DEPARTMENT OF VETERANS AFFAIRS

FY 2001 ANNUAL ACCOUNTABILITY REPORT

FEBRUARY 27, 2002

AMERICA IS A NATION FULL OF GOOD FORTUNE, WITH SO MUCH TO BE GRATEFUL FOR. BUT WE ARE NOT SPARED FROM SUFFERING. IN EVERY GENERATION, THE WORLD HAS PRODUCED ENEMIES OF HUMAN FREEDOM.

President George W. Bush, National Day of Remembrance for the Victims of September 11, 2001 Terrorist Attack on America.

A MESSAGE FROM THE SECRETARY OF VETERANS AFFAIRS

On March 4, 1865, President Abraham Lincoln made a promise to all American veterans. In his second inaugural address, he said:

"With malice toward none, with charity for all, with firmness in the right as God gives us to see the right, let us strive on to finish the work we are in, to bind up the nation's wounds, to care for him who shall have borne the battle and for his widow and his orphan, to do all which may achieve and cherish a just and lasting peace among ourselves and with all nations."

Those words describe better than any others do the responsibilities and mission of the Department of Veterans Affairs. VA cares for veterans and their families—men and women who responded when their Nation needed help, and who now are in need of help themselves. Our 207,000 employees are proud to have the responsibility to accomplish this mission.

The Department of Veterans Affairs Annual Accountability Report for Fiscal Year (FY) 2001 highlights significant accomplishments made by the Department during FY 2001 and provides performance, programmatic, and financial information on our Department's activities.

For the third consecutive year, we have obtained an unqualified audit opinion on our consolidated financial statements, which are contained within this report. This achievement represents a major milestone in improving financial management in reporting in VA, and provides sound baseline information to build upon in the future. This report also reveals our progress in addressing previously reported material weaknesses and reportable conditions.

Fiscal Year 2001 was a year of building a foundation of knowledge to create a blueprint for action. Fiscal Year 2002 will be a year of action on behalf of America's veterans and their families. I will work with Congress, veterans service organizations, and VA employees to ensure our Nation's veterans and their families receive the benefits they have earned through their service and sacrifices. We will take whatever steps are necessary to honor President Lincoln's, and America's, commitment to those who have served us so well.

Anthony J. Principi

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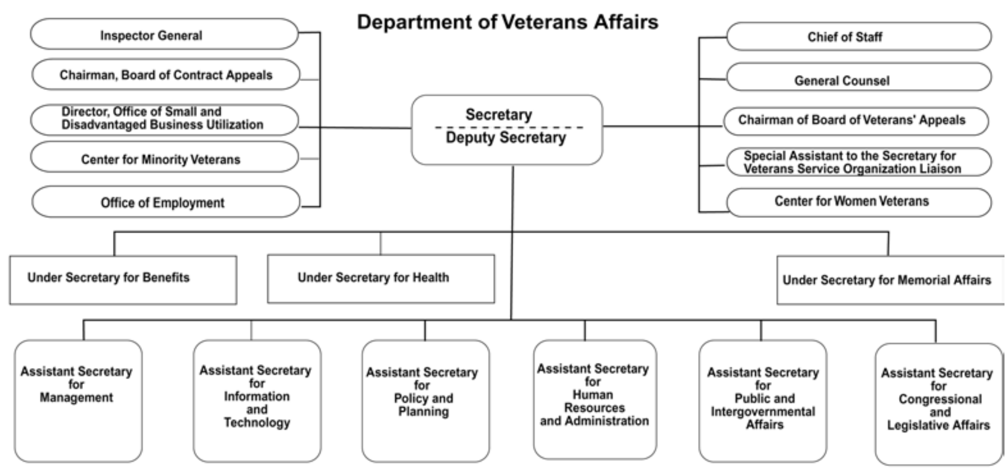
ORGANIZATION STRUCTURE AND AGENCY PROFILE



Organizational Structure as of September 30, 2001

The statutory mission for the Department of Veterans Affairs (VA) defines our organizational commitment to America's veterans: "to administer the laws providing benefits and other services to veterans and their dependents and the beneficiaries of veterans" (38 U.S.C. §301(b), 1997). VA exists to give meaning, purpose, and reality to that commitment. The requirements, preferences, and expectations of veterans directly shape the benefits and services we provide.

The FY 2001 Annual Accountability Report documents VA's accomplishments in delivering high-quality, timely benefits and services to over 25 million men and women who have served our country in the armed forces. This report identifies VA's progress in achieving the goals and objectives in the VA Strategic Plan and Annual Performance Plan. It also provides detailed information to Congress, the Office of Management and Budget (OMB), veterans service organizations, and other stakeholders -- to spell out not only what we do, but more importantly, how well we are doing in meeting our commitment to the Nation's veterans and their families.

MISSION

"To care for him who shall have borne the battle, and for his widow and his orphan." These words, spoken by Abraham Lincoln in his second inaugural address, reflect the basis for the Department's existence.

In today's environment, President Lincoln's statement reflects VA's responsibility to serve America's veterans and their families with respect and compassion, and to be their principal advocate in ensuring that they receive medical care, benefits, social support, and lasting memorials. These programs promote the health, welfare, and dignity of all veterans in recognition of their service to the Nation.

VISION

As the Department of Veterans Affairs heads into the 21st century, we will strive to meet the needs of the Nation's veterans and their families today and tomorrow. We will become an even more veteran-focused organization, functioning as a single, comprehensive provider of seamless service to the men and women who have served our Nation. We will continuously benchmark the quality and delivery of our service with the best in business and use innovative means and high technology to deliver world-class service. We will foster partnerships with veterans organizations and other stakeholders making them part of the decisionmaking process. We will cultivate a dedicated VA workforce of highly skilled employees who understand, believe in, and take pride in our vitally important mission.

Through partnerships between and among the Veterans Health Administration (VHA), the Veterans Benefits Administration (VBA), the National Cemetery Administration (NCA), the Board of Veterans' Appeals (BVA), and Departmental staff organizations, VA directly touches the lives of millions of veterans every day through its health care, benefits, and burial programs. The Department carries out its responsibilities by integrating the related activities and functions of the following major programs:

MEDICAL CARE

VA meets the health-care needs of America's veterans by providing primary care, specialized care, and related medical and social support services.

MEDICAL EDUCATION

Our health-care education and training programs help to ensure an adequate supply of clinical care providers for veterans and the Nation.

MEDICAL RESEARCH

The medical research program contributes to the Nation's knowledge about disease and disability.

COMPENSATION

The compensation program makes monthly payments and ancillary benefits to veterans, in accordance with rates specified by law, in recognition of the average potential loss of earning capacity caused by a disability or disease incurred in, or aggravated during, active military service. This program also makes monthly payments to surviving spouses, dependent children, and dependent parents, in recognition of the economic loss caused by the veteran's death during active military service or, subsequent to discharge from military service, as a result of a service-connected disability. Recent legislation has also authorized compensation for children of veterans as well. Currently we authorize compensation for children of

Vietnam veterans with Spina Bifida and children of female veterans with certain birth defects.

PENSION
The pension program makes monthly payments to needy wartime veterans who are permanently and totally disabled. This program also provides monthly payments to needy surviving spouses and dependent children of deceased wartime veterans.

EDUCATION
The education program assists veterans and eligible dependents in achieving their educational or vocational goals by providing financial assistance in the form of monthly payments while attending school or pursuing training.

VOCATIONAL REHABILITATION AND EMPLOYMENT
The vocational rehabilitation and employment program assists veterans with service-connected disabilities to achieve functional independence in daily activities. It provides all services and assistance necessary to enable service-disabled veterans to become employable and to obtain and maintain suitable employment.

HOUSING
The housing program helps veterans, reservists, and active duty personnel purchase and retain homes.

INSURANCE
The insurance program provides veterans and servicemembers life insurance benefits that are not available from the commercial insurance industry because of lost or impaired insurability resulting from military service. Insurance coverage is available at competitive premium rates and with policy features comparable to those offered by commercial companies. A competitive, secure rate of return is ensured on investments held on behalf of the insured.

BURIAL
VA honors veterans with a final resting place and lasting memorials that commemorate their service to our Nation.

WHO WE SERVE
OUR CONTINUOUS FOCUS ON THE VETERAN

This section presents social and demographic data on the veteran population. Data on the number of veterans by age, sex, period of service, and state of residence are from official VA estimates and projections.

NUMBER OF VETERANS AND PERIODS OF SERVICE
Beginning with our Nation's struggle for freedom more than 2 centuries ago, approximately 42 million men and women have served our country during wartime. Most (85 percent) served in one or more of the four major conflicts of the 20th century. Today, an estimated 25.3 million veterans are living in the United States, Puerto Rico, and overseas. Of these, 19 million veterans served during wartime.

The veteran population decreased by 560,000 in FY 2001. Vietnam-era veterans account for the largest segment of the present veteran population.

AGE OF VETERANS
At the end of FY 2001, the median age of all living veterans was 57.9 years. Veterans under 45 years of age constituted 21 percent of the total veteran population; veterans 45 to 64 years old, 41 percent; and veterans 65 years of age or older, 38 percent.

The number of veterans 85 years of age and older totals over 556,000. Eleven years ago, there were approximately 155,000 veterans in this age range. This large increase in the oldest segment of the veteran population has had significant ramifications on the demand for health care services, particularly in the area of long-term care.

FEMALE VETERANS
In FY 2001, the female veteran population of 1.4 million constituted 5.5 percent of all veterans living in the Unites States, Puerto Rico, and overseas. The female veteran population as a percentage of all veterans is expected to increase, because the number of former military service women continues to grow. Generally, the demographic profile of the female veteran population stands in contrast to that of the male veteran population (e.g., differences in age and period of service).

The median age of female veterans is 13.4 years younger than that of male veterans -- 44.6 versus 58.0. The growing involvement of women in the military in recent years is reflected in period-of-service differences between male and female veterans. About 59 percent of all female veterans served during the post-Vietnam era.

STATE OF RESIDENCE
Veterans in just three states—California, Florida, and Texas—comprised nearly 23 percent of the veterans living in the United States and Puerto Rico at the end of FY 2001. The three next largest states in terms of veteran population are New York,

Pennsylvania, and Ohio. These 6 states account for more than 37 percent of the total veteran population. The two least populous states in terms of veteran population—Wyoming and North Dakota—and the District of Columbia collectively accounted for less than 1 percent of the total.

PERFORMANCE GOALS AND RESULTS

In FY 2001, with resources of $53.5 billion in obligations and nearly 207,000 full-time equivalent (FTE) employees, the Department of Veterans Affairs (VA) achieved significant accomplishments that brought us closer to attaining our long-term strategic goals. To help us gauge our progress, we established 127 performance goals at the beginning of the fiscal year, 26 of which were identified by VA's senior leadership as critical to the success of the Department.

VA's Performance Scorecard for FY 2001 summarizes how well we did in meeting the key performance goals directly associated with each of the strategic goals. This allows us to examine performance from a Departmental perspective.

In FY 2001, the Department made significant advances but continued to have opportunities for improvement in certain areas. Although we met our goal for timeliness of processing compensation and pension rating-related actions, we still have a long way to go to achieve an acceptable record. Although claims processing has become increasingly complex because of new legislation and regulatory changes, the Department remains committed to improving the timeliness of claims processing and has developed strategies for accomplishing future performance goals.

Successes include:

- VA made a significant improvement in the quality of claims processing, from a 59 percent accuracy rate in 2000 to a 78 percent rate for rating related actions in 2001.

- The Montgomery GI Bill usage rate improved due to improved benefits, although the average number of days to complete educational claims worsened.

- The foreclosure avoidance rate improved due to VA's aggressive and proactive servicing program to assist veterans whose mortgages are in default.

- The VA insurance program continued its excellent service as evidenced by the score of 90 in an independent survey by the American Customer Satisfaction Index, well above the industry average of 75.

- Health care quality continued to improve, as measured by the Chronic Disease Care Index and the Prevention Index.

- VA health care continues to receive higher satisfaction ratings than the private sector.

- Although the Department narrowly missed its target, the timeliness of health care delivery, as measured by the percentage of patients seen within 20 minutes of their scheduled appointment at a VA health care facility, continued to rise.

- The Department was recognized for its efforts to improve the quality of health care; VA was one of five winners of the "Innovations in American Government" award for reducing medical adverse events and developing a culture of safety.

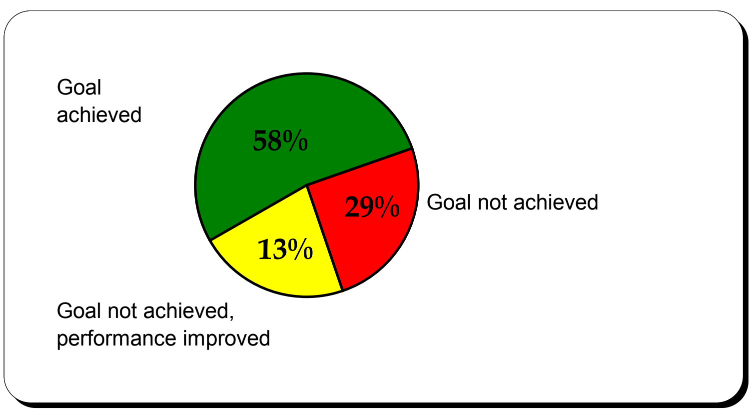
- Three of VA's programs received high customer satisfaction ratings, as detailed in the American Customer Satisfaction Index. As compared to the Federal Government average of 71 (out of a possible 100), VA achieved ratings of 93 for burial services, 90 for the processing of insurance death claims benefits, and 83 for pharmacy services.

- VA began operations at Fort Sill National Cemetery and completed construction projects to extend burial operations at six other national cemeteries. Five new state veterans cemeteries were opened through the State Cemetery Grants Program.

- VA's national cemeteries continued to improve the quality of their service as well as their appearance. In 2001, 96 percent of respondents to a customer satisfaction survey rated the appearance of national cemeteries as excellent, up from 82 percent in 2000.

SUMMARY OF PERFORMANCE ON KEY PERFORMANCE GOALS

VA's senior leadership identified 26 performance goals considered critical to the success of the Department. Some of these deal with program outcomes; others pertain to the management of our programs. FY 2001 data for all of these key performance goals are listed in the "performance actual" column of the VA's performance scorecard for FY 2001 on page 16.



The Department achieved 14 of the 24 key performance goals for which we had FY 2001 targets. For nine of those, actual performance in FY 2001 improved over that reported in FY 2000. For three of the 10 performance goals not met, actual performance in FY 2001 improved over that reported in FY 2000. We did not set performance goals for two measures but collected baseline data during the year.

For further information on the Department's performance, please see the Department of Veterans Affairs FY 2001 Annual Performance Report (which will be published in March 2002).

KEY PERFORMANCE RESULTS BY STRATEGIC GOAL

This report is structured around the key priorities established by the Secretary. Within the narratives, we have incorporated the key measures that support these priorities. (In this report, years are fiscal years unless stated otherwise.)

STRATEGIC GOAL 1: *RESTORE THE CAPABILITY OF DISABLED VETERANS TO THE GREATEST EXTENT POSSIBLE AND IMPROVE THE QUALITY OF THEIR LIVES AND THAT OF THEIR FAMILIES.*

We use four key performance goals to gauge our progress toward achieving this strategic goal, which focuses on benefits and services for disabled veterans. We achieved all of these key performance goals. The Department improved the proportion of discharges from spinal cord injury (SCI) center bed sections to non-institutional settings from 97 percent in FY 2000 to 98 percent in FY 2001.

Although we exceeded our timeliness goal for rating-related work by 21 days with an achievement level of 181 days compared to our goal of 202 days, performance worsened from the 173 days recorded the previous year. We have a long way to go before we achieve an acceptable record for this goal.

During FY 2001, the national accuracy rate in processing the Department's most important types of claims for compensation and pension benefits (i.e., rating-related actions) improved to 78 percent from a rate of 59 percent in FY 2000.

Over 10,100 veterans were rehabilitated; 65 percent of service-disabled veterans who exited a vocational rehabilitation program acquired and maintained suitable employment, the same as in FY 2000.

STRATEGIC GOAL 2: *ENSURE A SMOOTH TRANSITION FOR VETERANS FROM ACTIVE MILITARY SERVICE TO CIVILIAN LIFE.*

We did not meet three of the four key performance goals relating to achievement of this strategic goal in FY 2001. Though we did not meet the Montgomery GI Bill (MGIB) usage rate goal, the rate improved from 55 percent in FY 2000 to 56 percent in FY 2001.

Veterans use their VA education benefit as one important means of readjusting to civilian life. The MGIB allows them the opportunity to achieve educational or vocational objectives that might not have been attained had they not entered military service.

The timeliness of processing education claims deteriorated during FY 2001. The processing of both original and supplemental education claims took longer in FY 2001 than it did in FY 2000. While our plan was to process original education claims in no more than 35 days, it took an average of 50 days. The average number of days needed to process supplemental education claims was 24 days, 1 day longer than the performance target.

We met our goal to assist veterans who are in default on a VA-guaranteed home mortgage, as measured by the foreclosure avoidance through servicing (FATS) ratio. The foreclosure avoidance rate improved from 30 percent in FY 2000 to 40 percent in FY 2001 due to VA's aggressive proactive servicing program to assist these veterans.

STRATEGIC GOAL 3: *HONOR AND SERVE VETERANS IN LIFE AND MEMORIALIZE THEM IN DEATH FOR THEIR SACRIFICES ON BEHALF OF THE NATION.*

VA achieved 8 of the 14 key performance goals for this strategic goal. For two of the six key performance goals we did not meet, performance in FY 2001 improved over that reported in FY 2000.

During the last 5 years, the share of inpatients and outpatients rating VA health care service as "very good" or "excellent" has remained stable at about two-thirds. The inpatient and outpatient satisfaction levels recorded during FY 2001, although below the performance target of 67 percent, still indicate a very high level of satisfaction with VA health care. This is supported by the American Customer Satisfaction Index (ACSI), a national indicator of customer evaluations of the quality of goods and services. The FY 2001 ACSI scores for VA inpatient care and outpatient care were 82 and 79 (out of a possible 100), respectively. Both ranked above private sector hospitals, whose ACSI score was 68.

Although the Department did not meet its FY 2001 target -- that 73 percent of patients would be seen within 20 minutes of their scheduled appointment at VA health care facilities -- the actual performance level of 72 percent was an improvement over the 70 percent registered during FY 2000.

For FY 2001, the Department established baselines for two other performance measures related to the timeliness of providing health care: the percent of non-urgent primary care appointments scheduled within 30 days of the desired date and the percent of non-urgent specialist appointments scheduled within 30 days of the desired date. The baselines for these were 87 percent and 84 percent, respectively.

VA uses two key performance measures to assess the quality of health care delivery -- the Chronic Disease Care Index II (CDCI II) and the Prevention Index II (PI II). These indices measure the degree to which the Department follows nationally recognized guidelines for the treatment and care of patients. The CDCI II focuses on the care of patients with ischemic heart disease, hypertension, chronic obstructive pulmonary disease, diabetes mellitus, major depressive disorder, schizophrenia, and tobacco cessation. During FY 2001, VA met its target of 77 percent. The PI II focuses on primary-prevention and early-detection recommendations for nine diseases or health factors that significantly determine health outcomes: pneumococcal pneumonia, influenza, tobacco consumption, and alcohol consumption and screenings for colorectal cancer, breast cancer, cervical cancer, prostate cancer, and cholesterol levels. VA surpassed its target of 73 percent by achieving an 80 percent PI.

The Veterans Service Standard (VSS) performance goals are intended to measure patient satisfaction with health care services in select areas. The VSS percent of problems reported per patient remained the same as in FY 2000 for patient education. For visit coordination, the target of 14 percent was not met, and the actual of 16 percent for FY 2001 was worse than the 15 percent reported for FY 2000. VA surpassed the pharmacy target of 18 percent plus improved in this area from 19 percent in FY 2000 to 16 percent in FY 2001.

VA is committed to continuously improving the culture of patient safety in its health care facilities. An important aspect of this is to develop a good understanding of the causes of safety concerns. The Department met its target of 95 percent for root cause analyses being in correct format and completed within the appropriate time frame.

We met our targets for both the Quality-Access-Satisfaction/Cost VALUE Index and the Balanced Scorecard of Quality-Access-Satisfaction-Cost. The VALUE index demonstrates a balanced perspective of cost efficiency along with desired outcomes. The balanced scorecard tracks the same performance measures used in the VALUE index. In this case, though, the four domains (quality, access, patient satisfaction, and cost) are given equal weight and expressed in terms of how close actual performance is relative to established target levels of performance.

VA surpassed its target of 3.2 days for average days to process insurance disbursements and improved from the 2000 actual of 3.2 with a 2001 actual of 2.8 days.

The percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence remained the same at 72.6 percent in FY 2001. This data was obtained through the new VetPop2000 model, the first revision of official estimates and projections of the veteran population since 1993.

VA exceeded its 90 percent target for FY 2001 in the percent of respondents who rate the quality of service provided by the national cemeteries as excellent. The actual of 92 percent was an improvement over the 88 percent rating in FY 2000.

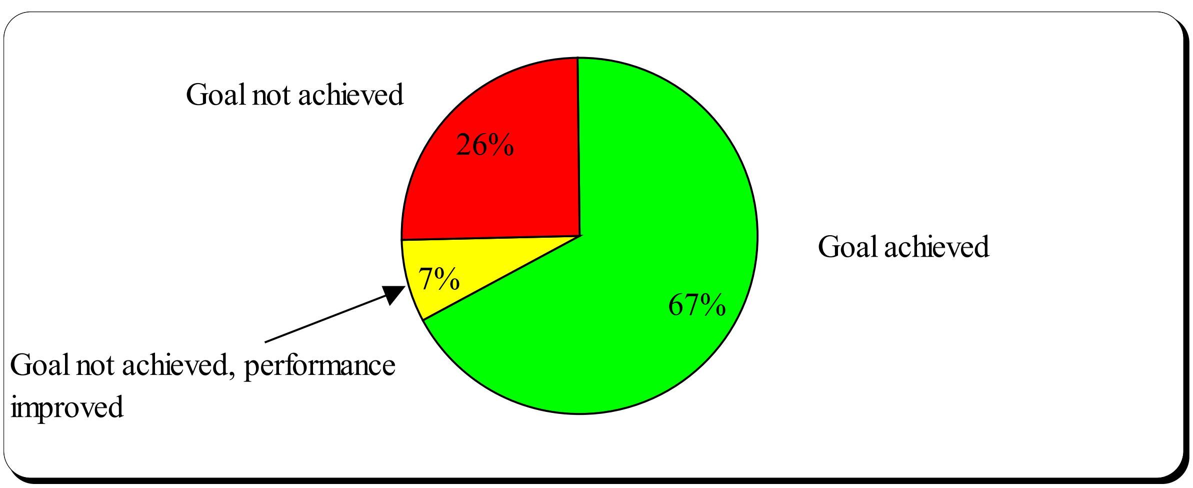
STRATEGIC GOAL 4: *CONTRIBUTE TO THE PUBLIC HEALTH, SOCIOECONOMIC WELL BEING AND HISTORY OF THE NATION.*

VA failed to meet one of the two key performance goals relating to this strategic goal in FY 2001. We did not meet the 33 percent goal for Institutional Review Board compliance with National Committee for Quality Assurance (NCQA) accreditation and maintenance, as appropriate, of AAALAC or NRC accreditation or certification. We had 0 percent compliance. Noncompliance was due to the following: VA NCQA accreditation experienced a delay in a contract award; in addition, VHA entered into a collaborative effort with the Institute of Medicine to develop national standards for accreditation; and subsequently, proposed standards were revised in response to public comments.

In FY 2001, satisfaction with national cemetery appearance improved from 82 percent in FY 2000 to 96 percent of respondents rating national cemetery appearance as "excellent."

ALL PERFORMANCE GOALS

In addition to the key performance goals identified by VA's senior leadership as critical to the success of the Department, program managers established other performance goals at the beginning of FY 2001. Collectively, these performance goals demonstrate the full scope of the Department's programs and operations. A total of 127 performance goals were set at the start of the fiscal year. VA met 67 percent of the performance goals for which we had data. (We did not have data for six measures.) For another 7 percent, the Department's performance improved over that reported in FY 2000.



VA'S PERFORMANCE SCORECARD FOR FY 2001

STRATEGIC GOAL	PERFORMANCE MEASURE	WAS GOAL ACHIEVED? YES	NO	PERFORMANCE GOAL	ACTUAL	IMPROVE FROM ACTUAL 2000
Restore the capability of disabled veterans to the greatest extent possible, and improve the quality of their lives and the lives of their families	Compensation and pension rating-related actions - average days to process	✓		202	181	No
	National accuracy rate for core rating work	✓		72%	78%	Yes
	Proportion of discharges from SCI center bed sections to non-institutional settings	✓		95%	98%	Yes
	Vocational rehabilitation and employment rehabilitation rate	✓		65%	65%	Same
Ensure a smooth transition for veterans from active military service to civilian life	Montgomery GI Bill usage rate		✓	60%	56%	Yes
	Average days to complete: Original education claims Supplemental education claims		 ✓ ✓	 35 23	 50 24	 No No
	Foreclosure avoidance through servicing (FATS) ratio	✓		33%	40%	Yes
Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation	Percent of patients rating VA health care service as very good or excellent: Inpatient Outpatient		 ✓ ✓	 67% 67%	 64% 65%	 No Yes
	Percent of primary care appointments scheduled within 30 days of desired date			Baseline	87%	N/A
	Percent of specialist appointments scheduled within 30 days of desired date			Baseline	84%	N/A
	Percent of patients who report being seen within 20 minutes of scheduled appointment at VA health care facilities		✓	73%	72%	Yes
	Chronic Disease Care Index II	✓		77%	77%	N/A
	Prevention Index II	✓		73%	80%	N/A
	Percent of Veterans Service Standard (VSS) problems reported per patient: Patient education Visit coordination Pharmacy	 ✓	 ✓ ✓ 	 29% 14% 18%	 30% 16% 16%	 Same No Yes
	Root cause analyses are in correct format and completed within the appropriate time frame	✓		95%	95%	N/A
	Quality-Access-Satisfaction/Cost VALUE Index	✓		5.8	6.30	Yes
	Balanced Scorecard: Quality-Access-Satisfaction-Cost	✓		94%	98%	Yes
	Average days to process insurance disbursements	✓		3.2	2.8	Yes
	*Percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence		✓	75.8%	72.6%	Same
	Percent of respondents who rate the quality of service provided by the national cemeteries as excellent	✓		90%	92%	Yes
Contribute to the public health, socioeconomic well being and history of the Nation	Institutional Review Board compliance with National Committee for Quality Assurance accreditation and maintenance, as appropriate, of AAALAC or NRC accreditation or certification		✓	33%	0%	N/A
	Percent of respondents who rate national cemetery appearance as excellent	✓		88%	96%	Yes

N/A = Not applicable
***Effective FY 2000, actual performance and the target levels of performance are based on the new veterans' population 2000 model developed by the Office of the Actuary.**

FINANCIAL HIGHLIGHTS

Pursuant to the requirements of 31 U.S.C. 3515 (b), VA's financial statements report the financial position and results of operations of the Department. The audit of the statements was performed by Deloitte & Touche LLP, under the direction of the Office of Inspector General. VA received an unqualified opinion on the Department's financial statements from the auditors in FY 2001 (which includes explanatory paragraphs relating to the adoption of Statement of Federal Financial Accounting Standards (SFFAS) Nos. 10 and 21 as discussed in Note 21, a change in the fixed asset capitalization policy discussed in Note 21, and the restatement discussed in Note 21) continuing the success first achieved in FY 1999. While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget (OMB), 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. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

As discussed in Note 21 to the Financial Statements, subsequent to the issuance of the FY 2000 Financial Statements, VA management determined that the calculation of the Veterans Benefits actuarial liability contained material errors. The errors relate to FY 2000 and prior periods. In accordance with VA's election to early adopt SFFAS No. 21, which requires that reporting entities restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period, the accompanying FY 2000 Financial Statements have been restated to reflect the correction of the calculation errors. The FY 2000 Financial Statements have also been restated to correct an error in the Judgment Fund liability calculation. The following financial highlights give effect to the restatement.

VA's programs operated at a net cost of $187.3 billion in FY 2001 compared with a net cost of $108.8 billion in FY 2000. The calculation of the actuarial liability for future years' veterans compensation and burial benefits, which increased by $139.4 billion during FY 2001 and by $64 billion in FY 2000, heavily impacts each year's cost. The most significant sources of change associated with the Compensation and Pension (C&P) programs between September 30, 2000 and September 30, 2001 were the overall decrease in interest rates between these two dates and the number of new compensation awards made for diabetes. Excluding the change in this actuarial liability from the net cost would result in an adjusted net cost for VA's programs of $47.9 billion and $44.8 billion for FY 2001 and 2000, respectively. The majority of this increase applies to two programs -- Compensation, $1.2 billion, and Medical Care, $1.1 billion.

An examination of assets and liabilities reported on VA's balance sheets reveals four lines with changes greater than $1 billion. The largest is the increase in the Federal Employee and Veterans Benefit Liabilities, related to the increase in the actuarial liability for future Compensation and Burial benefit payments. It should be noted that the future cash flows to liquidate this liability are not supported by any identifiable assets, as they are anticipated to be funded from the future general revenues of the U.S. Government. Loans Receivable, Net, increased by $1 billion in FY 2001 primarily due to two factors: First, the events of September 11th delayed the September 28th sale of VA-held loans to private investors. Second, the OMB credit reform subsidy model used to calculate housing loan subsidies generated a downward reestimate. Finally, Fund Balance with Treasury, which represents the right of VA to draw on the Treasury to pay allowable expenses, includes the Compensation & Pension payment for September. While generally paid on the last day of the preceding month, this fiscal year ended on a Sunday. A corresponding Public Accounts Payable is also reported.

Collections for the Medical Care Collection Fund continued to improve, with a total of $0.8 billion collected in FY 2001 -- a significant increase over the FY 2000 total of $0.6 billion. VA has developed a Revenue Cycle Improvement Plan to increase collections to $1.4 billion by FY 2005. In addition, the amounts reported for patient and third-party insurers' medical debt continue to increase due to a change in billing methodology. VA now bills for medical services based on "reasonable charges" rather than "reasonable cost." Amounts collected under this program are retained by VA and used for medical care purposes.

The Department continued its aggressive use of the governmentwide commercial purchase card program. Purchase card disbursements for FY 2001 were over $1.5 billion, covering 2.6 million transactions and earning VA credit card rebates from Citibank totaling over $15.2 million. This is a 12 percent increase over the rebates earned in FY 2000 ($13.5 million).

In the area of debt management, VA exceeded the goal established with the Department of the Treasury for the Treasury Offset Program. In FY 2001, VA referred a total of $0.33 billion representing 92 percent of eligible debt to Treasury, up from 67 percent referred in FY 2000. Under the Treasury Cross-servicing Program, VA referred $0.3 billion in FY 2001, representing 94 percent of eligible debt. This is an increase from 17 percent referred in FY 2000.

Under 38 U.S.C. 8161, et seq., VA may enter into long-term (up to 75 years) outleases of VA property in return for fair consideration including goods, services, or space beneficial to VA's mission. In some cases, the lessee provides "in-kind" consideration through a third party including an independent trust. Once established, the independent trust assumes obligations to provide in-kind consideration to the Department. VA is not party to the Trust Agreement and does not "own" or control the trust, and has no beneficial, residual or other interest in the trust estate other than the assets that are specifically deposited into the enhanced-use leasing account for the purpose of providing in-kind consideration to VA. This arrangement has proven to be very beneficial to the Department in the several enhanced-use leases now in place. Consequently, as the Department uses the enhanced-use leasing program to address its capital and resource requirements, VA anticipates that most of its "in-kind" benefits will be received through these types of third-party providers.

COMPLIANCE WITH THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

STATEMENT OF WRITTEN ASSURANCE

A review and evaluation of senior administrative and program managers' annual assessment provides reasonable assurance that VA's management controls and financial systems adhere to the requirements of the Federal Managers' Financial Integrity Act. Full compliance of VA's financial systems will depend on the completion of the Veterans Benefits Administration's system modernization efforts and implementation of enhances internal controls in the Compensation and Pension payment area.

NEW MATERIAL WEAKNESS

We are reporting a new material weakness, "Internal Control Weaknesses in the Compensation and Pension (C&P) Payment Process," due to recent findings of erroneous and fraudulent payments. We are taking steps on multiple fronts to address the problem. Procedures are being developed to augment internal controls in the area of erroneous payments. We will develop specific measures to pinpoint the amount of overpayments in each program area (Compensation, Pension, and Dependency Indemnity Compensation) and determine the nature and causes of the overpayments. With this information, we will create additional mechanisms to reduce overpayments. VBA's Chief Financial Officer, the C&P program manager, and the Inspector General are working collaboratively to identify specific system enhancements, reports, and certifications to strengthen this area. The Inspector General's office is conducting field reviews to assess the results of the corrective actions, and both the C&P Service and the Chief Financial Officer are re-instituting expert teams to conduct systematic reviews of financial and other C&P operations in the field.

CLOSURE OF MATERIAL WEAKNESSES

We are pleased to report that sufficient corrective actions were taken during FY 2001 to warrant closure of four material weaknesses:

CLOSED MATERIAL WEAKNESSES AND YEAR IDENTIFIED
Loan Guaranty Financial Modernization (1986) -- The system lacked up-to-date interfaces between manual and automated components. The system has been replaced by the Financial Management System (FMS), VA's core accounting system.
Loan Guaranty - Loan Service and Claims (1989) -- This component of the loan guaranty program was not able to optimally manage the supplemental servicing of claims. The system has been updated.
Credit Reform (1995) -- VA needed to improve the integration of VBA's systems and procedures to support Credit Reform initiatives affecting loan programs. All Loan Guaranty general ledgers have been converted to FMS, and audit testing is completed.
Fund Balances With Treasury Reconciliations (2000) -- An Inspector General report cited improvements needed in VA's SF-224 reconciliation processes. Audit testing revealed that sufficient improvements were made to warrant closure.

The table below shows current material weaknesses carried forward into FY 2002:

CURRENT MATERIAL WEAKNESSES AND YEAR IDENTIFIED	TARGETED CORRECTION DATES	
	PLANNED FY 2001	REVISED/ CURRENT
Compensation and Pension System -- Lack of Adaptability and Documentation (1985) -- The system is outdated and needs to be replaced. Total conversion is planned for FY 2004. However, the current schedule may be impacted by the implementation of recommendations from the Claims Processing Task Force.	2002	2004
Inadequate Controls Over Addictive Drugs (1991) -- A GAO report concluded controls over a large number of prescriptions in VA medical facilities were inadequate. At that time, manual controls were used to track prescription drugs. VHA is implementing a new software system to track drug dispensation at every bed in every medical facility. The correction date has been extended to FY 2002 because VHA is piloting version 2.0 for IV drugs.	2001	2002
PAID System -- Mission Performance (1993) -- VA's central payroll and personnel system, PAID, lacked the ability to expand. Plans are being implemented to bring PAID current with deferred functionality.	TBD	TBD
Information Systems Security Controls (1998) -- VA's assets and financial data are vulnerable to error or fraud because of weaknesses in information security management, access to controls and monitoring, and physical access controls. VA prepared and submitted the *GISRA Remediation Plan* to OMB in October 2001.	2003	2003
Housing Credit Assistance Program (2000) -- The Inspector General found internal control weaknesses in direct loan accounting, loan sales accounting, and Credit Reform subsidy reporting. All milestones to correct these deficiencies were completed, except the final one. OMB will require agencies to prepare interim financial statements beginning about March 2002. After the audit of VA's FY 2001 financial statements, we expect this weakness to be corrected.	2001	2002
Internal Control Weaknesses in the Compensation and Pension Payment Process (2002) -- Erroneous and fraudulent payments were found in the Compensation and Pension program. Procedures are being developed to augment internal controls in the area of erroneous payments. Measures are being taken to pinpoint the amount of overpayments in each program area and to determine the nature and causes of the overpayments.	N/A	TBD

COMPLIANCE WITH THE IG ACT AMENDMENTS OF 1988

VA collected $17.2 million in disallowed costs from VA contracted suppliers.

Departmentwide, 19 reports with at least 1 unimplemented recommendation were pending final action for over 1 year. This represents a significant reduction from last fiscal year when 28 reports were pending final action.

Delays were incurred in implementing recommendations as a result of the development and implementation of new regulations or directives, collection and/or write-off activities, and system changes.

DISALLOWED COSTS AND FUNDS TO BE PUT TO BETTER USE
REPORTING PERIOD OCTOBER 1, 2000 – SEPTEMBER 30, 2001
(DOLLARS IN MILLIONS)

	Disallowed Costs		Funds Put to Better Use	
	Reports	Value	Reports	Value
Balance as of 9/30/00	10	$ 0.8	18	$ 839.5
New Reports	21	24.4	19	269.4
Total	31	25.2	37	1,108.9
Completed	24	17.2	23	594.8
Balance as of 9/30/01	7	$ 8.0	14	$ 514.1

OIG REPORTS PENDING FINAL ACTION OVER ONE YEAR AFTER MANAGEMENT DECISIONS HAVE BEEN MADE

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
# of Reports	80	65	42	36	28	19

PROMPT PAYMENT ACT

In FY 2001, over 96 percent of VA invoices were paid on time. VA processed more than 4.6 million invoices, representing over $8.5 billion, subject to the Prompt Payment Act. The number of invoices remained constant while the dollar value increased by over $5 million. Interest penalties totaled $1.8 million -- slightly higher than last year’s $1.5 million.

To improve payment performance, we emphasized the following efforts:

The Department aggressively used the governmentwide commercial purchase card program. During FY 2001, nearly 2.6 million transactions were processed, representing over $1.5 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned over $15.2 million in credit card rebates -- increase of approximately 10 percent over FY 2000.

VA's Travel Management Centers (TMC) serve veterans and employees who travel frequently. The billings are transmitted electronically from each TMC, and payment is sent daily through the Department of the Treasury's Electronic Certification System. In FY 2001, the travel management program processed 121,701 transactions and disbursed more than $17 million. It also earned $158,493 in rebates in FY 2001.

VA's prime vendor payment system automates payments under a nationwide prime vendor centralized purchasing contract. In FY 2001, VA converted 131 medical centers to the prime vendor system, with 445,979 transactions processed electronically, totaling nearly $2.3 billion.

VA's Financial Services Center (FSC) continued to provide vendor payment history on the Internet. The application stores 90 days of information on invoices. Currently, 946 vendors are using the Vendor Inquiry System Internet download procedures to assist them with payment identification.

The FSC continued to improve the Intranet Online Invoice Certification process, which allows invoices to be certified electronically and sent for payment. The online system provides a certifying official with e-mail notification from the FSC when an invoice requires payment certification. The certifying official can view the invoice image on the Intranet, certify the invoice, and forward it to the FSC for payment processing. The processing time is reduced to hours rather than days. Currently, all Veterans Integrated Service Networks use the Online Invoice Certification System. The FSC plans to expand the system to more users next year.

FUTURE PLANS

VETERANS HEALTH ADMINISTRATION

EMERGENCY PREPAREDNESS

VHA's emergency preparedness response in 2001 was immediate and comprehensive. This same resolve will continue during 2002 through VA's liaison with the Office of Homeland Security. VHA will provide medical centers with additional supplies of antibiotics and other pharmaceuticals in case of a terrorist situation. This will supplement stockpiles managed by the Centers for Disease Control and the Department of Heath and Human Services for use by the general public. A Patient Care Services Task Force is planning for mental health needs. A working group is identifying ways to enhance laboratory services to allow VA to do its own investigations of possible bioterrorism situations.

INTERPROFESSIONAL FELLOWSHIP PROGRAM IN PALLIATIVE CARE

Six sites were selected in 2001 to launch VHA's new "Interprofessional Fellowship Program in Palliative Care." The fellowships will develop physicians, nurses, social workers, and other caregivers with the vision, knowledge, and compassion to lead the Nation in creating end-of-life care programs to meet the needs of the 21st century. VHA is laying the groundwork for ensuring that progress in relieving suffering and improving care at the end of life is made available to veterans, their families, and eventually the Nation.

CENTERS OF EXCELLENCE

Two new Centers of Excellence will develop new therapies for veterans with spinal cord injuries. The center at the Bronx VA Medical Center (VAMC) will explore the use of pharmaceuticals to treat the secondary disabilities of spinal cord injury, and the center at the Miami VAMC will study pain management, recovery of motor and sensory function, and other issues critical to spinal cord injury patients.

A new Center of Excellence will spearhead research in the development of artificial retinas to restore sight to blind veterans. The center at the Jamaica Plain VAMC in Boston is working with researchers from the Massachusetts Eye and Ear Infirmary, Harvard Medical School, and the Massachusetts Institute of Technology to ease the burden of eye diseases and blindness.

In 2001, VHA established two Centers for the Study of War-Related Illnesses (Washington, DC, and East Orange, NJ). In the future, these centers will develop methods to minimize illness and injury that can be implemented before, during, and after future conflicts and peacekeeping missions. Additionally, the centers will explore ways to improve care for active-duty patients and veterans.

HEPATITIS C SCREENING AND TESTING PROGRAM

VHA's new hepatitis C and HIV field office in West Haven, Connecticut, will work to refine VHA's efforts to better address the needs of nearly 100,000 veterans infected with hepatitis C or HIV, and will help set the standard for how a large health care organization can respond to the needs of these patients. VHA has the largest hepatitis C screening and testing program in the world, having screened or tested more than 2 million veterans in the past 2 years.

CAPITAL ASSET REALIGNMENT FOR ENHANCED SERVICES

The Capital Asset Realignment for Enhanced Services (CARES) program is currently being reassessed to determine how the process can be improved before proceeding with future phases. Pending the results of this reassessment, the program will be initiated in phases over the next several years. The eventual goal is to complete a study for each Network that will assess veterans' health care needs, identify service delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets to support the delivery of health care services.

PRESIDENT'S TASK FORCE

The President's Task Force (PTF) to Improve Health Care Delivery for Our Nation's Veterans was recently commissioned to improve health care benefits and services for both VA and DoD beneficiaries through better coordination between the two departments. The 15-member task force will serve for 2 years and is expected to develop several recommendations to improve efficiency and effectiveness in data sharing and information technology, budgeting processes, billing, reimbursement, facility sharing and procurement of supplies and services. VHA is providing direct and indirect services to the PTF through staff, information and logistics assistance.

VA/DOD EXECUTIVE COUNCIL

To improve coordination of health care delivery systems and policy collaboration between VA and DoD, the two agencies have reinvigorated the VA/DoD Executive Council, composed of senior leadership. The Executive Council, which now serves as a policy review and decision-making body, has established nine work groups and a special task force to review specific issues in detail, and developed a format and procedure for securing interagency policy decisions. The Executive Council will build on the progress to date, exploring increased sharing opportunities in strategic planning, joint facility utilization, benefit coordination, geriatric care, improved financial practices, information technology, patient safety, clinical quality guidelines, pharmaceuticals and procurement.

MANAGEMENT SYSTEM

VHA's chief officers, Network directors and key staff completed a full criterion-based self-assessment of VHA's management system, using the Malcolm Baldrige quality improvement system. The vision is for VHA to be the recognized leader in quality health care. No organization the size of VHA has undertaken such an effort. Continuous cycles of assessment, feedback and improvement focus the organization and assure quality improvement at a system level. The self-assessment was reviewed by non-VA senior Malcolm Baldrige examiners who provided comprehensive feedback. Based upon their own assessment and the examiners' feedback, corporate leaders have begun groundwork for aligning organizational efforts to better accomplish VHA's goals. VHA developed a comprehensive plan to ensure effective communications with all of their employees. Targeted information/education campaigns brought all facility leaders into the Baldrige initiative. Another targeted campaign began informing all VHA employees about system improvement activities. A Web page has been developed to post all significant VHA documents. During 2002, VHA will develop strategies to improve fundamental health care, business and support processes.

SUCCESSION PLANNING

VHA completed a comprehensive evaluation of its workforce for succession planning, issuing a multi-pronged plan for workforce and leadership development at all levels. This includes policy, regulatory, and legislative proposals to facilitate the recruitment and retention of a high-quality workforce and, measurement of employee satisfaction and the key factors affecting morale and retention. The leadership program is in development and will be deployed in FY 2002.

HEALTH*E*VET

Health***e***Vet, an information strategy that has been developed to replace the current increasingly fragile information system, will move VHA toward an ideal health information system that will support the ideal veterans health system. Collaboratively among the Department, field, and headquarters leadership and the Chief Information Officer, a proposed strategy has been developed for both VA and VHA needs. This strategy supports the guiding principles contained in the VA Enterprise Architecture. Working with the VA Office of Information and Technology, staff developed an overall capital investment strategy built around the Health***e***Vet system and its major subsystems. The major systems built to support the primary program/business needs are: the Health Data Systems; Registration, Enrollment and Eligibility System; Management and Financial Systems; and Information and Education Systems, along with an additional component, the Enterprise Management Center.

THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT

VHA is implementing the Health Insurance Portability and Accountability Act, also known as HIPAA. It was enacted as part of a broad Congressional attempt at incremental health care reform. The “Administrative Simplification” aspect of that law requires HHS to develop standards and requirements for maintenance and transmission of health information that provides industry-wide standardization in e-transactions, code sets, security and privacy. These standards are designed to improve the efficiency and effectiveness of the health care system by standardizing the interchange of electronic data for specified administrative and financial transactions, and protect the security and privacy of protected health information as outlined in the legislation. The requirements outlined by the law and the regulations promulgated by HHS are far-reaching – all health care organizations that maintain or transmit electronic health information must comply.

VETERANS BENEFITS ADMINISTRATION

COMPENSATION AND PENSION

Improving the timeliness and accuracy of claims processing is a top priority. Great progress has been made in this area in recent months. VBA has launched a major effort to resolve 81,000 of its oldest claims -- those pending for more than a year. Additionally, nine Resource Centers, designed to add processing capacity to each area of the country, are contributing to the goal of resolving these oldest cases. Additional Veterans Service Representatives (VSRs) and Rating VSRs have been hired to address the increasing workload. The Quality Assurance process is being revised so that the VBA headquarters staff, outbased in Nashville, will review an increased case sample. This will meet the requirement for independent assessment, and allow redirection of VARO resources to claims analysis. Pension Maintenance workload, beginning with eligibility verification reports, and eventually all pension maintenance, will be centrally processed beginning in early calendar year 2002. This will enable resources in the other regional offices to handle compensation workload. The Board of Veterans' Appeals (BVA) and VBA reached an agreement whereby BVA will begin initiating development on cases that would otherwise be remanded to the field offices. VA's virtual imaging technology will be fully tested in 2002 at the pension maintenance center in Philadelphia and then deployed to the Milwaukee and St. Paul pension maintenance centers in FY 2003. VBA will continue to work closely with the Department of Defense on two major initiatives: the exchange of their records through imaging technology and the creation of a joint separation examination and disability evaluation protocol.

VOCATIONAL REHABILITATION AND EMPLOYMENT (VR&E)

We continue to place emphasis on employment. The vision of VR&E is that veterans will realize that the program is about making them employable and finding them suitable jobs. To further that vision, we will continue to improve communications by providing outreach programs at military transition sites and other key sites. Veterans will have greater access to staff through out-based sites, out-based counselors, flexible hours, use of technology such as fax and Internet connections, and help from partnerships with State vocational rehabilitation and employment organizations. Every veteran in this program will have a Vocational Rehabilitation Counselor to provide advice and guidance on using available resources and for planning an individualized program.

EDUCATION

VBA has implemented a prototype expert system, to process selected enrollment information for Montgomery GI Bill Active Duty claimants whose data are received electronically from their education institution. An initiative is underway to expand the prototype to include the development of a comprehensive rules-based system to automate the adjudication of claims and develop a new application to receive enrollment certifications from schools.

LOAN GUARANTY

We are continuing our efforts to develop and implement information technology solutions to provide more timely service to our customers at a reduced cost. Important benchmarks are the quality and efficiency of service provided by private entities because they set the level of expectations for all real estate transactions.

VBA is currently completing a study of the property management function under the guidance of OMB Circular A-76. This study will determine whether it would be more cost effective to keep the property management operation in-house or to contract out this activity. An initiative to redesign the Construction and Valuation (C&V) element of Loan Guaranty will consolidate C&V from the 45 regional offices into the 9 Regional Loan Centers (RLCs). This will entail managing approximately 60 out-based personnel from the RLCs. Upon completion of this initiative, VBA anticipates an annual savings of approximately $2 million and an overall reduction of 30 positions in C&V staffing. Concurrent with this consolidation is a move toward a paperless environment. This involves a systems redesign which will allow C&V documents and data to be transmitted via the Internet and stored electronically. In addition, appraisal files submitted by fee appraisers will utilize e-commerce to submit appraisal reports to VA and lenders via e-mail. Remote management of the C&V activity will be implemented during the first half of 2002, and the redesigned systems will support that initiative. Enhancement of the C&V systems will follow to take advantage of developing technologies.

Another initiative currently underway is development of an Online Eligibility Determination (OED) system that will allow our lender partners to access VA databases in order to obtain instantaneous determinations about a veteran's eligibility for home loan benefits and the amount of entitlement available to that veteran. The first phase of this system will be operational in the second quarter of 2002. The Property Management Local Area Network (PLAN) will be replaced by the Centralized Property Tracking System (CPTS) in the second quarter. PLAN data will be merged with CPTS and the VBA corporate database to provide historical reporting capability in those applications.

Loan Administration Redesign, a business process re-engineering effort to standardize procedures involved in supplemental servicing of delinquent guaranteed loans is underway. Records management initiatives are planned to significantly reduce the number of hard copy records retained at field offices and in the Federal Records Centers. The project will focus on reductions in hard copy storage and refining electronic record classification and retention requirements.

LIFE INSURANCE

Significant progress was made in VBA's life insurance program in the areas of customer service and satisfaction, training of employees, providing additional access points for veterans, and improving internal claims processing procedures. VBA will continue to enhance these areas during FY 2002. Accomplishments and future efforts are outlined below:

- Permanent retirement of 2.5 million paper folders as a result of imaging and paperless workflow systems, which will continue to be implemented over the next year.

- Opening of a Web-based Self-Service feature, which allows insured veterans to directly access their accounts. Future enhancements will allow for additional account transactions and self-disbursements in a secure environment.

- Continued implementation of SKIPPES (Skills, Knowledge, and Insurance Practices and Procedures Embedded in Systems) system, which provides training, documentation and institutionalization of best practices in work processes on-line.

- Continued enhancement of the VICTARS (Veterans Insurance Claims Tracking and Response System) customer contact management system, which provides a single shell, one-password vehicle to access all insurance applications as well as seamless links to Beneficiary Identification and Record Locator Sub-system, Benefits Delivery Network, etc. Because VICTARS provides Insurance Telephone Specialists with 1-stop access to all critical data, over 85 percent of the more than 810,000 phone requests received each year are resolved at the time of the call.

- Continued implementation and monitoring of enhancements to the Servicemembers Group Life Insurance programs, which added $120 billion in protection for servicemembers, reservists and their families.

- Continued implementation of the recommendations of a recent contractor-assisted program evaluation, which found that the life insurance programs were largely meeting their intended outcomes, but which also identified gaps in the benefits available through the programs. Most recommendations have been addressed through administrative actions, and legislation will be required for the remaining proposal.

- Continued coordination of the extraordinary procedures put in place to ensure expeditious payment of claims arising from the events of September 11 and Operation Enduring Freedom.

EMERGENCY PREPAREDNESS

In the area of emergency response and preparedness, VBA participated as part of a Departmental response to the tragedies of September 11, 2001. VBA had representatives at various centers set up to assist veterans and their families process and receive appropriate benefits and entitlements in an efficient, effective, and expedited manner. The ability to rapidly mobilize and provide assistance will be a key part of VBA's emergency preparedness in the future. The crisis of September 11 changed VBA's outlook on emergency preparedness. In the past, the focus was on natural occurrences, such as earthquakes and storm-related disasters. It is now understood that terrorist activities may impact us in ways that we had not formally anticipated. VBA will continue to work closely with all other VA emergency preparedness organizations to ensure that resources are protected and our customers are well served. Additionally, we are prepared to assist other Federal agencies, in accordance with the Federal Response Plan and Presidential Directives.

ACCESS MANAGEMENT

VBA is refining its National Automated Response System (NARS) to simplify messages and call routing and to provide direct connection to VHA's Health Benefits Service Center and the National Cemetery Administration. VBA will also continue to deploy virtual call centers to improve veteran's access to VBA services and make more VSRs available for claims processing duties. VBA also plans to place information concerning state benefits for veterans on VBA's Internet site.

PROGRAM INTEGRITY

VBA continues to place increased emphasis on internal controls and accountability performance plans. All regional office directors' performance plans now include an element on program integrity. Additionally, VBA recently established an Office of Program Integrity (OPI) to specifically address these issues. OPI will continue to coordinate oversight/audit functions, conduct best practice studies, and evaluate contractors for additional data sources and development of biometrics access to computer systems. OPI staff is also coordinating with other organizations to improve existing matches with other government entities.

NATIONAL CEMETERY ADMINISTRATION

NATIONAL CEMETERIES

VA continues to make progress in the development of new national cemeteries to serve veterans in the areas of Atlanta, Georgia; Detroit, Michigan; Miami, Florida; Oklahoma City, Oklahoma; Pittsburgh, Pennsylvania; and Sacramento, California. These locations were identified in a May 2000 report to Congress as the areas most in need of a new national cemetery, based on demographic studies. When open, these 6 cemeteries will provide a burial option to over 2 million veterans who are currently not served within a reasonable distance of their residence.

In fall 2001, operations began at Fort Sill National Cemetery, near Oklahoma City, when the initial "fast track" development was completed. A "fast track" is a small-scale development that provides veterans with burial space nearly 2 years before cemetery construction is completed. This allows families to inter loved ones in the national cemetery without waiting for final completion of construction. The first burial area will provide 1,100 gravesites. A temporary committal shelter, access roads, and a flagpole are in place. Fort Sill National Cemetery will provide a burial option within 75 miles of the residence of nearly 166,000 veterans in the Oklahoma City area.

During FY 2001, VA accepted a land donation to develop a national cemetery near Atlanta, Georgia -- a location identified in the above-referenced May 2000 report to Congress. When completed, the national cemetery will provide a burial option within 75 miles of the residence of over 400,000 veterans in the Atlanta metropolitan area. By receiving the donated land, America's taxpayers have been saved the costs of land purchase. In addition, Georgia's veterans have benefited from a reduced timetable for development of a new national cemetery.

NCA administers the State Cemetery Grants Program (SCGP), which provides grants to states of up to 100 percent of the cost of establishing, expanding, or improving state veterans cemeteries, including the acquisition of initial operating equipment. These cemeteries may be located in areas where there are no plans for NCA to operate and maintain a national cemetery. Forty-seven state veterans cemeteries have been established, expanded, or improved using the SCGP. By 2003, eight new state veterans' cemeteries will provide service to over 270,000 veterans not currently served by a burial option within a reasonable distance of their residence.

The Veterans Millennium Health Care and Benefits Act, Public Law 106-117, directs VA to contract for an independent demographic study to identify: (1) those areas of the country where veterans will not have reasonable access to a burial option in a national or state veterans cemetery; and, (2) the number of additional cemeteries required to meet veterans' burial needs through 2020. This study and the contractor's report will be provided in the winter of 2002.

Public Law 106-117 also directed VA to contract for an independent study on improvements to veterans cemeteries. The study will identify the one-time repairs needed to ensure a dignified and respectful setting appropriate for each national cemetery. Recommendations to address deferred maintenance issues or preventive steps to minimize future maintenance costs will be identified. The study will also include a report on the feasibility of establishing standards of appearance for national cemeteries to equal the finest cemeteries of the world. Varying characteristics of cemeteries, such as cemetery status (open, cremation only, and closed), as well as geographic and climatic conditions, will be taken into consideration.

In advance of the completed report, contracts for projects are underway at four national cemeteries: Fort Sam Houston National Cemetery in Texas; Golden Gate National Cemetery in California; Long Island National Cemetery in New York; and Willamette National Cemetery in Oregon. Over 170,000 headstones and markers will be raised and realigned as well as cleaned where needed. In addition, at Willamette National Cemetery, graves in a 24-acre area will be completely renovated.

QUALITY AND CUSTOMER SATISFACTION

To ascertain how customers and stakeholders perceive the appearance of and quality of service provided by national cemeteries, VA seeks feedback through annual surveys and focus groups. This information is used to determine expectations for service delivery and cemetery appearance as well as specific improvement opportunities and training needs. For FY 2001, VA developed a nationwide mail-out customer satisfaction survey. The new survey is an improvement over the previous data collection instrument in that it provides statistically valid performance information at the national and regional (Memorial Service Network) levels, and at the cemetery level for cemeteries having at least 400 interments per year. The information gathered will be used in NCA's strategic planning process to develop additional strategies for improvement. VA will continue to conduct focus groups to collect data on stakeholder expectations and their level of satisfaction with the quality of service and appearance of national cemeteries.

To further enhance access to information and improve service to veterans and their families, NCA installs kiosk information centers at national and state veterans cemeteries to assist visitors in finding exact gravesite locations. In addition to providing the visitor with a map for use in locating the gravesite, the kiosk information center provides general information such as the cemetery's burial schedule, cemetery history, burial eligibility, and facts about NCA. By the end of FY 2001, VA had installed 33 kiosks at national and state veterans cemeteries; installations will continue in FY 2002.

EMERGENCY PREPAREDNESS

NCA participated fully in the Department's emergency response activities following the September 11 tragedy. VA national cemeteries were directed to treat all burials as high priority, honor requests for weekend burials, and extend hours of operation if necessary. NCA remained sensitive to the needs of victims' families during this crisis, making accommodations wherever possible. NCA will continue to meet the needs of the victims in a compassionate manner.

MAJOR MANAGEMENT CHALLENGES IDENTIFIED BY VA'S OFFICE OF INSPECTOR GENERAL

The following is an update prepared by VA's Office of Inspector General (OIG) summarizing the most serious management problems facing VA, and assessing the Department's progress in addressing them. Although VA does not have specific quantifiable goals and performance measures in place to help resolve these issues, the Department does have corrective action plans in various stages of implementation. Progress will be monitored until each management challenge has been successfully addressed. Department officials have stated their agreement with the conditions the OIG reported. (On these pages, the word "we" and "our" refers to the OIG.)

1. HEALTH CARE QUALITY MANAGEMENT AND PATIENT SAFETY

Of the many challenges facing VA, one of the most serious and potentially volatile, is the need to maintain a highly effective health care quality management program. The issues that punctuate the importance of this challenge are VA's need to ensure the high quality of veterans' health care and patient safety, and to demonstrate to Department overseers that VA health care programs are effective.

One example of a particularly difficult and complex undertaking is the need to provide safe, high-quality, patient care in an environment that is rapidly evolving from the traditional specialty-based inpatient care to an ambulatory care/outpatient primary care setting. Increasing reliance on treatment in ambulatory care settings can increase opportunities for clinicians to make errors in treating patients and increase the risk of patients receiving uncoordinated care among various outpatient disciplines. While patients are less vulnerable to hospital-acquired pathogens when they receive care in the ambulatory setting, they are increasingly vulnerable to incurring other medical treatment errors and threats to their safety such as missed diagnoses, inappropriate treatments, prescription errors, and failure to follow up. The health care industry, including the Veterans Health Administration (VHA), needs to identify and correct these kinds of system problems.

A fully functional quality management program should be able to monitor patients' care to ensure their safety and to safeguard, to the extent possible, against the occurrence of inadvertent adverse events, undetected misdiagnoses, failure to treat through uncoordinated care, etc. These types of risk management functions are intended to assure patients that they will be cared for in a manner that promotes their maximum safety while providing them with optimal medical treatment.

In recent years, VHA has not provided consistent clinical quality management leadership at all levels of the organization. This is due in part to the devolution of management authority from VHA headquarters to the Veterans Integrated Service Network (VISN) and individual VA medical center (VAMC) levels, coupled with resource reductions associated with the Veterans Equitable Resource Allocation model. In 2000, following an OIG review, VHA managers agreed to develop functional descriptions, which would help ensure the consistency of staffing patterns in VAMCs' quality management departments throughout the country. While no two VAMC quality management departments may focus on similar clinical quality issues in the same way, the VHA quality management system may begin to operate in a more consistent manner if the functional guidelines are followed. However, functional and resource disparities continue to impede the Department's ability to identify or measure the extent of possibly widespread unsatisfactory clinical practices, and to devise procedures to correct or eliminate such problems.

VHA's National Center for Patient Safety (NCPS) training on the principles of root-cause analysis, which responded to past OIG recommendations, continues and is well received by VHA employees. NCPS's focus on patient safety and resolving long-standing patient vulnerabilities has helped make VHA medical facilities a safer environment for their patients.

CURRENT STATUS: Although VHA managers are vigorously addressing the Department's risk management and patient safety procedures in an effort to strengthen patients' confidence while they are under VA care, system issues remain. In addition, concerns exist for the care VA provides veterans in the private sector, e.g., on a contract or fee basis. Patient safety in these settings needs additional quality management attention. For example, patients, their family members, and members of Congress are concerned about patient safety and the quality of care provided in VA contract nursing homes. During our Combined Assessment Program (CAP) reviews[1], we found that VA contract nursing home inspections were not sufficient to ensure that patient safety and quality of care were equal to that provided in VA nursing homes. Also, in January 1994, the OIG issued a report titled *VHA Activities for Assuring Quality Care for Veterans in Community Nursing Homes* (Report No. 4R3-A28-016) that recommended VHA develop standardized community nursing home inspection procedures and criteria for approving homes for participation in the program. VHA has not implemented the OIG recommendations made in the 1994 OIG report. In addition, the U.S. General Accounting Office (GAO) issued a report in July 2001 that had similar recommendations. We are reviewing the need for additional OIG oversight of VHA's inspections and patient safety measures for veterans' care in contract nursing homes.

VHA is also responsible for overseeing and evaluating care provided to veterans in State veterans homes. In January 1999, the OIG issued a report titled *Evaluation of VHA's State Veterans Home Inspection Process* (Report No. 9HI-A06-014) that indicated State veterans home inspections frequently did not adhere to VHA guidelines because employees did not understand their responsibilities. VHA has not implemented the OIG recommendation that they expeditiously conclude their revision and update of the State veterans home policies and procedures included in the annual inspection guidance issued to VAMCs.

[1] Through this program, auditors, investigators, and health care inspectors collaborate to assess key operations and programs at VA health care systems and VA regional offices on a cyclical basis.

The OIG conducted a nationwide assessment of VHA's policies and practices for evaluating and managing violent and potentially violent psychiatric patients. Our March 1996 report titled *Evaluation of VHA's Policies and Practices for Managing Violent and Potentially Violent Psychiatric Patients* (Report No. 6HI-A28-038) recommended that VHA managers explore network flagging systems that would ensure employees at all VAMCs are alerted when patients who have a history of violence arrive at a medical center for treatment. VHA concurred that VISN-level/national databases are needed to support information sharing; however, this recommendation has not been implemented.

Another key patient safety and quality management concern is that the credentials and background assessment system for all patient care providers VA uses, whether VA-paid or not, is not consistent. This places veterans at risk if they receive care from a VA contract or part-time provider on a fee basis who may have an adverse clinical practice history unknown to VA or the patient. The OIG remains committed to reviewing the issue of credentials of non-VA providers who treat veterans.

The OIG is focusing on other areas of patient care that are vulnerable to system problems. Specifically, in addition to focusing on patient care and safety issues in VHA contract nursing homes, we are focusing on pain management, clinic waiting times, homemaker/home health services, primary care for patients in the area of mental health, VAMC sanitation and cleanliness, and patient satisfaction as part of our CAP reviews. We are also reviewing quality and access-to-care issues in VHA's community-based outpatient clinics.

MANAGEMENT RESPONSE

VHA continues to make significant, nationally recognized progress in its national patient safety/risk management initiatives. Concerns still exist in oversight of care provided to veterans in contract nursing homes. VHA is currently making final revisions on a comprehensive draft directive, Community Nursing Home Evaluation and Monitoring. Plans are also underway to establish annual review protocols and follow-up training for VA staff who conduct nursing home inspections. Progress is also being made in revitalizing the information system that monitors facility compliance with the annual review of community nursing homes. A new report is designed to monitor compliance with the monthly visit standard.

VHA continues to finalize actions to address the one remaining OIG recommendation on the State veterans home inspection process, involving revision and update of the policies and procedures included in the annual inspection guidance issued to VA medical centers of jurisdiction. Completion of this task involves multiple associated steps. Guidelines for State nursing home care standards have been drafted into a training document. They are being used to "test" the guideline. The directive for the State Nursing Home Care Program will be based on the final state nursing home care regulation and will have to be reviewed and approved by General Counsel. The final directive for every level of care will be held until all regulations (State Nursing Home

Care, State Adult Day Health Care, State Home Domiciliary Care, State Home Hospital Care) are final. Recommendation will be implemented in FY 2002.

VHA continues to finalize a computerized advisory directive to reflect the approach that is being taken to initiate a computerized system of flagging repetitively dangerous patients. An initial directive has been reviewed by the General Counsel, and Mental Health program officials and the Office of Information continue with project design. The final product may be available for implementation in June 2002.

VA's system for credentialing health care providers, VetPro, is fully-operational, secure and state-of-the-art. VA's Under Secretary for Health recently received the highest Public Health Service's award, the Surgeon General's Medallion, for his leadership in implementing this system. VetPro is an electronic data bank that ensures health care professionals have appropriate degrees and licenses as well as track records of high-quality and safe patient care. Streamlining of the system will continue.

2. RESOURCE ALLOCATION

In 1997, Congress required VA to address resource inequities nationwide. Public Law 104-204 mandated that VA develop a plan to improve distribution of resources and ensure veterans equitable access to care across the United States. As a result, VA now uses the Veterans' Equitable Resource Allocation (VERA) system.

Prior to FY 1997, VA used three different resource allocation systems.[2] They were designed to improve certain functions of each preceding funding allocation system. VAMCs received and managed their own budgets, and annual incremental increases were based on prior year allocations. Funds allocated through each of these systems were based on historic funding imbalances which perpetuated inequitable allocations of resources and unequal access to care. The inequities that resulted were caused by a shift in the veteran population demographics without an accompanying shift in resource allocations.

VA developed the current VERA system in response to the legislative mandate and began system implementation in FY 1997. VERA is a capitation-based allocation methodology that moves funds among the VISNs based on patient workload. In FY 2001, $17.7 billion (88 percent of medical care resources) was distributed to VISNs using the VERA system. The system provides some incentives for achieving cost efficiencies and serving more veterans. VISNs maintain responsibility for allocating resources among the facilities in their prescribed geographic areas.

In 1986, Congress requested that VA develop the Decision Support System (DSS), an automated information system. The purpose of DSS was to provide accurate tracking of resource expenditures on a near real-time basis, allowing managers to

[2] (A) prior to 1985 -- Incremental Funding, (B) 1984-1985 -- Resource Allocation Model, and (C) 1984-1997 -- Resource Planning and Management model.

make more informed and more proactive decisions. Despite the great potential of DSS, VHA has encountered problems implementing and using it in decision-making.

The OIG published a report titled *Audit of Veterans Health Administration Decision Support System Standardization* (Report No. 9R4-A19-075) in March 1999. This report discussed the fact that despite significant expenditures for the development and implementation of DSS, not all VHA facilities implemented and used DSS in the same way. In addition, the report discussed resistance to DSS on the part of many VHA managers. As a result, data was not homogenous across VHA facilities and programs, and DSS could not be used to provide accurate tracking of resource expenditures nor relied upon for decision-making. In March 2001, the OIG closed the DSS report recommendations after VHA published a directive on DSS.

In July 1999, the OIG issued a report titled *Evaluation of VHA Radiology and Nuclear Medicine Activities* (Report No. 9R4-A02-133) that found staffing disparities existed among medical centers with comparable workloads, and most Radiology and Nuclear Medicine Services did not apply staffing guidelines, or there was disparity in the guidelines that were used. We recommended that VHA take action to standardize staffing guidelines for Radiology and Nuclear Medicine Services.

The GAO also issued reports in 1997 and 1998 that found responsibility for generating data and reporting results is fragmented in VA's system. VA managers did not have timely, comparable, and comprehensive information needed to monitor changes in access to care. GAO reported that VA headquarters had not provided criteria or guidance for improving the equity of resource allocations to facilities and that VA did not review Network allocation methods or results to determine whether allocations within each Network were made equitably.

CURRENT STATUS: The OIG is continuing to assess the Department's allocation of resources. Currently, we are reviewing the management of nurse resources to determine if sufficient staffing resources are allocated and properly distributed to provide optimum patient care.

A review of historical VERA allocation data and results of a recent OIG management review in VISN 8 show that there are problems with the way VERA allocates funds. Over the last 5 years, VERA has resulted in the shifting of significant amounts of resources to VISNs that were previously under-funded; however, resource allocation issues remain unresolved. In August 2001, the OIG issued a report titled *Audit of Availability of Healthcare Services in the Florida/Puerto Rico Veterans Integrated Service Network 8* (Report No. 99-00057-55). The report recommended that the VERA model include Priority 7 veterans (the majority of whom are currently excluded) so that the total number of veterans enrolled and treated is appropriately considered in funding decisions.

Our CAP reviews from 1999 through 2001 also identified uneven implementation levels and inconsistent utilization of DSS. CAP reviews have identified numerous examples where there was a need to realign staffing and resources to correct identified resource deficiencies. We concluded from CAP reviews that VHA needs to more aggressively assess changing health care system resource needs and direct VISN resources to those facilities experiencing shortages.

In July 2001, DSS program officials provided information that showed DSS was 96 percent standardized. However, VHA officials continue to encounter difficulty convincing some facility and VISN managers to incorporate DSS into their management processes. As a result, DSS is still not a completely effective management tool for monitoring and analyzing resource allocation at any level in VHA. We found that some facilities had completely implemented DSS and used it to a pronounced degree in decision-making. Other facilities ignored DSS, and management at those facilities believed DSS data was unreliable. As a result, resource allocation is considered a significant management challenge in the Department.

VHA has not implemented the OIG recommendation made in the July 1999 report to standardize staffing guidelines for Radiology and Nuclear Medicine Services.

MANAGEMENT RESPONSE

VHA has adequately responded to recommendations in the OIG reports on the Decision Support System and the VERA allocation system and no further reporting is required. A final decision has not yet been made about the extent of inclusion of Priority 7 veterans, the lowest priority in the VERA funding distribution. OIG has been provided with a draft of the VHA study on utilization of a variable geographic means test, one option that is being considered. Legislation addressing application of the geographic means test is currently pending. If passed, the legislation will directly impact eligibility status of many veterans, including those now in the Priority 7 category. Such considerations will be inherent in VHA's final determination about the scope of VERA inclusion of Priority 7 veterans.

The proposed directive on Diagnostic Radiology Staffing has been completed, as well as a handbook on Nuclear Medicine and Radiation Safety. Deliberations continue and a final decision on the directive has not yet been made.

3. COMPENSATION AND PENSION (C&P) TIMELINESS, QUALITY, AND INAPPROPRIATE BENEFIT PAYMENTS

TIMELINESS AND QUALITY

For the past quarter century, the Veterans Benefits Administration (VBA) has struggled with timeliness of claims processing; it continues to face a large backlog and takes an unacceptably long time to process claims. As of September 30, 2001, VBA reported an inventory of more than 532,000 cases. In FY 2001, VBA reported that C&P rating-related actions took an average of 181 days to process.

In December 1997, the OIG issued a report titled *Summary Report on VA Claims Processing Issues* (Report No. 8D2-B01-001) which identified opportunities for improving the timeliness and quality of claims processing and veterans' overall satisfaction with VA claims services. In our September 1998 report titled *Audit of Data Integrity for Veterans Claims Processing Performance Measures Used for Reports Required by the Government Performance and Results Act* (Report No. 8R5-B01-147) and our October 1998 report titled *Accuracy of Data Used to Measure Claims Processing Timeliness* (Report No. 9R5-B01-005), we reported that three key C&P timeliness measures lacked integrity and that actual timeliness was well above reported timeliness.

CURRENT STATUS: The Secretary created a new Claims Processing Task Force in May 2001 to propose measures and actions to increase the efficiency and productivity of VBA operations, shrink the backlog of claims, reduce the time it takes to decide a claim, and improve the validity and acceptability of decisions. A report on the Task Force's findings and recommendations was issued. Two major types of claims – claims that are older than 1 year and claims that are caught in the appeals-remand cycle – troubled the Task Force. As a result, the Task Force recommended creating a Tiger Team empowered to cut red tape in order to resolve claims affecting aging veterans. This initiative is expected to make a major impact on the most difficult claims and should reduce the average processing time. Until VA can redesign the appeals and remand process, the Task Force also recommended to the Secretary that each VA regional office (VARO) establish, as a priority, a specialized team to manage and process appeals and remand actions locally.

The Task Force reported the appeals process today is ill-suited to serve veterans or VA, and made several recommendations targeted at improving the timeliness of appeals processing. These include: (i) require the Board of Veterans' Appeals to develop and process the current workload of appeals rather than issuing remands, (ii) establish appeals claims processing teams, (iii) improve record recovery from the VA Records Management Center, and (iv) maintain or increase competitive outsourcing of medical examinations. In April 2001, the Secretary also directed the Board of Veterans' Appeals to reduce the time veterans have to wait for appellate decisions. VA needs a better system to manage appeals.

Additional actions taken to improve claims processing timeliness include the development of compensation program outcome statements that reflect the views of key stakeholders. Efforts are currently under way to develop outcome performance measures that support each of the outcome statements. Similar efforts are underway for the pension program. New initiatives for FY 2002 include: development of an on-line application system for C&P benefits; expansion of claims development efforts for service persons awaiting discharge; development of the Personnel Information Exchange System to include all military records centers; implementation of paperless technologies to allow the processing of claims in a fully electronic environment; centralized C&P training programs; and changes to regulations to permit oral evidence gathering. Actions are also underway to improve the ongoing quality, timeliness, and cost of VHA C&P medical examinations. The OIG plans to continue conducting CAP reviews at VAROs and plans to summarize program findings in FY 2002.

INAPPROPRIATE BENEFIT PAYMENTS

VBA needs to develop and implement an effective method of identifying inappropriate benefit payments. Recent OIG audits found that the appropriateness of VBA payments has not been adequately addressed.

PAYMENTS TO INCARCERATED VETERANS

In February 1999, the OIG published a report titled *Evaluation of Benefit Payments to Incarcerated Veterans* (Report No. 9R3-B01-031). The review found that VBA officials did not implement a systematic approach to identify incarcerated veterans, and adjust their benefits as required by Public Law 96-385. The evaluation included a review of 527 veterans randomly sampled from the population of veterans incarcerated in six states. Results showed that VAROs had not adjusted benefits in over 72 percent of the cases requiring adjustments, resulting in overpayments totaling $2 million. Projecting the sample results nationwide, we estimated that about 13,700 incarcerated veterans had been, or will be, overpaid about $100 million. Additional overpayments totaling about $70 million will be made over the next 4 years to newly incarcerated veterans and dependents if VBA does not establish a systematic method to identify these incarcerated veterans.

Our July 1986 report titled *Benefit Payments to Incarcerated Veterans (*Report No. 6R3-B01-110) also found that controls were not in place to cut off benefits to veterans when they were incarcerated. That report recommended that a systematic approach be applied; however, actions were not taken to implement the recommendations in the 1986 report.

CURRENT STATUS: VBA has implemented 1 of 4 recommendations from the February 1999 OIG report. The recommendations that VBA: (i) identify and adjust the benefits of incarcerated veterans and dependents, (ii) establish and collect overpayments for released veterans and dependents that did not have their benefits adjusted, and (iii) establish a method to ensure VAROs process identified cases timely, and properly adjust benefits, are unimplemented.

BENEFIT OVERPAYMENTS DUE TO UNREPORTED BENEFICIARY INCOME

VBA's Income Verification Match (IVM) did not effectively result in required benefit payment adjustments and identification of program fraud, thus IVM remains a significant internal control and financial risk area. Our November 2000 report titled *Audit of Veterans Benefits Administration's Income Verification Match Results* (Report No. 99-00059-1) found that opportunities exist for VBA to: (i) significantly increase the efficiency, effectiveness, and amount of potential overpayments that are recovered, (ii) better ensure program integrity and identification of program fraud, and (iii) improve delivery of services to beneficiaries.

The audit reported that the potential monetary impact of the OIG findings to the Department was $806 million. Of this amount, we estimated potential overpayments of $773 million associated with benefit claims that contained fraud indicators such as fictitious Social Security numbers, or some other inaccurate key data elements. The remaining $33 million was related to inappropriate waiver decisions, failure to establish accounts receivable, and other process inefficiencies. We also estimated that $300 million in beneficiary overpayments involving potential fraud had not been referred to the OIG for investigation.

CURRENT STATUS: VBA has implemented 7 of 8 recommendations from the November 2000 OIG report. The recommendation to complete necessary data validation of beneficiary identifier information contained in C&P master records to reduce the number of unmatched records with the Social Security Administration remains unimplemented. This recommendation was a repeat recommendation from our 1990 OIG report.

DISABILITY COMPENSATION BENEFITS FOR ACTIVE MILITARY RESERVISTS

In May 1997, the OIG conducted a review to determine whether VBA procedures ensure that disability compensation benefits paid to active military reservists are offset from training and drill pay as required by law. The OIG report titled *Review of Veterans Benefits Administration's Procedures to Prevent Dual Compensation* (Report No. 7R1-B01-089) identified that VBA had not offset VA disability compensation to 90 percent of the sampled active military reservists receiving military reserve pay. We estimated that dual compensation payments of $21 million were made between FY 1993 and 1995 and, if the condition was not corrected, annual dual compensation payments, estimated at $8 million, would continue to be made. Dual payments occurred because procedures established between VA and the Department of Defense (DoD) were not effective or were not fully implemented.

CURRENT STATUS: VBA has not implemented the recommendation to follow up on FY 1993-1996 dual compensation cases to ensure either VBA disability payments are offset or DoD is informed of the need to offset reservists' pay.

BENEFIT OVERPAYMENT RISKS DUE TO INTERNAL CONTROL WEAKNESSES

In FY 1999, the Under Secretary for Benefits asked for OIG assistance to help identify internal control weaknesses that might facilitate or contribute to fraud in VBA's C&P program. The request followed the discovery that three VBA employees had embezzled over $1 million by exploiting internal control weaknesses in the C&P program. Our vulnerability assessment identified 18 categories of vulnerability involving numerous technical, procedural, and policy issues. The Under Secretary for Benefits agreed to initiate actions to address the weaknesses identified.

To test the existence of the control weaknesses identified in the vulnerability assessment, we conducted an audit at the VARO in St. Petersburg, FL. That VARO was selected for review because it was one of the Department's largest VAROs, accounting for 6 percent of C&P workload and was the location where 2 of 3 known frauds took place. The July 2000 report titled *Audit of the Compensation and Pension Program's Internal Controls at VA Regional Office St. Petersburg, FL* (Report No. 99-00169-97) confirmed that 16 of 18 categories of vulnerability reported in our vulnerability assessment were present at the VARO.

CURRENT STATUS: There is an ongoing criminal investigation at the VARO in Atlanta, GA, where an estimated $11 million in fraudulent benefits were processed. At the request of the Secretary, the IG agreed to conduct a review of all one-time C&P payments, valued at $25,000 or more, made since 1995, to determine if the payments were valid. The OIG will also conduct CAP reviews at selected VAROs to assess internal control weaknesses previously identified in our vulnerability assessment along with reviewing other related claims processing issues.

VBA agreed to address the 18 internal control weaknesses identified in the vulnerability assessment and the 15 multi-part recommendations identified in the St. Petersburg audit. Implementation action on these recommendations is currently in progress.

MANAGEMENT RESPONSE

TIMELINESS AND QUALITY: VBA established five teams to address the major recommendations in the report issued by the Claims Processing Task Force. The reports from all the teams have been completed and are being reviewed by senior management. VBA has taken action on many of the recommendations, and the Secretary was briefed in late December 2001.

In addition, a working unit comprised of six VBA employees and five Board of Veterans Appeals (BVA) employees has been established. The BVA employees are currently receiving training on VBA's evidence-gathering process and systems. Previously, BVA would refer all remand actions to the field stations for completion. The current agreement between VBA and BVA states that BVA employees will now process remand actions instead of referring the requests to the field stations. The six VBA employees will make decisions and generate payments on the appeals.

VBA has begun the process of centralizing work processes. The Tiger Team, located in Cleveland, OH, is fully operational at this time. They have been processing claims for veterans over the age of 70 who have been awaiting a decision for over 1 year.

In addition, three Pension Maintenance Centers have been established and have begun processing Eligibility Verification Reports. They are expected to begin processing matching programs in April 2002. Training is currently underway in all three sites.

PAYMENTS TO INCARCERATED VETERANS

FEDERAL PRISONS

Since April 1998, VA has been receiving files from the Federal Bureau of Prisons (BOP) identifying VA beneficiaries who are incarcerated by BOP. Every month, VA receives a file of accessions to the BOP population. That file is matched with the file of C&P master records on Social Security Numbers (SSN). If there is a match, a worksheet and listing are generated to the VA regional office of jurisdiction for appropriate action. The BOP match is working very well with a low percentage of bad hits. However, the match will fail if the BOP has the wrong SSN for the prisoner or if VA has the wrong or no SSN for the VA beneficiary.

STATE & LOCAL PRISONS

VA entered into a Memorandum of Understanding (MOU) with the Social Security Administration (SSA) to get access to SSA's file of individuals incarcerated by state and local governments. In March 2001, VA received a test file from SSA. Based on the output, it was necessary to refine criteria for the match. VBA has prepared a Project Initiation Request (PIR) to modify the programming necessary to conduct the match. It is anticipated that the match will be run on or about April 30, 2002.

We are unable at this time to estimate when we will release output from the state/local prisoner match to regional offices. We expect that the results of the next test run will be received by May 23, 2002. If the results do not reveal significant problems with the match, VBA will start releasing output to field stations within 60 days of the test.

The establishment and collection of overpayments for released veterans and dependents after the beneficiary was incarcerated by state or local governments that did not have their benefits adjusted were contingent upon VA getting acceptable output from the match with SSA.

BENEFIT OVERPAYMENTS DUE TO UNREPORTED BENEFICIARY INCOME

In order to implement the final recommendation, the Social Security Administration (SSA) recommended that VA use the "no surname match" routine in its State Verification and Exchange System (SVES) to more accurately conduct Social Security number verification. Using this routine, SSA will verify a payee's SSN if the SSN and date of birth and first initial of the first name match in VA and SSA records. If these elements do not match, the case will be identified as unverified. The individual's sex and last name will no longer be considered in determining whether there is a match. A PIR to modify the programming is being prepared. The intent of program changes is to get accurate SSNs into the system so we can better match data for the Income Verification Match and all other matches. It is not possible to provide an estimated date of installation until the PIR has been evaluated at the Hines Benefits Delivery Center (BDC), but we expect that it will be operational before the end of FY 02.

DISABILITY COMPENSATION BENEFITS FOR ACTIVE MILITARY RESERVISTS

Allegations of problems with drill pay files from DoD date back to 1989 when VA attempted to move from annual waivers to a one-time waiver. After a hiatus of several years when no computer matching agreement was in place to support the match, VA and the Defense Manpower Data Center (DMDC) started matching again in 1999. The BDC sent a file of 2,660,266 active C&P records to DMDC to be matched for reservist drill days. On June 23, 1999, the return file was received from the DMDC with 56,884 matches covering fiscal years 1993-1998.

Because of concerns about the accuracy of DMDC files, VBA decided to test the accuracy of the data by doing a limited mailing to selected test stations. On January 26, 2000, Hines released fiscal year 1999 drill pay cases from four regional offices. A total of 751 waiver forms were released. However, review of copies of the waiver forms uncovered anomalies in the reported training days for reservists. Work to resolve this issue is ongoing, and release of the national review data will be done as soon as a solution is deployed.

VA received a letter dated June 13, 2001, from DMDC in which the Director explained that the Defense Finance and Accounting Service (DFAS) office in Denver discovered an error in their reporting of drill information to the DMDC affecting Army, Navy, and Air Force pay data. The large majority of reservists served in these branches of the military. DMDC reports that Denver DFAS is unable to provide corrected submissions for drill data prior to April 2001. Hines currently has the FY 2001 drill pay file from DMDC, and it will be run before the end of FY 2002.

4. GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) - DATA VALIDITY

Successful implementation of GPRA, including performance-based budgeting, requires that information be accurate and complete. At the request of the Assistant Secretary for Policy and Planning, we initiated a series of audits to assess the quality of data used to compute the Department's key performance measures. The OIG has completed work on the following six performance measures:[3]

[3] The three claims processing timeliness measures we audited have now been incorporated into a new key measure called average days to process rating-related actions.

- Average days to complete original disability compensation claims – 34 percent of the records reviewed contained inaccurate or misleading data.
- Average days to complete original disability pension claims – 32 percent of the records reviewed contained inaccurate or misleading data.
- Average days to complete reopened compensation claims – This number of reopened claims was inflated by 18 percent. Of the records reviewed, 53 percent contained inaccurate or misleading data.
- Percent of the veteran population served by the existence of a burial option within a reasonable distance of place of residence – VA could not recreate population projections used to calculate this measurement because essential data no longer existed.
- Foreclosure avoidance through servicing ratio – The OIG was unable to attest to the accuracy of the reported ratio because VBA did not maintain necessary documentation.
- Unique Patients – VHA overstated the number of unique patients by 7 percent.

Deficiencies were identified in each performance measure audited. VBA, VHA, and NCA have taken action to correct the deficiencies and have implemented all the recommendations in the OIG reports related to these deficiencies.

VA has made progress in implementing GPRA, but additional improvement is needed to ensure that stakeholders have useful and accurate performance data. Management officials continue to refine performance measures and procedures for compiling data. Performance data are receiving greater scrutiny within the Department, and procedures are being developed to enhance data validation. However, we continue to find significant problems with data input, and Departmentwide weaknesses in information system security limit our confidence in the quality of data output.

CURRENT STATUS: The Office of the Assistant Secretary for Management has identified the following management challenges to the successful implementation of GPRA.

- Better alignment of budget accounts with GPRA programs.
- Improvement of financial management systems report structure and timeliness.
- Improvement of cross-cutting activities between VA and DoD.

Audits of three key performance measures -- the VHA prevention index, the VHA chronic disease care index, and the accuracy of the VBA veteran rehabilitation rate -- are in process.

5. SECURITY OF SYSTEMS AND DATA

VA faces significant challenges in addressing Federal information security program requirements and establishing a comprehensive integrated VA security program while homeland security risks continue to escalate. Information security is critical to ensure the confidentially, integrity, and availability of VA data and the assets required to support the delivery of health care and benefits to the Nation's veterans. VA provides medical services at over 1,150 sites, a benefits delivery network of 58 VAROs, a burial system involving 119 national cemeteries, maintains 3 major data processing centers, and provides other Departmental functions. VA is highly dependent on automated information systems to support its mission to deliver services to our Nation's veterans.

The three VA administrations' stovepipe operations have not adopted standard hardware and software integration, which contributes to security vulnerabilities in the Department. Decentralization of information technology and lack of management oversight at all levels have also contributed to inefficient practices and to weaknesses in safeguarding electronic information and physical security of assets.

Previous OIG audit reports have identified weaknesses in information security throughout VA. With passage of the Government Information Security Reform Act (GISRA) as part of the FY 2000 Defense Authorization bill, the OIG is required to complete an independent assessment of VA's compliance with the Act. Limited information had been developed by VA on existing information security vulnerabilities that could be analyzed to establish a baseline on the adequacy of VA's information security. Therefore, the OIG performed vulnerability assessments and penetration tests of selected segments of the Department's electronic network of operations to identify vulnerabilities that place sensitive data at risk of unauthorized disclosure and use.

CURRENT STATUS: Our October 2001 report, titled *Audit of the Department of Veterans Affairs Information Security Program* (Report No. 00-02797-001), found that weaknesses exist and, as a result, require the continuing designation of information security as a Department material weakness area under the Federal Managers' Financial Integrity Act. VA systems continue to be vulnerable to unauthorized access and misuse of sensitive automated information and data. The Department has started efforts to correct these weaknesses and work toward compliance with the GISRA requirements; however, results of the recently completed GISRA audit identified significant information security vulnerabilities that continue to place the Department at risk of:

- Denial of service attacks on mission critical systems.
- Disruption of mission critical systems.
- Unauthorized access to and disclosure of data subject to Privacy Act protection and sensitive financial data.

In addition, the following key issues were identified:

- VA has established comprehensive information security policies, procedures, and guidelines, but implementation and compliance have been inconsistent.

- VA has been slow to implement a risk management framework. As a result, VA does not comply with GISRA; Office of Management and Budget (OMB) Circular A-130, Appendix III; and Presidential Decision Directive 63 security requirements.
- Penetration tests verified that VA systems could be exploited to gain access to sensitive veteran benefit and health care information.

Results of our September 30, 2000 consolidated financial statements audit have also continued to identify information security weakness. This report titled *Audit of the Department of Veterans Affairs Consolidated Financial Statements For Fiscal Years 2000 and 1999* (Report No. 00-01702-50) found management oversight and control weaknesses continue to be problems in the security of sensitive information. The newly confirmed Chief Information Officer/Assistant Secretary for Information and Technology has taken an aggressive approach to correcting identified weaknesses and hardening the security of the Department's electronic information.

MANAGEMENT RESPONSE

The OIG, the General Accounting Office, and VA security staff members have, for the past several years, reported on core deficiencies existing in the Department's segmented information security programs. Although some identified weaknesses were the result of insufficient funding being available to upgrade IT assets to more secure hardware and software configurations, most deficiencies were attributed to the lack of centralized security management, oversight, and control. During the past year, a number of aggressive actions have been initiated to develop a comprehensive, Departmentwide security program targeted toward enhancing VA's overall IT security posture, including ensuring compliance with related OMB and Congressional directives.

This year, the Secretary realigned Departmentwide IT security responsibilities under a single focal point. The Chief Information Officer (CIO) has been vested with authority to provide guidance and direction for all IT technical and security issues. The CIO manages the Department's security program through the newly established Office of Cyber Security (OCS). The office is serving as the focal point for leveraging existing resources and implementing security initiatives on a global basis within the Department.

During the past year, IT security has received priority attention at all Department levels. The focus on security has been revitalized in VA's Information Technology Board through establishment of a Cyber Security Subcommittee to identify areas of concern, coordinate policy issues, and share concepts for related best practices. Successes in FY 2001 include:

- Remote penetration testing has been conducted to support the Department's commitment to conduct active compliance monitoring and identification of continuing security weaknesses.

- Intrusion detection systems have been fielded at a number of locations within the Veterans Health Administration and the Veterans Benefits Administration as a precursor to implementing global intrusion detection capability.

- The VA Computer Incident Response Capability has been expanded to operate on a 24/7 basis to coordinate data on threat and vulnerability issues, cyber security incidents, and appropriate countermeasures.

- A Departmentwide anti-virus regime is currently being deployed to better prevent and contain virus outbreaks that continue to occur in VA, disrupt services and divert the efforts of technical staff.

In addition to these initiatives, the CIO initiated the first-ever Departmentwide cyber security program review. This review coincided with VA's implementation of provisions of the Government Information Systems Reform Act (GISRA). During the review, a self-assessment survey containing 247 security-related elements was completed by respective IT and security staffs providing logistical support for each of VA's 995 systems and major applications.

As expected, the results of the GISRA self-assessment survey confirmed the lack of security management for IT assets. Overall, less than 70 percent of VA systems and major applications had effectively implemented IT security controls in such areas as segregation of duties, access controls, and entity-wide security program planning and management. Even for those systems reporting that controls were in place, there was almost no independent validation to ensure compliance with previously established security procedures. Correspondingly, many of the deficiencies identified in the surveys were cited in prior audits, and had not been adequately remedied. Although this process identified deficiencies in great detail, it was used as an effective management tool to identify and address the underlying lack of line management accountability, a contributing factor to VA's current security weaknesses.

Upon receipt of the Department's first GISRA Report, OMB commented in a November 16, 2001, memorandum to the Secretary, that on "…IT security, the CIO's security report is clear, coherent and shows that a comprehensive Department-level security program is developed and has begun." The momentum for change established this year will be carried forward. The CIO's near-term focus is to build upon current initiatives including:

- Preliminary intrusion detection projects will be expanded to a Departmentwide capability.
- Capabilities for compliance support and independent validation for GISRA remediation efforts will be established.
- Comprehensive policies for authentication, certification, and accreditation will be developed and implemented.

The success of current initiatives, future initiatives, and the extensive direction and support provided by the Secretary, the VA CIO, and program office CIOs, reaffirm that this program is one of VA's highest priorities.

6. FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT AND VA'S CONSOLIDATED FINANCIAL STATEMENTS (CFS)

The Chief Financial Officers Act of 1990, Government Management Reform Act (GMRA) of 1994, and implementing OMB Bulletins require that VA's consolidated financial statements (CFS) be audited annually by the OIG or the OIG's representative. The agency CFS and related audit reports are integral to the Governmentwide CFS prepared by the Department of the Treasury and audited by the GAO. VA's FY 2000 CFS reported assets totaling $44 billion, liabilities totaling $583 billion, and net operating costs of $45 billion.

VA achieved unqualified CFS audit opinions in FY 2000 and FY 1999. VA has also demonstrated management commitment to addressing material internal control weaknesses previously reported and made significant improvements in financial management. However, remaining material weaknesses are still considered significant, such as noncompliance with the Federal financial management system requirements of the Federal Financial Management Improvement Act. Corrective actions needed to address noncompliance with system requirements are expected to take several years to complete. The OIG also reported other significant conditions addressing the need for improving application programming and operating system change controls, business continuity and disaster recovery planning, and operational oversight.

CURRENT STATUS:

INTEGRATED FINANCIAL MANAGEMENT SYSTEM MATERIAL WEAKNESS

The material weakness concerning the Department's financial management systems underscores the importance that the Department continue its efforts to acquire and implement a replacement integrated core financial management system. However, achieving the success of an unqualified opinion currently requires a number of manual compilations and extraneous processes that the financial management system should perform. These processes require extraordinary administrative efforts by Department program, financial management, and audit staff. As a result, the risk of materially misstating financial information is high, considering the need to perform extensive manual compilations and extraneous processes. Efforts are still needed to ensure adequate accountability, and reliable, useful, and timely information needs to be available to help Department officials make well-informed decisions and judgments.

The February 2001 OIG CFS report noted continuing difficulties related to the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's CFS. Examples cited by the CFS auditors include:

- General ledgers for some smaller funds are maintained outside the existing core financial management system.
- Unreconciled differences between the general ledgers and the Property Management System subsidiary ledger exist.
- A significant number of manual adjustments were used during the year-end closing process.

INFORMATION TECHNOLOGY SECURITY CONTROLS MATERIAL WEAKNESS

The OIG reported this condition in the CFS reports for FY 1997, 1998, and 1999 and made recommendations for VA to implement a comprehensive security program that would improve these controls. The CFS auditors noted the following information technology weaknesses:

- Inadequate security plans and security administration.
- Improper access by programming staff.
- Inappropriate access capabilities by application programmers.
- Inadequate review, investigation, and documentation of network access exceptions.
- Physical access to computer rooms storing production hardware by individuals with incompatible duties.
- Inconsistent anti-virus software upgrades at all locations and improper setup to alert administrators to take prompt actions.

The size of VA programs and the large number of systems that generate program and financial information make correction of existing material weaknesses very complex. VA is also dependent on the receipt of funding through OMB and Congress to implement corrective actions. The target date for completing corrective actions on the information technology security control weaknesses is FY 2003 and corrective action on financial management system deficiencies is FY 2004, when implementation of VA's core Financial and Logistics System (coreFLS) project is scheduled for completion.

MANAGEMENT RESPONSE

During the past year, the Department has directed priority attention to remediating material weaknesses in IT security controls reported under the Federal Financial Management Improvement Act (FFMIA). In August 2001, the Chief Information Officer (CIO) initiated the first-ever Departmentwide cyber security program review. This review coincided with VA's implementation of the Government Information Systems Reform Act (GISRA). A GISRA self-assessment survey containing 247 security-related elements was completed by respective security and IT staffs providing logistical support for each of VA's 995 systems and major applications.

The results of the GISRA surveys were analyzed under the six specific control categories identified in the General Accounting Office's Federal Information System Controls Audit Manual (FISCAM). The use of these FISCAM categories was deemed particularly appropriate, since FISCAM provides guidance for reviewing information system controls that affect the integrity, confidentiality, and availability of data. These are the specific areas that require significant improvement in order to remediate the FFMIA material weakness.

7. DEBT MANAGEMENT

As of March 2001, debts owed to VA totaled over $4 billion. Debts result from home loan guaranties, direct home loans, life insurance loans, medical care cost fund receivables, compensation, pension, and educational benefits overpayments. Over the last 4 years, the OIG has issued reports addressing the Department's debt management activities. We reported that the Department should be more aggressive in collecting debts, improve debt avoidance practices, and streamline and enhance credit management and debt establishment procedures. VA has addressed many of the concerns reported over the last few years. However, our most recent national and CFS audits and CAP reviews continue to identify debt management issues.

There has been a great deal of dialog and sharing of information between the OIG and VA management to assess the current magnitude of the debt management issues. For example, VBA direct home loans is considered a lender of last resort. Consequently, if a borrower defaults on a loan, few resources are available for VA to collect. However, we feel there are other debt management issues that VA can improve. Issues identified by the OIG relate to: accounts receivable follow-up, timely reconciliation, and billing process problems.

In March 1999, we conducted an evaluation of VHA's IVM program to: (i) follow up on the implementation of recommendations made in a March 1996 OIG report, and (ii) determine whether there were opportunities for VHA to conduct the IVM program in a more efficient and cost effective manner. The OIG report titled *Evaluation of VHA's Income Verification Match Program* (Report No. 9R1-G01-054) found that VHA could increase opportunities to enhance Medical Care Cost Fund (MCCF) collections by $14 million, and put resources valued at $4 million to better use, by requiring VISN directors to establish performance monitors for means testing activities, and billing and collection of program referrals. Additionally, to further ensure these monetary benefits are achieved, VHA management needed to implement previous recommendations, and the VHA Chief Information Officer needed to increase oversight of the Health Eligibility Center (HEC) activities. VHA also needed to expedite action to centralize means testing activities at the HEC.

CURRENT STATUS: The Department has performed considerable work in the area of the debt referral process with the Department of the Treasury. VA has reported it has met or exceeded the Department of the Treasury goals this year -- demonstrating a commitment to improving debt management within the Department.

VHA has not implemented 7 of 13 recommendations from the March 1999 OIG report on VHA's IVM program.

The OIG is currently conducting an audit to determine VHA's success with MCCF and to identify opportunities to enhance MCCF recoveries. Preliminary audit results show that previously reported conditions, including missed billing opportunities, billing backlogs, and minimal follow-up on accounts receivable, are still continuing. Also, insurance identification procedures need improvement. Our July 1998 audit found MCCF recoveries could be increased significantly by more actively managing MCCF program activities; however, our follow up indicates the recommendations were not effectively implemented.

MANAGEMENT RESPONSE

VHA continues to implement the outstanding recommendations for the report on the Income Verification Match (IVM) program. The Health Eligibility Center (HEC) has established mechanisms to ensure that IVM conversion cases are referred to all sites of care for appropriate billing action. HEC is working with the VISNs to establish performance standards that require staff involved in the means test co-payment billing process to administer IVM referral cases in a timely manner. HEC also has reporting capabilities that will enable staff at the medical facilities and Networks to monitor and track billing and collection activities. A directive is being prepared for distribution to the Networks and facilities that describes the restart of the IVM process, the new reporting procedures, and draft performance standards for field staff involved in revenue activities related to IVM means test co-payment billing. The target date to resume income verification is April 2002. Redesign of the HEC database and implementation of a national Centralized Renewal of Means Test continue to be on an expedited schedule, and are on target for completion by October 2002.

In terms of MCCF activities, VHA's revenue office continues to spend considerable time and effort in identifying opportunities to improve the revenue process. The Revenue Improvement Plan (addressing MCCF issues), completed in September 2001, is a comprehensive document that addresses all aspects of the revenue cycle. It includes an overall improvement plan, responsibilities and time frames for completion. All of the recommendations identified by OIG are addressed in the plan, as are recommendations that were made by reviews conducted by the Financial and Systems Quality Assurance Service (FSQAS).

8. WORKERS' COMPENSATION COSTS

The Federal Employees' Compensation Act (FECA) authorizes benefit payments to civilian employees of the Federal government for disabilities or deaths resulting from injuries or disease sustained in the performance of their official duties. The benefit payments have two components – salary compensation payments and medical treatment payments for specific disabilities. Benefit payments under FECA are made from the Employees' Compensation Fund administered by the Department of Labor, Office of Workers' Compensation Program (OWCP).

During the period July 1998 through June 1999, VA's OWCP costs totaled over $137 million for the 15,287 active cases. Wage loss compensation was over $106 million (77 percent) and medical costs were over $31 million (23 percent). VHA accounts for about 95 percent of VA's total OWCP cases and costs.

In 1999, we completed a follow-on audit of high-risk areas in the VHA's Workers' Compensation Program (WCP). The audit found that VHA was vulnerable to abuse, fraud, and unnecessary costs associated with WCP claims in three high-risk areas reviewed: dual benefits, non-VHA employees, and deceased WCP claimants. We estimated that VHA has incurred or will incur about $11 million in unnecessary costs associated with WCP claims in these high-risk areas.

CURRENT STATUS: The OIG continues to provide technical support and assistance to the Department in their efforts to reduce WCP costs and identify WCP fraud. The OIG identified 82 claims during its FY 99 audit titled *Audit of High-Risk Areas in the Veterans Health Administration's Workers Compensation Program* (Report No. 99-00046-16) that involved potential WCP fraud. Efforts to continue identifying potential program fraud were addressed when the OIG provided two training sessions prior to VHA's one-time review of priority cases identified by automated analysis of VHA's active/open WCP cases. While VHA's reviews did identify cases they believed to be potential fraud, no investigations have been opened on these cases because additional documentation and evidence was needed. The OIG staff discussed these cases with VHA staff; and VHA is working to provide the documentation to the OIG.

Additionally, a VA OIG WCP resources web page (www.va.gov/oig/52/wcp/wcp.htm) was created to allow VA employees to easily find and download WCP products. This web page contains presentations, reports, and other WCP products, such as the fraud awareness bulletin. It also contains links to VA OIG Office of Investigation press releases on WCP cases.

MANAGEMENT RESPONSE

VHA participates actively in the WCP fraud prevention program, and routinely reports cases of potential abuse. Approximately 40-50 cases have already been referred, although it is recognized that not all have met OIG's criteria for actual fraud.

9. PROCUREMENT PRACTICES

The Department spends over $5.1 billion annually for supplies, services, construction, and equipment. VA faces major challenges to implement a more efficient, effective and coordinated effort that can better ensure the Department's acquisition and delivery efforts to acquire goods and services. A more integrated effort is needed to ensure the benefits of acquiring goods and services outweigh costs. High-level monitoring and oversight need to be recognized as a Department priority, and efforts must continue to maximize the benefits of competition and leverage VA's full buying power. VA must also ensure that adequate levels of medical supplies, equipment, pharmaceuticals, and other supplies are available to satisfy demand. Excess inventory should be avoided so funds that could be used to meet other needs are not tied up.

Historically, procurement actions are at high risk for fraud, waste, abuse, and mismanagement. Vulnerabilities and business losses associated with theft, waste and damage of information technology are known to be significant. Past audits support the need to provide for adequate acquisition planning on a corporate basis, and to improve and coordinate national and regional acquisition planning efforts.

CURRENT STATUS: Recent OIG reviews have identified serious problems with the Department's contracting practices and acquisitions. These reviews have identified the need to improve the Department's procurement practices in areas of acquisition training and oversight, and to better ensure the adequacy and competency of the acquisition workforce. Recent business reviews conducted by VA's Office of Acquisition and Materiel Management (OA&MM), and other audits conducted by the OIG at VA's facilities, have identified significant problems relating to acquisition planning, training, inventory management, management oversight and contract administration.

The OIG is working with VA and VHA logistics staff to improve procurement practices within the Department. The OIG continues to perform contract audit and drug pricing reviews to detect defective and excessive pricing, and to provide improved assurance over the justification, prioritization, accountability, and delivery of pharmaceuticals and other goods in VA's operations. VHA has made the development of an Advanced Acquisition Plan a priority.

An OA&MM Task Group was charged with developing an inventory of procurement problems in December 2000. The Group identified problems with noncompliance with acquisition regulations and poor contract administration on individual procurement as being caused by the failure to hire competent procurements officials, inadequate training, undue pressure, and weak or inconsistent procurement policies. Inadequate or non-existent acquisition planning at the local, VISN, and national levels was also identified. The Group provided a number of recommendations to address these problems effectively and recommended actions that should improve planning, coordination, and accountability at all Department levels.

Also, the OA&MM Group identified continuing problems with inventory management, purchase cards, scarce medical specialist/sharing contracts and information technology purchases as areas needing immediate review. The group suggested that subgroups consisting of representatives of VHA, OA&MM, OIG and other appropriate offices be formed to address these issues. Subgroups are currently working on addressing specific issues.

FEDERAL SUPPLY SCHEDULE PURCHASES

Federal Supply Schedule (FSS) contracts are awarded non-competitively by the National Acquisition Center to multiple vendors for like or similar commercial off-the-shelf products. The Government's negotiation strategy has historically been to obtain most favored customer pricing or better. Since 1993, the OIG has conducted pre-award and post-award reviews to provide contracting officials with insight into each vendor's commercial sales and marketing practices as well as buying practices. These reviews provide contracting officers with information needed to strengthen the Government's pricing position during negotiations. During the past few years, the effectiveness and integrity of the FSS program have deteriorated because FSS is no longer a mandatory source for these commercial products.

As a result of making FSS contracts non-mandatory sources of supply, there has been an increase in open-market purchases by VAMCs, often without attempts by them to either negotiate prices or determine price reasonableness. The term open-market describes the purchase of goods and services that are not on contract. In increasing numbers, vendors have: (i) withdrawn high-volume medical supply items from FSS contracts, (ii) refused to negotiate in good faith, (iii) cancelled contracts, or (iv) not submitted proposals for FSS contracts.

Although these vendors no longer have contracts, they have not lost their VA market share. They continue to sell in large volumes to individual VAMCs and avoid offering most favored customer prices, shielding themselves from pre-and post-award reviews. In addition, they are able to sell products made in non-designated countries directly to VA facilities that they cannot sell on FSS or other contracts because of the Buy America and Trade Agreements Act requirements. Previous OIG investigations have resulted in $8 million in civil penalties being imposed on violators of the Act.

CURRENT STATUS: The OIG CAP reviews at VAMCs have identified non-competitive open-market purchases at significantly higher prices than comparable items offered on FSS contracts. Our reviews have also identified conflict of interest issues and proposed sole source contracts that lack adequate business analyses, justifications, or cost/benefit assessments. Many proposals are not being audited as required and may not be receiving legal and technical reviews as required. Management attention is needed to develop clear and useful policies that will ensure fair and reasonable prices, consistency in the use of VA's statutory authority, and proper oversight of such activities.

INVENTORY MANAGEMENT

The OIG conducted a series of four audits to assess inventory management practices for various categories of supplies. These audits found that excessive inventories were being maintained, unnecessary large quantity purchases are occurring, inventory security and storage deficiencies exist, and controls and accountability over inventories need improvement. An FY 1998 audit of medical supply inventories at five VAMCs found that at any given time the value of VHA-wide excess medical supply inventory was $64 million, 62 percent of the $104 million total inventory. An FY 1999 audit of pharmaceutical inventories at four VAMCs found that about 48 percent of the $2 million inventory was in excess of current operating needs. Another audit in FY 2000 at five VAMCs concluded that 47 percent of the $3 million prosthetic supply inventory was excessive.

The main cause of the excess inventories was that the Generic Inventory Package was not being used or was insufficiently used to manage the inventories. VAMCs relied on informal inventory methods and cushions of excess stock as a substitute for the more structured Generic Inventory Package inventory management system. The successful transition to prime vendor distribution programs for pharmaceuticals and other supplies has helped reduce pharmacy inventories from previous levels. However, inventories continue to exceed current operating needs for pharmaceuticals and many other items.

CURRENT STATUS: The last of the four OIG audits completed in FY 2001 concluded that 67 percent of the $5 million engineering supply inventory used for maintaining and repairing buildings, equipment, furnishings, utility systems, and grounds at five VAMCs was excessive. At any given time, the estimated value of the four types of inventories was about $435 million.

CAP reviews continue to identify numerous inventory management problems. In addition, problems associated with prime vendor programs have identified areas where supplies are being acquired at increased costs and/or waste has occurred.

GOVERNMENT PURCHASE CARD USE

OIG audits and reviews at selected VAMCs have identified significant vulnerabilities in the use of Government purchase cards. Purchases have been split to circumvent competition requirements and some goods and services have been acquired at excessive prices and without regard to actual needs. Our reviews of purchase card records, invoices, purchase orders, procurement history files and other related records, also lead us to believe that VHA is purchasing open-market health care items in amounts greater than the 20 percent maximum allowed under Title 38 U.S.C. §8125(b)(3)(A).

CURRENT STATUS: Of 33 CAP reports issued from March 31, 1999 to April 11, 2001, 22 identified Government purchase card problems such as the lack of timely reconciliations and certifications, inappropriate approving officials, improper purchases, exceeded purchasing limits, and poor internal controls. These conditions are a result of the widespread and essentially unmonitored use of Government purchase cards in conjunction with the decentralization of purchasing authority to VAMCs. If uncontrolled, risk will escalate as purchase card use increases throughout the Department.

SCARCE MEDICAL SPECIALIST CONTRACTS

OIG reviews of scarce medical specialist contracts have identified serious concerns about whether contracts are necessary and costs are fair and reasonable. Reviews have also identified conflict of interest issues and proposed sole source contracts that lack adequate business analyses, justifications, or cost/benefit assessments. Most importantly, the requirement that noncompetitive contracts must be based on cost or pricing data was not enforced. Consequently, VAMCs paid excessive charges on certain contracts. VHA issued guidance and provided training that significantly improved contracting practices. However, we have found that VAMCs have been inappropriately using Intergovernmental Personnel Act assignments and commercial items contracts as a substitute for scarce medical specialist contracts. Use of these purchasing methods, in lieu of contracts, has resulted in higher prices being paid for services than would have been paid using properly negotiated contracts. Management needs to improve oversight to ensure that, when applicable, properly negotiated contracts are used. Furthermore, management needs to develop and/or enforce policies that ensure consistent compliance with VA's statutory authority in order to obtain reasonable prices.

CURRENT STATUS: During FY 2001, we completed contract reviews of seven health care resource contract proposals involving scarce medical specialists' services. We concluded the contracting officer should negotiate reductions of over $2 million to the proposed contract costs.

CONTROLS OVER THE FEE-BASIS PROGRAM

We conducted an audit to determine if VHA had established effective internal controls to ensure that payments for fee-basis treatment were appropriate. Fee-basis treatment is inpatient care, outpatient care, or home health care received from non-VA health care providers at VA expense. In June 1997, the OIG issued a report titled *Audit of Internal Controls over the Fee-Basis Program* (Report No. 7R3-A05-099) that found VHA could reduce fee-basis home health care expenditures by at least $1.8 million annually and improve the cost effectiveness of home health services by: (i) establishing guidelines for contracting for such services, and (ii) providing contracting officers with benchmark rates for determining the reasonableness of charges.

CURRENT STATUS: VHA has not implemented the OIG recommendations in the June 1997 report to establish guidelines for contracting and provide contracting officers with benchmark rates.

MANAGEMENT RESPONSE

PROCUREMENT PRACTICES

In November 2000, at the request of the Deputy Under Secretary for Health and the Principal Deputy Assistant Secretary for Management, an Acquisition Issues Task Group prepared a detailed analysis of procurement problems in VHA. The IG served as a member of this group. Some recommendations of this group have been completed or partially completed. Others have been put on hold pending the outcome of the Secretary's Procurement Reform Task Group. This work group was formed in July 2001 and was tasked to look into similar procurement issues.

INVENTORY MANAGEMENT

Inventory management problems noted in two OIG reports are addressed in VHA Handbook 1761.2, issued in October 2000. Implementation of the handbook has been delayed because the National Labor Management Organizations (AFGE and NAGE) have requested a national demand to bargain. In August 2001, VA Central Office signed an understanding with AFGE, effectively allowing all AFGE facilities to proceed with implementation of the handbook. However, discussions are still being conducted with NAGE. An Information Letter (IL) 17-01-01 to address one recommendation in OIG report, *Audit of VAMC Management of Engineering Supply Inventories* (Report No. 99-00192-65) and an amendment to VHA Handbook 1761.2 to address four recommendations in OIG report, *Audit of VAMC Management of Pharmaceutical Inventories* (Report 99-00186-86) are currently in concurrence.

GOVERNMENT PURCHASE CARD USE

The Office of the Chief Financial Officer is finalizing corrective actions pertaining to VHA on the one remaining OIG recommendation "Strengthen controls over the Purchase Card Program by establishing appropriate mechanisms to monitor unreconciled transactions on a VA-wide basis" that is found in OIG report *Audit of VA's Purchase Card Program* (Report No. 9R3-E99-037). VHA requirements have been provided to the coreFLS analysts at the office of the contractor, KPMG Consulting, to ensure the new system can provide the reports. It is expected that all required reports will be available by the time the Department begins the nationwide implementation scheduled for April 2003. OIG will close the recommendation when further validation of these actions is received from the contractor. This response is currently being solicited by VHA.

SCARCE MEDICAL SPECIALIST CONTRACTS

Many of the problems with awarding Scarce Medical Specialist contracts are the result of such contracts being awarded under 38 USC 8183, Enhanced Sharing. Current policy for enhanced sharing does not fully describe how to negotiate and administer these contracts. Previous Scarce Medical Specialist contracting policy was covered in VHA Directive 96-039, which expired in May 2001. A subgroup of the Acquisition Issues Task Group is working on reissuing this directive and providing additional relevant information to help facilities avoid improperly awarding Scarce Medical Specialist contracts.

CONTROLS OVER THE FEE-BASIS PROGRAM

VHA has implemented all but one of the recommendations from the June 1997 report, *Audit of Internal Controls over the Fee-Basis Program*. The remaining recommendation deals with establishing guidelines for contracting home health services and providing contracting officers with benchmark rates for determining the reasonableness of charges. VHA's Geriatrics and Extended Care Strategic Health Care Group is finalizing a directive, Purchasing Home Care and Hospice Services from Community Agencies for Enrolled Veterans, and VHA is working with the OIG to implement this final recommendation.

10. HUMAN CAPITAL MANAGEMENT

Human Capital Management (HCM) is a major challenge for the Department, resulting from a high number of employees projected to become retirement eligible over the next 5 years. Given the significant size of VA's work force, there are also significant dollar outlays associated with addressing this challenge effectively. GAO has also identified strategic HCM as a Governmentwide "high risk" area.

Risks associated with not addressing VA's HCM include:

- Patient injury or loss of life.
- Program failure.
- Significantly reduced effectiveness.
- Significantly reduced efficiency.

VHA NURSES

The VA Office of Human Resources Management (HRM) reported in FY 2001 that registered nurses are the largest segment of health care workers within the Department. VA employs approximately 35,000 registered nurses and nurse anesthetists. VAMCs are having difficulty recruiting nurses in specialty fields and some VAMCs find it difficult to recruit and retain licensed practical nurses and nursing assistants. According to HRM, 12 percent of the VA nursing population is eligible to retire. Each year, approximately 4 percent more will be eligible to retire. HRM reports that by 2005, 35 percent of the current nursing workforce will be eligible for retirement.

Recent GAO reports point to the importance Congress has placed on this issue. The following is a list of recent GAO reports and quotes of pertinent statements in those reports:

January 2001, High Risk Series - "A national nursing shortage could adversely affect VA's efforts to improve patient safety in VA facilities and put veterans at risk."

July 2001, Nursing Workforce: Emerging Nurse Shortages Due to Multiple Factors - "The large numbers of registered nurses that entered the labor force in the 1970s are now over the age of 40 and are not being replenished by younger registered nurses …Job dissatisfaction has also been identified as a major factor contributing to the current problems of recruiting and retaining nurses…Demand for nurses will continue to grow as the supply dwindles…The future demand for nurses is expected to increase dramatically when the baby boomers reach their 60s, 70s, and beyond.…"

May 2001, Nursing Workforce: Recruiting and Retention of Nurses and Nurse Aides Is a Growing Concern - "With the aging of the population, demand for nurse aides is expected to grow dramatically, while the supply of workers who have traditionally filled these jobs will remain virtually unchanged."

August 2001, Health Workforce: Ensuring Adequate Supply and Distribution Remains Challenging - "While current data on supply and demand for many categories of health workers are limited, available evidence suggests emerging shortages in some fields, for example, among nurses and nurse aides."

CURRENT STATUS: VHA formed a National Succession Planning Task Force to address VHA's changing work force. According to the Task Force's August 2001 draft report on VHA Succession Planning, "VHA faces a leadership crisis unprecedented in its history. With 98 percent of our senior executives eligible to retire by 2005 and other key clinical and administrative cadres facing similar turnover, it is paramount that we quickly focus on both developing our new leaders as well as replacing key employees throughout our organization."

The Task Force's draft report lists recommendations in seven major categories: (i) benchmarking, (ii) workforce assessment, (iii) employee morale and satisfaction, (iv) short-term steps, (v) progression planning, (vi) legislative initiatives, and (vii) organizational infrastructure. The report states that attracting, developing, and retaining a well-qualified workforce at all levels of VA's organization is paramount to ensure VA's ability to provide quality care to our veteran population. Recent GAO reports on management challenges cite a shortage of VHA nurses and difficulty in properly training and recruiting VBA Claims Processors as challenges for the Department.

VBA CLAIMS PROCESSING

The VA Secretary tasked a Claims Processing Task Force in May 2001 to identify the challenges VBA faces with timely and accurate claims processing. The Task Force reported that during the past decade the number of employees in VBA "dropped slightly while workload increased dramatically." The Task Force also reported that VBA reduced the availability of skilled labor for processing claims while diverting experienced staff to implement new processes that were poorly managed.

Although Congress has provided VBA an average increase of 800 employees in each of the last 2 years, VBA does not have an integrated training plan and program. The Task Force reported that VBA's Office of Employment Development and Training is not equipped to develop a comprehensive training plan. The report concludes that VBA has not put together the needed training infrastructure. The report also states that VBA's current hiring pattern is not the result of any strategy and is not integrated with any business plan. The report identifies 13 separate points in their recommendation for a fully integrated training plan and program, which includes the creation of a fully integrated training infrastructure.

CURRENT STATUS: The OIG has not issued recent national audits on HCM, however we have identified resource shortages in CAP reviews.

MANAGEMENT RESPONSE

VHA NURSES

National nursing shortages continue to be a priority issue for the entire health care industry. VHA maintains an ongoing, active recruitment process. There is no indication that the quality of care in VA medical centers has been adversely affected by nursing staff limitations.

In response to this challenge, the Department established the Office of Workforce Planning in FY 2001 in order to devote full-time resources to developing and implementing a comprehensive workforce planning initiative that will enable VA to remain a competitive employer and provider of quality services to America's veterans. As part of this initiative, VA developed a Departmental Workforce Analysis and 5-Year Restructuring Plan that details demographics, skill assessments, human capital challenges and accomplishments, and strategies that demonstrate VA's commitment to becoming more citizen-centered.

In order to address VA's human capital challenges, we have developed the Department of Veterans Affairs Workforce and Succession Plan. This plan articulates VA's corporate vision for workforce and succession planning and identifies specific strategies to address recruitment, retention, and development issues.

VBA CLAIMS PROCESSING

In response to the challenges in the areas of claims processing and succession planning, VBA has undertaken a number of initiatives designed to build human capital across the organization. A highly successful multi-year nationwide recruitment program yielded over 2,000 entry-level employees primarily in the Compensation and Pension business line. The influx of new employees in advance of expected high retirement levels among senior employees has ensured adequate time for skills development and knowledge transfer through training and mentoring. To support training and mentoring programs, VBA has obtained a regulatory flexibility from the Office of Personnel Management allowing reemployment of experienced retirees without reduction in their annuities. This initiative has reduced the need to move experienced employees into training roles from direct claims work. A third approach involved a study (begun summer 2001) to develop a system of leadership competencies for use in selection, development and succession planning for executive, mid-level management, and first-line supervisory positions. Initiatives involving VBA's human resources capacity included a 2001 contractor study of the human resources function, structure, and alignment, and week-long training conferences for the entire VBA human resources community in August 2000 and 2002. Finally, the annual Directors' Conference in September 2001 focused on "High Performance in Leadership Development," through a week-long program of learning, discussion, and study of recruitment, change management, information technology, development, succession planning, performance management, employee satisfaction, and recruitment.

A Training Task Team convened to respond to the 13 Task Force recommendations and recently briefed VBA management on a series of findings and action recommendations. The team's recommendations were divided into five categories: evaluating current training; instructor selection and certification; establishing skill competency and job certification criteria; delivering training; and structure. The Office of Employee Development and Training (ED&T) completed milestones in several of the categories. These include completion of an assessment of previous training, establishment of an instructor certification process and the training of a first class of instructors, and completion of a design plan for broadcasting capability at the Veterans Benefits Academy. Milestones completed By the Compensation and Pension Service and ED&T include submission of proposed organization structures for training and a schedule to review the skill requirements and competencies for each grade level within the VSR and RVSR job series, which will establish the foundation for a training plan for each employee.

VBA successfully concluded an 18-month SES Candidate Development Program for 16 new senior leaders. The program was endorsed by the U. S. Office of Personnel Management and was adopted by the Department as the framework for a Departmentwide program announced late in 2001. Completion of a systematic path of leadership training continues. VBA led a VA-wide team to produce an Assistant Director Development Program.

MANAGEMENT CHALLENGES IDENTIFIED BY THE GENERAL ACCOUNTING OFFICE

1. ACCESS TO QUALITY HEALTH CARE

Over the past several years, VA has undertaken many initiatives to improve veterans' overall access to VA-provided health care, such as shifting its emphasis from inpatient to outpatient primary care and increasing the number of outpatient clinics it operates. VA has also undertaken efforts to improve the quality of care it provides, including the introduction of patient safety initiatives. However, several areas require continued emphasis if VA is to achieve its goals. For example, VA cannot ensure that veterans receive timely care at VA medical facilities, nor can it ensure that it has maintained the capacity to provide veterans who have spinal cord injuries, serious mental illnesses, or other special needs the care that they require, as mandated by Congress. VA must also assess its capacity to provide long-term care for its aging veteran population and respond to emerging health care needs, such as treating veterans for hepatitis C. At the same time, VA is facing a potential shortage of skilled nurses which, if nationwide projections for the next several years bear out, could have a significant impact on VA's quality of care initiatives.

CURRENT STATUS AND FUTURE PLANS

ACCESS

VA has taken significant steps to improve veterans' access to health care. To maintain the emphasis on outpatient primary care, 67 community-based outpatient clinics were opened across the country during the period October 1, 2000, through September 30, 2001. VHA has also placed a high priority on full implementation of telephone access to care (nurse advisor). In FY 2001, all but one VISN achieved full Network-wide implementation of this important facet of access. The remaining VISN plans to provide "24/7" telephone care by March 2002.

WAITING TIMES

In response to concerns about waiting times, VA established strategic targets for the time it takes veterans to get an appointment with a VA provider (either primary care or specialty care) and the time they spend waiting in a provider's office. As part of its strategy to reduce waiting times and meet service delivery targets, VA has entered into short-term contracts with consultants to help reduce the backlog of specialty appointments. By improving waiting times, through process improvements, physical plant renovations, pharmacy refills by mail, and other means, VHA will effectively improve patient satisfaction of the quality of their health care.

QUALITY AND PATIENT SAFETY

Quality management leadership at all levels has been strengthened. The Office of Quality and Performance is now fully staffed. Network Quality Management program personnel qualifications, responsibilities, and functions have been clearly delineated in standardized position descriptions and consistent position titles.

VHA is committed to continuously improving the culture of patient safety in its health care facilities. VA uses root cause analysis (RCA) to develop a good understanding of the causes of safety problems through identification of basic or contributing causal factors that underlie variations in performance associated with adverse events or “close calls” involving VA patients.

VHA’s establishment of the National Center for Patient Safety (NCPS) and national training on the principles of root-cause analysis represent an aggressive response to previous concerns. The focus that NCPS has placed on the issue of patient safety and on resolving long-time patient vulnerabilities provides sentinel capabilities toward making sure that VA patients receive proper care in a safe environment.

In FY 2001, VHA met the performance goal for having root cause analyses in a correct format and completed within the appropriate time (45 days). Timeliness is important, because the longer it takes to complete an RCA, the longer it is before preventive corrective actions can be implemented. In FY 2002, to continue emphasizing new methods in ensuring patient safety, this performance measure will be replaced with one that will measure the success of implementing bar code medication administration.

VHA achieved its goal of providing 20 hours of continuing education on patient safety to front-line providers of patient care. This goal, included in each Network Director’s performance standards, was achieved through satellite video and computer-based self-teaching modalities, which maximized cost effectiveness.

TREATING VETERANS WITH SPECIAL DISABILITIES

The Department has adopted several performance measures to help assess the treatment of veterans with special disabilities. For example, VHA is focused on promoting the health, independence, quality of life, and productivity of individuals with spinal cord injuries (SCI). Similarly, we view discharge to non-institutional, community living as a positive health outcome. Consequently, one of VHA’s primary performance measures is the proportion of discharges from SCI Center bed sections to non-institutional settings. The performance in FY 2001 was 98 percent.

In 1996, Congress provided a mandate in its Eligibility Reform legislation (P.L. 104-262) to ensure that we maintain nationwide capacity to deliver specialized care to disabled veterans with spinal cord injuries and diseases, blinded veterans, veterans with amputations, and those with severely chronic, disabling mental illnesses. P.L.104-262 also required the publication of data in an annual report (the "Capacity Report") to Congress demonstrating VA's compliance with the provisions of this mandate.

On November 2, 2000, a coordinator for special disabilities was appointed by the Under Secretary in response to a General Accounting Office recommendation to:

- Address underlying dissatisfaction from stakeholders and oversight groups with VA's annual Eligibility Reform report to Congress.
- Structure and develop a rational, viable action plan to improve data base accuracy and nationwide reporting consistency for special disability patient care, staffing and demographic data for inclusion in the OIG's annual report to Congress.

In addition, in May 2001, the FY 2000 Capacity Report was published in a new narrative format designed to place the accountability for interpretation of data for each special disability with program officials in VHA and their clinical service chiefs in the field. Data table formats remained the same to maintain continuity between FY 1996 (the year required by Congress) and FY 2000.

In July 2001, eight work groups representing each special disability category were created, co-chaired by a VISN clinical manager and a Patient Care Services Program director/Strategic Health Group chief consultant. Work groups are responsible for explaining the reason for incomplete data capture in VHA data bases regarding clinical care provided for special disability patients.

GENERAL FINDINGS AND CONCLUSIONS - CAPACITY REPORT 2000

Nationwide capacity has been maintained or improved for workload measures in seven of eight specialties. Analysis of Allocation Resource Center (ARC) data from all VISNs shows a wide variation in capacity for special disabilities among VISN.

- VHA's corporate database from FY 1996 to FY 2000 published by ARC is not considered to be accurate. The data for mental health specialties, especially substance abuse, is considered to be incomplete and reflects negatively upon these high-volume, high-cost specialties.

- Significant advances in data-gathering and recording processes since September 30, 2000, have substantially improved the validity of capacity data (beds and FTE) for Spinal Cord Injury/Dysfunction (SCI/D) programs.

- However, in other specialties the implementation of VHA policies, current definitions, and "counting rules" for workload make it difficult to ensure that special disability patient care data are correctly and uniformly entered into local hospital/clinic data bases.

- More work is needed to better capture data on special disability patients. Patient Care Services is actively working with clinical managers to preclude this problem.

POSITIVE ACTIONS AND ACCOMPLISHMENTS SINCE THE LAST CAPACITY REPORT

- The Paralyzed Veterans of America (PVA), in general, has expressed satisfaction with the effectiveness of programmatic directives from the Under

Secretary for Health and the compliance of field sites with the directives; stakeholders such as the PVA have worked closely with VHA during the past year to improve the accuracy of SCI data submitted from SCI/D programs, using a joint VHA/PVA survey.

- For all other programs except Substance Abuse, VHA can document that it has maintained or improved its workload capacity for its special disability programs, for example, a decrease in amputation rates indicates more aggressive treatment and better preventive care for veterans.

- Appointment of a clinical coordinator in Patient Care Services has created a new dialogue and a bi-directional information exchange between VISN clinical managers and VA Headquarters to identify the causes of data differences among and within VISNs.

- VHA has issued policy establishing centralized review of proposed changes in mental health and SCI/D programs in the field. This has markedly improved oversight of these special disability programs by the national program offices as well as the accuracy of available information.

SHIFTING HEALTH CARE NEEDS AND WORKFORCE ISSUES

Substantial planning, effort, and resources will be required as VA positions itself to meet the increasing health care needs of the expanding population of elderly veterans. As noted, the population projections emphasize our demographic imperative. According to the Long-Term Care Planning Model, the enrolled population over age 85 will triple between fiscal years 2000 and 2010.

As authorized in P.L. 106-117, VA is conducting a 3-year pilot study of assisted living for veterans. The pilot site, selected through a competitive process, includes the four states within VISN 20, Pacific Northwest. A report on the outcomes of the pilot will be prepared for Congress in 2004.

VA officials estimate that as much as 6.6 percent of its health care enrollees are infected with the hepatitis C virus. This rate is three times higher than that of the general U.S. population. Over the past 2 years, VA identified health care funding to screen patients for hepatitis C risk factors, develop treatment protocols, and create a public health awareness campaign. In addition, VA adopted appropriate performance measures for screening and testing patients evaluated for risk factors for hepatitis C.

In response to concerns about a national nursing shortage, VA is engaged in multiple efforts to assess the adequacy of its current nursing workforce and plan for the future. Recent legislation authorizing higher salaries for VA nurses could help in these efforts. The Nursing Workforce Planning Group (whose members include representative nurses from a variety of roles, a Nurses Organization of Veterans Affairs representative, labor partners, hospital administrators and human resources experts) completed a report that examines the impact of the nursing shortage on VA and current barriers to VA medical center recruitment and retention of nurses in a competitive marketplace. The report contains a reference guide for the optimal use of current hiring and pay authorities and also makes recommendations for both legislative and non-legislative initiatives to address the nursing shortage.

VHA employs a diverse and knowledge-based workforce comprised of individuals with a broad spectrum of technical and program skills and institutional memory; a large proportion of this workforce is reaching retirement age. VHA has begun a substantial succession planning effort -- encompassing all processes and activities -- to ensure that current and future missions are supported by the highest quality workforce. To this end, VHA's Succession Planning Committee has analyzed current and future workforce needs and capacities and recommended actions to address immediate and long-term issues and institute Human Resources strategic planning as an integral component of VHA's annual strategic planning process.

A Web site (http://vaww.va.gov/succession/) was established to allow all VA employees access to information on succession planning in VHA. The site includes the results of a survey on succession planning activities in every VISN and in each Headquarters office; tools for conducting analyses; information on the Succession Planning Committee; study results; a library of documents; and links to other related sites.

2. HEALTH CARE RESOURCE UTILIZATION

To expand care to more veterans and respond to emerging health care needs, VA must continue to aggressively pursue opportunities to use its health care resources—including its appropriation of over $20 billion—more wisely. VA has reduced its per patient costs—one of its key performance measures—by 16 percent, but it could achieve additional efficiencies by realigning capital assets and human capital based on changing demographics and veterans' health care needs. For example, VA needs to further modify its infrastructure to support its increased reliance on outpatient health care services and expand its use of alternative methods for acquiring support services, such as food and laundry. The Department spends as much as one-quarter of its annual health care budget to operate and maintain about 4,700 buildings and 18,000 acres of property. VA also needs to pursue additional opportunities with DoD to determine cost-effective ways to serve both veterans and military personnel, including sharing services and facilities. In addition, VA must ensure that it collects the money it is entitled to from third-party payers for health care services provided to veterans whose conditions are not service-connected.

CURRENT STATUS AND FUTURE PLANS

ASSET RESTRUCTURING

VA's capital infrastructure has been designed, for the most part, as a "hospital-based" delivery system with a focus on inpatient acute care and supporting services. This configuration no longer reflects VHA's current delivery of care, as VA health care delivery has evolved into an integrated delivery system with greatly expanded outpatient services. The costs to maintain and operate the existing VA capital infrastructure are substantial, diminishing the availability of resources that could be devoted to direct patient care services. Future realignments of VA's capital infrastructure, including contracting for acute hospital care in locations where there is not sufficient workload and establishing new facilities for provision of outpatient care, will yield improved access, efficiencies and service to veterans.

The Capital Asset Realignment for Enhanced Services (CARES) program is designed to assess veteran health care needs in VHA VISNs, identify service delivery options to meet those needs for the future, and develop an associated capital asset realignment plan that ensures the availability of high-quality health care in the most accessible and cost effective manner, while minimizing impacts on staffing and communities and on other VA missions. Through the CARES process, VISNs will develop plans for capital asset restructuring that are based on practices in health care delivery, demographics, strategic plans, and assessments of the existing as well as future capacity of physical plants to deliver accessible, quality health care.

VA also has an on-going infrastructure replacement program (for VHA it is non-recurring maintenance; while in VBA and NCA it is general operating expense) to address periodic system renovations and replacements. In addition, the Facility Condition Assessment evaluation (approximately 50 percent complete at this time) will provide current information on VHA's physical plant condition. This information will be a valuable tool for medical centers to use in strategic planning for future capital investments.

DOD AND VA COOPERATION

In FY 2001, President Bush established a top-level VA-DoD Task Force designed to find ways to improve health care in both agencies and to determine the existence of greater opportunities for sharing as well as buttressing a VA mission to serve as primary backup to DoD in times of national emergency. To date, that taskforce has developed a working agenda in response to the President's Executive Order. The Task Force meets monthly and has developed a working agenda in response to the President's Executive Order to identify ways to improve benefits and services, and review barriers and challenges that impede coordination between the Departments. Seven work groups have been formed to review a variety of issues: Benefit Services, Acquisition and Procurement, Facilities, Information Management/Information Technology, Leadership and Productivity, Pharmaceuticals, and Resources/Budget Process.

Ongoing activities that predate this Executive Order include:

- The Persian Gulf Veterans Coordinating Board was established in January 1994 under the authority of United States Code (U.S.C.) title 31, section 1535. This Board has established three subgroups -- focusing on research, clinical issues, and disability compensation.

- The Military and Veterans Health Coordinating Board (MVHCB) was established in December 1999, with three working groups -- focusing on research, deployment health, and health risk communications. The second work group is tasked with monitoring and coordinating interagency activities related to force health protection and medical surveillance. The last of these has developed a public-academic partnership with The George Washington University and the Centers for Disease Control and Prevention, which are in the forefront of disseminating needed information regarding anthrax and other biological contaminants.

- Force Health Protection Initiatives: On November 8, 1997, President Clinton directed the "…Department of Defense and Veterans Administration to create a new Force Health Protection Program.…"This initiative has been enfolded in the MVHCB's subgroup described above and will "…provide every soldier, airman and marine with comprehensive, life-long medical record of all illnesses and injuries they suffer, the care and inoculations they receive, and their exposure to different hazards".

- Joint Ventures: These include (a) New Mexico VA Health Care System and the 377th Air Force Medical Treatment Facility in Albuquerque; (b) the El Paso VA Health Care System operates an outpatient facility adjacent to the William Beaumont Army Medical Center; (c) the Mike O'Callaghan Federal Hospital in Las Vegas, Nevada, provides services to both VA and Air Force beneficiaries; (d) Alaska VA Health Care System and Anchorage Regional Office and the 3rd Medical Group from Elmendorf Air Force Base (AFB) operate a VA/DoD replacement hospital; (e) Navy and VA occupy an outpatient care facility in Key West, Florida; (f) VA operates an ambulatory care center and leases a psychiatry ward from Tripler AFB in Honolulu, Hawaii. Tripler also provides inpatient medical, surgical and specialty outpatient care for DoD and VA beneficiaries while VA's Center for Aging provides both with long-term care, rehabilitation and home-based primary care. In addition, an enhanced-use lease with US Vets provides shelter and programs for homeless veterans at Barber's Point Naval Station (which VA obtained through DoD's Base Closure Program); and (g) in Fairfield, California, Travis AFB provides care to VA inpatients and provides same-day surgery within the David Grant Medical Center. The Air Force also provides outpatient specialty and ancillary support services. VA was leasing outpatient space until late 2000 when it opened its own outpatient clinic. The Air Force also operates two TRICARE satellite clinics in the Sacramento area, both of which are located in VA facilities.

- VA/DoD Medical Research: Historically this program has supported biomedical research for a wide variety of health problems experienced by active duty and veteran military personnel. The currently funded collaborative research program includes a multi-site clinical study exploring the epidemiology of amyotropic lateral sclerosis (Lou Gehrig's Disease) among Persian Gulf Veterans, as well as other studies.

- Health Information Management and Technology: The Military Health System and VHA Chief Information Officers meet on a continuing basis to explore, assess, develop, and monitor sharing initiatives. Both CIOs are members of and report to the VHA/DoD Executive Council. These officers are also engaged in a host of other interagency efforts.

- Other sharing activities: (1) The Army established an infirmary service at the VAMC in Richmond, Virginia; (2) The 81st Army Reserve Regional Support Command has negotiated regional agreements with more than one-third of VHA's VISNs to provide physical examinations, dental screenings and immunizations to reservists; (3) Military Medical Support Office in Great Lakes, Illinois, assumed responsibility for managing the Remote Dental Program for Air Force, Army, Navy, Marines and Air National Guard personnel as well as four VISNs' beneficiaries; (4) VHA Community–Based Outpatient Clinics (CBOCs) occupy clinic space provided by military facilities in Louisville, and Fort Knox, Kentucky, among other locations (see above); (5) The Walter Reed Army Allergen Extract Laboratory in Washington, D.C. provides delivery of diagnostic and therapeutic allergen extracts to 29 VAMCs and outpatient allergy clinics; (6) VA and TRICARE – by prior agreement, over 71 VAMCs utilize funds generated by TRICARE patients to help provide benefits to VA beneficiaries, and VA has signed agreements with all 5 TRICARE mental health subcontractors; (7) there are over 155 VA/DoD agreements involving education and training support to DoD units and reservists.

THIRD-PARTY COLLECTIONS

VA Secretary Principi directed the Under Secretary for Health to develop a revenue cycle improvement plan. The plan describes the vision of the VHA Revenue Program, outlines an action plan for improved performance, and defines performance measures and goals that stress standardization of policy, technology, data capture, measurement, training and education, accountability, and achievement. This plan also outlines recommended actions required to improve the core business processes of the revenue cycle. These action items fall within five process areas: Patient Intake, Documentation, Coding, Billing, and Accounts Receivable.

The Revenue Enhancement Work Group and Steering Committee have identified 24 major recommendations that require action in order to bring VHA's revenue operation to the next level of success in improving collections. VHA will actively and aggressively monitor these identified areas to ensure that all possible areas of improvement have been achieved. VHA will take prompt action to provide assistance to any Network or medical center that is not performing consistent with these expectations. Based on the collection performance experienced in FY 2001, with collections totaling over $770 million, we anticipate being able to meet or exceed the collection estimate of $1.05 billion in FY 2002.

3. COMPENSATION AND PENSION CLAIMS PROCESSING

VA must also continue to seek ways to ensure that veterans are compensated for reduced earning capacity due to disabilities sustained or aggravated during military service. VA has had long-standing difficulties in ensuring timely and accurate decisions on veterans' claims for disability compensation. VA has improved its quality assurance system in response to GAO's recommendations, but large and growing backlogs of pending claims and lengthy processing times persist. Moreover, veterans are raising concerns that claims decisions are inconsistent across VA's regional offices.

VA has taken steps to improve its information systems, performance measures, training strategies, and processes for reviewing claims accuracy. However, VA also needs better analyses of its processes in order to target error-prone types of cases and identify processing bottlenecks—as well as determine if its performance goals are realistic. VA also needs to be vigilant in its human capital strategies to ensure that it maintains the necessary expertise to process claims as newly hired employees replace many experienced claims processors over the next 5 years.

CURRENT STATUS AND FUTURE PLANS

VBA is currently addressing the Compensation and Pension Claims Processing issues as noted on the above response (item number 3), under the challenges identified by VA's Inspector General.

4. MANAGEMENT CAPACITY

VA has more work to do to become a high-performing organization and increase veterans' satisfaction with its services. It must revise its budgetary structure and develop long-term, agency-wide strategies for ensuring an appropriate information technology (IT) infrastructure and sound financial management. If its budgetary structure linked funding to performance goals, rather than program operations, VA and the Congress would be better positioned to determine the Department's funding needs. VA's IT strategy, which aims to provide veterans and their families coordinated services, must be successfully executed to ensure that VA can produce reliable performance and workload data and safeguard financial, health care, and benefits payment information. Similar to most other major agencies, VA's financial management strategies must ensure that its systems produce reliable cost data and address material internal control weaknesses and Federal Financial Management Improvement Act requirements.

CURRENT STATUS AND FUTURE PLANS

PERFORMANCE-BASED BUDGETING

VA and OMB staff jointly developed a proposal to restructure the Department's budget accounts. The goal of this account restructuring effort is to facilitate charging each program's budget accounts for all of the significant resources used to operate the program and produce its outputs and outcomes. The benefits of budget account restructuring are: (1) to more readily identify program costs; (2) to shift resource debates from inputs to outcomes and results; (3) to eventually make resource decisions based on programs and their results rather than other factors; (4) to improve planning, simplify systems, enhance tracking, and focus on accountability. We are on track to implement the new structure with the FY 2004 budget.

FINANCIAL MANAGEMENT

In FY 2000, VA again received an unqualified opinion on the consolidated financial statements for FY 2000 and 1999. In addition, VA continued to make substantial progress in correcting material internal control and other management and operational controls reported by GAO. The material internal control relating to fund balance with Treasury was removed. VA continued to implement significant improvements in accounting for the Housing Credit Assistance program, which was converted to VA's core financial management system, FMS. In addition, to correct material weaknesses in information technology security, the Secretary is personally setting expectations for improvement at all levels; funding for cyber security initiatives that cross Administrations is beginning. Individual and collective cyber security responsibilities and accountability are being identified and assigned. While major improvements in financial management have been achieved, VA is committed to addressing and correcting the remaining areas identified by GAO.

ASSESSMENT OF DATA QUALITY

Due to diligent efforts over the past several years, the quality of VA data is good – not perfect, but very usable. Our efforts have taken many forms -- each program office initiated specific improvement actions; the Office of the Inspector General (OIG) conducted a series of audits to determine the accuracy of our data; the Department-level Chief Actuary assists program officials in assessing the validity and accuracy of performance; and our budget office worked with program officials to prepare an assessment of each key measure.

After identifying corporate data issues, a coordinated effort was made to improve the quality of the data we collect. For example, VHA established a data quality council to lead their improvement efforts. The council's focus has been centered on:

- Creating standard processes that support on-going maintenance of data quality;
- Defining and implementing local accountability for data quality;
- Establishing a data quality education, training, and communication structure;
- Focusing efforts on data that support patient access processes.

OIG audits are an integral part of our data quality assessment efforts. We consider OIG reviews to be independent and objective. For each VA program, we collect a great deal of information from veterans and other users through customer satisfaction surveys. We are continually improving our survey processes and standards -- a long-term project. The following discussion describes in specific detail the actions each VA Administration has taken to improve its data quality.

VETERANS HEALTH ADMINISTRATION

Data reliability, accuracy, and consistency have been a targeted focus of the Veterans Health Administration (VHA) for the past several years. The principles of data quality are integral to VHA's efforts to provide excellence in health care.
In FY 2001, the Under Secretary for Health commissioned a new high-level cross-cutting task force on data quality and standardization, co-chaired by two Chief Officers (Quality and Performance and Policy and Planning). In its early stage of development, this task force will focus on strategic planning to provide consistent definitions of clinical and business data for more effective clinical and organizational decision support.

VHA has long been recognized as a leader in documenting credentials and privileges of VA health care professionals. In FY 2001, VHA implemented a new electronic data bank, VetPro, on health care professionals' credentialing in partnership with the Department of Health and Human Services. VetPro promotes and demonstrates to other federal and private agencies the potential of a secure, easily accessible, valid data bank of health professionals' credentials.

VetPro improves the process of ensuring that health care professionals have the appropriate credentials for their clinical roles. It will also help VHA verify that practitioners have a good and desirable track record, consistent with high-quality and safe patient care. When a doctor or dentist is credentialed using VetPro, a permanent electronic file is created that will be accessible across the VA system and other federal health care programs. As VetPro is used, the process of updating credentials will be streamlined because files will not be redone from scratch. As providers add information, it will be verified by the credentialers who create the permanent record. The Joint Commission on Accreditation of Health Care Organizations reviewed VetPro and stated, “The program appears, if used as designed, to be consistent within considerable detail with the current Joint Commission Standards..."

The VHA Data Consortium addresses organizational issues and basic data quality assumptions. The Consortium works collaboratively to improve information reliability and customer access for the purposes of quality measurement, planning, policy analyses, and financial management. The ongoing initiatives and strategies address data quality infrastructure, training and education, personnel, policy guidance, and data systems.

The VHA data quality coordinator along with data quality workgroups, provides guidance on data quality policies and practices. Several initiatives underway that support the integrity and data quality of coding include:

- Development of strategies and standard approaches to help field staff understand the data content and meaning of specific data elements in VHA databases;

- Development of coding resources for the field facilities, to include negotiating the purchase of knowledge-based files/edits from Ingenix™ for use within the Veterans Health Information Systems and Technology Architecture (VistA). This supports the use of national code sets, Current Procedural Terminology, 4th Edition (CPT-4), and Health Care Financing Procedural Coding System (HCPCS) Level II. The availability of these code sets will enable VHA to accurately describe outpatient and other professional services provided to patients;

- Complete revision of VistA software to accommodate the use of national code set modifiers, giving providers the ability to document care more completely and accurately.

To support the need for guidance in medical coding, VHA established the Health Information Management (HIM) Coding Council. The council, comprised of a panel of credentialed expert coders with support from VHA HIM Headquarters’ staff, researches and responds within 24 hours to coding questions, citing official references. The council also updates the national coding handbook, which provides expert guidance to field facilities. This handbook standardizes guidelines for complete and accurate coding.

VHA's Office of Information sponsors the *"Close Encounters"* newsletter, which provides expert guidance to field facilities on encounter forms, insurance billing, coding, and Medicare compliance. It also sponsors a data quality newsletter, *"Data Quality Highlights,"* which provides data quality facts and tips.

Training and education opportunities that support data quality initiatives and compliance (such as the airing of national satellite broadcasts on data quality issues) are provided to staff. Future topics include external impacts on data reliability, guidance from the Centers for Medicare and Medicaid Services, national standards bodies issuance, and internal data requirements of the Veterans Equitable Resource Allocation (VERA) funding model.

In an effort to improve the reliability of Decision Support System (DSS) data, a directive on standardization was released to all VA medical facilities. The directive provides guidance for the standardization of managerial accounting and serves as a clinical information tool to assess the delivery of medical care across facilities.

In addition to guidance, training, and education, the Office of Information is involved in several key projects that are targeted to improve data quality and system reliance. These include the Meta Data Repository (MDR) and the Master Patient Index (MPI). The MDR houses data from 49 VHA databases. This registry contains definitions, business rules, names of database stewards, and descriptive information about the data elements contained in VistA databases. The MDR was released to a limited audience of data users in January 2001. General release will be completed in the fall of 2002. The MDR provides a single source of data element description to users and technical staff. Use of the MDR will also help eliminate data redundancies and improve standardization.

VHA also completed the implementation of a national MPI in FY 2001. MPI provides the ability to view clinical data from various VA medical facilities via the remote data view functionality within the Computerized Patient Record System (CPRS). MPI provides the access point mechanism for linking patient information from multiple clinical, administrative, and financial records across VHA health care facilities, enabling an enterprise-wide view of individual and aggregate patient information. Responsibility for MPI data integrity exists on both corporate and facility levels. This effort will be accomplished through the use of software reporting tools and interaction with the sites of care and external authoritative sources.

FUTURE EFFORTS

VHA is in the process of examining its current health information processing environment in order to plan how to best implement improvements over the next 5 years. As part of this process, VHA is assessing:

- What a high-performance automated health system needs to provide;
- What the ideal health and information system would look like;
- What the advantages and disadvantages are of our current system;
- How best to use a phased approach for moving from the current to the ideal environment.

VHA intends to pursue efforts to move toward an ideal health and information system. This system would promote the sharing of information any time, any place, by any authorized provider, and in real-time, while ensuring that stringent privacy and security regimes are maintained. It would maximize use of the best available technology to allow users to effectively manage across programs, time, and distance, and within budget constraints, while balancing the resource needs of health and information. The ideal health and information system would provide a high-performance platform that maximizes patient health.

In the near term, VHA will enhance the current VistA platform by completing the Decision Support System and implementing VistA Imaging. Based on the availability of funds, mid/long-term efforts will include the development of a health database accessible across all levels of care, times, locations, and providers; the enhancement of Eligibility/Enrollment processing to meet One VA goals; the reengineering of the VistA Scheduling package; and enhancement or replacement of the Billing and Fee Basis Systems. The following narrative provides a description of these projects:

ALL-VA REGISTRATION

This effort will involve forming a collegial partnership with Departmental counterparts (VHA, VBA, and NCA) to explore a seamless continuum of registration and eligibility services to improve access to veterans' benefits and information on veterans' health status, and improve customer service relationships with the veteran population. While the effort will be challenging given the disparate nature of many of the systems and processes associated with these entities, it offers opportunities to improve the quality of and access to data, enhance services to veterans, and realize cost-efficiencies through an integrated Department systems approach. Current information sharing and communication tools hamper access to the administrative information needed for daily operations. Yet all VA programs have the need for a common set of demographic and eligibility data for their individual core business functions. The goal of this phase of the project is to create an authoritative database accessible to all VA components that require veteran information.

The All-VA registration system will hold all administrative data common to VA program areas. It will contain data on every veteran and dependent. Data on a subset of veterans will comprise the National Demographic Database. An Expert Eligibility System will be created to automate the determination of a veteran's eligibility for various veteran and dependent benefits. The eligibility determination system is rule-based, supporting ease-of-change to eligibility rules with immediate reassessment of potential eligibility. The system will determine eligibility as of specified dates in the past, basing its determination on the statutory eligibility rules in force on those dates. This will incorporate a centralized concept of all eligibility data, including the financial portion of eligibility determination.

REPLACEMENT OF VISTA INTEGRATED BILLING AND ACCOUNTS RECEIVABLE SYSTEM

The billing and accounts receivable modernization project will continue the trend towards industry standardization. It will include required functionality of the existing application, as well as additional necessary functionality identified through previously conducted requirements analysis. The information system will interact with all current and future systems that support the registration, billing, and accounts receivable processes.

The transformed billing and accounts receivable system will also move VHA health care in the direction of industry standards, in that it will utilize account-based management. VA currently uses bill-based management, in which non-billable treatment and services are not entered into the billing application. In an account-based management system, a patient's account is started when he/she arrives for care, and flows to the billing system regardless of billability. If not billable, a bill will not be generated. This allows for accurate potential revenue calculation and projection.

FEE BASIS

The Fee Basis portion of the above initiative supports VHA's efforts to improve operations, comply with impending health care regulations within the Health Insurance Portability and Accountability Act that require the acceptance of electronic claim submissions, control its costs, and prevent fraud and abuse. Fee Basis operations have been the subject of several internal and external studies in which reengineering, process, and organizational redesign have been recommended and piloted, but not implemented across the country. The transformation of the Fee Basis process, together with the replacement of Central Fee by the core Financial and Logistics System (coreFLS), will facilitate a redesigned and improved Fee Basis process. A new system will allow the Fee Basis process greater flexibility in terms of location, volume, and type (manual vs. automated) of processes being performed. Replacing Central Fee and IFCAP, the main interfaces of Fee Basis, with one commercial product will ease the implementation and the resulting processes.

In addition to process improvement, a new system will accommodate increased clinical data capture and have the flexibility to capture workload data currently being missed and/or not reported correctly. This will have several effects on the Fee Basis program. First, the program will function to accurately account for the services for which VHA is paying. Next, it will allow Veterans Integrated Service Networks (VISNs) and medical centers to appropriately capture their actual workload. Also, VISNs and medical centers will be able to provide Fee patients a full continuum of care, regardless of the location of care, by capturing the services performed by non-VA providers. Finally, the new Fee Basis system will allow VHA to pursue reimbursement from the patient's insurer with medical documentation if appropriate.

VETERANS BENEFITS ADMINISTRATION

The Veterans Benefits Administration (VBA) steadily continues to improve its data systems and the integrity of information within those systems. When it comes to delivering $23.4 billion in compensation and pension benefits annually to more than 5.1 million veterans and their families, VBA believes data integrity must remain a core competency.

For many years, data integrity has been a significant concern for VBA. Eliminating the practices of manipulating numbers and allowing incorrect input into essential reporting systems has been a primary focus. As outlined in its Roadmap for Excellence, VBA created the Data Management Office (DMO) in 1998 to incorporate a strong focus on administration-wide data integrity. The DMO plays a key role in this effort, working in concert with all VBA components.

Overall, VBA has emphasized the establishment of a viable and acceptable information security program. An organized, centralized effort has been underway since the completion of the Year 2000 initiative. VBA has established a Security Infrastructure Protection Office (SIPO) within the Office of Information Management. We will further strengthen this program by continued coordination with the VA Office of Cyber Security and by providng (1) increased oversight at SIPO, (2) enhanced technical security at VBA's Hines Information Technology Center, and (3) enhanced VBA Internet Security.

Data integrity requires improving the information we collect and publish regarding veterans and dependents and the operations of VBA's five business lines. The data that are collected must lead to accurate, current, consistent, and germane information that serves the needs of internal and external users now and in the future. A key initiative in fostering data integrity is the deployment of a balanced scorecard approach to measuring organizational performance. Using this methodology, performance is measured consistently from the national level down through the regional offices. Maintained by the DMO and delivered via Intranet technology, the balanced scorecard provides VBA employees, managers, and executives with a better understanding of organizational strengths and areas for improvement in a timely and consistent manner. The balanced scorecard promotes information sharing and cooperation within VBA, which directly improves the delivery of benefits to veterans. Results from the balanced scorecard are shared with external stakeholders such as Congress and veterans service organizations during quarterly briefings.

To ensure the integrity of transactions in the compensation and pension (C&P) business line, data regarding specific transactions that appear suspect are posted to the C&P Service Intranet Web site. Stations monitor this site and review those transactions that appear questionable (for example, multiple work credits taken on the same case within a short period of time, or a very short period of time between the establishment of the claim and the disposition). The C&P Service tracks station reports to ensure proper review and corrective actions are taken. This process has resulted in a reduction of suspect transactions and has helped identify areas for training or policy clarification.

Another major initiative to facilitate data-driven decision-making is VBA's Operations Center, an Intranet portal supported by user-friendly analytical tools, where the balanced scorecard and other core business information are made available for review and analysis. The Operations Center provides all levels of employees and managers with the same data used in decision-making and performance reporting. This wide dissemination of data ensures that constant review and analysis take place, facilitating improved data validation, and ultimately, improved service to veterans.

VBA's data warehouse and operational data store support the Operations Center. Both these technology environments, and their accessibility to end-users via the Intranet, dramatically improve the reliability, timeliness, and accuracy of core business information. Data collection and dissemination that once took weeks are now completed inexpensively and efficiently and are available on-line for review and analysis. Because the data are so accessible, anomalies or inconsistencies are readily noted and corrective action can be taken.

Facing the challenge to modernize systems and improve data integrity, VBA has made great strides in the past 3 years to ensure the quality of information and data-driven decision-making. The continued refinement of processes and systems, including the construction of a single corporate database where consistent information is available regarding veterans and business transactions conducted for those veterans, remains a key focus of VBA. These efforts, building upon a modernized infrastructure, ultimately lead to improved delivery of benefits and services to veterans and their families.

NATIONAL CEMETERY ADMINISTRATION

National Cemetery Administration (NCA) workload data are collected monthly through field station input to the Management and Decision Support System, the Burial Operations Support System (BOSS), and the Automated Monument Application System-Redesign (AMAS-R). After reviewing the data for general conformance with previous reporting periods, headquarters staff validates any irregularities through contact with the reporting station.

NCA determines the percent of veterans served by existing national and state veterans cemeteries within a reasonable distance of their residence by analyzing census data on the veteran population. Since FY 2000, actual performance and the target levels of performance have been based on the new VetPop2000 model developed by the Office of the Actuary. VetPop2000 is the authoritative VA estimate and projection of the number and characteristics of veterans. It is the first revision of official estimates and projections since 1993. The new VetPop2000 methodology resulted in significant changes in the nationwide estimate and projection of the demographic characteristics of the veteran population. These changes affected the separate county veteran populations from which NCA determines the percentage of veterans served.

For FY 2001 and subsequent years, NCA has developed a new customer satisfaction survey process to measure the quality of service provided by national cemeteries as well as their appearance. The new survey provides statistically valid performance information at the national and Memorial Service Network levels and at the cemetery level (for cemeteries having at least 400 interments per year). The annual survey is done via mail; the data are collected from family members and funeral directors who recently received services from a national cemetery. To ensure sensitivity to the grieving process, NCA allows a minimum of 3 months after an interment before including a respondent in the sample population. VA headquarters staff oversees the data collection process and provides an annual report at the national level.

When headstones or markers are lost, damaged, or incorrectly inscribed, it is important to determine both the cause and the party responsible for the expense of a replacement. In FY 2001, NCA implemented new codes for ordering replacement headstones or markers; use of these new codes produces reliable and accurate data on replacement actions and provides management with an effective tool for improving the overall business process.

Efforts continue in expanding the use of information technology to collect performance data for the timeliness of marking graves at national cemeteries. NCA has developed a new data collection instrument and is currently validating the accuracy and integrity of the data collected. Following the collection and analysis of baseline data, NCA will identify future performance goals.

OFFICE OF INSPECTOR GENERAL (OIG) AUDITS

The OIG continued its assessment of the accuracy and reliability of VA's key performance measures in accordance with the Government Performance and Results Act. During FY 2001, we continued an assessment of the Chronic Disease Care Index (CDCI) and Prevention Index (PI), and initiated an audit of the Vocational Rehabilitation and Employment Rehabilitation Rate. The OIG assessed the procedures used by VHA to compute the CDCI and PI indices during FY 2000 and demonstrated that these were adequate. During FY 2001, we began a review of the appropriate source documents to determine the validity of data used in computing the CDCI and PI. This audit will be completed during FY 2002.

To date, the OIG has completed audits of six key measures, and we plan to conduct several others in the near future. We will confer with program and other key officials during the second quarter, FY 2002, to determine which key measures should be the next ones to audit.

VETERANS BENEFITS ADMINISTRATION
QUALITY ASSURANCE PROGRAM (MILLENNIUM ACT)

Each of the programs within the Veterans Benefits Administration (VBA) maintains a quality assurance program independent of the field stations responsible for processing claims and delivering benefits. The following information about our compensation and pension, education, vocational rehabilitation and employment, housing, and insurance quality assurance programs is provided in accordance with title 38, section 7734.

CASES REVIEWED AND EMPLOYEES ASSIGNED BY PROGRAM		
	CASES REVIEWED	EMPLOYEES ASSIGNED
Compensation and Pension	6,576	8.0
Education	1,864	0.8
Vocational Rehabilitation and Employment (VR&E)	3,730	5.0
Housing	15,168	7.0
Insurance	11,000	3.4

SUMMARY OF FINDINGS AND TRENDS

COMPENSATION AND PENSION

Our current quality review methodology, Statistical Technical Accuracy Review (STAR), is a zero defect system: any case found to have an error of any type is a case in error, regardless of which component of the review contains the error. Of the 6,576 cases reviewed in FY 2001, there were 545 cases with rating-related errors, 895 cases with authorization errors, and 367 fiduciary cases with errors (some cases had more than one error). An 81 percent accuracy rate for rating-related actions, one of our key measures, masks much higher scores for specific elements of claims processing. For example, the accuracy rate for proper grant or denial of benefits and correct evaluations with correct payment dates and rates was 96 percent, a 4 percentage point improvement over the FY 2000 accuracy rate of 92 percent, and 11 percentage point over the FY 1999 rate of 85 percent. Our most frequent errors remain in decision documentation and notification, not in the decisions themselves. These errors accounted for nearly 46 percent of rating-related errors.

Compensation and Pension STAR reports are based on the month that a case was completed, not when the case was reviewed. Due to mail delivery delays associated with anthrax attacks on the postal system, case reviews were significantly delayed. Accordingly, several hundred reviews will be added to the FY 2001 results in early February 2002. We do not anticipate that these additional reviews will significantly change overall results.

EDUCATION

Of the 1,864 cases reviewed, there were 152 decisions with payment errors and 374 with service errors (some cases had more than 1 service error). Notification errors accounted for approximately 72 percent of the service errors. Development errors accounted for 21 percent, while eligibility and entitlement determinations comprised 4 percent and 3 percent, respectively. From FY 2000 to FY 2001, payment accuracy declined from 95.8 percent to 92.0 percent.

VOCATIONAL REHABILITATION AND EMPLOYMENT

VR&E reviewed a total of 3,730 cases from across the country. A total of 3,530 cases received the standard quality assurance review, and 200 cases were reviewed for the following reasons:

- Veteran exited applicant status; does not develop a plan or pursue claim;
- Veteran exited evaluation and planning without an evaluation being completed; does not pursue claim after several follow-up attempts.

Following are the results from the Balanced Scorecard:

- Accuracy of Entitlement Determinations was 93 percent;
- Accuracy of Evaluation Planning and Services Delivery was 79 percent;
- Accuracy of Fiscal Decisions was 86 percent.

VR&E added a report function to the quality assurance instrument on their Intranet page to provide an additional means to review trends and outcomes.

HOUSING

Under its statistical quality control program, the housing program reviewed over 15,168 cases during FY 2001. These case reviews involved specific "yes" or "no" answers to over 107,058 separate questions. During these case reviews, approximately 1,867 defects were found (some cases reviewed had more than one defect) resulting in a national defect rate of 4 percent. The quality review results are provided to all loan guaranty divisions each month. The current national accuracy index is 96 percent.

The housing quality assurance program includes elements other than review of cases. The Lender Monitoring Unit performed 38 on-site audits and 32 in-house audits of lenders participating in VA's home loan program. The Portfolio Loan Oversight Unit (PLOU) reviewed billing invoices and completed contractor audits, in addition to solving problems associated with portfolio loans and management of properties. In-house reviews are conducted on a continuous basis (over 15,000 were completed in CY 2001). Fourteen of PLOU's auditors participated in two on-site reviews of the contract servicer, Countrywide Home Loans, Inc. In Plano, TX, 12 areas/issues were reviewed in June 2001; and in Simi Valley, CA, 30 areas/issues were reviewed in November 2001. PLOU on-site performance reviews are conducted in cooperation with VA's Oversight Review Team, whose members include: Loan Guaranty Service (Loan Management); the Indianapolis Regional Office (PLOU); the Office of Inspector General (Financial Audit Division); the Office of Financial Policy (Financial & Systems Quality Assurance Service); and the Office of Resource Management (Finance and Administrative Services). Loan Guaranty staff conducted 11 on-site reviews of Regional Loan Centers and Eligibility Centers -- 304 strengths, 148 weaknesses, and 97 best practices were identified, and 77 corrective actions were mandated. A summary of best practices was distributed to all loan guaranty divisions. Accomplishment of these actions required 32.5 full-time equivalent (FTE) employees in addition to the 7.0 devoted to statistical quality control reviews.

INSURANCE

The insurance program's principal quality assurance tool is the statistical quality control (SQC) review. It assesses the ongoing quality and timeliness of work products by reviewing a random sample of completed or pending work products. For FY 2001, the accuracy rate of policy services was 99.4 percent; the timeliness rate was 99.9 percent. Work products included correspondence, applications, disbursements, record maintenance, refunds, and telephone inquiries. The accuracy rate of insurance claims work products was 99.1 percent; the timeliness rate was 98.3 percent. Work products included death claims, awards maintenance, beneficiary and option changes, disability claims, and medical applications.

The insurance quality assurance program also includes internal control reviews and individual employee performance reviews. The internal control staff reviews 100 percent of all employee-prepared disbursements, and also review insurance operations for fraud through a variety of Awards Data Entry (ADE) Special Reports and Inforce Matching Reports. The ADE Special Reports are generated daily and identify death claims cases based on specific criteria that indicate possible fraud. Primary end products processed by employees in the operating divisions are evaluated, based on the elements identified in the Individual Employee Performance Requirements.

ACTIONS TAKEN TO IMPROVE QUALITY

COMPENSATION AND PENSION

In July 2000, a Quality Improvement Task Team was formed to identify areas with the greatest potential for positive impact on overall quality. The team developed a short-term corrective measures plan to cut the error rate in specific problem areas in half. In FY 2001, significant improvements in claims processing accuracy were documented.

During FY 2001, monthly quality reviews identified error trends and core causes for corrective actions. Regional offices conducted local STAR reviews, which supplemented national results and provided more detailed regional office-specific trend data for continued improvement.

Training remains fundamental to quality improvement success. VBA is entering a period of transition as significant numbers of claims processing decision-makers become eligible for retirement. As part of our succession planning strategy to maintain an effective workforce during times of high attrition, we expanded the nationwide recruitment program to fill critical professional and technical positions at regional offices. Approximately 1,300 employees were recruited from January through September 2001. An extensive training initiative was undertaken that required a combination of centralized and structured regional office training, utilizing nationally developed training materials and software. With full implementation, we anticipate an improvement in accuracy for core rating work and authorization.

During FY 2002, two significant changes to the STAR system will be implemented consistent with recommendations from the General Accounting Office and VA's Claims Processing Task Force. Most importantly, the review sample size will increase by nearly 17,000 cases -- a sufficient sample to establish individual regional office claims processing accuracy performance. To accomplish this task, the Compensation and Pension (C&P) Service review function will be increased by 18 FTE. Ten individuals will be out-based in a satellite office in Nashville, TN. They will also support the Compensation and Pension Examination Project (CPEP) office located at the Nashville VA Medical Center. CPEP is a joint VHA/VBA office established to improve the disability examination process. STAR reviewers will support this initiative by conducting reviews of several thousand disability examination reports and requests annually.

Since C&P Service has assumed responsibility for measuring regional office claims processing accuracy, regional offices will shift their performance reviews from organizational (local STAR) to individual performance reviews. These will complement organizational reviews, measure individual task performance rather than final outcomes, and identify individual training needs and organizational accountability to STAR. A structured system-wide review process, called Systematic Individual Performance Assessment, is currently being tested at two regional offices.

In FY 2001, the Secretary created a Claims Processing Task Force charged with assessing current processes and proposing measures to improve the efficiency and effectiveness of claims processing, including the appeals process and the medical examination process. The task force presented 34 recommendations for improvement. The following recommendations were presented for the Compensation and Pension quality assurance process:

- Redefine substantive claims processing errors as those that affect entitlement, amount of benefit awarded and effective date of award or result in a Court or BVA non-affirmance.
- Correct substantive errors and take steps to prevent future mistakes.

To implement the task force recommendations, STAR reviews have been revised. A specific review category and report, called Benefit Entitlement, will be generated. This review will address all issues such as proper and complete development, proper disability determinations, and payment of correct benefit amounts in line with correct dates. This effort will represent the official measure of benefit delivery accuracy for each regional office and nationally for the C&P program. A second category, Decision Documentation and Notification, will also be tracked. This category will include adequate rating decision documentation -- identification of all evidence considered and a reasons and bases statement (explanation) for the decision reached. C&P Service will carefully monitor this separate report category for compliance. While this category does not directly impact benefit entitlement, these areas reflect statutory and regulatory requirements, and compliance is fundamental and mandatory.

EDUCATION

In FY 2001, as in previous years, quarterly quality reviews identified error trends and causes, which are used by Regional Processing Offices (RPOs) in conducting refresher training. Annual appraisal and assistance visit reports provided recommendations for improving specific quality areas. Although service accuracy has continued to improve, payment accuracy declined slightly this year. In January 2001, the number of authorized education claims examiner positions was increased by 100, and new employees were hired to fill these as well as positions vacated by normal attrition. In addition, the establishment of C&P resource centers at two of the four education RPOs caused a drain of experienced claims examiners and authorizers at those centers. The proportion of trainees in the education adjudicator ranks swelled to about half as a result of these two developments. Payment accuracy declined at all four RPOs when compared to the previous fiscal year. Nevertheless, payment accuracy remained high, and scores rose at two of the four RPOs by the end of FY 2001.

Implementation of proportional scoring in the Quality Assurance Program during the past fiscal year improved the precision of both the payment accuracy rate and the service accuracy rate. This method determines quality scores separately for each of the four education programs (chapters 30, 32, 35, and 1606), and integrates them into an overall score reflecting the proportion of the work represented by each program. Proportional scoring was developed by the Education Service with the assistance of survey and research staff.

Although notification processes improved moderately in FY 2001, it remains the area most in need of attention. For FY 2002, the checklist used for quality assurance reviews has been modified to distinguish between errors in due process notices for disallowance, reduction, and termination of benefits and other notification errors. This will aid trainers at the RPOs to concentrate on the most important areas.

Education Service has begun a project to standardize training and certification for employees. This is expected to have a significant impact in raising quality scores and maintaining them at high levels.

VOCATIONAL REHABILITATION AND EMPLOYMENT

At the conclusion of each service delivery network (SDN) review, a teleconference is held to discuss the findings, including noted strengths and deficiencies. Teleconferences enable SDN directors and VR&E officers to participate in the out-briefings and begin immediate corrective actions.

HOUSING

The Loan Guaranty Service in Central Office distributes the results of statistical quality control reviews to field loan guaranty divisions on a monthly basis. The current national accuracy index is 96 percent, an improvement of 1.9 percent since last year. Summaries of best practices employed by individual field stations are distributed each quarter to all field stations with loan guaranty activity. To enhance the quality of service provided by lenders to veterans and to increase compliance with policies, national training is provided to lenders. Lenders who significantly failed to comply with policies were either required to enter into indemnification agreements with VA or immediately repay the agency for its losses. Liability avoidance from VA audits of lenders during FY 2001 amounted to approximately $1 million.

INSURANCE

In 2001, the accuracy rate for the insurance program was over 99 percent. We utilize statistical quality control (SQC) and employee performance review programs to measure quality and timeliness on an overall and individual basis. Both programs are valuable as training tools because they identify trends and problem areas. When a reviewer finds an error or discrepancy during the course of a review, he or she prepares an exception sheet that clearly describes how the item was processed incorrectly. The noted item is then reviewed with the person who incorrectly processed the form.

SQC reviews are based on random samples of key work products and evaluate how well these work products are processed in terms of both quality and timeliness. Quality and timeliness exceptions are brought to the attention of the Insurance operations division chiefs, unit supervisors, and employees who worked the case.

Individual employee performance reviews are based on the primary end products of employees in the operating divisions; performance levels are based on the critical and non-critical elements identified in the Individual Employee Performance Requirements. Each month, supervisory or lead staff review a set number of end products selected through random sampling, for both quality and timeliness. Items with errors are returned to the employee for correction. At the end of the month, supervisors inform employees of their error rates and timeliness percentages as compared to acceptable standards.

STANDARDS OF INDEPENDENCE

Each program has staff at the Central Office level who are responsible for quality assurance. These staffs are completely independent of the field station personnel who process claims and deliver benefits, with the exception of the VR&E Service. VR&E's quality reviews are performed by teams consisting of three representatives from headquarters, along with rotating VR&E Officers from the field--one representative of the SDN being evaluated, and two representatives from other SDNs. The General Accounting Office (GAO) reviewed the C&P Service's plan to increase staffing and review sufficient samples to independently assess regional office claims processing accuracy. GAO concluded that "VBA's planned modification would bring the STAR system into compliance with our recommendation regarding standards on segregation of duties and organizational independence."

Rigorous reviews are conducted under published guidelines using detailed schedules in program manuals. Our quality assurance programs are subject to external review by oversight agencies such as the VA Office of Inspector General (OIG) and GAO.

REGIONAL OFFICE FACILITIES

A comprehensive Design Guide for VA Regional Office (VARO) facilities was recently published to assist VBA in planning for new and renovated space to support the business-oriented operation of a VARO. The Design Guide incorporates standardized space requirements and the full range of technical criteria to develop state-of-the-art office space that is cost-effective, energy efficient, and supports the timely processing of claims.

Collocations of the Regional Offices in Salt Lake City, Chicago, and Milwaukee onto the grounds of the VA medical centers are underway. These new facilities, acquired through VA's Enhanced-Use Lease Authority, allow VA to develop new facilities with limited capital investment and to ensure effective use of general operating expenses. These collocations champion the One-VA concept of enhanced veteran access to benefits and health care delivery. Additional collocations are planned.

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED BALANCE SHEETS (DOLLARS IN MILLIONS)
AS OF SEPTEMBER 30,

	2001	2000 As Restated (Note 21)
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 13,763	$ 12,434
Investments (Note 4)	14,298	14,450
Accounts Receivable, Net (Note 5)	65	259
Other Assets	104	93
TOTAL INTRAGOVERNMENTAL ASSETS	**28,230**	**27,236**
PUBLIC		
Investments (Note 4)	205	221
Accounts Receivable, Net (Note 5)	1,276	971
Loans Receivable, Net (Note 6)	4,937	3,834
Cash (Note 3)	44	29
Inventories (Note 7)	94	74
General Property, Plant and Equipment (Note 8)	11,677	11,564
Other Assets	30	27
TOTAL PUBLIC ASSETS	**18,263**	**16,720**
TOTAL ASSETS	**$ 46,493**	**$ 43,956**
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable	$ 77	$ 37
Debt	1,917	1,827
Other Liabilities (Note 9)	2,889	2,779
TOTAL INTRAGOVERNMENTAL LIABILITIES	**4,883**	**4,643**
PUBLIC		
Accounts Payable	2,380	474
Liabilities for Loan Guarantees (Note 6)	5,310	5,017
Federal Employee and Veterans Benefits Liability (Note 11)	693,713	554,085
Environmental and Disposal Liabilities (Note 15)	260	240
Insurance Liabilities (Note 12)	13,064	13,255
Other Liabilities (Note 9)	5,818	5,236
TOTAL PUBLIC LIABILITIES	**720,545**	**578,307**
TOTAL LIABILITIES	**725,428**	**582,950**
NET POSITION		
Unexpended Appropriations (Note 13)	4,115	4,132
Cumulative Results of Operations	(683,050)	(543,126)
TOTAL NET POSITION	**(678,935)**	**(538,994)**
TOTAL LIABILITIES AND NET POSITION	**$ 46,493**	**$ 43,956**

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENTS OF NET COST (DOLLARS IN MILLIONS)
YEAR ENDED SEPTEMBER 30,

	2001	2000 As Restated (Note 21)
NET PROGRAM COSTS (NOTE 18)		
Medical Care	$ 20,129	$ 19,072
Medical Education	778	782
Medical Research	730	718
Compensation	20,799	19,584
Pension	3,234	3,161
Education	1,026	1,084
Vocational Rehabilitation and Employment	543	496
Loan Guaranty	(232)	(423)
Insurance	54	100
Burial	258	253
NET PROGRAM COSTS BEFORE CHANGES IN VETERANS BENEFITS ACTUARIAL LIABIILITIES	**47,319**	**44,827**
Compensation	139,400	64,100
Burial	-	(100)
SUBTOTAL	139,400	64,000
NET NON-VA PROGRAM COSTS	542	(17)
NET COST OF OPERATIONS (NOTE 18)	**$ 187,261**	**$ 108,810**

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30,
(DOLLARS IN MILLIONS)

	2001	2000 As Restated (Note 21)
NET COST OF OPERATIONS	$ 187,261	$ 108,810
Financing Sources (Other than Exchange Revenues)		
Appropriations Used	48,703	45,508
Other Non-Exchange Revenue	5	18
Donations	45	46
Imputed Financing	862	776
Transfers-Out	(1,593)	(1,083)
Subtotal	**48,022**	**45,265**
Net Results of Operations	**(139,239)**	**(63,545)**
Increase (Decrease) in Unexpended Appropriations and Non Operating Changes	(702)	(1,223)
Change in Net Position	**(139,941)**	**(64,768)**
Net Position Reconciliation		
Net Position-Beginning of Period	(538,994)	(473,723)
Cumulative Effect of Changes in Accounting Principles (Note 21)	-	(503)
Net Position - End of Period	**$ (678,935)**	**$ (538,994)**

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENTS OF BUDGETARY RESOURCES (NOTE 16)
YEAR ENDED SEPTEMBER 30,
(DOLLARS IN MILLIONS)

		2001		2000
Budgetary Resources				
Budget Authority	$	51,312	$	48,667
Unobligated Balance at the Beginning of the Period		21,504		21,446
Net Transfers-Prior Year Balance		(244)		(117)
Spending Authority from Offsetting Collections		8,928		10,756
Adjustments		(1,759)		(2,183)
Total Budgetary Resources	**$**	**79,741**	**$**	**78,569**
Status of Budgetary Resources				
Obligations Incurred	$	59,462	$	57,455
Unobligated Balance Available		17,716		13,662
Unobligated Balance Not Yet Available		2,563		7,452
Total Status of Budgetary Resources	**$**	**79,741**	**$**	**78,569**
Outlays				
Obligations Incurred	$	59,462	$	57,455
Less Spending Authority from Offsetting Collections and Adjustments		(8,928)		(10,895)
Subtotal		50,534		46,560
Obligated Balance, Net Beginning of Period		5,402		7,098
Adjustments to Obligated Balance		-		124
Less Obligated Balance, Net End of Period		(7,470)		(5,402)
Total Outlays	**$**	**48,466**	**$**	**48,380**

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENTS OF FINANCING (NOTE 20)
YEAR ENDED SEPTEMBER 30,
(DOLLARS IN MILLIONS)

	2001	2000 As Restated (Note 21)
Obligations and Non-Budgetary Resources		
Obligations Incurred	$ 59,462	$ 57,455
Less Spending Authority from Offsetting Collections and Adjustments	(8,928)	(10,895)
Donations Not in VA's Budget	14	16
Financing Imputed for Cost Subsidies	862	776
Transfers-in (out)	(1,491)	(1,066)
Exchange Revenue Not in VA's Budget	(878)	(496)
Non-Exchange Revenue Not in VA's Budget	2	15
Less Trust Fund Receipts Related to Exchange Revenue in VA's Budget	(1,819)	(1,085)
Other Financing Sources	-	(573)
Total Obligations as Adjusted and Non-Budgetary Resources	**47,224**	**44,147**
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services and Benefits Ordered But Not Yet Provided	238	68
Change in Unfilled Customer Orders	39	76
Costs Capitalized on the Balance Sheet	(5,736)	(4,455)
Financing Sources That Fund Costs of Prior Periods	699	(1,393)
Collections that Decrease Credit Program Receivables or Increase Credit Liabilities	4,079	5,251
Other	(1,430)	(691)
Total Resources That Do Not Fund Net Costs of Operations	**(2,111)**	**(1,144)**
Costs That Do Not Require Resources		
Depreciation and Amortization	858	912
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	164	116
Loss on Disposition of Assets	111	105
Other	660	349
Total Costs That Do Not Require Resources	**1,793**	**1,482**
Financing Sources Yet To Be Provided	140,355	64,325
Net Cost of Operations	**$ 187,261**	**$ 108,810**

The accompanying Notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

(DOLLARS IN MILLIONS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Department of Veterans Affairs' (VA) consolidated financial statements report all activities of VA components, including the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA) and staff organizations. The consolidated financial statements meet the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GMRA) of 1994. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that VA is a component unit of the U.S. Government. VA fiscal year (FY) 2001 and FY 2000 financial statements are presented in conformity with the Office of Management and Budget's (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements," as amended.

REPORTING ENTITY

The mission of VA is to provide medical care, benefits, social support, and lasting memorials to veterans, their dependents, and beneficiaries [(38 U.S.C. Section 301(b) 1997)].

The Department is organized under the Secretary of VA. The Secretary's office includes a Deputy Secretary and has direct lines of authority over the Under Secretary for Health (VHA), the Under Secretary for Benefits (VBA), and the Under Secretary for Memorial Affairs (NCA). Additionally, six Assistant Secretaries, an Inspector General, a General Counsel, and the chairmen of the Board of Contract Appeals and the Board of Veterans' Appeals support the Secretary.

BUDGETS AND BUDGETARY ACCOUNTING

Budgetary accounting measures appropriation and consumption of budget/spending authority or other budgetary resources, and facilitates compliance with legal constraints and controls over the use of Federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of the purchase. Assets and liabilities that do not consume budgetary resources are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

BASIS OF ACCOUNTING

The accompanying consolidated financial statements have been prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) standards and related concepts. The American Institute of Certified Public Accountants (AICPA) designated FASAB as the accounting standard-setting body for Federal governmental entities. As a result, accounting principles promulgated by FASAB are considered accounting principles generally accepted of the United States of America (GAAP) for Federal governmental entities.

REVENUES AND OTHER FINANCING SOURCES

Exchange revenues are recognized when earned to the extent the revenue is payable to VA from other Federal agencies or the public as a result of costs incurred or services performed on their behalf. Revenue is recognized at the point the service is rendered. Imputed financing sources consist of imputed revenue for expenses relating to legal claims paid by Treasury's Judgment Fund and post-retirement benefits for VA employees. Non-exchange revenue, e.g., donations, are recognized when received, and related receivables are recognized when measurable and legally collectible, as are refunds and related offsets.

ACCOUNTING FOR INTRAGOVERNMENTAL ACTIVITIES

VA, as a department of the Federal Government, interacts with and is dependent upon the financial activities of the Federal Government as a whole. Therefore, these consolidated financial statements do not reflect the results of all financial decisions applicable to VA as though the department was a stand-alone entity.

In order to prepare reliable financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions were eliminated from VA's consolidated financial statements.

FUND BALANCE WITH TREASURY

The Department of the Treasury (Treasury) performs cash management activities for all Federal Government agencies. The Fund Balance with Treasury represents the right of VA to draw on the Treasury for allowable expenditures. Trust fund balances consist primarily of amounts related to the Post-Vietnam Educational Assistance Trust Fund, the National Service Life Insurance (NSLI) Fund, the United States Government Life Insurance (USGLI) Fund, the Veterans Special Life Insurance (VSLI) Fund, General Post Fund, and the National Cemetery Gift Fund. The use of these funds is restricted.

CASH

Cash consists of Canteen Service and Loan Guaranty Program amounts held in commercial banks. Treasury processes all other cash receipts and disbursements. Amounts relating to the Loan Guaranty Program represent deposits with trustees for offsets against loan loss claims related to sold loan portfolios.

INVESTMENTS

Investments are reported at cost and are redeemable at any time for their original purchase price. Insurance program investments, which comprise most of VA's investments, are in non-marketable Treasury special bonds and certificates. Interest rates for Treasury special securities are based on average market yields for comparable Treasury issues. Special bonds, which mature during various years through the year 2016, are generally held to maturity unless needed to finance insurance claims and dividends. Other investments from VA programs are in securities issued by Treasury, with the exception of the Loan Guaranty Program investments, which are in trust certificates issued by the American Housing Trusts, private entities not associated with the Government.

Allowances are recorded to reflect estimated losses of principal as a result of the subordinated position in American Housing Trust certificates I through V. The estimated allowance computations are based upon discounted cash flow analysis. Although VA continues to use the income from these subordinated certificates to cover the immediate cash requirements of the Federal guarantee on loans sold under American Housing Trust certificates VI through XI and the Veterans Mortgage Trust program, the income is reimbursed to VA and is not used to pay the amount of the realized losses on guaranteed loan sales.

ACCOUNTS RECEIVABLE

Accounts Receivable, Intragovernmental consists of amounts due from other agencies. No allowances for losses are required.

Public Accounts Receivable consists mainly of amounts due from patients and third-party insurers for veterans' health care and amounts due from individuals for compensation, pension, and readjustment benefit overpayments. Based on prior experience, allowances for bad debt losses have been established at approximately 11 and 12 percent for medical-related receivables, 50 and 49 percent for educational-related receivables, and 76 and 76 percent for compensation and pension benefit overpayment-related receivables for FY 2001 and 2000, respectively.
VA is required by Public Law 96-466 to charge interest and administrative costs on benefits debts similar to charges levied on other debts owed the Federal government. In a July 1992 decision, the former VA Deputy Secretary decided that VA would not charge interest on compensation and pension debts. This decision continues to be VA policy.

LOANS RECEIVABLE

Loans Receivable are recorded as funds are disbursed. For loans obligated prior to October 1, 1991, loan principal and interest receivable amounts are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience and an analysis of outstanding balances. For loans obligated after September 30, 1991, an allowance equal to the subsidy costs associated with these loans reduces the loans receivable. This reduction is due to the interest rate differential between the loans and borrowing from Treasury, the estimated delinquencies and defaults, net of recoveries, offsets from fees, and other estimated cash flows.

INVENTORIES

Inventories consist of items such as precious metals held for sale and Canteen Service retail store stock and are valued at cost, utilizing the First In First Out (FIFO) method. VA follows the purchase method of accounting for operating, medical, and pharmaceutical supplies in the hands of end users, which provides that these items be expensed when purchased. VA defines an end user as a VA medical center, regional office, or cemetery.

PROPERTY, PLANT, AND EQUIPMENT

The majority of the general property, plant, and equipment is used to provide medical care to veterans and is valued at cost, including transfers from other Federal agencies. Major additions, replacements, and alterations are capitalized, whereas routine maintenance is expensed when incurred. Construction costs are capitalized as Construction in Progress until completion, and then transferred to the appropriate property account. Individual items are capitalized if the useful life is 2 years or more and the unit price is $25,000 or greater. Buildings are depreciated on a straight-line basis over estimated useful lives of 25 to 40 years. Equipment is also depreciated on a straight-line basis over its useful life, usually 5 to 20 years. There are no restrictions on the use or convertibility of general property, plant, and equipment.

All VA heritage assets are multi-use facilities and are classified as general property, plant, and equipment. Depreciation and amortization expense totaled $858 and $912 million in FY 2001 and FY 2000, respectively.

OTHER ASSETS

Other assets consist of advance payments. Public advance payments are primarily to hospitals and medical schools under house staff contracts, grantees, beneficiaries, and employees on official travel. Intragovernmental advance payments are primarily to the General Services Administration (GSA) for rent and Government Printing Office (GPO) for supplies, printing, and equipment.

ACCOUNTS PAYABLE

Accounts Payable, Intragovernmental consists of amounts owed to other Federal agencies. The remaining accounts payable consist of amounts due to the public.

LOAN GUARANTEES

For direct loan obligations and loan guaranty commitments made after 1991, the resulting direct loans are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value. The present value of the subsidy costs associated with direct loans and loan guarantees is recognized as a cost in the year the direct or guaranteed loan is disbursed. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount VA estimated will most likely require a future cash outflow to pay defaulted claims. Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

The guaranteed loan sales liability represents the present value of the estimated cash flows to be paid by VA as a result of the guarantee. VA guarantees that the principal and interest payment due on a loan will be paid by the 15th of each month. If the payment is not made, VA allows the loan servicer to receive funds from a cash reserve account for the amount of the deficiency. VA guarantees the loans against losses at foreclosure. Although VA will not buy back the loan, VA will pay off the loan loss and foreclosure expenses.

DEBT

All Intragovernmental debt is due to Treasury and is primarily related to borrowing by the Loan Guaranty Program. The interest rates ranged from 4.52 to 5.75 percent in FY 2001 and from 6.04 to 6.36 percent in FY 2000. VA's financial activities interact with and are dependent upon those of the Federal Government as a whole.

INSURANCE LIABILITIES

Actuarial reserve liabilities for VA's insurance programs are based on mortality and interest rate assumptions at the time of issue. These assumptions vary by fund, type of policy and type of benefit. The interest rate assumptions range from 2.25 to 5.0 percent.

ANNUAL LEAVE

The accrued annual leave balance is adjusted at the end of the fiscal year to reflect current pay rates for leave that has been earned but not taken. Sick and other types of non-vested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

WORKERS' COMPENSATION LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. Claims incurred for benefits for VA employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by VA.

Workers' compensation is comprised of two components: (1) the accrued liability which represents money owed by VA to DOL for claims paid by DOL on behalf of VA through the current fiscal year, and (2) the actuarial liability for compensation cases to be paid beyond the current year.

Future workers' compensation estimates are generated from an application of actuarial procedures developed by DOL to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases and for potential cases related to injuries incurred but not reported. The liability is determined by utilizing historical benefit payment patterns related to a particular period to estimate the ultimate payments related to that period.

PENSION, OTHER RETIREMENT BENEFITS, AND OTHER POST-EMPLOYMENT BENEFITS

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees. Factors used in the calculation of these pensions and post-retirement health and life insurance benefit expenses are provided by the Office of Personnel Management (OPM) to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which VA makes contributions according to plan requirements. CSRS and FERS are multi-employer plans. VA does not maintain or report information about the assets of the plans, nor does it report actuarial data for the accumulated plan benefits; that reporting is the responsibility of OPM.

VETERANS BENEFITS LIABILITY

VA provides compensation benefits to veterans who die or are disabled from military service-connected causes as well as to their dependents. These benefits are provided in recognition of a veteran's military service. The liability for future compensation payments is reported on VA's balance sheet at the present value of expected future payments, and is developed on an actuarial basis. Various assumptions in the actuarial model, such as the number of veterans and dependents receiving payments, discount rates, cost of living adjustments and life expectancy, impact the amount of the liability.

LITIGATION

VA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of VA management and legal counsel, the ultimate resolutions of these proceedings, actions, and claims, will not materially affect the financial position or results of VA operations.

ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. FUND BALANCE WITH TREASURY

FUND BALANCE WITH TREASURY AS OF SEPTEMBER 30,	2001	2000
Entity Assets		
Trust Funds	$ 92	$ 104
Revolving Funds	5,276	6,114
Appropriated Funds	8,273	6,090
Special Funds	63	59
Other Fund Types	17	23
TOTAL ENTITY ASSETS	13,721	12,390
Non-Entity Assets		
Other Fund Types	42	44
TOTAL NON-ENTITY ASSETS	42	44
Total Entity and Non-Entity Assets	$ 13,763	$ 12,434
Reconciliation of VA General Ledger Balances with Treasury		
Entity VA General Ledger	$ 13,692	$ 12,031
Reconciled Differences	82	413
Unreconciled Differences	(11)	(10)
FUND BALANCE WITH TREASURY	$ 13,763	$ 12,434

3. CASH

CASH AS OF SEPTEMBER 30,	2001	2000
Canteen Service	$ 1	$ 1
Loan Guaranty Program	43	28
Total Cash	$ 44	$ 29

4. INVESTMENTS

INVESTMENT SECURITIES AS OF SEPTEMBER 30,		2001	2000
Intragovernmental Securities	Interest Range		
Special Bonds	5.5-10.375%	$ 13,956	$ 14,092
Treasury Notes *	2.38-6.075%	32	57
Treasury Bills	5.5%-8.5%	57	39
Subtotal		14,045	14,188
Accrued Interest		253	262
Total Intragovernmental Securities		$ 14,298	$ 14,450
Other Securities			

	2001	2000
Trust Certificates (Loan Guaranty)	$ 205	$ 221
Total Other Securities	$ 205	$ 221

*The investment in Treasury Notes includes unamortized premiums of $0.20 million as of September 30, 2001 and $0.18 million as of September 30, 2000. Premiums and discounts are amortized on a straight-line basis over the life of the investments.

OFFSET FOR LOSSES ON INVESTMENTS AS OF SEPTEMBER 30,	2001	2000
Investment in Subordinate Certificates at Time of Sale	$ 424	$ 424
Cumulative Reductions	(183)	(169)
Subtotal	241	255
Allocation of Loss Provision	(36)	(34)
Other Securities	$ 205	$ 221

5. ACCOUNTS RECEIVABLE, NET

ACCOUNTS RECEIVABLE, NET AS OF SEPTEMBER 30,	2001	2000
Intragovernmental Accounts Receivable	$ 65	$ 259
Public Accounts Receivable, Gross	$ 2,604	$ 2,165
Allowance for Loss Provision	(1,328)	(1,194)
Net Public Accounts Receivable	$ 1,276	$ 971

6. LOANS RECEIVABLE, NET AND RELATED DISCLOSURES

Direct loan obligations and loan guarantee commitments made after 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act of 1990. The Act provides that the present value of the subsidy costs associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount VA estimates will most likely require a future cash outflow to pay defaulted claims.

Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

The recorded value of loans receivable, net, and the value of assets related to direct loans are not the same as the proceeds that VA would expect to receive from selling its loans. VA operates the following direct loan and loan guaranty programs:

- Vocational Rehabilitation and Employment;
- Education;
- Insurance; and
- Loan Guaranty

Under the Loan Guaranty Program, a loan may be made to an eligible veteran by an approved private sector mortgage lender. VA guarantees payment of a fixed percentage of the loan indebtedness to the holder of such a loan, up to a maximum dollar amount, in the event of default by the veteran borrower. When a delinquency is reported to VA and no realistic alternative to foreclosure is developed by the loan holder or VA supplemental servicing of the loan, VA determines, through an economic analysis, whether VA will authorize the holder to convey the property securing the loan (foreclosure) or pay the loan guarantee amount to the holder.

LOANS RECEIVABLE

Loans receivable represent the net value of assets related to pre-1992 and post-1991 direct loans acquired, defaulted guaranteed loans, and non-defaulted guaranteed loans. For pre-1992 loans, VA employs the allowance for loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). For post-1991 loans, the assets are offset by an allowance for subsidy costs. An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guarantees are provided in the tables that follow:

TOTAL LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET AS OF SEPTEMBER 30,

2001	LOANS RECEIVABLE GROSS	INTEREST RECEIVABLE	ALLOWANCE FOR LOAN LOSSES	FORECLOSED PROPERTY	VALUE OF ASSETS RELATED TO LOANS
DIRECT LOANS OBLIGATED PRIOR TO FY 1992 (ALLOWANCE FOR LOSS METHOD)	$ 183	$ 21	$ -	$ -	$ 204
DIRECT LOANS OBLIGATED AFTER 1991	1,783	44	1,044	32	2,903
DEFAULTED GUARANTEED LOANS PRE-1992 GUARANTEES	197	6	(181)	75	97
DEFAULTED GUARANTEED LOANS POST-1991	-	-	-	830	830
NON-DEFAULTED GUARANTEED LOANS (INSURANCE POLICY)	879	24	-	-	903
TOTAL LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET					$ 4,937

TOTAL LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET AS OF SEPTEMBER 30,

2000	LOANS RECEIVABLE GROSS	INTEREST RECEIVABLE	ALLOWANCE FOR LOAN LOSSES	FORECLOSED PROPERTY	VALUE OF ASSETS RELATED TO LOANS
DIRECT LOANS OBLIGATED PRIOR TO FY 1992 (ALLOWANCE FOR LOSS METHOD)	$ 141	$ 22	$ (55)	$ -	$ 108
DIRECT LOANS OBLIGATED AFTER 1991	1,535	38	61	19	1,653
DEFAULTED GUARANTEED LOANS PRE-1992 GUARANTEES	214	6	(196)	131	155
DEFAULTED GUARANTEED LOANS POST-1991	-	-	-	983	983
NON-DEFAULTED GUARANTEED LOANS (INSURANCE POLICY)	913	22	-	-	935
TOTAL LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET					$ 3,834

FORECLOSED PROPERTY

Prior to the foreclosure of property secured by a VA loan, VA obtains an independent appraisal of the property. This appraisal is reviewed by VA staff who make a determination of the fair market value. To determine the net value of the property, VA costs for acquisition, management and disposition of the property, as well as estimated losses on property resale, are subtracted from the estimated fair market value. As of September 30, 2001 and 2000, the estimated number of residential properties in VA's inventory was 14,543 and 13,000, respectively. For FY 2001 and FY 2000, the average holding period from the date properties were conveyed to VA until the properties were sold was estimated to be 8 months and 9 months, respectively. The number of properties for which foreclosure proceedings are in process is estimated to be 8,425 and 18,500 as of September 30, 2001 and 2000, respectively.

GUARANTEED LOANS AS OF SEPTEMBER 30,

	2001	2000
Outstanding Principal Guaranteed Loans, Face Value	$ 218,455	$ 216,360
Amount of Outstanding Guarantee	$ 71,431	$ 71,764
Liabilities for Loan Guarantees Post 1991 (Present Value)	$ 5,310	$ 5,017

GUARANTY COMMITMENTS

As of September 30, 2001, VA had outstanding commitments to guarantee loans that will originate in FY 2002. The number and amount of commitments could not be determined, as VA has granted authority to various lenders to originate VA loans that meet established criteria without prior VA approval. Nearly 90 percent of VA's guaranteed loans originate under this authority.

PROVISION FOR LOSSES ON PRE-1992 LOANS

One element of the cost of the mortgage loan benefit that VA provides to veterans is the present value of the cost VA will bear as loans already guaranteed default in the future. This cost is reflected in the financial statements as an offset to the value of certain related assets.

The provision for losses on vendee loans is based upon historical loan foreclosure results applied to the average loss on defaulted loans. The calculation is also based on the use of the average interest rate of U.S. interest-bearing debt as a discount rate on the assumption that VA's outstanding guaranteed loans will default over a 12-year period. The discount rate used in the calculation for FY 2000 was 6.6 percent. For FY 2001, VA determined that these vendee loans have sufficient equity due to real estate appreciation and buy-down of principal, to minimize or eliminate any potential loss to VA. The components of the provision are as follows:

PROVISION FOR LOSS AS OF SEPTEMBER 30,	2001	2000
Offsets Against Loans Receivable	$ -	$ 55
Offsets Against Foreclosed Property Held for Sale	8	8
Total Provision for Loss	$ 8	$ 63

SUBSIDY EXPENSE FOR POST-1991 DIRECT LOANS

Pursuant to the Credit Reform Act, all direct loans established and guaranteed loans closed after September 30, 1991, will be subsidized. In FY 1999, VA reestimated the subsidy expense for all loan sale guarantees made between FY 1992 and FY 1998, and estimated the subsidy expense for loan sale guarantees issued in FY 1999. The subsidy expense for direct loans and loan guarantees related to the Loan Guaranty Program is as shown:

DIRECT LOAN SUBSIDY EXPENSE FOR THE YEARS ENDED SEPTEMBER 30,	2001	2000
Interest Differential	$ (445)	$ (110)
Defaults*	63	41
Fees**	(1,236)	(1,224)
Other***	1,650	1,333
Subtotal	32	40
Interest Modifications Reestimates	(697)	(107)
Total Direct Loans	$ (665)	$ (67)

* Includes approximately $159,000 and $221,000 in defaults and other expenses for the Vocational Rehabilitation Program for FY 2001 and 2000 respectively.
** "Fee" expense for direct loans includes estimated down payments and other fees collected when homes are sold with vendee financing.
*** The "Other" expense for direct loans includes the estimated loss of scheduled principal and interest when vendee loans are sold.

GUARANTEED LOAN SUBSIDY EXPENSES FOR THE YEARS ENDED SEPTEMBER 30,

	2001	2000
Defaults	$ 1,036	$ 1,605
Fees*	(630)	(359)
Other**	(316)	(1,109)
Subtotal	90	137
Loan Modifications Reestimates	(169)	(696)
Total Guaranteed Loan Subsidy Expense	$ (79)	$ (559)

* The "Fee" expense includes estimated up-front fees collected when the loans are guaranteed and the present value of estimated annual fees from loan assumptions.
** The "Other" expense for guaranteed loans includes estimated recoveries on defaults through the sales of foreclosed properties.

LOAN SALE-GUARANTEED LOAN SUBSIDY EXPENSE FOR THE YEARS ENDED SEPTEMBER 30,

	2001	2000
Defaults	$ 42	$ 75
Other	-	4
Subtotal	42	79
Reestimates	6	(75)
Total Loan Sale-Guaranteed Subsidy Expense	$ 48	$ 4

SUBSIDY EXPENSE FOR THE YEARS ENDED SEPTEMBER 30,

	2001	2000
Total Direct Loans	$ (665)	$ (67)
Total Guaranteed Loans	(79)	(559)
Total Sale Loans	48	4
Total Subsidy Expense	$ (696)	$ (622)

ADMINISTRATIVE EXPENSE

Administrative expense on direct and guaranteed loans for the years ended September 30, 2001 and 2000, was $162 and $157 million, respectively.

LOAN SALES

VA continues to have vendee loan sales to reduce the administrative burden of servicing vendee loans. During the period FY 1992 through FY 2001, the total loans sold amounted to $12.2 billion. Under the sale of vendee loans, certificates are issued pursuant to the Pooling and Servicing Agreement (the Agreement) among VA, the Master Servicer, and the Trustee. On the closing date of the certificates, VA transfers its entire interest in the related loans to the Trustee for the benefit of the related certificate holders pursuant to the Agreement. Under the Agreement, the Trust will issue certificates backed by mortgage loans and installment contracts. The

Trust owns the mortgage loans and other property described in the offering and the Trust makes elections to treat certain of its assets as one or more Real Estate Mortgage Investment Conduits for U.S. Federal income tax purposes. The certificates represent interests in the assets of the Trust and are paid from the Trust's assets. The certificates are issued as part of a designated series that may include one or more classes. VA guarantees that the investor will receive full and timely distributions of the principal and interest on the certificates, and that guaranty is backed by the full faith and credit of the Federal Government.

VA may terminate the Trust, causing the early retirement of certificates, by purchasing all of the Trust's assets on any distribution date on or after the distribution date on which the current aggregate principal balance of all principal certificates is less than 1 percent of the original aggregate principal balance, or if VA determines that the Trust's REMIC status has been lost or a substantial risk exists that such status will be lost. In the event of termination, the certificate holder will be entitled to receive payment for the full principal balance of the certificates plus any accrued interest and unpaid interest through the related distribution date.

The Agreement requires the mortgage loans to be serviced generally in compliance with Fannie Mae and Freddie Mac standards and consistent with prudent residential mortgage loan servicing standards generally accepted in the servicing industry. For mortgage loans sold during 2001 and 2002, servicing is/will be performed by Countrywide Home Loans, Inc (formerly Countrywide Funding Corporation) ("CHL" or "Master Servicer"). The Master Servicer is responsible for the performance of all of the servicing functions under the Agreement. The Master Servicer is entitled to be compensated by receiving (1) a service fee of 0.2075 percent per annum payable monthly and calculated by multiplying the interest payment received by a fraction, the numerator of which is 0.2075 percent and the denominator of which is the mortgage interest rate on such loan; (2) earnings on investment of funds in the certificate account; and (3) all incidental fees and other charges paid by the borrowers and a portion of the liquidation proceeds in connection with the liquidated loans.

VA completed two sales during FY 2001 and four sales during FY 2000 totaling approximately $811 million and $1.5 billion of vendee loans, respectively. The components of the vendee sales are summarized in the tables below:

LOAN SALES
YEARS ENDED SEPTEMBER 30,

	2001	2000
Loans Receivable Sold	$ 811	$ 1,493
Net Proceeds From Sale	841	1,466
Loss (Gain) on Receivables Sold	$ (30)	$ 27

OUTSTANDING BALANCE OF LOAN SALE GUARANTEES

All loans sold under the American Housing Trust (AHT VI through AHT XI) and the Vendee Mortgage (VMT 92-1 through 01-2) programs carry a full government guarantee. The outstanding balance for guaranteed loans sold is summarized in the table below:

GUARANTEED LOANS SOLD AS OF SEPTEMBER 30,	2001	2000
Outstanding Balance Guaranteed Loans Sold, Start of Year	$ 8,154	$ 7,610
Guaranteed Loans Sold to the Public	811	1,493
Payments, Repayments, and Terminations	(1,013)	(949)
Outstanding Balance Guaranteed Loans Sold, End of Year	$ 7,952	$ 8,154

LIABILITY FOR LOAN SALE GUARANTEES (POST-1991)

VA reports the liability on the guarantee of loans sold under the Vendee Mortgage Trust and American Housing Trust programs, subject to Credit Reform requirements. For these loans, the guaranteed loan sale liability represents the present value of the estimated net cash flows to be paid by VA as a result of the guarantee. These sales contain two types of guarantees for which VA pays net cash flow. VA guarantees that the principal and interest payment due on a loan sold will be paid by the 15th of each month. If not paid by the borrower, VA allows the loan servicer to take funds from cash reserve accounts for the deficient amount. VA also guarantees the loan against loss at foreclosure. VA will not buy back the loans but will pay off the loan loss and foreclosure expenses. The FY 2001 subsidy rate is 5.21 percent. The liability for loan sale guarantees as of September 30, 2001 is $283 million.

SCHEDULE FOR RECONCILING LOAN SALE GUARANTEE LIABILITY BALANCES

Beginning balance of the liability as of October 1, 2000	**$ 215**
Add subsidy expense for guaranteed loans disbursed during the reporting years by component:	
Interest subsidy costs	
Default costs (net of recoveries)	42
Fees and other collections	
Other subsidy costs	
Total of the above subsidy expense components	42
Adjustments:	
Loan guarantee modifications	
Fees received	
Interest supplements paid	
Foreclosed property and loans acquired	
Claim payments to lenders	(36)
Interest accumulation on the liability balance	26
Other	30
Ending balance of the liability before reestimates	277
Add or subtract subsidy reestimates by component	
Interest rate reestimate	
Technical/default reestimate	6
Total of the above reestimate components	6
Ending balance of the liability as of September 30, 2001	**$ 283**

LIABILITY FOR LOAN GUARANTEES (POST-1991)

VA reports the liability on the guarantee of loans, subject to Credit Reform requirements. For these loans, the guaranteed loan liability represents the present value of the estimated net cash flows to be paid by VA as a result of a defaulted loan guarantee. VA guarantees the loan against loss at foreclosure for which VA pays net cash flow up to a legally specified maximum based on the value of individual loans. VA will pay the lender the guarantee and foreclosure expenses. If an agreement can be made with the veteran, VA may acquire the loan by refunding the lender for the loan. The FY 2001 subsidy rate is 0.29 percent. The liability for loan guarantees as of September 30, 2001 is $5,027 million.

SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES

Beginning balance of the liability as of October 1, 2000	**$ 4,802**
Add subsidy expense for guaranteed loans disbursed during the reporting years by component:	
Interest subsidy costs	
Default costs (net of recoveries)	1,036
Fees and other collections	(630)
Other subsidy costs	(316)
Total of the above subsidy expense components	90
Adjustments:	
Loan guarantee modifications	72
Fees received	506
Interest supplements paid	
Foreclosed property and loans acquired	(93)
Claim payments to lenders	(363)
Interest accumulation on the liability balance	283
Other	(57)
Ending balance of the liability before reestimates	5,240
Add or subtract subsidy reestimates by component	
Interest rate reestimate	(44)
Technical/default reestimate	(169)
Total of the above reestimate components	(213)
Ending balance of the liability as of September 30, 2001	**$ 5,027**

ALLOWANCE FOR SUBSIDY FOR DIRECT LOANS (POST-1991)

VA reports the allowance for subsidy for direct loans, subject to Credit Reform requirements. For these loans, the allowance for subsidy represents the present value of the estimated net cash flows to be paid by VA as a result of a disbursed direct loan. VA disburses a direct loan and receives an allowance for subsidy along with borrowing from Treasury. The FY 2001 subsidy rate is 2.16 percent. The allowance for subsidy as of September 30, 2001 is -$1,044 million.

SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES

Beginning balance of the allowance as of October 1, 2000	**$ (61)**
Add subsidy expense for direct loans disbursed during the reporting years by component:	
Interest subsidy costs	(445)
Default costs (net of recoveries)	63
Fees and other collections	(1,236)
Other subsidy costs	1,650
Total of the above subsidy expense components	32
Adjustments:	
Loan modification	44
Fees received	27
Foreclosed property acquired	(26)
Loans written off	(3)
Subsidy allowance amortization	(9)
Other	2
Ending balance of the allowance before reestimates	6
Add or subtract subsidy reestimates by component	
Interest rate reestimate	(352)
Technical/default reestimate	(698)
Total of the above reestimate components	(1,050)
Ending balance of the allowance as of September 30, 2001	**$ (1,044)**

7. INVENTORIES

INVENTORIES AS OF SEPTEMBER 30,

	2001	2000
Held for Current Sale	$ 85	$ 60
Other	9	14
Total Inventories	$ 94	$ 74

8. GENERAL PROPERTY, PLANT, AND EQUIPMENT

GENERAL PROPERTY, PLANT, AND EQUIPMENT AS OF SEPTEMBER 30, 2001

	Cost	Accumulated Depreciation	Net Book Value
Land and Improvements	$ 208	$ (4)	$ 204
Buildings	14,202	(6,044)	8,158
Equipment	3,927	(2,192)	1,735
Other	1,802	(994)	808
Construction in Progress	772	-	772
Total Property, Plant, and Equipment	$ 20,911	$ (9,234)	$ 11,677

GENERAL PROPERTY, PLANT, AND EQUIPMENT AS OF SEPTEMBER 30, 2000

	Cost	Accumulated Depreciation	Net Book Value
Land and Improvements	$ 191	$ (2)	$ 189
Buildings	13,824	(5,609)	8,215
Equipment	3,682	(2,019)	1,663
Other	1,734	(925)	809
Construction in Progress	688	-	688
Total Property, Plant, and Equipment	$ 20,119	$ (8,555)	$ 11,564

9. OTHER LIABILITIES

INTRAGOVERNMENTAL FUNDED LIABILITIES AS OF SEPTEMBER 30,

	2001	2000
Deposit and Clearing Account Liabilities	$ 15	$ 12
Accrued Payables - Federal	19	14
Deferred Revenue	81	84
Resources Payable to Treasury	593	812
Custodial Liabilities*	1,798	1,420
General Fund Receipts Liability	21	22
Accrued VA Contributions for Employee Benefits	32	86
Total Intragovernmental Funded Liabilities	$ 2,559	$ 2,450

* The Custodial Liabilities Accounts include subsidy reestimates for loans made after September 30, 1991, which are subject to the provisions of the Credit Reform Act of 1990. The liability provision for future losses on credit reform guaranteed loans is comprised of a funded subsidy for each loan guaranteed at the rate equal to the amount of the present value of estimated loss to the Government for the cohorts of loans. The subsidy amount for each cohort is reestimated annually to ensure amounts reflect the actual losses on guaranteed loans. Based on the reestimated amounts, additional subsidy funds are provided for or excess funds are returned.

INTRAGOVERNMENTAL UNFUNDED LIABILITIES AS OF SEPTEMBER 30,

	2001	2000
Accrued FECA Liability	$ 330	$ 321
Capital Lease Liability	-	8
Total Intragovernmental Unfunded Liabilities	$ 330	$ 329

PUBLIC FUNDED LIABILITIES AS OF SEPTEMBER 30,

	2001	2000
Accrued Funded Annual Leave	$ 9	$ 9
Accrued Payables	1,924	1,390
Accrued Salaries and Benefits	350	400
Contract Holdbacks	19	21
Deferred Revenue	2	-
Unredeemed Coupons	1	1
Deposit and Clearing Account Liability	42	53
Unearned Premiums	131	136
Insurance Dividends Left on Deposit and Related Interest Payable*	1,577	1,526
Dividend Payable to Policyholders	301	322
Capital Lease Liability	27	27
Total Public Funded Liabilities	$ 4,383	$ 3,885

*Interest earned on dividends left on deposit is paid annually to insurance policyholders on the policy anniversary dates.

PUBLIC UNFUNDED LIABILITIES AS OF SEPTEMBER 30,

	2001	2000
Annual Leave*	$ 994	$ 936
Accounts Payable from Cancelled Appropriation	3	-
Judgment Fund-Unfunded**	438	415
Total Public Unfunded Liabilities	$ 1,435	$ 1,351

*Annual leave is accrued when earned and is adjusted at the end of the fiscal year to reflect current pay rates of cumulative leave earned but not taken. Sick and other types of leave are expensed as taken.
** The Judgment Fund liability amount represents the estimate for future payments on legal cases that will be paid by the Treasury Judgment Fund on behalf of VA.

10. LEASES

VA has both capital and operating leases. The capital lease liability is $27 and $35 million as of September 30, 2001 and 2000, respectively. Due to the number of operating leases and the decentralization of records, the future commitment for operating leases is not known. VA's FY 2001 operating lease costs were $198 million for real property rentals and $52 million for equipment rentals. The FY 2000 operating lease costs consisted of $186 million for real property rentals and $51 million for equipment rental. The following chart represents VA's estimate for operating lease costs for the next five years, assuming a 3.5 percent yearly increase in cost.

LEASES:

YEAR	REAL PROPERTY	EQUIPMENT
2002	$ 205	$ 54
2003	212	56
2004	219	58
2005	227	60
2006	235	62

11. FEDERAL EMPLOYEE AND VETERANS BENEFITS

FEDERAL EMPLOYEE BENEFITS

IMPUTED EXPENSES-EMPLOYEE BENEFITS YEARS ENDED SEPTEMBER 30,	2001	2000
Civil Service Retirement System	$ 281	$ 250
Federal Employees Health Benefits	499	446
Federal Employees Group Life Insurance	2	1
Total Imputed Expenses-Employee Benefits	$ 782	$ 697

VETERANS BENEFITS

Certain veterans who die or are disabled from military service-connected causes, as well as their dependents, receive compensation benefits. Also, veterans are provided with burial flags, headstones/markers, and grave liners for burial in a VA national cemetery or are provided a plot allowance for burial in a private cemetery. These benefits are provided in recognition of a veteran's military service and are recorded as a liability on the balance sheet.

FEDERAL EMPLOYEE AND VETERANS BENEFITS LIABILITIES AS OF SEPTEMBER 30,	2001	2000 As Restated
FECA	$ 1,813	$ 1,585
Compensation	689,100	549,700
Burial	2,800	2,800
Total Federal Employee and Veterans Benefits Liabilities	$ 693,713	$ 554,085

VA provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled from nonservice-connected causes. The actuarial present value of the future liability for pension benefits is a non-exchange transaction and is not required to be recorded on the balance sheet. The projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2001 and 2000 (as restated) was $79.1 and $72.5 billion, respectively.

ASSUMPTIONS USED TO CALCULATE THE VETERANS BENEFITS LIABILITY

Several significant actuarial assumptions were used in the valuation of compensation, pension, and burial benefits to calculate the present value of the liability. Future cash flows were discounted in perpetuity. A liability was recognized for the projected benefit payments to: (1) those beneficiaries, including veterans and survivors, currently receiving benefit payments; (2) veterans who will in the future become beneficiaries of the compensation and pension programs; and (3) a proportional share of those in active military service as of the valuation date who will become veterans in the future. Survivors of those veterans in classes (1), (2), and (3) who receive benefits after death of the veteran are also incorporated into the projection.

Discount rates were based on rates on securities issued by Treasury on September 28, 2001, ranging from 2.36 to 5.45 percent, and on September 29, 2000, ranging from 5.82 to 6.12 percent. Cash flows were assumed to occur at the midpoint of the fiscal year.

All calculations were done by program. The calculation for pension benefits was performed separately for each law: Protected (Old Law), Section 306, and P.L. 95-588. Burial liabilities were calculated on an overall basis.

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

Life expectancies of veterans collecting benefits from the compensation and pension programs are based upon studies of mortality experience of those beneficiaries between 1994 and 2000. Life expectancies of veterans not collecting these benefits used in the calculation of the liability for future beneficiaries are based on mortality derived from the 1989-91 U.S. decennial census. Applying mortality improvements at a rate of 1 percent per annum brought both sets of mortality rates forward.

Cost of living adjustments (COLAs) were applied to determine the average benefits per veteran for each future time period. COLAs of 3.5 and 3.2 percent were assumed for fiscal years 2001 and 2002, respectively. For fiscal years after 2002, COLAs have been determined from OMB's estimates prepared in conjunction with the Administration's annual budget.

Expected benefit payments have been explicitly modeled for the next 70 years. This period is roughly the same as that used by the Office of the Actuary of the Social Security Administration (75 years). However, unlike Social Security, estimates of expected benefit payments after this 70-year period were reflected in the liability based on extrapolations reflecting aggregate experience by beneficiary category between the years 65 and 70.

12. INSURANCE PROGRAMS

Through VA, the United States Government administers five life insurance programs and the Veterans' Mortgage Life Insurance program for certain totally disabled veterans. VA supervises the Service Members' Group Life Insurance (SGLI) and the

Veterans' Group Life Insurance (VGLI) programs, which provide life insurance coverage to members of the uniformed armed services, reservists and post-Vietnam veterans. United State Code, Title 38, requires that the Life Insurance programs invest in Treasury securities.

ADMINISTERED PROGRAMS

The United States Government Life Insurance (USGLI) program was the Government's first venture into life insurance. During World War I, the U.S. provided Marine Insurance to protect the interests of ship owners and merchants who were providing supplies to the allies in Europe. USGLI was the natural outgrowth of this Marine Insurance. The program was established to meet the needs of World War I veterans, but remained open to service members and veterans with service before October 8, 1940. The Government became a self-insurer because private insurance companies were unwilling to assume the unpredictable risks associated with war. By establishing this program, Congress intended to avoid the financial burden imposed on the Government by the pension programs that were established after previous wars. The Government became the largest life insurer in the United States with the coverage provided by this program.

The National Service Life Insurance (NSLI) program covers policyholders who served during World War II. The program opened October 8, 1940, when it became clear that large-scale military inductions were imminent. Over 22 million policies were issued under the NSLI program. The majority of policies VA administers directly are NSLI policies. This program remained open until April 25, 1951, when two new programs were established for Korean War service members and veterans.

The Veterans' Special Life Insurance (VSLI) program was established in 1951 to meet the insurance needs of veterans who served during the Korean Conflict, and the post-Korean period through January 1, 1957. During this period, all service members on active duty were covered for $10,000, at no cost, under a program known as Servicemen's Indemnity. They remained covered for 120 days after their discharge. The VSLI program allowed these newly discharged service members to apply for $10,000 of contract term insurance. Application had to be made during the 120-day period during which they remained covered by Servicemen's Indemnity. It was during this period that representatives of the commercial insurance industry began a major lobbying effort to get the Government out of the insurance business because the programs were viewed as competition. As a result, the VSLI program was closed to new issues at the end of 1956, and coverage for individuals in the uniformed services was terminated. Approximately 800,000 VSLI policies were issued between 1951 and 1957.

In addition to VSLI coverage, which was provided to healthy veterans, the Insurance Act of 1951 also established the Service-Disabled Veterans Insurance (S-DVI) program for veterans with service-connected disabilities. S-DVI is open to veterans separated from the service on or after April 25, 1951, who receive a service-connected disability rating. New policies are still being issued under this program.

In 1964, Congress enacted legislation providing for a limited reopening of NSLI and VSLI, and the Veterans' Reopened Insurance (VRI) program was established. Beginning May 1, 1965, veterans who had been eligible to obtain insurance between October 8, 1940, and January 1, 1957, could once again apply for government life insurance. They had one year to apply for this "reopened" insurance, which was available *only* to disabled veterans. Approximately 228,000 VRI policies were issued. No term insurance policies were issued in this program.

The Veterans' Mortgage Life Insurance (VMLI) program began in 1971, and is designed to provide financial protection to cover eligible veterans' home mortgages in the event of death. VMLI is issued to those severely disabled veterans who have received grants for specially adapted housing from VA. These grants are issued to veterans whose movement is substantially impaired because of their disability. The maximum amount of VMLI allowed an eligible veteran is $90,000. The insurance is payable if the veteran dies before the mortgage is paid off and is payable only to the mortgage lender.

SUPERVISED INSURANCE PROGRAMS

The Service Members' Group Life Insurance (SGLI) program was established in 1965 for Vietnam-era service members. SGLI is supervised by VA and is administered by the Office of Service Members' Group Life Insurance (OSGLI) under terms of a group insurance contract. This program provides low-cost term insurance protection to service members.

In 1974, the Veterans' Group Life Insurance (VGLI) program became available. VGLI, like SGLI, is supervised by VA, but is administered by the OSGLI. VGLI provides for the conversion of SGLI coverage to a 5-year renewable term policy of insurance protection after a service member's separation from service.

PUBLIC INSURANCE CARRIERS

VA supervises the administration of the SGLI and VGLI programs. Prudential Financial (Prudential) provides veteran insurance coverage directly for the SGLI and VGLI programs. VA has entered into a group policy with Prudential whereby Prudential and its reinsurers provide service members and veterans coverage in multiples of $10,000 up to a maximum of $250,000. The basic SGLI coverage is provided to those members on active duty in the Army, Navy, Air Force, Marine Corps, Coast Guard, commissioned members of the Public Health Service and the National Oceanic and Atmospheric Administration. The Ready Reserve is also insured by SGLI, and includes reservists and members of the National Guard who are assigned to a unit or position in which they may be required to perform active duty or active duty for training. The VGLI coverage is comprised of separated and retired active duty members and reservists covered under Basic SGLI.

Premiums for the SGLI and VGLI programs are set by mutual agreement between VA and Prudential. SGLI premiums for active duty personnel are deducted from their pay by the Armed Services components through the Department of Defense (DoD). DoD, through the Defense Finance and Accounting Service (DFAS), remits collected premiums to VA, which are then transmitted to Prudential. Prudential records the premiums and maintains investments in their accounting records separate and independent from the VA reporting entity. VA monitors Prudential's insurance reserve balances to determine their adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. The reserves for the contingent liabilities are recorded in Prudential's accounting records and are not reflected in the VA reporting entity, because the risk of loss on these programs is assumed by Prudential through the terms and conditions of the group policy.

Effective January 1, 1970, the Secretary of Veterans Affairs determines the costs that are traceable to the extra hazards of duty in the uniformed services, on the basis of the excess mortality incurred by members and former members of the uniformed armed services insured under SGLI, above what their mortality would have been under peacetime conditions. The Secretary is authorized to make adjustments regarding contributions from pay appropriations as may be indicated from actual experience.

RESERVE LIABILITIES

The insurance reserves for administered programs are reported as liabilities covered by budgetary resources, while part of the S-DVI and Veterans Insurance and Indemnities reserves are reported as liabilities not covered by budgetary resources. Reserves for SGLI and VGLI are maintained in Prudential's financial records since the risk of loss is assumed by Prudential. Actuarial reserve liabilities for the administered life insurance programs are based on the mortality and interest assumptions at time of issue. These assumptions vary by fund, type of policy and type of benefit. The interest assumptions range from 2.25 to 5.0 percent. The mortality assumptions include the American Experience Table, the 1941 Commissioners Standard Ordinary (CSO) Table, 1958 CSO Basic Table and the 1980 CSO Basic Table.

INSURANCE LIABILITY (RESERVE) BALANCES

INSURANCE LIABILITY RESERVE BALANCES AS OF SEPTEMBER 30, 2001

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$10,049	$219	$220	$10,488
USGLI	43	6	-	49
VSLI	1,429	13	39	1,481
S-DVI	397	2	121	520
VRI	423	3	8	434
VI&I	92	-	-	92
Subtotal	$12,433	$243	$388	$13,064
Less Liability not Covered by Budgetary Resources				(534)
Liability Covered by Budgetary Resources				$12,530

INSURANCE LIABILITY RESERVE BALANCES AS OF SEPTEMBER 30, 2000

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$10,196	$238	$248	$10,682
USGLI	47	7	-	54
VSLI	1,395	14	43	1,452
S-DVI	413	2	114	529
VRI	435	3	7	445
VI&I	93	-	-	93
Subtotal	$12,579	$264	$412	$13,255
Less Liability not Covered by Budgetary Resources				(531)
Liability Covered by Budgetary Resources				$12,724

INSURANCE IN-FORCE

The amount of insurance in-force is the total face amount of life insurance coverage provided by each administered and supervised program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. Prudential and its reinsurers provided coverage to 2,788,449 and 2,720,085 insured for a face value of $619.9 billion and $464.6 billion as of September 30, 2001 and 2000, respectively. This large increase in face value was the result of legislation which automatically increased the SGLI maximum coverage amount from $200,000 to $250,000, effective April 1, 2001. The face value of the insurance provided by Prudential and its reinsurers represents 96.7 and 95.5 percent of the total insurance in-force as of September 30, 2001 and 2000, respectively. The number of policies represents the number of active policies remaining in the program as of the end of each fiscal year.

	2001 Policies	2000 Policies	2001 Face Value	2000 Face Value
Supervised Programs				
SGLI Active Duty	1,469,000	1,445,000	$361,754	$ 272,455
SGLI Ready Reservists	826,500	786,500	195,590	137,235
SGLI Post Separation	104,000	107,000	25,397	19,634
VGLI	388,949	381,585	37,145	35,259
Total Supervised	2,788,449	2,720,085	$619,886	$464,583
Administered Programs				
NSLI	1,606,590	1,715,536	$16,288	17,013
VSLI	233,335	242,608	2,635	2,669
S-DVI	148,674	151,315	1,401	1,418
VRI	72,581	77,638	618	648
USGLI	14,683	16,280	48	53
VMLI	3,300	3,457	193	198
Total Administered	2,079,163	2,206,834	$21,183	$21,999
Total Supervised and Administered Programs	4,867,612	4,926,919	$641,069	$486,582

Policy Dividends

The Secretary of VA determines annually the excess funds available for dividend payment. Dividends are based on an actuarial analysis of the individual programs at the end of the preceding calendar year. Dividends are declared on a calendar year basis and paid on policy anniversary dates. Policyholders can elect to: (1) receive a cash payment; (2) prepay premiums; (3) repay loans; (4) purchase paid-up insurance or (5) deposit the amount in an interest-bearing account. A provision for dividends is charged to operations, and an insurance dividend is established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs. Policy dividends for fiscal years 2001 and 2000 were $646 and $693 million, respectively.

Prudential Insurance Company Demutualization

On July 31, 2001, Prudential Insurance Company policyholders approved the company’s demutualization plan, to change from a mutual to a stock company. As the policyholder of the Servicemembers’ Group Life Insurance (SGLI) and Veterans’ Group Life Insurance (VGLI) programs, Prudential estimates that VA will receive shares of stock with a value between $7.3 and $14 million as a result of demutualization in fiscal year 2002. Prudential has stated that there will be no effect on the SGLI program as demutualization will not adversely change premiums or other Prudential obligations under the SGLI contract. VA has recommended that shares it receives should be liquidated and accrued to the SGLI Contingency Reserve, which is held for VA by Prudential in an interest-bearing account, since these shares were earned on the basis of the servicemembers' and veterans' premiums for the SGLI and VGLI programs. This would in effect guarantee that the monies are used for the benefit of the servicemembers and veterans who are the intended recipients of these life insurance benefit programs. VA is currently seeking a legal opinion regarding the ramifications of this demutualization.

13. UNEXPENDED APPROPRIATIONS

The total unexpended balance is the sum of undelivered orders and unobligated balances. Appropriation acts and other provisions of law provide authority to incur new obligations. An obligation represents an amount that is expected to be expended upon subsequent receipt of goods or services. The obligated balance is the cumulative amount of obligations incurred by VA for which outlays have not been made.

Undelivered orders are the amount of goods and services ordered for which delivery or performances have not yet occurred and are included in this balance. An unobligated balance is the amount available after deducting the cumulative obligations from total budgetary resources. In some instances, unobligated balances are not available due to legal constraints regarding the time limit and purpose for which funds can be obligated.

UNEXPENDED APPROPRIATIONS AS OF SEPTEMBER 30,	2001	2000
Unobligated Appropriations		
Available	$ 2,275	$ 2,191
Unavailable	524	443
Undelivered Orders		
Paid	133	119
Unpaid	1,183	1,406
Other	-	(27)
Total Unexpended Appropriations	$ 4,115	$ 4,132

14. CONTINGENCIES

VA is a party in various administrative proceedings, legal actions, and tort claims arising from various sources including: disputes with contractors, challenges to compensation and education award decisions, loan guaranty indemnity debt cases, and allegations of medical malpractice. Certain legal matters to which VA may be a named party are administered and, in some instances, litigated by the Department of Justice. Generally, amounts (more than $2,500 for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award are funded from the Judgment Fund, which is maintained by Treasury. Of the amounts paid from the Judgment Fund, malpractice cases claimed 79 percent in FY 2001 and 82 percent in FY 2000. Contract dispute payments for FY 2001 and FY 2000 were $6.2 and $4.8 million, respectively.

VA has recorded a liability for pending legal claims that are estimated to be paid by the Judgment Fund. This liability is established for all pending claims whether reimbursement is required or not. This liability was $438 million for FY 2001 and $415 million for FY 2000. There were 24 contract and personnel law cases totaling $277.9 million where there was at least a reasonable possibility that a loss may occur. However, due to the unique fact and law considerations of each case and the statistically insignificant number of such cases, no estimate of liability could be made. VA is also required to record an operating expense and imputed financing source for the Judgment Fund's pending claims and settlements. Judgment Fund accounting is shown below:

JUDGMENT FUND AS OF SEPTEMBER 30,	2001	2000
Fiscal Year Settlement Payments	$ 86	$ 84
Less Contract Dispute Payments	(6)	(5)
Imputed Financing-Paid by Other Entities	80	79
Increase (Decrease) in Liability for Claims	23	70
Operating Expense	$ 103	$ 149

It is the opinion of VA's management that resolution of pending legal actions as of September 30, 2001 will not materially affect VA's operations or financial position when consideration is given to the availability of the Judgment Fund appropriation to pay some court-settled legal cases. Fiscal year 2001 settlement payments were $86.1 million.

As of September 30, 2001, VA has a backlog of approximately 532,000 Compensation and Pension claims. The resolution of these claims is not predictable with assurance and because of numerous variables; we can not reasonably estimate the possible future impact on operations.

The amount of unobligated and obligated authority relating to appropriations cancelled on September 30, 2001 and 2000 was $144.9 million and $101.2 million, respectively. Any payments that may arise relating to cancelled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990.

15. ENVIRONMENTAL AND DISPOSAL

VA had unfunded environmental and disposal liabilities in the amount of $260 million and $240 million for the years ended September 30, 2001 and 2000, respectively. The majority of the unfunded liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal.

While some facilities have applied prevailing state regulations that are more stringent than Federal guidelines, the Occupational Safety and Health Administration (OSHA) and Environmental Protection Agency (EPA) regulations are the legal base behind the majority of VA's environmental and disposal liabilities. Estimated liabilities for these projects are based on known contamination that exists today and have been computed by the facility engineering staff based on similar projects already completed, or by independent contractors providing work estimates.

16. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

UNDELIVERED ORDERS

VA has obligations remaining at the end of each year for goods and services ordered but not yet received (undelivered orders). Aggregated undelivered orders amounted to $1.5 billion and $1.7 billion as of September 30, 2001 and 2000, respectively.

BORROWING AUTHORITY

Loan Guaranty had borrowing authority of $1.7 billion and $1.2 billion as of September 30, 2001, and 2000, respectively. The Vocational Rehabilitation Program had borrowing authority of $1.8 and $2.5 million as of September 30, 2001 and 2000, for making direct loans. Loan Guaranty borrowing is repaid to Treasury through the proceeds of portfolio loan collections, funding fees, and the sale of loans to Vinnie MAC trusts. The Vocational Rehabilitation loans generally had duration of 1 year, and repayment was made from offsetting collections.

ADJUSTMENTS TO BUDGETARY RESOURCES

During the reporting period, adjustments to budgetary resources available at the beginning of the year included VA appropriations that were subjected to a rescission that totaled $51 million. Various VA program accounts received a 0.22% cut of discretionary budget authority.

PERMANENT INDEFINITE APPROPRIATIONS

VA has three permanent and indefinite appropriations. The Veterans Housing Benefit Program Fund covers all estimated subsidy costs arising from post-1991 loan obligations for veterans housing benefits. The Fund's objective is to encourage and facilitate the extension of favorable credit terms by private lenders to veterans for the purchase, construction, or improvement of homes to be occupied by veterans and their families. The Loan Guarantee Revolving Fund is a liquidating account that contains all of VA's pre-credit reform direct and guaranteed loans. It also holds fund balances received from reimbursements from financing accounts for loan modifications and rentals of foreclosed properties not yet transferred to financing accounts. The Native American Direct Loan Account was established to cover all subsidy costs arising from direct loan obligations related to a veteran's purchase, construction, or renovation of a dwelling on trust land.

USE OF UNOBLIGATED BALANCES OF BUDGET AUTHORITY

Available unobligated balances on the Statement of Budgetary Resources are composed of current fiscal year apportioned funds for annual, multi-year, and no-year appropriations from Congress as well as revolving and trust funds. Other balances not available are composed of expired appropriation unobligated amounts, which generally are not available for new obligations, but can be used to increase existing obligations under certain circumstances. This amount also includes unobligated funds that were not apportioned by OMB for FY 2001 use.

Unobligated VA funds are available for uses defined in VA's FY 2001 Appropriation Law (P.L. 106-377). These purposes include: veterans medical care, research, education, construction and maintenance of VA buildings, veterans and dependents benefits, veterans life insurance, loan guaranty programs, veterans burial benefits, and administrative functions. Various obligation limitations are imposed on individual VA appropriations. Examples include travel obligation limitations and limitation of the use of medical care multi-year funds to object classes for equipment, structures, and land.

CONTRIBUTED CAPITAL

The amount of contributed capital received during the fiscal year consisted of donations in the amount of $44 million to the General Post Fund and $0.1 million to the National Cemetery Gift Fund.

17. EXCHANGE TRANSACTIONS

EXCHANGE REVENUES

VHA has legislated exceptions to the requirement to recover the full cost to the Federal Government of providing services, resources, or goods for sale. Under “enhanced sharing authority,” VHA facilities may enter into arrangements that are in the best interest of the Federal Government. In FY 2001, randomly selected VA medical centers (VAMC) were reviewed to determine the facility’s compliance with Statement of Federal Financial Accounting Standards No. 7 and the Chief Financial Officers Act of 1990.

VA’s Loan Guaranty Program collects rental fees on a small number of properties during the period when the property is titled to VA.

The National Cemetery Administration (NCA) leases lodges at 16 cemeteries to not-for-profit groups for no fee. The not-for-profit groups are required to provide the upkeep on the lodges and pay the costs for utilities, insurance, minor repairs and maintenance and any other costs associated with the lodges, and NCA pays for major repairs at these facilities. NCA also has four agricultural leases with private companies/individuals. NCA leases land for growing crops and, on certain leases, receives various services in exchange from the lessee, such as brush cutting and removal services, backfilling and grading of roads, and welding services. In addition, NCA received fees for motion picture filming performed at two cemeteries.

EXCHANGE TRANSACTIONS WITH PUBLIC

Exchange transactions with the public occur when prices are set by law or executive order and are not based on full cost or on market price. VA's Medical Care Collections Fund, "Conforming Amendments," changed the language of specific sections of 38 USC Chapter 17 to substitute "reasonable charges" for "reasonable cost." The VHA Chief Financial Officer (CFO) is responsible for implementing and maintaining these reasonable charges for billing third-party payers for services provided to insured veterans for treatment of nonservice-connected conditions.

Reasonable charges are used to bill for reimbursable health insurance, non-Federal workers' compensation and no-fault or uninsured motorists insurance cases. Reasonable charges are based on provider charges in the market area of each VA facility. The lesser of VA-billed charges or their usual customary and reasonable payment to other providers will be paid.

Cost-based per diems are calculated annually to produce tort rates used to bill for tort feasor, workers' compensation (other than Federal), humanitarian emergency, ineligible patient, VA employee, family member, allied beneficiary, no fault or uninsured motorist's insurance, or reimbursable insurance cases. These per diem costs are derived primarily from cost and workload data from a national cost allocation report (Cost Distribution Report).

Fees to be charged by VA for requests for information under the Freedom of Information Act (FOIA) are governed by 38 CFR Section 1.555. There are four categories of FOIA requesters: (1) commercial use; (2) educational and non-commercial scientific institutional; (3) representatives of the news media; and (4) all other. Specific levels of fees are to be charged for each of the categories. Categories (2), (3) and (4) are entitled to receive 100 pages of reproduced material and the first 2 hours of search time without charge. Commercial use requesters are to be charged the full direct costs of searching for, reviewing for release, and duplicating the records sought. Direct costs include the salary of the employee performing the work and the cost of operating duplicating machinery, but do not include overhead expenses such as costs of space and heating or lighting of the facility in which the records are stored. Under certain circumstances, fees can be waived or reduced at the discretion of field facility directors, their designees, or responsible Central Office officials.

VA is required to collect a co-payment of $2 from veterans for treatment of a nonservice-connected condition for each 30-day supply of medication furnished on an outpatient basis. This fee does not cover the cost of the medications in the vast majority of cases. This co-payment amount will increase to $7 in February 2002.

VA's Loan Guaranty Program collects certain fees that are set by law. The loan guarantee funding fees collected for FY 2001 were $526 million. The loan guarantee lender participation fees collected for FY 2001 were $1.7 million.

INTRAGOVERNMENTAL EXCHANGE TRANSACTIONS

This section discloses intragovernmental exchange transactions in which VA provides goods or services at a price less than the full cost, or does not charge a price at all, with explanations for disparities between the billing and full cost.

VA and DoD have authority to enter into agreements and contracts for the mutual use or exchange of use of hospital and domiciliary facilities and other resources. The providing agency shall be reimbursed for the cost of the health care resources based on the methodology agreed to by VA and DoD. Facility directors have the flexibility to consider local conditions and needs and the actual costs of providing the services. VA's General Counsel has determined that full cost recovery is not mandated. VHA captures the total amount of reimbursements received under DoD sharing agreements, but the total amount billed below full cost is not readily available. VHA is in the process of developing mechanisms to report this information in the future. VBA collects funding from DoD in order to administer certain education programs. DoD transferred $213 million during the year for the Post-Vietnam Era Education Assistance Program (VEAP), Reinstated Entitlements Program for Survivors (REPS) and the New GI Bill for Veterans.

When VA furnishes medical care or services for beneficiaries of other Federal agencies, and that care or service is not covered by an applicable local sharing agreement, the billing rates used are determined and published annually by the VHA CFO. Similar to the tort rates, interagency billing rates are determined from cost and workload data in the Cost Distribution Report.

18. NET COST OF VETERANS AFFAIRS PROGRAMS

All of VA's net program costs are part of the 700 budget functional classification (Veterans Benefits and Services).

SCHEDULE OF NET PROGRAM COST

AS OF SEPTEMBER 30, 2001 (DOLLARS IN MILLIONS)	MEDICAL CARE	MEDICAL EDUCATION	MEDICAL RESEARCH	COMPENSATION	PENSION	EDUCATION	VOCATIONAL REHAB	LOAN GUARANTY	INSURANCE	BURIAL	OTHER	TOTAL
PRODUCTION COSTS												
Intragovernmental Costs	$ 3,310	$ 111	$ 108	$ 150	$ 53	$ 18	$ 35	$ 290	$ 10	$ 31	$ 28	$ 4,144
Less Earned Revenues	(48)	-	(17)	-	(13)	(214)	-	(883)	(1,025)	-	(415)	(2,615)
Net Intragovernmental Production Costs	3,262	111	91	150	40	(196)	35	(593)	(1,015)	31	(387)	1,529
Public Costs	18,338	666	648	160,049	3,194	1,511	508	455	1,788	227	956	188,340
Less Earned Revenues	(1,522)	-	(10)	-	-	(289)	-	(94)	(719)	-	(18)	(2,652)
Net Public Production Costs	16,816	666	638	160,049	3,194	1,222	508	361	1,069	227	938	185,688
Non-Production Costs												
Hazardous Waste Clean-up	51	1	1	-	-	-	-	-	-	-	-	53
Net Program Costs	20,129	778	730	160,199	3,234	1,026	543	(232)	54	258	551	187,270
Net Non-VA Program Costs	-	-	-	-	-	-	-	-	-	-	(9)	(9)
Total Net Cost of Operations	$ 20,129	$ 778	$ 730	$ 160,199	$ 3,234	$ 1,026	$ 543	$ (232)	$ 54	$ 258	$ 542	$ 187,261

SCHEDULE OF NET PROGRAM COST

AS OF SEPTEMBER 30, 2000
AS RESTATED
(DOLLARS IN MILLIONS)

	MEDICAL CARE	MEDICAL EDUCATION	MEDICAL RESEARCH	COMPENSATION	PENSION	EDUCATION	VOCATIONAL REHAB	LOAN GUARANTY	INSURANCE	BURIAL	OTHER	TOTAL
PRODUCTION COSTS												
Intragovernmental Costs	$ 3,153	$ 113	$ 101	$ 167	$ 60	$ 34	$ 30	$ 53	$ 16	$ 26	$ 30	$ 3,783
Less Earned Revenues	(51)	-	(24)	-	(14)	(188)	-	(463)	(1,066)	-	(195)	(2,001)
Net Intragovernmental Production Costs	3,102	113	77	167	46	(154)	30	(410)	(1,050)	26	(165)	1,782
Public Costs	17,211	669	644	83,517	3,115	1,341	466	109	1,884	127	173	109,256
Less Earned Revenues	(1,282)	-	(3)	-	-	(103)	-	(122)	(734)	-	(15)	(2,259)
Net Public Production Costs	15,929	669	641	83,517	3,115	1,238	466	(13)	1,150	127	158	106,997
Non-Production Costs	-	-	-	-	-	-	-	-	-	-	-	-
Hazardous Waste Clean-up	41	-	-	-	-	-	-	-	-	-	-	41
Net Program Costs	19,072	782	718	83,684	3,161	1,084	496	(423)	100	153	(7)	108,820
Net Non-VA Program Costs	-	-	-	-	-	-		-	-	-	(10)	(10)
Total Net Cost of Operations	$ 19,072	$ 782	$ 718	$ 83,684	$ 3,161	$ 1,084	$ 496	$ (423)	$ 100	$ 153	$ (17)	$108,810

The change in net compensation costs between FY 2001 and FY2000 is due to fluctuations in the actuarial out-year liability detailed in Note 11.

19. DEDICATED COLLECTIONS

In the Federal Government, dedicated collections are accounted for in trust funds and special funds. The term "trust funds" as used in this report and in Federal budget accounting is frequently misunderstood. In the private sector, “trust” refers to funds of one party held by a second party (the trustee) in a fiduciary capacity. In the Federal budget, the term “trust fund” means only that the law requires that funds be accounted for separately, used only for specified purposes and that the account be designated as a “trust fund.”

A change in law may change the future receipts and the terms under which the fund's resources are spent. The “trust fund assets” represent all sources of receipts and amounts due the trust fund regardless of source. This includes “related governmental transactions,” which are transactions between two different entities within the Federal Government. The “Investments with Treasury” assets are comprised of investments in Federal debt securities and related accrued interest.

These securities will require redemption if a fund's disbursements exceed its receipts. Unless specifically provided for by law, trust funds may only place excess funds in Federally backed investments (e.g., Federal debt securities).

The table below summarizes the name, type, and purpose of the funds within VA that receive dedicated collections. All of the funds listed use the accrual basis of accounting. However, collections are reported as actually received in accordance with OMB Circular A-34. The insurance funds listed also adhere to the requirements of FASB No. 120, "Accounting and Reporting by Mutual Life Insurance Enterprise," and issue a separate annual report. All of the funds generally receive authority to use current year contributions as well as a portion of previously contributed amounts.

FUND NAME	FUND TYPE	TREASURY SYMBOL	AUTHORITY	PURPOSE OF FUND	FINANCING SOURCES
MEDICAL CARE COLLECTIONS FUND	Special	36x5287	P.L. 105-33 111 Stat 665	Accumulates recoveries from third parties and patient co-payments.	Public, primarily insurance carriers.
HEALTH SERVICE IMPROVEMENT FUND	Special	36x5358	P.L 106-117 113 Stat 1561	Furnishes medical care and services and pays expenses for billing and collection for medical care.	Public.
ESCROWED FUNDS FOR SHARED MEDICAL EQUIPMENT PURCHASES	Deposit	36x6019	106 STAT. 1974	Receives payments from public companies involved in joint purchases of medical equipment.	Public, universities, pharmaceuticals & other medical organizations.
PERSONAL FUNDS OF PATIENTS	Deposit	36x6020	38 U.S.C. 3204	Temporarily holds funds.	Public, patients.
EMPLOYEE ALLOTMENTS FOR SAVINGS BONDS	Deposit	36x6050	31 U.S.C. 3105	Temporarily holds funds.	Employees.
CEMETERY GIFT FUND	Trust	36x8129	38 U.S.C. 1007	Receives donations for veteran cemeteries.	Public donors.
NATIONAL SERVICE LIFE INSURANCE FUND	Trust	36x8132	38 U.S.C. 720	Accumulates premiums to insure veterans of WWII.	Public, veterans.
POST-VIETNAM ERA EDUCATION ASSISTANCE PROGRAM	Trust	36x8133	38 U.S.C. 1622	Subsidizes the cost of education to veterans.	Veterans, DoD.
U.S. GOVERNMENT LIFE INSURANCE	Trust	36x8150	38 U.S.C. 755	Premiums insure WWI veterans.	Public, veterans.
VETERANS SPECIAL LIFE INSURANCE FUND	Trust	36x8455	38 U.S.C. 723 101-228	Premiums insure Korean conflict veterans without Service-related disabilities.	Public, veterans.
GENERAL POST FUND, NATIONAL HOMES	Trust	36x8180	38 U.S.C. 101-228	Receives restricted and unrestricted use donations	Public, mostly veterans.

The following tables provide condensed information on assets, liabilities, fund balances, net costs, and changes in fund balances:

AS OF SEPTEMBER 30, 2001 FUND SYMBOL	5287	6020	6050	8129	8132	8133	8150	8455	8180	TOTAL
Assets:										
Fund balance with Treasury	$ 62	$ 41	$ 1	$ -	$ 1	$ 87	$ -	$ -	$ 3	$ 196
Investments with Treasury	-	-	-	-	11,845	-	68	1,792	58	13,763
Other Assets	1,027	-	-	3	697	1	4	117	22	1,869
Total Assets	1,089	41	1	3	12,543	88	72	1,909	83	15,828
Liabilities:										
Payables to Beneficiaries	-	-	-	-	121	1	2	8	1	133
Other Liabilities	-	41	1	-	12,066	-	68	1,827	3	14,006
Total Liabilities	-	41	1	-	12,187	1	70	1,835	4	14,139
Net Position:										
Cumulative Results	1,089	-	-	3	356	87	2	74	79	1,690
Total Liabilities & Net Position	$ 1,089	$ 41	$ 1	$ 3	$ 12,543	$ 88	$ 72	$ 1,909	$ 83	$ 15,828

FOR THE YEAR ENDED SEPTEMBER 30, 2001

Fund Symbol	5287	8129	8132	8133	8150	8455	8180	TOTAL
Revenues:								
Exchange - Federal	$ (17)	$ -	$ 847	$ -	$ 5	$ 143	$ -	$ 978
Exchange - Public	1,179	-	586	4	-	77	1	1,846
Non-Exchange - Federal	-	-	-	-	-	-	-	-
Non-Exchange - Public	-	-	-	-	-	-	-	-
Total Revenues	1,162	-	1,432	4	5	220	-	2,824
Expenses:								
Program Expenses	47	-	1,451	14	5	223	44	1,784
Total Expenses	47	-	1,451	14	5	223	44	1,784
Net Change from Operations								
Beginning Net Position	783	3	373	97	3	77	75	1,412
Net Change from Operations	348	-	(17)	(10)	(1)	(3)	4	321
Non-Operating Changes	(42)	-	-	-	-	-	-	(42)
Ending Equity	$ 1,089	$ 3	$ 356	$ 87	$ 2	$ 74	$ 79	$ 1,690

20. DISCLOSURES RELATED TO THE STATEMENTS OF FINANCING

The total amount of VA liabilities not covered by budgetary resources was $696.3 billion and $556.5 billion as of September 30, 2001 and 2000, respectively. The following table contains the components of the balance sheet liability:

COMPONENTS OF UNFUNDED LIABILITIES AS OF SEPTEMBER 30,		2001		2000 As Restated
Workers' Compensation*	$	2,142	$	1,906
Annual Leave		994		936
Judgment Fund		438		415
Environmental and Disposal		260		240
Accounts Payable – Canceled Appropriations		3		-
Capital Leases		-		8
Veterans Compensation and Burial		691,900		552,500
Insurance		534		531
Total	$	696,271	$	556,536

* The actuarial estimate for workers' compensation provided by DOL was computed using interest rates of 5.21 percent for FY 2001 and 6.15 to 6.3 percent for FY 2000. The Statement of Financing line "total financing sources yet to be provided" only reflects the amount of increases/decreases in these liabilities. For existing liabilities, there will always be a difference between the “financing sources” line and the balance sheet amount.

21. RESTATEMENTS, RECLASSIFICATIONS AND CHANGES IN ACCOUNTING PRINCIPLES

RESTATEMENTS

Subsequent to the issuance of the FY 2000 Financial Statements, VA management determined that the calculation of the Veterans Benefits actuarial liability contained material errors. The errors relate to FY 2000 and prior periods. In accordance with VA’s election to early adopt SFFAS No. 21, which requires that reporting entities restate period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period, the accompanying FY 2000 Financial Statements have been restated to reflect the correction of the calculation errors. The amount of the errors that is applicable to years prior to FY 2000 is shown as an adjustment to Net Position – Beginning of Period. The Pension disclosure in Note 11 has also been restated.

The FY 2000 Financial Statements have also been restated to correct an error in the Judgment Fund liability calculation. The amount of the error is $263 million and is applicable to years prior to FY 2000. The correction is shown as an adjustment to Net Position – Beginning of Period.

		As Previously Reported		As Restated
As of September 30, 2000				
Federal Employee and Veterans Benefits Liability	$	547,285	$	554,085
Cumulative Results of Operations	$	(536,326)	$	(543,126)
Total Net Position	$	(532,194)	$	(538,994)
Year Ended September 30, 2000				
Change in Veterans Benefits Actuarial Liabilities				
Compensation	$	62,600	$	64,100
Net Cost of Operations	$	107,310	$	108,810
Net Results of Operations	$	(62,045)	$	(63,545)
Change in Net Position	$	(63,268)	$	(64,768)
Net Position – Beginning of Period	$	(468,160)	$	(473,723)
Financing Sources Yet To Be Provided	$	62,825	$	64,325

RECLASSIFICATIONS

On the FY 2001 and 2000 Balance Sheets and Note 9, VA reclassified the accrued FECA liability from the Public Other Liabilities line to the Intragovernmental Other Liabilities line. This liability is payable to the Department of Labor, so it should be reported as a federal payable. This change increases Intragovernmental Liabilities and decreases Public Liabilities on the FY 2000 Balance Sheet and Note 9 by $321 million.

Liabilities not covered by budgetary resources have been combined with liabilities covered by budgetary resources on the FY 2001 and 2000 Balance Sheets as required by OMB Bulletin 01-09. Liabilities not covered by budgetary resources are disclosed in Note 20.

CHANGES IN ACCOUNTING PRINCIPLES

The capitalization threshold for VA's fixed assets was raised from $5,000 to $25,000. The system modifications to account for this change were completed for real property during FY 1999 and for personal property during FY 2000. A line titled "Cumulative Effect of Change in Accounting Principle" has been included on the Statement of Changes in Net Position to report the $503 million reduction in property, plant, and equipment book value for FY 2000.

During FY 2001 VA adopted SFFAS No. 10 "Accounting for Internal Use Software." This standard requires VA to capitalize the cost of internal use software. VA capitalized $56 million in internal use software development costs for FY 2001.

22. NON-ENTITY ASSETS AND LIABILITIES

Entity and Non-Entity assets and liabilities have been combined on the face of the balance sheet. Non-Entity assets and liabilities relate primarily to patient funds and funds for shared purchases of medical equipment.

NON-ENTITY ASSETS AS OF SEPTEMBER 30,	2001	2000
Intragovernmental		
Fund Balance with Treasury	$ 42	$ 44
Accounts Receivable	1	-
Other	-	3
Public Accounts Receivable	7	-
Total Non-Entity Assets	$ 50	$ 47
Non-Entity Liabilities		
Intragovernmental		
Other	21	-
Public		
Other	42	47
Total Non-Entity Liabilities	$ 63	$ 47

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

HERITAGE ASSETS

Heritage assets are properties that possess one or more of the following characteristics: historical or natural significance; cultural; educational or aesthetic value or significant architectural characteristics. The monetary value of heritage assets is often not estimable or relevant. By nature they are expected to be maintained in perpetuity.

VA has properties at medical centers and national cemeteries that meet the criteria for a heritage asset. During the reporting period, all maintenance expenses were recorded as incurred. Heritage assets are reported in terms of physical units. Generally, additions to VA's Heritage Asset inventory result from field station surveys, which identify items such as new collections or newly designated assets. Items are generally donated or existing VA assets designated as heritage. Most heritage assets are used for mission purpose and maintained in working order. Remaining items are mothballed. Thirty-one items were added and thirteen items were subtracted from the inventory during FY 2001.

HERITAGE ASSETS IN UNITS

AS OF SEPTEMBER 30,	2001	2000
Art Collections	34	34
Buildings and Structures	1,875	1,883
Monuments/Historic Flag Poles	247	235
Other Non-Structure Items	68	54
Archaeological	11	11
Cemeteries	157	157
Total Heritage Assets in Units	2,392	2,374

DEFERRED MAINTENANCE

Deferred maintenance is classified as not performed when it should have been or as scheduled but delayed to a future period. It is VA policy to ensure that medical equipment and critical facility equipment systems are maintained and managed in a safe and effective manner; therefore, deferred maintenance is not applicable to them.

VA facilities reported their cost estimates for deferred maintenance by utilizing either the Condition Assessment Survey or the Total Life-Cycle Cost Method.

DEFERRED MAINTENANCE

YEAR ENDED SEPTEMBER 30,	2001	2000
General PP&E	$ 1,195	$ 1,043
Heritage Assets	26	28
Total Deferred Maintenance	$ 1,221	$ 1,071

NON-FEDERAL PHYSICAL PROPERTY

The VA Extended Care Facilities Grant Program assists states in acquiring facilities to provide domiciliary or nursing home care to veterans, and to expand, remodel, or alter existing buildings to provide domiciliary, nursing home, or hospital care to veterans in state homes. Currently, these grants may not exceed 65 percent of the total project cost.

VA's State Cemetery Grants Program is authorized to pay up to 100 percent of the cost of constructing and equipping state veterans cemeteries. States provide the land and agree to operate the cemeteries.

GRANT PROGRAM COSTS YEAR ENDED SEPTEMBER 30,	2001	2000
State Extended Care Facilities	$ 122	$ 20
State Veterans Cemeteries	24	19
Total Grant Program Costs	$ 146	$ 39

HUMAN CAPITAL

Investment in human capital comprises those expenses for education and training programs for the general public that are intended to increase or maintain national economic productive capacity. It does not include expenses for internal Federal education and training of civilian employees. Educational programs assist active duty and reservist veterans, eligible under the MGIB or the Veterans Educational Assistance Program (VEAP), as well as dependents of veterans who died of service-connected disabilities or whose service-connected disabilities were rated permanent and total. The Vocational Rehabilitation Program provides veterans, having a 10 percent or greater service-connected disability rating with evaluation services, counseling, and training necessary to assist them in becoming employable and maintaining employment to the extent possible.

VETERANS AND DEPENDENTS EDUCATION YEAR ENDED SEPTEMBER 30,	2001	2000
Program Expenses		
Education and Training-Dependents of Veterans	$ 175	$ 138
Vocational Rehabilitation and Education Assistance	1,644	1,426
Administrative Program Costs	172	147
Total Program Expenses	$ 1,991	$ 1,711
Program Outputs (Participants)		
Dependent Education	46,917	44,820
Veterans Rehabilitation	64,235	52,786
Veterans Education	372,054	352,770

HEALTH PROFESSIONS EDUCATION

Title 38 U.S.C. mandates that VA assist in the training of health professionals for its own needs and for those of the Nation. By means of its partnerships with affiliated academic institutions, VA conducts the largest education and training effort for health professionals in the Nation. Each year, approximately 80,000 medical and other students receive some or all of their clinical training in VA facilities through affiliations with over 1,200 educational institutions including 107 medical schools. Many of these trainees have their health professional degrees and contribute substantially to VA's ability to deliver cost-effective and high-quality patient care during their advanced clinical training at VA.

HEALTH PROFESSIONS EDUCATION YEAR ENDED SEPTEMBER 30,	2001	2000
PROGRAM EXPENSES		
Physician Residents and Fellows	$ 371	$ 364
Associated Health Residents and Students	48	44
Instructional and Administrative Support	348	334
Total Program Expenses	$ 767	$ 742
Program Outputs		
Health Professions Rotating Through VA:		
Physician Residents and Fellows	28,493	28,921
Medical Students	17,582	17,706
Nursing Students	16,687	20,185
Associated Health Residents and Students	18,353	17,698
Total Program Outcomes	81,115	84,510

RESEARCH AND DEVELOPMENT

Investments in research and development (R&D) comprise those expenses for basic research, applied research, and development that are intended to increase or maintain national economic productive capacity or yield other benefits. For FY 2001, VA's R&D general goal related to stewardship was to ensure that VA medical research programs met the needs of the veteran population and contributed to the Nation's knowledge about disease and disability. Target levels were established for the: (1) percent of funded research projects relevant to VA's health-care mission in designated research areas and (2) number of research and development projects. Strategies were developed in order to ensure that performance targets would be achieved. In addition, VHA researchers received grants from the National Institutes of Health (NIH) in the amount of $356 million and $245 million in other grants during FY 2001. These grants were given directly to the researchers and are not considered part of the VA entity. They are being disclosed here as Required

Supplementary Stewardship Information, but are not accounted for in the financial statements.

PROGRAM EXPENSE
YEAR ENDED SEPTEMBER 30,

								2001
	Basic		**Applied**		**Development**			Total
Medical Research Service	$	163	$	55	$	-	$	218
Rehabilitative Research and Development		3		19		7		29
Health Services Research and Development				43				43
Cooperative Studies Research Service				47				47
Medical Research Support				387				387
Prosthetic Research Support				4				4
Total Program Expenses	$	166	$	555	$	7	$	728

PROGRAM EXPENSE
AS OF SEPTEMBER 30,

								2000
	Basic		**Applied**		**Development**			Total
Medical Research Service	$	158	$	50	$	-	$	208
Rehabilitative Research and Development		3		15		9		27
Health Services Research and Development		-		43		-		43
Cooperative Studies Research Service		-		42		-		42
Medical Research Support		-		340		-		340
Prosthetic Research Support		-		5		-		5
Total Program Expenses	$	161	$	495	$	9	$	665

RESEARCH AND DEVELOPMENT MEASURES-ACTUAL
YEAR ENDED SEPTEMBER 30,

	2001	2000
Percent of Funded Research Projects Relevant to VA's Health-Care Mission	91%	99%
Number of Research and Development Projects	2,197	1,942

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REQUIRED SUPPLEMENTARY INFORMATION

SEGMENT INFORMATION

CONDENSED BALANCE SHEET	SUPPLY FUND		ENTERPRISE FUND	
AS OF SEPTEMBER 30	2001	2000	2001	2000
Assets				
Fund Balance with Treasury	$ 269	$ 220	$ 52	$ 45
Accounts Receivable, Net	90	77	15	10
General Property, Plant and Equipment	6	6	15	14
Other Assets Including Inventory	48	25	1	2
Total Assets	$ 413	$ 328	$ 83	$ 71
Liabilities and Net Position				
Accounts Payable	$ 222	$ 131	$ 4	$ 2
Deferred Revenues	75	73	-	-
Other Liabilities	3	4	24	25
Total Liabilities	300	208	28	28
Cumulative Results of Operations	113	120	55	43
Total Liabilities and Net Position	$ 413	$ 328	$ 83	$ 71
Condensed Net Cost Information				
Total Program Costs	$ 880	$ 622	$ 130	$ 124
Earned Revenues				
Intra-Departmental	(431)	(413)	(133)	(132)
Other Federal Entities	(421)	(183)	(8)	(6)
Non-Federal	(18)	(23)	-	-
Total Earned Revenues	$ (870)	$ (619)	$ (141)	$ (138)
Net Program Costs	$ 10	$ 3	$ (11)	$ (14)

ENTERPRISE FUND SERVICES

The Enterprise Fund is the entrepreneurial organization of the VA Franchise Fund authorized under GMRA which provides a wide range of services to both VA and other Federal agencies, including DoD, the Department of Housing and Urban Development, and the General Accounting Office. The Fund consists of six Enterprise Centers; a description of their services follow. The Financial Services Center (FSC) processes and/or provides payments, purchase card transactions and travel vouchers, electronic data interchange and accounting support. The Austin Automation Center (AAC) supports general application and other systems which include: payroll, financial management, vendor payment, logistics, centralized medical systems and integrated patient care databases, benefits delivery applications, time sharing, communications with VA and non-VA entities, local and wide area network management and office automation support. The VA Records Center and Vault provides services including secure archival storage and protection and retrieval services for veterans' and other Federal records. The VA Law

Enforcement Training Center, available to the approximately 2,400 law enforcement personnel working at VA health-care facilities and to Federal law enforcement professionals at other government agencies, provides special training for police officers who work in health-care or service-oriented environments. The Security and Investigations Center provides quality and timely investigations and adjudication for employees in sensitive and/or public trust positions. The Debt Management Center provides direct collection of delinquent consumer debt owed to VA.

SUPPLY FUND SERVICES

Supply Fund functions include stocking, repairing, and distributing supplies, medical equipment, and devices; providing forms, publications, and a full range of printing and reproduction services; training VA medical acquisition, supply, processing, and distribution personnel; and increasing small and disadvantaged business participation in VA contracts. The primary customer for the Supply Fund is VA, but the Fund also has significant sales to other Federal agencies including DoD and the Department of Health and Human Services.

BALANCES WITH OTHER FEDERAL ENTITIES

INTRAGOVERNMENTAL ASSETS
AS OF SEPTEMBER 30, 2001

Trading Partners	Fund Balance with Treasury	Investments	Accounts Receivable	Other Assets
Treasury	$ 13,763	$ 14,298	$ -	$ -
Dept of Defense			27	
All Other	-	-	38	104
Total Intragovernmental Assets	$ 13,763	$ 14,298	$ 65	$ 104

INTRAGOVERNMENTAL LIABILITIES
AS OF SEPTEMBER 20, 2001

TRADING PARTNERS	Accounts Payable	Debt	Other
Treasury	$ 45	$ 1,917	$ 2,391
Dept of Labor	-	-	330
Other	32	-	168
Total Intragovernmental Liabilities	$ 77	$ 1,917	$ 2,889

Intragovernmental Non-Exchange Revenue
YEAR ENDED SEPTEMBER 30, 2001

Trading Partner	Transfers-In	Transfers-Out
Treasury	$ -	$ 1,593

SCHEDULE OF BUDGETARY ACTIVITY
YEAR ENDED SEPTEMBER 30, 2001

	TOTAL OUTLAYS	BUDGETARY RESOURCES	OBLIGATIONS INCURRED	SPENDING AUTHORITY FROM OFFSETTING COLLECTIONS AND ADJUSTMENTS	OBLIGATED BALANCE OCT. 1, 2000	OBLIGATED BALANCE SEPT. 30, 2001
VHA						
0160 Medical Care	$ 20,927	$ 22,656	$ 21,132	$ 127	$ 2,448	$ 2,527
0161 Medical & Prosthetic Research	339	412	361	27	102	97
All Other	503	1,464	684	268	628	541
Total	$ 21,769	$ 24,532	$ 22,177	$ 422	$ 3,178	$ 3,165
VBA						
0102 Compensation, Pension, & Burial Benefits	$ 21,420	$ 23,527	$ 23,396	$ -	$ 43	$ 2,020
0137 Readjustment Benefits	1,608	2,222	1,839	217	37	52
4025 Housing Credit Liquidating	(4)	299	184	299	88	(23)
4127 Direct Loan Financing	292	1,926	1,880	1,546	9	52
4129 Guaranteed Loan Financing	411	7,587	3,198	2,746	22	62
8132 National Service Life Insurance Fund	1,221	11,970	1,733	493	1,385	1,403
All Other	563	4,755	2,371	1,786	329	351
Total	$ 25,511	$ 52,286	$ 34,602	$ 7,087	$ 1,913	$ 3,917
NCA						
0129 National Cemetery Adm.	$ 103	$ 110	$ 108	$ -	$ 16	$ 21
All Other	21	42	24	-	22	25
Total	$ 124	$ 152	$ 132	$ -	$ 38	$ 46
ADM						
0151 General Operating Expenses	$ 1,071	$ 1,470	$ 1,441	$ 359	$ 190	$ 201
All Other	(9)	1,301	1,110	1,060	83	141
Total	$ 1,062	$ 2,771	$ 2,551	$ 1,419	$ 273	$ 342
Total of all Business Lines	$ 48,466	$ 79,741	$ 59,462	$ 8,928	$ 5,402	$ 7,470

Department of Veterans Affairs

Office of Inspector General

REPORT OF THE AUDIT OF THE DEPARTMENT OF VETERANS AFFAIRS CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2001 AND 2000

Report No. 01–01463–69

February 27, 2002

VA Office of Inspector General
Washington, DC 20420

Department of Veterans Affairs
Office of Inspector General
Washington DC 20420

Memorandum to the Acting Assistant Secretary for Management (004)

Report of Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2001 and 2000

1. Attached is the Office of Inspector General's (OIG) Report of Audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements (CFS) for Fiscal Years (FY) 2001 and 2000. The Chief Financial Officers Act of 1990 requires this audit. The OIG contracted with the independent public accounting firm Deloitte & Touche LLP to perform the audit of VA's FY 2001 CFS. The OIG defined the requirements of the audit, approved the audit plans, monitored the audit, and reviewed the draft reports. The independent auditors' report by Deloitte & Touche LLP provides an unqualified opinion on VA's FY 2001 and 2000 CFS. We agree with the auditors' opinion, and the conclusions in the related reports on VA's internal control over financial reporting and compliance with laws and regulations.

2. The report on internal control identifies 11 reportable conditions, of which 6 are material weaknesses. Two material weaknesses identified were reported last year: (i) information technology security controls and (ii) integrated financial management system and control issues. The four new material weaknesses relate to (iii) management ownership of financial data, (iv) reliance on independent specialists, (v) management legal representations, and (vi) loan guaranty application systems. The report also discusses five reportable conditions that, while not considered material weaknesses, are significant system or control weaknesses that could adversely affect the recording and reporting of the Department's financial information. The three reportable conditions that were repeated from last year's report are (i) application program and operating system change controls, (ii) business continuity and disaster recovery planning, and (iii) operational oversight. The two new reportable conditions identified this year are (iv) authorization of compensation benefit payments, and (v) the loan guaranty business process.

3. The report on compliance with laws and regulations continues to conclude that VA is not in substantial compliance with the financial management system requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. The internal control issues concerning an integrated financial system and information technology security controls indicate noncompliance with the requirements of Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," which incorporates by reference OMB Circulars A-123, "Management Accountability and Control," and A-130, "Management of Federal Information Resources."

4. The material weakness and FFMIA noncompliance issues concerning VA's financial management systems underscore the importance that VA must continue its efforts to acquire and implement a replacement integrated core financial management system. The auditors' unqualified opinion was achieved for the most part through the extensive efforts of program and financial management staff, as well as the auditors, to overcome material weaknesses in internal control to produce auditable information long after the fiscal year-end. Although these efforts resulted in materially correct annual financial statements, reliable information was not readily available during the year. The risk of materially misstating financial information is high with the existing financial management systems.

5. The material weaknesses relating to management's lack of ownership of financial data and reliance on independent specialists need to be addressed if the Department's financial management activities are to improve. Additionally, we continue to believe that the responsibility for financial management should be centralized in the Office of the Assistant Secretary for Management (Chief Financial Officer). Attaining improvements in financial management under the current structure may be very difficult because of the increasing strain on the human resources that perform the work. The Department's financial management offices appear to be understaffed throughout the organization and this situation is not likely to improve in future years when many experienced financial management employees retire. We suggest that the Department's plan for addressing human capital issues include an objective to consolidate financial responsibility under the Assistant Secretary for Management by accelerating the consolidation of financial management functions and facilities. Financial management activities have been or are being consolidated at several of the Veterans Health Administration's medical facilities and the Veterans Benefits Administration's activities. The Department's project to acquire and implement a replacement core financial management system provides a window of opportunity for reengineering and streamlining financial operations. Consolidation of financial management responsibility under the Assistant Secretary for Management would assure visibility over staffing needs, improve consistency of operations of financial management systems, provide uniform leadership, and centralize responsibility for financial management.

6. We will follow up on these issues and evaluate implementation actions during the audit of the Department's FY 2002 Consolidated Financial Statements.

MICHAEL SLACHTA, JR
Assistant Inspector General for Auditing

Attachment

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Secretary
Department of Veterans Affairs

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) as of September 30, 2001 and 2000, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources, and financing for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of the management of VA. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the requirements of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and the OMB Bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of VA as of September 30, 2001 and 2000, and its net costs, changes in net position, budgetary resources and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21, the VA adopted Statements of Federal Financial Accounting Standard (SFFAS) No. 10, "Accounting for Internal Use Software" in fiscal year 2001 and elected an early adoption of SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles". In addition, as discussed in Note 21, the VA changed its fixed asset capitalization policy in fiscal year 2000.

As discussed in Note 21, the accompanying 2000 financial statements have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2002, on our consideration of VA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte
Touche
Tohmatsu

To the Secretary
Department of Veterans Affairs
February 19, 2002
Page 2

The statistical data on pages 159 - 174 are presented for the purposes of additional analysis and is not a required part of the basic financial statements of the VA. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

Deloitte & Touche LLP

February 19, 2002

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Secretary
Department of Veterans Affairs

We have audited the consolidated financial statements of the Department of Veterans Affairs (VA), as of and for the year ended September 30, 2001, and have issued our report thereon dated February 19, 2002, (which expresses an unqualified opinion and includes explanatory paragraphs relating to the adoption of Statements of Federal Financial Accounting Standards (SFFAS) Nos. 10 and 21 as discussed in Note 21, a change in the fixed asset capitalization policy discussed in Note 21, and the restatement discussed in Note 21). We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of the Office of Management and Budget (OMB) Bulletin No. 01-02, " *Audit Requirements for Federal Financial Statements*".

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered VA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect VA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

We identified the following matters involving the internal control over financial reporting and operation that we consider to be material weaknesses and other reportable conditions as defined above. Material weaknesses and other reportable conditions that we identified in our prior year report dated February 2, 2001 are identified as repeat condition. The material weaknesses and the reportable conditions are categorized under the headings Management, Information Technology, and Operations.

Eleven reportable conditions are described in the following paragraphs and include significant departures from certain requirements of OMB Circular A–127, "Financial Management Systems," which incorporates by reference Circulars A–123, "Management Accountability and Control," and A–130, "Management of Federal Information Resources," among other requirements. We believe that the six reportable conditions identified as "Management Ownership of Financial Data", "Reliance on Independent Specialists", "Management Legal Representations", "Information Technology (IT) Security Controls", "Loan Guaranty Application Systems," and "Integrated Financial Management System," are also material weaknesses.

MANAGEMENT

Management Ownership of Financial Data - Material Weakness

During the fiscal year 2001 audit, instances were noted whereby the Veterans Benefits Administration (VBA) management in the compensation and pension, and loan guaranty lines of business provided insufficient review of accounting data and transactions. While representations made by management to the auditors acknowledge responsibility for the financial statements and supporting detail, multiple and repeated errors were detected in data and information supporting management assertions in the financial statements. Management's insufficient review of its financial data could have a material effect on the financial statements.

VBA management in a number of instances failed to provide adequate review of data maintained in their financial informational systems. For example, extracts were requested to facilitate work performed to test the reasonableness of the compensation and pension payments (expense) and loan guaranty account balances. Management did not always review the data prior to submission to the auditor nor provide information in a timely manner. The initial extracts requested did not agree or reconcile to the general ledger. Also, VBA management could not provide details supporting information contained in the notes to the financial statements with respect to foreclosures in process. In addition, management did not provide timely access or make available sample claim files selected for internal control testing for field visits conducted between July and September. Files selected for control testing were in some cases provided on an average of 2 – 3 months after the site visit. In some cases files were never provided.

Management did not always demonstrate an adequate understanding of data and information provided to the auditors to support a reliable assertion to the financial statement representations. Data and information was provided without verification or validation that it represented the assertions made by management and lacked an audit trail to source transactions. The errors, if unadjusted, could have had a material effect on the financial statements.

Recommendation

The instances noted required extensive efforts to revise and improve the evidence supporting management's assertions. Management needs to review information before both internal and external consumption to determine if amounts are accurate or whether to challenge their staff to determine if their assertions are valid.

Reliance on Independent Specialists– Material Weakness

VA relies on the use of actuarial consultants and other specialists for various financial statement assertions including compensation, pension and burial liabilities (C&P); liabilities for loan guarantees; medical malpractice and other liabilities. Management is responsible for the results of the work of actuaries and experts upon which it relies to make assertions in the financial statements and such reliance on independent specialists does not relieve management of the responsibility for the information.

There were a number of instances that arose during the audit of fiscal year 2001 that gave rise to questions concerning the effectiveness of controls over actuarial and expert calculations on which VA management relies. Significant errors were encountered during the review of the actuarial valuation of the C&P liability prepared by an independent actuary. We identified an error in the tables used to determine values for the cost of living assumption of survivors. The error resulted in $ 7.9 billion understatement of the C&P Liability of which $6.8 billion related to the prior year, and required a restatement of VA's financial statements. We identified an additional error of the model where a discount interest rate as of August 31, 2001 was used instead of the interest rate at September 30, 2001. This error resulted in a $7.6 billion understatement of the C&P liability.

Recommendation

VA management needs to obtain an understanding of the results of the specialist's work that supports management's assertions in the financial statements. We recommend management periodically obtain independent verification of the work provided by specialists including experience studies to test management's assumptions used in various estimates, and actuarial audits and independent recalculations to validate the models used and their application.

Management Legal Representations – Material Weakness

Management did not provide an adequate legal representation on pending litigation and contingent liabilities as required by Statement of Federal Financial Accounting Standards (SSFAS) No. 5, "Accounting for Liabilities of the Federal Government" as amended by SFFAS No. 12, " Recognition of Contingent Liabilities Litigation" and Interpretation No. 2 of SFFAS Nos. 4 and 5. Those standards require the best judgment of Counsel and management to assess and categorize litigation against VA as "remote," "probable," or "reasonably possible" of an unfavorable outcome. Remote is defined by the standards, as "the chance for an unfavorable outcome is slight." Probable is defined, as "an unfavorable outcome is likely to occur." Reasonably possible is the residual category and is defined as " less than probable but more than remote." This three-category classification process is widely used in the commercial, not-for-profit, state, local and the federal sectors and is required by OMB Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

Management identified 26 contract and personnel cases with claims in excess of $500,000 that in the aggregate represented $281 million claimed against the VA. All claims were assessed as "reasonably possible" despite notations that some cases were settled, dismissed without prejudice, on appeal, arbiter's award rendered, or in the discovery stage. Also, descriptions of the cases or detail on the status of the claims were not adequate. In our judgment, apparent facts do not support the assessment that all of the claims should be classified as "reasonably possible."

The inadequate responses to support management's assertions on contingencies in the financial statements introduce the risk that material claims against the VA will not be properly reported and disclosed.

Recommendation

We recommend that the VA management work to improve its responsiveness to the standards.

INFORMATION TECHNOLOGY

Information Technology (IT) Security Controls – Material Weakness

(Repeat Condition)

VA's program and financial data continue to be at risk due to serious weaknesses related to the Department's control and oversight over access to its information systems. These weaknesses placed sensitive information, including financial data and sensitive veteran medical and benefit information, at risk of inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, possibly occurring without detection. The VA Office of Inspector General first reported this condition in its fiscal year 1997 audit report and made recommendations for VA to implement a comprehensive security program that would improve these controls. VA has acknowledged these weaknesses and first reported IT security controls as a material weakness in its Federal Managers' Financial Integrity Act (FMFIA) report for fiscal year 1998.

VA's success in improving information security is dependent on VA comprehensively addressing these weaknesses at an enterprise level, including obtaining a high level of commitment and establishing appropriate accountability throughout VA; and obtaining adequate resources to implement the plan.

Recommendation

We recommend that appropriate resources and accountability mechanisms be applied in order that the planned actions will be accomplished within an acceptable timeframe and will remediate the deficiencies identified in the Government Information Security Reform Act process.

Loan Guaranty Application Systems – Material Weakness

During the fiscal year 2001 audit, control weaknesses were observed in critical loan guaranty system applications security and process controls due to a lack of accountability and definition of responsibility for implementing and enforcing consistent security administration standards and the lack of appropriate reconciliation processes/procedures. These weaknesses increase the risk of inadequate access controls, unauthorized or erroneous data transfer, and modifications of production programs and data, resulting in unreliable loan and property data that feed VA's core financial management system. Additionally, the lack of appropriate reconciliation of loan guaranty data among systems does not permit VBA the ability to detect unauthorized or erroneous data. Such weaknesses include the following:

- Excessive access to Common Security Administration Manager functions that control access to Automated Loan Production System and Loan Servicing & Claims System functions and data;
- Lack of accountability and responsibility for security administration and oversight of access to the Property Management System and the Guaranty/Insured Loan System;
- Lack of clearly defined responsibility for monitoring powerful user activities and transactions within Loan Guaranty System applications;
- Inadequate business continuity planning and testing for systems infrastructure supporting Loan Guaranty Systems; and
- Inconsistent application development and change management standards and compliance with established standards for application changes, testing, acceptance and quality assurance.

Recommendation

We recommend that improved security and business process controls over loan guaranty processes and application systems, as well as responsibilities for monitoring and enforcing such controls, be instituted, communicated and coordinated throughout the Veterans Benefits Administration.

Application Program and Operating System Change Controls

(Repeat Condition)

We noted continued weaknesses in application program change controls and operating system change controls at certain VA data centers. Weaknesses include: inappropriate access capabilities by application programmers and system support staff to production data; lack of application change procedures; inadequate procedures for testing, approving, and migrating system software changes; and inadequate application program change tracking procedures.

Recommendation

We recommend that improved controls over application program and operating system changes be instituted, communicated and enforced throughout the data centers.

Business Continuity and Disaster Recovery Planning

(Repeat Condition)

At certain VA data centers, we noted continued deficiencies in the design and testing of the business continuity/disaster recovery plans. Specifically, we noted certain disaster recovery plans that were not comprehensive, adequately documented, or periodically tested in a timely manner, and not effectively coordinated with VA program offices to ensure the recovery of critical applications.

Recommendation

We recommend that procedures be implemented to ensure that appropriate business continuity/disaster recovery plans are developed, documented and tested to reduce the risk that restoration of business processes and information systems may be delayed or ineffective in the event of an emergency.

OPERATIONS

Integrated Financial Management System – Material Weakness

(Repeat Condition)

As defined in OMB Circular A – 127, "a financial management system encompasses automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions." Such financial management systems shall be designed to provide for effective and efficient interrelationship between software, hardware, personnel, procedures, controls, and data contained within the systems.

With respect to system requirements in the area of financial reporting, OMB Circular A – 127 provides that an agency's financial management system should generate reliable, timely, and consistent information necessary for meeting management's responsibilities, including the preparation of financial statements. Within OMB Circular A – 123, the management control processes necessary to ensure that "reliable and timely information is obtained, maintained, reported and used for decision making" are set forth, including prompt and appropriate recording and classification.

During our audit of VA's consolidated financial statements, we noted continuing difficulties related to the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements. While significant efforts are made at the component and consolidated levels to assemble, compile, and review the necessary financial information for annual financial reporting requirements; in many cases, significant manual work-arounds and "cuff" or out-of-date feeder systems are still in place as VA has not yet completed its transition to a fully integrated financial management system.

For example, we noted that some medical center stations were not performing account reconciliations on a consistent basis and assets were not capitalized in a timely manner. Unreconciled differences between the general ledger and the Property Management System (PMS) subsidiary ledger existed for the property management activity for foreclosures under the Loan Guaranty Program to VA's core financial management system

Recommendation

We encourage VA's efforts to meet its planned financial reporting improvement objectives. However, given the size and complexity of the VA, as well as the current status of the system development and implementation cycles for planned improvements, it is critical that enhanced control, monitoring and reconciliation processes be in place and functioning appropriately throughout the year to ensure accurate and complete financial reporting. Even though fully automated processes may not yet be in place, supplemental manual processes should be implemented and enforced to meet appropriate control objectives.

The preparation of financial statements more frequently during the year would ensure that supporting analyses and reconciliations are completed and reviewed. While this would be a substantial undertaking, we recommend that VA adopt the goal of the preparation of monthly financial statements and implement a plan to attain that goal over the next few years. The transition of the closing process from an annual one to more frequently could begin with semi-annual closes, and then move to quarterly closes as the financial reporting process matures. Management understands the need for the preparation of financial statements on a more frequent basis, as the agency will be required to prepare semi-annual statements for the 6-month period ending March 31, 2002 and quarterly statements in fiscal year 2003 and thereafter.

Authorization of Compensation Benefit Claim Payments

During the fiscal year 2001 audit, an employee fraud was detected in one of the Veterans Affairs Regional Offices (VAROs) by the Office of Inspector General. A high level claims adjudicator was able to re – establish a computer payment record file of a deceased veteran and reassign the claim under an alias' name. Once the fraudulent claim files were established, claims were filed for back payment of compensation and pension payments. The Secretary of the Department of Veterans Affairs subsequently requested the Office of Inspector General to determine if any other incidents of this type of fraud had occurred. To investigate, the OIG reviewed all one-time payment claims over $25,000 for a 5 - year period. Based on the review of an estimated 53,740 claim files, which met these criteria, the Office of Inspector General referred 578 questionable cases and 70 profile cases, which fit a questionable fraud profile, to the OIG Office of Investigations for further review.

The OIG review disclosed noncompliance with the internal control requirement to validate large "one-time" claim payments and the three-signature internal control requirement for sensitive case-file security. The three-signature review (control) was not performed on 37% of the one-time payments reviewed. Sensitive C-files include those for VBA employees, high-level VA officials, and representatives of veteran's service organizations. The VAROs should identify sensitive case-files and transfer them to designated VAROs (Sister Stations). Twenty-nine percent of the VAROs had not fully met the requirement to transfer all sensitive files to the "Sister" Stations.

Recommendation

The regional offices should validate large "one-time" claim payments by incorporating the three-signature review (control). The VAROs should identify sensitive case-files and transfer them to designated VAROs (Sister Stations).

Loan Guaranty Business Process

During the fiscal year 2001 audit, procedures were performed focusing on the business processes of the Loan Guaranty Program (LGY). We noted areas for improvement in the business process environment. There are many interfaces among LGY modules and Financial Management System (FMS) ledger accounts. These interfaces capture and transmit loan and property data, and update FMS with such data. VBA does not have an effective means to ensure that responsible officials or individuals routinely and consistently perform data reconciliations and resolve transaction discrepancies in a timely manner. For example, we observed the following:

- Mortgage Loan Accounting Center (MLAC) produces a Microsoft Access report that compares property values in FMS with values in PMS. There were multi-million dollar differences noted between FMS and PMS. While efforts were made by MLAC to investigate and resolve the differences, there remained an unreconciled difference that was not resolved.
- GILS creates an "Errors File" when it receives incorrect / incomplete data from ALPS. We were not able to determine which offices are responsible for reviewing reported errors, and whether such errors were investigated and resolved on a timely basis,
- LS&C updates both FMS and PMS, and the PMS data file is updated a day later than FMS. Currently, there is no report to reconcile the data transferred between LS&C and PMS. This could result in inconsistent property information being recorded in FMS and PMS.

Recommendation

We recommend that VBA continue to make efforts to reconcile and resolve existing differences between LGY modules (including GILS, PMS, and LS&C) and FMS.

We recommend that VBA develop and implement clear responsibilities and appropriate procedures to routinely reconcile, investigate and resolve data transaction discrepancies to ensure that consistent information is maintained at all databases. The system should generate well-structured reconciliation reports to facilitate routine reviews of data transfers and easy documentation of such reviews.

VBA is developing reports to facilitate reconciliation of differences between ALPS and GILS, as well as LS&C and PMS. We recommend that VBA ensure the timely completion of such projects. Further, VBA should define critical interfaces among LGY modules and FMS systems, and design and use comparable reports to facilitate routine reconciliation of key interfaces.

Operational Oversight

(Repeat Condition)

During our audit, we conducted site visits to selected VA medical centers or stations within the Veterans Integrated Service Network (VISN) to test compliance with identified control and reconciliation processes. We continued to note a number of previously reported instances where application of control and reconciliation processes were not performed consistently or completely. We noted significant noncompliance when the frequency of occurrence exceeded 25% of the sites visited. In some instances, existing Department procedures for supervisory review were not applied consistently or on a timely basis. Examples include instances where medical centers were not adequately billing some medical services to patients with third party insurance and individuals had multiple obligation and payment authority. This precluded a proper separation of duties. We frequently observed ineffective or inefficient processes in the areas of property, plant and equipment; medical accounts receivable; and accounts payable during our site visits.

Recommendation

We recommend that procedures for appropriate and timely management reviews, separation of duties and account reconciliations be formalized and implemented to achieve improved internal control over financial reporting. Improved monitoring of existing policies and procedures should be implemented.

Follow-up on Previous Report

In our report in connection with the fiscal year 2000 VA financial statements dated February 2, 2001, we reported five reportable conditions (with two material weaknesses) in the areas of (1) Integrated Financial Management System, (2) Information Technology (IT) Security Controls, (3) Application Program and Operating System Change Controls, (4) Business Continuity and Disaster Recovery Planning and (5) Operational Oversight. As discussed earlier, we believe that the material weaknesses existed in fiscal year 2001 with items (1) through (3).

* * * * *

With respect to the internal control related to performance measures reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

In addition, we considered VA's internal control over Supplementary Information by obtaining an understanding of VA's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

COMPLIANCE

The management of VA is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether VA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and are described below.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U. S. Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance and evaluative criteria issued by OMB in Circular A-127.

The material weaknesses in internal control over financial reporting discussed above and identified as "Integrated Financial Management System" and "Information Technology (IT) Security Controls", indicate that VA is not in full compliance with the requirements of OMB Circulars A – 123, A – 127, and A - 130. As discussed above, we found material weaknesses in (1) the design and operation of internal controls over financial reporting, particularly with effectiveness of the enhanced control, monitoring and reconciliation processes in support of the preparation of the Department's consolidated financial statements, given the status of the transition to a fully integrated financial management system; and (2) the effectiveness of the information technology security controls.

We believe these material weaknesses, in the aggregate, result in departures from certain of the requirements of OMB Circulars A–123, A–127 and A-130, and are, therefore, instances of substantial noncompliance with the Federal financial management systems requirements under FFMIA.

However, we noted other matters involving the internal control and compliance over financial reporting that we have reported to management of the VA, in a separate letter dated February 19, 2002.

DISTRIBUTION

This report is intended solely for the information and use of the Office of Inspector General of the Department of Veterans Affairs, the management of the Department of Veterans Affairs, the Office of Management and Budget, the U. S. General Accounting Office, Office of the President and the U. S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 19, 2002

Department of Veterans Affairs

Memorandum

Date: FEB 26 2002

From: Principal Deputy Assistant Secretary for Management (004)

Subj: Report of Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2001 and 2000

To: Assistant Inspector General for Auditing (52)

We have reviewed the Report of the Office of Inspector General Audit and are pleased with receipt of an unqualified opinion. Please extend to your staff and the staff of Deloitte & Touche, LLP, our appreciation for the hard work and cooperation during this year's audit process.

We will share the results of the audit, as well as the findings provided on internal controls over financial reporting and compliance with laws and regulations, with senior officials in the Veterans Health Administration, Veterans Benefits Administration, and other VA staff and program managers. We will continue to provide you with updates on the Department's progress implementing our management plan to correct the Integrated Financial Management System and the Information Technology Security Controls material weaknesses. In addition, we will develop management plans to correct the new material weaknesses, identified during this year's audit and listed in the Auditor's Report on Internal Controls.

Again, thank you for all the work that brought us to another successful conclusion of the audit cycle. Please contact me at 273-5589 if you have any questions.

for D. Mark Catlett

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TABLE 1: U.S. VETERAN POPULATION, 2001 (INCLUDES PUERTO RICO, TERRITORIES, AND FOREIGN COUNTRIES) (NUMBER OF PERSONS IN THOUSANDS)

Period of Service	Veteran Population as of Sept 30, 2000	Separations from the Armed Forces	Deaths in Civilian Life	Veteran Population as of Sept 30, 2001	Percent Change in Veteran Population	Female Veterans: Population as of Sept 30, 2001	Female Veterans: Percent of Veteran Population
All Veterans (1)	**25,752**	**214**	**617**	**25,349**	**-1.6%**	**1,399**	**5.5%**
Wartime veterans (1)	**19,467**	**214**	**560**	**19,120**	**-1.8%**	**915**	**4.8%**
Gulf War (2)	**2,815**	**214**	**4**	**3,025**	**7.4%**	**420**	**13.9%**
Gulf War Only	2,517	209	3	2,723	8.2%	406	14.9%
Gulf War and Vietnam Era Only	298	5	2	301	1.1%	14	4.7%
Gulf War, Vietnam Era, and Korean Conflict	*	--	*	*	-1.8%	--	--
Vietnam Era (2)	**8,528**	**5**	**75**	**8,459**	**-0.8%**	**233**	**2.7%**
Vietnam Era Only	7,773	--	55	7,718	-0.7%	212	2.7%
Vietnam Era and Korean Conflict Only	282	--	8	274	-2.9%	4	1.3%
Vietnam Era, Korean Conflict, and WW II	175	--	10	165	-5.8%	3	1.6%
Korean Conflict (2)	**4,021**	--	**144**	**3,877**	**-3.6%**	**84**	**2.2%**
Korean Conflict Only	3,165	--	101	3,064	-3.2%	70	2.3%
Korean Conflict and World War II Only	399	--	25	374	-6.3%	8	2.1%
World War II (2)	**5,430**	--	**391**	**5,039**	**-7.2%**	**209**	**4.1%**
World War II Service Only	4,857	--	356	4,501	-7.3%	199	4.4%
World War I (3)	**1**	--	*	**1**	-41.3%	*	**13.2%**
Peacetime veterans (4)	**6,285**	--	**56**	**6,228**	**-0.9%**	**484**	**7.8%**
Between Vietnam Era and Gulf War	3,398	--	4	3,394	-0.1%	406	12.0%
Between Korean Conflict and Vietnam Era	2,766	--	45	2,721	-1.6%	69	2.5%
Other peacetime service (5)	120	--	7	113	-5.6%	9	7.9%

(1) Veterans serving in more than one period of service are counted only once in the total.
(2) This sum includes veterans who served in multiple periods.
(3) World War I veterans who also served in World War II are counted in the World War II only. Fewer than 500 veterans served in wartime prior to World War I.
(4) Veterans who served both in wartime and peacetime are only counted as serving in wartime.
(5) Includes those who served between World War II and the Korean Conflict, those who served between World War I and World War II, and those who served prior to World War I.
(6) U.S. Total includes the 50 states and the District of Columbia. (Applies only to Table 3)
* Fewer than 500.
Detail may not add to totals due to rounding.
Percentages were calculated from unrounded values.

SOURCE: VetPop2001, Office of the Actuary, Office of Policy and Planning (008)
CONTACT: For supplemental data, call Michael Wells at 202-273-5106 or see the VA Web site, www.va.gov

TABLE 1A. COMPARISON OF THE CURRENT REPORT WITH THE PRIOR REPORT

The methodology for estimating the veteran population was substantially revised last year as described in Table 1a of last year's report. This year, the changes are smaller but still significant, as can observed by comparing the two reports. For example, the total number of veterans reported this year in Table 1 as of 9/30/2000 is 25,752,000. The total number reported in Table 1 last year as of the same date was 25,498,000, an increase of 254,000 or about 1 percent. Three primary factors account for this difference.

1. An adjustment for the undercount in the 1990 census added 605,000 veterans.
2. A revision of the mortality assumption showed an increase in deaths by 185,000.
3. Removing active-duty veterans from the count reduced the number by 166,000.

The count of WW I veterans was also affected by increased mortality of a different kind. This year, WWI veterans, many of whose ages were likely recorded incorrectly in the 1990 Census, were distributed into older age groups. At these older ages, mortality increases dramatically with age, leaving far fewer WW I veterans as of 9/30/2000 than was reported last year.

The following table compares the source of the current report (VetPop2001) with the source of the prior report (VetPop2000) since 1990. Interpolation is needed for the comparison because all VetPop2001 estimates after 4/1/90 are on a fiscal year basis.

Table 1a. (Number of Persons in Thousands)

Date	(1) Prior Veteran Population Estimates	(2) New Veteran Population Estimates
04/01/90	28,056	28,584
04/01/91	27,860	*28,401
06/30/91	27,814	*28,350
06/30/92	27,714	*28,224
06/30/93	27,607	*28,055
06/30/94	27,408	*27,824
06/30/95	27,200	*27,564
06/30/96	26,934	*27,262
06/30/97	26,658	*26,936
06/30/98	26,347	*26,587
06/30/99	26,026	*26,224
09/30/99	25,947	26,133
09/30/00	25,498	25,752
09/30/99	25,038	25,349

(1) VetPop2000, Office of the Actuary, Office of Policy and Planning
(2) VetPop2001, Office of the Actuary, Office of Policy and Planning
* Interpolated

Contact: Michael Wells at (202) 273-5106

TABLE 2: U.S. VETERAN POPULATION, 2001 (INCLUDES PUERTO RICO, TERRITORIES AND FOREIGN COUNTRIES) BY SEX, AGE (AT NEAREST BIRTHDAY) AND PERIOD OF SERVICE AS OF SEPTEMBER 30, 2001

(Number of Persons in Thousands)

		Wartime Veterans									Peacetime Veterans			
			Gulf War		Vietnam Era		Korean Conflict							
Age Group (in years)	Total Veterans (1)	Total (1)	Total (2)	Gulf War Only	Total (2)	Vietnam Era Only	Total (2)	Korean Conflict Only	World War II (2)	World War I (3)	Total (4)	Between Vietnam Era and Gulf War	Between Korean Conflict and Vietnam Era	Other Peace-time (5)
All Veterans														
All Ages	25,349	19,120	3,025	2,723	8,459	7,718	3,877	3,064	5,039	1	6,228	3,394	2,721	113
Under 20	12	12	12	12	0	0	0	0	0	0	0	0	0	0
20-24	280	280	280	280	0	0	0	0	0	0	0	0	0	0
25-29	680	680	680	680	0	0	0	0	0	0	1	1	0	0
30-34	1,133	861	861	861	0	0	0	0	0	0	272	272	0	0
35-39	1,444	432	432	432	0	0	0	0	0	0	1,011	1,011	0	0
40-44	1,808	331	296	295	36	35	0	0	0	0	1,477	1,477	0	0
45-49	2,028	1,487	239	128	1,359	1,249	0	0	0	0	541	541	0	0
50-54	3,049	2,962	153	26	2,936	2,810	0	0	0	0	87	76	11	0
55-59	3,098	2,722	55	6	2,716	2,667	0	0	0	0	376	13	363	0
60-64	2,263	882	13	2	811	789	79	69	0	0	1,382	2	1,380	0
65-69	2,455	1,554	2	1	278	137	1,415	1,275	0	0	901	1	879	21
70-74	2,616	2,478	*	*	193	24	1,898	1,621	713	0	138	1	77	61
75-79	2,404	2,385	*	*	79	6	320	85	2,289	0	19	*	7	11
80-84	1,522	1,512	0	0	40	2	127	9	1,500	0	10	*	3	8
85-89	454	445	0	0	8	*	31	3	442	0	9	0	1	8
90-94	90	85	0	0	1	*	5	1	85	0	4	0	*	4
95-99	11	10	0	0	*	*	1	*	10	*	1	0	*	1
100 +	1	1	0	0	*	*	*	*	1	1	*	0	*	*
Median Age	57.9	58.9	32.3	31.5	54.4	54.2	70.4	69.9	78.4	101.9	46.6	41.0	63.3	72.3
Female Veterans														
All Ages	1,399	915	420	406	233	212	84	70	209	*	484	406	69	9
Under 20	3	3	3	3	0	0	0	0	0	0	0	0	0	0
20-24	56	56	56	56	0	0	0	0	0	0	0	0	0	0
25-29	105	105	105	105	0	0	0	0	0	0	*	*	0	0
30-34	148	113	113	113	0	0	0	0	0	0	35	35	0	0
35-39	178	64	64	64	0	0	0	0	0	0	115	115	0	0
40-44	206	41	41	41	*	*	0	0	0	0	165	165	0	0
45-49	165	93	25	18	75	68	0	0	0	0	72	72	0	0
50-54	102	86	10	5	81	76	0	0	0	0	16	15	1	0
55-59	65	49	2	1	48	47	0	0	0	0	16	3	13	0
60-64	52	17	1	*	14	14	2	2	0	0	35	*	35	0
65-69	52	36	*	*	5	4	32	31	0	0	17	*	15	1
70-74	49	43	*	*	4	2	31	29	11	0	5	*	3	2
75-79	90	88	0	0	3	1	11	7	79	0	3	*	1	2
80-84	89	87	0	0	2	*	5	1	85	0	2	*	*	2
85-89	28	26	0	0	1	*	2	*	26	0	2	0	*	1
90-94	8	7	0	0	*	*	1	*	7	0	1	0	*	1
95-99	2	1	0	0	*	*	*	*	1	*	*	0	*	*
100 +	*	*	0	0	*	*	*	*	*	*	*	0	*	*
Median Age	44.6	48.6	31.3	31.0	52.0	52.0	70.5	69.8	80.1	100.9	42.2	41.0	62.5	76.7

Median ages were calculated from single year of age data and represent exact age.
See Table 1 for footnotes and contact information.

TABLE 3: U.S. VETERAN POPULATION 2001 (INCLUDES PUERTO RICO, TERRITORIES, AND FOREIGN COUNTRIES) BY STATE AND PERIOD OF SERVICE AS OF SEPTEMBER 30, 2001 (NUMBER OF PERSONS IN THOUSANDS)

		Wartime Veterans									Peacetime Veterans			
			Gulf War		Vietnam Era		Korean Conflict							
State	Total Veterans (1)	Total (1)	Total (2)	Gulf War Only	Total (2)	Vietnam Era Only	Total (2)	Korean Conflict Only	World War II (2)	World War I (2)	Total (4)	Between Vietnam Era and Gulf War	Between Korean Conflict and Vietnam Era	Other Peace-time (5)
Grand Total	25,349	19,120	3,025	2,723	8,459	7,718	3,877	3,064	5,039	1	6,228	3,394	2,721	113
U.S. Total [(6)].........	25,077	18,922	3,001	2,702	8,364	7,630	3,833	3,028	4,991	*	6,155	3,354	2,689	112
Alabama..............	462	349	69	62	152	137	69	55	84	*	112	62	48	2
Alaska................	68	46	8	7	28	27	7	6	5	*	21	13	8	*
Arizona............	515	383	56	50	175	161	75	59	102	*	132	75	55	2
Arkansas...........	283	215	38	34	94	86	42	33	55	*	68	37	30	1
California...........	2,318	1,738	237	214	781	717	358	283	476	*	579	307	261	11
Colorado.............	411	300	53	48	149	138	55	44	62	*	110	65	44	2
Connecticut........	275	211	24	22	86	79	48	38	67	*	64	31	32	1
Delaware........	78	58	8	7	26	24	12	9	15	*	20	12	8	*
District of Columbia	47	36	5	5	15	14	7	6	10	*	11	7	5	*
Florida..................	1,784	1,351	204	183	560	507	271	210	412	*	432	240	183	9
Georgia................	777	563	114	103	272	250	100	80	111	*	214	132	80	3
Hawaii..................	102	76	11	9	37	34	15	12	18	*	26	14	12	*
Idaho....................	125	93	17	15	43	39	17	14	22	*	31	17	13	*
Illinois...................	927	718	113	102	297	269	154	121	204	*	209	105	99	5
Indiana.................	562	422	69	62	190	173	85	68	106	*	139	78	59	2
Iowa......................	266	206	32	29	87	79	44	35	58	*	60	31	27	1
Kansas.................	245	187	28	25	83	76	38	30	50	*	58	32	25	1
Kentucky..............	372	283	46	41	126	115	57	45	73	*	89	48	39	2
Louisiana..............	388	300	62	56	126	114	58	45	75	*	88	47	40	2
Maine...................	154	115	20	18	52	47	22	17	28	*	39	23	16	1
Maryland..............	493	360	57	52	165	152	73	58	88	*	133	77	53	2
Massachusetts......	533	405	45	41	168	153	93	73	128	*	128	65	60	3
Michigan...............	891	678	117	105	300	273	134	106	172	*	214	117	93	4
Minnesota.............	427	322	43	39	151	139	67	53	81	*	105	57	47	2
Mississippi...........	252	193	38	34	80	71	39	31	50	*	59	31	26	1
Missouri...............	566	431	70	63	190	173	88	70	113	*	135	74	59	3
Montana...............	106	80	15	14	37	34	15	12	18	*	25	14	12	*
Nebraska..............	157	120	20	18	52	47	25	20	31	*	37	20	16	1
Nevada.................	233	170	22	19	84	78	35	28	40	*	64	35	28	1
New Hampshire...	135	98	15	14	47	43	19	15	23	*	37	21	15	1
New Jersey..........	621	482	53	47	191	172	115	90	159	*	139	64	72	3
New Mexico.........	188	140	22	20	67	62	27	21	33	*	48	26	21	1
New York.............	294	999	146	131	395	355	224	176	307	*	294	146	141	7
North Carolina.......	772	572	106	96	259	237	110	87	134	*	201	118	79	3
North Dakota........	56	43	7	6	19	18	9	7	11	*	13	7	6	*
Ohio....................	1,115	850	139	125	368	335	173	136	228	*	265	147	113	5
Oklahoma............	376	286	45	40	131	120	57	45	71	*	90	47	42	2
Oregon................	367	274	44	40	129	119	50	39	68	*	93	53	39	1
Pennsylvania........	1,216	941	131	118	381	345	205	160	291	*	274	138	130	6
Rhode Island.......	94	72	8	7	29	27	16	12	24	*	22	11	10	*
South Carolina......	413	308	61	55	140	127	58	46	70	*	105	60	43	2
South Dakota.......	77	59	11	10	25	23	12	10	15	*	18	10	8	*
Tennessee...........	545	409	67	60	188	172	81	64	100	*	136	75	59	2
Texas...................	1,721	1,291	239	215	595	544	244	194	296	*	430	239	183	7
Utah.....................	134	101	16	14	46	42	20	16	26	*	33	18	14	1
Vermont...........	59	44	7	6	20	18	9	7	11	*	15	8	6	*
Virginia................	715	523	89	80	247	227	101	81	119	*	192	111	78	3
Washington..........	622	455	68	61	227	210	85	68	103	*	167	94	70	2
West Virginia........	202	157	26	23	68	61	32	26	42	*	45	22	22	1
Wisconsin............	487	366	53	48	166	152	76	60	95	*	121	66	53	2
Wyoming.............	53	41	7	6	19	18	8	6	9	*	12	6	6	*
Puerto Rico..........	144	107	13	12	49	44	26	21	27	*	37	18	18	1
Territories/Foreign Countries	128	91	10	9	46	43	18	15	22	37	37	22	14	1
	25,229	19,062			8,208	7,758	3,870	3,309	5,400	3.334	6,167	3,428	2,619	120.35

See Table 1 for footnotes and contact information.

TABLE 4: A HEALTH CARE, SYSTEMWIDE WORKLOAD, FY 1997-2001

Data Description	*FY 2001*	*FY 2000*	*FY 1999*	*FY 1998*	*FY 1997*
Unique Patients (1)	4,247,204	3,817,273	3,610,030	3,431,393	3,142,065
Inpatient Care [Patients Treated (2)]					
Acute hospital care (3)	438,735	423,570	434,468	441,735	497,547
Rehabilitative care	14,705	14,837	16,274	17,303	18,224
Psychiatric care	101,831	102,354	111,726	126,693	147,117
Nursing home care	87,232	84,136	89,217	96,568	88,657
Subacute care	41,451	44,097	50,332	45,850	36,651
Residential care	45,495	48,876	49,774	49,987	38,650
TOTAL patients treated	729,449	717,870	751,791	778,136	826,846
Inpatient Care [Average Daily Census (ADC)]**					
Acute hospital care (3)	8,066	7,948	8,371	9,030	10,461
Rehabilitative care	1,173	1,174	1,259	1,346	1,423
Psychiatric care	4,214	4,517	5,144	6,324	7,919
Nursing home care	31,941	30,755	32,204	33,670	33,805
Subacute care	1,701	1,977	2,562	2,937	3,844
Residential care	10,697	10,349	10,496	10,662	9,901
TOTAL average daily census	57,792	56,720	60,036	63,969	67,353
Inpatient Care [Length of Stay (4)]					
Acute hospital care (3)	7	7	7	8	8
Rehabilitative care	29	29	28	28	29
Psychiatric care	15	16	17	18	20
Nursing home care	134	134	132	127	139
Subacute care	15	16	19	23	38
Residential care	86	78	77	78	94
Outpatient Visits [x 1000] (5)					
Staff	40,506	36,448	35,236	33,417	30,436
Fee	2,395	1,922	1,692	1,555	1,483
TOTAL visits	42,901	38,370	36,928	34,972	31,919
Outpatient Dental					
Staff examinations	402,966	292,396	284,425	287,308	270,743
Staff treatments	134,628	143,880	155,336	159,754	152,955
Fee cases	11,875	12,049	11,648	14,593	17,577
Long-Term Care Average Daily Census (ADC)**					
Institutional Care ADC					
VA nursing home	11,672	11,812	12,653	13,391	13,289
Community nursing home	3,990	3,685	4,537	5,605	6,477
State home nursing	16,277	15,258	15,014	14,674	14,027
VA domiciliaries	5,394	5,301	5,235	5,583	5,461
Psychiatric residential rehabilitation	1,261	1,422	1,581	1,453	856
State home domiciliaries	4,125	3,626	3,680	3,626	3,576
TOTAL Institutional Care	42,638	41,104	42,700	44,332	43,686
Home & Community-Based Care ADC					
Home-based primary care	7,803	7,312	6,828	6,348	5,531
Contract home health care	3,273	2,569	2,167	1,916	1,728
VA adult day health care [ADHC]	446	453	462	442	434
Contract adult day health care [CADHC]	804	697	809	615	551
Homemaker/home health aid services (6)	5,353	3,080	3,141	2,385	3,396
Community residential	7,055	7,471	7,964	8,104	9,300
TOTAL Home and Community-Based Care	24,734	21,582	21,371	19,810	20,940

TABLE 4 NOTES:

(1) "Unique Patients" are identified by social security number. The differences between the FY 2000 unique patient count of 3,817,273 shown above and the 3,427,925 reported on Table 10 (Enrollees and Users) is due mainly to two patient categories excluded from enrollment reporting (non Veterans [355,091] and veterans who only receive care through the Readjustment Counseling Program [46,865]). In addition, the level of 3,427,925 unique veteran users shown in Table 10 was subsequently updated and reduces by 12,608 to reflect further report validation and refinement. This refinement is reflected in Table 6.
(2) "Patients treated" are defined as "discharges plus deaths plus patients remaining in VA beds at the end of a fiscal year plus inter-hospital transfers."
(3) The category "acute hospital care" covers care provided in medicine, surgery, and neurology bed sections.
(4) "Average length of stay" for a fiscal year reflects only days of care generated in that fiscal year.
(5) Staff outpatient visits are rendered by VA staff; fee-basis visits are purchased from non-VA providers. Total fee-basis visits include home health care visits.
(6) "Homemaker/home health aid services" and "Community residential" ADC data are from VHA/Geriatric and Extended Care SWG records for FY 1997.

SOURCE: *FY 1997 - 2002 Department of Veterans Affairs Budget Submissions* (except as indicated otherwise in the notes above)
CONTACT: VHA CFO Office of Financial Management & Budget (173B) at (202) 273-8183 and, for certain FY long-term care data, Daniel Schoeps VHA Geriatrics and Extended Care Strategic Health Group (114) at (202) 273-8543

TABLE 5: GUARANTEED LOANS, DEFAULTS AND CLAIMS, AND PROPERTY MANAGEMENT, FY 1998-2001

	Cumulative (1) Through 9/30/01	***FY 2001***	***FY 2000***	***FY 1999***	***FY 1998***
Loan Guarantees					
Number of guarantees issued, total	16,619,118	250,009	199,160	485,614	343,954
Home	16,505,581	250,009	199,160	485,610	343,954
Manufactured home	113,537	0	0	4	0
Amount of loans ($000), total	708,475,599	31,254,955	23,372,159	54,087,766	37,906,134
Home -	706,404,319	31,254,955	23,372,159	54,087,681	37,906,134
Manufactured home	2,071,280	0	0	85	0
Average amount of loan					
Home -	42,798	125,015	117,354	111,381	110,207
Manufactured home	18,243	0	0	21,204	0
Amount of guaranty and insurance ($000), total -	265,609,289	9,153,836	7,071,309	16,659,581	11,756,697
Home	264,619,517	9,153,836	7,071,309	16,659,539	11,756,697
Manufactured home	989,772	0	0	42	0
Average interest rate -	(2)	7.41%	8.06%	6.99%	7.40%
Number of loans outstanding (end of period)	(2)	2,993,603	3,094,142	3,171,862	3,229,524
Substitutions of entitlement	53,190	1,004	612	505	814
Defaults and Claims(2)					
Defaults reported -	(2)	(2)	(2)	118,426	132,147
Loans in default-end of period	(2)	(2)	(2)	121,997	133,573
As a percent of loans outstanding-	(2)	(2)	(2)	3.85%	4.14%
Claims pending - end of period --	(2)	1,629	(2)	1,246	1,516
Defaults disposed of, total	(2)	(2)	(2)	130,272	131,103
Cured or withdrawn ---	(2)	(2)	(2)	102,367	103,712
Percent--	(2)	(2)	(2)	78.6%	79.1%
Average number of loans outstanding during year	(2)	3,045,235	3,122,784	3,192,936	3,256,335
Claims vouchered for payment -----	(2)	26,187	(2)	27,905	27,391
As a percent of average loans outstanding -	(2)	0.86%	(2)	0.87%	0.84%
Servicing efforts-total actions--------	(2)	13,398	12,003	13,009	12,514
Successful interventions---------	(2)	7,898	5,891	6,340	5,759
Deeds in lieu of foreclosures---------	(2)	408	552	611	846
Compromise agreements------------	(2)	2,051	3,389	3,773	4,975
Refundings--------	(2)	3,041	2,171	2,285	934
Counseling----------------	(2)	332,110	(2)	223,771	218,999
Property Management(2)					
Number acquired ----------	1,001,538	17,636	22,421	24,217	24,765
Number sold ------------	983,923	20,758	23,087	24,758	21,859
Number of properties repaired (over $1,000)---------------	(2)	(2)	(2)	13,091	10,370
Average cost of repairs-----	(2)	(2)	(2)	2,473	2,161
Number on hand (end of period) ---	(2)	11,481	15,259	12,044	12,541

(1) Since beginning of program.

(2) No data due to ongoing reconciliation of data from new LS&C system

- Detail may not add to total due to rounding.

SOURCE: Various reports from the Computer Output/Input Number (COIN) data systems including ad hoc reporting against the Guaranteed or Insured Loan (GIL) Master File; the Property Management System and the Distribution of Operational Resources System (DORS 6001and 6005)

CONTACT: Kathleen Mangold at (202) 273-7400, VBA/Information Technology and Program Analysis Division, Program Analysis (26A2B)

TABLE 6: NATIONAL CEMETERY LOCATIONS, INTERMENTS, AND GRAVESITE STATUS, SEPTEMBER 30, 2001

National Cemetery		FY 2001 Interments	Committed Gravesites: Used Cumulative (1)	Committed Gravesites: Reserved	Committed Gravesites: Set Aside (Adjacent)	Available Gravesites: Cremains (2)	Available Gravesites: Casket (3)	Depletion Date For Full-Casket Gravesites (4)
	Total:	**84,822**	**2,442,988**	**37,515**	**34,279**	**85,170**	**325,999**	
Alabama:	Ft. Mitchell	359	3,590	--	9	282	2,238	2030+
	Mobile	12	3,787	158	--	19	2	1963
Alaska:	Ft. Richardson	158	3,202	--	--	223	220	2030+
	Sitka	18	885	1	--	35	186	2020
Arizona:	NMCA	2,607	29,283	--	5	17,451	12,203	2030+
	Prescott	2	2,966	--	--	--	--	1974
Arkansas:	Fayetteville	221	5,562	33	2	1,332	1,056	2012
	Ft. Smith	348	9,673	118	2	144	2,280	2012
	Little Rock	335	22,198	158	1	--	--	2001
California:	Ft. Rosecrans	1,788	64,532	1,274	--	1	--	1966
	Golden Gate	712	111,730	4,407	--	--	2	1967
	Los Angeles	170	76,029	--	--	--	--	1976
	Riverside	7,692	113,336	--	4,981	2,095	35,580	2021
	San Francisco	92	26,420	334	--	--	--	1962
	San Joaquin Valley	2,181	14,910	--	--	32	9,601	2030+
Colorado:	Ft. Logan	3,072	59,594	466	50	808	1,287	2021
	Ft. Lyon	54	1,740	--	3	214	381	2030+
Florida:	Barrancas	1,019	24,906	373	843	295	953	2003
	Bay Pines	1,122	17,166	--	692	499	4	1987
	Florida	5,614	45,065	--	2	3,422	2,920	2020
	St. Augustine	--	1,230	13	--	--	--	1949
Georgia:	Marietta	36	17,063	234	--	--	--	1970
Hawaii:	NMCP	704	38,020	471	--	624	8	1991
Illinois:	Abraham Lincoln	1,551	2,933	--	27	4,095	2,540	2030+
	Alton	2	517	10	--	34	--	1961
	Camp Butler	555	14,797	165	9	1,209	325	2024
	Danville	151	9,003	--	4	149	6,322	2030+
	Mound City	57	7,491	19	1	23	337	2021
	Quincy	3	563	1	--	--	--	1994
	Rock Island	626	18,743	108	769	106	1,268	2013
Indiana:	Crown Hill	--	795	--	--	--	--	1959
	Marion	182	7,196	--	--	64	3,061	2030+
	New Albany	54	6,208	81	--	229	1	1991
Iowa:	Keokuk	89	3,668	20	1	93	1,729	2030+
Kansas:	Ft. Leavenworth	134	19,177	359	6	1,156	1	1982
	Ft. Scott	140	4,424	50	93	17	108	2030+
	Leavenworth	765	25,599	--	9	445	6,235	2014
Kentucky:	Camp Nelson	280	9,847	39	5	163	4,560	2022
	Cave Hill	2	5,863	3	--	--	--	1939
	Danville	--	393	1	--	--	--	1952
	Lebanon	173	3,552	18	--	23	82	2030+
	Lexington	--	1,389	--	--	--	--	1939
	Mill Springs	71	2,480	18	3	21	20	2022
	Zachary Taylor	56	11,114	374	--	--	1	1989
Louisiana:	Alexandria	43	7,740	99	--	8	--	1995
	Baton Rouge	3	5,082	18	--	258	1	1960
	Port Hudson	276	9,586	22	2	750	2,130	2008
Maine:	Togus	--	5,371	--	--	--	--	1961
Maryland:	Annapolis	5	2,945	19	--	--	--	1961
	Baltimore	267	36,181	1,623	--	329	6	1970
	Loudon Park	1	6,497	--	--	--	--	1970
Massachusetts:	Massachusetts	2,203	27,446	--	2,325	598	17,602	2030+
Michigan:	Ft. Custer	1,314	14,152	12	760	3,406	12,790	2030+
Minnesota:	Ft. Snelling	4,363	128,818	7,320	2,998	876	4,509	2025

See footnotes at end of table.

TABLE 6, CONTINUED: NATIONAL CEMETERIES LOCATION, INTERMENTS, AND GRAVESITE STATUS, SEPTEMBER 30, 2001

National Cemetery		FY 2000 Interments	Committed Gravesites			Available Gravesites		Depletion Date
			Used Cumulative (1)	Reserved	Set Aside (Adjacent)	Cremains (2)	Casket (3)	For Full-Casket Gravesites (4)
Mississippi:	Biloxi	670	11,427	380	725	100	820	2015
	Corinth	44	6,794	11	--	34	6,677	2030+
	Natchez	89	6,178	18	--	12	113	2004
Missouri:	Jefferson Barracks	4,149	114,781	670	62	1,246	11,953	2010
	Jefferson City	11	1,643	13	--	--	--	1969
	Springfield	128	11,222	89	--	1,818	10	1995
Nebraska:	Ft. McPherson	243	6,123	27	6	526	4,838	2030+
New Jersey:	Beverly	409	40,868	2,081	--	1,182	--	1966
	Finn's Point	15	2,794	--	--	59	--	1963
New Mexico:	Ft. Bayard	97	3,047	--	--	392	1,804	2030+
	Santa Fe	1,430	28,412	244	34	273	589	2012
New York:	Bath	186	11,893	--	4	113	3,045	2020
	Calverton	7,469	142,671	--	17,670	6,119	46,548	2030+
	Cypress Hills	10	18,586	48	--	48	--	1954
	Long Island	1,859	241,369	8,349	--	21	2	1978
	Saratoga	658	1,635	0	17	1,478	2,846	2030+
	Woodlawn	124	7,677	127	--	49	85	2003
North Carolina:	New Bern	28	6,738	59	--	--	--	1992
	Raleigh	30	5,226	55	152	--	--	1990
	Salisbury	390	18,435	36	7	68	845	2030+
	Wilmington	34	5,134	37	--	--	--	1987
Ohio:	Dayton	785	36,477	1	14	726	2,036	2021
	Ohio Western Reserve	884	1204	--	3	2,508	2,276	2030+
Oklahoma:	Ft. Gibson	513	13,912	57	--	865	2,483	2030+
Oregon:	Eagle Point	629	8,371	--	18	31	776	2026
	Roseburg	11	2,553	--	2	1	--	1981
	Willamette	3,526	94,559	1,223	18	6,833	24,577	2017
Pennsylvania:	Indiantown Gap	1,557	17,404	--	10	3,202	13,162	2030+
	Philadelphia	44	10,691	27	--	100	--	1962
Puerto Rico:	Puerto Rico	1,478	31,706	795	3	267	1,714	2014
South Carolina:	Beaufort	348	15,636	124	5	179	1,126	2012
	Florence	276	7,209	38	--	238	823	2030+
South Dakota:	Black Hills	601	13,620	259	16	261	3,387	2027
	Ft. Meade	--	188	--	--	--	--	1948
	Hot Springs	0	1,481	--	--	--	--	1964
Tennessee:	Chattanooga	950	34,652	246	--	1200	7,803	2012
	Knoxville	27	8,203	112	--	391	--	1990
	Memphis	200	36,240	320	--	313	3	1992
	Mountain Home	288	10,045	--	--	429	47	2023
	Nashville	180	31,138	250	803	396	3	1993
Texas:	Dallas-Ft. Worth	2,097	3,236	--	41	1,042	9,760	2030+
	Ft. Bliss	1,203	30,903	938	3	39	3,619	2021
	Ft. Sam Houston	3,465	79,513	1,852	100	381	1,671	2011
	Houston	2,363	43,264	27	19	3,445	18,204	2030+
	Kerrville	--	461	--	--	--	--	1957
	San Antonio	--	3,010	23	--	317	--	1961
Virginia:	Alexandria	3	4,078	20	--	151	--	1967
	Balls Bluff	--	25	--	--	--	--	1889
	City Point	7	5,545	54	--	--	--	1971
	Cold Harbor	1	979	--	--	--	--	1970
	Culpeper	228	7,782	9	--	26	33	2030+
	Danville	4	2,161	20	--	25	--	1970
	Ft. Harrison	8	1,123	2	--	32	--	1967
	Glendale	3	1,304	--	--	18	--	1970

See footnotes at end of table.

TABLE 6, CONTINUED: NATIONAL CEMETERIES LOCATION, INTERMENTS, AND GRAVESITE STATUS, SEPTEMBER 30, 2001

			Committed Gravesites			Available Gravesites		Depletion Date
	National Cemetery	FY 2000 Interments	Used Cumulative (1)	Reserved	Set Aside (Adjacent)	Cremains (2)	Casket (3)	For Full-Casket Gravesites (4)
	Hampton	97	25,649	267	815	--	1	1993
	Hampton (VAMC)	--	22	--	--	--	--	1899
	Quantico	1,213	14,301	--	42	2,535	13,668	2030+
	Richmond	8	7,419	134	--	22	--	1963
	Seven Pines	3	1,138	--	--	--	--	1964
	Staunton	--	848	4	--	--	--	1983
	Winchester	13	5,166	21	--	--	--	1969
Washington:	Tahoma	1,629	6,843	--	88	4,046	5,595	2025
West Virginia:	Grafton	1	2,102	29	--	--	--	1961
	West Virginia	232	1,904	--	--	85	508	2030+
Wisconsin:	Wood	192	33,813	--	--	--	--	1997

(1) Includes all types of gravesites including columbaria niches.
(2) In-ground sites suitable for cremated remains and columbaria niches.
(3) Full-casket gravesites available in developed acreage. Excludes reserved, adjacent gravesites set aside, and potential sites in undeveloped acreage. Some cemeteries that are closed to casketed first-interments may have casket sites available due to disinterments, canceled reservations, etc.
(4) Cemeteries indicated as depleted may continue to inter eligible family members in already occupied gravesites, in previously reserved gravesites, and in gravesites suitable for cremated remains.

SOURCE: National Cemetery Administration data from the Burial Operations Support System (BOSS).
CONTACT: Jack Gaegler at (202) 273-5167, NCA Director, Policy and Planning Service (402A2).

TRENDS & HIGHLIGHTS: Interments in FY 1991 were 62,578 and have grown at an average annual rate of increase of 3.1% in subsequent ten years through FY 2001. Interments in FY 2001, however, increased over interments in FY 2000 by 2.5%.

TABLE 7: ESTIMATED SELECTED EXPENDITURES BY STATE, FY 2001

		Readjustment Benefits						
			Education Assistance					
			Post-Vietnam	Montgomery GI Bill				
	Total of Selected Expenditures	Total Readjustment Benefits	Conflict (Chapter 32)	Active Duty Chapter 30		Selected Reserve Chapter 1606		
State	($000) (2)	($000) (2)	Amount ($000)	Trained During Fiscal Year	Amount ($000)	Trained During Fiscal Year (3)	Amount ($000)	
US--Total (2)..........	$ 49,471,029	$ 1,505,800	$ 18,052	261,993	$ 807,517	59,726	$ 113,313	
Alabama................	1,003,579	31,171	268	4,415	14,518	1,530	2,037	
Alaska..................	173,976	6,842	64	991	3,033	129	426	
Arizona..............	1,044,097	41,948	239	9,872	23,781	796	3,337	
Arkansas..............	795,127	15,133	560	1,990	6,501	960	912	
California........	4,399,914	143,004	1,442	30,049	92,684	3,677	13,006	
Colorado..............	902,306	44,411	599	6,896	21,611	546	3,033	
Connecticut..........	441,721	12,126	340	1,439	4,634	920	650	
Delaware................	141,933	4,064	44	599	1,717	240	241	
District of Columbia........	1,359,349	3,798	5	700	922	96	129	
Florida.............	3,434,603	100,236	257	20,156	58,054	2,397	8,146	
Georgia.............	1,415,160	59,982	256	11,303	35,230	1,274	4,944	
Hawaii................	226,124	10,824	126	1,822	5,624	655	789	
Idaho...................	217,985	9,886	101	1,526	5,222	464	733	
Illinois.................	1,472,650	49,171	942	10,265	31,435	3,070	4,411	
Indiana..............	697,055	23,758	251	4,074	12,448	1,214	1,747	
Iowa...................	477,090	11,403	280	1,998	6,420	1,236	901	
Kansas...........	464,682	15,787	585	2,734	9,223	877	1,294	
Kentucky...............	714,424	22,523	226	3,229	10,486	957	1,471	
Louisiana..............	860,293	25,069	436	3,926	14,381	2,232	2,018	
Maine.................	347,599	8,800	341	934	2,978	227	418	
Maryland.............	778,940	27,865	196	6,847	13,725	1,119	1,926	
Massachusetts.....	1,139,395	22,978	383	2,758	8,954	1,264	1,256	
Michigan..............	1,156,961	30,210	311	6,874	18,544	1,168	2,602	
Minnesota.............	786,385	20,566	351	3,117	10,264	1,706	1,440	
Mississippi............	702,722	13,184	203	2,010	7,254	1,338	1,018	
Missouri................	1,082,036	31,837	722	5,208	16,398	1,305	2,301	
Montana...........	199,563	8,029	227	985	3,591	251	504	
Nebraska............	385,174	11,966	581	2,262	6,368	781	894	
Nevada.................	405,585	11,990	92	2,330	6,809	227	955	
New Hampshire........….	210,186	7,276	61	789	2,609	161	366	
New Jersey...................	803,803	17,876	287	2,694	8,468	1,112	1,188	
New Mexico..........	504,119	16,249	264	2,768	8,724	384	1,224	
New York........….........	2,673,606	52,540	806	6,941	23,397	2,891	3,283	
North Carolina............	1,440,050	55,837	227	9,315	32,786	1,297	4,601	
North Dakota................	136,574	5,771	171	791	2,878	767	404	
Ohio....................	1,869,287	50,936	513	8,596	26,509	2,703	3,720	
Oklahoma...........	924,240	31,114	604	4,867	14,597	1,658	2,048	
Oregon................	805,546	27,063	87	3,777	12,148	744	1,705	
Pennsylvania..........	2,025,955	39,351	725	6,835	23,613	2,750	3,313	
Rhode Island..........	206,103	4,238	85	600	1,751	272	246	
South Carolina..........	801,505	29,256	180	4,507	14,167	1,113	1,988	
South Dakota................	263,326	7,612	153	728	2,661	747	373	
Tennessee............	1,269,342	32,370	211	4,993	16,325	914	2,291	
Texas....................	3,699,628	130,474	1,302	24,619	75,138	2,957	10,544	
Utah.....................	299,474	10,654	275	1,754	5,472	989	768	
Vermont..............	142,834	4,536	53	271	912	142	128	
Virginia.............	1,318,695	59,557	241	12,549	35,307	1,539	4,954	
Washington...........	1,236,472	58,018	438	8,324	29,335	1,078	4,116	
West Virginia..........	619,791	20,787	213	1,161	4,505	860	632	
Wisconsin...........	857,193	21,919	260	3,226	11,430	1,795	1,604	
Wyoming...........	136,873	3,806	469	579	1,977	197	277	
Puerto Rico	674,795	13,944	0	654	2,619	1,267	368	

State	Readjustment Benefits (continued)							Insurance and Indemnities Amount ($000)	Hospital Domiciliary and other Construction Amount ($000)	Medical Services and Administrative Costs Amount ($000)
	Education Assistance (continued)					Automobiles and other Conveyances for Disabled Veterans ($000)	Specially Adapted Housing for Disabled Veterans ($000)			
	Dependents Educational Assistance (Title 38, U.S.C., Ch. 35)			Vocational Rehabilitation (Title 38, U.S.C., Ch 31)						
	Trained During FY									
	Sons & Daughters	Widow(er)s & Spouses	Amount ($000)	Trained During Fiscal Year	Amount ($000)					
US--Total..........	38,803	6,016	$171,091	NA	$ 395,827	$ 33,478	$ 15,472	$ 1,948,221	$ 402,587	$ 22,961,755
Alabama........	1,042	164	4,515		9,834	563	180	26,529	2,826	406,301
Alaska...........	88	15	397		2,923	38		2,604	8	81,429
Arizona..........	890	202	3,926		10,666	1,442	43	43,234	8,931	441,585
Arkansas......	771	111	3,558		3,602	425	395	16,853	1,190	363,137
California.......	3,505	626	14,298		21,574	3,249	1,178	206,386	44,504	2,136,421
Colorado.	715	138	3,360		15,809	603	352	31,224	2,969	437,817
Connecticut	236	22	1,013		5,489	142	51	31,672	1,582	230,877
Delaware	104	10	334		1,729	55		5,936	992	69,949
District of Columbia.	116	8	177		2,564	9		3,761	78,242	1,219,538
Florida	2,683	452	10,496		23,283	2,774	1,253	179,131	31,931	1,382,325
Georgia..	1,364	234	6,475		13,078	1,215	645	43,469	4,414	539,855
Hawaii........	199	43	879		3,406	89	43	16,291	623	87,992
Idaho........	213	32	999		2,831	181	266	8,272	1,733	77,757
Illinois....	857	92	3,615		8,767	555	352	82,412	11,864	836,831
Indiana...........	625	79	2,684		6,628	460	154	29,322	1,474	295,862
Iowa...	304	24	1,245		2,557	241	85	23,836	960	255,987
Kansas.........	393	68	1,852		2,832	276		19,406	5,170	218,097
Kentucky........	672	105	3,232		7,108	247	360	18,999	4,587	269,995
Louisiana......	829	88	3,816		4,418	446	567	23,269	5,886	383,590
Maine........	426	79	2,026		3,037	192	258	9,943	21	113,175
Maryland..........	613	89	2,381		9,636	587		42,122	1,772	326,771
Massachusetts.......	755	53	2,472		9,913	192	215	53,606	1,696	542,681
Michigan................	833	108	3,466		5,287	500	343	53,546	26,099	544,164
Minnesota..	679	86	3,026		5,485	2,205	258	39,424	2,879	383,029
Mississippi......	519	81	2,448		2,262	285	301	14,208	2,385	352,297
Missouri.......	715	120	3,466		8,951	583	255	37,742	4,124	558,357
Montana.......	184	36	978		2,730	97	86	7,740	1,187	73,220
Nebraska........	385	63	1,830		2,293	214	129	14,129	3,702	182,255
Nevada....	203	58	905		3,229	159		13,390	1,566	188,354
New Hampshire....	191	28	882		3,357	765	86	10,155	305	64,008
New Jersey.......	447	61	1,990		5,941	532	43	68,554	7,555	291,917
New Mexico......	593	111	2,790		3,248	675	258	13,636	3,318	214,574
New York....	1,528	168	5,873		19,180	1,019	215	130,863	17,449	1,484,997
North Carolina........	1,511	271	7,691		10,532	1,186	732	47,091	11,308	498,458
North Dakota..	131	21	690		1,628	43	43	5,004	465	72,219
Ohio...	1,068	117	4,788		15,406	1,784	696	73,896	19,136	986,098
Oklahoma.....	1,181	242	5,912		7,953	520	387	21,561	2,464	294,713
Oregon..	581	109	2,640		10,484	551	129	24,523	2,928	390,438
Pennsylvania..	1,230	136	5,029		6,670	970		102,139	17,196	987,589
Rhode Island...	172	21	552		1,605	135	51	8,269	862	94,028
South Carolina....	893	123	4,342		8,579	489	258	26,282	1,033	304,012
South Dakota..	143	20	691		3,734	50		6,111	2,249	158,432
Tennessee..	838	115	3,842	--	9,701	717	531	29,106	19,603	625,445
Texas.....	3,226	559	14,410		29,080	2,707	2,152	110,364	23,691	1,514,598
Utah............	405	36	1,568		2,571	145		12,018	739	159,725
Vermont......	85	9	251		3,193	13	94	4,474	40	80,857
Virginia.......	1,355	235	5,784		13,270	1,158	567	57,083	6,707	463,173
Washington.....	1,169	219	6,096		18,032	1,448	867	43,020	3,147	442,049
West Virginia........	395	51	1,950		13,487	191	231	10,529	2,080	332,627
Wisconsin...	649	64	3,099		5,526	281	309	41,323	3,068	421,878
Wyoming....	94	14	352		730	78	50	3,764	1,927	80,272
Puerto Rico............	1,658	109	7,295		3,662	128	0	4,257	10,474	265,875

State	Compensation and Pension								
	Living and Deceased Veterans							Living Veterans	
	Total		Burial	Service-Connected		Nonservice-Connected		Total	
	Number	Amount ($000)	Benefits ($000)	Number	Amount ($000)	Number	Amount ($000)	Number	Amount ($000)
US-Total.......	3,135,259	$ 22,603,717	$ 52,534	2,578,025	$ 19,714,953	557,234	$ 2,836,230	2,615,082	$ 18,414,321
Alabama...	77,599	536,009	1,314	57,099	427,051	20,500	107,643	59,841	413,162
Alaska	10,838	83,056	89	10,463	80,396	375	2,570	10,273	77,225
Arizona...	64,767	506,914	818	57,655	466,968	7,112	39,129	55,937	416,944
Arkansas..	46,286	397,993	853	34,755	341,675	11,531	55,466	36,351	321,680
California.	264,353	1,865,172	3,441	226,885	1,667,567	37,468	194,165	222,901	1,486,350
Colorado.	53,652	384,930	741	48,699	357,789	4,953	26,400	46,920	318,829
Connecticut..	25,612	165,271	374	22,066	152,363	3,546	12,533	22,085	138,274
Delaware..	8,920	60,938	457	7,689	55,353	1,231	5,128	7,545	49,562
District of Columbia..	7,144	54,001	82	5,141	42,717	2,003	11,202	5,757	42,834
Florida.	247,082	1,736,953	2,959	216,441	1,581,102	30,641	152,891	210,926	1,409,367
Georgia.	110,784	765,579	1,349	89,715	666,167	21,069	98,063	89,095	597,405
Hawaii.	14,241	110,262	276	13,175	103,610	1,066	6,376	12,511	92,377
Idaho..	15,945	119,890	271	14,058	108,628	1,887	10,991	14,113	102,341
Illinois.	78,212	491,465	1,582	60,573	396,682	17,639	93,200	66,051	407,319
Indiana	51,600	346,026	766	42,970	303,189	8,630	42,070	43,987	288,212
Iowa.	26,095	184,578	518	20,280	152,235	5,815	31,826	21,756	153,825
Kansas.	29,621	205,946	423	24,440	178,375	5,181	27,149	25,004	168,013
Kentucky	53,849	397,713	776	39,834	326,600	14,015	70,337	42,774	320,273
Louisiana..	58,611	421,465	731	39,121	320,468	19,490	100,267	44,471	330,606
Maine..	23,160	215,211	895	18,657	189,779	4,503	24,537	19,963	188,543
Maryland...	55,154	379,823	565	47,889	343,091	7,265	36,167	46,496	303,767
Massachusetts	72,833	518,027	1,479	64,219	479,055	8,614	37,493	62,715	429,025
Michigan..	80,354	502,099	1,222	66,068	422,888	14,286	77,989	68,691	418,308
Minnesota.....	47,925	338,025	1,283	38,997	294,719	8,928	42,022	40,733	286,748
Mississippi..	42,302	320,062	792	28,526	255,193	13,776	64,077	31,404	250,161
Missouri....	61,383	449,137	1,247	47,801	374,342	13,582	73,548	50,576	365,340
Montana......	14,159	109,204	305	11,830	96,150	2,329	12,749	12,564	95,563
Nebraska........	21,816	172,779	277	18,145	150,168	3,671	22,334	18,739	146,760
Nevada..........	27,114	190,126	791	23,739	170,792	3,375	18,543	24,081	159,963
New Hampshire..........	16,567	127,591	299	14,896	118,638	1,671	8,654	14,615	109,073
New Jersey.....	62,674	417,327	1,173	55,215	382,106	7,459	34,048	53,494	339,527
New Mexico....	29,116	255,409	351	24,211	227,946	4,905	27,113	24,759	216,750
New York........	145,852	986,523	2,452	115,470	846,694	30,382	137,378	121,099	815,324
North Carolina............	113,471	825,439	1,836	91,541	727,757	21,930	95,845	91,291	657,841
North Dakota...............	7,836	53,029	208	6,176	44,226	1,660	8,596	6,719	45,486
Ohio..	112,224	736,741	1,625	89,530	617,634	22,694	117,483	94,251	606,971
Oklahoma	62,981	573,481	1,220	49,329	474,744	13,652	97,517	51,862	475,357
Oregon	43,072	359,914	834	35,437	308,048	7,635	51,032	37,406	308,119
Pennsylvania	126,169	878,710	2,552	99,536	740,919	26,633	135,239	104,031	718,577
Rhode Island....	12,881	98,519	167	11,071	89,182	1,810	9,170	10,935	81,165
South Carolina..	61,051	440,175	1,162	47,234	369,728	13,817	69,285	48,479	345,650
South Dakota....	12,033	88,872	267	9,195	73,371	2,838	15,235	10,152	75,664
Tennessee...	76,864	561,570	2,220	57,758	467,643	19,106	91,707	60,764	446,567
Texas.....	255,895	1,915,642	4,322	210,864	1,686,804	45,031	224,515	210,099	1,528,240
Utah....	16,223	116,194	230	14,483	107,279	1,740	8,685	14,333	98,612
Vermont..	6,532	52,821	198	5,495	47,496	1,037	5,127	5,524	43,872
Virginia..	106,319	730,450	1,659	92,558	665,559	13,761	63,232	88,369	571,433
Washington	88,983	687,922	1,006	81,448	644,366	7,535	42,551	78,486	582,152
West Virginia..	29,708	253,347	741	21,517	205,290	8,191	47,316	23,972	211,573
Wisconsin........	50,980	368,414	1,229	42,473	321,631	8,507	45,554	44,429	316,761
Wyoming....	6,417	46,975	109	5,658	42,782	759	4,084	5,753	40,831
Puerto Rico.....	45,527	380,117	813	21,457	251,902	24,070	127,402	32,948	307,120

	Compensation and Pension--Continued									
	Living Veterans-Continued				Deceased Veterans					
	Service-Connected		Nonservice-Connected		Total		Service-Connected		Nonservice-Connected	
State	Number	Amount ($000)	Number	Amount ($000)	Number	Amount ($000)	Number	Amount ($000)	Number	Amount ($000)
US--Total.........	2,283,582	$ 16,213,116	331,500	$ 2,201,205	520,177	$ 4,136,862	294,443	$ 3,501,837	225,734	$ 635,025
Alabama...	49,755	340,753	10,086	72,410	17,758	121,532	7,344	86,299	10,414	35,234
Alaska	9,962	74,883	311	2,342	565	5,742	501	5,513	64	229
Arizona...	50,959	384,413	4,978	32,531	8,830	89,153	6,696	82,555	2,134	6,598
Arkansas..	29,621	279,632	6,730	42,048	9,935	75,461	5,134	62,043	4,801	13,418
California.	198,511	1,329,386	24,390	156,964	41,452	375,381	28,374	338,181	13,078	37,200
Colorado.	43,702	297,078	3,218	21,751	6,732	65,360	4,997	60,712	1,735	4,648
Connecticut..	20,115	128,533	1,970	9,741	3,527	26,623	1,951	23,830	1,576	2,793
Delaware..	6,887	45,756	658	3,806	1,375	10,919	802	9,597	573	1,322
District of Columbia..	4,469	33,757	1,288	9,077	1,387	11,085	672	8,960	715	2,125
Florida.	190,426	1,285,613	20,500	123,754	36,156	324,627	26,015	295,489	10,141	29,137
Georgia.	78,008	527,770	11,087	69,636	21,689	166,825	11,707	138,397	9,982	28,428
Hawaii.	11,794	87,222	717	5,155	1,730	17,609	1,381	16,388	349	1,221
Idaho..	12,738	92,782	1,375	9,559	1,832	17,278	1,320	15,847	512	1,432
Illinois.	54,949	332,401	11,102	74,918	12,161	82,563	5,624	64,282	6,537	18,282
Indiana	38,846	255,111	5,141	33,101	7,613	57,048	4,124	48,078	3,489	8,970
Iowa.	18,236	127,859	3,520	25,966	4,339	30,236	2,044	24,376	2,295	5,860
Kansas.	21,717	145,905	3,287	22,108	4,617	37,511	2,723	32,470	1,894	5,041
Kentucky	34,809	267,565	7,965	52,709	11,075	76,663	5,025	59,035	6,050	17,628
Louisiana..	33,708	257,436	10,763	73,170	14,140	90,128	5,413	63,031	8,727	27,097
Maine..	16,823	167,619	3,140	20,923	3,197	25,773	1,834	22,160	1,363	3,614
Maryland...	42,292	276,094	4,204	27,673	8,658	75,491	5,597	66,997	3,061	8,494
Massachusetts	57,776	399,272	4,939	29,753	10,118	87,523	6,443	79,783	3,675	7,740
Michigan..	59,881	354,596	8,810	63,712	11,663	82,570	6,187	68,292	5,476	14,278
Minnesota.....	35,515	253,143	5,218	33,605	7,192	49,994	3,482	41,577	3,710	8,417
Mississippi..	24,167	203,997	7,237	46,164	10,898	69,108	4,359	51,195	6,539	17,913
Missouri....	42,260	308,048	8,316	57,292	10,807	82,549	5,541	66,294	5,266	16,256
Montana......	10,860	84,552	1,704	11,011	1,595	13,336	970	11,598	625	1,738
Nebraska........	16,271	127,681	2,468	19,079	3,077	25,742	1,874	22,487	1,203	3,255
Nevada..........	21,463	143,751	2,618	16,213	3,033	29,371	2,276	27,041	757	2,330
New Hampshire..........	13,541	101,741	1,074	7,333	1,952	18,218	1,355	16,897	597	1,321
New Jersey.....	49,576	313,849	3,918	25,678	9,180	76,627	5,639	68,257	3,541	8,370
New Mexico....	21,511	195,011	3,248	21,739	4,357	38,308	2,700	32,935	1,657	5,373
New York........	104,182	709,684	16,917	105,640	24,753	168,747	11,288	137,010	13,465	31,738
North Carolina............	79,712	590,245	11,579	67,596	22,180	165,762	11,829	137,512	10,351	28,249
North Dakota..............	5,667	38,497	1,052	6,989	1,117	7,336	509	5,729	608	1,607
Ohio..	80,844	514,269	13,407	92,702	17,973	128,145	8,686	103,365	9,287	24,781
Oklahoma	42,827	394,677	9,035	80,680	11,119	96,904	6,502	80,067	4,617	16,836
Oregon	31,948	265,783	5,458	42,336	5,666	50,961	3,489	42,265	2,177	8,696
Pennsylvania	89,044	614,528	14,987	104,049	22,138	157,582	10,492	126,392	11,646	31,190
Rhode Island....	9,825	73,567	1,110	7,598	1,946	17,187	1,246	15,615	700	1,573
South Carolina..	41,009	296,053	7,470	49,598	12,572	93,362	6,225	73,675	6,347	19,687
South Dakota....	8,337	63,314	1,815	12,350	1,881	12,941	858	10,056	1,023	2,885
Tennessee...	50,334	381,122	10,430	65,445	16,100	112,783	7,424	86,521	8,676	26,262
Texas.....	183,524	1,355,127	26,575	173,113	45,796	383,080	27,340	331,677	18,456	51,402
Utah....	13,173	91,385	1,160	7,226	1,890	17,353	1,310	15,894	580	1,459
Vermont..	4,860	39,664	664	4,208	1,008	8,750	635	7,832	373	918
Virginia..	80,849	525,481	7,520	45,952	17,950	157,358	11,709	140,078	6,241	17,281
Washington	73,375	546,694	5,111	35,458	10,497	104,764	8,073	97,672	2,424	7,093
West Virginia..	18,882	174,209	5,090	37,365	5,736	41,032	2,635	31,081	3,101	9,951
Wisconsin........	38,849	278,260	5,580	38,500	6,551	50,424	3,624	43,370	2,927	7,054
Wyoming....	5,193	37,351	560	3,481	664	6,035	465	5,431	199	603
Puerto Rico.....	18,387	215,693	14,561	91,427	12,579	72,184	3,070	36,209	9,509	35,975

TABLE 7 NOTES:

(1) "U.S. Total" does not include Puerto Rico.

(2) Vocational Rehabilitation (Title 38, U.S.C., Ch. 31) data on the number of trainees at the state level is not available.

(3) Data are as reported by station of jurisdiction which may report for more than one state.

SOURCE: C&P expenditures for the 50 states and D.C. were derived from the Federal Assistance Awards Data System (FAADS) and are gross expenditures.

Education expenditures are derived from FAADS. "Insurance and Indemnities Amount" data are provided by the VA Regional Office and Insurance Center, Philadelphia, Pa.

Other dollar estimates are derived from VA accounting reports.

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GLOSSARY LIST

AAALAC	Association for Assessment and Accreditation of Laboratory Animal Care
AAC	Austin Automation Center
ACSI	American Customer Satisfaction Index
ADE	Awards Data Entry
ADHC	Adult Day Health Care
AFGE	American Federation of Government Employees
AICPA	American Institute of Certified Public Accountants
AMAS-R	Automated Monument Application System – Redesign
ARC	Allocation Resources Center
BDC	Benefits Delivery Center
BOP	Federal Bureau of Prisons
BOSS	Burial Operations Support Systems
BVA	Board of Veterans' Appeals
C&P	Compensation and Pension
C&V	Construction and Valuation
CAP	Combined Assessment Program
CARES	Capital Asset Realignment for Enhanced Services
CBOC	Community-based Outpatient Clinic
CFO	Chief Financial Officer
CIO	Chief Information Officer
CPEP	Compensation and Pension Examination Project
CPRS	Computerized Patient Record System
CDCI	Chronic Disease Care Index
CFR	Code of Federal Regulations
CFS	Consolidated Financial Statements
COLAs	Cost of Living Adjustments
CoreFLS	Core Financial & Logistics System
CPT	Current Procedural Terminology
CPTS	Centralized Property Tracking System
CSO	Commissioner's Standard Ordinary
CSRS	Civil Service Retirement System
CY	Calendar Year
DFAS	Defense Finance and Accounting Service
DMDC	Defense Manpower Data Center
DMO	Data Management Office
DoD	Department of Defense
DOL	Department of Labor
DSS	Decision Support System
EPA	Environment Protection Agency
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standard Board
FATS	Foreclosure Avoidance Through Servicing
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System

FFMIA	Federal Financial Management Improvement Act
FIFO	First In-First Out
FISCAM	Federal Information System Controls Audit Manual
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management System
FOIA	Freedom of Information Act
FSC	Financial Services Center
FSQAS	Financial Systems & Quality Assurance Service
FSS	Federal Supply Schedule
FTE	Full-time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principals
GAO	General Accounting Office
GISRA	Government Information Security Reform Act
GMRA	Government Management Reform Act
GPO	Government Printing Office
GPRA	Government Performance and Results Act
GSA	General Services Administration
HCM	Human Capital Management
HCPCS	Health Care Financing Procedure Code System
HEC	Health Eligibility Center
HHS	Health and Human Services
HIM	Health Information Management
HIPAA	Health Insurance Portability and Accountability Act
HIV	Human Immune-deficiency virus
HR LINK$	VA's Integrated Human Resources and Payroll System
HRM	Human Resources Management
IFCAP	Integrated Funds distribution, Control point activity accounting
IG	Inspector General
IT	Information Technology
IVM	Income Verification Match
LS&C	Loan Service & Claims
MCCF	Medical Care Collections Fund
MDR	Meta Data Repository
MGIB	Montgomery GI Bill
MOU	Memorandum of Understanding
MPI	Master Patient Index
MVHCB	Military and Veterans Health Coordinating Board
NAGE	National Association of Government Employees
NARS	National Automated Response System
NCA	National Cemetery Administration
NCPS	National Center for Patient Safety
NCQA	National Committee for Quality Assurance
NIH	National Institutes of Health
NRC	National Research Council
NSLI	National Service Life Insurance
OA&MM	Office of Acquisition & Materiel Management
OCS	Office of Cyber Security

OED	Online Eligibility Determination
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPI	Office of Program Integrity
OPM	Office of Personnel Management
OSGLI	Office of Service Members' Group Life Insurance
OSHA	Occupational Safety and Health Administration
OWCP	Office of Workers Compensation Program
PAID	Personnel Accounting Integrated Data
PI	Prevention Index
PIR	Project Initiation Request
PLAN	Property Management Local Area Network
PLOU	Portfolio Loan Oversight Unit
PP&E	Property, Plant & Equipment
PTF	Presidents Task Force
PVA	Paralyzed Veterans of America
R&D	Research and Development
RCA	Root Cause Analysis
REPS	Restored Entitlement Program for Survivors
RLC	Regional Loan Centers
RPO	Regional Processing Office
SCGP	State Cemetery Grants Program
SCI	Spinal Cord Injury
SCI/D	Spinal Cord Injury/Dysfunction
SDN	Service Delivery Network
S-DVI	Service-Disabled Veterans Insurance
SGLI	Servicemembers' Group Life Insurance
SIPO	Security Infrastructure Protection Office
SKIPPES	Skills, Knowledge, and Insurance Practices and Procedures Embedded in Systems
SQC	Statistical Quality Control
SSA	Social Security Administration
SSN	Social Security Number
STAR	Statistical Technical Accuracy Review
SVES	State Verification and Exchange System
TMC	Travel Management Center
TREASURY	Department of the Treasury (US Treasury)
TRICARE	DoD-Managed Care Support Contract
U.S.C.	United States Code
USGLI	United States Government Life Insurance
VA	Department of Veterans Affairs
VAMC	VA Medical Center
VARO	VA Regional Office
VBA	Veterans Benefits Administration
VEAP	Veterans Educational Assistance Program
VERA	Veterans Equitable Resource Allocation
VGLI	Veterans' Group Life Insurance
VHA	Veterans Health Administration
VICTARS	Veterans Insurance Claims Tracking and Response System
VI&I	Veterans' Insurance and Indemnities

U.S. Department Of Veterans Affairs

Vinnie MAC	VA Loan Sales Program
VISN	Veterans' Integrated Service Network
VistA	Veterans Health Information Systems & Technology Architecture
VMLI	Veterans' Mortgage Life Insurance
VR&E	Vocational Rehabilitation & Employment
VRI	Veterans Reopened Insurance
VSLI	Veterans Special Life Insurance
VSR	Veterans Service Representatives
VSS	Veterans Service Standard
WCP	Workers Compensation Program

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