Statement of Financial Position
As of September 30, 1996 and 1995
(In Millions)

	1996	1995
Assets		
Fund Balances with Treasury	$ 13,143	$ 11,641
Investments (Note 7)	14,548	14,484
Receivables (Note 8)	4,224	3,993
Merchandise and Supply Inventories	68	65
Advances and Prepayments (Note 8)	308	177
Property, Plant and Equipment, Net (Note 9)	11,140	11,478
Total Assets	**$ 43,431**	$ 41,838
Liabilities		
Funded Liabilities		
Accounts Payable and Accrued Liabilities	$ 3,650	$ 1,973
Liabilities for Loan Guarantees (Note 5)	4,221	3,658
Deferred Revenues and Other Liabilities	268	248
Dividends on Credit or Deposit	1,174	1,087
Insurance Policy Reserves (Note 6)	12,933	12,972
Dividends Payable	858	889
Intragovernmental - Debt from Borrowing Authority	1,783	1,584
Total Funded Liabilities	**24,887**	22,411
Unfunded Liabilities		
Accrued Leave	856	783
Insurance Policy Reserves (Note 6)	556	558
Reserve for Future Losses on Guaranteed Loans (Note 5)	293	747
Liability for Federal Employees Compensation Act	1,699	1,544
Liability for Veterans' Comp. and Pen. Benefits (Note 4)	239,954	252,717
Total Unfunded Liabilities	243,358	256,349
Total Liabilities	**$ 268,245**	$ 278,760
Net Position		
Fund Balances		
Unexpended Appropriations	$ 4,561	$ 3,999
Invested Capital	11,209	11,543
Cumulative Results of Operations	2,497	3,677
Equity in Overpayment Receivables and Other	277	208
Total Fund Balances	18,544	19,427
Less Future Funding Requirements	243,358	256,349
Net Position (Deficit)	**(224,814)**	(236,922)
Total Liabilities and Net Position	**$ 43,431**	$ 41,838

Statement of Operations and Changes in Net Position (Deficit)
For the Fiscal Years Ending September 30, 1996 and 1995
(In Millions)

	1996		1995
Revenues and Financing Sources			
Appropriations Expended	**$**	**38,253**	$ 37,455
Restored Funds Due to Subsidy Reestimates		**708**	176
Revenues from Sales of Goods and Services		**2,351**	2,360
Interest and Penalties		**1,836**	1,755
Retirement Benefits Imputed Financing		**769**	820
Vendee Loan Reimbursements		**808**	1,395
Other Revenues and Administrative Expense Financing		**54**	75
Receipts Transferred to Treasury or Other Agencies		**(34)**	(10)
Total Revenues and Financing Sources	**$**	**44,745**	$ 44,025
Expenses			
Program or Operating Expenses	**$**	**39,718**	$ 39,146
Cost of Goods Sold		**153**	159
Depreciation and Amortization		**743**	726
Bad Debts and Write-offs		**894**	506
Interest on Treasury Borrowing		**478**	365
Interest on Dividends on Credit or Deposit		**99**	90
Dividends to Policyholders		**884**	886
Other Expenses and Benefit Administrative Costs		**933**	978
Total Expenses	**$**	**43,902**	$ 42,855
Excess (Shortage) of Revenues and Financing Services over Total Expenses before Extraordinary Items	**$**	**843**	$ 1,170
Extraordinary Items		**12,763**	(39,526)
Excess (Shortage) of Revenues and Financing Sources over Total Expenses		**13,606**	(38,356)
Net Position, Beginning Balance		**(236,922)**	(197,055)
Plus (Minus) Non Operating Changes		**(1,498)**	(1,511)
Net Position (Deficit), Ending Balance	**$**	**(224,814)**	$ (236,922)

Statement of Cash Flows
For the Fiscal Years Ending September 30, 1996 and 1995
(In Millions)

	1996	1995
Cash Provided by Operating Activities		
Sale of Goods and Services	**$ 1,248**	$ 1,155
Interest and Penalties	**1,779**	1,774
Benefit Programs	**209**	228
Insurance and Guarantee Programs	**2,289**	2,696
Other Operating Cash Provided	**22**	116
Total Cash Provided	**5,547**	5,969
Cash Used by Operating Activities		
Personal Services and Benefits	**(11,442)**	(11,296)
Travel and Transportation	**(233)**	(240)
Rent, Communiciations and Utilities	**(725)**	(668)
Printing and Reproduction	**(21)**	(25)
Other Contractual Services	**(2,298)**	(1,981)
Supplies and Materials	**(2,665)**	(2,759)
Insurance Claims and Indemnities	**(19,170)**	(20,275)
Grants, Subsidies and Contributions	**(2,525)**	(2,392)
Interest and Dividends	**(1,154)**	(1,129)
Total Cash Used	**(40,233)**	(40,765)
Net Cash Provided (Used) By Operating Activities	**$ (34,686)**	$ (34,796)
Cash Provided (Used) by Investing Activities		
Sales of Foreclose Property	**$ 589**	$ 925
Purchase of Property, Plant and Equipment	**(2,135)**	(2,986)
Sale of Securities	**2,834**	3,052
Purchase of Securities	**(1,691)**	(1,782)
Collection of Long-Term Loans Receivable	**515**	671
Creation of Long-Term Loans Receivable	**(2,164)**	(2,241)
Net Cash Provided (Used) By Investing Activities	**$ (2,052)**	$ (2,361)
Net Cash Provided (Used) by Financing Activities		
Appropriations (Current Warrant)	**$ 38,149**	$ 36,799
Deduct:		
Withdrawals	**982**	889
Transfers of Cash To (From) Others	**(732)**	(445)
Net Appropriations	**37,899**	36,355
Borrowing from the Treasury	**1,903**	1,642
Repayments on Loans from the Treasury	**(1,703)**	(1,350)
DoD SGLI Collections	**467**	461
DoD GI Bill Treasury Collections	**148**	166
SGLI Transfers to Prudential	**(474)**	(485)
Net Cash Provided (Used) By Financing Activities	**$ 38,240**	$ 36,789
Net Cash Provided (Used) by Operating, Investing and Financing Activities	**$ 1,502**	$ (368)
Fund Balances with Treasury Beginning	**11,641**	12,009
Fund Balances with Treasury, Ending	**$ 13,143**	$ 11,641

Reconciliation of Excess (Shortage) of Revenues and Financing Sources over Total Expenses
For the Fiscal Years Ending September 30, 1996 and 1995
(In Millions)

	1996	1995
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	**$ 843**	$ 1,170
Adjustments to Reconcile Excess (Shortage) of Revenues and Financing Sources Over Total Expenses to Net Cash Provided by Operating Activities:		
Appropriated Capital Used	**(38,253)**	(37,455)
Decrease (Increase) in Accounts Receivable	**(87)**	(156)
Decrease (Increase) in Loans Receivable	**(250)**	185
Decrease (Increase) in Other Assets	**(131)**	(78)
Increase (Decrease) in Accounts Payable	**1,698**	(92)
Increase (Decrease) in Other Liabilities	**341**	864
Depreciation and Amortization	**744**	726
Other Unfunded Expenses	**760**	162
Subsidy Reestimates and Other Adjustments	**(351)**	(122)
Total Adjustments	**(35,529)**	(35,966)
Net Cash Provided (Used) by Operating Activities	**$(34,686)**	$ (34,796)

Statement of Budgetary Resources and Actual Expenses
For the Fiscal Years Ending September 30, 1996 and 1995
(In Millions)

	1996	1995
Total Resources	**$ 67,852**	$ 66,771
Obligations		
Direct	**45,214**	43,884
Reimbursed	**7,800**	7,159
Actual Expenses	**43,902**	42,855
Budget Reconciliation:		
Total Expenses	**$ 43,902**	$ 42,855
Add:		
Capital Acquisitions	**2,693**	2,816
Loans Disbursed	**1,631**	2,241
Other Expended Budget Authority	**604**	(729)
Less:		
Depreciation and Amortization	**743**	730
Unfunded Annual Leave Expense	**73**	41
Bad Debt and Other Unfunded Expenses	**758**	895
Accrued Expenditures	**47,256**	45,517
Less:		
Reimbursements	**7,800**	7,159
Accrued Expenditures, Direct	**$ 39,456**	$ 38,358

NOTES TO FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies

Entity and Basis of Consolidation

In fulfilling its mission to provide veterans with care, support and recognition, the Department of Veterans Affairs (VA) maintains 23 general funds, 23 revolving funds, 8 trust funds, 6 deposit funds, 5 clearing accounts and 1 special fund. The financial activities of these funds have been classified into five lines of business: Medical and Construction, Veterans Benefits, Housing Credit Assistance, Life Insurance, and Administration and Cemeteries. Some of the trust and revolving fund activities for the insurance and housing credit assistance programs are augmented by budget appropriations.

The consolidated financial statements comprise all funds for which VA is responsible on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. They have been prepared from the accounting records of VA in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 94-01 and VA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared by VA pursuant to OMB directives, that are used to monitor and control VA's use of budgetary resources. All significant intra-agency balances and transactions have been eliminated in consolidation.

The VA life insurance programs follow the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 120, "Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts."

The life insurance program's reserves are based on mortality tables and interest assumptions prescribed by Federal statutes and are designed to be sufficient to provide for guaranteed policy benefits.

These footnotes to the financial statements present data by VA's lines of business which varies from the format specified in OMB Bulletin 94-01, "Form and Content of Agency Financial Statements", but contains basically the same level of disclosure.

Recognition of Financing Sources

The current congressional budgetary process under which VA operates does not distinguish between capital and operating expenditures. For budgetary purposes, both are recognized as a use of budgetary resources (outlays) as paid. For financial reporting purposes under accrual accounting, operating expenses are recognized currently, while expenditures for capital and other long-term assets are capitalized and not recognized as expenses until actually used. Financing sources for these expenses, which derive from both current and prior year appropriations and operations, are also recognized this way. The consolidated statement of budget and actual expenses presents a reconciliation of operating expenses on an accrual basis with budgetary expenditures.

For certain accrued expenses (e.g., annual leave earned but not taken, future period veterans compensation and pension benefits, and insurance premiums for disabled veterans funded by appropriations), current or prior year appropriations are not available to fund the expenses; however, such expenses are customarily financed (funds appropriated) in the year payment is required. An amount due from future financing sources is therefore recognized in operations each year for that year's accrued amount of such expenses. The cumulative amount of these accruals is reflected in the Consolidated Statement of Financial Position as a reduction of total net position. These statements are for a Department of the U.S. Government - a sovereign Entity. The unfunded liabilities reported in these financial statements, which are dependent on federal financing, cannot be liquidated without the enactment of an appropriation law. Statement users must realize that the payment of all liabilities other than for contracts can be abrogated by the sovereign Entity.

Operating Revenue and Other Financing Sources Recognition

Interest income, which is earned primarily from the investments of VA's life insurance program, is recognized on the accrual basis. Insurance premiums are recognized as revenue when due. Loan origination fees are recognized as revenues at the time of the guaranty.

VA life insurance programs receive the majority of the funding needed to support the programs from premiums paid by policyholders and interest earned on U.S. Government securities. Appropriated funds are required to meet the operating deficits of the Service Disabled Veterans Insurance (SDVI) and Veterans Insurance and Indemnity (VI&I) programs. Appropriations are recognized as revenues at the time they are received to fund the operating deficits and claims. Other revenues are recognized when earned.

Cash with Department of the Treasury and On Hand

VA does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the Department of the Treasury. The balance in the Treasury represents the right to draw on the Treasury for allowable expenditures. Cash advanced to imprest fund cashiers totaled $5.8 million at September 30, 1996 and $10.2 million at September 30, 1995.

Commitments

VA has obligations remaining at the end of each year for goods and services which have been ordered but not yet received (undelivered orders). Aggregate undelivered orders amounted to $2.3 billion at September 30, 1996 and $2.3 billion at September 30, 1995. Of these amounts $800 million in FY 1996 and $949 million in FY 1995 were related to construction projects of both long and short-term duration. The remainder were mainly comprised of obligations for medical supplies and equipment that were incurred by VA in normal mission fulfillment.

Obligations Related to Canceled Appropriations

The amount of unobligated authority and obligated authority related to appropriations canceled on September 30, 1996 was $78.3 million and on September 30, 1995 was $61.8 million. Any payments that may arise related to canceled appropriations will be paid out of the current year appropriations in accordance with the provisions of the Expired Fund Control Act of 1990.

Property and Equipment

The majority of the reported property represents facilities and equipment used to provide medical care to veterans. Property and equipment, including transfers from other Federal agencies, are valued at cost. Expenditures for major additions, replacements, and alterations are capitalized. Routine maintenance is recognized as an expense when incurred. Costs of construction are capitalized as Construction in Progress until completed and then transferred to the appropriate property account. Buildings are depreciated using the straight line method over estimated useful lives ranging from 25 to 40 years. Equipment is depreciated using the straight line method over useful lives, which, for most equipment, range from 5 to 20 years.

Insurance Program Loans Receivable

Policyholders with permanent plan coverage may borrow up to 94 percent of the cash value of their policies. Loans are accounted for as receivables after funds have been disbursed. Policyholder loans are not subject to the Federal Credit Reform Act.

Insurance Interest Payable

Interest payable is interest earned on dividends left on deposit which is paid annually to insurance policyholders on their policy anniversary dates.

Investments in U.S. Government Securities

Investments in U.S. Government securities are reported at cost, since they are redeemable at any time for their original cost.

Accrued Compensation and Pension Benefits

Compensation and pension benefits are accrued when veterans have satisfied VA's eligibility criteria. This accrual pertains only to benefits due and payable in a particular fiscal year.

Unfunded Expenses

Unfunded expenses include accrued program expenses customarily financed by appropriations. The cumulative amount of these expenses for which appropriations have not been enacted is classified as an unfunded liability.

Future Liability for Veterans Compensation and Pension

These unfunded liabilities represent the future liability for veterans' disability compensation and pension benefits as required by OMB Bulletin 94-01. The bulletin requires recognition of an actuarial liability for veterans' benefits once eligibility is determined.

Losses on Guaranteed Loans

Upon foreclosure of a guaranteed loan, VA may be required to pay the maximum claim, acquire the property, or acquire the property and pay less than the maximum claim pursuant to criteria established in 38 U.S.C. 3732. Thus, when VA acquires the property, the cost is comprised of the claimed amount paid the lender less net proceeds from the sale of the property. VA incurs an additional cost for direct home (vendee) loans, issued upon the sale of foreclosed properties that subsequently default.

Estimated losses on anticipated defaults of guaranteed loans are recorded as expenses when the loans are guaranteed. A liability provision is simultaneously established representing the estimated cost of defaults for those guaranteed loans which experience indicates probable future default. A portion of this provision is subsequently reclassified as a reduction to: (1) direct home loans receivable when such loans are issued (see Note 8); (2) foreclosed property held for sale when property is acquired, in order to record such property at its net realizable value and; (3) investments in subordinate securities to reflect the estimated loss of principal for the securities due to their subservient position. The remainder of the provision for loan losses is classified as a liability for future loan losses.

Annual, Sick, and Other Types of Leave

Annual leave is accrued when earned and the accrual is reduced when leave is used. At least once a year, the balance in the accrued annual leave account is adjusted to reflect current pay rates of cumulative annual leave earned but not taken. The amount of unfunded annual leave accrued as of September 30, 1996 was $856 million and $783 million as of September 30, 1995. A corresponding amount has been established in the future funding requirements for each year. Sick and other types of leave are expensed as taken.

Policy Dividends

The Secretary of Veterans Affairs determines annually the excess funds available for dividend payment. Dividends payable 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 may elect cash payment, prepay premiums, repay loans, purchase paid-up insurance, or deposit in an interest-bearing account. A provision for dividends is charged to operations and an insurance dividend payable is established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs. Dividends payable shown in the Statement of Financial Position represents dividends expected to be paid during the subsequent fiscal year. It also includes an estimate of the amount of dividends due and unpaid at fiscal year end. Dividends shown in the Statement of Cash Flows represent the amount of dividends paid in the last twelve months. During FY 1996 total dividends paid for all insurance programs was $915 million and $932 million in 1995.

Insurance Program Liabilities

Most insurance liabilities are actuarially determined reserves representing the present value of future benefits less the present value of future premiums. Insurance reserve liabilities are based on mortality tables and interest assumptions prescribed by Federal statutes and are designed to be sufficient to provide for guaranteed policy benefits. Such liabilities are determined as the present value of future benefits less the present value of future revenues.

Insurance program liabilities are recorded for unpaid claims in process, for experience-based estimates of claims incurred but not reported, and for incurred death and permanent disability installment claims. These liabilities are included in Accounts Payable.

Liabilities for the SDVI and VI&I programs for which an appropriation has not been enacted are classified as unfunded liabilities.

Dividends Left on Deposit

Dividends are held on credit and deposit, with interest. The liability for dividends left on deposit was $1.2 billion as of September 30, 1996, and $1.1 billion at September 30, 1995.

Trust Fund Balances

Trust fund balances consist of the Post-Vietnam Educational Assistance Trust Fund, National Service Life Insurance (NSLI) Fund, United States Government Life Insurance (USGLI) Fund, Veterans Special Life Insurance (VSLI) Fund, General Post Fund, National Cemetery Gift Fund, Transitional Housing Loan Program Account and the Transitional Housing Loan Financing Account. These funds are accounted for separately and their use is restricted.

Workers Compensation

Legal actions brought by VA employees for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the Department of Labor (DOL). DOL bills each Agency annually as its claims are paid; however, payment on these bills is deferred two years to allow for funding through the budget process. Using actuarial estimates provided by DOL, VA has recorded FECA liabilities for balances billed to VA and for estimates of the present value, using discounts rates ranging from 5.1% to 6.2% for September 30, 1996 and from 6.6% to 7.1% for September 30, 1995 of the long-term payments related to cases on hand at the end of the fiscal year. The amount of unfunded FECA liability accrued was $1.7 billion at September 30, 1996 and $1.5 billion at September 30, 1995. A "mirror" amount has been established in the future funding requirements of each year.

Statement of Budget and Actual Expenses

This statement presents key balances extracted from the Report on Budget Execution (SF-133) submitted to OMB, specifically the Total Resources available to fund Direct and Reimbursed Obligations, and Accrued Expenditures. Total Resources equals new budget authority, available unobligated balances and reimbursements. Accrued Expenditures are charges against appropriations and other financial resources. The reconciliation of "Total Expenses" shows adjustments from the accrual-based Statement of Operations to the obligations-based Accrued Expenditures.

Note 2 - Intragovernmental Financial Activities

Department of Treasury Financing

VA's financial activities interact with and are dependent upon those of the Federal Government as a whole. Thus, VA's financial statements do not reflect the results of all financial decisions and activities applicable to VA as if VA were a stand-alone entity.

VA's consolidated financial statements are not intended to report the Department's proportionate share of the Federal deficit or public borrowing including interest thereon. Financing for budget appropriations reported on VA's statement of operations could be derived from tax revenues or public borrowing, or both; the ultimate source of this financing, whether it be tax revenues or public borrowing, has not been specifically allocated to VA. Financing for major and minor construction projects was obtained through budget appropriations. To the extent that this financing was derived from public borrowing, no interest has been capitalized because such borrowings are recorded in total by the Department of the Treasury and are not allocated to individual Departments and agencies.

Veterans Life Insurance Activities

The accompanying financial statements reflect the financial decisions and activities directly related to the Life Insurance programs of the Veterans Benefits Administration, Department of Veterans Affairs. Day-to-day operations of the programs are impacted by both VA and other Federal agencies. Specifically, the SDVI, VI&I and Veterans Mortgage Life Insurance (VMLI) programs receive appropriations to meet their operating deficits. The National Service Life Insurance (NSLI) and United States Government Life Insurance (USGLI) programs receive appropriations to fund claims traceable to the extra hazards of military service. The NSLI, USGLI, SDVI, Veterans Special Life Insurance (VSLI) and Veterans Reopened Insurance (VRI) programs receive appropriations to fund the cost of overpayments waived.

The Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI) programs are administered by VA through a group policy with the Prudential Life Insurance Company of America. Premiums are set by mutual agreement of VA and Prudential. SGLI premiums for Active Duty service personnel, ready Reservists, and Reservists with part-time coverage are deducted from their pay and remitted by each uniformed service to VA, which in turn remits them to Prudential. Veterans insured under VGLI and insured retired Reservists send their premiums directly to Prudential.

VA also monitors Prudential reserve balances to determine their adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. Amounts withdrawn are held in the SGLI revolving fund and are invested in U.S. Treasury Department securities. VA can use the SGLI revolving fund assets to stabilize and to augment participant premiums.

VA cash balances are maintained by the Treasury Department, and Life Insurance programs' receipts and disbursements are processed by the Federal Reserve System and Treasury. As required by Title 38, the Life Insurance programs invest in U.S. Treasury Securities.

The facilities occupied by the Life Insurance program offices in Philadelphia, St. Paul and at VA Central Office are owned and maintained by the General Services Administration.

Employee Retirement Systems and Benefits

During FY 1996, nearly 96,000 VA employees continued to participate in the contributory Civil Service Retirement System (CSRS) to which VA makes matching contributions. However, VA does not report CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees because this data in total is reported only by the Office of Personnel Management.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS, while employees hired prior to January 1, 1984, may elect to either join FERS or remain in CSRS. One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which VA will automatically contribute one percent of base pay as well as match employee contributions up to an additional four percent of basic pay. During FY 1996, over 153,000 VA employees participated in FERS.

Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA) for which VA contributes a matching amount to the Social Security Administration. VA's total contributions for CSRS and FERS participants, including contributions to the Social Security Administration, during FY 1996 and 1995 are shown below:

VA Contributions	FY 1996	FY 1995
CSRS	$ 269,913,168	$ 269,633,684
FERS	718,868,388	660,554,172
FICA	443,543,234	426,985,621
Total	$1,432,324,790	$1,357,173,477

While VA has no liability for future payments to employees under these programs, the Federal Government is liable for future payments to employees through the various agencies administering the programs.

VA does not fund post-retirement benefits such as the Federal Employees Health Benefit (FEHB) Program and the Federal Employees Group Life Insurance (FEGLI) Program. VA also is not required to fully fund the CSRS pension liability. VA is required to recognize an expense for the future cost of these benefits and pensions while its employees are still working. This expense was $769 million for FY 1996 and $820 million for FY 1995 as shown below:

VA Expense	FY 1996	FY 1995
CSRS	$384,890,867	$421,078,984
FERS	383,119,914	397,170,756
FICA	1,449,431	1,423,831
Total	$769,460,212	$819,673,571

Medical Care Cost Recovery Program

Beginning in Fiscal Year 1992, a separate fund was activated at the Treasury Department to track the cost recovery of medical care furnished to insured veterans who have no service connected disabilities. The fund provides a method for recording collection of funds owed to VA while also showing the costs for recovery of those funds. Under the Medical Care Cost Recovery program VA is authorized to retain enough of the recovered monies to fund expenses incurred in the collection activities nationwide. Collections in excess of program costs are to be transferred to the Treasury's general fund in the early part of each succeeding fiscal year. The

MCCR collections transferred to Treasury amounted to $421,162,309 and $435,449,477 for FY 1996 and FY 1995 respectively. The transfers to Treasury's general fund were accomplished in December 1996, and February 1996, respectively.

Judgment Fund

Certain legal matters to which VA may be a named party are administered and, in some instances, litigated and paid by other Federal agencies. These primarily relate to allegations of medical malpractice but also include other tort claims and contract disputes. Generally, amounts (more than $2,500 for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award pertaining to these litigations are funded from a special appropriation called the Judgment Fund, which is maintained on deposit with the Department of the Treasury. Since VA, except for contract dispute payments, is not required to reimburse the Judgment Fund for payments made on VA's behalf, the amount of payments from the fund for VA are not reflected in VA's statements. Amounts paid from the Judgment Fund on behalf of VA were $51 million and $57 million in FY 1996 and FY 1995, respectively. Of the amounts paid from the Judgment Fund, the malpractice cases claim an average of 80% of the total funds for the two years quoted: 85% - FY 1996, 77% - FY 1995. Amounts requiring reimbursements to the Judgment Fund by VA for contract dispute payments were $2.1 million and $8.5 million in FY 1996 and FY 1995, respectively.

Note 3 - Restatement of Fiscal Year 1995 Statements and Changes in Accounting Practices

Transfer of MCCR Collections to Treasury

The Statement of Cash Flows has been restated for a change in the classification of the transfer of funds from the Medical Care Cost Recovery Program to Treasury. This transfer previously had been reported as a Transfer of Cash in the Financing section of the Statement. It is now being treated as a transfer from MCCR to the general fund receipt account "Charges for VA Medical Services" with a subsequent withdrawal of funds by Treasury. This change results in an increase in the Withdrawal line and a decrease in the Transfer of Cash line of $420 million for FY 1995.

Expense for Pensions and Retirement Benefits

Under SFFAS-5, VA is now required to recognize an expense and imputed financing for the portion of CSRS pensions, retirement health benefits and life insurance that are funded by OPM. A line has been added to the Statement of Operations to recognize the amount of imputed financing. The expense is recognized in the Other Expenses line. The recognition of this expense on the FY 1995 Statement of Operations resulted in an increase in financing sources and expenses of $820 million.

Housing Credit Assistance Program

The Statement of Financial Position for FY 1995 has been restated to include related foreclosed property of $680 million as a component of credit program receivables per OMB Bulletin 94-01. The Statement of Operations and Changes in Net Position (Deficit) for FY 1995 has been restated resulting in a $21 million net decrease in both revenues and expenses. Based on Credit

Reform requirements, all interfund transactions were eliminated in the Financing Accounts which resulted in Interest and Penalties and Other Revenues being reduced by $30 million, Program Expenses being reduced by $198 million and Interest on Treasury Borrowing being increase by $168 million. In addition, Other Retirement Benefits (Pension) were included as part of Administrative Expenses resulting in an increase of $9 million in both Other Revenues and Other Expenses. Furthermore, the Statement of Cash Flows for FY 1995 has been restated to reclassify $197 million of cash used for interest expense from the Insurance Claims and Indemnities line to the Interest and Dividends line.

Veterans Life Insurance

The valuation basis for the reserves held to provide for total disability income payments was revised for the participating VA life insurance programs for FY 1996. This was done in order to comply with FASB Statement No. 60, "Accounting and Reporting by Insurance Enterprises", which requires that realistic assumptions, subject to a provision for adverse deviation, be used in determining the liability for future benefits. As a result, the valuation interest rate for each of these reserves was increased to five percent. This change in accounting practice was adopted in FY 96 and therefore the FY 95 financial statements were not restated.

Note 4 - Veterans Benefit Programs

Veterans or their dependents receive compensation benefits if the veteran was disabled or died from military service-connected causes. War veterans or their dependents receive pension benefits, based on annual eligibility reviews, if the veteran was disabled or died from non-service-connected causes. Certain pension benefits are subject to specific income limitations. VA has a future liability for benefits expected to be paid in future fiscal years to veterans and, if applicable, their survivors who have met or are expected to meet defined eligibility criteria. The future liability of the Compensation and Pension Programs (C&P) is not currently funded, nor is there any intent to do so. Rather, payments for benefits that become due in a particular year are financed from that year's appropriation, in effect, on a pay-as-you-go basis. Payments of the future liability as it becomes due rely on Congressional authorization of future tax revenues or other methods, such as public borrowing, for their financing.

The actuarial present value of the future liability for C&P benefits as determined by VA at September 30, 1996, and September 30, 1995, is as follows (in thousands):

	FY 1996	FY 1995
Compensation		
Veterans	$166,957,248	$173,303,327
Survivors	40,557,990	44,418,286
Subtotal	$207,515,238	$217,721,613
Pension & Burial Benefits		
Veterans	$ 22,930,025	$ 24,247,359
Survivors	6,464,884	7,007,561
Burial	3,043,987	3,740,629
Subtotal	$ 32,438,896	$ 34,995,549
Total	$ 239,954,134	$ 252,717,162

The future liability for C&P benefits is recorded as an unfunded liability on the Statement of Financial Position in accordance with OMB Bulletin 94-01.

The changes in the actuarial present value of the future liability for C&P benefits from September 30, 1995, to September 30, 1996, are as follows (in thousands):

	Compensation	Pension	Total
Actuarial Present Value as of September 30, 1995	$217,721,613	$ 34,995,549	$252,717,162
Increase (Decrease) in the year attribute to:			
Benefits accumulated	16,811,633	2,338,351	19,149,984
Benefits paid	(15,458,221)	(3,203,607)	(18,661,828)
Discount rate changes	(11,559,787)	(1,691,397)	(13,251,184)
Net Decrease	(10,206,375)	(2,556,653)	(12,763,028)
Acturial Present Value as of September 30, 1996	$207,515,238	$ 32,438,896	$239,954,134

The net decrease in the actuarial present value of the future liability for C&P benefits from 1995 to 1996 is recognized in the Statement of Operations and Changes in Net Position (Deficit). Gains and losses resulting from actual results are reflected in the benefits accumulated portion of the net change of the future liability.

The future liability for C&P benefits by period of service for the year ended September 30, 1996, using fiscal year 1996 and 1995 discount rates, and for the year ended September 30, 1995, using fiscal year 1995 discount rates, are as follows (in thousands):

	9/30/96 Using FY 96 Discount Rates	9/30/96 Using FY 95 Discount Rates	9/30/95 Using FY 95 Discount Rates
World War I	$ 362,821	$ 367,506	$ 428,537
World War I	43,545,591	44,790,735	47,781,599
Korean Conflict	23,323,755	24,237,019	25,567,660
Vietnam Era	102,402,173	108,417,044	106,782,628
Persian Gulf	14,440,692	15,654,578	12,434,250
Peacetime	52,816,999	56,283,827	55,961,197
All other Wars	18,116	18,516	20,662
Subtotal	236,910,147	249,769,225	248,976,533
Burial	3,043,987	3,436,094	3,740,629
Total	$239,954,134	$253,205,319	$252,717,162

Actuarial Assumptions

The significant actuarial assumptions used in the September 30, 1996, and 1995, valuations of compensation and pension benefits were:

A. To calculate the present value of the liability, future cash flows were discounted in perpetuity. A liability was recognized for veterans and survivors on the payment rolls at the end of each fiscal year. Discount rates were based on rates on securities issued by the Treasury on September 30, 1996, ranging from 5.71% to 7.05%, and on October 1, 1995, ranging from 5.69% to 6.57%. Cash flows were assumed to occur at the midpoint of the fiscal year.

B. All calculations were done by program and by period of service. The calculation for pension benefits was performed separately for each law: Old Law, Sec. 306, and P.L. 95-588. Burial data was not available by period of service, therefore, burial liabilities have been calculated on an overall basis.

C. Dollars by category, and by age, were used in the liability for C&P benefits. Therefore, ratios, trends in caseloads, and mortality tables, were used to allocate dollars in these areas.

D. Life expectancy of veterans is based upon studies by VA actuaries in relation to the Service Disabled Veterans Insurance (SDVI) Fund adjusted to 1991 and supplemented by adjusted 1991 U.S. Life mortality for males in early years. The life expectancies for elderly males were determined using the 1994 Uninsured Pensioners mortality table. These rates were brought forward to the present by applying mortality improvements at a rate of 1% per annum. The SDVI study contains mortality information for ages 41 through 75 inclusive.

E. Cost of living adjustments (COLAs) were applied to determine the average benefits per veteran, for each future time period. COLAs of 3.4% and 3.1% were assumed for fiscal years 1996 and 1997, respectively. For fiscal years after 1996, COLAs were determined from the Congressional Budget Office's inflation rate projection and range from 2.9% to 3.1% over the 30 year period. COLAs were applied to all compensation benefits and only to P.L. 95-588 pension benefits.

Vocational Rehabilitation Revolving Fund

The Federal Credit Reform Act of 1990, included the Vocational Rehabilitation Revolving Fund in Credit Reform. This fund provides cash advances based on entitled future benefits (non interest bearing loans) to veterans for purchasing educational equipment and supplies while attending an approved training program. The advances are recovered through benefit deductions over a period of four to six months.

As of the end of FY 1996, $1,722,537, had been advanced and $894,591 or 51.9% had been collected. The number of loans issued were 3,888, an average of $443, for each loan.

As of the end of FY 1995, $1,963,829 had been advanced. The number of loans issued were 4,426, an average of $444, for each loan. As of the end of FY 1996, for loans issued during FY 1995, $1,958,070 or 99.7% had been collected.

This fund has historically been financially sound because most of the advances are recovered directly from C&P benefits.

Education Loan Fund

The Federal Credit Reform Act of 1990 has placed the Education Loan Fund in Credit Reform. The main function of this fund is to record collections of loans issued prior to Credit Reform. The Education Loan Fund disbursed loans to veterans attending an approved educational program. There have been no loans disbursed from FY 1990 to FY 1996.

Administrative Expenses

The total cost to administer all benefit programs of the VA was $653 million and $626 million in FY 1996 and FY 1995 respectively. The majority of the cost represents an allocation from the General Operating Expenses (GOE) appropriation for the Veterans Benefits Administration. The cost components are summarized in the following table for Fiscal Years 1996 and 1995.

Administrative Expense	(In Dollars)	(In Dollars)
Allocated from GOE:		
Total Direct Cost	$341,410,950	$336,656,379
Indirect Program Costs	$273,789,349	$ 275,489,360
Accrued Annual Leave	2,434,064	3,127,683
FECA	1,802,563	(24,474,567)
Other Retirement Benefits	33,551,215	36,391,496
Total Indirect Allocation	311,577,191	290,533,972
Total Administrative Costs	$652,988,141	$ 627,190,351
Reimbursed to GOE (by Program)		
C&P	$ 15,659,421	$ 14,862,042
Vocational Rehabilitation	372,400	737,000
Education Loan	193,300	193,000
SMOTCA*		466,000
Other	641,995	7,036,380
Total Paid	16,867,116	23,294,422
Net Cost absorbed by GOE	$ 636,121,025	$603,895,929

* SMOTCA (Service Members Occupational Conversion & Training Act).
This program has been phased out in accordance with Public Law 103-315.

Note 5 - Housing Credit Assistance Program - Cost of Guaranteed Loan Defaults

Activities under VA's Housing Credit Assistance Program primarily involve the partial guaranty of residential mortgage loans issued to eligible veterans by private lenders. In addition, VA originates direct loans to veterans, sells foreclosed property on credit terms (vendee loans) and monitors foreclosure settlements for ultimate claims reimbursement to VA.

Residential loans guaranteed by VA are originated by private lenders and are not recorded in the financial statements of VA. The face value of loans which VA has guaranteed was $189 billion as of September 30, 1996. The guaranty, in effect, transfers some or all of the risk of default from the lender to VA. At the time of default, VA has the option to either pay the guarantee amount or pay a reduced amount and acquire the property from the lender. In FY 1996, VA held foreclosed properties for an estimated average of 8 months. There were 15,038 properties for which foreclosure proceedings were in process as of September 30, 1996.

Vendee and Direct Loans

The total amount of vendee loans and direct loans established during fiscal years 1996 and 1995, (dollars in thousands) are:

	FY 1996	FY 1995
Vendee Loans	$1,336,446	$1,503,298
Direct Loans	6,245	6,001
	$1,342,691	$1,509,299

Credit Program Loans Receivable

Credit program loans receivable represents the net value of assets related to pre-1992 and post-1991 direct loans and acquired defaulted guaranteed loans. Those assets are comprised of loans receivable, interest receivable and related foreclosed property. They are offset by an allowance for estimated uncollectible loans and interest or an allowance for subsidy cost. The components of direct loan obligations and loan guarantee commitments made prior to 1992 and after 1991 are as follows (dollars in thousands):

	As of September 30, 1996		As of September 30, 1995	
Pre-1992	Direct Loans	Guaranteed Loans	Direct Loans	Guaranteed Loans
Loans/Interest Receivable, Gross	$432,887	$1,207,983	$533,623	$1,378,725
Allowance for Losses	(18,229)	(1,159,408)	(25,506)	(1,320,019)
Loans/Interest Receivable, Net	$414,658	$ 48,575	$508,117	58,706
Foreclosed Property	80,854	284,308	102,756	341,640
Value of Assets Related to Loans	$495,512	$ 332,883	$610,873	$ 400,346

Post-1991	As of September 30, 1996 Direct Loans	As of September 30, 1996 Guaranteed Loans	As of September 30, 1995 Direct Loans	As of September 30, 1995 Guaranteed Loans
Loans Receivable, Gross	$737,213	$ 60,819	$639,225	$ 36,540
Foreclosed Property	58,381	415,335	42,697	193,567
Allowance for Subsidy (PV)	(19,556)		(92,544)	
Present Value of Assets to Loans	$776,038	$ 476,154	$589,378	$ 230,107
Total Credit Loans Receivable, Net		$2,080,587		$1,830,704

Liability for Loan Guarantee Programs

The liability for FY 1996 loan guarantees represents the present value of the estimated net cash flows to be paid by VA as a result of the guarantee. The following is the liability for the pre-1992 and post-1991 loan guarantees (dollars in thousands):

As of September 30, 1996

Financing/Liquidating Account	Liabilities for Losses on Pre-1992 Guarantees	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities for Loan Guarantees
Loan Guaranty	$292,626	$ 658	$ 293,284
Guaranty and Indemnity		4,219,892	4,219,892
	$292,626	$4,220,550	$4,513,176

As of September 30, 1995

Financing/Liquidating Account	Liabilities for Losses on Pre-1992 Guarantees	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities for Loan Guarantees
Loan Guaranty	$746,992	$ 558	$ 747,550
Guaranty and Indemnity		3,657,931	3,657,931
	$746,992	$3,658,489	$4,405,481

Subsidy Expense

Pursuant to the Credit Reform Act, all direct loans established and guaranteed loans closed after September 30, 1991, will be subsidized. The subsidy expenses for FY 1996 direct loans were based on a direct loan level of $1.4 billion. The subsidy expenses for FY 1996 guaranteed loans were based on guarantees with a face value of $28.7 billion. The subsidy expense for direct loans and loan guarantees is as follows (dollars in thousands):

	Interest Differ./ Supp.	Current Year Defaults*	Fees	Prior Years Re-estimates	Total Subsidy Expense
Direct loans	$ (196,849)	$ 278,392	$ (51,639)	$ (49,043)	$(19,139)
Loan Guarantees		984,203	(536,812)	(334,282)	113,109
Total	$ (196,849)	$1,262,595	$ (588,451)	$(383,325)	$ 93,970

**Includes estimated losses on loan sales and defaults.*

Provision for Losses

One element of the cost of the mortgage loan benefit that VA provides to veterans is the present value of the future outlays VA will incur as loans already guaranteed default in the future. This cost is reflected in the financial statements as a reserve for future losses on guaranteed loans (commitments made prior to October 1, 1991) and as an offset to the value of certain related assets. The unfunded portion of this liability is also reported in the Consolidated Statement of Financial Position as an amount due from Future Financing Sources.

The provision for losses on guaranteed loans is based upon historical loan foreclosure results applied to the average loss on defaulted loans. The provision calculation is also based on the use of the average interest rate of the U.S. interest-bearing debt as a discount rate on the assumption that VA's outstanding guaranteed loans will default over a twelve-year period. The discount rate used in the calculation was 7.0 percent for FY 1996 and 7.1 percent for FY 1995. The components of the provision are as follows (dollars in thousand):

	As of September 30, 1996	1995
Offsets against loans receivable	$ 18,229	$ 25,506
Offsets against foreclosed property held for sale	14,685	26,622
Offset against investments	36,964	42,636
Reserve for future losses on Guaranteed Loans	292,626	746,992
Total	$362,504	$841,756

Impact of Provision on Future Appropriations

The projected cost of guaranteed loan defaults (for loans closed prior to September 30, 1991) will not necessarily reflect VA's future appropriation requests over the next 12 years, because those requests will also include anticipated inflows and outflows of resources for non operating use such as for transfers, purchase and sale of properties, and issuance and repayment of loans, and sale of loans. To the extent that revolving fund revenues are not sufficient to fund future costs, financing will have to be obtained from future appropriations, or other congressionally approved sources.

Loan Sales

The Department of Veterans Affairs continues to have vendee loan sales to meet the budget commitments of the Loan Guaranty Program. VA completed three sales during both fiscal years 1996 and 1995 totaling approximately $1.3 billion each of vendee loans to Vendee Mortgage Trust. The components of the vendee sales are summarized in the table below (dollars in thousands):

	FY 1996	FY 1995
Loans Receivable sold	$1,262,971	$1,351,725
Proceeds from sale*	1,233,932	1,347,004
Loss (Gain) on receivables	$ 29,039	$ 4,721

** Information presented does not reflect the transaction expenses incurred to sell the loans.*

Offset For Losses on Investments

As of September 30, 1996, an allowance was recorded to reflect an estimated loss of principal as a result of the subordinated position in American Housing Trust I-V certificates. The estimated allowance computation was based upon historical loan defaults. The net investment balances are as follows (dollars in thousands):

American Housing Trust I-V	September 30, 1996	September 30, 1995
Investment in subordinated certificates of securities at time of sale	$423,704	$449,231
Cumulative reductions	(133,907)	(133,907)
Subtotal	$289,797	$315,324
Allocation of loss provision	(36,964)	(42,636)
Net Investment	$252,833	$272,688

These subordinated certificates have been pledged as collateral to support recourse loans made under American Housing Trust VI through XI and the “Vinnie Mac” program. Although the VA no longer has legal title to these subordinated securities, the Department has a contingent interest in any residual income that these certificates earn. The income earned on these certificates covers the amount of the realized losses for American Housing Trust VI through XI and the”Vinnie Mac” program and any residual income reverts to VA.

Contingent Liability

As the VA continues to sell vendee loans, the Department has an increasingly large potential liability related to sales amounts which it has guaranteed. VA’s actual liability is expected to be much less than the sales amount. Historically, the loss rate on portfolio loans has been about 4 percent.

Guarantee Commitments

As of September 30, 1996, VA had outstanding commitments to guarantee loans which will originate in FY 1997. The number 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.

Administrative Expense

The total cost to administer the housing programs of VA was $154 million and $155 million in FY 1996 and FY 1995, respectively. The cost represents an allocation from the General Operating Expenses (GOE) appropriation for the Veterans Benefits Administration and is summarized in the following table.

HOUSING CREDIT ADMINISTRATIVE EXPENSES	1996 (In Dollars)	1995 (In Dollars)
Allowed from GOE:		
Total Direct Cost	$ 80,547,580	$ 83,296,740
Indirect Program Costs	64,615,566	68,162,575
Accrued Annual Leave	574,451	773,863
FECA	425,413	(6,055,586)
Other Retirement Benefits	7,918,244	8,586,252
Total Indirect Allocation	73,533,674	71,467,104
Total Administrative Costs	$154,108,254	$154,763,844
Reimbursed to GOE (by Program)		
Direct Loan Program	$ 459,000	$ 1,020,000
Native American Program	205,000	218,000
Loan Guaranty Program	52,138,000	59,371,000
Guaranty & Indemnity Program	65,226,000	65,226,000
Total Paid	118,028,000	125,835,000
Net Cost absorbed by GOE	$ 36,080,254	$ 28,928,844

Note 6 - Insurance Programs

VA directly administers six life insurance programs for veterans:

United States Government Life Insurance (USGLI), established in 1919 to handle new issues and the conversion of World War I War Risk Term Insurance;

National Service Life Insurance (NSLI), established in 1940 to meet the needs of World War II service personnel;

Veterans Special Life Insurance (VSLI), established in 1951 for Korean veterans who did not have service-connected disabilities;

Service-Disabled Veterans Insurance (SDVI), established in 1951 for veterans with service-connected disabilities;

Veterans Reopened Insurance (VRI), a one-year reopening in 1965 of National Service Life Insurance for certain disabled World War II and Korean Veterans

Veterans Mortgage Life Insurance (VMLI), established in 1971 to provide insurance to veterans who have received Specially-Adapted Housing grants; and

VA also supervises the administration of the Servicemen's Group Life Insurance (SGLI) program. SGLI is directly administered by the Prudential Insurance Company of America. This coverage is provided to active members of the Military Services, to cadets attending service academies, and to active members of the Armed Forces Reserves, National Guard and ROTC.

Policy Loans

Policyholders in the life insurance programs with permanent plan coverage may borrow up to 94 percent of the cash value of their policies. In the past, all policy loans carried fixed interest rates. However, policy loans issued after November 2, 1987, have a variable interest rate with a minimum of 5% and a maximum of 12%, depending on U.S. Treasury security rates. The interest rates during fiscal years 1996 and 1995 were 6% and 5%, respectively. Policy loans do not have a fixed repayment schedule; as long as the policy loan does not exceed the reserve value of the policy, the policyholder may repay the loan at their discretion. On an annual basis, any unpaid interest becomes part of the loan principal and bears interest in the same manner.

Administrative Cost

The total administrative cost allocated to VA life insurance programs was $45,017,000 in FY 1996 and $35,856,000 in FY 1995. The SGLI and VRI programs are charged for their administrative costs, which amounted to $1,589,000 in FY 1996 and $1,641,000 in FY 1995. Congressional action authorized the payment of $32,000,000 in administrative expenses for FY 1996 out of excess earnings in the NSLI, VSLI and USGLI funds. The remaining administrative cost of $11,428,000 in FY 1996 and $34,215,000 in FY 1995 was borne by the General Operating Expense Appropriation and the Office of Personnel Management.

The total FY 1995 administrative cost allocated to the Insurance Programs was restated to recognize an expense and imputed financing of $2,358,000 for the portion of CSRS pensions, retirement health benefits and life insurance that are funded by OPM.

Insurance Reserve Balances as of September 30, 1996
(dollars in thousands)

Insurance Programs	Death Benefits	Death Benefits Annuities	Disability Income & Waiver of Premium	Other	Reserve Total
NSLI	$10,124,130	$252,681	$494,387	$71,977	$10,943,175
USGLI	66,932	12,103	543	140	79,718
VSLI	1,277,666	11,112	83,105	2,432	1,374,315
SDVI	312,400	1,488	202,120	612	516,620
VRI	455,722	2,306	16,997	1,299	476,324
VI&I	96,800	216	1,364		98,380
Total	$12,333,650	$279,906	$798,516	$76,460	$13,488,532
			Less Unfunded Reserves*		(555,638)
					$12,932,894

Insurance Reserve Balances as of September 30, 1995
(Dollars in thousands)

Insurance Program	Death Benefits	Death Benefits Annuities	Disability Income & Waiver of Premium	Other	Reserve Total
NSLI	$10,042,119	$272,034	$595,179	$78,994	$10,988,326
USGLI	72,929	13,638	720	150	87,437
VSLI	1,246,488	10,415	100,618	2,336	1,359,857
SDVI	312,858	1,495	197,907	597	512,857
VRI	455,468	2,426	19,301	7,481	484,676
VI&I	94,890	238	1,437		96,565
Total	$12,224,752	$300,246	$915,162	$89,558	$13,529,718
				Less Unfunded Reserves*	(557,956)
					$12,971,762

*SDVI and VI&I reserves include future policy benefits which are classified as Unfunded Liabilities in the accompanying statement of financial position. Actuarial reserve liabilities for VA life insurance programs are based on mortality and interest assumptions at time of issue. These assumptions vary by fund, type of policy type of benefit. The interest assumptions range from 2.25% to 5.00%. The mortality assumptions include the American Experience Table, the 1941 CSO Table, the 1958 CSO Basic Table and the 1980 Basic Table.

Note 7 - Investments

Insurance program investments, which comprise most of VA's investments, are in non-marketable U.S. Treasury special bonds and certificates. Interest rates for Treasury special securities are based on average market yields for Treasury issues. The special bonds, which mature during various years through the year 2011, are generally held to maturity unless needed to finance insurance claims and dividends. The certificates are short-term in nature and are either redeemed or replaced at maturity, depending upon the cash needs of the insurance program.

Other VA programs investments are in securities issued by the Department of the Treasury with the exception of the Housing Credit Assistance Program investments which are in trust certificates that were issued by the American Housing Trust, a private entity not associated in any way with the Government.

Investment Securities as of September 30, 1996
(Dollars in thousands)

Security	Interest Range	Insurance Programs	Other Programs	Total
Special Bonds	6.125 - 13.75%	$14,214,781	$	$14,214,781
Notes	5.50 - 9.357%		* 40,467	40,467
Treasury Bills	Average 5%		40,000	40,000
Trust Certificates	Varies		**252,833	252,833
Totals		$14,214,781	$333,300	$14,548,081

Investment Securities as of September 30, 1995
(Dollars in thousands)

Security	Interest Range	Insurance Programs	Other Programs	Total
Special Bonds	6.125 - 13.75%	$14,135,907	$	$14,135,907
Notes	6.25 - 9.357%		* 35,958	35,958
Treasury Bills	5.36 - 5.6%		39,464	39,464
Trust Certificates	Varies		** 272,688	272,688
Totals		$14,135,907	$348,110	$14,484,017

*The investment in Treasury Notes includes unamortied premiums of $555,271 and $457,688 as of September 30, 1996 and September 30, 1995 respectively.
**The Trust investments consitute the only VA investments in certificates not issued by the United States Treasury Department.

Note 8 - Receivables, Advances and Prepayments

Accounts and Loans Receivable
As of September 30, 1996 (In thousands)

Accounts Receivable:	Medical & Construction	Veterans Benefits	Housing Credit Assistance	Life Insurance	Administration Cemetery	Total
Public	$856,529	$640,637	$181,837	$ 28,845	$63,172	$1,771,020
Federal	35,377	1,292	6,152	305,260	50,960	399,041
(-) Allow Loss	(36,467)	(444,862)	(150,211)			(631,540)
(-) Allow Contr Adj	(345,406)					(345,406)
Net Accounts Receivable	$510,033	$197,067	$ 37,778	$334,105	$114,132	$1,193,115
Loans Receivable:						
Public		$ 3,429	$3,277,779	$ 948,111		$4,229,319
(-) Allow Loss		(1,741)	(1,197,192)			(1,198,933)
Net Loans		$ 1,688	$2,080,587	$ 948,111		$3,030,386
Total Accounts & Loans	$510,033	$198,755	$2,118,365	$1,282,216	$114,132	$4,223,501

Accounts Receivable

Public accounts receivable mainly comprise amounts due from individuals for Compensation and Pension overpayments, and monies due from third party insurers (through MCCR) for veterans health care. MCCR receivables totaled $727.1 million and $845.7 million at September 30, 1996, and September 30, 1995, respectively, without regard to a loss allowance or loss from contractual adjustments. Although VA is an active participant in Federal Debt Collection programs such as the IRS Income Tax Refund Offset, Federal Salary Offset, Litigation, Referral to Credit Reporting Agencies, and Referral to Private Collection Agencies, there are still a number of accounts where all possible collection actions will be unsuccessful. Based on VA's experience, allowance for losses and for contractual adjustments for medical care and third party insurer's receivables from the public have been established at 45 percent. The allowance for losses from veterans for Compensation and Pension debt overpayments is 70 percent. Federal accounts receivable are mostly accrued interest payments due on VA investments from the

Department of the Treasury and from sharing agreements with the Department of Defense; these receivables for FY 1996 total $399 million.

Loans Receivable

Current loans receivable are amounts due mainly from defaults under VA's Housing Credit Assistance Program, including Home Loan Guaranty and Direct Loan, amounting to $1.6 billion and $1.7 billion at September 30, 1996, and September 30, 1995, without regard to a Loss Allowance. Loans in Default amounted to $1.3 billion and $1.4 billion at September 30, 1996, and September 30, 1995. Allowances for loss on defaulted loans receivable were $1.2 billion and $1.3 billion at September 30, 1996, and September 30, 1995 respectively. The remaining loss allowance relates to active home loans and is derived from the Provision for Losses computation (See Note 5 for a full explanation). Defaulted Housing debts reported for individuals include a loss allowance of 96%.

Foreclosed Property valued at $838.9 million is included in the gross loans receivable of $3.3 billion shown on the table "Accounts and Loans Receivable". Also included is nonfederal interest receivable of $282 thousand for September 30, 1996.

Recap of Receivables and Related Allowances
as of September 30, 1996
(In thousands)

	Current	Non-Current	Total
Accounts:			
Public	$1,717,020	$	$1,771,020
Federal Government	399,041		399,041
(-) Allow Loss	(631,540)		(631,540)
(-) Contr Adj	(345,406)		(345,406)
Net Accounts Receivable	$1,193,115	$	$1,193,115
Loans:			
Individuals	$2,463,240	$1,766,079	$4,229,319
(-) Allow Loss	(1,177,636)	(21,297)	(1,198,933)
Net Loans	1,285,604	1,744,782	3,030,386
Net Receivables	$2,478,719	$1,744,782	$4,223,501

Non-current loans receivable represent amounts due from loans and liens against life insurance policies issued by VA and amounts owed to VA's Housing Credit Assistance Program beyond one year. Insurance policy loans do not have a fixed repayment schedule. Home loans have a firm repayment schedule over the life of the individual loan - (generally 30 years); however, it is VA practice to sell these loans rather than hold them to maturity. (See Note 5 for an explanation of VA's loan sales). Home loans authorized and awaiting closure amounted to $446.7 million and $497.0 million at September 30, 1996 and September 30, 1995 respectively.

Recap of Receivables and Related Allowances
as of September 30, 1995
(In thousands)

Accounts	Current	Non-Current	Total
Public	$1,813,000	$	$1,813,000
Federal Government	404,603		404,603
(-) Allow Loss	(704,253)		(704,253)
(-) Contr Adj	(280,030)		(280,030)
Net Accounts Receivable	$1,233,320	$	$1,233,320
Loans			
Individuals	$2,374,660	$1,789,259	$4,163,919
(-) Allow Loss	(1,383,728)	(20,255)	(1,403,983)
Net Loans	990,932	1,769,004	2,759,936
Net Receivables	$2,224,252	$1,769,004	$3,993,256

Advances and Prepayments

Non-Federal advance payments are, principally, advances to VA construction contractors, grant recipients, beneficiaries, and VA employees engaged in official travel. Federal advance payments are mostly to the General Services Administration for the procurement of supplies and equipment. Advances are always considered current.

Advances and Prepayments
(In thousands)

	September 30, 1996	September 30, 1995
Public	$ 65,493	$ 61,201
Federal Government	242,602	115,963
Total Advances & Prepayments	$308,095	$177,164

Note 9 - Property and Equipment

Leases

VA acquires leased office space from the General Services Administration (GSA) and, under a lease delegation from GSA, directly leases medically related space from the private sector for a total amount of 12.4 million net usable square feet of space at an annual cost of $173 million for FY 1996. This compares to 11.9 million net sq. ft. at $166 million in FY 1995. In FY 1996, VA had 226 lease assignments from GSA that amounted to $117.6 million in rent expense. In FY 1995, there were 226 leases for $114.9 million. In addition, VA directly leases with the public for real property. In FY 1996, VA had 468 direct leases with the public, which amounted to $55.4 million in rent expense.

Fixed Assets

Current year depreciation totaled $743 million in FY 1996 and $726.1 million in FY 1995. The following table provides property and equipment data at September 30, 1996 and September 30, 1995:

Property and Equipment on September 30, 1996
(In thousands)

	Cost	Accumulated Depreciation	Net Book Value
Land	$ 152,973	$	$ 152,973
Buildings	11,365,242	4,218,926	7,146,316
Equipment	4,085,569	2,137,557	1,948,012
Other	1,355,148	703,957	651,191
Construction in Progress	1,241,697		1,241,697
Total	$18,200,629	$7,060,440	$11,140,189

Property and Equipment on September 30, 1995
(In thousands)

	Cost	Accumulated Depreciation	Net Book Value
Land	$ 146,979	$	$ 146,979
Buildings	10,772,234	3,537,621	7,234,613
Equipment	4,116,007	1,965,509	2,150,498
Other	1,260,511	588,139	672,372
Construction in Progress	1,273,173		1,273,173
Total	$17,568,904	$6,091,269	$11,477,635

Note 10 - Contingencies

VA is a party in various administrative proceedings, legal actions, and tort claims brought by or against it, which will ultimately result in settlements or decisions adverse to the Federal Government. These actions, claims, and cases arise from various sources, including disputes with contractors, challenges to compensation and education award decisions, loan guaranty indemnity debt cases, and allegations of medical malpractice. Contract Dispute Act cases are the only claims, decided against the Government that have been dispersed out of the Judgment Fund, requiring reimbursement to this special appropriation located at the Department of the Treasury. Contract Dispute Act cases that were pending as of September 30, 1996, and which will ultimately result in payment out of VA appropriations, if the cases are decided against the Government, totaled approximately one million dollars.

It is the opinion of VA's management and Office of General Counsel, that the ultimate resolution of legal actions still pending as of September 30, 1996, will not materially affect VA's operations or financial position, especially when consideration is given to the availability of the Judgment Fund appropriation to pay some court settled legal cases.

Memorandum To The Assistant Secretary For Management (004)

Report Of Audit Of The Department Of Veterans Affairs Consolidated Financial Statements For Fiscal Years 1996 and 1995

1. The Office of Inspector General (OIG) conducted an audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements (CFS) for the fiscal years ended September 30,1996 and 1995. This report contains our audit opinion and our assessments of VA's internal control structure and compliance with laws and regulations.

2. VA made significant progress overall in improving financial management during Fiscal Year (FY) 1996. Our audit opinion provides an unqualified opinion on the September 30, 1996 year end balances contained in VA's Statement of Financial Position. However, because of the underlying nature and extent of errors leading to the prior year qualifications on the amounts reported for real property, plant, and equipment, and for net receivables, we could not satisfy ourselves regarding the reasonableness of the related FY 1995 year end balances or of the effects of related errors on the FY 1996 and 1995 statements of operations and changes in net position, cash flows, reconciliation of excess (shortage) of revenues and financing sources over total expenses, and budgetary resources and actual expenses.

3. The unqualified opinion on the FY 1996 year end balances represents a major milestone in improving financial management and reporting in VA and provides sound baseline information for the future. Office of Financial Management and Veterans Health Administration Chief Financial Officer (CFO) office staff put in significant focused effort to correct account balances during and following VA's implementation of its Financial Management System.

4. We were able to do sufficient testing to satisfy ourselves that reported FY 1996 year end balances were reasonable. However, six internal control weaknesses exist that expose VA to significant risks and vulnerabilities that could result in future qualifications if not addressed. Our Report on Internal Controls discusses the six items: the first two items were previously reported as material weaknesses, the next two items were previously reported as "other reportable items", and the last two items are reported for the first time.

- Ensure accurate reporting of real property, plant, and equipment, and related deprecia tion account balances by completing implementation of our prior recommendations for training and oversight of accounting personnel and by completing system improvements.

- Ensure accurate reporting of net receivables and related revenue account balances by completing implementation of our prior recommendations for training and oversight of accounting personnel and by completing system improvements.

- Increase the effectiveness of reviews of open unliquidated obligations.
- Continue efforts to correct overall system weaknesses caused by the antiquated computer system in VA's Life Insurance Programs.
- Improve automatic data processing security access controls.
- Strengthen Housing Credit Assistance Program accounting.

5. In this report we reaffirmed the recommendations in our prior reports for the four previously reported items as improvements are in process. New recommendations were made to improve automatic data processing security access controls and to strengthen Housing Credit Assistance Program accounting.

6. Additionally, the report discusses one previously reported significant nonconformance with the law that, while not material to the financial statements, warrants disclosure to Congress and the Office of Management and Budget because of its effect on VA's budgetary needs. This involves nonconformance with the Public Law 96-466 requirement to charge interest and administrative costs on compensation and pension accounts receivable balances. VA needs to implement the law or work with Congress to change the law if it believes the law is not appropriate. The previously reported nonconformance to Public Law 100-322 legal requirements concerning eligibility for outpatient medical treatment was resolved during FY 1996 based on passage of eligibility reform legislation.

7. The VA Assistant Secretary for Management (the Department CFO) stated he shared the audit results with the financial managers in Veterans Health Administration, Veterans Benefits Administration, and National Cemetery Service, and other interested VA staff and program managers, and that they were generally satisfied with the results as stated. He will be providing action plans on each issue within 45 days. We will follow up on the implementation actions during our audit of VA's FY 1997 CFS.

Michael G. Sullivan

MICHAEL G. SULLIVAN
Assistant Inspector General
for Auditing

OFFICE OF INSPECTOR GENERAL'S REPORT ON THE DEPARTMENT OF VETERANS AFFAIRS CONSOLIDATED FINANCIAL STATEMENTS

To The Secretary
Department Of Veterans Affairs

This report presents our opinion on the Consolidated Financial Statements of the Department of Veterans Affairs (VA). This report also presents our determinations from our review of the Department's internal control structure and our review of compliance with certain laws and regulations.

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying consolidated Statement of Financial Position of the Department of Veterans Affairs as of September 30, 1996 and 1995, and the related consolidated Statements of Operations and Changes in Net Position, Cash Flows, Reconciliation of Excess (Shortage) of Revenues and Financing Sources Over Total Expenses, and Budgetary Resources and Actual Expenses for the fiscal years then ended. These financial statements are the responsibility of VA's management. Our responsibility is to express an opinion based on our audit.

Scope

Except as discussed in the following paragraphs, we conducted our audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States; and the Office of Management and Budget's (OMB) Audit Requirements for Federal Financial Statements. These standards require that we plan and perform the audit to obtain reasonable assurance as to 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 audit provides a reasonable basis for our opinion.

Moreover, in accordance with these standards we reviewed VA's internal control structure and its compliance with laws and regulations. The results of these reviews are reported starting on pages 85 and 93, respectively.

Opinion
Our prior audit opinion on the VA Consolidated Financial Statements for the fiscal year ended September 30, 1995, was qualified because we were unable to satisfy ourselves as to the recorded balances for net property, plant, and equipment, and net receivables at September 30, 1995, because of the inadequacy of accounting records. These balances entered materially into the determination of related amounts reported for Operations and Changes in Net Position, Cash Flows, Reconciliation of Excess (Shortage) of Revenues and Financing Sources Over Total Expenses, and Budgetary Resources and Actual Expenses for the fiscal year ended September30,1995. Furthermore, it was not practical for us to perform additional alternative auditing procedures with respect to the FY 1996 opening balances for net property, plant, and equipment, and net receivables. Such balances enter materially into the amounts reported for Operations and Changes in Net Position, Cash Flows, Reconciliation of Excess (Shortage) of Revenues and Financing Sources Over Total Expenses, and Budgetary Resources and Actual Expenses for the fiscal year ended September 30, 1996.

In our opinion, the accompanying Statement of Financial Position, presents fairly, in all material respects, the financial position of the Department as of September 30, 1996. Except for the effect of the opening balances recorded for net property, plant, and equipment, and net receivables, and the effect of the resulting errors, the Statement of Operations and Changes in Net Position, Cash Flows, Reconciliation of Excess (Shortage) of Revenues and Financing Sources Over Total Expenses, and Budgetary Resources and Actual Expenses for the fiscal year ended September 30, 1996, present fairly, in all materials respects, the financial position and results of operations of the Department.

Supplemental And Other Information
Our audit was conducted for the purpose of expressing an opinion on VA’s Consolidated Financial Statements described above, the principal financial statements as defined by OMB Bulletin 94-01. The consolidating information included as supplemental schedules is presented for purposes of additional analysis of the Consolidated Financial Statements, rather than to present the financial position, results of operations, and cash flows of the individual appropriations and funds. The consolidating information has been subjected to the auditing procedures applied in the audit of the Consolidated Financial Statements and, in our opinion, except as described in the preceding paragraphs, is fairly stated, in all material respects, in relation to the Consolidated Financial Statements taken as a whole.

We have reviewed the financial information presented in the draft “Lines of Business” section that will accompany the financial statements in the Department’s Accountability Report, and compared the information with the financial statements and supplemental data. The data is consistent with other reported financial data and the performance measurement content complies with OMB guidance. The information in the “Lines of Business” section, and the other supplemental financial and management information presented by VA which accompanies the financial statements, is presented by VA for purposes of additional analysis. Such information has not been audited by us and, accordingly, we express no opinion on this information.

REPORT ON INTERNAL CONTROL STRUCTURE

In planning and performing our audit of VA's Consolidated Financial Statements for the fiscal year ended September 30, 1996, we considered VA's internal control structure in order to determine our auditing procedures necessary for expressing our opinion on the financial statements and not to provide assurance on the overall internal control structure.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the effectiveness of the design, and operation of policies and procedures may deteriorate.

Management's Responsibility For Establishing And Maintaining Internal Control Structure
VA's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, management makes estimates and judgments assessing the expected benefits and related costs of internal control structure policies and procedures. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition, (2) transactions are executed in accordance with management's authorization, and (3) transactions are recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles and OMB guidance.

Classification Of VA's Major Programs And Functions
For purposes of this report, we classified the significant internal control structure policies and procedures for the five major VA programs and functions into the following categories:

Medical And Construction (revenue; expenditure; and real property, plant, and equipment).

Housing Credit Assistance (loan origination and approval; loan servicing; default servicing and property acquisition; and property management and sales cycles).

Veterans Benefits (accumulation and reporting of consolidated financial data; cash; accounts receivable collection; veteran benefit disbursements; and automatic data processing).

Life Insurance (accumulation and reporting of financial data; insurance reserves; cash and investments; premium and loan collections; benefit, dividend and loan disbursements; and automatic data processing).
Administration And Cemeteries (revenue; expenditure and supply; real property, plant, and

equipment; and payroll cycles).

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. Except for control policies and procedures related to reported performance measurement data, we performed tests of VA's internal control structure policies and procedures deemed to have been properly designed and placed in operation.

Definition Of Reportable Conditions
We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB's audit requirements. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

REPORTABLE CONDITIONS

We concluded that the following six matters involving the internal control structure and its operation were significant weaknesses that could adversely affect VA's ability to record, process, summarize, and report financial data:

1. <u>Continuing Efforts Are Needed To Refine Property, Plant, And Equipment Records</u>

VA completed implementation of the Financial Management System (FMS) Fixed Asset Subsystem in July 1996. This enabled the Veterans Health Administration (VHA) Chief Financial Officer (CFO) staff, in August and September, to produce several new reports that helped medical center fiscal staff to identify and correct errors in reported fixed assets. As such, the primary conditions causing us to qualify our prior audit opinion and to report a material weakness concerning property, plant, and equipment accounting were substantially corrected as a result. We were able to attest to the reasonableness of year-end FY 1996 real property, plant, and equipment and related depreciation account balances. However, we found a number of significant continuing weaknesses that resulted in errors that, if not addressed, could lead to future qualification.

Our audit identified the following errors resulting from facility staff incorrectly inputting transactions and/or not performing complete reconciliations or reviews of fixed asset listings or accounts:

Assets were capitalized before they were put into service. For example, a $4 million piece of equipment at one medical facility was being depreciated before it had been delivered to the facility. Assets valued at $29 million were being depreciated at another facility while still under construction.

Data entry errors were made inputting assets into the Fixed Asset Subsystem. Because of data entry errors, a $70,000 asset was input with two extra “0’s” increasing it to $7 million. A $23,000 asset was listed for $2.3 million. Coding errors caused an additional $79 million of errors.

Assets that were in service were not being depreciated. A $2.3 million building completed and put in service in 1993 at one facility had not been capitalized as of the end of FY 1996. Also, we identified an additional $35 million of assets that needed to be capitalized.

Internal Control Procedures

The VHA CFO staff spent significant time during the last 3 months of FY 1996 helping each facility implement and reconcile the new Fixed Asset Subsystem, which provided a good basis for identifying and correcting the errors noted above. However, we found, during FY 1996 audit work at 45 medical facilities, that internal controls were not being followed or were not being implemented correctly. For example, of the 45 medical facilities visited:

Sixteen had not completed 4th quarter reconciliations as required\

Twenty-eight had assets totaling $41.6 million that needed to be capitalized or expensed.

Twenty-six had some equipment—totaling $308.8 million—that was not physically inventoried during the year as required.

Twenty-three made adjustments to fixed asset accounts without fully researching and supporting the reasons for the adjustments.

These problems continue because staffs at some facilities were still unfamiliar with basic accounting principles and changes brought about by implementation of the new Fixed Asset Subsystem. Also, implementing and learning a new system and correcting errors made in prior years was extra work in addition to their keeping up with recurring daily payment and transaction processing and reporting.

Conclusion

Much progress has been made in correcting real property, plant, equipment and related depreciation account balances. However, errors still exist and, if not corrected, may result in a future qualification. Accordingly, we encourage the Department to continue efforts to provide additional written instructions and training to staff and emphasize the importance of financial reconciliations, physical inventories, and analytical reviews of fixed asset accounts. The VHA CFO staff should continue helping facilities reconcile and correct real property, plant, and equipment accounts.

2. Continuing Action Is Needed To Improve Estimates Used In Valuing Accounts Receivable

VA medical facilities continued to make errors in recording the estimated amount of unbilled medical services and in estimating amounts that will not be collected. We found that at the end of FY 1996, 36 percent of the facilities tested overstated unbilled medical services, and 68 percent understated the amounts estimated for the allowances for uncollectible receivables and for contractual adjustments related to insurance billings. Based on our audit tests and recommendations, VA management recorded necessary adjustments to the financial statements which had the effect of (i) decreasing the unbilled estimate by $29.7 million and (ii) increasing the allowance accounts by $51.5 million.

VHA CFO staff provided procedures and instructions to VA medical facility accounting staff several times during the year. However, errors continue to be made because facility staff did not reduce unbilled workload estimates, even though they were generally aware that the software significantly overstated these estimates. Further, facility staffs did not increase allowances appropriately, even though the software which calculates allowances for recognized receivables specifically instructs managers to include the unbilled workload estimates in their computation of the allowance amounts.

We encourage the Department to continue actions underway and reaffirm our previous recommendations to provide facility fiscal staff training on how to process and review the transactions and to continue oversight efforts to assist in identifying and correcting erroneous accounts receivable transactions.

3. Aggressive Efforts Are Needed To Cancel Unneeded Obligations

About $68.8 million of the $3.0 billion in open obligations outstanding at the end of FY 1996 should have been canceled before the end of the fiscal year. The amount is little different from the end of FY 1995 when we concluded $65.6 million in invalid obligations should have been canceled before the end of the fiscal year.

The following examples illustrate the types of obligations that medical facility staff agreed, based on our inquiries, should have been canceled prior to the end of the fiscal year:

A FY 1996 obligation with an open balance of $15,353 for the rental of equipment remained open at the end of the fiscal year because an amendment to decrease the obligation rejected from the accounting system and was not resubmitted.
Another FY 1996 obligation balance with an open balance of $8,673 for medical supplies

remained open at the end of the year although the order was completed in the 2nd quarter of FY 1996.

The invalid obligations consisted almost entirely of operating appropriations of which 54 percent of the amounts were FY 1996 moneys obligated during the 1st half of the fiscal year. These funds could have been reprogrammed and used for other valid needs if identified before the appropriations expired at the end of the fiscal year.

VA policy requires that unliquidated obligations be reviewed monthly. The invalid obligations were not identified because some reviews were not done at the end of the fiscal year (26 percent of the obligations), while other year end reviews were done but the obligations were not canceled.

Conclusion

More aggressive unliquidated obligation reviews within the Department are needed to achieve further improvements. Management needs to ensure that obligations identified as unneeded are canceled in a timely manner. To the extent such unneeded obligations can be identified before the appropriations expire, the funds released as a result of canceled obligations can be redirected to other valid needs.

We encourage the Department to continue actions underway and reaffirm our previous recommendations to continue emphasizing effective and timely obligation reviews in order to identify unneeded obligations before appropriations expire, cancel these obligations, and reprogram funds to meet other valid unfunded needs.

4. Continue The Progress Being Made In Correcting Problems Of The Antiquated VA Life Insurance System

The automatic data processing (ADP) system supporting the Life Insurance Programs was outdated and cumbersome to maintain. VA has reported the insurance system as a material weakness in its Federal Managers' Financial Integrity Act (FMFIA) Report since 1983. Plans to correct the material weakness include the Veterans Benefits Administration's (VBA) Modernization Program. The VBA life insurance ADP system was outdated and lacked automated controls. Furthermore, as we have reported over the past 5 years, we believe the system's deficiencies have the potential to adversely impact the complete and accurate processing of insurance transactions and the integrity of the financial information generated by the system. Although we consider VA's current life insurance ADP system a material internal control weakness, we do not believe it to be material in terms of its effect on the Consolidated Financial Statements. We were able to perform sufficient alternative testing to assure ourselves that the Life Insurance component financial statements presented this program's financial position fairly.
In the past year, management continued to take corrective actions to strengthen and improve

other previously reported weaknesses. These included (i) conversion of most programs to COBOL II (from over 300, only 4 remain to be converted), (ii)"rehosting" the database to the IBM 3090, thereby increasing the efficiency and economy of transaction processing, and (iii) installing the Awards Data Entry system with improved controls and efficiency. However, corrective action was incomplete at the end of FY 1996. Personnel were able to use the older system to pay claims, allowing one employee to both initiate and approve a disbursement transaction. Also, improvements to insurance master records had not been completed; inforce data entry screens needed to be changed to accept and display larger dollar amounts; and, insurance policies still needed to be split when certain dollar thresholds were exceeded. Management indicated having taken or planned corrective actions that should eliminate all remaining components of the material weakness during FY 1997.

Conclusion

VA continues making significant progress in correcting Life Insurance Program ADP system weaknesses. We encourage the Department to continue actions underway and reaffirm our prior recommendations to enhance Awards system security and ensure that In-force, Awards, and accounting system reports were complete and include adequate audit trails. We will continue to monitor this issue in future audits because it increases the risk of errors in data processed by the VA ADP system, and hampers some of VA's day-to-day activities.

5. <u>Information System Security Controls Needed Improvement</u>

Information systems management has not provided sufficient emphasis and oversight to ensure that automated information system controls at VA ADP facilities adequately protect financial data from unauthorized access and modification.

Our evaluation of security at VAMC data processing facilities found that employees were not always restricted to only those ADP system functions necessary to perform their jobs. For example, a number of employees who were not members of the Information Resources Management staff were allowed computer programmer mode access. Programmer mode access allows users to change Decentralized Hospital Computer Program (DHCP) files and execute systems level utilities.[1] A contractor review of the VA FMS Accounts Receivable Subsystem ADP controls, performed for the OIG as part of the CFS audit, identified similar control weaknesses in the DHCP environment at VA's medical facilities.[2]

Our review of the FMS Accounts Receivable Subsystem on the CFS audit found that the appli-

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1 "Evaluation of the Veterans Health Administration's Security for the Decentralized Hospital Computer Program," Report No. 6R5-A99-085.

2 "Draft - Review of Electronic Data Processing Controls in the Financial Management System Accounts Receivable and Fixed Asset Subsystem.

cation software of the DHCP accounts receivable transaction file did not provide an audit trail for certain missing transactions. The absence of an audit trail increases the potential that errors, irregularities, or fraudulent activity will not be discovered. Medical Care Cost Recovery staff at VA Central Office initiated action to correct this deficiency. They are currently developing a patch for the Accounts Receivable Subsystem that will incorporate an audit trail into the process

Many Hines Data Processing Center (DPC) system users had access without current and appropriate security clearances. In addition, staff who had left the Center upon ending their employment at the DPC had not had their accesses removed. Without current and appropriate security clearances, and the removal of accesses when staff depart, there is no assurance that sensitive data and systems have been adequately protected.[3]

In many cases, the security weaknesses identified involve very complex issues. In response to the security weaknesses reported, affected VA management commented that actions are underway to address each condition.

Conclusion

Security control weaknesses represent significant deficiencies in the design or operation of the internal controls structure, which could adversely affect the VA's ability to record, process, summarize, and report financial data and safeguard its assets. Department information systems management needs to emphasize to all VA ADP facilities the importance of implementing automated information system controls that adequately protect financial data from unauthorized access and modification and then provide oversight to ensure the controls are operating effectively.

6. The Housing Credit Assistance Program Financial Accounting Process Needs Strengthening

The VA Housing Credit Assistance (HCA) line of business accounting process does not efficiently and reliably accumulate the financial information needed to comply with Federal financial accounting requirements. As a result, we identified significant errors requiring financial statement adjustments: one error resulting from misinterpretation of OMB guidance required a downward adjustment of $414 million for both program expenses and income. Another error, a $47 million positive account balance, went undiscovered even though balances in this account can be no higher than $0. Other errors were made where data compiled manually did not always reconcile with original source amounts. In addition, credit reform subsidy re-estimates were not computed efficiently.
VA first identified a need for improving HCA systems in 1986 in VA's FMFIA Report.

[3] "Interim Survey Advisory, Audit of Security Controls at the Hines Data Processing Center" (Object 5D2-220)

However, funding requests have not been approved. The credit reform accounting area was added as a material weaknesses in 1995 and a new material weakness in loan sales program management was added in 1996. These weaknesses have financial system implications.

The lack of an integrated financial accounting system, coupled with the complexities of accounting requirements under credit reform, result in an existing financial statement preparation process that is labor intensive, cumbersome, and error prone. Discussion with staff responsible for HCA financial data showed the need for greater understanding of the requirements and objectives of financial accounting versus budgetary or fund accounting. It is important that staff understand the differences for financial statement preparation. Personal computer spreadsheet software is used to roll-up the various HCA fund trial balances into the financial statements. In many cases, adjustments are needed to make general ledger and budgetary data conform to financial accounting standards. Numbers, rather than cell references, are input into complex formulas, increasing the risk that subsequent updates and corrections will not automaically be incorporated into linked spreadsheet computations. Thus, the accuracy of financial statement line item balances is affected if beginning balances are not manually adjusted. The system deficiencies have the potential to impact adversely on the accuracy and timeliness of financial information generated by the system as well as the ability to effectively research errors and audit system data.

Conclusion

Accurate financial accounting and reporting are critical components of the Federal government's efforts to enhance program efficiencies and fiscal responsibility in the budget process. The need for a financial accounting system that meets Federal financial accounting standards has become even more important because of the complexity of credit reform. Credit reform financial data and reports provide managers with the tools necessary to assess the impact of planned, proposed, or imposed changes concerning VA's HCA program. The increasing complexity of credit reform accounting and significance of credit reform dollar amounts on VA's financial statements increase the risk of financial reporting errors.

To ensure the HCA program will be able to continue to produce reliable financial statement information, VA management needs to (i) actively seek the funding necessary to replace the current program oriented multiple systems with an integrated financial accounting system that interfaces with VA's current FMS system and meets Federal financial accounting requirements, and (ii) provide training to staff responsible for preparing the HCA financial statement information.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Compliance with laws and regulations applicable to VA is the responsibility of VA's management. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatement, we performed tests of VA's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Our review consisted of tests of VA's compliance with provisions of the following laws and regulations that could have a material effect on VA's Consolidated Financial Statements, and the related combining information, if not complied with:

- Veterans' Benefits [Title 38 United States Code (U.S.C.)] and related implementing poli
- cies and regulations.
- The Budget and Accounting Procedures Act of 1950, as amended.
- The Chief Financial Officers Act of 1990.
- The Cash Management Control Act of 1990.
- The Federal Credit Reform Act of 1990.
- The Anti-Deficiency Act.
- Legislation concerning recording obligations and balances available for obligation.
- The Debt Collection Act of 1992.
- The Prompt Pay Act.
- The Federal Employees Compensation Act.
- Public Law 100-322, "The Veterans Benefits and Services Act of 1988."
- Omnibus Budget Reconciliation Act of 1990.
- Public Law 96-466 and Title 38 U.S.C. Section 5315, "Interest and Administrative Costs."
- Public Law 102-568, "The Veterans' Benefits Act of 1992."
- Federal Managers' Financial Integrity Act (FMFIA) of 1990.
- Public Law 103-62, "Government Performance and Results Act of 1993."
- Public Law 101-510, "National Defense Authorization Act of 1991."
- Public Law 104-262, The Veterans' Health Care Eligibility Reform Act of 1996.

As part of our audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the FMFIA and compared the Department's most recent FMFIA Report with the evaluation we conducted of VA's internal control system. We also read the information provided in the draft "Lines of Business" part of VA's financial statements, and we reviewed the documentation for the financial and statistical data presented.

Conclusion

The results of our tests for FY 1996 indicate that, for the items tested, VA complied with those provisions of laws and regulations which could have a material effect on the financial statements. With respect to transactions not tested, nothing came to our attention that caused us to believe that VA had not complied, in all material respects, with these provisions. However, we did identify noncompliance with one law that, while not material to the financial statements, warrants disclosure: Compliance with Public Law 96-466 and Title 38 U.S.C. Section 5315, interest and administrative costs provisions.

Public Law 96-466 and Title 38 U.S.C. Section 5315, Interest And Administrative Costs Provisions

VA does not charge interest and administrative costs on compensation and pension accounts receivable balances. These balances totaled about $547 million at the end of FY 1996, and more than 62 percent ($339 million) were over 2 years old. The total interest and administrative costs applicable to FY 1996 was $25.5 million. Therefore, VA is in nonconformance with Public Law 96-466 (the Veterans Rehabilitation And Education Amendments of 1980) and Title 38 U.S.C. Section 5315, which prescribe that interest and administrative costs shall be charged on any amount owed to the United States for an indebtedness resulting from a person's participation in a benefits program administered by the Secretary other than a loan, loan guaranty, or loan-insurance program.

In a July 1992 decision, the former VA Deputy Secretary decided that VA would not charge interest on compensation and pension debts. We disagreed with the Deputy Secretary's decision. The law was passed by Congress with the intent of charging interest and penalties on benefit debts similar to charges levied on other debts owed the Federal government. Rather than continuing the nonconformance, VA should comply, or work with Congress to change Public Law 96-466 if it believes the law is not appropriate. We previously reported noncompliance with Public Law 96-466 in our reports of the Audit of VA's Consolidated Financial Statements for FYs 1992 through 1995.

Michael G. Sullivan

MICHAEL G. SULLIVAN
Assistant Inspector General
for Auditing

February 14, 1997

Supplemental Data

Combining Statement of Financial Position
As of September 30, 1996
(In Millions)

	Total	Medical & Construction	Veterans Benefits	Housing Credit Assistance	Life Insurance	Administration & Cemeteries
Assets						
Intragovernmental						
Fund Balances with Treasury	**$ 13,143**	$ 5,721	$ 1,790	$ 5,229	$ 24	$ 378
Investments	**14,295**	80			14,215	
Accounts Receivable, Net	**89**	35	1	1		51
Interest Receivable	**311**	1		5	305	
Advances and Prepayments	**243**	126				116
Governmental						
Investments	**253**			253		
Accounts Receivable, Net	**765**	474	196	32		63
Policy Loans Receivable	**948**				948	
Credit Program Loans Receivables, Net	**2,082**		2	2,081		
Interest Receivable	**29**				29	
Advances and Prepayments	**65**	63				2
Merchandise and Supply Inventories	**68**	28				40
Property and Equipment, Net	**11,140**	11,131				10
Total Assets	**$ 43,431**	$ 17,660	$ 1,989	$ 7,601	$ 15,521	$ 660
Liabilities						
Covered by Budgetary Resources						
Intragovernmental Liabilities						
Accounts Payable and Accrued Liabilities	**$ 200**	$ 122	$ 12	$ 8	$ -	$ 59
Debt from Borrowing Authority	**1,783**		2	1,781		
Governmental Liabilities						
Accounts Payable and Accrued Liabilities	**3,450**	1,336	1,527	116	189	283
Liabilities for Loan Guarantees	**4,221**			4,221		
Deferred Revenues and Other Liabilities	**268**		25	27	146	70
Dividends on Credit or Deposit	**1,174**				1,174	
Insurance Policy Reserves	**12,933**				12,933	
Dividends Payable	**858**				858	
Total Liabilities Covered by Budgetary Resources	**24,887**	1,458	1,566	6,152	15,299	412
Not Covered by Budgetary Resources						
Intragovernmental						
Federal Employee Compensation Act	**1,699**	1,620				79
Governmental						
Annual Leave	**856**	792				64
Insurance Policy Reserves	**556**				556	
Reserve for Future Losses on Guaranteed Loans	**293**			293		
Veteran's Compensation & Pension Benefits	**239,954**		239,954			
Total Liabilities Not Covered by Budgetary Resources	**243,358**	2,412	239,954	293	556	144
Total Liabilities	**$ 268,245**	$ 3,870	$ 241,520	$ 6,445	$ 15,855	$ 556
Net Position						
Fund Balances						
Unexpended Appropriations	**$ 4,561**	$ 4,015	$ 225	$ 199	$ -	$ 121
Invested Capital	**11,209**	11,159				50
Cumulative Results of Operations	**2,497**	942	2	1,249	222	81
Equity in Overpayment Receivables and Other	**277**	86	196			(4)
Total Fund Balances	**18,544**	16,202	423	1,449	222	247
Future Funding Requirements	**(243,358)**	(2,412)	(239,954)	(293)	(556)	(144)
Total Net Position (Deficit)	**(224,814)**	13,790	(239,531)	1,156	(333)	104
Total Liabilities and Net Position (Deficit)	**$ 43,431**	$ 17,660	$ 1,989	$ 7,601	$ 15,521	$ 660

Note:Detail may not add to total due to rounding.

Combining Statement of Operations and Changes in Net Position (Deficit)
For the Fiscal Year Ending September 30, 1996
(In Millions)

	Total	Medical & Construction	Veterans Benefits	Housing Credit Assistance	Life Insurance	Administration & Cemeteries
Revenues and Financing Sources						
Appropriated Capital Used	**$ 38,253**	$ 17,263	$ 19,870	$ 118	$ 43	$ 959
Restored Funds due to Subsidy Reestimates	**708**			708		
Revenues from Sales of Goods and Services:						
To the Public	**1,727**	886			823	19
Intragovernmental	**624**	118	209			297
Interest and Penalties, Non-Federal	**159**			110	49	
Interest, Federal	**1,677**	4		430	1,243	
Retirement Benefits Imputed Financing	**769**	709				60
Vendee Loan Reimbursements	**808**			808		
Other Revenues and Administrative Expense Financing	**54**	13	652	36	11	(658)
Less: Receipts Transferred to Treasury or Other Agencies	**(34)**	(29)				(5)
Total Revenues and Financing Sources	**$ 44,745**	$ 18,965	$ 20,731	$ 2,210	$ 2,169	$ 670
Expenses						
Program or Operating Expenses	**$ 39,718**	$ 16,357	$ 19,999	$ 1,046	$ 1,088	$ 1,228
Cost of Goods Sold						
To the Public	**117**	117				
Intragovernmental	**36**					36
Depreciation and Amortization	**743**	740				3
Bad Debts and Write-offs	**894**	560	128	197		9
Interest on Dividends on Credit or Deposit	**99**				99	
Interest on Treasury Borrowing	**478**			478		
Dividends to Policyholders	**884**				884	
Other Expenses and Benefit Administrative Costs	**933**	709	653	154	45	(628)
Total Expenses	**$ 43,902**	$ 18,483	$ 20,780	$ 1,876	$ 2,117	$ 647
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	**$ 843**	$ 482	$ (48)	$ 334	$ 52	$ 24
Extraordinary Items	**12,763**		12,763			
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	**13,606**	482	12,715	334	52	24
Net Position (Deficit), Beginning Balance	**(236,922)**	13,847	(252,170)	1,657	(385)	129
Plus (Minus) Non-Operating Changes	**(1,498)**	(540)	(76)	(835)		(49)
Net Position (Deficit), Ending Balance	**$ (224,814)**	$ 13,790	$ (239,531)	$ 1,156	$ (333)	$ 104

Note: Detail may not add to total due to rounding.

Combining Statement of Cash Flows

For the Fiscal Year Ending September 30, 1996

(In Millions)

	Total	Medical & Construction	Veterans Benefits	Housing Credit Assistance	Life Insurance	Administration & Cemeteries
Cash Provided by Operating Activities						
Sales of Goods and Service	**$ 1,248**	$ 955	$ -	$ -	$ -	$ 293
Interest and Penalties	**1,779**	5		$ 476	$ 1,298	
Benefit Programs	**209**		$ 209			
Insurance and Guarantee Programs	**2,289**			1,461	828	
Other Operating Cash Provided	**22**	24	16			(18)
Total Cash Provided	**5,547**	984	225	1,937	2,126	275
Cash Used by Operating Activities						
Personal Services and Benefits	**(11,442)**	(10,456)		(118)		(867)
Travel and Transportation	**(233)**	(217)				(17)
Rent, Communications and Utilities	**(725)**	(527)				(197)
Printing and Reproduction	**(21)**	(14)				(7)
Other Contractual Services	**(2,298)**	(2,204)				(94)
Supplies and Materials	**(2,665)**	(2,588)				(77)
Insurance Claims and Indemnities	**(19,170)**	(1)	(17,202)	(815)	(1,150)	
Grants, Subsidies and Contributions	**(2,525)**	(289)	(1,432)	(802)		(2)
Interest and Dividends	**(1,154)**			(240)	(915)	
Total Cash Used	**(40,233)**	(16,296)	(18,634)	(1,975)	(2,065)	(1,262)
Net Cash Provided (Used) by Operating Activities	**$ (34,686)**	$ (15,312)	$ (18,409)	$ (38)	$ 61	$ (987)
Investing Activities						
Sale of Foreclosed Property	**$ 589**			$ 589		
Purchase of Property, Plant and Equipment	**(2,135)**	$ (780)		(1,333)		$ (23)
Sale of Securities	**2,834**			1,227	$ 1,607	
Purchase of Securities	**(1,691)**	(4)			(1,686)	
Collection of Long-Term Loans Receivable	**515**			355	160	
Creation of Long-Term Loans Receivable	**(2,164)**			(1,984)	(180)	
Net Cash Provided (Used) by Investing Activities	**$ (2,052)**	$ (785)	$ -	$ (1,146)	$ (99)	$ (23)
Financing Activities						
Appropriations (Current Warrants)	**$ 38,149**	$ 17,258	$ 19,777	$ 118	$ 43	$ 953
Deduct						
Withdrawals	**982**	520	6	439		17
Transfer of Cash to and From Others	**(732)**	12	154	(899)		
Net Appropriations	**37,899**	16,726	19,617	578	43	935
Borrowing from the Treasury	**1,903**		2	1,901		
Repayments on Loans from the Treasury	**(1,703)**		(2)	(1,701)		
DoD SGLI Collections	**467**				467	
DoD GI Bill Treasury Collections	**148**		148			
SGLI Transfers to Prudential	**(474)**				(474)	
Net Cash Provided (Used) by Financing Activities	**$ 38,240**	$ 16,726	$ 19,765	$ 778	$ 36	$ 935
Net Cash Provided (Used) by Operating, Investing and Financing Activities	**$ 1,502**	$ 630	$ 1,356	$ (406)	$ (2)	$ (75)
Fund Balances with Treasury Beginning	**11,641**	5,092	434	5,636	27	452
Fund Balance with Treasury Ending	**$ 13,143**	$ 5,721	$ 1,790	$ 5,229	$ 25	$ 378

Note: Detail may not add to total due to rounding.

Combining Reconciliation of Excess (Shortage) of Revenues and Financing Sources Over Total Expenses
For the Fiscal Year Ending September 30, 1996
(In Millions)

	Total	Medical & Construction	Veterans Benefits	Housing Credit Assistance	Life Insurance	Administration & Cemeteries
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	**$ 843**	$ 482	$ (48)	$ 334	$ 52	$ 24
Adjustment to Reconcile Excess (Shortage) of Revenues and Financing Sources Over Total Expenses to Net Cash Provided By Operating Activities:						
Appropriated Capital Used	**(38,253)**	(17,263)	(19,870)	(118)	(43)	(959)
Decrease (Increase) in Accounts Receivable	**(87)**	(23)	7	(14)	6	(63)
Decrease (Increase) in Loans Receivable	**(250)**			(250)		
Decrease (Increase) in Other Assets	**(131)**	(35)		0		(96)
Increase (Decrease) in Accounts Payable	**1,698**	100	1,472	42	9	75
Increase (Decrease) in Other Liabilities	**341**		1	297	37	7
Depreciation and Amortization	**744**	741				3
Other Unfunded Expenses	**760**	708	32			19
Subsidy Reestimates and Other Adjustments	**(351)**	(22)	(2)	(329)		3
Total Adjustments	**(35,529)**	(15,794)	(18,361)	(372)	10	(1,011)
Net Cash Provided (Used) By Operating Activities	**$ (34,686)**	$ (15,312)	$ (18,409)	$ (38)	$ 61	$ (987)

Note: Detail may not add to total due to rounding.

Combining Statement of Budgetary Resources and Actual Expenses
For the Fiscal Year Ending September 30, 1996
(In Milions)

Program	Resources	Direct	Reimbursed	Actual Expenses
Medical & Construction	$ 19,927	$ 17,446	$ 381	$ 18,483
Veterans Benefits	20,360	20,105	208	20,780
Housing Credit Assistance	10,487	5,366	5,431	1,876
Life Insurance	15,637	1,371	1,446	2,117
Administration & Cemeteries	1,441	926	334	647
Totals	**$ 67,852**	**$ 45,214**	**$ 7,800**	**$ 43,902**

Budget Reconciliation

Total Expenses	$ 43,902
Add:	
Capital Acquisitions	2,693
Loans Disbursed	1,631
Other Expended Budget Authority	604
Less:	
Depreciation & Amortization	743
Unfunded Annual Leave Expense	73
Bad Debt and Other Unfunded Expenses	758
Accrued Expenditures	47,256
Less Reimbursements	7,800
Accrued Expenditures, Direct	**$ 39,456**

Note: Detail may not add to total due to rounding.

This table presents cumulative data for appropriations and funds from their inception. For example, the Medical Care Appropriation has received funding of $235 billion, spent $230 billion, returned $1.3 billion of cancelled appropriations, and as of September 30, 1996 has $3.4 billion in its Fund Balance with Treasury.

APPROPRIATIONS, EXPENDITURES AND CURRENT BALANCES - CASH BASIS

Through Fiscal Year 1996

(dollars in millions)

Appropriation/Fund (Symbol)	Cumulative Appropriations and Transfers	Cumulative Outlays	Turned-in To U.S. Treasury	September 30,1996 Cash and Treasury Investments
Medical & Construction:				
Construction of Hospitals and Domiciliaries (0108)	1,033	1,033	0	0
Construction, Major Projects (0110)	8,940	7,696	0	1,244
Construction, Minor Projects (0111)	2,806	2,576	0	230
Grants to the Rep. of the Philippines (0144)	60	46	(13)	1
Medical Admin & Misc Operating Expenses (0152)	1,615	1,548	(52)	15
Medical Care (0160)	235,106	230,426	(1,311)	3,369
Medical and Prosthetic Research (0161)	4,599	4,465	(28)	106
Construction of State Extended Care Facilities (0181)	721	591	(6)	124
Health Manpower Training Institutions (0182)	297	296	(1)	0
Canteen Service Revolving Fund (4014)	4	(50)	(12)	42
Parking Garage Revolving Fund (4538)	149	105	0	44
Medical Care Cost Recovery Fund (5014)	0	(2,300)	(1,734)	566
General Post Fund (8180)	421	380	0	41
Other (0163,0164,4018,4048,4138)	54	32	(1)	21
Total Medical & Construction	**255,805**	**246,844**	**(3,158)**	**5,803**
Total Veterans Benefits:				
Compensation and Pension (0102)	409,744	408,249	0	1,495
Emergency Veterans Job Training (0103)	206	201	(5)	0
Readjustment Benefits (0137)	77,450	77,251	(111)	88
Reinstated Entitlement Program for Survivors (0200)	51	29	(10)	12
Vocational Rehabilitation (1114,4112,4114)	9	4	(2)	3
Education Loan (1118,4113,4118)	1	1	0	0
Post Vietnam Era Veterans Education (8133)	2,771	2,579	0	192
Total Veterans Benefits	**490,232**	**488,314**	**(128)**	**1,790**
Housing Credit Assistance:				
Direct Loan (1024,4024,4128)	(1,315)	(1,317)	0	2
Loan Guaranty (1025,4025,4125,4126,)	7,830	6,674	0	1,156
Guaranty & Indemnity (1119,4023,4127,4129)	2,888	(1,179)	0	4,067
Native American (1120,4130)	15	11	0	4
Total Housing Credit Assistance	**9,418**	**4,189**	**0**	**5,229**
Veterans Life Insurance:				
Veterans Insurance and Indemnities (0120)	665	664	0	1
Soldiers' and Sailors' Civil Relief	4	2	(2)	0
Servicemen's Group Life Insurance Fund (4009)	0	(10)	0	10
Veterans Reopened Insurance Fund (4010)	0	(525)	0	525
Service-Disabled Veterans Insurance Fund (4012)	5	(7)	0	12
National Service Life Insurance Fund (8132)	53,349	41,337	0	12,012
U.S. Government Life Insurance Fund (8150)	4,221	4,121	(2)	98
Veterans Special Life Insurance Fund (8455)	(51)	(1,637)	(4)	1,582
Total Veterans Life Insurance	**58,193**	**43,945**	**(8)**	**14,240**
Administration & Cemeteries:				
National Cemetery System (0129)	353	339	0	14
General Operating Expenses (0151)	20,063	19,681	(222)	160
Inspector General (0170)	201	193	(1)	7
Construction of State Veterans Cemeteries (0183)	62	38	(6)	18
Supply Fund (4537)	17	(115)	(16)	116
Budget Clearing (3000) and Deposit Accounts (6000)	0	(63)	0	63
Total Administration and Cemeteries	**20,696**	**20,073**	**(245)**	**378**
Total: Department of Veterans Affairs	**834,344**	**803,365**	**(3,539)**	**27,440**

Note: Detail may not add to total due to rounding.