in Buffalo, Nashville, and Waco. Our review included examination of relevant education program documentation, records and reports from VBA information systems, and public Internet reports discussing the emergency payment initiative. We obtained information on student enrollment from Pikes Peak Community College in Colorado Springs, a location identified in the complaint. We also reviewed applicable laws, regulations, and policies.

Data Reliability

To determine the extent of the improper emergency payments, we reviewed various VBA education electronic records and performed data mining. Our analysis included comparing emergency payment records provided by VBA with information in BIRLS, education systems, and additional payment records prepared by VBA. VA education databases contain numerous records of applications and end products for persons who were not approved or did not enroll in a VA education program. Accordingly, our classification of payment recipients as eligible for advance payments included review of enrollment certifications for the fall term provided by schools in the VA Once system and records of VBA education payments between August 2009 and March 4, 2010, when the fall workload processing was presumably complete. Due to limited data concerning the eligibility of emergency payment recipients, some of the recipients we classified as participating in VA education programs may have only enrolled in the spring 2010 term.

Inspection Standards

OIG coverage of the Post-9/11 GI Bill has continued from October 2008 through the present. We reviewed the emergency payment initiative between January and July 2010 in accordance with the President's Council for Integrity and Efficiency's Quality Standards for Inspections.

Appendix B Background

Implementation of the Post-9/11 GI Bill

The Post-9/11 Veterans Educational Assistance Act of 2008, enacted in June 2008, required VA to begin paying benefits for the new program in August 2009. VA initiated this effort in October 2008 as a joint project supported by VBA and the VA Office of Information and Technology. Program staffs were originally stationed at VBA Education Service's four regional processing offices located in Atlanta, Buffalo, Muskogee, and St. Louis.

The Post-9/11 GI Bill program substantially revised educational benefits for military service during the Post-9/11 era. The law was designed to cover the costs of qualified beneficiaries to attend state and participating private institutions of higher learning. Whereas previous education programs provided only monthly stipends directly to students, the Post-9/11 GI Bill required VA to make multiple payments for a range of education-related purposes. These included, following enrollment, paying schools for tuition and fees and students for books and supplies, as well as paying students monthly for housing. Maximum tuition and fees are set by the states and vary significantly from state to state. For example, in 2009 maximum tuition per credit hour ranged from \$93 in South Dakota to \$1,471 in Texas. Monthly housing allowance rates in 2009, which varied from \$739 in Paducah, KY, to \$2,763 in San Francisco, CA, corresponded to rates set by the Department of Defense for an Army Sergeant or equivalent with dependents. VA reported providing \$4.3 billion in Post-9/11 GI Bill benefits to 310,098 students through August 2, 2010.

Implementation Challenges

The Post-9/11 GI Bill required VA to plan and implement the new, complex education program within 13 months. When the law was enacted, VBA did not have a process in place to implement it, and VA's legacy information systems could not support the claims processing requirements. In addition, VA had limited trained staff to develop the needed information technology systems. To implement the law, VA initially sought to outsource the processing of Post-9/11 GI Bill claims to a contractor. However, in October 2008, VA abandoned its outsourcing plan after not receiving sufficient proposals.

VA then adopted a dual strategy for implementing the program. As an Interim Solution, VA hired a temporary workforce and developed software internally. For the longer term, VA entered into an agreement with the Space and Naval Warfare Systems Command to develop the Long Term Solution software by December 2010 to increase automation of the claims approval process.

The Interim Solution, a joint project supported by VBA and the Office of Information and Technology, was a significant challenge for VA. In order to begin accepting applications by May 2009, VBA had to design and implement a new claims process, double the size of its education workforce, and train its staff. The Office of Information and Technology, which had limited staff trained for system development, had to create two new software applications to process claims and make payments. In addition, it had to develop interfaces with 10 existing information systems. Because of limited development resources, project complexity, and time constraints, the Interim Solution software could only provide basic functionality and required extensive manual processing by claims examiners.

**Emergency
Payments for
Education
Benefits**

Emergency payments were authorized for participants in the following VA education programs:

- Post-9/11 GI Bill
- Montgomery GI Bill—Active Duty
- Montgomery GI Bill—Selected Reserve
- Reserve Education Assistance Program
- Post Vietnam Era Educational Assistance Programs

The VA emergency payment initiative occurred between October 2009 and February 2010. During this period, VBA increased its processing capacity to reduce its education claims backlog and improve timeliness for recent education claims. In October 2009, VBA added processing sites in Columbia and Philadelphia. By November 2009, additional sites were added in Seattle, Phoenix, and San Diego. VA has an interagency agreement with a Navy Command to develop a replacement system known as the Long Term Solution for providing these benefits. However, VBA continues to rely on a temporary workforce using a mostly manual process while the Long Term Solution is under development.

**Related VA OIG
Coverage**

We began monitoring VA's implementation of the Post-9/11 GI Bill in October 2008 and provided quarterly results to Congressional and VA staff beginning in January 2009. Monitoring highlights included risks caused by excessive use of limited schedule for planning, limited functionality available through internal software development, and VBA's repeated delays in validating its staffing assumptions. In November 2009, we began an audit of the timeliness and accuracy of initial claims and payments. In January 2010, we began an audit of the development process for the Long Term Solution.

Appendix C Monetary Benefits in Accordance with IG Act Amendments

Explanation of Benefits	Better Use of Funds	Questioned Costs
We estimate VA will experience between \$75 and \$100 million in unrecoverable debt expense as a result of its emergency payment initiative for education benefits. The mid-point of our estimate range is \$87 million. VA incurred this expense to mitigate hardship to veterans caused by untimely processing of education claims.		\$87 million
Total	0	\$87 million

Appendix D Agency Comments

**Department of
Veterans Affairs**

Memorandum

Date: September 3, 2010

From: Acting Under Secretary for Benefits (20)

Subj: OIG Draft Report – Review of Alleged Improper Emergency Payments for Education Benefits – VAIQ #7017372

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

1. Attached is VBA's response to the OIG's Draft Report – Review of Alleged Improper Emergency Payments for Education Benefits.
2. Questions may be directed to Kurt Hessling at 461-9072.

(original signed by:)

Michael Walcoff

Attachment

**Veterans Benefits Administration
Comments on OIG Draft Report
Review of Alleged Improper Emergency Payments for Education Benefits**

The Veterans Benefits Administration (VBA) concurs with OIG's finding that VA provided 35,000 emergency payments to ineligible persons. However, we provide the following additional information to more fully describe the situation and circumstances leading to the Department's strategic decision to issue emergency advance payments and accept the risk associated with reliance on Veterans' self certification of school attendance in making those payments. We believe it is essential to understand the urgency of the situation that led to this decision and the absolute commitment of VA's leadership to take every possible step to alleviate the financial burdens on our Veterans caused by payment delays.

VBA Comment 1: Recognizing the events leading up to this decision is important to understanding why VA was willing to accept the risks associated with it. Enactment of the Post-9/11 Educational Assistance Act on June 30, 2008, gave VA approximately 13 months to develop a new, highly complex eligibility and payment system for hundreds of thousands of claimants who would be eligible to receive benefits under the new program on August 1, 2009. To meet this challenge, VA began development of an interim claims processing solution to support what are primarily manual processes, while simultaneously developing a long-term rules-based processing solution in cooperation with the Space and Naval Warfare Systems Center Atlantic (SPAWAR). The interim processing solution functionality was designed in three separate phases. Each phase delivered a specific set of functionalities for claims examiners to manually process Post-9/11 GI Bill claims with some IT augmentation. However, development of the interim solution was more challenging than anticipated, given the complexity of the new program and the reduced timeline for delivery. Prior to the August 1 implementation, two phases of the interim solution were delivered. Phase three, which provided increased functionality and additional automation for processing Post-9/11 GI Bill claims, was originally scheduled for deployment in September 2009, but was delayed until November 2009.

VA employees were required to manually process Post-9/11 GI Bill claims using four separate IT systems that do not interface with each other (TIMS, the Front End and Back End Tools of the Interim Solution, and the legacy Benefits Delivery Network). The interim solution had limited capability for processing the multiple scenarios encountered in determining eligibility and entitlement under the new program. As a result, VA developed multiple job aids or out-of-system tools and spreadsheets to calculate award information. Payment information had to be separately calculated and entered in order to issue payments through BDN. As a result, the time to complete a Post-9/11 GI Bill claim was significantly longer than the processing time for other education benefits.

Under other VA education benefit programs, VA permitted schools to submit enrollment certifications as early as 120 days prior to the start of classes. Due to system limitations, schools could not begin electronic certification of enrollment for Post-9/11 GI Bill until early in July 2009. Because the August 1 program implementation date fell in the middle of some school terms and many students were enrolled in another education program such as the Montgomery GI Bill-Active Duty (MGIB-AD), VA had to determine rates payable to students in school on August 1, 2009, under two separate benefit programs and pro-rate Post-9/11 GI Bill benefits. Further complicating the claims process was overlapping terms. It is not uncommon for many students to enroll in courses that begin and end in overlapping time periods at different schools. Processing these claims involved additional manual calculations for the overlap as well as separate payments going to more than one school.

Adding to an already challenging situation, the new benefit program requires VA to determine maximum tuition and fee rates for each state before the beginning of each academic year. Schools do not typically set their tuition and fee rates until state support is determined for the academic year. Many states did not pass their operating budgets until late July/early August. Correspondingly, institutions could not set tuition and fee rates until late August. Delays in determining the 2009-2010 maximum tuition and fee rates delayed submission of enrollment certifications for students attending school in those states.

In addition, VA had to train newly hired employees on the interim processing solution during the fall enrollment period. This includes the 530 term employees hired in December 2008, and an additional 230 term employees provided by Congress under the American Recovery and Reinvestment Act (ARRA).

These extraordinarily challenging circumstances resulted in high pending workloads and delayed benefit payments in all of our education programs by the end of September. VA had to take quick action to pay Veterans. The news media was reporting that students needed funds in order to remain enrolled in school, and highlighted Veterans who were unable to make housing or rent payments. On September 25, VA made the decision to issue emergency advance payments to Veterans who certified that they were attending school and had not yet received their VA benefits for the fall enrollment period. Although there were inherent risks in this decision, VA was responding to the immediate needs of Veterans' who were in extremely difficult financial circumstances and dependent on receiving their earned benefits to pay their living expenses and stay in school.

VBA Comment 2: The OIG report concludes that lack of controls contributed to improper payments to ineligible recipients. Initially, VA planned to distribute advance payments only to Veterans who appeared in-person at one of VA's regional offices and

provided documentation of their enrollment. However, because many Veterans in critical need of funds would not be able to travel to our regional offices, VA addressed this problem through development of a web portal to allow electronic submission for advance payment. The web portal, of necessity, relied on Veterans' self-certification of their eligibility for VA education benefits and enrollment in school for the fall 2009 term. Because VA's processing systems as described above were not designed to support the Post-9/11 GI Bill, VA did not have an automated source of data against which we could verify eligibility or enrollment for the fall 2009 term before issuing the advance payments. Additionally, for the reasons mentioned previously, VA had not processed applications or received school enrollment information for many of the Veterans who were attending school and therefore entitled to, and in need of, advance payment funds.

Enrollment documents for nearly 100,000 Veterans attending school under the Post-9/11 GI Bill in the fall 2009 term were received during the months of October through December and even into the spring 2010 term. To have verified eligibility prior to issuing advance payments as is suggested in the OIG report would have required that we make many thousands of contacts with school officials in order to obtain enrollment information and then basically complete the processing of the Veterans' applications and enrollment documents (a process that was taking VA on average 35 days). Clearly this was not feasible if we were to provide Veterans with the funds they so urgently needed.

In the months following initiation of the advance pay program, VA worked to obtain files and data from each of the four systems used in the processing of Post-9/11 GI Bill claims and bring them into its data warehouse. This enabled us to formulate queries and conduct data runs and matches to identify those advance pay recipients who clearly met the eligibility requirements and those who do not appear to have been eligible. However, this capability was not available to us when we began the advance payment program, and it essentially provides an "after-the-fact" assessment of advance pay recipients' eligibility.

We believe it is also relevant to highlight a few of the activities that were planned and executed within the one-week implementation timeframe that demonstrate the complexity of the advance pay initiative and the success of VA's planning efforts:

- Requirements were defined, contractor support acquired, and an on-line application built for submission of advance payment requests.
- A batch payment process was established for on-line requests that required coordinated actions by the website contractor, VBA's Data Warehouse, Hines IT Center, Hines Finance Center, Education Service, and U.S. Treasury.

- A waiver was obtained from Treasury to issue 3rd party bank drafts through an existing VA US Bank account, and a financial agent agreement established with US Bank enabling payments to be disbursed.
- Procedures and certification processes were provided to regional office employees responsible for issuing advance payments locally, and 80,000 paper checks were procured and distributed to regional offices.
- A VBA-wide reports engine was created for regional office employees to record payments issued locally and to provide data to validate payments with the US Bank system.
- Access to the U.S. Bank system was obtained for direct employee input of local checks issued. Guidance, training, and system access was provided to employees at all regional offices.
- Detailed eligibility information, including Q&As, was posted on VA's websites and information disseminated to school certifying officials.
- On the first two days, over 14,000 checks were locally issued to Veterans, and many hundreds of calls fielded in our regional offices and VBA Headquarters from banks seeking verification of those checks.
- A 1-800 call-in number for banks to verify checks, connecting directly to VA employees in Headquarters and our four Area Offices who had access to the US Bank system as well as VA official records of checks issued. This information was posted on VA's websites and also on the US Bank website.
- VA worked with Treasury to send a message to all financial institutions, encouraging their support in providing access to funds.

VBA Comment 3: The OIG report concludes that critical weaknesses in VA's communications with the public contributed to improper payments to eligible recipients. However, as was found by the OIG, many ineligible advance pay recipients submitted false information concerning their school attendance when they were in fact not enrolled, which would clearly indicate that they understood that the advance payments were meant for individuals attending school. VBA therefore does not agree that it was communications weaknesses that led to the high volume of on-line applications from ineligible service members and Veterans in late December and early January.

We believe the intent of the advance payment program was clear in the statements on the first page of the website application.

“Secretary of Veterans Affairs Eric K. Shinseki has authorized advance payments up to \$3,000 for Veterans who have applied for VA educational benefits and who have not yet received their monthly education payments.

If you are a Veteran who has applied for one of VA’s education programs and have not yet received your monthly benefit payment for the Fall 2009 term, you can submit a request for an advance payment on this website.”

Additionally, the advance pay applicant was required to identify the name of the school he/she was attending, indicate whether attending full time or part time, and certify that the information provided on the application was true and correct.

The OIG found that 412 of 468 ineligible advance pay recipients falsely certified they were enrolled at Pikes Peak Community College. We believe these false statements are evidence that the applicants understood the intent of the program. These false statements do, however, point out the vulnerabilities resulting from VA’s need to rely on a self-certification process.

While the emergency payments were not initially meant for individuals on active duty, VA did not prevent active duty members who were enrolled in school under one of VA’s education programs and needing their VA funds to pay their tuition costs from applying for and receiving an advance payment. VA education payments to active duty members attending school were delayed just as were payments to Veterans, and therefore many active duty members were also in need of emergency payments to cover their school expenses.

VBA Comment 4: The OIG estimated loss of approximately \$87 million in unrecoverable debts out of the total \$356 million issued in emergency payments. VBA believes this estimate to be high.

The OIG’s methodology for determining the rate of unrecoverable debt does not appear to be precise enough to support the numerical estimate of \$87 million. In particular, it is based on the historical recovery rate for all types of education debt, rather than for advance payments alone. Moreover, there is no actual connection indicated between the historical rate and the estimate of between 21 and 28 percent of all emergency payments being unrecoverable. Since \$253 million was paid to recipients who were determined to be eligible for the benefits on which the advance was based, nearly all of this amount should be recoverable. In addition, \$60 million was paid to ineligible active duty members, from whom collection efforts should be mainly successful, and who are likely eligible for VA education programs and will apply in the future, even though they were not enrolled during the fall 2009 term. Additionally, many of these individuals may establish eligibility for VA disability benefits following separation, which can be offset to apply to education debts. Only 12 percent

of payments (\$43 million) went to recipients with no future education benefits eligibility or who may pose other major obstacles to recovery.

VBA response to the recommendation in the OIG draft report:

Recommendation: We recommend the Acting Under Secretary for Benefits develop a contingency plan for additional emergency payments that includes effective communication of eligibility requirements and adequate controls to prevent payments to ineligible persons.

VBA Response: Although VBA does not believe that another emergency advance payment program will be needed, we concur in the recommendation and will develop a contingency plan. In this first year of implementation of the Post-9/11 GI bill, we have processed over 650,000 applications to determine eligibility and found nearly 580,000 individuals eligible for the program. We now have this eligibility information available to us in our data warehouse for matching purposes, as well as award and payment information for 340,000 Veterans who have received Post-9/11 GI Bill benefits since August 1, 2009. The availability of these data files will enable us to conduct eligibility verifications prior to issuance of advance payments, should another advance payment program be needed.

Projected Completion Date: September 30, 2010

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