

## STRATEGIC GOAL 2

*Ensure a smooth transition for veterans from active military service to civilian life*

### *Secretary's Priorities:*

- **Provide meaningful readjustment assistance by improving the quality and timeliness of decision-making for education claims through the use of electronic certification.**
- **Meet community standards for origination and servicing of home loan guaranty benefits, and ensure there are no financial losses incurred on foreclosures.**

Veterans will be fully reintegrated into their communities with minimum disruption to their lives through transitional health care, readjustment counseling services, employment services, vocational rehabilitation, education assistance, and home loan guaranties.

Three key performance measures enable us to gauge progress toward achieving this strategic goal:

- Montgomery GI Bill (MGIB) usage rate
- Average days to complete original and supplemental education claims
- Foreclosure avoidance through servicing (FATS) ratio

### *Secretary's Priority*

**Provide meaningful readjustment assistance by improving the quality and timeliness of decision-making for education claims through the use of electronic certification.**

### *Performance Goals*

- **Increase the Montgomery GI Bill (MGIB) usage rate to 60 percent.**
- **Process original and supplemental education claims in 35 and 23 days, respectively.**

Over 20,000 more claimants received education benefits during FY 2001 than in FY 2000. Almost 70 percent of the 421,000 beneficiaries who used VA education benefits during FY 2001 qualified under the provisions of the Montgomery GI Bill (MGIB). Reservists accounted for nearly 20 percent, and the program for certain eligible dependents of veterans accounted for about 11 percent. Moreover, almost 100,000 individuals began using the benefits for the first time during 2001. They recognized the need to further their education or enhance their job skills and relied on their GI bill entitlement as a funding source.

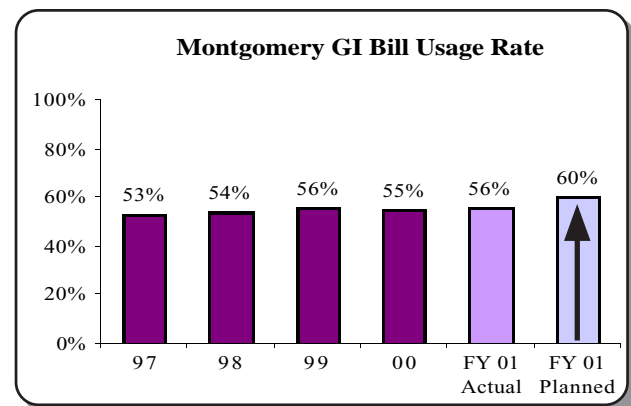
The Veterans Benefits and Health Care Improvement Act of 2000 (Public Law 106-419) provided for MGIB benefits for some licensing and certification tests. This provision allows claimants to take an unlimited number of tests and receive MGIB benefits of up to \$2,000 per test. The program took effect March 1, 2001. Though not widely recognized as a type of program for which VA education benefits are payable, 123 veterans received reimbursement for completing 136 tests by the end of the year. We predict that VA will pay for 25,000 tests during FY 2002. This number will continue to increase as the program matures.

The National Defense Authorization Act of FY 2001 (Public Law 106-398) allows in-service students to receive VA benefits to pay for any tuition or school expenses not paid by the military services through their tuition assistance programs. Referred to as Tuition Assistance Top-Up, or just "Top-Up,"

more than 12,000 service members received this benefit during FY 2001. Payments are generally less than VA pays veterans while attending school because active duty personnel use "Top-Up" to supplement the military tuition assistance programs. In addition, payment amounts vary by number of courses taken and the type of institution and tuition charged. Ranging from less than \$100 to well over \$1,000, the average payment is about \$480. We are making about 1,000 of these payments each week and expect to exceed 50,000 payments during 2002. "Top-Up" may represent about 5 percent of our workload in 2002.

### *Increase the MGIB Usage Rate*

The MGIB usage rate increased by one percentage point over last year. This was four percentage points short of our FY 2001 goal. Reasons for this deviation include:



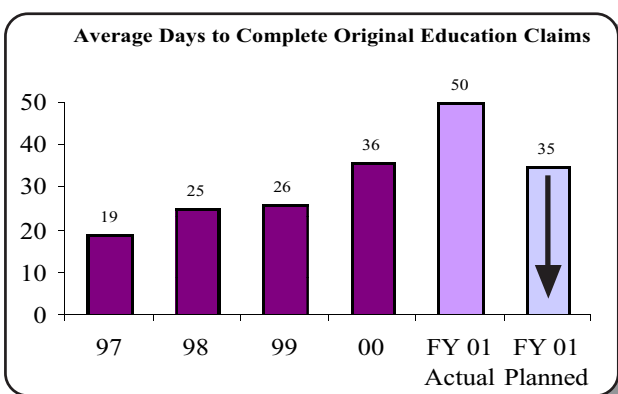
- The level of payment did not cover enough of the cost of education;
- Promotional material for MGIB did not arrive early enough;
- The potential MGIB benefits did not meet the veteran's expectation;
- Timeliness of claims processing deteriorated, thus discouraging veterans from applying for benefits.

While there is no measure in place that clearly identifies the probable cause for not achieving our 2001 goal, the possible reasons cited above are derived from the findings of a program evaluation for VA's education benefit programs completed in 2000. That report recommended a significant increase to the benefit because it had lagged behind the rising cost of education. The rate increases enacted in the Veterans Education and Benefits Expansion Act of 2001, Public Law 107-103, should enable us to determine the extent to which benefit levels served as the primary barrier.

### Improve Education Claims Processing

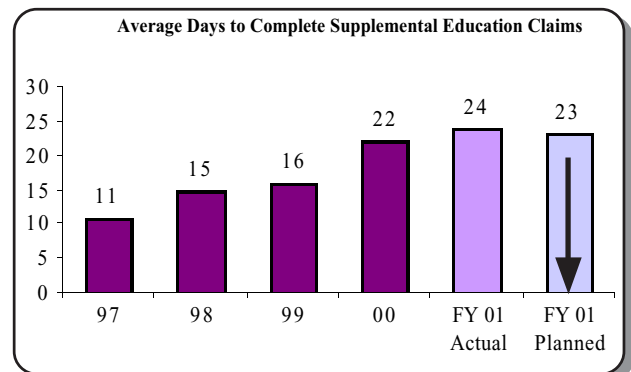
Although we missed the 23-day goal for processing supplemental claims by only 1 day, we missed the goal for original claims by 15 days. The reasons for not achieving the goal include:

- Because of the backlogs and recently enacted legislation, telephone traffic volume was 30



percent higher than during the prior year's first quarter. Increased phone duty resulted in less time available to process claims. Traffic returned to near normal levels throughout the rest of 2001.

- Hardware installation difficulties from FY 2000 affected 2001. For example, equipment malfunctioned sporadically, requiring replacement and resulting in operational delays. Although corrected by the end of the first quarter, recovery from the backlog took time.
- Many Education employees were promoted into Compensation & Pension (C&P) positions. Opportunities for advancement in a regional office environment are greater in the C&P area because the average grade levels are higher. The movement into C&P positions accelerated because additional hiring was authorized. As a result, new hiring and training in education were required. As of June 2001, 48 percent of the decision-makers in the Education business line were trainees.



Improvement trends that began during the last 3 months of 2001 are expected to continue through 2002. New hires are gaining experience and becoming more productive. Development of automated processing with expert systems will allow achievement of long-term strategic targets.

## Means and Strategies

### *Increase the MGIB Usage Rate*

During FY 2001, we continued our efforts to improve outreach to servicemembers and veterans regarding their access to benefits.

- VA continued to mail the brochure, "Focus on Your Future with the Montgomery GI Bill," to servicemembers who have completed 12 months of active duty. This brochure gives a general description of education benefits. It also has information to help servicemembers decide to enter vocational or on-the-job training and use their MGIB benefits.
- Toll-free phone service was maintained during the year. Seasonal employees and education liaison representatives answered calls to help reduce the number of callers who could not complete their calls. Veterans who cannot get questions answered will lack the information they need to begin their education or training efforts.
- Web Automated Verification of Enrollment (WAVE) became available to claimants in late FY 2001. WAVE allows MGIB beneficiaries to verify their continued enrollment each month over the Internet instead of mailing the verification form. This improves communication with claimants and speeds release of monthly payments. Although installed too late in the fiscal year to have a significant effect, it will reduce paperwork in the regional processing offices and speed the benefit payment process. This will help encourage veterans to use their benefits.

During FY 2002, we plan to increase outreach efforts. Findings from the program evaluation indicated that future veterans cite the military as the most frequent source of MGIB information and

that information is not always clear, concise, and totally accurate. We are planning the following outreach activities:

- The mailing of a brochure and letter after 2 years of service;
- The mailing of an outreach letter 6 months before discharge;
- The testing of outreach materials at military bases to ensure the message in the materials is clear;
- Presentations at conferences attended by service coordinators and military education officers;
- Briefing of Army and Navy recruiters to ensure they have correct and current information. According to the 2000 customer satisfaction survey, 46 percent of veterans first learn about MGIB from their recruiters. Most military brochures directed at potential recruits emphasize money from MGIB to attend college as an inducement to consider serving in the military. The message is intended to give the potential recruit another reason to enlist, but does not provide sufficient information to begin planning for education or training after military service.

### *Improve Education Claims Processing*

Means and strategies for achieving the performance goal included:

- Continued improvements in Enrollment Certification Automated Processing (ECAP), allowing more cases to be processed without human intervention. ECAP is a proof-of-concept prototype that uses "expert" or rules-based systems to process claims in a totally automated environment to the extent possible. At this point, only 3-4 percent of all incoming

work is completely processed in this way. A more sophisticated rules-based application will allow many more claims to be completed without human intervention.

- Electronic Funds Transfer (direct deposit) was expanded to the MGIB-SR (chapter 1606) program, making funds available to these claimants 3 to 5 days earlier than if a check is mailed.
- 100 new claims examiners were hired.
- Seasonal employees and education liaison representatives were used to relieve case managers from phone duty, freeing them for claims processing. Seasonal employees can be most beneficial during peak workload periods (August-October and January-February).

## External Factors

### *Increase the MGIB Usage Rate*

The cost of education has risen faster than the Consumer Price Index for the past several years. For example, according to the Department of Education, the cost of post-secondary education rose 3.8 percent in 2000. However, the Consumer Price Index rose 2.7 percent.

Legislation enacted in early FY 2001 helped restore lost purchasing power with increased monthly payments. This same legislation also provided for:

- Payment for licensing and certification tests.
- Additional voluntary contributions to a servicemember's MGIB account to increase benefits.

As time passes, these changes will increase the number of veterans who apply for and receive MGIB benefits. With the passage of transferability

(that is, permission for an active duty servicemember to transfer part of his or her MGIB benefit to family members as a reenlistment incentive), we expect usage to increase because almost any combination of a servicemember's dependents could be entitled to receive part of his or her total MGIB benefit. The rate increases enacted in the Veterans Education and Benefits Expansion Act of 2001, Public Law 107-103, should enable us to determine the extent to which benefit levels served as the primary barrier.

### *Improve Education Claims Processing*

Legislation enacted in early FY 2001 dramatically affects VA education benefits. Over time, provisions such as the Tuition Assistance Top-Up for active duty MGIB claimants and payment for licensing and certification tests will generate a significant number of new claims. Claims for these benefits will be processed "out-of-system" for the foreseeable future until systems can be modified to accommodate them. Out-of-System processing is more labor-intensive than regular work and adversely affects timeliness for those claims by adding a few extra days to the workflow process. The overall impact for about 5 percent of the work in 2002 should not be dramatic.

## Crosscutting Activities

### *Increase the MGIB Usage Rate*

Increasing the MGIB usage rate requires coordination among VA, the Department of Defense, and other organizations distributing MGIB information. In FY 2001, we began briefings to Army and Navy recruiters to help them give recruits a clear and realistic view of MGIB benefits. We also began supporting military base counselors by giving them a guide for education specialists working with servicemembers who may need MGIB benefits to pursue their educational or vocational objectives.

### *Improve Education Claims Processing*

Overall processing timeliness is affected to some extent by the quality of the enrollment information and certification received from school officials. VA developed an application (called VACERT) that allows schools to send enrollment certifications to VA regional processing centers electronically. Currently, over half of all schools use VACERT. An Internet version of VACERT is being developed and will make the application more attractive to schools. This system will be tested and deployed in FY 2002. In addition, we are continuing to improve relationships with institutions. For example, we started offering "new certifying official" training in FY 2001 and will continue in FY 2002. Certifying officials are employed by educational institutions to serve the veteran/student and to submit enrollment information to VA for use in paying benefits. The more knowledge they possess, the more they are able to assist VA in serving veterans' needs.

### **Data Source and Validation**

#### *Increase the MGIB Usage Rate*

The MGIB usage rate is calculated by dividing the cumulative number of individuals who began a program of education under the MGIB (taken from VBA's Education Master Record File) by the overall number of potentially eligible veteran beneficiaries (taken from DoD's Defense Manpower Data Center separation records). We do not independently validate the DoD information.

### *Improve Education Claims Processing*

We measure education claims processing timeliness by using data captured automatically through the Benefits Delivery Network. The Education Service staff in VA Central Office confirms reported data through ongoing quality assurance reviews conducted on a statistically valid sample of cases. They look at dates of claims in these sample cases to ensure they are reported accurately.

Each year, Central Office staff reviews a sample of cases from each of the four regional processing offices (RPOs). Quarterly samples are selected randomly from a database of all end products taken during the quarter. Since the cases are reviewed remotely through the use of TIMS (The Imaging Management System), the RPOs are completely divorced from the review process until they receive a report of the review. The results are valid at the 95 percent confidence level. Reviewers validate dates of claim and validity of end products for all cases reviewed. They report errors to the RPOs and track trends. The RPOs are given a chance to rebut errors called. This helps ensure the quality and fairness of the review.

An appraisal team visits each RPO annually. The team consists of Central Office staff and a representative from a "sister" RPO. While in the RPO, the appraisal team reviews all aspects of the operation including quality and consistency of data input.

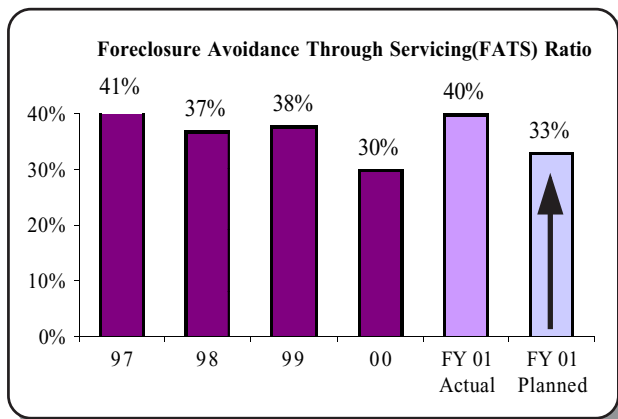
## Secretary's Priority

Meet community standards for origination and servicing of home loan guaranty benefits, and minimize financial losses incurred on foreclosures.

### Performance Goal

➤ Improve the Foreclosure Avoidance Through Servicing (FATS) ratio to 33 percent.

VA's home loan guaranty program has a significant impact on the housing economy of the United States. Over 16 million veterans and their families have used a guaranty since 1944; there are currently 3.1 million active loans. Veterans are able to purchase homes with little or no down payment, with terms not generally available to non-veterans. This benefit stimulates home buying, which spurs economic activity for builders, construction workers, realtors, appraisers, and the real estate finance industry. The benefit also impacts the sale of appliances and furniture, the market for home improvement materials and products, and the small businesses that provide these services.



The FATS ratio for FY 2001 was 40 percent, which substantially exceeded the planned level of 33 percent.

The FATS ratio measures the extent to which foreclosures would have increased had VA not pursued alternatives to foreclosure. Alternatives to

foreclosure can help veterans either save their home or avoid damage to their credit rating, while reducing costs to the Government.

### Means and Strategies

There are four alternatives to foreclosure:

- **Successful Intervention** – VA may intervene with the holder of the loan on behalf of the borrower to set up a repayment plan or take other action that results in the loan being reinstated.
- **Refunding** – VA may purchase the loan when the holder is no longer willing or able to extend forbearance in cases where VA believes the borrower has the ability to make mortgage payments or will have the ability in the near future.
- **Voluntary Conveyance** – VA may accept a deed in lieu of foreclosure from the borrower, if doing so is in the best interest of the Government.
- **Compromise Claim** – If a borrower in default is trying to sell the home but it cannot be sold for an amount that is greater than or equal to what is owed on the loan, VA may pay a compromise claim for the difference in order to complete the sale.

Much of the improvement in FY 2001 can be attributed to restructuring field operations over the last several years. VA has moved the supplemental

servicing from 45 regional offices to 9 regional loan centers. This has allowed for concentration of resources and provides much greater flexibility to manage default workloads.

VA has also approved more lenders to participate in the Servicer Loss Mitigation Program (SLMP), which authorizes compromise sales and deeds in lieu of foreclosure. These two servicing tools are components of the FATS ratio. Greater use of SLMP allows VA staff to work more intensely on intervention actions, such as establishing repayment plans that are also a component of the ratio. VA continues to train employees on effective tools of servicing, which has contributed to helping more veterans avoid foreclosure.

### **External Factors**

VA relies heavily on the lending industry to deliver the home loan benefit. Ultimately, the level of veteran satisfaction is directly dependent on how well VA can meet the expectations of lenders, builders, real estate brokers, and appraisers. This means adapting the delivery of our services to industry practices and making timely changes as technology generates involvements in the loan origination process.

### **Major Management Challenges**

Restructuring, Service Loss Mitigation, and training have improved delinquent Loan Servicing. However, there is a recognized need to fully review VA's supplemental servicing process. In FY 2002, the Loan Guaranty Program plans a thorough redesign effort to reengineer, standardize, and document work process and procedures involved in supplemental servicing and activities related to the lender's primary servicing efforts. This will include the specific information technology requirements needed to support the redesigned process.

### **Data Source and Validation**

Data used to calculate the FATS ratio come from the Loan Service and Claims (LS&C) system, which is the system used to manage defaults and foreclosures of VA-guaranteed loans.

In November 2000, the OIG issued an audit report regarding the accuracy of data used to compute the FATS ratio. The OIG attempted to verify each of the five components of the computation. The auditors randomly selected a sample of records in each category and reviewed corresponding loan folders to determine whether records in the LS&C system were properly categorized. The OIG found that records in four of the five categories were correctly categorized. However, records categorized as successful interventions could not be verified because supporting documentation was not available. Evidence of defaults, intervention efforts, and cures was generally not retained in loan folders. Employees did record intervention efforts as electronic notes in the LS&C; however, the system did not retain the notes. Consequently, the OIG could not attest to the accuracy of the FATS ratio.

During the audit, VA activated a new computer system for loan servicing activities that retains electronic notes, which are used to document successful interventions. Because this should have corrected the only material deficiency identified, the OIG did not make any recommendations and considers the matter resolved.