US DEPARTMENT OF VETERANS AFFAIRS

# OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

**DEPARTMENT OF VETERANS AFFAIRS**

# Audit of VHA and VBA Controls Over the Toxic Exposures Fund

| Audit | 25-03218-133 | August 20, 2026 |
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# Executive Summary

The VA Office of Inspector General (OIG) conducted this audit to determine whether the Veterans Health Administration (VHA) and Veterans Benefits Administration (VBA) have effective controls in place to provide reasonable assurance of the proper use of the Cost of War Toxic Exposures Fund, which was authorized by the PACT Act.[1] The fund covers costs associated with delivering health care and benefits to veterans exposed to environmental hazards during military service. In fiscal years (FY) 2022 through 2025, VHA and VBA spent about $51.7 billion from the fund. Congress appropriated about $52.7 billion more to the fund in FY 2026, which will remain available until expended. In this audit, the OIG team analyzed financial transactions from October 2024 through September 2025, reviewed VA financial policy and regulations, and interviewed VA leaders and staff. The audit team reviewed the FY 2024 reconciliation because the FY 2025 reconciliation was not completed until April 2026. The process for the FY 2025 reconciliation was unavailable during the audit.

In February 2026, the audit team briefed VA leaders responsible for overseeing the Toxic Exposures Fund on this report's findings and recommendations. The team notified VHA leaders of transaction errors, and they acted promptly to correct these issues. When the team informed VA officials about VBA's inability to meet the policy requirements, VA committed to working with VBA to ensure its reconciliation process is feasible. Furthermore, as a result of the OIG's audit, VA updated the Toxic Exposures Fund financial policy to add standard operating procedures for budget execution.[2] The team also noted that VA updated appendixes related to budget execution in the Office of General Counsel, the Office of Research and Development, and Human Resources and Administration. According to the updated VA financial policy, these revisions were made in response to the OIG's audit findings in this report, and VA is anticipating more updates to align policy with the OIG's recommendations.

During the audit, VA realigned the supervision of the administrations' and staff offices' finance and budget functions under the assistant secretary for management, who also serves as chief financial officer, to enhance fiscal responsibility and accountability across the department. The effects of this change on the issues identified in this report are unknown, but the OIG's findings can help guide VHA and VBA during these reorganization efforts to strengthen management of the fund.

[1] Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022, Pub. L. No. 117–168, 136 Stat. 1759.

[2] VA Financial Policy, "Toxic Exposures Fund," in vol. 11, *Unique Fund Accounts* (February 2026), chap. 6.

## What the Audit Found

The OIG found that VHA issued internal guidance for applying Toxic Exposures Fund resources to work around system limitations. However, opportunities remain to strengthen monitoring of expenditure transfers, which shift budgetary resources between VA accounts. For example, the OIG team found that one medical facility charged expenditures to an incorrect account. The facility corrected the error during the audit and notified the OIG team of another error. VHA conducted a subsequent network-wide examination, and two additional miscoded transactions were identified and corrected. According to 31 U.S.C. § 1301, appropriations must be applied only to the purposes for which the appropriations were made except as otherwise provided. In total, expenditures inconsistent with authorized purposes amounted to about $371,000.

VBA's approach for tracking costs did not allow it to meet policy requirements for reconciling PACT Act–related workload at the individual-employee level. VBA could not track actual environmental hazard–related workload and therefore could not reconcile expenditures as required. According to VBA officials, VA systems are not configured to track Toxic Exposures Fund data and services separately. Leadership turnover in VBA's Office of Financial Management also stalled progress in documenting procedures, including roles and responsibilities, for managing the fund.

The OIG made four recommendations to strengthen internal controls over VA's use of the fund. The assistant secretary for management, who also serves as the chief financial officer, concurred with all four recommendations and provided action plans.

## Next Steps

The OIG will monitor VHA's and VBA's corrective actions and will close the recommendations once the administrations provide sufficient evidence that the issues identified in this report have been addressed.

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# Abbreviations

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| FY | fiscal year |
| OIG | Office of Inspector General |
| PACT Act | Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics Act of 2022 |
| VBA | Veterans Benefits Administration |
| VHA | Veterans Health Administration |

# Introduction

The PACT Act of 2022 expanded the delivery of health care and the eligibility to disability compensation benefits for millions of veterans exposed to environmental hazards during military service and their survivors.[3] Under the PACT Act, more conditions are designated as presumptively service connected—meaning these diseases or disabilities were incurred in or aggravated by military service without requiring evidence to that effect. The act also expanded the list of geographical locations where service members are presumed to have been exposed to environmental hazards during military service. Congress authorized the Cost of War Toxic Exposures Fund to support increased costs for delivering health care and benefits.

From the inception of the Toxic Exposures Fund in fiscal year (FY) 2022 through FY 2025, the Veterans Health Administration (VHA) and the Veterans Benefits Administration (VBA) spent about $51.7 billion from the fund. Congress appropriated about $52.7 billion to VA for the Toxic Exposures Fund in FY 2026, which will remain available until expended.[4]

VHA's and VBA's most recent spend plans were in line with VA's requirement that the administrations develop an estimation methodology to justify the use of Toxic Exposures Fund allocations. In VA's FY 2024 spend plan, VHA indicated it would use the $21.6 billion allocated from the fund's FY 2025 appropriation for medical care. VBA planned to use the FY 2025 allocation of $1.4 billion to ensure timely delivery of veterans' benefits under the PACT Act. VA provided an updated spend plan to the VA Office of Inspector General (OIG) in April 2026.

The OIG conducted this audit to determine whether VHA and VBA have effective controls in place to provide reasonable assurance of the proper use of the Toxic Exposures Fund as authorized by the PACT Act. VHA and VBA were responsible for establishing controls over their Toxic Exposures Fund allocations—including establishing estimation, tracking, and reconciliation methodologies—in accordance with applicable laws and VA financial policy related to the Toxic Exposures Fund. Because VHA and VBA approached meeting these requirements differently, the OIG team's review focused on different aspects of the process for each administration. While VHA took steps to develop methods and guidance to estimate, track, and reconcile its costs for the fund, VBA only developed an estimation and tracking methodology that did not allow reconciliation of costs.

[3] Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022, Pub. L. No. 117–168, 136 Stat. 1759.

[4] Continuing Appropriations, Agriculture, Legislative Branch, Military Construction and Veterans Affairs, and Extensions Act, 2026, Pub. L. No. 119-37, 139 Stat. 608.

## Offices Involved in Oversight of VHA’s and VBA’s Toxic Exposures Fund Allocations

The VA Office of Management oversees the department’s budgetary and financial processes, including budget formulation, execution monitoring, and audit readiness. The office also distributes VA-wide policies governing the use of the Toxic Exposures Fund. VA’s assistant secretary for management, who also serves as chief financial officer, is responsible for carrying out Office of Management functions and advising the VA Secretary on financial stewardship of resources and for the oversight of VA’s budgetary and financial management functions, such as payroll and other payment processing. The Office of Management coordinates with VHA, VBA, and staff offices on budget formulation and execution and provides policy guidance on matters relating to the Toxic Exposures Fund and compliance with the PACT Act.

The VHA Office of Finance develops each year’s budget estimate as part of the annual President’s budget process and compiles annual Toxic Exposures Fund spending data. In 2023, this office worked with the Office of Management and Budget and VA to develop internal guidance for estimating, using, and reconciling Toxic Exposures Fund expenditures. The Office of Finance’s Allocation Resource Center is responsible for reconciling VHA’s Toxic Exposures Fund expenditures with allowable amounts based on VHA’s estimation methodology.

The VBA Office of Financial Management developed VBA’s estimation methodology and is responsible for monitoring transactions, overseeing obligations, and ensuring proper funds management. This office also supports VBA staff, including regional offices, for determining and maintaining appropriate staffing levels required to meet VA’s mission.

According to an October 2025 memo, supervision of finance and budget functions was being realigned from each administration to VA’s Office of Management to strengthen financial oversight and accountability, and the Office of Management assumed supervision of the VHA and VBA chief financial officers. The effects of this realignment on the issues identified in this report are not yet known, but the OIG’s findings can help guide VHA and VBA during these reorganization efforts to strengthen management of the fund.

# Results and Recommendations

## Finding: VHA and VBA Could Improve Internal Controls Over Managing the Toxic Exposures Fund

The OIG previously reviewed VHA's estimation methodology to support expenses that are allowable under the Toxic Exposures Fund and found it reasonable and consistent with authorized purposes.[5] In this audit, the OIG team found that VHA could strengthen monitoring of Toxic Exposures Fund use. To work around the fact that none of VHA's systems can track individual episodes of care related to toxic exposures, VHA developed internal guidance for recording use of the fund via expenditure transfers (which shift budgetary resources between VA accounts) and outlined a reconciliation process. However, the OIG team found that VHA's reliance on expenditure transfers increases the risk that funds will be used for purposes inconsistent with the law.

Although VBA established an estimation methodology, the methodology did not include cost estimates and was not updated. Furthermore, VBA could not track its actual workload specific to delivering benefits associated with exposure to environmental hazards or reconcile estimated Toxic Exposures Fund costs with actual PACT Act–related workload costs. According to VBA officials, because none of VA's systems are configured to track Toxic Exposures Fund data and services separately, VBA has limited ability to track workload related to environmental hazard exposure. In addition, leadership turnover at VBA hindered accountability and documentation of roles and responsibilities for managing the fund.

In November 2025, during the audit, VA updated its Toxic Exposures Fund financial policy to include an overarching budget execution section.[6] The policy update was intended to improve transparency for tracking, monitoring, and reconciling Toxic Exposures Fund expenditures. As a result of this OIG audit, in February 2026, VA added standard operating procedures for VBA Toxic Exposures Fund budget execution to the policy (appendix D). The OIG noted that VA also updated appendixes related to budget execution in the Office of General Counsel (appendix G), the Office of Research and Development (appendix I), and Human Resources and Administration (appendix K). According to VA's updated financial policy, these revisions were made in response to findings identified in this report, which the OIG team shared with VA officials. To align policy with the OIG's recommendations, VA also is anticipating more updates, such as monitoring and approving all Toxic Exposures Fund expenditure transfers and adding requirements for developing standard operating procedures.

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[5] VA OIG, *VA's Allocation of Initial PACT Act Funding for the Toxic Exposures Fund*, Report No. 23-02377-35, January 11, 2024.

[6] VA Financial Policy, "Toxic Exposures Fund," in vol. 11, *Unique Fund Accounts* (November 2025), chap. 6.

Overall, VA needs to improve internal controls related to the Toxic Exposures Fund. Doing so, in tandem with the updated financial policy for the fund, will provide VHA and VBA better assurance that expenditures are properly accounted for and that funds allocated for veterans' health care and benefits related to environmental hazards are being spent as intended.

## What the OIG Did

To understand the processes and internal controls related to VHA's and VBA's use of the Toxic Exposures Fund, the team reviewed federal laws and regulations, VA financial policy, and Government Accountability Office publications on best practices.[7] The team also interviewed key officials and staff from VA, VHA, and VBA. Appendix A provides more information about the audit's scope and methodology.

Because VHA reconciles Toxic Exposures Fund expenditures after the fiscal year is closed, the team reviewed the most recent reconciliation available—which was for FY 2024—and other related documents, such as internal policy and guidance and journal vouchers. In April 2026, VHA officials told the OIG team that they had reconciled the FY 2025 Toxic Exposures Fund expenditures using a process that differed from the process used for the FY 2024 reconciliation. The OIG could not review the FY 2025 reconciliation because the new process used to compile it was unavailable.

To evaluate how VBA used the fund, the team reviewed VBA's FY 2025 transactions, documents that supported its plans to use the Toxic Exposures Fund, and VBA's FY 2025 recertification to justify the continued need for central office staff hired using the fund.

## VHA's and VBA's Toxic Exposures Fund Estimation Methodologies

The PACT Act requires the VA Secretary to include in documents submitted to Congress in support of the President's budget detailed estimates for costs of delivery of veterans' health care and incident to the delivery of veterans' health care and benefits associated with toxic exposure.[8] VA financial policy for Toxic Exposures Fund use requires VHA and VBA to develop methodologies for reliable cost estimates to determine budget needs. VA financial policy also requires the administrations to update these estimates as assumptions change.[9]

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[7] Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014; Government Accountability Office, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Program Costs*, GAO-20-195G, March 2020.

[8] PACT Act.

[9] VA Financial Policy, "Toxic Exposures Fund," in vol. 11, *Unique Fund Accounts* (April 2025), chap. 6.

## VHA

In January 2024, an OIG review of VHA's Toxic Exposures Fund estimation methodology concluded that it was reasonable and consistent with authorized purposes.[10] To estimate healthcare delivery costs associated with the Toxic Exposures Fund, VHA identified the total number of veterans in priority group 6 and the costs associated with their care from FY 2021.[11] Because most veterans in this group are eligible due to exposure-related reasons, VHA could determine what portion of these veterans' care was attributable to their exposure based on whether the veteran had to pay a copayment. Veterans in this group must pay copayments for care unrelated to special authorities, such as toxic exposures.[12]

From this total, VHA selected a random sample of veterans receiving care. VHA reviewed the total cost of care for each veteran, which included care with and without a copayment. Next, VHA calculated the percentage of health care costs without copayments. This percentage was used as a proxy for health care associated with exposure to environmental hazards. Last, VHA multiplied this proxy to the projected healthcare costs for veterans who were deployed during the Vietnam War, Gulf War, or Post-9/11 eras. VHA selected these three populations as an estimate of the maximum number of veterans who may have toxic exposures as a result of their service. During the current audit, the OIG team did no additional work on VHA's estimation methodology.

## VBA

VBA could strengthen its estimation methodology and documenting procedures to work around VA system limitations—according to VBA officials, none of VA's systems can differentiate or track activities related to environmental hazard exposure claims. Furthermore, VBA officials told the OIG team that none of VA's systems are integrated or configured to produce data elements needed to track costs associated with staff activities related to environmental hazard benefits. Given these limitations, updating VBA's estimation methodology and adopting a more structured approach to managing the fund are especially important.

VBA established a cost estimation methodology that outlined how it planned to use the Toxic Exposures Fund in nine spending categories covering areas such as staffing, training, claims

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[10] VA OIG, *VA's Allocation of Initial PACT Act Funding for the Toxic Exposures Fund*.

[11] VA healthcare eligibility is categorized into priority groups based on factors that include a veteran's military service history, disability rating, income level, and other benefits received. Priority and sub-priority groups affect copay amounts and eligibility status. Veterans may be assigned to priority group 6 if they participated in a toxic exposure risk activity while serving; in this priority group, care for conditions related to toxic exposures does not require copayments.

[12] Special authorities include conditions related to combat service and exposures, according to VA-approved copay rates. "Current VA Health Care Copay Rates" (web page), VA, accessed March 24, 2026, https://www.va.gov/health-care/copay-rates/.

processing, and scanning services. According to one VBA official, VBA grouped the nine categories into two overarching cost types—payroll and nonpayroll—but none of the categories in the estimation methodology included cost estimates. In six of the nine categories, the methodology outlined how VBA intended to account for costs by using factors, such as total minutes for all toxic exposure–related logged calls and contract, travel, and other costs related to implementing and managing toxic exposure–related efforts. However, according to VBA officials, none of VA's systems are configured for VBA to track veteran inquiries or other activity associated with managing the delivery of veterans' benefits related to environmental hazards.

For example, one of the nine spending categories was for scanning claims documents—converting hard copies of claims paperwork to electronic records. According to the estimation methodology, scanning costs could also include contracts, travel, and any other costs specifically attributable to managing toxic exposure–related benefits efforts. However, the methodology did not include estimates of specific costs or clarify how VBA would capture scanning costs related to environmental hazards. One VBA official told the audit team that VBA uses the Toxic Exposures Fund to pay all scanning costs, regardless of the claim type. The same official also told the OIG team that VBA is still following congressional authorization from when it received the initial Toxic Exposures Fund start-up allocation (the initial funding for FYs 2022–2024) for contracting to expedite scanning efforts. However, the authorization for the start-up allocation expired in FY 2024, and VBA has not reassessed how to pay for scanning costs. For example, VBA could use recent data to calculate a ratio of PACT Act–related claims to other types of claims to determine how much of the scanning costs should be charged to the fund.

Although VBA established nine spending categories, the methodology did not include estimated costs for any of the categories. According to VA's Toxic Exposures Fund financial policy, VBA's procedures should include a methodology with accurate and reliable cost estimates for expenses related to delivering benefits associated with exposure to environmental hazards, and the estimates should be updated if "technical and underlying assumptions change."[13] The financial policy also requires VBA to use the Government Accountability Office's *Cost Estimating and Assessment Guide*, which says cost estimates should be updated to reflect changes and actual costs.

Because of significant leadership changes in the chief financial officer position, VBA faced challenges updating its estimation methodology to include detailed, accurate, and reliable cost estimates for benefits related to environmental hazard exposures. According to VA, from December 2023, when the methodology was published, through September 2025, VBA had four different chief financial officers. The VBA chief financial officer is responsible for overall

[13] VA Financial Policy, "Toxic Exposures Fund," in vol. 11, *Unique Fund Accounts* (April 2025), chap. 6.

financial management, including budget execution and financial policy.[14] As leadership fluctuated, no one was designated to update the Toxic Exposures Fund estimation methodology, and VBA did not document roles and responsibilities for this process. According to the Government Accountability Office's *Standards for Internal Control in the Federal Government*, managers should document and communicate policies and procedures so that they can be implemented. Doing so also helps retain organizational knowledge and reduce the risk that critical information is limited to a few staff.

The OIG understands that when the Toxic Exposures Fund was established, VBA may have been working with limited information and assumptions that likely changed over time. However, as VBA continued processing and tracking PACT Act claims, it had an opportunity to use more current data to establish a cost estimate that would reflect how it actually intended to spend the funds. Without a detailed, realistic, reliable estimate, VBA might not be able to track and reconcile costs, making it difficult to assess VBA's use of the fund.

*The OIG's first recommendation is to update VBA's estimation methodology to reflect how the administration plans to use the funds.*

## Tracking and Reconciliation

In addition to establishing an estimation methodology, VA's Toxic Exposures Fund financial policy requires VHA and VBA to track the actual work associated with environmental hazards exposure and reconcile estimated costs to actual workload data.

### VHA

To work around VA's system limitations, VHA, with the assistance of the VA Office of Management and the Office of Management and Budget, developed internal guidance for VHA's use and reconciliation of the Toxic Exposures Fund. When VHA decided in December 2024 to have VHA medical facilities handle the expenditure transfers instead of the VHA Office of Finance; the office issued supplemental guidance to the facilities that included a list of budget object codes to use for Toxic Exposures Fund expenditure transfers. Budget object codes are used to categorize and track expenses; for example, "1081" designates salaries for full-time physicians and "1061" does so for registered nurses. According to the VHA associate chief financial officer for budget formulation, the reconciliation methodology followed the same process as estimation but relied on actual expenditure information.

To perform the FY 2024 reconciliation, VHA staff multiplied the original proxy by patient care costs for the three veteran eras (Vietnam War, Gulf War, and Post-9/11) to calculate allowable expenditures. Then, they compared the allowable expenditures to the total actual Toxic

[14] VBA Financial Policies and Procedures, "Financial Management Overview," M24-2 (July 25, 2025).

Exposures Fund expenditure amounts. If the sum of all expenditure transfers did not exceed the allowable amounts, VHA considered the expenditure transfers reconciled for FY 2024.

The OIG found that while medical facilities mostly met the intent of the supplemental guidance, internal controls for monitoring expenditure transfers could be improved. For example, the OIG team found that one facility charged research expenditures to the Toxic Exposures Fund medical services account, which is supposed to be used to pay for inpatient and outpatient care. VA receives separate funding under the Consolidated Appropriations Act for medical and prosthetics research.[15] As set forth in 31 U.S.C. § 1301, appropriations shall be applied only to the purposes for which they were made except as otherwise provided. VHA used funds earmarked for medical services to instead pay research, which was not consistent with the purposes that appropriation account should be used for. The facility attributed this mistake to human error and promptly took corrective action in October 2025 after the OIG team notified the facility and the VHA Office of Finance.

While processing this correction, the facility notified the OIG team of another error, which they also corrected. Furthermore, the network interim chief financial officer told the audit team about two other facilities that had used incorrect accounts to pay expenses that were for purposes not consistent with the authorizations; the facilities subsequently corrected the errors. In total, the errors amounted to about $371,000.

*The OIG's second recommendation is to implement monitoring procedures to ensure VHA expenditure transfers follow statutes.* Doing so will reduce the risk of fraud, waste, and abuse.

## VBA

According to VBA staff, VBA established cost centers—a mechanism used to accumulate costs incurred by area of responsibility—to track personnel costs for PACT Act–related workload. However, VBA staff told the OIG team that none of VA's systems can differentiate or track staff's PACT Act–related workload, and VA does not have activity-based cost accounting systems. In other words, the systems cannot track the actual activities of a particular staff member or assign costs for specific activities. Consequently, VBA cannot reconcile estimated Toxic Exposures Fund costs with actual workload data.

VA Office of Management officials acknowledged that VBA could have tracked costs by calculating a percentage of Toxic Exposures Fund–related claims and applying that percentage to the costs of doing the work. This process would also allow VBA to reconcile Toxic Exposures Fund cost estimates with actual PACT Act–related workload. Although the cost centers allow VBA to identify staff hired using the Toxic Exposures Fund, VBA still cannot track the actual

[15] Pub. L. No. 118-42, March 9, 2024. The Consolidated Appropriations Act annually appropriates funding levels.

workload to determine whether an employee's activities are related to delivering environmental hazard benefits.

Leadership turnover also resulted in a lack of awareness between VBA and the VA Office of Management in terms of what VBA could realistically do to satisfy the financial policy. Officials in the Office of Management told the OIG team that VBA leaders and staff did not inform them that VBA could not reconcile Toxic Exposures Fund costs. They did not know whether the former chief financial officers had communicated VBA's inability to meet VA policy requirements. After the OIG team brought this issue to their attention, VA leaders told the team that they are committed to working with VBA to ensure the Toxic Exposures Fund reconciliation process is feasible.

VBA's approach to tracking the Toxic Exposures Fund does not allow it to meet VA policy requirements and evaluate results. According to the Government Accountability Office's *Standards for Internal Control in the Federal Government*, managers should establish monitoring activities, such as a reconciliation process, to evaluate results. Without a strong reconciliation process, VBA cannot provide assurances that taxpayer money is being spent as intended or minimize the risk of fraud, waste, and abuse.

*The OIG's third recommendation is to establish procedures, roles and responsibilities, and clear guidance for the use of the Toxic Exposures Fund and to ensure the reconciliation of VBA's estimated and actual Toxic Exposures Fund costs.*

### Recertification Process

Along with establishing cost centers to track personnel costs, VBA's chief financial officer established a recertification process in October 2023 for staff hired using the Toxic Exposures Fund. Every six months, this process is used to justify the continued need for VBA central office staff hired with the fund. However, VBA staff did not accurately code all central office staff hired using the Toxic Exposures Fund. This coding is essential because it is tracked in HR Smart, VA's human resources information system. VBA continued to pay staff hired using this fund even though some of them should have been reclassified to the VBA general operating expenses account. As part of the recertification process, in FY 2025, VBA authorized 43 fewer employees at the central office than were listed in HR Smart for the same time frame. When the OIG team asked about the difference, VBA officials said their goal is to reduce the number of Toxic Exposures Fund–hired support staff. When the OIG team shared these results, a VBA employee confirmed that VBA used the fund to pay for more central office staff than were authorized.

*The OIG's fourth recommendation is to ensure that VBA validates the actual number of Toxic Exposures Fund–supported employees and ensure that they are properly coded in HR Smart.*

After the OIG team shared these results with VBA, one senior official acknowledged that VBA needs stronger controls over the recertification process. She told the team that VBA's Office of Financial Management intended to make immediate changes to the process. VBA officials told the team that they no longer pay their central office staff out of the Toxic Exposures Fund, so VBA will no longer need to recertify central office staff. However, this recertification process is available to justify other categories of employees, such as field office positions, so improving the process would help ensure the continued need for staff hired using the fund.

## Conclusion

VHA should strengthen monitoring of expenditure transfers, and VBA needs to improve internal controls by updating its estimation methodology and documenting reconciliation procedures, including roles and responsibilities. These actions are critical to ensure the Toxic Exposures Fund is accurately tracked, properly reconciled, and used for intended purposes. By addressing the weaknesses identified in this report, VA can improve accountability, safeguard taxpayer dollars, and uphold its commitment to veterans under the PACT Act. Stronger financial controls are essential not only for compliance but also for maintaining public trust and ensuring resources dedicated to veterans exposed to toxic substances are managed responsibly.

## Recommendations 1–4

The OIG made four recommendations to the assistant secretary for management, who also serves as chief financial officer:

1. Ensure the Veterans Benefits Administration updates its Toxic Exposures Fund cost estimation methodology to reflect how it plans to use the funds.
2. Implement monitoring procedures to ensure Veterans Health Administration expenditure transfers follow statutes.
3. Assess lessons learned and establish standard operating procedures to integrate oversight roles, responsibilities, and clear guidance for reconciling Toxic Exposures Fund costs.
4. Make certain that the Veterans Benefits Administration’s Office of Financial Management and Office of Human Capital Services validate the actual number of Toxic Exposures Fund–supported employees and properly code them in VA’s HR Smart.

## VA Management Comments

The assistant secretary for management, who also serves as the chief financial officer, concurred with all four recommendations. He said the Office of Management is finalizing VBA’s Toxic Exposures Fund cost estimation methodology to reflect the planned use of the funds and will develop and implement quarterly monitoring procedures using a sampling approach to ensure VHA expenditure transfers comply with statutes and policy. The Office of Management also plans to work with VBA to assess lessons learned and establish standard operating procedures that clarify oversight roles, responsibilities, and guidance for reconciling Toxic Exposures Fund costs. The Office of Management will also collaborate with VBA to update the Toxic Exposures Fund cost estimation methodology so identifying and coding Toxic Exposures Fund-supported employees in HR Smart will no longer be required. The assistant secretary for management's full response is available in appendix B.

## OIG Response

VA's planned actions are responsive to the recommendations. The OIG will close the recommendations once VA provides sufficient documentation demonstrating that these actions have been fully implemented and have addressed the issues identified in this report.

# Appendix A: Scope and Methodology

## Scope

The VA Office of Inspector General (OIG) held an entrance briefing with the Veterans Benefits Administration (VBA) in June 2025 and with the Veterans Health Administration (VHA) in July 2025; the audit work continued through May 2026.

The audit focused on the administrations' tracking and reconciliation of the costs associated with the Cost of War Toxic Exposures Fund allocated in fiscal year (FY) 2025 and internal controls specific to the administrations' use of the fund. The team assessed VHA's reconciliation of FY 2024 expenditures, which was the most recent reconciliation available (completed in March 2025). VHA officials told the OIG team that they had completed the FY 2025 reconciliation in April 2026. The FY 2025 reconciliation was performed using a process that is described in the revised Toxic Exposures Fund policy document, which was still going through VA's review and approval process as of April 2026. The process used for the FY 2025 reconciliation differs from the process used for the FY 2024 reconciliation. VHA officials noted they plan to re-do the FY 2024 reconciliation using the new process. The OIG was not able to evaluate the new process since it is not approved nor available yet.

## Methodology

To understand the processes and internal controls related to VHA's and VBA's management of the Toxic Exposures Fund, the team identified and reviewed documents used in support of the administrations' plans to use the fund. The team also interviewed officials from VA's Office of Management and Office of General Counsel; VHA's Office of Finance; and VBA's Offices of Financial Management, Human Capital Services, Field Operations, and Performance Analysis and Integrity. In addition, the team reviewed federal laws and regulations, VA financial policy, and the Government Accountability Office's best practices.[16]

To assess VHA's approach to using the Toxic Exposures Fund and ultimately reconciling costs, the team reviewed the FY 2024 Toxic Exposures Fund cost reconciliation, internal and supplemental guidance, and journal vouchers. To evaluate VBA's approach to using the fund, the team obtained and reviewed all VBA Toxic Exposures Fund transactions from FY 2025. In February 2026, the audit team briefed VA leaders responsible for overseeing the Toxic Exposures Fund on this report's findings and recommendations.

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[16] Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014; Government Accountability Office, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Program Costs*, GAO-20-195G, March 2020.

## Internal Controls

The team assessed VA, VHA, and VBA internal controls over the use of this fund 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.[17] In addition, the team reviewed the principles of internal controls as associated with the objective and identified three components and four principles as significant.[18] The team identified internal control deficiencies during this audit and proposed recommendations to address those listed in table A.1.

**Table A.1. VA OIG Analysis of Internal Control Components and Principles Identified as Significant to the Oversight and Use of the Toxic Exposures Fund**

| Component | Principle | Deficiency identified by this audit |
|---|---|---|
| Control environment | 3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. | VBA officials did not document roles and responsibilities, including staff responsible for updating the Toxic Exposures Fund cost estimates and tracking and reconciling costs. |
| Control activities | 10. Management should design control activities to achieve objectives and respond to risks. | VBA lacks an updated estimation methodology and an approach on the use of the Toxic Exposures Fund. |
| | 12. Management should implement control activities through policies. | VBA lacks policies and standard operating procedures to govern the use of the Toxic Exposures Fund. |
| Monitoring | 16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. | VHA lacks robust monitoring activities to ensure cost transfers adhere to statutes. VBA does not reconcile between its estimate and actual workload associated with exposure to environmental hazards. |

*Source: VA OIG analysis of internal control components and principles consistent with the Government Accountability Office's* Standards for Internal Control in the Federal Government.

## Data Reliability

The team obtained VHA computer-processed data from VA's Financial Management System and VBA computer-processed data from VA's Integrated Financial and Acquisition Management System. To test for reliability, the team determined whether any data were missing from key fields (including any calculation errors) or were outside the time frame requested. The team evaluated the completeness and accuracy of the data from the system by checking for missing or

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[17] Government Accountability Office, *Standards for Internal Control in the Federal Government*.

[18] 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.

duplicate entries and text, alphabetic or numeric characters in incorrect fields, or illogical relationships among data elements. The team determined the electronic data it relied on were complete, accurate, relevant, and sufficiently reliable for the audit objective.

## Government Standards

The OIG conducted this performance audit in accordance with generally accepted government auditing standards.[19] Those standards require that the OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

[19] Government Accountability Office, *Government Auditing Standards 2024 Revision*, GAO-24-106786, February 2024.

# Appendix B: VA Management Comments

**Department of Veterans Affairs Memorandum**

Date: July 17, 2026

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

Subj: Office of Inspector General's Audit of the Veterans Health Administration and Veterans Benefits Administration Controls Over the Toxic Exposures Fund (VIEWS 14816582)

To: Office of Inspector General (50)

Thank you for the opportunity to review and respond to the Office of Inspector General's draft report: Audit of Veterans Health Administration and Veterans Benefits Administration Controls Over the Toxic Exposures Fund. The Office of Management concurs with the recommendations and submits the attached action plan.

| *The OIG removed point of contact information prior to publication.* |
|---|

(Original signed by)

Richard F. Topping

Attachment

Attachment

**Department Of Veterans Affairs (VA)**

**Action Plan**

**OIG Draft Report: Audit of VHA and VBA Controls Over the Toxic Exposures Fund**

**(Draft Report: 2025-03218-AE-0124)**

**Recommendation 1. Ensure the Veterans Benefits Administration updates its Toxic Exposures Fund cost estimation methodology to reflect how it plans to use the funds.**

**VA Response:** Concur. The Office of Management (OM) is finalizing the Veterans Benefits Administration's (VBA) Toxic Exposures Fund (TEF) cost estimation methodology to reflect how it plans to use the funds.

Status: In Process Target Completion Date: July 31, 2026

**Recommendation 2. Implement monitoring procedures to ensure Veterans Health Administration expenditure transfers follow statutes.**

**VA Response:** Concur. OM will develop and implement procedures to monitor Veterans Health Administration's (VHA) expenditure transfers at least quarterly using a sampling approach to ensure expenditure transfers are compliant with statutes and policy.

Status: In process Target Completion Date: March 2027

**Recommendation 3. Assess lessons learned and establish standard operating procedures to integrate oversight roles, responsibilities, and clear guidance for reconciling Toxic Exposures Fund costs.**

**VA Response:** Concur. OM, in collaboration with VBA, will assess lessons learned and establish standard operating procedures to integrate oversight roles, responsibilities, and clear guidance for reconciling TEF costs.

Status: In Process Target Completion Date: July 31, 2026

**Recommendation 4. Make certain that the Veterans Benefits Administration's Office of Financial Management and Office of Human Capital Services validate the actual number of Toxic Exposures Fund–supported employees and properly code them in VA's HR Smart.**

**VA Response:** Concur. OM, in collaboration with VBA, is updating the TEF cost estimation methodology to no longer require the identification and coding employees as TEF supported.

Status: In process Target Completion Date: October 1, 2026

*The text of VA's management comments is reprinted verbatim as received from the department. 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

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|---|---|
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