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Office of Audits and Evaluations

VETERANS BENEFITS ADMINISTRATION

Review of VA's $2.9 Billion Supplemental Funds Request for FY 2024 to Support Veterans' Benefits Payments

Review	24-03692-76	March 27, 2025

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Executive Summary

In response to a legislative mandate, the VA Office of Inspector General (OIG) reviewed the circumstances and the underlying conditions that resulted in the announced funding shortfall for the Veterans Benefits Administration (VBA) and the subsequent request for $2.9 billion in supplemental funding for fiscal year (FY) 2024.[1] This report provides the results of that review.

On July 19, 2024, the VA Secretary sent a letter to Congress announcing that VBA would need about $2.9 billion, in addition to the funding already received through the appropriations process (approximately $193.4 billion), to cover disability compensation, pension, and readjustment benefits through the end of FY 2024.[2] He noted that over seven million veterans and beneficiaries were at risk of not receiving their benefits payments on time (by October 1—the start of a new fiscal year). The Secretary attributed the need for additional funds for the compensation and pension account to VA processing more claims than ever before, particularly generated by the expanded eligibility for compensation benefits under the PACT Act and VBA's unprecedented outreach efforts to potential beneficiaries.[3] For the projected shortfall in the readjustment benefits account, the Secretary cited increased payments and obligations in addition to expanded eligibility for education and job training programs due to a recent Supreme Court decision and other rulemaking.[4]

To address VBA's potential budget shortfall and avoid delayed benefits payments, Congress passed a supplemental appropriations bill on September 19, 2024, which the President signed

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[1] The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act, 2024, Pub. L. No. 118-82 § 104. Appendix A of this report provides relevant sections of the Supplemental Appropriations Act and the OIG's actions in response. Appendix B discusses the review's scope and methodology, and appendix C provides details on the OIG team's assessment of VBA's monthly planned and actual spending for the compensation and pension and readjustment benefits accounts. In VA's technical comment 2 to this report (see appendix D), the acting under secretary for benefits requested that the OIG revise the public law number; the OIG corrected this typographical error throughout the report.

[2] VA Secretary Denis McDonough, letter to Sens. Tester and Moran as well as Reps. Cole, Bost, and Takano, July 19, 2024. This report adopts VBA terminology and so uses "compensation" to refer to "disability compensation." The compensation and pension and readjustment benefits accounts use mandated (instead of discretionary) funds that ensure eligible beneficiaries receive their entitlements. Note that the titles and positions of individuals referenced in this report were held as of the time of the review.

[3] VA Secretary Denis McDonough, letter to Sen. Tester et al. The PACT Act refers to the Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022, Pub. L. No. 117-168. The PACT Act significantly expanded eligibility for VA health care and disability benefits for millions of veterans exposed to toxic substances and their survivors.

[4] *Rudisill v. McDonough, Secretary of Veterans Affairs*, 601 U.S. 294 (2024). The *Rudisill* case was decided by the U.S. Supreme Court on April 16, 2024, during the October 2023 term. The court reversed and remanded the judgment of the U.S. Court of Appeals for the Federal Circuit, holding that veterans who accumulate benefits under the Montgomery and Post-9/11 GI bills under separate periods of service are entitled to both benefits up to the 48-month aggregate benefits cap listed in 38 U.S.C. § 3695(a). However, these benefits cannot be used simultaneously.

into law the next day on September 20. This bill provided VBA with approximately $2.9 billion in supplemental funds: about $2.3 billion for the compensation and pension account and almost $597 million for the readjustment benefits account.[5] However, during interviews in October 2024 with the OIG review team, VBA Office of Financial Management officials stated they knew after the law's enactment on September 20 they did not need the funding for the compensation and pension account to process the pay file for this account. According to VBA officials, they did not communicate to Congress until more than a month later that the compensation and pension funding was not needed because they were required to have their standard year-end accounting completed and reviewed by multiple layers of VBA and VA leaders, as well as reviewed and released by the Office of Management and Budget, before finalizing their report to Congress.[6] On October 28, 2024, VA informed Congress that it did not need to rely on the supplemental funding for the compensation and pension and readjustment benefits accounts to address FY 2024 requirements.[7]

Because the supplemental appropriations law also required the OIG to review what led to VBA's announced shortfall and supplemental funding request, this review's objective was to determine the conditions and causal factors leading to the request for an additional $2.9 billion in mandatory funding for FY 2024.[8] The report addresses each of the requirements in the course of that work. Appendix A provides the relevant legislative language and notes that VA's budget submission does not identify expenditures or monthly obligation amounts as proposed by the legislation as a comparator, so the OIG team used VBA's status of funds report provided to Congress to help compare monthly obligations and expenditures in the two relevant accounts identified within the body of this report. The team did not identify significant diversions of obligations or expenditures during this review; therefore, an assessment of the accuracy of projections and estimates was not required.[9]

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[5] The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act § 104.

[6] The OIG review team interviewed the under secretary for benefits, the principal deputy under secretary for benefits, and leaders in VBA's Office of Financial Management on October 8 and 9, 2024. VA also submitted technical comments to this report in appendixes D and E. The Office of Management states in its first technical comment in appendix E that during October 1–18, "as required by OMB Circular A-136 and VA policy, VA followed standard year end accounting practices to completely and properly account for all financial activities in the [compensation and pension] and [reimbursement benefits] account." VA transmitted the report to OMB on the status of funds on October 21 for both accounts and received approval to release the financial report on October 28. The OIG revised this sentence accordingly.

[7] VA, *Update on FY 2024 VBA Mandatory Funding Budget Execution and VHA Budget Execution*, October 28, 2024.

[8] The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act § 104. In addition, the OIG was required to review the factors and conditions that resulted in the supplemental funding requests for FYs 2024 and 2025 of about $12 billion for the Veterans Health Administration, which is the focus of another OIG oversight report. VA OIG, *The Causes and Conditions That Led to a $12 Billion Supplemental Funding Request*, Report No. 24-03127-66, March 27, 2025.

[9] For more information on the review's scope and methodology, see appendix B.

What the Review Found

The OIG review team's analysis showed that VBA was not consistently spending over the planned amount during FY 2024 for either the compensation and pension account or the readjustment benefits account.[10] A contributing cause for the projected shortfall in funding was that realized prior-year recoveries—unspent deobligated funds that are available to be used for other purposes—were not included in the VBA status of funds calculations.[11] Had the realized prior-year recoveries been included in the calculations throughout the year, the monthly funding status reports would have shown a reduced risk of a shortfall by the end of the fiscal year.[12] The OIG's review confirmed that VBA requested supplemental funding to safeguard the timely delivery of benefits to veterans and other eligible recipients for FY 2024. According to the under secretary's congressional testimony on September 18, 2024, "any funding shortfall of just $1 would prevent VA from processing its September pay file," and VBA staff would not be able to process payments for any of its beneficiaries on time.[13] However, the OIG found that improved financial management practices would have reduced the risk of a reported shortfall and the need for a supplemental funding request.[14] The finding is supported by the following determinations:

- VBA officials communicated their funding status to VA leaders and Congress, but the OIG's analysis confirmed that it was still unclear whether the supplemental funding would be needed.
- Monthly tracking reports prepared by VBA for Congress did not include realized prior-year recoveries in the calculation of available funds.
- Lack of projected carryover funding available for use in FY 2024 raised concerns about VBA depleting budgetary resources by the end of the fiscal year.[15]

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[10] The planned amounts were included in the President's Budget released in March 2024.

[11] VA Financial Policy, "Prior Year Recovery," in vol. 2, *Appropriations Funds and Related Information* (July 2024), chap. 9. "Deobligated funds" refers to "a cancelation or downward adjustment of previously incurred obligations." VA Financial Policy, "Obligations," in vol. 3, *Obligations* (November 2024), chap. 2.

[12] In technical comment 1, the acting under secretary for benefits requested a revision to this sentence to clarify that there was still a risk of a shortfall (see appendix D). The OIG revised this sentence to acknowledge that feedback.

[13] *Update on Fiscal Years (FY) 2024 and 2025 Health and Benefits Budget*, *Before the Senate Committee on Veterans' Affairs*, 118th Cong. (September 18, 2024) (statement of Joshua Jacobs, under secretary for benefits, VBA).

[14] The OIG revised this sentence in response to technical comment 3 in which the acting under secretary for benefits requested that the OIG clarify that there was still a risk of a shortfall (see appendix D).

[15] In technical comment 4, the acting under secretary for benefits asked the OIG to clarify the description of carryover funding for FY 2024 and revise it throughout the report to explain it refers to the "lack of projected carryover funding available [for use] at the end of FY 2024" (see appendix D). The OIG revised the description accordingly throughout the report.

- VBA asserted that there would be a customary end-of-year surge in claims processing to meet VBA regional office performance goals, but a VA Office of Budget analysis did not show a spike in obligations in the compensation and pension account for that time.

From March through September 2024, VBA continued to emphasize the risk to veterans in its communications to Congress, even though the data increasingly suggested there might actually be less need for supplemental funding as time went on. One contributing cause for the supplemental request was the fact that VBA staff did not include realized prior-year recoveries in their calculations in the monthly status of funds reports, without which there appeared to be a shortfall by September 2024. Prior-year recoveries were reported as a narrative element in communications to Congress but were not included in VBA's calculations for its monthly status of funds throughout FY 2024. The prior-year recoveries available from October 2023 through August 2024 totaled approximately $857 million for the compensation and pension account and the readjustment benefits account combined.[16] Because the calculations in the status of funds reports did not include realized prior-year recoveries, the reports did not clearly reflect all available resources to cover any actual amount that exceeded what was planned.

The OIG review team analyzed the monthly status of funds for FY 2024 and included the realized prior-year recoveries in the calculations, which showed the spending for both the compensation and pension and readjustment benefits accounts were either running close to, or under, the total funds available before the supplemental request. By September 30, 2024, these monthly recoveries totaled approximately $1.2 billion for the year, which mitigated the reported shortfall.[17] However, VBA leaders told the OIG team that they did not estimate the prior-year recoveries as part of the budget planning process because these recoveries are unpredictable. By excluding these recoveries from the monthly status of funds financial calculations, VBA underestimated the resources available to cover FY 2024 obligations. VBA Office of Financial Management officials agreed with the OIG team that including the monthly prior-year recoveries in the status of funds report calculations as a separate line item would provide a more complete picture of VBA's financial performance.

During an interview, a VA Office of Budget official told the OIG team that the expected exhaustion of projected carryover funds available for use in FY 2024 was one of the reasons the

[16] For information about the quarterly prior-year recoveries, see appendix C.

[17] VA reported the total prior-year recoveries as of September 2024 were about $1 billion for the compensation and pension account and about $178 million for the readjustment benefits account; the total rounds to $1.2 billion. The monthly prior-year recoveries were reported on SF-133s. The SF-133 is a report on budget execution and budgetary resources that agencies are required to produce and submit periodically to allow for the monitoring of budgetary resources, changes in obligated balances, and net outlays.

supplemental funding was requested.[18] VBA's preservation of carryover funding in prior fiscal years created a buffer if unexpected funding was needed for the compensation and pension and readjustment benefits accounts. Unlike previous years (for example, VBA started FY 2023 with about $17.4 billion in carryover funding for the compensation and pension account and $8.9 billion for the readjustment benefits account), VBA did not anticipate having any carryover funding through FY 2024, leading to heightened internal concerns about maintaining a cushion for unanticipated obligations.

The review team also found that some of VBA's assumptions driving the supplemental funding request were not supported. VBA officials stated they anticipated a surge in claims processing at the end of the fiscal year due to both expanded eligibility for millions of veterans under the PACT Act and VBA regional office performance goals. However, data from the VA Office of Budget showed no significant end-of-year spikes in obligations in the past five years for either the compensation and pension account or the readjustment benefits account. Although VBA officials also cited an anticipated impact from judicial decisions such as the *Rudisill v. McDonough* U.S. Supreme Court decision, the review team's analysis showed that these factors were either overstated or would not significantly affect FY 2024 spending. For instance, communications from July show that VA and VBA officials knew VBA would not have to cover substantial costs stemming from the *Rudisill* decision during FY 2024.[19]

VBA officials ultimately justified the supplemental funding request as a precautionary measure to avoid potential payment delays to veterans.[20] Although VBA acted with the intent to prioritize veterans' benefits, the OIG found that improvements in financial oversight, reporting accuracy, and communication processes would have provided greater clarity and may have obviated the need for the supplemental funding request from Congress at the end of the fiscal year.[21] These refinements can enhance VBA's credibility and communications with Congress, the veteran community, taxpayers, and other stakeholders. By making these improvements, VBA can better align its financial management practices with its mission of providing timely and reliable benefits to veterans and their families.

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[18] Andrew McIlroy, deputy assistant secretary for budget, interview with the OIG team, October 10, 2024. This sentence was also updated in response to technical comment 4 to clarify that carryover funding for FY 2024 relates to the "lack of projected carryover funding *available [for use] at the end of FY 2024*" (emphasis added) (see appendix D).

[19] Acting VA Chief Financial Officer (CFO) Edward Murray, email message to Under Secretary for Benefits Joshua Jacobs and Deputy CFO Christina DiTucci et al., July 19, 2024.

[20] *Update on Fiscal Years (FY) 2024 and 2025 Health and Benefits Budget, Before the Senate Committee on Veterans' Affairs,* 118th Cong. (September 18, 2024) (statement of Joshua Jacobs, under secretary for benefits, VBA).

[21] In technical comment 5 (appendix D), the acting under secretary for benefits asked the OIG to revise the original sentence to "may have mitigated the [assessed level of] risk for the supplemental funding request." The OIG instead revised the sentence to clarify that the improvements in financial oversight, reporting, and communication would have given VBA greater clarity that may have obviated the need for the supplemental funding request.

What the OIG Recommended

On the basis of the OIG's findings of the factors and conditions that related to the VBA supplemental funding request, the OIG made four recommendations. The following three are directed to the under secretary for benefits:[22]

1. Develop comprehensive management controls with clear roles and responsibilities at each level of the Veterans Benefits Administration to ensure effective oversight of mandatory accounts and the timely communication of any potential budgetary shortfalls.
2. Ensure the Office of Financial Management develops procedures to incorporate all available budgetary resources, as reported on the SF-133s, in its calculations for the status of funds reports for transparent communication to internal and external stakeholders.
3. Institutionalize monthly fiscal reviews between the Office of Financial Management and program offices to routinely assess performance and cost drivers that may affect the status of available funds.

The OIG made the final recommendation to the acting assistant secretary for management/chief financial officer (CFO):

4. Institutionalize monthly fiscal reviews between the VA Office of Budget and the Veterans Benefits Administration Office of Financial Management to routinely assess performance and cost drivers that may affect the status of available funds.

VA Management Comments and OIG Response

The acting under secretary for benefits concurred or concurred in principle with all recommendations directed to him. Concurrence in principle with recommendation 1 included that VBA's Office of Financial Management has management controls with clear roles and responsibilities, but the office "will develop and maintain a standard operating procedure to centrally document roles and responsibilities, including communications." Similarly, he concurred in principle with recommendation 2, indicating that VBA's status of funds report includes all available budgetary resources in its SF-133s. Still, to address the OIG's concern that readers may focus only on the table and not read the narrative, the Office of Financial Management is reformatting the status of funds report to include realized prior-year recoveries in the table and adding the resources to the narrative. The acting under secretary concurred with recommendation 3 and requested it be closed because the Office of Financial Management

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

participates in weekly and biweekly meetings with VBA stakeholders to assess workload, performance, and cost drivers that affect mandatory accounts. However, the limited documentation provided did not support the recommendation's closure at the time of submission.

He also provided six technical comments (see appendix D). The OIG made changes responsive to all his technical comments and has incorporated clarifying or corrected language where appropriate. These included correcting a typographical error in legal citations; indicating that although risks could be reduced, they still remained; clarifying that the report's discussion of carryover funds was related to their use in FY 2024; and revising the characterization of communications to Congress and its decision-making to reflect the information provided.

The acting assistant secretary for management and CFO concurred with recommendation 4, noting that VA's Office of Budget holds two distinct monthly fiscal reviews involving multiple offices to routinely assess performance and cost drivers that may affect the status of available funds. Moving forward, the office will also ensure realized prior-year recoveries are included as a funding source in budgetary presentations of the compensation and pension and readjustment benefits accounts. Although the status of recommendation 4 was marked as complete, no documentation with a request for closure was provided, so it remains open at the time of publication.

The acting assistant secretary for management and CFO also provided three technical comments (appendix E). The OIG generally agreed with technical comments 1 and 2 and incorporated requested clarifying language in the report text where appropriate. These include an explanation of the timing and process for reporting to Congress that the supplemental funding was not needed, as well as refining the terminology used in the appropriations process.

The OIG's presentation of its evidence on quarterly dollar figures for FY 2024 funds, however, did not align with changes recommended in technical comment 3, and the OIG added a footnote of explanation in appendix C noting that it did reflect prior Office of Management feedback to the OIG team.

The OIG considers all recommendations open and will monitor the implementation of planned actions. The recommendations will be closed when sufficient evidence has been submitted to demonstrate progress in addressing the intent of the recommendations and the issues identified.

Larry M. Reinkemeyer

LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

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Abbreviations

CFO	chief financial officer
FY	fiscal year
OIG	Office of Inspector General
OMB	Office of Management and Budget
PACT Act	Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics Act of 2022
PA&I	Performance Analysis and Integrity
VBA	Veterans Benefits Administration

Introduction

The Veterans Benefits Administration (VBA) provides a wide range of benefits to service members, veterans, and their families. These benefits include disability compensation, pensions, employment services, and educational opportunities.[23] VBA's Compensation Service provides monthly payments to veterans for the effects of one or more disabilities that result from diseases or injuries that happened during or were made worse by active military service (service-connected disabilities).[24] The program also provides monthly payments to eligible surviving spouses, dependent children, and dependent parents. VA's pension program provides eligible veterans and their survivors with a minimum level of monthly income to raise their standard of living based on financial need. Readjustment benefits include education benefits for dependents and survivors, education and training for veterans through Post-9/11 GI Bill (Chapter 33) benefits and the Veteran Readiness and Employment program, and other programs that provide housing, automotive, and adaptive equipment grants for disabled veterans.[25] VBA's mission is to deliver these benefits efficiently and accurately, ensuring timely support for veterans and their dependents. The funding for these services comes from mandatory appropriations—that is, appropriations specifically for paying benefits such as compensation, pension, and education—to ensure eligible beneficiaries receive their entitlements. While these appropriations cannot be used for discretionary purposes, such as general operating expenses, VA can transfer funds between its mandatory accounts with congressional approval.

Following an approved budget estimate in March 2023, VA was given opportunities to update that estimate based on more recent data.[26] According to the revised VA request (the "second bite") for funding approved in fiscal year (FY) 2024, VBA estimated about $179 billion for the compensation and pension account and approximately $14.4 billion for the readjustment benefits account (about $193.4 billion across both accounts) would be needed to cover operations for FY 2024.[27] The revised request was made because VBA officials determined that the funding for

[23] This report adopts VBA terminology and uses "compensation" to refer to "disability compensation."

[24] "About VBA" (web page), VBA, accessed November 4, 2024, https://benefits.va.gov/BENEFITS/about.asp; 38 C.F.R. § 3.1(k) (1961).

[25] "Department of Veterans Affairs FY2024 Appropriations" (web page), Congressional Research Service, accessed October 3, 2024, https://crsreports.congress.gov/product/pdf/R/R48056. Chapter 33 was enacted in the Post-9/11 Veterans Educational Assistance Act of 2008 and provides educational assistance to individuals with service in the armed forces commencing on or after September 11, 2001.

[26] VA has a routine two-year funding process. As described more fully in this report, VA requested an advance appropriation in response to the President's Budget request released in March 2023 for VBA's fiscal year 2024 funding and then a "second bite" request to revise the appropriations for FY 2024 based on more recent data. However, the supplemental funding required Congress to pass a new bill, which was an out-of-cycle request.

[27] This revised submission was included in the FY 2025 President's Budget, which was published in March 2024, www.va.gov/opa/docs/remediation-required/management/fy2025-va-budget-volume-iii.pdf. The fiscal year for federal budgets runs from October 1 through September 30.

FY 2024 might be insufficient for these two mandatory accounts, so they requested additional support through the revised FY 2024 budget request and then again through a supplemental funding request for the remainder of FY 2024 that was addressed outside the routine appropriations process.

On July 19, 2024, the VA Secretary sent a letter to Congress announcing that VBA would need about $2.9 billion, which was in addition to the $193.4 billion already received through the appropriations process. He noted that over seven million veterans and beneficiaries were at risk of not receiving their benefits payments on time without that funding. Then, on September 20, 2024, the President signed into law a supplemental appropriations bill approving the approximately $2.9 billion in additional funds for VBA.[28] This included about $2.3 billion for compensation and pension and almost $597 million for readjustment benefits for the remainder of FY 2024 (ending September 30, 2024).

In addition, the supplemental appropriations law required the VA Office of Inspector General (OIG) to

- review the circumstances surrounding, and the underlying causes of, the announced funding shortfall for VBA for FY 2024 described in the letter to Congress from the VA Secretary on July 19, 2024;[29]
- compare monthly obligations and expenditures in relevant accounts against the spend plan of the department as it relates to the expected funding shortfall for VBA in FY 2024;
- determine the reasons for any significant diversions of obligations or expenditures from the spend plan;
- analyze the accuracy of projections and estimates if diversions exist; and
- assess any other matter determined relevant by the VA OIG.

Accordingly, this review's objective was to determine the conditions and causal factors leading to VBA's reported shortfall and the request for an additional $2.9 billion in mandatory funding

[28] The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act, 2024, Pub. L. No. 118-82 § 104. Appendix A provides relevant sections of the Supplemental Appropriations Act and the OIG's actions in response, appendix B discusses the review's scope and methodology, and appendix C provides details on the OIG team's assessment of VBA's monthly planned and actual spending for the compensation and pension and readjustment benefits accounts. In VA's technical comment 2 to this report (see appendix D), the acting under secretary for benefits requested that the OIG revise the public law number; the OIG corrected this typographical error throughout the report. The OIG was also required to review the factors and conditions that resulted in the supplemental funding request for FY 2025 of about $12 billion for the Veterans Health Administration, which is the focus of another OIG oversight report. VA OIG, *The Causes and Conditions That Led to a $12 Billion Supplemental Funding Request*, Report No. 24-03127-66, March 27, 2025.

[29] VA Secretary Denis McDonough, letter to Sens. Tester and Moran as well as Reps. Cole, Bost, and Takano, July 19, 2024. Note that the titles and positions referenced in this report were held as of the time of the review.

for FY 2024.[30] The report addresses each of the requirements in the course of that work. Appendix A provides the relevant legislative language and notes that the budget submission does not identify expenditures or monthly obligation amounts to use as a comparator (as the law suggests), so the OIG team instead used VBA's status of funds report provided to Congress to help compare monthly planned and actual obligations and expenditures in the two relevant accounts identified within the body of this report.[31] The team did not identify significant diversions of obligations or expenditures during the course of this review; therefore, an assessment of the accuracy of projections and estimates was not required.

Budget Formulation Process

Since FY 2017, VBA's annual budget has requested funding for the upcoming two fiscal years, called an advance appropriation.[32] This strategy ensures VBA can continue operating without disruption if there is a lapse in appropriations, which occurs when there is no enacted annual appropriations law or when VBA must operate under a continuing resolution.[33] Figure 1 shows the stages of the fiscal year budget formulation.

[30] The total amount of VBA's supplemental funding request is rounded from $2.883 billion.

[31] The planned amounts were included in the President's Budget released in March 2024.

[32] The Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. 113-235. This law amended 38 U.S.C. § 117 and authorized advance appropriations for three mandatory VA benefits programs within VBA: compensation and pension, readjustment benefits, and veterans insurance and indemnities. Beginning with the FY 2016 Military Construction and Veterans Affairs, and Related Agencies Appropriations Act (MILCON-VA; Pub. L. 114-113), those accounts received advance appropriations for the first time in FY 2017. "Department of Veterans Affairs FY2024 Appropriations" (web page), Congressional Research Service, accessed November 15, 2024, https://crsreports.congress.gov/product/pdf/R48056.

[33] "Continuing Resolutions: Overview of Components and Practices" (web page), Congressional Research Service, accessed January 30, 2025, https://crsreports.congress.gov/product/pdf/R/R46595. The program activities of most federal agencies are generally funded annually through the passage of regular appropriations acts. When those are not enacted by the beginning of a fiscal year (October 1), one or more continuing appropriations laws (commonly known as continuing resolutions) may be enacted to provide temporary funding to continue certain programs and activities until regular appropriations acts are passed.

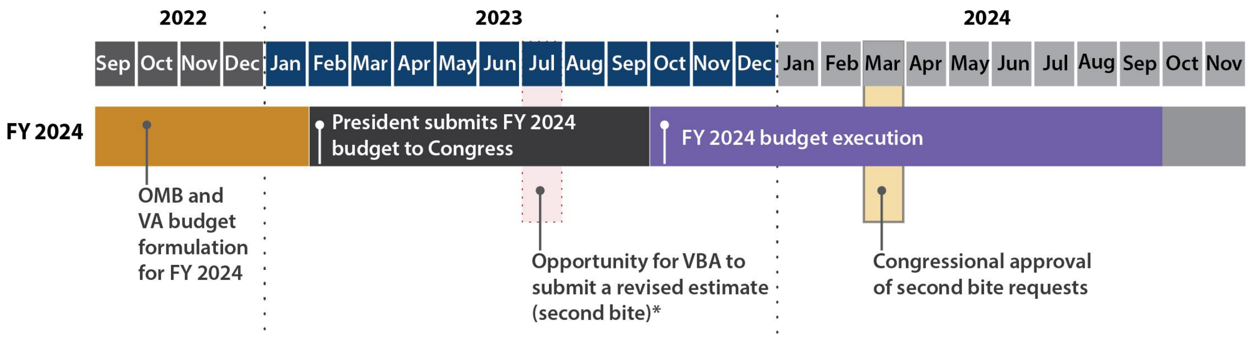

Figure 1. *Conventional stages of the fiscal year President's Budget formulation process during a calendar year.*

Source: VA OIG analysis of the Congressional Research Service Executive Budget Process Timeline: In Brief.

Note: The target dates and time ranges in this figure indicate goals in the budget process; however, budget negotiations often delay some steps in the process, and in FY 2024, the actual deadlines did not always match those in the figure. VA received the "passback" notification in January 2023 that the Office of Management and Budget had approved the FY 2024 budget. Congress appropriated the second bite requests on March 9, 2024.

** By statute, the President must submit the revised estimates to Congress before July 16 each year.*

Funding requests for a future fiscal year are made over the period of two budget years:

- **Advance appropriation.** This initial request is made in the previous year's budget estimate to secure the bulk of a fiscal year's funding. For FY 2024 funding, the advance appropriation was requested in VA's FY 2023 President's Budget. The appropriations bill was enacted in December 2022.[34]
- **Revised estimate.** The second part of a fiscal year's budget, called the revised estimate (or second bite), is a request for additional funding based on more current information. These revised estimates are updated to account for more recent data, actual program experience, and external factors such as unemployment rates and inflation. The appropriations bill with VBA's finalized second bite requests made in July 2023 was passed in March 2024.[35]

The Office of Management and Budget (OMB) reviews VA's annual budget request and approves a final budget amount. OMB notifies VA of an amount (including VBA's approved amount in the President's Budget) around November or December (for FY 2024, this was done in January 2023). This notification is called the "passback." After the passback, VA has a brief time—usually 72 hours—to appeal OMB's decision. The final request is presented in the President's Budget for the upcoming fiscal year, and then Congress determines the final budget amount.

[34] Consolidated Appropriations Act, 2023, Pub. L. 117-328. In response to the acting assistant secretary for management and chief financial officer's (CFO) technical comment 2 (appendix E), the word "appropriated" was changed to "enacted" in this sentence.

[35] Consolidated Appropriations Act, 2024, Pub. L. 118-42.

VBA also has an opportunity to adjust its budget request for the "second bite" using updated forecasts to revise estimates in the next fiscal year's President's Budget to account for any technical and legislative developments. The revised estimates must be sent to Congress by July (for example, VBA released a revision to the FY 2024 budget request in July 2023). To help prepare this document for Congress, VBA refreshes various projections, such as the workload projection developed by VBA's Office of Performance Analysis and Integrity (PA&I).

Estimating Resources for Compensation, Pension, and Readjustment Benefits

Formulating the VBA budget is a complex process that involves allocating resources to various programs, primarily focused on providing veterans with compensation, pension, and readjustment (mostly educational) benefits. Estimating the financial resources VBA needs to provide benefits payments for a forthcoming fiscal year begins several years prior. As a result, the initial budget estimate inherently reflects uncertainty about future conditions, such as legislative mandates and economic events. VBA estimates its financial needs for the upcoming fiscal year based on past obligations, its projection of benefits claims, and anticipated changes in veteran demographics. VBA predicts the number of veterans expected to apply for benefits, as well as the number of ongoing recipients. Budgeting factors also include trends in disability claims, aging veteran populations, and legislative changes expanding eligibility for benefits. Figure 2 shows VBA's budget formulation process that is described below.

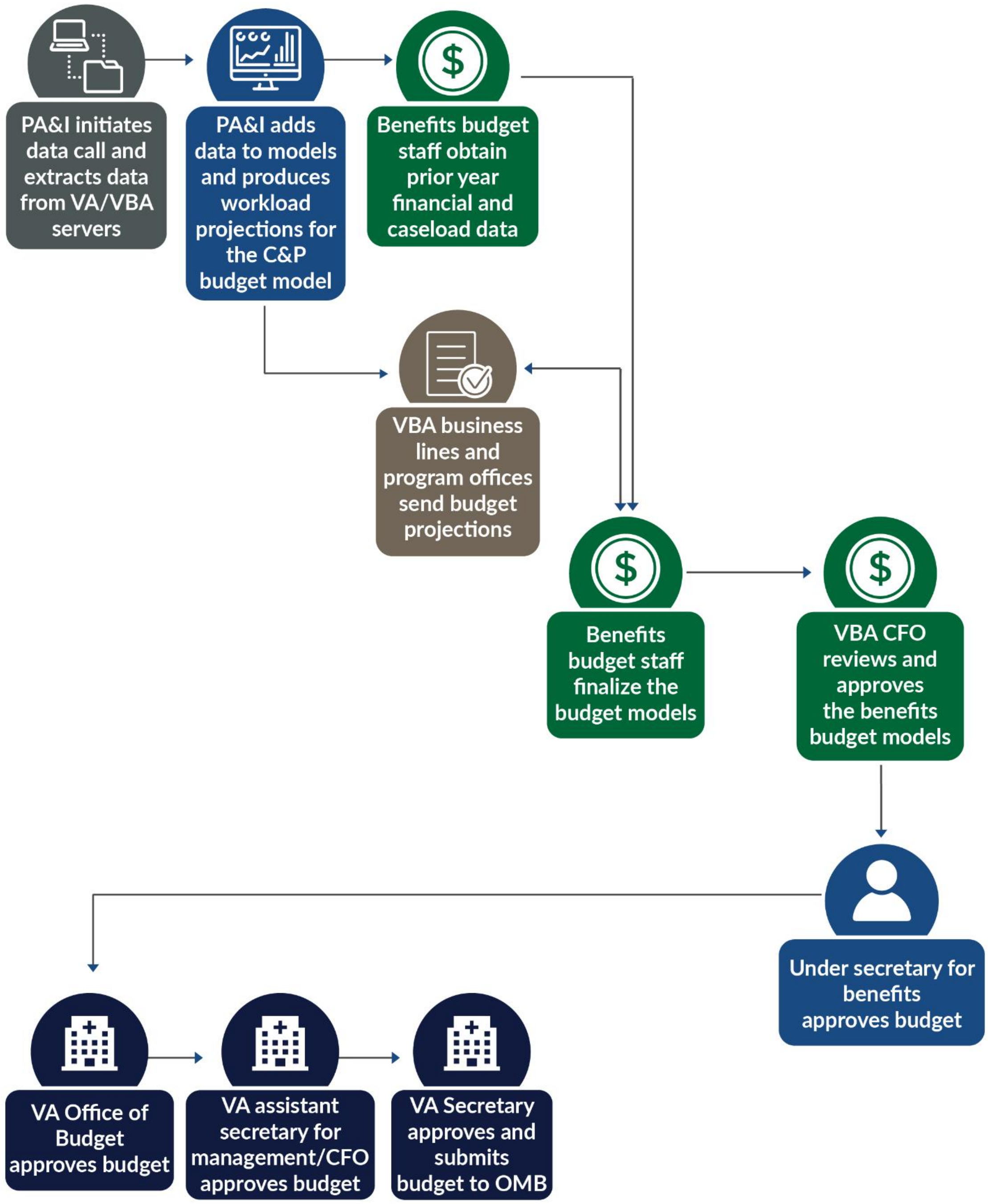

Figure 2. *VBA budget estimation process based on the OIG's analysis.*

Note: Office of Financial Management positions include benefits budget staff and the VBA chief financial officer (CFO) (dollar icon).

Source: VA OIG analysis of VBA budget documentation and interview statements.

According to the VBA chief financial officer (CFO), formulating the initial budget estimate for the compensation and pension and readjustment benefits accounts involves collaboration among multiple VBA offices and data inputs from several VA and VBA information systems and applications. VBA's PA&I initiates workload forecasting, a key element in the budget formulation process for the compensation and pension account. PA&I staff ask VBA subject matter experts to send information that cannot be obtained by historical data alone, such as assumptions regarding future staffing, operational plans, and major events. PA&I then uses these assumptions and projections as inputs for its forecasting models. VBA business lines (such as the Compensation Service and the Pension and Fiduciary Service) and program offices receive the PA&I forecasts and can use them to help formulate their budget needs for the future fiscal year, provide feedback to PA&I for refinements, or make changes based on their subject matter expertise. Next, the business lines submit finalized projected budgetary needs to the VBA Office of Financial Management for review and consideration when calculating the total resources required for the compensation and pension and readjustment benefits accounts. This office is responsible for developing, submitting, and justifying the benefits budget estimate.

PA&I and the Office of Financial Management run workload, compensation and pension, and readjustment benefits models several times a year as new information, such as actual claims-processing data, becomes available. VA and VBA consider input from program offices based on changing information and other factors such as the funding needs of VA's other administrations. Once the modeled estimates are complete, the VBA CFO approves the estimates and submits them to the Office of the Under Secretary for Benefits. Once approved there, the budget estimates move to VA's Office of Budget. Next, the overall estimate goes to VA's assistant secretary for management, who is also the CFO. Finally, the VA Secretary approves the overall budget request and submits it to OMB—the agency within the executive branch that develops the various federal department budgets into the President's Budget—sometime around September.[36]

Legislation Affecting the FY 2024 Compensation, Pension, and Readjustment Benefits Budget Estimates

VBA must forecast how much money it will need to fulfill its future obligations several years in advance and predict the effect of legislative changes. While VBA was preparing its FY 2024 budget estimate, the PACT Act was signed into law in August 2022.[37]

The PACT Act significantly expanded eligibility for VA health care and disability benefits for millions of veterans exposed to toxic substances and their survivors, requiring substantial adjustments to VBA's budget projection. After the PACT Act was signed into law, VBA received a record number of online disability compensation claims.[38] The PACT Act added more

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[36] VA's other administrations are the Veterans Health Administration and the National Cemetery Administration.

[37] Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022, Pub. L. No. 117-168.

[38] VA News, "How the PACT Act Is Already Helping Veterans" (web page), September 28, 2022, accessed November 15, 2024, https://news.va.gov/109341/how-pact-act-already-helping-veterans/.

than 20 presumptive disabilities related to burn pits, herbicides (such as Agent Orange), and other toxic exposures and added more presumptive exposure locations for herbicide and radiation, making it "perhaps the largest health care and benefit expansion in VA history."[39] VBA began processing all PACT Act claims on January 1, 2023.[40]

As to a legislative driver of unanticipated costs, VBA attributed the PACT Act as the primary contributor to the increases in veterans' benefits payments. Another factor influencing the readjustment benefits funding included expanded eligibility for both the Montgomery (Chapter 30) and Post-9/11 (Chapter 33) GI bills due to the *Rudisill v. McDonough* U.S. Supreme Court decision. The Supreme Court overturned VA's decision to limit a veteran's educational support to the Post-9/11 GI Bill program (Chapter 33), which grants eligible veterans and their spouses or children up to 36 months of tuition payments, housing stipends, and other financial assistance.[41] Before this decision, veterans who applied for the Post-9/11 GI Bill program gave up eligibility for other education programs—such as the Montgomery GI Bill program, which provides thousands of dollars in annual tuition costs if a veteran paid into the program at the beginning of their military service and served for at least two years. The court decision clarified that eligible veterans are entitled to both benefits up to the aggregate benefits cap as long as the benefits are not used simultaneously.

FY 2024 Compensation, Pension, and Readjustment Benefits Funding Through Routine Appropriations Processes

As noted earlier, Congress appropriated approximately $193.4 billion in funds for VBA's compensation and pension and readjustment benefits accounts available for use in FY 2024. These appropriated funds included VBA's advance appropriation and second bite requests in addition to carryover funding. Carryover funding refers to unobligated balances that are available from prior fiscal years in multiyear and no-year accounts that can be carried forward to the next fiscal year.[42] Table 1 shows VBA's total FY 2024 available funding for both mandatory accounts through its advance appropriation, second bite requests, and carryover funding.

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[39] "The PACT Act and your VA benefits" (web page), VA, March 5, 2024, accessed November 22, 2024, www.va.gov/resources/the-pact-act-and-your-va-benefits/. For presumptive service conditions, VA assumes some diseases or disabilities were incurred in or aggravated by military service, even if there is no evidence of the disease or disability during a veteran's service. The PACT Act also expanded the list of geographical locations where service members would be presumed to have been exposed to radiation or toxic chemicals during military service.

[40] VA News, "VA Will Begin Processing PACT Act Benefits Claims for All Veteran and Survivors on Jan. 1," news release, December 29, 2022, accessed January 28, 2025, https://news.va.gov/press-room/va-will-begin-processing-pact-act-benefits-claims-for-all-veterans-and-survivors-on-jan-1/.

[41] *Rudisill v. McDonough, Secretary of Veterans Affairs*, 601 U.S. 294 (2024). The *Rudisill* case was decided by the U.S. Supreme Court on April 16, 2024, during the October 2023 term. The case was argued before the Supreme Court on November 8, 2023. The 48-month aggregate benefits cap is listed in 38 U.S.C. § 3695(a).

[42] OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, July 2024. "No-year" funding is available until expended, and multiyear funding is available for a definite period spanning more than one fiscal year.

Table 1. VBA's FY 2024 Funding Request and Estimated Obligations (in Billions)

Account	Advance appropriation	Second bite	Carryover funding	Total
Compensation and pension	$146.8	$15.1	$17.2	$179.1
Readjustment benefits	$8.5	$0.375	$5.4	$14.3

Source: VA OIG analysis of the FY 2024 President's Budget.

Note: Numbers may not sum due to rounding; the total amounts for both accounts are rounded and therefore do not reflect the precise amounts identified throughout this report.

Figure 3 presents the timeline of VBA's funding requests through appropriation processes and key events that affected compensation, pension, and readjustment benefits funding from September 2022 through the beginning of March 2024.

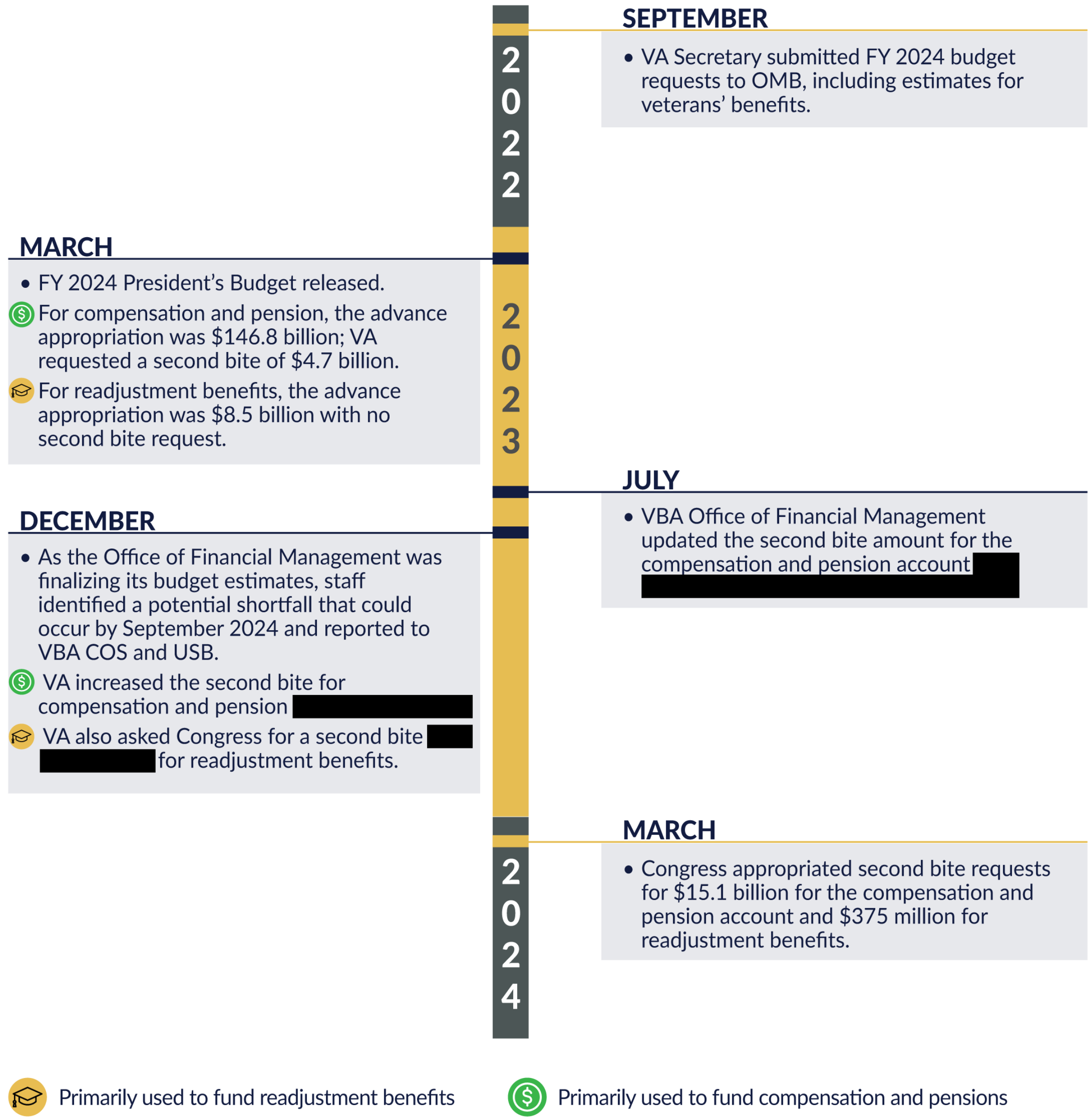

Figure 3. *Timeline of VBA's funding requests through routine appropriation processes and key events that affected funding for compensation, pension, and readjustment benefits (September 2022–March 2024).*

Notes: COS is chief of staff, and USB is under secretary for benefits. Bulleted items in the timeline apply to both accounts. The sums identified in the figure are approximate.

The selected revisions and redactions to the figure were made in accordance with OMB guidance and OMB Circular A-11, Preparation, Submission, and Execution of the Budget, *related to the nondisclosure of predecisional budget activities and communications.*

Source: VA OIG analysis of VA's FY 2024 President's Budget, VBA documents, and interviews with VBA officials.

According to the FY 2024 President's Budget, released in March 2023, VBA initially requested a second bite of approximately $4.7 billion, versus the $15.1 billion that VBA ultimately received, for the compensation and pension account to address an expected increase in obligations primarily due to the PACT Act. A second bite was not requested for readjustment benefits at this time, but was requested in July for the compensation and pension account. [redacted][43]

In December 2023, VBA's Office of Financial Management was working to finalize its compensation and pension and readjustment benefits models. Office of Financial Management personnel notified the chief of staff about a potential shortfall of funds for FY 2024 for the two accounts that could occur in September 2024: [redacted]

The deputy CFO attributed the potential deficit in the compensation and pension account to the effects of the PACT Act on benefits payments because more veterans submitted claims due to VBA's outreach efforts leading up to the one-year anniversary of the PACT Act (in August 2023).[44] According to PA&I, VBA received approximately 2.3 million notices of intent to file that resulted in about 1.5 million claims.[45] Of these 1.5 million claims, about 613,000 were PACT Act–related.[46] Meanwhile, VBA's deputy CFO attributed the shortfall in the readjustment benefits account to an increase in veterans receiving Chapter 33 (Post-9/11 GI Bill) education benefits, higher Chapter 33 average payments, and expanded eligibility due to the recent *Rudisill* court decision.

Also, in December 2023 (more than two months into FY 2024), actual numbers from FY 2023 were incorporated into the projection models, including actual claims-processing information and October 2023 PA&I workload estimates projecting that about 2.2 million claims would be completed in FY 2024. Using the actual numbers from FY 2023 and the first month of FY 2024, VBA increased the second bite appropriations request again [redacted]

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[43] This report was subject to OMB review. The resulting revisions and redactions made throughout the text were also made in accordance with OMB guidance and OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, related to the nondisclosure of predecisional budget activities and communications.

[44] The deputy CFO for budget and policy in December 2023 became the VBA CFO in January 2024.

[45] PA&I assistant director of data requests, email message to OIG review team, January 15, 2025. Veterans can notify VA that they intend to file a claim, and doing so establishes the earliest possible effective date for benefits if they are eligible. Notifying VA of an intent to file gives veterans up to one year to submit the completed claim and preserves the intent to file date as the date the claim was received. An "intent to file" demonstrates a veteran's desire to file a claim for benefits and can be submitted electronically, by written form, or orally to designated VA personnel who then record the intent in writing. VA Manual 21-1, "Intent to File (ITF)," updated June 14, 2023, sec. II.iii.2.A in *Adjudication Procedures Manual*.

[46] PA&I executive director, email message to OIG review team, January 10, 2025. According to PA&I, indicating an "intent to file" does not require the filer to identify whether a claim is related to the PACT Act.

[redacted][47]

In the final request for second bite funding made in December 2023, VBA reported to Congress that approving the second bite funding for FY 2024 would alleviate the need for additional funding requests later in the fiscal year. However, in March 2024, when VBA received the $15.1 billion and $375 million through the second bite request, VBA's CFO was still worried there was a risk of a shortfall for the compensation and pension and readjustment benefits accounts. According to the VBA CFO, they would need the additional funding to respond to updated workload projections that included a significant increase for claims that would be completed in FY 2024. The CFO also stated that in March 2024, a lot of unknowns and unexpected requirements, such as new legislation and presumptive conditions, increased the need for additional funding.[48]

According to VBA officials, after discussions among VA and VBA leaders, months of monitoring the mandatory account fund balances, and updated projections between March and June 2024, VA took the step in July of requesting more funding from Congress through a supplemental funding bill—a request VBA had resorted to only once before. VBA Office of Financial Management officials told the OIG team that, as far as they are aware, the compensation and pension account last received supplemental funding in FY 2010, and the readjustment benefits account had not received supplemental funding at that time.[49]

In response to the legislative directive for the OIG to discuss the conditions and causes related to this latest supplemental funding request, the Results and Recommendations section of this report discusses the related key events that the OIG review team examined and how those events unfolded from March through October 2024.

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[47] Redacted per OMB guidance and OMB Circular A-11.

[48] One example of new legislation was the Senator Elizabeth Dole 21st Century Veterans Healthcare and Benefits Improvement Act before Congress in FY 2024. This bill was signed into law on January 2, 2025, and expands home care and caregiver support, increases benefits for veterans experiencing homelessness, improves healthcare benefits, and expands eligibility for education programs.

[49] According to VBA, the compensation and pension account received supplemental funding of about $13.4 billion in FY 2010 associated with the VA Secretary announcing his intent to establish service connection in October 2009 for Parkinson's disease, ischemic heart disease, and hairy cell leukemia for veterans who served in Vietnam.

Results and Recommendations

Finding: Improved Financial Management Practices Would Have Reduced the Risk of a Reported Shortfall and the Need for a Supplemental Funding Request for VBA's Compensation and Pension and Readjustment Benefits Accounts in FY 2024

On March 1, 2024, eight days before Congress enacted the Consolidated Appropriations Act of 2024, VBA's CFO notified VBA's chief of staff that the administration's funding estimates signaled a potential deficit for the remainder of FY 2024 in its compensation and pension and readjustment benefits accounts. According to VBA's CFO and deputy CFO, VBA was projecting a deficit of approximately $2.3 billion by September 30, 2024 (the end of the fiscal year) in the compensation and pension account due to updated workload projections primarily related to increased claims processed under the PACT Act.[50] Subsequently, as more claims were being processed, VBA anticipated a greater funding need for benefits payments and reported an increase in costs related to contracted medical disability exams.[51] Similarly, in July 2024, these officials reported that VBA also expected a deficit of approximately $597 million by September 30, 2024, in the readjustment benefits account because of an increase in the average payment amounts for Chapter 33 education benefits and a court decision that increased GI Bill education benefits due to changes in eligibility.[52]

As a result, in July 2024, VA announced to Congress that approximately $2.9 billion in supplemental funding was needed to cover mandatory compensation, pension, and readjustment benefits payments. During interviews with the OIG, VBA officials stated that they wanted to err on the side of caution to minimize the financial risk for veterans who would be delayed in receiving needed benefits payments if there was a gap in funding for the end of FY 2024. A lack of projected carryover funding available for use at the end of FY 2024 heightened internal concerns about maintaining a cushion for unanticipated obligations.[53] Finally, the perceived shortfall was a consequence of VBA not including realized prior-year recoveries in the calculations in the monthly status of funds reports.

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[50] Lasheeco Graham, VBA CFO, and Christina DiTucci, VBA deputy CFO, interview with the OIG team, September 18, 2024.

[51] These exams are conducted to gather necessary medical information from veterans to determine whether they have a service-connected disability and to assess the severity of that disability.

[52] As noted earlier, in the *Rudisill* case, the Supreme Court held that veterans who accumulate benefits under the Montgomery and Post-9/11 GI bills under separate periods of service are entitled to both benefits up to the 48-month aggregate benefits cap listed in 38 U.S.C. § 3695(a). However, these benefits cannot be used simultaneously.

[53] This sentence was revised, and where applicable throughout the report, to be responsive to the acting under secretary's technical comment 4 to clarify that the carryover being discussed relates to the "lack of projected carryover funding available [for use] at the end of FY 2024" (see appendix D).

In response to VBA's request for additional funding, Congress passed a supplemental appropriations bill on September 19, 2024, which the President signed into law on September 20. It provided VBA with an additional amount of about $2.3 billion for the compensation and pension account and approximately $597 million for the readjustment benefits account.[54]

However, using data available to VBA through August 2024, the OIG team's preliminary analysis showed that it did not appear likely that VBA would experience a shortfall in either account by September 30, 2024. As part of its reporting methodology practice, VBA does not include monthly realized prior-year recoveries in the calculations in its status of funds reports. The team concluded that if VBA *had* included the realized monthly prior-year recovery amounts from deobligated funds in its status of funds calculations, the reports would have shown a decreased risk of a deficit in the two mandatory accounts by the end of the fiscal year. Prior year recoveries that are realized are funds that are available when obligations recorded in a prior fiscal year are deobligated in the current year, allowing the funds to be used for other purposes.[55]

VA has a strategic goal to build and maintain trust with stakeholders through transparency, accountability, and strong stewardship of resources.[56] Including the monthly prior-year recoveries in VBA's monthly status of funds calculations would help provide a more precise and comprehensive picture of its monthly funding status to inform Congress about its need for additional funding. As it was, Congress was not notified of VBA's need for the additional funds until the spending data were finalized at the end of the fiscal year because VA needed to have the information first reconciled and reviewed by multiple layers of VBA and VA leaders to ensure accuracy and then approved by OMB.[57] This lack of precision meant that Congress did not have the calculations that took into account all available resources when considering whether the funds were truly necessary.[58] The OIG acknowledges VBA does not want to risk delays in veterans' payments and services and strives to meet those obligations—a strong motivation for ensuring sufficient funds are always available. The results, determinations, and recommendations in this report are meant to help VBA meet those obligations through improved financial management while maintaining public trust and demonstrating responsible stewardship of taxpayer dollars.

[54] The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act.

[55] VA Financial Policy, "Prior Year Recovery," in vol. 2, *Appropriations Funds and Related Information* (July 2024), chap. 9. "Deobligated funds" refers to "a cancelation or downward adjustment of previously incurred obligations." VA Financial Policy, "Obligations," in vol. 3, *Obligations* (November 2024), chap. 2.

[56] Department of Veterans Affairs Fiscal Years 2022–2028 Strategic Plan, p. 2.

[57] In response to the VA Office of Management's technical comment 1 (see appendix E), the OIG revised this sentence to indicate that VA followed its standard year-end accounting policies to ensure accuracy of the report before releasing it to OMB, Congress, and the public.

[58] In response to technical comment 6 (see appendix D), the acting under secretary asked the OIG to delete the suggestion that Congress's ability to make informed decisions may have been impaired. The OIG revised that phrase to clarify that Congress did not have calculations that included all available resources.

The finding is based on the following determinations:

- VBA officials communicated their funding status to VA leaders and Congress, but the OIG's analysis confirmed that it was still unclear whether the supplemental funding would be needed.
- Monthly tracking reports prepared by VBA for Congress did not include realized prior-year recoveries in the calculation of available funds.
- Lack of projected carryover funding available for use in FY 2024 raised concerns about VBA depleting budgetary resources.[59]
- VBA asserted that there would be a customary end-of-year surge in claims processing to meet VBA regional office performance goals, but a VA Office of Budget analysis did not show a spike in obligations in the compensation and pension account for that time.

What the OIG Did

To assess the causes and conditions surrounding the supplemental funding request, the OIG conducted a review examining VBA's FY 2024 appropriations, obligations, and expenditures to determine what funding was requested, received, and carried over from one fiscal year to the next for the two accounts. The team also compared the original advance appropriation requests for the compensation and pension and readjustment benefits accounts for FY 2024 in the FY 2024 President's Budget to the revised requests in the FY 2025 President's Budget.

To understand the inputs and assumptions used in developing the original FY 2024 request and [redacted] in finalizing the request in the President's Budget, the team interviewed VA and VBA senior leaders.[60] During these interviews, the team also discussed with key officials how much they were aware of and involved with estimates used for the original, revised, and supplemental FY 2024 budget requests. In addition, the team reviewed VA and VBA documentation, as well as emails and other internal communications for key officials, from March 2023 through October 2024.

In response to the Supplemental Appropriations Act, the team used VBA's status of funds report (both internal submissions to VBA leaders and external submissions to Congress) to compare monthly obligations and expenditures in the compensation and pension and readjustment benefits accounts against VBA's spend plan.[61] In addition, the team used the status of funds report to determine whether VBA had any significant diversions of obligations or expenditures and, if so, whether these diversions were identified. Appendix A provides relevant sections of the

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[59] Per technical comment 4, the OIG clarified the description of carryover funding for FY 2024 here and throughout the report to explain it refers to the "lack of projected carryover funding available [for use] at the end of FY 2024" (see appendix D).

[60] Redacted in accordance with OMB guidance and OMB Circular A-11.

[61] The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act § 104.

Supplemental Appropriations Act and the OIG's actions in response. Appendix B discusses the review's scope and methodology.

VBA Officials Communicated Their Funding Status to VA Leaders and Congress, but the OIG's Analysis Confirmed That It Was Still Unclear Whether the Supplemental Funding Would Be Needed

Ultimately, through routine budgetary processes, Congress appropriated approximately $179 billion for the compensation and pension account and approximately $14.4 billion for the readjustment benefits account for FY 2024. The funding included carryover, the advance appropriation, and the second bite request that VBA said it needed to sustain operations through September 2024. Through the course of interviews and email reviews, the OIG team determined that in March 2024, VBA leaders did not think this funding would be sufficient through the end of the fiscal year and justified the need for supplemental funding, as demonstrated in the chronology of events described in the sections that follow. VBA leaders consistently conveyed the following justifications for the potential shortfall in their communications with Congress and with the OIG. With respect to the potential deficit for the compensation and pension account, these factors included

- an influx of PACT Act–related claims and a record-setting year in VBA staff performance;
- increased annual average compensation and pension claim payments, from $23,674 in 2023 to an estimated $26,238 in 2024;
- a higher approval rate for PACT Act–related claims (75 percent approval of PACT Act claims in comparison to 65 percent for other types of claims);
- increased average disability rating from 60.8 percent in 2023 to an estimated 62.8 percent in 2024 because of the expansion of service-connected conditions due to the PACT Act; and
- greater costs for more contracted medical disability exams than anticipated.

For the readjustment benefits account, VBA emphasized the following factors contributed to the anticipated shortfall:

- Higher average payments for Post-9/11 GI Bill (Chapter 33) provision benefits.[62]

[62] The Post-9/11 GI Bill (Chapter 33) is an education benefit program available to veterans who served on active duty on or after September 11, 2001.

- Expanded eligibility for the Montgomery GI Bill (Chapter 30) and Chapter 33 benefits due to the *Rudisill* Supreme Court decision.[63]
- Increased eligibility for Veteran Readiness and Employment (Chapter 31) benefits and Chapter 35 benefits for spouses or dependent children due to the PACT Act.[64]

Figure 4 illustrates a timeline that tracks what VBA officials knew in 2024 about the financial status of these mandatory accounts and what they reported to Congress.

[63] The OIG team determined that VBA did not have to pay any of these benefits in FY 2024 due to the *Rudisill* decision. The Montgomery GI Bill (Chapter 30) is a veteran education benefit program that requires a service member to contribute a set amount of money while on active duty.

[64] The Veteran Readiness and Employment program, authorized by Congress under 38 U.S.C. § 31, helps veterans with service-connected disabilities find long-term employment. The Survivors and Dependents Educational Assistance Program's Chapter 35 benefits help pay for education and training opportunities for the dependent children and spouse of a veteran who died or is permanently and totally disabled because of a service-connected disability; a veteran who died of any cause and who had a permanent and total service-connected disability; a service member missing in action or who was captured in the line of duty; or a service member who is hospitalized or in outpatient treatment for permanent and total service-connected disability and is likely to be discharged because of that disability.

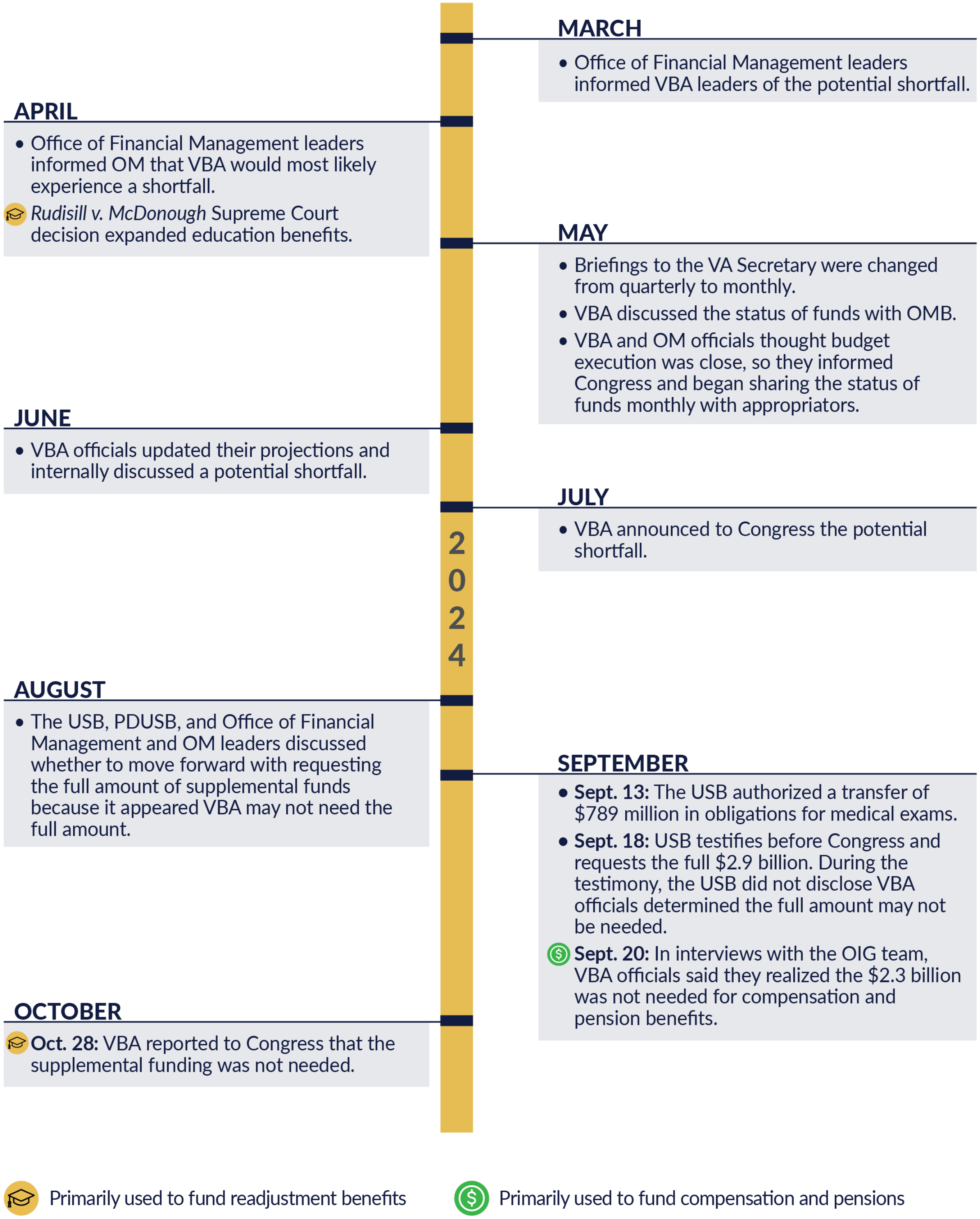

Figure 4. *Timeline of VBA's internal and external communications about the potential budget shortfall.*

Note: OM is the VA Office of Management, USB is under secretary for benefits, and PDUSB is principal deputy under secretary for benefits. Bulleted items in the timeline apply to both accounts. The sums identified in the figure are approximate.

Source: VA OIG analysis of VBA timeline documents, emails, Microsoft Teams messages, and interviews with VBA officials.

March 2024: VBA Begins Planning for a Potential Shortfall Based on Updated Workload Projections and Previously Unknown Factors

In an email dated March 1—eight days before the appropriations bill was passed to fund the "second bite" amount of about $15.1 billion for compensation and pension and approximately $375 million for readjustment benefits for FY 2024—the VBA CFO informed their chief of staff that VBA would likely need about $3 billion in additional funding for veterans' benefits beyond the appropriations bill amount.[65] On March 4, the chief of staff informed the under secretary for benefits and the principal deputy under secretary for benefits about the potential shortfall.[66] The $3 billion estimate was based on updated workload projections from PA&I in January 2024, after the FY 2025 President's Budget had already been finalized. The updated projections showed a higher workload of 2.4 million claims—an increase from the two million claims projected in January 2023—being processed by the end of FY 2024 because more veterans would be eligible for benefits due to conditions added by the PACT Act. The VBA CFO explained to the VBA chief of staff that unknown or unexpected requirements, such as added health conditions and the potential for new legislation to be implemented, increased the need for more funding.[67] Moreover, VBA officials did not know exactly when in FY 2024 any proposed legislation affecting benefits would be passed or implemented, which makes a difference in the amount of funding required. The VBA CFO also stated that this estimate was not definitive because the VBA Office of Financial Management did not have all the necessary information.[68]

May 2024: VBA Increased Reporting to Congress and the VA Secretary About the Status of the Compensation and Pension and Readjustment Benefits Accounts

The OIG review team saw evidence during May 2024 of VBA's enhanced monitoring and communication to stakeholders over the status of funds for the compensation and pension and readjustment benefits accounts. In an email dated May 2, the under secretary for benefits asked the CFO and deputy CFO for their "assistance in sharing burn rate data [actual spending compared to planned spending] with me on a regular basis," at which time they agreed to share VBA's updated monthly status of funds. Furthermore, VBA financial management officials discussed the status of funds for the two mandatory accounts with OMB.

The VBA CFO and deputy CFO determined in May that actual spending for the compensation and pension and readjustment benefits accounts was running close to their planned amounts and

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[65] In their internal discussions, VBA officials frequently rounded the potential shortfall estimate to $3 billion.

[66] VBA Chief of Staff Brandye Terrell, email message to Under Secretary for Benefits Joshua Jacobs and Principal Deputy Under Secretary for Benefits Mike Frueh, March 4, 2024.

[67] VBA CFO Lasheeco Graham, email message to VBA Chief of Staff Brandye Terrell, March 1, 2024. One example of new legislation was the Senator Elizabeth Dole 21st Century Veterans Healthcare and Benefits Improvement Act before Congress in FY 2024.

[68] VBA CFO Lasheeco Graham, email message to VBA Chief of Staff Brandye Terrell, March 1, 2024.

decided to increase VBA's frequency of reporting to Congress. VBA was required to report the status of funds to Congress on a quarterly basis.[69] In addition to this quarterly report, which consisted of a single row in a spreadsheet showing the balances for each account, VBA decided to submit monthly tracking reports (which ultimately began in June). The monthly reports were one to two pages and included a narrative explaining the balance for each mandatory account.

June–July 2024: Updated Workload and Obligation Projections Reinforced the Need for Supplemental Funds

In June, PA&I officials recalculated the workload projection for compensation and pension claims in preparation for the review of the budget and realized that VBA was on target to process approximately 2.5 million claims by the end of September (the end of FY 2024). In October 2023, PA&I had estimated that VBA would process about 2.2 million claims during FY 2024. The updated workload projections and other costs related to providing contracted medical disability exams pointed to a potential shortfall in September 2024, so VBA officials began to discuss how to approach Congress for additional funding. In an email dated June 21, the VA CFO provided guidance for senior VA and VBA officials and recommended not communicating any uncertainty to Congress at that time about the amount of supplemental funding needed.[70] The CFO wrote, "VHA and VBA should narrow their request to one number (each). No ranges. No Small – Medium – Large. Want to make sure its 1) credible; and 2) will adequately cover the requirements without needing yet another supplemental; So some buffer is OK but should not be frivolous or lead to a lack of credibility." Table 2 presents VBA's estimates and calculations of the potential shortfall for both accounts, using data available in June 2024.

Table 2. VBA's June Estimates Showing a Potential Shortfall for the Compensation and Pension and Readjustment Benefits Accounts for FY 2024 (Amounts in Billions)

Account	Total funding	Projected obligations	End-of-year balance (shortfall)
Compensation and pension	$179.462	$181.749	-$2.286
Readjustment benefits	$14.499	$15.095	-$0.597

Source: VBA Office of Financial Management June 2024 budget estimates and calculations.

Note: Total amounts may not sum due to rounding.

During interviews with the OIG team, VBA officials said the increase in the workload projection translated to an increase in costs for contracted medical disability exams and benefits payments for granted claims, leading to a potential shortfall of approximately $2.3 billion for the

[69] Consolidated Appropriations Act, 2024, Pub. L. No. 118-42 § 217.

[70] VA CFO Jon Rychalski, email message to Under Secretary for Benefits Joshua Jacobs et al., June 21, 2024.

compensation and pension account.[71] Furthermore, Office of Financial Management officials attributed the potential deficit of about $597 million for the readjustment benefits account primarily to completed Post-9/11 GI Bill (Chapter 33) education claims and other adjustments for new requirements related to the PACT Act and the *Rudisill* Supreme Court decision to expand eligibility for education benefits. They explained that Chapter 33 average payments were higher because of an increase in the number of beneficiaries and obligations.[72] Using data from the Office of Financial Management, the OIG review team analyzed VBA's estimated number of Chapter 33 beneficiaries and confirmed the increase from an FY 2024 estimate of approximately 519,000 beneficiaries to a final FY 2024 estimate of approximately 594,000 in July 2024. As a result, VBA's estimated obligations for Chapter 33 benefits increased from about $8.2 billion to $10.1 billion.

Although the *Rudisill* decision changed eligibility for education benefits, resulting in VBA needing to support unforeseen payments to veterans, VBA did not have to pay any of these benefits in FY 2024. The acting VA CFO was aware that the *Rudisill* decision would likely not affect funding for FY 2024 and wrote in an email to the under secretary for benefits and deputy CFO: "I'm thinking we might want to rethink whether to include any discussion of Rudisill in our narrative as there are no significant FY24 Rudisill costs—as VBA won't process hardly any, if any, Rudisill cases in FY 24."[73]

The under secretary for benefits informed the acting VA CFO that VBA did anticipate some minor costs and, although he was comfortable including the *Rudisill* costs in a letter to Congress, he was "open to reconsidering."[74] Office of Financial Management officials informed the OIG review team that the under secretary for benefits instructed the Office of Financial Management to include the court case impact in the funding request to be conservative. VBA officials therefore listed it as one of the factors for the shortfall for the readjustment benefits account (contributing $31 million to the deficit) in a slide deck presentation to the House and Senate Committees on Appropriations on July 12, 2024.[75] The VA Secretary's letter to Congress on July 19 also stated that the *Rudisill* court case was a factor in the shortfall.

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[71] Lasheeco Graham, VBA CFO, and Christina DiTucci, VBA deputy CFO, interview with the OIG team, September 18, 2024; Christina DiTucci, VBA deputy CFO, interview with the OIG team, October 8, 2024; Mike Frueh, principal deputy under secretary for benefits, interview with the OIG team, October 9, 2024; Joshua Jacobs, under secretary for benefits, interview with the OIG team, October 9, 2024.

[72] Lasheeco Graham, VBA CFO, and Christina DiTucci, VBA deputy CFO, interview with the OIG team, September 18, 2024.

[73] Acting VA CFO Edward Murray, email message to Under Secretary for Benefits Joshua Jacobs and Deputy CFO Christina DiTucci et al., July 19, 2024. The OIG team also found a Microsoft Teams message on September 17, 2024, in which the deputy CFO wrote to the VBA director of finance and business transformation, "It is unlikely the Rudisill court decision will be implemented in FY 2024."

[74] Under Secretary for Benefits Joshua Jacobs, email message to acting VA CFO Edward Murray and Deputy CFO Christina DiTucci et al., July 19, 2024.

[75] VBA and VHA staff built their own presentations, which were combined by VA Office of Budget staff into one presentation for Congress.

Moreover, VBA officials also told the review team that the PACT Act was a factor in the potential shortfall for the readjustment benefits account. VBA officials explained that more veterans were either newly rated with a service-connected disability or their disability rating increased, which could expand dependents’ eligibility for Chapter 35 education benefits.[76]

Also in July, the VBA CFO and deputy CFO were aware that actual spending in June was less than projected for both mandatory accounts. The actual spending for the compensation and pension account was approximately $500 million under the planned amount, and the readjustment benefits account was about $33.4 million under the planned amount. In a Microsoft Teams message dated July 10, the deputy CFO expressed relief that spending for both accounts was under the planned amounts. The CFO replied, “I wouldn’t feel comfortable that we are in the clear unless we had at least 2–3 months of being under plan and by a considerable margin. There’s going to be a push in the Aug/Sep to process as many claims as possible and that alone could push us over the edge.”[77]

On July 15, VA officials provided the same presentation from July 12 to the House and Senate Committees on Veterans’ Affairs to describe the potential budget shortfall.[78] In addition, in a letter dated July 19, the VA Secretary formally notified Congress about the potential shortfall.[79] The presentation and the letter did not state that VBA was uncertain about the necessity of the funding. For example, the letter stated VBA exceeded aggressive projections by setting records in benefits delivered to veterans and veterans’ claims applications, meaning an “additional $2.883 billion” in mandatory funding was needed in FY 2024 to continue that progress.[80] The letter went on to state that if VBA had insufficient funding on September 20, compensation and pension and readjustment benefits payments that were scheduled for delivery on October 1, 2024, were at risk of being delayed.

August 2024: VA Supplemental Fund Request Remains Unchanged

On August 16, in response to the July status of funds report that showed the actual spending for the compensation and pension account was running under the spending plan and the readjustment benefits account was running slightly over the spending plan, [redacted]

[76] VBA Deputy CFO Christina DiTucci, email message to the OIG team, December 3, 2024.

[77] VBA CFO Lasheeco Graham, Microsoft Teams message to Deputy CFO Christina DiTucci, July 10, 2024.

[78] Veterans Benefits Administration and Veterans Health Administration Potential Shortfalls, July 2024, sent to US House of Representatives Committee on Veterans’ Affairs, July 15, 2024.

[79] VA Secretary Denis McDonough, letter to Sen. Tester et al.

[80] Although the VA Secretary referred to a more precise amount ($2.883 billion) in his letter, this number is rounded up throughout the report.

[redacted][81]

[redacted][82]

September 2024: The Under Secretary for Benefits Justifies the Need for Supplemental Funding, and Congress Passes the Supplemental Appropriations Act

On September 18, 2024, the under secretary for benefits testified before the Senate Committee on Veterans' Affairs and said VBA needed the entire supplemental funding request of approximately $2.9 billion to sustain payments for compensation, pension, and readjustment benefits.[83] The under secretary justified the need for the supplemental funding because he wanted to minimize the financial risk to veterans if they did not receive their benefits payments promptly due to a gap in funding at the end of FY 2024. The under secretary explained that VBA uses pay files to cover compensation and pension payments for approximately seven million veterans and survivors and readjustment benefits payments for 940,000 veterans and qualified dependents. According to the under secretary, if available funding was even one dollar short for one of these pay files, VBA staff would not be able to process payments for any of its beneficiaries on time. This "just one dollar short" justification became a consistent refrain during OIG interviews with VBA officials as well as in VBA's communications with Congress.

However, an Office of Financial Management official explained to the team that five days before this testimony, on September 13, 2024, VBA determined that funding in the compensation and pension account was at a sufficient level for the under secretary for benefits to authorize a transfer from the compensation and pension account to fully fund the Medical Disability Exam Office ($789 million). The under secretary for benefits told the OIG review team that VBA felt comfortable transferring these funds to the Medical Disability Exam Office because VBA had received assurances that Congress would enact the supplemental funding bill by September 20. The under secretary for benefits stated that the reason the request was authorized before receiving the supplemental funding was because "the process to execute C&P [the compensation

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81 [redacted]

82 Redactions to the text were made in accordance with OMB guidance and OMB Circular A-11.

83 Update on Fiscal Years (FY) 2024 and 2025 Health and Benefits Budget, *Before the Senate Committee on Veterans' Affairs,* 118th Cong. (September 18, 2024) (statement of Joshua Jacobs, under secretary for benefits, VBA).

and pension] exam contract actions is extensive."[84] The Medical Disability Exam Office was able to reconcile and resolve its proposed budgetary shortfall without using supplemental funds.

Subsequently, on September 20, 2024, the Veterans Benefits Continuity and Accountability Supplemental Appropriations Act was signed into law.[85] The act appropriated approximately $2.9 billion for the compensation and pension and readjustment benefits accounts out of any available money in the Treasury for FY 2024. VA leaders told the OIG review team that after the law's enactment on September 20 they knew they did not need the $2.3 billion in supplemental funding to process the pay file for the compensation and pension account. However, as stated earlier, these officials did not tell Congress in September that the compensation and pension account did not require any supplemental funding because they needed to have their standard year-end accounting completed and reviewed by multiple layers of VBA and VA leaders as well as approved by OMB before finalizing their reporting for Congress.

October 2024: VBA Reported to Congress That the FY 2024 Supplemental Funding Was Not Needed

During the week of October 7, 2024, leaders in VA's Office of Management and VBA's Office of Financial Management, the under secretary for benefits, and the principal deputy under secretary for benefits reported to the OIG review team in interviews that VBA staff were continuing to analyze the data for the readjustment benefits account.[86]

In an October 28 budget paper (nearly one month into FY 2025), VA informed Congress that it did not need any of the supplemental funding for the two accounts.[87] The budget paper stated that with the supplemental funding for the two accounts, VBA carried over approximately $5.1 billion ($4.4 billion for the compensation and pension account and $689 million for the readjustment benefits account) from FY 2024 into FY 2025. According to the budget paper, without the supplemental funding, VBA would have carried over about $2.1 billion in the compensation and pension account and over $92 million in the readjustment benefits account, thus negating the need for the supplemental funds request. These amounts that VA reported to Congress at the end of October included the end of FY 2024 prior-year recoveries—which VBA had not included in calculations in the monthly status of funds reports.

[84] Under Secretary for Benefits Joshua Jacobs, email correspondence to the OIG team, January 10, 2025.

[85] The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act.

[86] The OIG team interviewed the under secretary for benefits, the principal deputy under secretary for benefits, and leaders in VBA's Office of Financial Management on October 8 and 9, 2024.

[87] VA, *Update on FY 2024 VBA Mandatory Funding Budget Execution and VHA Budget Execution*, October 28, 2024.

Monthly Tracking Reports Prepared by VBA for Congress Did Not Include Realized Prior-Year Recoveries in the Calculation of Available Funds

The OIG review team found that VBA's status of funds tracking reports submitted to Congress suggested a potential shortfall in paying veterans' benefits in September 2024, even as internal data increasingly indicated a diminishing risk that VBA would experience a shortfall by the end of the fiscal year. As required by law, VA's Office of Management submitted quarterly reports to Congress intended to track the status of funds for the compensation and pension and readjustment benefits accounts.[88] The quarterly reports consisted of a spreadsheet with a single row for each account that identified the difference between the actual and planned obligations during the fiscal year. In May 2024 when the VBA CFO and deputy CFO noticed that spending was outpacing the planned estimates for compensation and pension benefits, they decided to submit monthly tracking reports to Congress, in addition to the quarterly reports.

During interviews, VBA officials told the OIG team they increased the frequency of these reports to enhance transparency.[89] However, the monthly reports did not include realized prior-year recoveries in the calculations to provide a more precise and comprehensive picture of VBA's available resources. These reports did not explicitly explain how the realized prior-year recoveries could be applied to accurately reflect the monthly balance for either mandatory account.

Although VBA disclosed to Congress in the monthly *Status of FY 2024 Funds for Mandatory Benefit Payments* report's bulleted narrative that these prior-year recoveries would be used as an offset, they did not include the dollar amount of the offsets in the relevant table's calculation. Table 3 provides an example of the table that VBA included in its September monthly status of funds report without the prior-year recoveries in the calculations. A reader would need to manually calculate the difference to see the true status of funds.

[88] Consolidated Appropriations Act.

[89] Joshua Jacobs, under secretary for benefits, interview with the OIG team, October 9, 2024; Lasheeco Graham, VBA CFO, interview with the OIG team, October 8, 2024; Christina DiTucci, VBA deputy CFO, interview with the OIG team, October 10, 2024.

Table 3. VBA Status of FY 2024 Funds for Mandatory Benefits Payments

Status of funds	Q1	Q2	Q3	Q4		2024	
	Total	Total	Total	July	August	FYTD	Total
Compensation and pension obligations ($ millions)							
Obligations plan	$44,580	$43,318	$44,634	$15,259	$15,596	$163,386	$179,025
Obligations actual	$44,580	$43,391	$43,850	$15,001	$15,165	$161,988	
Over/(under) plan	$0	$73	($784)	($257)	($431)	($1,398)	
Percentage difference	0.0%	0.2%	-1.8%	-1.7%	-2.8%	-0.9%	
Readjustment benefits obligations ($ millions)							
Obligations plan	$3,693	$4,274	$2,827	$742	$914	$12,450	$14,375
Obligations actual	$3,693	$4,237	$2,900	$828	$881	$12,539	
Over/(under) plan	$0	($37)	$73	$87	($33)	$89	
Percentage difference	0.0%	-0.9%	2.6%	11.7%	-3.6%	0.7%	

Source: VBA Status of FY 2024 Funds for Mandatory Benefit Payments *from the September monthly report, provided by the VA Office of Budget, Office of Management.*

Note: Q is quarter, and FYTD is fiscal year to date.

In addition to the table showing the monthly status of the mandatory funds, VBA's monthly report discusses deobligating funds from prior years, as shown in the following bullet points:

- "The Compensation and Pension account still has risk of a shortfall."
- "Additional funding from prior years is being deobligated and made available for FY 2024 obligations within the Compensation and Pension account."
- "Specifically, VA still plans to deobligate $189 million from prior years from contracts for medical exams to reallocate to FY 2024."
- "Combining the anticipated $189 million from contract medical exams, the $1.4 billion that VBA is under plan through August, and $247 million in prior-year deobligations since the 2025 Mid-Session Review Budget projections, results in up to $1.8 billion in potential additional resources not previously identified."
- "While these additional funds may reduce the risk of a $2.3 billion shortfall, the risk is not fully eliminated."
- "The financial need is a conservative estimate to ensure sufficient funding is available to deliver earned benefits to veterans and beneficiaries. To date we have over 2.3 million

> claims and remain on track to deliver nearly 30% more benefits decisions than in FY2023."[90]

The Office of Financial Management's practice not to include the dollar amount of realized prior-year recoveries in the table's calculation as an offset to the account balance caused the status of funds reports to show a shortage in the readjustment benefits account throughout the fiscal year. For the compensation and pension account, including the realized prior-year recoveries would have shown a larger surplus of funds, providing greater assurance of adequate funding. The FY 2024 prior-year recoveries available from October 2023 through August 2024 totaled approximately $685 million for the compensation and pension account and $172 million for the readjustment benefits account.

In his July 19 letter to Congress, the VA Secretary pointed out that although "de-obligated funds from prior years partially offset these various increases—including $438 million for the C&P [compensation and pension] account plus $123 million for the readjustment benefits account—these offsets do not fully offset the increases in benefits delivered during FY 2024."[91] Had these amounts been included in the calculations in the monthly status of funds reports, they would have shown that actual spending for the compensation and pension account was under the planned amount by July 2024. The fiscal year amount of prior-year recoveries available through June totaled approximately $568.2 million for the compensation and pension account and $158 million for the readjustment benefits account. The calculations in the monthly tracking reports to Congress did not include the realized prior-year recovery amounts to convey VBA's actual monthly funding status for these two accounts.

In accordance with the provisions of the Supplemental Appropriations Act, the OIG was charged with comparing FY 2024 monthly obligations and expenditures in relevant accounts against the spend plan of the department, as it relates to the expected funding shortfall for VBA.[92] The figures on the following pages further illustrate the discrepancy between the status of funds for each account stated in VBA's monthly reports versus the OIG's analysis of the actual monthly spending for the full fiscal year, including the realized prior-year recovery amounts as documented in the SF-133 *Budget Execution and Budgetary Resources* reports.[93] At the time of the OIG's analysis, the team's re-creation of these balances showed the effect of the monthly offsets for the funds in the two mandatory accounts and demonstrated there was no shortage for either account.

The VBA Office of Financial Management's analysis of the planned monthly net and actual obligations for the compensation and pension account at the end of the fiscal year, without the

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[90] VBA *Status of FY 2024 Funds for Mandatory Benefit Payments*, September 17, 2024.

[91] VA Secretary Denis McDonough, letter to Sen. Tester et al.

[92] The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act § 104.

[93] The SF-133 is a report on budget execution and budgetary resources that agencies are required to produce and submit periodically to allow for monitoring of budgetary resources, changes in obligated balances, and net outlays.

monthly prior-year recovery amounts, estimated a surplus totaling approximately $1.1 billion at the end of September 2024. The OIG review team's analysis comparing the status of funds reports to the monthly SF-133 reports showed that had the monthly realized prior-year recoveries been included in VBA's calculations in the status of funds reports, the reports would have more accurately reflected VBA's actual surplus position to cover any unexpected year-end obligations.

Figure 5 depicts the monthly planned and actual spending for the compensation and pension account. When the OIG team included realized prior-year recoveries, the actual spending was less than planned obligations for each quarter in FY 2024. Applying the monthly prior-year recoveries to VBA's reported actual monthly spending amounts resulted in an estimated total surplus at the end of FY 2024 totaling about $2.1 billion. The OIG's calculations showed that including the prior-year recoveries offset VBA's reported actual spending.

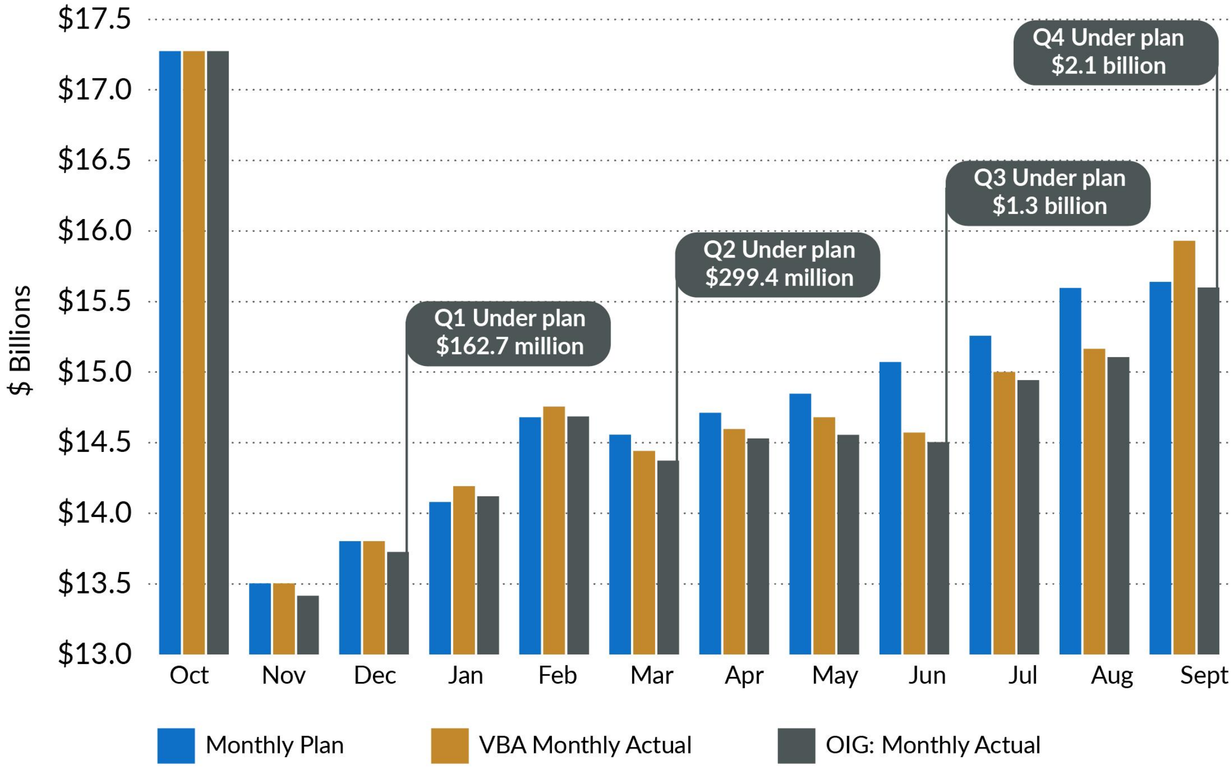

Figure 5. *Comparison of VBA's monthly planned and actual spending for the compensation and pension account to the OIG's calculation of monthly actual spending including monthly realized prior-year recoveries.*

Note: The total spending plan amount for the fiscal year was about $179 billion for the compensation and pension account. The amounts identified in the figure illustrate an analysis of VBA's monthly planned and actual obligations when the realized prior-year recoveries are included. According to VA officials, the September actual obligations included the approximately $789 million transfer to the Medical Disability Exam Office. The sums identified in the figure are approximate.

Source: VA OIG analysis of VBA monthly planned spending, VBA monthly actual spending, and monthly SF-133s with realized prior-year recoveries.

The VBA Office of Financial Management's analysis of the planned monthly net and actual obligations for the readjustment benefits account, without the monthly prior-year recovery amounts, estimated that VBA would have a deficit totaling approximately $86.4 million at the end of September 2024. However, the review team's analysis comparing the status of funds reports to the monthly SF-133 reports demonstrated that had monthly prior-year recoveries been included in VBA's status of funds report, they would have estimated a surplus in the readjustment benefits account of about $92.1 million, as shown in figure 6. Appendix C provides details on the team's assessment of the dollar amounts per quarter and the total dollar amount of prior-year recoveries for both accounts.

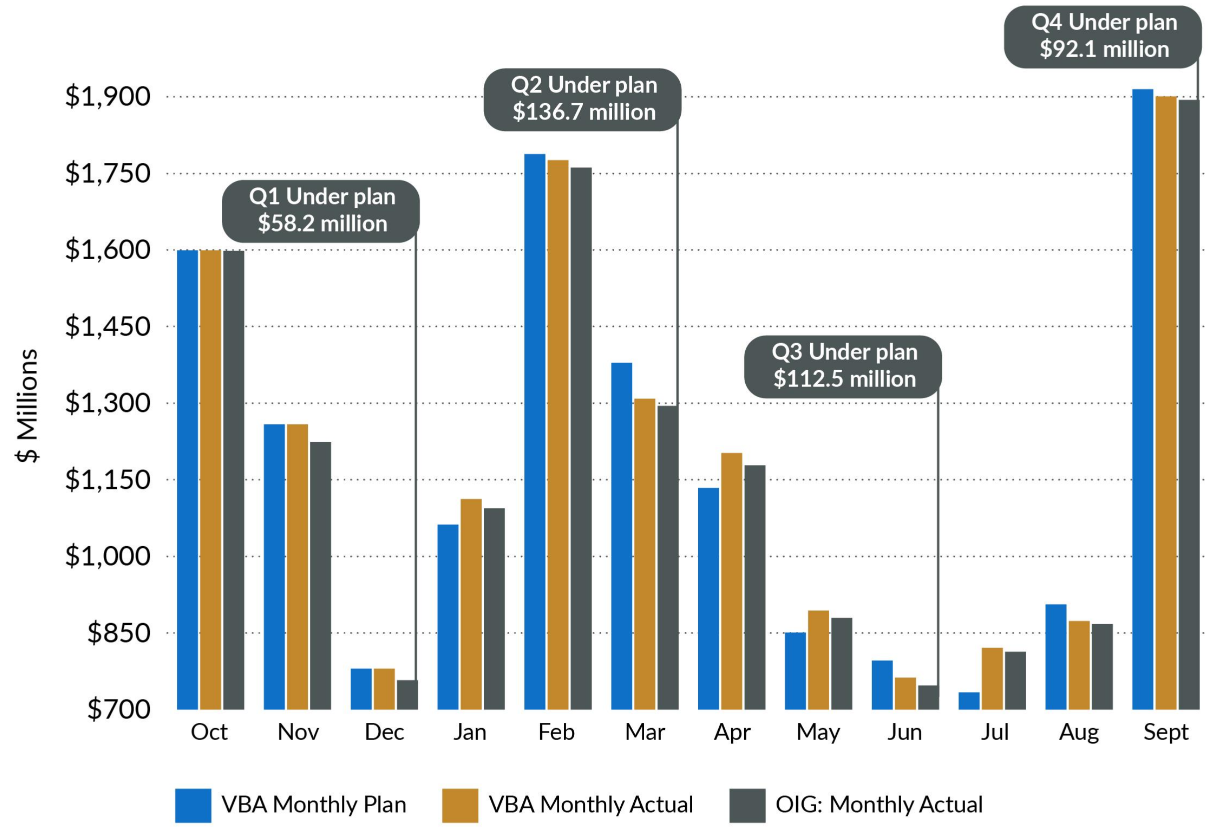

Figure 6. *VA OIG comparison of VBA's monthly planned and actual spending for the readjustment benefits account to the VA OIG's calculation of monthly actual spending including realized prior-year recoveries.*

Note: The total spending plan amount for the fiscal year was about $14.4 billion for the readjustment benefits account. The amounts identified in the figure illustrate an analysis of VBA's monthly planned and actual obligations when the realized prior-year recoveries are included. The sums identified in the figure are approximate.

Source: VA OIG analysis of VBA monthly planned spending, VBA monthly actual spending, and monthly actual SF-133s with realized prior-year recoveries.

VBA leaders explained that they did not estimate the prior-year recoveries as part of the budget planning process because these recoveries are unpredictable.[94] Therefore, monthly realized prior-year recovery amounts were not presented as an offset to VBA's monthly usage of the mandatory account funds in its status of funds reports. In addition, VBA leaders stated that status of funds reports are based on the President's Budget, which also does not estimate prior-year recoveries. The OIG understands why VBA is not accounting for, or estimating, prior-year recoveries as part of *budget planning*. However, to provide a complete picture of its *status of funds* throughout the fiscal year, VBA would need to include the realized monthly prior-year recovery amounts—which are identified on the monthly SF-133s—in its calculations to show these resources as an offset to its actual spending.

[94] Lasheeco Graham, VBA CFO, et al., interview with the OIG team, January 7, 2025.

By September 30, 2024, these monthly recoveries totaled approximately $1.2 billion for both accounts for the year, which significantly mitigated the reported shortfall as VA reported to Congress on October 28, 2024.[95] During interviews with the OIG review team, Office of Financial Management officials agreed that including the realized monthly prior-year recoveries in the calculations for the status of funds reports as a separate line item would provide a more complete picture of VBA's financial performance.[96]

Lack of Projected Carryover Funding Available for Use at the End of FY 2024 Raised Concerns About VBA Depleting Budgetary Resources

An official in VA's Office of Budget told the OIG team that the exhaustion of carryover funds available for use at the end of FY 2024 was cited as one of the reasons the supplemental funding was requested.[97] VBA's preservation of carryover funding in prior fiscal years created a cushion if unexpected funding was needed for the compensation and pension and readjustment benefits accounts. For the past four years, VBA consistently reported carryover amounts from the prior fiscal year, as shown in table 4.

Table 4. VBA Carryover Funding Balance at the Start of the Fiscal Year from 2021 through 2024 (in Billions)

Mandatory account	FY 2021	FY 2022	FY 2023	FY 2024
Compensation and pension	$0.6	$8.8	$17.4	$17.2
Readjustment benefits	$4.5	$5.4	$8.9	$5.4

Source: OIG analysis of VA's request in the President's Budget.

VBA's carryover amounts for FYs 2022 and 2023 helped provide assurance that funding for these mandatory accounts would be adequate. VBA began FY 2024 with a $17.2 billion carryover for the compensation and pension account and a $5.4 billion carryover for the readjustment benefits account from FY 2023. However, by September FY 2024, VBA had exhausted these carryover funds, leaving no cushion for unanticipated obligations. VA and VBA leaders were concerned they may not have enough of a buffer to meet year-end demands without requesting additional supplemental funds.

Congress also had similar concerns regarding the lack of carryover. A congressional appropriations adviser in VA's Office of Budget (Office of Management) told the deputy assistant secretary for budget that the House Appropriations Committee was concerned there was no cushion for FY 2025. The adviser stated,

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[95] VBA reported the total prior-year recoveries as of September 2024 were about $1 billion for the compensation and pension account and about $178 million for the readjustment benefits account; the total rounds to $1.2 billion.

[96] Lasheeco Graham, VBA CFO, et al., interview with the OIG team, January 7, 2025.

[97] Andrew McIlroy, deputy assistant secretary for budget, interview with the OIG team, October 10, 2024. According to OMB, a carryover amount refers to unobligated balances from prior fiscal years in multiyear and no-year accounts that can be carried forward to the next fiscal year.

> [VBA's] obligations is [*sic*] exactly equal to the carryover plus the total appropriated funding … the fact there is no estimated [carryover] going into FY 2025 and you are showing such high obligations for FY 2024 does sort of raise the question of whether the VA request is at least to some extent low in [compensation and pension] … it did at least make me pause that there is no cushion between estimated obligations and available resources.[98]

VA's CFO also expressed concern about the lack of a robust carryover amount in an email sent on June 13, 2024, to the VA Secretary and high-ranking VBA officials: "The precision of a number [for the supplemental funding request] is not really that important in this situation. We should have some basis, but generally we're just looking for some amount of mandatory funding to buffer us through this year and into next. It carries forward so what we don't use this year we'll use next."[99]

The OIG review team found these messages showed an internal concern of meeting unanticipated demands for benefits and services for the end of FY 2024.

VBA Asserted That There Would Be a Customary End-of-Year Surge in Claims Processing, but a VA Office of Budget Analysis Did Not Show a Spike in Obligations in the Compensation and Pension Account for That Time

During interviews with the OIG team, several VBA officials cited a customary push for regional offices to meet their performance goals by the end of FY 2024 (September 30, 2024) as a potential cause for a budget shortfall.[100] VA's Office of Budget analyzed monthly trends for compensation and pension benefits over the past five years in preparation for the CFO's September 10 congressional testimony, when the potential shortfall would likely be raised. The Office of Budget official explained that they were performing the analysis to support congressional testimony and stated, "VBA has attested that we normally see a spike in obligations in September due to … claims processors working to mean [*sic*] year-end goals."[101]

In response to this request, VA Office of Budget staff analyzed past obligations data across five prior fiscal years (FYs 2019–2023) and 2024 (using data as of the July SF-133 report) for both

[98] Congressional appropriations adviser in the Office of Budget (Office of Management), email message to Deputy Assistant Secretary for Budget Andrew McIlroy, VBA CFO Lasheeco Graham, and VBA Deputy CFO Christina DiTucci, May 10, 2023.

[99] VA CFO Jon Rychalski, email message to VA Secretary Denis McDonough and Under Secretary for Benefits Joshua Jacobs et al., June 13, 2024.

[100] Lasheeco Graham, VBA CFO, and Christina DiTucci, VBA deputy CFO, interview with the OIG team, September 18, 2024; Mike Frueh, principal deputy under secretary for benefits, interview with the OIG team, October 9, 2024; Joshua Jacobs, under secretary for benefits, interview with the OIG team, October 9, 2024.

[101] Director of the Veterans Benefits Service (Office of Budget) Maggie Stanley, email message to VA Office of Budget Analyst David Merchant, August 30, 2024.

the compensation and pension and readjustment benefits accounts. Office of Budget staff concluded that the data did not show meaningful spikes in monthly compensation and pension obligations toward the end of the fiscal year. Obligations remained relatively stable throughout the year, as shown in the graph developed by VA's Office of Budget staff (figure 7).

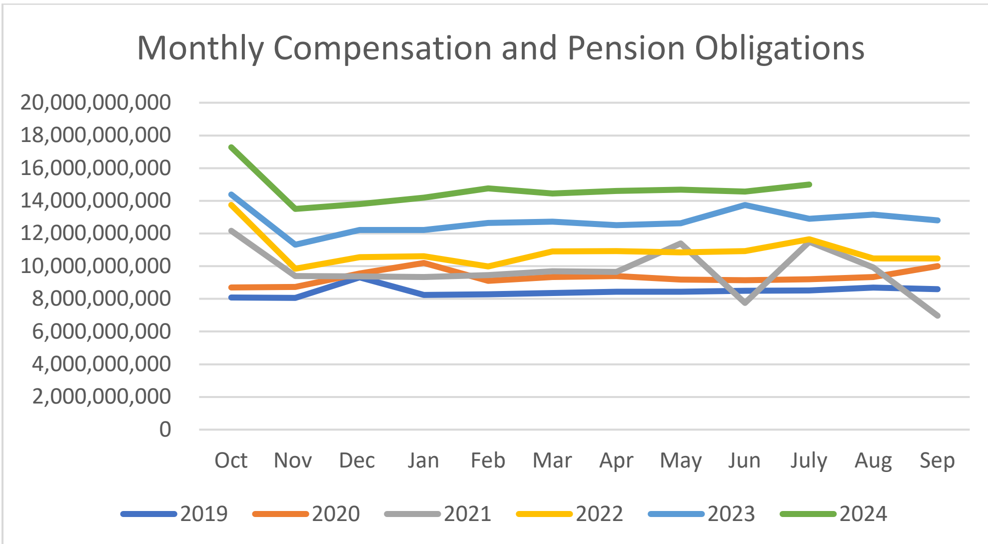

Figure 7. *Monthly compensation and pension obligations (FYs 2019–2024).*

Source: Graph produced by the VA Office of Budget.

Similarly, VA Office of Budget staff analyzed monthly obligations data for the readjustment benefits account. This analysis showed that monthly obligations did show spikes that roughly aligned with the traditional beginning of the fall (August/September) and winter (January/February) academic terms (figure 8).

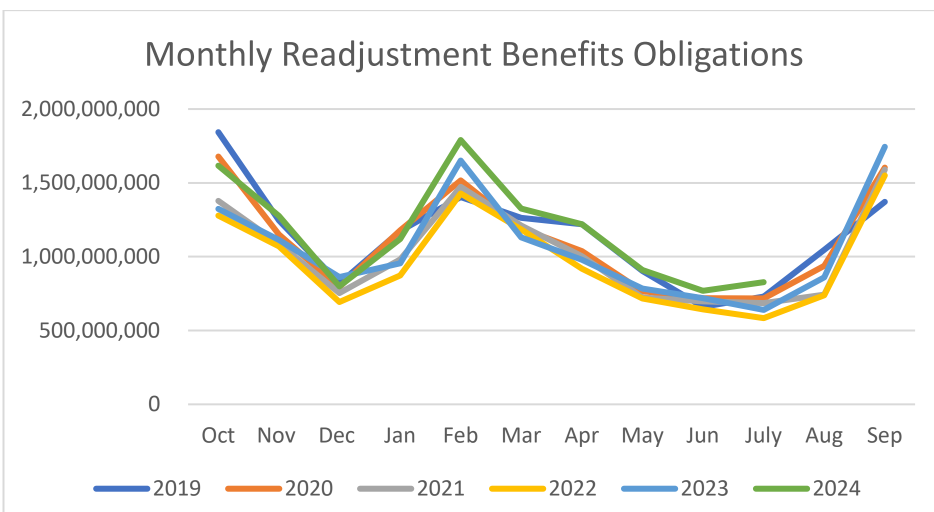

Figure 8. *Monthly readjustment benefits obligations (FYs 2019–2024).*

Source: Graph produced by VA Office of Budget.

Conclusion

The OIG recognizes the complexity of VA's budget process and the many factors that can affect estimates and projections. VBA believed that expanded benefits under the PACT Act and outreach to potentially eligible veterans about filing claims, other unanticipated court and legislative mandates, and anticipated surges in year-end claims processing were among the factors that contributed to a potential shortfall for FY 2024. Yet the OIG's review demonstrated that these factors did *not* result in a shortfall for the compensation and pension and readjustment benefits accounts, as VA officials acknowledged in October 2024.

The OIG review team's calculations suggest adequate funding was available if deobligated funds had been fully considered and used to offset obligations. Office of Financial Management officials agreed that including the monthly realized prior-year recoveries in the calculations in the status of funds reports as a separate line item would provide a clearer depiction of VBA's financial performance. Had those resources been fully considered, VBA could have recognized earlier the decreased risk of a shortfall by September 30, 2024. Despite recurring updates and internal discussions, VA did not express the increasing likelihood that the funding might not be needed during its September 18 congressional testimony. As it was, VBA officials confirmed they knew they did not need the funding for the compensation and pension account for FY 2024 on September 20—the day the supplemental funding bill was signed into law.[102] However, VA officials did not communicate this to Congress until the end of October because they said they needed to finalize their year-end accounting to confirm, which entailed multiple layers of VA and VBA reviews and OMB approval before releasing the information to Congress.

While VBA acted with the intent to prioritize veterans' benefits, the OIG found that improvements in financial oversight, reporting accuracy, and communication processes would have provided greater clarity and may have obviated the need for the supplemental funding request from Congress at the end of the fiscal year.

The OIG understands the importance of VBA ensuring that veterans receive benefits payments and services without interruption and that staff and leaders strive to meet those obligations by ensuring sufficient funding is available through each fiscal year. VBA requested about $2.9 billion in supplemental funding, in part, to minimize that risk. Another factor that appeared to drive the supplemental claims request was concern about the lack of projected carryover funding available for use at the end of FY 2024 to cover unexpected year-end obligations. The OIG's recommendations are meant to help VBA address concerns about meeting the needs of veterans and achieve its goal to be a strong steward of taxpayer dollars through effective financial management, while maintaining accountability and transparency.

[102] Christina DiTucci, VBA deputy CFO, interview with the OIG team, October 8, 2024.

Recommendations 1–4

The OIG made the following recommendations to the under secretary for benefits:[103]

1. Develop comprehensive management controls with clear roles and responsibilities at each level of the Veterans Benefits Administration to ensure effective oversight of mandatory accounts and the timely communication of any potential budgetary shortfalls.
2. Ensure the Office of Financial Management develops procedures to incorporate all available budgetary resources, as reported on the SF-133s, in its calculations for the status of funds reports for transparent communication to internal and external stakeholders.
3. Institutionalize monthly fiscal reviews between the Office of Financial Management and program offices to routinely assess performance and cost drivers that may affect the status of available funds.

The OIG made the following recommendation to the acting assistant secretary for management and CFO:

4. Institutionalize monthly fiscal reviews between the VA Office of Budget and the Veterans Benefits Administration Office of Financial Management to routinely assess performance and cost drivers that may affect the status of available funds.

VA Management Comments

VA concurred with all recommendations. Specifically, the acting under secretary for benefits concurred in principle with recommendation 1, noting that VBA's Office of Financial Management has management controls with clear roles and responsibilities, but the office will develop a standard operating procedure that centrally documents these roles and responsibilities, including communications. Similarly, he concurred in principle with recommendation 2, indicating that VBA's status of funds report includes all available budgetary resources in its SF-133s, but to address the OIG's concern that readers may focus only on the table and not read the narrative, the Office of Financial Management is reformatting the status of funds report to include realized prior-year recoveries in the table and adding the resources to the narrative. The acting under secretary for benefits concurred with recommendation 3, requesting closure because the Office of Financial Management participates in weekly and biweekly meetings with VBA stakeholders to assess workload, performance, and cost drivers that impact mandatory accounts. Appendix D includes the comments from the acting under secretary for benefits.

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

The acting assistant secretary for management and CFO concurred with recommendation 4, noting that VA's Office of Budget holds two distinct monthly fiscal reviews involving multiple offices to routinely assess performance and cost drivers that may affect the status of available funds. Moving forward, the office will also ensure realized prior-year recoveries are included as a funding source in budgetary presentations of the compensation and pension and readjustment benefits accounts. The status of this recommendation was marked as complete. Appendix E includes the acting assistant secretary for management and CFO's comments.

OIG Response

The acting under secretary for benefits and acting assistant secretary for management and CFO provided plans that were responsive to the recommendations. The OIG considers all recommendations open (not fully implemented). Although the under secretary requested closure of recommendation 3, the limited documentation provided did not support closure of the recommendation at the time of submission. Additionally, although the acting assistant secretary for management and CFO marked the status for recommendation 4 as complete, no documentation with a request for closure was provided, so the recommendation remains open at the time of publication.

VBA's Technical Comments

The acting under secretary for benefits provided six technical comments (see appendix D). The OIG acknowledges the concerns raised in all technical comments and has incorporated responsive clarifying or corrected language in the report text where appropriate. For technical comment 1, the acting under secretary requested a revision to a sentence to clarify there was still a risk of a shortfall. The OIG revised this sentence to make clear the risk was reduced, but not eliminated.

For technical comment 2, he requested that the OIG fix a typographical error in the public law number, which the OIG corrected throughout the report.[104]

For technical comment 3, the acting under secretary requested a revision to another sentence regarding improved financial management practices reducing the risk of a shortfall to more precisely state that the assessed level of risk may have been reduced. The OIG revised this sentence to reflect the finding that improved financial management practices would have reduced the risk of a *reported* shortfall and the need for a supplemental funding request.

Technical comment 4 requested the OIG clarify the description of carryover funding for FY 2024 and revise throughout the report to explain it refers to the "lack of projected carryover funding

[104] The OIG made this change for footnotes 1, 28, 106, and 107.

available [for use] at the end of FY 2024." The OIG revised this description throughout the report.[105]

In technical comment 5, the acting under secretary requested the bracketed revision to this sentence: "Although VBA acted with the intent to prioritize veterans' benefits, the OIG found that improvements in financial oversight, reporting accuracy, and communication processes would have provided greater clarity and may have mitigated the [assessed level of] risk for the supplemental funding request from Congress at the end of the fiscal year" (page v). The OIG revised the sentence to clarify that the improvements in financial oversight, reporting, and communication would have given VBA greater clarity that may have obviated the need for the supplemental funding request.

Technical comment 6 calls on the OIG to delete a sentence that characterized VBA's communications with Congress as imprecise and asserted that any weaknesses in financial management, reporting, and communication may have impaired Congress's ability to make an informed decision. In response, the OIG revised the sentence to underscore that the lack of precision meant that Congress did not have the calculations that took into account all available resources when considering whether the funds were truly necessary. As it was, Congress was not informed of VBA's need for the additional funds until the spending data were finalized at the end of the fiscal year because VA needed to have the information reviewed by multiple layers of VBA and VA leaders before finalizing its year-end accounting for Congress. Appendix D includes the full comments from the acting under secretary for benefits.

Although the acting assistant secretary for management and CFO concurred with recommendation 4 and indicated the status was complete, he did not request closure or provide documentation of the Office of Management's actions. The OIG will monitor the implementation of the recommendation until the stated actions are documented as completed. The acting assistant secretary provided three technical comments (see appendix E).

The OIG generally agreed with technical comments 1 and 2 and incorporated responsive language in the report text where appropriate. In response to technical comment 1, when discussing that VA's notification to Congress was more than a month after VBA recognized the supplemental request was not needed, the OIG clarified that VA followed end-of-year accounting procedures for the two accounts to ensure accuracy in VA's report before releasing it to OMB, Congress, and the public. In technical comment 2, the acting assistant secretary requested more precise wording related to the appropriation process in the introduction of the report, which the OIG provided.

The OIG did not agree to the changes proposed in technical comment 3 provided by the Office of Management to change all quarterly dollar figures and variances in the tables in appendix C to reflect the dollar amounts on a cumulative basis. This was requested because the numbers would

[105] The OIG made this change at pages iii, iv, v, 13, 15, 31, and 34.

directly tie to year-end planned and actual amounts referenced throughout the report. However, the review team developed the tables in appendix C based on the Office of Management's feedback provided during a February 2025 exit conference with the team. The previous feedback was that the OIG should follow the layout in table 3 in the report, which does not reflect the numbers on a cumulative basis. Figures 5 and 6 in the report reflect the same dollar amounts as the table provided in the Office of Management's technical comments (see appendix E).

The OIG will monitor the implementation of all planned actions and will close recommendations when sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified is received.

Appendix A: OIG Actions in Response to PL 118-82 Oversight Requirement

Congress passed the Supplemental Appropriations Act on September 19, 2024, which the President signed into law on September 20, 2024. The act required the VA Office of Inspector General (OIG) to review the circumstances and underlying causes of the announced shortfall in funding for the Veterans Benefits Administration (VBA) in fiscal year (FY) 2024 and report the findings to Congress.[106] This appendix details these legislative requirements and how the OIG addressed them.

Section 104(a) of the Act

This section required the OIG to review "the circumstances surrounding and the underlying causes of the announced funding shortfall for the Veterans Benefits Administration for fiscal year 2024 described in the letter to Congress from the Secretary of Veterans Affairs on July 19, 2024." This review fulfilled this legislative requirement, and the results are documented in the body of this report.

Section 104(b) of the Act

This section required the OIG to compare "monthly obligations and expenditures in relevant accounts against the spend plan of the Department" as it relates to the expected funding shortfall for VBA in FY 2024; to determine "the reasons for any significant diversions of obligations or expenditures from the spend plan"; to analyze "the accuracy of projections and estimates" if diversions exist; and assess "any other matter determined relevant by the Inspector General."

The OIG's Actions

The OIG identified compensation, pension, and readjustment benefits as the relevant accounts and the estimates in the FY 2024 President's Budget as the department's spend plan. The budget submission does not identify expenditures and did not show monthly obligation amounts. Therefore, the OIG used VBA's status of funds reports—which include information contained in the required congressional tracking reports—to compare VBA's monthly obligations and expenditures in the compensation and pension and readjustment benefits accounts against VBA's spend plan. The team found VBA did not include the monthly realized prior-year recoveries (as reported on SF-133s) in the calculations for its status of funds reports.

[106] The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act, 2024, Pub. L. No. 118-82 § 104.

Similarly, the team used the status of funds reports to determine whether VBA had any significant diversions of obligations or expenditures from the spend plan and the reasons for such diversions. As stated above, because the team did not identify significant diversions of obligations or expenditures from the spend plan, an assessment of the accuracy of projections and estimates was not required.

Finally, the matters that the OIG determined as relevant are presented in the Results and Recommendation section of this report.

Appendix B: Scope and Methodology

Scope

The VA Office of Inspector General (OIG) review team conducted its work from September 2024 through February 2025. This review evaluated the factors and conditions that led the Veterans Benefits Administration (VBA) to announce a funding shortfall and make a subsequent request for an additional $2.9 billion for veterans' benefits for fiscal year (FY) 2024. The factors and conditions evaluated by the team were identified in the Supplemental Appropriations Act, which specifically required the OIG to

- review the circumstances surrounding, and the underlying causes, of the announced funding shortfall for VBA for FY 2024 described in a letter to Congress from the VA Secretary on July 19, 2024;
- compare monthly obligations and expenditures in relevant accounts against the spend plan of the department as it relates to the expected funding shortfall for VBA in FY 2024;
- determine the reasons for any significant diversions of obligations or expenditures from the spend plan;
- analyze the accuracy of projections and estimates if diversion exists; and
- assess any other matter determined relevant by the OIG.[107]

Furthermore, the scope of this review included assessing VBA's process for developing and finalizing its FY 2024 supplemental funds request.

Methodology

To understand VBA's FY 2024 supplemental funds request, the team identified and reviewed VBA documents used in support of VBA's FY 2024 budget submission to determine the amount of its overall funding request, along with the amount carried over from one fiscal year to the next. The team also assessed VBA's efforts to stay within its FY 2024 planned obligation amounts identified in the President's Budget. To assess the conditions that led to the approximate $2.9 billion supplemental funds request in FY 2024, the team conducted more than 15 interviews with VA and VBA officials and staff who had a role in developing, finalizing, or managing VBA's original, revised, and supplemental budget requests. The team also analyzed compensation, pension, and readjustment benefits appropriations, obligations, expenditures, and

[107] The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act, 2024, Pub. L. No. 118-82 § 104. In technical comment 2 (see appendix D), the under secretary requested that the OIG revise the public law number; the OIG corrected this error throughout the report.

model outputs for FY 2024. In addition, the team reviewed model outputs from the Office of Performance Analysis and Integrity. The team evaluated applicable laws, regulations, and VA financial policy specific to budgeting to assess the causal factors that contributed to the budget shortfall. Finally, the team reviewed 14,299 emails and other internal communications from March 2023 through October 2024 for key VA and VBA officials.

Internal Controls

The team assessed VBA's internal controls to determine whether they were significant to the audit objective. This included consideration of the five internal control components: control environment, risk assessment, control activities, information and communication, and monitoring.[108] In addition, the team reviewed the principles of internal controls as associated with the objective and identified two components and four principles as significant.[109] The team identified internal control deficiencies during this audit and proposed recommendations to address those listed in table B.1.

[108] Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

[109] Because the audit was limited to the internal control components and underlying principles identified, it may not have disclosed all internal control deficiencies that could have existed at the time of this audit.

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

Component	Principle	Deficiency identified by this report
Control environment	2. The oversight body should oversee the entity's internal control system.	VBA could improve oversight of its mandatory accounts and the timeliness of communication about potential budget shortfalls.
	3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.	VBA could better define roles and responsibilities within staff offices and for individuals involved in developing budget estimates for the compensation and pension and readjustment benefits accounts.
Control activities	10. Management should design control activities to achieve objectives and respond to risks.	VBA officials could establish a formal method to assess performance and cost drivers that may affect the status of available funds in the two mandatory accounts.
	12. Management should implement control activities through policies.	VBA officials could develop or implement policies or standard operating procedures to govern the development of the compensation and pension and readjustment benefits accounts budget estimates.

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

Data Reliability

The OIG used data reported by VA and VBA to evaluate the budgetary resources used to support the FY 2024 supplemental funding request. To test the reliability of the data, the OIG reviewed the data entries to ensure data were not missing in key fields or outside valid time frames. In addition, the OIG checked for obvious duplications of records or any illogical relationships between data elements. Using this approach, the OIG concluded the data were appropriate and sufficiently reliable to support the report's opinions, conclusions, and recommendations.

Government Standards

The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation.*

Appendix C: VBA's Status of Funds by Quarter for the Compensation and Pension and Readjustment Benefits Accounts

Tables C.1 and C.2 compare the dollar amounts of the Veterans Benefits Administration's (VBA) monthly planned and actual spending for the two mandatory accounts against the calculations completed by the VA Office of Inspector General (OIG) of VBA's monthly actual spending together with monthly realized prior-year recoveries.[110]

Table C.1. VBA Status of Fiscal Year 2024 Funds for Compensation and Pension Payments (in Millions)

Status of funds	Q1 total	Q2 total	Q3 total	Q4 total
VBA status of funds				
Obligations plan	$44,580.4	$43,317.9	$44,633.3	$46,493.9
Obligations actual	$44,580.4	$43,390.8	$43,850.1	$46,097.0
(Over)/under plan	$0	($72.9)	$783.2	$396.9
Percentage difference	0.00%	-0.17%	1.75%	0.85%
OIG analysis of VBA status of funds				
Obligations plan	$44,580.4	$43,317.9	$44,633.3	$46,493.9
Obligations actual	$44,580.4	$43,390.8	$43,850.1	$46,097.0
Prior-year recoveries*	$162.7	$209.5	$195.9	$447.8
(Over)/under plan	$162.7	$136.7	$979.1	$844.7
Percentage difference	0.36%	0.32%	2.19%	1.82%
Quarter ending balance in the bar chart (figure 5)	$162.7	$299.4	$1,300	$2,100

Source: VA OIG analysis of VBA monthly planned spending, VBA monthly actual spending, and monthly SF-133s with realized prior-year recoveries.

Note: Q is quarter. Numbers are approximate and may not sum due to rounding.

**The prior-year recoveries row is shaded for emphasis.*

[110] Technical comment 3 (appendix E) requests that the OIG change all quarterly dollar figures and variances in appendix C tables to reflect the dollar amounts on a cumulative basis because the numbers would directly tie to year-end planned and actual amounts referenced throughout the report. However, the OIG developed these tables based on Office of Management feedback to use the layout of table 3 in the report, which does not present numbers on a cumulative basis, during a February 2025 meeting to preview the OIG's statement of findings. Figures 5 and 6 in the report reflect the same dollar amounts as the table VA provided in its appendix E technical comments.

Table C.2. VBA Status of Fiscal Year 2024 Funds for Readjustment Benefits Payments (in Millions)

Status of funds	Q1 total	Q2 total	Q3 total	Q4 total
VBA status of funds				
Obligations plan	$3,638.1	$4,229.0	$2,781.1	$3,554.5
Obligations actual	$3,638.1	$4,196.9	$2,858.9	$3,595.1
(Over)/under plan	$0	$32.1	($77.8)	($40.6)
Percentage difference	0.00%	0.76%	-2.80%	-1.14%
OIG analysis of VBA status of funds				
Obligations plan	$3,638.1	$4,229.0	$2,781.1	$3,554.5
Obligations actual	$3,638.1	$4,196.9	$2,858.9	$3,595.1
Prior-year recoveries*	$58.2	$46.4	$53.6	$20.3
(Over)/under plan	$58.2	$78.5	($24.2)	($20.4)
Percentage difference	1.60%	1.86%	-0.87%	-0.57%
Quarter ending balance in the bar chart (figure 6)	$58.2	$136.7	$112.5	$92.1

Source: VA OIG analysis of VBA monthly planned spending, VBA monthly actual spending, and monthly SF-133s with realized prior-year recoveries.

Notes: Q is quarter. Numbers are approximate and may not sum due to rounding.

There are some minor differences between the two appendix tables and report table 3 (page 26) due to VBA rounding table 3 numbers versus OIG calculations carried out several decimal points in this appendix. Some numbers with a negative symbol in table 3 are not depicted that way in this appendix table because the OIG team used the opposite (over)/under for clarity. A positive number does not correlate with a surplus or deficit.

**The prior-year recoveries row is shaded for emphasis.*

Appendix D: VA Management Comments, Under Secretary for Benefits

Department of Veterans Affairs Memorandum

Date: March 7, 2025

From: Under Secretary for Benefits (20)

Subj: Office of Inspector General (OIG) Draft Report - Review of the $2.9 Billion FY 2024 Supplemental Funds Request to Support VA Benefits Payments [Project No. 2024-03692-AE-0129] — [VIEWS 12775155]

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

1. Thank you for the opportunity to review and comment on the OIG draft report, Review of the $2.9 Billion FY 2024 Supplemental Funds Request to Support VA Benefits Payments. The Veterans Benefits Administration (VBA) provides the attached response to the draft report.

The OIG removed point of contact information prior to publication.

(Original signed by)

Michael J. Frueh

Acting Under Secretary for Benefits

Attachment

Attachment

Veterans Benefits Administration (VBA)
Comments on OIG Draft Report
Review of the $2.9 Billion FY 2024 Supplemental Funds Request to Support VA Benefits Payments

VBA concurs with OIG's draft report findings and provides the following technical comments.[111]

[Comment 1] <u>Page ii, paragraph 3</u>:

"Had the realized prior-year recoveries—funds that are available to be used for other purposes—been included throughout the year, the monthly funding status reports would not have shown a potential shortfall by the end of the fiscal year."

<u>VBA Comment:</u> This sentence is inaccurate. The risk of a "potential shortfall" still existed. For readjustment benefits (RB) there was still a significant risk, and for compensation and pension (C&P) it would be fair to say there was a decreased risk; however, the potential risk was not eliminated.

<u>[Comment 2] "The Veterans Benefits Continuity and Accountability Supplemental Appropriations Act, 2024, Pub. L. No. 118-92 § 104."</u>

<u>Page i, footnote 4</u>

<u>Page ii, footnote 7</u>

<u>Page 37, footnote 87</u>

<u>VBA Comment</u>: The correct Public Law number for this supplemental appropriations law is 118-82.

<u>[Comment 3] Page iii, paragraph 1:</u>

"However, the OIG found that with improved financial management practices, VBA's risk of a potential shortfall may have been reduced."

<u>VBA Comment</u>: VBA disagrees with this statement. The actual risk would have been present, with or without the "improved financial management practices," because spending is not discretionary. Therefore, VBA suggests the sentence in the paragraph be replaced with:

"...VBA's assessed level of risk of a potential shortfall may have been reduced."

<u>[Comment 4] "Lack of carryover funding from FY 2024" references</u>

<u>Page iii, paragraph 1, bullet 4</u>

<u>Page 13, paragraph 2</u>

<u>Page 14, bullet 3</u>

<u>Page 29, bullet 3</u>

<u>Page 33, paragraph 1</u>

[111] Due to changes made in the final editing process, some of the footnote or page numbers referenced in VA's comments have been revised. The OIG team made responsive changes or clarifications throughout the document.

Attachment

Veterans Benefits Administration (VBA)
Comments on OIG Draft Report
Review of the $2.9 Billion FY 2024 Supplemental Funds Request to Support VA Benefits Payments

VBA Comment: The statements regarding the "Lack of carryover funding from FY 2024…" are unclear. VBA's concern was with funding at the end of FY 2024, and the focus of the supplemental appropriation request was for FY 2024 funding. This statement implies that the supplemental request was focused on carrying over funding into FY 2025. VBA suggests the statements be replaced with:

"Lack of projected carryover funding available at the end of FY 2024..."

[Comment 5] Page iv, paragraph 4:

"Although VBA acted with the intent to prioritize veterans' benefits, the OIG found that improvements in financial oversight, reporting accuracy, and communication processes would have provided greater clarity and may have mitigated the risk for the supplemental funding request from Congress at the end of the fiscal year."

VBA Comment: VBA disagrees with the sentence. For accuracy, VBA suggests the sentence be replaced with the following:

"…would have provided greater clarity and may have mitigated the assessed level of risk…"

[Comment 6] Page 14, paragraph 3

"Yet, VBA did not provide a precise and comprehensive picture of its monthly funding status to inform Congress about its need for the additional funds until the spending data were finalized at the end of the fiscal year. This lack of precision impaired Congress's ability to make a fully informed decision on whether the funds were truly necessary."

VBA Comment: Request that these statements be stricken from the report. VA has provided numerous examples of the comprehensive picture presented to Congress including all budgetary resources. There is also no evidence that Congress's ability to make an informed decision was impaired as VA repeatedly communicated uncertainty as to whether supplemental funding was needed.

Recommendation 1: Develop comprehensive management controls with clear roles and responsibilities at each level of the Veterans Benefits Administration to ensure effective oversight of mandatory accounts and the timely communication of any potential budgetary shortfalls.

VBA Response: Concur in principle. VBA's Office of Financial Management (OFM) has management controls with clear roles and responsibilities in place. However, OFM will develop and maintain a standard operating procedure to centrally document roles and responsibilities, including communications.

Target Completion Date: July 31, 2025

Recommendation 2: Ensure the Office of Financial Management develops procedures to incorporate all available budgetary resources, as reported on the SF-133s, in its calculations for the status of funds reports for transparent communication to internal and external stakeholders.

Attachment

Veterans Benefits Administration (VBA)
Comments on OIG Draft Report
Review of the $2.9 Billion FY 2024 Supplemental Funds Request to Support VA Benefits Payments

VBA Response: Concur in principle. VBA's status of funds report already includes all available budgetary resources, as reported on the SF-133s. OIG raised the concern that readers may only focus on the table and not read the narrative below. Therefore, OFM is in the process of reformatting the status of funds report to add prior year recoveries to the table in addition to including these resources in the narrative.

Target Completion Date: March 31, 2025

Recommendation 3: Institutionalize monthly fiscal reviews between the Office of Financial Management and program offices to routinely assess performance and cost drivers that may affect the status of available funds.

VBA Response: Concur. OFM participates in weekly and biweekly meetings with program offices and other VBA stakeholders to assess workload, performance, and cost drivers that impact the mandatory accounts.

VBA requests closure of this recommendation.

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

Appendix E: VA Management Comments, Acting Assistant Secretary for Management and CFO

Department of Veterans Affairs Memorandum

Date: March 6, 2025

From: Acting Assistant Secretary for Management and Chief Financial Officer (004)

Subj: Draft Report, Review of the $2.9 Billion FY 2024 Supplemental Funds Request to Support VA Benefits Payments (project number 2024-03692-AE-0129)

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

1. Thank you for the opportunity to review and respond to the Office of Inspector General (OIG) draft report, Review of the $2.9 Billion FY 2024 Supplemental Funds Request to Support VA Benefits Payments.

2. As reported in the OIG review, the primary reason for seeking a supplemental appropriation was to reduce the risk that the Department of Veterans Affairs (VA) would be unable to pay all benefits that Veterans were due to receive.

3. The Office of Management (OM) would like to note the inherent uncertainty in future estimates and that the inclusion of recoveries would not significantly reduce the risk of a shortfall.

4. OM concurs with the OIG's findings and the recommendation that the Acting Assistant Secretary for Management institutionalize monthly fiscal reviews between the VA Office of Budget and the VBA Office of Financial Management to routinely assess performance and cost drivers that may affect the status of available funds. Please refer to the attachment for OM's comprehensive response to the draft report.

The OIG removed point of contact information prior to publication.

(Original signed by)

Edward J. Murray

Attachment

Attachment

OFFICE OF MANAGEMENT/CHIEF FINANCIAL OFFICER

Action Plan

OIG Review of the $2.9 Billion FY 2024 Supplemental Funds Request to Support VA Benefits Payments

(project number 2024-03692-AE-0129)

Recommendation 4. Institutionalize monthly fiscal reviews between the VA Office of Budget and the Veterans Benefits Administration Office of Financial Management to routinely assess performance and cost drivers that may affect the status of available funds.

OM Response: Concur

VA Office of Budget (OB) currently holds two distinct monthly fiscal reviews with the Veterans Benefits Administration (VBA) Office of Financial Management to routinely assess performance and cost drivers that may affect the status of available funds. A monthly meeting is held between OB, VBA, and the Office of Management and Budget on budgetary and programmatic updates, as well as a Monthly Budget Execution Review (including all VA Administrations' and Staff Offices' budget POCs) for the Acting Assistant Secretary of Management. Moving forward, OB will ensure realized prior-year recoveries are included as a funding source in budgetary presentations of the Compensation and Pension, and Readjustment Benefits accounts.

Status: Complete

OM provides the following technical comments:[112]

[Comment 1] Page i, paragraph 2:

"According to VBA officials, they did not communicate to Congress that the compensation and pension funding was not needed until more than a month later because they wanted to confirm the year-end reconciliation of both accounts to report the final funding status to Congress."

OM Comment: OM requests that OIG edit this sentence to indicate that VA reported to Congress as soon as OMB approved release of the report and that VA followed its standard account policies to ensure accuracy of the report before releasing it to OMB, Congress, and the public. Supporting documentation has been provided to OIG under separate cover. OM requests the sentence above be replaced with the following:

"In the period of October 1 to October 18, as required by OMB Circular A-136 and VA policy, VA followed standard year end accounting practices to completely and properly account for all financial activities in the C&P and RB account. On Oct 21, 2024, as required by OMB circular A-11, VA transmitted a report to OMB on the status of funds at year end for the C&P and RB accounts. On October 28, OMB approved release of the financial report."

[Comment 2] Page 4, first bullet:

[112] Like the previous appendix, some footnote or page numbers referenced in VA's comments have been revised due to changes made in the final editing process. The OIG team considered all proposed changes and made responsive revisions in the document, except when addressing comment 3 regarding appendix table formatting. Instead of revisions, the OIG retained the format based on Office of Management feedback provided in February 2025.

Attachment

"The appropriations bill was appropriated in December 2022."

OM Comment: OM requests this sentence be changed to "The appropriations bill was enacted in December 2022" for accuracy of terminology. The Office of Management and Budget appropriates the funding once Congress passes the legislation and the President signs it into law, thereby enacting it.

[Comment 3] Page 40 – 41, Appendix C:

OM Comment: OM requests that all the quarterly dollar figures and variances in the tables in Appendix C be reflected on a cumulative basis, as shown below. Cumulative numbers will directly tie to year-end planned and actual figures referenced throughout the report.

Table C.1. VBA Status of FY 2024 Funds for Compensation and Pension Payments (in Millions) Cumulative

Status of funds	Q1 total	Q2 total	Q3 total	Q4 total
VBA status of funds				
Obligations plan	$44,580.40	$87,898.30	$132,531.60	$179,025.50
Obligations actual	$44,580.40	$87,971.20	$131,821.30	$177,918.30
(Over)/under plan	$0	($72.90)	$710.30	$1,107.20
Percentage difference	0.00%	-0.08%	0.54%	0.62%
OIG analysis of VBA status of funds				
Obligations plan	$44,580.40	$87,898.30	$132,531.60	$179,026
Obligations actual	$44,580.40	$87,971.20	$131,821.30	$177,918
Prior-year recoveries	$162.70	$372.20	$568.10	$1,016
(Over)/under plan	$162.70	$299.30	$1,278.40	$2,123.40
Percentage difference	0.36%	0.34%	0.96%	1.18%

Table C.2. VBA Status of FY 2024 Funds for Readjustment Benefit Payments (in Millions) Cumulative

Status of funds	Q1 total	Q2 total	Q3 total	Q4 total
VBA status of funds				
Obligations plan	$3,638.10	$7,867.10	$10,648.20	$14,202.70
Obligations actual	$3,638.10	$7,835.00	$10,693.90	$14,289.00
(Over)/under plan	$0	$32.10	($45.70)	($86.30)
Percentage difference	0.00%	0.41%	-0.43%	-0.61%
OIG analysis of VBA status of funds				
Obligations plan	$3,638.10	$7,867.10	$10,648.20	$14,202.70
Obligations actual	$3,638.10	$7,835.00	$10,693.90	$14,289.00
Prior-year recoveries	$58.20	$104.60	$158.20	$178.50
(Over)/under plan	$58.20	$136.70	$112.50	$92.20
Percentage difference	1.57%	1.71%	1.04%	0.64%

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

OIG Contact and Staff Acknowledgments

Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
Review Team	Gregory Gladhill, Director Lance Kramer, Director Kamilah Bady Tesia Basso Zac Beres Evelyn Brooker Chau Bui Heather Jones Anita Rizuto Jimmy Sembiring Scott Smith
Other Contributors	Juliana Figueiredo Khaliah McLaurin Martha Plotkin Jill Russell Rachel Stroup

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House Appropriations Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
House Committee on Oversight and Government Reform
Senate Committee on Veterans' Affairs
Senate Appropriations Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
Senate Committee on Homeland Security and Governmental Affairs
National Veterans Service Organizations
Government Accountability Office
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