

**Department of  
Veterans Affairs**

***FY 2002  
Performance  
and  
Accountability  
Report***



**Office of Management  
January 2003**

# Letter of Transmittal

January 31, 2003

*To the President of the United States, President of the Senate,  
President Pro Tempore of the Senate, and Speaker of the House  
of Representatives:*



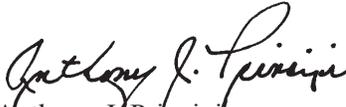
I am pleased to submit the *Department of Veterans Affairs' FY 2002 Annual Performance and Accountability Report*. The performance and financial data in the report are reliable and complete. Our progress in addressing identified material weaknesses is discussed throughout the document. Evaluation of senior administrative and program managers' annual assessments provides reasonable assurance that the management controls and financial systems of the Department of Veterans Affairs (VA) generally adhere to the requirements of the Federal Managers' Financial Integrity Act. Full compliance of VA's financial systems with governmentwide standards will depend on implementation of our new Core Financial and Logistics System.

In fiscal year 2002, VA employees significantly improved service to America's veterans and their families. Among our most noteworthy accomplishments are:

- Reducing our disability benefit claims decision backlog by more than 15 percent, while improving the quality of our decisionmaking;
- Providing world-class quality health care at more than 1,300 sites, while managing a 10 percent increase in the number of veterans turning to us for care;
- Maintaining high levels of customer satisfaction in veterans' burial services while absorbing a record level of demand; and
- Obtaining an unqualified audit opinion on our consolidated financial statements for the fourth consecutive year.

In fiscal year 2003, we intend to further improve the timeliness of our claims decision process; continue our leadership in health care, especially in the areas of patient safety and disease prevention; and maintain the 120 national cemeteries we operate as national shrines to honor the service and sacrifices of those who have defended our Nation's freedom.

America's veterans and their families deserve exceptional service in return for the sacrifices they have made for our country. The 223,000 employees of the Department of Veterans Affairs are proud to be chosen to fulfill President Abraham Lincoln's sacred pledge "to care for him who shall have borne the battle, and for his widow, and his orphan." It is my privilege, and that of all VA employees, to ensure Lincoln's promise is kept.

  
Anthony J. Principi  
Secretary of Veterans Affairs

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*FY 2002 Performance and Accountability Report*  
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## VA's Performance Scorecard for FY 2002

Strategic Goal	Performance Measure	Was the Goal Achieved?		Performance Goal	Actual	Improved from FY 2001?
		Yes	No			
Restore the capability of veterans with disabilities to the greatest extent possible, and improve the quality of their lives and that of their families	Proportion of discharges from SCI center bed sections to non-institutional settings (pp. 46 - 47)	✓		95%	97%	No
	Compensation and pension rating-related actions - average days to process (pp. 48 -53)		✓	208	223	No
	National accuracy rate for core rating work (pp. 48 - 53)		✓	85%	80%	Yes
	Vocational rehabilitation and employment rehabilitation rate (pp. 54 - 56)		✓	67%	62%	No
Ensure a smooth transition for veterans from active military service to civilian life	Montgomery GI Bill usage rate (pp. 60 - 64)	✓		58%	59%	Yes
	Average days to complete: Original education claims (pp. 60 - 64)	✓		38	34	Yes
	Supplemental education claims (pp. 60 - 64)	✓		21	16	Yes
	Foreclosure avoidance through servicing (FATS) ratio (pp. 65 - 66)	✓		39%	43%	Yes
Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation	Chronic Disease Care Index II (pp. 68 - 77)	✓		78%	80%	Yes
	Prevention Index II (pp. 68 - 77)	✓		80%	82%	Yes
	Percent of patients rating VA health care service as very good or excellent: Inpatient (pp. 68 - 77)	✓		66%	70%	Yes
	Outpatient (pp. 68 - 77)	✓		67%	71%	Yes
	Bar Code Medication Administration (BCMA) contingency plan and conduct test of plans annually (pp. 68 - 77)	✓		100%	100%	N/A
	Balanced Scorecard: Quality-Access-Satisfaction-Cost (pp. 68 - 77 )	✓		101%	101%	Yes
	Percent of primary care appointments scheduled within 30 days of desired date (pp. 68 - 77)	✓		88%	89%	Yes
	Percent of specialist appointments scheduled within 30 days of desired date (pp. 68 - 77)	✓		85%	86%	Yes
	Percent of patients who report being seen within 20 minutes of scheduled appointment at VA health care facilities (pp. 68 - 77)		✓	70%	65%	Yes
	Average days to process insurance disbursements (pp. 79 - 80 )	✓		3.2	2.6	Yes
	Percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence (pp. 81 - 85)	✓		73.9%	73.9%	Yes
	Percent of respondents who rate the quality of service provided by the national cemeteries as excellent (pp. 81 - 85)		✓	93%	91%	No
	Percent of graves in national cemeteries marked within 60 days of interment (pp. 86 - 87)			Baseline	49%	N/A
Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation	Institutional Review Board compliance with National Committee for Quality Assurance accreditation and maintenance, as appropriate, of AAALAC or NRC accreditation or certification (pp. 91 - 93)	✓		10%	15%	Yes
	Percent of respondents who rate national cemetery appearance as excellent (pp. 96 - 98)	✓		96%	97%	Yes



# EXECUTIVE SUMMARY

The Department of Veterans Affairs' mission is to ensure America's veterans and their families receive timely, compassionate, high-quality care and benefits. VA's strategic goals, objectives, and performance measures clearly express our commitment. Our goals are veteran-focused and represent the outcomes and results that we will achieve to meet the needs of our Nation's veterans and their families, as well as our broader responsibilities to meet national needs.

In FY 2002, with resources of \$58.9 billion in obligations and nearly 209,000 full-time equivalent (FTE) employees, VA achieved significant accomplishments that brought us closer to attaining our long-term strategic goals. To help us gauge our progress, we established 124 performance goals at the beginning of the fiscal year, 23 of which were identified by VA's senior leadership as critical to the success of the Department.

VA's Performance Scorecard for FY 2002 summarizes how well we did in meeting the key performance goals directly associated with each of the strategic goals. This allows us to examine performance from a Departmental, or *One VA*, perspective.

The Department made significant advances during FY 2002, but continued to have challenges in certain areas. We are implementing the recommendations from the Secretary's Claims Processing Task Force. While these efforts are bringing us closer to our goal for timeliness of processing compensation and pension claims, we did not meet our key goals in this area. However, we significantly reduced the age of the pending inventory and greatly reduced the number of

claims in our inventory, including our oldest cases; (those over 6 months old). The Department remains committed to improving the timeliness of claims processing and has developed strategies for accomplishing future performance goals.

Some of the most important successes attained in FY 2002 include:

- Continued health care quality improvements, as measured by the Chronic Disease Care Index and the Prevention Index. VA's health care program continues to receive national recognition for its quality as cited in the Institute of Medicine's 2002 report, "Leadership by Example." VA also received the "Pinnacle Award" from the American Pharmaceutical Association Foundation in June 2002 for its creation of a bar code medication administration system. This initiative ensures that the correct medication is administered to the correct patient.
- We completed 797,387 rating-related claims in 2002. Our compensation and pension claims inventory was reduced by more than 15 percent and the age of the inventory was reduced significantly from what it was at the beginning of the fiscal year.
- We produced 66 percent more disability ratings in 2002 than in 2001.
- The foreclosure avoidance rate improved due to VA's restructuring of field operations and approval of additional lenders to assist veterans whose mortgages are in default.
- The average number of days to complete both original and supplemental educational claims

improved and the Montgomery GI Bill usage rate continued to increase due to improved benefits.

- The VA insurance program continued its excellent service as evidenced by improved timeliness in processing disbursements. The Philadelphia Regional Office and Insurance Center was recognized with the Secretary’s 2002 Robert W. Carey Award. This annual award acknowledges the VA organization that best exemplifies quality service to veterans, dependents and beneficiaries.
- VA increased the percentage of veterans served by a burial option within a reasonable distance of their residence and exceeded the goal for improving the appearance of the national cemeteries. VA is also improving operational efficiencies to reduce the time it takes to mark a grave after interment.
- VA acquired property to establish new national cemeteries in South Florida and the Detroit area and completed construction projects to

extend burial operations at nine other national cemeteries. Two new State veterans cemeteries were opened through the State Cemetery Grants Program.

### **Summary of Performance on Key Performance Goals**

Some of the 23 key performance goals deal with program outcomes; others pertain to the management of our programs. FY 2002 data for all of these key performance goals are listed in the “performance actual” column of the performance scorecard on page 4.

The Department achieved 17 of the 22 (77 percent) key performance goals for which we had FY 2002 targets, compared with 58 percent achievement in FY 2001. For two of the five performance goals not met, actual performance in FY 2002 was better than that reported in FY 2001. We did not set performance goals for one measure but collected baseline data during the year.



## KEY PERFORMANCE RESULTS BY STRATEGIC GOAL

Performance measurement in this report is structured around the objectives established by the Secretary. Within the narratives, we have incorporated the key measures that support these objectives. *(In this report, years are fiscal years unless stated otherwise.)*

### STRATEGIC GOAL

#### 1 *Restore the capability of veterans with disabilities to the greatest extent possible and improve the quality of their lives and that of their families.*

We use four key performance goals to gauge our progress toward achieving this strategic goal, all of which focus on benefits and services for disabled veterans. We achieved one of these key performance goals.

The Department exceeded the 95 percent goal for the proportion of discharges from spinal cord injury (SCI) center bed sections to non-institutional settings goal; we achieved 97 percent in 2002.

Because of increased statutory duties placed on VA, we failed to meet our timeliness goal of 208 days; actual timeliness for the year was 223 days. The previous year's level was 181 days. However, despite new congressionally mandated steps in the claims process, we decreased the claims backlog from 420,603 rating claims at the end of 2001 (excluding appeals) to 345,516 claims at the

end of 2002 (excluding appeals). In addition, the percentage of claims over 6 months old was reduced from 41 percent to 35.3 percent, and the age of our pending inventory was reduced from 181.6 to 174.2 days.

During 2002, the national accuracy rate in processing the Department's most important types of claims for compensation and pension benefits (i.e., rating-related actions) improved to 80 percent from 78 percent in 2001; however, we did not attain our goal of 85 percent.

We did not meet our goal of a 67 percent rehabilitation rate for service-disabled veterans who exited a vocational rehabilitation program and acquired and maintained suitable employment. Rather, we achieved 62 percent, which is less than the 65 percent reported in 2001.

### STRATEGIC GOAL

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

We met all four key performance goals relating to achievement of this strategic goal in 2002. The Montgomery GI Bill (MGIB) usage rate improved from 56 percent in 2001 to 59 percent in 2002. Veterans use their VA education benefit as one important means of readjusting to civilian life. The MGIB allows them the opportunity to achieve

educational or vocational objectives that might not have been attained had they not entered military service.

The timeliness of processing education claims improved during 2002. The processing of both original and supplemental education claims

surpassed the goals set for 2002. Our plan was to process original education claims in no more than 38 days; it took an average of 34 days compared with 50 days in 2001. The average number of days needed to process supplemental education claims was 16 days, 5 days less than the performance target of 21 days. This is an improvement over 2001 when we reported 24 days.

We met our goal to assist veterans who are in default on a VA-guaranteed home mortgage, as measured by the foreclosure avoidance through servicing ratio. The foreclosure avoidance rate improved from 40 percent in 2001 to 43 percent in 2002 due to VA's aggressive proactive servicing program to assist these veterans.

## STRATEGIC GOAL

### **3** *Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.*

VA achieved 10 of the 13 key performance goals for this strategic goal. For one of the three key performance goals we did not meet, performance in 2002 improved over that reported in 2001. One key measure was new and baseline data were collected.

VA uses two key performance measures to assess the quality of health care delivery -- the Chronic Disease Care Index II (CDCI II) and the Prevention Index II (PI II). These indices measure the degree to which the Department follows nationally recognized guidelines for the treatment and care of patients. The CDCI II focuses on the care of patients with ischemic heart disease, hypertension, chronic obstructive pulmonary disease, diabetes mellitus, major depressive disorder, and tobacco cessation. During 2002, VA surpassed its CDCI II target of 78 percent by achieving an 80 percent score. The PI II focuses on primary-prevention and early-detection recommendations for nine diseases or health factors that significantly determine health outcomes: pneumococcal pneumonia, influenza, tobacco consumption, and alcohol consumption, and screenings for colorectal cancer, breast cancer, cervical cancer, prostate cancer, and cholesterol levels. VA surpassed its PI II target of 80 percent by achieving an 82 percent score.

During 2002, the share of inpatients and outpatients rating VA health care service as "very good" or "excellent" improved, surpassing the targets by 4

percent. The inpatient and outpatient satisfaction levels recorded during 2002, at 70 percent and 71 percent respectively, indicate a very high level of satisfaction with VA health care.

For 2002, the Department surpassed its goals by 1 percent for two other performance measures related to the timeliness of providing health care: the percent of non-urgent primary care appointments scheduled within 30 days of the desired date and the percent of non-urgent specialist appointments scheduled within 30 days of the desired date. We achieved 89 percent and 86 percent for these goals, respectively.

The Department did not meet its 2002 target that 70 percent of patients would be seen within 20 minutes of their scheduled appointment at VA health care facilities. The actual performance level of 65 percent reflected the increase in patient volume. VA is exploring and implementing ways to provide scheduled appointments in a timely fashion.

The Department is committed to continuously improving the culture of patient safety in its health care facilities. An important aspect of this is to develop a good understanding of the causes of safety concerns. The 2002 safety measure was having bar code medication administration contingency plans in place and tested annually; we met the target of 100 percent.

We achieved our target for the Balanced Scorecard of Quality-Access-Satisfaction-Cost of 101 percent. The balanced scorecard tracks the four domains of quality, access, patient satisfaction, and cost, which are given equal weight and expressed in terms of how close actual performance is relative to established target levels of performance.

VA surpassed its target of 3.2 days for average days to process insurance disbursements and improved from the 2001 actual of 2.8 with a 2002 actual of 2.6 days.

VA met the goal to increase the percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence to 73.9 percent by the end of 2002. This is the Department's primary measure of the degree to which we are providing access to burial services.

VA did not meet its 93 percent target for 2002 in the percent of survey respondents who rate the quality of service provided by the national cemeteries as excellent. The actual of 91 percent was less than the 92 percent rating in 2001.

## STRATEGIC GOAL

### 4 *Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.*

VA succeeded in surpassing both of the key performance goals relating to this strategic goal in 2002. We exceeded the 10 percent goal for Institutional Review Board compliance with National Committee for Quality Assurance (NCQA) accreditation and maintenance, as appropriate, of Association for the Assessment and Accreditation of Laboratory Animal Care (AAALAC) or the Nuclear Regulatory Commission

(NRC) accreditation or certification. All appropriate AAALAC and NRC accreditation/certifications were maintained nationally and 15 percent of VHA's research programs received NCQA accreditation.

Ninety-seven percent of survey respondents rated national cemetery appearance as "excellent" in 2002 as compared to 96 percent in 2001. This was 1 percent above the 2002 goal.

## THE CHALLENGES AHEAD

As we strive to provide the highest quality benefits and services to our Nation's veterans, we realize we have many program and management challenges to overcome. The VA Office of Inspector General (OIG) and the General Accounting Office (GAO) have provided the most succinct description of our major challenges.

The OIG challenges include:

- Health care quality management and patient safety

- Resource allocation
- Compensation and pension timeliness and quality
- Erroneous and improper payments
- Government Performance and Results Act (GPRA) – data validity
- Security of systems and data
- Federal Financial Management Improvement Act (FFMIA) and VA's consolidated financial statements

- Debt management
- Procurement practices
- Human capital management

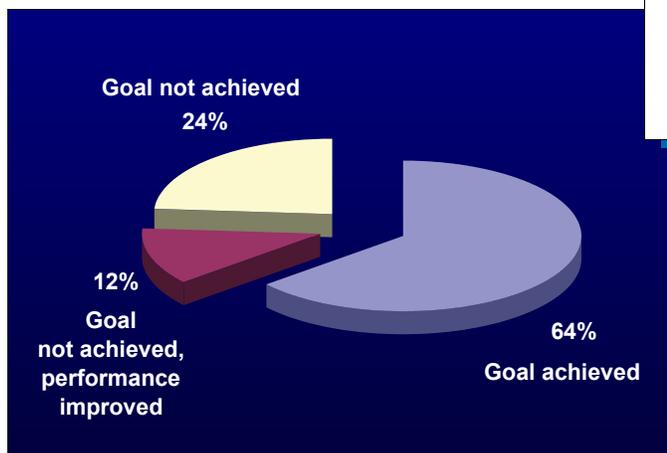
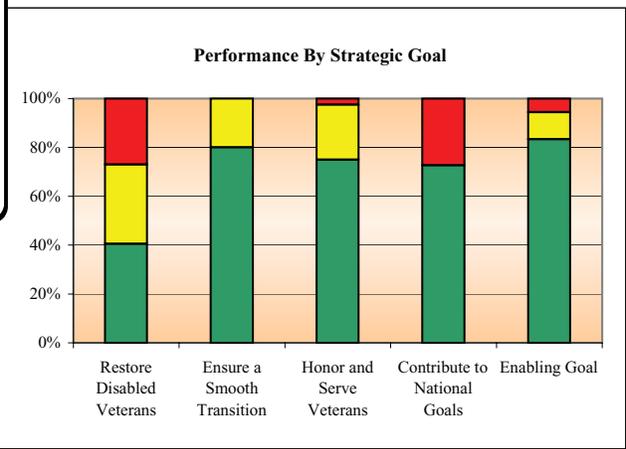
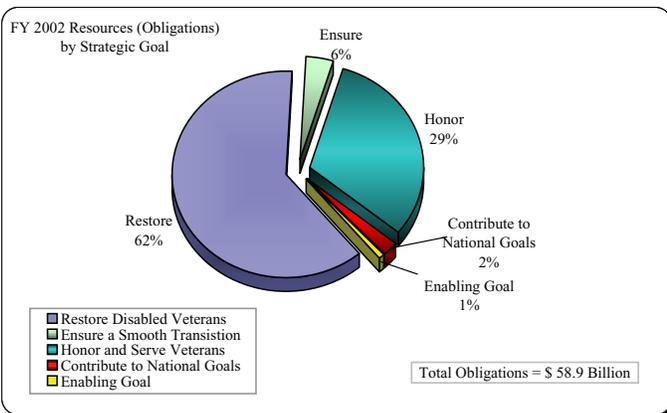
The GAO challenges include:

- Strategic human capital management
- Information security
- Access to quality health care
- Health care resource utilization
- Disability claims processing
- Management strategies to build a high performing organization

For a thorough discussion of these challenges, see the section on Major Management Challenges, which begins on page 193.

### All Performance Goals

In addition to the key performance goals identified by VA’s senior leadership as critical to the success of the Department, program managers established other performance goals at the beginning of 2002. Collectively, these performance goals demonstrate the full scope of the Department’s programs and operations. A total of 124 performance goals were set at the start of the fiscal year. VA met 64 percent of the performance goals for which we had data. (We did not have data for 1 measure.) For those measures not achieved, 12 percent showed that the Department’s performance improved over that reported in 2001. For more detailed information on the full range of performance goals, refer to the tables shown on pages 121 to 137.



# ALTERNATIVE WAYS OF VIEWING PERFORMANCE

To meet the varied needs of Congress, OMB, veterans service organizations, the general public, and internal VA program managers, we have examined performance in several different ways. Most of our analysis focuses on our objectives and the key performance goals and measures considered critical to the success of the Department.

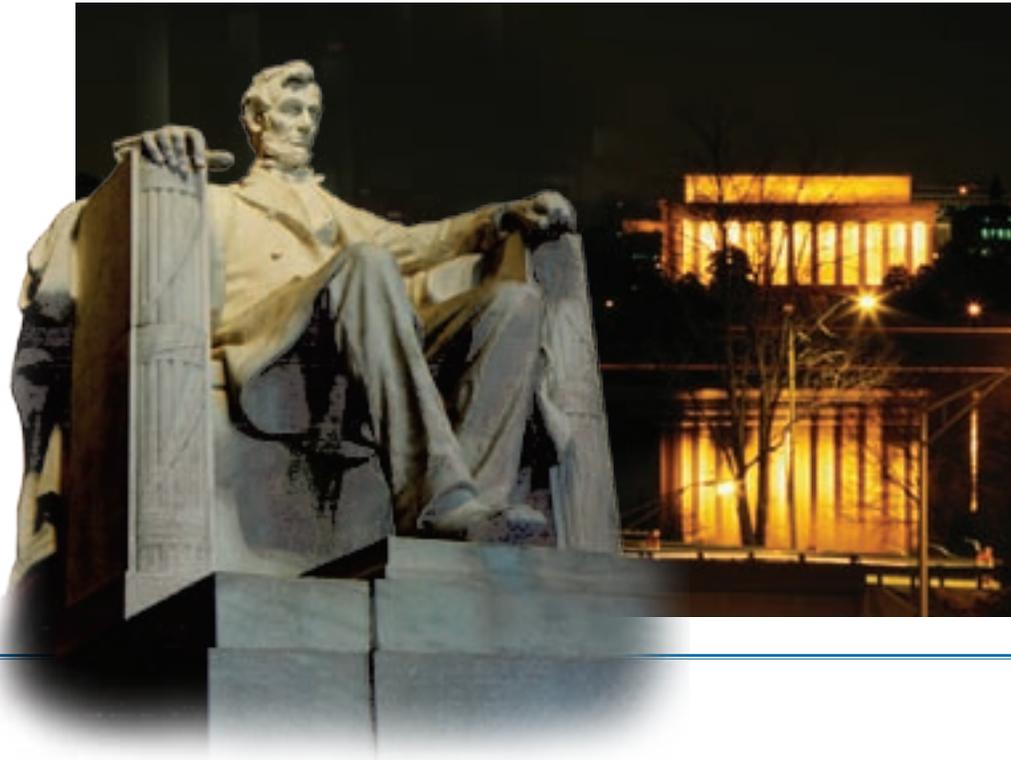
The Performance Scorecard for 2002, shown on page 4, summarizes how well we did in meeting the limited number of key performance goals

directly associated with each of VA's strategic goals, a *One VA* perspective. While this point of view is important, we also want to know how well we did in meeting the goals established for each of our programs, and we focus on the resources each of our major organizations invested in efforts to achieve each strategic goal. The following chart demonstrates the interrelationship between these alternative ways of viewing performance related to our key performance goals. During 2002, there was no key measure for the Medical Education program.

Key Performance Measures by Responsible Organization and Program										
Responsible Organization and Measure	Program									
	Medical Care	Medical Research	Medical Education	Compensation	Pension	Education	Housing	Vocational Rehabilitation	Insurance	Burial
<b>Veterans Health Administration</b>										
Proportion of discharges from spinal cord injury (SCI) center bed sections to non-institutional settings	X									
Percent of patients who rate VA health care service as very good or excellent										
Inpatient	X									
Outpatient	X									
Percent of primary care appointments scheduled within 30 days of desired date	X									
Percent of specialist appointments scheduled within 30 days of desired date	X									
Percent of patients who report being seen within 20 minutes of scheduled appointment at VA health care facilities	X									
Chronic disease care index II	X									
Prevention index II	X									
Bar Code Medication Administration (BCMA) contingency plan and conduct test of plans annually	X									
Balanced Scorecard: Quality-Access-Satisfaction-Cost	X									
Institutional Review Board compliance with NCQA accreditation and maintenance, as appropriate, of AAALAC or NRC accreditation certification		X								
<b>Veterans Benefits Administration</b>										
Average days to process rating-related actions				X	X					
National accuracy rate for core rating work				X	X					
Montgomery GI Bill usage rate						X				
Average days to complete original education claims						X				
Average days to complete supplemental education claims						X				
Foreclosure avoidance through servicing (FATS) ratio							X			
Vocational rehabilitation and employment rehabilitation rate								X		
Average days to process insurance disbursements									X	
<b>National Cemetery Administration</b>										
Percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence										X
Percent of respondents who rate the quality of service provided by national cemeteries as excellent										X
Percent of graves in national cemeteries marked within 60 days of interment										X
Percent of respondents who rate the appearance of national cemeteries as excellent										X

# MISSION

*“To care for him who shall have borne the battle, and for his widow and his orphan ....”*

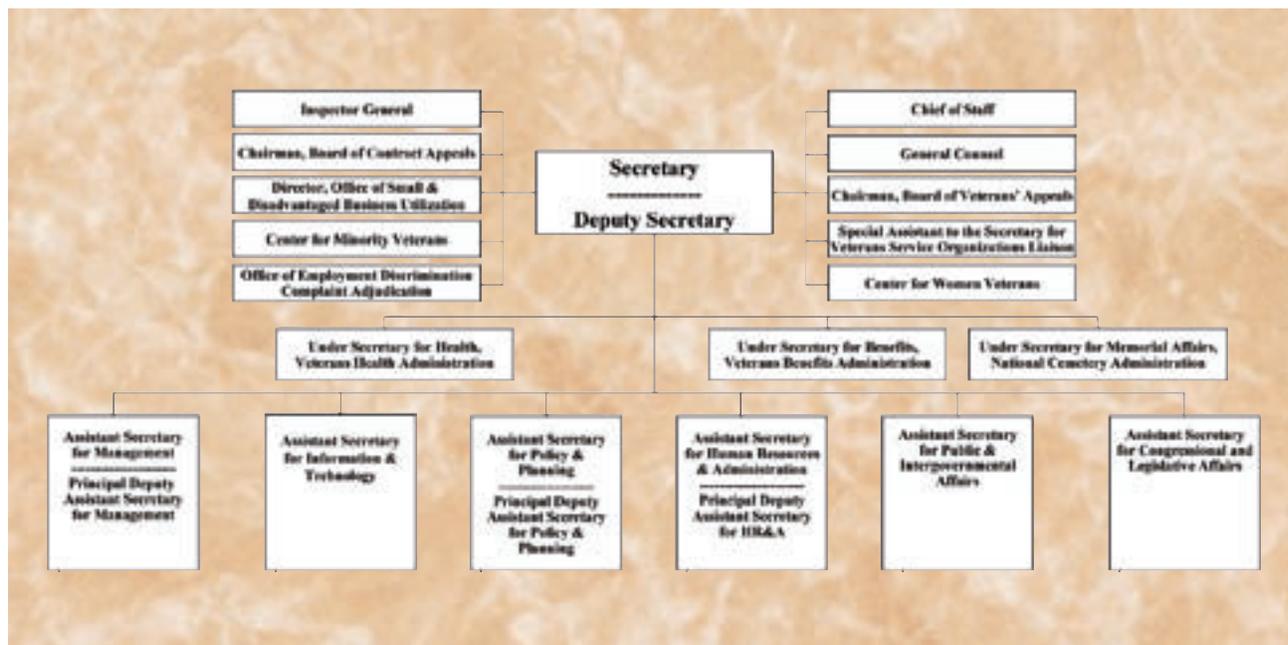


*These words, spoken by Abraham Lincoln during his Second Inaugural Address, reflect the philosophy and principles that guide our efforts in serving the Nation’s veterans and their families.*

*President Lincoln’s words embody VA’s enduring commitment and responsibility to treat America’s veterans and their families with profound respect and compassion; to be their principal advocate in promoting the health, welfare, and dignity of all veterans; and to ensure they receive the medical care, benefits, social support, and lasting memorials they deserve in recognition of their service to America.*

*The statutory mission authority for VA defines our organizational commitment to America’s veterans: “to administer the laws providing benefits and other services to veterans and the dependents and the beneficiaries of veterans.” (38 U.S.C. 301(b)) VA exists to give meaning, purpose, and reality to that commitment. The needs, preferences, and expectations of veterans directly shape the benefits and services we provide.*

# WHO WE ARE



This report documents VA's progress in providing high-quality, timely benefits and services to the men and women who have served our country in the armed forces. It also identifies the achievements VA recorded during 2002 that have contributed to attaining the goals and objectives in the VA strategic plan and annual performance plan. In so doing, we are providing detailed performance and financial information that will enable the President, Congress, and the public to assess VA's performance relative to our mission and show that our management is accountable for the Department's actions, outcomes, and resources.

Dating back to the earliest days of our country, support for veterans and their families has been a national priority. Veterans' programs have evolved to the comprehensive set of health care, benefits, and memorial services VA provides today. Veterans' programs have four broad purposes, which form the basis for VA's four strategic goals:

- To restore the capability of those who suffered harm during their service;
- To ensure a smooth transition as veterans return to civilian life in their communities;
- To honor and serve all veterans for the sacrifices they made on behalf of the Nation;
- To contribute to the public health, socio-economic well-being, and history of the Nation.

VA also plays a substantial role in ensuring national emergency medical preparedness and providing medical support to the Department of Defense. VA's enabling goal helps ensure continuous focus on providing world-class service to veterans and their families through responsible resource stewardship and effective governance. The enabling goal also provides measures to assess performance in the strategic management of human capital, information technology, capital asset management, and governance.

Just as the history of VA has evolved, we expect the needs of veterans to change; how VA responds will continue to transform as well. Whatever veterans' needs are, VA will be ready. Today, there are over 25 million living men and women who served in the armed forces. VA currently provides health care, benefits, and memorial services to millions of veterans, as well as eligible survivors and dependents of veterans. Veterans count on VA, and VA will be there for them.

### Vision

Veterans and the Nation recognize VA as the leader in the delivery of health care, benefits, and memorial services as a result of our commitment to excellence and the dedication of our workforce.

### Core Values

To implement our mission and achieve our strategic goals, we strive to uphold a set of core values representing the basic fabric of our organizational culture. These values transcend all organizational boundaries and apply to everything we do as a Department. Each member of the VA team endeavors to practice the following values when serving veterans and working with others:

#### Commitment

- Veterans have earned our respect and commitment, and their health care, benefits, and memorial services needs drive our actions.

#### Excellence

- We strive to exceed the service delivery expectations of veterans and their families.
- We perform at the highest level of competence with pride in our accomplishments.

#### People

- We are committed to a highly skilled, diverse, and compassionate workforce.
- We foster a culture of respect, equal opportunity, innovation, and accountability.

#### Communication

- We practice open, accurate, and timely communication with veterans, employees, and external stakeholders, and seek continuous improvement in our programs and services by carefully listening to their concerns.

#### Stewardship

- We will ensure responsible stewardship of the human, financial, information, and natural resources entrusted to us.
- We will improve performance through the use of innovative technologies, evidence-based medical practices, and sound business principles.

### Program Descriptions

VA directly touches the lives of millions of veterans every day through its health care, benefits, and burial programs. With facilities in all 50 states, Puerto Rico, the territories, and the District of Columbia, we provide benefits and services through our 175 medical centers, 137 nursing homes, 43 domiciliaries, 880 outpatient clinics, 206 Vietnam Veteran Outreach Centers (Vet Centers), 57 regional offices, and 120 national cemeteries.

Each of the three VA administrations has a field structure to enable it to provide efficient, accessible service to veterans throughout the country. The Veterans Health Administration (VHA) has 21 Veterans Integrated Service Networks (VISNs), integrated networks of health care facilities that provide coordinated services to veterans to facilitate continuity through all phases of health care. The Veterans Benefits Administration (VBA) has 57 regional offices (VAROs) for receiving and processing claims for VA benefits. The National Cemetery Administration (NCA) has five Memorial Service Networks (MSNs), which provide direction, operational oversight, and engineering assistance to the cemeteries located in a specific geographic area.

The Department accomplishes its mission through partnerships among VHA, VBA, NCA, the Board of Veterans' Appeals (BVA), and the Departmental

staff organizations by integrating the related activities and functions of the following major programs:

## Medical Care

VA meets the health care needs of America's veterans by providing primary care, specialized care, and related medical and social support services. Also included are health care education and training programs designed to help ensure an adequate supply of clinical care providers for veterans and the Nation.

## Medical Research

The medical research program contributes to the Nation's overall knowledge about disease and disability.

## Compensation

The compensation program provides monthly payments and ancillary benefits to veterans, in accordance with rates specified by law, in recognition of the average potential loss of earning capacity caused by a disability, disease, or death incurred in, or aggravated during, active military service. This program also provides monthly payments, as specified by law, to surviving spouses, dependent children, and dependent parents, in recognition of the economic loss caused by the veteran's death during active military service or, subsequent to discharge from military service, as a result of a service-connected disability.

## Pension

The pension program provides monthly payments, as specified by law, to needy wartime veterans who are 65 years old or who are permanently and totally disabled. This program also provides monthly payments, as specified by law, to needy surviving spouses and dependent children of deceased wartime veterans who die as a result of a disability not related to military service.

## Education

The education program assists eligible veterans, servicemembers, reservists, survivors, and

dependents in achieving their educational or vocational goals.

## Vocational Rehabilitation and Employment

The vocational rehabilitation and employment program assists veterans with service-connected disabilities to achieve functional independence in daily activities. It provides the support and assistance necessary to enable service-disabled veterans to become employable and to obtain and maintain suitable employment.

## Housing

The housing program helps eligible veterans, active duty personnel, surviving spouses, and selected reservists to purchase and retain homes.

## Insurance

The insurance program provides veterans, servicemembers, and family members with life insurance benefits, some of which are not available from other providers such as the commercial insurance industry due to lost or impaired insurability resulting from military service. Insurance coverage will be available in reasonable amounts and at competitive premium rates comparable to those offered by commercial companies. The program ensures a competitive, secure rate of return on investments held on behalf of the insured.

## Burial

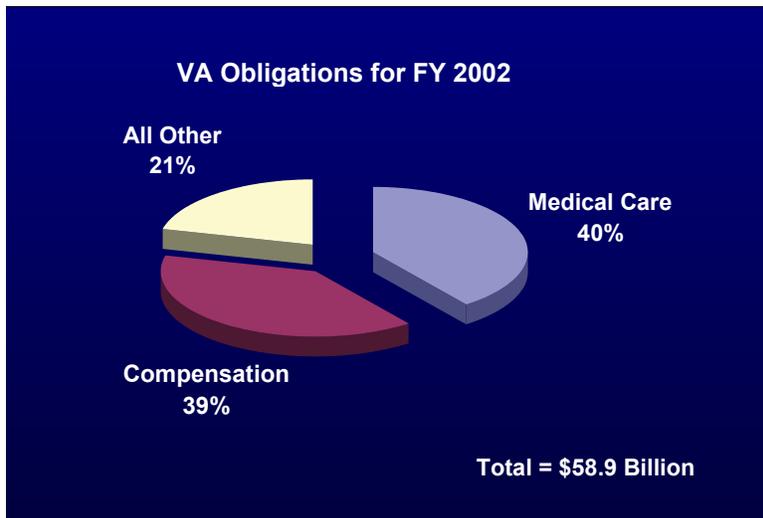
Primarily through the National Cemetery Administration, VA honors veterans with a final resting place and lasting memorials that commemorate their service to the Nation.

## Program Participants

VA serves a significant portion of the veteran population. In 2002, more than 4.6 million patients used VA health care, over 2.7 million veterans and survivors received monthly VA disability compensation payments, and more than

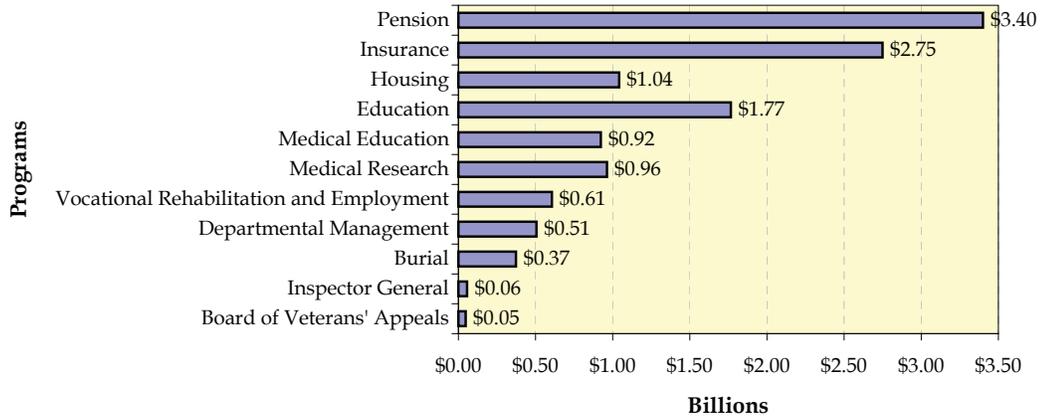
2.5 million graves of deceased veterans and eligible family members were maintained at our national cemeteries. The following table summarizes the number of veterans or dependents who received benefits or services in each of our major programs during 2002.

Program	Number of Participants
<b>Medical Care</b>	
Unique patients	4,671,000
<b>Compensation</b>	
Veterans	2,398,300
Survivors/children	332,600
<b>Pension</b>	
Veterans	346,600
Survivors	238,600
<b>Education</b>	
Veterans and service persons	325,000
Reservists	86,000
Survivors/dependents	54,000
<b>Vocational Rehabilitation</b>	
Veterans receiving services	69,600
<b>Housing</b>	
Loans guaranteed	317,300
<b>Insurance</b>	
Administered policies (veterans)	2,099,800
Supervised Policies (SGLI)	2,406,500
Supervised Policies (VGLI)	390,900
<b>Burial</b>	
Interments	89,300
Graves maintained	2,509,300
Headstones and markers	360,300



In 2002, VA resources totaled \$58.9 billion in obligations and nearly 209,000 FTE employees. Over 95 percent of total obligations went directly to veterans in the form of monthly payments of benefits or for direct services such as medical care. The following charts show (1) how VA spent the taxpayer funds with which we were entrusted and (2) the distribution of FTE.

"All Other" VA Obligations for FY 2002

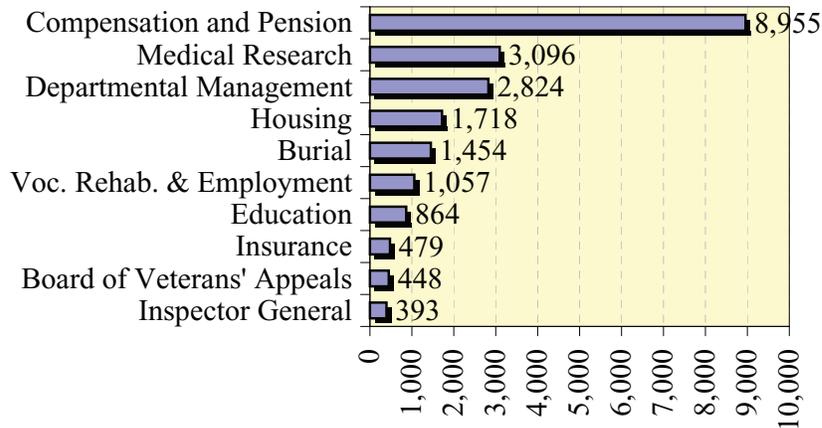


Full-Time Equivalent Employees, FY 2002



Total FTE = 208,871

"All Other" (Non-Medical Care) FTE, FY 2002



# WHO WE SERVE

## Our Continuous Focus on the Veteran

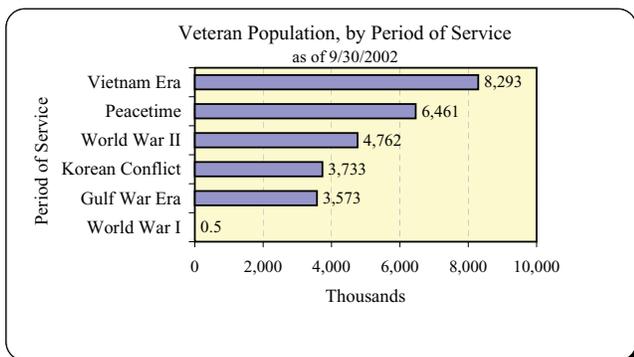
This section of the report presents social and demographic data on the veteran population. Data on the number of veterans by age, sex, period of service, and state of residence are from official VA estimates and projections based upon VetPop2001 data with initial adjustments to reflect the Census 2000 data.

### Summary

Beginning with our Nation's struggle for freedom more than two centuries ago, approximately 42 million men and women have served our country during wartime. Of the 25.6 million living veterans, most (75 percent) served during a war or an official period of hostility.

### Number of Veterans and Periods of Service

The veteran population decreased by 434,000 in 2002. Vietnam-era veterans account for the largest segment of the present veteran population.

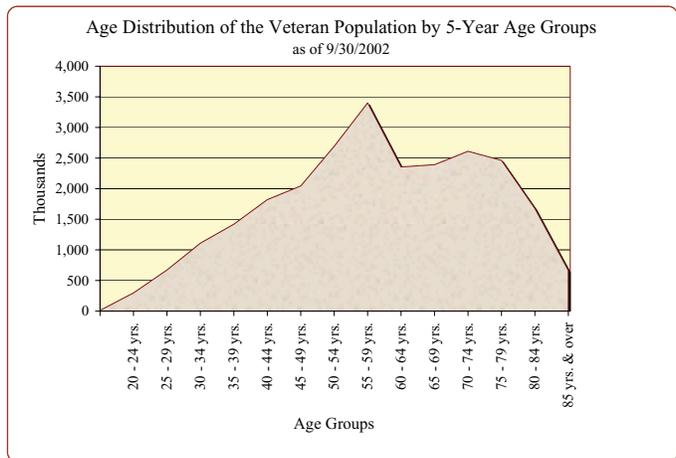


Data by period of service will add to more than total due to veterans who served in more than one period.

### Age of Veterans

At the end of 2002, the median age of all living veterans was 58 years. Veterans under 45 years of

age constituted 21 percent of the total veteran population; veterans 45 to 64 years old, 41 percent; and veterans 65 or older, 38 percent.



The number of veterans 85 years of age and older totals over 672,000. In 1990, there were only 155,000 veterans in this age range. This large increase in the oldest segment of the veteran population has had significant ramifications on the demand for health care services, particularly in the area of long-term care.

### Female Veterans

In 2002, the female veteran population of 1.7 million constituted 6.5 percent of all veterans living in the United States, Puerto Rico, and overseas. The female veteran population as a percentage of all veterans is expected to increase as the number of former military service women continues to grow. The demographic profile of the female veteran population is generally younger than that of male veterans with the median age of female veterans being 15 years

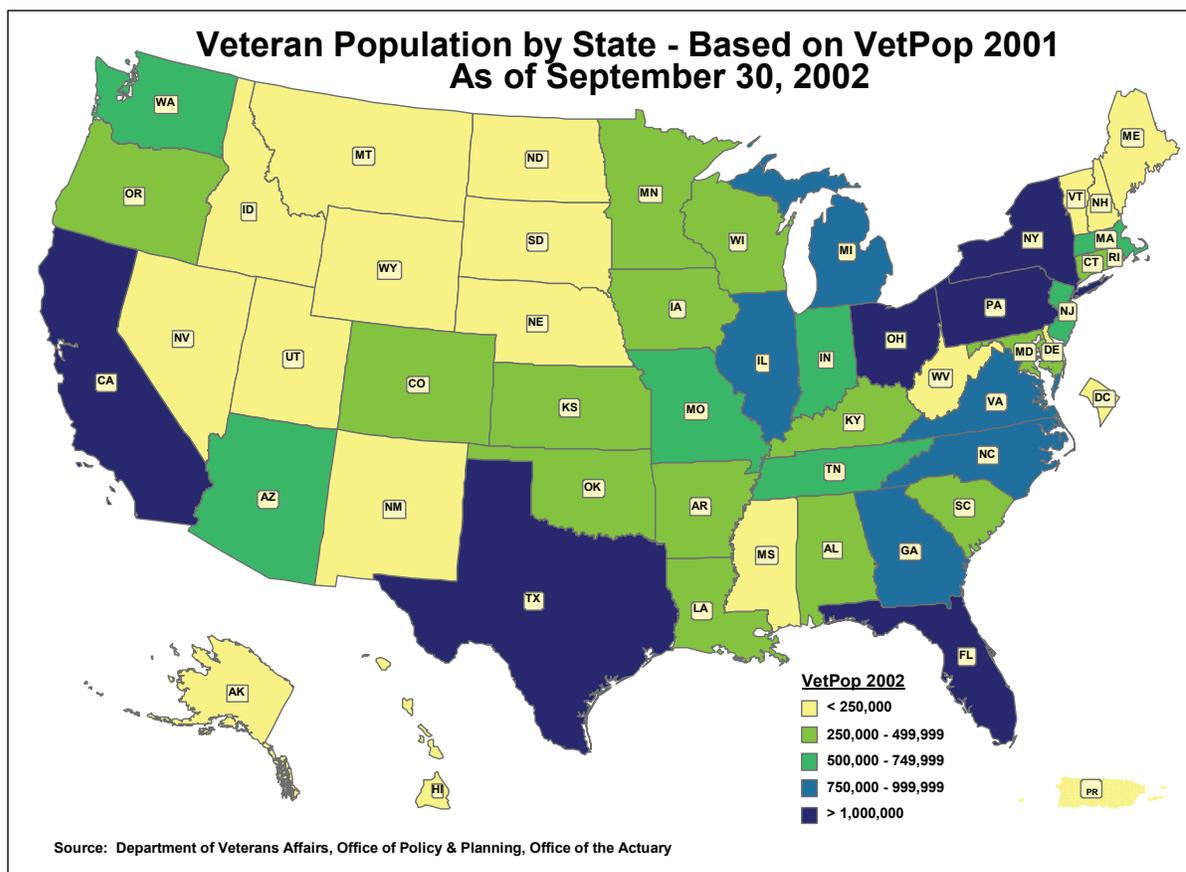
younger than that of male veterans, 42 versus 57. The growing involvement of women in the military in recent years is reflected in period-of-service differences between male and female veterans. About 61 percent of all female veterans served during the post-Vietnam era compared to only 24 percent of male veterans.

VA has seen a significant increase in the number of women veterans who receive benefits and health care services from the Department. The number of women veterans enrolled in VA's health care system grew from 226,000 in 2000 to 420,000 in 2002, an increase of 86 percent.

### State of Residence

Veterans in just three states—California, Florida, and Texas—comprised over 23 percent of the veterans living in the United States and Puerto Rico at the end of 2002. The three next largest states in terms of veteran population are New York, Pennsylvania, and Ohio. These six states account for more than 37 percent of the total veteran population.

At the other end of the scale, the three least populous states in terms of veteran population—Wyoming, North Dakota, and Vermont—plus the District of Columbia collectively accounted for less than 1 percent of the total.



# HOW WE MEASURE PERFORMANCE

VA uses performance measures, a group of evaluation criteria, to assess progress in areas emphasized in our strategic plan. Identification of what to measure begins with an understanding of VA's mission, strategic goals, and objectives. Senior leadership, in conjunction with the Office of Management and Budget and our constituents, annually identifies measures that can help us assess key performance aspects of the Department's desired outcomes. We set realistic goals consistent with our budget that reflect the expected performance for each measure through the fiscal year. We establish the strategic target when the performance measure is first identified. This strategic target will tell us when we have reached the expected outcome in that area of emphasis. These measures are then communicated throughout the organization and included in our senior leadership performance evaluations.

In selecting the measures that will best help us achieve our strategic goals, we work to balance output and outcome measures that will aid senior leadership in making management decisions on how best to effectively and efficiently carry out our mission and ultimate goal – to improve the lives of our veterans and their dependents. Output measures track the products of our activities, such as the number of days to process claims for compensation or pension benefits. Outcome measures, such as the Chronic Disease Care Index and the Prevention Index, are excellent measures that indicate how well VA is doing in improving the health of veterans in important

areas. In 2002, almost 50 percent of our key performance measures were outcome-related.

This information is tracked at the highest levels of VA through monthly performance review meetings. Instituted in December 2001, administration and staff office heads report once a month to the Deputy Secretary and outline the general conduct and specific performance of their organizations. They discuss adherence to budget, staffing, major projects, and key performance elements. By doing this, we are linking performance directly to our budget plan on a month-by-month basis. Our intent is to ensure that our programs produce the intended results of the legislation that created them and that the outcomes for veterans are those intended by Congress and the American people. The output measures help us monitor the efficiency and effectiveness of our programs and their management.

Data collection and analysis for performance measures are defined to establish a common understanding for the measure, to describe how and when the data will be collected and interpreted, and to ensure the quality and integrity of the data.

In 2002, we had 124 performance measures, of which 23 were designated as 'key.' Key measures represent those few, high-level measures that link directly to Departmental objectives and ultimately to our mission. These 23 key measures provide a balanced view of the overall performance of the Department. The scorecard shown on page 4 summarizes how well we did.



# PUBLIC BENEFITS

VA's inherent responsibility is to serve America's veterans and their families with dignity and compassion, and to be their principal advocate for medical care, benefits, social support, and lasting memorials. VA promotes the health, welfare, and dignity of all veterans in recognition of their service to the Nation. VA positively impacts the lives of veterans and their families, as well as the Nation as a whole. Employees at VA embody our commitment to veterans and, as stewards for the government, we strive to improve the efficiency, effectiveness, and management of all of our benefit programs. The following illustrations are just a few examples of VA innovations and our desire to improve.

## *Medical Care*

The 2002 Institute of Medicine (IOM) report entitled *Leadership by Example* lauded VA's use of performance measures to improve quality in clinical disciplines and in ambulatory, hospital and long-term care. "VA's integrated health care information system, including its framework for using performance measures to improve quality, is considered one of the best in the nation," according to the IOM.

The IOM report also cited VA's National Surgical Quality Improvement Program (NSQIP), which uses performance measurements, reports, self-assessment tools, site visits, and best practices. It develops risk-adjusted information on surgical outcomes in VA's medical centers. From 1991, when NSQIP data were first collected, to 2000, the impact on the outcomes of major surgeries was dramatic: 30-day post-operative deaths decreased by 27 percent.

Innovation comes in many forms. For a VA nurse in Topeka, Kansas, it sprang from the most

unexpected of places, a rental car company. Her idea resulted in the development of a cutting-edge program that received the Pinnacle Award in the health system category in June 2002, a top honor by the American Pharmaceutical Association Foundation. Her inspiration evolved into Bar Code Medication Administration, a program designed to eliminate a host of problems like poor handwriting and lost paper prescriptions. According to the Department of Health and Human Services, medication errors in the Nation's hospitals can be cut by more than two-thirds if doctors enter prescriptions into a computer rather than scribbling on paper. Before dispensing medication at a VA hospital, a nurse scans a patient's wristband with a hand-held device similar to price scanners used in stores—or rental car companies—and then scans a label on the medicine to make sure the proper patient is getting the correct medication in the appropriate dose and at the right time. The Pinnacle Award comes to VA in no small measure because of a VA nurse's foresight and passion more than 10 years ago. This technology is now available in health care facilities across the Nation.

Also in 2002, VA's National Center for Patient Safety received the John E. Eisenberg Award in Patient Safety for System Innovation. The Eisenberg awards are given by the Joint Commission on the Accreditation of Healthcare Organizations and the National Forum for Healthcare Quality and Reporting.

Over 17,000 veterans successfully completed VA's blind rehabilitation program in 2002. As a result of their participation, these veterans became more self-sufficient in their daily activities and achieved a higher level of independence.

VHA emphasizes health promotion and disease prevention to improve the health of the veteran

population, and systematically measures and communicates quality of care and patient outcomes. One of two primary quality measures is the Chronic Disease Care Index II, a composite of the evidence and outcomes-based measures for high-prevalence and high-risk diseases. The individual indicators within the index are based on sound evidence-based medicine, a process that identifies specific processes of care, which in turn impact the overall outcomes for individual patients. For example, 85 percent of veterans with chronic lung disease received a pneumococcal vaccine in 2001, a targeted intervention in the CDCI II (the Centers for Disease Control and Prevention reported 50 percent of high-risk Americans received this vaccine in 1999.) VA estimates that this measure has reduced the number of veteran deaths by 4,000 nationally over the last 5 years and reduced the number of admissions for pneumonia by 8,000 from 1999 to 2001, which equates to about 9,500 fewer bed days of care. Health care providers have readily accessible information regarding their patients through the use of the Computerized Patient Record System (CPRS). The CPRS automatically reminds the provider at the point of patient contact about the interventions and screening indicators that need to be addressed during the veteran's visit. This technology has led to an increase in interventions and improved health for veterans and serves as a benchmark for the health care industry.

Two Centers of Excellence were established to develop new therapies for veterans with spinal cord injuries. The center at the Bronx VAMC will explore the use of pharmaceuticals to treat the secondary disabilities of spinal cord injury, and the center at the Miami VAMC will study pain management, recovery of motor and sensory function, and other related issues.

### Medical Research

VA conducts medical research in a wide array of areas that address veterans' illnesses and disabilities and benefit the United States population as a whole. Some of the exciting advances in 2002 are:

- Identification of a promising new treatment for kidney cancer.
- The development of new prosthetic limbs that will reduce patient fatigue and produce greater propulsive forces for walking.
- Identification of a previously unknown dysfunction in neurons involved in multiple sclerosis, which could revolutionize treatment.
- A finding that patients who underwent "placebo" arthroscopic surgery for osteoarthritis of the knee were just as likely to report pain relief as those who received the real procedure. This is one of the most common surgical procedures for osteoarthritis of the knee. The results were published in the July 11, 2002, *New England Journal of Medicine*. The results of this research have implications for the quality, safety, and costs of medical care for VA and the rest of the Nation.
- In a multi-institutional study, VA researchers found an oral drug that kills smallpox and other viruses and could be the answer to saving thousands of lives during a bioterrorism attack or widespread epidemic.

### Benefits

The Philadelphia VA Regional Office and Insurance Center was named the recipient of the Department's 2002 Robert W. Carey Quality Award. The award is made to the VA organization that best exemplifies quality service to veterans, dependents and beneficiaries. Foremost among the many accomplishments noted by the judges was that the center has developed a special relationship with its policyholders and is dedicated to constantly improving service and products. For the prior 2 years, the Insurance Center was selected as the winner in the "Benefits Category" of the award.

Insurance is targeting several outreach efforts to all separating servicemembers, especially severely disabled veterans. These efforts are designed to assist veterans in making an educated choice regarding their life insurance needs. The first

outreach effort is in response to findings that severely disabled veterans underutilize insurance benefits. For these veterans, our efforts include personal letters, phone calls, and an expedited application process. For recently separated servicemembers, the Insurance Center worked in coordination with Prudential's marketing department to develop informational brochures to be distributed through the Insurance Services' Transition Assistance Program. The brochures provide information on all open insurance programs. In September 2002, the Insurance Service began a new outreach program aimed at increasing the participation rate among disabled veterans eligible for Veterans Mortgage Life Insurance. This outreach involves developing improved written communication (i.e., informational letters and pamphlets), making follow-up telephone calls, and creating a database of matches to identify non-takers of the insurance. VA hopes that these efforts will ensure the retention of a valuable benefit for those most in need and also raise all veterans' awareness of their earned insurance benefits.

VA's compensation program is critical to improving the quality of veterans' lives and that of their families. In 2002, almost 2.4 million veterans received compensation benefits for disabilities incurred in or aggravated during military service. VA recognizes that certain veteran populations have unique needs or disabilities based on the circumstances of their service, and the compensation program specifically addresses these populations. Regulations that provide for presumptive service connection ease their burden of showing that certain medical conditions are related to service; these veterans include prisoners of war, those exposed to radiation in service or exposed to herbicides in Vietnam, and Gulf War veterans. In 2002, the list of presumptive conditions for veterans exposed to herbicides in Vietnam was expanded to include diabetes, and unexplained chronic multi-symptom illnesses were added to the list of presumptive conditions for veterans who served in the Southwest Asia Theater of Operations during the Gulf War.

In addition, the compensation program provides additional allowances for a veteran's dependents if the veteran is at least 30 percent disabled from a service-connected condition. It also provides for veterans' survivors in its Dependency and Indemnity Compensation (DIC) program, making benefit payments to the eligible parents, unmarried surviving spouses, and children under 18 years of age of veterans who either died of a service-connected disability, or died from a disease or injury incurred or aggravated while on active duty for training, or died from an injury incurred while on inactive training. In certain circumstances, DIC payments may also be authorized for survivors of veterans who were totally disabled from a service-connected disability when they died, even though this disability did not cause their deaths. In 2002, there were 332,600 survivors of veterans who received this benefit.

VA's benefits programs also address other quality of life issues for service-connected veterans by providing for specially adapted home grants to eligible veterans. This includes remodeling a home to accommodate special needs arising as a result of certain service-connected disabilities, such as loss of use of lower extremities, or blindness. Grants for adaptive equipment for an automobile are available to qualified veterans, as well as clothing allowances for qualified veterans who use prosthetic or orthopedic appliances as a result of a service-connected disability.

A pension benefit is of critical importance to many low-income veterans. It is available to veterans with qualifying wartime service who are permanently and totally disabled and to their survivors. In 2002, VA began paying this income-based benefit to qualifying veterans age 65 or older, regardless of whether they are permanently and totally disabled. In 2002, more than 346,000 veterans, and more than 238,000 of their survivors received this benefit.

VA's education programs assist veterans in readjusting to civilian life by helping them to obtain affordable higher education. These programs enhance the Nation's competitiveness

through the development of a more highly educated and productive workforce. About 323,200 veterans received Montgomery GI Bill program benefits in 2002. VA's program evaluation demonstrated a positive return on investment of 2 to 1 in the form of increased income taxes for every program dollar spent.

Each year, VA supports more than 200,000 veterans in their applications for home loans. The main purpose of the VA home loan program is to help veterans finance the purchase of homes with favorable loan terms and at a rate of interest that is competitive with the rate charged on other types of mortgage loans. While clearly of direct benefit to our veterans, this activity also impacts on the local economy as a whole.

VA also plays a critical role in helping veterans maintain their home ownership in certain trying situations. Alternatives to foreclosure can help veterans either retain their home or avoid damage to their credit rating, while reducing government costs.

### **Burial**

VA provides headstones and markers for the graves of eligible persons in national, state, other public and private cemeteries. Delivery of this benefit is not dependent on interment in a national cemetery. In 2002, VA provided more than 360,000 headstones and markers for the graves of eligible persons in national, state, other public and private cemeteries. VA issued nearly 290,000 Presidential Memorial Certificates, conveying the Nation's gratitude for the veteran's service and bearing the signature of the President of the United States, to veterans' next of kin and loved ones.

VA processed 163,490 claims for burial allowances during 2002 providing monetary assistance to families and next of kin arranging for the burial of veterans.

VA provided a 16-ton granite marker that was dedicated to honor the 184 people killed in the

September 11, 2001, terrorist attack on the Pentagon. The Pentagon-shaped marker, bearing the names of the victims, was dedicated during a group burial service at Arlington National Cemetery and placed on a hillside overlooking the Pentagon.

In 2002, NCA initiated its first comprehensive inventory of an estimated 300 memorials located in more than 100 national cemetery properties across the country. Since national cemeteries were first established in 1862, they have become the sites of memorials erected to recall distinctive heroics, group burials, and related commemorations. These monuments or memorials range from modest blocks of stone, sundials, and tablets affixed to boulders to more sophisticated sarcophagi, obelisks, and single soldiers on granite pedestals. To complete this inventory, VA is partnering with Save Outdoor Sculpture! (SOS!), a non-profit organization with more than 10 years of experience using volunteers to survey public outdoor sculpture nationwide. In addition to gathering historical information about the memorial, volunteers will document physical information including materials, dimensions, appearance, evidence of damage, and the nature of the memorial's setting. The inventory will help VA prioritize conservation needs as well as develop a maintenance plan for all its memorials. When the project is complete, the inventory data will reside at VA as well as being publicly accessible on-line through another SOS! partner, the Smithsonian American Art Museum.

### **Homeless Programs**

Veterans make up nearly 25 percent of the homeless population. Many more veterans who live in poverty are at risk of becoming homeless. VA offers a wide array of special programs and initiatives specifically designed to help homeless veterans live as self-sufficiently and independently as possible. In fact, VA is the only Federal agency that provides substantial hands-on assistance directly to homeless persons. Although limited to veterans and their dependents, VA's major homeless-specific programs constitute the

largest integrated network of homeless treatment and assistance services in the country. The following are a few illustrative examples of our activities:

- During 2002, more than 20,000 homeless and at-risk veterans received medical care from VA.
- More than 19,000 veterans received transitional and supported housing, directly or in partnerships with grant and per diem or contract residential care providers.
- VA's Homeless Providers Grant and Per Diem Program, offered annually as funding permits by VA's Health Care for Homeless Veterans (HCHV) Programs, funds community agencies providing services to homeless veterans. In 2002, VA identified \$13.5 million in homeless per diem grants.

# FINANCIAL HIGHLIGHTS

Pursuant to the requirements of 31 U.S.C. 3515 (b), VA's financial statements report the financial position and results of operations of the Department. Deloitte & Touche, LLP, performed the audit of the statements under the direction of the Office of Inspector General. While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget (OMB), they are, in addition to the financial reports, used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the authority to do so.

VA received an unqualified opinion on the financial statements for 2002 and 2001 from Deloitte & Touche, LLP, continuing a noteworthy achievement first attained in 1999. As a result of their audit work, however, Deloitte & Touche, LLP, identified and reported 2 material weaknesses and 3 reportable conditions in VA's system of internal controls and compliance with laws and regulations. VA corrected three material weaknesses identified by the auditors in the 2001 audit and continues to implement corrective actions to close the remaining material weaknesses. However, correction of these material weaknesses will take several years, given the level of resources required to implement required actions.

VA implemented a change in accounting principles, raising the fixed asset capitalization threshold from \$25,000 to \$100,000 for real and personal property. This change reduced the number of capitalized property items in VA's system by 39,000 items. This reduction improves VA's property, plant and equipment (PP&E) accounting by enhancing the asset reconciliation--a cost savings. This initiative

will also improve VA's ability to meet the accelerated reporting dates mandated by OMB and enhance the accuracy of the PP&E value presented in the consolidated financial statements--a key issue in maintaining a clean audit opinion. This change is discussed in Note 22 in the Notes to the Consolidated Financial Statements.

VA programs operated at a net cost of \$210.3 billion in 2002 compared with \$187.3 billion in 2001. The calculation of the actuarial liability for future years' veterans' compensation and burial benefits, which increased by \$157.3 billion during 2002 and by \$139.4 billion in 2001, heavily impacts each year's cost. The most significant sources of change associated with the compensation and pension (C&P) programs during 2002 and 2001 were the overall decrease in interest rates during these two periods and the number of new compensation awards made for diabetes in 2001. Excluding the change in this actuarial liability from the net cost would result in an adjusted net cost for VA's programs of \$53.0 billion and \$47.9 billion for 2002 and 2001, respectively. The majority of this increase applies to two programs -- compensation, \$2.1 billion, and medical care, \$1.8 billion.

An examination of assets and liabilities reported on VA's balance sheets reveals four lines with changes greater than \$1 billion. The largest increase is in the Federal Employee and Veterans Benefit Liabilities, which is related to the increase in the actuarial liability for future compensation and burial benefit payments. It should be noted that the future cash flows to liquidate the Federal Employee and Veterans Benefits Liability are not supported by any identifiable assets, as they are anticipated to be funded from the future general revenues of the U.S. Government. The change in the compensation and burial benefit liability is the most significant component of the change

in Cumulative Results of Operations. The third significant change relates to an increase in borrowing from the Treasury in the Direct Loan Housing Program. Additional borrowing was required to cover program interest cost.

VA continues to increase the amount of collections from patients and third-party insurers. Collections deposited to the Medical Care Collections Fund (MCCF) were \$1.2 billion in 2002 and \$0.8 billion in 2001. MCCF collections have increased by \$0.4 billion over the past 2 fiscal years. In addition, the newly created Health Services Improvement Fund (HSIF), which receives designated pharmacy co-pay, generated an additional \$0.2 billion in new collections. Further, as VA begins an overall review of open medical claims, medical receivables reported for patient and third-party insurers show a slight decline this year. We expect this trend to continue next year as medical centers review and close claims with little likelihood of additional collection activity.

The Department continued its aggressive use of the governmentwide commercial purchase card program. Purchase card disbursements for 2002 were over \$1.5 billion, covering over 2.7 million transactions and earning VA credit card rebates from Citibank totaling over \$15.9 million. This is an 18 percent increase over the rebates earned in 2000 (\$13.5 million).

In the area of debt management, VA has established an excellent record for referral of eligible delinquent debt to the Department of

Treasury's Offset (TOP) and Cross-Servicing (CS) Programs. Since VA began participation in TOP, we have referred \$348 million, of which \$119 million was referred in FY 2002. Currently, \$283 million remains at TOP, which is 97 percent of the debt eligible for referral for offset. Since VA began participation in the CS program, we have referred \$393 million, of which \$87 million was referred in FY 2002. Currently, \$183 million remains at CS, which is 93 percent of the debt eligible for referral to CS.

Under 38 U.S.C. 8161, *et seq.*, VA may enter into long-term (up to 75 years) outleases of VA property in return for fair consideration including goods, services, or space beneficial to VA's mission. In some cases, the lessee provides "in-kind" consideration through a third party including an independent trust. Once established, the independent trust assumes obligations to provide in-kind consideration to the Department. VA is not party to the trust agreement and does not "own" or control the trust, and has no beneficial, residual, or other interest in the trust estate other than the assets that are specifically deposited into the enhanced-use leasing account for the purpose of providing in-kind consideration to VA. This arrangement has proven to be very beneficial to the Department in the several enhanced-use leases now in place. Consequently, as the Department uses the enhanced-use leasing program to address its capital and resource requirements, VA anticipates that most of its in-kind benefits will be received through these types of third-party providers.

## SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The auditors' report on internal controls, prepared as a result of the FY 2002 financial statement audit, reports two material weaknesses: "Information Technology (IT) Security Controls," and "Integrated Financial Management System." In the IT finding, the auditors reported that VA's program and financial data continue to be at risk due to serious weaknesses related to control and oversight over access to its information systems. In the second finding, the auditors reported continuing difficulties related to the preparation, processing and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements. VA closed three material weaknesses reported in the prior year.

The auditors' report on compliance with laws and regulations, also prepared as a result of the FY 2002 financial statement audit, discusses Departmental non-compliance with the Federal Financial Management Improvement Act (FFMIA) requirements concerning "Lack of Integrated Financial Management Systems." Except for this non-compliance, the report concludes that for the items tested, VA complied with those laws and regulations materially affecting the financial statements. The auditors also identified noncompliance with one law warranting disclosure, though not material to the financial statements. It concerns the requirement for charging interest and administrative costs on compensation and pension accounts receivable.

# COMPLIANCE WITH THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

## FMFIA Report on Material Weaknesses and Nonconformances

On a regular basis, VA managers monitor and improve the effectiveness of management controls associated with their programs and financial systems. This continuous monitoring and other periodic evaluations provide the basis for the Secretary's annual assessment of and report on management controls as required by FMFIA. VA managers are required to identify material weaknesses relating to their programs and operations pursuant to Section 2 and Section 4 of FMFIA as defined:

- *Section 2: Seeks to assess internal controls necessary to ensure compliance with applicable laws; protect against loss from waste, fraud, and abuse; and to ensure receivables and expenditures are properly recorded.*

- *Section 4: Seeks to assess nonconformance with governmentwide financial systems requirements.*

## Progress on Material Weaknesses

At the end of 2001, five material weaknesses and nonconformances were carried over into 2002. In addition, Deloitte & Touche, LLP, reported the six material weaknesses in the 2001 audit report including two repeat material weaknesses – information technology security controls and lack of integrated financial management system. The following are the four new material weaknesses reported: loan guaranty application systems, management ownership of financial data, management legal representations, and reliance on independent specialists. We are pleased to report that sufficient corrective actions were taken during 2002 to warrant closure of three of these material weaknesses, in addition to the closure of another one carried over from 2001.

### Closed Material Weaknesses and Year Identified

**Management Ownership of Financial Data (2001)** – Management did not perform sufficient review of accounting data and transactions for certain VBA lines of business. VBA established a process whereby management can ensure data provided is timely and accurate.

**Management Legal Representations (2001)** - The Office of Inspector General indicated the General Counsel's office did not provide an adequate legal representation on pending litigation and contingent liabilities as required by the Statement of Federal Financial Accounting Standards. Subsequently, the Office of General Counsel has provided a legal representation letter that satisfies financial requirements.

**Reliance on Independent Specialists (2001)** – VA relies on the use of actuarial consultants and other specialists for various financial statement assertions without adequate understanding of the specialists' work. VA's Chief Actuary is reviewing the results of the specialists' work that supports management's assertions in the financial statements, and management will periodically obtain independent verification of the work provided by the specialists.

**Inadequate Controls Over Addictive Drugs (1991)** - A GAO report concluded controls over a large number of prescriptions in VA medical facilities were inadequate. At that time, manual controls were used to track prescription drugs. VHA implemented a new software system to track drug dispensation at every bed in every medical facility.

## Federal Financial Management Integrity Act (FFMIA)

The Department faces challenges in building and maintaining financial management systems that comply with the Federal Financial Management Improvement Act (FFMIA). Under FFMIA, the

Department is substantially compliant with the exception of “Federal financial management systems requirements.” *Lack of an Integrated Financial Management System* was identified as a material weakness in 2001. CoreFLS will replace VA's current financial management system (FMS).

The following material weaknesses and nonconformances are being carried over into 2003:

Material Weaknesses and Nonconformances	Year Identified	Targeted Correction Date	
		As of 9/30/01	As of 9/30/02
<p>Information Technology Security Controls – VA’s assets and financial data are vulnerable to error or fraud because of weaknesses in information security management, access to controls and monitoring, and physical access controls. Plans are being implemented to address this issue. The Department has maximized limited resources to make significant improvement in VA’s overall security posture in the near term through prioritizing GISRA remediation activities.</p> <p>Slippage in meeting FY 2003 corrective action date was due to revision of remediation plan.</p> <p>Testing of key controls over security administration and the OIG’s testing for GISRA reporting identified weaknesses in the following systems:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> FMS</li> <li><input type="checkbox"/> PAID</li> <li><input type="checkbox"/> C&amp;P</li> <li><input type="checkbox"/> LGY</li> </ul> <p>NOTE: Previously identified “Loan Guaranty Application Systems (2001)” material weakness has been consolidated into “Information Technology Security Controls.”</p>	1998	2003	2005
Lack of Integrated Financial Management System – The CoreFLS project will replace VA’s current financial management system (FMS). VA is continuing migration of core accounting functions from mixed systems to FMS. Full implementation of CoreFLS will correct this deficiency.	2001	2006	2006
Compensation and Pension System – Lack of Adaptability and Documentation – The system is outdated and needs to be replaced. Total conversion is planned for 2004. Implementation of recommendations from the Claims Processing Task Force is pending.	1985	2004	2004
PAID System – Mission Performance – VA’s central payroll and personnel system, PAID, lacked the ability to expand. PAID is currently being updated to bring the system current with deferred functionality.	1993	TBD	2004
Internal Control Weaknesses in the Compensation and Pension Payment Process – Erroneous and fraudulent payments were found. Procedures are underway to augment internal controls in the area of erroneous payments. Measures are being taken to pinpoint the amount of overpayments in each program area and to determine the nature and causes of the overpayments.	2001	TBD	TBD
Housing Credit Assistance Program – The Inspector General found internal control weaknesses in direct loan accounting, loan sales accounting, and Credit Reform subsidy reporting. This remained as a material weakness in 2002 because of an inventory reconciliation issue. The final milestone to correct these deficiencies was completed in FY 2002. A determination will be made in reference to addressing the housing credit-related issues identified in the FY 2002 financial statements audit.	2000	2002	TBD

Reported Material Weaknesses and Nonconformances				Number of Weaknesses Targeted for Correction by			
Issue	As of 9/30/01	Activity During FY 2002		As of 9/30/02	9/30/03	9/30/04	9/30/05 & Beyond
		New	Resolved				
Auditor-reported Material Weaknesses	6	0	3	2*	0	0	2
FMFIA							
		New	Resolved				
Section 2: Material Weaknesses	2	0	1	1	1	0	0
Section 4: Nonconformances	3	0	0	3	1	2	0
FMFIA Total	5	0	1	4	2	2	0
AGENCY TOTAL	11			6*	2	2	2

\*Note: The auditors consolidated “the Loan Guaranty Application Systems” material weakness (identified in the 2001 audit report) with the “Information Technology Security Controls” material weakness.

# COMPLIANCE WITH THE IG ACT AMENDMENTS OF 1988

VA collected \$32 million in disallowed costs from VA-contracted suppliers in 2002.

The IG Act requires management to complete all final actions on IG recommendations within 1 year of the date of the IG's final report. Departmentwide, there are 14 reports that have

been pending final action for over 1 year. Since 1996, there has been a reduction in the number of unimplemented reports pending final action. Delays were incurred in implementing recommendations as a result of the development and implementation of new regulations or directives, collection and/or write-off activities, and system changes.

<b>Disallowed Costs and Funds to Be Put to Better Use</b> Reporting Period October 1, 2001 – September 30, 2002 <i>(dollars in millions)</i>				
	<b>Disallowed Cost</b>		<b>Funds to Be Put to Better Use</b>	
	Reports	Value	Reports	Value
Balance 9/30/01	7	\$8.0	14	\$514.1
New Reports	30	\$25.2	28	\$722.2
<b>Total</b>	<b>37</b>	<b>\$33.2</b>	<b>42</b>	<b>\$1,236.3</b>
Completed	31	\$32.0	27	\$762.0
Balance 9/30/02	6	\$1.2	15	\$474.3

<b>OIG Reports Pending Final Action Over One Year After Management Decisions Have Been Made</b>							
	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
No. of Reports	80	65	42	36	28	19	14

# PROMPT PAYMENT ACT

## PROMPT PAYMENT ACT

In 2002, VA processed more than 5.2 million invoices representing over \$9.8 billion, subject to the Prompt Payment Act. Nearly 97 percent of these invoices were paid on time. The number of invoices processed increased by over 600,000, or 14 percent from last year. At the same time, the dollar value of invoices processed increased by over \$1.3 billion, or 15 percent. In 2002, interest penalties paid were \$1.4 million, 24 percent lower than last year's (\$1.8 million).

During 2002, the Department aggressively used the governmentwide commercial purchase card program. Over 2.7 million transactions were processed, representing over \$1.5 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned over \$15.9 million in credit card rebates for VA.

VA's Prime Vendor Payment System automates payments under a nationwide prime vendor centralized purchasing contract. In 2002, the Prime Vendor System was used by 126 VA medical centers with 452,913 transactions processed electronically, which totaled over \$2.8 billion.

VA's Travel Management Centers (TMC) serve veterans and employees who travel frequently.

The billings are transmitted electronically from each TMC, and payment is sent daily through the Department of the Treasury's Electronic Certification System. In 2002, the travel management program processed 116,391 transactions and disbursed payments of more than \$17 million. It also earned \$203,397 in rebates.

VA's Financial Services Center (FSC) staff continued to provide vendor payment history on the Internet. The application stores 90 days of information on invoices. There are currently 1,260 vendors using the Vendor Inquiry System Internet download procedures to assist them with payment identification.

The FSC continued to improve the Intranet online invoice certification process, which allows invoices to be certified electronically and sent for payment. VA's Online Invoice Certification System provides certifying officials e-mail notification from the FSC of any invoice requiring payment certification. Through Intranet access, the certifying official can view, certify, and forward the invoice to the FSC for payment processing. The processing time is reduced to hours rather than days. During 2003, the FSC plans to complete implementation and provide all customers access to the system.

# THE PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda, announced in the summer of 2001, is an aggressive strategy for improving the management of the Federal government. It focuses on five areas of management weakness across the government where improvements and the most progress can be made. VA is working closely with OMB to resolve problems identified in each of these areas. OMB uses a 'stoplight' scorecard to reflect progress being made by each federal agency and issues reports quarterly. The chart below identifies the five areas of government focus and the scores from 2001 compared with those received on September 30,

2002. VA is making good progress in all areas and is committed to implement them fully.

In addition to these five areas, VA is also reporting on two additional agency-specific areas of focus:

- Improved coordination of VA and Department of Defense (DoD) programs and systems; and
- Faith-based initiatives.

The following is a discussion of VA's progress in each of these areas.

## President's Management Agenda Progress Evaluation Office of Management and Budget

	FY 2001	As of September 30, 2002	
	Status	Status	Progress in Implementing
Human Capital	●	●	●
Competitive Sourcing	●	●	●
Financial Performance	●	●	●
E-Government	●	●	●
Budget and Performance Integration	●	●	●

OMB definitions of Progress Evaluation:

- Implementation is proceeding according to plans agreed upon with OMB and VA
- Slippage in implementation schedule, quality of deliverables, or other issues requiring adjustments by VA in order to achieve initiative on a timely basis
- Initiative in serious jeopardy. Unlikely to realize objectives without significant management intervention

## **Strategic Management of Human Capital**

VA is facing extremely high retirement eligibility rates over the next 3-10 years and took many steps during 2002 to address this issue.

VA completed a restructuring plan in support of the President's Management Agenda. The plan includes 1) an assessment of VA's human capital program and strategies VA will pursue to implement a more corporate approach to human capital management and 2) a workforce analysis of physicians, nurses, and compensation and pension veterans service representatives including past, current, and projected workforce needs; drivers of change; workforce gaps; and strategies to address the gaps.

VA has made workforce information, tools, and data available to decision-makers, and redesigned its human resources (HR) Intranet site so managers have the tools to answer HR questions. VA established a new system of HR policies that is streamlined, user-friendly, and Intranet accessible. A workforce planning Web site was established that provides planning tools, best practices, and data. VA also developed an Intranet site that provides customized workforce reports that can be used to drill down to the facility level.

VA established a Senior Executive Service candidate development program to train, develop, and certify employees who exhibit outstanding executive potential and deploy them across organizational lines. This program will help VA build its leadership cadre and prepare for impending retirements and turnover. There were approximately 270 government-wide applicants and 16 were selected. The program began in November 2002.

VA's childcare subsidy program has been cited as the most comprehensive program in government with the highest number of program participants. At the beginning of 2002, about 1,100 employees (with over 1,700 children) were enrolled in the program, and 89 percent of eligible employees indicated in a recent survey that this program is a factor in their decision to remain at VA.

To date, VA has agreed upon a universal definition of TeleWork; established a scheduled reporting mechanism to capture employee participation rates; conducted a record year assessment of employee participation rates; and is completing a Departmental TeleWork plan. The existing telecommuting policy is being revised to make it more inclusive by permitting participation of Title 38 employees on a case-by-case basis. A TeleWork Web site is available. VA has also developed a business case application for employee participation.

In April 2002, VA conducted an in-depth study on the use of recruitment and retention HR flexibilities and is in the process of identifying strategies to improve use of these flexibilities.

These efforts supplement the already extensive workforce planning efforts each of VA's business lines has undertaken this year, including an enhanced focus on the recruitment of new employees, leadership development programs at all organizational levels, and the integration of workforce planning into the strategic planning process.

## **Competitive Sourcing**

Over each of the past 5 years, VA as a whole has steadily increased its contractual services spending while decreasing the number of full-time employees within the Department. In addition, VA's 2001 FAIR Act inventory identified approximately 85 percent of VA's workforce as being engaged in commercial activities. This is by far the highest percentage of a total agency workforce deemed to be commercial within the President's Cabinet.

VA utilizes competitive sourcing and the FAIR Act as part of its basic business management approach, which is predicated on VA's efforts to deliver timely and high-quality service to our Nation's veterans and their families. As part of its normal business operations and as part of the Secretary's priority of applying sound business principles, VA continuously assesses the demand for benefits and services from veterans and ensures that it has the capabilities to meet these needs. This market-based

analysis often results in contracts for medical care and other services in specific geographical areas when it is determined to be more cost effective to obtain the services from the private sector than to hire doctors, nurses, cemetery maintenance workers, and other skill sets. It should be noted that this approach does not focus on moving a certain established number of jobs from the public sector to the private sector -- but rather on providing veterans and taxpayers the best value possible.

We are committed to continuing the approach of strategically identifying opportunities for competitive sourcing. The Deputy Secretary charged the Office of Policy and Planning with establishing and coordinating a working group to develop a more streamlined competitive sourcing process for VA. The working group identified areas of opportunity for future competitive sourcing and developed a tracking system to assess progress and outcomes. The working group also developed a three-tiered streamlined process, with more focus on cost-benefit analysis and less focus on solicitation to make the management decision about whether to contract out or retain the work in-house. The Office of Management and Budget approved the three-tiered process in April 2002 for use throughout VA.

The following reflects an overview of the three tiers that comprise VA's competitive sourcing process and their specific objectives:

- *Tier 1* competitive sourcing process focuses on cost-benefit analysis for the day-to-day make-or-buy decisions at the local level for 10 or fewer FTE;
- *Tier 2* focuses on a more detailed and rigorous but internal cost analysis using market research for competitive sourcing for 11 or more FTE; and
- *Tier 3* requires a formal A-76 study based on the premise that a federal agency must rely on a formal procurement process in order to make a decision about whether to contract out an activity or conduct it in-house.

The newly designed Tier 2 process retains the most effective features of the A-76 process, namely the Performance Work Statement (PWS) and the Most Efficient Organization (MEO). The MEO may include benchmarking with the private sector and business process reengineering.

One of the reasons OMB approved our new process is because of VHA's exemption under Section 8110(a)(5) of Title 38 U.S.C., which requires that VHA funding to carry out any activity in connection with a cost study comparing the cost of the provision by VA of commercial or industrial products and services is prohibited unless such funds are specifically appropriated. VHA currently has no funds appropriated for 2002 or 2003. This prohibition was intended to apply to a formal A-76 study and would not apply to a Tier 2 analysis.

VA has completed and circulated for implementation throughout the Department a directive on competitive sourcing – Directive 7100. This directive provides detailed guidance on how to conduct the three-tiered competitive sourcing process.

All VA organizations have begun to track their respective competitive sourcing activities on the amount of competitive sourcing that has occurred quarterly. The tracking system will enable VA to document competitive sourcing decisions and track the results of the cost-benefit analyses. Each organization will provide a list of those activities that are most promising for cost-benefit analysis or cost comparison studies using our new three-tiered process over the next several years.

Fiscal year 2002 competitive sourcing data have been collected and are being reviewed and analyzed. VA established a formal tracking process to capture the results of all cost comparison studies that are conducted throughout VA. At the end of 2002, VA had completed studies on approximately 4,000 FTE, with a preliminary estimated cost savings of \$25 million. This is the first annual cycle in which VA has used its new competitive sourcing tracking system

and the resulting data are currently being verified and validated. This system is a critical foundation for establishing a useful and valuable cost and performance-based competitive sourcing database for the future.

For 2002, VHA, which represents about 97 percent of VA's total commercial activities, conducted 1,626 cost comparison studies. These studies covered 4,061 FTE positions and resulted in 3,189 being contracted out and 872 being retained in-house.

VHA has increased the amount of contract services to \$2.6 billion – a 32 percent increase over the last 5 years. VHA's total contract service expenditures equate to approximately 43,000 full-time employees. One of the key factors contributing to VHA achievements in competitive sourcing is the transformation of the health care delivery approach, moving increasingly from inpatient to outpatient care and toward the use of community-based outpatient clinics (CBOCs) to improve access for veterans. For each CBOC opened, VA determines whether it is more cost effective to operate the facility with VA employees. Out of 609 operating CBOCs, 146 are staffed with contract personnel.

NCA currently contracts out for full maintenance services for 26 of 120 national cemeteries. In 2002, NCA contracted out an equivalent of 240 FTE in connection with the National Shrine Commitment. This competitive sourcing is the equivalent of approximately 20 percent of NCA commercial activities.

VBA is finalizing a comprehensive A-76 study examining its real property management function. This study involves a competitive sourcing of close to 9 percent of VBA's identified commercial activities. VA applied lessons learned from this study in developing its new, alternative three-tiered approach to implementing the President's Management Agenda.

Under VA Directive 7100, and as part of its new tracking system, VA has compiled projections for all competitive sourcing to be conducted during 2003. VA is establishing a new Office of

Competitive Sourcing and Management Analysis to provide the leadership necessary to carry out its competitive sourcing strategy and directive.

### **Improved Financial Performance**

VA received an unqualified opinion on the Department's financial statements from the auditors in 2002 and 2001, continuing the success first achieved in 1999.

The Department is making efforts to ensure that its financial management systems and standards are in compliance with statutory requirements including the FFMIA. The Core Financial and Logistics System (CoreFLS) project will replace VA's current financial management system (FMS), Integrated Fund Control and Procurement System (IFCAP), and other financial and logistics systems interfacing to FMS.

Below are some of the ways the Department improved its financial performance in 2002:

### ***Electronic Business Solution***

*E-Travel* - VA began piloting a new electronic travel system, known as e-travel, to allow travelers or travel arrangers to electronically prepare and submit travel information using a Web-based system. The traveler will begin by logging on to the e-travel system through the Internet from a PC, laptop, or hand-held device to create an online travel request. Through the e-travel system, all VA travelers or travel managers will access an online booking engine for trip planning purposes, including access to information on available transportation and lodging options.

Once preliminary travel plans are made, the travel request is electronically routed to the supervisor for authorization and to approving officials for final approval. The electronic routing process includes electronic signature approval and e-mail notification of the request throughout the process. When travel is approved, travel authority data will be sent from the e-travel system to VA's FMS. Upon implementation of CoreFLS, data will be sent from the e-travel system to CoreFLS to be obligated

and to the booking engine for confirmation and ticketing. Upon completion of the trip, travelers can easily and immediately submit their travel vouchers.

E-travel will provide a Departmentwide system that will reduce cycle time for the travel management process, centralize travel and budget information online, reduce delinquency rates, increase dollar savings from prompt payment of travel card bills, and reduce paper with an end-to-end process. This same program also provides a split disbursement feature allowing employees to forward travel reimbursement for such expenses as hotel and airfare directly to VA's banking institution. This enhancement alone will substantially reduce VA's delinquency rate.

The Departmentwide system for e-travel is aimed at ensuring the efficient and effective use of current and emerging technologies to support VA business operations. The e-travel solution promotes the delivery of customer service because the investment is crosscutting in nature with all VA organizations benefiting by system implementation. The delivery of world-class service is defined in both the Department's IT strategic plan for 2001-2006 and the Administration's e-GOV initiatives contained in the President's Management Agenda.

### ***Debt Management***

In the area of debt management, VA has established an excellent record for referral of eligible delinquent debt to the Department of Treasury's Offset (TOP) and Cross-Servicing (CS) Programs. Since VA began participation in TOP, we have referred \$348 million, of which \$119 million was referred in FY 2002. Currently, \$283 million remains at TOP, which is 97 percent of the debt eligible for referral for offset. Since VA began participation in the CS program, we have referred \$393 million, of which \$87 million was referred in FY 2002. Currently, \$183 million remains at CS, which is 93% of the debt eligible for referral to CS.

Collections for the Medical Care Collections Fund continued to improve, with a total of approximately \$1.2 billion for 2002 – a significant increase over

the 2001 total of \$0.8 billion. VA has developed a revenue cycle improvement plan to increase collections to \$2.1 billion by 2006. In addition, the amounts reported for patient and third-party insurers' medical debts continue to increase due to a change in billing methodology. VA now bills for medical services based on "reasonable charges" rather than "reasonable cost." Amounts collected under this program are retained by VA and used for medical care purposes. Further, first-party pharmacy co-payments changed from \$2.00 per prescription to \$7.00 per prescription effective February 2002, of which \$5.00 goes to the new Health Services Improvement Fund (HSIF). Projected 2002 HSIF collections are \$200 million.

Also in the area of debt management, VHA continues the nationwide fixed-fee contract with a collection agency to pursue delinquent third-party claims over 90 days old. These delinquent claims are based on inpatient health care services provided to veterans. Implementation of this project has increased collection of delinquent amounts owed VA. The cost is \$4.75 for each case referred. Individual facilities pay the contractor for cases referred. As of June 2002, over \$212 million has been collected, and \$5.4 million has been paid to the vendor for contracted services. This represents a \$143 million increase in collections compared to the same time period in 2001.

### **Expanded Electronic Government**

VA has developed an agency-wide Enterprise Architecture (EA). Our goal is to use this architecture to develop the common infrastructure and systems development environment necessary to build and support systems that allow a comprehensive approach to expanded electronic government. These new systems, and as possible, updates to existing legacy systems, will allow for integrated, comprehensive, consistent, veteran-centric, and universally available electronic access to all veteran services and information. It is essential that the foundational infrastructure and architectural disciplines be developed and instituted Departmentwide before large-scale applications are fielded to ensure that a common

approach to electronic government is achieved. The foundational systems that are currently under development include:

- Telecommunications Infrastructure
  - Telecommunications Modernization Project (TMP),
- Cyber Security Infrastructure
  - Enterprise Cyber Security Infrastructure Project (ECSIP),
  - Authentication and Authorization Infrastructure (AAI) Project,
- Corporate and Regional Data Processing with Continuity of Operations (COOP)
  - Corporate Data Center Integration (CDCI) Project.

Successful completion of these system initiatives will allow for the implementation of VA's expanded electronic government.

VA's Enterprise Architecture is a business line-oriented approach that seeks to understand and capture the major business processes that are required to provide America's veterans with the benefits they have earned in a consistent, timely, efficient, comprehensive, well-managed, and cost-effective environment. The EA will allow for a single, shared database for all veteran information. It will also allow for a common interface for each user category for a consistent look and feel and for a customer application profile that only requires an end user provide necessary information on a one-time basis. Finally, it will allow for a standardized *One VA* approach to electronic government across the spectrum of government to citizen, government to government, government to business, and internal government efficiencies.

Examples of major business processes that are under development using VA's architected approach include:

- One VA Registration and Eligibility Project,
- One VA Contact Management Project,

- VistA HealthVet Health Data Repository (HDR) Project, and
- Core Financial and Logistic System (CoreFLS) Project.

In addition, VA is working with at least five managing partners on cross-agency electronic government projects including e-authentication, e-payroll, e-benefits, e-vital, and Project SafeCom. While an architected approach is VA's preferred solution for these management initiatives and other congressionally mandated requirements for electronic government, some requirements have a more aggressive timeline than VA's EA process can accommodate. In situations that require a short-term solution, we will strive to meet related requirements in as compatible and efficient a manner as possible.

VA has established a comprehensive governance process that enables the Department to comply with the various mandates for internal inefficiencies such as the Government Paperwork Elimination Act as well as the strict requirement for financial and management oversight of information technology dictated by the Clinger-Cohen Act and the Government Information Security Reform Act. This governance process along with the strict management disciplines imposed by the Enterprise Architecture review process enable VA to develop, field, and support information systems that meet the requirements of various stakeholders within and outside VA, while at the same time complying with the challenge of the President's Management Agenda to "... champion citizen-centered electronic government that will result in a major improvement in the federal government's value to the citizen."

## Budget and Performance Integration

During 2002, VA made great progress in implementing performance-based management, particularly with regard to better linking resources with results. The centerpiece of our budget and performance integration activities is our development of a new budget account restructure. VA will submit its FY 2004 budget using a new

account structure that focuses on nine major programs—medical care, research, compensation, pension, education, housing, vocational rehabilitation and employment, insurance, and burial. Medical education, which previously was identified as a separate program, is included as a subset of the medical care program.

With the implementation of this new budget account structure, VA will be better positioned to:

- More readily determine the full cost of each of our programs;
- Shift resource debates from inputs to outcomes and results;
- Make resource decisions based on programs and their results rather than on other factors;
- Improve planning, simplify systems, enhance tracking, and focus on accountability; and
- Prioritize capital investments against recurring expenditures.

The major features of the revised budget account structure are the following:

- Simplifying the structure by significantly reducing the number of accounts;
- Requesting mandatory and discretionary funding within each program while ensuring the Department fully complies with all provisions of the Budget Enforcement Act;
- Distributing all capital costs (including construction and information technology) among the nine major program accounts; and
- Maintaining some non-appropriated accounts (revolving and trust funds) as separate budget accounts to meet government-wide requirements.

VA will implement use of a new budget account structure effective with FY 2004 reporting within its existing core accounting system, FMS. This structure will continue

in the Department's new CoreFLS, which will replace FMS and up to 33 interfacing applications. CoreFLS will allow the Department to better align its resources with program activities and improve automated analytical and reconciliation tools. Full implementation of CoreFLS is scheduled by the end of 2006.

The implementation of this new account structure is the culmination of a multi-year project. VA and OMB jointly developed and implemented this new set of budget accounts, and will continue to work closely together on a variety of budget formulation and budget execution activities related to this project. VA officials conducted numerous briefings and meetings with appropriations and authorizing committees of Congress prior to implementing this new account structure. In order to ensure the transition to the new account structure occurs as smoothly as possible, we will continue to coordinate our efforts with the appropriate Congressional committees.

### **Improved Coordination of VA and DoD Programs and Systems**

The President has directed VA and DoD to better coordinate benefits, services, information, and infrastructure to ensure the highest quality of health care and efficient use of resources. VA is committed to strengthening the cooperative relationship we have with DoD.

VA and DoD executive leadership have been meeting for several years to improve and expand sharing. In February 2002, the VA/DoD Joint Executive Council (JEC) was established to further enhance joint sharing and other collaborative initiatives. The JEC is co-chaired by the Deputy Secretary of Veterans Affairs and the Under Secretary of Defense for Personnel and Readiness. To date, the JEC has reached agreement on the following major issues: Federal Health Information Exchange, including a joint strategy for interoperable electronic records (*HealthPeople*); a new standardized national reimbursement rate structure for VA/DoD medical sharing agreements; implementation of a Consolidated Mail Outpatient Pharmacy pilot (CMOP); establishment of a joint

physical examination pilot; increased cooperation in capital asset planning; and a joint strategic planning initiative to develop a common vision and set of objectives for future sharing and collaboration.

In addition, the VA/DoD Benefits Executive Council (BEC), modeled after the very successful Health Executive Council, was established and is chaired by the VA Under Secretary for Benefits and the DoD Assistant Secretary of Defense for Force Management. The BEC will explore opportunities to facilitate the transition of separating servicemembers from DoD beneficiary to VA beneficiary through joint initiatives designed to improve the processes for establishing eligibility, facilitating enrollment in the VA health care system, and expediting claims for service-connected disability ratings/compensation and to enhance the medical examination process.

VA and DoD coordinate health services through a variety of mechanisms, including direct sharing agreements, TRICARE contracting, joint contracting for pharmaceuticals and medical/surgical supplies, information management/information technology collaboration, training cooperation, and joint facilities.

In 2002, an estimated 163 VA medical facilities were involved in sharing agreements with DoD military treatment facilities and 280 reserve units around the country. There were an estimated 622 sharing agreements covering approximately 6,000 health services with the military. The dollar value of these agreements was \$30.2 million in services sold and \$37.2 million in services purchased. In 2001, there were 604 agreements covering 6,602 services.

The amount of money generated from providing services to TRICARE beneficiaries for 2002 is estimated to be \$16.0 million, an increase of \$6.2 million from the 2001 figure of \$9.8 million. Anticipated revenue for 2003 and 2004 is \$17.6 million and \$19.3 million, respectively. The total dollar value of sharing agreements with DoD including services sold, services purchased and TRICARE was \$83.4 million in 2002.

VA and DoD are exploring ways to further improve the coordination of service delivery in other areas such as geriatric care, pharmacy, and information services. The VA/DoD Health Executive Council meets bi-monthly and has work groups developing recommendations in the following areas: Information Management and Technology; Clinical Practice Guidelines; Patient Safety; Pharmacy; Medical/Surgical Supplies; Benefits Coordination; Financial Management; Geriatric Care; Joint Facility Utilization/Resource Sharing; Education; and Deployment Health. The Council, co-chaired by the VA Under Secretary for Health and the DoD Assistant Secretary of Defense for Health Affairs, consists of top policymakers in each agency.

The President's Task Force to Improve Health Care Delivery for Our Nation's Veterans holds monthly meetings. Their interim report was released in July 2002, and the final report is expected in March 2003. The task force was established to identify ways to improve benefits and services for VA beneficiaries and DoD military retirees through better coordination of the activities of the two departments.

VA and DoD have made substantial progress in increasing joint procurement activities. The foundation for this progress was established in December 1999 when VA and DoD signed a memorandum of agreement (MOA) to combine their purchasing power to eliminate redundancies. As of July 1, 2002, there were 63 joint VA/DoD contracts and 4 blanket purchase agreements (BPA) for pharmaceuticals. The cost avoidance resulting from these contracts and BPAs was approximately \$350 million in 2001 and over \$100 million in 2002. Additionally, there are 37 pending solicitations for which joint requirements have already been submitted to VA's National Acquisition Center (NAC).

The next major phase of the MOA implementation is underway. VA and DoD are converting DoD's Distribution and Purchasing Agreements to the Federal Supply Schedule for medical/surgical products. VHA's Office of Logistics

is working with the NAC and DoD counterparts to facilitate shared acquisition strategies through product standardization committees. The latest initiative regarding the MOA is negotiation of an equipment appendix. While this negotiation is ongoing, progress has been made in the area of joint procurements. The Defense Supply Center – Philadelphia is currently evaluating offers on a recent solicitation for equipment maintenance contracts, and the NAC issued a joint radiation therapy solicitation in July.

The electronic interface for VHA's Consolidated Mail Outpatient Pharmacy is completed and is compliant with Health Insurance Portability and Accountability Act and cyber security requirements. Initial prescription processing began in August 2002. In October 2002, planned expansion to process refill prescriptions from the Naval Medical Center San Diego and Fort Hood began and Kirkland AFB will begin in December 2002. Additionally, DoD has developed promotional brochures to market the pilot with their beneficiary population.

### **Faith-based Initiatives**

During 2002, the Faith-based and Community Initiatives Task Force developed and completed a survey of VHA, VBA, and NCA field facilities to determine VA involvement with faith-based and community service providers. The survey response rate was approximately 90 percent. The survey revealed that nearly 60 percent of field facilities

reported having sharing agreements or contracts with faith-based or community organizations and 52 percent of facilities reported having sharing agreements or contracts with one or more faith-based organizations. Ninety-five percent of VA respondents reported that faith-based and community organizations were providing high-quality services to veterans.

The task force also worked with the Office of General Counsel (OGC) to clarify a variety of topics encountered while working with faith-based and community organizations. OGC provided an excellent overview of the legal issues involved in working with faith-based organizations and responded to a series of questions developed by the task force. In addition, OGC opined that VA's current regulations for the homeless grant and per diem program has a provision, not required by law, which may be a barrier to faith-based organizations interested in participating in that program. The task force recommended that while VA was reviewing and revising these regulations, the identified barrier regarding employment restrictions on faith-based organizations be deleted.

VA contracted with BETAH Associates, Inc., a consulting group, to secure the opinion of faith-based and community service providers regarding their involvement with VA and to provide recommendations on improving community linkages to better serve veterans. The final report will be completed in January 2003.

# WHAT WE ACCOMPLISHED

This section of the report presents detailed information on the Department's program performance during 2002. The discussion is structured around our strategic goals, as published in VA's strategic plan in September 2000 and the revised objectives recently approved by the Secretary. The Department has adopted these goals and objectives for strategic planning, performance planning, and performance reporting purposes. While most of the objectives are quite similar to those previously used, some have been modified to better reflect the priorities established by the Secretary. The current set of key performance measures will be re-evaluated and some modifications will likely be made to ensure they fully address these revised objectives. In the

interim, there are a few objectives for which there are no key performance measures.

The strategic goals reflect the combined effort of all organizational elements to deliver benefits and services to disabled veterans, veterans in transition from the military, the overall veteran population and their families, and the Nation at large. In addition to our strategic goals, we have an enabling goal that focuses on management issues and fosters a climate of world-class service and benefits delivery. The following table identifies estimates of the total resources the Department devoted to the achievement of these goals, by program. The costs below are approximated because we do not yet have the sophisticated financial tools necessary to precisely report the cost of each goal.

**Strategic Goal Resources by Responsible Program**

Responsible Program and Goal	Total Obligations (\$ in millions)	Restore Disabled Veterans	Ensure a Smooth Transition	Honor and Serve Veterans	Support National Goals	Enabling Goal
Medical Care	\$23,446	\$12,299	\$80	\$11,066		
Medical Research	\$964	\$520			\$443	
Medical Education	\$923	\$498			\$425	
Compensation	\$23,023	\$23,023				
Pension	\$3,400			\$3,400		
Education	\$1,766	\$177	\$1,590			
Vocational Rehabilitation	\$606	\$606				
Housing	\$1,042		\$1,042			
Insurance	\$2,749	\$93	\$650	\$2,006		
Burial	\$374			\$299	\$75	
Departmental Management	\$607	\$42		\$5	<\$1M	\$560
<b>Total (\$ in millions)</b>	<b>\$58,899</b>	<b>\$37,259</b>	<b>\$3,361</b>	<b>\$16,776</b>	<b>\$943</b>	<b>\$560</b>

## VA's Key Performance Goals and Measures

VA's senior leadership identified 23 key performance goals as critical to the success of the Department. Some of these deal with program outcomes; others pertain to the manner in which we administer our programs.

The Department is committed to continuously improving the delivery of benefits and services to veterans and their families. Whether the focus is on enhancing the quality of health care, expanding access to care, reducing the time it takes to complete claims for benefits, improving the accuracy of claims processing, or providing more veterans with a burial option, our aim is to improve our performance each year.

At the end of each fiscal year, we evaluate performance for the previous year and set new performance targets that demonstrate our commitment to continuous improvement. In many instances, the performance improvements we project from one year to the next, as well as the performance advancements we actually achieve, are dramatic. In other cases, the improvement is more limited. Nevertheless, we continuously strive to improve our performance in all programs.

While the vast majority of our performance measures remain the same from one year to the next, our list of measures does change in response to changing circumstances. For example, we are constantly striving for better ways to measure

performance. This is an ongoing process — with the introduction of new measures each year that reflect a more sophisticated and mature performance measurement system. There are also instances in which our actual performance has met or exceeded our original goals, and further performance improvements are unlikely or unreasonable. In these cases, we either drop the performance measure or replace it.

While some of VA's key performance measures support achievement of more than one strategic goal, we have aligned them with the strategic goal and objective that they most closely support. For each of the objectives, we present:

- the performance measure or measures used to gauge progress toward achieving the goal;
- historical data;
- means and strategies used to achieve the actual level of performance;
- crosscutting activities with other federal and private organizations;
- descriptions of any relevant management challenges affecting goal achievement;
- the source of the performance information and how it was validated.

Other goals and measures deemed important by the program offices continue to be monitored and are presented in the data tables beginning on page 121.

Note that in this report, years are fiscal years unless stated otherwise.

## STRATEGIC GOAL

### 1 *Restore the capability of veterans with disabilities to the greatest extent possible and improve the quality of their lives and that of their families.*

To achieve this strategic goal, VA needs to maximize the ability of disabled veterans, special veteran populations (for example, veterans with spinal cord injuries, elderly veterans, or those with serious mental illness), and their dependents and survivors to become full and productive members of society through a system of health care, compensation, vocational rehabilitation, life insurance, dependency and indemnity compensation, and dependents' and survivors' education. This system of benefits and services is aimed toward the broad outcome of restoring the individual capabilities of our Nation's disabled veterans.

The following table identifies estimates of the total resources devoted to this strategic goal and its associated objectives:

Resources by Goal and Objective	FY 2002 Obligations	% of Total VA Resources
<b>Total VA Resources</b>	\$58,899	
<b>Strategic Goal</b>		
Restore the capability of veterans with disabilities to the greatest extent possible and improve the quality of their lives and that of their families.	\$36,761	62.4%
<b>Objective</b>		
<i>Maximize the physical, mental, and social functioning of veterans with disabilities and be recognized as a leader in the provision of specialized health care services.</i>	\$12,820	21.8%
<i>Provide timely and accurate decisions on disability compensation claims to improve the economic status and quality of life of service-disabled veterans.</i>	\$23,065	39.2%
<i>Provide all service-disabled veterans with the opportunity to become employable and obtain and maintain suitable employment, while providing special support to veterans with serious employment handicaps.</i>	\$606	1.0%
<i>Improve the standard of living and income status of eligible survivors of service-disabled veterans through compensation, education, and insurance benefits.</i>	\$270	0.4%

Four key performance measures enable us to gauge progress in achieving this strategic goal:

- Proportion of discharges from spinal cord injury center bed sections to non-institutional settings
- Average days to process rating-related actions on compensation and pension claims
- National accuracy rate for core rating work
- Vocational rehabilitation and employment rehabilitation rate

*Objective*

**Maximize the physical, mental, and social functioning of veterans with disabilities and be recognized as a leader in the provision of specialized health care services.**

*Performance Goal*

**Maintain at 95 percent the proportion of discharges from spinal cord injury (SCI) center bed sections to non-institutional settings.**

*Definition: This measure is the percentage of inpatients with SCI who are discharged to non-institutional community living locations from a VA SCI bed section. Excluded from the count are patients with irregular discharges, patients transferred in from institutional care, and patients who have died. Non-institutional community living locations do not include a different hospital, nursing home care unit, state home, domiciliary, or penal institution. The numerator is inpatients that were discharged from SCI-center bed sections to non-institutional settings. The denominator is patients discharged from SCI-center bed sections alive, who were discharged regularly and not transferred in from institutional care.*

The Veterans Health Administration (VHA) remains committed to promoting the health, independence, quality and dignity of life, and productivity of individuals with spinal cord injury (SCI) and other disabling conditions. One of the major outcome goals for patients with SCI is to help them rehabilitate and gain enough independence so that they no longer need to be in an institution. We exceeded the target level of this performance measure by achieving a discharge rate of 97 percent in 2002.

Special attention is accorded veterans with SCI for a number of reasons, primarily because of the severity of illness and disability associated

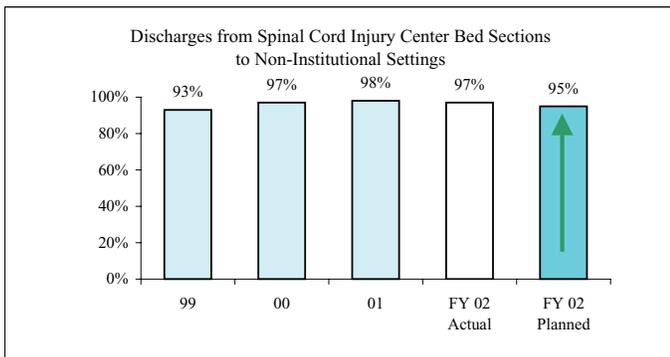
with SCI. VHA closely monitors the performance measure described below to ensure responsiveness to veterans with SCI and maximize the potential for positive outcomes of care. VHA will continue to place high priority on assisting/enabling veterans with SCI to obtain discharge to non-institutional settings.

**Means and Strategies**

VHA is focused on promoting the health, independence, quality of life, and productivity of individuals with SCI. We view discharge to non-institutional, community living as a positive health outcome, a primary aim of this objective. Many of our treatment strategies and techniques have broader application to the general population who suffer from SCI.

In 2002, VHA improved the overall care of veterans with SCI and coordination of their discharges in the following manner:

- Improved access to care within patients' communities by opening 5 new SCI outpatient support clinics during 2002 for a total of 22 over the past 4 years. Fifteen SCI centers have



tele-health home care initiatives and nine have tele-health consultation. Eighty-six percent of VA medical centers without an SCI center have a designated SCI primary care team;

- Distributed clinical practice guidelines and consumer guidelines from the Consortium for Spinal Cord Medicine to all VA SCI centers;
- Conducted annual national SCI-primary care team training;
- Improved the Spinal Cord Dysfunction Registry to advance coordination of care;
- Achieved a Rehabilitation Accreditation Commission, known as CARF, for acute spinal cord injury and disorders (SCI&D) rehabilitation programs at 95 percent of SCI centers, with one remaining SCI center scheduled to be surveyed in 2003;
- Continued identification and translation of best practices in SCI&D by the Quality Enhancement Research Initiative for Spinal Cord Injury (SCI QUERI);
- Expanded direct outreach to patients with SCI&D to increase vaccinations for influenza (31 percent increase since 1996) and pneumococcal pneumonia (39 percent increase since 1996);
- Distributed Veterans Health Initiative SCI Continuing Medical Education Project information to physicians to enhance primary care knowledge of SCI&D issues.

## Crosscutting Activities

VHA works with the Paralyzed Veterans of America and other concerned veterans service organizations to continually improve VA SCI care. VHA is recognized as a health care leader for this special emphasis population. VHA will also continue to work towards complete, full CARF accreditation for all 20 SCI centers. This credible acknowledgement of an outside review body will help ensure consistency (clinical practice) and high-quality medical care.

## Data Source and Validation

The origin of data for this performance goal is from the National Patient Care Database Patient Treatment File at discharge. It is validated by each VA medical facility's routine validation of discharge information in the medical record. A non-institutional care setting includes community, foster home, halfway house, boarding house, residential hotel, and home-based health care services. It does not include hospitals, nursing home care units, state homes, domiciliaries, or penal institutions.

Note: Beginning in 2003, this SCI performance measure will no longer be a "key" measure. The strategic target of 95 percent for the SCI measure has been achieved every year since 1999 and it is anticipated VHA will maintain this target. It will be retained as a supporting performance measure and will continue to be tracked and reported. The new key measure will track the percent of veterans who were discharged from a Domiciliary Care for Homeless Veterans Program or a Health Care for Homeless Veterans Community-based Contract Residential Care Program to an independent or a secured institutional living arrangement.

**Objective**

**Provide timely and accurate decisions on compensation and pension rating-related claims within 100 days.**

**Performance Goals**

**Complete rating-related actions on compensation and pension (C&P) claims in an average of 208 days.**

*Definition: Elapsed time, in days, from receipt of a claim in the regional office to closure of the case by issuing a decision by a regional office. Rating-related actions include the following types of claims: original compensation, original disability pension, original dependency and indemnity compensation (DIC), reopened compensation, reopened pension, routine examinations, and reviews due to hospitalization.*

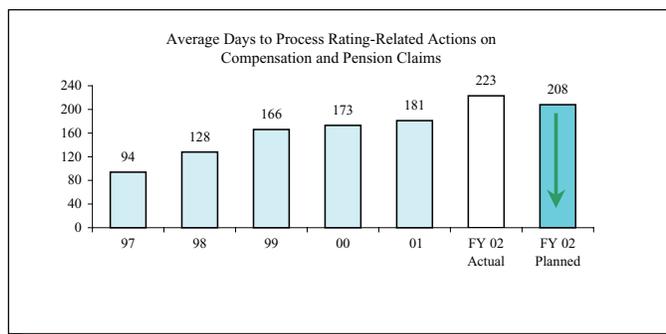
**Attain an 85 percent national accuracy rate for core rating work.**

*Definition: Nationwide, the percentage of original compensation, disability pension, death compensation, and DIC claims; reopened compensation and pension claims; and appellate actions completed and determined to be accurate with regard to benefit entitlement. The accuracy rate for the Nation is a compilation of the C&P Service's review of the 57 regional offices.*

**Claims Processing Timeliness**

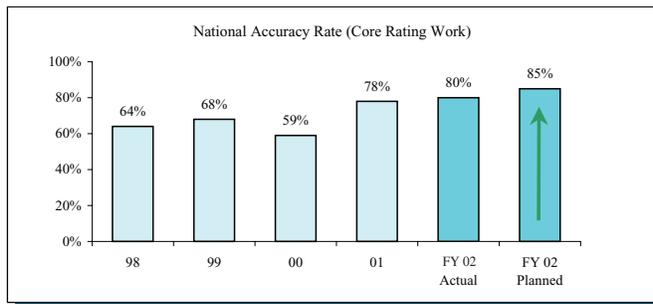
In light of our increasing pending workload, we decided in 2002 that the oldest pending claims should receive priority, particularly because many of these claims were from elderly veterans. We also set an average timeliness goal of 208 days. While the prior year's goal was 181 days, new laws that resulted in increased steps in the claims process required an adjustment of the expected time to complete the processing of a claim. In 2002, we succeeded in decreasing our claims backlog from 420,603 rating claims at the end of 2001 (excluding appeals) to 345,516 claims at the end of 2002 (excluding appeals). Moreover, we reduced the number of claims pending over 6 months and also reduced the age of our pending inventory. However, our average time to complete a rating-related claim was 223 days; this was primarily due to processing older pending claims first, which increased the cycle times used to calculate average

processing time. However, these reductions in the number of older pending cases should result in lower average processing times in the future. Our ability to significantly reduce the number of pending claims as of the end of 2002 was due to aggressive goal setting for our regional offices and enforced accountability. Finally, we significantly increased our capacity to produce rating decisions; the number of rating decisions completed during 2002 was, remarkably, almost 66 percent higher than the number completed in 2001.



## National Accuracy Rate

Despite increased complexity of the claims process due to new court decisions and new laws imposing additional steps in the claims process, we increased our accuracy rate from 78 percent in 2001 to 80 percent in 2002. While we did not attain our goal of 85 percent accuracy, we believe that this goal is still achievable when the large number of recent and newly trained employees gain additional work experience.



Reducing the amount of time it takes VA to release decisions, and payment if appropriate, as well as ensuring that the decision is accurate, improves a beneficiary's quality of life. If a beneficiary receives the correct payment for his/her entitlement, he/she can then use those benefits for his/her daily living expenses. For VA, it is important that beneficiaries receive an accurate decision the first time and in the shortest amount of time.

## Means and Strategies

During 2002, the Department continued to focus on improved performance in claims processing. Initiatives dedicated to this effort have been both numerous and diverse, but all with one common goal – improving the claims process to enhance the quality of lives of veterans and that of their families. In 2002, our most important efforts focusing on timeliness and accuracy of claims processing included the following:

- We began implementing the recommendations of the VA Claims Processing Task Force, which included changes to management and workforce, training, and quality. One of the key initiatives is

a team approach that introduces specialization to the claims process and reduces the variety of tasks each claims representative is required to perform daily. This structured workload management approach uses a triage team to process certain types of claims on the same day and immediately and accurately determine the next step in the process for incoming claims that need further action. This reduces the amount of time claims wait in a queue for further processing. Other teams are dedicated to completing other steps in the claims process, such as predetermination and rating, allowing employees to concentrate their specific skills on accurately gathering evidence to finalize the claim, and ensuring that the decision can be finalized without further turnaround.

- C&P continued to develop comprehensive training and performance support systems for the core service delivery positions. The modules in our Training and Performance Support System (TPSS) provide our decision-makers with an accessible training tool for new employees and employees needing refresher training. This results in consistency in training efforts for all 57 ROs.
- We enhanced our site survey process to better identify areas needing improvement in the claims process as well as best practices. Senior management uses the resulting report to evaluate the performance of a field office and its management.
- We developed operational workload management tools to assist the field offices in managing their workload. These tools, updated daily, contain detailed information needed on quality and timeliness. In addition, we are enhancing our inventory management tool that captures information about the status of claims for each step of the process. With these workload statistics, managers will be able to target areas for improvement.
- We enhanced the performance standards for various field positions (Decision Review Officer, Veterans Service Representative (VSR))

## Strategic Goal 1

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and Rating VSR (RVSR), and Regional Office Directors). With clearly defined performance standards, we can hold employees accountable for their areas of responsibility.

- VBA's Office of Field Operations manages Wellness Plans. Field offices that do not meet key C&P measures are asked to fully analyze and document root causes, and develop countermeasures to improve performance. These plans call for an action plan with milestones, timelines and success indicators for implementation of countermeasures.

VA has taken steps to offset the impact of legislative and regulatory changes on timeliness and accuracy by aggressively implementing countermeasures. We successfully implemented the following measures in 2002:

- VBA reached an agreement with the Board of Veterans' Appeals (BVA) concerning remand development. To reduce the number of cases being remanded to ROs, BVA personnel are gathering additional evidence on appeals claims rather than remanding them back to the field stations for this purpose. VBA personnel are completing ratings and awards on appeals when a partial grant of benefits results from a BVA decision in a case that will require further development. This effort has led to a remarkable downward trend in the remand rate from 49 percent in 2001 to 19 percent in 2002. As of the end of 2002, there were less than 21,700 cases in remand status at ROs as compared to 32,663 at the end of 2001. VBA has set a goal to reduce the remands to 1,000 cases nationwide by the end of 2003.
- The Tiger Team in Cleveland and the nine resource centers focused on processing specific types of claims, e.g., those for claimants over 70 years of age. The focus on older cases and older veterans has resulted in a significant decrease in the number of cases pending over 6 months old.
- In January 2002, VBA centralized pension maintenance processing and established three pension maintenance centers (PMCs) -- in Philadelphia, St. Paul, and Milwaukee. This

effort significantly streamlined the processing of eligibility verification reports (EVRs) as well as ensured uniform application of pension laws. Average days pending for processing EVRs improved from 197 days in 2001 to 128 days in 2002. Pension consolidation allowed the remaining field offices to concentrate on processing compensation claims.

- The Philadelphia PMC began to use Virtual VA (VVA) in late 2002. The VVA application allows us to place pension documents in an imaged environment. By so doing, the master file and the documents can be readily accessed by the PMCs.

VBA expects to implement the following countermeasures in 2003:

- The Modern Award Processing Development (MAP-D), an application designed to facilitate the evidence-gathering phase of claims processing, will be fully deployed in July. MAP-D allows employees to request the correct evidence needed to finalize a claim. This will not only improve accuracy but will contribute to improved timeliness because the evidence will be received correctly the first time without need for additional requests.
- The Milwaukee and St. Paul PMCs will be using Virtual VA by the end of the fiscal year.
- VBA will place full-time employees to work with homeless veterans at the 20 ROs with the largest homeless populations. These employees will ensure that evidence necessary to decide their claims is available. This focused effort to provide outreach will allow a decision-maker to make timely decisions.
- Completion of enhancements to the Rating Board Automation (RBA) 2000 application is expected by December 2002, and full usage of this application is expected by July 2003. The RBA 2000 tool facilitates the preparation of a rating decision, thereby reducing the amount of time spent on preparing a decision document.

### *Crosscutting Activities*

VA began several joint efforts with the Department of Defense (DoD) to facilitate our goals of improved

accuracy, timeliness, and customer service. In collaboration with DoD, we are working on an electronic data exchange system as well as a joint examination process at the time of separation from service. When implemented, both efforts should reduce the number of days it takes us to process a claim because the time to receive necessary evidence will also be reduced. If VA is able to instantaneously access service medical records as well as service files, the delay time waiting for the paper copies will be significantly reduced.

The Benefits Delivery at Discharge (BDD) process, which we began in 1995, serves 133 military bases through 42 VBA ROs. In the BDD process, a veteran's separation exam also serves as the C&P exam needed to process a claim for benefits. The total number of BDD exams completed in 2002 was 27,111. When VA accepts claims from military separatees at the BDD sites, we can also provide them with individual assistance to gather the information and evidence that is needed to complete their claims. These claims are complete when they reach the RVSRs, allowing them to promptly make a decision.

### External Factors

There are multiple factors external to VBA that may be wholly or partially beyond its control or influence. Two external mandates that significantly impact the way VBA processes claims include legislation and decisions by the U. S. Court of Appeals for Veterans Claims. Over the past several years, while legislative changes and Court decisions have been beneficial for veterans and their dependents, they have increased workload levels and often resulted in more complex claims. One example is the Veterans Claims Assistance Act (VCAA) of 2000. VCAA (P.L. 106-475) enables and defines VBA's duty to assist claimants who file substantially complete claims for VA benefits. That statutory duty to assist includes:

- making exhaustive efforts to obtain all relevant evidence in the custody of a federal department or agency, including VA medical records, Service Medical Records, Social Security

Administration records, or evidence from other federal agencies;

- making multiple attempts to obtain private records and lay or other evidence;
- a duty to examine veterans or obtain a medical opinion if the examination or opinion is necessary to make a decision on a claim for compensation.

In addition, Congress enacted two significant outreach bills in 2002. The Improvement of Veterans Outreach Programs Act (P.L. 107-103) extends general outreach. The Homeless Veterans Comprehensive Assistance Act of 2001 (P.L. 107-95) focuses on homeless veterans.

Diabetes type II was recently added as a disability presumptive to herbicide exposure in the Republic of Vietnam. As did diabetes, any future presumptive disabilities recognized to be the result of environmental hazards will have a similar significant impact on workloads. Due to the nature of the current war on terrorism and biological warfare concerns, we expect any future presumptive disabilities to have a huge impact on workloads.

The court case of *Nehmer v. United States Veterans' Administration* has also had a tremendous impact on workloads and timeliness. Rulings by a California U.S. District Court require VA to review previously decided claims for compensation for diabetes (and other Agent Orange-related disease cases) and assign an earlier effective date where applicable. Such requirements have caused us to readjudicate thousands of cases. This means that with existing resources, we must process cases that were not originally part of the expected normal workload. Under our legal requirements, we have:

- readjudicated 13,500 cases to provide for an earlier effective date;
- sent notices to about 1,700 potential diabetes claimants advising them how to file a claim under the new regulation and their rights and responsibilities;
- provided notice to 1,440 claimants who were

denied benefits due to diabetes when their claims were readjudicated to allow for an earlier effective date;

- requested several hundred folders from the Federal Records Center and ROs for review by the plaintiffs' attorney;
- identified addresses for over 1,200 veterans to whom notice must be provided.

If the United States engages more frequently in high-risk peacekeeping missions, we will be faced with the potential for new and complex disability claims. Additionally, with the Nation's increasing reliance on the Reserve forces, not only is there a larger pool of potential claimants due to call ups, but also Congress may look with increasing favor on expanding VA eligibility to the Reserve forces as a whole. It is likely that future mandates will impact workload levels and add complexity to the claims process.

## **Major Management Challenges**

GAO and the VA IG have identified timeliness and accuracy of claims processing as challenges for VA's compensation and pension programs. The timeliness and quality of C&P medical examinations are also cited as needing improvement.

### *Accuracy of the Claims Process*

Accuracy continues to be a high priority within VBA. A more extensive training program comprised of TPSS modules and a centralized training curriculum, along with an expanded accuracy review process, has been developed to accomplish the necessary level of accuracy.

### *Claims Processing Timeliness*

VA is committed to reducing the time to process veterans' claims. Several information technology initiatives, such as SHARE, Virtual VA, MAP-D, and RBA 2000, as well as joint endeavors with DoD are expected to aid in attaining our goal of 100 days processing time by summer 2003.

### *Timeliness and Quality of Compensation and Pension Medical Examinations*

We continue to integrate initiatives such as pre-discharge centers and the VBA/VHA examination project office to improve the examination process.

## **Data Source and Validation**

### *Claims Processing Timeliness*

The timeliness of claims processing is measured using data captured automatically by the Benefits Delivery Network as part of claims processing.

VA has taken several steps to ensure it has accurate and reliable data in its reports. A database of all end-product transactions is maintained and analyzed on a weekly basis to identify questionable actions by ROs. The C&P Service reports quarterly on its findings and calls in cases for review from stations with the highest rates of questionable practices. The findings are shared with VBA senior management to ensure accountability of the claims process. Station directors are asked to explain any anomalies. As a result, claims processing timeliness indicators are used at all levels of the organization as a basis for decision-making. The data are considered by most managers to be reliable.

### *National Accuracy Rate*

VBA's quality assurance program for compensation claims processing has been revised to separately identify accuracy of benefit entitlement processing, decision documentation/notification, and other administrative issues.

In October 2001, the Systematic Technical Accuracy Review (STAR) program revised the values for the areas that comprise the accuracy rate. The national values focused on benefit entitlement issues. For rating-related issues, these areas include issues claimed, effective dates, payment rate, application of VCAA, and proper evidence gathering. For non-rating claims, these

areas include effective dates, payment rates, and income dependency issues.

The sample size of claims reviewed is large enough to ensure a 95 percent confidence level with a sampling error rate of +/- 5 percent for the Nation. The RO sample size ensures a confidence level of 95 percent, with a margin of error range from +/- 6 percent for best performing ROs to +/- 9 percent for ROs with the lowest performance rates. The sample size is increased for the six ROs with the

poorest documented performance in both rating and authorization, reducing the margin of error to +/- 6 percent on the subsequent review. The sample is also increased for the four largest ROs. Trained reviewers use a standardized process and set of quality review criteria to calculate performance. As a result, the interpretation and assessment of case quality is consistent, reliable, and useful for supporting management decisions at multiple levels of the organization.

*Objective*

**Provide all service-disabled veterans with the opportunity to become employable and obtain and maintain suitable employment, while providing special support to veterans with serious employment handicaps.**

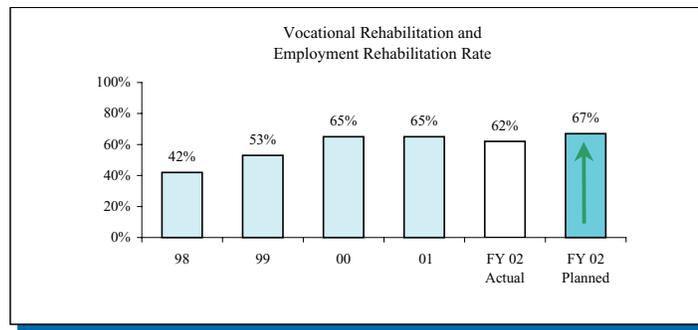
*Performance Goal*

**At least 67 percent of all veteran participants who exit the vocational rehabilitation program will be rehabilitated.**

*Definition: The percentage of veterans who acquire and maintain suitable employment and leave the program, compared to the total number leaving the program. For those veterans with disabilities that make employment infeasible, Vocational Rehabilitation and Employment (VR&E) seeks to assist them to become independent in their daily living.*

The rehabilitation rate (those individuals who have exited the program achieving employment or independence in daily living) in state, federal and private sector programs is a measure of the program's effectiveness. Although the VR&E program did not reach its 2002 national goal of 67 percent, rehabilitation was achieved for 62 percent of the veterans. Following are reasons for not achieving the goal:

- The number of rehabilitations has been on a steady increase over the past few years with the exception of a slight decrease in 2001. Overall, the number of rehabilitations has been greater than 10,000 for the past 4 years. However, the number of individuals who leave the program without fully completing their rehabilitation plan -- achieving suitable employment or independence in daily living -- increased in 2002.
- Many employers were forced to cut jobs and curtail hiring during 2002. This led to an environment in which fewer employment opportunities were available in many areas of the country.



**Means and Strategies**

VR&E accomplished the following initiatives or activities to enhance the rehabilitation rate:

- Staffing levels were increased at ROs as well as other locations within the community in order to provide veterans convenient and easy access. Also, new equipment enabled case managers to access systems and data needed to provide a complete range of services to veterans at the time of counseling.
- Communications to veterans and stakeholders were improved through distribution of a video to employers and secondary information providers that illustrates how VR&E assists veterans with the program. Also, staff developed a full-color wall calendar that provides visual reinforcement for the “Working

Partner” theme in the offices of employers and other VR&E stakeholders.

- Training in employment services for employees as well as veterans continued. Employment specialists were enrolled in an accredited program through the George Washington University. Training programs were designed to improve the staff’s ability to assist veterans in achieving suitable employment more quickly and efficiently.
- Corporate WINRS (named after ROs in Waco, Indianapolis, Newark, Roanoke, and Seattle), the case management information system, was fully deployed in August 2001. The new system provides VR&E with a national database containing important information and data about program participants. It also automates a number of manual processes and provides case managers with features such as: automated eligibility determination processing, case management tracking, vendor payments via VA’s financial management system, access to the national database at all ROs and out-based locations, generation of routine letters, and electronic transfer of veterans records between offices. This system has improved the processing of cases and timeliness of services to veterans. VR&E utilized the new information case management system for its first full year.
- The Employment Specialist pilot program demonstrated a positive means for assisting veterans to achieve employment. As a result, field offices continue to realign the composition of their staff to include an employment specialist position. The employment specialist works with veterans and community businesses to assist veterans in preparing for and obtaining employment.
- VR&E’s Economic Shifts Task Force recommended the use of longitudinal studies or an outcome-based assessment framework for examining the efficacy of the Chapter 31 program for veterans with service-connected disabilities. The Chapter 31 program provides

for all services and assistance necessary to enable veterans with service-connected disabilities to achieve maximum independence in daily living and, to the maximum extent feasible, to become employable and to obtain and maintain suitable employment. This framework will allow for making outcome comparisons according to the characteristics of the individual as well as the region in which they reside and the “health” of the economy at the time.

Additional measures will be used in the future to better link rehabilitation activities to outcomes. There will be three new outcome-oriented measures and one efficiency measure in 2003. The outcome measures are: 1) percent of participants employed during the first quarter after program exit, 2) percent of participants still employed three quarters after program exit, and 3) percent change in earnings from pre-application to post-program employment. The efficiency measure is the average cost of placing participants in employment. With these measures we will be in a much stronger position to assess VR&E’s outcomes.

### External Factors

The strength of the economy affects the program’s ability to assist veterans in obtaining and maintaining suitable employment. Many employers have begun to downsize and are choosing to reduce the number of employees and freeze hiring.

### Crosscutting Activities

During 2001, VR&E -- in partnership with DoD’s Defense Manpower Data Center -- developed a Transferable Work Skills Analysis program to assist VR&E staff in analyzing and converting military skills to civilian skills in support of obtaining employment. VR&E Service will continue the partnership with DoD to further enhance the program.

VR&E developed a strategy that allows staff to provide veterans quick, convenient access to information and services regardless of when or where they need assistance. Improved use of the

Internet connects staff and veterans with each other as well as provides needed information on employment resources, including America's Job Bank. In 2002, the second year of this initiative, funds were distributed to stations that submitted a proposal to either expand an existing out-based office or establish a new office. The program will continue to expand these services to veterans in 2003.

The National Acquisition Strategy (NAS) program is designed to provide veterans with services specifically to meet their individual needs under a performance-based contract. This type of contract will improve quality and increase the effectiveness of services to support veterans in achieving their desired outcome. Also, NAS helps support the program's data integrity requirement, as well as the OIG, and is in compliance with federal acquisition regulations. NAS will decrease administrative burden on field staff in the development and issuance of contractor solicitations, provide consistency among stations in contractor administration, provide flexibility to increase or decrease contracting support due to workload demands, and provide clear guidance to the field regarding contracting and acquisition policies and procedures. This will allow for more direct staff-to-veteran contact in assisting veterans in obtaining employment or independence in daily living. This pilot program was evaluated in 2002 to determine the feasibility of national deployment and was found to be successful. NAS was deployed throughout our 57 ROs during 2002 and became effective the beginning of 2003.

## Data Source and Validation

The VBA balanced scorecard and VR&E management reports serve as data sources. Data are validated by the quality assurance review conducted by each station and by VR&E Service. VR&E implemented a quality assurance program to review samples of cases for accuracy and to provide scoring at the RO level. The program continually extracts samples of data to evaluate validity and reliability throughout the year.

Also, a review of balanced scorecard data is completed monthly. VR&E provides training to clarify policies and procedures when a discrepancy is noted. This training may be conducted at a local RO level or at regional training sessions.

Additionally, VR&E implemented a quality assurance program to ensure quality and accuracy of services are provided to every VR&E program participant. Reviews are conducted on a sample of cases from the ROs twice a year. At the end of each review, offices are provided documentation of both positive and negative results in order to ensure sustained performance or the addition of countermeasures to improve performance.

VR&E Service underwent an IG audit on the accuracy of VA data used to compute the rehabilitation rate for 2000. The review addressed recommendations in the areas of quality of outcome decisions, strengthening oversight, and training. Preliminary discussions support full concurrence on the findings, and the recommended actions will be implemented. Results of the implementation plan will be discussed in next year's report.

*Objective*

**Improve the standard of living and income status of eligible survivors of service-disabled veterans through compensation, education, and insurance benefits.**

VA's compensation program provides monthly payments to surviving spouses, dependent children, and dependent parents in recognition of the economic loss caused by a veteran's death during military service or, subsequent to discharge from military service, as a result of a service-connected disability. Through these payments the Department assisted in improving the economic status of more than 300,000 surviving spouses and family members during 2002. The average annual benefit payment was about \$12,500.

The Department also provides education benefits to children and spouses of veterans who died of a service-connected disability or whose service-connected disability is rated permanent and total. These education benefits place the family members

in a better position to find suitable employment and ultimately improve their economic standing. During 2002, VA furnished education and training benefits to over 52,000 dependents with an average annual benefit of over \$4,100.

VA's insurance program offers life insurance benefits to veterans and servicemembers who may not be able to obtain commercial insurance due to lost or impaired insurability resulting from military service. The Department paid approximately \$1.1 billion in death claims during 2002, thus easing the economic impact on survivors of service-disabled veterans.

There are currently no key performance measures associated with this objective.

## STRATEGIC GOAL

2

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

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.

The following table identifies estimates of the total resources devoted to this strategic goal and its associated objectives:

Resources by Goal and Objective	FY 2002 Obligations	% of Total VA Resources
<b>Total VA Resources</b>	<b>\$58,899</b>	
<b>Strategic Goal</b>		
Ensure a smooth transition for veterans from active military service to civilian life.	<b>\$3,361</b>	<b>5.7%</b>
<b>Objective</b>		
<i>Ease the reentry of new veterans into civilian life by increasing awareness of, access to, and use of VA health care, benefits and services.</i>	<b>\$730</b>	<b>1.2%</b>
<i>Provide timely and accurate decisions on education claims and continue payments at appropriate levels to enhance veterans' and servicemembers' ability to achieve educational and career goals.</i>	<b>\$1,590</b>	<b>2.7%</b>
<i>Improve the ability of veterans to purchase and retain a home by meeting or exceeding lending industry standards for quality, timeliness, and foreclosure avoidance.</i>	<b>\$1,042</b>	<b>1.8%</b>

Three key performance measures enable us to determine 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

*Objective*

**Ease the reentry of new veterans into civilian life by increasing awareness of, access to, and use of VA health care, benefits and services.**

VA conducts a variety of outreach activities for separating military members and veterans to inform them of available services and benefits. Through specialized mailings and personal telephone calls, the Department ensures that severely disabled veterans are aware of their entitlement to VA insurance products specially designed for individuals with disabilities. In addition, 99 percent of veterans using Vet Centers reported during 2002 that they were satisfied with services such as readjustment counseling and said they would

recommend a Vet Center to other veterans. Also, VA partners with the DoD in a new Benefits Delivery at Discharge program. This program offers guidance to active duty service personnel concerning potential benefits to which they may be entitled and contributes to more timely processing of actual claims for benefits.

There are currently no key performance measures associated with this objective.

*Objective*

**Provide timely and accurate decisions on education claims and continue payments at appropriate levels to enhance veterans' and servicemembers' ability to achieve educational and career goals.**

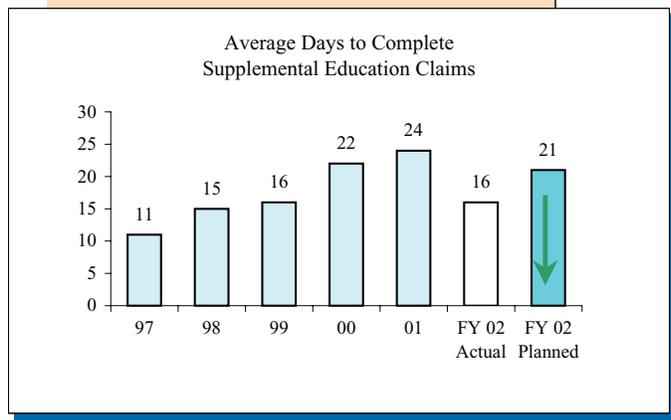
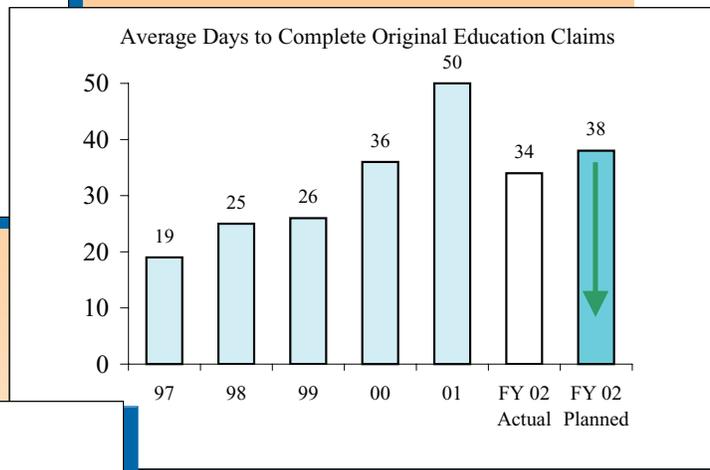
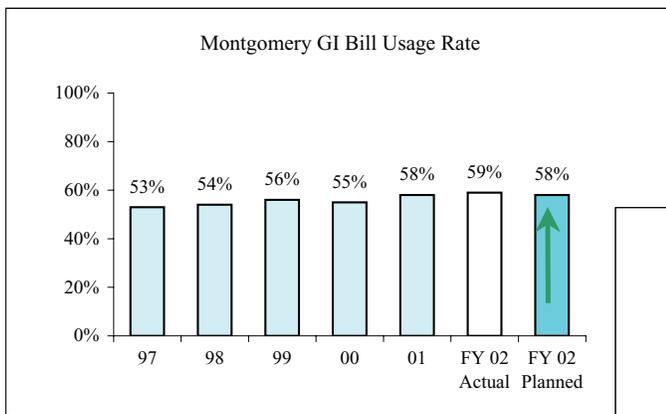
*Performance Goals*

**Increase the Montgomery GI Bill (MGIB) usage rate to 58 percent.**

*Definition: The percent of eligible veterans who have ever used their earned benefits.*

**Process original and supplemental education claims in 38 and 21 days, respectively.**

*Definition: Elapsed time, in days, from receipt of a claim in the regional office to closure of the case by issuing a decision. Original claims are for first-time use of this benefit. Supplemental claims are for any re-enrollment.*



### *Increase the MGIB Usage Rate*

In the 2001 report, the MGIB usage rate was estimated to be 56%. The actual usage rate for 2001 was 58%. We estimate that the usage rate for 2002 will be 59 percent, one percentage point over our 2002 goal.

While there is no measure in place that clearly identifies the cause of changes in the MGIB usage rate, the new claims for tuition assistance Top-Up and the rate increases enacted in the Veterans Education and Benefits Expansion Act of 2001, Public Law 107-103, most likely contributed to the increased MGIB usage.

The MGIB is the education program for individuals initially entering active duty after June 30, 1985. MGIB was enacted not only to help with the readjustment of discharged servicemembers, but also to support the concept of an all-volunteer armed force. Payments for MGIB benefits currently represent 76 percent of VA educational assistance payments. There were 323,165 individuals who received MGIB benefits in 2002. This is 33,000 more claimants who received benefits than in 2001.

MGIB benefits offer the potential to improve the lives of veterans. Higher participation in education programs will lead to more veterans earning a degree or certificate, which will enable them to find suitable employment, and ultimately contribute to their improved economic status. MGIB is available to honorably discharged veterans and to servicemembers. Although there are several categories of eligibles, generally veterans must:

- meet their basic service requirement,
- have completed a high school education or its equivalent, and
- receive an honorable discharge.

MGIB is a contributory program. Service pay is automatically reduced by \$100 per month for 12 months unless the service person declines to participate at the time of enlistment. Individuals

on active duty must complete a minimum of 2 years of continuous active duty to be eligible.

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. By the end of 2002, payment of MGIB benefits for 1,552 tests were approved. MGIB benefits for licensing and certification tests were paid to 3,217 people in 2002.

The National Defense Authorization Act of 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. More than 30,000 servicemembers received the Top-Up benefit during 2002. 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. During 2002, VA made about 5,000 Top-Up payments each month. The number of Top-Up claims may decrease in 2003 due to a change in the amount of tuition assistance DoD will pay.

### *Improve Education Claims Processing*

Improvement trends that began during the final 3 months of 2001 continued through 2002. Original claims in 2002 were completed in an average of 34 days compared to our goal of 38 days and a rate of 50 days in 2001. Supplemental claims were completed in an average of 16 days, which surpassed our goal of 21 days. In 2001, we achieved a rate of 24 days for supplemental claims processing.

## Means and Strategies

### *Increase the MGIB Usage Rate*

During 2002, 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. A program evaluation for VA’s education benefit programs completed in 2000 cited timing of the release of promotional materials as a possible cause for low usage of MGIB benefits. Therefore, we developed an outreach letter and brochure to be sent to servicemembers after they have been in service for 2 years. We also developed a “near discharge” outreach letter and brochure to send to servicemembers within 6 months before discharge from active duty.

Toll-free phone service was maintained during the year. Seasonal employees and education liaison representatives answered calls to help reduce the number of blocked calls.

We improved access to information on our Internet site by installing an inquiry system, called “RightNow Web eService Center.” This system is designed to provide an Internet user with answers to his or her questions online through the use of a searchable question and answer database. The user can also submit a question if the answer is not found in the database. During the first month of use, RightNow Web had over 53,000 user sessions. Approximately 50,600 of these users found the information they were seeking in the database. Only 2,400 questions were submitted to the VA regional processing offices (RPOs) to answer. This equates to a site effectiveness of 95.5 percent.

We conducted briefings for Army and Navy recruiters to ensure they have correct and current information. According to the 2001 customer

satisfaction survey, 42 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 give enough information to begin planning for education or training after military service.

Our increased outreach efforts, started in 2002, focused on getting information to active duty servicemembers. In 2003, we will continue this increased outreach to servicemembers and will give attention to potential claimants who are no longer in service. Our plans for 2003 include:

- An after-discharge letter that gives the veteran his or her eligibility information;
- Periodic mailings during the 10 years after discharge to veterans who are not using their MGIB benefits; and
- Special brochures covering such topics as high school requirements and college fund issues.

We are also writing an Education Services officers manual for distribution in summer 2003. This manual will provide information to properly advise servicemembers and students and help them claim VA education benefits.

### *Improve Education Claims Processing*

We continued improvements in Electronic 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 to 4 percent of all incoming work is completely processed this way. A more sophisticated rules-based application will allow many more claims to be completed without human intervention.

One hundred new claims examiners were hired in late 2001. This contributed to the improved processing timeliness.

Seasonal employees and education liaison representatives were used to relieve case managers from phone duty, freeing them for claims processing. Seasonal employees proved to be most beneficial during peak workload periods (August-October and January-February).

We realigned jurisdictional boundaries by moving Louisiana and Arkansas into the Muskogee RPO area to better match resources with workload. We also made judicious use of overtime to stabilize the pending workload. Since the education business line receives the majority of its work during the spring and fall enrollment periods, we schedule overtime during these weeks in anticipation of the increased incoming work in order to keep the pending workload under control. In addition, we adjust our overtime usage if incoming work is higher or lower than we anticipated. For example, the incoming work in August was higher than we predicted. We therefore scheduled an extra weekend of overtime in September to reduce the pending workload.

## External Factors

### *Increase the MGIB Usage Rate*

Legislation enacted in early 2002 resulted in a 23 percent increase in monthly benefit rates. This same legislation requires the state approving agencies to conduct outreach programs and provide outreach services to eligible veterans. As time passes, these changes will effect an increase in the number of veterans who apply for and receive MGIB benefits.

A second piece of legislation enacted in early 2002 permits military services to allow servicemembers to transfer MGIB entitlement to dependents. The increase in usage rate will depend on DoD's use of this transferability option.

### *Improve Education Claims Processing*

Legislation enacted in early 2002 will have a dramatic effect on VA education benefits. Provisions such as the acceleration of payment for high-technology courses, and transferability of entitlement to dependents could, over time, generate a significant number of new claims. Accelerated

payment claims will be processed "out-of-system" for the foreseeable future until systems can be modified to accommodate such claims. Out-of-system processing adversely affects timeliness for those claims by adding a few extra days to the workflow process. Transferability claims will be processed in the system but will also require additional procedural steps.

## Crosscutting Activities

### *Increase the MGIB Usage Rate*

Increasing the MGIB usage rate requires coordination among VA, DoD, and other organizations disseminating MGIB information. In 2002, we continued briefing Army and Navy recruiters to help them give recruits a clear and realistic view of MGIB benefits. We also added a page to our Internet site containing current Transition Assistance Program (TAP) information and resources. Military counselors who give TAP briefings to servicemembers nearing discharge find this site helpful.

### *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. To improve overall processing time, VA developed an electronic education certification program (VACERT) that allows schools to send enrollment certifications to VA regional processing centers electronically. At this time, over half of all schools use VACERT. It is currently being redesigned as an Internet application (eCERT), which will make the application more attractive to schools. This system will be tested and deployed in early 2003.

In addition, we continued to offer "new certifying official" training in 2002 and will continue in 2003. We presented this Internet-based course five times during the year. Seventy-five new school certifying officials took the course. Certifying officials are employed by educational institutions to serve the veteran/student and 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 VBA's 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. Dates of claims are reviewed in the sample cases to ensure they are reported accurately.

Each year, Central Office staff reviews a sample of cases from each of the four RPOs. Samples are selected randomly from a database of all quarterly end products. Since the cases are reviewed remotely through use of The Imaging Management System (TIMS), 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. Errors are reported to the RPOs and trends are tracked. The RPOs are given a chance to rebut declared errors. 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. All aspects of the operation are reviewed including quality and consistency of data input.

*Objective*

**Improve the ability of veterans to purchase and retain a home by meeting or exceeding lending industry standards for quality, timeliness, and foreclosure avoidance.**

*Performance Goal*

**Improve the Foreclosure Avoidance Through Servicing (FATS) ratio to 39 percent.**

*Definition: The FATS ratio measures the effectiveness of VA supplemental servicing of defaulted guaranteed loans. The ratio measures the extent to which foreclosures would have been greater had VA not pursued alternatives to foreclosure.*

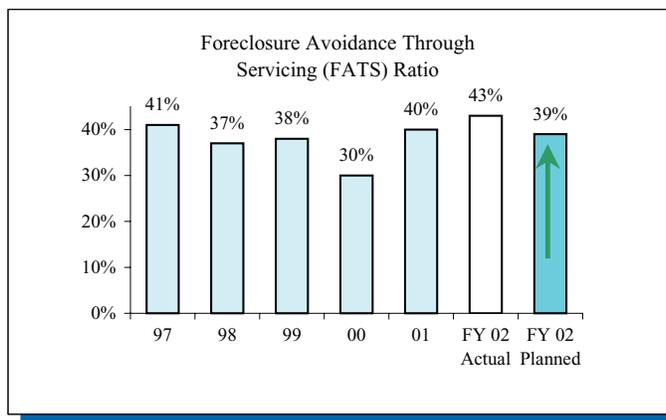
VA’s home loan guaranty program has a significant impact on the housing economy of the United States. Over 16 million veterans and their families have used a guaranty since 1944; there are currently 3 million active loans. Veterans are able to purchase homes with little or no down payment and with terms 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 measures the extent to which foreclosures would have increased had VA not pursued alternatives to foreclosure. These alternatives can help veterans either keep 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



The FATS ratio for 2002 was 43 percent, which substantially exceeded the planned level of 39 percent.

compromise claim for the difference in order to complete the sale.

Much of the improvement in 2002 can be attributed to restructuring field operations over the last several years. We have moved the supplemental servicing from 45 ROs to 9 regional loan centers. This has allowed for concentration of staff and provides much greater flexibility to manage default workloads.

We have also approved more lenders to participate in the Servicer Loss Mitigation Program (SLMP), which authorizes compromise sales and deeds in lieu of foreclosure. Greater use of SLMP allows VA staff to work more intensely on intervention actions. 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 enables greater veteran involvement in the loan origination process.

### **Major Management Challenges**

In 2002, VA completed a 13-month business process reengineering initiative that consisted of a review of all processes and procedures involving VA primary and supplemental servicing activities. As a result of this initiative, we have finalized a blueprint for the future that will standardize all servicing activities nationwide. The new business model will enable us to place more emphasis on loss mitigation and foreclosure avoidance. The result will be an increased number of veterans retaining homeownership and increased savings to the Government. We are now ready to move into phase two of the initiative, which is implementation of the reengineered processes. This will require approval of an extensive regulatory package and development of the new information technology servicing system needed to support the new business model. We anticipate full implementation will be accomplished by the end of calendar year 2003.

### **Data Source and Validation**

Data used to calculate the FATS ratio are extracted from the Loan Service and Claims System, which is used to manage defaults and foreclosures of VA-guaranteed loans.

## STRATEGIC GOAL

# 3

*Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.*

VA will work to ensure that veterans have dignity in their lives, especially in time of need, through the provision of health care, pension programs, and life insurance; and the Nation will memorialize them in death for the sacrifices they have made for their country.

This table identifies estimates of the total resources devoted to this strategic goal and its associated objectives:

Resources by Goal and Objective	FY 2002 Obligations	% of Total VA Resources
<b>Total VA Resources</b>	\$58,899	
<b>Strategic Goal</b>		
Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.	\$16,776	28.5%
<b>Objective</b>		
<i>Provide high quality, reliable, accessible, timely and efficient health care that maximizes the health and functional status for all enrolled veterans, with special focus on veterans with service-connected conditions, those unable to defray the cost, and those statutorily eligible for care.</i>	\$11,066	18.8%
<i>Process pension claims in a timely and accurate manner to provide eligible veterans and their survivors a level of income that raises their standard of living and sense of dignity.</i>	\$3,405	5.8%
<i>Maintain a high level of service to insurance policy holders and their beneficiaries to enhance the financial security of veterans' families.</i>	\$2,006	3.4%
<i>Ensure that the burial needs of veterans and eligible family members are met.</i>	\$214	0.4%
<i>Provide veterans and their families with timely and accurate symbolic expressions of remembrance.</i>	\$85	0.1%

Several key performance measures enable us to determine progress toward achieving this strategic goal:

- Chronic Disease Care Index II
- Prevention Index II
- Patient satisfaction with health care service
- Patient safety – bar code medication administration
- Balanced Scorecard: Quality-Access-Satisfaction-Cost
- Waiting times for appointments and treatments
- Timeliness of pension claims processing
- Average days to process insurance disbursements
- Percent of veterans served by a burial option
- Quality of service provided by national cemeteries
- Timeliness of marking graves

*Objectives*

**Provide high quality, reliable, accessible, timely and efficient health care that maximizes the health and functional status for all enrolled veterans, with special focus on veterans with service-connected conditions, those unable to defray the cost, and those statutorily eligible for care.**

*Performance Goals*

**Perform at 78 percent on the Chronic Disease Care Index II.**

**Definition:** *The CDCI II measures how well VA follows nationally recognized clinical guidelines for the treatment and care of patients with one or more of the following high-volume diagnoses: ischemic heart disease, hypertension, chronic obstructive pulmonary disease, diabetes mellitus, congestive heart failure, major depressive disorder, and tobacco use cessation. Within the Index, each indicator's numerator is the number of patients in the random sample who actually received the intervention they were eligible to receive. The denominator for the calculation is a random sample of the number of patients who are eligible for the intervention. The overall Chronic Disease Index score is comprised of the percent compliance for each indicator summed and divided by the number of individual indicators.*

**Perform at 80 percent on the Prevention Index II.**

**Definition:** *This index charts the outcomes of nine medical interventions that measure how well VA follows national primary-prevention and early-detection recommendations for several diseases or health factors that significantly determine health outcomes: immunizations for both pneumococcal pneumonia and influenza; screening for tobacco and problem alcohol use; cancer screening for colorectal, breast and cervical cancer; screening for hyperlipidemia; and counseling regarding the risks and benefits of prostate cancer screening. Within the Index, each indicator's numerator is the number of patients in the random sample who actually received the intervention they were eligible to receive. The denominator for the calculation is a random sample of the number of patients who are eligible for the intervention.*

**Increase to 66 percent the proportion of inpatients and maintain at 67 percent the proportion of outpatients rating VA health care service as “very good” or “excellent.”**

**Definition:** *The survey consists of a sample of inpatients and a sample of outpatients who respond to a question on the semi-annual inpatient and the quarterly outpatient surveys. The numerator consists of a sample of inpatients and a sample of outpatients who rate their overall quality of care as very good or excellent. The denominator is the total number of inpatients or outpatients in the sample who responded to the survey.*

**Increase to 100 percent the number of facilities that have a Bar Code Medication Administration (BCMA) contingency plan and conduct test of plans annually.**

**Definition:** *BCMA is a computer program that electronically documents medications at the bedside or other points of care using bar code technology. If the computer system were to fail, it would present a single-point vulnerability for medication administration, and facilities need to have in place an adequate contingency plan for loss of BCMA. Facilities must have a back-up plan to safely continue medication administration in the event of an internal disaster. This measure addresses a system issue affecting all medical centers, and ensures a smooth transition to the contingency medication administration process under various system-failure scenarios. The numerator is the number of VA medical facilities that have developed and tested their plan, and the denominator is the number of facilities that administer medication using bar code technology.*

**Increase the Balanced Scorecard: Quality-Access-Satisfaction-Cost to 101 percent.**

**Definition:** *The VHA Balanced Scorecard provides a framework for translating VHA's strategic objectives into performance measurements driven by key performance measures. The sources of data for these performance measures are the same as those identified for the specific components comprising the measures – Chronic Disease Care Index II; Prevention Index II; inpatient and outpatient satisfaction; waiting times for primary care and specialty clinics; and wait times to see a provider. The cost element is obligations per unique patient in constant dollars. All four components in the scorecard are of equal weight (each component is 25 percent of the total). Progress toward the goal is identified as well as areas where the goal is exceeded.*

**Increase the percent of primary care appointments scheduled within 30 days of the desired date to 88 percent.**

**Increase the percent of specialist appointments scheduled within 30 days of the desired date to 85 percent.**

**Definition:** *Waiting time is the number of days between the date the patient would like the primary care clinic appointment or specialty clinic appointment and the date that appointment is actually scheduled. This measure currently includes return visit scheduling only and does not portray the wait experience of new enrollees and new patients.*

**Increase the percent of patients who report being seen within 20 minutes of their scheduled appointments at VA health care facilities to 70 percent.**

**Definition:** *Patients seen in an outpatient clinic are asked in a survey, "How long after the time when your appointment was scheduled to begin did you wait to be seen?" This is done as part of the quarterly outpatient satisfaction survey and responses are tabulated to establish the percent of patients who reported waits of 20 minutes or less.*

### Strategic Goal 3

VA's quality program ensures system-wide delivery of health care based on the best scientific evidence for clinical practice and is the benchmark in quality for numerous areas when compared with other health care systems. A recent report from the Institute of Medicine, *Leadership by Example*, praised VA's use of performance measures to improve quality in clinical disciplines.

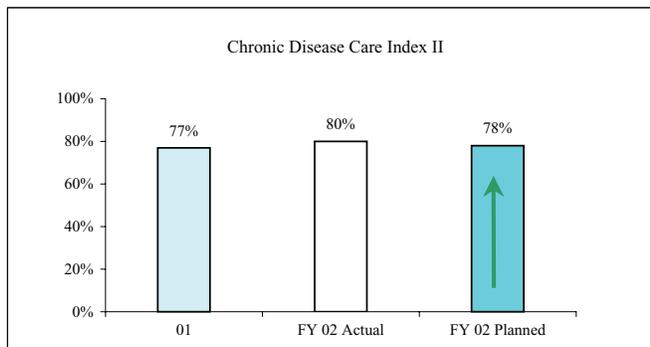
The measures discussed below address our commitment to provide quality, accessible, timely and safe health care through our continuous improvement process.

### Quality

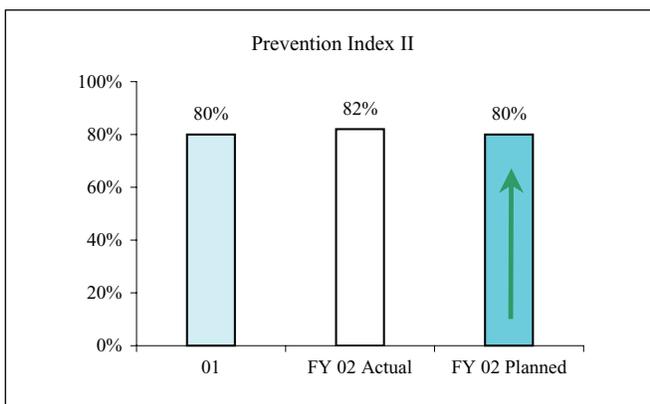
These performance goals address VA's priority of providing high-quality medical care that meets or exceeds community standards. VHA ensures that its policies are carried out through a strategic management framework that relies on performance goals and a performance measurement program that monitors progress and promotes accountability. The management framework is comprised of six domains of quality: quality of care, patient satisfaction, functional status, access, cost efficiency, and building healthy communities.

### Chronic Disease Care Index II and Prevention Index II

VA surpassed the goal for the Chronic Disease Care Index II by achieving 80 percent and exceeded the goal for the Prevention Index II by achieving 82 percent by continuing to emphasize the importance of the many clinical practices that comprise these aggregated index measures. Use of these clinical practice guidelines is directly linked to improved health outcomes. Emphasis on these important areas of quality will continue to be a cornerstone of clinical performance measurement for the Department. The purpose of emphasizing effective chronic disease management is to improve the health of veterans while reducing the use of services and enhancing efficiency. Since a large percentage of veterans seek care for one or more chronic diseases, improved management of chronic disease results in reduced inpatient costs, admissions, and lengths of stay.



A new methodology was adopted for FY 2001. Therefore, prior year comparisons are not available.



A new methodology was adopted for FY 2001. Therefore, prior year comparisons are not available.

The Chronic Disease Care Index II follows nationally recognized guidelines for the following high-volume diagnoses: ischemic heart disease, hypertension, chronic obstructive pulmonary disease, diabetes mellitus, congestive heart failure, major depressive disorder, and tobacco use cessation. Twenty-one medical interventions are used as assessments. The index provides a comprehensive representation of chronic care management.

VA has designed the Prevention Index II to include several indicators that allow a comparison of VA and private health care outcomes. In 16 of the 18 indicators that have data comparable to managed care organizations and population-based surveys,<sup>1</sup> VA is the benchmark exceeding the best competitor's performance. In many cases, VA has moved from the comparative measure to require more stringent indicators of care. For example, evidence shows patients who have had heart

attacks have less risk of additional heart attacks and death if they take beta-blockers. The Health Plan Employer Data Information Set (HEDIS) comparative indicator measures whether patients who have had a heart attack have a prescription for

a beta-blocker upon discharge from the hospital. VA's performance on this measure has been in the 90 percent range for several years. The most recent results of the 18 comparable indicators are as follows:

MEASURE	VA AVERAGE	BEST COMPETITOR
Advise smokers to quit at least once in past year	93%	66% <sup>NCQA</sup>
Beta-blocker on discharge after heart attack	94%	92% <sup>MMCP</sup>
Breast cancer screening	80%	75% <sup>MMCP</sup>
Cervical cancer screening	89%	78% <sup>NCQA</sup>
Cholesterol screening in all patients	88%	69% <sup>BRFSS 2</sup>
Cholesterol measured after heart attack <sup>3</sup>	89%	76% <sup>NCQA</sup>
Cholesterol less than 130 after heart attack <sup>4</sup>	71%	57% <sup>NCQA</sup>
Colorectal cancer screening	60%	44% <sup>BRFSS 5</sup>
Diabetes: HgbA1c done past year	93%	84% <sup>MMCP</sup>
Diabetes: Poor control <sup>6</sup> (lower number is better)	20%	43% <sup>NCQA</sup>
Diabetes: Cholesterol (LDLC) measured	91%	84% <sup>MMCP</sup>
Diabetes: Cholesterol (LDLC) Controlled (<130)	68%	46% <sup>NCQA</sup>
Diabetes: Eye Exam	66%	68% <sup>MMCP</sup>
Diabetes: Renal Exam	72%	46% <sup>NCQA</sup>
Hypertension: BP $\leq$ 140/90 most recent visit <sup>7</sup>	57%	52% <sup>NCQA</sup>
Immunizations: influenza, patients 65 and older <sup>8</sup>	73%	75% <sup>MMCP</sup>
Immunizations: pneumococcal, patients 65 and older <sup>9</sup>	79%	46% <sup>NHIS</sup>
Mental Health follow-up within 30 days of inpatient discharge	84%	73% <sup>NCQA</sup>

<sup>1</sup> VA data are compared with National Committee for Quality Assurance (NCQA) (The State of Managed Care Quality, Industry Trends and Analysis, 2001: patients are all ages in private managed care programs); Medicare Managed Care Plans (MMCP), CDC sponsored surveys (CDC, Behavioral Risk Factor Surveillance System (BRFSS) survey from National Center for Chronic Disease Prevention & Health Promotion: telephone survey of states, sample intended to be representative of the population of each state with varying numbers of states involved in each of the measures); HHS, National Center Health Statistics (NCHS) reports and Healthy People 2010 goals. When non-VA data are not available, VA compares its current performance to its past trend data.

<sup>2</sup> BRFSS scores are median; VHA scores are average

<sup>3</sup> VA ongoing annually; NCQA 1<sup>st</sup> year after attack

<sup>4</sup> VA ongoing annually; NCQA 1<sup>st</sup> year after attack

<sup>5</sup> BRFSS scores are median; VHA scores are average

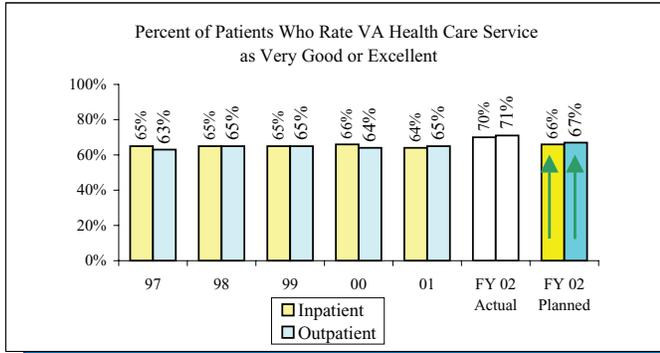
<sup>6</sup> DM poor control defined by VHA  $\geq$  9.5; NCQA  $>$  9.5 values for most recent HgbA1c

<sup>7</sup> VA includes all ages; NCQA includes ages 46-85 years

<sup>8</sup> This VHA number matches NCQA methodology to exclude high-risk patients under age 65. VHA Network Director's performance measure includes high risk patients and patients 65 or older (68 percent).

<sup>9</sup> VHA includes high-risk patients less than age 65 in this number; comparative data indicate even though at high risk, patients under 65 have a lower rate of having the immunization.

**Percent of patients rating VA health care service as very good or excellent (Inpatient/Outpatient)**



Results of the 2002 Survey of Healthcare Experience of Patients (SHEP) show substantial improvement in the overall quality ratings for both inpatient and outpatient care. Although these results are impressive, the very size of the improvements described suggests that part of the increase in satisfaction may be due to changes from the old satisfaction survey formats to the expanded content and altered formats of the SHEP. For inpatients, preliminary analyses suggest a national 6-point increase to 70 percent. Significant increases above the 2001 average of 64 percent were observed in 19 out of 21 Veterans Integrated Service Networks (VISNs). Eleven VISNs met or exceeded the “exceptional” goal for the year, which was 70 percent. In the outpatient setting, a 6-point gain to 71 percent in satisfaction was observed nationally. Fourteen of 21 VISNs met or exceeded the “exceptional” goal (72 percent), while another 3 VISNs met or exceeded the “fully satisfactory” goal (70 percent). Further analyses and the increased availability of SHEP data owing to more frequent sampling and roll-up should allow VA to better describe the drivers of patient satisfaction in future reports.

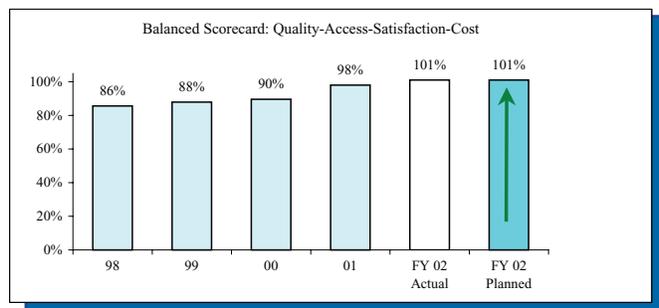
**Bar Code Medication Administration (BCMA) contingency plan and conduct test of plans annually**

VA achieved the planned target level of 100 percent of VHA facilities with contingency plans

for BCMA. Contingency plans are based on requirements set by VHA’s BCMA Committee. In doing an assessment of vulnerabilities, VHA determined that the lack of a contingency plan for BCMA was a significant patient safety vulnerability that required immediate resolution. The vision is to continue to identify patient safety vulnerabilities with system-wide implications for immediate resolution.

**Balanced Scorecard: Quality-Access-Satisfaction-Cost**

VHA achieved its goal of 101 percent in 2002 for the balanced scorecard, which provides a framework for translating strategic objectives into performance measurements driven by key performance measures. This measure establishes a percent of goal relationship for cost in the same manner as done for desired outcomes of quality, access, and satisfaction. All four components in the scorecard are of equal weight (each component is 25 percent of the total). Progress toward the goal is identified as well as areas where the goal is exceeded. Since the overall quality, access and



satisfaction numbers increased at the same time more veterans were being seen but without an equal increase in funding, the greater than 100 percent goal indicates more efficiency for better or same level of care.

**Access**

Access and waiting times are key to improving patients’ perceptions of the quality of VA care and their overall satisfaction. VHA is addressing the clinic wait time issue on multiple fronts; a working group is developing mechanisms to decrease the

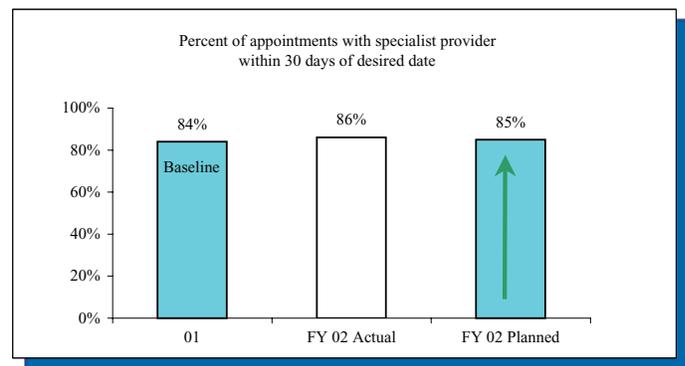
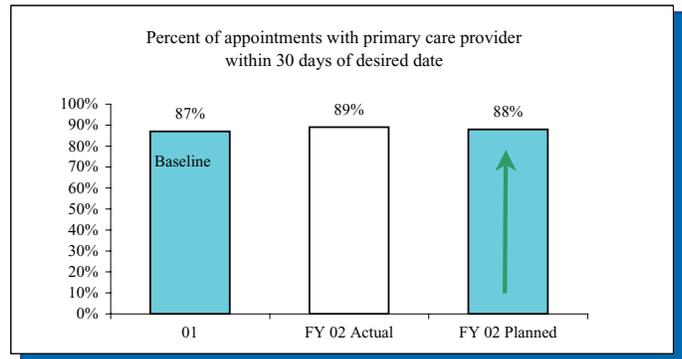
number of veterans on waiting lists. Guidance will be provided to assist facilities in prioritizing veterans by level of service connection and medical need.

Current VHA measures for waiting times measures reflect only the experience of veterans already “in the system” and do not accurately portray the wait experience of new enrollees and new patients. New patients in primary care are those who have not been seen at that facility for the last 24 months. New patients in specialty care are those who have not been seen in that specialty clinic in the last 24 months. Currently, VHA is evaluating and developing a standard entry process for new enrollees that will allow for tracking patients from time of enrollment to first appointment. In 2002, VHA conducted a new enrollees survey to assess the current veteran experience with waiting times after enrollment. This survey has provided further information to assist in improving the process for entry into the VA medical care system. In addition, other waiting time measures have been developed to look at average wait time for new patients seeking clinic appointments and average days to next available appointment for both primary care and specialty appointments. The quarterly Survey of Healthcare Experience of Patients (SHEP) provides patient satisfaction data on how long patients must wait once they arrive to be seen by a practitioner (20 minutes or less).

**Percent of appointments with primary care provider within 30 days**

Eighty-nine percent of primary care appointments were scheduled within 30 days of the desired date in 2002 compared to our goal of 88 percent. This was an improvement over the 2001 actual of 87 percent. We did this by continuing to work on our Advanced Clinic Access initiative that focuses on key changes in office practice efficiencies. We also continued to work on modifying our scheduling practices, hiring and retraining/ reassigning clinical staff to outpatient primary care, and renovating existing facility-based clinic space to provide clinicians with two examination rooms each, thus improving patient flow. Internally

the additional measures outlined above evaluate sub-groups within these clinic wait times -- “next available” appointment and “new” patient “next available” appointment allows for further analysis to determine areas where action can be taken to improve the overall waiting times.



**Percent of appointments with a specialist within 30 days**

Eighty-six percent of specialty care appointments were scheduled within 30 days of the desired date in 2002 compared to our goal of 85 percent. This was an improvement over the 2001 actual of 84 percent. We did this by continuing to implement and reap the benefits from modified appointment scheduling and pre-appointment patient reminders as ascribed by the Institute for Healthcare Improvement. Other process-related improvements included dual credentialing for specialists in primary care practice (especially useful for cardiac, diabetic, high blood pressure, cancer, and other patients with an overriding condition that needed to be monitored by a specialist) and retraining primary care clinicians to treat lower level, specific conditions. This combined approach, along with

### Strategic Goal 3

augmented and redirected specialty care and other resources, improved spatial configurations via renovation. Updated equipment will continue to help us achieve greater efficiencies without compromising access to, or quality of, specialty care.

**Using a weighted averaging methodology, the average number of days to obtain an appointment in the specialty clinics listed below was 36.5 days in 2002. The waiting times for individual clinics in 2002 were:**

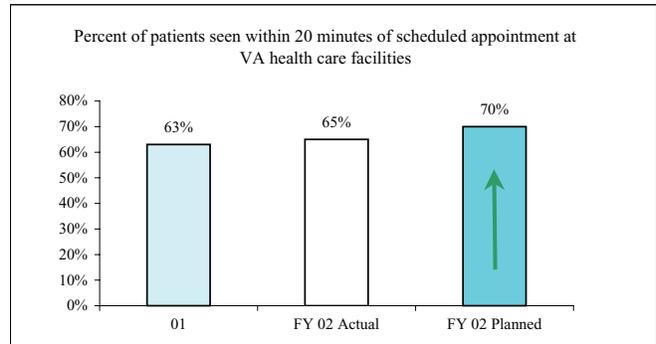
Audiology	32.3 days
Cardiology	33.2 days
Eye Care	48.0 days
Orthopedics	32.3 days
Urology	35.7 days

#### *Percent of patients who report being seen within 20 minutes of scheduled appointment*

VHA achieved an overall national average of 65 percent of patients who reported being seen within 20 minutes of their scheduled appointment. Although this is an improvement over the 2001 achievement of 63 percent (recalculated to reflect the new methodology discussed below), we did not reach our goal of 70 percent. A VISN-specific analysis of all 21 VISNs indicates that 8 VISNs met or exceeded the target level of 70 percent. This target shortfall is a reflection of the overall increased volume of patients in VHA as well as facility actions to make appointments for veterans on a wait list.

VHA has experienced a large growth in enrolled veterans over past years. This growth has stretched the capacity of the systems resulting in some veterans being placed on a waiting list for their first appointment. The impact of obtaining appointments for patients that results in over capacity has resulted in the waiting time for the provider to increase. The modest increase experienced even with the large enrollment of veterans is due to concurrent

initiatives to increase efficiency and productivity while at the same time making a concerted effort to decrease the waiting lists. Initiatives such as advance access and development of an electronic process of managing wait lists have positively impacted access to care. VISNs continue to explore and implement ways to provide scheduled appointments in a timely fashion.



A new methodology was adopted for FY 2001. Therefore, prior year comparisons are not available.

Starting in 2002, a new methodology for calculating this percentage was adopted: the universe of patients surveyed was expanded to include all provider-run clinics; the number of patients sampled was made proportional to clinic size, such that larger clinics now carry greater weight in the sample; and scores are now presented as “satisfaction scores” rather than “problem rates.” Although the new methodology at first lowers our overall percentage, it provides a model that is more sensitive to change than the one used previously. This increased sensitivity, along with the increase in frequency of the survey (to quarterly), will provide medical centers with a more accurate reflection of the impact of actions taken to improve patient satisfaction. This new baseline number was used to project improvement in 2002 and beyond.

### Means and Strategies

#### *Chronic Disease Care Index II and Prevention Index II*

We included the components of this measure among the set of Network Director annual performance measures for 2002. These measures are rolled up nationally on a quarterly basis,

but many VISNs separately track their own performance on a monthly basis.

***Percent of patients rating VA health care service as very good or excellent (Inpatient/Outpatient)***

VA relies on periodic feedback from veterans, obtained through surveys, as to their level of satisfaction with clinical service and other elements of their healthcare experience and utilization. VHA’s Performance Analysis Center for Excellence (PACE) conducts a national Survey of Healthcare Experiences of Patients (SHEP) that allows a better understanding of patient expectations and needs. The satisfaction elements of these surveys target those dimensions of care that veterans identified as most important to them in focus groups. Veteran satisfaction performance is externally compared to other large organizations through use of the National Research Corporation (NRC)/Picker Satisfaction question sets. Surveys are sent to substantial samples of patients who have recently received care in all provider-run (Medical Doctor, Nurse Practitioner, Physician’s Assistant) clinics and inpatient settings. The satisfaction elements of the SHEP are in turn compared to comparable care settings of other large healthcare organizations to identify potential areas requiring action. VA is also participating in the Agency for Healthcare Research and Quality-led effort to develop new, standardized satisfaction question sets, which will serve as a proposed national standard.

***Bar Code Medication Administration (BCMA) contingency plan and conduct test of plans annually***

VHA’s National Center for Patient Safety (NCPS) collected contingency plans from each VHA facility for coping with loss of the electronic medication administration procedure called the Bar Code Medication Administration (BCMA) system. The contingency plans are based on the Healthcare Failure Modes and Effects Analysis (HFMEA). NCPS assessed

the adequacy of each plan to provide viable workarounds to potential BCMA system failures.

***Balanced Scorecard: Quality-Access-Satisfaction-Cost***

The sources of data for the balanced scorecard are the same as those identified for the specific components comprising the measures – Chronic Disease Care Index II; Prevention Index II; inpatient and outpatient satisfaction; waiting times for primary care and specialty clinics; and wait times to see a provider. The cost element is obligations per unique patient in constant dollars. The data included in these computations have the same validity as the individual components, as outlined in each of their respective segments.

The following strategies were implemented during 2002 to improve access to and timeliness of health care:

- Trained or retrained existing transferable staff from inpatient to outpatient care.
- Implemented the Advanced Clinic Access initiative based on Institute for Healthcare Improvement methodology.
- Evaluated, and where appropriate, added mental health care to existing community-based outpatient clinics (CBOCs). Planning for mental health is now added to all new CBOC proposals.
- Increased the number of contracts for specialists to provide services to veterans.
- Continued infrastructure renovation in existing facilities to ensure that at least two exam/treatment rooms are available for each clinician providing care on a given day.
- Continued to develop transplant-sharing agreements.
- Continued to provide outpatient medication-dispensing technology in CBOCs and hospital-based clinics.

## Strategic Goal 3

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- Developed backlog reduction plans to address short- and long-term strategies in both primary and specialty care areas.
- Tracked on a bi-weekly basis the number of veterans on wait lists.
- Developed an electronic wait list to track veterans in a standardized fashion.

### Major Management Challenges

In response to concerns about waiting times, VA established strategic targets for the time it takes veterans to get an appointment with a VA provider (either primary care or specialty care) and the time they spend waiting in a provider's office. As part of its strategy to reduce waiting times and meet service delivery targets, VA has entered into short-term contracts with consultants to help reduce the backlog of specialty appointments. By improving waiting times through process improvements, physical plant renovations, pharmacy refills by mail and other means, VHA will effectively improve patient satisfaction and patient perceptions of the quality of their health care.

### Data Source and Validation

#### *Chronic Disease Care Index II and Prevention Index II*

Data are collected using an external contractor through VHA's External Peer Review Program. Data collection is accomplished through chart abstraction by professionals such as registered nurses or registered records administrators who use specific chart abstraction logic and standardized definitions.

Data validity is ensured through a number of processes including specific orientation and ongoing training for all abstractors, an inter-rater reliability process, software alerts that identify out-of-range data (for example, weight = 550 kg instead of 55 kg), and statistical analysis of all questions and responses to identify potential 'problem' questions (questions that have large

variation in responses). New statistical methods to identify non-random variation have been developed and presented at national conferences as state-of-the-art techniques for data validation.

#### *Percent of patients rating VA health care service as very good or excellent (Inpatient/Outpatient)*

The sources of the patient satisfaction data are VHA's inpatient and ambulatory care veteran surveys. The surveys consist of a sample of inpatients and outpatients who, in response to a question on the semi-annual inpatient and the quarterly outpatient surveys, rate their overall quality of care as very good or excellent. The surveys use recognized statistically valid sampling techniques. Regular reports, semi-annual for inpatient and quarterly for outpatient, are available on VISN performance.

#### *Bar Code Medication Administration (BCMA) contingency plan and conduct test of plans annually*

VHA's NCPS collected contingency plans from each VHA facility for coping with loss of the BCMA system. The contingency plans are based on the Healthcare Failure Modes and Effects Analysis (HFMEA), and NCPS assessed the adequacy of each plan to provide viable workarounds to potential BCMA system failures.

#### *Balanced Scorecard: Quality-Access-Satisfaction-Cost*

The Balanced Scorecard is based on constant dollars per patient against quality, access and satisfaction measures. Since the overall quality, access and satisfaction numbers increased at the same time more veterans were being seen but without an equal increase in funding, the greater than 100 percent goal indicates more efficiency for the same or better level of care.

The sources of data for the balanced scorecard are the same as those identified for the specific components comprising the measures— Chronic

Disease Care Index II; Prevention Index II; inpatient and outpatient satisfaction; waiting times for primary care and specialty clinics; and wait times to see a provider. The cost element is obligations per unique patient in constant dollars.

### Access

In early 2000, software was implemented to measure the average next-available clinic appointment time experienced by patients needing an appointment. The software computed the clinic appointment waiting time by calculating the number of days between the date a next-available appointment is requested and the date the appointment is made. This method of measurement is believed to be superior to previous methods because it measures the actual experience of patients rather than projecting what the experience might be, based on appointment availability. A revised version of this software was released January 31, 2001. This version supports measurement of appointment waiting times for new patients to primary care.

VA is developing new clinic wait time measures to quantify the wait times of new enrollees based on survey data to assess the experiences of new enrollees in requesting appointments. The data from the new measures, other VHA wait time measures, and the survey will provide more timely and relevant data for decision-making as it relates to the increase in number of new enrollees. VA is currently developing standardized entry processes for new enrollees. This process will assist in the automated collection of relevant wait time information at the time the veteran enrolls in the system.

The source of data for the 20-minute waiting time measure is the quarterly outpatient satisfaction survey, Survey of Healthcare Experiences of Patients (SHEP). The survey is distributed and analyzed by the Office of Quality and Performance, Performance Analysis Center for Excellence (OQP/PACE). Patients are asked, "How long after the time when your appointment was scheduled to begin did you wait to be seen?" Responses are tabulated to establish the percent of patients who reported waits of 20 minutes or less.

*Objective*

**Process pension claims in a timely and accurate manner to provide eligible veterans and their survivors a level of income that raises their standard of living and sense of dignity.**

The Department has adopted a new budget account structure that will allow us to more closely link resources with results and to understand better the full cost of our programs. One facet of this new account structure, which will be presented with our 2004 Congressional budget, is to make a clear distinction between the compensation program and the pension program. Traditionally, these two programs have been viewed together as part of the overall claims processing activity in VA. But, as we move forward with the implementation of this new budget account structure, we expect to refine our performance measures so that they are more specifically linked to the two programs separately. Refer to pages 39 – 40 for more information on the VA account restructuring initiative. Refer to

page 48 for a discussion of the timeliness and accuracy of claims processing, which includes both compensation and pension claims.

VA began to centralize processing of the pension maintenance workload in January 2002. Previously performed at all 57 regional offices, these functions are being consolidated at 3 sites. Centralized processing of the pension program will allow the Department to focus more resources on the compensation claims backlog. Additional employees and resources for information technology tools will aid in meeting VA’s goal of reducing the time to process rating-related claims in 2003.

*Objective*

**Maintain a high level of service to insurance policy holders and their beneficiaries to enhance the financial security of veterans' families.**

*Performance Goal*

**Maintain average processing time for insurance disbursements at 3.2 days.**

**Definition:** *The weighted composite average processing days for all disbursements, including death claims and applications for policy loans and cash surrenders.*

Insurance disbursements are death claims paid to beneficiaries, as well as policy loans and cash surrenders requested by policyholders. These disbursements are considered the most important services provided by the insurance program to veterans and beneficiaries. In 2002, the program disbursed over \$1.2 billion in death claims, loans, and cash surrenders. The indicator for this measure is the weighted composite average processing days for all three types of disbursements. Weighted composite average processing days means the volume processed in each category is taken into account in the calculation of the average in order to make it more representative of the group. Maintaining the high level of service to policyholders and their beneficiaries has long been a priority of the insurance program. This commitment is evidenced by the Philadelphia Insurance Center being named the recipient of the VA Secretary's 2002 Robert W. Carey Quality Award, which is presented to the organization that best exemplifies excellent service to veterans, their dependents, and beneficiaries.

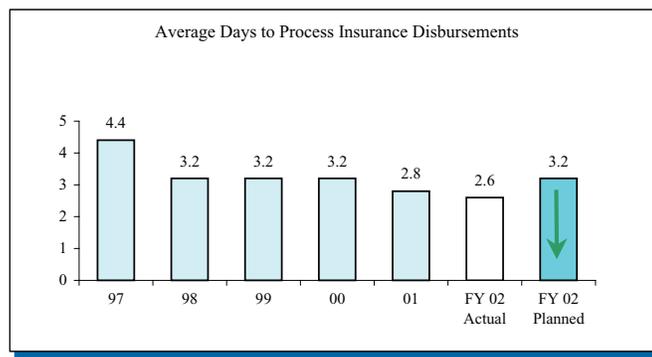
The insurance program met its performance goal by maintaining an average processing time of 2.6 days for disbursements, an improvement over the 2.8 days in 2001. We have recently adjusted our strategic objective for processing of

disbursements to 2.7 days and our 2003 target to 2.8 processing days.

**Means and Strategies**

The insurance program has undertaken various actions to improve the timeliness of disbursements including use of special post office boxes, improvements in how we process returned mail, and beginning a paperless processing system. When fully implemented, this initiative will provide online electronic storage of insurance records and online access to those records by technicians. The imaging capabilities from the initiative will reduce the time required for processing disbursements and other services. We already have a robust imaging system in place with over 4 million images available for access at every employee's desktop.

The use of special post office boxes assigns a specific post office box number to death claims, loans, and cash surrenders. Therefore, all disbursement applications are separated from the general correspondence by the Postal Service before they enter the Insurance Center. The applications are delivered directly to the operating divisions, thereby eliminating the time it would take to sort and distribute the mail.



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The returned mail process allows VA insurance staff to obtain a better address for the policyholder by running a daily check against Social Security Administration (SSA) records. This results in an overnight response from SSA. In most cases, the address is obtained and updated in the insurance record without human intervention. The impact of this process has greatly reduced the processing time of returned mail and the amount of backlogged returned mail items. In addition, we use the WestlawPro public records locator database as an alternate resource for address information on veterans as well as beneficiaries for whom we were unable to obtain an SSA match. This service has proved extremely valuable in promptly locating individuals we had been unable to locate in the past.

We accelerated the schedule of the mass retirement of insurance folders and completed the project 2 years ahead of the original schedule. This allowed for space in the Philadelphia RO for the new Pension Maintenance Center. Even though we do not yet have the full imaging capabilities completed, we are using a hybrid system for disbursements consisting of imaged documents associated with temporary insurance folders. This temporary system actually provides faster disbursement processing than we expected. When we move away from the hybrid system to the full paperless processing system, we will experience clerical and payroll savings.

The Paperless Office pilot workflow was instituted in July 2002 with 1 percent of insurance death claims. This workflow automatically routes work to appropriate staff, thus decreasing death claims processing time. As of October 2002, our workflow pilot has been expanded to 8 percent of insurance claims work. Only minor programming changes are needed to accept new digits in the workflow environment.

### **Data Source and Validation**

Processing time begins when the veteran's application or beneficiary's fully completed claim is received and ends when the internal controls staff approves the disbursement. Average processing days are a weighted composite for all three types of disbursements, based on the number of end products and timeliness for each category. The average processing days for death claims is multiplied by the number of death claims processed. The same calculation is done for loans and cash surrenders. The sum of these calculations is divided by the sum of death claims, loans and cash surrenders processed to arrive at the weighted average processing days for disbursements. Data on processing time are collected and stored through the statistical quality control (SQC) program and the Distribution of Operational Resources (DOOR) system. The Insurance Service is charged with periodically evaluating the SQC program to determine if it is being properly implemented. The composite weighted average processing days measure is calculated by the Insurance Service and is subject to periodic reviews. Timeliness information is considered to be valid for management of operations.

*Objective*

**Ensure that the burial needs of veterans and eligible family members are met.**

*Performance Goals*

**Increase the percent of veterans served by a burial option in a national or state veterans cemetery within a reasonable distance (75 miles) of their residence to 73.9 percent by the end of 2002.**

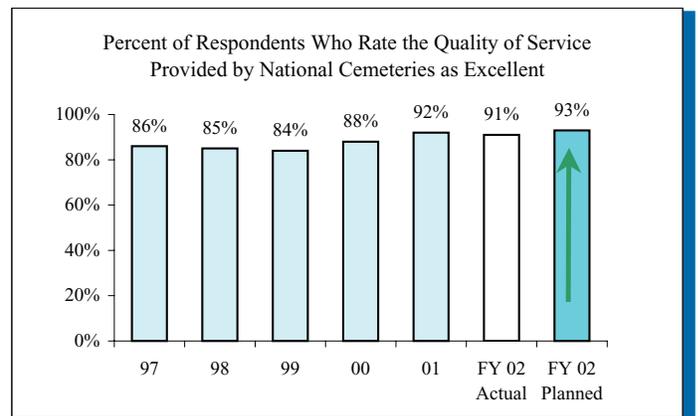
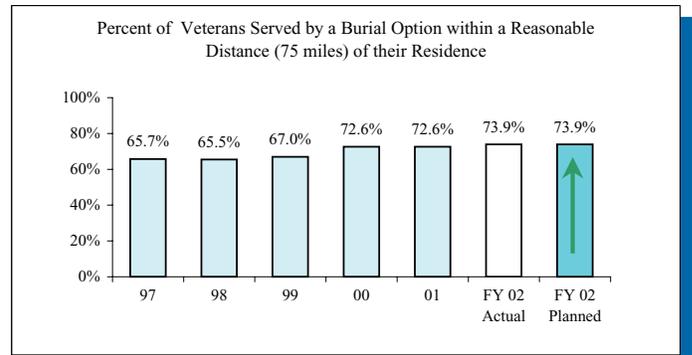
**Definition:** *The measure is the number of veterans served by a burial option divided by the total number of veterans, expressed as a percentage. A burial option is defined as a first family member interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a national or state veterans cemetery that is available within 75 miles of the veteran's place of residence.*

**Increase the percent of respondents who rate the quality of service provided by the national cemeteries as excellent to 93 percent in 2002.**

**Definition:** *The measure is the number of survey respondents who agree or strongly agree that the quality of service received from national cemetery staff is excellent, divided by the total number of survey respondents, expressed as a percentage.*

VA met its goal to increase the percent of veterans served by a burial option in a national or state veterans cemetery within a reasonable distance (75 miles) of their residence to 73.9 percent by the end of 2002. However, the goal to increase the percent of respondents who rate the quality of service provided by the national cemeteries as excellent to 93 percent was not met. Satisfaction with the quality of service provided by national cemeteries did remain at a high level in 2002: 91 percent of family member and funeral director respondents agreed or strongly agreed that the service received from national cemetery staff was excellent. Cemetery service goals are set in keeping with the high expectations of all who visit. The National Cemetery Administration (NCA) is reviewing information provided by survey respondents to identify opportunities for improvement.

VA provides interment of veterans and eligible family members upon demand. From 1998 to 2002, annual interments increased 16 percent, from 76,718 to 89,329. With the aging of World War II and Korean Conflict-era veterans, the number of deaths



## Strategic Goal 3

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is increasing each year. Based on the 1990 census, the annual number of veteran deaths is expected to peak at 684,000 in 2006 before beginning a gradual decline. This progressive increase in veteran deaths and the establishment of new national cemeteries result in a corresponding increase in the number of interments in national cemeteries.

As the annual number of interments and total gravesites used increases, cemeteries deplete their inventory of space and are no longer able to accept full-casketed or cremated remains of first family members. As a result, veterans may lose access to some of VA's burial options. At the end of 2002, only 61 of the 120 existing national cemeteries contained available, unassigned gravesites for the burial of both casketed and cremated remains; 26 accepted only cremated remains and remains of family members for interment in the same gravesite as a previously deceased family member; and 33 performed only interments of family members in the same gravesite as a previously deceased family member.

### Means and Strategies

#### *Percent Served by a Burial Option*

In 2002, to meet the burial needs of veterans, we continued planning for the development of new national cemeteries, completed construction projects to make additional gravesites or columbaria available for burials, and acquired land to continue burial options at existing national cemeteries.

VA continued to make progress in the development of new national cemeteries to serve veterans in the areas of Atlanta, Georgia; Detroit, Michigan; South Florida; Oklahoma City, Oklahoma; Pittsburgh, Pennsylvania; and Sacramento, California. These six locations were identified in a May 2000 report to Congress as the areas most in need of a new national cemetery, based on demographic studies. When open, these 6 cemeteries will provide a burial option within 75 miles of the residence of over 2 million veterans who are not currently served.

In fall 2001, operations began at Fort Sill National Cemetery, near Oklahoma City. Action is now

underway to develop a new national cemetery near Atlanta, Georgia. In 2002, VA acquired property for establishing new national cemeteries to serve veterans in South Florida and the Detroit area. We are currently in the process of acquiring land for establishing new national cemeteries in the areas of Pittsburgh and Sacramento.

The Veterans Millennium Health Care and Benefits Act, Public Law 106-117, directed VA to contract for an independent demographic study to identify those areas of the country where veterans will not have reasonable access to a burial option in a national or state veterans cemetery and the number of additional cemeteries required to meet veterans' burial needs through 2020. Volume 1: Future Burial Needs, published in May 2002, identified those areas having the greatest need for burial space for veterans. The report will serve as a valuable planning tool for decisions regarding the establishment of new national cemeteries.

VA monitors gravesite usage and projects gravesite depletion dates at open national cemeteries that have land for future development. As those cemeteries approach their gravesite depletion dates, we ensure that construction to make additional gravesites or columbaria available for burials is completed. In 2002, VA completed construction projects to extend burial operations at nine national cemeteries. For example, a construction project at Santa Fe National Cemetery included site preparation and placement of 7,000 pre-placed burial crypts. At Florida National Cemetery, VA completed a construction project to develop 16,000 columbaria niches in a park-like setting of courtyards with multiple height walls and landscaping. At Fort McPherson National Cemetery in Nebraska, new construction included the development of over 2,700 gravesites, a new committal service shelter, and a new public information building.

Appropriate land acquisition is a key component to providing continued accessibility to burial options. In 2002, VA acquired land to continue operations at Natchez National Cemetery in Mississippi. We will continue to identify national cemeteries that

are expected to close because of depletion of grave space, and determine the feasibility of extending the service life of those cemeteries by acquiring adjacent or contiguous land or by constructing columbaria. These actions, which depend on such factors as the availability of suitable land and the cost of construction, are not possible in every case. Efforts to acquire additional land are currently underway at 10 national cemeteries.

### *Quality of Service Provided by National Cemeteries*

The Department's goal is to make sure that the Nation's veterans and their families are satisfied with the quality of service provided by national cemeteries. VA strives to provide high quality, courteous, and responsive service in all of its contacts with veterans and their families.

To further enhance access to information and improve service to veterans and their families, NCA installs kiosk information centers at national and state veterans cemeteries to assist visitors in finding the exact gravesite locations of individuals buried there. In addition to providing the visitor with a cemetery map for use in locating the gravesite, the kiosk information center provides such general information as the cemetery's burial schedule, cemetery history, burial eligibility, and facts about NCA. By the end of 2002, VA had installed 42 kiosks at national and state veterans cemeteries.

In order to accommodate and better serve its customers, VA has designated Jefferson Barracks National Cemetery as the primary cemetery to provide weekend scheduling for interments in national cemeteries for a specific time in the ensuing week.

Veterans and their families have indicated that they need to know the interment schedule as soon as possible in order to finalize necessary arrangements. To meet these expectations, VA strives to schedule committal services at national cemeteries within 2 hours of the request. In the 2002 Survey of Satisfaction with National Cemeteries, 73 percent of funeral directors responded that national

cemeteries confirmed scheduling of the committal service within 2 hours.

Since the beginning of Operation Enduring Freedom, three active duty servicemembers who died in Afghanistan have been buried in national cemeteries. Sergeant First Class Nathan Ross Chapman, a member of the U.S. Army Special Forces and the first casualty of the war in Afghanistan, was interred at Tahoma National Cemetery. More than 500 people attended the committal service with military funeral honors, including senior military officers, several active and retired Special Forces members, and members of veterans support groups. U.S. Army Specialist Marc A. Anderson, killed during Operation Anaconda in eastern Afghanistan, was interred at Florida National Cemetery. Sergeant First Class Daniel A. Romero, killed near Kandahar, was interred at Fort Logan National Cemetery. The service, attended by more than 500 people, included two payovers by the Colorado National Guard.

The staff of the Eagle Point National Cemetery interred U.S. Army Sergeant First Class Eugene F. Christiansen, who had been missing in action in Vietnam since February 6, 1969. He was last seen aboard a military aircraft on a re-supply mission when radio contact with the aircraft was lost. His remains were identified by the Central Identification Laboratory in Hawaii using DNA technology.

Sergeant First Class Clarence B. Craft, U.S. Army, a World War II Medal of Honor Recipient, was interred at Fayetteville National Cemetery. SFC Craft, the "Hero of Hen Hill" on the island of Okinawa, single-handedly broke the Japanese Naha-Shuri-Yanaburu line, which had held his stalled unit for 12 days. President Harry Truman presented SFC Craft with the Medal of Honor on October 12, 1945. After retirement, Mr. Craft continued his service to our Nation by working with the VAMC Fayetteville and the Fayetteville National Cemetery as a volunteer, aiding his fellow veterans.

To ascertain how customers and stakeholders perceive the quality of service provided by national

cemeteries, VA seeks feedback through annual surveys and focus groups. This information is used to determine expectations for service delivery as well as specific improvement opportunities and training needs. Since 2001, an annual nationwide mail survey, Survey of Satisfaction with National Cemeteries, has been NCA's primary source of customer satisfaction data. The survey provides statistically valid performance information at the national and Memorial Service Network (MSN) levels and at the cemetery level for cemeteries having at least 400 interments per year. The information gathered is used in NCA's strategic planning process to develop additional strategies for improving service.

### **Crosscutting Activities**

#### ***Percent Served by a Burial Option***

To complement our system of national cemeteries, VA administers the State Cemetery Grants Program (SCGP), which provides states grants of up to 100 percent of the cost of establishing, expanding, or improving veterans' cemeteries that are owned and operated by the states.

To date, a total of 49 operating state veterans cemeteries have been established, expanded, or improved through the SCGP. In 2002, state veterans cemeteries performed over 17,000 interments, and new grants were obligated to establish or expand state veterans cemeteries in 11 states.

Two new state veterans cemeteries were opened at Grand Junction, Colorado, and Milledgeville, Georgia, in 2002. These two cemeteries provide a burial option within 75 miles of the residence of over 132,000 veterans and their families not previously served.

Following an interment in one of the state veterans cemeteries, one family wrote, "Not only were we proud of our father, you made us proud to be an American."

#### ***Quality of Service Provided by National Cemeteries***

VA continued to work closely with components of DoD and veterans service organizations (VSOs) to provide military funeral honors at national cemeteries. While VA does not provide these honors, national cemeteries facilitate the provision of military funeral honors and provide logistical support. Veterans and their families have indicated the provision of military funeral honors for the deceased veteran is important to them.

VA continued to work with funeral homes and VSOs to find new ways to increase awareness of benefits and services. Funeral directors and VSO members participated in focus groups to identify what information they need and the best way to ensure they receive it.

### **Data Source and Validation**

#### ***Percent Served by a Burial Option***

Experience and recent historical data show that about 80 percent of those interred in national cemeteries resided within 75 miles of the cemetery at the time of death. From this experience, NCA considers eligible veterans to have reasonable access if a burial option (whether for casketed remains or cremated remains) is available within 75 miles of the veteran's place of residence. NCA determines the percent of veterans served by existing national and state veterans cemeteries within 75 miles of their residence by analyzing census data on the veteran population. Arlington National Cemetery, operated by the Department of the Army, and Andrew Johnson National Cemetery and Andersonville National Cemetery, operated by the Department of the Interior, are included in this analysis.

Since 2000, actual performance has been based on the VetPop2000 model developed by VA's Office of the Actuary. VetPop2000 is the authoritative VA estimate and projection of the number and characteristics of veterans. It was the first revision of official estimates and projections since 1993. The VetPop2000 methodology resulted in

significant changes in the nationwide estimate and projection of the demographic characteristics of the veteran population. These changes affected the individual county veteran populations from which NCA determines the percentage of veterans served. Projected openings of new national or state veterans cemeteries and changes in the status of existing cemeteries are also considered. (Multiple counts of the same veteran population are avoided in cases of service-area overlap.)

In 1999, the Office of the Inspector General performed an audit assessing the accuracy of data used to measure the percent of the veteran population served by the existence of a burial option within a reasonable distance of place of residence. Audit results showed NCA personnel generally made sound decisions and accurate calculations in determining the percent of veterans served by a burial option. Although inconsistencies in NCA's estimate of the percent of the veteran population served by a burial option were identified, they did not have a material impact, and no formal recommendations were made. VA has addressed these inconsistencies, and the adjustments are included in the data contained in this report.

### *Quality of Service Provided by National Cemeteries*

From 1996 through 2000, the source of data used to measure the quality of service provided by national cemeteries was the NCA Visitor Comment Card. Since 2001, an annual nationwide mail survey, Survey of Satisfaction with National Cemeteries, has been NCA's primary source of customer satisfaction data. The survey collects data annually from family members and funeral directors who received recent services from a national cemetery. To ensure sensitivity to the grieving process, NCA allows a minimum of 3 months after an interment before including a respondent in the sample population. The measure for quality of service is the percent of respondents who agree or strongly agree that the quality of service received from cemetery staff is excellent.

VA headquarters staff oversees the data collection process and provides an annual report at the national level. MSN and cemetery level reports are provided for NCA management's use. The mail-out survey provides statistically valid performance information at the national and MSN levels and at the cemetery level for cemeteries having at least 400 interments per year.

*Objective*

**Provide veterans and their families with timely and accurate symbolic expressions of remembrance.**

*Performance Goal*

**Baseline the percent of graves in national cemeteries marked within 60 days of interment.**

**Definition:** *The measure for timeliness of marking graves in national cemeteries is the number of graves in national cemeteries for which a marker has been set at the grave, or the reverse inscription completed, within 60 days of the interment divided by the number of interments, expressed as a percentage.*

In 2002, VA began to measure the timeliness of marking graves in national cemeteries. Data were collected that showed a baseline of 49 percent of graves in national cemeteries were marked within 60 days of interment. The amount of time it takes to mark the grave after an interment is extremely important to veterans and their family members and, as a result, we are now tracking this as one of the Department's key performance measures. The headstone or marker is a lasting memorial that serves as a focal point not only for present-day survivors but also for future generations. In addition, it may bring a sense of closure to the grieving process to see the grave marked.

**Means and Strategies**

VA provides headstones and markers for the graves of eligible persons in national, state, other public, and private cemeteries. Delivery of this benefit is not dependent on interment in a national cemetery. In 2002, NCA provided over 360,000 headstones and markers for placement in national, state, other public, and private cemeteries.

NCA is reengineering business processes, such as ordering and setting headstones and markers, to improve performance. Monthly and fiscal year-to-date tracking reports on timeliness of marking graves can be accessed online by NCA field and headquarters employees. Increasing the visibility and access of this information further reinforces the importance of marking graves in a timely manner.

We will continue to improve accuracy and operational processes in order to reduce the number of inaccurate or damaged headstones and markers delivered to the gravesite. Headstones and markers must be replaced when either the Government or the contractor makes errors in the inscription, or if the headstone or marker is damaged during delivery or installation. When headstones and markers must be replaced, it further delays the final portion of the interment process.

NCA will also continue to improve operational efficiencies and reduce costs through its reverse inscription program. In this program, a second inscription is added *in situ* (i.e., at the gravesite) to the currently existing headstone following the death and interment of a subsequent family member. In 2002, NCA contracted for over 6,600 reverse inscriptions.

To the maximum extent possible, NCA will use modern information technology to automate its operational processes. Online ordering using NCA's Automated Monument Application System - Redesign (AMAS-R) and electronic transmission of headstone and marker orders to contractors increase the efficiency of the process. NCA is also increasing its efficiency by encouraging other federal and state veterans cemeteries to place their orders for headstones and markers directly into the AMAS-R system. Thirty-four other federal and state veterans cemeteries had the capability to order headstones and markers online in 2002.

## Crosscutting Activities

NCA provides headstones and markers for national cemeteries administered by the Department of the Army, the Department of the Interior (DOI), and the American Battle Monuments Commission. Arlington National Cemetery, which is administered by the Department of the Army, and Andrew Johnson National Cemetery and Andersonville National Cemetery, which are administered by DOI, order headstones and markers directly through NCA's AMAS-R monument ordering system. In addition, NCA contracts for all niche inscriptions at Arlington National Cemetery.

NCA also provides headstones and markers to state veterans cemeteries. Equipment and training are provided to state veterans cemeteries to encourage them to place their orders for headstones and markers directly into NCA's AMAS-R monument ordering system. NCA also extends its second inscription program to state veterans cemeteries. In order to participate, state cemeteries must use upright headstones and have the capability to submit requests electronically.

NCA administers the White House program for Presidential Memorial Certificates (PMCs). A PMC is an engraved paper certificate, bearing the President's signature, to honor the memory of honorably discharged deceased veterans. Eligible recipients include the deceased veteran's next of kin and loved ones. In 2002, VA provided nearly 290,000 PMCs.

## External Factors

Headstones and markers are supplied by various contractors throughout the country, whose performance greatly affects the quality of service provided to veterans and their families. The timeliness of delivery of headstones and markers is dependent not only on the performance of the manufacturer but also on the performance of the contracted shipping agent. Extremes in weather,

such as periods of excessive rain or snow, or extended periods of freezing temperatures that impact ground conditions, can also cause delays in the delivery and installation of headstones and markers.

## Data Source and Validation

Data on workload and timeliness of marking graves are collected monthly through field station input to the Burial Operations Support System (BOSS) and AMAS-R. The measure for timeliness is the percent of graves in national cemeteries for which a marker has been set at the grave, or the reverse inscription completed, within 60 days of the interment. VA headquarters staff oversees the data collection process and provides monthly and fiscal year-to-date reports for NCA management's use at the national, MSN, and cemetery levels. NCA will continue to monitor the data collected for this new performance measure to validate its accuracy and integrity.

The number of headstones and markers provided includes markers ordered by the NCA Centralized Contracting Division. The total number of PMCs issued, which includes those issued to correct inaccuracies, is reported monthly. Headquarters staff reviews the data for general conformance with previous report periods, and any irregularities are validated through contact with the reporting station.

When headstones or markers are lost, damaged, or incorrectly inscribed, it is important to determine both the cause and the party responsible for the expense of a replacement in order to improve performance. NCA developed new codes for ordering replacement headstones or markers and published a users guide showing definitions for all codes, including the replacement reasons. Use of these new codes has enhanced the BOSS and AMAS-R databases by producing reliable and accurate data on replacement actions and providing management with an effective tool for improving the overall business process.

# STRATEGIC GOAL

## 4 *Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.*

VA will continue to be involved in the Nation’s preparedness for an emergency, including response to terrorism or natural disaster. VA will support the public health of the Nation as a whole through medical research, medical education and medical training, as well as through education, vocational rehabilitation, and home loan programs. VA will also preserve the memory and sense of patriotism of the Nation by maintaining national cemeteries as national shrines and by hosting patriotic and commemorative ceremonies and events.

This table identifies estimates of the total resources devoted to this strategic goal and its associated objectives:

<b>Resources by Goal and Objective</b>	<b>FY 2002 Obligations</b>	<b>% of Total VA Resources</b>
<b>Total VA Resources</b>	<b>\$58,899</b>	
<b>Strategic Goal</b>		
Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.	<b>\$943</b>	<b>1.6%</b>
<b>Objective</b>		
<i>Improve the Nation’s preparedness for response to war, terrorism, national emergencies, and natural disasters by developing plans and taking actions to ensure continued service to veterans as well as support to national, state, and local emergency management and homeland security efforts.</i>	<b>\$0</b>	<b>0.0%</b>
<i>Advance VA medical research and development programs that address veterans’ needs, with an emphasis on service-connected injuries and illnesses, and contribute to the Nation’s knowledge of disease and disability.</i>	<b>\$443</b>	<b>0.8%</b>
<i>Sustain partnerships with the academic community that enhance the quality of care to veterans and provide high quality educational experiences for health care trainees.</i>	<b>\$425</b>	<b>0.7%</b>
<i>Enhance the socioeconomic well-being of veterans, and thereby the Nation and local communities, through veterans’ benefits; assistance programs for small, disadvantaged, and veteran-owned businesses; and other community initiatives.</i>	<b>&lt;\$1M</b>	<b>0.0%</b>
<i>Ensure that national cemeteries are maintained as shrines dedicated to preserving our Nation’s history, nurturing patriotism, and honoring the service and sacrifice veterans have made.</i>	<b>\$75</b>	<b>0.1%</b>

Two key performance measures enable us to gauge progress in achieving this strategic goal:

➤ Institutional Review Board compliance with NCQA accreditation and maintenance, as

appropriate, of AAALAC or NRC accreditation or certification.

➤ Appearance of national cemeteries.

### Objective

**Improve the Nation's preparedness for response to war, terrorism, national emergencies, and natural disasters by developing plans and taking actions to ensure continued service to veterans as well as support to national, state, and local emergency management and homeland security efforts.**

#### *Improve Response in the Event of National Emergency*

Since the terrorist attacks on September 11, 2001, and the subsequent report of VA's Emergency Preparedness Working Group, the Department has consolidated its efforts to improve the Nation's response in the event of a national emergency or natural disaster. Although there was no 'key' performance measure in place during 2002, there were many ongoing activities toward the goal of improving VA's response in the event of national emergency.

#### **Means and Strategies**

On March 20, 2002, the VA Secretary approved formation of an Office of Operations, Security and Preparedness to consolidate Department-level emergency preparedness, readiness operations, and security and law enforcement activities in one organization. This office has in effect been a "virtual" one, working so far with existing resources and "detailed" staff. Accountability for an overarching Departmental emergency preparedness framework has resided with the Secretary's staff. VA has deployed the following strategies to support this objective.

- Established a 24/7 Readiness Operations Center, with alternate sites to serve as back-up in case of a crisis resulting in closure or disabling of Central Office.
- Established a Crisis Response Team with at least twice-weekly meetings to monitor, evaluate, and respond to events that do not require the activation of the VA Continuity of Operations (COOP) Plan teams, and to ensure continued multi-administration focus on emergency preparedness and readiness operations.
- Established out-of-sector mirror site to ensure continuity of executive leadership.
- Formalized the official order of succession to the position of Secretary of Veterans Affairs.
- Produced satellite broadcasts that aired nationally at VA facilities to train staff that might be involved in treating victims of a terrorist attack.
- Continued to conduct exercises. Exercises have included weapons of mass destruction cache movement command and control involving all VA sites; communications exercise involving all VA sites; COOP table top exercise with VA executives; Olympic Games readiness communications and coordination exercise; COOP plan update exercise for VA emergency planners; a Crisis Response Team deployment at the field Readiness Operations Center; and an exercise to validate the operational capability of an alternate headquarters site.
- Procured 39 out of a planned 143 pharmaceutical caches for VA medical centers to enable continued care for VA patients and staff if supply is disrupted as the result of an attack.
- Developed a plan to procure personal protective and decontamination equipment to protect the medical staff and others at risk of exposure to chemical, biological, or radiological exposure so that they can continue to treat veterans and

## Strategic Goal 4

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others who may need treatment at a VA facility in the event of a catastrophic incident.

- Commenced planning for a decontamination program equipped to handle both small numbers and mass casualties, should the need arise. This plan will include initial and sustainment training.
- Developed a Departmentwide color-coded homeland security threat level response system for VA, to include VA police departments.
- Conducted a comprehensive review of physical security of buildings across the Department.

### Crosscutting Activities

VA has been involved with several federal organizations in order to help achieve this objective. Senior leadership participates in Homeland Security and Deputies Council meetings, and VA is also represented on Homeland Security Policy Coordinating Committees and work groups. These groups include representatives from the Departments of Health and Human Services, Justice, Defense, and Energy; the Federal Emergency Management Agency; the new Department of Homeland Security; and others. They meet regularly to establish governmental

policy regarding such issues as response and recovery, training and exercises, research and development, and medical and public health preparedness. VA has also expanded partnerships with private organizations such as the American Red Cross.

VA experts have collaborated with the Department of Health and Human Services (HHS) in defining a proposed VA role in a smallpox vaccination program and have supported HHS in forming the USA Freedom Corps Medical Reserve Corps cadre of volunteer health care professionals to provide medical care in case of an attack.

VA also continues to maintain capability to provide contingency medical support to DoD and to provide support to other agencies as required under the Federal Response Plan.

### Data Source and Validation

Our 2003 performance data will be derived from training and exercise data to be collected on a periodic basis from VA's three administrations. They are responsible for primary data collection. Most exercises are conducted under the purview of the Office of Operations, Security and Preparedness, which maintains detailed records of all exercises and training.

*Objective*

**Advance VA medical research and development programs that address veterans’ needs, with an emphasis on service-connected injuries and illnesses, and contribute to the Nation’s knowledge of disease and disability.**

*Performance Goal*

**Perform at 10 percent compliance of the Institutional Review Board (IRB) with National Committee for Quality Assurance (NCQA) accreditation and maintenance, as appropriate, of Association for the Assessment and Accreditation of Laboratory Animal Care (AAALAC) or Nuclear Regulatory Commission (NRC) accreditation or certification.**

**Definition:** *This measure ensures the compliance of research facilities/investigators with regulatory requirements and ensures the safety of research subjects. The numerator is the number of research programs that are reviewed and receive accreditation; the denominator is all research programs.*

Under the direction of the Office of Research and Development (ORD), VA’s research portfolio of more than 2,500 projects has resulted in numerous discoveries that have improved the quality of health care for veterans and the American public. Virtually all VA research projects are directed toward health conditions relevant to the veteran population. While all VA research is relevant to veterans, the Designated Research Areas (DRA) are of particular importance to VHA’s veteran patient population. The DRAs include aging, chronic diseases, mental illness, substance abuse, sensory loss, acute and traumatic injury, health services and systems, special populations, and military occupations/ environmental exposures.

ORD expanded its Quality Enhanced Research Initiative (QUERI) to include colorectal cancer (CRC). A joint effort by VA and the National Cancer Institute, the CRC QUERI is housed in the Minneapolis VA Medical Center and shares resources with The Center for Chronic Disease Outcomes Research, a VA Health Services Research Center of Excellence. Other research highlights can be found on page 21 under the Public Benefits Section.

VA achieved its 2002 goal for NCQA accreditation of the Department’s Human Subjects Protection Programs. NCQA conducted 23 site visits during

Designated Research Area	Number of projects conducted in 2002
Acute & Traumatic Injury	170
Aging & Age-Related Changes	445
Chronic Diseases	1481
Health Services & Systems	219
Mental Illness	161
Military and Environmental Exposures	143
Sensory Disorders & Loss	82
Special (Underserved, High Risk Populations)	99
Substance Abuse, Addictive Disorders	132

*Note: Preliminary figures.*

## Strategic Goal 4

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2002, or slightly more than 20 percent, of all VA locations that conduct human research. VA received final results for all 23 sites during 2001 with 16 locations being accredited ‘with conditions’ and 4 sites not receiving accreditation. Of those four sites, two appeals are still pending and two appeals were denied. Currently, 15 percent of VA sites have been accredited compared to a goal of 10 percent.

VA and NCQA temporarily suspended this first-of-its-kind program in order to conduct quality improvement activities based on the experiences of the first 23 inspections. Both organizations agreed that the standards needed modification to help streamline the review process and to clarify selected requirements. As a result, NCQA released revised standards for public comment in September 2002 and updated the amended standards in November 2002. Accreditation site visits will resume this winter.

All 86 veterinary medical units within the VA research program are accredited by the AAALAC (100 percent of goal). NRC licensure is required for all facilities that utilize radioactive materials and/or radiation-producing devices for research or clinical purposes. Oversight of these licensing activities is the responsibility of VA’s National Health Physics Program, a component of the Office of Patient Care Services. The NRC issued licenses to all VA facilities requiring licensure (100 percent of goal).

### Means and Strategies

VA complies with federal regulations whereby responsibility for protecting human subjects is assigned to three separate groups. First, investigators are responsible for conducting research in accordance with regulations. Second, institutions maintain oversight mechanisms, including local committees known as Institutional Review Boards (IRBs). IRBs are responsible for reviewing both research proposals and ongoing research. Third, agencies are responsible for ensuring that their IRBs comply with applicable regulations and that they provide sufficient space and staff to accomplish their obligations.

The Department requires that each VA medical center (VAMC) engaged in research with human subjects establishes its own IRB or secures the services of another IRB at an affiliated university. ORD establishes the policies that promote the ethical conduct of research and manages the NCQA contract. The Office of Research Compliance and Assurance (ORCA) manages matters relating to the effectiveness of research protections, promotion of the ethical conduct of research, and the investigation of allegations of research impropriety.

Within VHA, VISNs must demonstrate full compliance with appropriate regulations in the following ways:

- Quarterly report re-accreditation reviews. Each VISN director is required to submit a quarterly report listing appropriate accreditation agencies for the Network’s research programs, including dates of such review and conclusions of those reviews.
- NCQA reviews. VISN directors are also required to report whether the Network is scheduled for an NCQA review and supply the dates of such review.
- Network director performance measures. Part of each Network director’s annual performance evaluation is based on the completion or outcome of various research compliance measures. This includes information about attainment of all necessary full accreditation and clearly defined plans for any new accreditation.

ORCA conducts Systematic Post-Accreditation Reviews (SP-AR) to address the situations at VAMCs when NCQA gives a “Not Accredited” designation. The SP-AR assesses the full scope and significance of the issues that relate to the performance of the VAMC’s Human Resource Participant Protection. The SP-AR report, including recommendations, is available 2 weeks after the team completes its on-site review. During the course of the on-site review, serious and egregious non-compliance with the regulations that protect

human research subjects may become apparent. In such instances, the Federal Wide Assurance of the facility is suspended until the site is again in compliance.

### External Factors

No external factors hampered execution of the accreditation program. VA's contract with NCQA fulfills Department requirements and provides VA the flexibility necessary to strengthen human research participant protections. NCQA's 30-day comment period for its proposed performance standard revisions permitted the public to review them and to submit valuable feedback.

### Crosscutting Activities

VA research is conducted subject to the regulations of many other Federal agencies as well as VA's own internal regulations. For example, human studies funded by pharmaceutical companies and conducted at VA facilities in support of a new drug or device application are subject to Food and Drug Administration (FDA) regulations and oversight; studies funded by the National Institutes of Health and conducted in VA facilities are subject to the Department of Health and Human Services regulations and oversight.

VHA has issued a contract for external accreditation of human subjects programs to the NCQA, an independent, not-for-profit accrediting organization that is nationally renowned for its objective evaluations of health care organizations.

Within VHA, ORD is responsible for developing human studies policy in coordination with other federal research regulatory agencies. ORCA is responsible for enforcement activities with other federal research regulatory agencies, including the FDA and the HHS Office of Human Research Protections. As an example, the FDA has recognized the need to revise its reporting procedures for serious adverse events and has involved ORCA in the development of a clearer set of procedures and guidelines.

### Data Source and Validation

Each VISN director is required to submit a quarterly report listing appropriate accreditation agencies for the Network's research programs, including dates of such review and conclusions of those reviews. Also, Network director performance evaluations include measures related to attaining appropriate accreditations. These accreditations are subject to verification by the accrediting agency.

*Objective*

**Sustain partnerships with the academic community that enhance the quality of care to veterans and provide high quality educational experiences for health care trainees.**

VA supports the public health of the Nation through medical education and training. One of the VA health care system's strategic objectives is to *Build Healthy Communities* by partnering with the academic community to provide clinical education experiences for medical residents and other health care trainees who successfully meet their learning

objectives and enhance the quality of care provided to veterans within the VA health care system. VA has affiliations with over 100 medical schools and over 1,200 educational institutions.

There are currently no key performance measures associated with this objective.

*Objective*

**Enhance the socioeconomic well-being of veterans, and thereby the Nation and local communities, through veterans' benefits; assistance programs for small, disadvantaged, and veteran-owned businesses; and other community initiatives.**

Our Nation has an obligation to provide servicemembers and veterans with the means to take advantage of the opportunities protected and preserved by their service. VA created a task force to identify ways of increasing the level of procurement and contract awards to veteran-owned small businesses and service-disabled veteran-owned small businesses. During 2002, VA made a concerted effort to improve performance in these areas over that of 2001. For example, through more aggressive outreach, improved data collection, and better identification of opportunities, we doubled awards to service-disabled veteran-owned small

businesses and, in addition, increased awards to veteran-owned small businesses.

VA promotes business ownership through its Transition Assistance Program (TAP) and the recently created Center for Veterans Enterprise. VA's program evaluation of the educational assistance programs demonstrated a positive return on investment of 2 to 1 in the form of increased income taxes for every program dollar spent.

There are currently no key performance measures associated with this objective.

*Objective*

**Ensure that national cemeteries are maintained as shrines dedicated to preserving our Nation’s history, nurturing patriotism, and honoring the service and sacrifice veterans have made.**

*Performance Goals*

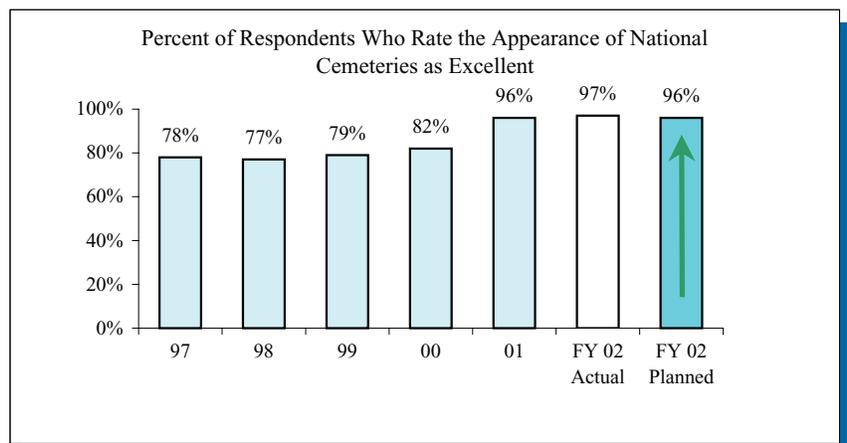
**Increase the percent of respondents who rate national cemetery appearance as excellent to 96 percent by 2002.**

**Definition:** *This measure is the number of survey respondents who agree or strongly agree that the overall appearance of the national cemetery is excellent divided by the total number of survey respondents, expressed as a percentage.*

The percentage of respondents who rate national cemetery appearance as excellent exceeded our planned performance goal in 2002. We achieved a 97 percent rating versus the goal of 96 percent. Each national cemetery exists as a national shrine, and as such, serves as an expression of the appreciation and respect of a grateful Nation for the service and sacrifice of its veterans. Each national shrine provides an enduring memorial to their service, as well as a dignified and respectful setting for their final rest.

National cemeteries also carry expectations of appearance that set them apart from private cemeteries. Our Nation is committed to create and maintain these sites as national shrines, transcending the provision of benefits to an individual. As national shrines, VA’s cemeteries serve a purpose that continues long after burials have ceased and visits of families and loved ones have ended.

A national shrine is a place of honor and memory that declares to the visitor or family member who views it that, within its majestic setting, each and every veteran may find a sense of serenity, historic sacrifice, and nobility of purpose. Each visitor should depart feeling that the grounds, the gravesites, and the environs of the national cemetery are a beautiful and awe-inspiring tribute to those who gave much to preserve our Nation’s freedom and way of life. A widow wrote that each time she visits her husband’s grave in a VA national cemetery, she is in awe, and experiences a sense of peace and calmness at this “solemn national shrine.”



Our Nation's veterans have earned the appreciation and respect not only of their friends and families but also of the entire country. National cemeteries are enduring testimonials to that appreciation and should be places to which veterans and their families are drawn for dignified burials and lasting memorials. Veterans and their families expect national cemeteries to have well-maintained gravesites, buildings, facilities, headstones and monuments.

### Means and Strategies

To ensure the appearance of national cemeteries meets the standards our Nation expects of its national shrines, VA performs a wide variety of grounds management functions. In 2002, work continued on raising or realigning headstones to ensure uniform height and spacing. Soiled headstones were cleaned. In-ground gravesites (casket and cremain) received maintenance to prevent and correct ground sinkage. To preserve columbaria, VA cleaned stains from stone surfaces, maintained the caulking and grouting between the units, and repaired the surrounding walkways. While attending to these highly visible aspects of our national shrines, VA also maintained roads, drives, parking lots, and walks; painted buildings, fences, and gates; and repaired roofs, walls, and irrigation and electrical systems.

Cemetery acres that have been developed into burial areas, as well as land that is no longer in a natural state, require regular maintenance. In 2002, VA maintained over 6,900 developed acres and over 2.5 million graves.

To ascertain how our customers and stakeholders perceive the appearance of national cemeteries, VA seeks feedback through annual surveys and focus groups. This information is used to determine expectations for cemetery appearance as well as specific improvement opportunities and training needs. In 2001, VA developed a nationwide mail-out customer satisfaction survey, an improvement over the previous data collection instrument. The information gathered is used in the NCA strategic planning process to develop additional

strategies for improvement. VA will continue to conduct focus groups to collect data on stakeholder expectations and their level of satisfaction with the appearance of national cemeteries.

The Veterans Millennium Health Care and Benefits Act, Public Law 106-117, directed VA to contract for an independent study to look at various issues related to the National Shrine Commitment and its focus on cemetery appearance. Volume 3: Cemetery Standards of Appearance, was published in March 2002. This report will serve as NCA's planning tool and as a reference guide to assist MSN directors, cemetery directors, and program managers in the task of reviewing and refining NCA operational standards and measures. This work has already begun. When complete, the directory of standards will be published and linked to statements of policy and operational descriptions of processes through directives and handbooks.

In August 2002, Volume 2: National Shrine Commitment was completed. This report identified the one-time repairs needed to ensure a dignified and respectful setting appropriate for each national cemetery. Recommendations to address deferred maintenance issues or preventive steps to minimize future maintenance costs were also identified. NCA will use the information to address repair and maintenance needs at its national cemeteries.

Contracts for National Shrine Commitment projects have been awarded and are underway at six national cemeteries: Fort Sam Houston National Cemetery in Texas; Golden Gate National Cemetery in California; Long Island National Cemetery in New York; Willamette National Cemetery in Oregon; Wood National Cemetery in Wisconsin; and Memphis National Cemetery in Tennessee. In 2002, over 180,000 headstones were raised and realigned, as well as cleaned where needed. In addition, 77,000 gravesites were renovated.

In a joint venture with VHA, national cemeteries provided therapeutic work opportunities to veterans receiving treatment in the Compensated Work Therapy/Veterans Industries program. This program provides veterans the opportunity to work for pay,

regain lost work habits, and learn new work skills while providing a supplemental workforce for the national cemeteries.

In 2002, numerous ceremonies and memorial services were held at national cemeteries to honor those who made the supreme sacrifice. More than 110,000 people attended Memorial Day ceremonies at VA national cemeteries across the Nation. America's veterans and their service to the Nation were honored at ceremonies that included military flyovers, honor guard demonstrations, and band performances. VA leaders, staff members, and designated representatives spoke at the ceremonies honoring America's veterans. Ohio Western Reserve National Cemetery hosted a POW-MIA commemoration, which included a wreath-laying ceremony at the cemetery's POW-MIA flagpole, followed by an all-night vigil during which volunteers read the names of more than 1,600 MIAs from Ohio. Los Angeles National Cemetery welcomed more than 400 people to the 10<sup>th</sup> Annual Abraham Lincoln Remembrance Ceremony. The program included Civil War-era songs and the recitation of the Gettysburg Address.

### External Factors

Maintaining the grounds, graves, and grave markers of national cemeteries as national shrines is influenced by many different factors. As time goes by, cemeteries experience a variety of environmental changes that may require extensive maintenance. Extremes in weather, such as excessive rain or drought, can result in or exacerbate sunken graves, sunken markers, soiled markers, inferior turf cover, and weathering of columbaria. For example, the 230-pound upright headstones and the 130-pound flat markers tend to settle over time and must be raised and realigned periodically. The frequency of this need varies depending on soil conditions and climate.

### Crosscutting Activities

VA continued its partnerships with various civic organizations that provide volunteers and other participants to assist in maintaining the appearance of national cemeteries. An interagency agreement with the Bureau of Prisons provides for the use of selected prisoners to perform work at national cemeteries. This agreement provides a supplemental source of labor to assist in maintaining the national cemeteries.

### Data Source and Validation

From 1996 through 2000, the source of data used to measure the appearance of national cemeteries was the NCA Visitor Comment Card. Since 2001, an annual nationwide mail survey, Survey of Satisfaction with National Cemeteries, has been NCA's primary source of customer satisfaction data. The survey collects data annually from family members and funeral directors who have recently received services from a national cemetery. To ensure sensitivity to the grieving process, NCA allows a minimum of 3 months after an interment before including a respondent in the sample population. The survey information provides a gauge to assess maintenance conditions at individual cemeteries as well as the overall system. NCA analyzes the information to ensure that we address those issues most important to our customers. This approach provides data from the customer's perspective, which are critical to developing our objectives and associated measures. The measure for cemetery appearance is the percent of respondents who agree or strongly agree that the overall appearance of the national cemetery is excellent.

VA headquarters staff oversees the data collection process and provides an annual report at the national level. MSN and cemetery level reports are provided for NCA management's use. The mail-out survey provides statistically valid performance information at the national and MSN levels and at the cemetery level for cemeteries having at least 400 interments per year.

## ENABLING GOAL

*Deliver world-class service to veterans and their families by applying sound business principles that result in effective management of people, communications, technology and governance.*

VA's enabling goal and its corresponding objectives represent crosscutting activities that enable all organizational elements to carry out the Department's mission. To that end, VA will operate as a veteran-focused organization. We will work together to implement crosscutting processes that enable us to provide high quality, accessible, and timely information and service through effective communication, development and maintenance of a high-performing workforce, application of state-of-the-art technologies, and effective governance of core management processes.

This table identifies estimates of the total resources devoted to this goal and its associated objectives:

<b>Resources by Goal and Objective</b>	<b>FY 2002 Obligations</b>	<b>% of Total VA Resources</b>
<b>Total VA Resources</b>	<b>\$58,899</b>	
<b>Strategic Goal</b>		
Deliver world-class service to veterans and their families by applying sound business principles that result in effective management of people, communications, technology and governance.	<b>\$560</b>	<b>1.0%</b>
<b>Objective</b>		
<i>Recruit, develop, and retain a competent, committed, and diverse workforce that provides high quality service to veterans and their families.</i>	<b>\$96</b>	<b>0.2%</b>
<i>Improve communications with veterans, employees, and stakeholders about the Department's mission, goals, and current performance as well as the benefits and services VA provides.</i>	<b>\$14</b>	<b>0.0%</b>
<i>Implement a One VA information technology framework that supports the integration of information across business lines and that provides a source of consistent, reliable, accurate, and secure information to veterans and their families, employees, and stakeholders.</i>	<b>\$60</b>	<b>0.1%</b>
<i>Improve the overall governance and performance of VA by applying sound business principles, ensuring accountability, and enhancing our management of resources through improved capital asset management; acquisition and competitive sourcing; and linking strategic planning, budgeting, and performance planning.</i>	<b>\$390</b>	<b>0.7%</b>

Although no key performance measures are associated with the enabling goal, there are a wide variety of activities under this goal that support high-quality service to our veterans:

- Enhanced accountability for performance
- Enterprise architecture
- Information security
- Program evaluation
- Capital asset management
- Greater use of performance-based contracts
- Procurement reform

**Note:** The item on budget account restructuring, which was previously reported under the Enabling Goal, now appears under the President's Management Agenda section on page 39.

### Enhancing Accountability for Performance

The Department has focused on the development of a planned, systematic approach to address VA's management and performance agenda, consistent with the President's Management Agenda, to ensure greater accountability for performance. To achieve this objective, VA established a three-tiered governance process designed to continually assess and improve the Department's management and performance agenda and its impact on mission accomplishment. The three tiers include the VA Executive Board (VAEB), the Strategic Management Council (SMC), and the six strategic management process owners who oversee the planning and operations of VA's major crosscutting management processes. Major policy and management issues are vetted in an integrated Departmental forum through the VAEB and SMC.

Beginning in December 2001, the Deputy Secretary has held monthly performance review meetings with administration and staff office heads who report progress on major organizational initiatives, adherence to budget, FTE, and key performance elements. By doing this, VA is linking performance directly to our strategic plan on a month-by-month basis. Decisions regarding the management of VA are made as a result of the information presented at these meetings.

Streamlining business practices, optimizing performance, and encouraging implementation of innovative asset management initiatives are hallmarks of VA's approach to capital asset management, which the SMC oversees. VA is currently developing a comprehensive capital asset inventory of significant assets by type, utilization, cost, market value, size, location, historical status, environmental issues, physical assessment, and liabilities. It is also testing a major new asset initiative, the Capital Asset Management System (CAMS), which is a performance management system that will oversee the Department's capital asset management/portfolio performance. CAMS provides for life-cycle portfolio management across the enterprise and integrated business programs. It will capture, track, and evaluate capital assets and provide for measurement and accountability of VA's investments and will demonstrate the strategic alignment, health, value, and risk of investments, which will provide for more informed capital asset decision-making. VA has established seven capital asset portfolio goals and the CAMS will facilitate achievement of these goals through effective capital asset portfolio and performance management.

In July 2002, the Secretary established the VA Business Oversight Board. The Board serves as the Department's senior management forum on business activities and is chaired by the Secretary of Veterans Affairs. Its mission is to review and oversee the performance, efficiency, and effectiveness of Departmental business processes. The business processes include, but are not limited to, procurement, collections, capital portfolio management, and business revolving funds. Activities currently being reviewed by the Board include procurement reform, Medical Care Collection Fund, Consolidated Mail Outpatient Pharmacy, Franchise Fund, Supply Fund, and Capital Asset Management.

VA conducted a Departmentwide survey in 2001, in an effort to foster an environment that attracts, retains, and cultivates a dedicated and highly skilled workforce. In 2002, an Employee Survey Action Team was charged with proposing initiatives, based on the results of the employee survey, to enable VA

to become an employer of choice and provider of world-class service to our Nation's veterans. The team benchmarked employee survey metrics and best practices for action planning and improving employee satisfaction in both public and private sectors. Team members are developing short- and long-term strategies to address the most critical Departmentwide issues identified by the survey, as well as developing a plan and timelines to identify actions taken, measure change over time, and assess the success of implemented interventions.

Employee performance is integral to VA's ability to accomplish its mission. To ensure that the Department builds a results-oriented and high performing workforce, differentiates between high and low performance, and links individual and team performance to organizational goals, VA is conducting a review of the current performance appraisal and recognition programs. A VA work group is identifying performance appraisal options that ensure accountability and foster high performance, options that link performance to employee recognition and awards, and a strategy to address barriers to effective performance management practices.

These efforts supplement the already extensive accountability efforts each of VA's business lines have undertaken this year, including an enhanced focus on workforce and succession planning; improving VA's working environment; increasing productivity; enhancing performance and rewards practices; and structuring organizations, work, and work processes to better support mission accomplishment.

## Enterprise Architecture

Enterprise architecture (EA) represents the guiding principle for streamlining and modernizing VA's information technology. The "enterprise" is VA and the "architecture" is the complex framework of processes, systems and programs by which VA provides health care and benefits to veterans and their families. In 2002, the Office of the Chief Information Officer (CIO) accomplished the following in its responsibility for EA:

- Developed the *One VA EA Implementation Plan* for 2002. The plan was approved by the Information Technology Board (ITB) on April 22, 2002, and specified the approach to be taken in the development of the initial version of the *One VA EA*.
- Developed Version 1.0 of the *One VA EA*. This document established enterprise business functions and key enabling functions to organize the top-level views from a business-focused, top-down perspective. It established detailed requirements for compliance and mechanisms for validation of that compliance at multiple events and in multiple Departmental processes including the project management oversight process, capital planning process, and the overall budget submission preparation process. The Secretary approved the document in August 2002.
- Issued a *One VA EA* directive requiring Departmental compliance with three documents: the EA Strategy, Governance and Implementation document; the *One VA EA Implementation Plan*; and the *One VA EA* itself.

## Information Security Program

The Office of Cyber Security (OCS) is responsible for providing services to the veteran that protect the confidentiality, integrity, and availability of their private information; enable the timely, uninterrupted, and trusted nature of services provided; and provide assurance that cost-effective cyber security controls are in place to protect automated information systems from financial fraud, waste, and abuse. OCS accomplished the following during 2002:

- Received approval from the Department's Strategic Management Council on the Enterprise Cyber Security Infrastructure Project. The project merges VA's actions to implement a Departmentwide Intrusion Detection System (IDS) capability and, concurrently, upgrade IT security controls on Internet Gateways.
- Increased OCS staffing and an operating budget of \$28 million.

- Began implementation of a Departmentwide IDS to secure VA's data systems from deliberate external attack. As envisioned, the IDS effort will include a 24/7 Strategic Operations Center (SOC) to provide real-time analytical incident support, event correlation and analysis, audit log analysis, vulnerability scanning, and penetration scanning. Additionally, the SOC will provide a global "early warning" information-sharing network, in cooperation with homeland defense; law enforcement; and federal agency, vendor, university, and international emergency response teams.
- Upgraded the security features on the Department's external Internet connections to mitigate peripheral threats.
- Developed an extensive cyber security remediation plan to address the deficiencies identified in the Government Information Security Reform Act survey.
- Established one of the largest single entity anti-virus capabilities in the world. This capability provides automated anti-virus scans for 150,000 IT desktops connected to VA's Intranet. Automated records maintained by this capability indicate that VA's anti-virus program has detected, contained, and/or eradicated nearly one-half million viruses during the past 6 months.
- Instituted a professionalization program for cyber security practitioners.
- Developed an IT system certification and accreditation program.

### Program Evaluation

Program evaluations are used to assess, develop, and/or update program outcomes, goals, and objectives and to compare actual program results with established goals. Several program evaluations were conducted in 2002.

In 2002, VA initiated a comprehensive evaluation of the Department's emergency preparedness and its ability to perform its mission of health care backup to DoD and to the Nation while continuing to fulfill its primary mission of service to veterans.

The design of the evaluation allows for diverse areas of responsibility to be explored independently. The final product will synthesize the eight component studies:

- Vulnerability assessment of VA facilities;
- Manpower analysis;
- Vital records;
- Laboratories and pharmacies;
- Information technology and telecommunications;
- Federal, regional, and local commitments;
- Financial systems; and
- Continuity of operations.

The National Institute of Building Sciences (NIBS), a Congressionally chartered, non-profit organization bringing together representatives of government, the professions, industry, labor, and consumer interests, assembled a working group of security experts in various building sciences professions to assist VA in articulating criteria for identifying and ranking the Department's critical structures and for on-site vulnerability assessments. The NIBS work group reported its recommendations to the Secretary in September 2002. The recommended methodology includes a two-step process: first defining criticality along six dimensions and then identifying vulnerabilities under various threat scenarios. The tool developed was piloted at three facilities. The next step will be to conduct vulnerability assessments of VA facilities.

Based upon supporting data presented in the comprehensive evaluation *Benefits for Survivors of Veterans with Service-Connected Disabilities*, which was completed in 2001, VA management, working with Congress, reviewed the adequacy of the safety net provided by VA insurance and dependency and indemnity compensation programs. Changes that have been made to these programs include:

- Raising Servicemembers' Group Life Insurance (SGLI) coverage to \$250,000 (April 2001);
- Providing an optional family coverage plan to SGLI (November 2001);

- Reducing premium rates and restructuring Veterans' Group Life Insurance premiums, making them more comparable to commercial rates and premiums (July 2001 and October 2002);
- Improving Veterans' Mortgage Life Insurance outreach to people who have received specially adapted housing grants; and
- Increasing dissemination of information about all insurance programs to persons released from military service.

Evaluations of the cardiac care and prosthetics programs were scheduled to be completed in 2002; however, additional analyses of the data and extensive technical review of draft deliverables were required. These evaluations are now scheduled to be completed in the second quarter of 2003. An evaluation of VA's home loan program was begun with award of a contract in September 2002; this evaluation is scheduled to be completed in the first quarter of 2004.

An evaluation of nonservice-connected pension for veterans and survivors and parents' dependency and indemnity compensation is underway. OMB approval for conducting a beneficiary survey was received in September 2002. This evaluation is scheduled for completion in the third quarter of 2003.

### **Capital Asset Management**

Streamlining business practices, optimizing performance, and encouraging implementation of innovative asset management initiatives are hallmarks of VA's approach to capital asset management. VA is committed to a comprehensive, corporate-level approach to capital asset management. This approach helps VA link asset decisions closely to its strategic goals, elevates awareness of its assets, and employs performance management techniques to monitor asset performance on a regular basis. At the core of VA's capital asset business strategy is value management – striving to return value to VA's business and managing existing value for greater return.

The building of a comprehensive portfolio system requires a phased, methodical approach for implementation with a clearly defined structure, goals, measures, and benchmarks. During the past year, the following portfolio goals were established:

- Decrease operational costs;
- Reduce energy utilization;
- Decrease underutilized capacity;
- Increase intra/inter-agency and community-based sharing;
- Increase revenue opportunities;
- Maximize highest and best use;
- Safeguard assets

In order to facilitate achievement of these goals through effective capital asset portfolio and performance management, VA is developing a Departmentwide capital asset management system (CAMS). It will provide for life-cycle portfolio management across the enterprise and integrated business programs. CAMS will capture, track, and evaluate capital assets and provide for measurement and accountability of VA's investments. From May through August 2002, a proof-of-concept was successfully conducted for VA leases and information technology using a commercial portfolio management tool. As part of the CAMS development effort, a method was established in VA's financial management system to enable tracking of actual project expenditures and portfolio expenditures; for the first time, VA can report actual capital spending. VA's portfolio management system demonstrates the strategic alignment, health, value, and risk of investments, which will provide for more informed capital asset decision-making.

VA's enhanced-use leasing program continues to produce exciting results in support of VA's portfolio goals. The enhanced-use leasing authority authorizes VA to fund cost-effective alternatives to traditional means of acquiring and managing its facility and capital holdings. It permits the long-term out-lease of underutilized VA property to non-

## Enabling Goal

VA entities for uses compatible with VA's mission in return for in-kind consideration such as facilities, services, and/or money that would otherwise be unavailable. This program has significantly reduced costs to the Department and has provided corresponding benefits to veterans, employees, and the local community. Enhanced-use lease projects address a broad array of initiatives including

mixed-use development projects, residential care and temporary lodging facilities, energy plants, elder care facilities, child development centers, and parking facilities.

In 2002, seven enhanced-use lease projects were awarded:

Enhanced-Use Lease Projects Awarded in 2002			
VA Property			Project Type
VAMC	Durham	NC	Mixed use/Research
VAMC	North Chicago	IL	Medical school
VAMC	North Chicago	IL	Energy center
VAMC	Chicago West Side	IL	Energy plant
VAMC	Chicago West Side	IL	Parking/RO collocation
VAMC	Batavia	NY	Transitional housing
VAMC	Tuscaloosa	AL	Hospice

## Integrated Management of VA's Information Technology Portfolio

Guidelines for implementing the IT integrated management process have been drafted. This process is an integrated approach to managing IT projects that provides for their continuous identification, selection, control, and evaluation.

The process starts with the initial concept of the project and goes through system production and deployment and post-implementation reviews.

As shown in the table below, 19 milestone reviews have been conducted to date on major IT initiatives. Milestone reviews are a key aspect of the IT integrated management process.

### Milestone Review Status of Major IT Initiatives

Milestone 0 Review Project Initiation Request	Milestone 1 Review Prototype Development Approval	Milestone 2 Review System Development Approval	Milestone 3 Review System Deployment Approval	Milestone 4 Review Post-Implementation Review
Telecommunications	Telecommunications	Enterprise Cyber Security Infrastructure Project	Government Computer-based Patient Record	VistA Legacy
Enterprise Cyber Security Infrastructure Project	Enterprise Cyber Security Infrastructure Project	VBA National Telephone Strategy	VETSNET Chapter 18	Nationwide Enrollment System
Corporate Data Center Integration	VistA Pharmacy	CoreFLS		Financial Management System
VA Learning Management System	VistA Scheduling	VETSNET		The Image Management System
		Employee Express		

## Making Greater Use of Performance-based Contracts

The intent of this management reform is to convert service contracts that are awarded and administered using traditional specifications into an acquisition process that utilizes performance-based contracting. The use of performance-based contracts permits the Government to receive an enhanced level of service at a reduction in overall costs. This enhancement occurs as the result of increasing the flexibility of the contractor to perform the work, while reducing the administrative costs of operating such contracts.

VA has made progress in terms of converting existing and new service contracts at both the field station and national contract levels into performance-based contracts. In addition, the Department demonstrates continued support for performance-based contracting by providing ongoing continuing education on this subject to its contracting officers and allied acquisition professionals. This training has included both classroom and online courses.

To more fully monitor the Department's level of success in converting to this performance-based contract approach, a cyclical reporting mechanism has been established through the Federal Procurement Data System. Through this system, the Department will be able to analyze the types of conversions, the dollars obligated, and the level of conversion to performance-based contracts.

In 2002, VA prepared and administered contracts for pharmaceuticals, medical equipment and supplies, and subsistence for federal agencies. These contracts are managed as Federal Supply Schedules, national contracts, and competitive contracts for special purchases; all reflect savings from commercial prices. Other federal agencies are also able to take advantage of these contracts. In addition to the savings from commercial prices, discounts are negotiated and competed on items VA purchases in high volumes. The general public receives benefits through sound management practices of purchasing the best possible product at the lowest price. VA also provides support to the

Centers for Disease Control and Prevention and other agencies in the Department of Health and Human Services in times of emergency.

## Procurement Reform

VA spends more than \$6 billion annually for pharmaceuticals, medical and surgical supplies, prosthetics, information technology, construction, and services. VA's acquisition system is vital, not only because of its magnitude, but because of its critical role in ensuring VA can deliver timely services to our Nation's veterans in an efficient and cost-effective manner.

To optimize the performance of VA's acquisition system, the Secretary of Veterans Affairs established a Procurement Reform Task Force in June 2001. Task force members were charged with reviewing VA's entire acquisition system and processes and recommending specific improvements to strengthen the system's performance and effectiveness.

To meet this challenge, the task force decided to focus its efforts on areas that offer substantial near-term savings and have high potential for sustainable improvements. In addition, the task force sought to address key VA-wide issues that impact the effectiveness of the acquisition system. Three areas were excluded from the scope of work: IT acquisition and capital asset acquisitions because these issues were being addressed separately; and pharmaceutical purchases because this area improved significantly with considerable management attention. All other acquisitions fall within the scope of the review. To optimize VA's acquisition system, the task force established the following five major goals:

- Leverage purchasing power of VA;
- Standardize commodities within VA;
- Obtain and improve comprehensive VA procurement information;
- Improve VA procurement organizational effectiveness; and

## *Enabling Goal*

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- Ensure a sufficient and talented VA acquisition workforce.

Task force members consulted extensively with other government agencies and private-sector organizations, as well as with VA staff, to identify best practices and innovation opportunities. As described in the Procurement Reform Task

Force Report, dated May 2002, the task force's recommendations are being implemented and are providing a solid foundation to improve the efficiency, cost-effectiveness, and accountability of VA's acquisition system. The Secretary recently approved the establishment of the VA Business Oversight Board, which will measure progress in implementing the goals.

# ASSESSMENT OF DATA QUALITY

The quality of VA data has continued to improve; it supports business planning and day-to-day decision-making activities. Each program office has initiated specific improvement actions. In addition, the Office of the Inspector General (OIG) has conducted audits to determine the accuracy of our data. We consider OIG reviews to be independent and objective. The following discussion describes in detail the actions each VA administration has taken to improve its data quality.

## Veterans Health Administration

Data reliability, accuracy, and consistency have been a targeted focus of VHA for the past several years. The principles of data quality are integral to VHA's efforts to provide excellence in health care. In 2001, the Under Secretary for Health commissioned a new high-level cross-cutting task force on data quality and standardization whose membership includes the chief officers from VHA's Office of Quality and Performance, Office of Policy and Planning, Chief Network Office, and the Office of Information. This task force has focused on strategic planning to provide consistent definitions of clinical and business data for more effective clinical and organizational decision support. The members will seek collaboration with other parties including DoD, Indian Health Service, private sector health care providers, and standards organizations.

VHA's commitment to quality data was confirmed by the results of a recent draft report of an OIG audit of the validity of data collection of the quality measures that VHA tracks, CDCI II and PI II. The draft report indicates a high degree of accuracy and that there will most likely be no recommendations.

VHA has long been recognized as a leader in documenting credentials and privileges of VA health care professionals. In 2001, VHA implemented a new electronic data bank, VetPro, on health care professionals' credentialing,

in partnership with the Department of Health and Human Services. VetPro promotes and demonstrates to other federal and private agencies the value of a secure, easily accessible, valid data bank of health professionals' credentials.

VetPro improves the process of ensuring that health care professionals have the appropriate credentials for their clinical roles. It also helps VHA verify that practitioners have a good and desirable track record, consistent with high-quality and safe patient care. When a doctor or dentist is credentialed using VetPro, a permanent electronic file is created that will be accessible across the VA system and other federal health care programs. The process of updating credentials is streamlined because files are not redone from scratch. As providers add information, the credentialers who create the permanent record verify it. The Joint Commission on Accreditation of Health Care Organizations reviewed VetPro and stated, "The program appears, if used as designed, to be consistent within considerable detail with the current Joint Commission Standards..." As evidence of the effectiveness of this system, VetPro was awarded a Trailblazer Award at the 2002 e-Gov conference.

The VHA Data Consortium addresses organizational issues and basic data quality assumptions. The consortium works collaboratively to improve information reliability and customer access for the purposes of quality measurement, planning, policy analyses, and financial management. The ongoing initiatives and strategies address data quality infrastructure, training and education, personnel, policy guidance, and data systems.

The VHA data quality coordinator, along with data quality workgroups, provides guidance on data quality policies and practices. Several ongoing initiatives that support the integrity and data quality of coding include:

- Development of strategies and standard approaches to help field staff understand the data content and meaning of specific data elements in VHA databases;
- Development of coding resources for field facilities, to include negotiating the purchase of knowledge-based files/edits from Ingenix™ for use within the Veterans Health Information Systems and Technology Architecture (VistA). This supports the use of national code sets, Current Procedural Terminology, 4<sup>th</sup> Edition (CPT-4), and Health Care Financing Procedural Coding System (HCPCS) Level II.
- Complete revision of VistA software to accommodate the requirement of versioning for national code sets to comply with the Health Insurance Portability Accountability Act for use of those code sets involving health care claims.

To support the need for guidance in medical coding, VHA established the Health Information Management (HIM) Coding Council. The council, comprised of a panel of credentialed expert coders with support from VHA HIM Central Office staff, researches and responds within 24 hours to coding questions, citing official references. The council also completed an update to the national coding handbook, which provides expert guidance to field facilities. This handbook standardizes guidelines for complete and accurate coding.

VHA's Office of Information sponsors the "Close Encounters" newsletter, which provides expert guidance to field facilities on encounter forms, insurance billing, coding, and Centers for Medicare and Medicaid compliance. It also sponsors a data quality newsletter, "Data Quality Highlights," which provides data quality facts and tips.

Training and education opportunities that support data quality initiatives and compliance (such as the airing of national satellite broadcasts on data quality issues) are provided to staff. Recent topics included external impacts on data reliability, inpatient professional services, national standard code set updates, and internal data requirements of the Veterans Equitable Resource Allocation (VERA) funding model.

The VHA Revenue Cycle Improvement Plan (September 2001) recognized medical record documentation as a vital part of the revenue cycle and recommended development and implementation of nationally standardized documentation templates and electronic encounter forms for use in VHA facilities. Documentation templates have been developed for primary care, mental health, eye care, acute and extended care "history and physicals," attending notes, physical, medical and rehabilitation, and surgery as appropriate, to support quality documentation and billing. These templates will be announced via a Computerized Patient Record System (CPRS) mailgroup and posted on the HIM Web site within the VHA Intranet. The Mental Health templates are currently posted.

The goal of the nationally developed templates is to produce a final product that supports quality documentation, supports coding, is user friendly and efficient, and meets compliance criteria. In addition, these templates avoid "cloning" of documentation, incorporate instructional text to avoid omission of appropriate information, take advantage of the newest CPRS graphical user interface (GUI) template functionality, and eliminate the duplication of manpower required to create templates at each facility. These templates also prompt providers to document the essential elements of the encounter. An important secondary goal is to assist sites in supporting all aspects of implementing and customizing CPRS GUI. Minimum template data elements were used in development and are recommended to be adapted locally to meet the needs of clinical staff.

Seventeen standardized, electronic encounter forms that capture coded data for an outpatient encounter were developed for use in CPRS and are being distributed nationally via software patches to the VistA Integrated Billing software. Use of the electronic forms will improve the accuracy of data capture for patient encounters, updating and populating the patient-specific problem list by reducing errors that arise from reliance on paper encounter forms and manual data entry. Standardization will also ensure that the national

code sets and code descriptions meet VHA guidelines and will reduce the initial need for 100 percent validation of each encounter form by sites. These “multi-page” encounter forms greatly expand the choices and specificity of diagnostic information available to the provider. Additionally, they will diminish the number of write-in diagnoses and improve the specificity of data capture.

The Patient Financial Service System (PFSS) project is the pilot implementation of a commercial billing and accounts receivable system in VHA. The PFSS is consistent with the current VHA strategy to improve the revenue program and will help determine the future revenue cycle business model to be implemented across VHA. This system will move VHA health care in the direction of industry standards. This project is being designed to incorporate business process improvements and commercial information systems that are proven in the private sector. In addition, the project will introduce commercial business practices and technology into VA. The VISN pilot project will comprise a combination of VA best practices and commercial best practices. The objectives of the pilot are to implement a commercial product, and study the effects on collections, improvements to the business process, and on information systems in a single test environment. Ultimately, the long-term strategy is to develop a scalable solution, which includes both a commercial solution and VA applications that can be implemented in all networks.

In addition to guidance, training, and education, the Office of Information is involved in several key projects that are targeted to improve data quality and system reliance. These include VHA’s Registration Enrollment Eligibility Maintenance and Enhancements project, which in part begins the process of standardizing data elements across the enterprise. The main focus of the project is to deploy an incremental solution that supports the *OneVA* registration/eligibility solution, allows a veteran to provide necessary information to VHA only once, and enables VAMCs to securely share complete administrative data. This project begins the process of identifying authoritative sources for

specific data and the specifications of those data elements from a business and technical perspective.

The Office of Information recently negotiated an agreement with the Environmental Protection Agency (EPA) to collaborate directly with them on development of a Meta Data Repository (MDR), which leverages work the EPA has already completed for the development of an MDR. An MDR is a system repository of data elements and database information that describes the data gathered within a system for business and technical purposes. This system serves as a tool to support data standardization within an organizational entity.

VHA also completed the implementation of a national Master Patient Index (MPI) in 2001. The MPI provides the ability to view clinical data from various VA medical facilities via the remote data view functionality within CPRS. The MPI provides the mechanism for linking patient information from multiple clinical, administrative, and financial records across VHA health care facilities, enabling an enterprise-wide view of individual and aggregate patient information. Responsibility for MPI data integrity exists on both corporate and facility levels. Software changes are underway to centralize data quality functions and resolution tools within this system to support quality care of our veterans.

## Future Efforts

VHA has examined its current health information processing environment in order to plan how to best implement improvements over the next 5 years. This assessment included the following:

- What a high-performance automated health system needs to provide;
- What the ideal health and information system would look like;
- What the advantages and disadvantages of our current system are;
- How best to use a phased approach for moving from the current to the ideal environment.

VHA is pursuing a move towards an ideal health and information system. This system would

promote the sharing of information any time, any place, by any authorized provider, and in real-time, while ensuring that stringent privacy and security regimes are maintained. It would maximize use of the best available technology to allow users to effectively manage across programs, time, and distance, and within budget constraints, while balancing the resource needs of health and information. This ideal health and information system will provide a high-performance platform that maximizes patient health.

In the near term, VHA continues to enhance the current *VistA* platform by completing the Decision Support System and implementing *VistA* Imaging. Based on the availability of funds, mid/long-term efforts will include the development of a health database accessible across all levels of care, times, locations, and providers; the enhancement of eligibility/enrollment processing to meet *OneVA* goals; the reengineering of the *VistA* Scheduling package; and enhancement or replacement of the billing and fee basis systems.

The following is a list of VHA participation in data standards initiatives:

- VHA is a member of the newly formed Consolidated Health Informatics (CHI). CHI is a committee comprised of Federal agencies with a common goal to identify, adopt and promote standards in health care. CHI broadens the existing DoD and VHA collaboration on standardization. This group recently endorsed the DoD agreement to adopt communication and data standards, which included Health Level 7 (HL7) 2.4 or higher XML encoded, LOINC for laboratory communication and X12N for the communication of health claims.
- VHA is a participant on the public-private initiative, Connecting for Health, sponsored by the Markle Foundation. This initiative is an effort to promote existing health standards and those that are in progress.
- VHA has active membership on numerous national standards development organizations

including HL7, X12, and the American National Standard Institute (ANSI). VHA is committed to adopting standards that enable interoperability of health care information to facilitate the communication of information to improve patient care.

### Veterans Benefits Administration

VBA is committed to an ongoing effort to ensure that the data utilized in its databases are available, verifiable, and reliable. The continued use of data quality methods and strategies is planned to cross all business lines and will affect all aspects of VBA's workflow process.

Some of the efforts VBA continues to undertake relate to human capital. The task force convened by the Under Secretary to review C&P claims processing presented many findings. Among the task force's conclusions was an assessment of employee error types and rates. Errors not only delay veterans from receiving the benefits for which they are eligible, they contribute to diminishment of the quality of our data.

C&P's work processes, the data generated by these processes, and the subsequent interchanges and reliance on these data demand high standards of data quality. To accomplish this, C&P will continue to move from a case management to a specialization approach. This specialization will allow for greater workload control, development of expertise by the staff, more accurate and consistent decisions, and more efficient and timely processing. These strategies, coupled with a significant reliance on information technology, will improve claims processing and the quality of data.

Further crossing-cutting efforts have been undertaken to achieve improvements in the quality of the data used by VBA stakeholders. Foremost was the establishment of the Office of Performance Analysis and Integrity (PAI). PAI will consolidate data quality functions of other offices whose responsibilities were geared to improving the value and quality of data collected by VBA.

Some of the accomplishments of PAI during the past fiscal year include:

- Expanded use of data mining technologies as a tool to identify and deter potential fraud, waste, and abuse. Data mining also highlights questionable data and system failures or anomalies. Examples include identifying questionable beneficiaries over 100 years old, non-suspended accounts with multiple returned payments, and discrepant data between various systems.
- Continuation of the Large Payment Verification Review, which began in October 2001. Lists of C&P payments over \$25,000 are provided to field stations for review and certification at the director level. As of October 2002, approximately 17,000 cases (valued at over \$800 million) have been reviewed, which led to an estimated \$2 million in recoveries from erroneous payments. The Program Integrity and Internal Controls staff works closely with C&P Service to facilitate and track this function to enhance program integrity and VBA fraud detection efforts.
- Creation of consolidated ‘non-essential’ returned mail centers as part of address correction efforts. With the wide use of electronic funds transfer (EFT), many beneficiary addresses have become out of date. To correct this problem, PAI in cooperation with C&P Service tested various options to identify correct address information for veterans regarding non-essential returned mail. Several vendor products are being tested and results are under evaluation, with the goal of deploying a nationwide contract to provide this online address capability to all VBA field offices.

One of VBA’s most significant accomplishments in seeking better information has been the creation of the Data Warehouse and Operational Data Store. These technologies are facilitating VBA in moving towards its goal of having reliable, timely, accurate, and integrated data across the organization. These

systems, however, are not involved directly in work processes and rely on the accuracy of the data created in the legacy systems. Nevertheless, data systems provide VBA managers and stakeholders with substantive analytical reports. Data quality improvement is achieved through cleansing, data validation, and other rules applied to the data prior to being stored in these environments.

Following are examples of some report modules brought online in the past year:

- The Human Resources Operations (HR Ops) Center, in its current form, allows authorized individuals to see information about VBA’s workforce through online PC access. This information can be used to determine trends such as the number, type, grade, and gender of our employees. HR personnel can work with the business lines to determine whether there are a sufficient number of people in the right job to do the work of a given office. As these data come directly from VA’s PAID system, it is as reliable as the data entered at the source. This system can, therefore, also be used to determine instances where the data in the source system is not as reliable/accurate as it should be. Should HR choose to continue the development activities for the HR Ops Center, even more useful data can be made available (e.g., retirement trends/predictions for succession planning and detailed employee information for ad hoc requests).
- The Shipboard Hazard and Defense (SHAD) database provides information on a specific category of veterans that could not be obtained elsewhere. The utility of this data is unmatched in that it provides VBA a way to contact veterans who were potentially exposed to hazardous conditions aboard U.S. naval vessels, and to monitor their compensation and pension benefits usage.
- Ad hoc requests ask for data from a single VBA source system or from multiple VBA source systems. Using established business rules (definitions of what the data

represent), consistent, useful, timely, and accurate information reports are provided to the requester. VBA business lines, external stakeholders, and interested parties (such as the Congressional Budget Office, General Accounting Office, and veterans service organizations), regularly request information on various cohorts of veterans concerning their compensation and pension benefits usage.

- Since the mid-1990's, VBA has conducted customer satisfaction surveys for all of its major business lines. In 2002, information on the quality of service delivery was obtained from compensation and pension claimants, persons receiving education benefits, homeowners with a VA loan, and veterans in (or having completed) the vocational rehabilitation program. (The insurance service conducts its own surveys of policyholders on a monthly basis). These surveys produce statistically valid performance data at the national, administrative, and local RO levels. In order to enhance the use of this information, all survey reports are posted on VBA's Intranet Web site. In addition, special analyses showing key drivers of customer satisfaction and comparisons of performance among ROs help focus service improvements. The surveys were designed to measure all aspects of the business process as experienced by the veteran or family member. The annual mail surveys follow the industry standard for pre-notification and follow-up reminders, resulting in high response rates. In 2002, there were at least 2 and as many as 5 years of comparable data within each business line, facilitating trend analyses. The Surveys and Research Staff in VBA's PAI office oversees the administration of these surveys and produces detailed analyses of customer satisfaction.

### **Initiatives:**

Many business line initiatives are being proposed that are expected to improve VBA work processes and are designed to ensure that data are reliable. Initiatives include:

- TPSS (*Training and Performance Support System*) is an initiative that develops four comprehensive training and performance support systems for the core service delivery positions of the reengineered environment. The four systems are for basic rating, veterans service representatives, journey level rating specialists to include the Decision Review officers, and field examiners.
- EPSS (*Electronic Performance Support System*) is a comprehensive automated training program to employees responsible for processing claims.
- CAPER (*Compensation and Pension Evaluation Redesign*) tools assist in claims processing including development, evidence gathering, evidence assessment, and rating of disabilities.
- Virtual VA is an effort to replace paper folders by using computer databases.
- Thin Client is a consolidation of four separate databases storing data from TIMS (*The Imaging Management System*).
- The Education Expert System (TEES) is a redesign of an existing legacy system and further automation of work processes of the Montgomery GI Bill education program.

### **National Cemetery Administration**

Data on NCA workload and timeliness of marking graves are collected monthly through the Management and Decision Support System, the Burial Operations Support System (BOSS), and the Automated Monument Application System-Redesign (AMAS-R). After reviewing the data for general conformance with previous report periods, headquarters staff validates any irregularities through contact with the reporting station.

NCA determines the percent of veterans served by existing national and state veterans cemeteries within a reasonable distance of their residence by analyzing census data on the veteran population. Since 2000, actual performance has been based

on the VetPop2000 model developed by the VA's Office of the Actuary. VetPop2000 is the authoritative VA estimate and projection of the number and characteristics of veterans. It was the first revision of official estimates and projections since 1993. The VetPop2000 methodology resulted in significant changes in the nationwide estimate and projection of the demographic characteristics of the veteran population. These changes affected the individual county veteran populations from which NCA determines the percentage of veterans served.

Since 2001, NCA has used an annual nationwide mail survey to measure the quality of service provided by national cemeteries as well as their appearance. The survey provides statistically valid performance information at the national and Memorial Service Network (MSN) levels and at the cemetery level for cemeteries having at least 400 interments per year. The survey collects data annually from family members and funeral directors who received recent services from a national cemetery. To ensure sensitivity to the grieving process, NCA allows a minimum of 3 months after an interment before including a respondent in the sample population. VA headquarters staff oversees the data collection process and provides an annual report at the national level.

The number of headstones and markers provided includes markers ordered by the NCA Centralized

Contracting Division. The total number of Presidential Memorial Certificates issued, which includes those issued to correct inaccuracies, is reported monthly. Headquarters staff reviews the data for general conformance with previous report periods, and any irregularities are validated through contact with the reporting station.

When headstones or markers are lost, damaged, or incorrectly inscribed, it is important to determine both the cause and the party responsible for the expense of a replacement in order to improve performance. NCA developed new codes for ordering replacement headstones or markers and published a users guide showing definitions for all codes, including the replacement reasons. Use of these new codes has enhanced the BOSS and AMAS-R databases by producing reliable and accurate data on replacement actions and providing management with an effective tool for improving the overall business process.

### **Office of Inspector General (OIG) Performance Audits**

The OIG made an assessment of the Department's data quality in the Major Management Challenges section. This information is shown on pages 203 to 205.

# VETERANS BENEFITS ADMINISTRATION QUALITY ASSURANCE PROGRAM (MILLENNIUM ACT)

VBA maintains a quality assurance program independent of the field stations responsible for processing claims and delivering benefits. The following information about our programs,

including compensation and pension, education, vocational rehabilitation and employment, housing, and insurance, is provided in accordance with title 38, section 7734.

Cases Reviewed and Employees Assigned by Program		
	Cases Reviewed	Employees Assigned
Compensation and Pension	11,301	20.0
Education	1,541	1.0
Vocational Rehabilitation and Employment (VR&E)	3,243	5.0
Housing	30,518	7.0
Insurance	10,799	3.6

## Summary of Findings and Trends

### Compensation and Pension

Our current quality review methodology, Statistical Technical Accuracy Review (STAR), is outcome-based. Separate reviews are conducted for three distinct work areas: rating-related work products (disability or death determinations); authorization-related work products (generally not requiring a disability or death determination); and fiduciary work products.

Two separate categories are measured for the rating and authorization reviews. Benefit entitlement review ensures all issues are addressed, that VCAA-compliant claim assistance was provided, and that the resulting decision was correct, including effective dates. Decision documentation/ notification review includes adequate and correct decision documentation and proper decision notification. Following are 2002 results for rating and authorization reviews:

	Rating		Authorization	
	Reviewed	Accuracy	Reviewed	Accuracy
Benefit Entitlement	5,102	80%	3,597	79%
Decision Documentation & Notification	5,102	91%	3,597	76%

Fiduciary reviews include all review categories in a single overall report. The fiduciary review in 2002 resulted in an accuracy rate of 83 percent based on a review of 2,597 cases. This represented a great improvement over the prior year's accuracy rate of 67 percent. Close to 90 percent of the errors were in the area of protection, while benefit entitlement issues accounted for the remainder of the case errors. "Protection" includes oversight of the fiduciary/beneficiary arrangement, analysis of accountings, adequacy of protective measures for the residual estate, and any measures taken to ensure that VA funds are used for the welfare and needs of the beneficiary and recognized dependents. If any of the components of entitlement or protection are in error, the entire case is in error.

C&P STAR reports are based on the month that a case was completed, not when the case was reviewed. Cases worked during September were requested for submission for review no later than the end of the first week of November. Review of these cases continues. Their addition is not expected to significantly change the overall final accuracy for 2002.

### **Education**

Of the 1,541 cases reviewed, there were 110 decisions with payment errors and 340 with service errors (some cases had more than 1 service error). Eligibility and entitlement determinations constituted approximately 6 percent of the service errors. Development errors and due process notification errors were 21 and 22 percent, respectively, of the service errors. From 2001 to 2002, payment accuracy improved slightly from 92.0 percent to 92.6 percent.

### **Vocational Rehabilitation and Employment**

In 2002, VR&E conducted quality reviews on a total of 3,243 cases. The reviews were conducted over a 12-month period. The goal was to review at least 50 cases from each station. The actual number of cases reviewed ranged from 44 for smaller stations to 102 for larger stations. The difference

in the number of cases occurred as a result of the transition from the regional to local station reviews. Each station was reviewed twice during the year.

Following are the results from the balanced scorecards:

- Accuracy of entitlement determinations was 91 percent.
- Accuracy of evaluation planning and services delivery was 81 percent.
- Accuracy of fiscal decisions was 88 percent.
- Accuracy of outcome decisions was 81 percent.

An additional special review of 79 cases for independent living services was conducted during 2002.

### **Housing**

The housing program reviewed over 30,518 cases during 2002 under its statistical quality control program. These case reviews involved specific "yes" or "no" answers to over 118,049 separate questions. During these case reviews, approximately 2,665 defects were found (some cases reviewed had more than 1 defect) resulting in a national defect rate of 3.17 percent. The quality review results are provided to all loan guaranty divisions each month. The current national accuracy index is 96.83 percent.

The housing quality assurance program includes elements other than review of cases. The Lender Monitoring Unit performed 49 on-site audits and 53 in-house audits of lenders participating in VA's home loan program. The Portfolio Loan Oversight Unit (PLOU) is now an out-based element of Loan Guaranty Service, under the offices of the Assistant Director for Loan Management. PLOU reviewed billing invoices and completed contractor audits in addition to solving problems associated with portfolio loans and management of properties. In-house reviews are conducted on a continuous basis (over 47,800 were completed in 2002). Eight of PLOU's auditors participated in on-site reviews (involving 30 topics) of the contract servicer, Countrywide Home Loans, Inc. (CHL), at their Simi

Valley offices (November 2001). All pending legal issues in CHL's Plano, TX, facilities were reviewed by Loan Management, PLOU, and attorneys from Regional and General Counsel (June 2002). PLOU on-site performance reviews are conducted in cooperation with VA's oversight review team, whose members include: Loan Guaranty Service (Loan Management); the Indianapolis RO-based branch of Loan Management (PLOU); the Office of Inspector General (Financial Audit Division); the Office of Financial Policy (Financial & Systems Quality Assurance Service); and the Office of Resource Management (Finance and Administrative Services). Loan Guaranty staff conducted 11 on-site reviews of regional loan centers and eligibility centers identifying 224 strengths, 121 weaknesses, and 94 best practices, and mandating 59 corrective actions. A summary of best practices was distributed to all loan guaranty divisions. Accomplishment of these actions required 37.5 FTE employees in addition to the 7 FTE devoted to statistical quality control reviews.

### **Insurance**

The insurance program's principal quality assurance tool is the statistical quality control (SQC) review. It assesses the ongoing quality and timeliness of work products by reviewing a random sample of completed or pending work products. These work products are generally grouped into two broad categories based on the operating divisions in which they are performed.

The Policyholders Services Division, whose work products deal with the maintenance of active insurance policies, had an overall accuracy rate of 98.3 percent for 2002. Work products included correspondence, applications, disbursements, record maintenance, refunds, and telephone inquiries. The Insurance Claims Division is responsible for the payment of death and disability awards, the issuance of new coverage, and the processing of beneficiary designations. The accuracy rate for insurance claims work products was 97.9 percent. Work products included death claims, awards maintenance, beneficiary and option changes,

disability claims, and medical applications. In total, 98.1 percent of all 2002 insurance work products were accurate.

Regarding timeliness, 96.3 percent of the work products measured in the Policyholders Services Division were within timeliness standards, and 97.9 percent completed in the Insurance Claims Division were timely as well. In total, 97.2 percent of all 2002 insurance work products were timely.

The insurance quality assurance program also includes internal control reviews and individual employee performance reviews. The internal control staff reviews 100 percent of all employee-prepared disbursements and also reviews insurance operations for fraud through a variety of Awards Data Entry (ADE) Special Reports and Inforce Matching Reports. The ADE Special Reports are generated daily and identify death claims cases based on specific criteria that indicate possible fraud. Primary end products processed by employees in the operating divisions are evaluated, based on the elements identified in the Individual Employee Performance Requirements.

### **Actions Taken to Improve Quality**

#### **Compensation and Pension**

Review for the first quarter of 2002 identified VCAA-compliant development of claims including providing proper notification of what is required to substantiate a claim as an area of concern. The Under Secretary for Benefits issued a directive requiring re-training in this critical area for all individuals involved in processing claims. Combined with ongoing feedback from STAR review error notices, immediate progress was made in this area. Errors were reduced from 23 percent for the first quarter to 9 percent for the third quarter. Overall benefit entitlement accuracy improved from 72 percent for the first quarter to 82 percent for the third quarter.

Training remains a VBA priority. A variety of mediums are utilized including satellite broadcasts, training letters, computer-assisted training, and local training based on needs identified through on-going

local individual performance reviews. Particular effort is made to ensure high quality centralized training for new Veteran Service Representatives and Rating Veteran Service Representatives.

A uniform national individual performance review plan has been implemented with standardized review categories, sample size, and performance standards.

A significant effort was made this fiscal year to improve the clarity of rating decision documents. Guidelines were issued requiring that rating decisions, while adequately documenting the decision process, be prepared primarily for the claimant. Emphasis was placed on conciseness, readability, and clarity of communication. The goal is to simply and clearly state why a claim was granted or denied or why a particular evaluation was assigned.

VBA is continuing to work closely with VHA through the joint C&P Project Office in Nashville to improve the quality of examination requests and reports. Efforts include measuring request and report accuracy, developing training materials including videotapes and satellite broadcasts, and sponsoring quality improvement training sessions for key medical center and RO staff.

In the fiduciary field, while the areas of measurement did not change from the last fiscal year, the number of STAR reviews significantly increased, providing more feedback on quality to each RO for training purposes. Common STAR error findings were used for discussions and training during scheduled site visits and as agenda items for quarterly fiduciary program teleconference calls. No changes in the review areas are contemplated for 2003, other than to increase the number of reviews by approximately one-third to provide an even larger sampling.

### ***Education***

As in previous years, the 2002 quarterly quality review results identified error trends and causes; these become topics for RPOs in conducting

refresher training. Annual appraisal and assistance visit reports provided recommendations for improving specific quality areas. Payment accuracy improved slightly, while service accuracy declined slightly this year. Due to personnel developments in 2001, about 50 percent of the Education adjudicators were trainees at the beginning of 2002. Although turnover decreased during 2002, the majority of Education adjudicators are still relatively inexperienced. As they gain experience, overall quality will continue to improve.

The service area of notification was virtually unchanged in 2002, and it remains the most problematic area. For 2002, the checklist used for quality assurance reviews was modified to distinguish between errors in due process notices (for disallowance, reduction, or termination of benefits) and other notification errors. This allowed Education Service to determine that most notification errors were not due process errors but were in other less critical areas of internal and external notification. Overall, the rate of both due process and other notification errors was approximately the same for both 2001 and 2002, indicating that periodic refresher training in these areas must be continued until improvement is shown.

Education Service is continuing its project to develop standardized training and certification for employees. The first phase, covering claims processing tasks, will be completed in July 2003. The project is expected to have a significant impact in raising quality scores and maintaining them at high levels when the project is fully implemented over the next few years.

### ***Vocational Rehabilitation and Employment***

In early 2002, VR&E Service contracted with Booz-Allen Hamilton to evaluate the VR&E quality assurance (QA) program. The completed study presented recommendations to improve the QA processes. Recommended areas for improvement included the development of QA reports to be made available nationwide, redesign of the QA

infrastructure, and enhanced reviewer training. Recommendations for the QA processes will be implemented in 2003.

VR&E Service sent an instruction letter to all stations to review at least 10 percent of local caseloads.

### *Housing*

The Loan Guaranty Service in Central Office distributes the results of SQC reviews to field loan guaranty divisions on a monthly basis. In 2002, Loan Guaranty also began releasing a trend report to the field. This report identifies negative trends and action items found during 2002 surveys. It was published to assist the field in identifying frequent problems facing loan guaranty management. The current national accuracy index is 96.83 percent, an improvement of .83 percent since 2001. Summaries of best practices employed by individual field stations are distributed each quarter to all field stations with loan guaranty activity. National training is provided to enhance the quality of service provided to veterans and to increase lender compliance with VA policies. Lenders who significantly failed to comply with policies were either required to enter into indemnification agreements with VA or immediately repay the agency for its losses. Liability avoidance from VA audits of lenders during 2002 amounted to approximately \$1.2 million. The Lender Monitoring Unit also recovered approximately \$70,000 in overcharges, refunded directly to veterans. Additionally, Loan Management/PLOU recovery of excessive contractor charges in 2002 exceeded \$166,000. Amounts identified by PLOU to be recouped from various GI lenders (related to real estate tax penalties) exceed \$100,000 as of the end of 2002. An industry trade group sponsored a national training session for VA-guaranteed loan servicers, with the actual training conducted by Loan Administration personnel from the VBA regional loan centers. These sessions focused on approaches to assist veterans experiencing financial difficulty in order to help them retain their homes or to reduce Government losses when home retention was not feasible.

### *Insurance*

The Insurance Service utilizes SQC and employee performance review programs to measure quality and timeliness on an overall and individual basis. Both programs are valuable as training tools because they identify trends and problem areas. When a reviewer finds an error or discrepancy during a review, he or she prepares an exception sheet that clearly describes how the item was processed incorrectly. The noted item is then reviewed with the person who incorrectly processed the form.

SQC reviews are based on random samples of key work products and evaluate how well these work products are processed in terms of both quality and timeliness. Exceptions are brought to the attention of the insurance operations division chiefs, unit supervisors, and employees who worked the case.

VBA evaluates the Insurance Service SQC programs periodically to determine if they are functioning as intended. Such a review is now underway. Among the issues that are being examined are error and discrepancy classifications and sample sizes. The Insurance Service is also developing a new SQC program for the Veterans' Mortgage Life Insurance operation.

Individual employee performance reviews are based on the primary end products of employees in the operating divisions. Performance levels are based on the critical and non-critical elements identified in the Individual Employee Performance Requirements. Each month, supervisory or lead staff review a set number of end products selected through random sampling for both quality and timeliness. Items with errors are returned to the employee for correction. At the end of the month, supervisors inform employees of their error rates and timeliness percentages as compared to acceptable standards.

The insurance program has implemented the first four of more than a dozen job aids under its Skills, Knowledge and Insurance Practices and Procedures Embedded in Systems initiative (SKIPPEs). This program captures 'best practices' for processing

various work items and makes them available on each employee's desktop. It is expected that the SKIPPEs job aids will further reduce error rates and improve timeliness.

### **Standards of Independence**

Each program has staff who are responsible for quality assurance. These employees are completely independent of the field station personnel who process claims and deliver benefits with the exception of the VR&E Service. VR&E's quality reviews are performed by teams consisting of three representatives from headquarters along with rotating VR&E officers from the field. The General Accounting Office (GAO) reviewed the C&P Service's plan to increase staffing and review sufficient samples

to independently assess RO claims processing accuracy. A report was issued titled, "Veterans' Benefits: Quality Assurance for Disability Claims Processing" (GAO-01-930R VBA Disability Claims Processing) in August 2001. GAO concluded, "VBA's planned modification would bring the STAR system into compliance with our recommendation regarding standards on segregation of duties and organizational independence."

Rigorous reviews are conducted under published guidelines using detailed schedules in program manuals. Our quality assurance programs are subject to external review by oversight agencies such as the VA Office of Inspector General and GAO.



# PERFORMANCE MEASURES BY ORGANIZATION AND PROGRAM

In addition to VA's key performance goals, there are other supporting performance measures, identified and discussed in the following tables, by which VA evaluates its success. The tables show available trend data for a 5-year period and associated target levels of performance grouped by organization and program, including the total amount of resources (number of full-time equivalent employees and obligations) for each program. Within each group, the performance measures are structured as follows:

1. *Target was met or exceeded (green);*
2. *Target was not met, but the deviation did not significantly affect goal achievement (yellow);*
3. *Target was not met, and the difference significantly affected goal achievement (red).*

For each measure that resulted in non-achievement of a performance target (highlighted in red), we provide a brief explanation as to why there was a significant deviation between the actual and planned performance level, and identify what steps are being taken to ensure goal achievement in the future.

VA uses the balanced measures concept to monitor program and organizational performance. Rather than focusing attention solely on one or two types of performance measures, we examine and regularly monitor several different types of measures to provide a more comprehensive and balanced view of how well we are performing. While each of our major program elements uses a balanced family of measures, the specific measures vary somewhat from organization to organization, and thus, from program to program. The performance measures for each

organization have been tailored to fit the strategic goals of the programs for which each organization is responsible.

For example, VHA has developed performance measures corresponding to their "6 for 2008" strategic goals:

- put quality first until first in quality;
- provide easy access to medical knowledge, expertise, and care;
- enhance, preserve, and restore patient function;
- exceed patients' expectations;
- maximize resource use to benefit veterans;
- build healthy communities.

VBA has implemented a system of balanced performance measures. This system contains the major service delivery performance measures that mean the most to the veterans we serve, our stakeholders, and our employees:

- timeliness of claims processing;
- accuracy;
- customer satisfaction;
- unit cost;
- employee development.

NCA evaluates its performance in those areas identified by veterans and their family members as being most important to service delivery:

- reasonable access to a burial option in a national or state veterans cemetery;

## *Performance Measures*

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- quality of service provided;
- satisfaction with the appearance of national cemeteries as national shrines;
- quality and accuracy of headstones, markers, and Presidential Memorial Certificates;
- access to information about burial benefits and services provided.

Taken together, the measures in the following tables and the Department's key measures demonstrate the balanced view of performance VA uses in assessing how well we are doing in meeting our strategic goals, objectives, and performance targets.

The GPRA program activity structure is somewhat different from the program activity structure shown in the program and financing (P&F) schedules of the President's Budget. However, all of the P&F schedules (budget accounts) have been aligned with one or more of our programs to ensure all VA program activities are covered. The program costs (obligations) represent the total resources available for each of the programs, regardless of which organizational element has operational control of the resources. The performance measures and associated data for each major program apply to the entire group of schedules listed for that program.

Veterans Health Administration Performance Measures

Medical Care

P&F ID Codes: 36-0160-0-1-703; 36-0160-0-2-703; 36-5287-0-1-703; 36-5287-0-2-703; 36-5014-0-2-703; 36-2431-0-1-703; 36-5014-0-1-703; 36-0152-0-1-703; 36-0163-0-1-703; 36-4014-0-3-705; 36-4048-0-3-703; 36-4138-0-3-703; 36-8180-0-7-705; 36-0110-0-1-703; 36-0111-0-1-703; 36-0181-0-1-703; 36-4538-0-3-703; 36-4018-0-3-705; 36-0144-0-1-703; 36-4537-0-4-705; 36-4258-0-1-704

FY 1998    FY 1999    FY 2000    FY 2001    FY 2002 Actual    FY 2002 Plan

Resources

FTE	188,705	186,595	183,396	186,832	<b>187,583</b>	185,587
Medical care costs (\$ in millions)	\$17,623	\$17,859	\$19,434	\$21,653	<b>\$23,445</b>	\$23,531

Performance Measures

	Goal Achieved					
Percent of patients who use tobacco products	29%	27%	25%	27%	<b>25%</b>	27%
Dollars derived from alternative revenue generated from health care cost recoveries	\$560.1M	\$574M	\$573M	\$771M	<b>\$1,176M</b>	\$1,051M
Percent of all patients evaluated for the risk factors for hepatitis C	N/A	N/A	N/A	Baseline = 51%	<b>85%</b>	56%
Percent of all patients tested for hepatitis C subsequent to a positive hepatitis C risk factor screening	N/A	N/A	N/A	Baseline = 48%	<b>62%</b>	61%
Percent of pharmacy orders entered into CPRS by the prescribing clinician	N/A	N/A	N/A	Baseline = 74%	<b>91%</b>	85%
Percent cumulative reduction in excess capacity as a result of CARES. Total excess capacity will be identified by the CARES initiative	N/A	N/A	N/A	N/A	<b>10% see note</b>	10%

Note - The cumulative amount of excess space eliminated for 2002 is 322,860 sq. ft. This number is expected to reflect at least 10 percent of the total cumulative space of VISN 12 and, hence, meet the goal for 2002. However, the total cumulative excess space for VISN 12 is currently undergoing validation before declaring a final percentage.

Percent of VA-managed Federal Coordinating Centers that complete at least one NDMS casualty reception exercise every three years	N/A	50%	66%	63%	<b>76%</b>	75%
Increase the number and dollar volume of sharing agreements by 10% over the previous year (Baseline = FY 2000):						
DoD Agreements						
Number	N/A	N/A	717	604	<b>622</b>	604
Revenue	N/A	N/A	\$37.1M	\$61M	<b>\$83.4M</b>	\$ 63M

Veterans Health Administration Performance Measures

<i>Medical Care (Continued)</i>	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 Actual	FY 2002 Plan
Implement and maintain patient access to telephone care 7 days a week, 24 hours a day in all VISNs as follows:						
Number of VISNs providing basic telephone service (N - indicates total number of VISNs in 2002 were 21)	N/A	N/A	N/A	21	21	21N
Number of VISNs fully compliant with VHA Directive 2000-035, except for accreditation and direct access by clinical staff to clinical medical records	N/A	N/A	N/A	N/A	21	21N

(N - indicates total number of VISNs in 2002 were 21 due to consolidation of VISN 13 and VISN 14)

	Goal Not Achieved -- Minimal Difference					
Percent of Veterans Service Standard (VSS) problems reported per patient (decrease is intended direction):						
Patient Education	31%	31%	30%	30%	30%	29%
Visit Coordination	19%	16%	15%	16%	17%	15%
Quality-Access-Satisfaction / Cost VALUE Index	4.74	5.12	5.36	6.31	6.70	6.91

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	Goal Not Achieved -- Significant Difference					
Increase the number and dollar volume of sharing agreements by 10% over the previous year (Baseline = FY 2000):						
Non-DoD Agreements						
Number	N/A	N/A	1,136	2,506	2,400	2,600
\$ Purchased	N/A	N/A	\$290M	\$379M	\$412M	\$420M
\$ Sold	N/A	N/A	\$32M	\$49M	\$48M	\$54M

Non-DoD sharing agreements occur when VA has excess capacity. This year, with the surge in increased enrollment, resources were not available to enter into the number of sharing agreements originally planned.

	Baseline Data for New Measure					
Percent of patients with hepatitis C who have annual assessment of liver function	N/A	N/A	N/A	N/A	95%	Baseline

Veterans Health Administration Performance Measures

Special Emphasis Programs	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 Actual	FY 2002 Plan
	Goal Achieved					
Percent of veterans who were discharged from a Domiciliary Care for Homeless Veterans (DCHV) program, or community-based contract residential care (HCHV) program to an independent or a secured institutional living arrangement	N/A	50%	48%	75%	78%	75%
Percent of veterans who obtained employment upon discharge from a (DCHV) program or community-based contract residential care (HCHV) program	54%	55%	51%	51%	64%	59%
Percent of homeless patients with mental illness who receive a follow-up mental health outpatient visit, admission to a CWT/TR or admission to a PR RTP within 30 days of discharge	64%	65%	63%	63%	63% (as of 8/30/02)	63%
Percent of veterans using Vet Centers who report being satisfied with services and say they would recommend the Vet Center to other veterans	N/A	100%	100%	99%	99.7%	95%
Percent of spinal cord injury (SCI) respondents to the Performance Analysis Center of Excellence (PACE) Survey who rate their care as very good or excellent - Inpatient	55%	55%	52%	53%	55%	55%
Percent of SCI respondents to the Performance Analysis Center of Excellence (PACE) Survey who rate their care as very good or excellent - Outpatient	55%	55%	57%	58%	65%	55% (baseline)
Percent of brain dysfunction patients undergoing rehabilitation whose discharge scores on the Functional Independence Measure (FIM) are in the expected or higher than expected performance categories	N/A	N/A	N/A	69%	77%	71%
Percent of eligible patients undergoing rehabilitation for a lower extremity amputation whose efficiency scores using the Efficiency Pattern Analysis is classified into one of the three highest efficiency categories	N/A	N/A	N/A	64% Baseline	68%	65%
Blind Rehabilitation - Percent change in functional status from admission to discharge from a blind rehabilitation program or unit	N/A	N/A	100%	108%	101% (as of 6/30/02)	90%

Veterans Health Administration Performance Measures

<i>Special Emphasis Programs (continued)</i>	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 Actual	FY 2002 Plan
Percent of prosthetics orders delayed	2%	2%	1%	1%	1%	2%
Percent of randomly selected admissions to SIPP's programs that are enrolled in the Outcomes Monitoring program	N/A	N/A	N/A	85%	94%	85%

	Goal Not Achieved -- Significant Difference					
Percent of patients in specialized substance abuse treatment settings who have an Addiction Severity Index (ASI) assessment:						
Initial ASI	N/A	56%	60%	77%	75%	83%
Six-month follow-up ASI	N/A	N/A	N/A	23%	Data not available	28%

The target was not met because the ability to easily identify the patient where an initial Addiction Severity Index (ASI) is applicable was difficult for this patient population as there is movement within facilities and patients return to care at differing intervals after a relapse. An electronic 'patient locator' function was developed to assist with this problem but not until mid-year.

Percent increase in number of enrolled veterans who have access to home and community-based care when clinically appropriate (2000 baseline = ADC of 14,111)	N/A	N/A	N/A	14%	34%	55%
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Providing care in home- and community-based settings for veterans with complex, chronic diseases rather than institutions will reduce the total cost of care while honoring veteran preferences and improving quality of life. Despite a significant economic incentive for home-based primary care under the Veteran's Equitable Resource Allocation (VERA) system, the delay of 2 years in VERA funding and the uncertainty of future funding derivations under VERA made this area unclear during 2002 as to how best to proceed. The Office of Geriatrics and Extended Care has outlined an action plan to improve the incentives to expand home care and community based services in the future.

Veterans Health Administration Performance Measures

Medical Education

P&F ID Codes: 36-0160-0-1-703

FY 1998    FY 1999    FY 2000    FY 2001    FY 2002 Actual    FY 2002 Plan

Resources

Education costs (\$ in millions)	\$933	\$902	\$884	\$898	\$923	\$953
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Performance Measure

	Goal Achieved					
Medical residents' and other trainees' scores on a VHA survey assessing their clinical training experiences	N/A	N/A	N/A	84	83	81

Medical Research

P&F ID Codes: 36-0160-0-1-703; 36-016-0-1-703; 36-406-0-3-703

FY 1998    FY 1999    FY 2000    FY 2001    FY 2002 Actual    FY 2002 Plan

Resources

FTE	2,758	2,974	3,014	3,019	3,096	2,983
Research costs (\$ in millions)	\$725	\$779	\$830	\$877	\$963	\$969

Performance Measure

	Goal Achieved					
Increase by 5% over the previous fiscal year the number of HSR&D funded research projects related to health systems and methodology to evaluate outcomes	N/A	N/A	N/A	14	16	15

Veterans Benefits Administration Performance Measures

Compensation and Pension

P&F ID Codes: 36-0153-0-1-701; 36-0153-2-1-701; 36-0153-1-1-701; 36-0153-4-1-701; 36-0154-0-1-701; 36-0155-0-1-701; 36-0151-0-1-705; 36-0110-0-1-703; 36-0111-0-1-703

FY 1998      FY 1999      FY 2000      FY 2001      FY 2002 Actual      FY 2002 Plan

Resources

FTE	6,770	6,841	7,123	8,035	8,955	8,656
Benefits costs (\$ in millions)	\$20,242	\$21,112	\$22,054	\$23,277	\$25,665	\$24,900
Administrative costs (\$ in millions)	\$491	\$549	\$586	\$706	\$759	\$809

Performance Measures

	Goal Achieved					
Rating related actions - average days pending	119	144	138	182	174	186
National accuracy rate (authorization work)	70%	63%	51%	62%	79%	63%
National accuracy rate (fiduciary work)	51%	48%	60%	68%	82%	70%
Fiduciary Activities - Complete Initial Appointments & Fiduciary Exams (% not timely completed)	N/A	N/A	6%	12%	9%	9%

	Goal Not Achieved -- Significant Difference					
Overall satisfaction	57%	57%	56%	56%	56%	60%

\* Survey data were collected in FY 2001, analyzed and available in FY 2002.

Customer satisfaction is a lagging indicator that reflects our level of timeliness and quality. Although quality improved this year, timeliness did not. We expect satisfaction to improve as we realize improvements from recently implemented initiatives (such as a new award processing system, a more manageable workflow process, and more "user friendly" letters for communicating with veterans). For additional information on timeliness and quality refer to pages 48-53.

Non-rating actions - average days to process	32	44	50	55	60	52
Non-rating actions - average days pending	74	94	84	117	96	82

For the two measures above, heavy emphasis was placed on processing rating claims and the reduction of the respective backlog during FY 2002. In so doing, resources that could have been focused solely on these issues were diverted to assist with the rating backlog. The pension centers and workload management structure under the Claims Processing Incentive should help to bring the figures to goal in FY 2003.

Veterans Benefits Administration Performance Measures

*Compensation and Pension (Continued)*      FY 1998      FY 1999      FY 2000      FY 2001      FY 2002 Actual      FY 2002 Plan

Telephone activities - abandoned call rate	13%	9%	6%	6%	9%	4%
Telephone activities - blocked call rate	52%	27%	3%	3%	7%	4%

For the two measures above, heavy emphasis was placed on processing rating claims and the reduction of the respective backlog during FY 2002. In so doing, resources that could have been focused solely on these issues were diverted to assist with the rating backlog. Thus, there were a reduced number of resources dedicated to the customer service aspect of the claims process.

Pending Initial Appointments & Fiduciary Exams (% not timely completed)	N/A	N/A	N/A	N/A	16%	11%
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The pending initial exams measure was added to the balanced scorecard for the first time in FY 2002 to ensure that stations worked their older cases. Prior to that time, there was no penalty for a station if they carried an abnormally large inventory of older cases. At the same time both pending and completed examinations have increased since the beginning of the fiscal year in part due to the repeal of the Estate Limitation Law. This change in law was not considered when determining the goal for 2002. Since the majority of these claims have now been worked, we expect that stations will be able to make their goals in the following fiscal year.

The indicators below are the component end-products for the measure on average days to complete rating-related actions. We do not establish separate performance goals for these indicators. For a detailed discussion of rating-related actions timeliness, see the narrative on pages 48 to 53.

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	Claims Completed in FY 2002
Average days to process rating-related actions	128	166	173	181	223	796,814
Initial disability compensation	168	205	212	219	253	172,922
Initial death compensation/ DIC	89	111	122	133	172	29,973
Reopened compensation	141	182	189	197	242	467,589
Initial disability pension	94	112	115	130	123	39,553
Reopened pension	88	113	111	126	128	63,998
Reviews, future exams	61	104	108	119	127	15,867
Reviews, hospital	52	73	78	91	74	6,912

Veterans Benefits Administration Performance Measures

Education

P&F ID Codes: 36-0137-0-1-702; 36-0200-0-1-701; 36-8133-0-7-702; 36-2473-0-0-702; 36-0140-0-3-702; 36-4259-0-3-702 (Off Budget); 36-4260-0-3-702; 36-0151-0-1-705; 36-0111-0-1-703

Resources	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 Actual	FY 2002 Plan
FTE	927	849	781	852	864	942
Benefits costs (\$ in millions)	\$891	\$1,210	\$1,197	\$1,387	\$1,691	\$1,974
Administrative costs (\$ in millions)	\$66	\$70	\$66	\$64	\$75	\$89

Performance Measures

	Goal Achieved					
Compliance survey completion rate	80%	98%	94%	92%	93%	90%
Customer satisfaction-high ratings (Education)	76%	78%	78%	82%	86%	82%
Telephone Activities - Abandoned call rate (Education)	N/A	N/A	17%	13%	11%	11%
Employee job satisfaction (Education)	N/A	2.8	3.3	3.3	3.3	3.3

	Goal Not Achieved - - Minimal Difference					
Payment accuracy rate	94%	94%	96%	92%	93%	94%
Telephone Activities - Blocked call rate (Education)	60%	16%	39%	45%	26%	20%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Veterans Benefits Administration Performance Measures

Vocational Rehabilitation and Employment

P&F ID Codes: 36-0137-0-1-702; 36-0140-0-3-702; 36-4259-0-3-702 (Off Budget); 36-4260-0-3-702; 36-0151-0-1-705; 36-0111-0-1-703

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 Actual	FY 2002 Plan
<b>Resources</b>						
FTE	919	972	940	1,061	1,057	1,178
Benefits costs (\$ in millions)	\$406	\$412	\$439	\$427	\$487	\$441
Administrative costs (\$ in millions)	\$68	\$72	\$81	\$109	\$119	\$127

Performance Measures

	Goal Achieved					
Employment timeliness in average days	83	53	42	38	41	50
Employee development (Voc Rehab)	N/A	N/A	N/A	N/A	74%	67%

	Goal Not Achieved -- Minimal Difference					
Speed of entitlement decisions in average days	88	88	75	62	65	60
Accuracy of decisions (entitlement)	N/A	86%	89%	93%	91%	92%
Accuracy of decisions (fiscal)	N/A	94%	94%	86%	88%	92%
Serious Employment Handicap (SEH) rehabilitation rate	N/A	49%	62%	64%	62%	64%
Customer satisfaction (Access)	N/A	N/A	76%	76%	77%	79%
Customer satisfaction (Survey)	N/A	N/A	76%	74%	76%	80%
Accuracy of program outcome	N/A	N/A	N/A	N/A	81%	84%
Employee satisfaction (Voc Rehab)	N/A	N/A	N/A	3.5	3.5	3.6

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	Goal Not Achieved -- Significant Difference					
Accuracy of decisions (services)	85%	87%	86%	79%	81%	87%

The program initially set a very aggressive/stretch goal for this performance measure. While the program did not meet the FY 2002 goal, this measure did demonstrate improvement over FY 2001. The performance measure was impacted by the many improvements and initiatives, such as the first year of utilizing Corporate WINRS, Case Management, and Employment Specialist programs being deployed during the same time period as VR&E projected to reach this performance measure.

Veterans Benefits Administration Performance Measures

Housing

P&F ID Codes: 36-0137-0-1-702; 36-1119-0-1-704; 36-1119-0-2-704;  
 36-4127-0-3-704 (Off Budget); 36-4129-0-3-704 (Off Budget);  
 36-4025-0-3-704; 36-0140-0-3-702; 36-4259-0-3-702 (Off Budget);  
 36-0151-0-1-705; 36-0111-0-1-703

Resources	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 Actual	FY 2002 Plan
FTE	2,075	2,108	2,057	1,759	1,718	1,780
Benefits costs (\$ in millions)	\$1,676	\$1,811	\$1,866	\$540	\$874	\$986
Administrative costs (\$ in millions)	\$161	\$160	\$157	\$162	\$167	\$165

Performance Measures

	Goal Achieved					
Lender satisfaction	67%	67%	74%	74%	91%	76%
Property holding time (months)	N/A	6.7	N/A	8.2	8.5	9
Statistical quality index	N/A	N/A	94%	96%	97%	96%
Return on sale	99%	101%	N/A	108%	108%	100%

	Goal Not Achieved -- Minimal Difference					
Veterans satisfaction	90%	93%	93%	93%	93%	94%

The performance goal for this measure was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Veterans Benefits Administration Performance Measures

Insurance

P&F ID Codes: 36-0120-0-1-701; 36-4012-0-3-701; 36-4010-0-3-701;  
36-4009-0-3-701; 36-8132-0-7-701; 36-8150-0-7-701; 36-8455-0-8-701;  
36-0151-0-1-705; 36-0111-0-1-703

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 Actual	FY 2002 Plan
<b>Resources</b>						
FTE	563	548	525	507	479	520
Benefits costs (\$ in millions)	\$2,687	\$2,559	\$2,458	\$2,534	\$2,709	\$2,755
Administrative costs (\$ in millions)	\$40	\$40	\$40	\$41	\$40	\$42

Performance Measures

	Goal Achieved					
High customer ratings (Insurance)	95%	96%	96%	96%	95%	95%
Percent of blocked calls (Insurance)	17%	6%	4%	3%	1%	4%
Average hold time in seconds	35	20	20	17	18	20
Employee skills matrix (Insurance)	N/A	N/A	N/A	88%	88%	87%
Favorable IG audit opinion (Insurance)	Y	Y	Y	Y	Y	Y

	Goal Not Achieved -- Minimal Difference					
Employee satisfaction (Insurance)	N/A	N/A	3.3	3.3	3.6	3.8
Low customer ratings (Insurance)	2%	1%	2%	2%	3%	2%
Percent of insurance disbursements paid accurately	99%	99%	99%	99%	98%	99%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

National Cemetery Administration Performance Measures

Burial

P&F ID Code: 36-0155-0-1-701; 36-0129-0-1-705; 36-8129-0-7-705; 36-0183-0-1-705; 36-0110-0-1-703; 36-0111-0-1-703

Resources	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 Actual	FY 2002 Plan
FTE	1,328	1,357	1,399	1,385	1,454	1,460
Benefits costs (\$ in millions)	\$114	\$106	\$109	\$111	\$134	\$140

Administrative costs (\$ in millions):

Operating costs	\$84	\$92	\$103	\$116	137	\$130
State cemetery grants	\$6	\$5	\$19	\$24	41	\$42
Capital construction	\$79	\$21	\$30	\$33	61	\$109

Performance Measures

	Goal Achieved					
Cumulative number of kiosks installed at national and state veterans cemeteries	6	14	24	33	42	40
Percent of monuments ordered on-line by other federal and state veterans cemeteries using AMAS-R	N/A	65%	87%	89%	89%	89%
Percent of individual headstone and marker orders transmitted electronically to contractors	85%	88%	89%	92%	92%	92%
Percent of Presidential Memorial Certificates that are accurately inscribed	98%	98%	98%	98%	98%	98%
Percent of veterans served by a burial option only in a state veterans cemetery within a reasonable distance (75 miles) of their residence	N/A	10.3%	5.1%	6.6%	7.3%	7.2%

	Goal Not Achieved - - Minimal Difference					
Percent of veterans served by a burial option in a national cemetery within a reasonable distance (75 miles) of their residence	N/A	56.7%	67.5%	66.0%	66.6%	66.7%
Percent of headstones and markers that are undamaged and correctly inscribed	95%	95%	97%	97%	96%	97%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

**Board of Veterans' Appeals Performance Measures**

P&F ID Code: 36-0151-0-1-705

**Resources**

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 Actual	FY 2002 Plan
FTE	483	478	468	455	448	464
Administrative costs (\$ in millions)	\$38	\$40	\$41	\$44	\$47	\$47

**Performance Measures**

	Goal Achieved					
BVA Cycle Time	197	140	172	182	86	125

	Goal Not Achieved -- Minimal Difference					
Deficiency-free decision rate	89%	84%	86%	87%	88%	91%
Court remand rate	58%	65%	61%	97%	82%	80%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	Goal Not Achieved - - Significant Difference					
Appeals resolution time (days)	686	745	682	595	731	590

This measure begins with the receipt of the NOD and ends when a final decision has been rendered, it is not just a Board measure but a VA measure. The enactment of Public Law 106-475, the Veterans Claims Assistance Act of 2000 (VCAA) in November 2000, required the Board to remand almost half of its case dispositions to regional offices in order for the new law to be applied and ensure claimants' due process rights. Also, cases pending at the Court were remanded to the Board for further remand to the appropriate regional offices. Remands delay not only the individually affected cases, but, because by law we must process the oldest cases first, processing of newer appeals is delayed when remanded appeals are returned for readjudication. This large volume of additional remand caseload along with the expected increase in development time required for cases currently under consideration, resulted in an inevitable increase in the appeals resolution time. In February 2002, the Board began developing cases instead of remanding them to the regional offices. It is too early to tell how much time this will reduce the appeals resolution time but we believe it will have a positive impact.

Appeals decided per FTE	80.5	78.2	72.7	69.3	38.4	61.1
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As a result of enactment of the VCAA, regional offices readjudicated many cases and consumed additional time in development of current and new claims. Therefore, the number of appeals being forwarded to the Board was drastically reduced. A reduction in case receipts coupled with the startup of case development by the Board resulted in fewer decisions being produced. Neither of these occurrences was foreseen at the time of the Board's initial performance plan. The appeals receipts are now back to near historic rates.

Cost per case (BVA)	\$965	\$1,062	\$1,219	\$1,401	\$2,702	\$1,666
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The increase in the cost per case is attributable to the reduction in the number of decisions produced as explained under "Appeals decided per FTE."



Office of Inspector General Performance Measures

P&F ID Code: 36-0170-0-1-705

Resources	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 Actual	FY 2002 Plan
	FTE	322	342	354	370	393
Administrative costs (\$ in millions)	\$33	\$38	\$45	\$48	\$56	\$55

Performance Measures

	Goal Achieved					
Number of reports issued	171	162	108	136	169	160
Value of monetary benefits (\$ in millions) from:						
- IG investigations	\$17	\$24	\$28	\$52	\$85	\$30
- IG audit and health care inspection reviews	\$468	\$610	\$254	\$4,088	\$730	\$643
- IG contract reviews	\$250	\$47	\$35	\$42	\$62	\$48

	Goal Not Achieved -- Significant Difference					
Number of indictments, arrests, convictions, and administrative sanctions	366	696	938	1,655	1,621	1,675

The reactive nature of investigative work also means that accomplishments are dependent not only on our efforts, but those of the Assistant U.S. Attorneys who decide whether or not to accept cases, and who work to indict and convict. Not all efforts result in indictments and convictions. Not all cases require similar amounts of work or yield similar results. As happened this year, some cases yield extremely large financial benefits. We have also had several lengthy, complex cases involving murder of veteran patients, which have no monetary impact, but, does have great priority for us.



## *A Letter from the Chief Financial Officer*



I am pleased to report that the Department of Veterans Affairs continued to improve its fiscal management and accountability in many areas this past year. I am particularly proud of the unqualified opinion VA received on its financial statements from the external auditors, Deloitte & Touche. This success – VA’s fourth consecutive year with an unqualified opinion – gives our internal stakeholders, Members of Congress, and the American public greater confidence that VA is maintaining strong and effective stewardship of its resources.

We have taken major steps during FY 2002 to enhance our internal controls and to correct material weaknesses identified in last year’s audit. As of the end of FY 2002, the Department corrected three of six material weaknesses. These include Management Legal Representations, Management Ownership of Financial Data, and Reliance on Independent Specialists. A fourth material weakness, Loan Guaranty Application Systems, is being consolidated under a separate material weakness, IT Security Controls. The remaining material weakness is the Lack of an Integrated Financial Management System. Both IT Security Controls and Lack of an Integrated Financial Management System are being corrected through multi-year remediation plans that are scheduled for full completion in FY 2005 and FY 2006, respectively.

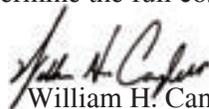
In addition, we corrected another material weakness, Inadequate Controls Over Addictive Drugs, which is one of five material weaknesses identified under the Federal Managers’ Financial Integrity Act (FMFIA). The other four FMFIA material weaknesses include Personnel Accounting Integrated Data (PAID) System - Mission Performance, Housing Credit Assistance Program, Inadequate Controls/Weaknesses in the Compensation and Pension Payment Process, and Compensation and Pension System - Lack of Adaptability and Documentation.

We took the following major steps to correct the remaining material weaknesses:

- Continued migrating the core accounting functions from mixed systems to the departmental Financial Management System, pending implementation of the Core Financial and Logistics System (CoreFLS). Upon its implementation, VA will be in full compliance with the Federal Financial Management Integrity Act.
- Took proactive steps to improve security controls related to IT.
- Began updating the PAID system to bring it current with deferred functionality.
- Determined the amount of overpayments in each area of the Compensation and Pension program to ascertain the nature and causes of the overpayments, and implemented necessary corrective actions.

Continuing weaknesses underscore the importance of our effort to implement CoreFLS. When fully implemented in 2006, it will provide consolidation of financial and logistics processes and eliminate current inefficiencies, redundancies, and manual reconciliations. The new system will also mitigate the risk of material misstatement in our financial reporting.

We realize that successful compliance with the Government Performance and Results Act requires complete and accurate data. As a result, we have improved our data collection processes and we continue to scrutinize performance data and enhance our data validation. In addition, with the implementation of our new budget structure in FY 2004, we will be better positioned to determine the full cost of VA’s major programs.

  
William H. Campbell

# CONSOLIDATED FINANCIAL STATEMENTS

## DEPARTMENT OF VETERANS AFFAIRS CONSOLIDATED BALANCE SHEETS (DOLLARS IN MILLIONS)

AS OF SEPTEMBER 30,

	2002	2001
<b>ASSETS</b>		
<b>INTRAGOVERNMENTAL</b>		
Fund Balance with Treasury (Note 3)	\$ 15,076	\$ 13,763
Investments (Note 5)	14,135	14,298
Accounts Receivable, Net (Note 6)	114	65
Other Assets	95	100
<b>TOTAL INTRAGOVERNMENTAL ASSETS</b>	<b>29,420</b>	<b>28,226</b>
<b>PUBLIC</b>		
Investments (Note 5)	214	205
Accounts Receivable, Net (Note 6)	1,199	1,276
Loans Receivable, Net (Note 7)	4,541	4,937
Cash (Note 4)	40	48
Inventories (Note 8)	82	94
General Property, Plant and Equipment (Note 9)	11,028	11,677
Other Assets	28	30
<b>TOTAL PUBLIC ASSETS</b>	<b>17,132</b>	<b>18,267</b>
<b>TOTAL ASSETS</b>	<b>\$ 46,552</b>	<b>\$ 46,493</b>
<b>LIABILITIES</b>		
<b>INTRAGOVERNMENTAL</b>		
Accounts Payable	\$ 74	\$ 77
Debt	3,026	1,917
Other Liabilities (Note 13)	2,016	2,889
<b>TOTAL INTRAGOVERNMENTAL LIABILITIES</b>	<b>5,116</b>	<b>4,883</b>
<b>PUBLIC</b>		
Accounts Payable	2,564	2,380
Liabilities for Loan Guarantees (Note 7)	5,662	5,310
Federal Employee and Veterans Benefits Liability (Note 11)	850,963	693,713
Environmental and Disposal Liabilities (Note 12)	271	260
Insurance Liabilities (Note 15)	12,870	13,064
Other Liabilities (Note 13)	6,090	5,818
<b>TOTAL PUBLIC LIABILITIES</b>	<b>878,420</b>	<b>720,545</b>
<b>TOTAL LIABILITIES</b>	<b>883,536</b>	<b>725,428</b>
<b>NET POSITION</b>		
Unexpended Appropriations	3,366	4,115
Cumulative Results of Operations	(840,350)	(683,050)
<b>TOTAL NET POSITION</b>	<b>(836,984)</b>	<b>(678,935)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 46,552</b>	<b>\$ 46,493</b>

The accompanying Notes are an integral part of these financial statements.

**DEPARTMENT OF VETERANS AFFAIRS**  
**CONSOLIDATED STATEMENTS OF NET COST (DOLLARS IN MILLIONS)**

<b>YEAR ENDED SEPTEMBER 30,</b>	<b>2002</b>	<b>2001</b>
<b>NET PROGRAM COSTS (NOTE 18)</b>		
Medical Care	\$ 21,963	\$ 20,129
Medical Education	1,019	778
Medical Research	807	730
Compensation	22,893	20,799
Pension	3,225	3,234
Education	1,317	1,026
Vocational Rehabilitation and Employment	504	543
Loan Guaranty	160	(232)
Insurance	66	54
Burial	402	258
<b>NET PROGRAM COSTS BEFORE CHANGES IN VETERANS</b>	<b>52,356</b>	<b>47,319</b>
<b>BENEFITS ACTUARIAL LIABILITIES</b>		
Compensation	156,700	139,400
Burial	600	-
<b>SUBTOTAL</b>	<b>157,300</b>	<b>139,400</b>
<b>NET NON-PROGRAM COSTS</b>	<b>659</b>	<b>542</b>
<b>NET COST OF OPERATIONS (NOTE 18)</b>	<b>\$ 210,315</b>	<b>\$ 187,261</b>

The accompanying Notes are an integral part of these financial statements.

*Consolidated Financial Statements*

**DEPARTMENT OF VETERANS AFFAIRS**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
**YEAR ENDED SEPTEMBER 30, 2002**  
(DOLLARS IN MILLIONS)

	<b>Cumulative Results of Operations</b>	<b>Unexpended Appropriations</b>
<b>Beginning Balances</b>	\$ (683,050)	\$ 4,115
Cumulative Effect of Changes in Accounting Principles (Note 22)	(618)	-
Subtotal	(683,668)	4,115
<b>Budgetary Financing Sources</b>		
Appropriations Received	-	52,931
Other Adjustments	-	(113)
Appropriations Used	53,567	(53,567)
Nonexchange Revenue	2	-
Donations	33	-
<b>Other Financing Sources</b>		
Donations of Property	15	-
Transfers-out	(909)	-
Imputed Financing	925	-
Other	-	-
<b>Total Financing Sources</b>	<b>53,633</b>	<b>(749)</b>
Net Cost of Operations	(210,315)	-
<b>Ending Balances</b>	<b>\$ (840,350)</b>	<b>\$ 3,366</b>

**DEPARTMENT OF VETERANS AFFAIRS**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
**YEAR ENDED SEPTEMBER 30, 2001**  
(DOLLARS IN MILLIONS)

	<b>Cumulative Results of Operations</b>	<b>Unexpended Appropriations</b>
<b>Beginning Balances</b>	\$ (543,126)	\$ 4,132
Cumulative Effect of Changes in Accounting Principles (Note 22)	-	-
Subtotal	(543,126)	4,132
<b>Budgetary Financing Sources</b>		
Appropriations Received	-	48,882
Other Adjustments	-	(196)
Appropriations Used	48,703	(48,703)
Nonexchange Revenue	5	-
Donations	31	-
<b>Other Financing Sources</b>		
Donations of Property	14	-
Transfers-out	(1,593)	-
Imputed Financing	862	-
Other	(685)	-
<b>Total Financing Sources</b>	<b>47,337</b>	<b>(17)</b>
Net Cost of Operations	(187,261)	-
<b>Ending Balances</b>	<b>\$ (683,050)</b>	<b>\$ 4,115</b>

The accompanying Notes are an integral part of these financial statements.

**DEPARTMENT OF VETERANS AFFAIRS  
COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 19)  
YEAR ENDED SEPTEMBER 30, 2002**

(DOLLARS IN MILLIONS)

	Budgetary	Credit Financing
<b>Budgetary Resources</b>		
Budget Authority	\$ 55,254	\$ 3,750
Unobligated Balance at the Beginning of the Period	15,481	4,678
Net Transfers-Prior Year Balance	(66)	-
Spending Authority from Offsetting Collections	4,130	5,641
Adjustments	(349)	(2,642)
<b>Total Budgetary Resources</b>	<b>\$ 74,450</b>	<b>\$ 11,427</b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred	\$ 58,871	\$ 6,111
Unobligated Balance Available	13,119	-
Unobligated Balance Not Yet Available	2,460	5,316
<b>Total Status of Budgetary Resources</b>	<b>\$ 74,450</b>	<b>\$ 11,427</b>
<b>Outlays</b>		
Obligations Incurred	\$ 58,871	\$ 6,111
Less Spending Authority from Offsetting Collections and Adjustments	(4,130)	(5,641)
Obligated Balance, Net Beginning of Period	7,354	114
Less Obligated Balance, Net End of Period	(7,819)	(103)
<b>Outlays</b>	<b>54,276</b>	<b>481</b>
Less Offsetting Receipts	(2,226)	-
<b>Net Outlays</b>	<b>\$ 52,050</b>	<b>\$ 481</b>

**DEPARTMENT OF VETERANS AFFAIRS  
COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 19)  
YEAR ENDED SEPTEMBER 30, 2001**

(DOLLARS IN MILLIONS)

	Budgetary	Credit Financing
<b>Budgetary Resources</b>		
Budget Authority	\$ 49,647	\$ 1,665
Unobligated Balance at the Beginning of the Period	16,096	5,408
Net Transfers-Prior Year Balance	(244)	-
Spending Authority from Offsetting Collections	3,675	5,253
Adjustments	(195)	(1,564)
<b>Total Budgetary Resources</b>	<b>\$ 68,979</b>	<b>\$ 10,762</b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred	\$ 53,379	\$ 6,083
Unobligated Balance Available	13,037	-
Unobligated Balance Not Yet Available	2,563	4,679
<b>Total Status of Budgetary Resources</b>	<b>\$ 68,979</b>	<b>\$ 10,762</b>
<b>Outlays</b>		
Obligations Incurred	\$ 53,379	\$ 6,083
Less Spending Authority from Offsetting Collections and Adjustments	(3,675)	(5,253)
Obligated Balance, Net Beginning of Period	5,370	32
Less Obligated Balance, Net End of Period	(7,354)	(114)
<b>Outlays</b>	<b>47,720</b>	<b>748</b>
Less Offsetting Receipts	(1,864)	-
<b>Net Outlays</b>	<b>\$ 45,856</b>	<b>\$ 748</b>

The accompanying Notes are an integral part of these financial statements.

## Consolidated Financial Statements

### DEPARTMENT OF VETERANS AFFAIRS CONSOLIDATED STATEMENTS OF FINANCING (NOTE 20)

YEAR ENDED SEPTEMBER 30,

2002

2001

(DOLLARS IN MILLIONS)

#### Resources Used to Finance Activities

Obligations Incurred	\$ 64,982	\$ 59,462
Less Spending Authority from Offsetting Collections and Adjustments	(9,771)	(8,928)
Obligations Net of Offsetting Collections and Adjustments	55,211	50,534
Less Offsetting Receipts	(2,226)	(1,864)
Net Obligations	52,985	48,670
Donations of Property	15	14
Transfers-out	(847)	(1,593)
Imputed Financing	925	862
Other Financing Sources	(11)	-
<b>Total Resources Used to Finance Activities</b>	<b>53,067</b>	<b>47,953</b>

#### Resources That Do Not Fund Net Cost of Operations

Change in Amount of Goods, Services and Benefits Ordered But Not Yet Provided	(38)	277
Resources that Finance the Acquisition of Assets	(7,078)	(7,403)
Resources that Fund Expenses Recognized in Prior Periods	(873)	(238)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations	5,829	5,585
Other	2	-
Total Resources That Do Not Fund Net Costs of Operations	(2,158)	(1,779)
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>50,909</b>	<b>46,174</b>

#### Costs That Do Not Require Resources in the Current Period

Increase in Annual Leave Liability	48	58
Increase in Environmental and Disposal Liability	12	20
Reestimates of Credit Subsidy Expense	793	937
Increase in Exchange Revenue Receivable from the Public	8	(2)
Increase in Veterans Benefits Actuarial Liability	157,300	139,400
Depreciation and Amortization	809	473
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	89	164
Loss on Disposition of Assets	89	111
Other	258	(74)
<b>Total Costs That Do Not Require Resources in the Current Period</b>	<b>159,406</b>	<b>141,087</b>

#### Net Cost of Operations

\$ 210,315	\$ 187,261
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The accompanying Notes are an integral part of these financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001  
(DOLLARS IN MILLIONS)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The Department of Veterans Affairs' (VA) consolidated financial statements report all activities of VA components, including the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA) and staff organizations. The consolidated financial statements meet the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GMRA) of 1994. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that VA is a component unit of the U.S. Government. VA fiscal year (FY) 2002 and FY 2001 financial statements are presented in conformity with the Office of Management and Budget's (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," as amended.

### Reporting Entity

The mission of VA is to provide medical care, benefits, social support, and lasting memorials to veterans, their dependents, and beneficiaries [(38 U.S.C. Section 301(b) 1997)].

The Department is organized under the Secretary of VA. The Secretary's office includes a Deputy Secretary and has direct lines of authority over the Under Secretary for Health (VHA), the Under Secretary for Benefits (VBA), and the Under Secretary for Memorial Affairs (NCA). Additionally, six Assistant Secretaries, an Inspector General, a General Counsel, and the chairmen of

the Board of Contract Appeals and the Board of Veterans' Appeals support the Secretary.

### Budgets and Budgetary Accounting

Budgetary accounting measures appropriation and consumption of budget/spending authority or other budgetary resources, and facilitates compliance with legal constraints and controls over the use of Federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of the purchase. Assets and liabilities that do not consume budgetary resources are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

### Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) standards and related concepts. The American Institute of Certified Public Accountants (AICPA) designated FASAB as the accounting standard-setting body for Federal governmental entities. As a result, accounting principles promulgated by FASAB are considered accounting principles generally accepted of the United States of America (GAAP) for Federal governmental entities.

### Revenues and Other Financing Sources

Exchange revenues are recognized when earned to the extent the revenue is payable to VA from other Federal agencies or the public as a result of costs incurred or services performed on their

behalf. Revenue is recognized at the point the service is rendered. Imputed financing sources consist of imputed revenue for expenses relating to legal claims paid by Treasury's Judgment Fund and post-retirement benefits for VA employees. Non-exchange revenue, e.g., donations, are recognized when received, and related receivables are recognized when measurable and legally collectible, as are refunds and related offsets.

## **Accounting for Intragovernmental Activities**

VA, as a department of the Federal Government, interacts with and is dependent upon the financial activities of the Federal Government as a whole. Therefore, these consolidated financial statements do not reflect the results of all financial decisions applicable to VA as though the department was a stand-alone entity.

In order to prepare reliable financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions were eliminated from VA's consolidated financial statements.

## **Fund Balance with Treasury**

The Department of the Treasury (Treasury) performs cash management activities for all Federal Government agencies. The Fund Balance with Treasury represents the right of VA to draw on the Treasury for allowable expenditures. Trust fund balances consist primarily of amounts related to the Post-Vietnam Educational Assistance Trust Fund, the National Service Life Insurance (NSLI) Fund, the United States Government Life Insurance (USGLI) Fund, the Veterans Special Life Insurance (VSLI) Fund, General Post Fund, and the National Cemetery Gift Fund. The use of these funds is restricted.

## **Cash**

Cash consists of Canteen Service and Loan Guaranty Program amounts held in commercial banks as well as Agent Cashier advances at VA field stations. Treasury processes all other cash receipts and disbursements. Amounts relating to

the Loan Guaranty Program represent deposits with trustees for offsets against loan loss claims related to sold loan portfolios.

## **Investments**

Investments are reported at cost and are redeemable at any time for their original purchase price. Insurance program investments, which comprise most of VA's investments, are in non-marketable Treasury special bonds and certificates. Interest rates for Treasury special securities are based on average market yields for comparable Treasury issues. Special bonds, which mature during various years through the year 2017, are generally held to maturity unless needed to finance insurance claims and dividends. Other investments from VA programs are in securities issued by Treasury, with the exception of Insurance Program holdings in stock received from Prudential as a result of its demutualization and the Loan Guaranty Program investments, which are in trust certificates issued by the American Housing Trusts, private entities not associated with the Government.

Allowances are recorded to reflect estimated losses of principal as a result of the subordinated position in American Housing Trust certificates I through V. The estimated allowance computations are based upon discounted cash flow analysis. Although VA continues to use the income from these subordinated certificates to cover the immediate cash requirements of the Federal guarantee on loans sold under American Housing Trust certificates VI through XI and the Veterans Mortgage Trust program, the income is reimbursed to VA and is not used to pay the amount of the realized losses on guaranteed loan sales.

## **Accounts Receivable**

Accounts Receivable, Intragovernmental consists of amounts due from other agencies. No allowances for losses are required.

Public Accounts Receivable consists mainly of amounts due from patients and third-party insurers for veterans' health care and amounts due from individuals for compensation, pension, and readjustment benefit overpayments. Based on

prior experience, allowances for bad debt losses have been established at approximately 16 and 19 percent for medical-related receivables, 45 and 50 percent for educational-related receivables, and 74 and 76 percent for compensation and pension benefit overpayment-related receivables for FY 2002 and 2001, respectively.

VA is required by Public Law 96-466 to charge interest and administrative costs on benefits debts similar to charges levied on other debts owed the Federal Government. In a July 1992 decision, the former VA Deputy Secretary decided that VA would not charge interest on compensation and pension debts. This decision continues to be VA policy.

## Loans Receivable

Loans Receivable are recorded as funds are disbursed. For loans obligated prior to October 1, 1991, loan principal and interest receivable amounts are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience and an analysis of outstanding balances. For loans obligated after September 30, 1991, an allowance equal to the subsidy costs associated with these loans reduces the loans receivable. This reduction is due to the interest rate differential between the loans and borrowing from Treasury, the estimated delinquencies and defaults, net of recoveries, offsets from fees, and other estimated cash flows.

## Inventories

Inventories consist of items such as precious metals held for sale and Canteen Service retail store stock and are valued at cost, utilizing the First In First Out (FIFO) method. VA follows the purchase method of accounting for operating, medical, and pharmaceutical supplies in the hands of end users, which provides that these items be expensed when purchased. VA defines an end user as a VA medical center, regional office, or cemetery.

## Property, Plant, and Equipment

The majority of the general property, plant, and equipment is used to provide medical care to veterans and is valued at cost, including transfers

from other Federal agencies. Major additions, replacements, and alterations are capitalized, whereas routine maintenance is expensed when incurred. Construction costs are capitalized as Construction in Progress until completion, and then transferred to the appropriate property account. Individual items are capitalized if the useful life is 2 years or more and the unit price is \$100,000 or greater. Buildings are depreciated on a straight-line basis over estimated useful lives of 25 to 40 years. Equipment is also depreciated on a straight-line basis over its useful life, usually 5 to 20 years. There are no restrictions on the use or convertibility of general property, plant, and equipment. All VA heritage assets are multi-use facilities and are classified as general property, plant, and equipment.

## Other Assets

Other assets consist of advance payments. Public advance payments are primarily to hospitals and medical schools under house staff contracts, grantees, beneficiaries, and employees on official travel. Intragovernmental advance payments are primarily to the General Services Administration (GSA) for rent and Government Printing Office (GPO) for supplies, printing, and equipment.

## Accounts Payable

Accounts Payable, Intragovernmental consists of amounts owed to other Federal agencies. The remaining accounts payable consist of amounts due to the public.

## Loan Guarantees

For direct loan obligations and loan guaranty commitments made after 1991, the resulting direct loans are reported net of an allowance for subsidy costs at present value, and loan guaranty liabilities are reported at present value. The present value of the subsidy costs associated with direct loans and loan guarantees is recognized as a cost in the year the direct or guaranteed loan is disbursed. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount VA estimated will most

likely require a future cash outflow to pay defaulted claims. Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

The guaranteed loan sales liability represents the present value of the estimated cash flows to be paid by VA as a result of the guarantee. VA guarantees that the principal and interest payment due on a loan will be paid by the 15<sup>th</sup> of each month. If the payment is not made, VA allows the loan servicer to receive funds from a cash reserve account for the amount of the deficiency. VA guarantees the loans against losses at foreclosure. Although VA will not buy back the loan, VA will pay the loan loss and foreclosure expenses.

## **Debt**

All Intragovernmental debt is due to Treasury and is primarily related to borrowing by the Loan Guaranty Program. The interest rates ranged from 4.42 to 5.22 percent in FY 2002 and from 4.52 to 5.75 percent in FY 2001. VA's financial activities interact with and are dependent upon those of the Federal Government as a whole.

## **Insurance Liabilities**

Actuarial reserve liabilities for VA's insurance programs are based on mortality and interest rate assumptions at the time of issue. These assumptions vary by fund, type of policy and type of benefit. The interest rate assumptions range from 2.25 to 5.0 percent for both the FY 2002 and 2001 calculations.

## **Annual Leave**

The accrued annual leave balance is adjusted at the end of the fiscal year to reflect current pay rates for leave that has been earned but not taken. Sick and other types of non-vested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

## **Workers' Compensation Liability**

The Federal Employees' Compensation Act (FECA) provides income and medical cost

protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. Claims incurred for benefits for VA employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by VA.

Workers' compensation is comprised of two components: (1) the accrued liability which represents money owed by VA to DOL for claims paid by DOL on behalf of VA through the current fiscal year, and (2) the actuarial liability for compensation cases to be paid beyond the current year.

Future workers' compensation estimates are generated from an application of actuarial procedures developed by DOL to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases and for potential cases related to injuries incurred but not reported. The liability is determined by utilizing historical benefit payment patterns related to a particular period to estimate the ultimate payments related to that period.

## **Pension, Other Retirement Benefits, and Other Post-Employment Benefits**

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees. Factors used in the calculation of these pensions and post-retirement health and life insurance benefit expenses are provided by the Office of Personnel Management (OPM) to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which VA makes contributions according to plan requirements. CSRS and FERS are multi-employer plans. VA does not maintain or report information about the assets

of the plans, nor does it report actuarial data for the accumulated plan benefits; that reporting is the responsibility of OPM.

### Veterans Benefits Liability

VA provides compensation benefits to veterans who die or are disabled from military service-connected causes as well as to their dependents. These benefits are provided in recognition of a veteran’s military service. The liability for future compensation payments is reported on VA’s balance sheet at the present value of expected future payments, and is developed on an actuarial basis. Various assumptions in the actuarial model, such as the number of veterans and dependents receiving payments, discount rates, cost of living adjustments and life expectancy, impact the amount of the liability.

### Litigation

VA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of VA management and legal counsel, the ultimate resolutions of these proceedings, actions, and claims, will not materially affect the financial position or results of VA operations.

### Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

## 2. NON-ENTITY ASSETS

Entity and Non-Entity assets have been combined on the face of the balance sheet. Non-Entity assets relate primarily to patient funds.

<b>Non-Entity Assets as of September 30,</b>	<b>2002</b>	<b>2001</b>
Fund Balance with Treasury	\$ 42	\$ 42
Intragovernmental Accounts Receivable	1	1
Public Accounts Receivable	19	19
<b>TOTAL NON-ENTITY ASSETS</b>	<b>\$ 62</b>	<b>\$ 62</b>

## 3. FUND BALANCE WITH TREASURY

<b>Fund Balance with Treasury as of September 30,</b>	<b>2002</b>	<b>2001</b>
<b>Entity Assets</b>		
Trust Funds	\$ 107	\$ 92
Revolving Funds	6,054	5,276
Appropriated Funds	8,780	8,273
Special Funds	105	63
Other Fund Types	(12)	17
<b>TOTAL ENTITY ASSETS</b>	<b>15,034</b>	<b>13,721</b>

**Consolidated Financial Statements**

<b>Non-Entity Assets</b>		
Other Fund Types	42	42
<b>TOTAL NON-ENTITY ASSETS</b>	42	42
<b>Total Entity and Non-Entity Assets</b>	\$ 15,076	\$ 13,763
<b>Reconciliation of VA General Ledger Balances with Treasury</b>		
Entity VA General Ledger	\$ 15,114	\$ 13,692
Reconciled Differences	(42)	82
Unreconciled Differences	4	(11)
<b>FUND BALANCE WITH TREASURY</b>	\$ 15,076	\$ 13,763
<b>Status of Fund Balance with Treasury</b>		
Unobligated Balance		
Available	\$ 1,540	\$ 1,270
Unavailable	5,584	4,965
Obligated Balance not yet Disbursed	7,922	7,468
Deposit/Clearing Account Balances	30	60
<b>FUND BALANCE WITH TREASURY</b>	\$ 15,076	\$ 13,763

**4. CASH**

<b>Cash as of September 30,</b>	<b>2002</b>	<b>2001</b>
Canteen Service	\$ 1	\$ 1
Agent Cashier Advance	4	4
Loan Guaranty Program	35	43
<b>Total Cash</b>	\$ 40	\$ 48

**5. INVESTMENTS**

<b>Investment Securities as of September 30,</b>	<b>2002</b>	<b>2001</b>
<b>Intragovernmental Securities</b>		
Special Bonds	\$ 13,816	\$ 13,956
Treasury Notes *	74	32
Treasury Bills	2	57
Subtotal	13,892	14,045
Accrued Interest	243	253
<b>Total Intragovernmental Securities</b>	\$ 14,135	\$ 14,298
<b>Other Securities</b>		
Prudential Stock (Insurance)	\$ 11	\$ -
Trust Certificates (Loan Guaranty)	203	205
<b>Total Other Securities</b>	\$ 214	\$ 205

\*The investment in Treasury Notes includes unamortized premiums of \$0.7 million as of September 30, 2002 and \$0.2 million as of September 30, 2001. Premiums and discounts are amortized on a straight-line basis over the life of the investments.

**Offset for Losses on Investments  
as of September 30,**

	2002	2001
Investment in Subordinate Certificates at Time of Sale	\$ 424	\$ 424
Cumulative Reductions	(200)	(183)
<b>Subtotal</b>	<b>224</b>	<b>241</b>
Allocation of Loss Provision	(21)	(36)
<b>Trust Certificates (Loan Guaranty)</b>	<b>\$ 203</b>	<b>\$ 205</b>

**6. ACCOUNTS RECEIVABLE, NET**

**Accounts Receivable, Net  
as of September 30,**

	2002	2001
<b>Intragovernmental Accounts Receivable</b>	<b>\$ 114</b>	<b>\$ 65</b>
Public Accounts Receivable, Gross	\$ 2,567	\$ 2,604
Allowance for Loss Provision	(1,368)	(1,328)
<b>Net Public Accounts Receivable</b>	<b>\$ 1,199</b>	<b>\$ 1,276</b>

**7. DIRECT LOANS AND LOAN GUARANTEES**

Direct loan obligations and loan guarantee commitments made after 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act of 1990. The Act provides that the present value of the subsidy costs associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount VA estimates will most likely require a future cash outflow to pay defaulted claims.

Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

The recorded value of loans receivable, net, and the value of assets related to direct loans are not the same as the proceeds that VA would expect to receive from selling its loans. VA operates the following direct loan and loan guaranty programs:

- Vocational Rehabilitation and Employment;
- Education;
- Insurance; and
- Loan Guaranty

Under the Loan Guaranty Program, a loan may be made to an eligible veteran by an approved private sector mortgage lender. VA guarantees payment of a fixed percentage of the loan indebtedness to the holder of such a loan, up to a maximum dollar amount, in the event of default by the veteran borrower. When a delinquency is reported to VA and no realistic alternative to foreclosure is developed by the loan holder or VA supplemental servicing of the loan, VA determines, through an economic analysis, whether VA will authorize the holder to convey the property securing the loan (foreclosure) or pay the loan guarantee amount to the holder.

### Direct Loans

Loans receivable related to direct loans represent the net value of assets related to pre-1992 and post-1991 direct loans acquired. For pre-1992 loans, VA employs the allowance for loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). For post-1991 loans, the assets are offset by an allowance for subsidy costs. An analysis of loans receivable and the nature and amounts of the subsidy costs associated with the direct loans are provided in the tables that follow:

#### LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM DIRECT LOANS AS OF SEPTEMBER 30,

2002	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	\$ 148	\$ 19	\$ -	\$ -	\$ 167
Direct Loans Obligated after 1991	1,619	48	853	64	2,584
Insurance Policy Loans	827	20	-	-	847
<b>TOTAL LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM DIRECT LOANS, NET</b>					<b>\$ 3,598</b>

#### LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM DIRECT LOANS AS OF SEPTEMBER 30,

2001	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	\$ 183	\$ 21	\$ -	\$ -	\$ 204
Direct Loans Obligated after 1991	1,783	44	1,044	32	2,903
Insurance Policy Loans	879	24	-	-	903
<b>TOTAL LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM DIRECT LOANS, NET</b>					<b>\$ 4,010</b>

**DIRECT LOANS DISBURSED**

The total amount of direct loans disbursed for the years ended September 30, 2002 and 2001, was \$1,076 and \$1,489 million, respectively.

**PROVISION FOR LOSSES ON PRE-1992 LOANS**

One element of the cost of the mortgage loan benefit that VA provides to veterans is the present value of the cost VA will bear as loans already guaranteed default in the future. This cost is reflected in the financial statements as an offset to the value of certain related assets.

The provision for losses on vendee loans is based upon historical loan foreclosure results applied to the average loss on defaulted loans. The calculation is also based on the use of the average interest rate of U.S. interest-bearing debt as a discount rate on the assumption that VA's outstanding guaranteed loans will default over a 12-year period. For FY 2002, VA determined that these vendee loans have sufficient equity due to real estate appreciation and buy-down of principal, to minimize or eliminate any potential loss to VA. The components of the provision are as follows:

**PROVISION FOR LOSS AS OF SEPTEMBER 30,**

	<b>2002</b>	<b>2001</b>
Offsets Against Foreclosed Property Held for Sale	8	8
<b>Total Provision for Loss</b>	<b>\$ 8</b>	<b>\$ 8</b>

**SUBSIDY EXPENSE FOR POST-1991 DIRECT LOANS**

Pursuant to the Credit Reform Act, all direct loans established after September 30, 1991, will be subsidized. The subsidy expense for direct loans is as shown:

**DIRECT LOAN SUBSIDY EXPENSE FOR THE YEARS ENDED SEPTEMBER 30,**

	<b>2002</b>	<b>2001</b>
Interest Differential	\$ (175)	\$ (445)
Defaults*	33	63
Fees**	(926)	(1,236)
Other***	1,077	1,650
<b>Subtotal</b>	<b>9</b>	<b>32</b>
Interest Rate Reestimates	181	(6)
Technical Reestimates	14	(691)
<b>Total Direct Loans</b>	<b>\$ 204</b>	<b>\$ (665)</b>

\* Includes approximately \$58,000 and \$159,000 in defaults and other expenses for the Vocational Rehabilitation Program for FY 2002 and 2001 respectively.

\*\* "Fee" expense for direct loans includes estimated down payments and other fees collected when homes are sold with vendee financing.

\*\*\* The "Other" expense for direct loans includes the estimated loss of scheduled principal and interest when vendee loans are sold.

**SUBSIDY RATES FOR DIRECT LOANS BY COMPONENT**

The subsidy rates disclosed below pertain only to the current year cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes reestimates.

**SUBSIDY RATES FOR DIRECT LOANS**

Interest Differential	(16.45%)
Defaults	3.13%
Fees	(86.85%)
Other	101.03%

**ALLOWANCE FOR SUBSIDY FOR DIRECT LOANS (POST-1991)**

VA reports the allowance for subsidy for direct loans, subject to Credit Reform requirements. For these loans, the allowance for subsidy represents the present value of the estimated net cash flows to be paid by VA as a result of a disbursed direct loan. VA disburses a direct loan and receives an allowance for subsidy along with borrowing from Treasury. The FY 2002 and 2001 subsidy rate is 0.86 and 2.16 percent, respectively. The allowance for subsidy as of September 30, 2002 and 2001 is -\$853 and -\$1,044 million.

**SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES**

<b>Beginning Balance, Changes and Ending Balance</b>	<b>FY 2002</b>	<b>FY 2001</b>
Beginning balance of the allowance	\$ (1,044)	\$ (61)
Subsidy expense for direct loans disbursed during the reporting years by component:		
Interest subsidy costs	(175)	(445)
Default costs (net of recoveries)	33	63
Fees and other collections	(926)	(1,236)
Other subsidy costs	1,077	1,650
Total of the above subsidy expense components	9	32
Adjustments:		
Loan modification	-	44
Fees received	18	27
Foreclosed property acquired	11	(26)
Loans written off	(7)	(3)
Subsidy allowance amortization	(35)	(9)
Other	-	2
Ending balance of the allowance before reestimates	(1,048)	6
Subsidy reestimates by component		
Interest rate reestimate	181	(352)
Technical/default reestimate	14	(698)
Total of the above reestimate components	195	(1,050)
Ending balance of the allowance	\$ (853)	\$ (1,044)

## Loan Guarantees

Loans receivable related to loan guarantees represent the net value of assets related to pre-1992 and post-1991 defaulted guaranteed loans and non-defaulted guaranteed loans. For pre-1992 loans, VA employs the allowance for

loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy costs associated with loan guarantees are provided in the tables that follow:

### LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM LOAN GUARANTEES AS OF SEPTEMBER 30,

2002	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans Pre-1992 Guarantees	162	5	(150)	54	71
Defaulted Guaranteed Loans Post-1991	-	-	-	872	872
<b>Total Loans Receivable and Related Foreclosed Property from Loan Guarantees</b>					<b>\$ 943</b>

### LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM LOAN GUARANTEES AS OF SEPTEMBER 30,

2001	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans Pre-1992 Guarantees	197	6	(181)	75	97
Defaulted Guaranteed Loans Post-1991	-	-	-	830	830
<b>Total Loans Receivable and Related Foreclosed Property from Loan Guarantees</b>					<b>\$ 927</b>

### TOTAL LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET FOR THE YEARS ENDED SEPTEMBER 30,

	2002	2001
Total Direct Loans	\$ 3,598	\$ 4,010
Total Guaranteed Loans	943	927
<b>Total Loans Receivable and Related Foreclosed Property, Net</b>	<b>\$ 4,541</b>	<b>\$ 4,937</b>

**FORECLOSED PROPERTY**

Prior to the foreclosure of property secured by a VA loan, VA obtains an independent appraisal of the property. This appraisal is reviewed by VA staff who make a determination of the fair market value. To determine the net value of the property, VA costs for acquisition, management and disposition of the property, as well as estimated losses on property resale, are subtracted from the estimated fair market value. As of September 30, 2002 and 2001, the estimated number of residential properties in VA’s inventory was 11,981 and 14,543, respectively. For FY 2002 and FY 2001, the average holding period from the date properties were conveyed to VA until the properties were sold was estimated to be 8.7 months and 8 months, respectively. The number of properties for which foreclosure proceedings are in process is estimated to be 10,986 and 8,425 as of September 30, 2002 and 2001, respectively.

**GUARANTEED LOANS AS OF SEPTEMBER 30,**

	<b>2002</b>	<b>2001</b>
<u>Guaranteed Loans Outstanding:</u>		
Outstanding Principal Guaranteed Loans, Face Value	\$ 216,042	\$ 218,455
Amount of Outstanding Guarantee	69,547	71,431
<u>New Guaranteed Loans Disbursed:</u>		
Outstanding Principal Guaranteed Loans, Face Value	\$ 40,129	\$ 31,256
Amount of Outstanding Guarantee	11,667	9,154
<b>Liabilities for Loan Guarantees Post 1991 (Present Value)</b>	<b>\$ 5,662</b>	<b>\$ 5,310</b>

**GUARANTY COMMITMENTS**

As of September 30, 2002, VA had outstanding commitments to guarantee loans that will originate in FY 2003. The number and amount of commitments could not be determined, as VA has granted authority to various lenders to originate VA loans that meet established criteria without prior VA approval. Nearly 90 percent of VA’s guaranteed loans originate under this authority.

**SUBSIDY EXPENSE FOR POST-1991 LOAN GUARANTEES**

Pursuant to the Credit Reform Act, guaranteed loans closed after September 30, 1991, will be subsidized. The subsidy expense for loan guarantees related to the Loan Guaranty Program is as shown:

**GUARANTEED LOAN SUBSIDY EXPENSES FOR THE YEARS ENDED SEPTEMBER 30,**

	<b>2002</b>	<b>2001</b>
Defaults	\$ 1,242	\$ 1,036
Fees*	(723)	(630)
Other**	(374)	(316)
Subtotal	145	90
Interest Rate Reestimates	(82)	3
Technical Reestimates	(88)	(172)
<b>Total Guaranteed Loan Subsidy Expense</b>	<b>\$ (25)</b>	<b>\$ (79)</b>

\* The “Fee” expense includes estimated up-front fees collected when the loans are guaranteed and the present value of estimated annual fees from loan assumptions.

\*\* The “Other” expense for guaranteed loans includes estimated recoveries on defaults through the sales of foreclosed properties.

**LOAN SALE-GUARANTEED LOAN SUBSIDY EXPENSE FOR THE YEARS ENDED SEPTEMBER 30,**

	2002	2001
Defaults	\$ 49	\$ 42
Other	-	-
Subtotal	49	42
Interest Rate Reestimates	(57)	-
Technical Reestimates	(96)	6
<b>Total Loan Sale-Guaranteed Subsidy Expense</b>	<b>\$ (104)</b>	<b>\$ 48</b>

**TOTAL SUBSIDY EXPENSE FOR THE YEARS ENDED SEPTEMBER 30,**

	2002	2001
Total Direct Loans	\$ 204	\$ (665)
Total Guaranteed Loans	(25)	(79)
Total Sale Loans	(104)	48
<b>Total Subsidy Expense</b>	<b>\$ 75</b>	<b>\$ (696)</b>

**SUBSIDY RATES FOR LOAN GUARANTEES BY COMPONENT**

The subsidy rates disclosed below pertain only to the current year cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes reestimates.

**SUBSIDY RATES FOR LOAN GUARANTEES**

Defaults	3.35%
Fees	(1.95%)
Other	(-1.01%)

**Loan Sales**

VA continues to have vendee loan sales to reduce the administrative burden of servicing vendee loans. During the period FY 1992 through FY 2002, the total loans sold amounted to \$13.2 billion. Under the sale of vendee loans, certificates are issued pursuant to the Pooling and Servicing Agreement (the Agreement) among VA, the Master Servicer, and the Trustee. On the closing date of the certificates, VA transfers its entire interest in the related loans to the Trustee for the benefit

of the related certificate holders pursuant to the Agreement. Under the Agreement, the Trust will issue certificates backed by mortgage loans and installment contracts. The Trust owns the mortgage loans and other property described in the offering and the Trust makes elections to treat certain of its assets as one or more Real Estate Mortgage Investment Conduits (REMIC) for U.S. Federal income tax purposes. The certificates represent interests in the assets of the Trust and are paid from the Trust's assets. The certificates are issued as part of a designated series that may include one or

more classes. VA guarantees that the investor will receive full and timely distributions of the principal and interest on the certificates, and that guaranty is backed by the full faith and credit of the Federal Government.

VA may terminate the Trust, causing the early retirement of certificates, by purchasing all of the Trust’s assets on any distribution date on or after the distribution date on which the current aggregate principal balance of all principal certificates is less than 1 percent of the original aggregate principal balance, or if VA determines that the Trust’s REMIC status has been lost or a substantial risk exists that such status will be lost. In the event of termination, the certificate holder will be entitled to receive payment for the full principal balance of the certificates plus any accrued interest and unpaid interest through the related distribution date.

The Agreement requires the mortgage loans to be serviced generally in compliance with Fannie Mae and Freddie Mac standards and consistent with prudent residential mortgage loan servicing standards generally accepted in the servicing

industry. For mortgage loans sold during 2001 and 2002, servicing is/will be performed by Countrywide Home Loans, Inc. (formerly Countrywide Funding Corporation) (“CHL” or “Master Servicer”). The Master Servicer is responsible for the performance of all of the servicing functions under the Agreement. The Master Servicer is entitled to be compensated by receiving (1) a service fee of 0.2075 percent per annum payable monthly and calculated by multiplying the interest payment received by a fraction, the numerator of which is 0.2075 percent and the denominator of which is the mortgage interest rate on such loan; (2) earnings on investment of funds in the certificate account; and (3) all incidental fees and other charges paid by the borrowers and a portion of the liquidation proceeds in connection with the liquidated loans.

VA completed four sales during FY 2002 and two sales during FY 2001 totaling approximately \$970 million and \$811 million of vendee loans, respectively. The components of the vendee sales are summarized in the tables below:

**LOAN SALES YEARS ENDED SEPTEMBER 30,**

	<b>2002</b>	<b>2001</b>
Loans Receivable Sold	\$ 970	\$ 811
Net Proceeds From Sale	1,007	841
<b>Loss (Gain) on Receivables Sold</b>	<b>\$ (37)</b>	<b>\$ (30)</b>

**OUTSTANDING BALANCE OF LOAN SALE GUARANTEES**

All loans sold under the American Housing Trust (AHT VI through AHT XI) and the Vendee Mortgage (VMT 92-1 through 02-3) programs carry a full government guarantee. The outstanding balance for guaranteed loans sold is summarized in the table below:

**GUARANTEED LOANS SOLD AS OF SEPTEMBER 30,**

	<b>2002</b>	<b>2001</b>
Outstanding Balance Guaranteed Loans Sold, Start of Year	\$ 7,952	\$ 8,154
Sold to the Public	970	811
Payments, Repayments, and Terminations	(1,516)	(1,013)
<b>Outstanding Balance Guaranteed Loans Sold, End of Year</b>	<b>\$ 7,406</b>	<b>\$ 7,952</b>

**LIABILITY FOR LOAN SALE GUARANTEES (POST-1991)**

VA reports the liability on the guarantee of loans sold under the Vendee Mortgage Trust and American Housing Trust programs, subject to Credit Reform requirements. For these loans, the guaranteed loan sale liability represents the present value of the estimated net cash flows to be paid by VA as a result of the guarantee. These sales contain two types of guarantees for which VA pays net cash flow. VA guarantees that the principal and interest payment due on a loan sold will be paid by the 15th of each month. If not paid by the borrower, VA allows the loan servicer to take funds from cash reserve accounts for the deficient amount. VA also guarantees the loan against loss at foreclosure. VA will not buy back the loans but will pay off the loan loss and foreclosure expenses. The subsidy rate for FY 2002 and 2001 is 5.05 and 5.21 percent, respectively. The liability for loan sale guarantees as of September 30, 2002 and 2001 is \$210 and \$283 million.

**SCHEDULE FOR RECONCILING LOAN SALE GUARANTEE LIABILITY BALANCES**

<b>Beginning Balance, Changes and Ending Balance</b>	<b>FY 2002</b>	<b>FY 2001</b>
Beginning balance of the liability	\$ 283	\$ 215
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Interest subsidy costs	-	-
Default costs (net of recoveries)	49	42
Fees and other collections	-	-
Other subsidy costs	-	-
Total of the above subsidy expense components	49	42
Adjustments:		
Loan guarantee modifications	-	-
Fees received	-	-
Interest supplements paid	-	-
Foreclosed property and loans acquired	-	-
Claim payments to lenders	(21)	(36)
Interest accumulation on the liability balance	17	26
Other	35	30
Ending balance of the liability before reestimates	363	277
Subsidy reestimates by component		
Interest rate reestimate	(57)	-
Technical/default reestimate	(96)	6
Total of the above reestimate components	(153)	6
Ending balance of the liability	\$ 210	\$ 283

**LIABILITY FOR LOAN GUARANTEES (POST-1991)**

VA reports the liability on the guarantee of loans, subject to Credit Reform requirements. For these loans, the guaranteed loan liability represents the present value of the estimated net cash flows to be paid by VA as a result of a defaulted loan guarantee. VA guarantees the loan against loss at foreclosure for which VA pays net cash flow up to a legally specified maximum based on the value of individual loans. VA will pay the lender the guarantee and foreclosure expenses. If an agreement can be made with the veteran, VA may acquire the loan by refunding the lender for the loan. The FY 2002 and 2001 subsidy rate is 0.39 and 0.29 percent, respectively. The liability for loan guarantees as of September 30, 2002 and 2001 is \$5,452 and \$5,027 million.

**SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES**

<b>Beginning Balance, Changes and Ending Balance</b>	<b>FY 2002</b>	<b>FY 2001</b>
Beginning balance of the liability	\$ 5,027	\$ 4,802
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Interest subsidy costs	-	-
Default costs (net of recoveries)	1,242	1,036
Fees and other collections	(723)	(630)
Other subsidy costs	(374)	(316)
Total of the above subsidy expense components	145	90
Adjustments:		
Loan guarantee modifications	-	72
Fees received	524	506
Interest supplements paid	-	-
Foreclosed property and loans acquired	230	(93)
Claim payments to lenders	(581)	(363)
Interest accumulation on the liability balance	277	283
Other	-	(57)
Ending balance of the liability before reestimates	5,622	5,240
Subsidy reestimates by component		
Interest rate reestimate	(82)	(44)
Technical/default reestimate	(88)	(169)
Total of the above reestimate components	(170)	(213)
Ending balance of the liability	\$ 5,452	\$ 5,027

**ADMINISTRATIVE EXPENSE**

Administrative expense on direct and guaranteed loans for the years ended September 30, 2002 and 2001, was \$165 and \$162 million, respectively.

**8. INVENTORIES**

<b>INVENTORIES AS OF SEPTEMBER 30,</b>	<b>2002</b>	<b>2001</b>
Held for Current Sale	\$ 73	\$ 85
Other	9	9
<b>Total Inventories</b>	\$ 82	\$ 94

**9. GENERAL PROPERTY, PLANT, AND EQUIPMENT**

Depreciation and amortization expense totaled \$851 and \$858 million in FY 2002 and FY 2001, respectively.

**GENERAL PROPERTY, PLANT, AND EQUIPMENT AS OF SEPTEMBER 30, 2002**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Land and Improvements	\$ 269	\$ (7)	\$ 262
Buildings	14,158	(6,178)	7,980
Equipment	2,938	(1,684)	1,254
Other	1,754	(966)	788
Work in Progress	744	-	744
<b>Total Property, Plant, and Equipment</b>	<b>\$ 19,863</b>	<b>\$ (8,835)</b>	<b>\$ 11,028</b>

**GENERAL PROPERTY, PLANT, AND EQUIPMENT AS OF SEPTEMBER 30, 2001**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Land and Improvements	\$ 208	\$ (4)	\$ 204
Buildings	14,202	(6,044)	8,158
Equipment	3,871	(2,192)	1,679
Other	1,802	(994)	808
Work in Progress	828	-	828
<b>Total Property, Plant, and Equipment</b>	<b>\$ 20,911</b>	<b>\$ (9,234)</b>	<b>\$ 11,677</b>

**10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

The total amount of VA liabilities not covered by budgetary resources was \$853.8 billion and \$696.3 billion as of September 30, 2002 and 2001, respectively. The following table contains the components of the balance sheet liability:

**COMPONENTS OF UNFUNDED LIABILITIES AS OF SEPTEMBER 30,**

	<b>2002</b>	<b>2001</b>
Workers' Compensation*	\$ 2,105	\$ 2,142
Annual Leave	1,042	994
Judgment Fund	625	438
Environmental and Disposal	271	260
Accounts Payable – Canceled Appropriations	4	3
Veterans Compensation and Burial	849,200	691,900
Insurance	549	534
<b>Total</b>	<b>\$ 853,796</b>	<b>\$ 696,271</b>

\* The actuarial estimate for workers' compensation provided by DOL was computed using interest rates of 5.20 percent for FY 2002 and 5.21 percent for FY 2001.

**11. FEDERAL EMPLOYEE AND VETERANS BENEFITS**

**FEDERAL EMPLOYEE BENEFITS**

**Imputed Expenses-Employee Benefits years ended September 30,**

	<b>2002</b>	<b>2001</b>
Civil Service Retirement System	\$ 257	\$ 281
Federal Employees Health Benefits	576	499
Federal Employees Group Life Insurance	2	2
<b>Total Imputed Expenses-Employee Benefits</b>	<b>\$ 835</b>	<b>\$ 782</b>

**VETERANS BENEFITS**

Certain veterans who die or are disabled from military service-connected causes, as well as their dependents, receive compensation benefits. Also, veterans are provided with burial flags, headstones/markers, and grave liners for burial in a VA national cemetery or are provided a plot allowance for burial in a private cemetery. These benefits are provided in recognition of a veteran’s military service and are recorded as a liability on the balance sheet.

**FEDERAL EMPLOYEE AND VETERANS BENEFITS LIABILITIES AS OF SEPTEMBER 30,**

	<b>2002</b>	<b>2001</b>
FECA	\$ 1,763	\$ 1,813
Compensation	845,800	689,100
Burial	3,400	2,800
<b>Total Federal Employee and Veterans Benefits Liabilities</b>	<b>\$ 850,963</b>	<b>\$ 693,713</b>

VA provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled from nonservice-connected causes. The actuarial present value of the future liability for pension benefits is a non-exchange transaction and is not required to be recorded on the balance sheet. The projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2002 and 2001 was \$91.6 and \$80.0 billion, respectively.

**ASSUMPTIONS USED TO CALCULATE THE VETERANS BENEFITS LIABILITY**

Several significant actuarial assumptions were used in the valuation of compensation, pension, and burial benefits to calculate the present value of the liability. A liability was recognized for

the projected benefit payments to: (1) those beneficiaries, including veterans and survivors, currently receiving benefit payments; (2) current veterans who will in the future become beneficiaries of the compensation and pension programs; and (3) a proportional share of those in active military service as of the valuation date who will become veterans in the future. Future benefits payments to survivors of those veterans in classes (1), (2), and (3) are also incorporated into the projection.

All future benefits were discounted. Discount rates were based on rates for securities issued by Treasury on September 30, 2002, ranging from 1.51 to 4.80 percent, and on September 28, 2001, ranging from 2.36 to 5.45 percent. Benefit payments were assumed to occur at the midpoint of the fiscal year.

All calculations were performed separately by attained age for the Compensation and Pension

programs, while the Burial liability was calculated on an aggregate basis.

Life expectancies of beneficiaries collecting benefits from the Compensation and Pension programs were based upon studies of mortality experience of those beneficiaries between 1994 and 2002. Life expectancies of veterans not yet collecting these benefits used in the calculation of the liability for future beneficiaries are based on mortality derived from the 1989-91 U.S. decennial census and beneficiary mortality experience. Applying mortality improvements at a rate of 1 percent per annum brought both sets of mortality rates forward. In addition, rates of benefit termination of beneficiaries due to reasons other than mortality are also reflected.

The amount of benefits by category and age were based on current amounts being paid and

future cost of living adjustments (COLAs) to determine the average benefits per veteran for each future time period. A COLA of 1.4 percent was assumed for FY 2003. For fiscal years after 2003, COLAs have been determined from OMB's estimates prepared in conjunction with the Administration's annual budget. Expected changes in benefits due to other reasons were also reflected.

Expected benefit payments have been explicitly modeled for the next 70 years. This period is roughly the same as that used by the Office of the Actuary of the Social Security Administration (75 years). However, unlike Social Security, estimates of expected benefit payments after this 70-year period were incorporated in the liability based on extrapolations reflecting expected aggregate experience by beneficiary category between the years 65 and 70.

## 12. ENVIRONMENTAL AND DISPOSAL

VA had unfunded environmental and disposal liabilities in the amount of \$271 million and \$260 million for the years ended September 30, 2002 and 2001, respectively. The majority of the unfunded liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal.

While some facilities have applied prevailing state regulations that are more stringent than Federal

guidelines, the Occupational Safety and Health Administration and Environmental Protection Agency regulations are the legal base behind the majority of VA's environmental and disposal liabilities. Estimated liabilities for these projects are based on known contamination that exists today and have been computed by the facility engineering staff based on similar projects already completed, or by independent contractors providing work estimates.

**13. OTHER LIABILITIES**

Funded liabilities are generally considered to be current liabilities. Unfunded liabilities are generally considered to be non-current liabilities.

**OTHER INTRAGOVERNMENTAL FUNDED LIABILITIES AS OF SEPTEMBER 30,**

	2002	2001
Deposit and Clearing Account Liabilities	\$ (13)	\$ 15
Accrued Expenses - Federal	46	19
Deferred Revenue	234	81
Resources Payable to Treasury	467	593
Custodial Liabilities*	879	1,798
General Fund Receipts Liability	20	21
Accrued VA Contributions for Employee Benefits	41	32
<b>Total Other Intragovernmental Funded Liabilities</b>	<b>\$ 1,674</b>	<b>\$ 2,559</b>

\* The Custodial Liabilities Accounts include subsidy reestimates for loans made after September 30, 1991, which are subject to the provisions of the Credit Reform Act of 1990. The liability provision for future losses on credit reform guaranteed loans is comprised of a funded subsidy for each loan guaranteed at the rate equal to the amount of the present value of estimated loss to the Government for the cohorts of loans. The subsidy amount for each cohort is reestimated annually to ensure amounts reflect the actual losses on guaranteed loans. Based on the reestimated amounts, additional subsidy funds are provided for or excess funds are returned.

**OTHER INTRAGOVERNMENTAL UNFUNDED LIABILITIES AS OF SEPTEMBER 30,**

	2002	2001
Accrued FECA Liability	\$ 342	\$ 330
<b>Total Other Intragovernmental Unfunded Liabilities</b>	<b>\$ 342</b>	<b>\$ 330</b>

**OTHER PUBLIC FUNDED LIABILITIES AS OF SEPTEMBER 30,**

	2002	2001
Accrued Funded Annual Leave	\$ 10	\$ 9
Accrued Expenses	1,988	1,924
Accrued Salaries and Benefits	292	350
Contract Holdbacks	17	19
Deferred Revenue	3	2
Unredeemed Coupons	1	1
Deposit and Clearing Account Liability	42	42
Unearned Premiums	124	131
Insurance Dividends Left on Deposit and Related Interest Payable*	1,636	1,577
Dividend Payable to Policyholders	279	301
Capital Lease Liability	27	27
<b>Total Other Public Funded Liabilities</b>	<b>\$ 4,419</b>	<b>\$ 4,383</b>

\* Interest earned on dividends left on deposit is paid annually to insurance policyholders on the policy anniversary dates.

**OTHER PUBLIC UNFUNDED LIABILITIES AS OF SEPTEMBER 30,**

	2002	2001
Annual Leave*	\$ 1,042	\$ 994
Accounts Payable from Cancelled Appropriation	4	3
Judgment Fund-Unfunded**	625	438
<b>Total Other Public Unfunded Liabilities</b>	<b>\$ 1,671</b>	<b>\$ 1,435</b>

\* Annual leave is accrued when earned and is adjusted at the end of the fiscal year to reflect current pay rates of cumulative leave earned but not taken. Sick and other types of leave are expensed as taken.

\*\* The Judgment Fund liability amount represents the estimate for future payments on legal cases that will be paid by the Treasury Judgment Fund on behalf of VA.

**14. LEASES**

VA has both capital and operating leases. The capital lease liability is \$27 and \$27 million as of September 30, 2002 and 2001, respectively. Due to the number of operating leases and the decentralization of records, the future commitment for operating leases is not known. VA's FY 2002 operating lease costs were \$206 million for real property rentals and \$55 million for equipment rentals. The FY 2001 operating lease costs consisted of \$198 million for real property rentals and \$52 million for equipment rental. The following chart represents VA's estimate for operating lease costs for the next 5 years, assuming a range of 3.4 to 3.6 percent yearly increase in cost.

<b>LEASES:</b>			
<b>YEAR</b>	<b>PERCENTAGE</b>	<b>REAL PROPERTY</b>	<b>EQUIPMENT</b>
2003	3.5	\$ 213	\$ 57
2004	3.4	221	59
2005	3.5	229	61
2006	3.6	238	63
2007	3.6	246	66

## 15. INSURANCE PROGRAMS

Through VA, the United States Government administers five life insurance programs and the Veterans' Mortgage Life Insurance program for certain totally disabled veterans. VA supervises the Servicemembers' Group Life Insurance (SGLI) and the Veterans' Group Life Insurance (VGLI) programs, which provide life insurance coverage to members of the uniformed armed services, reservists and post-Vietnam veterans. United State Code, Title 38, requires that the Life Insurance programs invest in Treasury securities.

### ADMINISTERED PROGRAMS

The United States Government Life Insurance (USGLI) program was the Government's first venture into life insurance. During World War I, the U.S. provided Marine Insurance to protect the interests of ship owners and merchants who were providing supplies to the allies in Europe. USGLI was the natural outgrowth of this Marine Insurance. The program was established to meet the needs of World War I veterans, but remained open to servicemembers and veterans with service before October 8, 1940. The Government became a self-insurer because private insurance companies were unwilling to assume the unpredictable risks associated with war. By establishing this program, Congress intended to avoid the financial burden imposed on the Government by the pension programs that were established after previous wars. The Government became the largest life insurer in the United States with the coverage provided by this program.

The National Service Life Insurance (NSLI) program covers policyholders who served during World War II. The program opened October 8, 1940, when it became clear that large-scale military inductions were imminent. Over 22 million policies were issued under the NSLI program. The majority of policies VA administers directly are NSLI policies. This program remained open until April 25, 1951, when two new programs were established for Korean War servicemembers and veterans.

The Veterans' Special Life Insurance (VSLI) program was established in 1951 to meet the insurance needs of veterans who served during the Korean Conflict, and the post-Korean period through January 1, 1957. During this period, all servicemembers on active duty were covered for \$10,000, at no cost, under a program known as Servicemen's Indemnity. They remained covered for 120 days after their discharge. The VSLI program allowed these newly discharged servicemembers to apply for \$10,000 of contract term insurance. Application had to be made during the 120-day period during which they remained covered by Servicemen's Indemnity. It was during this period that representatives of the commercial insurance industry began a major lobbying effort to get the Government out of the insurance business because the programs were viewed as competition. As a result, the VSLI program was closed to new issues at the end of 1956, and coverage for individuals in the uniformed services was terminated. Approximately 800,000 VSLI policies were issued between 1951 and 1957.

In addition to VSLI coverage, which was provided to healthy veterans, the Insurance Act of 1951 also established the Service-Disabled Veterans Insurance (S-DVI) program for veterans with service-connected disabilities. S-DVI is open to veterans separated from the service on or after April 25, 1951, who receive a service-connected disability rating. New policies are still being issued under this program.

In 1964, Congress enacted legislation providing for a limited reopening of NSLI and VSLI, and the Veterans' Reopened Insurance (VRI) program was established. Beginning May 1, 1965, veterans who had been eligible to obtain insurance between October 8, 1940, and January 1, 1957, could once again apply for government life insurance. They had one year to apply for this "reopened" insurance, which was available *only* to disabled veterans. Approximately 228,000 VRI policies were issued. No term insurance policies were issued in this program.

The Veterans' Mortgage Life Insurance (VMLI) program began in 1971, and is designed to provide financial protection to cover eligible veterans' home mortgages in the event of death. VMLI is issued to those severely disabled veterans who have received grants for specially adapted housing from VA. These grants are issued to veterans whose movement is substantially impaired because of their disability. The maximum amount of VMLI allowed an eligible veteran is \$90,000. The insurance is payable if the veteran dies before the mortgage is paid off and is payable only to the mortgage lender.

### SUPERVISED INSURANCE PROGRAMS

The Servicemembers' Group Life Insurance (SGLI) program was established in 1965 for Vietnam-era servicemembers. SGLI is supervised by VA and is administered by the Office of Servicemembers' Group Life Insurance (OSGLI) under terms of a group insurance contract. This program provides low-cost term insurance protection to servicemembers.

In 1974, the Veterans' Group Life Insurance (VGLI) program became available. VGLI, like SGLI, is supervised by VA, but is administered by the OSGLI. VGLI provides for the conversion of SGLI coverage to lifetime term insurance protection after a servicemember's separation from service.

### PUBLIC INSURANCE CARRIERS

VA supervises the administration of the SGLI and VGLI programs. Prudential Insurance Company of America (Prudential) provides insurance coverage directly for the SGLI and VGLI programs. VA has entered into a group policy with Prudential whereby Prudential and its reinsurers provide servicemembers and veterans coverage in multiples of \$10,000 up to a maximum of \$250,000. The basic SGLI coverage is provided to those members on active duty in the Army, Navy, Air Force, Marine Corps, Coast Guard, commissioned members of the Public Health Service and the National Oceanic and Atmospheric Administration. The Ready Reserve is also insured by SGLI, and includes reservists and members of the National Guard who are assigned to a unit or position in which they may be required to perform active duty or active duty for training.

The VGLI coverage is comprised of separated and retired active duty members and reservists covered under Basic SGLI.

The Veterans' Opportunities Act of 2001 extended life insurance coverage to spouses and children of members insured under the SGLI program, effective November 1, 2001. For a spouse, up to \$100,000 of coverage can be purchased in increments of \$10,000, not to exceed the amount of the servicemember's coverage. Each dependent child of every active duty servicemember or reservist insured under SGLI is automatically insured for \$10,000 free of charge.

Premiums for the SGLI and VGLI programs are set by mutual agreement between VA and Prudential. SGLI premiums for active duty personnel and their spouses are deducted from the servicemember's pay by the Armed Services components through the Department of Defense (DoD). DoD, through the Defense Finance and Accounting Service (DFAS), remits collected premiums to VA, which are then transmitted to Prudential. Prudential records the premiums and maintains investments in their accounting records separate and independent from the VA reporting entity. VA monitors Prudential's insurance reserve balances to determine their adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. The reserves for the contingent liabilities are recorded in Prudential's accounting records and are not reflected in the VA reporting entity, because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy.

Effective January 1, 1970, the Secretary of Veterans Affairs determines the costs that are traceable to the extra hazards of duty in the uniformed services, on the basis of the excess mortality incurred by members and former members of the uniformed armed services insured under SGLI, above what their mortality would have been under peacetime conditions. The Secretary is authorized to make adjustments regarding contributions from pay appropriations as may be indicated from actual experience.

**RESERVE LIABILITIES**

The insurance reserves for administered programs are reported as liabilities covered by budgetary resources, while part of the S-DVI and Veterans Insurance and Indemnities reserves are reported as liabilities not covered by budgetary resources. Reserves for SGLI and VGLI are maintained in Prudential's financial records since the risk of loss is assumed by Prudential. Actuarial reserve

liabilities for the administered life insurance programs are based on the mortality and interest assumptions at time of issue. These assumptions vary by fund, type of policy and type of benefit. The interest assumptions range from 2.25 to 5.0 percent. The mortality assumptions include the American Experience Table, the 1941 Commissioners Standard Ordinary (CSO) Table, 1958 CSO Basic Table and the 1980 CSO Basic Table.

**INSURANCE LIABILITY (RESERVE) BALANCES**

**INSURANCE LIABILITY RESERVE BALANCES AS OF SEPTEMBER 30, 2002**

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	\$9,878	\$201	\$192	\$10,271
USGLI	38	6	-	44
VSLI	1,466	12	36	1,514
S-DVI	399	2	132	533
VRI	410	2	7	419
VI&I	89	-	-	89
Subtotal	\$12,280	\$223	\$367	\$12,870
Less Liability not Covered by Budgetary Resources				(549)
Liability Covered by Budgetary Resources				\$12,321

**INSURANCE LIABILITY RESERVE BALANCES AS OF SEPTEMBER 30, 2001**

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	\$10,049	\$219	\$220	\$10,488
USGLI	43	6	-	49
VSLI	1,429	13	39	1,481
S-DVI	397	2	121	520
VRI	423	3	8	434
VI&I	92	-	-	92

Subtotal	\$12,433	\$243	\$388	\$13,064
Less Liability not Covered by Budgetary Resources				(534)
Liability Covered by Budgetary Resources				\$12,530

### INSURANCE IN-FORCE

The amount of insurance in-force is the total face amount of life insurance coverage provided by each administered and supervised program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. Prudential and its reinsurers provided coverage to 5,910,381 and 2,788,449 insured for a face value of \$728.3 billion and \$619.9 billion as of September 30, 2002 and 2001, respectively. This large increase in

number of participants and face value was the result of legislation which extended insurance coverage to the spouses and children of members insured under the SGLI program effective November 1, 2001. The face value of the insurance provided by Prudential and its reinsurers represents 97.3 and 96.7 percent of the total insurance in-force as of September 30, 2002 and 2001, respectively. The number of policies represents the number of active policies remaining in the program as of the end of each fiscal year.

	2002 POLICIES	2001 POLICIES	2002 FACE VALUE	2001 FACE VALUE
<b>SUPERVISED PROGRAMS</b>				
SGLI Active Duty	1,510,000	1,469,000	\$365,285	\$361,754
SGLI Ready Reservists	799,500	826,500	180,826	195,590
SGLI Post Separation	97,000	104,000	23,016	25,397
SGLI Family - Spouse	1,013,000	-	99,578	-
SGLI Family - Children	2,100,000	-	21,000	-
VGLI	390,881	388,949	38,563	37,145
<b>Total Supervised</b>	5,910,381	2,788,449	\$728,268	\$619,886
<b>ADMINISTERED PROGRAMS</b>				
NSLI	1,502,463	1,606,590	\$15,550	\$16,288
VSLI	227,341	233,335	2,604	2,635
S-DVI	148,913	148,674	1,414	1,401
VRI	67,531	72,581	587	618
USGLI	13,217	14,683	42	48
VMLI	3,060	3,300	186	193
<b>Total Administered</b>	1,962,525	2,079,163	\$20,383	\$21,183
<b>Total Supervised and Administered Programs</b>	7,872,906	4,867,612	\$748,651	\$641,069

**POLICY DIVIDENDS**

The Secretary of VA determines annually the excess funds available for dividend payment. Dividends are based on an actuarial analysis of the individual programs at the end of the preceding calendar year. Dividends are declared on a calendar year basis and paid on policy anniversary dates. Policyholders can elect to: (1) receive a cash payment; (2) prepay premiums; (3) repay loans; (4) purchase paid-up insurance or (5) deposit the amount in an interest-bearing account. A provision for dividends is charged to operations, and an insurance dividend is established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs. Policy dividends for fiscal years 2002 and 2001 were \$604 and \$646 million, respectively.

**PRUDENTIAL INSURANCE COMPANY DEMUTUALIZATION**

On December 18, 2001, Prudential completed its conversion from a mutual company to a stock company. As policyholder of the SGLI and VGLI programs, VA received 369,177 shares of Prudential stock. Prudential has stated that there will be no effect on the SGLI or VGLI programs as demutualization will not adversely change premiums or other Prudential obligations under the SGLI contract. VA intends to liquidate its holdings of Prudential stock and deposit the proceeds into the SGLI Contingency Reserve, which is held for VA by Prudential in an interest-bearing account. This will in effect guarantee that the monies are used for the benefit of the servicemembers and veterans who are the intended recipients of these life insurance benefit programs.

**16. CONTINGENCIES**

VA is a party in various administrative proceedings, legal actions, and tort claims arising from various sources including: disputes with contractors, challenges to compensation and education award decisions, loan guaranty indemnity debt cases, and allegations of medical malpractice. Certain legal matters to which VA may be a named party are administered and, in some instances, litigated by the Department of Justice. Generally, amounts (more than \$2,500 for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award are funded from the Judgment Fund, which is maintained by Treasury. Of the amounts paid from the Judgment Fund, malpractice cases claimed 77 percent in FY 2002 and 79 percent in FY 2001. Contract dispute

payments for FY 2002 and FY 2001 were \$11.0 and \$6.2 million, respectively.

VA has recorded a liability for pending legal claims that are estimated to be paid by the Judgment Fund. This liability is established for all pending claims whether reimbursement is required or not. This liability was \$625 million for FY 2002 and \$438 million for FY 2001. There were 21 contract and personnel law cases with claimed amounts totaling \$275 million where there was at least a reasonable possibility that a loss may occur. VA is also required to record an operating expense and imputed financing source for the Judgment Fund's pending claims and settlements. Judgment Fund accounting is shown below:

**JUDGMENT FUND  
YEARS ENDED SEPTEMBER 30,**

	2002	2001
Fiscal Year Settlement Payments	\$ 101	\$ 86
Less Contract Dispute Payments	(11)	(6)
Imputed Financing-Paid by Other Entities	90	80
Increase (Decrease) in Liability for Claims	187	23
<b>Operating Expense</b>	<b>\$ 277</b>	<b>\$ 103</b>

It is the opinion of VA's management that resolution of pending legal actions as of September 30, 2002 will not materially affect VA's operations or financial position when consideration is given to the availability of the Judgment Fund appropriation to pay some court-settled legal cases. Fiscal year 2002 settlement payments were \$101 million.

The amount of unobligated and obligated authority relating to appropriations cancelled on September 30, 2002 and 2001 was \$111.3 million and \$144.9 million, respectively. Any payments due that may arise relating to cancelled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990.

## 17. EXCHANGE TRANSACTIONS

### EXCHANGE REVENUES

VHA has legislated exceptions to the requirement to recover the full cost to the Federal Government of providing services, resources, or goods for sale. Under "enhanced sharing authority," VHA facilities may enter into arrangements that are in the best interest of the Federal Government. In FY 2002, randomly selected VA medical centers were reviewed by the Financial and Systems Quality Assurance Service to determine the facility's compliance with Statement of Federal Financial Accounting Standards No. 7 and the Chief Financial Officers Act of 1990.

VA's Loan Guaranty Program collects rental fees on a small number of properties during the period when the property is titled to VA.

NCA leases lodges at 11 cemeteries to not-for-profit groups for no fee. The not-for-profit groups are required to provide the upkeep on the lodges and pay the costs for utilities, insurance, minor repairs and maintenance and any other costs associated with the lodges, and NCA pays for major repairs at these facilities. NCA also has four agricultural leases with private companies/individuals. NCA leases land for growing crops and, on certain leases, receives various services in exchange from the lessee, such as brush cutting and removal services, backfilling and grading of roads, and welding services. In addition, NCA received fees for motion picture filming performed at three cemeteries.

### EXCHANGE TRANSACTIONS WITH PUBLIC

Exchange transactions with the public occur when prices are set by law or executive order and are not based on full cost or on market price. VA's Medical Care Collections Fund, "Conforming Amendments," changed the language of specific sections of 38 USC Chapter 17 to substitute "reasonable charges" for "reasonable cost." The VHA Chief Financial Officer (CFO) is responsible for implementing and maintaining these reasonable charges for billing third-party payers for services provided to insured veterans for treatment of nonservice-connected conditions.

Reasonable charges are used to bill for reimbursable health insurance, non-Federal workers' compensation and no-fault or uninsured motorists insurance cases. Reasonable charges are based on provider charges in the market area of each VA facility. The lesser of VA-billed charges or their usual customary and reasonable payment to other providers will be paid.

Cost-based per diems are calculated annually to produce tort rates used to bill for tortfeasor, workers' compensation (other than Federal), humanitarian emergency, ineligible patient, VA employee, family member, allied beneficiary, no fault or uninsured motorist's insurance, or reimbursable insurance cases. These per diem costs are derived primarily from cost and workload data from a national cost allocation report (Cost Distribution Report).

VA is required to collect a co-payment of \$7 from veterans for treatment of a nonservice-connected condition for each 30-day supply of medication furnished on an outpatient basis. This fee does not cover the cost of the medications in the vast majority of cases.

VA's Loan Guaranty Program collects certain fees that are set by law. The loan guarantee funding fees collected for FY 2002 were \$523 million and for FY 2001 were \$526 million. The loan guarantee lender participation fees collected for FY 2002 were \$1.6 million and for FY 2001 were \$1.7 million.

### **INTRAGOVERNMENTAL EXCHANGE TRANSACTIONS**

This section discloses intragovernmental exchange transactions in which VA provides goods or services at a price less than the full cost, or does not charge a price at all, with explanations for disparities between the billing and full cost.

VA and DoD have authority to enter into agreements and contracts for the mutual use or exchange of use of hospital and domiciliary facilities and other resources. The providing agency

shall be reimbursed for the cost of the health care resources based on the methodology agreed to by VA and DoD. Facility directors have the flexibility to consider local conditions and needs and the actual costs of providing the services. VA's General Counsel has determined that full cost recovery is not mandated. VHA captures the total amount of reimbursements received under DoD sharing agreements, but the total amount billed below full cost is not readily available. VHA is in the process of developing mechanisms to report this information in the future. VBA collects funding from DoD in order to administer certain education programs. DoD transferred \$251.7 million during the year for the Post-Vietnam Era Education Assistance Program, Reinstated Entitlements Program for Survivors and the New GI Bill for Veterans.

When VA furnishes medical care or services for beneficiaries of other Federal agencies, and that care or service is not covered by an applicable local sharing agreement, the billing rates used are determined and published annually by the VHA CFO. Similar to the tort rates, interagency billing rates are determined from cost and workload data in the Cost Distribution Report.

**18. NET COST OF VETERANS AFFAIRS PROGRAMS**

All of VA's net program costs are part of the 700 budget functional classification (Veterans Benefits and Services).

**SCHEDULE OF NET PROGRAM COST**

Year Ended September 30, 2002 (Dollars in Millions)	Medical Care	Medical Education	Medical Research	Compensation	Pension	Education	Vocational Rehab	Loan Guaranty	Insurance	Burial	Non-Program	Total
<b>Production Costs</b>												
<b>Intragovernmental Costs</b>	\$ 2,898	\$ 26	\$ 62	\$ 120	\$ 8	\$ 7	\$ 5	\$ 432	\$ 6	\$ 51	\$ 63	\$ 3,678
<b>Less Earned Revenues</b>	(43)	-	(8)	-	(10)	(235)	-	(563)	(995)	-	(637)	(2,491)
<b>Net Intragovernmental Production Costs</b>	2,855	26	54	120	(2)	(228)	5	(131)	(989)	51	(574)	1,187
<b>Public Costs</b>	20,524	993	771	179,473	3,227	1,781	499	438	1,746	951	1,289	211,692
<b>Less Earned Revenues</b>	(1,427)	-	(18)	-	-	(236)	-	(147)	(691)	-	(56)	(2,575)
<b>Net Public Production Costs</b>	19,097	993	753	179,473	3,227	1,545	499	291	1,055	951	1,233	209,117
<b>Non-Production Costs</b>												
<b>Hazardous Waste Clean-up</b>	11	-	-	-	-	-	-	-	-	-	-	11
<b>Total Net Cost of Operations</b>	\$ 21,963	\$ 1,019	\$ 807	\$ 179,593	\$ 3,225	\$ 1,317	\$ 504	\$ 160	\$ 66	\$ 1,002	\$ 659	\$ 210,315

SCHEDULE OF NET PROGRAM COST

Year Ended September 30, 2001 (Dollars in Millions)	Medical Care	Medical Education	Medical Research	Compensation	Pension	Education	Vocational Rehab	Loan Guaranty	Insurance	Burial	Non-Program	Total
<b>Production Costs</b>												
Intragovernmental Costs	\$ 3,310	\$ 111	\$ 108	\$ 150	\$ 53	\$ 18	\$ 35	\$ 290	\$ 10	\$ 31	\$ 28	\$ 4,144
Less Earned Revenues	(48)	-	(17)	-	(13)	(214)	-	(883)	(1,025)	-	(415)	(2,615)
Net Intragovernmental Production Costs	3,262	111	91	150	40	(196)	35	(593)	(1,015)	31	(387)	1,529
Public Costs	18,338	666	648	160,049	3,194	1,511	508	455	1,788	227	956	188,340
Less Earned Revenues	(1,522)	-	(10)	-	-	(289)	-	(94)	(719)	-	(27)	(2,661)
Net Public Production Costs	16,816	666	638	160,049	3,194	1,222	508	361	1,069	227	929	185,679
<b>Non-Production Costs</b>												
Hazardous Waste Clean-up	51	1	1	-	-	-	-	-	-	-	-	53
Total Net Cost of Operations	\$ 20,129	\$ 778	\$ 730	\$ 160,199	\$ 3,234	\$ 1,026	\$ 543	\$ (232)	\$ 54	\$ 258	\$ 542	\$ 187,261

19. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

OBLIGATIONS YEARS ENDED SEPTEMBER 30,

	2002	2001
Category A, Direct	\$ 26,452	\$ 23,637
Category B, Direct	33,491	31,628
Reimbursable	3,303	2,422
Exempt from Apportionment	1,736	1,775
<b>Total Obligations</b>	<b>\$ 64,982</b>	<b>\$ 59,462</b>

## BORROWING AUTHORITY

Loan Guaranty had borrowing authority of \$3.8 billion and \$1.7 billion as of September 30, 2002, and 2001, respectively. The Vocational Rehabilitation Program had borrowing authority of \$2.8 and \$1.8 million as of September 30, 2002 and 2001, for making direct loans. Loan Guaranty borrowing is repaid to Treasury through the proceeds of portfolio loan collections, funding fees, and the sale of loans to Vinnie MAC trusts. The Vocational Rehabilitation loans generally had duration of 1 year, and repayment was made from offsetting collections.

## ADJUSTMENTS TO BUDGETARY RESOURCES

During the reporting period, adjustments to budgetary resources available at the beginning of the year included VA appropriations that were subjected to a rescission that totaled \$17.6 million. Various VA program accounts received a cut in discretionary budget authority.

## PERMANENT INDEFINITE APPROPRIATIONS

VA has three permanent and indefinite appropriations. The Veterans Housing Benefit Program Fund covers all estimated subsidy costs arising from post-1991 loan obligations for veterans housing benefits. The Fund's objective is to encourage and facilitate the extension of favorable credit terms by private lenders to veterans for the purchase, construction, or improvement of homes to be occupied by veterans and their families. The Loan Guarantee Revolving Fund is a liquidating account that contains all of VA's pre-credit reform direct and guaranteed loans. It also holds fund balances received from reimbursements from financing accounts for loan modifications and rentals of foreclosed properties not yet transferred to financing accounts. The Native American Direct Loan Account was established to cover all subsidy costs arising from direct loan obligations related to a veteran's purchase, construction, or renovation of a dwelling on trust land.

## USE OF UNOBLIGATED BALANCES OF BUDGET AUTHORITY

Available unobligated balances on the Statement of Budgetary Resources are composed of current fiscal year apportioned funds for annual, multi-year, and no-year appropriations from Congress as well as revolving and trust funds. Other balances not available are composed of expired appropriation unobligated amounts, which generally are not available for new obligations, but can be used to increase existing obligations under certain circumstances. This amount also includes unobligated funds that were not apportioned by OMB for FY 2002 use.

Unobligated VA funds are available for uses defined in VA's FY 2002 Appropriation Law (P.L. 107-74). These purposes include: veterans medical care, research, education, construction and maintenance of VA buildings, veterans and dependents benefits, veterans life insurance, loan guaranty programs, veterans burial benefits, and administrative functions. Various obligation limitations are imposed on individual VA appropriations. Examples include travel obligation limitations and limitation of the use of medical care multi-year funds to object classes for equipment, structures, and land.

## EXPLANATION OF DIFFERENCES BETWEEN STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET

As a result of an analysis of aged obligations, obligations were reduced by \$100 million and \$120 million on the Statements of Budgetary Resources for FY 2002 and 2001, respectively. These adjustments were not reflected in the FACTS II data used to prepare the President's Budget. No other differences were identified as of the preparation date of the financial statements.

## CONTRIBUTED CAPITAL

The amount of contributed capital received during the fiscal year consisted of donations in the amount of \$47 million to the General Post Fund and \$0.2 million to the National Cemetery Gift Fund.

## 20. DISCLOSURES RELATED TO THE STATEMENTS OF FINANCING

The Statement of Financing section “Costs That Do Not Require Resources in the Current Period” includes only the fiscal year increases in liabilities not covered by budgetary resources. For existing liabilities, there will always be a difference

between this section and the value of liabilities not covered by budgetary resources disclosed in Note 10 and included in the liabilities section of the Balance Sheet.

## 21. DEDICATED COLLECTIONS

In the Federal Government, dedicated collections are accounted for in trust funds and special funds. The term “trust funds” as used in this report and in Federal budget accounting is frequently misunderstood. In the private sector, “trust” refers to funds of one party held by a second party (the trustee) in a fiduciary capacity. In the Federal budget, the term “trust fund” means only that the law requires that funds be accounted for separately, used only for specified purposes and that the account be designated as a “trust fund.”

A change in law may change the future receipts and the terms under which the fund’s resources are spent. The “trust fund assets” represent all sources of receipts and amounts due the trust fund regardless of source. This includes “related governmental transactions,” which are transactions between two different entities within the Federal Government. The “Investments with Treasury”

assets are comprised of investments in Federal debt securities and related accrued interest. These securities will require redemption if a fund’s disbursements exceed its receipts. Unless specifically provided for by law, trust funds may only place excess funds in Federally backed investments (e.g., Federal debt securities).

The table below summarizes the name, type, and purpose of the funds within VA that receive dedicated collections. All of the funds listed use the accrual basis of accounting. However, collections are reported as actually received in accordance with OMB Circular A-34. The insurance funds listed also adhere to the requirements of FASB No. 120, “Accounting and Reporting by Mutual Life Insurance Enterprise,” and issue a separate annual report. All of the funds generally receive authority to use current year contributions as well as a portion of previously contributed amounts.

FUND NAME	FUND TYPE	TREASURY SYMBOL	AUTHORITY	PURPOSE OF FUND	FINANCING SOURCES
<b>Medical Care Collections Fund</b>	Special	36x5287	P.L. 105-33 111 Stat 665	Accumulates recoveries from third parties and patient co-payments.	Public, primarily insurance carriers.
<b>Health Service Improvement Fund</b>	Special	36x5358	P.L 106-117 113 Stat 1561	Accumulates recoveries from enhanced use leases and patient co-payments.	Public.
<b>Escrowed Funds for Shared Medical Equipment Purchases</b>	Deposit	36x6019	106 STAT. 1974	Receives payments from public companies involved in joint purchases of medical equipment.	Public, universities, pharmaceuticals & other medical organizations.
<b>Personal Funds of Patients</b>	Deposit	36x6020	38 U.S.C. 3204	Temporarily holds funds.	Public, patients.
<b>Employee Allotments for Savings Bonds</b>	Deposit	36x6050	31 U.S.C. 3105	Temporarily holds funds.	Employees.
<b>Cemetery Gift Fund</b>	Trust	36x8129	38 U.S.C. 1007	Receives donations for veteran cemeteries.	Public donors.
<b>National Service Life Insurance Fund</b>	Trust	36x8132	38 U.S.C. 720	Accumulates premiums to insure veterans of WWII.	Public, veterans.
<b>Post-Vietnam Era Education Assistance Program</b>	Trust	36x8133	38 U.S.C. 1622	Subsidizes the cost of education to veterans.	Veterans, DoD.
<b>U.S. Government Life Insurance</b>	Trust	36x8150	38 U.S.C. 755	Premiums insure WWI veterans.	Public, veterans.
<b>Veterans Special Life Insurance Fund</b>	Trust	36x8455	38 U.S.C. 723 101-228	Premiums insure Korean conflict veterans without Service-related disabilities.	Public, veterans.
<b>General Post Fund, National Homes</b>	Trust	36x8180	38 U.S.C. 101-228	Receives restricted and unrestricted use donations.	Public, mostly veterans.

**Consolidated Financial Statements**

The following tables provide condensed information on assets, liabilities, fund balances, net costs, and changes in fund balances:

**AS OF SEPTEMBER 30, 2002**

**FUND SYMBOL**

**Assets:**

	5287	5358	6020	8132	8133	8150	8455	8180	Total
Fund balance with Treasury	\$ 77	\$ 29	\$ 41	\$ 8	\$ 81	\$ -	\$ 1	\$ 17	\$ 254
Investments with Treasury	-	-	-	11,663	-	62	1,843	48	13,616
Other Assets	833	75	-	647	1	3	115	17	1,691
<b>Total Assets</b>	910	104	41	12,318	82	65	1,959	82	15,561
<b>Liabilities:</b>									
Payables to Beneficiaries	-	-	-	130	2	2	9	1	144
Other Liabilities	-	-	41	11,861	-	61	1,880	2	13,845
<b>Total Liabilities</b>	-	-	41	11,991	2	63	1,889	3	13,989
<b>Net Position:</b>									
Cumulative Results	910	104	-	327	80	2	70	79	1,572
<b>Total Liabilities &amp; Net Position</b>	\$ 910	\$ 104	\$ 41	\$ 12,318	\$ 82	\$ 65	\$ 1,959	\$ 82	\$ 15,561

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2002**

**FUND SYMBOL**

**Revenues:**

	5287	5358	8132	8133	8150	8455	8180	Total
Exchange - Federal	\$ (14)	\$ -	\$ 813	\$ -	\$ 4	\$ 143	\$ -	\$ 946
Exchange - Public	806	272	559	2	-	77	1	1,717
Non-Exchange - Federal	-	-	-	-	-	-	-	-
Non-Exchange - Public	-	-	-	-	-	-	-	-
<b>Total Revenues</b>	792	272	1,372	2	4	220	1	2,663
<b>Expenses:</b>								
Program Expenses	-	6	1,402	9	5	225	44	1,691
<b>Total Expenses</b>	-	6	1,402	9	5	225	44	1,691
<b>Net Change from Operations</b>								
Beginning Net Position	1,089	-	356	87	3	75	79	1,689
Total Financing Sources	(971)	(162)	1	-	-	-	49	(1,083)
Change in Accounting Policy	-	-	-	-	-	-	(6)	(6)
Net Cost of Operations	792	266	(30)	(7)	(1)	(5)	(43)	972
<b>Ending Equity</b>	\$ 910	\$ 104	\$ 327	\$ 80	\$ 2	\$ 70	\$ 79	\$ 1,572

## 22. RECLASSIFICATIONS, CHANGES IN ACCOUNTING POLICY AND CHANGES IN FINANCIAL STATEMENT PRESENTATION

### RECLASSIFICATIONS

FY 2001 unobligated balances for the Loan Guaranty Financing Accounts were presented on the Statement of Budgetary Resources as available balances. These balances were submitted as unavailable balances in the Treasury FACTS II submission used for the President's Budget. The FY 2001 Statement of Budgetary Resources has been restated to reclassify unobligated balances totaling \$4.7 billion from the unobligated available line to the unobligated unavailable line.

### CHANGES IN ACCOUNTING POLICY

The capitalization threshold for VA's fixed assets was raised from \$25,000 to \$100,000 during FY 2002. The reduction in real and personal property book value of \$618 million is presented on the Statement of Changes in Net Position line titled "Cumulative Effect of Change in Accounting Policy."

### CHANGES IN FINANCIAL STATEMENT PRESENTATION

The Office of Management and Budget issued OMB Bulletin 01-09, Form and Content of Agency Financial Statements that superceded OMB Bulletin 97-01. Bulletin 01-09 changes

included revisions in some of the titles of basic financial statements as well as several changes in the presentation in the financial statements and related footnotes. In the Statement of Net Position, components of Net Position are separately displayed in two columns for Cumulative Results of Operations and Unexpended Appropriations to more clearly identify the components of Net Position. In the Statement of Budgetary Resources, Non-budgetary credit financing accounts are displayed in a separate column to more clearly distinguish between budgetary and non-budgetary activity to enhance linkage to the Budget of the United States Government. In the Statement of Financing, the "Combined Statement of Financing" title is replaced by the "Consolidated Statement of Financing" title.

In the Notes to the Consolidated Financial Statements, the Fund Balance with Treasury footnote disclosure is modified to include an additional breakout showing obligated amounts, available and unavailable amounts. Footnote 7 Direct Loans and Loan Guarantees is updated to conform to Statement of Federal Financial Accounting Standards (SFFAS) No. 18, Amendments to Accounting Standards for Direct Loans and Loan Guarantees.

# INDEPENDENT AUDITOR'S REPORT



## Department of Veterans Affairs Office of Inspector General

### REPORT OF THE AUDIT OF THE DEPARTMENT OF VETERANS AFFAIRS CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2002 AND 2001

Report No. 02-01638-47

VA Office of Inspector General  
Washington, DC 20420

January 22, 2003



**DEPARTMENT OF VETERANS AFFAIRS**  
**Office of Inspector General**  
**Washington DC 20420**

**Memorandum to the Secretary**

**Report of Audit of the Department of Veterans Affairs Consolidated  
 Financial Statements for Fiscal Years 2002 and 2001**

1. Attached is the Report of Audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements (CFS) for Fiscal Years (FY) 2002 and 2001. The Chief Financial Officers Act of 1990 requires this audit. The OIG contracted with the independent public accounting firm Deloitte & Touche LLP to perform the audit of VA's FY 2002 CFS. The OIG defined the requirements of the audit, reviewed the audit plans, monitored the audit, and reviewed the draft reports.
2. The independent auditors' report by Deloitte & Touche LLP provides an unqualified opinion on VA's FY 2002 and 2001 CFS. The report on internal control identifies five reportable conditions, of which two are material weaknesses. These five findings were reported last year. The two material weaknesses are (i) information technology security controls and (ii) integrated financial management system. The three reportable conditions are (i) application program and operating system change controls, (ii) loan guaranty business process, and (iii) operational oversight. Furthermore, the FY 2001 report on internal control contained five material weaknesses and six reportable conditions. During FY 2002, VA management has taken corrective action to eliminate three of the material weaknesses and two of the reportable conditions reported in the FY 2001 report. Two of the FY 2001 material weaknesses were combined into one information technology security controls finding this year.
3. The report on compliance with laws and regulations continues to conclude that VA is not in substantial compliance with the financial management system requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. The internal control issues concerning an integrated financial system and information technology security controls indicate noncompliance with the requirements of Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," which incorporates by reference OMB Circulars A-123, "Management Accountability and Control," and A-130, "Management of Federal Information Resources."
4. The material weakness and FFMIA noncompliance issues concerning VA's financial management systems underscore the importance that VA must continue its efforts to acquire and implement a replacement integrated core financial management system. The auditors' unqualified opinion was achieved for the most part through the extensive efforts of program and financial management staff, as well as the auditors, to overcome material weaknesses in internal control to produce auditable information after the fiscal year-end. Although these efforts resulted in materially correct annual financial statements, reliable information was not readily available during the year. The risk of materially misstating financial information is high with the existing financial management systems.
5. We will follow up on these internal control findings and evaluate any corrective actions during the audit of the Department's FY 2003 Consolidated Financial Statements.

MICHAEL SLACHTA, JR.  
 Assistant Inspector General for Auditing

Attachment

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1750 Tysons Boulevard  
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USA

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## INDEPENDENT AUDITORS' REPORT

To the Secretary  
Department of Veterans Affairs

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) as of September 30, 2002 and 2001, and the related consolidated statements of net cost, changes in net position, financing and the combined statement of budgetary resources for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of the management of VA. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the requirements of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and the OMB Bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of VA as of September 30, 2002 and 2001, and its net costs, changes in net position, budgetary resources and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Footnote 22, the VA changed its capitalization threshold from \$25,000 to \$100,000.

As discussed in Footnote 22, the VA adopted the changes in the OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*. These changes included revisions in some of the titles of basic financial statements as well as several changes in the presentation in the financial statements and related footnotes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2002, on our consideration of VA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte &amp; Touche LLP".

December 16, 2002



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Secretary  
Department of Veterans Affairs

We have audited the financial statements of the Department of Veterans Affairs (VA), as of and for the year ended September 30, 2002, and have issued our report thereon dated December 16, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of the Office of Management and Budget (OMB) Bulletin No. 01-02, “*Audit Requirements for Federal Financial Statements*”, as amended.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered VA’s internal control over financial reporting by obtaining an understanding of the agency’s internal control, determining whether internal controls had been placed in operation, assessing control risks, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect VA’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

We identified the following matters involving the internal control over financial reporting and operation that we consider to be material weaknesses and other reportable conditions as defined above. Material weaknesses and other reportable conditions that we identified in our prior year report dated February 19, 2002 are identified as repeat conditions. The material weaknesses and the reportable conditions are categorized under the headings Information Technology and Operations.

Five reportable conditions are described in the following paragraphs and include significant departures from certain requirements of OMB Circular A-127, "Financial Management Systems," which incorporates by reference Circulars A-123, "Management Accountability and Control," and A-130, "Management of Federal Information Resources," among other requirements. We believe that the two reportable conditions identified as "Information Technology (IT) Security Controls" and "Integrated Financial Management System," are also material weaknesses.

## **INFORMATION TECHNOLOGY**

### **Information Technology (IT) Security Controls – Material Weakness**

#### **(Repeat Condition)**

VA's program and financial data continue to be at risk due to serious weaknesses related to the Department's control and oversight over access to its information systems. These weaknesses placed sensitive information, including financial data and sensitive veteran medical and benefit information, at risk of inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, possibly occurring without detection. The VA Office of Inspector General (OIG) first reported this condition in its fiscal year 1997 audit report and made recommendations for VA to implement a comprehensive security program that would improve these controls. VA has acknowledged these weaknesses and first reported IT security controls as a material weakness in its Federal Managers' Financial Integrity Act (FMFIA) report for fiscal year 1998.

Our testing of key controls over security administration for the core Financial Management System (FMS), the payroll system (Personnel and Accounting Integrate Data – PAID) and the veterans compensation and pension benefit payment system (Compensation & Pension System – C&P) and the OIG's testing for Government Information Security Reform Act (GISRA) reporting identified the following control weaknesses:

- In the FMS system, we identified numerous security weaknesses, including inadequate segregation of duties over security administration; inappropriate access privileges and inadequate management of access privileges; excessive assignment of powerful override privileges; and inadequate segregation of duties permitting individuals to both obligate funds and make disbursements.
- In the PAID system, we identified numerous security weaknesses, including inadequate segregation of duties over security administration; inappropriate access privileges and inadequate management of access privileges; and inadequate segregation of duties permitting individuals to make changes to the payroll master file and process payroll transactions.
- In the C&P system, we identified numerous security weaknesses, including inappropriate access privileges and inadequate management of access privileges; excessive assignment of powerful privileges to sensitive information; and inadequate segregation of duties permitting individuals to both initiate claims and authorize the claims for disbursement.

- The Office of Inspector General (OIG) performed penetration tests of the VA systems. Internal penetration tests (accessing systems from inside VA's network) verified that VA's automated systems could be exploited to gain access to sensitive veterans' benefit and healthcare information. The nature and the number of vulnerabilities found warrant immediate attention to reduce the significant exposure and high risk of an internal attack.
- External penetration tests (accessing systems from outside VA's network) found that the VA's automated systems with protection controls could not be penetrated. The OIG's attempts to access systems through Internet connections at facilities with protection controls were identified, prevented and reported to the VA Computer Incident Report Center (VA-CIRC). The OIG testing confirmed that VA should implement external automated system protection measures Department-wide to adequately protect its systems and sensitive data.

During both the fiscal years 2002 and 2001 audits, we observed control weaknesses in critical loan guaranty applications system security and process controls due to a lack of accountability and definition of responsibility for implementing and enforcing consistent security administration standards and the lack of appropriate reconciliation processes/procedures. These weaknesses increase the risk of unauthorized or erroneous data transfer, and modifications of production programs and data, resulting in unreliable loan and property data that feed VA's core financial management system. Additionally, the lack of appropriate reconciliation of loan guaranty data among systems does not permit the Veterans Benefits Administration (VBA) the ability to detect unauthorized or erroneous data. Such weaknesses include the following:

- Excessive access to Common Security Administration Manager functions that control access to Automated Loan Production System and Loan Servicing & Claims System (LS&C) functions and data;
- Lack of accountability and responsibility for security administration and oversight of access to the Property Management System (PMS) and the Guaranty/Insured Loan System (GILS);
- Lack of clearly defined responsibility for monitoring powerful user activities and transactions within Loan Guaranty System applications;
- Inadequate business continuity planning and testing of systems infrastructure supporting Loan Guaranty Systems; and
- Inconsistent application development and change management standards and compliance with established standards for application changes, testing, acceptance and quality assurance.

VA's success in improving information security is dependent on VA comprehensively addressing these weaknesses at an enterprise level, including obtaining a high level of commitment and establishing appropriate accountability throughout VA; and obtaining adequate resources to implement the plan.

#### Recommendation

We reaffirm our prior year recommendations and the OIG's recommendation in the GISRA report that VA:

1. Apply appropriate resources and accountability mechanisms in order that the planned actions be accomplished within an acceptable timeframe and will remediate the deficiencies identified in the GISRA process.

2. Correct and or eliminate the information security vulnerabilities exploited during the penetration testing of VA information systems and implement VA-wide policy to effectively monitor network operations to include the use of scanning and penetration testing techniques.
3. Improve security and segregation of duties controls over the FMS, PAID and C&P application systems, and assign, communicate, and coordinate responsibility for monitoring and enforcing such controls, throughout VA.
4. Improve security and business process controls over loan guaranty processes and application systems, and assign, communicate, and coordinate responsibility for monitoring and enforcing such controls, throughout the Veterans Benefits Administration.

### **Application Program and Operating System Change Controls**

#### **(Repeat Condition)**

We noted continuing weaknesses in application program change controls and operating system software change controls at certain VA data centers. Weaknesses include: inappropriate access capabilities by application programmers and system support staff to production data; lack of application change procedures; inadequate procedures for testing, approving, and migrating system software changes; inadequate segregation of duties for approving, performing, testing and documenting operating system software changes; and inadequate application program change tracking procedures. These weaknesses may cause unauthorized or invalid program and operating system changes to be placed into production.

#### Recommendation

5. We reaffirm our prior year's recommendation that improved controls over application program and operating system changes be instituted, communicated and enforced throughout the data centers.

## **OPERATIONS**

### **Integrated Financial Management System – Material Weakness**

#### **(Repeat Condition)**

As defined in OMB Circular A – 127, “a financial management system encompasses automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.” Such financial management systems shall be designed to provide for an effective and efficient interrelationship between software, hardware, personnel, procedures, controls, and data contained within the systems.

With respect to system requirements in the area of financial reporting, OMB Circular A – 127 provides that an agency's financial management system should generate reliable, timely, and consistent information necessary for meeting management's responsibilities, including the preparation of financial statements. Within OMB Circular A – 123, the management control processes necessary to ensure that “reliable and timely information is obtained, maintained, reported and used for decision making” are set forth, including prompt and appropriate recording and classification.

During our audit of VA's consolidated financial statements, we noted continuing difficulties related to the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements. While significant efforts are made at the component and consolidated levels to assemble, compile, and review the necessary financial information for annual financial reporting requirements; in many cases, significant manual work-arounds and out-of-date feeder systems are still in place as VA has not yet completed its transition to a fully integrated financial management system. For example, we noted that:

- In the Veterans Health Administration (VHA), some medical centers were not performing account reconciliations on a consistent basis and assets were not capitalized in a timely manner.
- VBA management identified 10,081 direct loans that were not fully amortized. These loans are expected to have an unpaid principal balance of \$49.7 million on their scheduled maturity dates. VBA management provided a detail analysis of the loans. They asserted that the likely unpaid balance of direct loans that will reach maturity for which VA would have limited recourse would be approximately \$3 million.
- Also in VBA, a comparison of the Foreclosed Property data extract and Countrywide Home Loans (CHL)'s database for the period ending August 31, 2002 indicated that approximately 1,500 records totaling \$44 million were incorrectly included in the property management database.

Given the size and complexity of the VA, as well as the current status of the system development and implementation cycles for planned improvements, it is critical that enhanced control, monitoring and reconciliation processes be in place and functioning appropriately throughout the year to ensure accurate and complete financial reporting.

#### Recommendation

6. We affirm our prior year's recommendation that even though fully automated processes may not yet be in place, supplemental manual processes should be implemented and enforced to meet appropriate control objectives.
7. More frequent preparation of financial statements during the year would ensure that supporting analyses and reconciliations are completed and reviewed. While this would be a substantial undertaking, we recommend that VA prepare monthly financial statements and implement a plan to attain that goal over the next few years. The transition of the closing process from annually to monthly could begin with semi-annual closes, and then move to quarterly closes as the financial reporting process matures.

#### **Loan Guaranty Business Process**

##### **(Repeat Condition)**

During both the fiscal years 2002 and 2001 audits, procedures were performed focusing on the business processes of the Loan Guaranty (LGY) Program. We noted areas for improvement in the business process environment. There are many interfaces among LGY modules and FMS ledger accounts. These interfaces capture and transmit loan and property data, and update FMS with such data. VBA does not have an

effective means to ensure that responsible officials or individuals routinely and consistently perform data reconciliations and resolve transaction discrepancies in a timely manner. For example, we observed the following:

- The Mortgage Loan Accounting Center (MLAC) produces a Microsoft Access report that compares property values in FMS with values in PMS. There were differences noted between FMS and PMS. While efforts were made by MLAC to investigate and resolve the differences, there remained an unreconciled difference that was not resolved.
- The Guaranteed Insured Loan System (GILS) creates an “Errors File” when it receives incorrect / incomplete data from the Automated Loans Processing System (ALPS). We were not able to determine which offices are responsible for reviewing reported errors, and whether such errors were investigated and resolved on a timely basis,
- The Loan Services and Claims (LS&C) system updates both FMS and PMS, but the PMS data file is updated a day later than FMS. Currently, there is no report to reconcile the data transferred between LS&C and PMS. This could result in inconsistent property information being recorded in FMS and PMS.

#### Recommendation

8. We reaffirm our prior year’s recommendation that VBA continue to make efforts to reconcile and resolve existing differences between LGY modules (including GILS, PMS, and LS&C) and FMS.
9. VBA develop and implement clear responsibilities and appropriate procedures to routinely reconcile, investigate and resolve data transaction discrepancies to ensure that consistent information is maintained in all databases. The system should generate well-structured reconciliation reports to facilitate routine reviews of data transfers and easy documentation of such reviews.
10. VBA should develop reports to facilitate reconciliation of differences between ALPS and GILS, as well as LS&C and PMS. Further, VBA should define critical interfaces among LGY modules and FMS systems, and design and use comparable reports to facilitate routine reconciliation of key interfaces.

#### Operational Oversight

##### (Repeat Condition)

During our audit, we conducted site visits to selected VA medical centers or stations within the Veterans Integrated Service Networks (VISNs) to test compliance with identified control and reconciliation processes. We continued to note a number of previously reported instances where application of control and reconciliation processes were not performed consistently or completely. If the condition existed at over 25% of the sites, then we deem the condition to be significant noncompliance. In several instances, existing Department procedures for supervisory review were not applied consistently or timely. Examples include instances where medical centers were not adequately billing some medical services to patients with third party insurance. Individuals had multiple obligation and payment authority. This precluded a proper separation of duties. We frequently observed ineffective or inefficient processes in the areas of property, plant and equipment; medical accounts receivable; and accounts payable during our site visits.

## Recommendation

11. We reaffirm our prior year's recommendation that procedures for appropriate and timely management reviews, separation of duties and account reconciliations be formalized and implemented to achieve improved internal control over financial reporting. VHA Management should improve the monitoring of existing policies and procedures implemented.

## Follow-up on Previous Report

In our report in connection with the fiscal year 2001 VA financial statements dated February 19, 2002, we reported eleven reportable conditions (with six material weaknesses) in the areas of (1) Management Ownership of Financial Data, (2) Reliance on Independent Specialists, (3) Management Legal Representations, (4) Information Technology (IT) Security Controls, (5) Loan Guaranty Application Systems, (6) Application Program and Operating System Change Controls, (7) Business Continuity and Disaster Recovery Planning, (8) Integrated Financial Management System, (9) Authorization of Compensation Benefit Claim Payments, (10) Loan Guaranty Business Process and (11) Operational Oversight. As discussed earlier, we believe items (1), (2), (3), (7) and (9) have been corrected. The material weaknesses repeated in fiscal year 2002 are items (4), (5) and (8). Items (4) and (5) have been combined into one material weakness. Items (6), (10) and (11) remain as reportable conditions in fiscal year 2002.

\* \* \* \* \*

With respect to the internal control related to performance measures reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

In addition, we considered VA's internal control over Supplementary Information by obtaining an understanding of VA's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

## COMPLIANCE

VA management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether VA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and are described below.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U. S. Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance and evaluative criteria issued by OMB in Circular A-127.

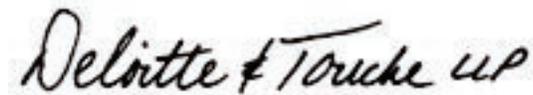
The material weaknesses in internal control over financial reporting discussed above and identified as "Integrated Financial Management System" and "Information Technology (IT) Security Controls", indicate that VA is not in full compliance with the requirements of OMB Circulars A – 123, A – 127, and A - 130. As discussed above, we found material weaknesses in (1) the design and operation of internal controls over financial reporting, particularly with effectiveness of the control, monitoring and reconciliation processes in support of the preparation of the Department's consolidated financial statements, given the status of the transition to a fully integrated financial management system; and (2) the effectiveness of the information technology security controls.

We believe these material weaknesses, in the aggregate, result in departures from certain of the requirements of OMB Circulars A–123, A–127 and A-130, and are, therefore, instances of substantial noncompliance with the Federal financial management systems requirements under FFMIA.

However, we noted other matters involving the internal control and compliance over financial reporting that we have reported to management of the VA, in a separate letter dated December 16, 2002.

#### **DISTRIBUTION**

This report is intended solely for the information and use of the Office of Inspector General of the Department of Veterans Affairs, the management of the Department of Veterans Affairs, the Office of Management and Budget, the U. S. General Accounting Office, Office of the President and the U. S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

December 16, 2002

**Date:** DEC 24 2002

**From:** Assistant Secretary for Management (004)

**Subj:** Report of Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2002 and 2001

**To:** Assistant Inspector General for Auditing (52)

We have reviewed the Report of the Office of Inspector General Audit for Fiscal Years 2002 and 2001, and are pleased with receipt of an unqualified opinion. The planning and efficient performance of all staff involved in this year's audit ensured completion of the audit 2 months ahead of the required date -- an exceptional accomplishment. Please extend to your staff, and the staff of Deloitte and Touche, LLP, our appreciation for their hard work and cooperation during this year's audit.

We will share the results of the audit, as well as the findings on internal controls over financial reporting and regulatory compliance, with senior officials in the Veterans Health Administration and Veterans Benefits Administration, and with other VA staff and program managers. We will continue to provide you with updates on the progress implementing our management plan to correct the two material weaknesses, Integrated Financial Management System and Information Technology Security Controls.

Thank you again for all your hard work that brought us to another successful conclusion of the audit cycle. If you have any questions, please contact me at 273-5589.

  
William H. Campbell



# MAJOR MANAGEMENT CHALLENGES



## Major Management Challenges Identified by VA's Office of Inspector General

The following is an update prepared by VA's Office of Inspector General (OIG) summarizing the most serious management problems facing VA, and assessing the Department's progress in addressing them. (On these pages, the words "we" and "our" refer to the OIG.)

### 1. Health Care Quality Management and Patient Safety

One of the most serious challenges facing VA is the need to maintain a highly effective health care quality management program. Although Veterans Health Administration (VHA) managers are vigorously addressing the Department's quality management and patient safety procedures in an effort to strengthen patients' confidence, health care system delivery issues remain. In our ongoing review of VAMC quality management programs, we found that recommended action items resulting from internal investigations or reviews were not always implemented. Without resolution of identified deficiencies, unsafe or improper conditions can continue to pose risks to patients. Local resource issues often compete for priority in developing vigilant quality of care monitoring and performance improvement.

#### Current Status

In several areas reviewed this year, we found that VHA guidance has lagged behind identified quality management concerns and that guidance issued has not been sufficiently clear and/or implemented. For example, in our April and June 2002 reports

titled *Controlled Substances Prescribed to Patients in VHA Mental Health and Behavioral Sciences Programs* (Report No. 01-00026-18) and *VHA Pain Management Initiative* (Report No. 01-00026-101), we found that consistency in pain management has improved; however, the VHA pain management initiative was not implemented across the system for all categories of patients. Similarly, in our February 2002 report titled *Evaluation of VHA Coding Accuracy and Compliance Program* (Report No. 01-00026-68), we found that while adherence to the compliance program has improved, full implementation of all aspects across the system continues to lag. This results in ongoing problems with timely and accurate coding and billing. Functional and resource disparities continue to impede the Department's ability to assess and control clinical practices, and to devise procedures to correct or eliminate problems.

In addition to VA facility monitoring, concerns exist for the care provided to veterans in the private sector, e.g., on a VA contract or fee basis. Patients, their family members, and members of Congress are concerned about patient safety and the quality of care provided in VA contract nursing homes. During our recently completed national review of contract nursing home quality, we found that VA has taken years to fully implement standardized inspection procedures for monitoring contract nursing home activities and for approving homes for participation in the program. We concluded that contract nursing home inspections were not sufficient to ensure that patient safety and quality of care equaled that provided in VA nursing homes. We also found that VA medical center contract nursing home review teams did not use available sources of information such as the Centers for Medicare and Medicaid Services' list of homes

with various problems; as a result, veterans had been placed in several of these homes. We also found that contract nursing home review teams did not meet annually with Veterans Benefits Administration (VBA) fiduciary field examiners to discuss the problems of veterans who are of concern both to VHA and VBA.

In the aftermath of the September 11 terrorist attacks, we reviewed the adequacy of security and inventory controls over selected biological, chemical, and radioactive agents owned by or controlled at VA facilities. In our March 2002 report titled *Review of Security and Inventory Controls Over Selected Biological, Chemical, and Radioactive Agents Owned by or Controlled at Department of Veterans Affairs Facilities* (Report No. 02-00266-76), we found that security measures to limit physical access to research facilities, clinical laboratories, and other high-risk or sensitive areas varied significantly. VHA's inventories of sensitive materials were incomplete and inadequate. In addition, while most facilities had complied with requirements for disaster planning, many had not updated their plans to include terrorist activities. This review also emphasized the ongoing challenge of obtaining adequate and timely credentials and background checks for employees and contractors. In March 2002, the VA Deputy Secretary requested that VHA and Office of Policy and Planning staff implement the recommendations in this report by September 30, 2002. As of September 2002, VHA, in conjunction with the Office of Policy and Planning, had implemented 2 of the 16 recommendations in the report.

The OIG conducted a nationwide assessment of VHA's policies and practices for evaluating and managing violent and potentially violent psychiatric patients. Our March 1996 report titled *Evaluation of VHA's Policies and Practices for Managing Violent and Potentially Violent Psychiatric Patients* (Report No. 6HI-A28-038) recommended that VHA managers explore network flagging systems that would ensure employees at all VAMCs are alerted when patients who have a history of violence arrive at a medical center for treatment. VHA concurred that VISN-

level/national databases are needed to support information sharing; however, this recommendation has not been implemented.

### VA's Program Response

The VA pain management strategy has been implemented across the system for all categories of patients. The External Peer Review Program (EPRP) data have steadily improved over the past 2 years and monitors have been revised to be more comprehensive. The Joint Commission on Accreditation of Healthcare Organizations' (JCAHO) findings for fiscal years 2000 through 2002 are being tracked to determine pain compliance problem areas that can be addressed. Educational opportunities, media and print materials, toolkits, and clinical practice guidelines are provided to facilities to assist in bringing the entire system into full compliance.

Progress continues in implementing the Coding Accuracy and Compliance Program across the system. The VHA Handbook for Coding Guidelines was published in June 2002. The Web-based Coding Initiative was deployed for use by VA staff in April 2002; current enrollment exceeds 3,000. Electronic encounter forms for primary care and mental health were released in July 2002, and clinical education aids were distributed nationally in August 2002. Additional coding activities under development include revision of the VHA Health Information Management (HIM) Handbook planned for completion in December 2002. Nationally developed documentation templates, additional nationally developed electronic encounter forms, and physician documentation education tools, all were released in September 2002. A satellite broadcast education series, HIM Coding and Documentation for Compliance, is scheduled throughout FY 2003, along with expanded enrollment in the Web-based Coding Initiative to exceed 4,000 VA learners, to meet the continuing education needs of existing coding staff and the educational needs of new coding staff.

A revised Handbook for Community Nursing Home (CNH) Procedures was issued in June 2002 to address oversight of patient safety and

quality of care for patients being provided care in community nursing homes. The handbook specifies instructions for the initial and annual review of both regional and local CNH contracts, and instructions for ongoing monitoring and follow-up visits for veterans placed in both regional and local CNH contract homes. VHA leadership is currently considering additional recommendations from the Inspector General on further improvement to the oversight process. A report and final action by the Under Secretary for Health is anticipated by year's end.

In response to the OIG report, *Review of Security and Inventory Controls Over Selected Biological, Chemical, and Radioactive Agents Owned by or Controlled at Department of Veterans Affairs Facilities*, VHA noted it had issued the *Emergency Management Program Guidebook* in February 2002. This was followed by a memorandum in August 2002, from the then Assistant Deputy Under Secretary for Health, requesting that all field facility management programs be updated to include mitigation/preparedness actions and response/recovery plans for terrorist threats and events according to the Guidebook; that facilities conduct hazard vulnerability analyses (HVA) to ensure that hazardous chemical and biological agents stored in the clinical and research labs or elsewhere at facilities are secure; that all facilities have developed and implemented appropriate mitigation/preparedness activities and plans for response/recovery activities designed specifically for clinical and research labs, or areas in facilities that would house or contain hazardous substances or agents; and that the evaluation and updating of all facility operation plans be conducted annually as required by JCAHO. The annual evaluation includes reviewing and updating standard operating procedures for terrorist threats and events, controlling access to facilities, and conducting an HVA for clinical research labs.

The Office of Research and Development (ORD) has received responses for their request for proposals, dated February 8, 2002, for supplemental funding needed to purchase and install necessary security equipment. ORD is spending more than \$2 million to upgrade laboratory security at more

than 50 sites, and will systematically review all research sites over the next 3 years as part of its infrastructure program to identify and fund equipment needs that include security devices. ORD issued a memorandum to medical facility directors on security training. Additional guidance is anticipated in the Office of Security and Law Enforcement Handbook 0730, currently being revised. A joint security memorandum, dated July 29, 2002, from VHA and the Office of Security and Law Enforcement in the Office of Policy and Planning, addressed security issues identified in the OIG report recommendations. Guidance from the ORD on procurement, handling, and destruction of high-risk materials, *Control of Hazardous Materials in VA Research Laboratories*, was published November 20, 2002. It should be noted that this guidance directs that clinical laboratories follow this guidance as well. A draft handbook has already been posted on ORD's Web site. Following the publication of the handbook, ORD will evaluate the effectiveness of and compliance with the policy by using security assessments system-wide to address the OIG's findings. In addition, on September 17, 2002, the Deputy Under Secretary for Operations and Management and the Acting Deputy Under Secretary for Health jointly issued a memorandum advising all facilities with Biosafety Level (BSL) 3 laboratories of the Under Secretary for Health's directive that affected facilities conduct a security self-assessment of their BSL 3 laboratories using a specifically provided checklist by mid-October 2002. Sites that fail to meet standards in the checklist will be reinspected within 30 days. BSL 3 laboratories that fail the reinspection will suspend operations until they fulfill the specified security requirements. The memorandum also announced that ORD and the Director of Safety and Technical Services (10NB) will conduct periodic announced and unannounced inspections of BSL 3 facilities at least once per year, beginning in January 2003.

In response to the OIG's report, *Evaluation of VHA's Policies and Practices for Managing Violent and Potentially Violent Psychiatric Patients*, VHA considered a number of ways

to address the recommendation on patient flagging systems, none of which were fully responsive. Planning for an automated system that will implement the remaining open report recommendation began in August 2002 and is scheduled for completion in July 2003. A directive on the patient flagging system will be developed, and satellite training on the system will follow completion of the software.

### 2. Resource Allocation

In 1997, Congress required VA to address resource inequities nationwide. Public Law 104-204 mandated that VA develop a plan to improve the distribution of medical care resources and ensure that veterans had an equitable access to health care across the United States. As a result, VA developed the Veterans' Equitable Resource Allocation (VERA) system.

Prior to FY 1997, VA used three different resource allocation systems.<sup>1</sup> They were designed to improve certain functions of each preceding funding allocation system. VAMCs received and managed their own budgets, and annual incremental increases were based on prior year allocations. Funds allocated through each of these systems were based on historic funding imbalances, which perpetuated inequitable allocations of resources and unequal access to care. The inequities that resulted were caused by a shift in the veteran population demographics without an accompanying shift in resource allocations.

The VERA system is a capitation-based allocation methodology that moves funds among the VISNs based on patient workload. The allocation methodology provides incentives for achieving cost efficiencies and increased funding to serve more veterans. VISNs maintain responsibility for allocating resources among the facilities in their prescribed geographic areas. Over the last 5 years, allocations based on VERA have resulted in the shifting of significant amounts of resources to VISNs that were previously under-funded; however, resource allocation issues remain unresolved.

### Current Status

In August 2001, the OIG issued a report titled *Audit of Availability of Healthcare Services in the Florida/Puerto Rico Veterans Integrated Service Network 8* (Report No. 99-00057-55). The report recommended that the VERA model include Priority 7 veterans (the majority of whom are currently excluded) so that the total number of veterans enrolled and treated is appropriately considered in funding decisions.

VHA is evaluating proposed changes to the FY 2003 VERA methodology to include Priority 7 veterans in the allocation methodology as the OIG and the General Accounting Office (GAO) recommended (*GAO Report - VA Health Care: Allocation Changes Would Better Align Resources with Workload* [GAO-02-338]). We note that VHA remains concerned with uncontrolled growth if Priority 7 veterans are included in the VERA allocation model.

### VA's Program Response

On November 20, 2002, the Secretary announced an overhaul of the VERA methodology. The changes to VERA are taken from recommendations made by GAO and the RAND Corporation. The latest changes will allow VA to: (i) more accurately tie VA funding for networks to the complexity of care received by patients with per-patient funds ranging from about \$263 to more than \$60,000; (ii) provide more funding to networks for the most severely ill patients; (iii) eliminate the need for special mid-year funding supplements for networks by addressing the issues that previously led to such requests; and, (iv) contain and manage workload growth. In 2003, the changes will result in a minimum increase of 5 percent and a maximum increase of 12.6 percent for VISNs above the final 2002 VERA allocations. The Secretary decided not to include Priority 7 veterans in the VERA model as proposed by the OIG and GAO. Although the inclusion of nonservice-connected/noncomplex care Priority 7 veterans in the VERA Basic Vested Care category would be a step toward better aligning the VERA allocation model with VA's actual

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<sup>1</sup> (A) prior to 1985 -- Incremental Funding, (B) 1984-1985 -- Resource Allocation Model, and (C) 1984-1997 -- Resource Planning and Management Model.

enrollment experience, including these veterans in the VERA model would create financial incentives to seek out more of these veterans instead of veterans with service-connected disabilities, those with incomes below the current income threshold, or special needs patients (e.g., the homeless), who comprise VA's core health care mission. VA experienced uncontrolled growth in the Priority 7 veterans when they were not included in the VERA model, and we do not want to encourage unmanageable growth by including them in the VERA model.

Allocation of resources is a zero sum game. Increased resources for Priority 7 veterans would come at the expense of veterans who are service-connected, poor, or who require specialized services. Allocation of resources to areas with a disproportionate percentage of Priority 7 veterans would come at the expense of veterans who live in areas with disproportionately higher numbers of service-connected and low-income veterans.

### 3. Compensation and Pension (C&P) Timeliness and Quality

For the past quarter century, VBA has struggled with timeliness and quality of claims processing; it continues to face significant problems. A large backlog of compensation claims continues to build as a result of an unacceptably long time to process the claims. As of July 30, 2002, VBA reported an inventory of more than 482,000 cases. In FY 2002, VBA reported that C&P rating-related actions took an average of 223 days to process.

#### Current Status

In December 1997, the OIG issued a report titled *Summary Report on VA Claims Processing Issues* (Report No. 8D2-B01-001) that identified opportunities for improving the timeliness and quality of claims processing and veterans' overall satisfaction with VA claims services. In our September and October 1998 reports titled *Audit of Data Integrity for Veterans Claims Processing Performance Measures Used for Reports*

*Required by the Government Performance and Results Act* (Report No. 8R5-B01-147) and *Accuracy of Data Used to Measure Claims Processing Timeliness* (Report No. 9R5-B01-005), we reported that three key C&P timeliness measures lacked integrity and that actual timeliness was well above reported timeliness. The OIG closed these three reports after VBA actions. Recent Combined Assessment Program (CAP) reviews<sup>2</sup> found C&P claims processing was untimely at all 10 facilities where we reviewed timeliness; we did not review data quality.

In October 2001, the Claims Processing Task Force issued a report to the VA Secretary recommending measures and actions to increase the efficiency and productivity of VBA operations, shrink the backlog of claims, reduce the time it takes to decide a claim, and improve the validity and acceptability of decisions. The task force report made 34 recommendations (20 short-term and 14 medium-term). VBA has defined 62 actions they can take to fully accomplish the 34 recommendations. VBA has pursued implementation of the recommendations and reports 10 of the action items are completed.

#### VA's Program Response

Since the Claims Processing Task Force Report was released to the VA Secretary in October 2001, significant improvement has been shown in the area of claims processing timeliness. The backlog of the total number of claims and claims pending over 6 months continues to diminish as VBA implements the recommendations outlined in the report. VBA's accomplishments in 2002 are outlined on the following page.

<sup>2</sup> Through this program, auditors, investigators, and health care inspectors collaborate to assess key operations and programs at VA health care systems and VA regional offices on a cyclical basis.

	<u>Peak</u>	<u>As of Sept 30</u>
• Total claims pending	601,237	465,950
• Rating cases pending	432,659	344,183
• Total claims pending over 6 months	230,796	139,603
• Rating cases pending over 6 months	204,475	120,900
• Non-rating cases pending over 6 months	23,147	13,556
• Average days to complete for rating cases	233.5	208.8
• Average days pending for rating cases	202.7	174.2
• Average days to complete non-rating cases	76.5	53.6
• Average days pending for non-rating cases	126	95.7

VBA recognizes that continued improvement in the area of claims processing needs to be shown. As a result, the Claims Processing Improvement Task Team developed implementation strategies to move from a case management approach to a work-processing model based on specialized claims processing teams. All offices began operating under this new model on September 30, 2002. Hiring and training is expected to be completed in 2003. VBA believes the new claims processing model will significantly improve claims processing through uniformity in decision-making, specialization, and standardization in regional office organization structure.

#### 4. Erroneous and Improper Payments

OIG audits and investigations found that improper payments are a significant problem in the Department. Improper payments have been attributed to poor oversight, monitoring, and inadequate internal controls. As a result, improper payments have occurred because of payments to ineligible veteran beneficiaries, fraud, and other abuses. VA has not disclosed the monetary value of improper payments on its financial statements.

The risk of improper payments is high given the significant volume of transactions processed through VA systems and the complex criteria often used to compute veterans' benefits payments. Without systematic measurement of the extent of improper payments, VA will not be in a position to target mitigation strategies.

#### Current Status

In FY 2002, the OIG completed a review of all one-time C&P payments valued at \$25,000 or more, made since 1995, to determine if the payments were valid. The VA Secretary requested this review in September 2001, following the discovery that an employee at the VARO in Atlanta, GA, had bypassed controls and generated fraudulent payments. We determined that most one-time payments reviewed were valid; however, we found there were unacceptable, high rates of noncompliance with internal control requirements related to one-time payments and C&P claims processing. The OIG is investigating 316 cases associated with veterans' claims files that could not be located during our review.

VA needs to develop and implement an effective method of identifying inappropriate benefit payments. Recent OIG audits found that the appropriateness of VBA payments has not been adequately addressed. VA needs to report "Improper Payments" dollar figures on four of its programs in the Department's budget submission in accordance with the OMB Circular No. A-11, Section 57 reporting requirements. The four programs include Compensation, Dependency and Indemnity Compensation, Pension, and Insurance.

In late FY 2002, the OIG began work to evaluate the validity and reasonableness of current and former VBA employees' compensation ratings and awards. We are assessing whether VBA has adequate controls to prevent fraud and ensure that favoritism does not influence the ratings and awards to VBA employees.

We also have issued a report addressing the accuracy of reported unreimbursed medical expenses of pensioners. Results showed that

submissions from pensioners are significantly impacting the level of their benefits. VBA’s processing of these submissions is not being handled effectively, resulting in processing errors and program fraud, with benefit overpayments of about \$125 million and underpayments totaling as much as \$20 million annually.

We continue to focus our efforts on leveraging audits and investigations to produce systemic improvements and procedural reforms that reduce erroneous and improper payments in VA and limit future opportunities for fraud and other abuses to occur. Below, we have highlighted some of our major audits and investigations where significant improper payments were identified.

**VA’s Program Response**

The Department of Veterans Affairs Financial Services Center (FSC) uses monthly performance measures to review the accuracy and timeliness of various payments processed through the Financial Management System (FMS). The FSC systematically reviews daily payments to identify potential duplicate payments for further analysis and validation. The GAO cited our audit recovery process in their Executive Guide to Managing Improper Payment Report (GAO-02-69G) as a “Best Practice.”

Description	Amount Collected
Duplicate Payments	\$2.4 Million
Outstanding Credits from Vendor Statements	\$1.0 Million
Duplicate Payments Cancelled Before Treasury Issuance*	\$1.6 Million
Total	\$5.0 Million

\*Duplicate payments cancelled prior to Treasury issuance represent a cost avoidance for VA by preventing duplicate vendor payments and the resulting collection efforts.

Through August 2002, the FSC collected \$3.4 million in improper payments (both billable and non-billable) and prevented an additional \$1.6 million in potential improper payments. The FSC continues to pursue outstanding balances.

Recently, the FSC analyzed the outstanding duplicate payment backlog and solicited the assistance of the Chief Financial Officers of VHA and VBA in validating and collecting old, outstanding duplicate payments. As a result, in August 2002, the FSC collected \$547,000 (of the combined billable and non-billable collections) versus the prior 3-month average of \$413,000. Also, continuous process improvements enabled the FSC to reduce its duplicate payments by an average of 15 percent per month since March 2002.

In addition to the recovery audit effort and the identification of potential duplicate payments, the FSC created a new FMS training course that specifically addresses FSC-made payments. This course targets risk areas identified by quarterly performance measure reviews, special analyses, and other FSC-specific transactions.

Currently, the FSC reviews payments within a 90-day period. During FY 2003, they expect to increase the review period to approximately 1 year to expand their oversight capability. The FSC will also expand its audit recovery reviews to include purchase card payments.

VBA has consolidated pension claims processing activities into three pension maintenance centers. Key goals of the consolidation include enhanced performance of program integrity as well as consistency and improved quality in administration of the pension program. One of the performance measures for the pension centers will be their program integrity efforts. Processing claims for unreimbursed medical expenses is a vital part of this effort.

**4.A. OIG ISSUE - FRAUDULENT ONE-TIME RETROACTIVE BENEFITS PAYMENTS**

Criminal charges of conspiracy, theft of Government property, and a violation of

principles against the United States were filed on 12 individuals involved in a major theft against VA. The charges also seek forfeiture of certain properties identified as purchased by the subjects with illegally obtained VA money. An ongoing investigation has disclosed that a VA employee accessed and falsified numerous VBA files to generate hundreds of fraudulent benefits payments under the accounts of veterans who had died and had no beneficiaries. Subsequently, large retroactive benefits checks were disbursed or electronically deposited into accounts belonging to accomplices. The investigation disclosed that individuals defrauded VA of approximately \$11.2 million between 1993 and August 2001.

### VA's Program Response

Regional office directors are now required to verify the propriety of all retroactive Compensation and Pension payments of \$25,000 or more. They must (1) review the claims folder, (2) verify there is a rating decision in the folder with an award printout or other documentation that supports a retroactive payment of \$25,000 or greater, (3) verify the payment was properly issued to the veteran or beneficiary, and (4) ensure there is evidence to justify the award action. VBA's Office of Performance Analysis and Integrity monitors compliance weekly; to date, no additional instances of fraud have been found. In addition, the C&P Service's program support staff reviews regional office compliance with the \$25,000 certification process as part of their station site visit process. This review process also includes veterans receiving very large monthly compensation payments and veterans over 100 years old.

### 4.B. OIG ISSUE - PHILIPPINES BENEFIT REVIEW

During April and May 2002, the OIG and VARO Manila staff worked together on an international review at the request of the Director, VARO Manila to identify and suppress erroneous benefit payments and stop "claims fixers." This project found \$2.5 million in overpayments and identified \$21 million in 5-year cost savings. This project has developed several criminal investigations that will

continue to be pursued during the next fiscal year. As a result of the success of this project, the OIG intends to expand international reviews.

### VA's Program Response

In December 2002, the OIG will send VBA a summary of the findings from the Philippines Benefit Review, along with suggestions to reduce the number of future deceased payee and false claims cases. Upon receipt of this summary, VBA will take appropriate steps.

### 4.C. OIG ISSUE - DEATH MATCH PROJECT

The OIG death match project is being conducted to identify individuals who may be defrauding VA by receiving VA benefits intended for beneficiaries who have passed away. Investigations to date have resulted in the actual recovery of \$5.4 million and a 5-year projected cost savings to VA of \$16 million. There have been 42 arrests on these cases with several additional cases awaiting judicial action. This project will be updated on an annual basis with new information. The death match project continues to be a priority project of the OIG.

### VA's Program Response

A new Death Match file is released to VA regional offices every month. The monthly file averages approximately 5,000 new cases. Regional Offices submit annotated copies of Death Match listings for all cases that are 4 or more months old to the Compensation and Pension Service. This process has been in place for several years.

### 4.D. OIG ISSUE - FUGITIVE FELON PROGRAM

On December 27, 2001, Public Law 107-103 was enacted to prohibit veterans who are fugitive felons, or their dependents, from receiving specified veterans benefits. In addition, the law requires the Secretary to furnish law enforcement personnel, upon request, the most current address of a veteran who is determined to be a fugitive felon. A pilot research study was conducted, prior to enactment of the law, with the U.S. Marshals Service (USMS) and the States of California (CA) and Tennessee. The study produced 5,874 matches between fugitive

felon warrants and beneficiaries in various VA databases. There was approximately \$20 million in total benefit value associated with these fugitive matches. A memorandum of understanding (MOU) was signed with USMS in April 2002, and an agreement with the State of California was signed in July 2002, to electronically match their fugitive felon warrant files with various VA databases. We expect an MOU to be signed in December 2002 with the National Crime Information Center (NCIC). Agreements with additional states will be negotiated over the next 2 years. Based on the pilot study and the first match with USMS, the OIG anticipates that between 1 and 2 percent of all the fugitive felony warrants submitted will involve veteran beneficiaries. Savings in FY 2003 are expected to be in the millions of dollars.

### VA's Program Response

The OIG is responsible for the front end of the fugitive felon program. At any given time, more than 100,000 individuals are on a fugitive felon list maintained by the Federal government and/or State and local law enforcement agencies. Gaining access to these listings requires an MOU between the VA OIG and the owner of the listing. The OIG has conducted matches of fugitive felon data received from the USMS and CA against eight VA files. The OIG referred 70 VA beneficiaries identified as fugitive felons to the USMS. They are currently preparing the data referral for CA. The OIG has also developed an Oracle database application to track referrals to law enforcement as well as VBA and VHA. The OIG is working to get an MOU with the NCIC, a component of the Department of Justice. Currently there are in excess of 575,000 felony warrants in the NCIC system.

#### 4.E. OIG ISSUE - PAYMENTS TO INCARCERATED VETERANS

In February 1999, the OIG published a report titled *Evaluation of Benefit Payments to Incarcerated Veterans* (Report No. 9R3-B01-031). The review found that VBA officials did not implement a systematic approach to identify incarcerated veterans and adjust their benefits as required by Public Law 96-385. The evaluation included a

review of 527 veterans randomly sampled from the population of veterans incarcerated in 6 states. Results showed that VAROs had not adjusted benefits in over 72 percent of the cases requiring adjustments, resulting in overpayments totaling \$2 million. Projecting the sample results nationwide, we estimated that about 13,700 incarcerated veterans had been, or will be, overpaid about \$100 million. VBA recently implemented the final open recommendations in the report by forwarding instructions to the VAROs to review state and local prison matches.

### VA's Program Response

An agreement was reached with the Social Security Administration (SSA) that allows VA to use the State Verification and Exchange System (SVES) to identify claimants incarcerated in State and local facilities. The initial output of that agreement produced over 44,000 beneficiaries in the first 25 digits of our current awards processing payment system, the Benefits Delivery Network (BDN). Programming has been rewritten and we are now processing both Bureau of Prisons match and SSA prison match cases on a monthly basis. The first output was produced on June 17, 2002, for terminal digits 00-24; the second run was dated July 8, 2002, for terminal digits 25-49; and a third file was run on August 17, 2002, for terminal digits 50-74. The total number of generated hits was over 12,000.

#### 4.F. OIG ISSUE - BENEFIT OVERPAYMENTS DUE TO UNREPORTED BENEFICIARY INCOME

Our November 2000 report titled *Audit of VBA's Income Verification Match Results* (Report No. 99-00054-1) found that opportunities exist for VBA to: (i) significantly increase the efficiency, effectiveness, and amount of potential overpayments that are recovered; (ii) better ensure program integrity and identification of program fraud; and (iii) improve delivery of services to beneficiaries.

The audit found that VA's beneficiary income verification process with the Internal Revenue Service resulted in a large number of unresolved cases. The monetary impact of these potentially

erroneous payments totaled \$806 million. Of this amount, we estimated potential overpayments of \$773 million associated with benefit claims that contained fraud indicators such as fictitious Social Security numbers or other inaccurate key data elements. The remaining \$33 million was related to inappropriate waiver decisions, failure to establish accounts receivable, and other process inefficiencies. We also estimated that \$300 million in beneficiary overpayments involving potential fraud had not been referred to the OIG for investigation.

VBA has implemented seven of eight recommendations from the November 2000 OIG report; however, the recommendation to complete necessary data validation of beneficiary identifier information contained in C&P master records to reduce the number of unmatched records with the Social Security Administration remains unimplemented. This recommendation was a repeat recommendation from our 1990 report.

### VA's Program Response

In 2001, VBA began the process of consolidating the pension maintenance activities from all 57 ROs to 3 sites in Philadelphia, Milwaukee, and St. Paul. The impetus for the consolidation was the deterioration of service and quality in administering the complex, labor-intensive pension programs. Through this consolidation, VBA will develop a specialized expertise in pension maintenance processing, which will lead to greater uniformity in decision-making and more efficient processes.

In 2002, the Pension Maintenance Centers assumed responsibility for Income Verification Match (IVM) processing. The IVM is performed by running VA records against files from the Social Security Administration (SSA) containing earned income data and files from the Internal Revenue Service (IRS) containing unearned income data. The SSA and IRS matches were conducted in May and August 2002, respectively, and identified more than 30,000 cases, which are now being reviewed and verified. This process will continue to be performed on an annual basis.

VBA is actively working to address the remaining open recommendation -- the validation of beneficiary identifier information contained in the C&P master record with SSA data. In July 2002, VBA conducted an initial run of the social security number (SSN) verification process. Upon analyzing the results, the C&P Service determined that additional programming changes were required to clean up the unverified SSN listing and to add spouses to the verification process. The installation of the new process is expected by the end of December 2002.

### 4.G. OIG ISSUE - DISABILITY COMPENSATION BENEFITS FOR ACTIVE MILITARY RESERVISTS

In May 1997, the OIG conducted a review to determine whether VBA procedures ensure that disability compensation benefits paid to active military reservists are offset from training and drill pay as required by law. The OIG report titled *Review of VBA's Procedures to Prevent Dual Compensation* (Report No. 7R1-B01-089) reported that VBA had not offset VA disability compensation to 90 percent of the sampled active military reservists receiving military reserve pay. We estimated that dual compensation payments of \$21 million were made between FY 1993 and 1995. If the procedures were not corrected, we estimated \$8 million in annual dual compensation payments would continue to be made. Dual payments occurred because procedures established between VA and the Department of Defense (DoD) were not effective or were not fully implemented. In September 2002, VBA implemented the final recommendation by forwarding drill pay waiver forms to all reservists/guardsmen who received both drill pay and VA benefits during the fiscal year.

### VA's Program Response

VA and DoD have worked to correct procedures and processes to ensure dual compensation benefits are properly offset. During September 2002, VBA released approximately 28,000 VA Forms 21-8951, "Notice of Waiver of VA Compensation or Pension to Receive Military Pay and Allowances" for FY 2001. The forms have been mailed to veterans, asking them to return theirs to the RO of

jurisdiction. As these waiver forms are received at the ROs, benefits will be offset accordingly.

#### **4.H. OIG ISSUE - BENEFIT OVERPAYMENT RISKS DUE TO INTERNAL CONTROL WEAKNESSES**

In FY 1999, the Under Secretary for Benefits asked for OIG assistance to help identify internal control weaknesses that might facilitate or contribute to fraud in VBA's C&P program. The request followed the discovery that three VBA employees had embezzled over \$1 million by exploiting internal control weaknesses in the C&P program.

To test the existence of the control weaknesses identified in the vulnerability assessment, we conducted an audit at the VARO in St. Petersburg, FL. That VARO was selected for review because it was one of the Department's largest VAROs, accounting for 6 percent of C&P workload, and was the location where two of three known frauds took place. The July 2000 report titled *Audit of the C&P Program's Internal Controls at VARO St. Petersburg, FL* (Report No. 99-00169-97) confirmed that 16 of 18 categories of vulnerability reported in our vulnerability assessment were present at the VARO. VBA agreed to address the 18 internal control weaknesses identified in the vulnerability assessment and the 15 multi-part recommendations identified in the St. Petersburg audit. Implementation action on these recommendations is currently in progress.

#### **VA's Program Response**

The OIG audit of the C&P Program's internal controls at the St. Petersburg Regional Office identified 15 multi-part recommendations comprised of 26 actionable items. To date, fifteen of the 26 action items have been closed. Four of the open OIG recommendations are contingent upon full deployment of our new award processing system. The final stage of this deployment is scheduled to be completed by the end of the fourth quarter of FY 2004. Two other recommendations require no additional VBA action and will be closed by the OIG following

Combined Assessment Program (CAP) reviews. VBA is currently working toward implementing the remaining five recommendations outlined in the audit.

#### **5. Government Performance and Results Act (GPRA) - Data Validity**

Successful implementation of GPRA, including performance-based budgeting, requires that information be accurate and complete. VA has made progress implementing GPRA, but additional improvement is needed to ensure that stakeholders have useful and accurate performance data. Management officials continue to refine performance measures and procedures for compiling data. Performance data are receiving greater scrutiny within the Department, and procedures are being developed to enhance data validation. However, we continue to find significant problems with data input, and Departmentwide weaknesses in information systems security limit our confidence in the quality of data output.

#### **Current Status**

At the request of the Assistant Secretary for Policy and Planning, we initiated a series of audits to assess the quality of data used to compute the Department's key performance measures. During the period FY 1998 through FY 2001, OIG reported on the following six performance measures:

- Average days to complete original disability compensation claims – at the time of the audit, 34 percent of the records reviewed contained inaccurate or misleading data.
- Average days to complete original disability pension claims – the audit found 32 percent of the records reviewed contained inaccurate or misleading data.
- Average days to complete reopened compensation claims – The number of reopened claims was in ated by 18 percent. Of the records reviewed in the audit, 53 percent contained inaccurate or misleading data.
- Percent of the veteran population served by the existence of a burial option within a reasonable distance of place of residence –

VA could not recreate population projections used to calculate this measurement because essential data no longer existed.

- Foreclosure avoidance through servicing ratio – The OIG was unable to attest to the accuracy of the reported ratio because VBA did not maintain necessary documentation at that time.
- Unique patients – VHA overstated the number of unique patients by 6 percent.

VBA, VHA, and NCA have taken action to correct the deficiencies we identified and have implemented all the recommendations in the OIG reports related to these deficiencies. For example, to improve the data used to measure claims processing timeliness, VBA clarified related policies and procedures, added a data integrity segment to the training package for veterans service representatives, began collecting and analyzing transaction data to identify questionable transactions, and resumed site visits to regional offices to monitor compliance.

The Office of the Assistant Secretary for Management identified the following management challenges to the successful implementation of GPRA: (i) better alignment of budget accounts with GPRA programs; (ii) improvement of financial management systems report structure and timeliness; and (iii) improvement of cross-cutting activities between VA and the Department of Defense.

Audits of three key performance measures -- VBA's vocational rehabilitation and employment program rehabilitation rate, VHA's chronic disease care index, and VHA's prevention index -- are in process. Draft audit results indicate the OIG will not be able to attest to the accuracy of the rehabilitation rate because personnel in VBA regional offices inappropriately classified about 16 percent of the veterans in the audit sample as rehabilitated. Results of the audit assessing the chronic disease care index and prevention index measures are not yet available.

### VA's Program Response

Data reliability, accuracy, and consistency have been targeted focuses of VHA for the past several

years. The principles of data quality are integral to their efforts to provide excellence in health care. VHA's Data Consortium addresses organizational issues and basic data quality assumptions, working collaboratively to improve information reliability and customer access for the purposes of quality measurement, planning, policy analyses, and financial management. The ongoing initiatives and strategies address data quality infrastructure, training and education, personnel, policy guidance, and data systems.

VHA implemented all of the recommendations identified regarding over-reporting the number of unique patients by 6 percent, and is waiting for the release of the OIG's audit of the chronic disease care and prevention indexes.

To better align budget accounts with GPRA programs, VBA has aligned the FY 2004 budget submission by benefit programs (e.g., compensation and pension) and completed separate narratives for each program. In regard to crosscutting activities between VA and DoD, VBA has entered into a number of interagency agreements with DoD to improve and expedite the claims process. One such agreement will link the Personnel Information Exchange System with the Center for Unit Records Research to obtain information in support of claims for Post Traumatic Stress Disorder. Additionally, we have entered into agreements to expand the Benefits Delivery at Discharge program to include the development of one VA/DoD physical examination protocol to satisfy both VA and DoD requirements.

The OIG originally issued this finding: "OIG was unable to attest to the accuracy of the reported ratio because VBA did not maintain necessary documentation at that time," in its report entitled, "*Accuracy of Data Used to Compute the Foreclosure Avoidance Through Servicing (FATS) Ratio*" on November 16, 2000. An audit was conducted between April 1999 and July 2000 and focused primarily on the old Liquidation Claims System, which did not retain servicing notes longer than 60 days following the reinstatement (cure) of a delinquent loan. Thus,

the OIG was able to verify only a portion of the successful VA interventions included in the FATS ratio during that period because some cases did not involve the establishment of paper files. Thus, the OIG had neither paper nor electronic files to review. VBA now maintains all data needed for the OIG to attest to the accuracy of current FATS ratios. The Loan Service and Claims (LS&C) system, which was rolled out in August 1999, retains servicing notes on cases indefinitely. For all cases handled in LS&C since August 1999, electronic records are maintained and are now available for review.

In response to the OIG's draft audit report findings and recommendations, Vocational Rehabilitation & Employment (VR&E) made plans to take the following actions in 2003:

- The number of cases for review in the new Quality Assurance (QA) process will be increased.
- The new QA process will require review of cases at both the local and headquarters levels.
- The VR&E field survey staff will visit 12 stations within the fiscal year.
- Cases declared rehabilitated and discontinued will require approval and signature of the VR&E manager.

## 6. Security of Systems and Data

VA faces significant challenges in addressing Federal information security program requirements and establishing a comprehensive integrated VA security program. Information security is critical to ensure the confidentiality, integrity, and availability of VA data and the assets required to support the delivery of health care and benefits to the Nation's veterans. VA is highly dependent on automated information systems in the delivery of these services. However, the lack of management oversight at all levels has contributed to inefficient practices and to weaknesses in safeguarding electronic information and physical security of assets.

## Current Status

Previous OIG audit reports have identified weaknesses in information security throughout VA. With passage of the Government Information Security Reform Act (GISRA) as part of the FY 2000 Defense Authorization bill, the OIG is required to complete an independent assessment of VA's compliance with the Act. Limited information developed by VA on existing information security vulnerabilities precluded establishment of a baseline on the adequacy of VA's information security. Therefore, the OIG performed vulnerability assessments and penetration tests of selected segments of the Department's electronic network of operations to identify vulnerabilities that place sensitive data at risk of unauthorized disclosure and use. Our October 2001 audit, titled *Audit of the Department of Veterans Affairs Information Security Program* (Report No. 00-02797-1), reported that information security weaknesses exist and, as a result, require the continuing designation of information security as a Department material weakness under the Federal Managers' Financial Integrity Act.

Our FY 2002 GISRA audit found that VA systems continue to be vulnerable to unauthorized access and misuse of sensitive automated information and data. The Department started efforts to correct these weaknesses and work toward compliance with the GISRA requirements.

Key accomplishments by the Department include: (i) establishment of an enterprise-wide security plan, policies, procedures, and guidelines as required by GISRA; (ii) implementation of a Departmentwide anti-virus protection application; (iii) appointment of information security officers; (iv) establishment of priorities for remediation of key security weakness areas; and (v) installation of sensor devices at selected sites to enhance protection of network resources from external attacks.

Results of the 2002 GISRA audit identified significant information security vulnerabilities that continue to place the Department at risk of: (i) denial of service attacks on mission-critical systems; (ii) disruption of mission-critical systems;

(iii) unauthorized access to and disclosure of data subject to Privacy Act protection and sensitive financial data; and (iv) fraudulent payment of benefits.

The audit identified the following key issues:

- VA is not making sufficient progress to correct information security vulnerabilities that continue to place the Department's programs and sensitive data at risk to potential destruction, manipulation, and inappropriate disclosure. VA requires a better coordinated and focused security program to address its significant information security weaknesses.
- Many information system security weaknesses reported in our 2001 GISRA audit remain unresolved, and additional security weaknesses were identified. Milestones established for eliminating key security weakness areas will take too long to complete, and will prevent the Department from effectively strengthening its overall security posture in the near-term. As a result, VA's systems and data will continue to be at risk and its security program will not be in compliance with GISRA.
- Internal penetration tests verified that VA systems could be exploited to gain access to sensitive veteran benefit and health care information.

### VA's Program Response

In a memorandum dated August 6, 2002, the Secretary directed that all IT personnel and resources be centralized under the Office of Information and Technology. This action is targeted toward countering the Department's historical legacy of diverse and inconsistent IT management practices, as well as an inherent cultural resistance to headquarters-level programmatic direction. The Secretary mandated that the VA Chief Information Officer provide a conceptual framework of this new command structure, with an associated implementation schedule. The plan was submitted to the Secretary on November 1, 2002. This consolidation will reinvigorate the Department's progress toward developing an

enterprise architecture and ensuring the inclusion of a dynamic security baseline in that architecture. Additionally, it will eliminate redundancies, leverage existing resources to preclude duplicative efforts, and establish a coordinated and focused security program to address VA's significant information security vulnerabilities on an expedient basis, while at the same time ensuring appropriate attention to component-specific security issues.

VA, while not in complete compliance with GISRA, appropriately identified IT security control deficiencies in both the 2001 and 2002 GISRA self-assessment surveys, initiated a process to correct those deficiencies on a priority basis, and has instituted an effective agency-wide security program planning and management capability in the Office of Cyber Security.

However, analysis of information contained in the Department's GISRA database indicates that some self-reported progress may be overly optimistic or may not accurately reflect the current security status of some IT systems. Therefore, during FY 2003, the Department will establish an independent compliance capability to validate the accuracy of self-reported information in the database, as well as conduct external and internal penetration testing to ensure that previously identified vulnerabilities have been adequately remediated. These processes will ensure the integrity of GISRA-related information as the Department moves rapidly forward in efforts to improve its overall IT security posture.

The Enterprise Cyber Security Infrastructure Project (ECSIP) merges VA's actions to implement a Departmentwide intrusion detection system (IDS) and, concurrently, upgrade Internet Gateway Security. This project, which was approved by the Department's Strategic Management Council in February 2002, coincides with VA's telecommunications transition to a performance-based network. A plan has been developed to systematically collapse the over 200 existing Internet gateways in VA into a more manageable number and efficient structure. Concurrent with this effort, Departmentwide IDS capability will be incrementally deployed on a strategic basis to provide significantly increased security protections

for these gateways. The IDS effort includes establishment of two Security Operations Centers to provide real-time analytical incident support, as well as information-sharing capabilities with appropriate public and private organizations regarding emerging threats and vulnerabilities. Design and implementation of this standardized architecture and configuration will better protect VA's internal critical information repositories from attack. This project is an essential component of VA's approach to implementing a secure enterprise architecture.

### **7. Federal Financial Management Improvement Act (FFMIA) and VA's Consolidated Financial Statements (CFS)**

Since FY 1999, VA has achieved unqualified CFS audit opinions. However, continuing material weaknesses, such as information technology security controls and noncompliance with the Federal financial management system requirements, were identified. Corrective actions needed to address noncompliance with financial system requirements are expected to take several years to complete. There were four additional material weaknesses reported in FY 2001 on loan guaranty application systems, reliance on independent specialists, management legal representations, and management ownership of financial data. These weaknesses are addressed below.

#### **7.A. OIG ISSUE - INTEGRATED FINANCIAL MANAGEMENT SYSTEM MATERIAL WEAKNESS**

The material weakness concerning the Department's financial management systems underscores the importance of acquiring and implementing a replacement integrated core financial management system. Achieving the success of an unqualified CFS opinion currently requires a number of manual compilations and extraneous processes that the financial management system should perform. These processes require extraordinary administrative efforts by the program, financial management, and audit staffs. As a result, the risk of materially misstating financial

information is high. Efforts are needed to ensure adequate accountability, and reliable, useful, and timely information needs to be available to help Department officials make well-informed decisions and judgments.

The February 2002 OIG CFS report noted continuing difficulties related to the preparation, processing, and analysis of financial information needed to support the efficient and effective preparation of VA's CFS. Significant efforts are made at the component and consolidated level to assemble, compile, and review necessary financial information for annual reporting requirements; however, VA has not yet completed its transition to a fully integrated financial management system. Examples include: (i) general ledgers for some smaller funds were maintained outside the existing core financial management system; (ii) unreconciled differences between the general ledgers and the property management system subsidiary ledger existed; and (iii) a significant number of manual adjustments were used during the year-end closing process.

#### **VA's Program Response**

VA has remediation plans in place to address the FFMIA weaknesses as well as additional weaknesses identified in the annual financial statements audit. Progress in implementing corrective actions is being monitored by top management on a monthly basis. We expect to resolve three of the six weaknesses before the end of this calendar year. These three weaknesses include Reliance on Independent Specialists, Management Legal Representations, and Management Ownership of Financial Data. Corrective actions for the remaining three weaknesses (Integrated Financial Management System; Loan Guaranty Application System; and Information Technology Security Controls) are being implemented, but the completion of these actions is long-term, requiring significant staff and resources to complete.

CoreFLS staff is engaged in ongoing meetings with OIG staff responsible for the audit of the Department's consolidated financial statements

as well as meeting with OIG staff responsible for the audit of VBA systems. The purpose of these meetings is to document how CoreFLS will contribute to correcting many of the findings in the OIG audit report and management letter listing Departmental reportable conditions and additional observations. The outcome of these meetings with OIG staff will produce a CoreFLS document that details the contributions CoreFLS will make to resolve OIG concerns. The CoreFLS document, "Resolving OIG Concerns," will be completed in November 2002. For each reportable condition and management observation, the role CoreFLS plays in mitigating the concern is being defined. CoreFLS alone may not remedy an OIG reportable condition or management observation, and some reportable conditions and management observations are clearly outside the scope of CoreFLS. This document will include the degree to which CoreFLS will mitigate each OIG concern that is in scope. For all OIG concerns that are in scope, the gains to be realized from CoreFLS will not be evident until after full system implementation in 2006.

### **Information Technology Security Controls**

Since 1998, inadequate implementation of appropriate controls has resulted in information system security being identified as a material weakness in VA's annual FFMIA report. To remove this designation, VA has used the GISRA process to prioritize and remediate those deficiencies that will have the most significant impact on the Department's overall security posture in the near term. Performance in this area is measured through compliance with Federal Information System Controls Audit Manual (FISCAM) control areas, which indicates that VA has increased compliance with FISCAM objectives by 25 percent this year. Although the material weakness still exists for FY 2002, additional activities targeted toward remediation of VA's priority weakness areas are anticipated to remove this designation by FY 2004, concurrent with full implementation of the ECSIP.

The ECSIP merges VA's actions to implement a Departmentwide IDS capability (priority one)

and, concurrently, upgrade IT security controls on Internet gateways (priority six). During its initial phase, a plan will be developed to systematically collapse the over 200 existing Internet Gateways in VA into a more manageable number and efficient structure. Concurrent with this effort, Departmentwide IDS capability will be incrementally deployed on a strategic basis to provide significantly increased security protections for these gateways. Design and implementation of this standardized architecture and configuration will better protect VA's information systems and internal critical information repositories from attack on a cost-effective basis.

### **7.B. OIG ISSUE - LOAN GUARANTY APPLICATION SYSTEM MATERIAL WEAKNESS**

The FY 2001 audit identified material control weaknesses in critical loan guaranty system applications security and process controls due to a lack of accountability and definition of responsibility for implementing consistent security administration standards, and the lack of appropriate reconciliation processes and procedures. These weaknesses increase the risk of inappropriate system access, unauthorized or erroneous data transfer, and modification of production programs and data. This results in unreliable loan and property information being input into VA's core financial management system. Additionally, the lack of appropriate reconciliation of loan guaranty data among systems does not permit VBA the ability to detect unauthorized or erroneous data. Such weaknesses include:

- Unneeded access to common security administration manager functions; these control access to automated loan production system/loan servicing and claims system functions/data.
- Lack of accountability and responsibility for security administration and oversight of user access to the property management system and the guaranty/insured loan system.
- Lack of clearly defined responsibility for monitoring powerful user activities and

transactions within the loan guaranty system applications.

- Inadequate business continuity planning and testing for systems infrastructure supporting the loan guaranty system.
- Inconsistent application development and change management standards and compliance with established standards for application changes, testing, acceptance, and quality assurance.

### VA's Program Response

The Office of the VA Deputy CIO for Benefits has lead reporting responsibilities for this material weakness. The Office of Information Management (OIM) and Loan Guaranty (LGY) have drafted a Management Accountability and Control Remediation Plan that has identified the following tasks for corrective action:

- Limit access to the Common Security Administration Manager System to three security managers (i.e., Common Security System team).
- Assign accountability and responsibility for security administration and oversight of access to the Property Management System and the Guaranteed and Insured Loan System.
- Establish policies and procedures for oversight of loan guaranty application systems.
- Establish and implement a development activity checklist identifying all components of the life cycle, responsibilities, and appropriate references for all application development.
- Establish and implement procedures for automated testing scripts.
- Define disaster recovery requirements for LGY.
- Develop LGY disaster recovery plan to include IBM, UNIX, and Internet/Intranet platforms.
- Pilot test and refine LGY recovery procedures.
- Incorporate LGY disaster recovery into the VA enterprise disaster planning and testing.

These corrective actions have varying start and completion dates. The earliest start date was March 2002, and the final completion date for disaster recovery tasks is February 2004. This plan is updated on a monthly basis regarding the current status of the OIM and LGY tasks.

### 7.C. OIG ISSUE - RELIANCE ON INDEPENDENT SPECIALISTS MATERIAL WEAKNESS

VA relies on the use of actuarial consultants and other specialists for various financial statement assertions including compensation, pension, and burial liabilities; liabilities for loan guarantees; medical malpractice; and other liabilities. There were a number of instances during the FY 2001 audit that questioned the effectiveness of controls over outside actuarial and expert calculations. In FY 2002, the Office of the Actuary began reviewing the actuarial studies and providing results to management.

### VA's Program Response

The Office of Policy and Planning has agreed to take on the following tasks identified by VA's auditor for corrective action:

- Provide independent verification of the work provided by specialists for the financial statements.
- Conduct experience studies to test management's assumptions used in various estimates.
- Conduct actuarial audits and independent recalculations to validate the models used and their application.

### 7.D. OIG ISSUE - MANAGEMENT LEGAL REPRESENTATIONS MATERIAL WEAKNESS

Management did not provide an adequate legal representation on pending litigation and contingent liabilities. The inadequate responses to support management's assertions on contingencies in the financial statements introduce the risk that material claims will not be properly reported and disclosed. During FY 2002, management and the auditors held further discussions with the General

Counsel on what information is needed in the legal representation.

### VA's Program Response

The Office of General Counsel (OGC) provided the OIG an interim legal representation letter in September 2002, which is responsive to the requirement.

### 7.E. OIG ISSUE - MANAGEMENT OWNERSHIP OF FINANCIAL DATA MATERIAL WEAKNESS

During the FY 2001 audit, VBA management in the compensation and pension and loan guaranty business lines provided insufficient review of accounting data and transactions. Management did not review the data prior to submission to the auditor nor provide information timely. During FY 2002, VBA management established an audit liaison function responsible for reviewing information prior to submission to the auditor to determine if amounts were accurate.

### VA's Program Response

VBA management established a dedicated liaison responsible for clarifying and tracking all data requests and submissions to ensure accurate and timely data submissions. Data requests and response submissions are reviewed and discussed to ensure accuracy and a clear understanding by both parties. The VBA CFO has reemphasized the importance of timeliness and accuracy with the field stations as well as the business lines. Meetings are held regularly with the auditors at all levels to maintain clear lines of communication.

## 8. Debt Management

Debts owed to VA result from home loan guaranties; direct home loans; life insurance loans; medical care cost fund receivables; and compensation, pension, and educational benefits overpayments. As of June 2002, debts owed to VA totaled over \$3.3 billion, of which active vendee loans comprise about 57 percent. Over the last 4 years, the OIG has issued reports addressing many facets of the Department's debt management

activities. We reported that the Department should: (i) be more aggressive in collecting debts; (ii) improve debt avoidance practices; (iii) streamline and enhance credit management and debt establishment procedures; and (iv) improve the quality and uniformity of debt waiver decisions. VA has addressed many of the concerns reported over the last few years. However, our most recent audits continue to identify areas where debt management could be improved.

### Current Status

The Department has reported performing considerable work in the area of debt referral to the Department of the Treasury. VA has reported it met or exceeded the Department of the Treasury goals for debt referral in 2002.

The OIG report titled *Evaluation of VHA's Income Verification Match Program* (Report No. 9R1-G01-054) issued in March 1999, found that VHA could increase opportunities to enhance MCCF collections by \$14 million, and put resources valued at \$4 million to better use, by requiring VISN directors to establish performance monitors for means-testing activities as well as billing and collection of program referrals. Additionally, to further ensure these monetary benefits are achieved, VHA management needed to implement previous recommendations, and the VHA Chief Information Officer needed to increase oversight of the Health Eligibility Center activities. VHA also needed to expedite action to centralize means testing activities at the Health Eligibility Center. VHA has not implemented 7 of 13 recommendations from this March 1999 report. Additional management attention is needed to ensure improvements in debt management occur.

In February 2002, we issued a report titled *Audit of the MCCF Program* (Report No. 01-00046-65) that found VHA could enhance MCCF revenues by requiring VISN and VA medical facility directors to better manage MCCF program activities. Many problems identified in FY 1998 are continuing to hinder VHA's ability to maximize collections. From FY 1997

through FY 2001, MCCF collections totaled \$3 billion. VA is authorized by Public Law 105-33 to use all MCCF collections after June 1997 to increase VA’s medical care budget. As a result, there are significant benefits to be recognized from improving MCCF collections.

By effectively implementing our previous recommendations, we projected that VHA could have increased collections by about \$135 million in FY 2000 (24 percent). Additionally, clearing the backlog of un-issued medical care bills (that totaled over \$1 billion as of September 30, 2001) would have resulted in additional collections of about \$368 million. Our FY 2002 audit also reported that VA’s average number of days to bill for services had increased to 95 days, in contrast to our FY 1998 audit that reported VAMCs averaged 48 days to bill for services. We also found that 77 percent of the related medical accounts receivable had no telephone follow-up, an increase of 12 percent in the number of accounts receivable that had no telephone follow-up in 1998.

Recommendations made in our July 1998 review of the MCCR program titled *Audit of the Medical Care Cost Recovery Program* (Report No. 8R1-G01-118) were not adequately implemented. Conditions identified during that audit, including missed billing opportunities, billing backlogs, and inadequate follow-up on accounts receivable, persist.

### VA’s Program Response

Over the past few years, the OIG issued several reports addressing VA’s debt management activities. The OIG reported that VA should be more aggressive in collecting debts, improve debt avoidance practices, and streamline and enhance credit management and debt establishment procedures.

VA has made substantial progress in addressing the concerns reported by the OIG. For example, VA will meet its goals for referral of delinquent debt to the Department of the Treasury for administrative offset (TOP) and cross-servicing. Following are specifics as of June 2002:

			Percentage
TOP	Eligible for referral Referred	244,041,144 239,300,437	98%
Cross-Servicing	Eligible for referral Referred	180,251,605 172,607,493	96%

VA plans to reactivate the Income Verification Match (IVM) program in early FY 2003, with additional software enhancements anticipated in the third quarter. A directive will be published once the program is reactivated to provide specific performance requirements for staff responsible for billing activities; provisions for monitoring of Health Eligibility Center (HEC) referrals for means testing, billing, and collection activities; and evaluation of compliance with billing referrals within 60 days. The new VHA Business Office, established in May 2002, will monitor the IVM project and HEC’s performance; however, not all referred cases are billable to insurance carriers. Regarding the means test process, the new Chief Business Officer has ordered a full review of this process. Significant changes are anticipated, which could make centralization of means testing unnecessary. Work on the centralized means testing has been suspended pending the results of the review and redesign of the process.

VA is taking action to implement the recommendations in the OIG’s report on the MCCF program as well as to improve billing, collection, and follow up on accounts receivable. In September 2001, VHA published a revenue cycle improvement plan to serve as a comprehensive guide in defining VHA’s vision in recognizing the key role that third-party collections play in overall systems operations. To assist in performance assessment, four different diagnostic measures reports are compiled on a monthly basis and reviewed by VHA’s National Leadership Board (NLB). The reports provide comparative network profiles of completed registration percentages, insurance verification status updates, outpatient billing lag times, and inpatient billing lag times. Other monthly reports are prepared for the NLB that focus on specific billing and collection activities. These reports

are also made available to network and facility directors to assess how each facility compares in program-specific collection activities. The VHA Health Information Management Handbook is planned for completion in December 2002 and addresses all issues related to medical records and documentation. In addition, nationally developed documentation templates, additional nationally developed electronic encounter forms, and physician documentation education tools were released in September 2002.

MCCF/Revenue collections from FY 1997 through FY 2001 totaled \$3 billion. The FY 2001 collections of \$771 million is a 35 percent increase over the FY 2000 collections of \$573 million. The FY 2002 original budgeted collections goal was \$1.050 billion; current cumulative collections are now projected to be \$1.070 billion, 20 percent more than the budgeted goal. The end of year 2002 cumulative collections (\$1.176 billion) are 53 percent over the FY 2001 collections.

When reasonable charges were implemented in September 1999, VHA Revenue and Health Information Management Systems (HIMS) staff had to confront additional requirements for identifying, documenting, and coding episodes of care. Claims are now prepared for separate professional services as well as facility services, resulting in multiple claims being generated for inpatient stays and outpatient visits. Although much progress has been made, the Revenue Office, now part of VHA's Business Office, and many field organizations believe that significant amounts of revenue have yet to be captured.

The VHA Revenue Office entered into a contract for a study to examine the performance of hospital processes associated with third-party revenues generated from inpatient professional services. The study makes a detailed examination of the revenue operations in one network for the purpose of identifying and documenting reasons that billing for professional services is below expectations. This research focuses on the critical link between revenues and whether professional services have been adequately documented,

coded, and then captured by billing staff for preparation of third-party claims.

The Revenue Office estimates that potential revenues from inpatient professional services are \$71.4 million for FY 2001. Of this amount, \$20.9 million had been billed and collected at the time of the study, leaving \$50.6 million unbilled. Of that potential total unbilled amount across all 21 networks, \$36.7 billion (73 percent) was estimated to be unbillable for lack of appropriate documentation or other reasons. Insufficient documentation is the most significant reason that otherwise billable professional services cannot be claimed.

The Under Secretary for Health released a memorandum, dated May 22, 2002, to VHA facilities that directed them to contract out all aged receivables over 60 days old to a collection agency. This memorandum also recommended that facilities report actions being taken to implement this direction and report back to the Network Chief Financial Officer within 60 days of the memorandum.

### 9. Procurement Practices

The Department spends about \$6 billion annually for pharmaceuticals, medical and surgical supplies, prosthetic devices, information technology, construction, and services. VA faces major challenges to implement a more efficient, effective, and coordinated acquisition program. High-level management support and oversight are needed to ensure VA leverages its full buying power and maximizes the benefits of competitive procurements. VA supply inventory practices must ensure that adequate quantities of medical and other supplies are available to meet operating requirements while avoiding excess inventories that tie up funds and other resources that could be used to meet other VA needs.

In June 2001, the Secretary established a procurement reform task force to review VA's procurement programs, address concerns about acquisition practices, and develop recommendations for improvement. The task force recommended 60 specific reforms to achieve the goals of:

(i) leveraging the Department's purchasing power by requiring VA facilities and networks to make purchases under a prescribed hierarchy of nationally negotiated contracts; (ii) expanding joint purchases with the DoD; (iii) increasing standardization of commonly used commodities; (iv) improving the usefulness of procurement systems and data; (v) increasing top management oversight of VA procurement activities; (vi) improving Government purchase card controls; and (vii) improving acquisition workforce training, recruitment and retention. The reforms recommended by the task force were implemented at the direction of the Secretary.

The OIG reviews have continued to identify ongoing problems with Federal Supply Schedule purchases, pre-award and post-award contract reviews, inventory management, purchase cards, scarce medical specialist/sharing contracts, and the fee-basis program. We continue to conduct contract audit and drug pricing reviews to detect defective and excessive pricing.

### 9.A. OIG ISSUE - FEDERAL SUPPLY SCHEDULE PURCHASES

Federal Supply Schedule (FSS) contracts are awarded non-competitively by VA's National Acquisition Center to multiple vendors for like or similar commercial off-the-shelf products. The Government's negotiation strategy is to obtain most favored customer pricing or better.

During the past few years, the effectiveness and integrity of the FSS program have deteriorated because FSS is no longer a mandatory source for these commercial products. The May 2002 Procurement Reform Task Force report recommended that VA establish a contract hierarchy that mandates the use of FSS for procurement of certain groups of health care supplies.

#### Current Status

OIG CAP reviews have identified non-competitive open-market purchases at higher prices than comparable items offered on FSS contracts. Our reviews have also identified sole source contracts that lack adequate business analyses, justifications,

or cost/benefit assessments. Many contract proposals are not being audited and may not have been subjected to legal and technical reviews when required. Management attention is also needed to develop clear and useful policies that will ensure fair and reasonable prices, consistency in the use of VA's statutory authority, and proper oversight of such activities.

Because FSS contracts are not mandatory sources of supply, the number of VAMC open market purchases has increased. In many cases, these purchases were made without seeking competition or negotiating prices, or determining the reasonableness of the prices offered by vendors. In addition, some vendors have withdrawn high-volume or high-cost medical supply items from FSS contracts, refused to negotiate contract terms in good faith, canceled existing contracts, or declined to submit proposals to acquire FSS or VA national contracts.

Although these vendors do not have contracts, they continue to maintain their VA market share by selling open market to individual VAMCs, avoiding offering most favored customer prices, and shielding themselves from pre-award and post-award reviews.

### VA's Program Response

The Office of Acquisition and Materiel Management (OA&MM), working closely with VHA's Clinical Logistics Office, has taken the lead in implementing the recommendations of the Secretary's Procurement Reform Task Force. OA&MM established a project tracking system to monitor the status/progress of the recommendations. Each recommendation has been assigned to a lead agent, who is responsible for implementing an action plan. Progress is monitored on a weekly basis by management officials in the Office of Management.

### 9.B. OIG ISSUE - PRE-AWARD AND POST-AWARD CONTRACT REVIEWS

Since FY 1993, the OIG has conducted pre-award and post-award reviews to provide contracting

officials with insight into each vendor's commercial sales and marketing practices as well as buying practices. These reviews provide contracting officers with information needed to strengthen the Government's pricing position during negotiations.

### Current Status

The OIG continues to perform pre-award and post-award contract audits and drug pricing reviews to detect defective pricing in proposed and existing contracts. During the period October 2001 through March 2002, pre-award reviews of three FSS proposals resulted in OIG recommendations that could lead to cost savings of about \$3 million. The manufacturers did not offer most favored customer prices to the FSS customers when those prices were extended to commercial customers purchasing under similar terms and conditions as the FSS. During the same period, post-award reviews of FSS vendors' contractual compliance resulted in recoveries of \$21 million.

### VA's Program Response

The Office of Acquisition and Materiel Management (OA&MM), working closely with VHA's Clinical Logistics Office, has taken the lead in implementing the recommendations of the Secretary's Procurement Reform Task Force. OA&MM established a project tracking system to monitor the status/progress of the recommendations. Each recommendation has been assigned to a lead agent, who is responsible for implementing an action plan. Progress is monitored on a weekly basis by management officials in the Office of Management.

### 9.C. OIG ISSUE - INVENTORY MANAGEMENT

The OIG conducted a series of five audits to assess inventory management practices for various categories of supplies. These audits found that VA medical centers maintained excessive inventories and made unnecessary large quantity purchases. Additionally, inventory security and storage deficiencies were found. An FY 1998 audit of medical supply inventories at five VAMCs found that at any given time the value of VHA-wide excess medical supply inventory was \$64 million, 62 percent of the \$104 million total inventory. An

FY 1999 audit of pharmaceutical inventories at four VAMCs found that about 48 percent of the \$2 million inventory exceeded current operating needs. An FY 2000 audit at five VAMCs concluded that 47 percent of the \$3 million prosthetic supply inventory was not needed. An FY 2001 audit at five VAMCs concluded that 67 percent of the \$5 million engineering supply inventory used for maintaining and repairing buildings, equipment, furnishings, utility systems, and grounds was not needed.

The main cause of the excess inventories was that the Generic Inventory Package, an inventory management system, was not used or was not used effectively to manage the inventories. VAMCs relied on informal inventory methods and cushions of excess stock as a substitute for structured inventory management.

### Current Status

The last of the five OIG audits was completed in FY 2002 and assessed VA medical center management of miscellaneous supply inventories that included operating supplies (mainly housekeeping and dietetic items), office supplies, employee uniforms, and linens. The VAMCs reviewed had combined miscellaneous supply inventories valued at \$3.5 million, \$2.7 million (77 percent) of which was excess. Four VHA recommendations remain unimplemented in the FY 2000 report.

### VA's Program Response

VHA Handbook 1761.2, *VHA Inventory Management*, was issued in response to the OIG's recommendations from the series of five audits conducted on inventory management. It requires each facility to implement an inventory management plan. Plans have been received from all of the networks, and VHA's Clinical Logistics Office is monitoring inventory management at each medical facility. To provide further instruction for reducing engineering supply inventories, VHA issued Information Letter 17-2002-001, *Engineering Inventory*. VHA's Pharmacy Benefits Management staff has worked diligently to educate field staff on the value and advantage of implementing a commercially supplied inventory

package adopted by VHA's primary drug source vendor. Amended VHA Handbook 1761.2 was published on September 25, 2002, and provides guidance for further improvement in pharmacy inventory management.

#### **9.D. OIG ISSUE - GOVERNMENT PURCHASE CARD USE**

OIG audits and CAP reviews have identified significant vulnerabilities in the use of Government purchase cards. Purchases have been split to circumvent competition requirements, and goods and services have been acquired at excessive prices. Our reviews of purchase card records, invoices, purchase orders, procurement history files and other related records also lead us to believe that VHA is purchasing health care items on the open market in amounts greater than the 20 percent maximum allowed under Title 38 U.S.C. §8125(b)(3)(A).

#### **Current Status**

During the period February 1999 through March 2002, the OIG issued 58 reports, covering in part, Government purchase card program activities. Systemic issues were identified including deficiencies in: (i) account reconciliation and certification; (ii) competition and split purchases; (iii) Government purchase card use; (iv) accounting reviews and audits; (v) segregation of duties; and (vi) training and warrants. These conditions are a result of the widespread and essentially unmonitored use of Government purchase cards in conjunction with the decentralization of purchasing authority to VAMCs.

#### **VA's Program Response**

All procurements are posted to the Financial Management System (FMS), VA's accounting system, on a daily basis. This allows cardholders and program officials to closely monitor expenditures and to immediately identify items in dispute. Audits are routinely conducted on the program, including random statistical sampling conducted between the Financial Services Center

transaction records and individual facility. The Financial & Systems Quality Assurance Service (FSQAS) provides oversight coverage of the purchase card program through financial management reviews. Local audits, conducted with finance and procurement managers, and numerous fiscal quality and OIG reviews are held throughout the year. Specifically, responsibilities of key participants are outlined in VA's Purchase Card Procedures Guide, dated February 1996, and VHA Purchase Card Handbook 1730.1, dated June 2000.

Additionally, a variety of management reports, which detail expenditures and card usage within an agency, are available to monitor use of the card. Program coordinators may also access transaction information online using VA's contracted electronic card management system, or, in the case of VHA coordinators, through the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP).

Training on procurement and internal control procedures is mandatory for all cardholders and approving officials and must be conducted prior to issuance of the card. Additionally, with newly trained cardholders, approving officials and the instructor must verify the cardholder participation in the training session and sign a certification form, which may be used to designate spending limits for the card. The Head of Contracting Activity approves or disapproves card limit increase requests. Only the Agency/Organization Program Coordinator or designate is authorized to make changes in the contract bank electronic system.

The following are specific enhancements and initiatives taking place to improve the purchase card program –

- VA intends to hire a consultant to perform data mining on all purchase card transactions that have been split to circumvent competition requirements and cost threshold.
- VA's new purchase card policy directive will provide a single consistent guide for purchase card use.

The OIG has begun an audit to evaluate the effectiveness and efficiency of VA's purchase card program and is continuing to review purchase card activities on CAP reviews at VA facilities.

VHA is revising both the VHA Quality Assurance Review Handbook (1730.2) and the VHA Purchase Card Handbook (1730.1) to strengthen facility level quality reviews in order to detect violations of the purchase card and evaluate the responses of local management to these violations. Each month, card coordinators provide information on payment and order reconciliations, which are collected and widely distributed in a national spreadsheet with red/yellow/green indicators for the information and action of local and network management. All the cited OIG issues are due to the lack of adherence to policies in the current purchase card handbook, such as annual joint fiscal/logistics reviews of cardholders. Highlighting the performance of local management in surfacing and correcting violations should improve adherence to policy.

### 9.E. OIG ISSUE - SCARCE MEDICAL SPECIALIST CONTRACTS

OIG reviews of scarce medical specialist contracts have identified costs that were not fair and reasonable; conflict of interest issues; sole source contracts that lack adequate business analyses, justifications or cost/benefit assessments; and the lack of cost or pricing data in noncompetitive contracts. We also found that VAMCs were using Intergovernmental Personnel Act assignments and commercial items contracts inappropriately as a substitute for scarce medical specialist contracts. Use of these purchasing methods, in lieu of contracts, has resulted in higher prices for these services. Management needs to improve oversight to ensure that, when applicable, properly negotiated contracts are used. Furthermore, in order to obtain reasonable prices, management needs to develop and/or enforce policies that ensure consistent compliance with VA's statutory authority.

#### Current Status

From October 2000 through July 2002, we completed contract reviews of 21 health care

resource contract proposals involving scarce medical specialist services. We concluded that VA contracting officers should negotiate reductions of over \$7.5 million to the proposed contract costs.

Our CAP program reviews also conducted during this same period found that VAMCs did not have adequate assurance that contract prices were reasonable, some contract price negotiation memorandums were missing or never prepared, and other contracts did not ensure that a measurable statement of work was developed. Controls over contract documentation and justifications need to be strengthened, conflict of interest situations need to be eliminated, and adequate contract administration procedures should be implemented for service contracts.

### VA's Program Response

With regard to OIG reviews of scarce medical specialist contracts, the Medical Sharing Office is developing a new policy to address issues identified during the reviews. An updated directive in the VHA Handbook 1660.3, *Conflict of Interest Aspects of Contracting for Scarce Medical Specialist Services, Enhanced Use Leases, Health Care Resource Sharing, Fee Basis and Intergovernmental Personnel Act Agreements* was issued in July 2002. A draft of the new directive for purchasing under enhanced sharing authority (38 USC § 8153) will be issued for concurrence by December 2002.

### 9.F. OIG ISSUE - CONTROLS OVER THE FEE-BASIS PROGRAM

We conducted an audit to determine if VHA had established effective internal controls to ensure that payments for fee-basis treatment were appropriate. Fee-basis treatment is inpatient care, outpatient care, or home health care provided by non-VA health care providers at VA expense. In June 1997, the OIG issued a report titled *Audit of Internal Controls over the Fee-Basis Program* (Report No. 7R3-A05-099) that found VHA could reduce fee-basis home health care expenditures by at least \$1.8 million annually and improve the cost effectiveness of home health services by:

(i) establishing guidelines for contracting for such services, and (ii) providing contracting officers with benchmark rates for determining the reasonableness of charges.

### Current Status

VHA has not implemented the OIG recommendations in the June 1997 report to establish guidelines for contracting and provide contracting officers with benchmark rates.

### VA's Program Response

In response to the OIG's report on the fee-basis program, VHA is considering two reimbursement policies. One policy allows for Best Value contracts. The other is a proposed Federal regulation (Common Payer Platform) that would adopt Medicare rates as VA rates for all health care services, including contract home health care. VA is still examining the proposed regulation in light of its potential effect on reimbursement rates in certain geographic locations. In anticipation that Best Value contracts will be in place in most metropolitan areas and the Common Payer Platform in rural areas or areas with a low density of veterans, VHA is formulating policy to implement these provisions and developing templates and statements of work for programs under the umbrella of Home and Community-Based Care with the Office of Clinical Logistics. VHA is also working on an expanded reimbursement policy for Homemaker/Home Health Aide for those low-density areas not covered by Best Value contracts. Pricing guidance for non-Medicaid States is also under development and VA is working with the Centers for Medicare and Medicaid Services on these issues.

## 10. Human Capital Management

Human capital management (HCM) is a major challenge for the Department. Given the significant size of VA's workforce and the high number of employees projected to become retirement eligible over the next 5 years, there is urgency to address this challenge effectively.

### Current Status

The VA Office of Human Resources Management (HRM) reported in FY 2001 that registered nurses are the largest segment of health care workers within the Department. VA employs approximately 35,000 registered nurses and nurse anesthetists. VAMCs are having difficulty recruiting nurses in specialty fields. Some VAMCs find it difficult to recruit and retain licensed practical nurses and nursing assistants. According to HRM, 12 percent of the VA nursing population is eligible to retire now and approximately 4 percent more will be eligible to retire each year thereafter. Also, current recruitment processes do not provide sufficient flexibility to make timely employment offers to fill many critical positions.

As part of the Department's FY 2003 budget, VA reported that close to 50 percent of the Department's workforce and over 90 percent of the senior executives will be eligible for optional or early out retirement by FY 2005. The *Department of Veterans Affairs Workforce and Succession Plan* identifies cross-cutting issues in need of focus at the Department level and will complement the work being done at the administration and staff office levels.

VHA formed a national succession planning task force to address their changing workforce. According to the task force's August 2001 draft report, "VHA faces a leadership crisis unprecedented in its history. It is paramount that we quickly focus on both developing our new leaders as well as replacing key employees throughout our organization." The task force's draft report lists recommendations in seven major categories: (i) benchmarking; (ii) workforce assessment; (iii) employee morale and satisfaction; (iv) short-term steps; (v) progression planning; (vi) legislative initiatives; and (vii) organizational infrastructure.

The OIG has not issued recent national audits on HCM; however, we have identified resource shortages in CAP reviews.

### VA's Program Response

A VHA Nursing Workforce Workgroup was chartered in September 2000. Their report, "A Call to Action," provides a comprehensive summary of current and future trends for VA nursing, with multiple recommendations in the areas of utilization, recruitment, retention, and outreach. This report provides a strong framework for addressing a nursing workforce agenda for VHA. Additionally, Public Law 107-135 established the National Commission on VA Nursing. This commission has met twice. It will exist for 2 years and is mandated to study and recommend legislative and organizational changes to enhance recruitment and retention of nurses. It will also assess the future of nursing within VA. "A Call to Action" is a sound foundation for the Commission's work.

The Title 38 employment system for healthcare professionals offers significant improvements in timeliness of hiring compared to the Title 5 system. The Title 38 excepted hiring authority applies to healthcare occupations such as nurses, physicians, pharmacists, and licensed practical nurses, but not to nursing assistants and many other healthcare occupations such as radiology technicians, medical machine technicians, and technologists. Additional actions that are being taken include:

- Integration of workforce and succession planning into VISNs' (the VHA operational organizations responsible for geographical service areas) annual strategic planning process to ensure that key issues are integrated into VHA's annual strategic plan. A formal Web-based workforce strategic planning template was established and used for the FY 2003 planning cycle. VISNs completed a comprehensive and detailed workforce and diversity assessment, developed workforce/diversity strategies and plans to support current and future programs, and submitted their workforce/diversity plans as a component of their overall annual strategic plan. A multi-disciplinary team is developing the national VHA workforce/diversity plan based on VISN plans. This national workforce/diversity plan will update VHA's original

succession plan and will continue as a part of VHA's annual strategic planning process.

- Strategies to act on the results of the 2001 all-employee survey. VHA will continually assess and develop instruments that consistently measure, analyze, and improve employee satisfaction. Focusing on reducing or minimizing areas of dissatisfaction and accentuating motivators is key to our succession efforts. VHA established the National Center for Organizational Development to provide the expertise and support to management to continually improve the working environment and increase productivity. To date, in partnership with other VHA expert staff, comprehensive organizational profiles have been developed using information from two all-employee surveys combined with information on organizational culture and other information reflecting employee satisfaction and morale. These profiles are being presented to VISN management teams along with recommended strategies. This information will be made available to all VHA employees through VA's Intranet. VISNs and VHA headquarters offices will develop and implement action plans that will be incorporated into their annual strategic workforce plans in the next planning cycle. Progress will be tracked through recurring employee assessments along with monitors of other indicators of employee satisfaction such as number of EEO cases, Unfair Labor Practice complaints, and occupational injuries. An automated, Web-based system for conducting employee surveys and assessments has been implemented.
- VHA developed a Succession Planning Web site; it contains information on all VHA succession planning programs and efforts, a library of HR tools and practices to communicate to and assist management in fully utilizing HR tools and policies currently available, and a library of succession planning-related information including links to related Web sites.

- Implemented a comprehensive leadership development program based on VHA's High Performance Development Model. Under this program, high potential employees will continually be identified at the local, network, and national levels. In a structured program, these high potential employees will be provided a mentor, a personal development plan, and both formal and informal learning experiences and opportunities. These employees will be selected competitively each year and tracked as they progress through the organization. Knowledge transfer and retention strategies will be an integral component of all workforce succession efforts including both personal and Web-based/e-learning coaching and mentoring programs. Increasingly, retired employees will be invited to serve in mentoring and teaching roles with compensation provided for time, travel, and other expenses. VHA continues to expand its leadership program offerings.

VA submitted a Restructuring Plan to the Office of Management and Budget (OMB) in September 2002. In response to the plan, OMB gave VA a score of "green" for progress in implementing the President's Management Agenda item, Human Capital Planning, on their scorecard. The plan contains a series of strategies that identify a corporate approach to workforce planning, and the Office of Human Resources and Administration is working closely with VA's Administrations and key VACO senior officials to implement the strategies. In addition, VA established a Workforce Planning Council to ensure that workforce planning at all organizational levels links to VA's strategic planning process. The council also affords an opportunity to identify cross-cutting workforce planning issues and develop appropriate strategies to address them at the Department level. VA is also working to improve its recruitment and marketing efforts through expanded outreach programs and a redesign of the VA recruitment Web site.

## Management Challenges Identified by the General Accounting Office

In January 2001, GAO issued its special series of reports entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks (GAO-01-241)*, which described major management challenges and high-risk areas facing Federal agencies. The following is excerpted from the October 2002 report entitled *Performance and Accountability: Reported Agency Actions and Plans to Address 2001 Management Challenges and Program Risks (GAO-03-225)* in which GAO examined Federal agency 2001 performance reports and 2003 performance plans to determine how they addressed the high-risk areas and major management challenges identified in the January 2001 series of reports. The report can be viewed in its entirety at the GAO Web Site: <http://www.gao.gov/cgi-bin/getrpt?GAO-03-225>.

### 1. Strategic Human Capital Management (a GAO-designated governmentwide high risk)

GAO has identified shortcomings at multiple agencies involving key elements of modern strategic human capital management, including strategic human capital planning and organizational alignment; leadership continuity and succession planning; acquiring and developing a staff whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures.

We found that VA faces a potential shortage of skilled nurses, which could have a significant effect on VA's quality of care initiatives. VA also needs to be vigilant in its human capital strategies to ensure that it maintains the necessary expertise to process claims as newly hired employees replace many experienced claims processors over the next 5 years.

### Current Status and Future Plans

*Progress in resolving major management challenges as discussed in agency's FY 2001 performance report:*

In response to the President's Management Agenda, VA reported that it has developed a human capital workforce and succession plan, which articulates

specific strategies to address recruitment, retention, and development issues. For example, to help retain a skilled and competent workforce, VA developed a childcare tuition assistance program for lower-income employees.

In addition, VA reported that it is engaged in multiple efforts to assess its current nursing workforce and plan for the future. For example, a workgroup reported on the effect of the nursing shortage and barriers to recruitment and retention of nurses. The report contains a reference guide for the optimal use of hiring and pay authorities and recommends legislative and non-legislative initiatives to address the nursing shortage.

Finally, VA reported that it launched a centralized training initiative—the standard for training future hires—for veterans service representatives, who request and obtain information on and evaluate veterans claims and assign a disability rating.

### *Applicable goals, measures, and strategies as discussed in agency's FY 2003 performance plan:*

VA reported that the overall goal of its workforce planning initiative is to create an ongoing process—integrated with VA's strategic and budget planning cycles—to predict future workforce trends and avert potential workforce crises. VA has developed an “interim” objective—and related performance measures and targets—to recruit, develop, and retain a competent, committed, and diverse workforce that provides high-quality service to veterans and their families.

VA reported that the national nursing shortage continues to be a priority for the health care industry, although there is no indication that the quality of care in VA medical centers has been adversely affected by this shortage. VA plans to maintain an active recruitment process, and legislation authorizing higher salaries for VA nurses should help these efforts. However, VA does not describe other strategies for addressing this shortage.

VA also reported that it plans to test national performance standards for claims processors.

## 2. Information Security

### *(a GAO-designated governmentwide high risk)*

Our January 2001 high-risk update noted that agencies' and governmentwide efforts to strengthen information security have gained momentum and expanded. Nevertheless, recent audits continue to show federal computer systems are riddled with weaknesses that make them highly vulnerable to computer-based attacks and place a broad range of critical operations and assets at risk of fraud, misuse, and disruption. Further, the events of September 11, 2001, underscored the need to protect America's cyberspace against potentially disastrous cyber attacks—attacks that could also be coordinated to coincide with physical terrorist attacks to maximize the impact of both.

### **Current Status and Future Plans**

#### *Progress in resolving major management challenges as discussed in agency's FY 2001 performance report:*

VA continues to report information security controls as a material weakness on its Federal Managers Financial Integrity Act (FMFIA) report for 2001. Similarly, the VA Office of Inspector General (OIG) reported widespread weaknesses in computer security.

To improve the Department's information security program, VA reported that it met its 2001 target to have 20 percent of the Departmentwide information security program implemented. VA reported that the Office of Cyber Security undertook numerous efforts, including

- developing and issuing a revised VA Information Security Management Plan, which identified security enhancement actions,
- establishing a central security fund to consistently pursue Departmentwide security efforts,
- implementing an enterprise-wide integrated antivirus solution that will facilitate the rapid distribution of antivirus updates to more than 150,000 VA desktops and servers at over 800 locations,

- initiating a contract to develop a certification and accreditation program to bring discipline, formality, and technical excellence to the security planning activities of VA offices during the design of systems and applications,
- providing VA facilities access to a single security incident response service to which they can report security incidents and receive advice related to scope, effect, and suggested remedies,
- establishing a national program in security training and education of computer professional staff,
- beginning to revamp security policies into usable frameworks, and
- developing and submitting to OMB the Government Information Security Reform Act (GISRA) report and corrective action plans.

*Applicable goals, measures, and strategies as discussed in agency's FY 2003 performance plan:*

For 2003, VA's information security measure and target is to have 100 percent of GISRA reviews and reporting completed. Further, VA reported that its efforts to revamp security policies into a usable framework is still ongoing.

However, this measure may not specifically gauge the effectiveness of information security and the agency's progress in implementing corrective actions. The National Institute of Standards and Technology (NIST) developed a security assessment framework and related tools that agencies can use in determining the status of their information security programs. Also, the Office of Management and Budget (OMB) guidance for 2002 reporting under GISRA requires agencies to use tools developed by NIST for evaluating the security of unclassified systems or groups of systems. In addition, OMB's GISRA reporting guidance requires specific performance measures, as well as corrective action plans with quarterly status updates.

### **3. Ensure timely and equitable access to quality VA health care** (a GAO-designated major management challenge)

VA cannot ensure that veterans receive timely care at VA medical facilities. Nor can it ensure that it has maintained the capacity to provide veterans who have spinal cord injuries, serious mental illnesses, or other special needs the care that they require, as mandated by the Congress. VA must also assess its capacity to provide long-term care for its aging veteran population and respond to emerging health care needs, such as treating veterans for hepatitis C.

#### **Current Status and Future Plans**

*Progress in resolving major management challenges as discussed in agency's FY 2001 performance report:*

In 2001, VA reported that it established baselines for two of its waiting time performance goals: scheduling patients for non-urgent primary care and specialty care visits within 30 days. VA's third waiting time goal—to have 73 percent of patients seen within 20 minutes of their scheduled appointment—was not met overall, but half of VA's 22 networks exceeded the goal. (Early in 2002, VA combined two networks and now has 21.)

VA reported that it exceeded its goal to maintain at 95 percent the proportion of discharges from spinal cord injury centers to noninstitutional settings. VA also reported that it met its goal to have 63 percent of homeless veterans with mental illness receive follow-up mental health outpatient care or admission to a work, transitional, or rehabilitation program. VA did not establish a target for its one hepatitis C measure, but it said that it did not achieve its hepatitis C goal. Regarding long-term care, VA is conducting a 3-year pilot study of assisted living and plans to report the outcomes to the Congress in 2004.

*Applicable goals, measures, and strategies as discussed in agency's FY 2003 performance plan:*

VA set the performance goal to increase the percent of primary care and specialty care appointments scheduled within 30 days of desired date to 89

percent and 87 percent (from 87 and 84 percent), respectively. For its third waiting time goal, VA established a 2003 target of 72 percent. Efforts described focus on improving the quality of the data used to measure performance.

VA's 2003 performance target related to care for veterans with spinal cord injuries remains at 95 percent. Its performance target for caring for homeless veterans with mental illness also remains at the 2001 target of 63 percent; however, its strategic target for this goal is 68 percent. VA established three new measures for caring for veterans with hepatitis C as well as targets for two of these measures: the 2003 performance target for percentage of all patients screened and percentage of all patients tested for hepatitis C is 61 percent and 65 percent, respectively, with strategic targets set at 80 percent and 82 percent. The 2003 performance target and strategic target for the third measure—percentage of patients with hepatitis C who have annual assessment of liver function—are to be determined. While VA acknowledges GAO's concern regarding long-term care, its strategy for ensuring adequate capacity is not addressed in its 2003 performance plan.

#### **4. Maximize VA's ability to provide health care within available resources** (a GAO-designated major management challenge)

VA must continue to aggressively pursue opportunities to use its health care resources. VA could achieve more efficiencies by further modifying its infrastructure to support its increased reliance on outpatient health care services, expanding its use of alternative methods for acquiring support services, and pursuing additional opportunities with the Department of Defense (DoD) to determine cost-effective ways to serve both veterans and military personnel. In addition, VA must ensure that it collects the money it is due from third-party payers.

#### **Current Status and Future Plans**

*Progress in resolving major management challenges as discussed in agency's FY 2001 performance report:*

VA's report addresses two of these concerns—capital asset management and procurement reform—under its “enabling goal,” which aims to create an environment that fosters the delivery of “world-class” VA services. The enabling goal has no key performance measures. VA reported that its Capital Asset Realignment for Enhanced Services (CARES) program is ongoing. VA reported that its Procurement Reform Task Force, formed in July 2001, established five major goals: leverage purchasing power, standardize commodities, obtain comprehensive VA procurement information, improve VA procurement organizational effectiveness, and ensure sufficient and talented acquisition workforce.

VA also reported that in May 2001, the President's Task Force to Improve Health Care Delivery for Our Nation's Veterans was established. The task force's mission is to identify ways to improve benefits and services for DoD military retirees who are also VA beneficiaries, review barriers and challenges that impede VA and DoD coordination, and identify opportunities for improved resource utilization through partnerships.

In addition, VA reported that its Revenue Enhancement Work Group and Steering Committee identified 24 major recommendations that require action in order to bring VA's revenue operation to the next level of success in improving third-party collections.

#### *Applicable goals, measures, and strategies as discussed in agency's FY 2003 performance plan:*

In its 2003 plan, VA established a performance goal of attaining a 30 percent cumulative reduction in excess capacity as a result of the implementation of CARES. The national CARES plan will identify total excess capacity. VA reports that this first phase of CARES, implementing the program in the Network 12, will take 5 years or more.

VA established the performance goal of increasing the number and dollar volume of sharing agreements with DoD by 10 percent over the previous year. This sharing includes joint procurement activities as well as sharing resources. The 2003 plan reiterates the creation of

the President's task force but does not provide an update on the task force's progress.

While VA's 2003 plan notes that it has undertaken several initiatives to address third-party collections weaknesses, it does not have a performance measure for third-party collections. Moreover, it does not report on the status of the Revenue Enhancement Work Group and Steering Committee's 24 recommendations.

### **5. Process veterans' disability claims promptly and accurately** (a GAO-designated major management challenge)

VA has had longstanding difficulties in ensuring timely and accurate decisions on veterans' claims for disability compensation. Veterans have also raised concerns that claims decisions are inconsistent across VA's regional offices. VA needs better analyses of its processes in order to target error-prone types of cases and identify processing bottlenecks—as well as determine if its performance goals are realistic.

#### **Current Status and Future Plans**

*Progress in resolving major management challenges as discussed in agency's FY 2001 performance report:*

VA reported that it exceeded its 2001 timeliness goal to complete rating-related actions on compensation and pension claims on average within 202 days; however, this performance was worse than the previous year's—a trend VA characterized as “unacceptable.” VA also reported exceeding its goal of a national accuracy rate of 72 percent. The 2001 rate of 78 percent was significantly better than the 2000 rate of 59 percent.

*Applicable goals, measures, and strategies as discussed in agency's FY 2003 performance plan:*

VA set its 2003 timeliness target at 165 days, and its strategic target at 74 days. (The Secretary set a goal of an average of 100 days processing time for the last quarter of 2003.) However, for 2002, VA projected that it would take an average of 208 days to process rating-related actions—27 days more

than in 2001. Conversely, the accuracy rate for VA's claims processing was expected to continue to improve. For 2002, VA projected that the rate would be 85 percent. VA's 2003 target is 88 percent, and its strategic target is 96 percent.

VA has numerous initiatives planned for 2003 aimed at improving claims processing. These initiatives focus on automation, training, performance assessment, and program evaluation.

### **6. Develop Sound Agency-Wide Management Strategies to Build a High-Performing Organization**

(a GAO-designated major management challenge)

VA must revise its budgetary structure—to link funding to performance goals, rather than program operations—and develop long-term, agency-wide strategies for ensuring an appropriate IT infrastructure and sound financial management.

#### **Current Status and Future Plans**

*Progress in resolving major management challenges as discussed in agency's FY 2001 performance report:*

VA reported that it and OMB jointly developed a proposal to restructure and simplify VA's budget accounts and to base its budgeting on performance. VA plans to implement the proposal with the 2004 budget.

In 2001, VA also reported that it made numerous advances regarding its enterprise architecture, including creating the Office of the Chief Architect, developing and issuing the *One VA* enterprise architecture strategy and implementation plan, and organizing and developing the Information Technology Board.

In addition, VA reported that it received an unqualified opinion on the consolidated financial statements for 2000 and 1999. VA also made progress in correcting material weaknesses in numerous areas and committed to addressing the remaining weaknesses.

### *Applicable goals, measures, and strategies as discussed in agency's FY 2003 performance plan:*

Discussions of the details of the new structure for the budget accounts are ongoing with OMB and congressional appropriations committees.

The 2003 plan states that VA intends to implement the new account structure with the 2004 budget. However, VA continues to work with OMB and has yet to delineate specific measures for this goal.

VA's 2003 plan identifies milestones for its IT approach and implementation—part of VA's enabling goal. VA also set one IT measure and target: 100 percent of Chief Information Officer-designated major IT systems conform to the *One VA* enterprise architecture.

VA's plan acknowledges the significant material weaknesses identified by its OIG and by GAO, such as noncompliance with FFMIA requirements, but does not have goals, measures, or strategies for addressing these weaknesses. Corrective actions needed to address noncompliance are expected to take several years to complete. In addition, the risk of materially misstating financial information remains high because of the need to perform extensive manual compilations and extraneous processes.

# REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

## Heritage Assets

Heritage assets are properties that possess one or more of the following characteristics: historical or natural significance; cultural; educational or aesthetic value or significant architectural characteristics. The monetary value of heritage assets is often not estimable or relevant. By nature they are expected to be maintained in perpetuity.

VA has properties at medical centers and national cemeteries that meet the criteria for a heritage asset. During the reporting period, all maintenance

expenses were recorded as incurred. Heritage assets are reported in terms of physical units. Generally, additions to VA's Heritage Asset inventory result from field station surveys, which identify items such as new collections or newly designated assets. Items are generally donated or existing VA assets designated as heritage. Most heritage assets are used for mission purpose and maintained in working order. Remaining items are mothballed. Five items were added and sixty items were subtracted from the inventory during FY 2002.

### HERITAGE ASSETS IN UNITS AS OF SEPTEMBER 30,

	2002	2001
Art Collections	33	34
Buildings and Structures	1,820	1,875
Monuments/Historic Flag Poles	245	247
Other Non-Structure Items	71	68
Archaeological	11	11
Cemeteries	157	157
<b>Total Heritage Assets in Units</b>	<b>2,337</b>	<b>2,392</b>

## Non-Federal Physical Property

The VA Extended Care Facilities Grant Program assists states in acquiring facilities to provide domiciliary or nursing home care to veterans, and to expand, remodel, or alter existing buildings to provide domiciliary, nursing home, or hospital care

to veterans in state homes. Currently, these grants may not exceed 65 percent of the total project cost.

VA's State Cemetery Grants Program is authorized to pay up to 100 percent of the cost of constructing and equipping state veterans cemeteries. States provide the land and agree to operate the cemeteries.

### GRANT PROGRAM COSTS YEAR ENDED SEPTEMBER 30,

	2002	2001
State Extended Care Facilities	\$ 96	\$ 122
State Veterans Cemeteries	28	24
<b>Total Grant Program Costs</b>	<b>\$ 124</b>	<b>\$ 146</b>

## Human Capital

Investment in human capital comprises those expenses for education and training programs for the general public that are intended to increase or maintain national economic productive capacity. It does not include expenses for internal Federal education and training of civilian employees. Educational programs assist active duty and reservist veterans, eligible under the MGIB or the

Veterans Educational Assistance Program, as well as dependents of veterans who died of service-connected disabilities or whose service-connected disabilities were rated permanent and total. The Vocational Rehabilitation Program provides veterans, having a 10 percent or greater service-connected disability rating with evaluation services, counseling, and training necessary to assist them in becoming employable and maintaining employment to the extent possible.

<b>VETERANS AND DEPENDENTS EDUCATION</b>		
<b>YEAR ENDED SEPTEMBER 30,</b>	<b>2002</b>	<b>2001</b>
<b>Program Expenses</b>		
Education and Training-Dependents of Veterans	\$ 234	\$ 175
Vocational Rehabilitation and Education Assistance	1,894	1,644
Administrative Program Costs	229	172
<b>Total Program Expenses</b>	<b>\$ 2,357</b>	<b>\$ 1,991</b>
<b>Program Outputs (Participants)</b>		
Dependent Education	53,888	46,917
Veterans Rehabilitation	69,634	64,235
Veterans Education	375,013	372,054

## Health Professions Education

Title 38 U.S.C. mandates that VA assist in the training of health professionals for its own needs and for those of the Nation. By means of its partnerships with affiliated academic institutions, VA conducts the largest education and training effort for health professionals in the Nation. Each year, approximately 80,000 medical and other

students receive some or all of their clinical training in VA facilities through affiliations with over 1,200 educational institutions including 107 medical schools. Many of these trainees have their health professional degrees and contribute substantially to VA's ability to deliver cost-effective and high-quality patient care during their advanced clinical training at VA.

HEALTH PROFESSIONS EDUCATION YEAR ENDED SEPTEMBER 30,				
	2002		2001	
<b>Program Expenses</b>				
Physician Residents and Fellows	\$	383	\$	371
Associated Health Residents and Students		46		48
Instructional and Administrative Support		349		348
<b>Total Program Expenses</b>	\$	<u>778</u>	\$	<u>767</u>
<b>Program Outputs</b>				
Health Professions Rotating Through VA:				
Physician Residents and Fellows		28,006		28,493
Medical Students		15,982		17,582
Nursing Students		17,288		16,687
Associated Health Residents and Students		14,816		18,353
<b>Total Program Outcomes</b>		<u>76,092</u>		<u>81,115</u>

## Research and Development

Investments in research and development (R&D) comprise those expenses for basic research, applied research, and development that are intended to increase or maintain national economic productive capacity or yield other benefits. For FY 2002, VA's R&D general goal related to stewardship was to ensure that VA medical research programs met the needs of the veteran population and contributed to the Nation's knowledge about disease and disability. Target levels were established for the: (1) percent of funded research projects relevant to

VA's health-care mission in designated research areas and (2) number of research and development projects. Strategies were developed in order to ensure that performance targets would be achieved. In addition, VHA researchers received grants from the National Institutes of Health in the amount of \$396 million and \$245 million in other grants during FY 2002. These grants were given directly to the researchers and are not considered part of the VA entity. They are being disclosed here as Required Supplementary Stewardship Information, but are not accounted for in the financial statements.

PROGRAM EXPENSE YEAR ENDED SEPTEMBER 30,				2002
	Basic	Applied	Development	Total
Medical Research Service	\$ 139	\$ 70	\$ -	\$ 209
Rehabilitative Research and Development	3	24	15	42
Health Services Research and Development		52		52
Cooperative Studies Research Service		26		26
Medical Research Support		377		377
Prosthetic Research Support		4		4
<b>Total Program Expenses</b>	<b>\$ 142</b>	<b>\$ 553</b>	<b>\$ 15</b>	<b>\$ 710</b>

PROGRAM EXPENSE YEAR ENDED SEPTEMBER 30,				2001
	Basic	Applied	Development	Total
Medical Research Service	\$ 163	\$ 55	\$ -	\$ 218
Rehabilitative Research and Development	3	19	7	29
Health Services Research and Development		43		43
Cooperative Studies Research Service		47		47
Medical Research Support		387		387
Prosthetic Research Support		4		4
<b>Total Program Expenses</b>	<b>\$ 166</b>	<b>\$ 555</b>	<b>\$ 7</b>	<b>\$ 728</b>

RESEARCH AND DEVELOPMENT MEASURES-ACTUAL YEAR ENDED SEPTEMBER 30,	2002	2001
Percent of Funded Research Projects Relevant to VA's Health-Care Mission	88%	91%
Number of Research and Development Projects	2,133	2,197

# REQUIRED SUPPLEMENTARY INFORMATION

## Deferred Maintenance

Deferred maintenance is classified as not performed when it should have been or as scheduled but delayed to a future period. It is VA policy to ensure that medical equipment and critical facility equipment systems are maintained and managed

in a safe and effective manner; therefore, deferred maintenance is not applicable to them.

VA facilities reported their cost estimates for deferred maintenance by utilizing either the Condition Assessment Survey or the Total Life-Cycle Cost Method.

### DEFERRED MAINTENANCE YEAR ENDED SEPTEMBER 30,

	2002	2001
General PP&E	\$ 1,045	\$ 1,195
Heritage Assets	37	26
<b>Total Deferred Maintenance</b>	<b>\$ 1,082</b>	<b>\$ 1,221</b>

### BALANCES WITH OTHER FEDERAL ENTITIES INTRAGOVERNMENTAL ASSETS AS OF SEPTEMBER 30, 2002

Trading Partners	Fund Balance with Treasury	Investments	Accounts Receivable	Other Assets
Treasury	\$ 15,076	\$ 14,135	\$ -	\$ 4
DoD - Defense Agencies	-	-	74	-
All Other	-	-	40	91
<b>Total Intragovernmental Assets</b>	<b>\$ 15,076</b>	<b>\$ 14,135</b>	<b>\$ 114</b>	<b>\$ 95</b>

### INTRAGOVERNMENTAL LIABILITIES AS OF SEPTEMBER 20, 2002

Trading Partners	Accounts Payable	Debt	Other
Treasury	\$ 48	\$ 3,026	\$ 1,360
Other	26	-	656
<b>Total Intragovernmental Liabilities</b>	<b>\$ 74</b>	<b>\$ 3,026</b>	<b>\$ 2,016</b>

### INTRAGOVERNMENTAL EARNED REVENUE AND RELATED COST (TRADE ACTIVITY) YEAR ENDED SEPTEMBER 30, 2002

Trading Partner	Earned Revenue
DoD - Defense Agencies	\$ 340
Air Force	47
Justice	32
All Other	216
<b>Total Earned Revenue</b>	<b>\$ 635</b>
<b>Related Cost</b>	<b>\$ 613</b>

### INTRAGOVERNMENTAL NON-EXCHANGE REVENUE YEAR ENDED SEPTEMBER 30, 2002

Trading Partner	Transfers-Out
Treasury	\$ 909

SCHEDULE OF BUDGETARY ACTIVITY YEAR ENDED SEPTEMBER 30, 2002

	TOTAL OUTLAYS	BUDGETARY RESOURCES	OBLIGATIONS INCURRED	SPENDING AUTHORITY FROM OFFSETTING COLLECTIONS AND ADJUSTMENTS	OBLIGATED BALANCE OCT. 1, 2001	OBLIGATED BALANCE SEPT. 30, 2002
<b>VHA</b>						
0160 Medical Care	\$ 22,624	\$ 24,036	\$ 22,950	\$ 136	\$ 2,527	\$ 2,716
0161 Medical & Prosthetic Research	359	438	402	21	97	118
All Other	516	1,696	749	275	540	500
<b>Total</b>	<b>\$ 23,499</b>	<b>\$ 26,170</b>	<b>\$ 24,101</b>	<b>\$ 432</b>	<b>\$ 3,164</b>	<b>\$ 3,334</b>
<b>VBA</b>						
0102 Compensation, Pension, & Burial Benefits	\$ 25,679	\$ 26,174	\$ 25,755	\$ -	\$ 2,020	\$ 2,095
0137 Readjustment Benefits	1,988	2,753	2,234	235	52	63
4025 Housing Credit Liquidating	(127)	120	94	194	(23)	4
4127 Direct Loan Financing	897	2,674	2,448	1,524	52	78
4129 Guaranteed Loan Financing	(313)	7,308	2,567	2,918	62	25
8132 National Service Life Insurance Fund	1,176	11,720	1,694	475	1,403	1,447
All Other	826	5,544	3,055	2,202	350	376
<b>Total</b>	<b>\$ 30,126</b>	<b>\$ 56,293</b>	<b>\$ 37,847</b>	<b>\$ 7,548</b>	<b>\$ 3,916</b>	<b>\$ 4,088</b>
<b>NCA</b>						
0129 National Cemetery Adm.	\$ 120	\$ 123	\$ 120	\$ -	\$ 21	\$ 21
All Other	29	40	39	-	25	35
<b>Total</b>	<b>\$ 149</b>	<b>\$ 163</b>	<b>\$ 159</b>	<b>\$ -</b>	<b>\$ 46</b>	<b>\$ 56</b>
<b>ADM</b>						
0151 General Operating Expenses	\$ 1,145	\$ 1,653	\$ 1,606	\$ 435	\$ 201	\$ 227
All Other	(162)	1,598	1,269	1,356	141	217
<b>Total</b>	<b>\$ 983</b>	<b>\$ 3,251</b>	<b>\$ 2,875</b>	<b>\$ 1,791</b>	<b>\$ 342</b>	<b>\$ 444</b>
<b>Total of all Business Lines</b>	<b>\$ 54,757</b>	<b>\$ 85,877</b>	<b>\$ 64,982</b>	<b>\$ 9,771</b>	<b>\$ 7,468</b>	<b>\$ 7,922</b>

SEGMENT INFORMATION

CONDENSED BALANCE SHEET

AS OF SEPTEMBER 30

	Supply Fund		Enterprise Fund	
	2002	2001	2002	2001
<b>Assets</b>				
Fund Balance with Treasury	\$ 462	\$ 269	\$ 73	\$ 52
Accounts Receivable, Net	146	90	14	15
General Property, Plant and Equipment	5	6	22	15
Other Assets Including Inventory	34	48	4	1
<b>Total Assets</b>	<b>\$ 647</b>	<b>\$ 413</b>	<b>\$ 113</b>	<b>\$ 83</b>
<b>Liabilities and Net Position</b>				
Accounts Payable	\$ 32	\$ 40	\$ 3	\$ 4
Deferred Revenues	226	75	-	-
Other Liabilities	251	185	30	24
<b>Total Liabilities</b>	<b>509</b>	<b>300</b>	<b>33</b>	<b>28</b>
Cumulative Results of Operations	138	113	80	55
<b>Total Liabilities and Net Position</b>	<b>\$ 647</b>	<b>\$ 413</b>	<b>\$ 113</b>	<b>\$ 83</b>
<b>Condensed Net Cost Information</b>				
<b>Total Program Costs</b>	<b>\$ 1,095</b>	<b>\$ 880</b>	<b>\$ 115</b>	<b>\$ 130</b>
<b>Earned Revenues</b>				
Intra-Departmental	(447)	(431)	(129)	(133)
Other Federal Entities	(627)	(421)	(8)	(8)
Non-Federal	(44)	(18)	-	-
<b>Total Earned Revenues</b>	<b>\$ (1,118)</b>	<b>\$ (870)</b>	<b>\$ (137)</b>	<b>\$ (141)</b>
<b>Net Program Costs</b>	<b>\$ (23)</b>	<b>\$ 10</b>	<b>\$ (22)</b>	<b>\$ (11)</b>

Enterprise Fund Services

VA was approved by OMB in May 1996 as one of six pilot franchise fund agencies operating within the Executive Branch of Government. VA’s Franchise Fund was established as a revolving fund and began operations in (FY 1997. By law, the business lines within the Fund can only sell to Federal entities.

The VA Franchise Fund supports VA’s mission by supplying common administrative services to both VA and other federal entities at competitive prices. Most of our customers come from within VA, which

accounted for 94 percent of our FY 2002 revenue. VHA is the largest customer of five of the six VA Enterprise Centers (Austin Automation Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center and VA Records Center and Vault), and VBA is the largest customer for the Debt Management Center.

The Fund accounts for its funds in six lines of business (VA Enterprise Centers) and one administrative organization. A brief description of the each center is listed:

**Austin Automation Center (AAC)** - Located in Austin, TX, the AAC provides comprehensive e-government solutions to match the critical needs of VA and other Federal agency customers, from managing data to automating business processes. The AAC supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits and supply functions. In addition, the AAC offers a full complement of technical solutions (platform-hosting, acquisition services, application management, total information assurance, customer business continuity, configuration management, and data conversion and data interfacing) to best meet customer's varied information technology projects.

**Debt Management Center (DMC)** - Located in St. Paul, MN, the DMC is a centralized facility that provides direct collection of delinquent consumer debt owed to VA. The DMC also provides administrative support for a local Cooperative Administrative Support Unit.

**Financial Services Center (FSC)** - Located in Austin, TX, the FSC provides a full-range of financial services for VA and other Federal agencies including financial reports and accounting, invoice payments, credit card payments, discount subsistence purchases, payroll processing, travel payment processing, electronic commerce/electronic data interchange, automated document management, audit recovery, consulting, and training.

**Law Enforcement Training Center (LETC)** - Located in Little Rock, AR, the LETC provides special training for police officers working in a health care or service-oriented environment. Emphasizing training in medical center patient situations, the LETC is available to approximately 2,400 law enforcement personnel working at VHA health care facilities and to Federal law enforcement professionals at other Federal agencies.

**VA Records Center and Vault (VA RC&V)** - Located in the Midwest, the VA RC&V provides records storage, protection, and retrieval services for official Federal records. The facility has been certified by the NARA to operate as an agency

records center, approved by the Defense Logistics Agency to store classified material, and certified by the Department of Energy to store restricted records.

**Security and Investigations Center (S&IC)** - Located in Washington, DC, the S&IC provides quality and timely background investigations and adjudications for employees and contractors in sensitive positions for all VA entities nationwide. The S&IC also issues and manages employee identification badges and provides fingerprint processing for VA employees and other Federal customers in the Washington, DC area.

**Enterprise Fund Office (EFO)** - The VA Enterprise Centers are supported by the EFO, which is responsible for the overall fund operations including administering the financial resources of the fund, coordinating all business activities, and serving as the liaison between the Enterprise Centers, their customers, and the Board of Directors.

Its services allow VA and other government agency customers to conserve their budgetary resources through new innovative methods and/or efficiencies of scale with the same or lower unit costs, while improving the quality of services provided. As the Fund successfully markets its services to other Federal agencies, programs in those agencies will derive similar benefits.

For more information, visit the VA Enterprise Centers online at [www.va.gov/fund](http://www.va.gov/fund).

## Supply Fund Services

Supply Fund functions include contracting for medical supplies, equipment and services; stocking, repairing, and distributing supplies, medical equipment, and devices; providing forms, publications, and a full range of printing and reproduction services; training VA medical acquisition, supply, processing, and distribution personnel; and increasing small and disadvantaged business participation in VA contracts. The two largest customers for the Supply Fund are VA and DoD, but the Fund also has significant sales to other Federal agencies including the Department of Health and Human Services.

# DEFINITIONS

*Please note: Key Measures are defined within the narrative.*

## **AAALAC – Association for Assessment and Accreditation of Laboratory Animal Care**

An accrediting body that provides oversight for research programs that include animal research. (Medical Research)

## **Accounts payable**

The money VA owes to vendors and other Federal entities for products and services purchased. This is treated as a liability on the balance sheet. (Financial)

## **Accounts receivable**

The amount of money that is owed to VA by a customer (including other Federal entities) for products and services provided on credit. This is treated as a current asset on the balance sheet and includes such items as amounts due from third-party insurers for veterans' health care and from individuals for compensation, pension, and readjustment benefit overpayments. (Financial)

## **Accuracy of decisions (entitlement)**

Percent of entitlement determinations completed accurately. Accuracy is determined through case reviews. (VR&E)

## **Accuracy of decisions (fiscal)**

Percent of vendor fiscal transactions and subsistence award transactions that are accurate and consistent with laws and regulations. The measure, calculated by determining the number of completed cases reviewed that were correct compared to the total number of cases reviewed, is expressed as a ratio. (VR&E)

## **Accuracy of decisions (services)**

Percent of cases completed accurately for veterans who receive Chapter 31 (disabled veterans receiving vocational rehabilitation) services and/or educational/vocational counseling benefits under several other benefit chapters. Accuracy of service delivery is expressed as a percent of the highest possible score (100) on cases reviewed. (VR&E)

## **Accuracy of program outcome**

This measure seeks to ensure the accuracy of decisions made to declare a veteran rehabilitated or discontinued from a program of services. (VR&E)

## **Appeals decided per FTE**

A basic measure of efficiency determined by dividing the number of appeals decided by the total Board of Veterans' Appeals full-time equivalent (FTE) staff. (BVA)

## **Appeals resolution time (in days)**

The average length of time the Department takes to process an appeal from the date a claimant files a Notice of Disagreement (NOD) until a case is *finally* resolved, including resolution at a regional office or by a final decision by the Board of Veterans' Appeals. (BVA)

## **Appropriation**

The specific amount of money authorized by Congress for approved work, programs, or individual projects.

## **Appropriation Authority**

The authority granted by Congress for the agency to spend government funds.

## **Average days to process insurance disbursements**

The number of days (taken as a weighted composite average) it takes to process all disbursements, including death claims and applications for policy loans and cash surrenders. (Insurance)

## **Average hold time in seconds**

The average length of time (in seconds) that a caller using the toll-free service number waits before being connected to an insurance representative. (Insurance)

## **Balance sheet**

A summary of all the assets the agency owns and the liabilities owed against those assets as of a point in time (the end of the fiscal year for VA is

September 30). This statement always shows two consecutive fiscal year snapshots so the reader can compare the information. There is no “owners’ equity” in a federal agency, as there is in a non-government company. However, we instead report our “net position,” which is the amount of unexpended appropriation authority. (Financial)

### **Blind Rehabilitation - Percent change in functional status from admission to discharge from a blind rehabilitation program or unit**

The goal of the Blind Rehabilitation Service is to help veterans develop the skills and capabilities that they need to improve the quality of their lives and attain personal independence and emotional stability. The performance index, which measures the change in their functional ability, is based on the Historical National Benchmark (HNB) of functional change indicated by the 13 items in the survey instrument. The index reflects the functional change from pre- to post-rehabilitation. (Medical Care)

### **Budgetary resources**

Budgetary resources are forms of authority given to an agency allowing it to incur obligations. Budgetary resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations. (Financial)

### **BVA cycle time**

BVA cycle time measures the time from receipt of a case at the Board of Veterans’ Appeals until a decision is dispatched minus the time the case file is in the possession of a veterans service organization representative. (BVA)

### **CARES – Capital Asset Realignment for Enhanced Services**

The program to assess veteran health care needs in VHA Networks, identify service delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets to support the delivery of health care services. (Medical Care)

### **Chief Financial Officers Act of 1990**

Legislation enacted to improve the financial management practices of the Federal government and to ensure the production of reliable and timely

financial information for use in the management and evaluation of Federal programs. (Financial)

### **Compliance survey completion rate**

The percentage of compliance surveys completed compared with the number of surveys scheduled at the beginning of the fiscal year. (Education)

### **Cost per case**

A unit decision cost derived by dividing BVA’s total obligational authority by the number of decisions produced. (BVA)

### **Cost per death award**

The average cost of processing a death claim, including appropriate support costs. (Insurance)

### **Cost per policy maintained**

The average cost of maintaining an insurance policy, including all appropriate support costs. (Insurance)

### **Court remand rate**

Percent of decisions entered by the U. S. Court of Appeals for Veterans Claims (CAVC) that are remanded to the Board of Veterans’ Appeals. (BVA)

### **Cumulative number of kiosks installed at national and state veterans cemeteries**

The total number of kiosk information centers installed at national and state veterans cemeteries to assist visitors in finding the exact gravesite locations of individuals buried there. In addition to providing the visitor with a cemetery map for use in locating the gravesite, the kiosk information center provides such general information as the cemetery’s burial schedule, cemetery history, burial eligibility, and facts about the National Cemetery Administration. (Burial)

### **Customer satisfaction (Access)**

Percent of veterans who answered “very satisfied” or “somewhat satisfied” when asked about their ability to conveniently contact VR&E, receive counseling, be placed in a rehabilitation plan, and have their questions resolved. (VR&E)

### **Customer satisfaction (Survey)**

Percent of veterans who answered “very satisfied” or “somewhat satisfied” when asked about their

level of overall satisfaction with vocational rehabilitation and employment services. (VR&E)

**Customer satisfaction – high ratings**

Nationally, the percentage of respondents to the education customer satisfaction survey who rated their interactions with VA as “very satisfied” or “somewhat satisfied.” (Education)

**Deficiency free decision rate**

This goal is based on a random sampling of approximately 5 percent of the Board of Veterans’ Appeals decisions. Decisions are checked for deficiencies in the following categories: identification of issues, findings of fact, conclusions of law, reasons and bases/rationale for preliminary orders, due process, and format. (BVA)

**Dollars derived from alternate revenue generated from health care cost recoveries**

A generic description of revenue over and above VA’s yearly Congressional budget appropriation. Examples of these revenues include medical cost recoveries, Medicare, and other sharing revenues including income from fee-for-service payments or third-party payments for care received by veterans covered by a medical insurance policy. (Medical Care)

**Employee development**

This measurement is the results of assessments for each VR&E employee in a work unit, team, or division that are combined to provide a snapshot of current skills and of the skills still needed. The assessment is derived from a Technical Skills Matrix tool that measures the extent to which an employee has, or is learning, the skills needed to provide complete customer service to veterans. (VR&E)

**Employee job satisfaction**

The overall level of job satisfaction, on a five-point scale, expressed by education employees. (Education)

**Employee satisfaction**

The Insurance Service uses the national *One VA* survey for the purpose of measuring employee satisfaction. The survey, consisting of 100 questions, uses a 5-point scale to measure

satisfaction. We include the top three levels as a favorable measure. (Insurance)

**Employee satisfaction**

Vocational Rehabilitation and Employment Service uses the national *One VA* survey for the purpose of measuring employee satisfaction. The survey consists of two questions using a 5-point scale to measure satisfaction. (VR&E)

**Employee skills matrix**

The matrix is a tool that focuses on the skill acquisition and skill development of employees. The basis of the measure is the “Ideal Team State,” which is the proper mix of skills needed to successfully provide service to veterans and their families. The score is the percentage of the skills identified in the Ideal Team State measured against the skill that each work unit possesses. The results of the assessment for each employee in a work unit are combined to provide the total score for Insurance. (Insurance)

**Employment timeliness in average days**

The average number of days taken from the date the veteran begins Employment Services (job ready) to the date the veteran enters suitable employment. (VR&E)

**Exchange Revenue**

Exchange revenues arise when a Federal entity provides goods and services to the public or to another government entity for a price. (Financial)

**Favorable IG audit opinion**

Each year, the IG conducts an audit of each Insurance program to determine if assets, liabilities, income, and expenses are reported properly in the CFO statements. This measure indicates whether the Insurance Program receives a favorable opinion on the audit. (Insurance)

**Federal Financial Management Improvement Act (FFMIA)**

The FFMIA requires agencies to produce timely and reliable financial statements that demonstrate their compliance with Federal financial management systems requirements, Federal accounting standards, and the U.S. government standard general ledger. If an agency believes its

systems are not FFMIA-compliant, it must develop a remediation plan to achieve compliance within 3 years. (Financial)

### **Federal Managers' Financial Integrity Act (FMFIA) of 1982**

Legislation that requires Federal agencies to establish processes for the evaluation and improvement of financial and internal control systems in order to ensure that management control objectives are being met. (Financial)

### **Fiduciary activities – Initial Appeals and Fiduciary Beneficiaries – percent of initial appointments > 45 days**

Nationwide, the percentage of fiduciary initial appointments that require more than 45 days to complete. (C&P)

### **Franchise Fund**

VA's fund is comprised of six enterprise centers that competitively sell common administrative services and products throughout the Federal Government. The funds are deposited into the Franchise Fund. The Centers' operations are funded solely on a fee-for-service basis. Full cost recovery ensures they are self-sustaining. (Departmental Management)

### **Fund Balance with the Treasury**

The aggregate amount of funds in VA's accounts with the Department of the Treasury for which we are authorized to make expenditures and pay liabilities. This account includes clearing account balances and the dollar equivalent of foreign currency account balances. (Financial)

### **Heritage Assets**

Heritage Assets are unique and are generally expected to be preserved indefinitely. Heritage assets may have historical or natural significance; be of cultural, educational, or artistic importance; or have significant architectural characteristics. (Financial)

### **High customer ratings**

The percent of insurance customers who rate different aspects of insurance services in the highest two categories, based on a 5-point scale, using data from the insurance customer survey. (Insurance)

### **Implement and maintain patient access to telephone care 7 days a week, 24 hours a day in all VISNs as follows:**

Number of VISNs providing basic telephone service: This measure identifies the number of VISNs that give veterans access to telephone care 7 days a week, 24 hours a day for triage, care, and consultation. The purpose is to provide personalized care when and where it is needed, within certain parameters, and in ways that are creative, innovative, and cost-effective.

Number of VISNs fully compliant with VHA Directive 2000-035, except for accreditation and direct access by clinical staff to clinical medical records. Each VISN is to have patient access to telephone care that includes approved medical algorithms enabling proper disposition of a patient who calls for care and the ability to record the telephone interaction in the medical record for the team to follow up on as necessary. (Medical Care)

### **Increase by 5 percent over the previous fiscal year the number of Health Services Research & Development (HSR&D) funded research projects related to health systems and methodology to evaluate outcomes**

HSR&D supports projects in the area of evaluating health systems outcomes by focusing on the health care being provided rather than the condition for which it is provided. (Medical Research)

### **Increase the number and dollar volume of sharing agreements by 10 percent over the previous year (Non-DoD and DoD agreements)**

VA enters into sharing agreements with other government agencies and the private sector to share healthcare resources. We also engage in joint ventures including direct medical care, joint purchasing, and other services. Improving coordination of VA and DoD programs and systems is an important part of improving the use of resources. In December 1999, VA and DoD agreed in a memorandum of agreement (MOA) to combine their purchasing power to eliminate redundancies. In May 2001, the President established a task force to improve health care delivery to our Nation's veterans through better coordination between VA and DoD. Significant progress has since been made

related to achieving discounts in addition to the lowest VA Federal Supply Schedule (FSS) prices, converting DoD's Distribution and Purchasing Agreements to FSS for medical/surgical products, and working with DoD counterparts to facilitate shared acquisition strategies through product standardization committees. VA and DoD use other contracting authority to jointly procure pharmaceuticals, medical/surgical supplies, and equipment. (Medical Care)

#### **Intragovernmental assets**

These assets arise from transactions among Federal entities. These assets are claims of the reporting entity against other Federal entities. (Financial)

#### **Intragovernmental liabilities**

These liabilities are claims against the reporting entity by other Federal entities. (Financial)

#### **Inventory**

An inventory is a tangible personal property that is (i) held for sale, including raw materials and work in process, (ii) in the process of production for sale, or (iii) to be consumed in the production of goods for sale or in the provision of services for a fee. (Financial)

#### **Lender satisfaction**

The percentage of lenders answering the survey that were very satisfied or somewhat satisfied with the VA Loan Guaranty Program. (Housing)

#### **Low customer ratings**

The percent of insurance customers who rate different aspects of insurance services in the lowest two categories, based on a 5-point scale, using data from the insurance customer survey. (Insurance)

#### **Management (or internal) controls**

Safeguards (organization, policies, and procedures) used by agencies to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported, and used for decision making. (Financial)

#### **Material weakness**

A reportable condition in which the design or operation of the specific internal control does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the consolidated financial statements being audited. This condition may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. (Financial)

#### **Medical residents' and other trainees' scores on a VHA survey assessing their clinical training experiences**

The satisfaction survey for residents and other medical trainees assists VHA in determining how well we are achieving VA's academic mission of providing innovative and high-quality health care training for VA and the Nation. The survey results are used to learn what satisfies medical trainees and to improve the clinical training experience. The sources of this data are the responses to a summary question from the Learners' Perceptions Survey. (Medical Education)

#### **Memorial Service Network**

NCA's field structure is geographically organized into five Memorial Service Networks (MSNs). The national cemeteries in each MSN are supervised by the MSN Director and staff. The MSN offices are located in Philadelphia, Pennsylvania; Atlanta, Georgia; Indianapolis, Indiana; Denver, Colorado; and Oakland, California. The MSN Directors and staff provide direction, operational oversight, and engineering assistance to the cemeteries located in their geographic areas. (Burial)

#### **National accuracy rate (authorization work)**

Nationwide, the percentage of original death pension claims, dependency issues, income issues, income verification matches, income verification reports, burial and plot allowances, claims for accrued benefits, and special eligibility determinations completed and determined to be technically accurate. The accuracy rate for the Nation is a compilation of the C&P Service's review of the 57 regional offices. (C&P)

### **National accuracy rate (fiduciary work)**

Nationwide, the percentage of field examinations and account audits completed and determined to be technically accurate. The accuracy rate for the Nation is a compilation of the C&P Service's review of the 57 regional offices. (C&P)

### **NCQA–National Committee for Quality Assurance**

An accrediting body that provides oversight for research programs that include human research. (Medical Research)

### **Net cost of operations**

Net cost of operations is the gross cost incurred by VA less any exchange revenue earned from its activities. The gross cost of a program consists of the full cost of the outputs produced by that program plus any non-production costs that can be assigned to the program. (Financial)

### **Net position**

Net position comprises the portion of VA's appropriations represented by undelivered orders and unobligated balances (unexpended appropriations) and the net results of the reporting entity's operations since inception, plus the cumulative amount of prior period adjustments (cumulative results of operations). (Financial)

### **Net program cost**

Net program cost is the difference between a program's gross cost and its related exchange revenues. If a program does not earn any exchange revenue, there is no netting and the term used might be total program cost. (Financial)

### **Non-rating actions - average days pending**

Elapsed time, in days, from date of receipt of a claim (for which work has not been completed) in the regional office to current date. Non-rating actions include the following types of claims: original death pension, dependency issues, income issues, income verification matches, income verification reports, burial and plot allowances, claims for accrued benefits, and special eligibility determinations. (C&P)

### **Non-rating actions - average days to process**

Elapsed time, in days, from receipt of a claim

in the regional office to closure of the case by issuing a decision by a regional office. Non-rating actions include the following types of claims: original death pension, dependency issues, income issues, income verification matches, income verification reports, burial and plot allowances, claims for accrued benefits, and special eligibility determinations. (C&P)

### **Notes to the Consolidated Financial Statements**

The notes provide additional disclosures that are necessary to make the financial statements more informative and not misleading. The notes are an integral part of the financial statements. (Financial)

### **NRC – Nuclear Regulatory Commission**

A federally sponsored organization responsible for management of radiation hazards, which has oversight in medical center services or research programs that include radioactive materials. (Medical Research)

### **Number of audit qualifications identified in the auditor's opinion on VA's Consolidated Financial Statements**

Audits are performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and the requirements of the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." This measure reports how many audit qualifications are identified each year in VA's consolidated financial statements. (Departmental Management)

### **Number of indictments, arrests, convictions, and administrative sanctions**

The number of indictments, arrests, convictions, and administrative sanctions achieved measures investigative performance. (OIG)

### **Number of reports issued**

The OIG conducts Combined Assessment Program (CAP) reviews to evaluate the quality, efficiency, and effectiveness of VA facilities and issues reports to highlight the opportunities for improvement in quality of care, management controls, and fraud prevention. (OIG)

**Obligations**

Obligations represent the amount of orders placed, contracts awarded, services received, and other transactions occurring during a given period that would require payments during the same or future period. (Financial)

**OMB Circular No. A-123**

The Office of Management and Budget (OMB) issued Circular No. A-123 to provide guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. (Financial)

**OMB Circular No. A-127**

The Office of Management and Budget (OMB) issued Circular No. A-127 to prescribe policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. (Financial)

**Outlay**

Outlay is the amount of checks, disbursement of cash, or electronic transfer of funds made to liquidate a Federal obligation. Outlays also occur when interest on the Treasury debt held by the public accrues and when the Government issues bonds, notes, debentures, monetary credits, or other cash-equivalent instruments in other to liquidate obligations. (Financial)

**Overall satisfaction**

This is an index of answers from the annual customer satisfaction survey. The survey assesses the level of satisfaction veterans have with the way their claim is handled by VA and with the service they receive when they contact VA for information. (C&P)

**Payment accuracy rate**

Measures how well decisions reflect payment at the proper rate for the correct period of time. (Education)

**Percent cumulative reduction in excess capacity as a result of CARES. Total excess capacity will be identified by the CARES initiative.**

The CARES strategic planning process identifies excess capacity by VISN and then outlines an action plan each year on what will be addressed the following year. (Medical Care)

**Percent increase in number of enrolled veterans who have access to home and community-based care when clinically appropriate (2000 baseline = Average Daily Census of 14,111)**

The numerator is the census of enrolled veterans who utilized home and community-based care. The denominator is all enrolled veterans. (Medical Care)

**Percent increase of EC/EDI usage over 1997 base year**

The percent increase in the number of line items ordered through Electronic Data Interchange (EDI) by fiscal year. (Departmental Management)

**Percent of all patients evaluated for the risk factors for hepatitis C**

Hepatitis C is a major public health problem, and there is a concern that this disease occurs more frequently among veterans than the rest of the population. From a patient and public health perspective, all patients should be screened for high risk factors. If patients are at high risk for being exposed to hepatitis C, then they should be tested and evaluated for possible drug therapy. Regardless of whether they elect to initiate drug therapy or are candidates for current treatments, they need to receive information about disease transmission, the benefits of avoiding hepatotoxins such as alcohol, and the current recommendations regarding vaccination against other types of viral hepatitis. The numerator is the number of patients ever screened for risk factors, tested, and/or diagnosed for hepatitis C. The denominator is all patients in the sample.

(Medical Care)

**Percent of all patients tested for hepatitis C subsequent to a positive hepatitis C risk factor screening**

The number of patients who are ever tested or diagnosed for hepatitis C divided by the number of patients in the sample ever tested, diagnosed, or screened with a positive risk factor.

(Medical Care)

**Percent of blocked calls**

The percentage of call attempts for which callers receive a busy signal because all circuits were in use for the insurance toll-free service number. (Insurance)

**Percent of brain dysfunction patients undergoing rehabilitation whose discharge scores on the Functional Independence Measure (FIM) are in the expected or higher than expected performance categories**

The goal of rehabilitation units is to maintain or improve function. The FIM tool allows for an in-depth evaluation of current status and potential for improvement. Rehabilitation goals are then set. The numerator is all Traumatic Brain Injury (TBI) patients who meet or exceed expected outcomes. The denominator is all TBI patients enrolled in a rehabilitation program. (Medical Care)

**Percent of cases using alternate dispute resolution (ADR) techniques**

The percent of contract dispute matters electing to use Alternate Dispute Resolution (ADR) techniques. ADR techniques refer generally to several formal and informal processes for resolving disputes that do not entail courtroom litigation. (Departmental Management)

**Percent of CIO-designated major IT systems that conform to the *One VA Enterprise Architecture***

The number of all CIO-designated major IT systems project submissions that conform to the *One VA Enterprise Architecture* divided by the total number of projects submitted. (Departmental Management)

**Percent of eligible patients undergoing rehabilitation for a lower extremity amputation whose efficiency scores using the Efficiency Pattern Analysis is classified into one of the three highest efficiency categories**

Lower extremity amputations produce significant life changes for a veteran's functional status, and effective rehabilitation intervention represents an opportunity to achieve maximal benefit for the patient. This measure is part of the evaluation of rehabilitative interventions. In the FY 2001

baseline, this measure was based on inpatient medical rehabilitation beds. In FY 2002, the measure has changed slightly and is based on the full continuum of rehabilitative care. The measure expands the patient cohort to include amputees at all facilities, both inpatient and outpatient, across the continuum of care (includes care outside of a medical care rehabilitation unit). (Medical Care)

**Percent of employees who are aware of alternate dispute resolution (ADR) as an option to address workplace disputes**

The percent of employees who are made aware of ADR through a variety of mechanisms, such as increased training opportunities, mediation satellite broadcast programs, and promotion of videotape examples on mediation. (Departmental Management)

**Percent of headstones and markers that are undamaged and correctly inscribed**

This percentage represents the number of headstones and markers that are undamaged and correctly inscribed, divided by the number of headstones and markers ordered. (Burial)

**Percent of homeless patients with mental illness who receive a follow-up mental health outpatient visit, admission to a Compensated Work Therapy/Transitional Residence (CWT/TR), or admission to a Psychiatric Residential Rehabilitation Treatment Program (PRRTP) within 30 days of discharge**

VA provides state-of-the-art diagnosis and treatment to improve the mental and physical functioning of veterans in need of mental health treatment across a broad continuum of inpatient, partial-hospitalization, outpatient, and community facilities. This performance measure tracks the percent of homeless patients with mental health disorders who received follow-up outpatient care related to mental health, admission to a CWT/TR, or admission to a PRRTP within 30 days following discharge from Domiciliary Care for Homeless Veterans (DCHV) or Health Care for Homeless Veterans (HCHV) contract care. (Medical Care)

**Percent of individual headstone and marker orders transmitted electronically to contractors**

The percent of individual headstone and marker orders that were transmitted to contractors via communication software or Internet e-mail. (Burial)

**Percent of insurance disbursements paid accurately**

The weighted composite accuracy rate for all disbursements, including death claims, policy loans, and cash surrenders. (Insurance)

**Percent of monuments ordered on-line by other federal and state veterans cemeteries using AMAS-R**

The percentage represents the number of headstones and markers ordered through NCA's Automated Monument Application System-Redesign (AMAS-R) by other federal (for example, Arlington National Cemetery) and state veterans cemeteries, divided by the total number of headstones and markers ordered by other federal and state veterans cemeteries. (Burial)

**Percent of patients in specialized substance abuse treatment settings who have an Addiction Severity Index (ASI) assessment**

Substance use disorders are among the VHA's most frequent diagnoses. The ASI is a national and international tool to measure severity of substance use disorders.

Initial ASI: The numerator is the number of eligible patients that have an initial ASI within the acceptable time frame. The denominator is the eligible patients in a designated substance abuse program.

Six-month follow-up ASI: Due to data methodology issues, this information is unavailable. (Medical Care)

**Percent of patients who use tobacco products**

The smoking program in VHA's Office of Public Health and Environmental Hazards and the National Center for Health Promotion and Disease Prevention is responsible for policy development relating to smoking by patients, employees, and visitors at VA facilities. Activities revolve around developing and disseminating clinical guidelines for smoking cessation and implementing a joint VA-DoD National Smoking Cessation Program. Data obtained through a random sample of the

records of patients seen at least once within the past 12-24 months and again within the current year (to determine the veteran is an established patient) at one of eight ambulatory care clinics are used to assess the effectiveness of the program.

(Medical Care)

**Percent of patients with hepatitis C who have annual assessment of liver function**

The number of patients who are determined to have hepatitis C who have an annual blood test to assess their liver function divided by the number of patients who have tested positive for having hepatitis C. (Medical Care)

**Percent of pharmacy orders entered into the Computerized Patient Record System (CPRS) by the prescribing clinician**

The risk of error in processing prescriptions is reduced when orders are entered directly into a computer. This performance measure is intended to reduce risk to patients and reduce variation in the clinical use of CPRS across the system. The numerator is the number of pharmacy orders entered into CPRS by the prescribing clinician. The denominator is the applicable inpatient and outpatient pharmacy orders entered into *VistA*. (Exclusions include those required by DEA to have a written copy, orders entered by medical students that require a co-signature, and protocol or standing orders.) (Medical Care)

**Percent of Presidential Memorial Certificates that are accurately inscribed**

A Presidential Memorial Certificate (PMC) conveys to the family of the veteran the gratitude of the Nation for the veteran's service. To convey this gratitude, each certificate must be accurately inscribed. This measure represents the number of PMCs initially sent to the families of deceased veterans that are accurately inscribed, divided by the number of PMCs issued. (Burial)

**Percent of prosthetics orders delayed**

Enactment of the Veterans Health Care Eligibility Reform Act of 1996, Public Law 104-262, Section 104, eliminated the prohibition on providing prosthetic devices in an ambulatory setting and increased the number of veterans who are eligible

for prosthetic devices. This measure evaluates timeliness by determining the rate of delayed prosthetics orders (that is, orders not placed in five workdays). The current standard is to not exceed 2 percent of the total workload per month. This 2-percent standard will be maintained despite an expanding workload in FY 2002-2006. The source of the data is the National Prosthetic Delayed Order Report. The data are collected manually on a quarterly basis. The numerator for this target is the total number of delayed prosthetic orders. The denominator is the total number of prosthetic orders received. (Medical Care)

### **Percent of randomly selected admissions to Special Intensive PTSD Programs (SIPPs) that are enrolled in the Outcomes Monitoring program**

Patients enrolled in the National PTSD Outcomes Monitoring System are those registered with VHA's Mental Health and Behavioral Sciences Strategic Health Care Group and admitted to the following specialized intensive PTSD programs: Evaluation Brief Treatment PTSD unit, Specialized Inpatient PTSD Program (SIPPS), PTSD Residential program, or a PTSD Day Hospital program. Patients with successful follow-up are those who have completed a follow-up assessment form, as required for the outcome-monitoring program. (Medical Care)

### **Percent of spinal cord injury respondents to the Performance Analysis Center of Excellence (PACE) Survey who rate their care as very good or excellent – Inpatient/Outpatient**

The Spinal Cord Injury and Disorders (SCI&D) program assists veterans with SCI&D to develop the capacities needed to maintain independence, health, and well-being. To accomplish this, the SCI&D program provides rehabilitation, preventive care, sustaining care, and extended care across a continuum. These measures indicate VA's ability to maintain a viable spinal cord injury system providing health care that will receive positive patient evaluations. (Medical Care)

### **Percent of stakeholders who are satisfied or very satisfied with their level of participation in VA's planning process**

VA stakeholders include Congressional leaders and staff, Office of Management and Budget staff, representatives of Veterans Service Organizations and others involved in the strategic planning process. The data is gathered from surveys of participants in VA's Four Corners strategic planning meetings. (Departmental Management)

### **Percent of statutory minimum goals met for small business concerns**

The Office of Small and Disadvantaged Business Utilization (OSBDU) ensures maximum opportunities for all small businesses as directed by Public Law 106-50, the Veterans Entrepreneurship and Small Business Development Act of 1999. (Departmental Management)

### **Percent of the Government Information Security Reform Act (GISRA) reviews and reporting completed**

The GISRA requires an annual security review of all information technology (IT) systems. IT system owners complete an on-line survey that asks for detailed information about the security of their system. This information is reported to OMB annually and updated quarterly. (Departmental Management)

### **Percent of VA employees who indicate they understand VA's strategic goals**

This measure is based upon a nationwide survey of VA employees and indicates the percentage who agree or strongly agree that VA employees have an understanding of the mission and strategic goals of VA as stated in the VA Strategic Plan. (Departmental Management)

### **Percent of VA-managed Federal Coordinating Centers that complete at least one National Disaster Medical System (NDMS) casualty reception exercise every three years**

Since disasters are commonplace in today's world, prompt, coordinated response and relief efforts are necessary to reduce morbidity and mortality. As a large integrated health care system with a presence in every state, VA operates a national emergency management program that includes NDMS Federal Coordinating Centers strategically located throughout the country. Emergency preparedness

drills and related activities test the effectiveness of existing training programs and capabilities, and keep skills honed for real-life emergency events. This measure provides the percent of VA-managed NDMS Federal Coordinating Centers that complete at least one casualty reception exercise every three years. (Medical Care)

**Percent of veterans served by a burial option in a national cemetery within a reasonable distance (75 miles) of their residence**

NCA determines the percentage of veterans served by a burial option in existing national cemeteries within a reasonable distance of their residence by analyzing census data on the veteran population. A burial option is defined as a first family member interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a national cemetery that is available within 75 miles of the veteran's place of residence. Since FY 2000, actual performance has been based on the VetPop2000 model developed by the Office of the Actuary. (Burial)

**Percent of veterans served by a burial option only in a state veterans cemetery within a reasonable distance (75 miles) of their residence**

NCA determines the percentage of veterans served by a burial option only in a state veterans cemetery within a reasonable distance of their residence by analyzing census data on the veteran population. A burial option is defined as a first family member interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a state veterans cemetery that is available within 75 miles of the veteran's place of residence. Since FY 2000, actual performance has been based on the VetPop2000 model developed by the Office of the Actuary. (Burial)

**Percent of Veterans Service Standard (VSS) problems reported per patient in the areas of patient education and visit coordination**

Patient satisfaction with health care services is measured through the Survey of Health Expectations of Patients (SHEP). The survey involves patient perceptions of patient education and visit coordination. Patient education pertains to whether VA healthcare provides patients with

understandable answers to their questions and furnishes patients with clear explanations of why tests are needed, what the results are, the purpose and side effects of any prescribed medicines, and what to do if problems or symptoms continue or get worse. Visit coordination deals with whether patients are informed of how and when they would find out the results of any test conducted. (Medical Care)

**Percent of veterans using Vet Centers who report being satisfied with services and say they would recommend the Vet Center to other veterans**

Since 1979, VA has provided counseling services to assist veterans in readjusting to civilian life through a nationwide system of 206 community-based counseling facilities known as Vet Centers. The Vet Centers were the first VA service program to treat PTSD systematically in returning war veterans. Vet Centers now provide, in a non-hospital community setting, a variety of social services, extensive community outreach and referral activities, psychological assessment, psychological counseling for war-related experiences (including PTSD) and sexual trauma, and family counseling when needed. Initially restricted to Vietnam veterans, current law has extended eligibility for Vet Center services to any veteran who has served in the military in a theater of combat operations or in any area where armed hostility was occurring at the time of the veteran's service. This performance measure tracks the percentage of veterans who respond on the *Vet Center Veteran Satisfaction Survey* that they are satisfied with services and would recommend the Vet Center to other veterans. (Medical Care)

**Percent of veterans who obtained employment upon discharge from a Domiciliary Care for Homeless Veterans (DCHV) program or Health Care for Homeless Veterans (HCHV) community-based contract residential care program**

VA administers two special programs for homeless veterans: Domiciliary Care for Homeless Veterans (DCHV) and Health Care for Homeless Veterans (HCHV). These programs provide outreach, psychosocial assessments, referrals, residential treatments, and follow-up case management

to homeless veterans. This measure tracks the percentage of discharged veterans who obtain full-time employment, part-time employment, or therapeutic work opportunities in Veterans Industries at discharge. (Medical Care)

**Percent of veterans who were discharged from a Domiciliary Care for Homeless Veterans (DCHV) program or Health Care for Homeless Veterans (HCHV) community-based contract residential care program to an independent or a secured institutional living arrangement**

VA administers two special programs for homeless veterans: Domiciliary Care for Homeless Veterans (DCHV) and Health Care for Homeless Veterans (HCHV). These programs provide outreach, psychosocial assessments, referrals, residential treatments, and follow-up case management to homeless veterans. This measure tracks the percentage of these veterans who are discharged directly to independent living or secure housing in the community. Independent living is defined as residence in one's own apartment, rooms, or house. Secured living arrangement is defined as half-way house, transitional housing, or domiciliary. (Medical Care)

**Program evaluation**

An assessment, through objective measurement and systematic analysis, of the manner and extent to which Federal programs achieve intended outcomes. (Departmental Management)

**Prompt Payment Act**

The Prompt Payment Final Rule (formerly OMB Circular No. A-125, "Prompt Payment") requires Executive departments and agencies to pay commercial obligations within certain time periods and to pay interest penalties when payments are late. (Financial)

**Property holding time (months)**

The average number of months from date of custody of a property to the date of sale of a property acquired due to defaults on VA-guaranteed loans. (Housing)

**Property, Plant, and Equipment**

Property, plant, and equipment consist of tangible assets, including land, that have estimated useful

lives of 2 years or more, not intended for sale in the ordinary course of operations, and have been acquired or constructed with the intention of being used, or being available for use, by the reporting entity. (Financial)

**PTSD – Post Traumatic Stress Disorder**

PTSD is an anxiety disorder that can occur following the experience or witnessing of life-threatening events, such as military combat, natural disasters, terrorist incidents, serious accidents, or violent personal assaults such as rape. People who suffer from PTSD often relive the experience through nightmares and flashbacks, have difficulty sleeping, and feel detached or estranged. These symptoms can be severe enough and last long enough to significantly impair the person's daily life. Common PTSD stressors in veterans include war zone stress (e.g., combat and exposure to mass casualty situations), the crash of a military aircraft, or sexual assault. VA is committed to providing an integrated, comprehensive, and cost-effective continuum of care for veterans with PTSD. (Medical Care)

**Quality-Access-Satisfaction/Cost VALUE Index**

The QAS/Cost VALUE Index includes both cost and other domains of value such as quality, access, and satisfaction that express meaningful outcomes for VA's resource investments. Unlike a simple cost measure that can lead to false impressions of efficiency, the VALUE measure demonstrates a balanced perspective of cost efficiency along with desired outcomes. The measure simply portrays the desired outcomes (as percentage of goals) that VA achieves with its budgeted resources by establishing a value relationship of Quality-Access-Satisfaction to dollars (QAS/cost). (Medical Care)

**Rating-related actions - average days pending**

Elapsed time, in days, from date of receipt of a claim (for which work has not been completed) in the regional office to current date. Rating actions include the following types of claims: original compensation, original disability pension, original DIC, reopened compensation, reopened pension, routine examinations, and reviews due to hospitalization. (C&P)

**Research and Development**

Research and development investments are expenses included in the calculation of net costs to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new and improved products and processes, with the expectation of maintaining or increasing national economic productivity capacity or yielding other future benefits. (Financial)

**Return on sale**

The national average on the return on investment (percentage) on properties sold that were acquired due to defaults on a VA-guaranteed loan. It is the amount received for the property (selling price) divided by the acquisition cost and all subsequent expenditures for improvements, operating, management, and sales expenses. (Housing)

**Serious Employment Handicap (SEH) rehabilitation rate**

Proportion of all veterans with an SEH who are rehabilitated, compared to all veterans with an SEH who exit a program of services (discontinued or rehabilitated) during the fiscal year. These veterans are also included in the rehabilitation rate. The SEH rehabilitation rate provides additional credit for success in rehabilitating veterans with serious employment handicaps. VR&E Service is targeting veterans with SEH for increased attention and services. (VR&E)

**Speed of entitlement decisions in average days**

Average number of days from the time the application is received until the veteran is notified of the entitlement decision. (VR&E)

**Statement of Budgetary Resources**

A financial statement that provides assurance that the amounts obligated or spent did not exceed the available budget authority, obligations and outlays were for the purposes intended in the appropriations and authorizing legislation, other legal requirements pertaining to the account have been met, and the amounts are properly classified and accurately reported. (Financial)

**Statement of Changes in Net Position**

A financial statement that provides the manner in

which VA's net costs were financed and the resulting effect on the Department's net position. (Financial)

**Statement of Financing**

A financial statement that explains how budgetary resources obligated during the period relate to the net cost of operations. It also provides information necessary to understand how the budgetary resources finance the cost of operations and affect the assets and liabilities of the Department. (Financial)

**Statement of Net Costs**

A financial statement that provides information to help the reader understand the net costs of providing specific programs and activities, and the composition of and changes in these costs. (Financial)

**Statement of Written Assurance**

A statement of written assurance is required by the Federal Managers' Financial Integrity Act. Each year, the head of each executive agency must prepare a statement that the agency's systems of internal accounting and administrative control fully comply with the requirements of the law, or that they do not comply. In the latter case, the head of the agency must include a report in which (a) material weaknesses in the agency's system of internal accounting and administrative controls are identified, and (b) the plans and schedules for correcting any such weaknesses. (Financial)

**Statistical quality index**

A quality index that reflects the number of correct actions found in Statistical Quality Control reviews, measured as a percentage of total actions reviewed. (Housing)

**Status of Budgetary Resources**

Obligations incurred, the unobligated balances at the end of the period that remain available, and unobligated balances at the end of the period that are unavailable except to adjust or liquidate prior year obligations. (Financial)

**Stewardship Land**

Land not acquired for or in connection with

items of general property, plant, and equipment. (Financial)

### **Stewardship Property, Plant, and Equipment**

Assets whose physical properties resemble those of general PP&E that are traditionally capitalized in financial statements. However, due to the nature of these assets, (1) valuation would be difficult and (2) matching costs with specific periods would not be meaningful. Stewardship PP&E consists of heritage assets, national defense PP&E, and Stewardship Land. (Financial)

### **Telehealth**

The use of electronic communications and information technology to provide and support health care when distance separates the participants. It includes health care practitioners interacting with patients, and patients interacting with other patients. (Medical Care)

### **Telemedicine**

The provision of care by a licensed independent health care provider that directs, diagnoses, or otherwise provides clinical treatment delivered using electronic communications and information technology when distance separates the provider and the patient. (Medical Care)

### **Telephone activities - abandoned call rate**

Nationwide, the percentage of call attempts for which the caller gets through, but hangs up before talking to a VA representative. (C&P, Education)

### **Telephone activities - blocked call rate**

Nationwide, the percentage of call attempts for which callers receive a busy signal because all circuits were in use. (C&P, Education)

### **Unobligated Balances**

Balances of budgetary resources that have not yet been obligated. (Financial)

### **VA Domiciliary**

A VA domiciliary provides comprehensive health and social services in a VA facility for eligible veterans who are ambulatory and do not require the level of care provided in nursing homes. (Medical Care)

### **VA Hospital**

A VA hospital is an institution that is owned, staffed, and operated by VA and whose primary function is to provide inpatient services. Note: Each division of an integrated medical center is counted as a separate hospital. (Medical Care)

### **VA Regional Office**

A VA Regional Office is a VBA office located in each state that receives and processes claims for VA benefits. (VBA)

### **Value of monetary benefits from IG audit and health care inspection reviews**

A quantification of funds that could be used more efficiently if management took actions to complete recommendations pertaining to deobligating funds, costs not incurred by implementing recommended improvements, and other savings identified in audit reports and health care inspection reviews. (OIG)

### **Value of monetary benefits from IG contract reviews**

The sum of the questioned and unsupported costs, identified in pre-award contract reviews, that the IG recommends be disallowed in negotiations unless additional evidence supporting the costs is provided. (OIG)

### **Value of monetary benefits from IG investigations**

Includes court fines, penalties, restitution, civil judgments, and investigative recoveries and savings. (OIG)

### **Veterans Integrated Service Network (VISN)**

The 21 VISNs are integrated networks of health care facilities that provide coordinated services to veterans to facilitate continuity through all phases of healthcare and to maximize the use of resources. (Medical Care)

### **Veterans satisfaction**

The percentage of veterans answering the survey that were very satisfied or somewhat satisfied with the process of obtaining a VA home loan. (Housing)

# LIST OF ABBREVIATIONS AND ACRONYMS

**AAALAC**

Association for the Assessment and Accreditation of Laboratory Animal Care

**AAC**

Austin Automation Center

**ADE**

Awards Data Entry

**ADHC**

Adult Day Health Care

**ADR**

Alternate Dispute Resolution

**AFGE**

American Federation of Government Employees

**AICPA**

American Institute of Certified Public Accountants

**AMAS-R**

Automated Monument Application System  
– Redesign

**ARC**

Allocation Resources Center

**ASI**

Addiction Severity Index

**B&O**

Beneficiary and Option

**BCMA**

Bar Code Medication Administration

**BDC**

Benefits Delivery Center

**BOP**

Federal Bureau of Prisons

**BOSS**

Burial Operations Support System

**BPA**

Blanket Purchase Agreement

**BRFSS**

Behavioral Risk Factor Surveillance System

**BVA**

Board of Veterans' Appeals

**C&P**

Compensation and Pension

**C&V**

Construction and Valuation

**CAP**

Combined Assessment Program

**CAPRI**

Compensation and Pension Records Interchange

**CARES**

Capital Asset Realignment for Enhanced Services

**CARF**

Commission on Accreditation of Rehabilitation Facilities

**CBO**

Congressional Budget Office

**CBOC**

Community-based Outpatient Clinic

**CDC**

Centers for Disease Control and Prevention

**CDCI II**

Chronic Disease Care Index II

**CDRH**

Center for Devices and Radiological Health

**CFO**

Chief Financial Officer

**CFR**

Code of Federal Regulations

**CFS**

Consolidated Financial Statements

**CIO**

Chief Information Officer

**CMS**

Centers for Medicare and Medicaid Services

**CNH**

Contract Nursing Homes

**COLAs**

Cost of Living Adjustments

**COOP**

Continuity of Operations Plan

**CoreFLS**

Core Financial & Logistics System

**COTS**

Commercial Off-the-Shelf

**CPEP**

Compensation and Pension Examination Project

**CPRS**

Computerized Patient Record System

**CPT**

Current Procedural Terminology

**CPTS**

Centralized Property Tracking System

**CSO**

Commissioners Standard Ordinary

**CSRS**

Civil Service Retirement System

**CY**

Calendar Year

**CWT/TR**

Compensated Work Therapy/Transitional Residence

**CWT/VI**

Compensated Work Therapy/Veterans Industries

**D&IS**

Data and Information Service

**DCHV**

Domiciliary Care for Homeless Veterans

**DEERS**

Defense Eligibility and Entitlement Records System

**DFAS**

Defense Finance and Accounting Service

**DIC**

Dependency and Indemnity Compensation

**DMC**

Debt Management Center

**DMDC**

Defense Manpower Data Center

**DoD**

Department of Defense

**DOL**

Department of Labor

**DOOR**

Distribution of Operational Resources

**DSCP**

Defense Supply Center Philadelphia

<b>DSS</b>	<b>FISCAM</b>
Decision Support System	Federal Information System Controls Audit Manual
<b>EA</b>	<b>FMFIA</b>
Enterprise Architecture	Federal Managers' Financial Integrity Act
<b>EC/EDI</b>	<b>FMS</b>
Electronic Commerce/Electronic Data Interchange	Financial Management System
<b>ECAP</b>	<b>FOIA</b>
Enrollment Certification Automated Processing	Freedom of Information Act
<b>EPA</b>	<b>FRP</b>
Environmental Protection Agency	Federal Response Plan
<b>EPRP</b>	<b>FSC</b>
External Peer Review Program	Financial Services Center
<b>FAIR Act</b>	<b>FSQAS</b>
Federal Activities Inventory Reform Act	Financial & Systems Quality Assurance Service
<b>FASAB</b>	<b>FSS</b>
Federal Accounting Standards Advisory Board	Federal Supply Schedule
<b>FASB</b>	<b>FTE</b>
Financial Accounting Standards Board	Full-time Equivalent
<b>FATS</b>	<b>FY</b>
Foreclosure Avoidance Through Servicing	Fiscal Year
<b>FDA</b>	<b>G2B</b>
Food and Drug Administration	Government to Business
<b>FPDS</b>	<b>G2C</b>
Federal Procurement Data System	Government to Citizen
<b>FECA</b>	<b>G2G</b>
Federal Employees' Compensation Act	Government to Government
<b>FERS</b>	<b>GAAP</b>
Federal Employees' Retirement System	Generally Accepted Accounting Principles
<b>FFMIA</b>	<b>GAO</b>
Federal Financial Management Improvement Act	General Accounting Office
<b>FIFO</b>	<b>GISRA</b>
First In-First Out	Government Information Security Reform Act

**GMRA**

Government Management Reform Act

**GPEA**

Government Paperwork Elimination Act

**GPO**

Government Printing Office

**GPRA**

Government Performance and Results Act

**GSA**

General Services Administration

**HCHV**

Health Care for Homeless Veterans

**HCM**

Human Capital Management

**HCPCS**

Health Care Financing Procedure Code System

**HEC**

Health Eligibility Center

**HEDIS**

Health Plan Employer Data Information Set

**HFMEA**

Healthcare Failure Modes and Effects Analysis

**HHS**

Department of Health and Human Services

**HIM**

Health Information Management

**HIPAA**

Health Information Portability and Accountability Act

**HRM**

Human Resources Management

**HSIF**

Health Services Improvement Fund

**HSR&D**

Health Services Research and Development Service

**IDS**

Intrusion Detection System

**IEE**

Internal Effectiveness and Efficiency

**IFCAP**

Integrated Funds Distribution, Control Point Activity, Accounting and Procurement

**IG**

Inspector General

**IL**

Information Letter

**IOM**

Institute of Medicine

**IRB**

Institutional Review Board

**ISMP**

Institute for Safe Medication Practices

**IT**

Information Technology

**IVM**

Income Verification Match

**JCAHO**

Joint Commission for the Accreditation of Healthcare Organizations

**LDLC**

Low Density Lipid Cholesterol

**LS&C**

Loan Service & Claims

**MCCF**

Medical Care Collections Fund

<b>MDR</b>	<b>NHPP</b>
Meta Data Repository	National Health Physics Program
<b>MGIB</b>	<b>NIH</b>
Montgomery GI Bill	National Institutes of Health
<b>MMCP</b>	<b>NOD</b>
Medicare Managed Care Plans	Notice of Disagreement
<b>MOA</b>	<b>NRC</b>
Memorandum of Agreement	Nuclear Regulatory Commission
<b>MOU</b>	<b>NSLI</b>
Memorandum of Understanding	National Service Life Insurance
<b>MPI</b>	<b>OA&amp;MM</b>
Master Patient Index	Office of Acquisition and Materiel Management
<b>MSN</b>	<b>OCS</b>
Memorial Service Network	Office of Cyber Security
<b>MVHCB</b>	<b>OED</b>
Military and Veterans Health Coordinating Board	Online Eligibility Determination
<b>NAGE</b>	<b>OGC</b>
National Association of Government Employees	Office of General Counsel
<b>NARS</b>	<b>OHRP</b>
National Automated Response System	Office of Human Research Protections
<b>NCA</b>	<b>OIG</b>
National Cemetery Administration	Office of Inspector General
<b>NCHS</b>	<b>OMB</b>
National Center for Health Statistics	Office of Management and Budget
<b>NCPS</b>	<b>OPI</b>
National Center for Patient Safety	Office of Program Integrity
<b>NCQA</b>	<b>OPM</b>
National Committee for Quality Assurance	Office of Personnel Management
<b>NDMS</b>	<b>OQP</b>
National Disaster Medical System	Office of Quality Performance
<b>NHIS</b>	<b>ORCA</b>
National Health Interview Survey	Office of Research Compliance and Assurance

**ORD**

Office of Research and Development

**OSGLI**

Office of Servicemembers' Group Life Insurance

**OSHA**

Occupational Safety and Health Administration

**OWCP**

Office of Workers' Compensation Program

**P&F**

Program and Financing

**PACE**

Performance Analysis Center for Excellence

**PACT**

Preservation/Amputation Care and Treatment Program

**PAID**

Personnel Accounting Integrated Data

**PCGL**

Personal Computer Generated Letter

**PI II**

Prevention Index II

**PIR**

Project Initiation Request

**PKI**

Public Key Infrastructure

**PLAN**

Property Management Local Area Network

**PLOU**

Portfolio Loan Oversight Unit

**PMC**

Presidential Memorial Certificate

**PP&E**

Property, Plant & Equipment

**PRRTP**

Psychiatric Residential Rehabilitation Treatment Program

**PTF**

Patient Treatment File

**PTSD**

Post Traumatic Stress Disorder

**PULSE**

Patient User Local Survey Evaluator

**PVA**

Paralyzed Veterans of America

**QA**

Quality Assurance

**QAS**

Quality-Access-Satisfaction

**QuIC**

Quality Interagency Coordination Taskforce

**R&D**

Research and Development

**RCA**

Root Cause Analysis

**REPS**

Restored Entitlement Program for Survivors

**RLC**

Regional Loan Centers

**RO**

Regional Office

**RPO**

Regional Processing Office

**SCGP**

State Cemetery Grants Program

**SCI**

Spinal Cord Injury

<b>SCI&amp;D</b>	<b>TIMS</b>
Spinal Cord Injury and Disorders	The Imaging Management System
<b>S-DVI</b>	<b>TMC</b>
Service-Disabled Veterans Insurance	Travel Management Center
<b>SGLI</b>	<b>TOP</b>
Servicemembers' Group Life Insurance	Treasury Offset Program
<b>SHEP</b>	<b>TPSS</b>
Survey of Healthcare Experience of Patients	Training and Performance Support Systems
<b>SIPO</b>	<b>TREASURY</b>
Security Infrastructure Protection Office	Department of the Treasury (U.S. Treasury)
<b>SIPPs</b>	<b>TRICARE</b>
Special Intensive PTSD Programs	DoD-Managed Care Support Contract
<b>SKIPPES</b>	<b>U.S.C.</b>
Skills, Knowledge, and Insurance Practices and Procedures Embedded in Systems	United States Code
<b>SLMP</b>	<b>USGLI</b>
Service Loss Mitigation Program	United States Government Life Insurance
<b>SMC</b>	<b>USMS</b>
Strategic Management Council	U.S. Marshals Service
<b>SQC</b>	<b>VA</b>
Statistical Quality Control	Department of Veterans Affairs
<b>SSA</b>	<b>VACERT</b>
Social Security Administration	VA Electronic Education Certification Program
<b>SSN</b>	<b>VACOLS</b>
Social Security Number	Veterans Appeals Control and Locator System
<b>STAR</b>	<b>VAEB</b>
Statistical Technical Accuracy Review	VA Executive Board
<b>SVES</b>	<b>VAMC</b>
State Verification and Exchange System	VA Medical Center
<b>TAP</b>	<b>VARO</b>
Transition Assistance Program	VA Regional Office
<b>TBI</b>	<b>VBA</b>
Traumatic Brain Injury	Veterans Benefits Administration

## *Acronyms*

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**VCAA**

Veterans Claims Assistance Act

**VEAP**

Veterans Educational Assistance Program

**VERA**

Veterans Equitable Resource Allocation

**VGLI**

Veterans' Group Life Insurance

**VHA**

Veterans Health Administration

**VHI**

Veterans Health Initiative

**VI&I**

Veterans' Insurance and Indemnities

**VICTARS**

Veterans Insurance Claims Tracking and Response System

**Vinnie MAC**

VA Loan Sales Program

**VISN**

Veterans Integrated Service Network

**VistA**

Veterans Health Information Systems & Technology Architecture

**VMLI**

Veterans' Mortgage Life Insurance

**VR&E**

Vocational Rehabilitation and Employment

**VRI**

Veterans' Reopened Insurance

**VSLI**

Veterans' Special Life Insurance

**VSO**

Veterans Service Organization

**VSR**

Veterans Service Representative

**VSS**

Veterans Service Standard

**WAVE**

Web Automated Verification of Enrollment

**WCP**

Workers' Compensation Program

**WINRS**

Waco, Indianapolis, Newark, Roanoke, Seattle  
VR&E Case Management System

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*...to care for him who shall have borne the  
battle and for his widow and his orphan...*

*Abraham Lincoln*



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