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 Department's financial statements for 2003 and 2002 from the external auditors, Deloitte & Touche, LLP, continuing the tradition of financial management excellence first achieved in FY 1999. As a result of their audit work, Deloitte & Touche, LLP reported two material weaknesses and two reportable conditions. The two material weaknesses and one reportable condition were repeat findings. The Department continues to make significant progress on correcting the repeat material weaknesses and reportable condition and plans are underway to address the new reportable condition -- medical malpractice claims data.

VA programs operated at a net cost of $162.5 billion in 2003 compared with $210.3 billion in 2002. The calculation of the actuarial liability for future years' veterans' compensation and burial benefits, which increased by $105.6 billion during 2003 and by $157.3 billion in 2002, heavily impacts each year's cost. The actuarial liability for future years' veterans' compensation and pension (C&P) programs increased in FY 2003 due to a change in the valuation date and an increase in estimates of excess benefit rates during FY 2003. Excluding the change in this actuarial liability from the net cost would result in an adjusted net cost for VA's programs of $56.9 billion and $53.0 billion for 2003 and 2002, respectively. The majority of this increase applies to two programs--compensation, $2.7 billion, and medical care, $1.6 billion.

An examination of assets and liabilities reported on VA's balance sheets reveals two lines with changes greater than $1 billion. The largest increase is in the Federal Employee and Veterans Benefits 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 Liabilities 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 liabilities is the most significant component of the change in Cumulative Results of Operations. The second significant change relates to a decrease in the liability provision for future losses on credit reform guaranteed loans.

Medical Care collections continue to improve. In 2003, collections totaled approximately $1.5 billion, which builds on the $1.2 billion collected in 2002, and is a significant increase over the 2001 total of $0.8 billion. VA plans to continue to increase these collections, reaching $1.75 billion in 2004 and $2.0 billion in 2005.

In the area of debt management, VA exceeded the goals established with the Department of the Treasury for the Treasury Offset Program (TOP) and the cross servicing program. By the end of 2003, VA referred $255 million (97 percent) of eligible delinquent debt to Treasury for offset under TOP. Under the cross-servicing program, VA referred $155 million (96 percent) of eligible debt to Treasury for collection.

During 2003, the Department aggressively used the governmentwide commercial purchase card program. Over 2.9 million purchase card transactions were processed, representing over $1.5 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned VA over $16 million in credit card rebates.

Under 38 U.S.C. 8161, et seq., VA entered into several enhanced-use leases in 2003 to maximize use of underutilized VA property. In return, VA has received 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. Consequently, VA uses the enhanced-use leasing program to address its capital and resource requirements, and anticipates that most of its in-kind benefits will be received through these types of third-party providers.

In an effort to improve internal controls over finance, acquisition, and asset management, VA's three administrations are currently being realigned in a way that will maximize both the effectiveness and efficiency of their operations. VHA's realignment efforts include identifying operations that could be centralized at the VISN and facility levels to promote greater efficiency. VHA's VISN office structure now includes a Chief Financial Officer, Chief Logistics Officer, Capital Asset Manager, and Financial Quality Assurance Manager (FQAM). The new VISN FQAM will provide oversight over finance, logistics, and capital asset management; conduct internal audits; provide consultative services to facilities; facilitate performance improvement; ensure timely implementation of financial policies issued by VA's Office of Management (OM); and serve as a liaison to external auditors and OM.

VBA is centralizing field finance, acquisition, and asset management activities into product lines with a clear line of control to the VBA CFO. VBA plans to conclude its realignment efforts by September 2004. NCA plans to establish one site in NCA for each of the three primary activities – finance, acquisition, and asset management. At this time, the greatest proportion of contracting, finance, and accounting support for the national cemeteries is provided by a VA medical center or regional office. NCA plans to begin assuming direct responsibility for these business activities over a period of the next several years.