Audit Report

OFFICE OF THE INSPECTOR GENERAL

CONTRIBUTIONS AND FINANCIAL REPORTING FOR THE DOD EDUCATION BENEFITS TRUST FUND

Report No. 94-052 March 11, 1994

Department of Defense

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Acronyms

DFAS	Defense Finance and Accounting Service
DMDC	Defense Manpower Data Center
DVA	Department of Veterans Affairs
MGIB	Montgomery GI Bill

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

March 11, 1994

MEMORANDUM FOR COMMANDANT OF THE MARINE CORPS
ASSISTANT SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS
ASSISTANT SECRETARY OF DEFENSE FOR RESERVE AFFAIRS
COMPTROLLER OF THE DEPARTMENT OF DEFENSE
CHIEF OF THE ARMY RESERVE
COMMANDER OF THE NAVAL RESERVE FORCE
CHIEF OF THE AIR FORCE RESERVE
CHIEF OF THE NATIONAL GUARD BUREAU

SUBJECT: Audit Report on Contributions and Financial Reporting for the DoD Education Benefits Trust Fund (Report No. 94-052)

We are providing this final report for your review and comments. The report discusses matters concerning contributions DoD Components made to the DoD Education Benefits Trust Fund and financial reporting requirements relating to that fund for the DoD and the Department of Veterans Affairs.

Comments on a draft of this report were considered in preparing the final report. As a result of comments received, part of one recommendation was redirected.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that those identified on the chart at the end of each finding provide comments on the unresolved recommendations by May 9, 1994. Charts, entitled "Response Requirements for Each Recommendation," give the specific requirements for your comments. Recommendations are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Raymond D. Kidd, Program Director, at (703) 614-1682 (DSN 224-1682) or Mrs. Saundra G. Elion, Project Manager, at (703) 693-0469 (DSN 223-0469). Copies of the report will be distributed to the organizations listed in Appendix C. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 94-052 March 11, 1994
(Project No. 2FH-2009.01)

CONTRIBUTIONS AND FINANCIAL REPORTING FOR THE DOD EDUCATION BENEFITS TRUST FUND

EXECUTIVE SUMMARY

Introduction. The DoD Education Benefits Trust Fund (the Fund) was established by Public Law 98-525, the "Montgomery GI Bill Act of 1984," to fund education benefits for active and reserve military personnel. Each Service component contributes to the Fund based on a per capita rate developed by the Office of the DoD Actuary.

In FY 1992, the Fund had revenue of $98.3 million and paid $170.4 million to 143,000 individual participants. The revenue consisted of $41.3 million of contributions from the Services and $57.0 million of interest earned on Department of the Treasury securities. As of September 30, 1992, the Fund had $692.3 million of assets.

Objective. This report supplements IG, DoD, Audit Report No. 93-137, "DoD Education Benefits Fund Financial Statements for FY 1992," June 30, 1993, by providing details of internal controls that the DoD needs to strengthen. The objective of the portion of the audit dealt with in this report was to determine whether internal controls over the Fund were adequate to ensure that the Fund was actuarially sound and that assets were properly accounted for.

Audit Results. Although the Fund was actuarially sound, internal controls over the Fund were inadequate and assets were not properly accounted for.

o Reserve components based FY 1992 contributions to the Fund on unsupported transactions. As a result, the DoD had no assurance that the contributions were accurate (Finding A).

o The DoD did not obtain complete information from the Department of Veterans Affairs on expenditures and receivables. As a result, the DoD had no assurance that Fund assets were used as required by law (Finding B).

Internal Controls. Material internal controls weaknesses existed in the way the Reserve components made contributions to the Fund and in the way financial data were reported. Part I, "Internal Controls," summarizes the controls that were assessed. Findings A and B contain details on weaknesses found.

Potential Benefits of Audit. We did not identify any potential monetary benefits that could be derived from correcting those weaknesses. Other potential benefits resulting from this audit are detailed in Appendix A.

Summary of Recommendations. We recommended that the DoD clarify its policy for making contributions to the Fund and make implementing instructions consistent with DoD policy. We also recommended that the DoD establish requirements for reporting financial data for the Fund and include those requirements in the interagency agreement with the Department of Veterans Affairs.

Management Comments. We did not receive comments from the Comptroller of the Department of Defense. The Assistant Secretary of Defense for Reserve Affairs' comments were not responsive to our recommendation to revise DoD Instruction 1322.17. The Chief of the Army Reserve, the Deputy Assistant Secretary of the Navy for Reserve Affairs,* the Deputy Director of Personnel of the Air Force Reserve, and the Chief of the National Guard Bureau concurred with our recommendation to count and reconcile transactions to a listing of eligible participants. The Assistant Secretary of Defense for Personnel and Readiness concurred with the finding and partially concurred with our recommendation to establish financial reporting requirements. A full discussion of managements' comments and audit responses is in Part II, and the complete text of managements' comments is in Part IV of this report.

We request that the Assistant Secretary of Defense for Personnel and Readiness, the Assistant Secretary of Defense for Reserve Affairs, the Comptroller of the Department of Defense, and the Chief of the National Guard Bureau provide comments on the unresolved recommendations and that the Commandant of the Marine Corps and the Commander of the Naval Reserve Force provide us with completion dates for agreed-upon actions. Comments are requested by May 9, 1994.

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*The Deputy Assistant Secretary of the Navy for Reserve Affairs commented for the Commandant of the Marine Corps and the Commander of the Naval Reserve Force.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

The DoD Education Benefits Trust Fund (the Fund) was established by Public Law 98-525, the "Montgomery GI Bill Act of 1984," to finance education benefits for active and reserve military personnel. The Montgomery GI Bill (MGIB) allows active duty members to earn basic educational benefits as well as additional incentives if they enlist in certain military occupational specialties that are difficult to fill. Members of the Selected Reserve of the Ready Reserve who sign obligations for at least 6 years can also receive MGIB education benefits.

Each Service component makes contributions to the Fund based on projections made annually by the Office of the DoD Actuary. The Defense Finance and Accounting Service (DFAS)-Cleveland Defense Accounting Office administers the Fund (receives contributions, makes investments, disburses funds to the Department of Veterans Affairs [DVA], and prepares accounting reports and financial statements).

Management of the MGIB is highly decentralized and involves several DoD offices as well as the DVA. The Assistant Secretary of Defense for Personnel and Readiness provides overall policy guidance for the MGIB, while the Assistant Secretary of Defense for Reserve Affairs provides policy guidance for the portion of the program that applies to the Reserves. Each Service component issues regulations related to its respective personnel. The DVA makes all benefit payments.

Specific data needed to determine eligibility and benefits are maintained on automated personnel systems within each Service. The data are transferred each month to the Defense Manpower Data Center (DMDC) located in Monterey, California. The DMDC provides eligibility data to the DVA and receives data on benefit payments from the DVA. Data contained in the MGIB file at the DMDC is also used by the Office of the DoD Actuary to establish contribution rates for each Service component.

In FY 1992 the Fund had revenues of $98.3 million and paid $170.4 million in education benefits to 143,000 individual participants, including active duty members of the Army and Navy, as well as eligible Reservists. Revenue for FY 1992 consisted of $57.0 million in interest from securities issued by the Department of the Treasury and $41.3 million from Service contributions. As of September 30, 1992, the Fund had $692.3 million of assets.

Objectives

This report supplements IG, DoD, Audit Report No. 93-137, "DoD Education Benefits Trust Fund Financial Statements for FY 1992," June 30, 1993. Both reports stem from an audit required by the Chief Financial Officers Act of 1990. The overall audit objectives were to determine whether the FY 1992 financial statements were fairly presented, determine whether internal controls were adequate, assess compliance with laws and regulations, and determine the reliability and usefulness of the financial statements. The specific objective dealt with in this report was whether internal controls over Fund contributions were adequate to ensure that the Fund was actuarially sound and assets were properly accounted for.

Scope and Methodology

The portion of the financial statement audit that this report discusses included a review of procedures used by each Service component that made contributions during FY 1992. Specifically, with assistance from the Service components, we evaluated the computer programs Service components used to query the data bases and other procedures Service components used to calculate monthly contributions. We reached conclusions based on our analysis of the computer programs, discussions with Service component personnel, and comparisons of the listings we requested from each Service component to DoD's contribution criteria. We determined that computer-processed data on which contributions were based were not reliable (see Finding A for details). We also reviewed the procedures used to report financial data between the DoD and the DVA accounting offices.

In FY 1992, Service components contributed $41.3 million, and the DVA paid $170.4 million in benefits. Table 1 gives details.

Table 1. Contributions and Expenditures Made During FY 1992
($ millions)

Service Component	Contributions	Expenditures
Army	$ 0	$ 67.9
Army Reserve	20.2	26.0
Army National Guard	0	39.7
Navy	2.2	4.0
Naval Reserve	2.6	8.6
Marine Corps Reserve	8.0	10.0
Air Force Reserve	1.7	5.6
Air National Guard	6.6	8.6
Total	$41.3	$170.4

The Army did not make contributions in FY 1992 because the DoD Authorization Act stated that the Army could not use Army appropriations to make contributions to the Fund. The Army National Guard did not make contributions because the Office of the DoD Actuary determined that the Army National Guard had overcontributed in previous years.

We performed this financial related audit from March 1992 to June 1993, in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and accordingly included such tests of internal controls as were considered necessary. Organizations visited or contacted during the portion of the audit dealt with in this report are listed in Appendix B.

Internal Controls

We identified material internal control weaknesses in the Reserve components' contribution procedures and in DoD's reporting of financial data as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. The weaknesses occurred because the DoD had errors in the computer programs as well as invalid information (Finding A), and financial reporting requirements had not been established (Finding B). Recommendations A.3., B.1. and B.2. in this report, if implemented, will assist in correcting the weaknesses. We evaluated the Naval Reserve Force's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act. We found that since the MGIB program requirements were only a small part of much larger

information systems at the Naval Reserve, the Federal Managers' Financial Integrity Act process would not necessarily detect weaknesses in the MGIB program. We therefore, focused our internal control review on evaluating the specific controls and systems that each Service component established to make contributions to the Fund.

We did not identify any potential monetary benefits; however, other potential benefits resulting from this audit are detailed in Appendix A, "Summary of Potential Benefits Resulting from Audit." Copies of the report will be provided to the senior officials responsible for internal controls.

Prior Audits and Other Reviews

General Accounting Office Report No. AFMD-90-30 (OSD Case No. 83-90), "DoD and VA Need to Improve Operation of the Montgomery GI Bill Reserve Program," August 1990, stated that the DoD did not report timely and accurate eligibility data to the DVA, Reserve components did not make accurate contributions to the Fund, the per capita normal cost calculated by the Office of the DoD Actuary was unreliable, and neither the DoD nor the DVA collected penalties owed by program participants.

The DoD partially concurred with the findings and recommendations. The DoD believed that since the DVA administers the MGIB, the DVA was responsible for collecting penalties. Further, the DoD did not believe that two Government agencies should collect debt from one person for the same program. Despite those DoD reservations, the Naval Reserve tested the feasibility of the DoD collecting penalties. The DoD concluded that it could not effectively collect penalties.

The Office of the Assistant Inspector General for Analysis and Followup, Department of Defense, concluded that the DoD had appropriately implemented the recommendations on eligibility data and contributions.

Although the DoD implemented procedures for making contributions, those procedures were not adequate. The problems we found with contributions are discussed in Finding A. The recommendation on collecting penalties has not been resolved and has delayed implementation of a signed agreement between the DoD and the DVA.

Part II - Findings and Recommendations

Finding A. Contributions to the Fund

The Reserve components based FY 1992 contributions to the DoD Education Benefits Trust Fund on unsupported transactions. The unsupported transactions occurred because the DoD guidance on criteria for transactions for which contributions were to be made was subject to misinterpretation. Also, transactions were not supported because Reserve components had not developed instructions for making contributions or verifying that the total number of computer-generated transactions counted matched the eligible 6-year commitment records. As a result, the DoD had no assurance that contributions or actuarial projections were accurate. Also, when components undercontributed, the Fund lost interest income, while components that overcontributed lost the opportunity to finance other Reserve requirements.

Background

Most Reserve components developed computer programs to query their automated personnel data bases on a monthly basis to determine the total number of 6-year commitment transactions for which they should make contributions. After the transactions were counted, the resulting number was multiplied by the contribution rate developed by the Office of the DoD Actuary to arrive at the contributions due. The Reserve components then authorized their respective Defense Finance Accounting Service (DFAS) Centers to transfer those contributions to the Fund.

Contribution Requirements

The basic requirements for making contributions to the Fund are addressed in 10 U.S.C. 2006. That guidance requires the DoD to finance the Fund on an actuarially sound basis. Within the DoD, the Assistant Secretary of Defense for Personnel and Readiness has given the Comptroller of the Department of Defense (DoD Comptroller) responsibility for establishing guidance on financing the Fund. The DoD Comptroller's guidance, included in Chapter 47 of DoD Manual 7220.9-M, "DoD Accounting Manual," as amended, October 6, 1987 (DoD Accounting Manual), states that Reserve components should make a contribution each time a member enlists, reenlists, or extends an

enlistment in the Selected Reserve for at least 6 years and each time an officer agrees to serve in the Selected Reserve for at least 6 years in addition to any existing Selected Reserve obligation.

In November 1991, the Assistant Secretary of Defense for Reserve Affairs issued DoD Instruction 1322.17, "'Montgomery GI Bill' for the Selected Reserve." That instruction stated that Reserve components should make a contribution to the Fund for each 6-year contract, extension, and agreement for members who were not previously entitled to Selected Reserve MGIB benefits.

Officials in the DoD Comptroller's office and the Office of the DoD Actuary said Reserve components should make a contribution for each contract or agreement that meets the DoD Accounting Manual criteria, even when a previously eligible participant signs a new contract. Officials in the Office of the Assistant Secretary of Defense for Reserve Affairs believed, on the other hand, that the DoD Accounting Manual allowed Reserve components to make only one contribution since a member becomes eligible for benefits only one time.

Identifying Proper Transactions

Some Reserve components did not correctly identify the transactions used to make contributions to the Fund. That occurred because the DoD guidance was not clear and Reserve components did not have instructions for making contributions. As a result, some components overcontributed and other components undercontributed. The conditions at the Air Force Reserve, the Air National Guard, and the Naval Reserve were each unique and are therefore discussed individually.

Air Force Reserve. The Air Force Reserve overcontributed by about 150 percent because contributions were made for transactions other than 6-year contracts and officer commitments. Specifically, of 29,114 listed transactions for which contributions were made, only 11,625 transactions involved 6-year contracts or commitments. One category of over 11,600 transactions was not related to military enlistments. The remaining transactions for which incorrect contributions were made were for enlisted personnel but did not involve 6-year contracts. Further, the computer program the Air Force Reserve used counted transactions for officers who had signed oaths of office and had at least 6 years remaining before mandatory retirement, when they should have limited the officer contributions to those officers who signed new 6-year commitments.

Air National Guard. Data provided by the Air National Guard was too unreliable to estimate the proper contributions for FY 1992, but based on our analysis of other files, the Air National Guard may have undercontributed at least $2.2 million.

Initially, the Air National Guard included enlistment transactions processed during FY 1992 that had enlistment dates between FYs 1987 and 1991, transactions for all officers who signed oaths of office during FY 1992, and transactions for enlisted personnel where the effective contract date was blank. The Air National Guard excluded FY 1992 enlistment transactions and 6-year contract extensions. During our review, the Air National Guard recognized that some erroneous transactions had been counted. As a result, in December 1992, the Air National Guard recouped $3.8 million of the $6.6 million that it had contributed in FY 1992.

Based on our analysis of the data provided by the Air National Guard, however, the FY 1992 contributions of the Air National Guard should have been substantially higher. We determined that the Air National Guard should have made contributions of at least $5.0 million for 7,302 enlistment and reenlistment transactions. Also, the Air National Guard should have contributed for 6-year contract extensions. The transaction listing provided by the Air National Guard included 10,406 contract extensions of various durations. We reviewed 173 of those transactions and determined that 95 were for at least 6 years. While those data establish that the Air National Guard undercontributed for contract extensions, we could not determine the total amount of the undercontribution.

Naval Reserve. The Naval Reserve undercontributed to the Fund by more than $3.3 million since the computer program it used did not count 6-year contracts for individuals previously entitled to MGIB benefits. Further, the component improperly recouped prior contributions and did not contribute for individuals who enlisted in the Sea Air Mariner II program. Since the Naval Reserve did not provide sufficient data, we could not quantify the amount of those undercontributions.

The Naval Reserve did not contribute for new contracts when an individual was previously entitled to benefits because the DoD had inconsistent contribution policies. In August 1990, the Bureau of Naval Personnel directed the Naval Reserve to contribute only once for each member. According to that Bureau of Naval Personnel memorandum, the direction came from a DoD General Counsel opinion that DoD components could make a one-time contribution for each member. That opinion was never DoD policy, however. Instructions from both the Bureau of Naval Personnel and the Assistant Secretary of Defense for Reserve Affairs conflict with the DoD Accounting Manual, which requires a contribution for each 6-year contract a member signs.

Supporting Counts

No Reserve component provided a list of eligible 6-year commitment transactions that corresponded to the total number of transactions for which contributions were made. Excluding the Army Reserve, which was unable to provide a list of transactions, the differences ranged from 27 percent fewer to 82 percent more transactions made than were listed. The differences for each Reserve component are in Table 2.

Table 2. Comparison of Transaction Counts and Lists

Transactions	Army Reserve	Naval Reserve	Marine Reserve	Air Force Reserve	Air National Guard
Per Count	32,644	5,241	4,856	26,499	9,579
Per List	*	5,551	6,214	29,114	1,634
Difference		(310)	(1,358)	(2,615)	7,945
Percentage of Difference		(5%)	(27%)	(9%)	82%

*The Army Reserve provided a list of 90,289 transactions; however, officials were unable to identify the transactions that related to contributions.

The differences occurred because Reserve components did not have requirements for comparing the total number of transactions the computer counted against a listing of eligible participants. Since transaction counts were not supported, the DoD had no assurance that contributions were accurate. In addition, the actuarial projections may be inaccurate since the Office of the DoD Actuary calculates the per capita rates based on the number of 6-year commitments.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Comptroller of the Department of Defense clarify Volume 4, Chapter 15, Section 4, of the draft "DoD Financial Management Regulation," DoD 7000.14-R (formerly, Chapter 47 of DoD Manual 7220.9-M, "DoD Accounting Manual") to identify which 6-year commitments should be used to calculate contributions to the DoD Education Benefits Trust Fund.

Management Comments. We did not receive comments from the Comptroller of the Department of Defense. We ask that the Comptroller of the Department of Defense provide comments to the final report.

2. We recommend that the Assistant Secretary of Defense for Reserve Affairs revise DoD Instruction 1322.17, "'Montgomery GI Bill' for the Selected Reserve," to agree with the Comptroller of the Department of Defense clarification in Recommendation 1., above.

Management Comments. The Assistant Secretary of Defense for Reserve Affairs stated that neither the DoD Accounting Manual nor DoD Instruction 1322.17 provides appropriate criteria to accurately calculate contributions. A simpler and more accurate method would be to base contributions on an estimated usage rate of eligible Service members. Also, to allow flexibility in establishing such alternative contribution criteria, the Assistant Secretary of Defense for Reserve Affairs suggested that we delete references to "6-year commitments." See Part IV for the full text of management's comments.

Audit Response. The comments were not responsive to the recommendation. Since any implementing instructions should be consistent with the policy set forth in the DoD Accounting Manual, we recommend that the Assistant Secretary of Defense for Reserve Affairs revise DoD Instruction 1322.17 to comply with the DoD policy. Furthermore, even though the Assistant Secretary of Defense for Reserve Affairs disagrees with the established contribution criteria, an independent actuary determined that the financing methods established for the Fund are actuarially sound. That determination, however, should not preclude negotiating with the Comptroller of the Department of Defense to develop alternative contribution criteria in the future. We request that the Assistant Secretary of Defense for Reserve Affairs clearly state his position on the recommendation and provide additional comments on the report.

3. We recommend that the Commandant of the Marine Corps, the Chief of the Army Reserve, the Commander of the Naval Reserve Force, the Chief of the Air Force Reserve, and the Chief of the National Guard Bureau implement procedures to:

a. Count for contributions all eligible 6-year commitments in accordance with the Comptroller of the Department of Defense clarification.

b. Reconcile the number of transactions counted for contributions to a listing of eligible participants.

Management Comments. Comments were received from or on the behalf of all addressees.

Army Reserve Comments. The Chief of the Army Reserve concurred with the finding and recommendation. The estimated completion date is March 1994.

Navy Comments. The Deputy Assistant Secretary of the Navy for Reserve Affairs, responding for the Marine Corps and the Naval Reserve, concurred with the recommendation and stated that the Commandant of the Marine Corps and the Commander of the Naval Reserve Force will revise their procedures.

Air Force Reserve Comments. The Deputy Director of Personnel, Office of Air Force Reserve, concurred with the recommendation and will implement changes in accordance with revised guidance from the Comptroller of the Department of Defense. The estimated completion date is June 30, 1994.

National Guard Bureau Comments. The Chief of the National Guard Bureau concurred with the recommendation and stated that the Army National Guard will reconcile the number of transactions counted to the Department of Veterans Affairs records.

See Part IV for the full text of managements' comments.

Audit Response. The comments provided by the Army Reserve, the Navy, and the Air Force Reserve were responsive. We ask the Commandant of the Marine Corps and the Commander of the Naval Reserve Force to provide estimated completion dates.

The comments from the National Guard Bureau were partially responsive to the recommendation. We ask that the Chief of the National Guard Bureau reconsider the corrective action planned by the Army National Guard. Reconciling the number of transactions counted to the Department of Veterans Affairs records will not ensure that contributions are made for all eligible participants. The Department of Veterans Affairs maintains records on those Service members who meet the qualifications for receiving benefits. Those records do not include all Service members for whom Reserve components are required to make contributions. The number of transactions counted should be reconciled to those records maintained by the National Guard that identify Service members who meet the criteria (i.e., sign 6-year commitments) for making contributions.

We also ask the Chief of the National Guard Bureau to comment on the position of the Air National Guard. Specific problems with the Air National Guard's contribution procedures are discussed in this report.

The "Response Requirements for Each Recommendation" chart lists the specific requirements for further comments. Comments must be received by May 9, 1994.

Response Requirements for Each Recommendation

Responses to the final report are required for the items indicated with an "X" in the chart below.

		Response Should Cover:			
Number	Addressee	Concur/ Nonconcur	Proposed Actions	Completion Date	Related Issues*
1.	Comptroller of the Department of Defense	X	X	X	
2.	Assistant Secretary of Defense for Reserve Affairs	X	X	X	
3.a., 3.b.	Commandant of the Marine Corps			X	
	Commander of the Naval Reserve Force			X	
	Chief of the National Guard Bureau	X	X	X	IC

*IC = Internal Controls

Finding B. Financial Reporting

The DoD did not have complete financial information needed to manage the DoD Education Benefits Trust Fund. This condition existed because the Department of Veterans Affairs and the DoD had not established a memorandum of agreement to report accounting data to the DoD. As a result, the DoD had no assurance that the $170.4 million transferred to the Department of Veterans Affairs was used properly; that is, to pay benefits for members of the Selected Reserve and the supplemental benefit to active duty members who enlist in difficult-to-fill military occupational specialties. Further, the DoD did not know the amount of Department of Veterans Affairs overpayments to participants and subsequent debt collections from overpaid participants.

Reporting Requirements

Chapter 4100 of the Treasury Financial Manual states that agencies should report all assets, liabilities, and equity relative to programs under the control of the reporting entity. Since the DVA makes all benefit payments for the Fund, any resources or liabilities that the DVA has that are associated with the Fund should be shown on the Fund's financial statements in order to fully disclose the Fund's financial position and results of operations.

Limited Accounting Data

During FY 1992, the DoD transferred $170.4 million of the Fund's assets to the DVA to pay benefits to reservists and active duty members entitled to supplemental benefits. However, communication between DoD and DVA financial operations on the use of these resources was limited to the DVA requesting funds, the DoD transferring funds to the DVA, and the DVA providing the DMDC with computer tapes on the gross payments made to MGIB participants. The DVA did not provide any accounting data to the DFAS Center that performed accounting services for the Fund.

Although the DVA was required to administer the program in accordance with the MGIB, the DoD had no assurance that all funds transferred to the DVA were spent. For example, the DVA established accounts receivable for and collected overpayments from benefit recipients, but did not report either account

to the DoD. Furthermore, the DoD and the DVA did not reconcile their accounting records to ensure that the account balances were complete and accurate.

Interagency Agreement

The DVA did not provide accounting data to the DoD because those two agencies had not established an agreement on reporting requirements. An interagency agreement, drafted in 1987 but never finalized, addressed only the DVA's responsibilities for making benefit payments to participants, collecting overpayments from participants, and sending copies of the DVA benefit file to the DMDC. The agreement did not require the DVA to report financial data to the DFAS. As a minimum, the DVA should report:

- o actual payments made to participants,
- o amounts payable to participants at the end of each reporting period,
- o amounts due from participants who have been overpaid, and
- o amounts the DVA estimates will be uncollectible.

That accounting data will provide important information on the soundness of the Fund as well as on the DVA's debt collection procedures. It will also give the DoD sufficient detail for evaluating the timeliness and accuracy of eligibility data given to the DVA and to make actuarial projections.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Comptroller of the Department of Defense establish monthly financial reporting requirements for the DoD Education Benefits Trust Fund. Specific monthly requirements should include details on the uses of Fund resources and account balances.

2. We recommend that the Assistant Secretary of Defense for Personnel and Readiness include, in the interagency agreement with the Department of Veterans Affairs, financial reporting requirements as established by the Comptroller of the Department of Defense in response to Recommendation 1.

Management Comments. In the draft of this report, we recommended that the Assistant Secretary of Defense for Personnel and Readiness establish monthly reporting requirements and include them in an interagency agreement with the

Department of Veterans Affairs. The Assistant Secretary of Defense for Personnel and Readiness concurred with the finding and the intent of the recommendation, but stated that the Comptroller of the Department of Defense is responsible for establishing financial reporting requirements. See Part IV for the full text of management's comments.

Audit Response. We agree that the Comptroller of the Department of Defense has overall responsibility for establishing guidance on financial matters. We therefore redirected that portion of the recommendation dealing with establishing the reporting requirements to the Comptroller of the Department of Defense. Comments are required from that office. However, since the Assistant Secretary of Personnel and Readiness has the authority to negotiate with the Department of Veterans Affairs, it is the responsibility of that office to include all requirements in the interagency agreement. We therefore continue to recommend that the Assistant Secretary for Personnel and Readiness include financial reporting requirements in the interagency agreement with the Department of Veterans Affairs and ask that office to indicate its position on that recommendation.

The "Response Requirements for Each Recommendation" chart lists the specific requirements for further comments. Comments must be received by May 9, 1994.

Response Requirements for Each Recommendation

Responses to the final report are required for the items indicated with an "X" in the chart below.

		Response Should Cover:			
Number	Addressee	Concur/ Nonconcur	Proposed Actions	Completion Date	Related Issues*
1.	Comptroller of the Department of Defense	X	X	X	IC
2.	Assistant Secretary of Defense for Personnel and Readiness	X	X	X	IC

*IC = Internal Controls

Part III - Additional Information

Appendix A. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Type of Benefit
A.1., A.2.	Economy and Efficiency. Implementation should result in consistent contribution methods and improved actuarial projections.	Nonmonetary
A.3.a., A.3.b.	Internal Controls. Implementation would ensure that Reserve components make contributions for all eligible participants.	Undeterminable. We know of no basis on which to compute the monetary benefits.
B.1., B.2.	Internal Controls. Implementation would ensure that DoD has more complete financial information for managing the Fund and improving actuarial projections.	Undeterminable. We know of no basis on which to compute the monetary benefits.

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense for Personnel and Readiness, Washington, DC
- Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy, Washington, DC
- Defense Manpower Data Center, Arlington, VA
- Defense Manpower Data Center, Monterey, CA
- Office of the Actuary, DoD, Arlington, VA

Office of Assistant Secretary of Defense for Reserve Affairs, Washington, DC
- Deputy Assistant Secretary of Defense for Manpower and Personnel, Washington, DC

Comptroller of the Department of Defense, Washington, DC
- Deputy Comptroller for Program/Budget, Washington, DC
- Deputy Comptroller for Management Systems, Washington, DC

Department of the Army

Office of the Chief of the Army Reserve, Washington, DC
- Comptroller Division, Washington, DC
- Personnel Division, Washington, DC

Army Reserve Personnel Center, St. Louis, MO

Department of the Navy

Bureau of Naval Personnel, Arlington, VA

Naval Reserve Force, New Orleans, LA

Department of the Air Force

Office of the Air Force Reserve, Personnel Division, Washington, DC
- Air Force Reserve Personnel Center, Denver, CO

Office of the Air National Guard, Andrews Air Force Base, MD
- Directorate of Personnel, Andrews Air Force Base, MD
- Directorate of Financial Management and Comptroller, Andrews Air Force Base, MD

Marine Corps

Deputy Chief of Staff for Manpower and Reserve Affairs, Arlington, VA
  Reserve Affairs Division, Arlington, VA
  Personnel Management Division, Quantico, VA

Defense Agencies

Headquarters, Defense Finance and Accounting Service, Washington, DC
  Defense Finance and Accounting Service-Cleveland Defense Accounting Office, Arlington, VA

Non-Defense Federal Organizations

Department of Veterans Affairs, Washington, DC
  Veterans Administration Processing Center, Hines, IL

Appendix C. Report Distribution

Office of the Secretary of Defense

Assistant Secretary of Defense for Personnel and Readiness
Assistant Secretary of Defense for Reserve Affairs
Comptroller of the Department of Defense
Chief of the National Guard Bureau
Office of Internal Review and Audit Compliance

Department of the Army

Auditor General, Department of the Army
Chief of the Army Reserve
Chief, Comptroller Division, Army Reserve

Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Auditor General, Naval Audit Service
Chief, Bureau of Naval Personnel
Commander of the Naval Reserve Force
Deputy Chief of Staff for Finance, Naval Reserve Force

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency
Chief of the Air Force Reserve
Director, Air National Guard

Marine Corps

Commandant of the Marine Corps

Defense Agencies

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
National Security and International Affairs Division, Technical Information Center
Department of Veterans Affairs, Education Services

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Force Requirements and Personnel, Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Military Forces and Personnel, Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

Part IV - Management Comments

Assistant Secretary of Defense for Personnel and Readiness Comments

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

4000 DEFENSE PENTAGON
WASHINGTON DC 20301-4000

PERSONNEL AND READINESS

8 DEC 1993

(Military Manpower & Personnel Policy)

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, DoD INSPECTOR GENERAL

SUBJECT: Draft Audit on Contributions and Financial Reporting for the DoD Education Benefits Trust Fund, Project #2FH-2009-01, Report #93-137

In response to your October 29, 1993 memorandum concerning the subject IG draft audit, our comments are attached. For further information, please contact LTC Nancy S. Stanley at (703) 697-9272.

W. S. Sellman
Director
Accession Policy

Attachment:
As Stated

Printed on Recycled Paper

Concur with Finding B of the draft report but nonconcur with the designation of the responsible agency within DoD for corrective action. DoD Directive 1322.16, "Veterans' Educational Assistance Act of 1984 (GI Bill)" dated March 25, 1985, establishes the DoD Comptroller with responsibility to "provide guidance on budgeting, accounting and funding for the Educational Benefits Program and for investing the available DoD Education Benefits Fund balance." Draft report provided at the August 10, 1993 meeting designated DoD Comptroller responsibility for this corrective action and they accepted it. While the Assistant Secretary of Defense (Personnel and Readiness) is responsible for overall policy guidance for the Montgomery GI Bill program, the financial aspects of the program properly belong to the DoD Comptroller.

The interagency agreement which was finalized on October 18, 1989 clarifies the responsibilities of the Department of Veterans Affairs, Defense Manpower Data Center and the Services for providing the necessary administrative support systems to exchange data between these agencies. We do not agree that this Interagency agreement should include financial reporting requirements.

Recommend the DoD Comptroller determine the correct financial reporting requirements to satisfy this recommendation.

Assistant Secretary of Defense for Reserve Affairs Comments

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1500

RESERVE AFFAIRS

26 JAN 1994

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, DOD INSPECTOR GENERAL

SUBJECT: Draft Audit on Contributions and Financial Reporting for the DoD Education Benefits Trust Fund, Project #2FH-2009-01

Attached please find our comments as requested in your memorandum dated October 29, 1993, subject as above. For further information on this response, please contact Lieutenant Colonel Patricia M. Forest at (703) 695-7429.

Francis M. Rush, Jr
Principal Director
(Manpower and Personnel)

Attachment:
As stated

Department of Defense Inspector General
Office Project 2FH-2099.01

Draft Audit Report on Contributions and Financial Reporting for the DoD Education Benefits Trust Fund

****

General - We appreciate the opportunity to provide comments in this draft report.

Part II -Internal Controls
Contribution Requirements

The Office of the DoD Comptroller guidance during program initiation in 1984 was to count all six year enlistments, including enlistments for individuals who did not meet other eligibility requirements for the MGIB, and for those who subsequently reenlisted for a second six year period. In part, this decision appears to have been based on a concern with the quality of Reserve data.

During early coordination of DoD Instruction 1322.17 in 1990, this office proposed to the Office of the DoD Comptroller that only the issuance of a Notice of Basic Eligibility (NOBE) should generate a normal cost for contributions to the Education Benefits Trust Fund. This method of counting would ensure that only those individuals actually eligible for the MGIB for the Selected Reserve would be reported by the Services. It would have also ensured that these individuals would only be counted one time, since an eligibility date never changes once established. This eligibility date is key to management of this program. Section 2133 of title 10, United States Code, stipulates that entitlement expires at the end of the ten-year window beginning on the date on which such person becomes entitled.

Office of the DoD Comptroller did not agree with this approach, and a compromise was reached. The Instruction as published, which reflects this compromise, provides that the first six year enlistment or contract generates a payment to the Fund. It was our understanding that the DoD Accounting Manual would be revised so as to reflect this compromise, and be consistent with the revised DoD Instruction.

Finding A. Contributions to the Fund
Recommendations for Corrective Action

In studying the results of your audit, and evaluating the detailed process of each of the Reserve Components during our ongoing CIM initiative for the

Montgomery GI Bill for the Selected Reserve, we have come to the conclusion that neither the policy as expressed in the DoD accounting manual or our current Instruction are optimal with respect to the accuracy of contributions in the long run.

In the early days of the Selected Reserve MGIB Program the procedures initially established, as noted above, may have been appropriate due to concern over the quality of Reserve component data. That quality had substantially improved by 1991 when the revised Instruction was issued. The current method of counting enlistments rather than NOBEs signed has necessitated that the Office of the Actuary make adjustments to calculate not only the probable number of users, but also the eligible population. These calculations would be much simpler, and more accurate if the per-capita cost was based on estimating the usage rate of members who are actually eligible for the benefit rather than for the larger population of members who have signed six year agreements. Also, data on this group could easily be retrieved from the MGIB data file at DMDC. This would provide a central source for verifying accuracy of the data, unlike the situation we have now which feeds from multiple data sources per component, and makes no comparisons between different component data bases. We would then be able to ensure the quality of the data we need for the contributions, and be able to provide a clean audit trail in the form of a by-name listing for whom contributions should be made.

In light of the above, suggest that in recommendation 3.b, the phrase "6-year commitments" be deleted, in order to give DoD Comptroller and OASD/RA maximum flexibility in determining a workable solution to this issue.

Chief of the Army Reserve Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE CHIEF, ARMY RESERVE
WASHINGTON, DC 20310-2400

REPLY TO
ATTENTION OF

DAAR-PE (36-2b) 15 December 1993

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Draft Audit Report on Contributions and Financial Reporting for the DoD Education Benefits Trust Fund (Project No. 2FH-2009.01)

1. Concur with Finding "A". The U.S. Army Reserve based Fiscal Year 1992 (FY92) contributions to the DoD Education Benefits Trust Fund (the Fund) on unsupported transactions. Also concur that transactions were not supported because the U.S. Army Reserve had not developed instructions for making contributions or verifying that the total number of transactions counted matched the eligible 6-year commitment records. It is not known if the U.S. Army Reserve either over-contributed or under-contributed.

2. Corrective actions taken or planned:

a. Clarifying guidance regarding criteria for contribution transactions has been requested from the Office of the Assistant Secretary of Defense for Reserve Affairs (OASD-RA). Upon receipt of this guidance, instructions will be developed to count eligible transactions and match the count with a list of eligible participants. It is anticipated that these actions will be accomplished by the end of March, 1994.

b. An alternate method of accomplishing improvement in developing a count of eligible transactions would be to use data on-hand at the Defense Manpower Data Center (DMDC). DMDC is the central repository of personnel data for all the services and maintains current and historical records of MGIB eligibility. The Army does not have one central personnel database of record. Unique systems are in use for the various categories of personnel. Coding is not standardized and the transfer of data is cumbersome. Public law has placed restraints on acquisition of data systems and software. Propose that DMDC MGIB Chapter 106 newly-coded eligibility data for the previous month be acquired and compared against historical data. Comparison would determine first-time eligibility, avoid duplicate contributions, provide a by-name listing for whom contributions should be made, and continue to be the system of record across all the services. A report comparing figures of the DoD Education Benefits Fund Transfer spreadsheet (encl 1), whose source is the DCSPER 490

DAAR-PE 15 December 1993

SUBJECT: Draft Audit Report on Contributions and Financial Reporting for the DoD Education Benefits Trust Fund (Project No. 2FH-2009.01)

Part VI Report, and new eligibles as reported by DMDC is at enclosure 2. The numbers somewhat track. Though the DCSPER 490 report did not track officers, the numbers of officer participants in the past has been low due to most officers having a baccalaureate degree. It is believed that the DMDC figures are true and that this method may benefit all services and provide a standard means of accounting for transactions for which contributions to the Fund must be made. Estimated time of implementation of this method could take approximately one month.

4. OCAR point of contact is SGM Francisco, DSN 226-6083 or commercial (703) 696-6083.

FOR THE CHIEF, ARMY RESERVE:

2 Encls
as

THOMAS J. KILMARTIN
Brigadier General
Deputy Chief, Army Reserve

CF:
OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE, ATTN: OASD-RA (M&P)
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR PERSONNEL, ATTN: DAPE-MPA
COMMANDER, U.S. ARMY RESERVE PERSONNEL CENTER, ATTN: DARP-ZAP

2

PREPARED BY SGM FRANCISCO, 6-6083 21 OCT 93 DOD EDUCATION BENEFITS FUND TRANSFER (MGIBIN.WQ1)

	Worksheet Codes	OCT 92	NOV 92	DEC 92	JAN 93	FEB 93	MAR 93	APR 93	MAY 93	JUN 93	JUL 93	AUG 93	SEP 93	FY YTD
NPS GAINS - Total HS/Non-HS														
Std Tng Program	1	595	1562	1243	1104	1388	1542	1497	1655	865	1641	1987	2079	17158
4X4	2	1	1	1	1	3	3	2	2	1	4	1	3	23
3X5	3	13	32	24	15	32	70	56	58	16	39	54	53	462
Alternate Tng Program	4	51	110	200	586	761	734	502	171	91	49	32	51	3338
CASP	5	7	7	8	8	22	17	5	5	6	8	27	9	129
4X4	6	0	0	0	0	0	0	0	0	0	0	0	0	0
3X5	7	17	44	79	272	402	414	355	99	39	21	11	17	1770
ROTC	8	0	0	0	2	0	0	4	1	0	1	1	3	12
PRIOR SERVICE GAINS														
FY 99 Male	9	111	225	352	50	76	156	169	208	137	121	253	581	2439
FY 99 Female	10	28	71	71	26	21	29	53	56	40	35	75	145	650
6 Year Ext/Reenlistments	11	143	182	137	199	186	186	142	153	94	116	190	182	1910
Officer(from ARPERCEN)														0

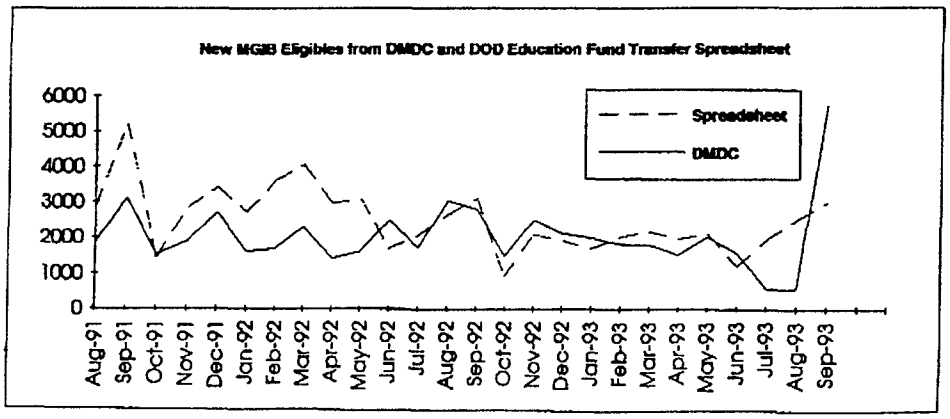
FY 93 DOD EDUCATION BENEFITS FUND TRANSFER
MONTHLY PROGRAM INPUT

	OCT 92	NOV 92	DEC 92	JAN 93	FEB 93	MAR 93	APR 93	MAY 93	JUN 93	JUL 93	AUG 93	SEP 93	FY YTD
ESTIMATE													
OFFICER	0	1	1	1	0	1	0	2	1	0	1	1	9
ENLISTED	875	900	889	888	954	1931	2107	2030	2073	1041	1983	2125	17796
TOTAL	875	901	890	889	954	1932	2107	2032	2074	1041	1984	2126	17805
ACTUAL													
OFFICER	0	0	0	2	0	0	4	1	0	1	1	3	12
ENLISTED	904	2080	1907	1685	2017	2177	1955	2089	1177	1906	2498	2974	23369
TOTAL	904	2080	1907	1687	2017	2177	1959	2090	1177	1907	2499	2977	23381
ADJUSTMENT													
OFFICER	0	-1	-1	1	0	-1	4	-1	-1	1	0	2	3
ENLISTED	29	1180	1018	797	1063	246	-152	59	-896	865	515	849	5573
TOTAL	29	1179	1017	798	1063	245	-148	58	-897	866	515	851	5576
ADJUSTED													
TOTAL	904	2080	1907	1687	2017	2177	1959	2090	1177	1907	2499	2977	23381

ENCL #1

MGIB New Eligibles Comparision

Date	DOD Education Fund Transfer Spreadsheet	Cummulative	New Eligibles as reported by DMDC	Cummulative	Delta
Aug-91	2,867		1,844		1,023
Sep-91	5,212		3,106		2,106
FY 92					
Oct-91	1,403	1,403	1,513	1,513	-110
Nov-91	2,829	4,232	1,874	3,387	955
Dec-91	3,416	7,648	2,706	6,093	710
Jan-92	2,718	10,366	1,604	7,697	1,114
Feb-92	3,617	13,983	1,689	9,386	1,928
Mar-92	4,049	18,032	2,288	11,674	1,761
Apr-92	2,954	20,986	1,407	13,081	1,547
May-92	3,086	24,072	1,599	14,680	1,487
Jun-92	1,673	25,745	2,476	17,156	-803
Jul-92	2,034	27,779	1,685	18,841	349
Aug-92	2,647	30,426	3,029	21,870	-382
Sep-92	3,109	33,535	2,792	24,662	317
FY 93					
Oct-92	904	904	1,466	1,466	-562
Nov-92	2,080	2,984	2,491	3,957	-411
Dec-92	1,907	4,891	2,114	6,071	-207
Jan-93	1,687	6,578	1,989	8,060	-302
Feb-93	2,017	8,595	1,816	9,876	201
Mar-93	2,177	10,772	1,787	11,663	390
Apr-93	1,959	12,731	1,517	13,180	442
May-93	2,090	14,821	2,009	15,189	81
Jun-93	1,177	15,998	1,536	16,725	-359
Jul-93	1,907	17,905	571	17,296	1,336
Aug-93	2,499	20,404	566	17,862	1,933
Sep-93	2,977	23,381	5,725	23,587	-2,748



Chief of the Air Force Reserve Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE

MEMORANDUM FOR DoD INSPECTOR GENERAL
ATTENTION: DIRECTOR, FINANCIAL MANAGEMENT

FROM: HQ USAF/REP
1150 Air Force Pentagon
Washington, DC 20330-1150

SUBJECT: Comments on Draft Audit Report - INFORMATION MEMORANDUM

This is in response to your 29 October Memorandum to the Chief of Air Force Reserve regarding the Draft Audit Report on Contributions and Financial Reporting for the DoD Education Benefits Trust Fund (Project No. 2FH-2009.01).

Finding "A" of the report recommends the Reserve Components, including the AF Reserve, implement procedures to:

a. Count for contributions all eligible 6-year commitments in accordance with the Comptroller of the Department of Defense clarification.

b. Reconcile the number of transactions counted for contributions to a listing of eligible participants.

We concur in these recommendations. We will implement the changes in our AF Reserve operating procedures upon receipt of the revised guidance from the DoD Comptroller and the revised DoDI 1322.17. Estimated completion date is 30 Jun 94.

Our point of contact is Major Ritchey-Fritz, or Mr. C. Dougherty, HQ USAF/REPP, Extension 73481.

DONALD R. PERRIN, Colonel, USAF
Deputy Director of Personnel
Office of Air Force Reserve

cc:
AF/RE

Chief of the National Guard Bureau Comments

DEPARTMENTS OF THE ARMY AND THE AIR FORCE
NATIONAL GUARD BUREAU
111 SOUTH GEORGE MASON DRIVE
ARLINGTON, VA 22204-1382

NGB-ARC-MR (36-5d)

MEMORANDUM FOR Inspector General, Department of Defense, 400 Army Navy Drive, Alrington, VA 22202-2884

SUBJECT: Draft Audit Report on Contributions and Financial Reporting for the DoD Education Benefits Trust Fund (Project No. 2FH-2009.01)

1. Reference memorandum, DoD IG, 29 Oct 93, SAB.

2. Per referenced memorandum the Army National Guard (ARNG) has reviewed subject draft audit report. In response to the recommendations the following comments are offered:

a. Recommendation 3a: Concur. The ARNG will be able to implement procedures to count for contributions all eligible 6-year commitments in accordance with guidance from the Comptroller of the Department of Defense.

b. Recommendation 3b: Concur with comment. The ARNG will reconcile the number of transactions counted for contributions to a listing of the eligible participants, if data input can be obtained from the Department of Veterans Affairs, and when the Department of Defense Comptroller and the Assistant Secretary of Defense for Reserve Affairs define contributions to the DoD Education Benefits Trust Fund.

3. An information paper on the Montgomery GI Bill Corporate Information Management Initiative is provided at enclosure one for your information.

4. Point of contact for this action is Ms. Pat Condon, NGB-ARC-MR, DSN: 327-7534, COMM: (703) 607-7534.

FOR THE CHIEF, NATIONAL GUARD BUREAU:

MORGAN F. DENNY
Colonel, GS
Director, Army Comptroller

Encl

CF:
NGB-IR
DAPE-MRB-P

INFORMATION PAPER

NGB-ARP-PP
29 September 1993

1. Purpose. To provide information on the Montgomery GI Bill (MGIB) Corporate Information Management (CIM) Initiative to the Director, Army National Guard.

2. Facts:

a. The Montgomery GI Bill (Chapter 106 of Title 10) provides educational assistance to Reserve Component soldiers to encourage membership in the Selected Reserve for a period of six years.

b. In conjunction with the ongoing CIM initiative for military personnel, DoD is beginning a CIM project on the MGIB for the Selected Reserve. The project will assist DoD in improving the business process of determining and reporting eligibility for MGIB benefits for members of the Selected Reserve. Using CIM ensures a cohesive DoD business process approach, and provides a baseline for cost determination.

c. The project began during informal briefings to DoD Selected Reserve Service representatives (ARNG Education Services Officer and Education Advisor) in August 1993. Functional experts from DoD and the Services will be interviewed and a strawman activity model developed. Each service will then participate in a week-long activity workshop, which will result in an "As is Model." The Army National Guard will be represented at the workshop by the NGB; Education Services Officer (ESO), Education Advisor, MGIB Manager and SIDPER representative and seven selected State ESOs. The contractor team will then analyze each business activity and will develop a strawman "To Be Model." During the latter phase of the project, functional experts from all Services will come together for a two-week combined workshop. The outcome will be a report of recommendations for cost effective improvements.

d. Policy implementation, delays in transfer of eligibility data, reasons for significant number of unknowns (eligibility), identification and documentation of transferring members, triggers for eligibility, inter-service and interstate transfers are some of the issues being reviewed by the CIM process.

e. The Army National Guard POC is LTC Ken Ductor, Education Services Officer, Military Personnel Division, Personnel Directorate.

LTC Ductor/79544

Deputy Assistant Secretary of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(MANPOWER AND RESERVE AFFAIRS)
WASHINGTON, D.C. 20350-1000

03 January 1994

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DRAFT REPORT ON THE DODIG AUDIT ON CONTRIBUTIONS AND FINANCIAL REPORTING FOR THE DOD EDUCATION BENEFITS TRUST FUND (PROJECT NO. 2FH-2009.01)

Ref: (a) DODIG memo of 29 Oct 93

Encl: (1) DON Response to Draft Audit Report

I am responding to the draft audit report forwarded by reference (a) concerning the contributions and financial reporting for the DoD Education Benefits Trust Fund.

The Department of the Navy response is provided in enclosure (1). We concur with the draft report findings and recommendations. As outlined in the enclosed comments, the Department has taken, or is planning to take specific actions to ensure adequate management controls are implemented to ensure sufficient contributions and exact financial reports are made in support of the DoD Education Benefit Trust Fund.

WADE R. SANDERS
Deputy Assistant Secretary of the Navy
(Reserve Affairs)

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)

Department of the Navy Response

to

DODIG Draft Report of October 29, 1993

on

Contributions and Financial Reporting for the
DoD Education Benefits Trust Fund
Project No. 2FH-2009.01

Finding A:

Contributions to the Fund. The Reserve components based FY 1992 contributions to the DoD Education Benefits Trust Fund on unsupported transactions. The unsupported transactions occurred because the DoD guidance on criteria for transactions for which contributions were to be made was subject to misinterpretation. Also, transactions were not supported because Reserve components had not developed instructions for making contributions or verifying that the total number of transactions counted matched the eligible 6-year commitment records. As a result, the DoD had no assurance that contributions or actuarial projections were accurate. Also, when components undercontributed, the Fund lost interest income, while components that overcontributed lost the opportunity to finance other Reserve requirements.

Recommendation A-1:

We recommend that the Comptroller of the Department of Defense clarify Volume 4, Chapter 15, Section 4, of the Draft "DoD Financial Management Regulation," DoD 7000.XXR (formerly, Chapter 47 of DoD Manual 7220.9M, "DoD Accounting Manual") to identify which 6-year commitments should be used to calculate contributions to the DoD Education Benefits Trust Fund.

DON Position:

Concur. DoD Comptroller's clarification of applicable instructions to identify specifically which 6-year commitments should be used to calculate DoD Education Benefits Trust Fund contributions would significantly improve the accounting procedures of this process.

Recommendation A-2.

We recommend that the Assistant Secretary of Defense for Reserve Affairs revise DoD Instruction 1322.17, "Montgomery GI Bill' for the Selected Reserve," to agree with the Comptroller of the Department of Defense clarification in Recommendation 1., above.

DON Position: Concur.

Recommendation A-3:

We recommend that the Commandant of the Marine Corps, the Chief of Staff of the Army, the Commander of the Naval Reserve Force, the Chief of the Air Force Reserve, and the Chief of the National Guard Bureau implement procedures to:

a. Count for contributions all eligible 6-year commitments in accordance with the Comptroller of the Department of Defense clarification.

b. Reconcile the number of transactions counted for contributions to a listing of eligible participants.

DON Position:

Concur. (a) The Commandant of the Marine Corps and the Commander of the Naval Reserve Force will develop revised procedures to accurately count for contributions all eligible 6-year commitments in accordance with revised DoD Comptroller guidance discussed in recommendation A-1.

(b) Headquarters Marine Corps and the Commander Naval Reserve Force are in the process of reviewing eligible participants and reconciling the number of transactions counted for Education Benefit Trust Fund contributions to ensure contributions have been made for all eligible personnel.

Finding B:

Financial Reporting. The DoD did not have complete financial information needed to manage the DoD Education Benefits Trust Fund. This condition existed because the Department of Veterans Affairs and the DoD had not established a memorandum of agreement for the DVA to report accounting data to the DoD. As a result, the DoD has no assurance that the $170.4 million transferred to the DVA was used properly, that is, to pay benefits for members of the Selected Reserve and the supplemental benefit to active duty members who enlist in difficult-to-fill military occupational specialties. Further, the DoD did not know the amount of DVA overpayments to participants and subsequent debt collections from overpaid participants.

Recommendation B-1.

We recommend that the Assistant Secretary of Defense for Personnel and Readiness establish monthly financial reporting requirements for the DoD Education Benefits Trust Fund. Specific monthly requirements, including details on the uses of Fund resources and account balances, should be detailed in an interagency agreement with the Department of Veterans Affairs.

DON Position: Defer to DoD.

Audit Team Members

Terry L. McKinney	Acting Director, Financial Management Directorate
Raymond D. Kidd	Audit Program Director
Saundra G. Elion	Audit Project Manager
John M. Seeba	Audit Project Manager
Donney J. Bibb	Senior Auditor
Towanda L. Brown	Auditor
Gladys A. Edlin	Auditor
Frank C. Sonsini	Statistician
Joan E. Fox	Editor
Judy L. White	Administrative Support