

DOCUMENT RESUME

04403 - [B3434699]

[Financial Controls Exercised by the Veterans Administration over the Predischarge Education Program]. HRD-78-20; B-140300. December 8, 1977. 9 pp. + 2 enclosures (5 pp.).

Report to Max Cleland, Administrator of Veterans Affairs, Veterans Administration; by Gregory J. Ahart, Director, Human Resources Div.

Issue Area: Federally Sponsored or Assisted Education Programs (3300); Personnel Management and Compensation (300); Federal Procurement of Goods and Services (1900).

Contact: Human Resources Div.

Budget Function: Veterans Benefits and Services: Veterans Education, Training, and Rehabilitation (702); National Defense: Department of Defense - Military (except procurement & contracts) (031); National Defense: Department of Defense - Procurement & Contracts (058).

Organization Concerned: Department of Defense.

Congressional Relevance: House Committee on Veterans' Affairs; Senate Committee on Veterans' Affairs.

Authority: Veterans Education and Training Amendment Act of 1970 (P.L. 91-219). P.L. 92-540. P.L. 94-502.

A review of the financial controls exercised by the Veterans Administration (VA) over the Predischarge Education Program (PREP) showed that nine schools and two consultants accumulated an estimated \$9.9 million in surplus funds. Findings/Conclusions: The surpluses, which represent excess VA payments over costs incurred after October 1972 when legislation established reasonable costs as the basis for VA payments to PREP projects, occurred because VA did not have sufficient financial controls to assure that such payments approximated reasonable costs. The VA should recover the surplus funds; any unused inventories may be of use to the Department of Defense (DOD) or disposed of according to General Services Administration procedures. Recommendations: The VA should: conduct or provide audits of the nine schools and two consultants GAO visited to establish the amount of recoverable surplus; conduct or provide audits, as appropriate, at the remaining 200 schools to identify whether additional recoverable surpluses exist; take action to recover those surplus funds that have been identified; and determine if the unused PREP inventories at Olympic College can be used by DOD for its military personnel still in training. If PREP resumes as planned in 1979, the VA should issue regulations which clearly define the types and amounts of PREP costs for which reimbursement will be made and make appropriate audits of schools' and consultants' PREP financial records to determine if there is compliance with appropriate regulations. Before the VA resumes operation of PREP, it should determine, in conjunction with DOD, the need to participate in this type of program. If DOD is providing this

type of training, the VA should develop an appropriate legislative proposal to remove PREF from VA statutes and eliminate future VA activities in the program. (SC)

4-229



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

04403
HUMAN RESOURCES
DIVISION

8 DEC 1977

B-140300

The Honorable Max Cleland
Administrator of Veterans Affairs
Veterans Administration

Dear Mr. Cleland:

We have reviewed the financial controls exercised by the Veterans Administration (VA) over the Predischarge Education Program (PREP). We analyzed the program's financial data at nine schools and at the offices of two consultants, who were associated with some of these schools, and estimate that they accumulated \$9.9 million in surplus funds.

These surpluses represent excess VA payments over cost incurred after October 1972, when legislation established reasonable cost as the basis for VA payments to PREP projects. The surpluses occurred because VA did not have sufficient financial controls to assure that such payments approximated reasonable costs. We believe that VA should recover most of these surplus funds.

VA's administration of PREP has ceased but it is scheduled to resume about 1979. It is possible that if the program resumes as planned, duplication of effort may occur between VA's program and similar Department of Defense (DOD) programs.

BACKGROUND

The Veterans Education and Training Amendment Act of 1970 (Public Law 91-219) created PREP to provide active duty military personnel with courses for a secondary school diploma and for prerequisites for postsecondary education. The act required that VA pay PREP participants an educational assistance allowance equal to (1) the established charge for tuition, fees, books, and supplies, which the educational institution required of nonveterans of similar circumstances enrolled in the same or a similar program or (2) \$175 per month for a full-time course, whichever was less.

HRD-78-20

Public Law 92-540 (Oct. 24, 1972) amended the 1970 act by authorizing VA to reimburse education or training institutions for the reasonable cost of PREP, when they did not have similar programs. The law also increased the maximum monthly payment to \$220 for PREP participants.

Public Law 94-502 (Oct. 15, 1976) prohibited PREP enrollment after October 31, 1976, except for participants in the Post-Vietnam Era Veterans' Educational Assistance Program, and then only during the last 6 months of their first enlistment. A VA official informed us that all PREP operations have now ceased. The program is not due to resume until about 1979, when servicemen again become eligible for the program. At present DOD is funding similar educational programs to replace PREP for its active duty members.

ACCUMULATED SURPLUSES

In April 1977 we requested VA's General Counsel to comment on the recoverability of two types of surpluses we found at the schools reviewed. (See enc. I.)

- PREP payments made by VA in excess of PREP costs and
- Unused PREP books, supplies, and equipment retained by schools after PREP terminated.

VA's General Counsel replied in June 1977 that both types of surpluses were refundable to the extent that they were accrued after the enactment of Public Law 92-540 and were the result of applying a fixed rate to cover reasonable PREP costs. (See enc. II.) VA and school officials informed us that all nine schools were charging a fixed rate on October 24, 1972; therefore, any surpluses accrued after that date are refundable.

Of the nine schools where we identified surpluses, four had agreements for private consultants to provide many PREP services. Consultant duties included:

- Assisting in obtaining permission to place and maintain educational facilities and personnel on military bases and vessels.
- Purchasing, warehousing, and furnishing texts, materials, and supplies.

- Developing programs.
- Training administrators and teachers.
- Maintaining offices on military bases and naval vessels.
- Maintaining a complete accounting and financial reporting system, including student registration, enrollment, and termination data.
- Preparing tuition collection, rebate, and refund reports.

For these services consultants received up to 85 percent of VA's PREP payments to the four schools.

Where consultants were involved, schools were typically responsible for (1) arranging and maintaining State and VA approval of the program; (2) maintaining academic records, including course outlines and student transcripts; (3) supervising programs to assure maintenance of quality of instruction; and (4) hiring and compensating instructors.

Where consultants were not involved, the schools performed all of the duties cited above. The VA General Counsel's office said that since the consultants acted in place of the school, they may be subject to the same requirements as the schools; therefore, surpluses accumulated by consultants after October 24, 1972, may also be refundable.

The following table shows estimated VA payments, costs, and surpluses of the nine schools and two consultants. Some of these could not provide us with complete PREP financial data at the time we completed our fieldwork in July 1977.

<u>Schools</u>	<u>Estimated</u>		<u>Total</u>
	<u>Payments</u>	<u>Costs</u>	
	<u>received</u>	<u>incurred</u>	
	(000 omitted)		
American Preparatory Institute (Killeen, Tex.)	\$ 4,682	\$ 4,378	\$ 304
Barstow Community College (Barstow, Calif.)	221	168	53
Big Bend Community College (Moses Lake, Wash.)	16,549	12,127	4,422
Concordia College (Milwaukee, Wis.)	104	32	72
Ft. Steilacoom Community College (Tacoma, Wash.)	2,832	2,768	64
Gavilan Joint Community College District (Gilroy, Calif.)	1,009	782	227
Olympic College (Bremerton, Wash.)	5,619	4,614	1,005
St. Louis High School (Honolulu, Hawaii)	2,404	1,318	1,086
San Diego Community College District (San Diego, Calif.)	<u>3,400</u>	<u>3,163</u>	<u>237</u>
Total	<u>36,820</u>	<u>29,350</u>	<u>7,470</u>
 <u>Consultants</u>			
Concordia PREP program (Bremerton, Wash.): at Concordia	1,263	1,251	12
ModuLearn, Inc. (San Juan Capistrano, Calif.): at Barstow	470	261	209
at Gavilan	2,004	1,409	595
at St. Louis	<u>7,384</u>	<u>5,679</u>	<u>1,705</u>
Total	<u>11,121</u>	<u>8,600</u>	<u>2,521</u>
Total for schools and consultants	<u>\$47,941</u>	<u>\$37,950</u>	<u>\$9,991</u>

Surpluses at all of these schools, except Olympic College, represent reported payments received, less costs. In the case of Olympic College, however, the surplus also includes

PREP funds expended for non-PREP purposes	\$341,000
Unused PREP inventories (at cost)	<u>153,000</u>
Total	<u>\$494,000</u>

Expenditures for purposes other than PREP but charged to PREP included such things as TV studio equipment, cameras, stereo consoles, furniture, athletic equipment, and automotive testing equipment. Inventory consisted of such things as new and unused books, test materials, tape recorders, and self-instructional material.

VA's General Counsel advised us that since there is limited opportunity to use such PREP resources, VA would consider our suggestions on their disposition.

None of the schools' or consultants' financial records we reviewed had final financial statements for PREP expenditures. Closeout costs, such as the microfilming of PREP records and unemployment compensation for terminated PREP employees, were still being incurred at the time we completed our fieldwork. We could not accurately calculate these costs, but consultants' and school officials' estimates indicate that future closeout costs at all nine schools will not exceed a total of about \$1.4 million. Also, in some cases there were substantial receivables and payables which, in the aggregate, generally offset each other but may significantly affect the surpluses of some individual schools and consultants.

Conclusions

We believe that VA should recover surplus funds accumulated after October 24, 1972, by schools and consultants participating in PREP. Any unused inventories may be of use to DOD or disposed of according to General Services Administration procedures. We believe, however, that there could be a final VA audit before seeking recovery action because in some cases, closeout costs, receivables, and payables had not been settled at the time we completed our fieldwork. These transactions should now be substantially completed.

Also since there were about 200 schools involved in PREP, there may be more surpluses than those we identified. Therefore, we believe that VA should conduct audits of these schools, as appropriate, to determine if surpluses exist. We recognize that it may not be practical to audit all schools.

A decision regarding which schools to audit must be based on the potential amount of recovery and the audit resources available. Our experience indicates that a school with adequate financial records can be audited in about 10 staff days.

Recommendations

We recommend that VA

- conduct or provide audits of the nine schools and two consultants we visited to establish the amount of recoverable surplus,
- conduct or provide audits, as appropriate, at the remaining 200 schools to identify whether additional recoverable surpluses exist,
- take action to recover those surplus funds that have been identified, and
- determine if the unused PREP inventories at Olympic College, Bremerton, Washington, can be used by DOD for its military personnel still in training or disposed of under appropriate General Services Administration procedures.

INADEQUATE FINANCIAL CONTROLS

Surpluses have been accumulated by PREP schools and consultants because VA did not exercise two essential elements of financial control to assure that payments to schools reimbursed them for only reasonable costs.

First, VA did not issue regulations limiting the types and amounts of costs that schools and consultants could charge for providing PREP services. As VA's General Counsel stated in his June 13, 1977, letter (see enc. II), the intent of Public Law 92-540 is clear--that payments for PREP should reimburse schools for reasonable costs incurred, without the schools incurring either a profit or a loss. Without the benefit of implementing regulations, schools and consultants charged their PREP accounts for a variety of types and amounts of costs.

Second, a VA official told us that VA did not make audits of schools' and consultants' financial records to determine if PREP payments equaled reasonable costs. VA officials told us

that as a result, they were unaware of the amount of surpluses accumulated by some schools and consultants and did not request refunds. In the absence of periodic financial audits and requests for refunds, some school officials and consultants considered the surpluses "earned profits," "a proper reward for the risk involved," or "a surplus that is ours to keep."

Conclusions

Significant amounts of surplus funds have been accumulated by PREP schools and consultants because VA has not (1) issued regulations defining the types and amounts of PREP costs for which reimbursement could be received and (2) made audits of schools' and consultants' financial records to determine if it was reimbursing them only for reasonable costs.

Recommendations

If PREP resumes as planned, we recommend that VA

- issue regulations which clearly define the types and amounts of PREP costs for which reimbursement will be made and
- make appropriate audits of schools' and consultants' PREP financial records to enable VA to (1) determine if there is compliance with appropriate regulations and (2) take the necessary steps to gain compliance, where lacking.

FUTURE OF PREP

VA's PREP operations have been suspended but are due to resume about 1979. In the interim DOD received congressional approval to reprogram about \$50 million of its fiscal year 1977 and 1978 appropriations to expand its own high school completion and remedial education programs to replace PREP. In some cases DOD is using the same schools that were affiliated with VA.

According to Public Law 94-502, when PREP is again implemented, it will be available only to eligible military personnel during the last six months of their first enlistment.

DOD officials informed us that they prefer their military personnel to receive PREP-type training early in their enlistment because it is more beneficial to the armed services. They, therefore, make this type of training available throughout the enlistment period.

Conclusion

If VA resumes PREP as planned, the probability exists that DOD and VA will be making similar high school completion and remedial education programs available to military personnel. DOD prefers its military personnel to not wait until the last 6 months of their first enlistment to take this type of training and, therefore, offers it throughout the enlistment period.

Recommendations

We recommend that before VA resumes operation of PREP, it determine, in conjunction with DOD, the need for it to participate in this type of program.

We also recommend that if it is determined that DOD is providing this type of training, VA develop an appropriate legislative proposal to remove PREP from VA statutes and eliminate future VA activities in the program.

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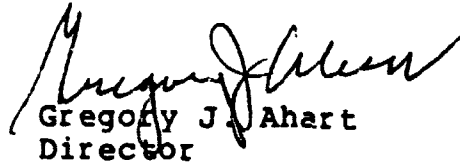
The contents of this report have been discussed with VA's Office of General Counsel and representatives of the Department of Veterans Benefits. Also some of its contents have been discussed with DOD officials. The comments received have been considered in preparing this report.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

We are sending copies of this report to the Chairmen of the House and Senate Committees on Appropriations, House Committee on Government Operations, Senate Committee on Governmental Affairs, and House and Senate Committees on Veterans' Affairs; the Director of the Office of Management and Budget; and the Secretary of Defense.

We appreciate the cooperation provided by VA officials during our review. We will be pleased to meet with your office to discuss the audit techniques we employed as well as to provide additional data on the schools and consultants holding surpluses.

Sincerely yours,



Gregory J. Ahart
Director

Enclosures - 2



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

April 6, 1977

Mr. Guy H. McMichael, III
General Counsel
Veterans Administration

Dear Mr. McMichael:

During our current survey of VA's Predischarge Education Program (PREP), we noted instances where schools had (1) used PREP funds for non-Program purposes, (2) Program funds and resources after Program termination, and (3) earned excessive profits from Program operations.

We request that you provide us with a statement of VA's position on recovering such misused and surplus funds and resources. Please relate your position to the following areas noted during our survey.

- Unused general Program funds and contingency fund balances.
- Excess profits.
- Program funds and resources used for non-PREP purposes.
- Unused PREP resources on hand after Program termination, i.e., books, supplies, vehicles, typewriters, audio-visual systems, and other equipment.

We have discussed the recovery of such resources with Mr. Robert Dysland, your Deputy Assistant. Also, we have talked with Mr. John Rowsey, Department of Veterans Benefits, regarding relevant PREP regulations and guidelines.

Inasmuch as our survey is well underway, we would appreciate it if you could provide us with VA's position paper as soon as possible. If you have any questions, please contact Mr. Thomas A. Quarry at 389-5287.

Sincerely yours,

George D. Peak
Assistant Director

cc: Mr. Busbes (IAS)



VETERANS ADMINISTRATION
OFFICE OF GENERAL COUNSEL
WASHINGTON, D.C. 20420



June 13, 1977

IN REPLY
REFER TO:
021

Mr. George D. Peck
Assistant Director
Human Resources Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Peck:

This will respond to your letter of April 6, 1977, requesting the views of the Veterans Administration on recovery of misused and surplus funds and resources from schools who were engaged in Pre-discharge Education Program (PREP) education. You specifically ask for our position on the following areas:

1. Unused general Program funds and contingency fund balances.
2. Excess profits.
3. Program funds and resources used for non-PREP purposes.
4. Unused PREP resources on hand after Program termination, i.e., books, supplies, vehicles, typewriters, audio-visual systems, and other equipment.

At the time the PREP program was enacted into law by Public Law 91-219, the Congress provided a program calling for reimbursement to the school for the cost of tuition, fees, books, and supplies. Under the provisions set forth in section 1696(b) of title 38, United States Code, the school was not permitted to make charges in excess of the

"To care for him who shall have borne the battle, and for his widow, and his orphan." - ABRAHAM LINCOLN

Mr. George D. Peck
Washington, D. C.

established and customary charges for similarly circum-
stanced nonveterans. The House-Senate conferees, in their
report to the House and Senate on H. R. 11959 (House
Report 91-918, p. 14) stated:

"It is the purpose of this new program to assist active duty servicemen in preparing for their future education and training by providing certain remedial and refresher-type training prior to the servicemen's discharge from service. This program permits the Administrator of Veterans' Affairs to make necessary payments directly to the serviceman, these payments being intended for reimbursement to the educational institution for the cost of tuition, fees, books, and supplies. The educational institution is not permitted to make charges of the serviceman in excess of established and customary charges for similarly circumstanced nonveterans. On the other hand, the program contemplates that participating educational institutions will be able to recoup the full, reasonable costs entailed in providing pre-discharge education or training. Although it is recognized that some institutions may not generally charge tuition or fees for regular courses, it seems unreasonable that such institutions would be expected to provide special programs, such as PREP, without charging enrolled students appropriately." (Emphasis supplied.)

In the enactment of Public Law 92-540, effective October 24, 1972, the Congress amended section 1696(b) to grant the Administrator, where there was no same program, the authority to "establish appropriate rates for tuition and fees designed to allow reimbursement for reasonable costs for the education and training institution." (Emphasis supplied.)

Mr. George D. Peck
Washington, D. C.

With these basic provisions of law in mind, it is our view, with respect to your first question, that unused general program funds and contingency fund balances are subject to refund to the Veterans Administration in the same manner as excess profits/surplus accrued after the effective date of a "fixed rate" after October 24, 1972, the effective date of Public Law 92-540 cited above. We do believe, however, that a reasonable and fair interpretation should be applied in determining close-out costs as schools discontinue their programs.

Concerning excess profits/surplus accrued after October 24, 1972, in the operation of programs for which there was a "fixed rate," any such moneys should be refunded to the Veterans Administration. The cost determination leading to fixed rates was applied after that time to newly established programs or to a request for an increase in a rate which had previously been accepted as a "same program." (There were approximately 200 schools which offered PREP programs.) It is our view that the law all along has provided for reimbursement of costs. However, we also believe that the intent of the law is clear--no profit, no loss.

The reimbursement feature of the law and control as to its application has been provided in Program Guide 21-1, Change 197 (Section M-37 dated August 13, 1973), Change 198 (Section M-42 dated September 7, 1973), and Change 208 dated October 31, 1974) (copies enclosed). The efforts of the Veterans Administration to protect the school against the contingency of unknown, but allowable expenses, was covered by Paragraph 13 of Change 208--a 5 percent contingency allowance when surplus funds from a past period were used as an offset in the rate established for a later period.

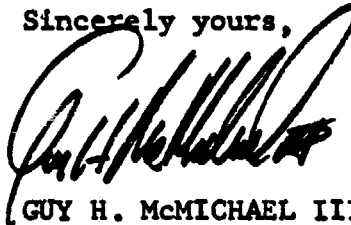
Mr. George D. Peck
Washington, D. C.

We believe that program funds and resources used for non-PREP purposes should be disallowed to the extent that they affected surplus/profit that accrued after the date of a "fixed rate," which could be as early as October 24, 1972, the date of enactment of Public Law 92-540.

Unused PREP resources on hand after program termination, i.e., books, supplies, vehicles, typewriters, audio-visual systems, and other equipment, represent a surplus in the same manner as excess profits. Because of limited opportunity for use, we would have no objection to such disposition as the General Accounting Office finds appropriate.

We hope that our views on the points you have raised in your letter will be helpful to you in your surveys of PREP schools.

Sincerely yours,



GUY H. McMICHAEL III
General Counsel