



SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND ORGANIZATIONAL STRUCTURE

Mission

President Lincoln's immortal words – delivered in his Second Inaugural Address more than 140 years ago – best describe the VA's mission. We care for Veterans, their families, and survivors – men and women who have responded when their Nation needed help. Our mission is clear-cut, direct, and historically significant. It is a mission that every employee is proud to fulfill.

VA fulfills these words by providing world-class benefits, medical, and burial services to the millions of men and women who have served this country with honor. President Lincoln's words guide all VA employees in their commitment to providing the best medical care, benefits, social support, and lasting memorials that Veterans and their dependents deserve in recognition of Veterans' service to this Nation.

History

The United States has the most comprehensive Veterans assistance system of any nation in the world, which can be traced back to 1636, when the Pilgrims of Plymouth Colony were at war with the Pequot Indians. From the beginning, the English colonies in North America provided pensions for disabled Veterans. The first law in the colonies on pensions, enacted in 1636 by Plymouth, provided money to those disabled in the colony's defense against Native Americans.

National cemeteries were first developed in the United States during the Civil War. Due to mounting war casualties, on July 17, 1862, Congress empowered President Abraham Lincoln, "to purchase cemetery grounds and cause them to be securely enclosed, to be used as a national cemetery for the soldiers who shall die in the service of the country."

As the United States (U.S.) entered World War I in 1917, Congress established a new system of Veterans benefits, including programs for disability compensation, insurance for service personnel and Veterans, and vocational rehabilitation for the disabled. By the 1920s, three different federal agencies administered the various benefits: the Veterans Bureau, the Bureau of Pensions of the Interior Department, and the National Home for Disabled Volunteer Soldiers.

In 1930, President Herbert Hoover signed Executive Order 5398, which created the Veterans Administration to "consolidate and coordinate Government activities affecting war Veterans." At that time, the National Homes and Pension Bureau also joined the VA.

Following World War II, there was a vast increase in the Veteran population and Congress enacted large numbers of new benefits for war Veterans, the most significant of which was the World War II GI



Bill, signed into law June 22, 1944. It is said that the GI Bill had more impact on the American way of life than any law since the Homestead Act of 1862¹. The GI Bill placed VA second to the War and Navy Departments in funding and personnel priorities.

In 1973, the Department of the Army transferred 82 of its 84 national cemeteries to VA's custody. At the same time, VA elevated the status of its own 21 cemeteries to that of national cemeteries, creating VA's current national cemetery system.

The VA was elevated to a cabinet-level executive department by President Ronald Reagan in October 1988. The change took effect March 15, 1989, and administrative changes occurred at all levels. President George H. W. Bush hailed the creation of the new Department, saying, "There is only one place for the Veterans of America, in the Cabinet Room, at the table with the President of the United States of America." The Veterans Administration was then renamed the Department of Veterans Affairs.

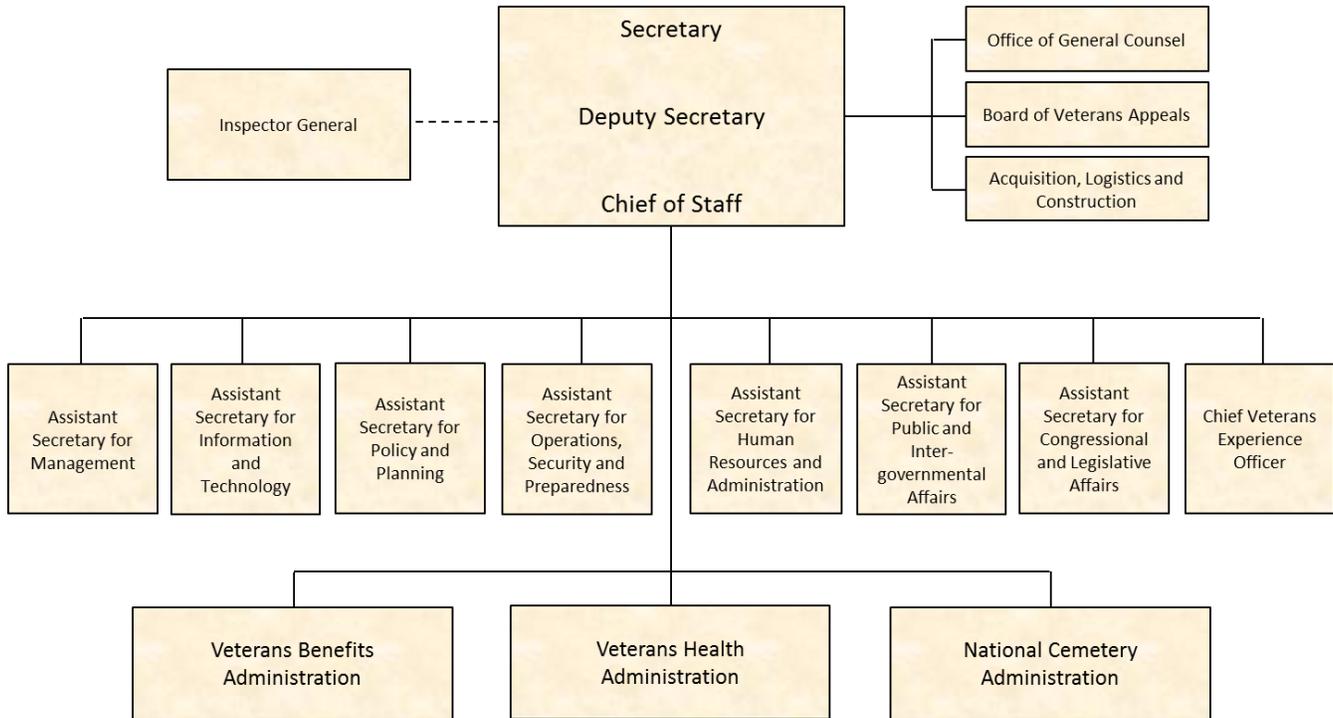


¹ Signed into law by President Abraham Lincoln on May 20, 1862, the [Homestead Act](#) encouraged Western migration by providing settlers 160 acres of public land. (Library of Congress, Web Guides)



Organization

DEPARTMENT OF VETERANS AFFAIRS



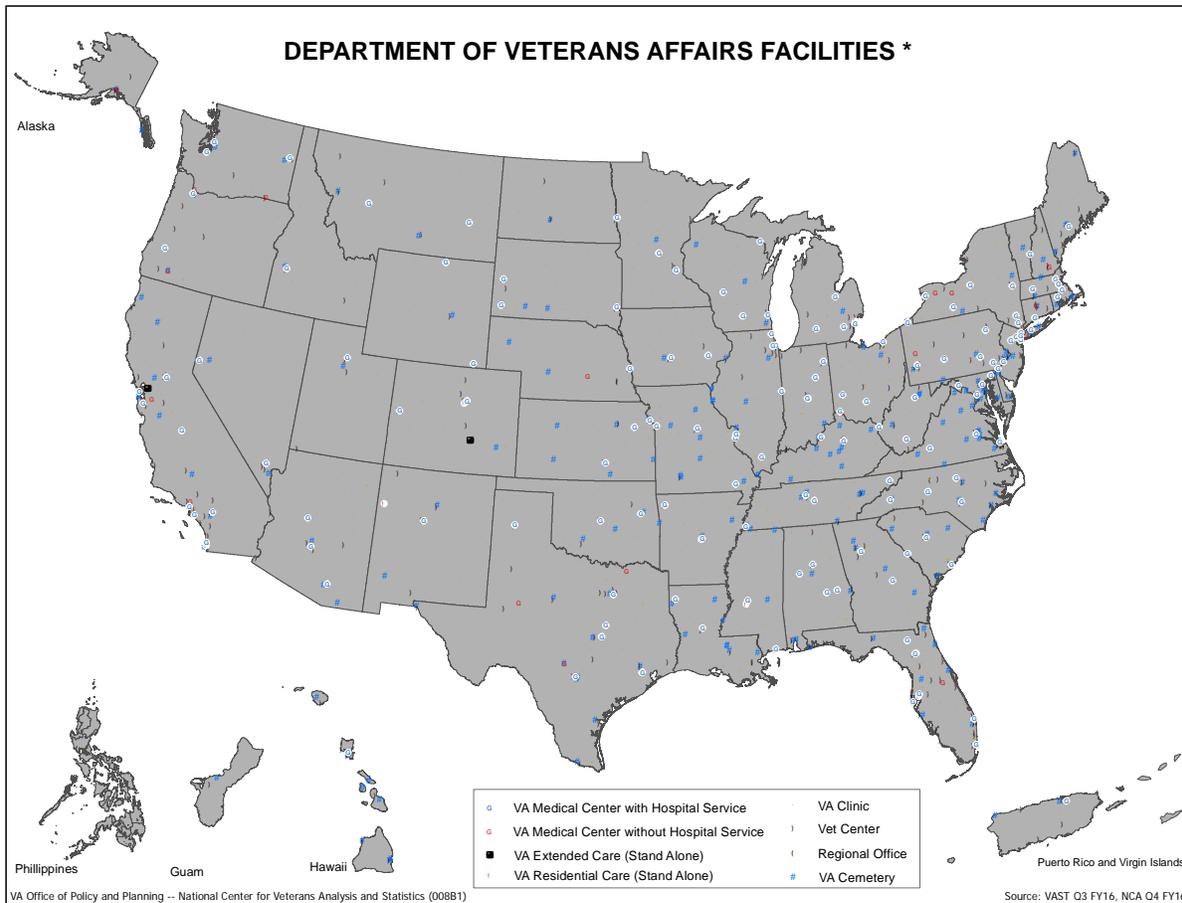
VA is comprised of three administrations that deliver services to Veterans and staff offices that support the Department:

- **Veterans Health Administration (VHA)** provides a broad range of primary care, specialized care, and related medical and social support services that are uniquely related to Veterans' health or special needs. VHA advances medical research and development in ways that support Veterans' needs by pursuing medical research in areas that most directly address the diseases and conditions that affect Veterans.
- **Veterans Benefits Administration (VBA)** provides a variety of benefits to Veterans and their families. These benefits include compensation, pension, fiduciary services, educational opportunities, vocational rehabilitation and employment services, home ownership promotion, and life insurance benefits.
- **National Cemetery Administration** provides burial and memorial benefits to Veterans and their eligible family members. These benefits include burial at national cemeteries, cemetery grants, headstones and markers, and medallions.
- **VA staff offices** provide a variety of services to the Department including information technology, human resources management, strategic planning, Veterans outreach and education, financial management, acquisition, and facilities management.



Major Facilities

VA provides medical care, benefits, and burial services throughout the Nation. Shown below is a depiction of VA's geographical locations as of September 30, 2016. The map identifies 144 Medical Centers with Hospital Service and 24 without Hospital Service, 300 Vet Centers, 1,055 VA Clinics, 11 VA Residential and Extended Care Sites (Stand-Alone), 240 National, State, and Tribal Cemeteries, and 56 Regional Offices.



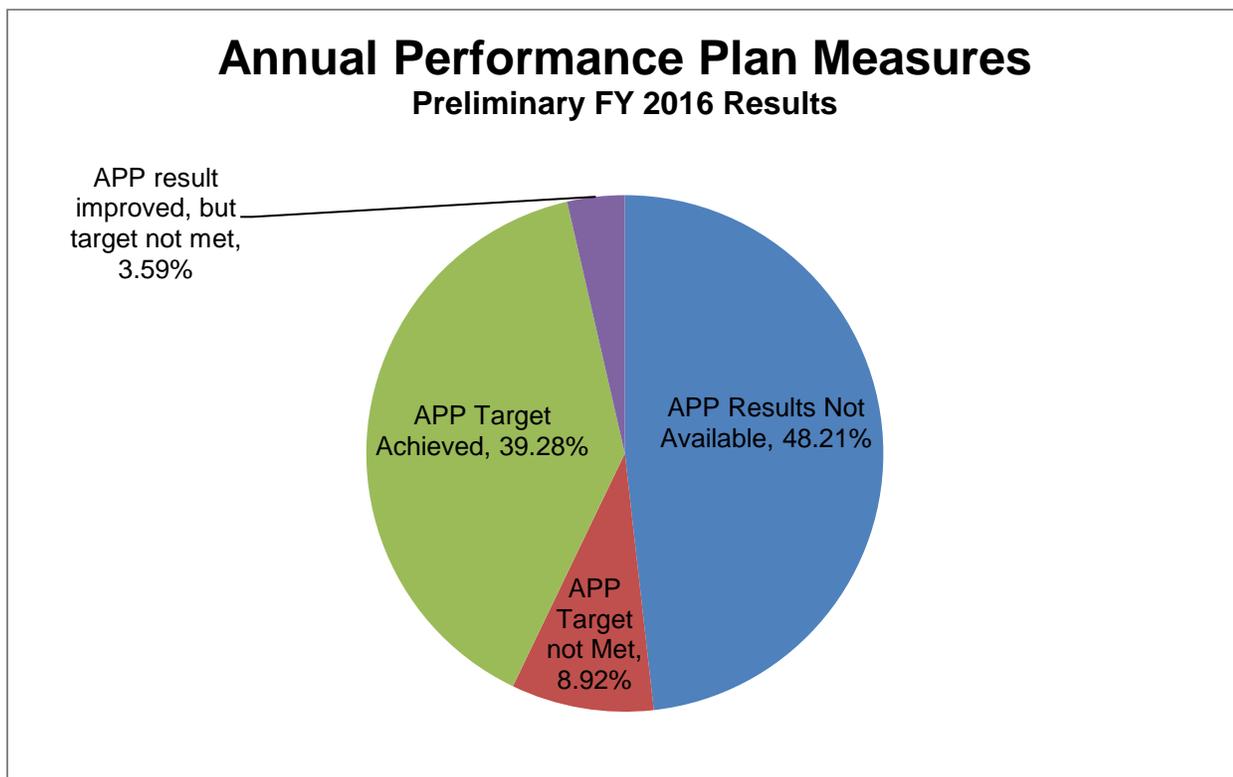
*Although State Veterans Cemeteries are included on the above map, they are not VA facilities, per se. VA provides grants for the establishment of State-operated cemeteries, which provide burial and memorial benefits to Veterans.



PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Summary of Performance Highlights

During FY 2016, VA made progress towards meeting the strategic goals and supporting objectives established in the *Veterans Affairs FY 2014–2020 Strategic Plan*. Additionally, VA made progress towards meeting the four agency priority goals targeted for FY 2016–2017. A detailed discussion of results for the Department’s FY 2016 performance goals, assessment methodologies, metrics, external reviews, and documentation of performance data will be presented in the *FY 2018/2016 VA Annual Performance Plan and Report* to be released in 2017 and posted on the VA Web site at <http://www.va.gov/budget/products.asp>. The table below provides a preliminary summary of VA’s progress towards meeting its Annual Performance Plan measures.





Strategic Goals and Objectives Highlights

The following pages provide highlights on VA’s progress towards meeting its strategic goals and objectives and agency priority goals.

Department of Veterans Affairs Strategic Plan Framework



MISSION: To fulfill President Lincoln’s promise
“...To care for him who shall have borne the battle, and for his widow and his orphan”
 - By serving and honoring the men and women who are America’s Veterans

GUIDING PRINCIPLES

People Centric Results Driven Forward Looking

TRENDS

Demographic And Societal Change Rapidly Evolving Technology Shifting Roles Of Government

FY 2016-2017 AGENCY PRIORITY GOALS

Access (A) Veteran Experience (VE) Employee Engagement (EE) Backlog (B)

STRATEGIC GOALS

STRATEGIC OBJECTIVES

Empower Veterans to Improve Their Well-being

- Improve Veteran wellness and economic security
- Increase customer satisfaction through improvements in benefits and services delivery policies, procedures, and interfaces (A) (VE) (B)

Enhance and Develop Trusted Partnerships

- Enhance VA’s partnership with DoD
- Enhance VA’s partnerships with Federal, state, private sector, academic affiliates, Veteran Service Organizations, and non-profit organizations
- Amplify awareness of services and benefits available to Veterans through improved communications and outreach

Manage and Improve VA Operations to Deliver Seamless and Integrated Support

- Make VA a place people want to serve (EE)
- Evolve VA information technology capabilities to meet emerging customer service/empowerment expectations of both VA customers and employees
- Build a flexible and scalable infrastructure through improved organizational design and enhanced capital planning
- Enhance productivity and improve efficiency of the provision of Veteran benefits and services
- Ensure preparedness to provide services and protect people and assets continuously and in time of crisis

CORE VALUES

Integrity Commitment Advocacy Respect Excellence

Visit www.va.gov/performance to View the Full Strategic Plan



Strategic Goals

VA strategic goals, as outlined in the FY 2014–2020 VA Strategic Plan, are statements of what VA will strive to achieve to advance our mission and address challenges and opportunities. Each strategic goal is then broken down into a set of strategic objectives to express more specifically how we will achieve the strategic goal. Each strategic objective is further defined by a suite of performance goals that establish the level of performance to be achieved.

Strategic Goal 1: Empower Veterans to Improve Their Well-being

Military service provides Servicemembers with tremendous skills, experience, and honor, but may also result in equally significant sacrifices and challenges. VA will work to ensure Veterans are empowered, independent, self-sustaining, and well-equipped for civilian life. Each Veteran is unique, yet shaped by their generation; the conditions of their military service, including any war or conflict in which they served; their gender; their ethnicity; and their support system of faith, family, friends, and caregivers. Each has different needs and expectations, which may change many times from the time they take their induction oath until the last benefit is received by their survivors. VA will both directly, and in collaboration with its partners, deliver benefits and services in an integrated, client-centered portfolio that is personalized to meet each Veteran's needs and situation. Success will be measured in terms relevant to individual Veteran outcomes from VA benefits and services.

Strategic Objective 1.1: Improve Veteran Wellness and Economic Security

Numerous programs provide a broad spectrum of benefits and support services that assist Veterans and eligible beneficiaries. To enable Veterans and eligible beneficiaries to choose the best benefits and services for their needs, VA will improve coordination between our programs, leverage supportive interactions between programs, and reduce overlap across programs. Success will be measured by the differences made in the lives of the Veterans we serve. Our actions include decreasing Veteran unemployment, decreasing home foreclosures, decreasing homelessness, reducing processing times for disability compensation claims, increasing preventive care and healthy lifestyle changes, and increasing access to and utilization of virtual care modalities.

Strategic Objective 1.2: Increase Customer Satisfaction through Improvements in Benefits and Services Delivery Policies, Procedures, and Interfaces

VA is a customer service organization. Complicated application processes, long processing time lines, or difficulties getting information and appointments impact the client's experience and satisfaction. Veterans and eligible beneficiaries deserve a support system that is responsive to their needs. VA must keep pace with Veterans' expectations and transform its customer services – soliciting regular customer feedback, streamlining processes, and delivering consistent service across customer preferred channels. We live in a connected world; the rapid pace of technological advancement is reshaping Veterans' expectations regarding how services, benefits, and support should be delivered. Today's client expects instant access to information and self-service options via the Internet and increasingly through mobile devices such as tablets and smartphones (and the next-generation "smart" devices that are yet to be deployed). To provide a personalized experience, we must listen, learn, and understand the needs and expectations of those we serve. We must have the knowledge, information, and insight to understand why some choose not to fully engage with VA.



Strategic Goal 2: Enhance and Develop Trusted Partnerships

VA is not the sole provider of benefits, services, and resources to Veterans and eligible beneficiaries. We will improve our ability to partner and work with those who provide benefits, services, and resources to our clients through improved collaboration, business practices, and outreach. We will ensure that the necessary benefits, services, and resources are accessible regardless of who provides them. VA recognizes the importance of, and embraces the opportunities to work with other Federal agencies, state and local governments, Tribal organizations, Veteran Service Organizations (VSO), Military Service Organizations (MSO), labor unions, nonprofits, and private industry to better serve Veterans and eligible beneficiaries. The Department of Defense (DoD) and VA, for example, are intimately joined, and VA will build on this relationship to communicate with Servicemembers from the moment they enter into service.

Strategic Objective 2.1: Enhance VA's Partnership with DoD

VA's lifelong engagement with its clients begins when Servicemembers first enter service and continues through the remainder of their lives. In support of this engagement, VA and DoD are working together to improve the access, quality, effectiveness, and efficiency of healthcare, benefits, and services provided to Servicemembers, Veterans, and other beneficiaries. VA will work closely with DoD to ensure these benefits and services are delivered through an integrated client-centric approach that anticipates and addresses client needs; that the delivery of healthcare is provided through a patient-driven healthcare system that delivers quality, access, satisfaction, and value consistently across the Departments; and through the efficiency of operations that are delivered through joint planning, training, and execution. The Departments must ensure authorized beneficiary and health information is accessible, usable, shared, and secure in order to meet the needs of clients, customers, and stakeholders.

Strategic Objective 2.2: Enhance VA's Partnerships with Federal, State, Private Sector, Academic Affiliates, Veteran Service Organizations, and Nonprofit Organizations

While VA is not the sole provider of benefits, services, and resources to Veterans and eligible beneficiaries, we hold ourselves accountable for each Veteran's success, no matter who provides assistance. To efficiently and effectively provide Veterans and eligible beneficiaries an integrated, coordinated, personalized portfolio of benefits and services, we must improve our communication, coordination, and relationships with our partners in other Federal agencies; state, Tribal, and local governments; VSOs; MSOs; academic affiliates; unions; nonprofits; and private industry. We must develop a partnership culture that entails trust, transparency, mutual benefit, responsibility, productivity, and accountability. Increased public-private partnership opportunities empower staff with effective tools and resources for collaboration, and allow the building of open innovation platforms.

Strategic Objective 2.3: Amplify Awareness of Services and Benefits Available to Veterans through Improved Communications and Outreach

The benefits, services, and resources available to our current and future clients, and the means and mechanisms for delivering them, must be widely known and well understood. We will expand the ways in which we connect to our clients to amplify awareness of the services and benefits available to Veterans and eligible beneficiaries. We will connect with Veterans and eligible beneficiaries, our partners, and the Nation through clear, aligned, and proactive interactions.



Strategic Goal 3: Manage and Improve VA Operations to Deliver Seamless and Integrated Support

VA will strengthen its business operations in targeted areas to ensure it is able to optimally and effectively serve Veterans and eligible beneficiaries. We are in a prolonged period of rapid technological and cultural change, as well as economic and emerging National Security threats. We must become nimble and responsive to change, giving ourselves maneuverability, space, and options in our response to shifting conditions. Our policies, processes, and approaches must allow us to expand and contract rapidly with minimal disruption to our business, benefits, services, and resources. We must focus on developing cost-effective and integrated solutions to increase productivity and identify opportunities to divest, eliminate redundancies, and improve efficiency. We must integrate business support processes, Veteran-facing services and technology Department-wide.

Strategic Objective 3.1: Make VA a Place People Want to Serve

VA recognizes that an organization is only as strong as its people and realizes that it must build on successes and continue to transform the way it manages human capital. VA is a customer service organization whose greatest asset is its workforce. VA's workforce must be able to adapt to the changing demographics, needs, and expectations of the Veteran population as well as changes in the workforce population. More than 25 percent of VA's workforce is eligible for retirement, including roughly 50 percent of VA's senior executives. Today, we have skills gaps in healthcare, acquisition, claims processing, human resources (HR), and information technology (IT) that we need to address to build the workforce for tomorrow. The skills needed for success in the future are not the skills of today. VA must recruit, train, motivate, and lead its workforce with inspired and inspiring leadership. VA must consider human capital management and workforce planning as key enablers for every initiative or project we undertake, in order to have the right people with the right skills in the right job at the right time.

Strategic Objective 3.2: Evolve VA Information Technology Capabilities to Meet Emerging Customer Service / Empowerment Expectations of Both VA Customers and Employees

The explosion of information capabilities available to all citizens via the Internet and mobile computing has forever changed how individuals communicate with each other and with providers of goods and services. Information "on demand" is now a core expectation, as well as the ability to transact both work and personal business "anytime, anywhere." These trends have resulted in tremendous changes to what individuals expect in terms of customer service and how they expect to manage their own work, life, and career. For VA this not only presents huge challenges, but also opportunities in terms of how it delivers services to Veterans and eligible beneficiaries as well as how it empowers its employees to perform their duties. New and emerging IT capabilities must be implemented that:

- Enable each Veteran to manage his/her relationship with VA in a unified manner, with Veterans and the VA employees serving them able to access and maintain a holistic view of the Veterans' complete profile along with services entitled, available, and provided.
- Enable Veterans and eligible beneficiaries, VA employees and trusted partners with the ability to access authorized VA-maintained information "anytime, anywhere."
- Enable VA employees with the flexibility to take advantage of emerging technologies to increase alternative work arrangements, such as telework.



Inherent in these capabilities is recognizing the need to continually evaluate and address concurrently emerging information security challenges. Safeguarding Federal computer systems and supporting critical IT infrastructure has been an ongoing Federal concern. Increased information sharing and use of mobile computing also serve to highlight the need to strengthen information security.

Strategic Objective 3.3: Build a Flexible and Scalable Infrastructure through Improved Organizational Design and Enhanced Capital Planning

Although the size of the Veteran population may be decreasing, the demographics and preferences are increasing in complexity. VA's infrastructure – organizational structure, equipment, and facilities – must become more flexible and scalable in order to better serve Veterans of today and the future.

Strategic Objective 3.4: Enhance Productivity and Improve the Efficiency of the Provision of Veteran Benefits and Services

VA has a fundamental responsibility to be an effective steward of taxpayer dollars. VA must continue to eliminate wasteful spending and ensure that the proper controls, practices, and safeguards are in place to prevent misspending of tax dollars.

Strategic Objective 3.5: Ensure Preparedness to Provide Services and Protect People and Assets Continuously and in Time of Crisis

Hurricane Sandy (2012), the Boston Marathon bombing (2013), the emergence of the H7N9 influenza strain in China (2013), the fertilizer plant explosion in West, TX (2013), and Ebola Virus Disease (EVD) outbreak (2014) all serve as recent reminders that natural, public health, technological disasters, and terrorist attacks can occur at any time, in any place, and with little to no warning. VA must protect against and prepare to respond to, as well as recover from all hazards. Emergency response and preparedness is critical to ensure the safety and security of Veterans and eligible beneficiaries, volunteers, employees, and visitors at VA facilities while integrating, improving, and increasing VA's resilience through operational continuity and preparedness. VA defines "readiness" as the ability to serve Veterans and eligible beneficiaries now and on a day-to-day routine basis, and "preparedness" as the ability to serve Veterans and eligible beneficiaries in times of crisis and to serve as an asset to the Nation. These aspects of "readiness" and "preparedness" define the Department's 4th Mission, which includes personnel accountability (e.g., Veterans and eligible beneficiaries, employees, contractors, and others on VA property); establishing and maintaining command, control, and communication; continuing to provide services to Veterans and eligible beneficiaries; and for VA to serve as a National asset following an emergency or disaster.



Agency Priority Goal (APG) Highlights

VA has identified four Agency Priority Goals (APG) focused on improving service to Veterans and eligible beneficiaries:

- (1) Improve Access to Health Care as Experienced by the Veteran
- (2) Improve Veterans' Experience with VA
- (3) Improve VA's Employee Experience
- (4) Improve Dependency Claims Processing.

Achieving these goals requires extensive collaboration across VA organizations and non-VA partners. In addition to having long-term benefits for Veterans, each APG will result in short-term and high-impact improvements in VA performance. The following sections provide a summary of the issue each goal addresses and the performance metrics VA will use to track its progress.

VA has chosen to focus on two specific elements of its strategic plan through the APGs in order to create change for Veterans. VA's first strategic goal is to Empower Veterans to Improve Their Well-Being, which is supported by the strategic objective: Increase Customer Satisfaction Through Improvements in Benefits and Services Delivery Policies, Procedures, and Interfaces. VA's initiatives to Improve Access to Health Care, Improve Veterans Experience with VA, and Improve Dependency Claims Processing tie directly to the strategic objective just mentioned, which in turn, will empower Veterans to improve their well-being.

VA recognizes that in order to improve its services to Veterans, it must improve its employee's satisfaction with their jobs and working environment. The Employee Engagement APG is directly tied to the strategic objective, Make VA a Place People Want to Serve, which in turn ties to the third strategic goal: Manage and Improve VA Operations to Deliver Seamless and Integrated Support.

FY 2016 was spent developing the APG initiatives and establishing the related baseline measures. Reporting on APG results will be on a two-year cycle beginning in the fall of 2017.

APG 1 – Improve Access to Health Care as Experienced by the Veteran

Overview: VA has experienced unprecedented growth in demand for its services as a result of better recognition of service-connected conditions, innovative and favorable clinical offerings for complex and costly health conditions, and the growing needs of an aging Veteran population. VA is also embedded within the larger U.S. health system, which is similarly experiencing increased demand for services and shortages of key clinical professions due to advances in technology and the aging of the population.

In FY 2015, a congressionally mandated Independent Assessment of VA Healthcare Capabilities as well as an Institute of Medicine report highlighted that VA access, while meeting timeliness standards on average, still had unacceptable levels of variation by site for specific services. These independent reviews are candid in stating that highly specialized services required by Veterans are frequently not available in their communities, even from private sector providers. Those independent reports interviewed many U.S. medicine thought leaders; these experts highlighted the critical importance of



addressing access challenges by taking a systems approach, recommending strategies such as modeling system supply and demand relationships, exploring design and policy changes, and creating a culture of service excellence that empowers the front line to experiment, identify limitations, and learn from trials.

The ultimate success of these strategies and programs must be evaluated through the eyes of the Veteran, as a noticeable improvement in their self-reported ability to receive needed care. Assessing access to healthcare through direct survey of patients is the only access measure currently endorsed by the National Quality Forum. Using a survey-based approach to measure access also provides additional advantages, such as the ability to benchmark with private sector health systems and avoiding the shortcomings of current VA scheduling software (a replacement scheduling system will not be in place until late FY 2017).

Goal: By September 30, 2017, the VA national access composite score will improve by 15 percent over baseline. This is a Veteran-centered composite measure that assesses Veteran perceptions of their experience with access to VA care by using data from the survey questions:

- Percent of Specialty Care patients who responded “Always” or “Usually” regarding their ability to get an appointment for needed care right away.
- Percent of Primary Care patients who responded “Always” or “Usually” regarding their ability to get an appointment for needed care right away.
- Percent of Primary Care patients who responded “Always” or “Usually” regarding their ability to get an appointment for a routine checkup as soon as needed.
- Percent of Specialty Care patients who responded “Always” or “Usually” regarding their ability to get an appointment for a routine checkup as soon as needed.

For detailed information about performance measure results and next steps for this Agency Priority Goal, please see Performance.gov (<https://www.performance.gov/content/improve-access-health-care-experienced-veteran?view=public#overview>).

APG 2 – Improve Veterans’ Experience with VA

Overview: VA offers a remarkable array of services and benefits to Veterans and eligible dependents. But the experience is disjointed and inconsistent. There are hundreds of phone numbers and thousands of Web sites, each operating independently under different standards. Similarly, there are a wide array of VA and non-VA resources at the Federal, state, local, corporate, nonprofit, and tribal levels that are not coherently organized or coordinated into a single source or reference point for the Veteran. Veterans deserve better and so do VA staff, who care deeply about delivering the best possible outcome for Veterans.

VA is committed to improving customer experiences nationwide. Our goal: Fostering the delivery of effective and easy customer experiences in which Veterans feel valued. We are achieving this goal the same way the world’s most successful companies do: by listening to our customers – Veterans, their families and supporters – when they describe how they want things to work. Equally important, we are listening to our employees about obstacles to excellence on-the-job. Employee empowerment is an



essential part of the equation. This is user-centered design. It puts Veterans and the employees who serve them front and center.

VA faces a number of challenges and barriers:

- Siloed products and services without a common view of customers and their needs and wants.
- Customer touchpoints and experiences owned by individual product and service teams, not integrated within a complementary suite of offerings.
- Insular approach that does not account for the community resources used by customers.

To build trust among our customers, VA must consistently deliver customer experiences marked by effectiveness, ease, and engagement. To ensure comparability across VA's disparate service and product lines, the same measures of Trust and Customer Experience will be applied.

VA earns trust among Veterans by knowing them and showing that we care, by understanding and anticipating their needs, by providing fair benefits and timely services, by being there when they need us, and by keeping our promises. With every interaction, VA has the opportunity to deepen a trusting relationship with Veterans or to diminish that trust.

Goal: By September 30, 2017, VA will reach 90 percent agreement with the statement "I trust VA to fulfill our country's commitment to Veterans." Trust in VA is built one interaction at a time. The experience must be effective, it must be easy, and, ideally, it must be engaging and reflective of a valued, personal relationship with our customer. Trust is broken when VA does not consistently meet expectations in these three categories. VA will use customers' ratings of their individual experiences as indicators of performance toward the overall Veterans Experience goal.

The measures will include level of agreement with questions such as:

- Effectiveness: "I got the service I needed."
- Ease: "It was easy to get the service I needed."
- Engagement: "I felt like a valued customer."

These measures are also new, and will be implemented along the time line for the Trust measure indicated above. They will be added to new and existing VA customer experience surveys where responses will be correlated with operational data to highlight performance improvement opportunities that will improve Veterans' experiences.

For detailed information about performance measure results and next steps for this Agency Priority Goal, please see Performance.gov (<https://www.performance.gov/content/improve-veterans-experience-va?view=public>).

APG 3 – Improve VA's Employee Experience

Overview: Leader and managerial actions can help boost job satisfaction and ultimately improve business outcomes. Strong leaders are important to creating a positive organizational climate. Employees who are regularly engaged with their leaders are more innovative than others, more likely to



want to remain with their employer, absent less often, enjoy greater levels of personal well-being, and perceive their workload to be more sustainable than others. Ultimately, our customer, the Veteran, will enjoy a higher level of satisfaction with VA services as a result of an improved Employee Experience. VA is committed to creating a work environment that provides all employees with a more consistent, positive Employee Experience, which improve the Veteran's experience with our organization. Studies indicate that employees who are satisfied with leadership behaviors provide a higher level of positive responses on employee surveys.

To evaluate progress, VA will use six questions from the Federal Employment Viewpoint Survey (FEVS) to pulse VA employees on a quarterly basis about their experience with VA leaders. The six questions were selected after a thorough review and assessment of what leadership behaviors can drive the biggest improvements in employee engagement and job satisfaction.

Transformational leaders engage in relationship-building and relationship-maintaining behaviors with their employees. Strong leaders tend to have the ability to motivate employees, establish trust, communicate goals, and generate commitment. Changing an organization's culture may take a decade or longer, especially with a large organization such as VA. This APG, which covers only a two-year time period, focuses on a strategy that primarily addresses improving leadership practices, and that can bring about measurable changes in a relatively short period of time.

The leadership strategy in this APG is supported by myriad programs and activities including strategic communications which, over time, should lead to improved favorable responses to the six employee survey questions. The leadership strategy also supports the accomplishment of one of VA's Strategic Objectives, "Make VA a Place People Want to Serve," and VA's MyVA Initiative. MyVA is what we are calling our transformation from VA's current way of doing business to one that puts Veterans in control of how, when, and where they wish to be served. It is a catalyst to make VA a world-class service provider.

VA realizes it will take more than one program or initiative to improve the Employee Experience and/or change VA employees' perceptions of its leaders. However, overall, VA believes that participation in leadership programs and the subsequent implementation of leadership practices should have a significant positive impact on employee perceptions of leadership.

Goal: Improve VA's Employee Experience by developing engaged leaders at all levels who inspire and empower all VA employees to deliver a seamless, integrated, and responsive VA customer service experience. Success by September 30, 2017, will be measured by an increase of four points or more in the percent of positive responses by VA employees (over VA's FY 2015 baseline) to the following statements:

- (1) My supervisor provides me with constructive suggestions to improve my job performance.
- (2) In my work unit, steps are taken to deal with a poor performer who cannot or will not improve.
- (3) Employees have a feeling of personal empowerment with respect to work processes.
- (4) I feel encouraged to come up with new and better ways of doing things.
- (5) How satisfied are you with the information you receive from management on what is going on in your organization?
- (6) My organization's leaders maintain high standards of honesty and integrity.



For detailed information about performance measure results and next steps for this Agency Priority Goal, please see Performance.gov (<https://www.performance.gov/content/improve-va%E2%80%99s-employee-experience?view=public>).

APG 4 – Improve Dependency Claims Processing

Overview: It is VA's mission and responsibility to ensure Veterans receive the benefits and services they have earned accurately and within a reasonable amount of time. Since FY 2009, VA's Agency Priority Goal (APG) for improving access to benefits was focused on eliminating the backlog of disability claims, defined as the number of rating-related claims pending more than 125 days. VA has made dramatic progress in reducing the backlog, improving the timeliness of decisions, and reducing the overall pending inventory of disability rating claims – while at the same time improving the quality of its decisions. To achieve these service improvements, VA defined the requirement, transformed claims processing through implementation of streamlined processes and systems, and accordingly focused resources on achieving the goal.

Veterans who are awarded disability compensation at the 30-percent level or higher are entitled to additional compensation for their eligible dependents. Approximately 70 percent of the 4.1 million Veterans currently receiving compensation are eligible for this additional benefit – nearly 45 percent more than those eligible for the same benefits just five years ago. As the status of these Veterans' dependents change (through marriage, divorce, death, birth or adoption of children, step-children, and school attendance for children over 18 years of age), adjustments must be made to Veterans' compensation awards.

With VA's record-levels of production of disability rating decisions (almost 1.4 million disability claims completed in FY 2015), more and more Veterans continue to be added to the compensation rolls. The result was an inventory at the end of FY 2015 of almost 227,000 pending dependency claims that have been pending, on average, nearly a year.

Ensuring that Veterans receive timely and accurate claim decisions is paramount. As VA continues to improve timeliness of disability claims decisions, VA will also focus on the dependency claims that are the direct result of the dramatic increase in completed disability rating decisions and growth in the number of Veterans receiving compensation at the higher disability evaluation levels.

Goal: Improve access to benefits and the customer experience for Veterans who are entitled to additional benefits for their dependents. By September 30, 2017, VA will reduce the overall inventory of dependency claims to 100,000 or fewer (a 56 percent improvement from the FY 2015 baseline of 227,000) and improve the average days to complete dependency claims to 125 days (a 43 percent improvement from the FY 2015 baseline of 221 days).

For detailed information about performance measure results and next steps for this Agency Priority Goal, please see Performance.gov (<https://www.performance.gov/content/improve-dependency-claims-processing?view=public>).



ANALYSIS OF ENTITY'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Statement of Assurance

November 15, 2016

The Department of Veterans Affairs (VA) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections Two and Four of the Federal Managers' Financial Integrity Act (FMFIA). VA conducted its assessment of risks and internal control in accordance with Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of the assessment, the Department can provide reasonable assurance that internal controls over operations and compliance were operating effectively as of September 30, 2016, except for the following material weaknesses reported:

- (1) **Unauthorized Commitments in Prosthetics:** Unauthorized commitments associated with implant purchases were paid for without underlying contracts. Obligations were made by warranted contracting officers after the surgical implants were used. VA is deploying a new pre-authorization process, ensuring appropriate contracts are used to obligate the government prior to use of implants.
- (2) **Government Accountability Office (GAO) High-Risk List Areas:** Every two years at the start of a new Congress, GAO calls attention to agencies and program areas that are high risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement, or are most in need of transformation. GAO's 2015 High-Risk List added "Managing Risks and Improving VA Health Care." GAO highlighted five primary risk issues: (1) ambiguous policies and inconsistent processes; (2) inadequate oversight and accountability; (3) information technology challenges; (4) inadequate training of VA staff; and (5) unclear resources and allocation priorities. VA submitted its management strategy to GAO to address the five high-risk issues. VA senior leadership is overseeing implementation of the strategy.
- (3) **Access to Care:** Veterans experiencing long wait times for care challenged the Veterans Health Administration (VHA) to develop an open scheduling access. Open access means having space in "today's" schedule for patients to be seen, which means transitioning from a fully booked appointment schedule to a schedule with immediate appointment availability. To improve access to care, VA removed wait times from performance plans, retrained schedulers on a simplified scheduling process, established simplified wait time methods, and increased the volume of appointments completed. Additional actions in process include upgrading scheduling software, increasing and improving access to Community Care, and implementing a revised clinic management structure.

The Department noted non-compliance with: (1) FMFIA Section 4; (2) the Anti-Deficiency Act; (3) Procurement Policy – Federal Acquisition Regulation and VA Acquisition Regulation; (4) the Improper Payments Information Act of 2002 (as amended by Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012); (5) Title 38 United States Code (U.S.C.) Section 5315 Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States, and 31 U.S.C. Section 3717, Interest and Penalty on Claims; and (6) 38 U.S.C. Section 3733, Property Management.



In addition, the Department conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the assessment, the Department can provide reasonable assurance that internal controls over financial reporting were operating effectively as of September 30, 2016, except for the following material weaknesses:

- (1) Community Care: VHA has weaknesses in its design and implementation of controls over the Community Care program, from transaction authorizations to liquidation of unfulfilled authorizations. VA's financial statement auditor identified issues with reconciliations between the Fee-Basis Claims System (FBCS), Integrated Funds Distribution Control Point Activity Accounting & Procurement (IFCAP), and the Financial Management System (FMS). Obligations, expenses, accruals, and undelivered orders balances, as reported in the financial statements, could be misstated without a complete reconciliation and a monitoring process in place. Also, amounts obligated in FMS for Community Care do not match amounts authorized in FBCS. The financial statement auditor is also highlighting VA Community Care expenses as potentially grossly over-accrued. VHA has corrective action plans addressing: improving administration and oversight of the Veterans Choice Program; designing measurable processing standards for in-house and outsourced activities; assessing contractor compliance; improving standard operating procedures; creating reports to support analyses and reconciliations; instituting aggressive corrective action tracking; and replacing and enhancing Information Technology (IT) systems.
- (2) IT Security Controls: VA continues to have an IT material weakness in: (1) Department-Wide Security Management Program; (2) Identity Management and Access Controls; (3) Configuration Management Controls; (4) System Development/Change Management Controls; (5) Contingency Planning; (6) Incident Response and Monitoring; (7) Continuous Monitoring; and (8) Contractor Systems Oversight. Remediation efforts remain a priority for VA and detailed corrective action plans are in place and closely monitored by senior management.
- (3) Financial Reporting: VA's outdated legacy financial management systems are driving a myriad of financial reporting deficiencies that include overuse of journal vouchers, increased need for analytics, and issues with intra-governmental activities. VA is moving to a Federal Shared Service Provider solution, hosted by the United States Department of Agriculture, to modernize our financial management systems and processes in order to mitigate this weakness.
- (4) Veterans Benefit Actuarial Liability: VA identified issues related to the new case rate assumption, which resulted in a substantial adjustment to the actuarial model and related liability on the financial statements. VA's financial statement auditor also identified internal control deficiencies in the control environment related to succession planning for the actuarial function. VA is actively developing corrective actions to address this issue, which include improving recruitment and retention efforts through designating the actuary role as a critical position and/or pursuing contract actions for actuary services.
- (5) Veterans Education Benefit Liability: VA recorded the liability for education benefits as a non-exchange transaction rather than an exchange transaction. VA's accounting treatment failed to record a liability for future benefits and was, therefore, not compliant with the Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standard No. 5, Accounting for Liabilities of the Federal Government. VA is actively developing corrective actions to ensure accurate liabilities for future education benefits.



- (6) Chief Financial Officer (CFO) Organizational Structure: VA's financial statement auditor reported a material weakness for the CFO organizational structure, noting VA operates under a decentralized environment with a fragmented financial management and reporting structure. The auditor stated the organizational structure does not operate in a fully integrated manner to enable effective financial reporting for internal and external purposes. In fiscal year (FY) 2016, VA recognized the challenges posed by the organizational structure and initiated corrective actions to improve the financial management control environment and financial management activities Department-wide. As a result, VA established a new CFO hierarchy structure that supports a strong dotted-line relationship between the Department CFO to all administrative and staff CFOs as well as their field financial personnel. This change went into effect since the beginning of FY 2017.

VA is responsible for providing an annual certification that management has appropriate policies, controls, and corrective actions to mitigate the risk of fraud and inappropriate use of charge cards as required by OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*. The Department can provide reasonable assurance that controls over charge cards are in place and effective with no material weaknesses.

A handwritten signature in blue ink, appearing to read "Robert A. McDonald", is positioned above the printed name.

Robert A. McDonald
Secretary of Veterans Affairs



Summary of Internal Control Assessment

Summary of Process for Assessing Internal Controls

The Office of Management established the Office of Internal Controls (OIC) to oversee the internal control program and assist VA's major organizations in completing an internal controls assessment to support their Statements of Assurance. OIC developed an Entity-Level Internal Controls Assessment (ELICA) tool for evaluation of each of the 17 principles in the Government Accountability Office's Standards for Internal Control in the Federal Government (Green Book). The 17 principles fall into five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. In 2016, VA assessed the three distinct but overlapping objectives of internal control: operations, compliance, and reporting.

In FY 2016, the Department required 16 Administrations and major Staff Offices to complete an ELICA, identifying how the entity met the control objectives of each Green Book principle and concluding on the overall effectiveness of the principle, the control component, and the system of internal controls. If deficiencies were identified, management of the Administration or Staff Office, in accordance with OMB Circular A-123, exercised judgment in determining the severity of the deficiency.

Each Administration and Staff Office signed a Statement of Assurance based on the results of their ELICA. The Statement of Assurance provides an informed judgment of the overall adequacy and effectiveness of internal control. OIC analyzed ELICA submissions and Statements of Assurance to ensure the Statements appropriately captured material weaknesses identified during the internal controls assessment.

VA's internal controls governing body, the Senior Assessment Team, reviewed the material weaknesses, identified by the Administrations and major Staff Offices as well as, those identified as part of the financial statement audit.

Compliance with Laws and Regulations

VA management is required to comply with various laws and regulations in establishing, maintaining, and monitoring internal controls over operations, financial reporting, and financial management systems as discussed below.

Federal Financial Management Improvement Act of 1996 (FFMIA)

The FFMIA requires agencies to implement and maintain financial systems that comply substantially with Federal financial system requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

VA's financial management systems substantially complied with Federal accounting standards, but did not substantially comply with Federal financial management systems requirements, and the United States Standard General Ledger (USSGL) at the transaction level. VA continues to work to remediate this weakness.



Anti-Deficiency Act (ADA)

The ADA prohibits Federal employees from obligating in excess of an appropriation, before funds are available, or from accepting voluntary services. As required by the ADA, VA notifies all appropriate authorities of any ADA violations. VA management has taken and continues to take necessary steps to prevent ADA violations. Investigations of any violations will be completed in a thorough and expedient manner. VA remains fully committed to resolving ADA violations appropriately and in compliance with all aspects of the law.

Government Charge Card Abuse Prevention Act of 2012

The Charge Card Abuse Prevention Act (Charge Card Act) requires agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Furthermore, the Act requires agencies to report purchase card violations, and the Inspector General to conduct periodic risk assessments of Government charge card programs.

Prompt Payment Act

In 1982, Congress enacted the Prompt Payment Act to require Federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. In 2015, VA implemented the Invoice Payment Processing System (IPPS) to standardize electronic invoice submission and provide enhanced monitoring and controls over agency payments. IPPS, together with the Financial Management System (FMS), use automated, date-driven processes to enforce compliance with the Prompt Payment Act.

Digital Accountability and Transparency Act of 2014 (DATA Act)

The DATA Act expands the *Federal Funding Accountability and Transparency Act of 2006* to increase accountability and transparency in Federal spending, making Federal expenditure information more accessible to the public. It directs the Federal government to use government-wide data standards for developing and publishing reports, and to make more information, including award-related data, available on the USASpending.gov Web site. The standards and Web site allow stakeholders to track Federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. VA is performing an agency-wide evaluation of the existing data elements to assist in determining how best to meet the requirements of the DATA Act in 2017.

Veterans Access, Choice and Accountability Act of 2014 (Choice Act)

The Choice Act provides new authorities, funding, resources, and other tools to improve Veteran access to healthcare and requires VA to establish a temporary program (the Veterans Choice Program). This temporary program improves Veterans' access to healthcare by allowing eligible Veterans to use eligible healthcare providers outside of the VA system (non-VA care) based either on the distance a Veteran lives from a VA facility, or if he or she is experiencing wait times beyond the 30-day standard. Veterans must be enrolled in the VA healthcare system and must meet certain eligibility criteria to be eligible for the Veterans Choice Program.



Federal Information Security Management Act of 2002 (as amended by Federal Information Security Modernization Act of 2014) (FISMA)

The FISMA requires Federal agencies to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency. The Office of the Inspector General (OIG) performs an annual evaluation of the Department's compliance with FISMA requirements. Should the OIG detect any issues of concern, VA will address these concerns by developing a corrective action plan, inclusive of routine updates until issue closure.

Financial Systems Framework

VA's Financial Management Systems Strategy:

VA's Financial Management Business Transformation (FMBT) effort will increase the transparency, accuracy, timeliness, and reliability of financial information resulting in improved fiscal accountability to American taxpayers, and offers a significant opportunity to improve care and services to our Veterans. The FMBT program goals capitalize on the opportunities for business process improvements to resolve systemic and procedural issues including:

- Standardizing, integrating, and streamlining financial processes including budgeting; procurement, accounting, resource management, and financial reporting
- Facilitating management that is more effective by providing stronger analytics and projections for planning purposes
- Improving customer service and support of goods, supplies, and services for the Veteran
- Improving the speed and reliability of communicating financial information throughout the VA and providing timely, robust, and accurate financial reporting.

Current Financial Management System Framework:

VA's legacy financial management systems' environment consists of VA's core financial system, the Financial Management System (FMS), and a number of interfacing systems:

- Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement System (IFCAP)
- Electronic Contract Management System (eCMS)
- Veterans Health Information Systems and Technology Architecture (VistA)
- Management Information Exchange (MinX)
- Centralized Automated Accounting Transaction System (CAATS).



Auditors have repeatedly identified a need for VA to fully integrate these applications and the detailed transactions they contain, into the core financial system.

Future Financial Management Systems Framework:

The initial scope of the FMBT program is focused on transitioning VA from its legacy core financial management system (FMS) to a Federal Shared Service Provider’s (FSSP) modern financial management system solution. The effort includes:

- Migrating to a financial management solution compliant with federal regulations
- Standardizing financial and acquisition management business processes across VA
- Replacing the financial management functionality of IFCAP and CAATS, the debt management functionality of CARS, and the procurement functionality of eCMS
- Implementing a new business intelligence solution and data warehouse for financial reporting
- Interfacing the FSSP solution with selected legacy VA systems not targeted for replacement.

The initial implementation phasing approach and time frames remain under development in conjunction with the ongoing FSSP planning and prediscovery efforts.

VA’s enterprise-wide corporate business systems consist of financial, budgetary, procurement, and personnel systems. The table below details the major systems used to support effective and efficient operations, reliable reporting, and compliance with laws and regulations.

VA Financial Management Systems as defined by OMB Circular A-123, Appendix D	
Financial Systems	Financial Management Systems (FMS)
	FMS is VA’s financial system of record for funds control, general ledger balances, and Treasury disbursements. A highly customized version of the Federal Financial System (FFS), a certified Commercial Off-The-Shelf (COTS) package, FMS, was originally installed at the VA beginning in 1992 and is used throughout the Department.
Financial Systems	Management Information Exchange (MinX)
	The MinX system creates agency consolidated financial statements, footnotes, required supplemental information, and GTAS submission files. MinX was developed in 2005 using Oracle’s Hyperion Financial Management software.
Mixed Systems	Veterans Health Information Systems and Technology Architecture (VistA)
	VistA, implemented in 1996, is VA’s clinical and administrative system at more than 1,500 sites of care, including each VA Medical Center (VAMC), Community Based Outpatient Clinic (CBOC), and Community Living Center (CLC). A mission critical operational system, VistA contains nearly 200 modules, both operational and financial. The VistA system interfaces with FMS to send financial transactions such as accounts receivable summary-level balances from the AR module, payments from the Fee Basis module, and fixed asset detailed transactions.



VA Financial Management Systems as defined by OMB Circular A-123, Appendix D	
	<p>Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement System (IFCAP)</p> <p>IFCAP is a module of the VistA system. It includes automated budgetary, procurement, reconciliation, and inventory processes in support of VA’s purchase order process. The IFCAP system interfaces with FMS to provide purchase order transactions.</p>
	<p>Electronic Contract Management System (eCMS)</p> <p>eCMS supports the acquisition life cycle of VA. The eCMS system, implemented in 2006, interfaces with IFCAP to provide contract data required for procurement transactions and receives Procurement Requests (PRs) from IFCAP to begin the procurement cycle.</p>
	<p>Centralized Automated Accounting Transaction System (CAATS)</p> <p>CAATS was developed by VBA to enhance financial transaction data entry at VBA and NCA field offices. Implemented in 2008, CAATS controls data entry of transactions by tailoring the choices allowed for each office. The transactions entered into CAATS are sent to FMS and eCMS for processing.</p>
	<p>Personnel and Accounting Integrated Data System (PAID)/HR Smart</p> <p>A new human resources (HR) Line of Business (LOB) solution, HR Smart, began implementation throughout VA in 2015 and fully deployed on June 12, 2016, transitioning to operational status. HR Smart is VA’s personnel system of record that supports HR processing and, as required, enhancements that impact data exchange with the Defense Finance and Accounting Service (DFAS). HR Smart will eventually lead to the decommissioning of the PAID system.</p>
	<p>VA Time and Attendance System (VATAS)</p> <p>In FY 2016, VA continued rolling out its Web-based time and attendance system (VATAS) successfully adding 73,500 users with a total user base of over 125,000. All of VA Central Office, NCA, and VBA are fully deployed to VATAS. VHA deployments, by VISN, are underway and scheduled to conclude in July 2018.</p>
	<p>Invoice Payment Processing System (IPPS)</p> <p>Invoice Payment Processing System (IPPS) is a digital invoice processing platform incorporating electronic invoice submission, automated approval workflow, three-way matching capability, and advanced business rule functionality with interfaces to the VA Financial Management System and FSC electronic content management system. IPPS processed over 1.4 million invoices valued at over 13.9 billion during FY 2016.</p>
Mixed Systems	<p>E-Gov Travel Service 2 (ETS2)/ConcurGov</p> <p>ConcurGov is VA’s ETS2 solution and is used by all employees who perform TDY travel, approve official travel, assist others in the creation and/or submission of documents, maintain a system of record, or make TDY travel arrangements. In FY 2016, VA processed 137,150 TDY Travel episodes valued at \$152.51 million.</p>



ANALYSIS OF ENTITY’S FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). The statements have been prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB). The statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Balance Sheet

As shown in Chart 1, “Total Assets and Liabilities with Breakdown of FY 2016 Liabilities,” the Department’s total liabilities exceed total assets. Significant balance changes are detailed in Chart 2, “FY 2016 Significant Changes in Assets,” and in Chart 3, “FY 2016 Significant Changes in Liabilities.” The largest component of the Department’s Balance Sheet is Federal Employee and Veterans Benefits, which comprises almost \$2,558 billion (or approximately 98.7 percent) of the \$2,591 billion amount reported for Total Liabilities. The most significant aspect of Federal Employee and Veterans Benefits, which is an unfunded liability, is the Department’s compensation benefits to both Veterans with military service-related disabilities and the beneficiaries of deceased Veterans in recognition of a Veteran’s military service. This amount is developed on an actuarial basis and is reported at the present value of expected future payments. The other two components accounting for the remaining balance of the Federal Employee and Veterans Benefits liability are education benefits expected to be used by Veterans or their dependents and burial-related benefits, including burial flag, headstone/marker, and other interment needs, to recognize the Veteran’s sacrifices in service of the nation.

Chart 1: Total Assets and Liabilities with Breakdown of FY 2016 Liabilities





Chart 2: FY 2016 Significant Changes in Assets



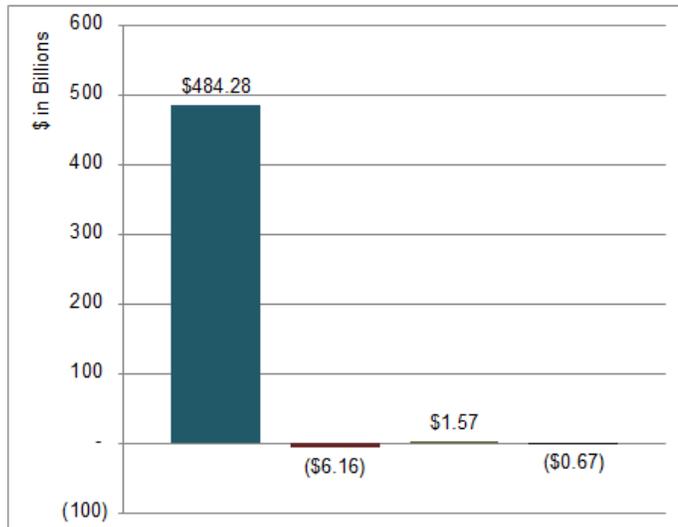
Intragovernmental - Investments: The decrease is primarily due to the withdrawal of insurance policy reserve amounts to fund necessary operating expenses.

Intragovernmental - Fund Balance with Treasury: The decrease is primarily due to the issuance of additional Compensation and Pension benefits payments.

Public - General Property, Plant and Equipment: The increase is primarily due to VHA's construction of new hospital buildings, and capitalization of a major internal-use software development cost.

Public - Accounts Receivable: The increase is primarily due to an increase for Medical Care provided by the Department and an offsetting decrease in Contractual Adjustment and Allowance for Loss Provision.

Chart 3: FY 2016 Significant Changes in Liabilities



Public - Federal Employee and Veteran Benefits: The increase is primarily due to changes in the actuarial estimate of future compensation and burial payments related to changes in the discount rate and COLA assumptions. It also includes an increase to the unfunded Veterans Education Benefits liability.

Public - Accounts Payable: The decrease is primarily due to advance payments made for Compensation and Pension and Post 9/11 Education.

Intragovernmental - Other Liabilities: The increase is primarily due to credit reform subsidy re-estimates associated with an improved housing market.

Public - Insurance Liabilities: The decrease is primarily due to the reduction in the inventory of active life insurance policies from FY 2015 to FY 2016.



Net Cost of Operations

VA operated at a net cost of \$650.6 billion in FY 2016, compared to a net cost of \$176.5 billion in FY 2015, the majority of the increase related to changes in actuarial estimates as discussed below. The major elements of net cost are shown in Chart 4, "Comparative Statement of Net Cost FY 2015 - FY 2016". A breakdown of program costs (gross) by the Department's three major programs, actuarial costs associated with future Veterans compensation and benefits, and other programs is included in Chart 5, "FY 2016 Program Costs (Gross)."

VHA's net program costs increased 7.0 percent primarily due to an increase in Veteran demand for medical care. As more Veterans utilized the benefits of the Choice Act, the program grew significantly from September 2015 to 2016, resulting in increased costs of \$4.0 billion. Additionally, the Department made several changes to ensure Veterans had more timely access to quality care. The most significant of these changes was to increase the number of FTEs by 9,806 for medical services to widen the scope of medical professions that could provide the needed care to Veterans, thereby leading to an increase of in payroll and benefit expense.

VBA's gross program costs increased by \$2.9 billion as VBA has put a focused effort into reducing the Compensation and Pension claims backlog by enhancing systems and use of mandatory overtime. In FY 2016, the amount of Veterans payments for Compensation & Pension increased by approximately \$4.1 billion, or 2.7 million new payments, when compared to FY 2015. Also contributing to the change in gross program costs were growth of the average education benefit payment size and offsetting downward re-estimates of future housing benefit costs.

The most significant change in Net Cost of Operations was related to the actuarial costs associated with Veteran Benefits for Compensation, Burial, and Education, which increased by \$466.6 billion from FY 2015 to FY 2016.

Actuarial costs excluding Changes in Assumptions increased by \$76.1 billion, primarily resulting from an increase in costs from experience changes of \$83.1 billion, which was offset by decreases of \$3.5 billion in amounts paid and \$3.5 billion in interest on liability. Experience adjustments increased by \$65.8 billion, including the retroactive benefit payments adjustment which increased costs by \$59 billion year over year. The average benefit payment size for Veterans and dependents decreased in FY 2016 in comparison to FY 2015, resulting in a decrease in costs of \$34.3 billion. The claims backlog factor, which resulted in a reduction in the overall liability in FY 2015, was no longer applicable in the current period. Along with changes in beneficiary counts and veteran's population size, Veterans Educations Benefits, and other immaterial changes, this resulted in an increase in costs of approximately \$51.6 billion.

Actuarial costs due to Changes in Actuarial Assumptions increased by \$390.5 billion in FY 2016. One major assumption change was for the projected average growth in Compensation counts, which was updated to reflect the increase of new Compensation cases over the last five years and resulted in an increase to costs of \$276.6 billion. Another assumption change which significantly contributed to the overall increase was for new mortality rates and mortality improvement factors, increasing costs by \$44.5 billion. Additionally, changes in discount and cost-of-living adjustment rates, as well as other immaterial items, increased costs by \$69.4 billion from FY 2015 to FY 2016.

The statement of net position increased from a deficit of approximately \$2,016 billion in FY 2015 to a deficit of approximately \$2,504 billion in FY 2016.



**Chart 4: Comparative Statement of Net Cost
FY 2015 - FY 2016**

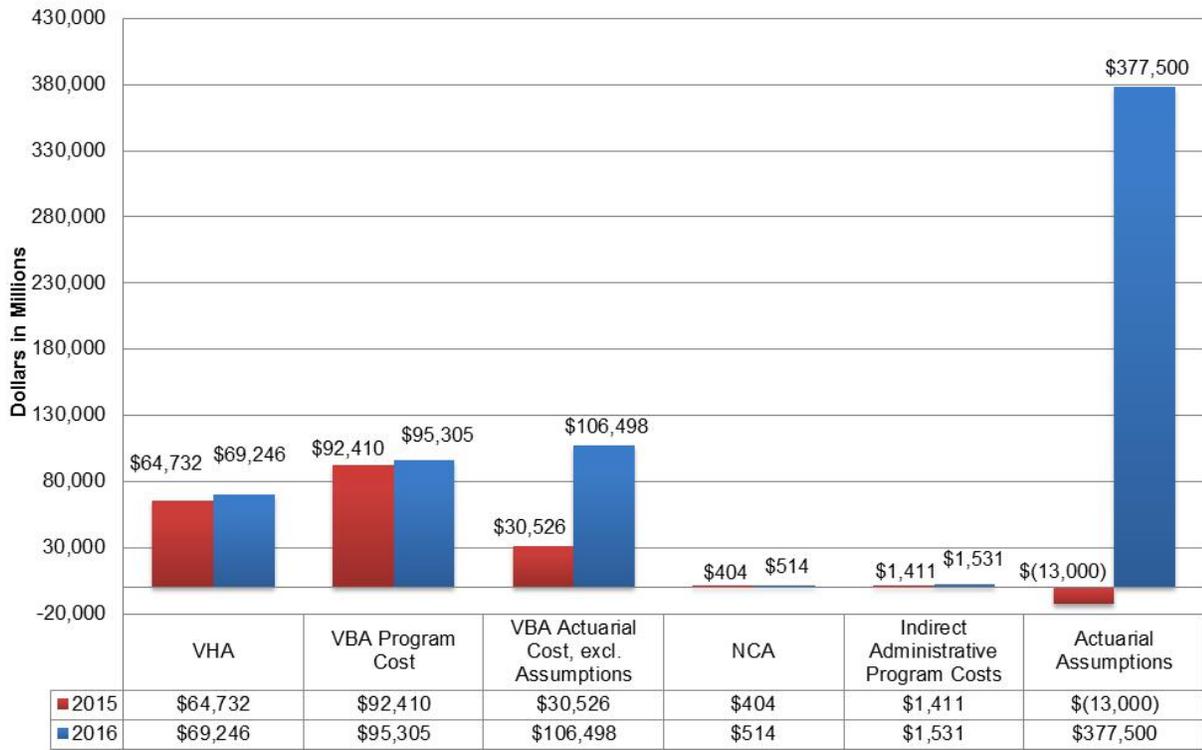
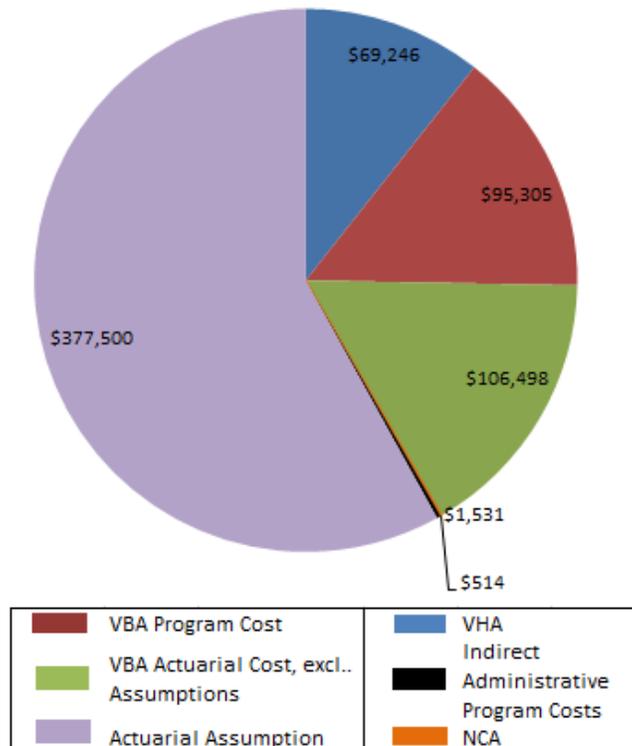


Chart 5: FY 2016 Program Costs (Gross)

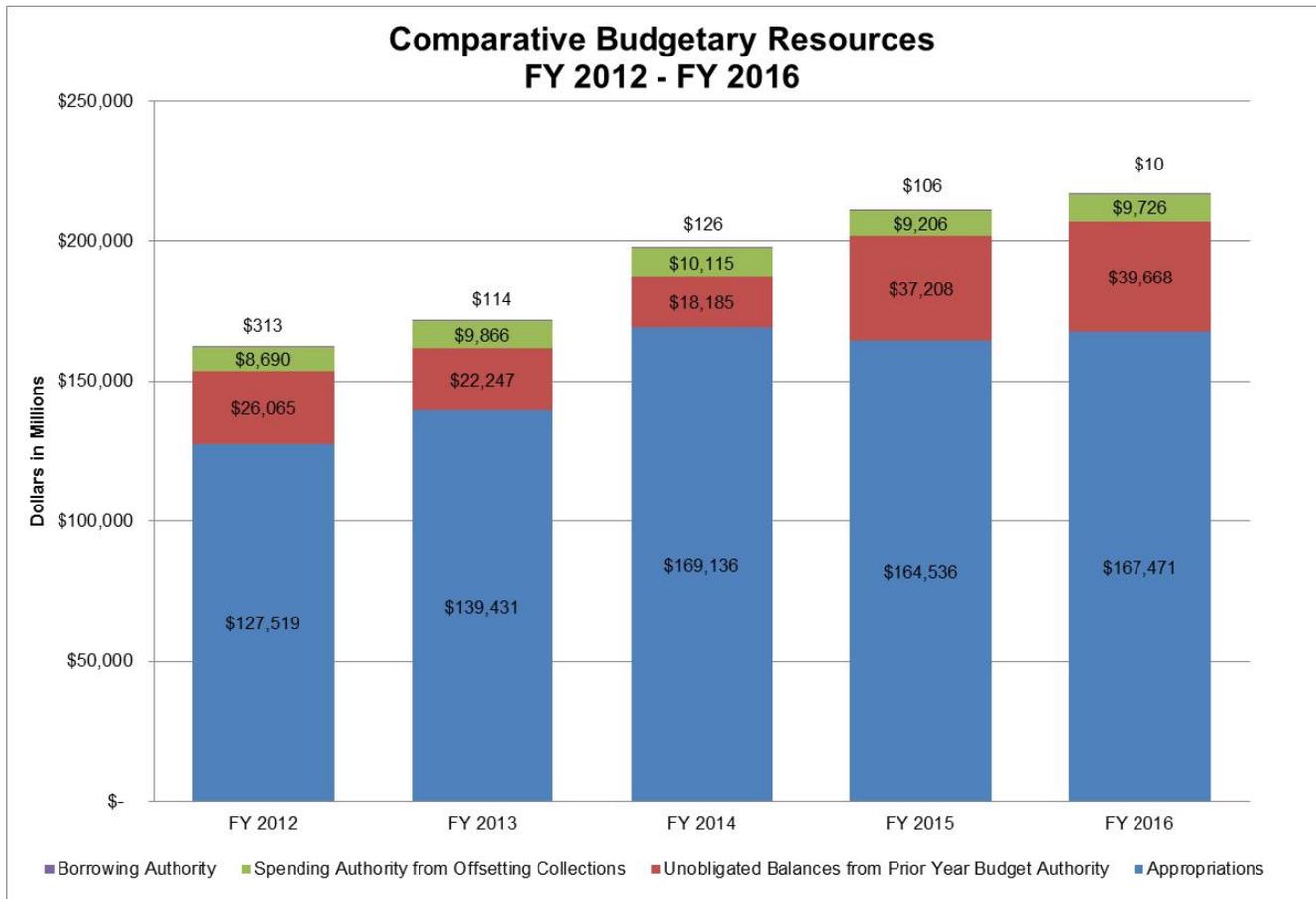




Budgetary Resources

VA expends a substantial amount of its budgetary resources on medical care for Veterans and also disburses large cash amounts for Veteran’s compensation and education benefits programs. The primary sources of funds are appropriations from Congress and spending authority from offsetting collections and receipts, most of which are associated with medical care.

For FY 2016, VA’s total budget authority of \$216.9 billion primarily consisted of \$167.5 billion in appropriation authority and \$39.7 billion in the unobligated balance from prior-year budget authority.



There was an increase of \$2.9 billion in Appropriations which was attributable to the FY 2016 Omnibus appropriation bill for the Veterans Health Administration programs which provided for additional dollars in the areas of Medical Services and Major Construction.

For FY 2016, an increase of \$11.6 billion in Obligations Incurred was observed due to two major sources. The majority of the increase was attributed to a \$5.7 billion increase to the Veterans Choice Act and Care in the Community programs as a result of Veterans demand for care, especially for non-VA medical care, while an additional \$4.0 billion can be attributed to Veterans Benefits Administration Programs for Compensation and Pension Benefits payments resulting from a higher number of claims.

Additionally, there was an increase in Outlays of \$14.7 billion primarily due to the issuance of an additional 2.7 million Compensation and Pension Benefits payments during FY 2016 as claims

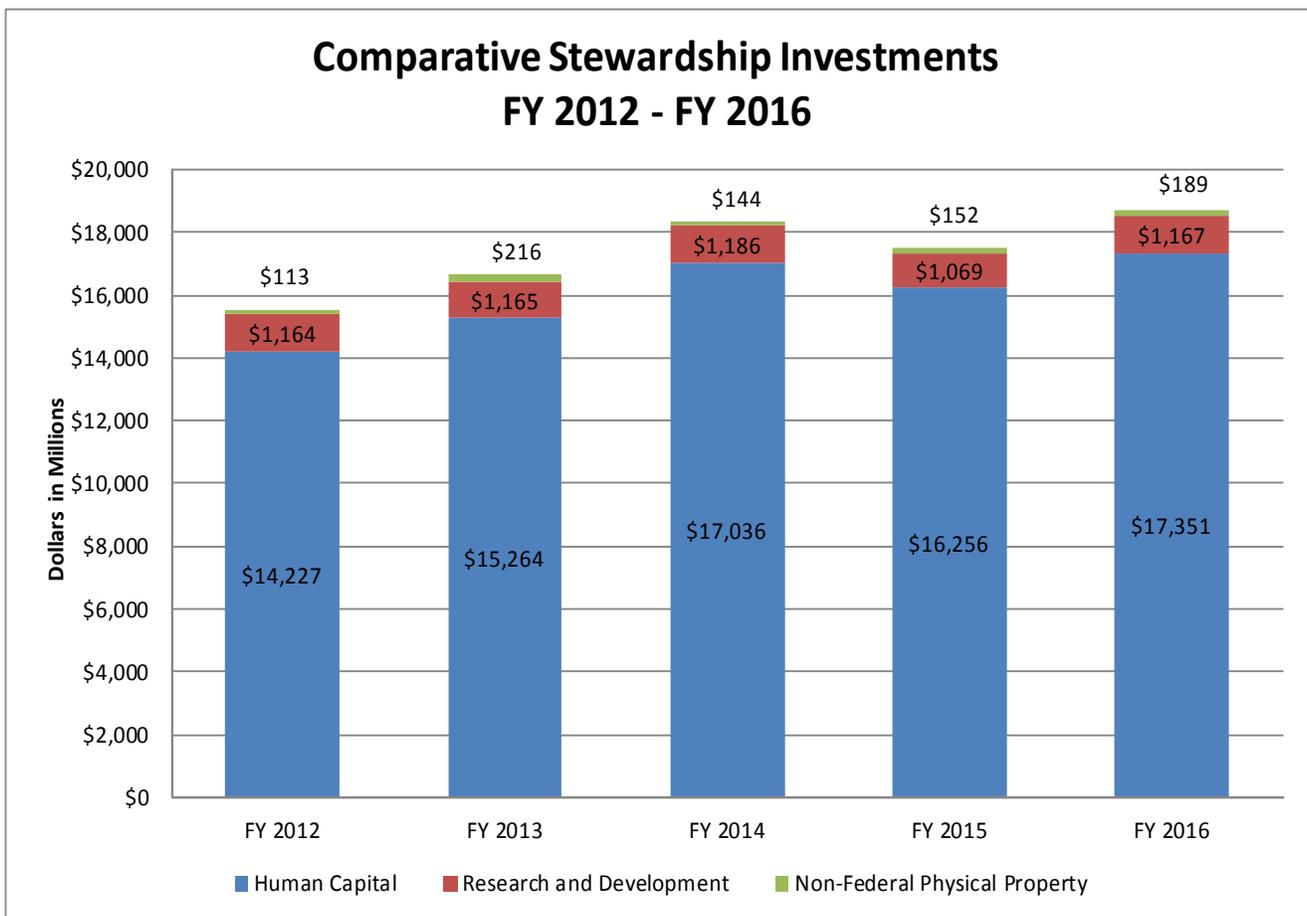


production levels have remained high due to efficiency gains from transformational process changes and information technology advances.

Stewardship Investments

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation but are not physical assets owned by the Federal Government. When incurred, they are treated as expenses in determining the net cost of operations. However, these items merit special treatment so that users of Federal financial reports know the extent of investments that are made for long-term benefit. Such investments are measured in terms of expenses incurred for non-Federal physical property, human capital, and research and development.

Human capital investments make up over 90 percent of stewardship investments. This category includes rehabilitation and employment programs for service-disabled Veterans; education programs for active duty personnel, reservists, and Veterans; and education for healthcare professionals to enhance the quality of care provided to Veterans. The following figure presents a comparison of VA’s stewardship investments.



The Required Supplementary Stewardship Information section located in Section II provides a detailed discussion of this information.