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, 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 2005 and 2004 from the external auditors, Deloitte & Touche, LLP, continuing the tradition of financial management excellence first achieved in 1999. As a result of its audit work, Deloitte & Touche, LLP reported three reportable conditions, all of which are also material weaknesses. The Department continues to make significant progress on correcting the repeat material weaknesses and reportable conditions.

VA programs operated at a net cost of $263.4 billion in 2005 compared with $33.3 billion in 2004. The calculation of the actuarial liability for future years' veterans' compensation, which increased by $197.8 billion during 2005 and decreased by $30.0 billion during 2004, heavily impacts each year's cost. The actuarial liability for future years' veterans' compensation increased in 2005 due to a significant decrease and flattening of the current interest rates during the year in all but those of very short term durations. Excluding the change in this actuarial liability from the net cost would result in an adjusted net cost for VA's programs of $65.6 billion and $63.3 billion for 2005 and 2004, respectively. The majority of the change applies to three programs--medical care increased $3.0 billion, compensation increased $2.3 billion, and loan guarantee decreased $2.6 billion.

An examination of assets and liabilities reported on VA's balance sheets reveals one line with changes greater than $1 billion. This change is an increase in the Federal Employee and Veterans Benefits Liabilities, which is related to the increase in the actuarial liability for future compensation 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 liabilities is the most significant component of the change in Cumulative Results of Operations.

Medical Care collections continue to improve. In 2005 collections totaled approximately $1.8 billion, which builds on the $1.7 billion collected in 2004, and is a significant increase over the 2003 total of $1.2 billion. VA plans to continue to increase these collections, reaching $2.0 billion in 2006 and $2.2 billion in 2007.

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. VA referred $276 million (99 percent) of eligible debt to Treasury for offset under TOP. Under the cross-servicing program, VA referred $164 million (97 percent) of eligible debt to Treasury for collection.

During 2005 the Department aggressively used the governmentwide commercial purchase card program. Over 3.7 million transactions were processed, representing over $2 billion in purchases. The electronic billing and payment process for centrally billed accounts earned VA $35 million in rebates – compared to $30 million during the same period in 2004. These rebates are returned to VA entities for use in veterans programs. The increase in rebates can be primarily attributed to the increase in basis points VA receives as a result of the re-competed contract with the contract bank.

Throughout 2005 VA continued to make operational enhancements, which resulted in improvements in interest paid, discounts earned, and audit recoveries. Interest improvements occurred largely because VA centralized VHA-certified payments at the Financial Services Center (FSC), while discounts earned increased due to operational improvements implemented at the FSC and VA's National Acquisition Center. Interest paid as a percentage of principal decreased by 14 percent, and discounts earned increased by 124 percent compared to 2004.

In 2005 VA's recovery audit program recovered improper payments and unapplied vendor credits totaling nearly $2.7 million. Since inception in 2001, VA has recovered $13.2 million in improper payments and cancelled another $13.2 million in improper payments before making payment. VA awarded a recovery audit contract in December 2000 to review past payments by VA's Health Administration Center for hospital care. In 2005, collections for overpayments totaled $15.5 million. Routine recovery collections totaled an additional $10.2 million.

Under 38 U.S.C. 8161, et seq., VA entered into enhanced-use leases to maximize use of underutilized VA property. In return, VA has received fair consideration including goods, services, or space beneficial to VA's mission. Currently, seven of the enhanced-use leases transferred their assets and liabilities to a trust. The agreements establishing the trusts are reviewed and, where appropriate, the trust financial statements are consolidated with the VA consolidated financial statements in accordance with generally accepted accounting principles. Enhanced-use leasing has proven to be very beneficial to the Department, and VA anticipates examining alternative leasing structures and expanding the use of enhanced-use leases to meet critical capital needs.

In an effort to address a repeat reportable condition on operational oversight reported by the Department's external auditors, VHA implemented several monitoring and performance measures, including evaluation of each facility's monthly financial indicators report that measures performance in 19 significant areas. During 2005 VHA implemented a Web-based internal control certification checklist that requires financial staff to certify monthly, quarterly, and annually that their processes are in compliance with financial policy and procedures. This information is used to determine those facilities needing assistance, with follow-on assistance provided in a timely manner. VHA plans to educate and enforce accountability of medical center management, improve controls on review and approval of transactions, and establish compliance testing of VA policies and procedures. Additional focus on operational oversight will continue in 2006 due to the elevation of this reportable condition to a material weakness.

VA's three administrations continued efforts to improve internal controls over finance, acquisition, and asset management functions and realign them to maximize effectiveness and efficiency. VHA continued to centralize certain operations at the network and facility levels and their structure includes a Chief Financial Officer (CFO), Chief Logistics Officer, Capital Asset Manager, and Financial Quality Assurance Manager. VBA centralized these same activities into product lines, with a direct line to the VBA CFO. In 2004 VBA centralized administrative accounting functions for two regional offices into one location; by the end of 2005, an additional 20 offices will be centralized, with the remaining scheduled in 2006. Additional areas (non-pension waiver cases, voucher audit for Chapter 31 payment process) are currently under review to determine if centralization/consolidation is feasible. NCA plans to establish one site for each of the primary activities -- finance, acquisition, and asset management. Currently, the greatest proportion of contracting, finance, and accounting support for the national cemeteries is provided by a VA medical center or regional office. NCA created its own finance division, collocated with its procurement office in Quantico, Virginia, and continues to make progress on its plans to expand finance and acquisition services and assume direct responsibility for these activities over the next several years.