

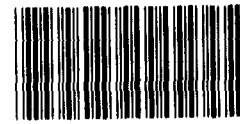
GAO

Report to the Chairman, Subcommittee
on Military Personnel and
Compensation, Committee on Armed
Services, House of Representatives

August 1990

FINANCIAL MANAGEMENT

DOD and VA Need to Improve Operation of the Montgomery GI Bill Reserve Program



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Accounting and Financial
Management Division

B-240092

August 8, 1990

The Honorable Beverly B. Byron
Chairman, Subcommittee on Military Personnel
and Compensation
Committee on Armed Services
House of Representatives

Dear Madam Chairman:

This letter is in response to your request for us to review the Montgomery GI Bill Reserve Program, which is intended to provide education benefits to eligible military reservists. The Program is administered by the Department of Defense (DOD) and the Department of Veterans Affairs (VA). In establishing the Program, the Congress also established the DOD Education Benefits Fund, which VA uses to pay the monthly benefits. The military services fund all education benefits through their military pay appropriations by making monthly contributions to the Fund.

Because of concerns about the operation of the Program, you asked us to assess (1) the timeliness and accuracy of the eligibility data that DOD submits to VA, (2) the plans DOD has underway or planned for improving the timeliness and accuracy of eligibility data, (3) the accuracy of DOD's contributions to the Fund, and (4) efforts to collect amounts owed the government by Program participants.

As of September 30, 1989, about 117,000 reservists were receiving benefits through the Program. In fiscal year 1989, about \$82 million was obligated for the Program.

Results in Brief

From the beginning of the Program, DOD has had problems reporting timely and accurate eligibility data to VA. For the period September 1988 through March 1989, DOD records indicated that it was taking an average of 91 to 351 days to submit eligibility data to VA. DOD was also submitting inaccurate and incomplete data to VA. The personnel responsible for processing and reporting the data to VA lacked adequate knowledge of the eligibility criteria and the data codes used to report changes in eligibility. DOD has acknowledged these problems, and the reserve components have initiated efforts to resolve them. However, these efforts will not fully correct the problems.

In addition, because the reserve components did not determine their monthly contributions to the Fund in accordance with the prescribed definition, inaccurate contributions have been made to the Fund. Further, debts owed by reservists to the government were not being collected. DOD and VA have not agreed on who is responsible for collecting amounts owed by reservists who breach their 6-year contractual agreements, and VA has not pursued the collection of \$10 million in overpayments to reservists.

Background

Benefits from the Program are available to reservists who, after June 30, 1985, (1) enlisted, reenlisted, or extended an enlistment for a commitment of at least 6 years or (2) were appointed as, or were serving as, reserve officers and agreed to serve in the reserves for an additional 6 years. Reservists are eligible to receive benefits provided they have a high school diploma or equivalent; are pursuing, but have not yet received, an undergraduate degree; and have completed initial active duty training.

When a reservist meets these eligibility requirements, a notice of basic eligibility is issued which shows the (1) date the reservist became eligible for benefits, (2) requirements for basic eligibility as well as for continuing benefits, and (3) amount of monthly entitlement. To receive initial benefits, a reservist must present to the local VA regional office the notice of basic eligibility, an application for VA benefits, and a certification of enrollment from the college or university the reservist plans to attend. Simultaneously, the eligibility information should be submitted to the Defense Manpower Data Center by the reserve units, through the military services personnel centers using the various DOD systems. The Center is responsible for submitting the eligibility data to VA.

In addition to meeting initial eligibility requirements, reservists must maintain their eligibility by (1) satisfactorily participating in unit drills and other required training and (2) meeting the academic requirements of the college or university they are attending. Reserve units are required to notify the Defense Manpower Data Center of reservists who fail to participate satisfactorily in required drills. Participating colleges and universities are also required to notify VA when a reservist's enrollment status changes. Based on information provided by the military services and the participating colleges and universities, VA initiates, changes, and terminates education benefits. Reservists have up to 10 years from the date they first become eligible to receive benefits.

Objectives, Scope, and Methodology

The objectives of our review were to assess (1) the timeliness and accuracy of the eligibility data that DOD submits to VA, (2) the plans DOD has underway or planned for improving the timeliness and accuracy of eligibility data, (3) the accuracy of DOD's contributions to the Fund, and (4) efforts to collect amounts owed the government by Program participants.

To assess the timeliness and accuracy of eligibility data submitted to VA, we reviewed DOD's policies, procedures, and processes used to submit eligibility data to VA. We also reviewed reports that DOD uses to monitor the Program. The reports identified the processing time for transactions by the various services and the accuracy of eligibility data reported to VA. We did not verify the accuracy of this data. We also reviewed reports submitted by DOD to the Congress and interviewed DOD officials regarding problems that they had encountered in submitting timely and accurate data. We discussed with DOD officials the various efforts underway or planned to improve the timeliness and accuracy of the eligibility data.

To assess the accuracy of DOD's contributions to the Education Benefits Fund, we reviewed DOD's criteria and procedures for computing and making the contributions to the Fund. We also discussed with DOD officials efforts underway to develop better criteria for computing the contributions to the Fund.

To assess efforts to collect amounts owed the government by Program participants, we reviewed VA's accounting policies and practices for recording and collecting overpayments. By matching data obtained from DOD and VA, we determined the number of individuals who had breached their 6-year contractual agreements to serve in the reserves and the amount these individuals may owe the government. In addition, at VA's St. Louis Regional Office, which has primary responsibility for collecting these overpayments, we discussed with VA officials the procedures they follow in attempting to collect amounts owed by Program participants.

We performed work at the headquarters of DOD, the Army, the Navy, the Air Force, and VA, in Washington, D.C., and at the reserve units and VA regional offices listed in appendix I. We judgmentally selected at least one unit from each of the following six reserve components—Army Reserve, Army Guard, Air Force Reserve, Air Guard, Navy Reserve, and Marine Reserve. The units selected had at least 10 VA outstanding receivables totaling at least \$4,500. Since the eligibility information for all

units in each component flows through the same systems en route to VA, we limited our review to one unit per component.

Our review was performed in accordance with generally accepted government auditing standards. The views of responsible DOD and VA officials were sought during the course of our work and are incorporated where appropriate.

DOD Has Not Provided Timely and Accurate Eligibility Data to VA

Since the beginning of the Program in July 1985, DOD has not submitted timely and accurate eligibility data to VA. VA depends on DOD to provide eligibility data to initiate payments, to make changes and corrections, and to terminate benefits. However, according to DOD, it has been taking an average of 91 to 351 days to submit eligibility data to VA. Part of the problem can be attributed to incompatibility between DOD and VA systems. Because the systems are not compatible, the eligibility data must be transferred between various systems, which is a time-consuming process. Another contributing factor has been that individuals responsible for submitting the eligibility data to VA have not been properly trained.

DOD has acknowledged these problems, and the reserve components have initiated actions to resolve them. While most of these actions will help improve the data accuracy, the timeliness of the data submitted to VA will continue to be a problem because of system incompatibility.

Eligibility Data Not Being Reported in a Timely Manner

DOD has long recognized the need for a financial management system capable of providing VA eligibility data by the time reservists apply for benefits. DOD directed the Defense Manpower Data Center, which is responsible for maintaining a data base that contains the records of all reservists and submitting to VA eligibility data provided by the military services, to develop and implement a system that would more readily provide such data. In its fiscal years 1987 and 1988 reports to the Congress on the status of the Program, DOD stated that it needed a system capable of more readily conveying eligibility data to VA. Moreover, in responding to a February 1988 congressional inquiry regarding the administration of the Program, DOD's Acting Deputy Assistant Secretary (Guard/Reserve Manpower and Personnel) stated that an improved system was necessary to satisfy the Program's reporting requirements.

The Acting Deputy Assistant Secretary also pointed out that delays in developing an improved system had caused DOD and VA to institute temporary measures to ensure that reservists' benefits were paid. DOD and

VA agreed in late 1986 to a 6-month "grace period" in which benefits were paid to all individuals who had been issued a notice of basic eligibility, regardless of whether DOD's data base reported these individuals as eligible. This measure resulted in overpayments because ineligible individuals were receiving benefit payments. To reduce the overpayment problem, the grace period was reduced from 180 to 120 days in September 1987. In its fiscal year 1987 report to the Congress, DOD stated that the grace period was only a temporary measure and might be discontinued by the end of fiscal year 1988 or soon thereafter. This procedure is still being used.

Since DOD and VA systems are not compatible, eligibility data must be transferred to and from each system—a time-consuming effort. According to the Defense Manpower Data Center, the processing and reporting of eligibility data to VA through these various systems took from 91 to 351 days, depending on the service. From September 1988 through March 1989, only one of the six DOD reserve components—the Army Guard—consistently reported eligibility data within the 120-day grace period. The Army Guard reporting time ranged from 91 to 119 days; the Army Reserve, reporting time ranged from 223 to 296 days; the Navy Reserve, from 212 to 351 days; the Marine Reserve, from 160 to 249 days; the Air Guard, from 105 to 209 days; and the Air Reserve, from 96 to 145 days.

In April 1989, after more than 3 years of effort, the Defense Manpower Data Center terminated the system development project. According to DOD and VA officials, the effort was discontinued because the development of such a system would not have been cost-effective.

Inaccurate and Incomplete Data Submitted to VA

DOD has also experienced problems in submitting accurate and complete eligibility data to VA. Due to inaccurate reporting, benefit payments to many eligible reservists have been delayed. For example, a September 1988 Defense Manpower Data Center report showed that benefit payments to 4,756 (5 percent) of the 91,558 eligible reservists had been delayed because DOD had inappropriately reported them as ineligible. Further, a March 1989 report showed that while a slight improvement had been made, inaccurate reporting was still a problem. The March report showed that payments to 4,843 (4.5 percent) of the 106,195 eligible reservists had been delayed due to inaccurate eligibility reporting.

The reporting of incomplete data by the services has also been a problem. When the data are not sufficient to determine whether a

person is eligible to receive benefits, the individual is classified as "unknown." As shown in table 1, based upon information obtained from the Defense Manpower Data Center, three reserve components had problems in reporting complete eligibility data in March 1988. The other three components—Army Guard, Air Force Guard, and Air Force Reserves—had an incomplete data rate of 2 percent or less for the March 1988 and February 1989 time periods.

Table 1: Incomplete Eligibility Data Reported to VA in March 1988

Components	Number of applicants	Cases with incomplete data	
		Number	Percent
Navy Reserve	149,095	46,685	31
Marine Reserve	42,070	8,975	21
Army Reserve	315,129	49,380	16
Total	506,294	105,040	23

Eligibility data for February 1989 showed that the Marine Reserve had made significant improvements in submitting complete data. The Marine Reserve's incomplete data rate decreased from 21 percent in March 1988 to less than 1 percent. According to the Marine Reserve's program manager, this improvement was related to DOD's April 1988 mandate that reserve components eliminate all incomplete data from financial management systems by December 1988. The Army and Navy Reserves, although somewhat improved, were still experiencing difficulty. The Army Reserve rate decreased from 16 percent to 11 percent, and the Navy Reserve rate decreased from 31 percent to 20 percent.

Accurate reporting of eligibility data primarily depends on having personnel knowledgeable of the Program's requirements and the procedures for collecting, processing, and reporting the data. DOD and service officials have acknowledged that inadequately trained personnel have contributed to the inaccurate reporting of eligibility data. For example, in its fiscal year 1988 report to the Congress on the Program, DOD reported that unreliable data resulted from (1) misunderstanding of eligibility criteria and (2) data coding errors by personnel responsible for collecting, processing, and reporting the data. In addition, in an April 1990 letter to the Chairman, Subcommittee on Education, Training and Employment, House Committee on Veterans' Affairs, the Assistant Secretary of Defense acknowledged that all responsible personnel in the field have not received adequate training on program administration and on data reporting procedures. As a result, erroneous and incomplete data are entered into the system.

We were told of the following problems at four of the reserve units we visited.

- Army Reserve officials at the unit we visited stated that eligibility data are processed by reservists—on weekends—who have had no formal training. According to the Personnel Officer, these individuals received about 30 minutes of on-the-job training. The Army Reserve program manager attributed the Reserve's overall eligibility data problem to poorly trained personnel who were responsible for processing eligibility data.
- At the Army Guard unit we visited, data processing responsibilities had been taken from the unit clerks and given to trained personnel at a higher level because the unit clerks had been submitting inaccurate data to VA. The clerical specialist responsible for processing eligibility data for Army Guard members in Ohio stated that prior to our visit in April 1989, she had processed 2,000 to 3,000 transactions correcting inaccurate data previously reported to VA. She further stated that during 1 week in March 1989, she processed about 400 transactions correcting errors that were previously reported.
- At the Air Guard unit we visited, we were informed by unit personnel that responsible individuals were not fully cognizant of how the program functioned or how to make accurate eligibility determinations. They had inaccurately reported some reservists as eligible based on estimated future eligibility dates. Specifically, they had computed eligibility dates as the estimated date the reservists completed either their 180 days in the reserves or their initial active duty training, instead of using the date the reservists actually completed their initial active duty training.
- The Navy Reserve Command we visited had administrative responsibility for 43 reserve units. The individuals responsible for processing and reporting eligibility data said that in determining initial eligibility, they had erroneously substituted completion of the reservists' 2 weeks of required annual training to qualify them for benefits.

Efforts to Improve Timeliness and Accuracy of Eligibility Data

To their credit, the reserve components have efforts underway aimed at improving the timeliness and accuracy of the eligibility data submitted to VA. Their efforts are summarized below.

Army Reserve and Guard

In March 1988, the Army Guard centralized certification of the notice of basic eligibility at the State Guard level under more experienced and knowledgeable personnel to improve the quality of the eligibility data.

In addition, the Army Reserve and Guard are planning to develop a new automated system, referred to as the Reserve Component Automation System. Implementation of this system, in which critical management information will be entered at the unit level, is scheduled for 1996.

Air Reserve and Guard

The Air Force is planning a new automated system for the Air Reserve and Guard. This system is referred to as the Personnel Computer Concept, Third Generation. According to an Air Force official, when the system is fully automated, eligibility data will be entered at each unit, rather than at one of the Air Force's 40 major personnel offices. Implementation of this system is scheduled for fiscal year 1990.

In September 1988, the Air Reserve started tracking its eligibility data for timeliness. The Air Reserve upgraded its system to include the program's ineligible codes and 26 edit codes. According to an Air Force official, each edit code is related to a data element so that the system can highlight errors by data element. This official also stated that their system's software included on-line edits which highlight incorrect entries and display screen notices when incorrect entries are entered in the system.

Navy Reserve

In June 1989, the Navy implemented a new automated management information system called R-STARS. This system is designed to provide field locations the capability of reporting reserve data directly to the Navy Reserve Personnel Center in New Orleans. According to Navy officials, the system is programmed to accumulate the data needed to generate the notice of basic eligibility. In addition, in April 1988, the Navy Reserve began an extensive training program on the proper procedures for processing and reporting eligibility data. The Reserve trained personnel at 114 of its 350 major field activities during fiscal years 1988 and 1989. The Navy plans to conduct training at 17 locations during fiscal year 1990.

Although the reserve components have efforts underway or planned to improve the quality of data submitted to VA, DOD has not developed a comprehensive plan to oversee these efforts. In an April 1988 memorandum, DOD directed each reserve component to improve the quality of eligibility data. However, DOD's oversight to ensure that appropriate action was taken was limited. For example, between the April 1988 memorandum and November 1988, the DOD action officer for these improvements changed, and the current action officer was not aware of the memorandum until we brought it to his attention. He also was not

aware of the improvements being made by some of the reserve components.

In April 1990, following a congressional inquiry and based on our briefing of DOD officials on the results of our review of the Program, the Assistant Secretary of Defense issued a memorandum to the assistant secretaries of the military services. The memorandum stated that the preliminary results of our review indicated that the training programs for those individuals who administer the Program at the reserve units are often deficient. The Assistant Secretary directed a review of the controls in place to ensure that personnel thoroughly understand the eligibility requirements and that eligibility data are properly entered into the system.

Contributions to the DOD Education Benefits Fund Are Inaccurate

DOD has established two elements for computing contributions to the DOD Education Benefits Fund: the manpower population count and the per capita normal cost.¹ The DOD Board of Actuaries, which was established by the Montgomery GI Bill Reserve Program legislation, is responsible for defining how the reserve components determine the manpower population count and for determining the per capita normal cost.

The DOD Comptroller is responsible for issuing guidance to the military services to implement the Board's determination. We found that the military services have not applied the manpower population count as prescribed, and the DOD Board of Actuaries has been unable to develop a reliable per capita normal cost. As a result, the monthly contributions to the Fund have been inaccurate.

Manpower Population Count Not Applied Properly

Since the Program's inception, DOD has encountered problems in correctly computing the contributions to the DOD Benefits Education Fund.

¹The manpower population count consists of (1) individuals who as of July 1, 1985, enlisted, reenlisted, or extended an enlistment in the reserve for a period of not less than 6 years and (2) individuals who are appointed as, or serving as, reserve officers and agreed to serve in the reserves for a period of not less than 6 years, in addition to any other period of obligated service. The per capita normal cost is defined as the present value of future benefits payable to members who become entitled to benefits during the current year. In establishing the annual per capita normal cost, four elements must be considered: (1) the number of reservists expected to use the benefits, (2) time and frequency of benefit payments, (3) estimate of the percentage of total available benefits that will be used by each reservist, and (4) interest that is expected to accrue to the Fund.

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- In February 1986, the DOD Office of the Actuary identified and reported that incorrect contributions had been made to the Fund.
 - In a March 1986 memorandum to the Assistant Secretaries of the Military Departments (Financial Management), the Washington Headquarters Service Director of Budget and Finance stated that (1) adjustments to the Fund could not always be traced back to the specific month to which they applied and (2) the fiscal year 1985 per capita normal cost had been used to make contributions for fiscal year 1986.
 - In an August 1986 memorandum to the Assistant Secretary of Defense for Force Management and Personnel, the Deputy Assistant Secretary of Defense (Resource Management and Support) pointed out problems involving the use of incorrect per capita normal cost and numerous arithmetic errors. As a result, the military services were required to deposit an additional \$4 million into the Fund. Also, the memorandum noted that in June 1986, the DOD Comptroller discovered that the military services had used an incorrect population count. As a result, additional deposits of about \$62 million were required. In addition, because these funds were not deposited when required, the Fund lost an estimated \$2.5 million in interest.

We found that some problems still exist. The reserve components were not determining the manpower population count in accordance with the prescribed definition, resulting in inaccurate contributions to the Fund. The program managers responsible for making the monthly contributions for the Marine Reserve and Army Guard stated that they were not aware of DOD's manpower population count guidance and thus had applied their own procedures in determining the manpower population count. We reviewed the calculations made by the Air Guard, Air Reserve, and Army Reserve and found that they were not determining the manpower population count correctly.

- The Air Guard did not include accurate data in its manpower population count. For example, instead of entering the date reservists signed their contracts, the date the information was entered into the system was used to compute the 6-year commitment. As a result, the system would show that the individuals had not met their 6-year commitment, and they were excluded from the manpower population count.
- The Air Reserve used the first day of the month that contract data were entered into its system, instead of the actual contract date, as the basis for calculating who met the 6-year commitment requirement. Consequently, contract data not entered into the system during the same

month the contract was signed were excluded from the manpower population count as the system would show that the reservists had not met their 6-year commitment.

- The Army Reserve did not count some prior-service contracts or any extensions or reenlistments that brought reservists' contractual agreements up to the 6-year requirement.

Reliability of Per Capita Normal Cost Is Questionable

In determining the per capita normal cost, the DOD Board of Actuaries relies on various information such as (1) the assumed yield on investments, (2) actual usage rates, and (3) expected number of participants. However, at the beginning of the Program, no historical data were available to determine a reliable per capita normal cost. This resulted in unreliable monthly contributions being calculated. DOD was aware that the per capita normal cost has been unreliable and, starting in fiscal year 1990, DOD began using a new model—developed by the DOD Office of Actuary—for determining the per capita normal cost.

According to a DOD Office of Actuary official, the new model used information maintained in the DOD Reserve Components Common Personnel Data System to determine the per capita normal cost. However, this system is the same system that receives and maintains the inaccurate and incomplete eligibility data previously discussed. An Office of Actuary official acknowledged the problem with accuracy of the data in the system. However, the official stated he believed that the portion of the data that they used for fiscal year 1990 is accurate, but did not provide any information to substantiate his position. Further, the official stated that the Office of Actuary had not tested the data prior to using them in determining the fiscal year 1990 per capita normal cost.

The Defense Manpower Data Center file manager—custodian of the Reserve Components Common Personnel Data System—stated that concerns had been raised to DOD about the accuracy of the data being used in the new model. She stated that there have always been concerns about the overall accuracy of the data contained in the system because the data provided by the military services are generally bad and the system serves only as a conduit for the services' systems.

Amounts Owed by Program Participants Are Not Collected

DOD and VA have not ensured that all debts owed by Program participants are properly recorded and pursued for collection. DOD and VA have not reached agreement on who is responsible for collecting amounts owed by participants who breach their 6-year contract. By matching information obtained from DOD and VA, we identified over 8,200 individuals that may owe the government about \$6 million. This amount has not been recorded in DOD's or VA's accounting records. In addition, VA has not pursued collection of another \$10 million owed by Program participants.

Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies and 4 C.F.R. Section 102 (1985) outline the procedures to be followed in attempting to collect amounts owed to the government. Title 2 requires that federal agencies record receivables to maintain accountability over assets. It also requires that agencies record amounts due from others as an asset when the event giving rise to such claim is completed. Further, 4 C.F.R. Section 102.1 stipulates that federal agencies' collection efforts be aggressive, timely, and comprehensive and lead to the earliest practical collection from the debtor.

Also, Office of Management and Budget Circular A-129, "Managing Federal Credit Programs," prescribes policies and procedures for managing federal credit programs and for collecting loans and other receivables. It also establishes certain accounting and reporting requirements and provides management guidance on extending credit, servicing accounts, collecting delinquent receivables, and writing off uncollectible accounts.

Lack of Agreement on Collection of Amounts Due From Breach of Contracts

As of June 1990, DOD and VA had not reached agreement on who is responsible for collecting amounts owed by individuals who breach their 6-year contractual agreements. DOD has acknowledged that at least \$1.4 million was due the government from these individuals. We believe that as much as \$6 million may be owed the government by these individuals.

A key requirement for education benefits is that enlisted reservists agree, by contract, to stay in the reserves for at least 6 years. This commitment may consist of a reenlistment or an extension to an existing enlistment that adds up to 6 years. For example, an enlisted member who has 4 years remaining on an existing enlistment may extend that enlistment for 2 years and meet the 6-year requirement. For reserve officers, however, the 6-year contract must be in addition to any existing contractual obligation. Individuals who leave the reserves

before completing their contractual agreement may be required to repay a prorated portion of the benefits they received.

We reviewed DOD records to identify those reservists who terminated their service prior to completing their required commitment. As of March 1989, we determined that 8,227 individuals had left the reserves prior to completing their 6-year commitment. Based upon these records and data received from VA, we determined that the individuals could owe the government about \$6 million. In performing our analysis, we excluded those individuals that did not complete their 6-year commitment but were excused from repaying any of the benefits received in accordance with the criteria governing the Program.

DOD identified 1,876 individuals who had breached their contracts as of March 1990 and owed the government approximately \$1.4 million. These individuals were identified as having breached their contracts because their respective reserve units reported them as unsatisfactory participants (those reservists who have nine or more unexcused absences in a 12-month period). However, because DOD relies on the reserve units' reporting of unsatisfactory participants, it was not aware of the additional cases that we identified by analyzing DOD's records.

DOD's Program instructions, issued in June 1985, stated that responsibility for collecting amounts due because of breached contracts would be addressed in a memorandum of understanding with VA. However, at the time of our review, almost 5 years later, no agreement had been reached. In addition, these amounts have not been recorded as receivables in either DOD's or VA's accounting records. In discussing the results of our review with DOD and VA officials, they stated that a memorandum of understanding was being developed to address the collection of these amounts.

VA Has Not Pursued the Collection of Program Debts

VA's procedures specify that debt collection efforts should be prompt and should include effective follow-up, using every reasonable means to collect the amounts outstanding. However, we found that VA had not been pursuing amounts owed by terminated Program participants, as stipulated in their debt collection procedures.

As of March 1989, VA's outstanding receivables for inactive cases—excluding the \$6 million discussed above—totaled over \$10 million. VA classifies inactive cases as those in which the individual is no longer receiving benefits. The \$10 million included

- about \$4 million in receivables resulting from delays by educational institutions in reporting changes in reservists' academic enrollment status, and
- over \$6 million in receivables resulting from inaccurate, incomplete, and delayed reporting of eligibility information by DOD.

VA's "Collection Standards" stipulate that when a debtor's whereabouts are unknown, VA collection personnel should use telephone and city directories, employers, Postal Service records, drivers license records, and state and local government records, in attempting to locate the individual. We were informed by VA's St. Louis Regional Office—the office responsible for collecting debts related to inactive cases—that these resources had not been used to locate debtors.

VA's collection efforts of the \$4 million in outstanding receivables that resulted from changes in academic enrollment consisted of issuing three demand letters to the reservist's latest address of record. After sending the letters, VA generally referred receivables of \$600 or more to the appropriate VA District Counsel for collection action through the court system. Until March 1989, overpayments of \$200 or more were referred to the District Counsel. Those receivables valued at \$200 or less were allowed to accumulate from July 1985 to August 1988, when VA for the first time referred most of them to the Internal Revenue Service (IRS) for offset against available tax refunds.

In attempting to collect the \$6 million that resulted from inaccurate and incomplete data reported by DOD, VA sent the three demand letters. VA officials stated that they had not aggressively pursued these receivables because a collection regulation for the Program had not been developed. They felt a regulation was needed because (1) the amounts owed involved DOD and a new program and (2) VA's existing regulations did not apply to the collection of these receivables. VA allowed these receivables to accumulate from July 1985 to August 1988, when it referred most of them to IRS for offset.

IRS regulations stipulate that an agency should refer the debtor to a credit bureau prior to referring the debts to IRS for offset. However, we found that for the Program debts discussed above, VA had not referred the debtors to a credit bureau.

Conclusions

DOD's financial management systems do not provide VA the eligibility information it needs to initiate benefit payments by the time reservists

apply for benefits. The data must be entered and processed by several systems before being submitted to VA. Efforts are underway or planned to improve the timeliness of the data being submitted. However, since these system improvement efforts will not provide information directly to VA, timeliness will continue to be a problem. DOD also has had problems in providing VA accurate eligibility data. The reserve components have efforts underway or planned to improve the quality of the eligibility data submitted to VA. However, to date, only the Navy has developed a program for training its personnel in the proper procedures for processing the data.

We also found that inaccurate contributions have been made to the DOD Education Benefits Fund because the military services have not followed established criteria. Specifically, the military services are not applying the Board of Actuaries guidance for calculating the manpower population count in a consistent manner. Also, DOD plans to use information in the DOD Reserve Component Common Personnel Data System to improve the per capita normal cost calculation. However, concerns have been raised about the accuracy of the data contained in the system.

In addition, DOD and VA officials have not agreed on who is responsible for recording and collecting debts that arise when individuals breach their 6-year contracts. We estimated that as much as \$6 million may be owed by these individuals as of March 1989. In addition, neither DOD or VA has recorded in their accounting records the amount outstanding related to breached contracts. Also, another \$10 million owed by Program participants for other reasons has remained outstanding because VA has not pursued collection of these amounts as required by its own debt collection procedures and those of IRS.

Recommendations

To improve the efficiency of the Program, we recommend that the Secretary of Defense establish controls to ensure the following:

- Accurate eligibility data should be submitted to VA. At a minimum, such controls should include the training of individuals responsible for collecting, processing, and reporting eligibility data.
- The military departments should compute the manpower population count in accordance with DOD instructions.

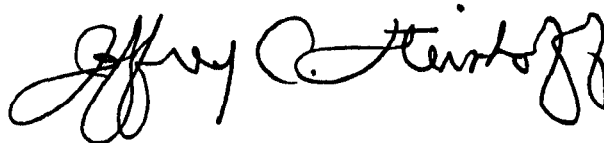
Further, we recommend that the Secretaries of Veterans Affairs and Defense establish who will be responsible for collecting amounts owed by reservists who breach their contractual agreements.

We also recommend that the Secretary of Veterans Affairs direct VA's debt collection personnel to (1) pursue the collection of amounts owed the government by program participants through the use of debt collection tools outlined in VA's "Collection Standards" and (2) adhere to IRS regulations by referring the debtor to a credit bureau prior to submitting Program debts to IRS for offset.

As you requested, we did not obtain written agency comments on a draft of this report. However, the results of our review were discussed with responsible DOD and VA officials, and their comments were incorporated where appropriate. We are sending copies of this report to the Secretary of Defense; the Secretary of Veterans Affairs; and the Secretaries of the Air Force, Army, and Navy. Copies will be made available to others upon request.

Please contact me at (202) 275-9454 if you or your staff have any questions concerning the report. Major contributors to this report are listed in appendix II.

Sincerely yours,



Jeffrey C. Steinhoff
Director, Financial Management
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Organizations and Locations Visited During Our Review

Army Reserve Personnel Center, St. Louis, MO

97th Army Reserve Command, Ft. George Meade, MD

Headquarters, First U.S. Army, Ft. George Meade, MD

Sheridan U.S. Army Reserve Center, Baltimore, MD

Ohio National Guard Headquarters, Columbus, OH

Ohio National Guard Armory, Walbridge, OH

Headquarters and Headquarters Company, 612th Engineer Battalion, Walbridge, OH

Air National Guard Support Center, Andrews Air Force Base, Washington, DC

Headquarters 104th Tactical Fighter Group, Barnes Municipal Airport, Westfield, MA

Naval Reserve Administration Office, Andrews Air Force Base, Washington, DC

U.S. Marine Aircraft Group-49, Detachment, Fourth Marine Aircraft Wing, Naval Air Station, South Weymouth, MA

VA Office of District Counsel, St. Louis, MO

VA St. Louis Regional Office, St. Louis, MO

VA Boston Regional Office, Boston, MA

VA Cleveland Regional Office, Cleveland, OH

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