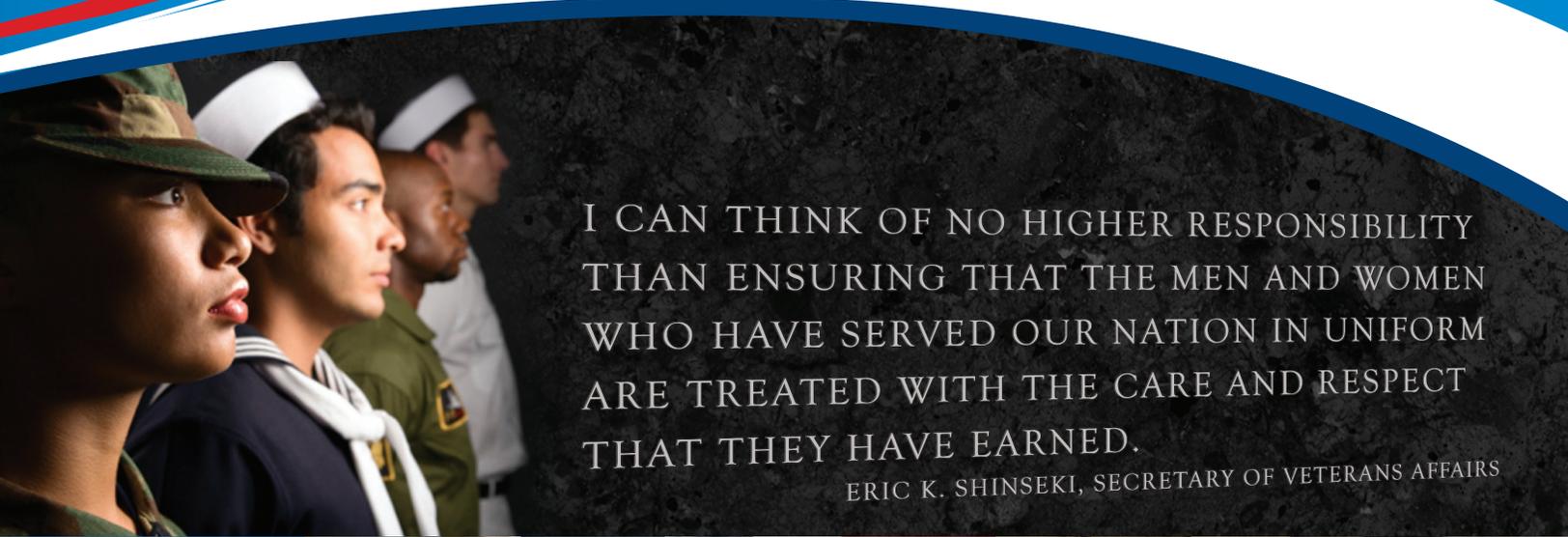


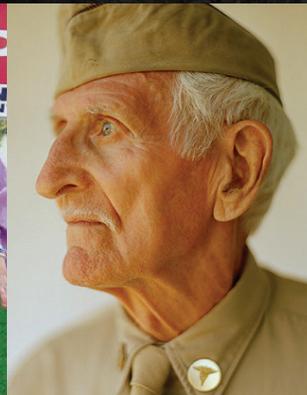


U.S. Department
of Veterans Affairs



I CAN THINK OF NO HIGHER RESPONSIBILITY
THAN ENSURING THAT THE MEN AND WOMEN
WHO HAVE SERVED OUR NATION IN UNIFORM
ARE TREATED WITH THE CARE AND RESPECT
THAT THEY HAVE EARNED.

ERIC K. SHINSEKI, SECRETARY OF VETERANS AFFAIRS



2012 Highlights for the Citizen

Honoring All Who Have Served



THE SECRETARY OF VETERANS AFFAIRS WASHINGTON

February 15, 2013

To the American People,

I am pleased to provide you with the *Department of Veterans Affairs (VA) 2012 Highlights for the Citizen*. This is a short "user-friendly" summary of our accomplishments in improving the timeliness, accessibility, and quality of health care and benefits service delivery. It also transparently describes the challenges we still face—challenges that we are aggressively tackling to further strengthen the delivery of benefits and services to Veterans. Further details on information in this report may be found in VA's 2012 Performance and Accountability Report (PAR).

This past year VA has made progress for Veterans and the American people. On the path to ending Veteran homelessness by 2015, we assisted more than 37,000 homeless Veterans in acquiring permanent housing through our collaborative partnership with the Department of Housing and Urban Development. We processed more than 1 million disability claims for the third year in a row in a concerted effort to eliminate the claims processing backlog by 2015, and increased the national accuracy rate for pension maintenance claims to 98 percent. VA's provision of telehealth-based clinical services has grown by 66 percent in the last two years increasing access to care for rural Veteran patients. Veterans continue to increase their use of eBenefits to access VA information and services with over 2 million Veterans using the tool. We also continued to increase access to burial benefits through funding the establishment of four new State Veterans Cemeteries. VA continued to make progress in improving information security, resulting in a more comprehensive security program to better protect sensitive information.

VA's major initiatives are successfully transitioning to sustainment and have been a part of our core programs since 2009, and we received our 14th consecutive unqualified (clean) audit opinion on our consolidated financial statements. As stated in my "Statement of Assurance" and Part I, VA has assessed the reliability and completeness of financial data and actions the agency is taking to resolve its one material weakness. Within Part II, performance reliability is reported on each key measure individually in the section prior to the performance measures tables.

Our work continues on the key challenges facing the Department and our strategies to address them. We will continue to improve the quality of our programs and service delivery, optimize our efficiency, and exceed the expectations of Veterans, their families, and survivors.

We are focused on transforming VA into a 21st century organization focused on increasing Veterans' access to VA healthcare and services, ending the backlog in compensation claims, and ending Veteran homelessness—both in 2015—to fulfill our Nation's enduring commitment to Veterans. We hold ourselves to the same high standards of performance that the Nation and its Veterans do. The linkage between our goals, objectives, strategies, and programs has never been clearer, and our employees' performance is evaluated carefully against the Department's plans.

Every VA employee is charged to be an advocate for Veterans. We are all committed to providing Veterans and their families with the very best healthcare and services. The Nation has depended on our Veterans, and VA's employees want Veterans to know they can depend on VA.

Sincerely,

A handwritten signature in blue ink, reading "Eric K. Shinseki".

Eric K. Shinseki



2012 Highlights for the Citizen

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⁽¹⁾ In this report, with the exception of table and chart titles, references to years (e.g., 2008, 2010) are fiscal years unless stated otherwise.

⁽²⁾ Questions about this report should be directed to VA's Office of Performance Management at **202-461-7389**. An electronic version is available at www.va.gov/budget/report/.



Executive Summary

Introduction

In 2012, with more than \$138 billion in obligations and approximately 294,087 full-time equivalent employees, VA took numerous actions that helped improve the quality of life for America's Veterans and their families. Our major achievements are summarized below.

Implementing Agency Priority Goals

VA has three Agency Priority Goals (APGs) that continue to serve as a platform to transform VA into a 21st century organization that is people-centric, results-driven, and forward-looking. Each APG is designed to solve a key problem facing the Department and/or the Veterans we serve. Information on how well VA is doing on specific APG's begins on page I-69 in the full Performance & Accountability Report (PAR).

Medical Services: *Delivering High-Quality Health Care*

In 2012, VA maintained the largest integrated health care system in America. Throughout the year, VA implemented new innovative practices to improve Veterans' access to health care, such as telemedicine and mobile clinics, to provide care to more than 6 million unique patients. Our commitment to delivering timely, high-quality health care to America's Veterans while controlling costs, remains a top priority.

Key performance results for 2012 include:

- Patient Access: 95 percent of primary care appointments were completed within 14 days of the desired appointment date.
- Quality of Health Care: VA continues to improve performance on nationally recognized industry standards such as the

Clinical Practice Guidelines Index (CPGI) and the Prevention Index (PI). Compared to last year's ratings, the CPGI increased from 91 percent to 94 percent and PI increased from 92 percent to 94 percent.

- Rural Health: In addition to continuing to support new rural sites of care, VA supported telehealth demonstration projects, expansion of rural home based primary care, rural Veteran outreach, Project Access Received Closer to Home (ARCH), rural clergy training and a new interdisciplinary program to develop rural provider training and education sites for residents, nursing and allied health students.
- Suicide Hotline and Suicide Prevention: As a result of further expansion and development of the Veterans Crisis Line, more than 650,000 people have called the crisis line and over 440,000 of these callers identified themselves as Veterans or family members or friends of Veterans. There have been more than 23,000 rescues of actively suicidal Veterans, and local community rescue services were dispatched to assist them. An online chat service was initiated in July 2009. Since then, over 65,000 "chatters" have worked with VA counselors on a one-on-one basis. The Veterans Health Administration (VHA) has over 54,000 Facebook fans and more than 15,000 Twitter followers. VA monitors Facebook for Veterans who express suicidal thoughts, and we reach out and contact them directly to get help when needed.
- Homeless Veterans: Program enhancements under the Eliminate Veteran Homelessness Initiative will ensure the provision of housing, health care, benefits, employment, and residential stability with the goal of reducing the number of



homeless Veterans to functional zero by 2015. The intent is for every Veteran to have access to a safe, stable environment, and that capacity will be sufficient so that no Veteran should be unsheltered. In FY 2012, more than 119,878 Veterans were served by VA Health Care for Homeless Veterans outreach initiatives, a 21 percent increase from the previous year. In partnership with the Department of Housing and Urban Development (HUD), a total of 37,350 Veterans had permanent housing through the HUD-VA Supportive Housing (HUD-VASH) Program as of September 30, 2012. These Veterans were also provided with dedicated case managers and access to high-quality VA health care. This fiscal year, the total number of Veterans who obtained housing as of September 30 in HUD-VASH was 14,313 while 17,136 additional Veterans obtained housing with assistance from our other homeless programs during that same time period.

Telehealth Programs: VA's Telehealth programs continue to be the largest and most sophisticated in the Nation. In 2012, VA specific telehealth applications: clinical video telehealth (CVT), home telehealth (HT) and store and forward telehealth (SFT) provided care from 150 VA Medical Centers (VAMCs) and 750 Community Based Outpatient Clinics (CBOCs) to 497,342 patients, care that amounted to 1,429,424 telehealth-based episodes of care. VA achieved a 31 percent expansion in the HT services it provides in support of non-institutional care, chronic condition management, acute care management and health promotion/disease prevention, services delivered to 119,535 Veterans with medical and mental health conditions, enabling these Veterans to live independently in their own homes and local communities. VA has seen a 39 percent expansion in 2012 in the number of Veteran patients receiving care via CVT-based telemental health services that supported 76,817 Veterans who received 217,975 telemental health consultations that took place

between 146 VA Medical Centers and 531 Community Based Outpatient Clinics. Telemental health enables Veteran patients to receive services in their local communities, reducing the need for both patients and clinicians to travel, with travel-associated cost savings of \$34.45 per consultation. VA's provision of Telehealth-based clinic services has grown by 42 percent, thereby increasing access to care for rural Veteran patients and reducing avoidable travel. Telehealth services for the care of Veterans continue to expand in size and scope supporting new services that provide teleradiology, teledermatology, telepathology, audiology clinic support, tele-intensive care and women's health services.

Graduate Medical Education (GME)

Enhancement: In 2012, the National Academic Affiliations Advisory Council held its inaugural meeting. This federally chartered advisory committee will advise the Secretary of Veterans Affairs and the Under Secretary for Health on matters affecting VA academic affiliations and will recommend methods for enhancement of these critical relationships.

Benefits: *Ensuring a High Quality of Life After Military Service*

In 2011, VA received over 1.3 million claims for disability benefits and processed more than 1,032,000 of these claims. As of September 2012, VA received 1,080,342 claims for disability benefits and processed 1,044,207 claims. Throughout 2012, VA achieved a number of significant positive performance results in the benefits delivery area:

- Agent Orange/Nehmer Claims Processed: Since the publication of the regulation establishing three new presumptive conditions in 2010, the Veterans Benefits Administration (VBA) has completed nearly 250,000 claims.



- **Joint VA/Department of Defense (DoD) Integrated Disability Evaluation System (IDES) Program:** VA and DoD worked together to increase the number of IDES sites from 48 to 139 in 2011, expanding IDES worldwide for 100 percent of Servicemembers referred for evaluation for medical discharge or retirement. IDES simplifies the process for disabled Servicemembers transitioning to Veteran status, improves the consistency of disability ratings, and improves customer satisfaction. An IDES claim is completed in an average of 397 days, compared to 540 days in the legacy system. Since the inception of the IDES pilot in 2007, more than 56,000 Service members have been referred into the program, and more than 28,000 Service members are currently enrolled. VA and DoD continue to work together to improve IDES processing and timeliness.
- **Seamless Transition:** VA received more than 61,000 pre-discharge claims in 2011 through the Benefits Delivery at Discharge (BDD) and the Quick Start (QS) programs. Through July 2012, VA received nearly 42,000 pre-discharge claims. BDD and QS allow Servicemembers to apply for VA disability benefits while still on active duty.
- **Quality:** VA improved national compensation entitlement (rating) accuracy from 83 percent to 86 percent in 2012 on a 12 month cumulative basis. Accuracy for the first 7 months of 2012 is 87 percent.
- **Insurance:** VA issued life insurance policies to over 44,000 Veterans and separating Servicemembers, many of whom are disabled and would not have been able to purchase life insurance in the commercial insurance industry due to their impaired insurability resulting from military service.
- **Education:** VA provided education benefits to approximately 944,300 students in 2012. The number of students receiving education benefits continues to increase since the

implementation of the Post-9/11 GI Bill, with claims completed increasing 7 percent over the 2011 level to approximately 3.85 million in 2012.

- **Vocational Rehabilitation and Employment:** VA rehabilitated over 9,800 Veterans in 2012, providing more than 7,900 of them with the required tools and skills needed to obtain and maintain career employment. More than 1,800 Veterans were provided with assistance in gaining independence in daily living.
- **Housing:** In 2012, VA guaranteed approximately 539,884 loans to Veterans. Of these, 201,866 were for the purchase of a home and 338,018 were for the refinance of a home loan. In 2012, VA also provided 1,205 Specially Adapted Housing grants to severely disabled Veterans and Servicemembers to construct an adapted dwelling or modify an existing one to meet their special needs.

Burials and Memorials: Honoring Veterans for Sacrifices on Behalf of the Nation

VA honors the service and sacrifices of America's Veterans through the construction and maintenance of national, State, and Tribal cemeteries as national shrines, by furnishing headstones, markers and medallions for the graves of Veterans buried in private cemeteries, and providing Presidential Memorial Certificates (PMCs) to honor the service of deceased American Veterans.

Key performance results for 2012 are as follows:

More Veterans Served by Burial Option: 89.6 percent of Veterans are served by a burial option within a reasonable distance (75 miles) of their residence - up from 89.0 percent in 2011. This increase resulted from the opening of four new State Veterans cemeteries funded through the VA Veterans Cemetery Grants



Program, which now serve Veterans in the areas of Corpus Christi, Texas; Fort Polk, Louisiana; Charleston, West Virginia; and Birdeye, Arkansas.

- **Timeliness:** VA achieved an 89 percent threshold of the proportion of graves in national cemeteries marked within 60 days of interment.
- **Quality:** Ninety-nine percent of survey respondents rated national cemetery appearance as "excellent." Ninety-one percent of survey respondents also rated the quality of headstones or markers received from VA as "excellent."

Finance: Ensuring Proper Stewardship of Taxpayer Dollars

VA is extremely proud to have obtained an unqualified audit opinion on its financial statements for the 14th consecutive year. VA has worked diligently on remediating its one remaining material weakness, "Information Technology (IT) Security Controls," and has made significant progress; however, this will remain a material weakness into 2013. The auditor also reported one significant deficiency, "Undelivered Orders" as a partial repeat condition and re-titled it from "Accrued Operating Expenses." The Department has taken corrective actions sufficient to address the reasonable estimation of the accrued operating expenses portion of unpaid obligations and therefore the condition "accrued operating expenses" has been removed from the significant deficiency for this year. The Department has also taken corrective actions sufficient to eliminate one other significant deficiency, "Loan Guaranty Reporting," previously cited last year.

In 2012, VA continued to use Recovery Act funds to improve its medical facilities and national cemeteries, as well as to provide grants for State nursing homes and domiciliary facilities. Following the successful obligation in July 2010 of 100 percent of VA's Recovery Act funds (totaling \$1.8 billion, including one time payments to Veterans), VA concentrated efforts during 2012 to increase outlays. As of September 2012, VA has made outlays totaling \$1.7 billion (96 percent) of Recovery Act funds.

Executive Order (EO) 13589 dated November 15, 2011, directed agencies to cut waste in administrative spending by 20 percent and identify opportunities to promote efficient and effective spending in travel, IT devices (inventories, usage, and controls), printing, executive fleet, supplies and materials, and promotional item use and purchases. With the exception of Management Support Contracts, VA's Administrations and Staff Offices have the flexibility to take reductions across the categories of Travel, Supplies and Materials, and Printing, as determined best for their organization. VA developed and executed a plan to reduce the cost associated with activities covered in the EO. The reduction to be taken in these areas was defined as 20 percent below VA's 2012 budget request, to be accomplished in 2012 and 2013. VA monitors spending monthly and reports status 30 days after the close of each quarter to OMB. In 2012, VA exceeded its spending reduction target of \$173.4 million by an additional \$69 million.



VA Online: *Fast and Easy Access to Information*

The table below provides links to several Web sites that provide information for and about Veterans.

<i>What Information Do You Need?</i>	<i>Web Site</i>
<i>VA's Home Page</i>	www.va.gov
<i>VA's PAR Submission and Strategic Plans</i>	www.va.gov/performance
<i>VA's Budget Submission</i>	www.va.gov/budget/products.asp
<i>Health Care in VA</i>	www1.va.gov/health/index.asp
<i>Managing My Health as a Veteran</i>	www.myhealth.va.gov
<i>Medical Research in VA</i>	www.research.va.gov
<i>Clinical Training Opportunities and Education Affiliates</i>	www.va.gov/oaa
<i>Employment</i>	www.vetsuccess.gov
<i>My Benefits</i>	www.ebenefits.va.gov
<i>Vow to Hire Heroes</i>	www.ebenefits.va.gov/vow
<i>Burial and Memorial Benefits for Veterans</i>	www.cem.va.gov
<i>Opportunities for Veteran-Owned Small Businesses</i>	www.VetBiz.gov
<i>Minority Veterans</i>	www.va.gov/centerforminorityVeterans
<i>Women Veterans</i>	www.va.gov/womenvet
<i>Survivors Assistance</i>	www.va.gov/survivors
<i>Operations, Security and Preparedness</i>	www.osp.va.gov
<i>Recently Published VA Regulations</i>	www.va.gov/VA_Regulations
<i>Federal Legislation Concerning Veterans</i>	www.va.gov/oca/Vet_Legis.asp



<i>What Information Do You Need?</i>	<i>Web Site</i>
<i>VA's Social Media Sites</i>	www.va.gov/opa/SocialMedia.asp/
<i>Human Resources Administration</i>	vacareers.va.gov/veterans/
<i>Reports, Surveys, or Statistics Regarding the Veteran Population</i>	www.va.gov/vetdata/
<i>Freedom of Information Act</i>	www.foia.va.gov/
<i>Privacy Policy Information</i>	www.va.gov/privacy/
<i>VA Directives and Handbooks</i>	www.va.gov/vapubs/
<i>Green VA</i>	www.green.va.gov/
<i>Center for Faith-based and Neighborhood Partnerships</i>	www.va.gov/cfbnpartnerships/
<i>Homelessness Information</i>	www.va.gov/homeless/



Department Overview

Our Programs: *Who We Serve*

As described on the previous pages, VA programs and services are as varied as the Veterans and family members we serve. From space-age technology used in prosthetic devices that bring mobility to the severely disabled, to the pension benefits paid to three survivors of Civil War Veterans, VA's commitment to those who have "borne the battle" continues. The chart below describes who and how many participants are being served by VA.

Program	Year-to-Year Comparison		
	2011 Participants ⁽¹⁾	2012 Participants ⁽¹⁾	Percent Change
Medical Care			
Unique Patients	6,166,200	6,333,100	2.7%
Compensation			
Veterans	3,354,700	3,534,457	4%
Survivors/Children	355,500	365,220	3%
Pension			
Veterans	313,700	313,870	.054%
Survivors	202,000	206,688	2.32%
Education⁽²⁾⁽³⁾			
Veterans/Servicemembers	663,000	660,800	-0.3%
Reservists	92,500	79,400	-14.2%
Survivors/Dependents	168,400	204,000	21.1%
Vocational Rehabilitation⁽²⁾			
Program Participants	106,300	114,281	7.5%
Housing			
Loans Guaranteed	357,600	539,900	51.0%
Specially Adapted Housing (SAH) Grants Approved	1,235	1205	-2.4%
Insurance			
Veterans	1,367,800	1,328,696	-2.9%
Servicemembers/Reservists	2,417,500	2,387,500	-1.2%
Spouses/Dependent Children	3,284,000	3,202,000	-2.5%
Burial			
Interments	117,400	118,200	0.7%
Graves Maintained	3,147,400	3,226,500	2.5%
Headstones/Markers (Processed)	372,700	354,600	-4.9%
Presidential Memorial Certificates	779,700	719,100	-7.8%

⁽¹⁾Whole numbers, rounded to nearest hundred.

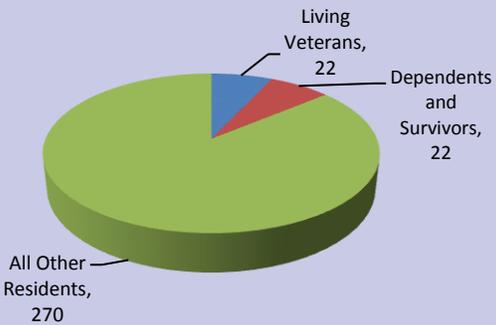
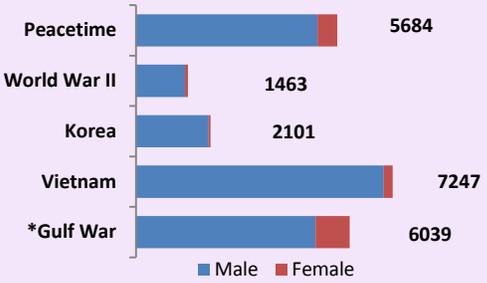
⁽²⁾Figures represent 12-month rolling data through September.

⁽³⁾Does not represent unique participants. Some participants trained under more than one education program.



America's Veterans: A Demographic Profile

Beginning with our Nation's struggle for freedom more than 2 centuries ago, approximately 45 million men and women have served this country during wartime periods. The charts below provide various social and demographic information on today's Veteran population.

Data	Analysis												
<p>Veteran Population Compared to Total U.S. Population (Millions)</p>  <table border="1"> <caption>Veteran Population Compared to Total U.S. Population (Millions)</caption> <thead> <tr> <th>Category</th> <th>Value (Millions)</th> </tr> </thead> <tbody> <tr> <td>All Other Residents</td> <td>270</td> </tr> <tr> <td>Living Veterans</td> <td>22</td> </tr> <tr> <td>Dependents and Survivors</td> <td>22</td> </tr> </tbody> </table>	Category	Value (Millions)	All Other Residents	270	Living Veterans	22	Dependents and Survivors	22	<ul style="list-style-type: none"> • There are about 21.8* million living U.S. Veterans, 9 percent of whom are women. The percentage of women Veterans is expected to increase over time given the increased role of women in the Armed Forces. • There are an estimated 22 million dependents (spouses and dependent children) of living Veterans and survivors of deceased Veterans. • Together, Veterans, dependents, and survivors make up about 14 percent of America's population. <p>* Pie chart shows number of Veterans living in the United States proper.</p>				
Category	Value (Millions)												
All Other Residents	270												
Living Veterans	22												
Dependents and Survivors	22												
<p>Veteran Population by Period of Service* (Thousands)</p>  <table border="1"> <caption>Veteran Population by Period of Service* (Thousands)</caption> <thead> <tr> <th>Period</th> <th>Total (Thousands)</th> </tr> </thead> <tbody> <tr> <td>Peacetime</td> <td>5684</td> </tr> <tr> <td>World War II</td> <td>1463</td> </tr> <tr> <td>Korea</td> <td>2101</td> </tr> <tr> <td>Vietnam</td> <td>7247</td> </tr> <tr> <td>*Gulf War</td> <td>6039</td> </tr> </tbody> </table> <p>■ Male ■ Female</p> <p>*The Gulf War figures include Veterans who have served in Operation Iraqi Freedom and/or Operation Enduring Freedom.</p>	Period	Total (Thousands)	Peacetime	5684	World War II	1463	Korea	2101	Vietnam	7247	*Gulf War	6039	<ul style="list-style-type: none"> • Over 16 million (74 percent) of America's Veterans served during at least one wartime period. *(The sum of period of service will exceed number of all Veterans because Veterans who served in multiple periods are shown in each period.) • Vietnam Era Veterans account for the largest segment of the Veteran population. • About 78 percent of all women Veterans served during the post-Vietnam Era compared to 40 percent of men. • By 2021, the number of women Veterans enrolled in VA's health care system is expected to increase by 45 percent to 854,775 compared to an estimated 588,600 in 2012. (Enrollment projections for women Veterans have been revised to reflect gender-specific adjustments to modeling factors. VA still expects significant growth in the enrollment of women Veterans.)
Period	Total (Thousands)												
Peacetime	5684												
World War II	1463												
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Vietnam	7247												
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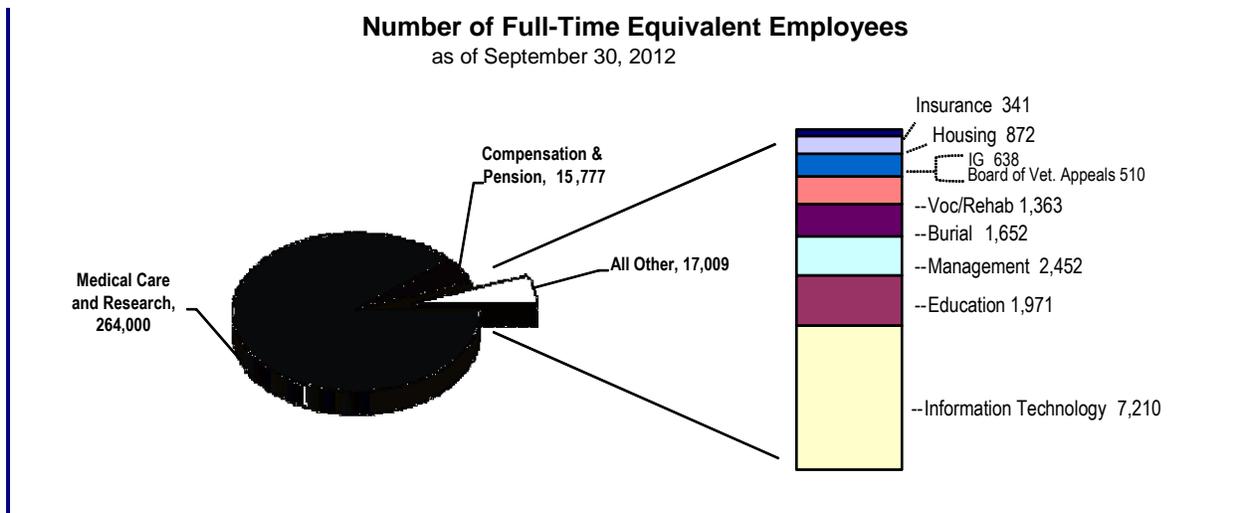


Data	Analysis																														
<p>Age Distribution of the Veteran Population</p> <p>By 5-Year Age Groups (Thousands)</p> <table border="1"> <caption>Age Distribution of the Veteran Population (Thousands)</caption> <thead> <tr> <th>Age Group</th> <th>Population (Thousands)</th> </tr> </thead> <tbody> <tr><td>20-24</td><td>~300</td></tr> <tr><td>25-29</td><td>~700</td></tr> <tr><td>30-34</td><td>~1,000</td></tr> <tr><td>35-39</td><td>~1,000</td></tr> <tr><td>40-44</td><td>~1,400</td></tr> <tr><td>45-49</td><td>~1,700</td></tr> <tr><td>50-54</td><td>~2,000</td></tr> <tr><td>55-59</td><td>~2,000</td></tr> <tr><td>60-64</td><td>~2,600</td></tr> <tr><td>65-69</td><td>~3,000</td></tr> <tr><td>70-74</td><td>~2,000</td></tr> <tr><td>75-79</td><td>~1,700</td></tr> <tr><td>80-84</td><td>~1,500</td></tr> <tr><td>85+</td><td>~1,500</td></tr> </tbody> </table>	Age Group	Population (Thousands)	20-24	~300	25-29	~700	30-34	~1,000	35-39	~1,000	40-44	~1,400	45-49	~1,700	50-54	~2,000	55-59	~2,000	60-64	~2,600	65-69	~3,000	70-74	~2,000	75-79	~1,700	80-84	~1,500	85+	~1,500	<ul style="list-style-type: none"> As of September 2012, the median age of all living Veterans was 62 years. Men's median age was 63; women's 49. The number of Veterans 85 and older totaled about 1,447,000, compared to 164,000 in 1990. By 2021, the number of Veterans 65 and older enrolled in VA's health care system is expected to increase by 22 percent to 4,212,000 compared to an estimated 3,462,000 in 2012.
Age Group	Population (Thousands)																														
20-24	~300																														
25-29	~700																														
30-34	~1,000																														
35-39	~1,000																														
40-44	~1,400																														
45-49	~1,700																														
50-54	~2,000																														
55-59	~2,000																														
60-64	~2,600																														
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70-74	~2,000																														
75-79	~1,700																														
80-84	~1,500																														
85+	~1,500																														

Resources: Our People

As of September 30, 2012, the Department employed about 294,087 full-time equivalent (FTE) employees nationwide. The charts below show the distribution of full-time equivalent employees by program area.

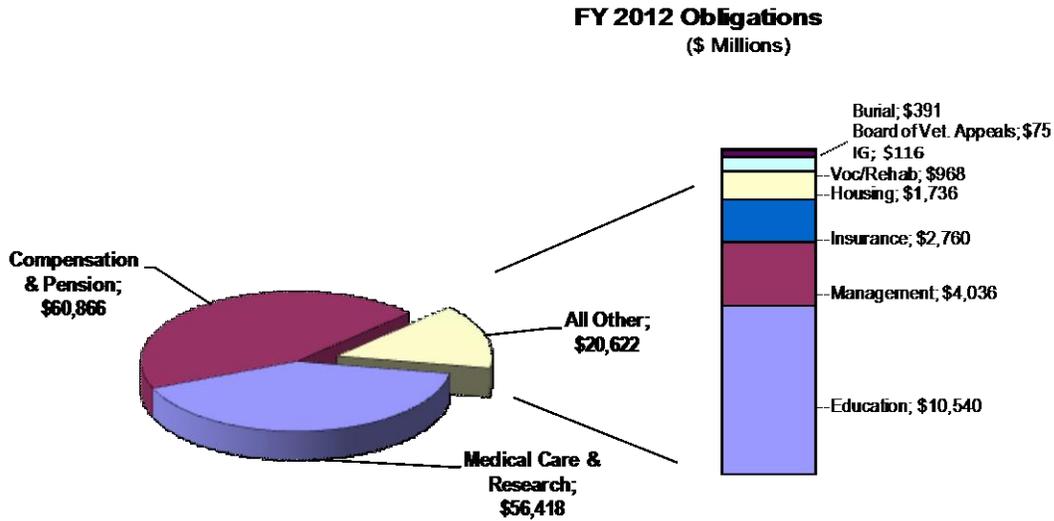
As shown below, more than 264,000 FTE support VA's health care system, one of the largest in the world. Of the remaining FTE, approximately 20,351 are involved with providing compensation and pension as well as other benefits to Veterans and their families. About 1700 provide burial and memorial services for Veterans and their eligible spouses and children, and about 10,820, located primarily in the Washington, DC area, provide policy, administrative, information technology, and management support to the programs.





Resources: Our Budget

In 2012, VA obligated approximately \$138 billion.* Approximately 97 percent of total funding went directly to Veterans in the form of monthly payments of benefits or for direct services such as medical care. The depictions below show how VA spent the funds with which it was entrusted.



* The obligation information shown above does not tie to the Obligations Incurred amounts shown in the Financial Statements in the 2011 PAR. The difference includes but is not limited to the fact that adjustments to prior-year expired funds are netted with Obligations Incurred in the Financial Statements.



Performance Scorecard

Color coding for
● Target Achieved
● Target Missed - Small Extent
● Target Missed - Great Extent

Key Performance Measures (page references)	2011 Recap		2012 Recap				
	Targets	Results	Targets	Results	Target Achieved?		Improved From 2011?
					Yes	No	Yes/No/Same
Veterans Health Administration							
Prevention Index V	93%	92%	93%	94%	Yes		Yes
Clinical Practice Guidelines Index IV	92%	91%	92%	94%	Yes		Yes
Non-institutional, long-term care average daily census	109,256	95,092	113,254	103,757		No	Yes
Percent of new primary care appointments completed within 14 days of the desired date for the appointment	Not Available (N/Av)	N/Av	83%	90%	Yes		Not applicable
Percent of established primary care appointments completed within 14 days of the desired date for the appointment	N/Av	N/Av	94%	95%	Yes		Not applicable
Percent of new specialty care appointments completed within 14 days of the desired date for the appointment	N/Av	N/Av	84%	90%	Yes		Not applicable
Percent of established specialty care appointments completed within 14 days of the desired date for the appointment	N/Av	N/Av	95%	96%	Yes		Not applicable
Percent of patients rating VA health care as 9 or 10 (on a scale from 0 to 10): - Inpatient	65%	64%	65%	64%		No	Same
	57%	55%	58%	55%		No	Same



Percent of milestones completed leading to the use of genomic testing to inform the course of care (prevention, diagnosis, or treatment) of patients with mental illness (including PTSD, schizophrenia, and mood disorders)	35%	35%	45%	43%		No	Yes
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Performance Scorecard

Color coding for 2012 Results

- Target Achieved
- Target Missed – Small Extent
- Target Missed – Great Extent

Key Performance Measures (page references)	2011 Recap		2012 Recap				
	Targets	Results	Targets	Results	Target Achieved?		Improved From 2011? Yes/No/Same
					Yes	No	
Veterans Benefits Administration							
National accuracy rate – pension maintenance claims	95%	97%	97%	98%	Yes		Yes
National accuracy rate – compensation entitlement claims	90%	84%	87%	86%		No	Yes
Percent of Compensation & Pension pending inventory that is more than 125 days old	60%	60%	60%	66%		No	No
Percentage of pension maintenance claims pending inventory that is more than 90 days old	N/Av	N/Av	Baseline	68%			Not applicable
Average days to complete Education claims							
Original claims	23	24	23	31		No	No
Supplemental claims	12	12	12	17		No	No
Rehabilitation Rate (General)	77%	77%	77%	77%	Yes		same
Default Resolution Rate	73.0%	83.0%	81%	80.9%	No		No
Rate of high client satisfaction ratings on Insurance services delivered	95%	95%	95%	95%	Yes		same



Performance Scorecard

Color coding for 2012 Results
 ● Target Achieved
 ● Target Missed - Small Extent
 ● Target Missed - Great Extent

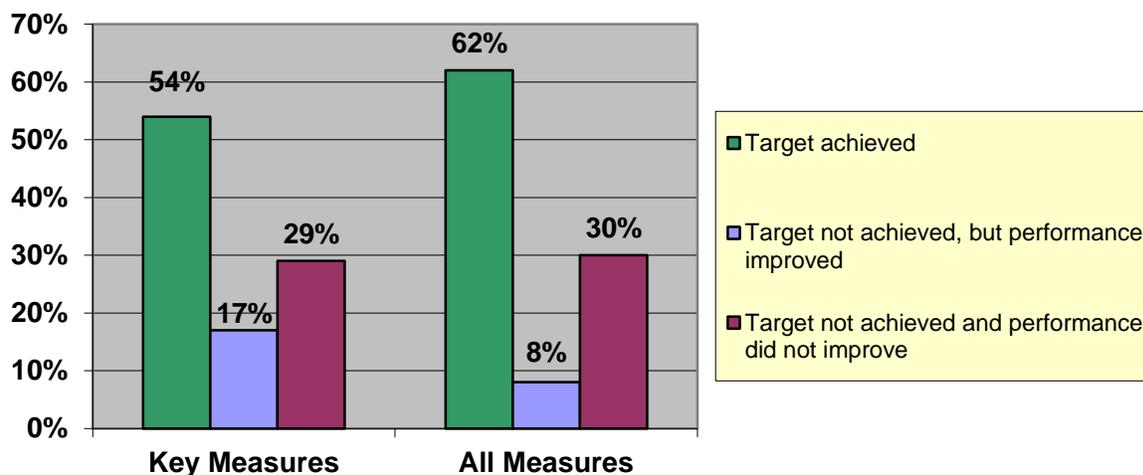
Key Performance Measures (page references)	2011 Recap		2012 Recap				
	Targets	Results	Targets	Results	Target Achieved?		Improved From 2011? Yes/No/Same
					Yes	No	
National Cemetery Administration							
Percent of graves in national cemeteries marked within 60 days of interment	95%	93%	95%	89%		No	No
Percent of applications for headstones and markers that are processed within 20 days for the graves of Veterans who are not buried in national cemeteries	90%	93%	90%	88%		No	No
Percent of Veterans served by a burial option within a reasonable distance (75 miles) of their residence (pp.	89%	89%	90%	90%	Yes		Yes
Percent of respondents who rate the quality of service provided by the national cemeteries as excellent	97%	95%	98%	96%		No	Yes
Percent of respondents who rate national cemetery appearance as excellent	99%	98%	99%	99%	Yes		Yes



2012 Performance — A Department-Level Summary

Key Measures — Continuity and Type: Key measures are those that measure mission-critical activities. As of 2012, 17 of VA's 24 key measures have been in place for at least 5 years. This provides the Department's leadership with the ability to track significant performance trends over time and to make strategic adjustments when necessary.

Performance Results: Key vs. All Measures: The chart below shows how well VA performed in meeting its performance targets. As shown, VA achieved the target for 54 percent of its key measures and 62 percent of all measures. In addition, for key measures, 17 percent of the targets were not achieved, but performance improved from 2011. Further details on performance are provided in Part II.



Priority Goals

In 2012, VA focused on 3 priority goals. A list of these goals is provided below. Please refer to pages I-69 through I-71 of the 2012 PAR for more details.

1. Eliminate Veteran Homelessness
2. Ending the Backlog in Compensation Claims
3. Increasing Veteran's Awareness of VA Benefits and Services



Major Management Challenges Identified by the OIG

The Department's Office of Inspector General (OIG), an independent entity, evaluates VA's programs and operations. The OIG submitted an update of the most serious management challenges facing VA. Please refer to pages II-87 through II-136 of the 2012 PAR for more details.

VA is committed to addressing its major management challenges. Using the OIG's perspective as a catalyst, we will take whatever steps are necessary to help improve services to our Nation's Veterans. We welcome and appreciate OIG's perspective on how the Department can improve its operations to better serve America's Veterans. The table below shows the estimated resolution timeframe to resolve each challenge.

Major Management Challenge		Estimated Resolution Timeframe (Fiscal Year)	Page # (in PAR)
No.	Description		
OIG 1	Health Care Delivery		II-90
1A	Quality of Care	2014	II-90
1B	Access to Care	2013	II-92
1C	Accountability of Prosthetic Supplies in VHA Medical Facilities	2015	II-97
OIG 2	Benefits Processing		II-98
2A	Effectively Managing Disability Benefits Claims Workload	2015	II-98
2B	Improving the Quality of Claims Decisions	2012	II-101
2C	VA Regional Office Operations	2015	II-103
2D	Improving Disability Benefits Questionnaires (DBQ)	2013	II-103
2E	Improving the Management of VBA's Fiduciary Program	2012	II-105
OIG 3	Financial Management		II-107
3A	Strengthen Financial Management and Fiscal Controls for VISN Offices	2014	II-107
3B	Strengthen Oversight of Human Capital Management and Development Programs	2013	II-108
3C	Strengthen Oversight to Better Leverage Capital Assets	2013	II-111
OIG 4	Procurement Practices		II-112
4A	Compliance with Laws, Regulations, and Policies	2013	II-112
4B	Improve Oversight for VA's VOSB and SDVOSB Programs	20XX	II-115
4C	Effective Contract Administration	2013	II-118
4D	Improve Oversight of Procurement Activities	2013	II-119
4E	Sound IT Procurement Practices	2013	II-122
OIG 5	Information Management		II-123
5A	Development of an Effective Information Security Program and System Security Controls	2013	II-123
5B	Interconnections with University Affiliates	2013	II-125
5C	Successful Deployment of Encryption Software	2013	II-126
5D	Strategic Management of Office of Information Technology Human Capital	2013	II-127



Major Management Challenge		Estimated Resolution Timeframe (Fiscal Year)	Page # (in PAR)
No.	Description		
5E	Strengthening Information Technology Governance	2013	II-129
5F	Effective Oversight of Active IT Investment Programs and Projects	2013	II-130
	Appendix		II-134

High-Risk Areas Identified by GAO

The U.S. Government Accountability Office (GAO) evaluates VA's programs and operations. In February 2011, GAO issued an update to its High-Risk Series (GAO-11-278). The GAO-identified High-Risk Areas (specific to VA as well as Government-wide) are summarized below. In response to each of the High-Risk Areas (HRAs), the Department has provided the following:

- **Estimated resolution timeframe (fiscal year)** for VA to eliminate each HRA
- **Responsible Agency Official** for each HRA
- **Completed 2012 milestones** in response to the HRA
- **Planned 2013 milestones** along with **estimated completion quarter**

High-Risk Area		Estimated Resolution Timeframe (Fiscal Year)	Page # (in PAR)
No.	Description		
GAO 1	Improving and Modernizing Federal Disability Programs	2014	II-139
GAO 2	Strategic Human Capital Management: A Government wide High-Risk Area	2013	II-144
GAO 3	Managing Federal Real Property: A Government wide High-Risk Area	2013	II-145
GAO 4	Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures: A Government wide High-Risk Area	2013	II-147
GAO 5	Management of Interagency Contracting: A Government wide High-Risk Area	2012	II-148
	Appendix		II-150



Letter from the Chief Financial Officer

February 15, 2013

The Department of Veterans Affairs (VA) is very pleased to have received its 14th consecutive unqualified ("clean") audit opinion on the Department's consolidated financial statements.

Following the elimination of three material weaknesses in 2010, and the reduction of significant deficiencies from five to two in 2011, VA made additional progress by reducing the number of significant deficiencies in 2012. The auditor also reported one significant deficiency, "undelivered orders," as a partial repeat condition and retitled it from "accrued operating expenses." The Department has taken corrective actions sufficient to address the reasonable estimation of the accrued operating expenses portion of unpaid obligations and therefore "accrued operating expenses" has been removed from the significant deficiency for this year. The Department has also taken corrective actions sufficient to eliminate one other significant deficiency, "loan guaranty reporting," previously cited last year.

Substantial work was done in 2012 on remediating the Department's one remaining material weakness, "information technology (IT) security controls." Improvements were cited by the auditors, but this material weakness will be carried forward into 2013. VA's success in 2012 reflects the dedication and hard work of staff throughout the Department. Congratulations to all who helped make 2012 a year of high achievement in VA financial management.

VA remains committed to meeting its four financial management goals: reducing operating



costs, eliminating improper payments, strengthening internal controls, and enhancing data and analysis.

Since 2010, VA has used these four goals to establish and drive its annual suite of management initiatives. Following the completion of 7 of the 11 financial management initiatives in 2011, VA continued work during 2012 on the remaining 4 that are multi-year initiatives. The Systems to Drive Performance initiative was completed and moved to sustainment. This initiative delivered 17 unique dashboards that provide cost and workload program data to management and enhance decision-making. VA completed increments 3 and 4 of the Web-based Time and Attendance system initiative, and will complete the final increment – system testing – and implementation in 2013. Completion is also expected in 2013 on a final rule to implement electronic invoicing requirements. Progress is continuing on the multi-year initiative to modernize Fee Basis payment capabilities. The Department also continued its commitment to a well-trained financial management workforce,



providing training to over 400 additional employees, bringing the total percentage trained since 2010 to 85 percent.

In 2012, VA established its highest financial priority – a new initiative to reduce improper payments in order to comply with the Improper Payments Elimination and Recovery Act (IPERA). VA formed a task force, governed by the Chief Financial Officer, senior accountable officials, and program managers from VA's Administrations, to focus on increasing knowledge about VA improper payments, especially root causes, and on ways the Department can eliminate and reduce erroneous payments, ensure greater accuracy and improve precision of improper payment data, and adequately explain to stakeholders the causes of VA's improper payments. Action plans are also being developed and will be monitored during 2013 to improve compliance with IPERA.

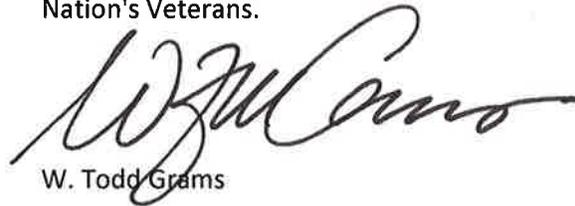
In 2012, VA continued to ensure that all Recovery Act transparency, reporting, and accountability goals were met. By September 30, 2012, VA had made outlays totaling over \$1.7 billion (96 percent) of Recovery Act funds. For USA Spending.gov, VA reported 100 percent of all required contract, grant, loan, and other assistance program spending, totaling \$96 billion. Additionally, VA exceeded reduced spending targets established by the Office of Management and Budget (OMB), implementing Executive Order 13589, "Promoting Efficient Spending." The Executive Order, dated November 15, 2011, directs agencies to cut waste in spending and identify opportunities to promote efficient and effective spending in specific areas, including travel, printing, supplies and materials, employee IT devices, promotional items, and executive fleet inventories. Mandated reductions in spending for management support contracts were also included. VA developed and executed a plan to reduce the costs associated with these activities

and exceeded the total spending reduction target of \$173.4 million by an additional \$69 million. VA monitors spending monthly and reports the status to OMB quarterly.

VA's Franchise Fund received its 15th successive unqualified audit opinion on its 2012 consolidated financial statements. In addition, the Supply Fund received an unqualified opinion in 2011 and in 2012.

VA is dedicated to ensuring the proper stewardship of resources entrusted to it by Congress and the American people. The Department of Veterans Affairs is proud of its many accomplishments, but knows that a lot of work remains.

We will continue to improve financial stewardship and set ambitious goals designed to enhance performance. We are dedicated to promoting sound business practices and improving accountability, with the ultimate goal of providing more and better services to our Nation's Veterans.



W. Todd Grams



Financial Highlights

The principal financial statements have been prepared to report the financial position and results of operations of the VA pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of VA in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by 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 financial statements should be read with the realization that VA is a component of the U.S. Government, a sovereign entity.

VA received an unqualified ("clean") opinion on the Department's financial statements for 2012 and 2011 from the external auditing firm of CliftonLarsonAllen LLP (CLA). As a result of its audit work, CLA reported one material weakness in internal controls, "Information Technology (IT) Security Controls," a repeat condition. CLA also reported one significant deficiency, "Undelivered Orders" as a partial repeat condition and re-titled it from "Accrued Operating Expenses." The Department has taken corrective actions sufficient to address the reasonable estimation of the accrued operating expenses portion of unpaid obligations; therefore, the condition "accrued operating expenses" has been removed from the significant deficiency for this year. The Department has also taken corrective actions sufficient to eliminate one other significant deficiency, "Loan Guaranty Reporting," previously cited last year.

In 2013, VA will focus on continuing progress toward remediating the remaining material weakness and the significant deficiency identified by the external auditors and management's assessment process.

VA programs operated at a net cost of \$355.9 billion in 2012 compared to a net cost of \$180.9 billion in 2011, an overall increase in net cost of \$175.0 billion or 92 percent. The increase is due to an increase in the Changes in Actuarial Liability Assumptions for Veterans' compensation and burial costs of \$93.4 billion and an increase of \$81.6 billion in Net Program Costs by Administration before Changes in Veterans Benefits Actuarial Liability Assumptions. The increase in the Changes in Actuarial Liability Assumptions included in net cost was primarily attributable to higher disability claims rates and a lower discount rate, resulting in a higher present value of discounted expected future cash payments partially offset by a lower COLA rate which slowed the rate of growth in future costs.

The higher disability claims rates are based on emerging experience from initial and reopened claims for the three new presumptive conditions related to Agent Orange which accounted for a \$123.4 billion increase in net cost. VA has prioritized the processing of the claims backlog related to Agent Orange which is forecasted to take through 2015 to complete, thereby resulting in the large increase in the assumption costs for 2012.

The decrease in the discount rate accounted for a \$14.5 billion increase in net costs. The single average discount rate declined from 4.53 percent to 4.31 percent at September 30, 2011 and 2012, respectively, resulting in a higher present value of expected future cash outflows at 2012 than at 2011.

The change in the COLA rate assumptions accounted for a \$44.5 billion decrease in net costs. The decrease resulted from the combined effect of lower future COLA rates and a significantly lower inflation assumption for 2012



compared with the prior year. COLA rate assumptions reflect estimated future inflation and are based on and consistent with the decline in the 10-year average historical interest rate yield curve on Treasury securities. The COLA rates declined to 2.61 percent in 2012 from 2.78 percent in 2011 and the rate is applied to future periods. In addition, the inflation rate assumed for 2012 was 1.54 percent compared to the 3.66 percent assumed for the prior year. (See Note 13 to the financial statements for more information, in the PAR.)

Net Program Costs by Administration before Changes in Veterans Benefits Actuarial Liability Assumptions in the Consolidated Statements of Net Cost totaled \$206.6 billion and \$125 billion for 2012 and 2011, respectively. Of this \$81.6 billion increase in net costs, approximately \$80.7 billion is related to VBA and approximately \$0.9 billion is related to VHA.

The VBA increase in net costs was primarily a result of the \$75.6 increase in Experience Changes in Veterans Benefits Actuarial Liability. The 2012 increase was caused by the unprecedented number of disability cases processed in 2012 and exceeded the forecasted claims estimated in the actuarial model assumptions for future periods. VBA's efforts to reduce the backlog of pending claims, including the large number of claims from eligible Veterans with preexisting conditions that were recently added to the list of presumptive conditions, contributed to this increase.

The balance of the VBA net increase in program costs totaled \$5.1 billion and related to increased compensation payments of \$5.2 billion and increased costs from participation in the new Post-9/11 GI Bill of \$0.6 billion, partially offset by a \$0.7 billion reduction in subsidy and re-estimate costs related to the housing program. The increased compensation costs are attributable to an increase in the number of payments to Veterans and survivors

by 2.0 million or 3.5 percent compared to 2011 and increased compensation payments for Agent Orange claims which have totaled \$4.0 billion since inception. The increased claims relate to disability claims filed and processed for presumptive disability benefits associated with Vietnam Veterans who have any of three specific illnesses from an association with herbicides used in Vietnam, including Agent Orange.

The increased costs related to the new Post-9/11 GI Bill are attributable to an increase of more than 1.4 million payments received by Veterans for education benefits over 2011, or an increase of 20 percent over 2011.

The decreased costs in the housing program are attributable to a significant reduction in subsidy expense due to a one-time estimation method adjustment in 2011 that did not recur in 2012. The one-time upward re-estimate adjustment to loan years 1992 through 2006 of approximately \$0.7 billion was required in 2011 since VA had actual experience data to adjust for a lack of accurate cash flow data prior to 2006.

The VHA increase in net costs relates primarily to the increased number of Veterans receiving medical care at Veterans' hospitals and medical facilities and increased costs associated with additional staff hired to meet Veteran medical demands.

Assets and liabilities reported in VA's balance sheets do not show significant change from year to year with the exception of Federal Employee and Veterans Benefits Liabilities; Public Accounts Payable; and General Property, Plant and Equipment, Net.

Substantially all of the \$228.0 billion increase in the Federal Employee and Veterans Benefits Liabilities in 2012 relates to changes in experience and changes in actuarial liability



assumptions. The changes in experience relate primarily to increased disability claims filed and processed for presumptive disability benefits associated with Vietnam Veterans, including Agent Orange. The changes in actuarial liability assumptions relate primarily to: decreases in the average discount rate used to compute the actuarial balance of Veterans Benefits Liability; decreases in the COLA rates used to project future cash flows; and, increased costs from updated actual disability claims data used to project future cash flows. It should be noted that the future cash flows to liquidate the actuarial estimated liability are not supported by identifiable assets as they are anticipated to be funded from the future general revenues of the U.S. Government.

Approximately \$4 billion of the \$4.7 billion increase in Public Accounts Payable is attributable to the timing of payment related to recurring Veterans compensation and pension benefit payments due October 1 each year. In 2011, the October 1 payment was paid in September 2011 since the date fell on a weekend. In 2012, the October 1 payment was made in October 2012. As a result, the 2011 Public Accounts Payable balance was significantly lower than the 2012 balance payable at September 30, 2012.

General Property, Plant and Equipment, Net increased approximately \$1.9 billion due to a \$3.0 billion increase in new and renovated medical facilities placed in service over the preceding twelve months, a \$0.5 billion increase in construction work in progress and a \$0.4 billion increase in software acquired and developed. The new facilities and construction provide the necessary infrastructure to support increasing patient loads and to provide optimal care for Veterans. The increased costs were partially offset by \$1.9 billion of depreciation expense and the disposition of approximately

\$0.3 billion of General Property, Plant and Equipment at a loss of \$0.1 billion.

Medical care collections in 2012 totaled \$2.74 billion, slightly over the 2012 goal of \$2.67 billion. Medical care collections in 2011 totaled \$2.7 billion, slightly below the 2011 goal of \$2.8 billion.

For 2012, 82 percent of eligible debt was sent to Treasury for either offset or cross-servicing. VA referred \$1.02 billion of eligible debt to Treasury for offset under the Treasury Offset Program (TOP). Under the cross-servicing program, VA referred \$148 million of eligible debt to Treasury for collection.

Through September 2012, the Department has collected \$1.1 billion in delinquent benefit debt. In addition, we have collected \$48.2 million through administrative offset on delinquent first party medical debt during 2012.

In 2010 VA developed a set of 11 financial management initiatives. Seven of these were completed in 2011. In 2012 VA continued work on the four remaining initiatives. The Systems to Drive Performance initiative was completed, delivering 17 dashboards that provide cost and workload program data to management. VA made significant progress on its Web-based Time and Attendance initiative. The final increment, system testing and implementation will be completed in 2013. In 2013, we also expect to complete a final rule implementing electronic invoicing requirements. Significant progress is expected on the multi-year initiative to modernize Fee Basis payment capabilities. These financial management priorities drove our efforts during 2012, and continue to help us meet our financial management goals of: Reducing Operating Costs, Eliminating Improper Payments, Strengthening Internal Controls, and Enhancing Data and Analysis.



In 2012, VA continued to ensure that all Recovery Act transparency, reporting, and accountability goals were met. By September 30, 2012, VA had made outlays totaling over \$1.7 billion (96 percent) of Recovery Act funds. For USA Spending.gov, VA reported 100 percent of all required contract, grant, loan, and other assistance program spending, totaling \$96 billion.

During 2012, the Department continued the aggressive use of the Government-wide purchase card program, processing over 5.5 million transactions representing \$3.4 billion in purchases. This generated over \$75 million in refunds for VA compared to approximately \$73 million during 2011. VA's daily electronic billing and payment process for centrally billed accounts, along with a higher negotiated refund rate, allow VA to maximize refunds that are returned to VA entities for use in Veterans programs.

Throughout 2012, VA continued to make operational enhancements which resulted in improvements in interest paid, discounts earned, and improper payment collections. Interest improvements occurred largely because the Department centralized payment of VHA-certified payments at the Financial Services Center (FSC) in Austin, Texas, while the percentage of discounts earned increased because of ongoing operational improvements implemented at the FSC. Interest penalties paid per million dollars disbursed improved 15 percent from \$45 per million in 2011 to \$38 per million in 2012. At the same time, VA earned

over 97 percent (\$5.2 million) of its available discounts.

Additionally, the FSC reviews VA vendor payments daily to systematically identify, prevent, and recover improper payments made to commercial vendors. The FSC also reviews vendor payments to identify and collect improper payments resulting from payment processing errors such as erroneous interest penalties, service charges, and sales taxes. Overall, during 2012, collections of improper payments totaled \$2.4 million from payment recapture audits and \$16.2 million from post-payment reviews and other sources. Improved payment oversight enabled VA to identify and cancel over \$11.1 million in potential improper payments prior to disbursement.

The FSC also leveraged technology to expedite payment of commercial invoices. At the end of 2012, the FSC helped VA pay 95 percent of small businesses within 15 days of receipt of proper payment documentation. Additionally, during 2012 VA paid 99.8 percent of all commercial vendor payments within the Prompt Payment Act timeliness standard.

Improvements were made in VHA financial management throughout the year in providing additional and clarifying financial policies and procedures to VHA's fiscal community, particularly in the area of internal controls. VHA continues to monitor and improve its financial reporting and oversight process.



Management Controls, Systems, and 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. VA is required to provide assurances related to the Federal Managers' Financial Integrity Act and the Federal Financial Management Improvement Act in the section entitled "Management Assurances."

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management controls over their programs and financial systems. VA managers monitor and improve the effectiveness of management controls associated with their programs and financial systems throughout the year. The results of monitoring and conducting other periodic evaluations provide the basis for the Secretary's annual assessment of and report on management controls. VA managers are required to identify material weaknesses relating to their programs and operations pursuant to sections 2 and 4 of the FMFIA as defined:

- Section 2 requires agencies to assess internal controls necessary to ensure compliance with applicable laws and regulations; protect against loss from waste, fraud, and abuse; and ensure receivables and expenditures are properly recorded.
- Section 2 also requires management's assessment of internal control over financial reporting.
- Section 4 requires agencies to assess nonconformance with Government-wide financial systems requirements.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) requires agencies to have systems that generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. The Department faces challenges in building and maintaining financial management systems that comply with FFMIA.

Under FFMIA, VA is substantially compliant with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level but VA has a repeat material weakness (MW) for Information Technology (IT) Security Controls. This MW results in VA's financial management systems not being in compliance with the Federal financial management systems requirements as required by FFMIA Section 803(a). VA continues to work to remediate this remaining material weakness.

In 2012, the Department also continued operation of the Hyperion Financial Management System (MinX), which provided controls and significantly improved the process of preparing the consolidated financial statements.

Management Assurances

During 2012, the Secretary of Veterans Affairs emphasized the importance of managers implementing strong internal controls that will enhance the Department's diligent stewardship and wise application of taxpayers' assets and programs to deliver timely and high quality benefits.

OMB Circular A-123, Appendix A,
Management's Responsibility for Internal



Control, defines the requirements for conducting management's assessment of internal control over financial reporting in Federal agencies. In 2012, VA completed a comprehensive assessment of internal controls over financial reporting that covered approximately 19 key business processes that directly affect specific financial management statement accounts and impact the internal control over financial reporting. Management's assessment of internal control over financial reporting included an evaluation of such elements as the design and operating effectiveness of key financial reporting, controls, process documentation, accounting and finance policies and our overall control environment. VA engaged an independent public accounting firm to assist in an internal control assessment pursuant to OMB Circular A-123 Appendix A.

improve its internal control environment and assessment of risk.

VA used a risk-based approach for identifying key internal controls over financial reporting for material financial statement accounts. VA tested all internal controls rated high risk and one-third of controls rated moderate risk. Low risk controls are evaluated on a 3-year cycle through self-assessment procedures conducted by Department managers.

After reviewing the results of the assessments outlined in the Statements of Written Assurance provided by the Under Secretaries, Assistant Secretaries, and Other Key Officials, the Secretary of Veterans Affairs provided a qualified statement of assurance. One material weakness was identified under FMFIA, "Information Technology (IT) Security Controls," which was carried forward from 2011 into 2012 and will be carried forward into 2013. Based on the results of VA's internal control assessment, no additional material weaknesses were identified in 2012. As the internal control programs mature, VA is increasingly able to



Condensed Financial Statements

DEPARTMENT OF VETERANS AFFAIRS

CONDENSED CONSOLIDATED BALANCE SHEETS* (dollars in millions)

As of September 30,	2012	2011
ASSETS		
Fund Balance with Treasury	\$ 40,574	\$ 40,211
Investments and Other Assets - Intragovernmental	10,148	10,822
Public		
Accounts and Loans Receivable, Net	3,785	4,039
General Property and Equipment, Net	20,631	18,686
Other Assets	278	305
TOTAL ASSETS	\$ 75,416	\$ 74,063
LIABILITIES		
Intragovernmental Liabilities	\$ 2,537	\$ 2,999
Public		
Federal Employee and Veterans Benefits Liabilities	1,763,614	1,535,591
Insurance Liabilities	10,581	11,113
Other Liabilities	20,005	14,658
TOTAL LIABILITIES	1,796,737	1,564,361
NET POSITION	(1,721,321)	(1,490,298)
TOTAL LIABILITIES AND NET POSITION	\$ 75,416	\$ 74,063

CONDENSED CONSOLIDATED STATEMENTS OF NET COST* (dollars in millions)

For the Years Ended September 30,	2012	2011
NET PROGRAM COSTS		
Veterans Health Administration	\$ 53,428	\$ 52,521
Veterans Benefits Administration (Including Experience Changes in Veterans Benefits Actuarial Liability)	151,558	70,850
National Cemetery Administration (Including Experience Changes in Veterans Benefits Actuarial Liability)	194	179
Indirect Administrative Program Costs	1,377	1,439
NET PROGRAM COSTS BY ADMINISTRATION BEFORE CHANGES IN VETERANS BENEFITS ACTUARIAL LIABILITY ASSUMPTIONS	206,557	124,989
NET (GAIN)/LOSS FROM ACTUARIAL LIABILITY ASSUMPTIONS	149,300	55,900
NET COST OF OPERATIONS	\$ 355,857	\$ 180,889

*For a full set of financial statements and footnotes, see Part III of the 2012 PAR at www.va.gov/budget/report



DEPARTMENT OF VETERANS AFFAIRS

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION*
(dollars in millions)

For the Years Ended September 30,

	2012	2011
Cumulative Results of Operations		
Beginning Balance	\$ (1,502,346)	\$ (1,447,603)
Financing Sources, Primarily Appropriations Used	132,751	126,146
Net Cost of Operations	355,857	180,889
Net Change	(223,106)	(54,743)
Ending Balance – Cumulative Results	\$ (1,725,452)	\$ (1,502,346)
Unexpended Appropriations		
Beginning Balance	\$ 12,048	\$ 14,385
Appropriations Received	125,255	122,580
Appropriations Used and Other Changes	(133,172)	(124,917)
Total Unexpended Appropriations	4,131	12,048
Total Net Position	\$ (1,721,321)	\$ (1,490,298)

* For a full set of financial statements and footnotes, see Part III of the 2012 PAR at www.va.gov/budget/report



DEPARTMENT OF VETERANS AFFAIRS

CONDENSED COMBINED STATEMENTS OF BUDGETARY RESOURCES*
 (dollars in millions)
 For the Year Ended September 30, 2012

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources		
Unobligated Balance at the Beginning of the Period, Adjusted	\$ 23,108	\$ 3,430
Net Increase in Budget Authority **	132,439	3,610
Total Budgetary Resources	\$ 155,547	\$ 7,040
Status of Budgetary Resources		
Obligations Incurred **	\$ 139,630	\$ 3,034
Unobligated Balance Available	12,673	-
Unobligated Balance Not Yet Available	3,244	4,006
Total Status of Budgetary Resources	\$ 155,547	\$ 7,040
Obligated Balance, Net End of Period	\$ 23,315	\$ 310
Budget Authority, Net	\$ 127,513	\$ (673)
Agency Outlays, Net	\$ 124,431	\$ (1,737)

For the Year Ended September 30, 2011

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources		
Unobligated Balance at the Beginning of the Period	\$ 23,791	\$ 2,373
Net Increase in Budget Authority**	131,216	4,467
Total Budgetary Resources	\$ 155,007	\$ 6,840
Status of Budgetary Resources		
Obligations Incurred**	\$ 131,889	\$ 3,410
Unobligated Balance Available	20,345	-
Unobligated Balance Not Yet Available	2,773	3,430
Total Status of Budgetary Resources	\$ 155,007	\$ 6,840
Obligated Balance, Net End of Period	\$ 16,521	\$ 286
Budget Authority, Net	\$ 126,114	\$ 138
Agency Outlays, Net	\$ 127,181	\$ (1,305)

* For a full set of financial statements and footnotes, see Part III of the FY 2012 PAR at www.va.gov/budget/report

** Estimated recoveries of prior year unpaid obligations (not recorded) range from \$1,200 million-\$2,300 million for 2012 and range from \$1,100 million-\$2,100 million for 2011. The effect of recording the adjustments would be to increase "Net Increase in Budget Authority" and increase "Obligations Incurred".



Summary of Financial Statement Audit and Management Assurances

The following tables provide a summary of audit-related or management-identified material weaknesses and the non-compliance with FFMIA and Federal financial management system requirements outlined in the 2012 Performance and Accountability Report. The title of each material weakness is consistent throughout this section and in the entire document. The material weakness and the associated remediation plan is the same as the audit-related material weakness.

September 30, 2012, VA continues to report this material weakness. No new material weaknesses were found.

During 2012, VA continued its remediation plans to correct the one material weakness identified in prior years for "Information Technology (IT) Security Controls." As of

Table 1 - Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
IT Security Controls	✓				✓
<i>Total Material Weaknesses</i>	1	0	0	0	1



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Questions about this report should be directed to VA's Office of Performance Management at 202-461-7389.