Department of Veterans Affairs
AGENCY FINANCIAL REPORT 2019

The Unbreakable BA-GOSHI NE-AHS-JAH LHA-CHA-EH DZEH

C

BA-GOSHI

O

NE-AHS-JAH

D

LHA-CHA-EH

E

DZEH

In gratitude to the World War II Native American Code Talkers.

ABOUT THE AGENCY FINANCIAL REPORT

The Department of Veterans Affairs' (VA) Fiscal Year (FY) 2019 Agency Financial Report (AFR) provides fiscal and summary performance results that enable the President, Congress, and the American people to assess our accomplishments for the reporting period October 1, 2018, through September 30, 2019. The AFR consists of three primary sections:

- **Management's Discussion and Analysis;**
- **Financial Section; and**
- **Other Information.**

Pursuant to the Office of Management and Budget (OMB) Circular No. A-136, the Department chose to produce an AFR and an Annual Performance Plan and Report. The FY 2019 Annual Performance Plan and Report will be provided along with the Congressional Budget Justification in February 2020 and will be available on the Department's Web site at www.va.gov/performance/.

ABOUT THE COVER PHOTOGRAPHS

Front Cover

Top left: Navajo code talkers at Camp Elliott north of San Diego.

Top right: The original 29 Navajo Code Talkers of the 382nd Marine Platoon.

Middle: Private First Class (PFC) Preston Toledo and PFC Frank Toledo, cousins and Navajo Indians, relay orders over a field radio in their native tongue, Ballarat, July 7, 1943.

Bottom left: Navajo code talkers, Saipan, June 1944

Bottom right: Corporal Henry Bake, Jr., and PFC George H. Kirk, Navajos serving with a Marine Corps signal unit in December 1943, operate a portable radio set in a clearing that they have hacked in the dense jungle close behind the front lines.

Back cover

Groundbreaking ceremony for the National Native American Veterans Memorial at the Smithsonian's National Museum of the American Indian, Saturday, Sept. 21, 2019 in Washington. (Paul Morigi/AP Images for Smithsonian National Museum of the American Indian)

FOR MORE INFORMATION

Information about VA's programs is available at www.va.gov.

VA's AFR and Strategic Plan are available at www.va.gov/performance.

VA's social media pages:

https://www.facebook.com/VeteransAffairs

https://twitter.com/DeptVetAffairs/

http://www.blogs.va.gov/VAntage/

https://www.flickr.com/photos/VeteransAffairs/

https://www.youtube.com/user/DeptVetAffairs

https://www.instagram.com/deptvetaffairs/

CONTENTS

1 – A Message from VA's Secretary

Management's Discussion and Analysis

Page 2

4 – Mission and Organizational Structure

7 – Performance Goals, Objectives, and Results

14 – Analysis of Financial Statements and Stewardship Information

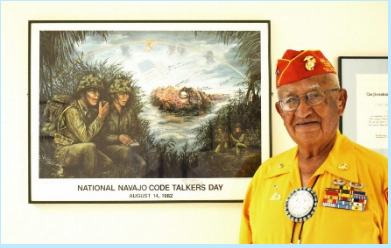
25 – Analysis of Systems, Controls, and Legal Compliance

- 25 – Management's Statement of Assurances
- 31 – Summary of Internal Control Assessment
- 32 – Financial Systems Framework

34 – Forward-Looking Information

35 – Limitations of the Financial Statements

Financial Section



Page 36

38 – A Message from VA's Chief Financial Officer (CFO)

40 – Consolidated Financial Statements

- 40 – Consolidated Balance Sheets
- 41 – Consolidated Statement of Net Cost
- 42 – Consolidated Statement of Changes in Net Position
- 44 – Combined Statement of Budgetary Resources

46 – Notes to the Financial Statements

125 – Required Supplementary Stewardship Information

132 – Required Supplementary Information (RSI)

137 – Inspector General's Transmittal Letter

140 – Independent Auditors' Report

174 – VA Response to the Independent Auditors' Report

Other Information

Page 175

177 – Inspector General's Management and Performance Challenges

225 – Summary of Financial Statement Audit and Management Assurances

227 – Payment Integrity

259 – Fraud Reduction Report

263 – Reduce the Footprint

265 – Civil Monetary Penalty Adjustment for Inflation

266 – Appendix A: Abbreviations and Acronyms

270 – Appendix B: VA Online

A MESSAGE FROM VA'S SECRETARY

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 19, 2019

I am pleased to present the Department of Veterans Affairs' (VA) Fiscal Year (FY) 2019 Agency Financial Report. This report provides complete and reliable financial and performance information demonstrating our commitment to providing world-class benefits, medical, and burial services to the millions of men and women who have served this country with honor.

VA's Strategic Plan provides a roadmap for its ongoing work to achieve four strategic goals: ensuring the Department provides Veterans easy access, greater choices, and clear information to make informed decisions; offering Veterans highly reliable and integrated care and support and excellent customer service that improves their well-being and independence; building Veterans' trust in VA through accountability and transparency; and transforming business operations by modernizing systems, focusing resources more efficiently to be competitive, and providing world-class customer service to Veterans and our employees. The Department has made progress toward each of these goals in FY 2019 and will continue to do so to ensure positive and enduring outcomes for Veterans, their dependents, and survivors.

Independent public accounting firm CliftonLarsonAllen, reviewed the Department's financial statements and issued an unmodified opinion for the 21st consecutive year, indicating that VA's financial statements are fairly presented in all material aspects. Despite our unmodified opinion, VA has identified areas where we can continue to improve our financial management in FY 2020. Please refer to the discussion of these weaknesses and corrective action plans in the Management's Statement of Assurance on page 25. Many of the challenges we face are directly linked to the Department's legacy financial and acquisition systems. VA employees have spent countless hours working towards modernization of these systems through the Financial Management Business Transformation effort and I am committed to prioritizing the continued progress of this effort.

Our mission, "To care for him who shall have borne the battle and for his widow, and his orphan," is non-negotiable with the American people, and the Department will continue to provide a sound financial system that best supports VA's mission and customers.

Sincerely,

Robert L. Wilkie

MANAGEMENT'S DISCUSSION AND ANALYSIS

The future is in sight at the New Orleans VA

The future is in sight at the New Orleans VA: Dr. Jody Simon performed the first corneal collagen crosslinking (CXL) procedure ever completed at a VA medical center (VAMC).

Not just new at VA, CXL is a new procedure in the United States. Approved by the Food and Drug Administration in 2016 for the treatment of Keratoconus and Corneal Ectasia, this cutting edge, innovative procedure can be very expensive and is not covered by many insurance companies. The Veteran who worked with Dr. Simon transferred to the New Orleans VA, part of the Southeast Louisiana Veterans Health Care System (SLVHCS), from the Manhattan VA for the procedure. Since then, Veterans from the El Paso VA and the Houston VA have been referred to New Orleans to see if they might be candidates for the procedure.

"I'm happy to have this technology to serve our Veterans," Dr. Simon said. "If you try to perform this procedure outside VA, it can be very expensive. It's nice to be able to provide it to anyone who qualifies for VA care. We'd like to recruit any Veterans who feel they would benefit from corneal crosslinking."

As explained by Dr. Rebecca Metzinger, SLVHCS Chief of Ophthalmology, CXL is a treatment for a progressive disease called keratoconus, which can lead to the cornea thinning and bowing out (forming a cone shape) and scarring that can lead to loss of vision and the need for corneal transplantation.

Dr. Simon explained the goal of CXL is not to improve vision, though some people might experience some improvement afterward. For instance, if a patient is wearing therapeutic hard contact lenses before the procedure, they will likely still need them. The goal of this procedure is to stabilize the eye so that the disease does not progress.

Dr. Simon said, "If the disease does progress, it makes a patient's vision very, very blurry and they could progress to the point where contact lenses are intolerable because it doesn't fit on their eye anymore or it's painful. They may need a corneal transplant later on. That's about a year-long recovery process. If you can prevent that early on before the disease progresses, I think that's a really big benefit to people."

Dr. Metzinger explained how the procedure is performed, saying, "Essentially the corneal epithelium is removed, and the cornea is soaked with riboflavin and UV light is directed on to the cornea (via the FDA – approved AVEDRO device) to strengthen the collagen and stabilize the eye."

Even though the description of the procedure sounds painful because the doctor basically scrapes the surface (epithelial) cells off the cornea of the eye, it really isn't bad.

"The patient can't feel it at the time of the procedure. We numb the eye with topical numbing drops, there are no injections. It's not very invasive. They don't need any other anesthesia," Dr. Simon said. "The recovery time is about a week. They have some blurry vision at first, a few days of discomfort where they feel like something is in their eye and they're sensitive to light. After that, things normalize between one and three months."

Picture previous page: Dr. Jody Simon, corneal specialist in Ophthalmology at the Veterans medical center in New Orleans, made history: she performed the first CXL procedure ever completed at a VAMC.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND ORGANIZATIONAL STRUCTURE

MISSION

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

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

ORGANIZATION

VA is comprised of three Administrations--Veterans Benefits Administration (VBA), Veterans Health Administration (VHA), and the National Cemetery Administration (NCA)--responsible for delivering services to Veterans, and Staff Offices that support the Department:

VBA provides various benefits to Veterans and their families. These benefits include transition assistance services, disability compensation, pension, fiduciary services, educational opportunities, vocational rehabilitation and employment (VR&E) services, home loan guaranty, and life insurance benefits.

VBA Education Director Charmain Bogue answers questions at an Administrator Town Hall.

VHA provides a broad range of primary care, specialized care, and related medical and social support services that are uniquely related to Veterans' health or special needs. VHA advances medical research and development in ways that support Veterans' needs by pursuing medical research in areas that most directly address the diseases and conditions that affect Veterans.

Deborah Scher, Executive Advisor to the Secretary of Veterans Affairs, cuts the ribbon at the first Accessing Telehealth through Local Area Stations site where Veterans can receive VA care closer to home.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

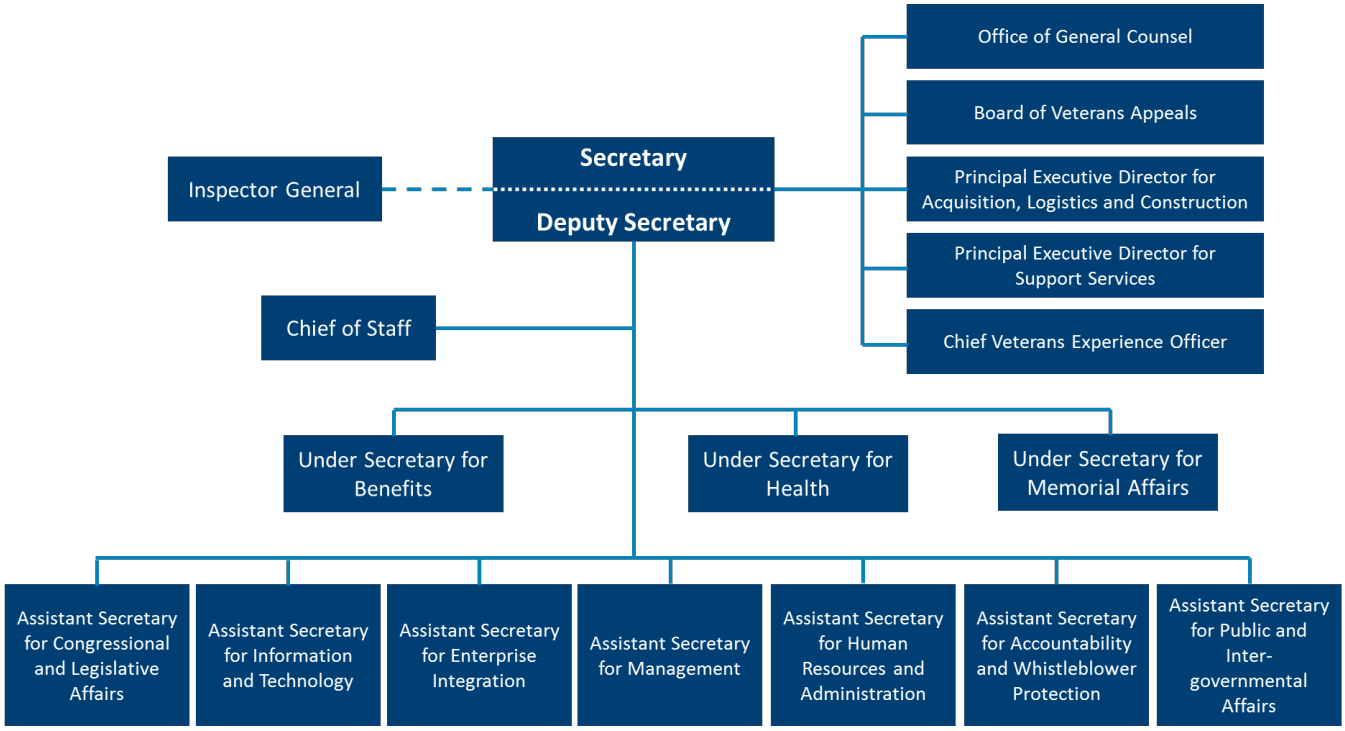
NCA provides burial and memorial benefits to Veterans and their eligible family members. These benefits include burial at national cemeteries, cemetery grants for state and tribal cemeteries, headstones and markers, Presidential Memorial Certificates, outer burial receptacles, and medallions.

Fargo VA National Cemetery is now open and will serve as the final resting place for 30,000 Veterans and their families.

VA Staff Offices provide various services to the Department, including information technology (IT), human resources (HR) management, strategic planning, Veteran outreach and education, financial management, acquisition, and facilities management.

Juggling the demands of school, work and life can take a toll. At VA, learning is central to delivering top-notch care to Veterans. That's why, with a VA career, it's easier for you to advance your education and skills without burning out.

DEPARTMENT OF VETERANS AFFAIRS ORGANIZATIONAL STRUCTURE



Visitors to The Kennedy Center in Washington, D.C., can see a collection of Veteran portraits on display through Nov. 15. The collection is Portraits of Courage: A Commander in Chief's Tribute to America's Warriors, painted by another Veteran, President George W. Bush. The collection highlights 98 men and women out of the approximately five million Post-9/11 Veterans. The exhibit showcases 66 full-color oil portraits and a four-panel mural painted by the former president, himself an Air Force Veteran.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

2019 VA STRATEGIC PLAN GOALS

VA tracks performance based on the refreshed VA FY2018-2024 Strategic Plan, which contains VA's goals, strategies, and performance measures. VA's goals are to have:

- Veterans choose VA for easy access, greater choices, and clear information to make informed decisions;
- Veterans receive highly reliable and integrated care and support and excellent customer service that emphasizes their well-being and independence throughout their life journey;
- Veterans trust VA to be consistently accountable and transparent; and
- VA transform business operations by modernizing systems and focusing resources more efficiently to be competitive and to provide world-class customer service to Veterans and its employees.

The following section contains the preliminary results of VA's FY 2019 Annual Performance Plan and Report (APP&R), which shows how VA measures and monitors its activities against a long-range plan. Individual results will be published by the performance measure tracking number in the APP&R in February 2020, which will be posted at www.va.gov/performance/.

GOAL 1 VETERANS CHOOSE VA FOR EASY ACCESS, GREATER CHOICES, AND CLEAR INFORMATION TO MAKE INFORMED DECISIONS

To provide Veterans with better choices and improved access to the benefits, care, and services they need, we must enhance our understanding of what Veterans are experiencing at each phase of their life journey. To that end, VA will establish interactive relationships with Veterans prior to their release from active duty, during their transition to civilian life, and thereafter to provide better information to Veterans about the care, benefits, and services available to them. We will engage Veterans in a multitude of ways to include, but not be limited to, in-person conversations, surveys, call centers, and providing information relevant to the Veteran's stage of life. VA will leverage data accumulated from these communication channels from market analyses and from other sources to enhance Veterans' options.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

PROGRESS HIGHLIGHTS

In FY 2019, women's health and whole health were two pivotal areas of focus for VA. VHA provided clinical training specifically focused on women's health to over 1,800 physicians and nurses, and more than 22,000 clinical staff and counselors have been trained as it relates to improving whole health options with Veterans care.

VA's Customer Experience (CX) survey tool was implemented to track VA's progress in ensuring Veterans choose VA for easy access, greater choices, and clear information to make informed decisions. Surveys are sent twice a week via email to selected Veterans about their recent encounter with services administered by VHA. Any Veteran who received services within the previous week is eligible to receive a survey. Surveys remain open for two weeks after the invitation is sent to the Veteran. New this fiscal year, the CX survey now includes a question related to women Veterans' experiences with VA medical facilities. VA-wide strategies, standards, and new innovative tools for applying CX capabilities were also implemented. An example of this innovation is the completion of Journey Maps representing a common set of moments Veterans and VA care providers experience.

Administrations and Organizations	Performance Measures	Historical Results 2018	Preliminary Results 2019	Target 2019	Status (On- or Off-Track)
VEO	It was easy to get the services I need **(#746)**	N/A	88.0%	90.0%	On-Track
VEO	I feel like a valued customer **(#752)**	N/A	94.0%	90.0%	On-Track
VEO	I got the services I need **(#761)**	N/A	92.0%	90.0%	On-Track

GOAL 2 VETERANS RECEIVE HIGHLY RELIABLE AND INTEGRATED CARE AND SUPPORT AND EXCELLENT CUSTOMER SERVICE THAT EMPHASIZES THEIR WELL-BEING AND INDEPENDENCE THROUGHOUT THEIR LIFE JOURNEY

Serving as a leading advocate for honoring military service, VA will deliver integrated and seamless benefits, care, and services, enhancing the lives of Servicemembers, Veterans, their families, caregivers, and survivors. Improved quality of life means Veterans are independent, economically secure, socially engaged, and enjoy enhanced well-being.

VA has successfully implemented the Appeals Modernization Act and improved the timeliness for decisions (average 125-day goal) under the modernized system. Additionally, with the implementation of the Maintaining Internal Systems and Strengthening Integrated Outside Networks (MISSION) Act in June 2019, VHA has provided 8.75 million enrolled Veterans information on new benefits for care in the community. Medical centers have implemented several pivotal initiatives to improve wait times, optimize appointments, and identify underserved facilities.

Likewise, VBA initiated efforts to educate Veterans on life insurance claims processing and other VA benefits, enabling organizations such as the Veteran Experience Office (VEO) to support the act by sponsoring multiple engagement events with Veterans and Veterans Service Organizations (VSO) to increase awareness of the services, care, and benefits VA offers.

In support of Veteran understanding of NCA benefits, VA is undertaking the completion of the first ever Memorial Affairs Quick Start Guide designed and tested to assist in Veteran navigation.

These combined efforts will ensure VA and community providers are held to the same high standards no matter where they are, and Veterans can count on us to deliver the same quality of care and services no matter what VA facility or community provider they choose. Veterans should be able to walk into any VA facility and receive the same level of care and service.

Administrations and Organizations	Performance Measures	Historical Results 2018	Preliminary Results 2019	Target 2019	Status (On- or Off-Track)
BVA	Cases Decided **(#65)**	85,288	95,089	90,050	On-Track

Administrations and Organizations	Performance Measures	Historical Results 2018	Preliminary Results 2019	Target 2019	Status (On- or Off-Track)
VHA	Overall Rating of Primary Care Provider **(#741)**	N/A	70.8%	70.0%	On-Track
VHA	Overall Rating of Community Care **(#760)**	N/A	76.9%	79.0%	On-Track
VBA	High Client Satisfaction – Measures the percentage of high client satisfaction of all received responses to our customer surveys that scored in either of the highest two categories **(#846)**	N/A	94.1%	95.0%	On-Track
NCA	Percent of respondents who would recommend the national cemetery to Veteran families during their time of need **(#582)**	98.7%	99.0%	99.0%	On-Track

GOAL 3 VETERANS TRUST VA TO BE CONSISTENTLY ACCOUNTABLE AND TRANSPARENT

VA will achieve accountability by establishing and ensuring high-quality care and service standards are delivered consistently across our integrated delivery networks. VA will engender the full trust of our customers.

The Department implemented multiple protocols and activities to combat fraud, waste, and abuse and signed an information sharing agreement with the Centers for Medicare and Medicaid Services (CMS) to identify providers with revoked Medicare billing privileges. VA also partnered with the Department of Treasury (Treasury) to jointly conduct contract deliverables and identify actions VA should take to combat fraud, waste, and abuse. VBA and the Social Security Administration compared data to identify beneficiary awards paid to deceased dependents and Veterans in receipt of Individual Unemployability benefits and wages. This data matching identified more than 27,000 possibly deceased dependents currently active on beneficiary awards; VA estimates an initial savings of over $38 million, and an additional annual savings with continued future monitoring.

We established the Office of Accountability and Whistleblower Protection (OAWP) to advise the Secretary on all matters related to accountability, including accountability of employees of the Department for retaliation against whistleblowers, to conduct investigations and recommend actions related to the removal, demotion, or suspension of senior leaders based on poor performance and/or misconduct or related to any supervisor if the allegation involves whistleblower retaliation. OAWP published reports online for public review.

Administrations and Organizations	Performance Measures	Historical Results 2018	Preliminary Results 2019	Target 2019	Status (On- or Off-Track)
OIG	Percentage of recommendations implemented within one year to improve efficiencies in operations through legislative, regulatory, policy, practice, and procedural changes in VA **(#590)**	86.0%	87.0%	85.0%	On-Track
OIG	Monetary benefits ($ in millions) from audits, inspections, investigations, and other reviews **(#587)**	$2,840	$3,855	$3,400	On-Track

GOAL 4 VA WILL TRANSFORM BUSINESS OPERATIONS BY MODERNIZING SYSTEMS AND FOCUSING RESOURCES MORE EFFICIENTLY TO BE COMPETITIVE AND TO PROVIDE WORLD-CLASS CUSTOMER SERVICE TO VETERANS AND ITS EMPLOYEES

The cross-cutting objectives and strategies in this goal adapt the organization's behavior into four critical categories that will enable it to perform in an ever-changing business environment. It also addresses two critical functions, HR and IT, that must be optimized for the Department to modernize. The strategies will help the Department make future choices about its strategic footprint (capital assets and construction); rapidly deploy the right human capital capabilities as mission requirements evolve; put in place an IT infrastructure that supports its Veteran engagement and delivery goals; and emphasize value analytics so VA makes smart, implementable, and relevant business decisions. VA will either develop or take advantage of shared services to improve hiring, procurement, and IT to drive improved service and delivery.

PROGRESS HIGHLIGHTS – HUMAN CAPITAL CAPABILITIES AND IT SOLUTIONS

As part of VA's number one clinical priority to eliminate Veteran suicide, VA accelerated hiring of mental health clinicians to reach the FY 2019 goal of 1,000 net new hires. VHA successfully completed the Secretary's Mental Health Hiring Initiative on July 31, 2019, adding 1,045 more mental health providers. VA completed two virtual Trainee Recruitment Events (TRE) to connect, match, place, and retain 143 health professional trainees to date; and kicked off the first TRE targeting psychiatrists in July 2019.

VA continued plans to proceed with the new electronic health record (EHR). On the Federal IT Acquisition Reform Act Scorecard, VA scored a B+. VA scored an A in three of seven categories (Agency CIO Authorities Enhancements; Transparency and Risk Management; and Software Licensing). VHA, VBA, VEO, and the Board of Veterans' Appeals have also developed several IT solutions to improve efficiencies for employees and Veterans.

VA will shape the business operating environment and champion legislative change recommendations that reduce bureaucracy, shift resources and employees to Veterans' services and most important needs, and give VA the flexibility to adapt operations to serve Veterans. By working with communities; other Government agencies, Federal, State, Tribal, and Local; and other public and private institutions to shape smarter and better approaches to service delivery, VA can focus on its strengths and ensure Veterans receive what they need, where they need it.

VA and the Department of Defense (DoD) continue to engage Congressional Armed Services and Veterans' Affairs Committees in developing flexible authorities to allow the Departments to work together more efficiently and effectively. The Departments have unsuccessfully sought like-legislation to promote joint construction planning, resulting in a loss of opportunities for joint facility planning. Next steps include conducting joint outreach to VA and DoD congressional committees to clearly communicate the benefits for both Departments to speak with one voice.

VA has taken on several modernization efforts to transform business operations to improve customer service and efficiency. The Electronic Health Record Modernization (EHRM) initiative will leverage an existing commercial solution to achieve interoperability within VA, with DoD, and with community care providers. In FY 2019, Financial Management Business Transformation (FMBT) finalized the Integrated Financial and Acquisition Management System (iFAMS) enterprise configuration, which standardizes the foundational system configuration that will be used VA-wide. VA's Logistics System Branch developed the business architecture, data architecture, and systems view artifacts in order to support the finalization of a Defense Medical Logistics Standard Support interface.

Administrations and Organizations	Performance Measures	Historical Results 2018	Preliminary Results 2019	Target 2019	Status (On- or Off-Track)
HRA	Time to Hire VA-wide **(#718)**[1]	N/A	51.0%	51.0%	On-Track
OALC	Percent of major construction projects accepted by VA as substantially complete in the quarter identified **(#400)**	N/A	40.0%	75.0%	Off-Track

The James A. Haley Veterans Hospital recently held its Annual National Fall and Prevention and Safe Patent Handling and Mobility Day on Sept. 25. The purpose of the event is to enhance knowledge on the clinical definition of falls and to provide education on the fall interventions that are used throughout the facility. The event's guest speaker, Dr. Tatjana Bulat, Director of the Tampa Patient Safety Center of Inquiry, presented evidence-based research on falls and fall interventions. Subject matter experts and event spokespersons addressed a variety of questions and concerns on patient falls and vendors were on hand to educate attendees on safe patient handling equipment that's used throughout the facility. The event also served as an opportunity to celebrate the work of frontline staff who continuously implement practices that prevent fall injuries from happening to Veterans. Photo via the James A. Haley VA staff.

[1] Defined as Office of Personnel Management's (OPM) Target of 80 days from date the Agency validates the hiring need to entry on duty (USA Staffing Upgrade).

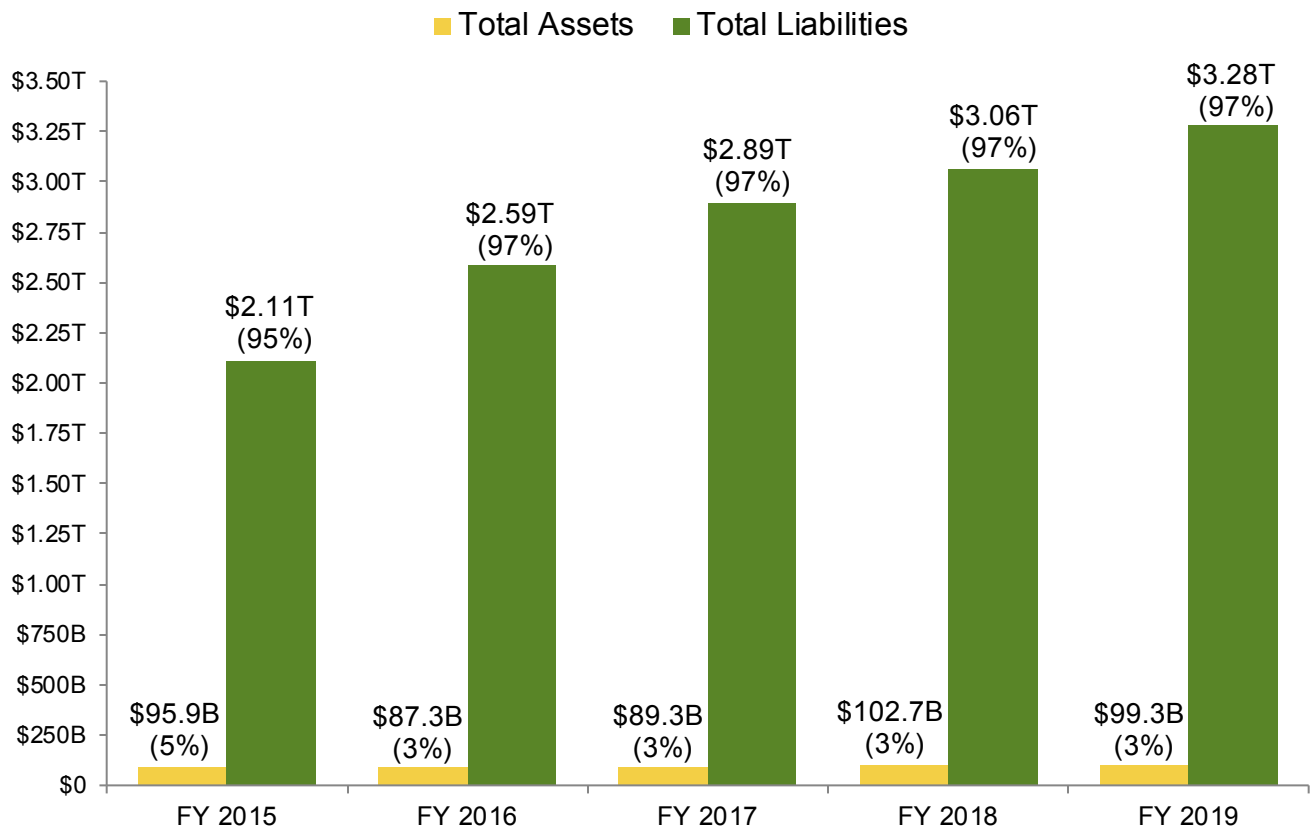
ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

BALANCE SHEET

The Balance Sheet provides a snapshot of the Department's financial position. As shown in Chart 1, the Department's total liabilities significantly exceed total assets.

Chart 2 shows the components of the Department's liabilities, with the largest being Unfunded Federal Employee and Veterans Benefits Liability.

Chart 1: Comparative Total Assets and Liabilities FY 2015 - FY 2019



The Federal Employee and Veterans Benefits Liability accounts for 99 percent of VA's liabilities. The liability represents VA's future outflow of Federal Employees' Compensation Act (FECA), Medical Claims, Compensation, Burial, Education, and VR&E benefits paid to Veterans, Servicemembers, beneficiaries, and dependents.

The liability reflects estimates by professional actuaries of the future cost, expressed in today's dollars, of providing benefits to participants in the future. To compute these liabilities, the actuaries

make assumptions about participants, the economy, and interest rates.

Due to actuarial gains and losses, VA's net cost to provide Compensation, Burial, Education, and VR&E benefits can vary from year to year. Actuarial gains decrease VA's net cost, while actuarial losses increase it. In computing the net cost, VA's actuaries must make assumptions about the future. When the actual experience differs from these assumptions, actuarial gains and/or losses will occur. There are two primary types of assumptions: economic assumptions that are used for modeling how time value of money affects the net cost estimations, and demographic assumptions that are used for modeling how participant's behavior affects the amount and timing of benefits paid. Key economic assumptions include the interest rate and Cost of Living Adjustments (COLA). Key demographic assumptions include mortality rates, expected amount of benefit use, and benefit remaining. Should the actual mortality rates be less than assumed mortality rates, there will be an actuarial loss. Additionally, should the actual interest rates be lower than the assumed interest rates, there will also be an actuarial loss.

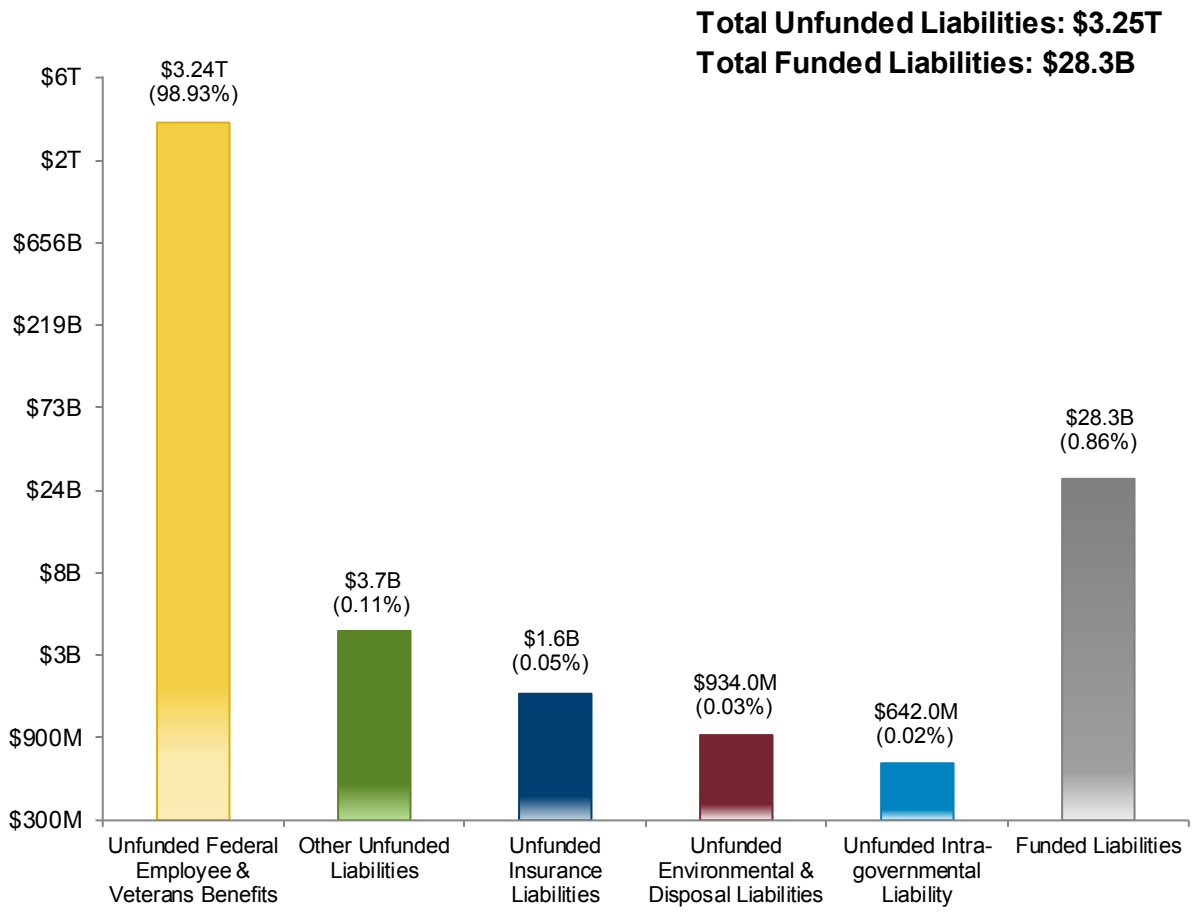
Due to the growth in VA's Federal Employee and Veterans Liability, total VA liabilities has increased substantially from $2.1 trillion in FY 2015 to $3.3 trillion in FY 2019. Significant factors contributing to this increase are:

- Decreases in the Compensation discount rate used to calculate the present value of future payments, which has the effect of increasing the liability. The single weighted average discount rate has decreased in the last five years from 4.08 percent in FY 2015 to 3.42 percent in FY 2019, resulting in an overall increase in the liability of approximately $435 billion.
- Increases in the projected average growth in Compensation participant counts. In FY 2016, VA changed the projected growth rates, resulting in an increase of approximately $277 billion to the liability. This projection was updated to reflect the historical increase over the last five years.
- Changes in Compensation experience, which include increases to the number of eligible participants and their benefit amounts. There has been an increase in each of the last five years resulting in an overall increase to the liability by approximately $319 billion.
- The recognition of a liability for education benefits in FY 2016. This liability represents estimated future outflows for VA's Post-9/11 GI Bill education benefits to participants who were enrolled in the program. This recognition increased the liability by approximately $60 billion in FY 2016.
- Compensation mortality rate updates. In FY 2016, there were several updates in the mortality rate related to assumptions resulting in an overall increase of approximately $45 billion to the liability. The two main updates were mortality rates and mortality improvement factors.
- The recognition of a liability in FY 2019 for potential future new enrollees for Post-9/11 GI Bill and VR&E education

benefits. This recognition increased the liability by approximately $48 billion.

In addition, beginning in FY 2019, to recognize the cost of medical claims for which VA has not received, validated, or paid invoices, an actuarial liability is estimated based on the Incurred But Not Reported (IBNR) model. This component of the liability is reflected in the Federal Employee and Veterans Benefits Liability because it supports a more holistic view of the Federal Government's future commitment to Veterans. The liability as of September 30, 2019, is estimated at $4.7 billion.

Chart 2: FY 2019 Breakdown of Funded and Unfunded Liabilities

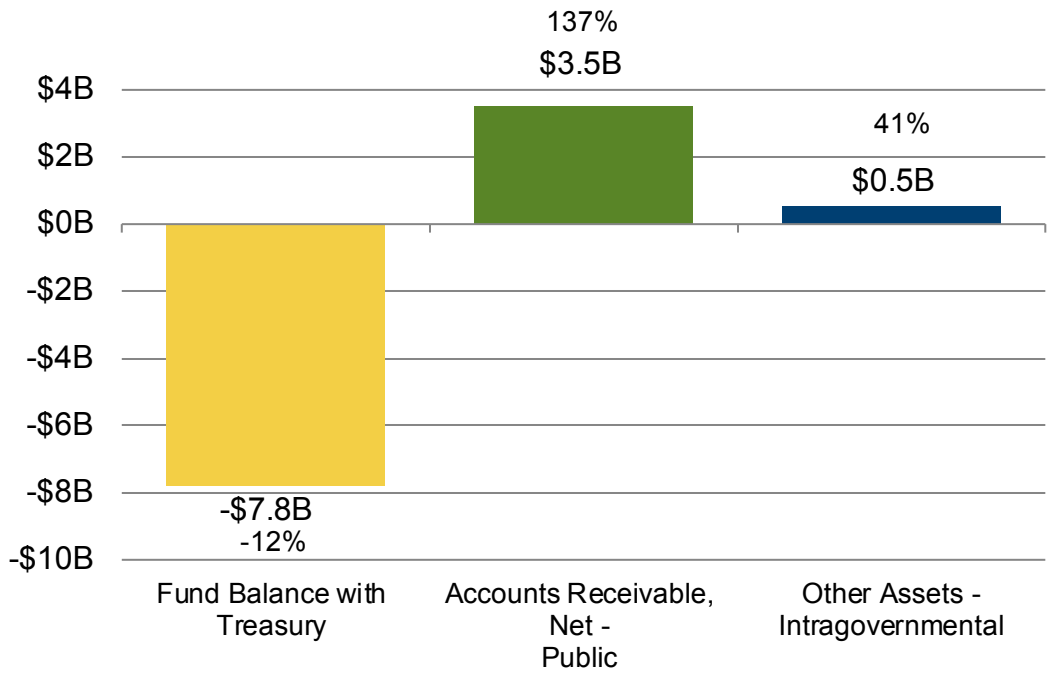


The scale in Chart 2 increases in incremental dollar value due to the wide range of liability component balances from $642 million to $3.24 trillion.

Here are the components and corresponding details of the Unfunded Federal Employee and Veterans Benefits liability of the consolidated Balance Sheet.

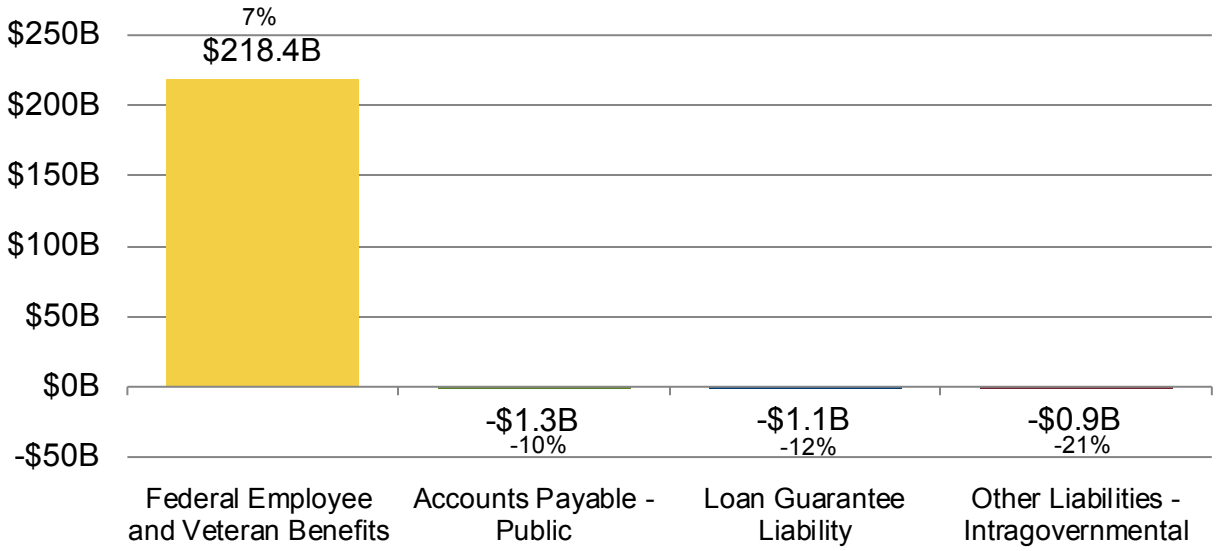
Unfunded Federal Employee and Veterans Benefit Liability Programs	
Compensation Benefits	
$3.12 Trillion Compensation benefits are the most significant component of Federal Employee and Veterans Benefit liabilities. VA delivers compensation benefits to: • Veterans with military service-related disabilities, and • Beneficiaries of deceased Veterans.	
Education and VR&E Benefits	**Burial Benefits**
$105.9 Billion VA delivers benefits through numerous education programs to eligible: • Veterans; • Veteran dependents; • Beneficiaries of deceased Veterans; and • Active duty Servicemembers.	**$7.1 Billion** VA provides burial-related benefits to recognize Veterans' sacrifices in service of the Nation. Benefits include: • Burials; • Burial flags, headstones, markers, and medallions; and • Presidential Memorial Certificates.
Medical Claims Benefits	**FECA**
$4.7 Billion Consists of an estimate for IBNR health care claims for services provided to Veterans at non-VA medical facilities under VA's Community Care programs.	**$2.4 Billion** FECA provides compensation benefits to Federal Employees for disability due to personal injury sustained while in performance of duty.

Chart 3: Significant Changes in Assets, FY 2019 – 2018



Fund Balance with Treasury	Accounts Receivable, Net - Public	Other Assets - Intragovernmental
The decrease is primarily due to: • Increased payments related to the expansion of community care programs for health care provided at non-VA medical facilities; • Increased payments attributed to an increase in the number of full-time equivalent (FTE) employees needed to service the growing Veteran population and ensure quality health care is provided in a timely manner; and • Increases in Compensation payments to Veterans and their beneficiaries. VA continues to process claims with improved timeliness and accuracy, resulting in approximately 173 thousand more active beneficiaries at the end of FY 2019 as compared to FY 2018.	The increase is primarily due to a recognition of an accounts receivable for $3.4 billion from the Prudential Insurance Company for excess contingency reserves in the Veterans' Group Life Insurance (VGLI) program in FY 2019. These funds are to be transferred to the VA over a period of five years. Prudential administers these programs under a group policy with VA. VA collected $300 million in FY 2019, resulting in a remaining balance of $3.1 billion. Additional information on these transfers are contained in Note 6, Accounts Receivable, Net and Note 17, Life Insurance Programs.	The increase is due to advances made to the U.S. Army Corp of Engineers for major construction projects awarded for improvements, additions and new construction of VA medical facilities.

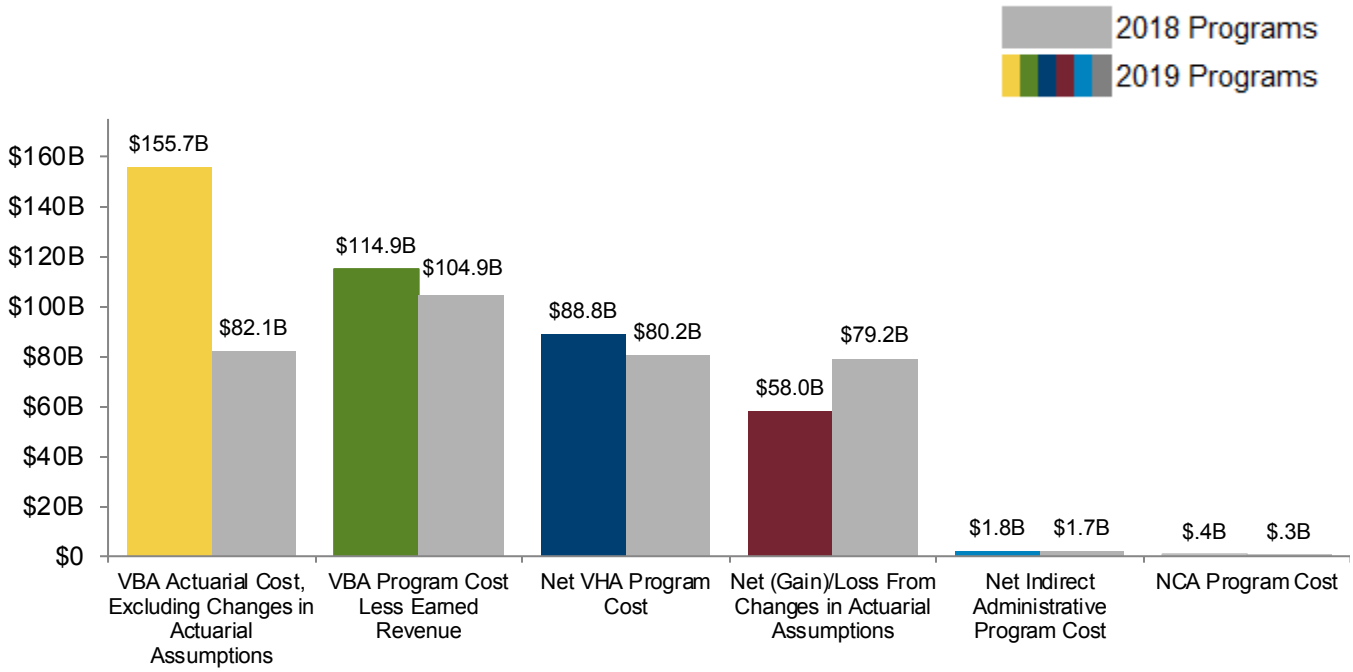
Chart 4: Significant Changes in Liabilities, FY 2019 – 2018



Federal Employee and Veterans Benefits Liability	Accounts Payable, Public
This benefit liability increase is due to actuarial computation adjustments to project for future: • Compensation benefit costs, relating primarily to changes in experience, an increase in the estimated interest on the liability, and a decrease in the discount rate assumption; and • Post 9/11 GI Bill education benefit costs, relating primarily to the addition of a factor in the model to project for expected future new beneficiaries.	The decrease is due to: • The implementation of the Obligate at Payment in FY 2019 resulted in a new actuarial methodology to estimate IBNR claims for services provided to Veterans outside of VA medical facilities. Under this model, obligations are not created until the point of invoice and payment rather than at the time of referral for Veterans who receive medical care at non-VA facilities. Rather than accruing for funded services (accounts payable), an estimate for IBNR claims is recorded in the Federal Employee Veterans Benefits liability; and • The implementation of a standardized vendor accrual methodology for medical services provided at VA facilities.
Loan Guarantee Liability	**Other Liabilities - Intragovernmental**
The decrease is due to continued favorable conditions in the housing market and associated improvement in loan performance. This results in a decreased likelihood that VA must cover defaulted guaranteed housing loans. In addition, the economic outlook favors the avoidance of a market crisis within the next 10 years. Factoring these into the models to compute subsidy re-estimates has resulted in substantial downward re-estimates and a corresponding decrease in Loan Guarantee Liabilities.	The decrease is due to a reduction in downward subsidy re-estimate accruals in FY 2019 as compared to FY 2018. Downward re-estimates related to housing loans guaranteed by VA result in a liability to Treasury of the excess subsidy funds.

NET COST OF OPERATIONS AND CHANGES IN NET POSITION

Chart 5: Comparative Statement of Net Cost, FY 2019 – FY 2018

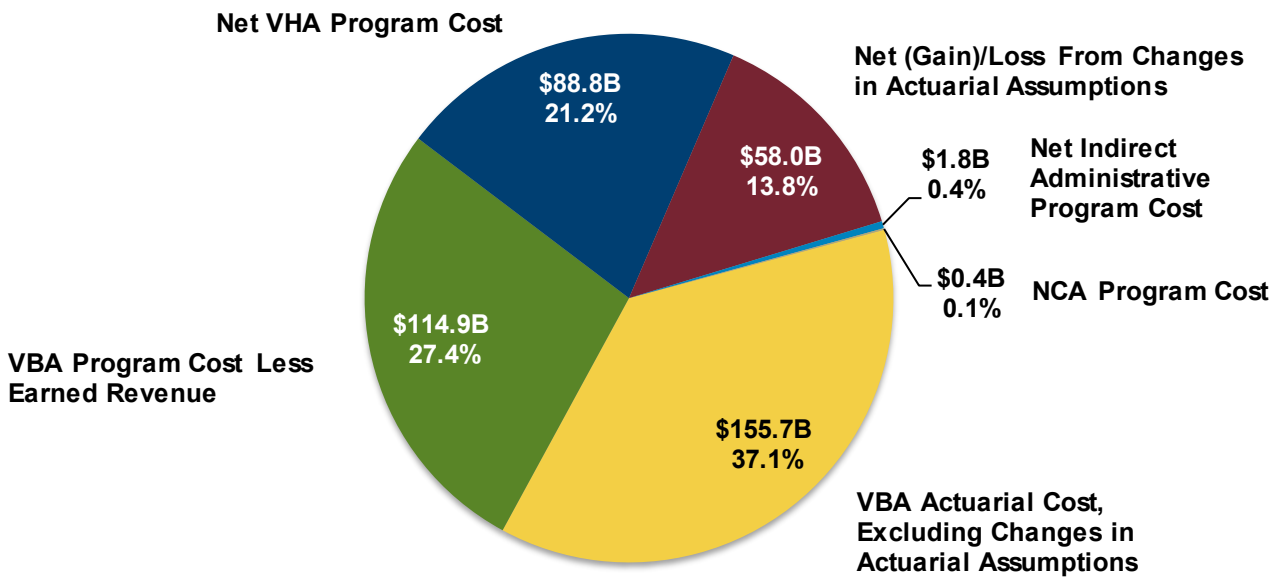


Summary:	2019	2018	% Change
Total Net Cost of Operations	$420B	$348B	↑ 20%

VBA Actuarial Cost, Excluding Changes in Assumptions	VBA Program Costs Less Earned Revenue
The increase is due to adjustments to the actuarial models for experience changes to compute future outflows of Compensation payments, primarily resulting from a substantially larger number of Veterans and beneficiaries receiving these benefits and an increase in the average payment amount.	The increase is due to increases in Compensation payments to Veterans and their beneficiaries. VA processed 4.1 million more payments in FY 2019 than in FY 2018. In addition, COLA increases resulted in higher average payment amounts.

Net VHA Program Cost	Net (Gain)/Loss From Changes in Actuarial Assumptions
The increase is due to: • The implementation of the Obligate at Payment in FY 2019 resulted in a new actuarial methodology to estimate IBNR claims for services provided to Veterans outside of VA medical facilities. VA records an expense to be funded with future year appropriations for these estimates; and • An increase in the number of FTEs needed to service the growing Veteran population receiving health care at VA medical facilities.	The decrease is due to changes in the following actuarial assumptions to compute future Compensation benefit payments: • Discount rate decrease, which is based on the ten-year average Treasury Yield Curve spot rates. • COLA rate decrease, which is based on the ten-year average of Treasury Breakeven Inflation Curve interest rates.

Chart 6: FY 2019 Net Program Costs



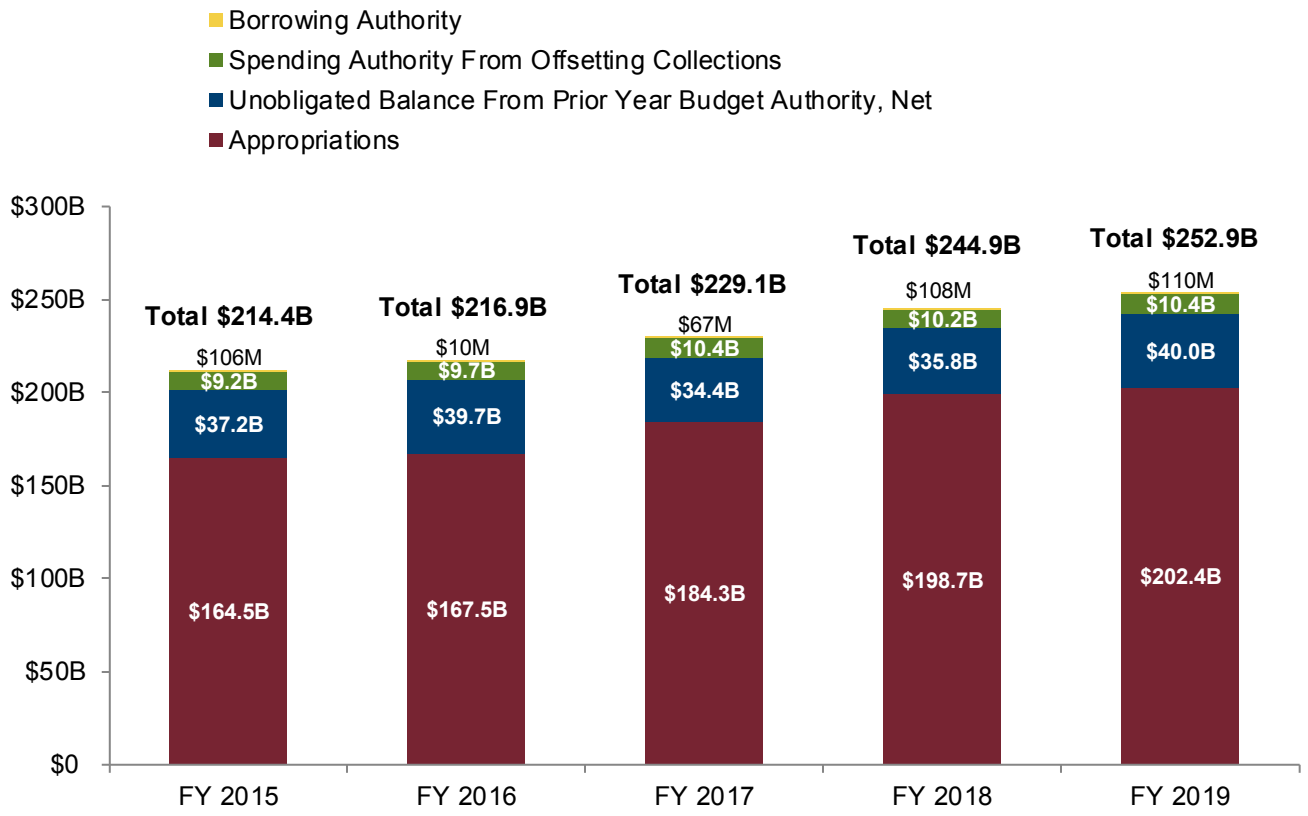
CHANGES IN NET POSITION

The Statement of Changes in Net Position combines the net cost of operations with nonexchange sources of financing to arrive at a net position. Net position changed by 7.4 percent from a deficit of $2.96 trillion in FY 2018 to a deficit of $3.18 trillion in FY 2019.

BUDGETARY RESOURCES

VA expends a substantial amount of its budgetary resources on Medical Service and Care, Compensation, Pension, Burial, Education, and VR&E benefits for Veterans, their beneficiaries, and dependents. The primary sources of VA funding are appropriations from Congress and unobligated balances from prior year budget authority.

Chart 7: Comparative Budgetary Resources, FY 2015 – FY 2019



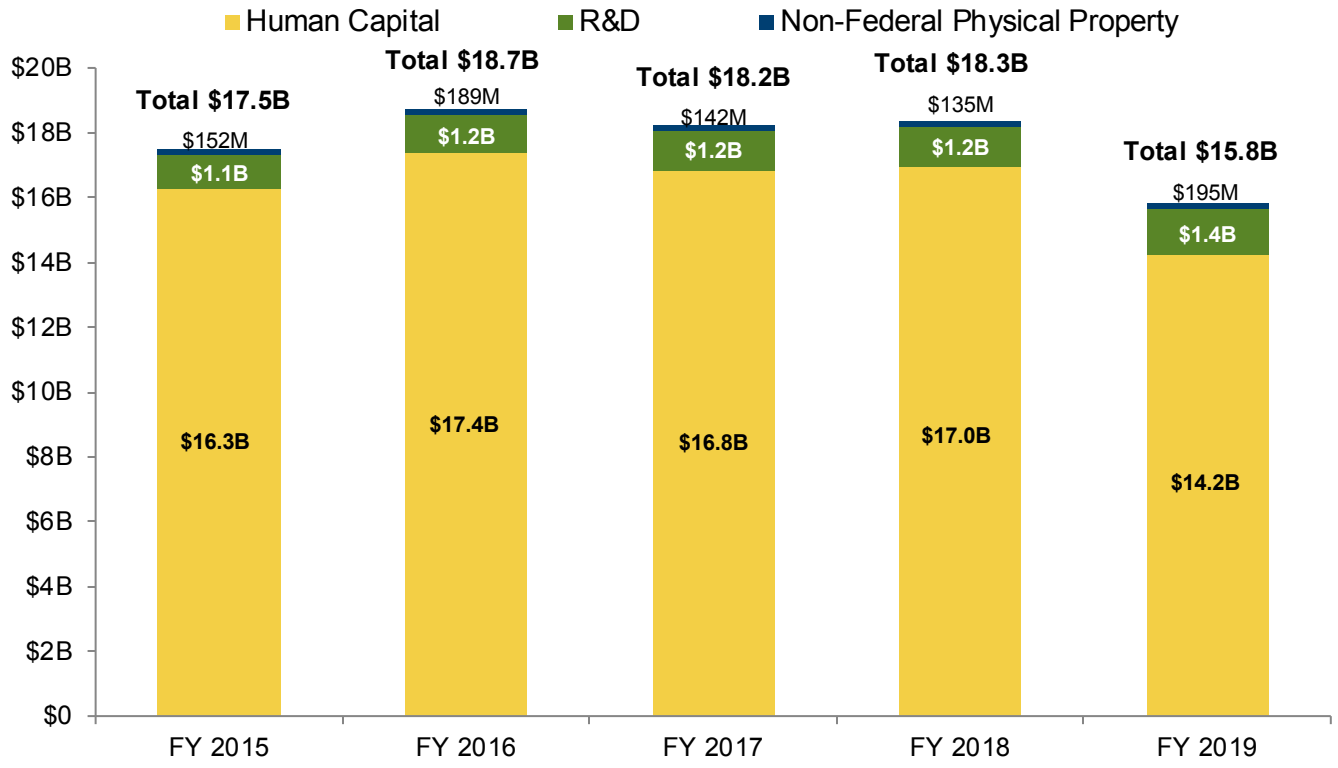
Budgetary Resources
The increase in budgetary resources from FY 2015 through FY 2019 is reflective of increases in appropriations received to fund: • The establishment and expansion of Community Care programs for health care provided to Veterans at non-VA medical facilities, ensuring that Veterans receive the right care, at the right time, from the right provider; • Medical services provided at VA medical facilities resulting from an increase in the number of Veterans receiving care; • Higher compensation costs resulting from increases in the number of Veterans and beneficiaries accessing and receiving these benefits; and • Major construction projects, including improvements and additions to existing medical facilities and construction of new facilities.

The increase in overall budgetary resources between FY 2018 and FY 2019 resulted in an increase of new obligations and upward adjustments of $13.2 billion (or 6.3 percent). Net outlays increased by $24.8 billion (or 13.4 percent) between FY 2018 and FY 2019. In addition to increased outlays related to increases in budgetary resources, new obligations and upward adjustments, timing differences for scheduled compensation payments resulted in an additional $6.6 billion increase in outlays in FY 2019 compared to FY 2018.

STEWARDSHIP

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation that are not physical assets owned by the Federal Government. When incurred, they are treated as expenses in determining the net cost of operations. The following chart presents a trend comparison of VA's stewardship investments.

Chart 8: Comparative Stewardship Investments, FY 2015 – FY 2019



Human Capital	Research and Development (R&D)	Non-Federal Physical Property
Investment in human capital is comprised of education and training expenses for eligible: • Servicemembers; • Reservists; • Veterans; • Family members; and • Health care professionals.	Investment in R&D is comprised of expenses that are intended to increase or maintain national economic production capacity or to yield other benefits. VA R&D investment components include: • Medical research service; • Rehabilitative R&D; • Health services R&D; • Cooperative studies research service; and • Medical research support.	VA provides funding for the purchase, construction, or major renovation of: • State extended care facilities, and • State and tribal Veterans cemeteries.

Researchers from VA and the artificial intelligence (AI) company DeepMind, part of Google, have developed technology that has the potential to predict a life-threatening kidney condition up to two days before it happens. Using VA data, the researchers developed an AI model to detect acute kidney injury in patients up to 48 hours before it would otherwise be identified.

Acute kidney injury (AKI) can progress to kidney failure that requires dialysis. It can also affect other organs and cause death. But treatment is often effective if it's started before the condition progresses. In the study, the model predicted 56 percent of all in-patient episodes of AKI and 90 percent of the most severe cases, where the patient later required dialysis. AKI is often hard to predict. Patients can deteriorate very quickly once it occurs. Foreseeing the condition up to two days in advance can help doctors start treatment to prevent kidney breakdown.

"The important number is predicting 90 percent of the most severe AKI cases early, so slowing progression and preventing dialysis or transplant is feasible," says Dr. Christopher Nielson, VA's principal investigator on the study and VA director of predictive analytics. "To evaluate this, you would need to do a randomized trial, which is being planned. Also, the risks of using artificial intelligence to identify patients at risk of needing dialysis are very low. The values of preventing dialysis and transplant are very high. If you save one person from renal failure or death, it's worthwhile."

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT'S STATEMENT OF ASSURANCE

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 19, 2019

The Department of Veterans Affairs (VA) management is responsible for managing risks and maintaining effective internal controls to meet the objectives of sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. VA conducted its assessment of risks and internal controls in accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2019, except for the following reported material weaknesses:

- Controls over Significant Accounting Estimates and Transactions;
- Liability for Community Care, Undelivered Orders, Reconciliations, and Accrued Expenses;
- Financial Systems and Reporting;
- Information Technology Security Controls;
- Entity Level Controls including Chief Financial Officer (CFO) Organizational Structure; and
- Government Accountability Office (GAO) High-Risk List.

The Department noted noncompliance with:

- FMFIA Sections 2 and 4;
- Anti-Deficiency Act (ADA);
- Improper Payments Information Act of 2002 (as amended by Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012); and
- Title 38 United States Code (U.S.C.) Section 5315, *Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States.*

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

FFMIA requires agencies to implement and maintain financial management systems that substantially comply with Federal financial management system requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. VA assessed the Financial Management System (FMS) to determine conformance with FMFIA section 4 and found that it substantially complies with Federal accounting standards. However, FMS does not comply with application of the United States Standard General Ledger at the transaction level. Therefore, management cannot provide reasonable assurance that VA is in conformance with FMFIA, section 4.

VA has internal controls in place to provide reasonable assurance of the quality of data used for Digital Accountability and Transparency Act (DATA Act) reporting and is in the process of reviewing and strengthening the data quality assessment to increase trust and transparency in the data used.

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

Sincerely,

Robert L. Wilkie

SUMMARY OF MATERIAL WEAKNESSES

(1) **Controls Over Significant Accounting Estimates and Transactions:** VA's financial statement auditor identified internal control deficiencies in the control environment related to the Compensation, Pension, Burial, and Education actuarial estimates, along with quality control and errors in the analysis of the models. The Veterans Benefits Administration's (VBA) CFO office continues to implement a Corrective Action Plan (CAP), which include additional analysis and validation of data sources, additional sensitivity analysis where required as well as enhancing policies relevant to the reporting of Compensation, Pension and Education benefits. As part of the Loan Guarantee CAP, VBA is working on a loan level variable default model and updating our policies and procedures in regard to the housing models. VBA documents policies and procedures related to the Servicemembers and Veterans Group Life Insurance excess contingency reserve funds and ensures collaboration and communication under the CFO's leadership to establish working level committees to resolve financial management issues. Estimated completion date: FY 2021.

(2) **Liability for Community Care, Undelivered Orders, Reconciliations, and Accrued Expenses:** The Veterans Health Administration (VHA) has weaknesses in its design and implementation of controls over the Community Care program, specifically with transaction authorization and obligation, monitoring and timely liquidation of unfulfilled authorizations, reconciliations, and related accrued expenses. The Office of Community Care (OCC) has been leading the effort to develop and manage the CAP to address the Purchased Care Material Weakness identified by VA's auditors. In FY 2019, OCC implemented the "obligation at the time of payment" method. This method allows OCC to record obligations at the time of payment as opposed to estimating obligations with uncertain data. The "obligation at the time of payment" method has greatly improved the accuracy of obligations. Estimated completion date: FY 2021.

(3) **Financial Systems and Reporting:** VA's outdated legacy financial management systems are driving a myriad of financial reporting deficiencies, including overuse of journal vouchers, increased need for analytics, and issues with intra-governmental activities. VA is developing a modernized financial management system to replace the legacy FMS in the Department. Until a new system is developed and fully deployed, VA will continue to deploy compensating controls such as developing detailed flux analysis reviews, monitoring and resolving abnormal balances monthly, implementing additional suspense account monitoring procedures, and initiating cleansing efforts around Inter-Agency Agreements. Estimated completion date: FY 2025.

(4) **Information Technology Security Controls:** VA continues to have an IT Material Weakness in Agency-Wide Security Management Program; Identity Management and Access Controls; Configuration Management Controls; System Development/Change

Management Controls; Contingency Planning; Incident Response and Monitoring; Continuous Monitoring; and Contractor Systems Oversight. Under the VA Enterprise Cybersecurity Program (ECSP), remediation efforts and compensating controls are being monitored to address the Material Weakness findings, and efforts are underway to mitigate the Material Weakness through cybersecurity project prioritization, planning, and execution. The Enterprise Cyber Security Team (ECST) implementation plans refer to the detailed actions required to fully address the Material Weakness findings. These actions are contained within 35 individual plans of action tailored to meet each of the specific Office of Inspector General (OIG) findings. All plans are part of the larger VA ECST implementation plan designed to address the five distinct goals critical to evolving and maturing the overall VA cyber environment to achieve Federal CIO priorities. Estimated completion date: FY 2020.

(5) Entity Level Controls including CFO Organizational Structure: VA's financial statement auditor reported a Material Weakness for the CFO organizational structure, noting VA operates under a decentralized environment, with a fragmented financial management and reporting structure. To address this material weakness, the Office of Management (OM) established a formal CFO Council to facilitate communication and control over Departmentwide CFO functions and implemented the practice of CFOs providing performance inputs for subordinate CFOs. Estimated completion date: FY 2020.

(6) Government Accountability Office (GAO) High-Risk List: (1) Ambiguous Policies and Inconsistent Processes; (2) Inadequate Oversight and Accountability; (3) Information Technology Challenges; (4) Inadequate Training for VA Staff; and (5) Unclear Resource Needs and Allocation Priorities. VHA continues to develop Secretary of VA responses incorporating VHA's Plan for Modernization, "10 Lanes of Effort," modeled on plans developed by the Department of Homeland Security. VHA's GAO-OIG Accountability Liaison continues to work with risk owners to develop comprehensive plans. Estimated completion date: To Be Determined.

SUMMARY OF MATERIAL NONCOMPLIANCE

(1) FMFIA Sections 2 and 4: VA conducted its evaluation of financial management systems for compliance with the Federal Financial Management Improvement Act of 1996 in accordance with OMB Circular A-123, Appendix D. Based on the results, VA's FMS does not substantially comply with Federal financial management systems requirements and application of USSGL at the transaction level. OM developed a robust internal control assessment process to implement the new requirements for full compliance with FMFIA. OM continues to make significant progress integrating internal control functions with Enterprise Risk Management in the Office of Enterprise Integration. Estimated completion date: FY 2025.

(2) Anti-Deficiency Act (ADA): VA identified one violation of the ADA during FY 2019 which was reported to Congress on July 8, 2019. The Office of Transition, Employment, and Economic Impact used the VBA General Operating Expenses fund to pay for development of a dashboard instead of using the Information Technology Systems appropriation funds. VBA is working to strengthen controls over the use of appropriated funds to prevent such occurrences in the future. Estimated completion date: To be determined.

In addition, VA identified a potential violation of the ADA regarding State Home appropriation. OCC used the Medical Community Care (Fund 0140) appropriation instead of the Medical Services (Fund 0160) appropriation for State Home aid expenses. Management is working with authorities to consider amending language regarding appropriate use of the Medical Services (Fund 0160) appropriation. Estimated completion date: To be determined.

(3) Improper Payments Information Act of 2002: In May 2019, OIG reported on VA's FY 2018 compliance with the Improper Payments Elimination and Recovery Act (IPERA). In FY 2018, VA reported approximately $14.7 billion in improper payments. OIG determined VA did not comply with two of six IPERA requirements by not maintaining a gross improper payment rate of 10 percent or less and/or meeting reduction target rates for all programs published in the Agency Financial Report. The Improper Payments Remediation and Oversight Office was established in FY 2015 to oversee all improper payment remediation efforts in VA. Estimated completion date: FY 2022.

(4) Title 38 U.S.C. Section 5315, Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States: VA continues to handle debts in accordance with its long-established policy. VA does not plan to reprogram VBA benefit systems to handle interest and administrative fees because it is replacing its legacy finance and accounting systems with a new VA core financial management system, called iFAMS. VA leadership is pursuing a legislative solution to

assess interest and administrative cost charges at the VA Secretary's discretion. To facilitate this effort, VA is pursuing a legislative change that will allow the Secretary to prescribe when to assess interest and penalties. Estimated completion date: To Be Determined.

(5) Federal Financial Management Improvement Act: VA assessed FMS to determine conformance with FMFIA section . FMS substantially complies with Federal accounting standards. However, it does not comply with application of the USSGL at the transaction level. Therefore, mamagement cannot provide reasonable assurance that VA is in conformance with FMFIA section 4. VA is developing a new accounting system, iFAMS, to replace the current FMS. iFAMS is designed to be compliant with FFMIA. Estimated completion date: FY 2025.

SUMMARY OF INTERNAL CONTROL ASSESSMENT

SUMMARY OF PROCESS FOR ASSESSING INTERNAL CONTROLS

VA's Office of Business Oversight (OBO) oversees the internal control program and assists VA's major organizations in completing an internal controls assessment to support their statements of assurance. OBO developed an Internal Controls Assessment (ICA) tool for evaluation of each of the 17 principles in the GAO Standards for Internal Control in the Federal Government (Green Book). The 17 principles fall into 5 components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. In FY 2019, VA assessed the three distinct but overlapping objectives of internal control: operations, compliance, and reporting.

In FY 2019, the Department required all Administrations and major Staff Offices to complete an ICA, identifying how the entity met the control objectives of each Green Book principle and concluding on the overall effectiveness of the principle, the control component, and the system of internal controls. If deficiencies were identified, management of the Administration or Staff Office, in accordance with OMB Circular No. A-123, exercised judgment in determining the severity of the deficiency.

Each Administration and Staff Office signed a statement of assurance (SOA) based on the results of its ICA. The SOA provides an informed judgment of the overall adequacy and effectiveness of internal control. OBO analyzed ICA submissions and statements of assurance to ensure the statements appropriately captured material weaknesses identified during the internal controls assessment.

Due to financial system modernization, VA did not perform a comprehensive assessment over its internal controls over financial reporting as prescribed by OMB Circular No. A-123, Appendix A, in FY 2019. For FY 2019, agencies must continuously build risk identification capabilities into the framework to identify new or emerging risks, and/or changes in existing risks. OBO conducted OMB Circular No. A-123, Appendix A testing for FY 2019, which included Test of Design and Test of Effectiveness over specified business processes and key controls for specific locations as well as developing maturity models within the risk assessment to identify high-, medium-, and low-level controls risks within the business cycles. OBO focused its efforts on developing business process narratives at an enterprise level, documenting actual operations, and identifying key financial controls or gaps in the design of controls for the target state. Through FMBT system modernization, VA will continue to mature its evaluation of internal control over reporting.

FINANCIAL SYSTEMS FRAMEWORK

VA'S FINANCIAL MANAGEMENT SYSTEMS STRATEGY

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

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

FMBT
Financial Management
Business Transformation

VA's FMBT program: migrating VA's financial and acquisition management systems to a modern, cloud-based solution.

CURRENT FINANCIAL MANAGEMENT SYSTEM FRAMEWORK

VA's existing financial and acquisition management systems consist of FMS, the core financial system, and the acquisition system, known as the Electronic Contract Management System (eCMS), along with a number of interfacing systems:

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

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

FUTURE FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

The scope of the FMBT program is focused on migrating VA from its legacy core FMS and eCMS to the Momentum cloud solution, configured for VA as iFAMS, allowing VA to leverage the Software-as-a-Service model. This involves:

- Migrating to a financial and acquisition management solution compliant with Federal regulations;
- Standardizing financial and acquisition management business processes across VA;
- Standardizing VA's accounting classification structure;
- Replacing the financial management functionality of IFCAP and CAATS and the procurement functionality of eCMS;
- Implementing a new business intelligence solution and data warehouse for financial reporting; and
- Interfacing iFAMS with designated VA systems.

The first delivery of iFAMS went live in March 2018. The second delivery will be full iFAMS implementation at NCA, which is targeted for FY 2020.

FMBT KEY ACCOMPLISHMENTS

The FMBT program achieved several significant milestones during FY 2019, including:

- Finalized iFAMS enterprise configuration, which standardizes the foundational system configuration that will be used VA-wide in concert with administration specific configuration;
- Completed migration of iFAMS to the VA Enterprise Cloud;
- Continued to perform Internal Control assessments to identify current-state financial and acquisition management process weaknesses and risks in order to proactively address areas of concern during wave configuration;
- Completed design of VA's new Accounting Classification Structure which standardizes VA accounting elements across the Department;
- Identified core competency curriculum to address fundamental skill gaps prior to system training;
- Developed wave-based training for Administrations and Staff Offices; and
- Created FMBT Integrated Master Schedule and developed iFAMS enterprise implementation roadmap.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING INFORMATION

RISKS

Like every organization, VA faces risks to its ability to function at its most effective and efficient levels. As VA develops its ERM processes and begins formally and systematically surveying its environment, it has developed a Risk Profile that identifies the most significant risks it faces. There are 16 risks listed in the profile, but the following are the top 3 risks VA faces:

- Managing Risks and Improving VA Health Care – If VA does not utilize Change Management to holistically address the five core issues highlighted in GAO's High-Risk List Update (includes ambiguous policies, inconsistent processes, inadequate oversight and accountability, IT challenges, inadequate training, and unclear resource needs and allocation priorities), then Veteran health will suffer, and the Veteran experience will not be positive.
- Disability Claims and Appeals Process Barriers - If VA fails to improve processes that support claims, appeals, and payments, then Veterans will be unable to fully access VA benefits and services, which could result in an increase in claims and appeals processing backlogs, delayed payments, and a poor Veteran Experience.
- IT Modernization/Legacy - If VA fails to fund, develop, and implement an IT Modernization Program, including cloud maximization, that supports operational business processes, then VA will be unable to effectively deliver Veteran services and benefits in a fully integrated, seamless, and customer-centric environment.

PRIORITIES

Secretary Wilkie has chosen four priorities for the Department to continue the good work it has started and to accelerate its transformation.

Customer service is the prime directive and first priority. VA is driven by customer feedback, unified Veterans data, and employees characterized by a customer-centric mind-set to make accessing VA services seamless, effective, efficient, and emotionally resonant for our Veterans.

The second priority is MISSION Act implementation. This landmark legislation will fundamentally change VA health care through its mandates to enhance service offerings based on robust market analyses of VA health care facility capacity and quality compared to commercially available health care companies. Using this data, VA will put in place the right combination of VA and locally offered services to best meet the health care needs of Veterans wherever they may be. The Act also asks VA to

expand support to caregivers of Veterans. Our Veteran families and caregivers are pivotal partners for VA, and we will ensure that we provide them with the support and services they need to help us take care of our Nation's Veterans.

Replacing the aging EHR system is the third priority for VA. The new EHR system will connect VA to DoD, private health care providers, and private pharmacies to enable the seamless and secure transfer of Veterans' and Servicemembers' sensitive health information. EHR will enhance the coordination of care to improve patient care and safety. With the new EHR system, VA will change the way we do business and make the delivery of VA services more efficient, timely, and focused on the health and safety of Veterans.

Focus on VA Business Systems Transformation is the fourth priority. Upgrading VA to a 21st century operating capability. This includes transformation of digital services; financial management, logistics, and supply chain systems; human capital systems and processes; and other modernization efforts, will help the Department move beyond the old siloed approach to mission accomplishment. Transformation will be evidenced by an empowered VA workforce ably serving Veterans in the field with world-class customer service and improved outcomes.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position and results of operations of the entity, pursuant to the requirements of title 31 U.S.C. section 3515 (b). These are prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, and 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.

FINANCIAL SECTION

Navajo code talkers: Remembering the men behind the code

Early in World War II (WWII), the U.S. had sustained significant damage to the homeland and our troops, from the devastating bombing of Pearl Harbor, to attacks in the Philippines and Guam. It became clear that the nation's battle plans were being deciphered almost as quickly as they were being put together.

In 1942, Phillip Johnson, a World War I Veteran who had been raised on the Navajo Indian Reservation, met with Major General Clayton B. Vogel and presented an inventive plan he believed would solve the military's communication problems. Johnson proposed the use of the Navajo language, unwritten at the time, to satisfy the military's need for an undecipherable code. Twenty-nine Navajo recruits attended boot camp at Camp Pendleton, where they trained for war and developed the code and its implementation.

The original 29 Navajo Code Talkers were awarded the Congressional Gold Medal and Silver Medals were awarded to all of the approximately 300 qualified Navajo Code Talkers. To recognize the service of these men, President Ronald Reagan in 1982 declared August 14 National Navajo Code Talker Day.

"We feel good," said Thomas Begay, a 90-year-old Veteran and Navajo code talker.

When we spoke with Begay, he was getting ready to attend the Navajo Nation celebration for Navajo Code Talker Day in Window Rock, AZ. The 90-year-old WWII and Korean War Veteran is one of the few code talkers still able to walk in the parade. He loves coming to the celebration to see his fellow code talkers and honor the families of those who have passed.

In advance of the 2015 National Navajo Code Talker Day, Begay sat down with VA employee David Overson at the Albuquerque VAMC to talk about being a code talker serving in the U.S. Marine Corps. Begay remembered a lot about what it was like when he first volunteered to serve.

> ***I joined the Marines and wanted to be an air gunner in August 1943, [and] they told me, "You're the man we're looking for." So, September 1943, they put me on a train. I had never been on a train before in my lifetime. They told me I could eat and sit, they didn't tell me I could sleep, they didn't tell me about the bed. I sat up all night. There was a porter [and] he said "Hey, how come you didn't sleep?" I said, "You didn't tell me!"***
>
> ***I was in the dining hall and I was way back. There were all kinds of people lined up, [and] there was a guy coming down in the line checking tickets. When he came to me he said, "You go to the front, eat whatever you want, order whatever you want to eat. You're a priority because you volunteered for the military services."***

Begay recalled what it was like when he arrived at his first military assignment.

> ***I walked in and there were all kind of Navajos. I didn't know [any] of them. I looked at my orders and said "I must be in the wrong place I was supposed to go to gunnery school."***
>
> ***There was a Sergeant, I said "Sir, I supposed to go to gunnery school, Marine air craft." "No," he said, "you are in Code Talker school. It's confidential, nobody knows about it." I said, "I don't want to be a code talker. I want to be heavy gunner." Sergeant says, "Too bad, you're here." Then he said "I want you to try."***

Begay's division saw some of the heaviest fighting of the Pacific campaign.

> ***I'm a combat Veteran. In February 1945, we landed at 0900 on Iwo Jima. I was with the Marine division that raised the flag on Mount Suribachi. I was in the 5th Marine division radio platoon, and then later I was assigned to Agent S Company Radio Section. Two Navajos were killed and five were wounded of the 33 assigned to them.***

Begay reflected on what it was like to be a code talker.

> ***It's like playing with language. It's very interesting, if you know the code, you just use it. They usually write a message for you, the message center people, they give it to you. Our unit called us talkers, they don't say Navajo code talkers — the commanding general said no code talker words.***
>
> ***It means a lot to me. Nobody — Japanese, no one — ever decoded it. Even [other] Navajo, if they're not trained as a code talker. They can write everything we say, but they don't know the meaning. They can't decode it, only we knew the code word in English.***
>
> ***We helped save lives, especially B29s coming back from Tokyo. We saved millions of dollars and lives with the many things that we did.***

Mostly Marines, the Navajo code talkers went on to play a pivotal role in the successful U.S. efforts throughout the war.

Picture previous page: Thomas Begay

A MESSAGE FROM VA'S CHIEF FINANCIAL OFFICER

DEPARTMENT OF VETERANS AFFAIRS
ASSISTANT SECRETARY FOR MANAGEMENT
WASHINGTON DC 20420

November 19, 2019

The Department of Veterans Affairs (VA) is arguably going through the greatest transformation in its storied history. Implementation of the Maintaining Internal Systems and Strengthening Integrated Outside Networks (MISSION) Act, deployment of a system-wide Electronic Health Record coupled with a new logistics system, expansion of the Caregivers program, implementation of the Colmery Act expanding GI Bill benefits, and recent legal and legislative action expanding benefits to Blue Water Navy Veterans are representative of the size and scope of the transformation. Any one of these on its own would be a major undertaking. Taken together, the magnitude of change and upside for Veterans is huge.

Because fiscal resources figure prominently in everything we do, particularly with major transformational efforts, financial professionals across VA have had an extremely busy year. I am proud to report that they not only rose to the challenge, they made Fiscal Year (FY) 2019 an incredible success.

First and foremost, VA received its unprecedented 21st consecutive unmodified ("clean") audit opinion of the Department's consolidated financial statements providing an independent assessment on the fairness of VA's financial reporting. Equally impressive, for the first time since 2013, VA *reduced* improper payments. Despite adding two new programs, VA achieved an overall reduction of $2.7 billion in reported improper payments this year alone. We scored a major victory against fraud by pioneering a computer matching agreement with the Centers for Medicare and Medicaid Services to promptly identify, investigate, and prohibit unethical health care providers from treating Veterans. To streamline medical claims payments to our health care partners, VA deployed a state-of-the-industry electronic claims administration system. We provided financial training to over 1,300 staff in 76 sessions; developed a financial management performance dashboard; and improved debt collection services to Veterans through call center changes that increased the number of calls handled by 10 percent while reducing call wait times to under 2.5 minutes.

Perhaps most important for the VA's future financial performance, we have made strong and sustained progress in replacing VA's legacy core financial and acquisition management systems with a modern, cloud-based Commercial Off the Shelf product. In FY 2019, the Financial Management Business Transformation (FMBT) initiative completed the enterprise finance and acquisition system configuration standardizing the core system configuration that

will be used VA-wide. FMBT is on track for deployment at the National Cemetery Administration in FY 2020.

Notwithstanding these exceptional accomplishments, the Department still faces a number of financial management challenges. Five material weaknesses were noted by the auditors, they include: controls over significant accounting estimates and transactions; liability for Community Care, undelivered orders, reconciliations, and accrued expenses; financial systems and reporting; information technology security controls; and entity level controls including Chief Financial Officer organizational structure. Many of these weaknesses are due to limitations of the existing, antiquated financial and acquisitions systems and will be resolved upon successful completion of FMBT.

VA recognizes that in order to improve its financial stewardship, it must confront these challenges head on and is prepared to do so. I am committed to pursuing those efforts that will improve fiscal accountability and provide the best possible experience to Veterans.

I am proud of what VA's financial community accomplished in FY 2019, and am sincerely grateful to the men and women in VA's financial community, without whom none of this could have happened.

Sincerely,

Jon J. Rychalski

SECTION II: FINANCIAL SECTION

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED BALANCE SHEETS (dollars in millions)
AS OF SEPTEMBER 30, 2019 AND 2018

	2019	2018
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 58,306	$ 66,099
Investments (Notes 5 and 19)	4,358	4,742
Accounts Receivable (Note 6)	9	29
Other Assets	1,762	1,246
Total Intragovernmental Assets	**64,435**	**72,116**
Cash (Note 4)	4	4
Investments (Note 5)	140	140
Accounts Receivable, Net (Note 6)	6,078	2,565
Direct Loans and Loan Guarantees, Net (Note 7)	1,397	1,336
Inventory (Note 8)	49	40
General Property, Plant, and Equipment, Net (Note 9)	27,164	26,479
Other Assets	38	65
Total Assets	**$ 99,305**	**$ 102,745**
Heritage Assets (Note 10)		
Liabilities		
Intragovernmental		
Accounts Payable	$ 126	$ 213
Debt (Note 11)	569	539
Other Liabilities (Note 15)	3,540	4,484
Total Intragovernmental Liabilities	**4,235**	**5,236**
Accounts Payable	12,161	13,474
Loan Guarantee Liability, Net (Note 7)	7,636	8,722
Federal Employee and Veterans Benefits (Note 13)	3,242,812	3,024,368
Environmental and Disposal Liabilities (Note 14)	934	926
Insurance Liabilities (Note 17)	5,703	6,396
Other Liabilities (Note 15)	5,774	5,173
Total Liabilities	**$ 3,279,255**	**$ 3,064,295**
Commitments and Contingencies (Note 18)		
Net Position		
Unexpended Appropriations – All Other Funds	$ 33,486	$ 37,780
Cumulative Results of Operations – Funds from Dedicated Collections (Note 19)	4,293	868
Cumulative Results of Operations – All Other Funds	(3,217,729)	(3,000,198)
Total Net Position	**(3,179,950)**	**(2,961,550)**
Total Liabilities and Net Position	**$ 99,305**	**$ 102,745**

The accompanying notes are an integral part of these Consolidated Financial Statements.

SECTION II: FINANCIAL SECTION

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF NET COST (dollars in millions)
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Net Program Costs By Administration		
Veterans Health Administration		
Gross Cost	$ 93,418	$ 84,486
Less Earned Revenue	(4,648)	(4,288)
Net Program Cost	88,770	80,198
Veterans Benefits Administration		
Gross Cost		
Program Costs	115,570	105,761
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	155,685	82,102
Less Earned Revenue	(673)	(847)
Net Program Cost	270,582	187,016
National Cemetery Administration		
Gross Cost	391	332
Net Program Cost	391	332
Indirect Administrative Program Costs		
Gross Cost	2,294	2,107
Less Earned Revenue	(456)	(372)
Net Program Cost	1,838	1,735
Net Program Costs by Administration Before (Gain)/Loss From Changes in Veterans Benefits Actuarial Assumptions	361,581	269,281
(Gain)/Loss From Changes in Actuarial Assumptions (Note 13)	58,033	79,153
Net Cost of Operations	**$ 419,614**	**$ 348,434**

The accompanying notes are an integral part of these Consolidated Financial Statements.

SECTION II: FINANCIAL SECTION

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (dollars in millions)
FOR THE PERIOD ENDED SEPTEMBER 30, 2019

	Funds from Dedicated Collections (Note 19)	All Other Funds	Consolidated Total
Unexpended Appropriations			
Beginning Balance	$ -	$ 37,780	$ 37,780
Beginning Balance, as adjusted	-	37,780	37,780
Budgetary Financing Sources			
Appropriations received	-	197,963	197,963
Appropriations transferred in/out	-	128	128
Other Adjustments	-	(908)	(908)
Appropriations Used	-	(201,477)	(201,477)
Total Budgetary Financing Sources	-	(4,294)	(4,294)
Total Unexpended Appropriations	-	33,486	33,486
Cumulative Results of Operations			
Beginning Balance	868	(3,000,198)	(2,999,330)
Beginning Balance, as adjusted	868	(3,000,198)	(2,999,330)
Budgetary Financing Sources			
Other adjustments	-	(6)	(6)
Appropriations used	-	201,477	201,477
Nonexchange revenue	-	133	133
Donations and forfeitures of cash and cash equivalents	24	-	24
Transfers in/out without reimbursement	(3,841)	4,039	198
Other Financing Sources (Nonexchange)			
Donations and Forfeitures of Property	59	-	59
Transfers In/Out Without Reimbursement	(39)	39	-
Imputed Financing	-	3,043	3,043
Other	3,412	(2,832)	580
Total Financing Sources	(385)	205,893	205,508
Net (Cost)/Benefit of Operations (Note 21)	3,810	(423,424)	(419,614)
Net Change	3,425	(217,531)	(214,106)
Cumulative Results of Operations	**4,293**	**(3,217,729)**	**(3,213,436)**
Net Position	**$ 4,293**	**$ (3,184,243)**	**$ (3,179,950)**

The accompanying notes are an integral part of these Consolidated Financial Statements.

SECTION II: FINANCIAL SECTION

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (dollars in millions)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

	Funds from Dedicated Collections (Note 19)	All Other Funds	Consolidated Total
Unexpended Appropriations			
Beginning Balance	$ -	$ 34,594	$ 34,594
Beginning Balance, as adjusted	-	34,594	34,594
Budgetary Financing Sources			
Appropriations received	-	195,552	195,552
Appropriations transferred in/out	-	131	131
Other Adjustments	-	(2,182)	(2,182)
Appropriations Used	-	(190,315)	(190,315)
Total Budgetary Financing Sources	-	3,186	3,186
Total Unexpended Appropriations	-	37,780	37,780
Cumulative Results of Operations			
Beginning Balance	823	(2,840,883)	(2,840,060)
Beginning Balance, as adjusted	823	(2,840,883)	(2,840,060)
Budgetary Financing Sources			
Other adjustments	-	(16)	(16)
Appropriations used	-	190,315	190,315
Donations and forfeitures of cash and cash equivalents	21	-	21
Transfers in/out without reimbursement	(3,428)	3,640	212
Other Financing Sources (Nonexchange)			
Donations and Forfeitures of Property	25	-	25
Transfers In/Out Without Reimbursement	(12)	21	9
Imputed Financing	-	2,752	2,752
Other	-	(4,154)	(4,154)
Total Financing Sources	(3,394)	192,558	189,164
Net (Cost)/Benefit of Operations (Note 21)	3,439	(351,873)	(348,434)
Net Change	45	(159,315)	(159,270)
Cumulative Results of Operations	**868**	**(3,000,198)**	**(2,999,330)**
Net Position	**$ 868**	**$ (2,962,418)**	**$ (2,961,550)**

The accompanying notes are an integral part of these Consolidated Financial Statements.

SECTION II: FINANCIAL SECTION

DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions)
FOR THE PERIOD ENDED SEPTEMBER 30, 2019

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources (discretionary and mandatory)		
Unobligated balance from prior year budget authority, net	$ 28,927	$ 11,070
Appropriations	202,402	-
Borrowing authority	-	110
Spending authority from offsetting collections	6,474	3,905
Total Budgetary Resources	**$ 237,803**	**$ 15,085**
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 216,780	$ 6,116
Unobligated balance, end of year:		
Apportioned, unexpired account	17,897	-
Unapportioned, unexpired accounts	56	8,969
Unexpired unobligated balance, end of year	17,953	8,969
Expired unobligated balance, end of year	3,070	-
Unobligated Balance, end of year (total)	21,023	8,969
Total Status of Budgetary Resources	**$ 237,803**	**$ 15,085**
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	$ 207,438	$ 2,150
Distributed offsetting receipts (-)	(4,367)	(3,497)
Agency Outlays, net (discretionary and mandatory)	**$ 203,071**	**$ (1,347)**

The accompanying notes are an integral part of these Consolidated Financial Statements.

SECTION II: FINANCIAL SECTION

DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions)
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources (discretionary and mandatory)		
Unobligated balance from prior year budget authority, net	$ 24,676	$ 11,114
Appropriations	198,727	-
Borrowing authority	-	108
Spending authority from offsetting collections	5,541	4,704
Total Budgetary Resources	**$ 228,944**	**$ 15,926**
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 203,919	$ 4,783
Unobligated balance, end of year:		
Apportioned, unexpired account	21,846	-
Unapportioned, unexpired accounts	90	11,143
Unexpired unobligated balance, end of year	21,936	11,143
Expired unobligated balance, end of year	3,089	-
Unobligated Balance, end of year (total)	25,025	11,143
Total Status of Budgetary Resources	**$ 228,944**	**$ 15,926**
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	$ 184,775	$ 29
Distributed offsetting receipts (-)	(3,789)	(2,477)
Agency Outlays, net (discretionary and mandatory)	**$ 180,986**	**$ (2,448)**

The accompanying notes are an integral part of these Consolidated Financial Statements.

SECTION II: FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

As noted in the U.S.C., the mission of VA is to serve America's Veterans, their dependents, and beneficiaries with dignity and compassion and to be their principal advocate in ensuring that they receive medical care, benefits, social support, and lasting memorials (38 U.S.C. section 301(b) 2011). The Department is organized under the Secretary, whose office includes a Deputy Secretary and a Chief of Staff. The Secretary has direct lines of authority over the Under Secretary for Health (USH), the Under Secretary for Benefits (USB), and the Under Secretary for Memorial Affairs. Additionally, seven Assistant Secretaries, an Inspector General, a General Counsel, and the Chairman of the Board of Veterans' Appeals (Board) support the Secretary.

B. REPORTING ENTITY AND BASIS OF PRESENTATION

VA's Consolidated Financial Statements and the Combined Statement of Budgetary Resources report all VA component activities. VA components are fully described in the Management's Discussion and Analysis of Section I. The consolidated financial statements meet the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994. The principal financial statements have been prepared to report the financial position and results of operations of VA, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of VA in accordance with GAAP for Federal entities and the formats prescribed by the 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 understanding that VA is a component of the U.S. Government, a sovereign entity. VA interacts with and is dependent upon the financial activities of the Federal Government as a whole. Therefore, the results of all financial decisions reflected in these consolidated financial statements are not the sole decisions of VA as a stand-alone entity. VA's fiscal year-end is September 30.

The Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity,* establishes principles to identify organizations for which elected officials are accountable and guides preparers of general-purpose Federal financial reports in determining what organizations to report upon; whether such organizations are considered "consolidation entities" or "disclosure entities;" and what information should be presented about those organizations.

The standard also requires information to be provided on related-party relationships. VA has relationships with many organizations from nonprofits to special interest groups that provide support to VA and advocacy for Veterans. However, none

of VA's relationships is of such significance as to warrant separate or individual disclosure as specified in SFFAS No. 47.

Public Law (P.L.) 100-322, now codified at sections 7361-66 of title 38, U.S.C., permits the Secretary to authorize the establishment of Nonprofit Research and Education Corporations at VA medical centers.

SFFAS No. 55, *Amended Inter-Entity Cost Provisions*, requires component reporting entities disclose that only certain inter-entity costs are recognized for goods and services from other Federal entities at no cost or at a cost less than the full cost. VA receives goods and services from other Federal entities at no cost or at a cost less than the full cost to the providing Federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by VA are recognized as imputed costs in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in the financial statements.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. VA has no such classified information that requires modification of presentation to prevent disclosure.

C. BASIS OF ACCOUNTING

The principal financial statements are prepared in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board and OMB Circular No. A-136, *Financial Reporting Requirements*, as revised. SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles (GAAP), Including the Application of Standards Issued by the Financial Accounting Standards Board*, establishes a hierarchy of GAAP for Federal financial statements. The principal financial statements, prepared in accordance with GAAP, include the consolidated financial statements prepared on an accrual basis of accounting, and the Statement of Budgetary Resources, which reflect the appropriation and consumption of budget and spending authority, and other budgetary resources before eliminations.

The consolidated financial statements include the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. To prepare reliable consolidated financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions are eliminated from VA's consolidated financial statements. However, to remain consistent with the aggregate of the account-level information presented in budgetary reports, the Statement of Budgetary Resources is not consolidated but combined; therefore, elimination of intra-entity transactions is not permitted.

D. 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 intragovernmental funds. Under budgetary reporting principles, budgetary resources are consumed at the time of 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.

The Statement of Budgetary Resources is the basic financial statement that reports the Department's budgetary resources, status of budgetary resources, and outlays. Specific forms of budget authority that the Department receives are appropriations, borrowing authority, and spending authority from offsetting collections. Details on the amounts shown in the Statement of Budgetary Resources are included in the Required Supplementary Information (RSI) section on the Schedule of Budgetary Activity shown by major account.

See Note 22 for further disclosure on budgets and budgetary accounting.

E. REVENUES AND OTHER FINANCING SOURCES

VA collects revenues for both exchange and nonexchange activities. Recognition of these revenues is based upon the exchange versus nonexchange determination and is further discussed below.

Nonexchange revenue is an inflow of resources to VA that is recognized when VA establishes a specifically identifiable, legally enforceable claim to cash or other assets, to the extent that collection is probable, and the amount is measurable, from nonexchange transactions with other Federal agencies or the public where VA does not give value directly in exchange for the inflow of resources.

VA receives nonexchange revenue in the form of voluntary donations or has the power to demand or compel payment in the form of a penalty. Nonexchange revenue consists primarily of imputed financing, but also includes forfeitures of property, and transfers in/out without reimbursement. Imputed financing sources consist of imputed revenue for expenses relating to legal claims paid by the Treasury Judgment Fund and postretirement benefits for VA employees paid by the OPM.

Exchange revenue is an inflow of resources to VA that is recognized when earned from exchange transactions with other Federal agencies or the public where each party to the transaction sacrifices value and receives value in return. Exchange revenues are discussed further in Note 20, Exchange Transactions.

Exchange revenue, which is primarily medical revenue, is recognized when earned from other Federal agencies or the public as a result of costs incurred or services performed on their behalf. Medical revenue is earned by VA when services are provided and are billable to the first-party (Veterans) and third-party insurance companies. Under Chapter 17, title 38, U.S.C., VHA is authorized to bill a Veteran's third-party health insurer for health care provided at VA and non-VA medical facilities. Generally, VA considers a

Veteran's health care billable if the treatment is not for a service-connected disability.

Billable amounts are based on reasonable charges by locality for services provided as determined under the methodology prescribed by 38 Code of Federal Regulations (CFR) 17.101. Under this methodology, the billable amounts for services provided by VA represent the 80th percentile of nationwide average rates developed from commercial and Medicare statistical data by locality throughout the nation. The statistical data is adjusted by the Consumer Price Index (CPI) to account for the historical nature of the data being utilized. The billable amounts by service provided are developed based on the classification of services as inpatient, outpatient, professional, surgical, or non-surgical. The nationwide average rates used to determine billable amounts for services provided for inpatient care are updated annually effective October 1, and nationwide average rates for billable amounts for outpatient and professional care are updated annually effective January 1. The updated charges are published by a Notice in the Federal Register, and the charges are available on the VHA OCC website under Reasonable Charges Rules, Notices, and Federal Register Information or https://www.va.gov/COMMUNITYCARE/revenue_ops/payer_rates.asp. Revenue earned but unbilled is estimated using historical average data. An allowance for contractual adjustments from insurance companies and uncollectible amounts is determined using historical average data.

F. TRANSFERRING BUDGET AUTHORITY TO OTHER AGENCIES

VA, as the transferring (parent) entity, is a party to allocation transfers with DoD, the transferee (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (transfer appropriation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this transfer appropriation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations, and budget apportionments are derived.

G. FUND BALANCE WITH TREASURY

Treasury performs cash management activities for all Federal Government agencies. The Fund Balance With Treasury (FBWT) represents VA's right to draw funds from the Treasury for allowable expenditures. These balances in Note 3 are reconciled to Treasury and primarily consist of trust, revolving, special, and appropriated funds.

H. INVESTMENTS

Investments are reported in Note 5 at cost net of amortized premiums or discounts and accrued interest, which approximates market value, and are redeemable at any time for their original purchase price. Interest rates for Treasury special securities are initially set based on average market yields for comparable Treasury issues. See Note 19 for additional disclosure of Treasury securities in funds from dedicated collections.

Allowances are recorded to reflect estimated losses of principal as a result of the subordinated position in housing trust certificates. The estimated allowance computations are based upon discounted cash flow analysis. VA continues to use the income from these subordinated housing trust certificates to fund the Housing Trust Reserve Fund (Reserve Fund), which is used in turn to fund deficiencies in scheduled monthly principal and interest on the loans as well as to cover any realized losses incurred in the prior month. Any excess funds in the Reserve Fund are reimbursed to VA upon request.

I. ACCOUNTS RECEIVABLE

Accounts Receivable are reported in Note 6 at net realizable value measured as the carrying amount, less an allowance for loss provision or contractual adjustment for medical care, as considered necessary. Contractual adjustments are estimated for Medical Care Collection Fund (MCCF) receivables due from patients and insurance companies using the allowance method. The allowance is determined based on the contractual nature of the balance due and VA's historical experience with collection efforts including a rolling 12-month analysis. Uncollectible amounts are written off against the allowance for loss provision or contractual adjustment for medical care once VA determines an amount, or a portion thereof, to be uncollectible.

Overpayments to Veterans/beneficiaries are the main cause of Compensation, Pension, and Education receivables. VA is required by P.L. 96-466 to charge interest and administrative costs on benefit debts similar to charges levied on other debts owed to the Federal Government. VA's current practice is not to charge interest on compensation, pension debts, and certain education benefits based on a July 1992 decision by the then VA Deputy Secretary.

J. DIRECT LOANS AND LOAN GUARANTEES

Direct loan obligations and loan guarantee commitments made after FY 1991 are governed by the Federal Credit Reform Act of 1990 (Credit Reform Act). The Note 7 disclosures are in accordance with SFFAS No. 2, *Accounting for Direct Loans and Guarantees*; SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees;* and SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*. The Credit Reform Act provides that the present value of the estimated net cash flows to be paid by VA for subsidy costs associated with direct loans and loan guarantees be recognized as a cost in the year the loan is disbursed as a result of its borrowing from Treasury. Direct loans and guaranteed loans receivable are reported net of an allowance

for subsidy costs at present value, and loan guarantee liabilities are reported at present value.

The subsidy costs related to direct loans and guaranteed loans receivable consist of the interest rate differential between the loans to Veterans and the borrowing from Treasury, estimated default costs, net of recoveries, offsets from fees and collections, and other estimated subsidy costs affecting cash flows. Adjustments to the allowance for subsidy costs affecting cash flows consist of fees received, foreclosed property acquired, loans written off, subsidy allowance amortization and re-estimates of interest rates, and application of loan technical/default provisions approved by OMB.

When the present value of cash inflows is less than the present value of cash outflows, a subsidy cost is incurred and reported as an allowance for subsidy costs, reducing direct loans and guaranteed loans receivable reported in the Balance Sheet. However, a negative subsidy occurs when the present value of cash inflows to VA exceeds the present value of cash outflows made by VA. The resulting negative subsidy is reported as an allowance for subsidy costs that increases direct loans and guaranteed loans receivable reported in the Balance Sheet.

The cash flow costs used to calculate the present value of the liability for loan guarantees and loan sale guarantees consist of the estimated default costs, net of recoveries, fees and other collections, adjustments for fees received, foreclosed property and loans acquired, claim payments to lenders, interest accumulation on the liability balance, modifications, changes in re-estimates of interest rates, and application of loan technical/default provisions approved by OMB.

Direct loans obligated before October 1, 1991, are not subject to the Credit Reform Act and are recorded at the net realizable value given the remaining balance of amounts disbursed plus accrued and unpaid interest receivable. The allowance for loan losses on direct loans obligated before October 1, 1991, is recognized when it is more likely than not that the direct loans will not be totally collected. The allowance of the uncollectible amounts is re-estimated each year as of the date of the financial statements. Loan losses are re-estimated by program.

Risk factors are evaluated for each program and separate loan year disbursed. Risk factors include historical loan experience, regional economic conditions, financial and relevant characteristics of borrowers, value of collateral to loan balance, changes in recoverable value of collateral, and new events that would affect the loans' performance. A systematic methodology based on an econometric model is used to project default costs by risk category. Actual historical experience includes actual payments, prepayments, late payments, defaults, recoveries, and amounts written off.

K. PROPERTY, PLANT, AND EQUIPMENT

VA has a significant construction program for medical facilities, national cemeteries, and other Veteran-related projects. VA submits its major construction project plans

for medical facilities and national cemeteries to Congress for approval prior to receiving appropriated funds. VA maintains separate appropriated fund accounts for each type of project, as authorized, for major and minor construction and nonrecurring maintenance projects.

Construction project costs are recorded in construction Work-In-Process (WIP) accounts. The assets are transferred to either capitalized or noncapitalized Property, Plant, and Equipment (PP&E), as appropriate, when placed in service. Construction projects completed in multiple phases are recorded as construction WIP until the project phase is placed in service. Personal property and equipment not meeting the capitalization criteria is expensed upon being placed in service.

Individual items are capitalized if the useful life is two years or more and the unit price is $1 million or greater. Buildings are depreciated on a straight-line basis over estimated useful lives of 25 to 40 years. Equipment is depreciated on a straight-line basis over its useful life, usually 5 to 20 years.

Internal Use Software (IUS) is also subject to the $1 million threshold for capital assets. The costs subject to capitalization are incurred during the software development phase. The capitalized costs are amortized on a straight-line basis, and the amortization term is in accordance with the planned lifecycle established during the software's planning phase. The useful life regarding capitalization of IUS is determined on a per-project basis, no less than four years, and consistent with the solution's longevity as limited by legal, regulatory, and/or contractual provisions.

PP&E components are valued at net cost. A summary is reported in Note 9.

L. OTHER ASSETS

Intragovernmental other assets are reported at cost, and consist primarily of advance payments to the U.S. Army Corps of Engineers for major construction.

Public other assets are reported at cost and consist of advance payments mostly to hospitals and medical schools under house staff contracts, grantees, and beneficiaries, with the balance of the advances being made to employees on official travel.

M. ACCOUNTS PAYABLE

Accounts Payable are amounts owed by VA for goods and services received, progress in contract performance, and rents due. When VA accepts title to goods, whether the goods are delivered or in transit, or incurs costs for services received, VA recognizes a liability for the unpaid amount of the goods and services. If invoices for those goods and services are not available when financial statements are prepared, the amounts owed are estimated.

Accounts Payable also include payables to Veterans such as scheduled compensation, pension, and education benefits. Significant variances can occur from year to year depending on the timing of compensation and pension benefit payments. By law, these monthly recurring payments are due on the first day of the month, unless that day is a Saturday, Sunday, or Federal Holiday per 38 U.S.C. Section 5120 (e). When the first day of the

month falls on a weekend or Federal Holiday, payments are made on the last working day of the benefit month.

Intragovernmental Accounts Payable consists of amounts owed to other Federal Government agencies. The remaining Accounts Payable consist of amounts due to the public. Intragovernmental and public Accounts Payable are covered by budgetary resources.

N. LIFE INSURANCE LIABILITIES

Through VA, the Federal Government administers six life insurance programs:

(1) United States Government Life Insurance (USGLI) program;
(2) National Service Life Insurance (NSLI) program;
(3) Veterans Special Life Insurance (VSLI) program; and
(4) Veterans Reopened Insurance (VRI) program.

The above four programs cover Veterans who served during World Wars I and II, and the Korean Conflict eras and are closed to new issues.

(5) Service-Disabled Veterans Insurance (S-DVI) program, provides insurance to Veterans who receive a service-connected disability rating and is open to new issues, and
(6) Veterans Mortgage Life Insurance (VMLI) program, which covers severely disabled Veterans and is open to new issues; VMLI is part of the Veterans Insurance and Indemnities (VI&I) fund.

Note 17 discloses liabilities for VA's life insurance programs, which include policy reserves, unearned premiums, insurance dividends left on credit or deposit and related interest payable, dividends payable to policyholders, and unpaid policy claims.

The next sections discuss the different components included in the computation of VA's life insurance liability reserves.

USGLI permanent plan policy reserves are based on the American Experience Table with 2.0 percent interest and are held on a net single premium basis.

NSLI basic policy reserves for permanent plans are based on the American Experience Table with 3.0 percent interest, except for the modified life plans, which are based on the 1958 Commissioner's Standard Ordinary (CSO) Basic Table with 3.0 percent interest, and paid-up additions purchased by dividends, which are based on the 2001 Valuation Basic Male (VBM) Table with 3.0 percent interest. The reserve for term policies is based on the 2001 VBM Table with 3.0 percent interest and the age 70 rate (the capped premium) of $6.18 per month per $1,000 face amount.

VSLI permanent plan policy reserves are based on the X-18 Table at 2.5 percent interest, except for paid-up additions, which are based on the 2001 VBM Table with 4.0 percent interest. The reserve for term policies is based on the 2001 VBM Table with 4.0 percent interest and the age 70 rate (the capped premium) of $5.87 per month per $1,000 face amount.

VRI basic policy reserves are based on an interest rate of 3.5 percent and a mortality basis that varies by segment ("J," or "JR,") and by rating code within the "JR" segment. For "J," the basis is 100 percent of the 1958

CSO Basic Table. For "JR," the basis is the same as the rating code (150, 175, 200, 250, 300, 400, or 500 percent) of the Basic Table. Reserves for paid-up additions are based on the 2001 VBM Table and 3.5 percent interest for "J," and the 1958 CSO Basic Table and 3.5 percent interest for "JR."

S-DVI permanent plan policy reserves are based on the 1941 CSO Table at 3.5 percent interest using rate book premiums. The reserve for five-year term policies is based on varying ratios of the 1941 CSO Table at 3.5 percent interest using rate book premiums and is computed on a complete contract basis. The mortality ratios start at 250 percent for ages 50 and below and grade down to 100 percent of the table for ages 65 and older. The reserve for term policies renewed at age 70 and over is based on the 1941 CSO Table with 3.5 percent interest and the age 70 term capped premium of $5.87 per month per $1,000 face amount.

The VMLI program is operated through the VI&I fund. The reserve for VMLI policies are based on 500 percent of the 1958 CSO Basic Table at 2.5 percent interest.

A reserve for unearned premiums is held for premiums paid for coverage past the date of the statement. It comprises an estimate for premiums paid less than one month in advance that are unearned at the end of the reporting period, and a reserve for premiums paid one month or more in advance computed from in-force master records.

Insurance dividends that are left on credit or deposited with VA accrue interest at a rate that varies by fund relative to the fund's investment portfolio earnings. For FY 2019 and FY 2018, the interest rates range from 4.25 percent to 3.5 percent.

The Secretary determines annually the excess funds available for dividend payment. Policyholders can elect to: receive a cash payment; prepay premiums; repay loans; purchase paid-up insurance; or deposit the amount in an interest-bearing account. Policies in four of the administered programs are eligible for dividends: NSLI, USGLI, VSLI, and VRI. The dividend authorization is based on an actuarial analysis of each program's claims and investment experience, compared to the mortality and interest assumptions utilized in that program at the end of the preceding calendar year. Dividends are declared on a calendar-year basis and paid on policy anniversary dates. 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.

The reserve for dividends payable is an estimate of the present value of dividends accrued as of the valuation date. In accordance with GAAP requirements, VA records only that portion of the estimated policy dividend that applies to the current reporting period as a dividend liability. For FY 2019, a discount rate of 3.0 percent for NSLI, 2.0 percent for USGLI, 4.0 percent for VSLI, and 3.5 percent for VRI, along with the appropriate accrual factor is used. For FY 2018, a discount rate of 3.0 percent for NSLI, 2.0 percent for USGLI, and 4.0 percent for VSLI and VRI, along with the

appropriate accrual factor was used. The methodology employed by VA to estimate the dividend liability reflects expected dividends to be paid by quarter using percentages that are based on the actual distribution of dividend anniversaries at the end of the prior year. The financial statement disclosures herein (Note 17) are in accordance with SFFAS No. 51, *Insurance Programs*.

O. ANNUAL LEAVE

Federal employees' annual leave (reported in Note 15) is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates for leave that has been earned but not taken. Sick and other types of nonvested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not used, funding will be obtained from future financing sources, and therefore, these liabilities are not covered by budgetary resources.

P. 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 comprises 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 (reported in Note 15), and (2) the actuarial liability for compensation cases to be paid beyond the current year (reported in Note 13).

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. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds.

Q. PENSION, OTHER RETIREMENT BENEFITS, AND OTHER POSTEMPLOYMENT BENEFITS

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and postretirement health benefits and life insurance to its employees (reported in Note 13). Factors used in the calculation of these pension, postretirement health, and life insurance benefit expenses are provided by OPM to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). VA contributes according to both plan's requirements. CSRS and FERS are multiemployer plans administered by OPM. 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.

R. VETERANS BENEFITS LIABILITY

VA provides compensation benefits to Veterans who are disabled by military service-related causes. Benefits are also provided to deceased Veterans' beneficiaries. These benefits are provided in recognition of a Veteran's military service. The liability for future compensation and burial 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 total number of Veterans, estimated future military separations, the number of Veterans and dependents receiving payments, discount rates, COLA, presumptive service conditions resulting in disability benefits coverage, and life expectancy impact the amount of the liability.

Estimated liabilities for Veterans compensation and burial obligations in the financial statements are measured as of the end of the fiscal year, based on June 30 beneficiary data that is adjusted for estimated changes in the number of participants covered (enrollment) such as deaths, new cases, and changes in degree of disability during the fourth quarter. The method used to measure the liabilities provides for consistency in the underlying relationship between discount rate, COLA, and other economic assumptions. For FY 2019, the valuation techniques used to measure the fair value of the actuarial liabilities are consistently applied compared to the previous year.

For eligible Veterans, Servicemembers, and their dependents, VA provides four unique education/retraining programs:

- Post-9/11 GI Bill (Chapter 33);
- VR&E (Chapter 31);
- Survivors' and Dependents' Education Assistance (DEA) (Chapter 35); and
- Montgomery GI Bill Active Duty (MGIB-AD) (Chapter 30).

The liability for future education and VR&E benefits 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 total number of Veterans with entitlement, average usage of entitlement, the program stop and restart rate, the number of Veterans and dependents receiving payments, and discount rates adjustments impact the amount of the liability.

Estimated liabilities for the Post-9/11 GI Bill obligations in the financial statements are measured on the academic year of August 1 to July 31, and are adjusted for known material changes. Since the Post-9/11 GI Bill dropout assumption rates are derived on an academic year basis, the estimated liabilities are measured on an academic year basis instead of a fiscal year basis.

Estimated liabilities for all other education obligations in the financial statements are as of the end of the fiscal year based on June 30 beneficiary data that is adjusted for known material changes during the fourth quarter. The method used to measure the liabilities provides for consistency in the underlying relationship between discount rate, and the other economic assumptions.

Periodically, VA refines its valuation techniques, or the application used to measure the present value of the actuarial liabilities. VA management concludes the resulting measurements are equally or more representative of present value of the actuarial liabilities and are due to improved computer software modeling capability and/or improved information. The resulting changes in present value of the actuarial liabilities from the changes in valuation techniques or their application are treated as a change in estimate and accounted for on a prospective basis.

Occasionally, a new circumstance may arise for which the existing actuarial assumptions are no longer current and updated assumptions are needed. In such circumstances, it is possible that the impact of the updated assumptions could be significant. Therefore, an actuarial experience study is necessary to evaluate the differences between assumed and actual experience over a period of time (e.g. 3 to 5 years), with the goal of examining the trends related to actual experience and using that to develop an accurate assumption. In these instances, VA may decide to calculate a liability for the expected impact using a best estimate calculation until an experience study can be completed. The results of these estimates, and all other projections in the actuarial valuations, are dependent on the assumptions used. Actual results may differ, due to actual experience deviating from the assumptions used.

Beginning in FY 2019, VA implemented a new policy change to record obligations at the time of payment for Community Care. This change in obligation methodology requires VA to obligate funds at the time claim invoices are received, validated, and paid. VA will estimate an IBNR liability at the end of each period to recognize the cost of services incurred where claim invoices have not yet been received, validated, or paid. This policy change is being implemented prospectively; therefore, obligations made in FY 2019 and thereafter are subject to the new reporting change. VA will continue to record obligations for services received prior to FY 2019 at the time of authorization. Additional information on the Medical Claims Benefits Liability is presented in Note 13.

All the projected liabilities do not include any administrative costs. Actual administrative costs incurred annually are included in the Department's Net Program Costs shown in the accompanying Statement of Net Costs.

The financial statement disclosures herein (Note 13) are in accordance with SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting Gains and Losses from Changes in Assumptions, and Selecting Discount Rates and Valuations Dates* and SFFAS No. 5, *Accounting for Liabilities of the Federal Government.*

S. COMMITMENTS AND CONTINGENCIES

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 resolution of these proceedings, actions, and claims will not materially affect the financial position or results of VA operations other than as disclosed in Note 18, Commitments and Contingencies.

T. APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

U. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the auditors' report date, which is the date the financial statements are available to be issued, and management determined that there are no other items to disclose.

NOTE 2. NON-ENTITY ASSETS

Entity and non-entity assets have been combined on the Balance Sheet. Non-entity assets relate primarily to state and local taxes included in FBWT, downward re-estimates for VA's Home Loan Program and amounts due to Treasury for medical costs billed to Veterans.

There are offsetting liabilities in the Balance Sheet for the non-entity assets reported below. Offsetting liabilities are included in Accounts Payable and Other Liabilities, Insurance Liabilities, and Other Liabilities. There is no balance in the Net Position of the Balance Sheet for the non-entity assets.

Non-Entity Assets (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
Intragovernmental:		
Fund Balance with Treasury	$ 192	$ 170
Accounts Receivable	2,406	13
Total Intragovernmental	2,598	183
Accounts Receivable	54	48
Total Non-Entity Assets	**2,652**	**231**
Total Entity Assets	**96,653**	**102,514**
Total Assets	**$ 99,305**	**$ 102,745**

NOTE 3. FUND BALANCE WITH TREASURY

The Status of FBWT represents VA's unobligated balances, obligated balances, deposit funds, clearing accounts, unavailable general funds receipts, and unavailable receipts accounts. The SF-133, *Report on Budget Execution and Budgetary Resources*, allows the monitoring of the status of funds that are apportioned. The status of obligations presented in the following schedule is derived from the SF-133. The obligated and unobligated balances reported on the SF-133 are supported by FBWT, as well as other budgetary resources that do not affect FBWT, primarily special funds, general receipts, and medical care funds.

Fund Balance with Treasury (dollars in millions) As of September 30, 2019 and 2018	2019	2018
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 16,647	$ 20,238
Unavailable	10,900	13,559
Obligated Balance Not Yet Disbursed	30,120	31,799
Deposit funds, clearing accounts and unavailable general fund receipts	300	219
Unavailable Receipts Account	339	284
Fund Balance with Treasury	**$ 58,306**	**$ 66,099**

NOTE 4. CASH

Cash consists of Veterans Canteen Service and Agent Cashier Advances held at VA field stations. All other cash receipts and disbursements are processed by Treasury.

Cash (dollars in millions) As of September 30, 2019 and 2018	2019	2018
Cash		
Canteen Service	$ 3	$ 3
Agent Cashier Advance	1	1
Total Cash	**$ 4**	**$ 4**

NOTE 5. INVESTMENTS

Treasury Securities, which comprise most of VA's investments, are nonmarketable Special Bonds and Notes. Special Bonds, which mature during various years through 2034, are generally held to maturity unless needed to finance insurance claims and dividends. Amounts collected from Prudential for the VGLI excess contingency reserve funds are invested in Special Bonds. None of the Special Bonds are reclassified as available for sale or early redemption, nor are there any permanent impairments on these investments. Treasury Notes help finance operations and events supported by the General Post Fund for the benefit of Veterans and their beneficiaries.

Public Securities consist of Loan Guarantee Program investments in housing trust certificates.

Investments (dollars in millions) As of September 30, 2019	Cost	Amortization Method	Amortized (Premium)/ Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Treasury Securities (Note 19)						
Special Bonds	$ 4,199	N/A	$ -	$ 38	$ 4,237	$ 4,237
Notes	120	Effective Interest	-	1	121	121
Total	**4,319**		**-**	**39**	**4,358**	**4,358**
Public Securities						
Trust Certificates (Loan Guarantee)	140	N/A	-	-	140	140
Total	**$ 140**		**$ -**	**$ -**	**$ 140**	**$ 140**
As of September 30, 2018						
Treasury Securities (Note 19)						
Securities (Note 19)						
Special Bonds	$ 4,605	N/A	$ -	$ 46	$ 4,651	$ 4,651
Notes	91	Effective Interest	(1)	1	91	91
Total	**4,696**		**(1)**	**47**	**4,742**	**4,742**
Public Securities						
Trust Certificates (Loan Guarantee)	140	N/A	-	-	140	140
Total	**$ 140**		**$ -**	**$ -**	**$ 140**	**$ 140**

NOTE 6. ACCOUNTS RECEIVABLE, NET

Accounts Receivable consist of intragovernmental and public Accounts Receivable. Intragovernmental Accounts receivable consist of amounts due from other Federal Government agencies primarily for reimbursement of costs and lease payments receivable. All amounts due from Federal Government agencies are considered fully collectible; therefore, no Allowance for Loss Provision is recognized.

Public Accounts Receivable consist primarily of (a) amounts due for Veterans' health care, (b) amounts due for compensation and pension overpayments, (c) amounts due for education and VR&E overpayments, (d) excess contingency reserve funds due from Prudential, and (e) other miscellaneous receivables due primarily for general fund advances and medical research.

In FY 2019, VA initially recognized a receivable from Prudential for $3.4 billion for the Veterans' Group Life Insurance (VGLI) program. This amount will be collected by VA over the next five years. Beginning August 2019, VA received the first installment of the VGLI receivable for $300 million; which resulted in a remaining balance of $3.1 billion as of September 30, 2019. The full amount of the VGLI receivable is contractually guaranteed; therefore, no Allowance for Loss Provision is recognized.

VA also expects to receive excess contingency reserve funds from Prudential for the Servicemembers Group Life Insurance (SGLI) program. Additional information on the VGLI and SGLI transfers is contained in Note 17, Life Insurance Programs.

The total Contractual Adjustment and Allowance for Loss Provision as a percentage of total public Accounts Receivable is approximately 33 percent and 52 percent at September 30, 2019 and 2018, respectively. Excluding the contractually guaranteed Prudential amount, this computation is approximately 51 percent and 52 percent at the same two dates.

A separate disclosure is required for criminal restitution amounts included in Accounts Receivable. This includes the gross amount of receivables related to monitored criminal restitution orders, and the estimate of net realizable value determined to be collectible for monitored criminal restitution orders. VA's Accounts Receivable as of September 30, 2019, and 2018, includes $66 million and $53 million, respectively, related to monitored criminal restitution orders, for which an estimate of net realizable value is currently undeterminable but is considered negligible.

Accounts Receivable, Net (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
Intragovernmental Accounts Receivable	**$ 9**	**$ 29**
Accounts Receivable		
Medical Care	$ 3,656	$ 3,159
Contractual Adjustment and Allowance for Loss Provision	(1,997)	(1,536)
Net Medical Care	1,659	1,623
Compensation and Pension Benefits	1,705	1,432
Allowance for Loss Provision	(785)	(698)
Net Compensation and Pension Benefits	920	734
Education and VR&E Benefits	589	601
Allowance for Loss Provision	(286)	(474)
Net Education and VR&E Benefits	303	127
Excess Contingency Reserve Funds	3,112	-
Net Excess Contingency Reserve Funds	3,112	-
Other	164	107
Allowance for Loss Provision	(80)	(26)
Net Other	84	81
Total Accounts Receivable	9,226	5,299
Total Contractual Adjustment and Allowance for Loss Provision	(3,148)	(2,734)
Accounts Receivable, Net	**$ 6,078**	**$ 2,565**

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES

The accounting for direct loans and loan guarantees made after FY 1991 is governed by the Credit Reform Act.

VA operates the following direct loan and loan guarantee programs:

Program Name	Program Group	Program Type
Vendee Loans	Home Loan	Direct
Acquired Loans	Home Loan	Direct
Native American Direct Loans	Home Loan	Direct
Housing Guaranteed Loans	Home Loan	Guarantee
Insurance	Insurance	Direct
Loan Sale Guarantees	Loan Sale Guarantees	Guarantee

A. LOAN PROGRAMS

HOME LOANS

VA's Home Loan Program is the largest of the loan programs. The Home Loan Program provides loan guarantees and direct loans to Veterans, Servicemembers, qualifying dependents, and limited non-Veterans to purchase homes and retain homeownership with favorable market terms.

Vendee loans are direct loans issued to a third-party borrower for the market value of the Real Estate Owned (REO) property. VA acquires REO property from a private sector mortgage lender upon default of a loan subject to VA Loan Guarantee Program.

Acquired loans are VA guaranteed loans in default that VA purchases from the private sector mortgage lender. VA subsequently services the loan directly with the Veteran after VA determines the Veteran can meet debt payments.

Native American direct loans are special financing loans that enable Native Americans to purchase or construct a home on Federally recognized trust land.

Under the Housing Guaranteed Loan program, a loan may be made to an eligible Veteran borrower 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 a default by the Veteran borrower results in a loss by the mortgage lender. If the mortgage lender acquires the property that had secured the guaranteed loan at the liquidation sale, the loan holder can elect to convey the property to VA, which then attempts to resell the property at the best possible price and terms.

VA operates in the broader mortgage marketplace; as a result, VA housing program is affected by overall housing market conditions. The current mortgage market has demonstrated steady improvements, and homeowner equity is recovering. For the most part, VA and loan

servicers will be better able to use foreclosure-resolution and avoidance tools to improve the outcomes of servicing efforts offered to borrowers with delinquent VA-guaranteed home loans. The Economic Growth Regulatory Relief, and Consumer Protection Act (sec. 125 P.L. 115-174) was signed into law on May 24, 2018, which may limit the options Veterans have to utilize their home loan refinancing benefits. For example, borrowers must be able to recoup refinancing fees through the lower monthly payment, within 36 months; interest rates on refinances must be a certain minimum level below the rate of the original loan; and lenders are required to provide borrowers with a net tangible benefit worksheet demonstrating that borrowers would benefit from home loan refinancing. The Act has extended the Vendee Loan program through September 30, 2019, and has resulted in an increase in Vendee loans during FY 2019.

INSURANCE POLICY LOANS

Veterans that are Government life insurance policyholders with permanent plan coverage or paid-up additional insurance can borrow against the cash value of their policy, creating an insurance policy direct loan. The loan amount may not exceed 94 percent of the cash surrender value of the policy or the paid-up additional insurance.

LOAN SALE GUARANTEES

VA owns REO properties as a result of VA guaranteed loans that defaulted and have gone through the foreclosure process with the mortgage servicer. VA sells the real estate to a third-party owner and makes the direct loan for the underlying mortgage loan receivable. To reduce the administrative burden of servicing these loans, VA has the authority to bundle these loans and sell them to a third-party investor (Trust) pursuant to a sale agreement.

Under the sale agreement, the Trust owns the mortgage loans and other property acquired in the sale and makes elections to treat certain assets as one or more Real Estate Mortgage Investment Conduits for U.S. Federal income tax purposes. In addition, the Trust will issue certificates backed by mortgage loans and installment contracts. The certificates represent interests in the assets of the Trust and are paid from the Trust's assets. On the closing date of the certificates, VA transfers its entire interest in the related loans receivable and collateral to the Trustee for the benefit of the related certificate holders pursuant to the sale agreement. VA guarantees that the investor will receive full and timely distributions of the principal and interest on the certificates backed by the full faith and credit of the Federal Government.

B. LOANS RECEIVABLE

Loans receivable consist of direct loans and defaulted guaranteed loans receivable. The loans receivable are secured by the underlying real estate and insurance policies, except for loans obligated prior to FY 1992.

For Direct Home Loans, interest income is accrued at the contractual rate on the outstanding principal amount. Interest continues to accrue on non-performing loans at the contractual rate. For terminated guaranteed loans made prior to

March 1, 1988, interest income is accrued based on the outstanding loan amount. In accordance with Title 38 § 3713 & 3714, VA does not establish a receivable or accrue interest on home loans guaranteed on or after March 1, 1988.

Prior to November 2, 1987, life insurance policy loans were issued at fixed rates depending on the fund and time period. The fixed rate loans that remain are at 4.0 and 5.0 percent. All policy loans issued since November 2, 1987, have a variable interest rate with a minimum of 5.0 and a maximum of 12.0 percent. Rate changes are tied to the 10-year constant maturity of the U.S. Treasury Securities Index and may only change on October 1. The variable rate has been 5.0 percent since October 1, 2001.

The recorded value of loans receivable, net, and the value of assets related to loans receivable are not the same as the proceeds that VA would expect to receive from selling its loans. It is at least reasonably possible that the proceeds from the sale of its loans will differ from the reported carrying value of the loans receivable and the underlying value of their related assets, which will result in a realized gain or loss on sale.

The amount of new direct loans disbursed as of September 30, 2019, and 2018, was $117 million and $53 million, respectively.

An analysis of loans receivable and the nature and amounts of the subsidy costs associated with the loans is provided in the table that follows.

Loans Receivable and Related Foreclosed Property from Direct and Guaranteed Loans (dollars in millions)
As of September 30, 2019

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Loans, Net
Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method)						
Direct Home Loans	$ 1	$ -	$ -	$ -	$ -	$ 1
Defaulted Guaranteed Home Loans	9	-	(9)	-	-	-
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans	405	20	-	23	2	450
Defaulted Guaranteed Home Loans	4	-	-	-	731	735
Direct Insurance Policy Loans	206	5	-	-	-	211
Total Loans Receivable	**$ 625**	**$ 25**	**$ (9)**	**$ 23**	**$ 733**	**$ 1,397**

Loans Receivable and Related Foreclosed Property from Direct and Guaranteed Loans (dollars in millions)
As of September 30, 2018

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Loans, Net
Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method)						
Direct Home Loans	$ 1	$ 9	$ -	$ -	$ -	$ 10
Defaulted Guaranteed Home Loans	16	-	(15)	-	1	2
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans	370	22	-	29	2	423
Defaulted Guaranteed Home Loans	4	-	-	-	667	671
Direct Insurance Policy Loans	224	6	-	-	-	230
Total Loans Receivable	**$ 615**	**$ 37**	**$ (15)**	**$ 29**	**$ 670**	**$ 1,336**

Direct home loans obligated prior to FY 1992 consist of Vendee and Acquired loans. Direct home loans obligated after FY 1991 consist of Vendee, Acquired, and Native American Housing loans. Pre-FY 1992 defaulted guaranteed home loans consist of Veterans Housing Benefit loans. Post-FY 1991 defaulted guaranteed home loans consist of Housing Loans For Homeless Veterans and Veterans Housing Benefit loans.

FORECLOSED PROPERTY

Prior to the foreclosure of property secured by a VA Loan Guarantee, VA obtains an independent appraisal of the property. This appraisal is reviewed by VA staff or a delegated Staff Appraisal Reviewer to substantiate the fair market value. To determine the net value of the property, VA costs (e.g., acquisition, management, and disposition of the property), as well as estimated losses on property resale, are subtracted from the estimated fair market value. The amount recorded for foreclosed property is estimated based upon the present value of future cash flows to be received upon the disposition of the property. Future cash flows are estimated based on the estimated selling price less the amounts paid at foreclosure plus estimated costs to carry the property.

Potential volatility in the U.S. housing market could change the estimates and assumptions used for these calculations in the future, which could impact the amounts reported and disclosed herein.

There has been no change in the methodology for calculating the amount recorded for foreclosed property, and there are no restrictions on the use or disposition of foreclosed property for the periods ended September 30, 2019, and 2018.

As of September 30, 2019, and 2018, the number of residential properties in VA's inventory is 5,680 and 5,365, respectively.

For both FY 2019 and 2018, the average holding period from the date properties are conveyed to VA until the date properties are sold was approximately six months. The number of properties for which foreclosure proceedings are in process is 47,058 and 39,501 as of September 30, 2019, and 2018, respectively.

C. ALLOWANCE FOR SUBSIDY FOR DIRECT LOANS (POST-FY 1991)

The allowance for subsidy represents the difference between the balance of the direct loan and the present value of the estimated net cash flows to be paid by VA. The allowance for subsidy is the result of 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.

Schedule for Reconciling Subsidy Cost Allowance Balances (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
Allowance balance as of October 1,	**$ (29)**	**$ (33)**
Add: Subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs	(1)	(1)
Default costs (net of recoveries)	-	1
Total of the above subsidy expense components	**(1)**	**0**
Adjustments:		
Foreclosed property acquired	11	(10)
New Loans	5	2
Loans written off	(2)	-
Subsidy allowance amortization	(23)	(8)
Change in re-estimate approved by OMB	3	7
Total Adjustments	**(6)**	**(9)**
Ending balance of the subsidy cost allowance before re-estimates	**(36)**	**(42)**
Add or subtract subsidy re-estimates by component		
Interest rate re-estimate	1	6
Technical/default re-estimate	12	7
Total of the above re-estimate components	**13**	**13**
Ending balance of the subsidy cost allowance	**$ (23)**	**$ (29)**

D. SUBSIDY EXPENSE

The Credit Reform Act of 1990 defines subsidy expense as the budgetary costs of Federal loan guarantees and direct loans, excluding all administrative costs. The budgetary costs are present values of cash flows for Federal loans. VA reports subsidy expense in the financial statements annually. VA also reports revisions to subsidy expense, which are categorized as subsidy re-estimates.

VA uses cash flow models to estimate subsidy expense and re-estimates. The primary VA model is a limited dependent econometric model for VA home loan guarantees. The model estimates future cash flows and subsidy expenses. The key inputs to the model are loan disbursements, claims, recoveries, mortgage rates, Treasury bond note yields, home price appreciation, and borrower payments.

VA updates the models with actual data and data assumptions every year. VA periodically upgrades the models and obtains independent review of the models.

The updated models are used to estimate future cash flows that are transformed into subsidy expenses and re-estimates. Subsidy re-estimates are the difference between estimated and actual cash flows.

VA has experienced prolonged growth in lending volume since FY 2010. This growth in lending has caused the overall number of claims to rise, while keeping the percentage of claims lower mainly attributed to high performance of the portfolio. Actual loan volume and claims drive cash spending on subsidy expense and re-estimates.

BUDGETARY SUBSIDY RATES BY COMPONENT (POST-FY 1991)

The subsidy rates disclosed below pertain only to the current-year cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes re-estimates.

Direct and Guaranteed Loans Subsidy Rates	Defaults, net of recoveries	Interest	Fees	All Other	Total Subsidy Rate
Veterans Housing Direct Acquired Loans	5.99%	0.36%	0.00%	-0.02%	6.33%
Veterans Housing Direct Vendee Loans	0.10%	-5.64%	0.00%	0.07%	-5.47%
Native American Housing Loans	0.00%	-17.43%	-0.51%	6.05%	-11.89%
Housing Guaranteed Loans	1.21%	0.00%	-1.14%	0.00%	0.07%

SUBSIDY EXPENSE FOR DIRECT HOME LOANS AND LOAN GUARANTEES (POST-FY 1991)

Direct and Guaranteed Loan Subsidy Expense Post-FY 1991 (dollars in millions)						
	Interest Differential	Defaults	Fees	Interest Rate Re-estimates	Technical Re-estimates	Total Subsidy Expense
As of September 30, 2019						
Direct Home Loans	$ (1)	$ -	$ -	$ 1	$ 12	$ 12
Guaranteed Home Loans	-	2,114	(1,984)	(104)	(2,140)	(2,114)
Loan Sale Guarantees	-	-	-	(7)	(1)	(8)
Total Subsidy Expense	**$ (1)**	**$ 2,114**	**$ (1,984)**	**$ (110)**	**$ (2,129)**	**$ (2,110)**
As of September 30, 2018						
Direct Home Loans	$ (1)	$ 1	$ -	$ 6	$ 7	$ 13
Guaranteed Home Loans	-	2,584	(2,167)	(233)	(2,981)	(2,797)
Loan Sale Guarantees	-	-	-	(49)	(18)	(67)
Total Subsidy Expense	**$ (1)**	**$ 2,585**	**$ (2,167)**	**$ (276)**	**$ (2,992)**	**$ (2,851)**

E. OUTSTANDING LOAN GUARANTEES

In the table that follows, the face value of the principal of guaranteed loans represent the unpaid balances of home loans made to eligible borrowers by mortgage lenders. The outstanding principal guaranteed amounts represent the portion of unpaid home loan and loan sale balances that VA has guaranteed.

Guaranteed Loans Outstanding	Principal of Guaranteed Loans, Face Value (dollars in millions)	Amount of Outstanding Principal Guaranteed (dollars in millions)
As of September 30, 2019		
Pre-FY 1992		
Home Loan Guarantees	$ 9	$ 4
Post-FY 1991		
Home Loan Guarantees	712,307	179,674
Loan Sale Guarantees	-	602
Total	**$ 712,316**	**$ 180,280**
As of September 30, 2018		
Pre-FY 1992		
Home Loan Guarantees	$ 23	$ 10
Post-FY 1991		
Home Loan Guarantees	663,633	167,930
Loan Sale Guarantees	-	725
Total	**$ 663,656**	**$ 168,665**

New Guaranteed Loans Disbursed	Principal of Guaranteed Loans, Face Value (dollars in millions)	Amount of Outstanding Principal Guaranteed (dollars in millions)	Number of Loans Disbursed
As of September 30, 2019			
New Guaranteed Home Loans	$ 155,382	$ 38,523	558,696
As of September 30, 2018			
New Guaranteed Home Loans	$ 144,882	$ 35,878	553,975

During the period FY 1992 through 2012, total loans sold amounted to $14 billion. There have been no new loan sale guarantees since FY 2012. There were no outstanding loan sale guarantees made prior to FY 1992.

F. LOAN GUARANTEE LIABILITIES

The liability on the guaranteed loans represents the present value of the estimated net cash outflows considered most likely to be paid by VA as a result of a claim against the guarantee.

For home loan guarantees, 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.

Loan 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 will be paid by the 15th of each month. If the payment is not made by the borrower, VA allows the loan servicer to take funds from a cash reserve account for the amount of the deficiency. VA also guarantees the loans against loss at foreclosure. Although VA will not buy back the loan, VA will pay the loan loss and foreclosure expenses.

Schedule for Reconciling Guarantee Loan Liability Balance (dollars in millions)
As of September 30, 2019

	Home Loans Post-FY 1991	Loan Sales Post-FY 1991	Home Loans Pre-FY 1992	Total
Liability balances as of October 1, 2018	**$ 8,393**	**55**	**274**	**$ 8,722**
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:				
Default costs (net of recoveries)	2,114	-	-	2,114
Fees and other collections	(1,984)	-	-	(1,984)
Total of the above subsidy expense components	**130**	**-**	**-**	**130**
Adjustments:				
Fees received	1,696	-	-	1,696
Foreclosed property acquired	(201)	-	(7)	(208)
Claim payments to lenders	(492)	(5)	-	(497)
Interest accumulation on the liability balance	174	6	-	180
Veteran liability debts	-	-	6	6
Changes in re-estimate approved by OMB	(202)	61	-	(141)
Total Adjustments	**975**	**62**	**(1)**	**1,036**
Ending balance of the liability before re-estimates	**9,498**	**117**	**273**	**9,888**
Add or subtract subsidy re-estimates by component:				
Interest rate re-estimate	(104)	(7)	-	(111)
Technical/default re-estimate	(2,140)	(1)	-	(2,141)
Total of the above re-estimate components	(2,244)	(8)	-	(2,252)
Ending balance of the loan guarantee liability	**$ 7,254**	**$ 109**	**$ 273**	**$ 7,636**

Schedule for Reconciling Guarantee Loan Liability Balance (dollars in millions) As of September 30, 2018	Home Loans Post-FY 1991	Loan Sales Post-FY 1991	Home Loans Pre-FY 1992	Total
Liability balances as of October 1, 2017	**$ 10,184**	**125**	**259**	**$ 10,568**
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:				
Default costs (net of recoveries)	2,584	-	-	2,584
Fees and other collections	(2,167)	-	-	(2,167)
Total of the above subsidy expense components	**417**	**-**	**-**	**417**
Adjustments:				
Fees received	2,025	-	-	2,025
Foreclosed property acquired	(246)	-	2	(244)
Claim payments to lenders	(664)	(9)	1	(672)
Interest accumulation on the liability balance	221	7	-	228
Veteran liability debts	-	-	12	12
Changes in re-estimate approved by OMB	(330)	(1)	-	(331)
Total Adjustments	**1,006**	**(3)**	**15**	**1,018**
Ending balance of the liability before re-estimates	**11,607**	**122**	**274**	**12,003**
Add or subtract subsidy re-estimates by component:				
Interest rate re-estimate	(233)	(49)	-	(282)
Technical/default re-estimate	(2,981)	(18)	-	(2,999)
Total of the above re-estimate components	(3,214)	(67)	-	(3,281)
Ending balance of the loan guarantee liability	**$ 8,393**	**$ 55**	**$ 274**	**$ 8,722**

G. LOAN GUARANTEE MODIFICATIONS

OMB Circular No. A-11, Section 185, specifies that modifications to existing loan guarantee subsidy costs result from the Government's decision to alter the percentage of the loan it will guarantee. The subsidy cost of a modification is the difference between the net present value of the remaining estimated cash flows before and after the modification (i.e., postmodification liability minus premodification liability), and the change in carrying amount is recognized as a gain or a loss. A reduction in the loan guarantee liability due to a modification reflects as savings to VA, which results in a modification gain being recognized. An increase in the loan guarantee liability due to a modification reflects increased costs to VA, which results in a modification loss being recognized. The carrying amount of the loan guarantee liability reflects the postmodification liability balance.

Loan servicers perform loan modifications under current laws without the need to modify executed subsidy estimates for

existing loan guarantees from FY 1992 to 2019.

H. ADMINISTRATIVE EXPENSE

The administrative expense for direct and guaranteed loans for the periods ended September 30, 2019, and 2018, are $176 million and $151 million, respectively.

NOTE 8. INVENTORY

Inventory consists primarily of Veterans Canteen Service (VCS) retail store stock held for current sale and is reported at cost using the weighted-average cost method. VCS provides retail merchandise, food, and vending services across the country. Operating, medical, and pharmaceutical supplies inventory are recorded at cost and are expensed when transferred to VAMCs, regional officers, or cemeteries.

Inventory (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
VCS Retail Store Stock	$ 31	$ 29
Operating, Medical, and Pharmaceutical Supplies	18	11
Total Inventory	**$ 49**	**$ 40**

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The majority of General PP&E owned or leased by VA is used to provide medical care to Veterans. Capital lease components of both buildings and equipment are included in Note 16 as capital lease assets. Multiuse heritage assets are recognized and presented with general PP&E in the basic financial statements, and are further described in Note 10.

Depreciation and amortization expense totals $1.9 billion and $2.1 billion in FY 2019, and 2018, respectively. Loss on disposition of assets are $234 million and $265 million in FY 2019 and 2018, respectively.

General Property, Plant and Equipment (dollars in millions)
As of September 30, 2019

	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land	$ 536	$ -	$ 536
Buildings	37,362	(20,300)	17,062
Equipment	3,809	(2,672)	1,137
Other Structures	5,186	(2,899)	2,287
Internal Use Software	4,436	(2,605)	1,831
Construction Work in Progress	4,311	-	4,311
Total Property, Plant, and Equipment	**$ 55,640**	**$ (28,476)**	**$ 27,164**

General Property, Plant and Equipment (dollars in millions)
As of September 30, 2018

	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land	$ 506	$ -	$ 506
Buildings	36,015	(19,060)	16,955
Equipment	3,979	(2,773)	1,206
Other Structures	5,126	(2,831)	2,295
Internal Use Software	4,055	(2,279)	1,776
Construction Work in Progress	3,741	-	3,741
Total Property, Plant, and Equipment	**$ 53,422**	**$ (26,943)**	**$ 26,479**

NOTE 10. HERITAGE ASSETS

Heritage assets are properties that possess one or more of the following characteristics: historical or natural significance; cultural, educational, or aesthetic importance; or significant architectural characteristics. VA has properties at medical centers, regional offices, and national cemeteries that meet the criteria for heritage assets. Historic heritage assets allow VA to meet its responsibilities under the National Historic Preservation Act to preserve Federal owned, administered, or controlled historic resources in a spirit of stewardship for the inspiration and benefit of present and future generations.

Generally, increases and decreases of VA's inventory result from field station condition assessment surveys, which identify items such as new collections or newly designated assets. There were no heritage assets transferred between Federal entities or acquired through donation that were considered material to the consolidated financial statements for FY 2019 and 2018; therefore, fair value disclosure is not required for heritage assets acquired by donation. VA classifies its heritage assets as art collections (including artwork, archives, historic medical equipment, medals and awards, furniture, archaeological materials, and photographs); archaeological sites; buildings (including historic hospitals, quarters, lodges, warehouses, laboratories, and chapels, but excluding multiuse buildings); monuments; nonbuildings (including flag poles, structures, rostrums, gates, and historic walls); and cemeteries. According to VA's policy for heritage assets, only developed sections of national cemeteries are classified as heritage assets.

VA has 1,196 multiuse heritage assets that are included in general PP&E. Multiuse heritage assets have both operating and historic characteristics and are utilized predominantly in Government operations such as administration, engineering, and maintenance buildings.

VA expensed $6 million and $1 million for the periods ended September 30, 2019, and 2018, respectively, of heritage asset costs associated with acquisition, construction, renovation, and/or modification of VA-owned personal property, buildings, and structures.

See RSI for Deferred Maintenance and Repairs information.

SECTION II: FINANCIAL SECTION

Heritage Assets (in Units) As of September 30, 2019	2019 Beginning Balance	2019 Increases	2019 Decreases	2019 Ending Balance
Archaeological Sites	12	-	(1)	11
Art Collections	41	1	-	42
Buildings	548	113	(47)	614
Monuments	1,304	59	(4)	1,359
Multi-Use Buildings in PP&E	1,271	41	(116)	1,196
Non-Buildings	1,052	7	(5)	1,054
Cemeteries, Soldier's Lots and Monument Sites	171	2	(2)	171
Total Heritage Assets in Units	**4,399**	**223**	**(175)**	**4,447**

Heritage Assets (in Units) As of September 30, 2018	2018 Beginning Balance	2018 Increases	2018 Decreases	2018 Ending Balance
Archaeological Sites	10	5	(3)	12
Art Collections	28	24	(11)	41
Buildings	607	70	(129)	548
Monuments	1,107	212	(15)	1,304
Multi-Use Buildings in PP&E	1,216	190	(135)	1,271
Non-Buildings	1,055	435	(438)	1,052
Cemeteries, Soldier's Lots and Monument Sites	170	1	-	171
Total Heritage Assets in Units	**4,193**	**937**	**(731)**	**4,399**

NOTE 11. DEBT

Other Intragovernmental Debt (dollars in millions) As of September 30, 2019 and 2018	2018 Beginning Balance	2018 Net Borrowing	2018 Ending Balance	2019 Net Borrowing	2019 Ending Balance
Debt to the Treasury	$ 560	$ (25)	$ 535	$ 30	$ 565
Debt to the Federal Financing Bank	4	-	4	-	4
Total Other Debt	**$ 564**	**$ (25)**	**$ 539**	**$ 30**	**$ 569**

All debts are classified as intragovernmental debt. Debt to Treasury consists of Direct Loan Program Debt. Debt to the Federal Financing Bank consists of Loan Guarantee Program debt. The Direct and Guarantee Home Loan Program debt has a 30-year term from the date of issuance. Vocational Rehabilitation Direct Loan Program Debt has a two-year term from the date of issuance.

The interest rates on debt issued in FY 2019 range from 2.16 percent to 2.93 percent and 1.42 percent to 3.09 percent in FY 2018. The interest rates on all outstanding debt issued range from 2.01 percent to 7.59 percent for FY 2019 and 1.42 percent to 7.59 percent for FY 2018. Interest expense is $24 million and $23 million for FY 2019 and 2018, respectively.

Net borrowings do not include any amounts that result from refinancing debt. There are no redemptions or calls of debts before maturity or write-offs of debt owed to the Treasury.

NOTE 12. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are unfunded liabilities that require Congressional action before budgetary resources can be provided. VA's unfunded liabilities are listed below and are explained in the Notes referenced in the schedule.

Liabilities not requiring budgetary resources are liabilities that have not and will never require Congressional action. These are primarily deposit and clearing accounts, custodial liabilities, and general fund receipts. They can be fully liquidated without the use of budgetary resources.

Liabilities Not Covered By Budgetary Resources (dollars in millions)
As of September 30, 2019 and 2018

	2019	2018
Intragovernmental		
Workers Compensation (FECA) and Other Employee Benefits	$ 443	$ 446
Future Funded Expense - Contract Dispute Act	199	233
Total Intragovernmental (Note 15)	**642**	**679**
Federal Employee and Veterans Benefits (Note 13)	3,242,812	3,024,368
Environmental and Disposal Liabilities (Note 14)	934	926
Insurance (Note 17)	1,620	1,603
Other (Note 15)	3,735	3,428
Total Liabilities Not Covered By Budgetary Resources	**3,249,743**	**3,031,004**
Total Liabilities Covered By Budgetary Resources	**28,300**	**32,042**
Total Liabilities Not Requiring Budgetary Resources	**1,212**	**1,249**
Total Liabilities	**$ 3,279,255**	**$ 3,064,295**

NOTE 13. FEDERAL EMPLOYEE AND VETERANS BENEFITS LIABILITIES

Federal Employee and Veterans Benefits Liabilities comprise Workers' Compensation (FECA), Medical Claims Benefits, Compensation and Burial benefits paid to Veterans and their beneficiaries, and Education and VR&E benefits provided to Veterans, Servicemembers, and their dependents. The table below summarizes Federal Employee and Veterans Benefits Liabilities reported by VA on the Balance Sheet.

Federal Employee and Veterans Benefits Liabilities (dollars in millions)
For the Periods Ended September 30, 2019 and 2018

	2019	2018
Workers' Compensation (FECA)	$ 2,387	$ 2,399
Medical Claims Benefits*	4,738	-
Compensation	3,122,700	2,949,100
Burial	7,100	7,200
Education and VR&E	105,887	65,669
Total Federal Employee and Veterans Benefits Liabilities	**$ 3,242,812**	**$ 3,024,368**

*The Medical Claims Benefits liability represents unfunded liabilities for services rendered in the current year, but not yet invoiced nor paid at the end of each quarter. VA implemented the IBNR method for this liability prospectively beginning in FY 2019.

A. FEDERAL EMPLOYEE BENEFITS

VA is the employer entity that generates employee costs to be funded, not the administrative entity responsible for managing and accounting for VA employees' retirement, health insurance, and life insurance benefit plans. As a result, VA recognizes the benefit costs for the reporting period in its financial statements in an amount equal to the service cost for its employees based on the benefit plan's actuarial cost method and assumptions applied to VA and provided by the administrative entity, OPM. The offset to the expense is an increase to an intragovernmental imputed financing source titled "Imputed Financing under Other Financing Sources (Nonexchange)" in the Statement of Changes in Net Position, representing the amount being financed directly through the benefit plan's administrative entity. The following table summarizes the imputed expenses reported by VA for its employees' benefit plans.

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to FECA. The FECA component of the Federal Employee and Veterans Benefits Liabilities consists of the actuarial liability for compensation cases to be paid beyond the current year.

Federal Employee Benefits: Imputed Expenses - Employee Benefits (dollars in millions)
For the Periods Ended September 30, 2019 and 2018

	2019	2018
Civil Service Retirement System	$ 828	$ 631
Federal Employees Health Benefits	2,096	1,999
Federal Employees Group Life Insurance	5	5
Total Imputed Expenses-Employee Benefits*	**$ 2,929**	**$ 2,635**

* The total imputed expenses – employee benefits, when combined with the imputed financing paid by other entities reported in Note 18, reconciles to the total imputed financing costs reported in the Statement of Changes in Net Position.

B. MEDICAL CLAIMS BENEFITS

VA provides care to Veterans through community providers when VA cannot provide the care needed. Community care is based on specific eligibility requirements, availability of VA care, and the needs and circumstances of individual Veterans. VA also provides health care benefits through community providers to Veterans' eligible spouses, children, and survivors. This care is also provided based on specific eligibility and enrollment requirements, which vary by program.

INCURRED BUT NOT REPORTED MODEL FOR MEDICAL CLAIMS BENEFITS

As disclosed in Note 1, R. Veterans Benefits Liability, in order to recognize a liability for services incurred but not yet invoiced or paid, VA uses a standard actuarial development model (IBNR model), which provides a framework for estimating completed incurred claims (and the portion that has not yet been paid) based on prior period claim lag patterns.

The IBNR model is used to estimate an IBNR for the following VA Veterans and Family Member programs:

- Inpatient;
- Outpatient (including Dental and Emergency Room);
- Pharmacy;
- Community Nursing Home; and
- Contract Dialysis.

The State Home Per Diem Program is administered in an invoice-based payment processing system (rather than a claims processing system); therefore, a different (simpler) IBNR estimation method is applied to State Home Per Diem benefits.

The actuarial liability is developed by a Qualified Actuary within VA's OM using monthly claims paid by program and service date, eligibility and enrollment data, and authorization data.

Each quarter, VA will evaluate the reasonableness of prior period IBNR estimates by comparing the estimated claims runout to emerging experience and consider the adequacy of prior estimates when setting assumptions for the current estimate.

C. VETERAN (COMPENSATION AND BURIAL) BENEFITS

Eligible Veterans who die or are disabled during active military service-related causes, as well as their dependents, and dependents of Servicemembers who died during active military service receive compensation benefits. In addition, Servicemembers who die during active military service and Veterans who separated under other-than-dishonorable conditions are provided a burial flag, headstone/marker, and grave liner for burial in a VA National Cemetery or are provided a burial flag, headstone/marker, and a plot allowance for burial in a private cemetery. These benefits are provided under title 38, Part 2, Chapter 23 in recognition of a Veteran's military service and are recorded as a liability on the balance sheet in the period the requirements are met.

VA also provides eligible Veterans and/or their dependents with pension benefits if the Veteran died, is over age 65, or is totally disabled, based on annual eligibility reviews. The pension program is not accounted for as a "Federal employee pension plan" under SFFAS No. 5; therefore, a future liability for pension benefits is not recorded due to differences between its eligibility conditions and those of Federal employee pensions. The present value of projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2019, and 2018, is $100.2 billion and $104.8 billion, respectively.

ASSUMPTIONS USED TO CALCULATE THE VETERANS BENEFITS LIABILITY (COMPENSATION AND BURIAL)

A liability is recognized for the present value of projected benefit payments to: (1) those beneficiaries, including Veterans and survivors, currently receiving benefit payments, (2) current Veterans who become future beneficiaries of the compensation program, and (3) a proportional share of those on active military service as of the valuation date who are expected to be future Veterans. Future benefits payments to survivors of those Veterans in classes (1), (2), and (3) above are also incorporated into the projection.

On June 25, 2019, the President signed into law the Blue Water Vietnam Veterans Act of 2019 (P.L. 116-23), which grants Veterans who served offshore of Vietnam, disability compensation for presumptive diseases that resulted from the exposure to Agent Orange. Approximately $20.7 billion was recognized as prior service costs related to P.L. 116-23 in the FY 2019 liability estimate.

Discount rates at September 30, 2019 and 2018 were computed based on the average of the last 10-year quarterly spot rates. These averages were provided by the Treasury. These spot rates are equivalent to a single average discount rate of 3.42 percent and 3.52 percent as of September 30, 2019, and 2018, respectively. All calculations were performed separately by age for the Compensation and Burial programs.

The Veterans benefits liability is impacted by interest on the liability balance, changes in experience, changes in actuarial assumptions, prior service costs, and amounts paid for costs included in the liability balance. Interest on the liability balance is based on the prior year-end liability balance multiplied by the single average discount rate used to compute the Veterans benefits liability balance for the prior year-end. Changes in experience include the number of Veterans and dependents receiving payments, changes in degree of disability connected with military service, changes to the average level of benefits paid, and the impact of those changes on future years.

Changes in actuarial assumptions include changes in the average of the last 10-year quarterly spot rates, COLAs, mortality, and future new compensation rates. Prior service costs relate to new benefits due to administrative, judicial, or legislative changes. Amounts paid are the projected payments in the prior year-end model.

The total number of estimated Veterans and total number of beneficiary participants are determined through actual record level data and Office of Enterprise Integration's (OEI) 2016 Veteran Population Projection Model (VetPop2016). The amount of benefits by beneficiary category and age were based on current amounts being paid, future COLAs, change in degree of disability connected with military service, and changes in other factors that affect benefits.

Life expectancies of beneficiaries collecting benefits from the Compensation program were based on the Mortality Experience Study of the same population between 2011 and 2015. Life expectancies of Veterans not yet collecting these benefits used in the calculation of the liability for future beneficiaries are based on mortality rates developed by the OEI for the VetPop2016. In addition, rates of benefit termination of beneficiaries due to reasons other than mortality are also reflected. Expected benefit payments have been explicitly modeled for the next 100 years. The Compensation projection only reflects benefits associated with military service through September 30, 2019.

VA Compensation and Burial programs are not defined benefit plans and have no plan assets set aside to fund future costs. VA funds the current year costs of Veterans service-related disability compensation and burial costs through its annual appropriations that are recognized in Program Costs under Veterans Benefits Administration in the Statements of Net Cost and in Amounts Paid in the Reconciliation of Veterans Compensation, Burial, Education, and VR&E Actuarial Liabilities table that follows below.

D. VETERANS EDUCATION AND VR&E BENEFIT LIABILITIES

POST-9/11 GI BILL

The Post-9/11 GI Bill is authorized by Congress under title 38, Chapter 33. Veterans with at least 90 days of aggregate service after September 10, 2001, or individuals honorably discharged with a service-connected disability after 30 continuous days after September 10, 2001 are eligible to receive Post-9/11 GI Bill benefits, which include tuition and fees and a monthly housing allowance. Veterans are eligible for up to 36 months of enrollment in an educational institution, which includes a monthly housing allowance, yearly textbook and supplies stipend, and one-time payment for relocation. The Veterans' eligibility for these amounts is based on the length of their active duty service. Formerly, VA only recognized an education benefit liability once VA approved an original enrollment certification in the Long-Term Solution system.

VR&E

The VR&E Program is an authorized program by Congress under title 38, Chapter 31. VR&E helps Veterans and active duty Servicemembers transitioning to civilian employment with service-connected disabilities and an employment handicap prepare for, obtain, and maintain suitable careers.

The basic period of eligibility for Chapter 31 benefits is 12 years, beginning on the date of the event that occurred last from the following options:

- Separation from active military duty;
- First notification of a service-connected disability rating; or
- The basic period of eligibility may be extended if a Vocational Rehabilitation Counselor (VRC) determines that a Veteran has a Serious Employment Handicap.

Once eligibility is established, the Veteran is scheduled to meet with a VRC for a comprehensive evaluation to determine if he/she is entitled to services. The VRC works with the Veteran to complete a determination if an employment handicap exists. An employment handicap exists if the Veteran's service-connected disability impairs his/her ability to obtain and maintain a job.

The VRC and Veteran will agree to a rehabilitation plan, which is an individualized, written plan of services that outlines the resources and criteria that will be used to achieve employment or independent living goals. The plan is an agreement that is signed by the Veteran and the VRC and is updated as needed to assist the Veteran to achieve his/her goals. The approved plan would establish the Veteran into one of five rehabilitation "tracks":

- Reemployment (with a former employer);
- Direct job placement services for new employment;
- Self-employment;
- Employment through long-term services, (including on-the-job training, college, and other training); or
- Independent living services.

Benefits paid can include a monthly subsistence payment, tuition, books, and supplies. For those who are eligible, a Veteran could choose to be paid the Post-9/11 GI Bill housing rate instead of the basic VR&E subsistence rate. Formerly, VA recognized a VR&E benefit liability once a Rehabilitation Plan had been signed by the Veteran and VRC.

SURVIVORS' & DEPENDENTS' EDUCATIONAL ASSISTANCE

DEA Program (Chapter 35) offers education and training opportunities to eligible dependents of Veterans who are permanently and totally disabled due to a service-related condition or of Veterans who died while on active duty or as a result of a service-related condition.

To receive benefits for attending school or job training, a son or daughter must be between the ages of 18 and 26. This benefit may not be available for active duty personnel who are in the armed forces. A child over 18 years old using DEA will not be eligible to receive Dependency Indemnity Compensation (DIC) payments from VA.

For a spouse, benefits end 10 years from the date VA determines eligibility or from the date of death of the Veteran. If VA rated the Veteran permanently and totally disabled with an effective date of three years from discharge, a spouse will remain eligible for 20 years from the effective date of the rating. For surviving spouses of Servicemembers who died on active duty, benefits end 20 years from the date of death.

A beneficiary may be entitled to receive up to 45 months of DEA benefits. Effective August 1, 2018, the number of months of entitlement was reduced to 36 months for beneficiaries who began using DEA on or after August 1, 2018.

Benefits are paid monthly directly to the Dependent. Currently, VA recognizes an education benefit liability once VA approves an original enrollment certification.

MONTGOMERY GI BILL-ACTIVE DUTY

MGIB-AD is an authorized program by Congress under title 38, Chapter 30. The MGIB-AD program provides education benefits to Veterans and Servicemembers who have at least two years of active duty and have had their pay reduced by $1,200 or meet other eligibility requirements.

Eligible Servicemembers have 10 years to use their MGIB-AD benefits, but the time limit can be fewer or more years depending on the situation. Servicemembers may receive up to 36 months of education benefits. Benefits are paid monthly based on the type of training, length of service, category, and college fund eligibility. Veterans usually have 10 years to use their MGIB-AD benefits, but the time limit can be fewer or more years depending on the situation. VA continues to recognize an education benefit liability once VA has approved an original enrollment certification.

ASSUMPTIONS USED TO CALCULATE THE VETERANS EDUCATION AND VR&E BENEFIT LIABILITY

ALL PROGRAMS

Several significant actuarial assumptions were used in the valuation of education benefits to calculate the present value of the liability.

The discount rate for all of the programs was based on 10-year average spot rates. These spot rates are equivalent to the single average discount rates presented by chapter in the table below, along with the liability balances and number of years modeled, as of September 30, 2019, and 2018, respectively.

Education and VR&E Liability by Program (dollars in millions)
For the Periods Ended September 30, 2019 and 2018

	2019	2018
Post-9/11	$ 87,103	$ 56,559
VR&E	13,968	6,541
DEA	4,601	2,323
MGIB-AD	215	246
Total	**$ 105,887**	**$ 65,669**

Spot Rates
For the Periods Ended September 30, 2019 and 2018

	2019 New Enrollees	2019 Existing Enrollees	2018 Existing Enrollees
Post-9/11	2.99%	3.08%	3.10%
VR&E	2.46%	1.50%	1.35%
DEA	-	1.28%	1.24%
MGIB-AD	-	1.25%	1.18%

Number of Years Modeled
For Expected Program Benefit Payments

Post-9/11	62 Years
VR&E	19 Years
DEA	10 Years
MGIB-AD	20 Years

The liability is impacted by interest on the liability balance, changes in experience, changes in actuarial assumptions, and amounts paid for costs included in the liability balance. Interest on the liability balance is based on the prior year-end liability balance multiplied by the single average discount rate used to compute the benefit liability balance for the prior year-end.

NEW PROJECTION

VA education benefits are unique programs unlike any other in the Federal Government or commercial environment. As such, to develop estimates, VA needs to use data that is specific to the population of Servicemembers and Veterans, which is not available from outside sources. These models have been in operation for only three years and additional analysis of the assumptions and relevant information, as compared to experience, is needed to calculate a more precise estimate.

In FY 2018, and years prior, the Education actuarial modeling estimates were based only on beneficiaries who had already started to use their benefits and did not include assumptions for expected future new beneficiaries as an input to calculate the estimated liability. However, based on experience, it was probable that new beneficiaries would enroll in these programs in future years and that the associated liability needed to be recognized. At the time there was no reliable and credible experience data about new enrollees that could be used to develop an accurate estimate.

In FY 2019, VA conducted an in-depth experience study to refine the impact of the new enrollee assumption to be used in the estimates. VA's Education Liability includes an estimate for potential new enrollees who are eligible for Post-9/11 GI Bill and VR&E benefits which approximates $48.3 billion as of September 30, 2019.

New actuarial projections often have unique aspects that require development of additional assumptions and model refinements. During the process of implementing the projection for potential future enrollees, potential data limitations were found to be inherent in the data being used. These data limitations might lead to Veterans with dual entitlement in both programs' projections without being subject to any required constraints and potentially result in a misstatement of the liability estimates. To compensate for the potential misstatement associated with the dual eligibility component, VA developed a preliminary non-actuarial estimate of the potential liability based on a conservative scenario of what may occur.

VA's DEA liability valuation model currently does not include future new enrollees. Due to unavailability of required data, VA did not complete an experience study in FY 2019 for new beneficiaries who are eligible for benefits but have not used them (new enrollees). VA developed a preliminary, non-actuarial estimate of the liability associated with the potential future enrollees using certain assumptions from the existing model and data from historical payment files. Based on this estimate, VA recognized a $1.9 billion liability. VA plans to conduct an experience study on future new enrollees for Chapter 35 in the following year.

At this time, VA considers these estimates reasonable as they are based on relevant data attributes that can be quantified with sufficient reliability. However, these accounting estimates could change once experience studies are performed.

VA does not plan to include potential enrollees in its MGIB-AD (Chapter 30) projections since the majority of the new beneficiaries enroll in the Post-9/11 GI Bill

program, the successor of the MGIB-AD program.

Additional information on VA's actuarial estimates is available in Note 1.R.

FACTORS NOT CONSIDERED IN THE ESTIMATION PROCESS

Actuarial practice commonly involves the estimation of uncertain events. Such is the case in the Veterans Benefits Liability estimations. In particular, the future demographic population, and timing and severity of the uncertain events are likely to be different from the near- and long-term assumptions used in the projections. Uncertainties for Education and VR&E are discussed below.

- Change in Covered Population Group: The Education and VR&E actuarial models are based on beneficiaries who are eligible for the benefits at the time of the valuation date. This is the group that VA has a potential liability for as they continue or begin to use their benefits. No commitment has been made by VA to any group of potential beneficiaries other than those who are eligible as of the valuation date, including active Servicemembers and their dependents who are not yet eligible to receive benefits as well as future Servicemembers. The model is recalculated each fiscal quarter and therefore the covered population groups are updated during each valuation quarter.
- Data Inputs: Whenever possible, VA uses the most current and relevant data that is available. However, occasionally data may not be available through the current fiscal year. As an example, VA uses the United States Veterans Eligibility Trends and Statistics, which is always two fiscal years behind. In instances where timely data is unavailable, VA may extrapolate data from similar sources and adjust the data to reflect the characteristics of the group being measured.

In addition, there are certain elements for consideration. For instance, Education and VR&E benefits are considered short duration in nature and are capped at a maximum of 48 months of total use. As such, given the short benefit duration, future payments projected by the Education and VR&E models will trend significantly downward in all projected years as there will be less benefits remaining available for use by each eligible beneficiary.

Estimates made prior to this year may differ substantially because of revisions to the assumptions based on changes in conditions or experience, triggering events, and changes in actuarial methodology. Given that the Education and VR&E models are relatively new models, it is reasonable to expect more changes for similar reasons in the future.

Reconciliation of Veterans Compensation, Burial, Education, and VR&E Actuarial Liabilities
(dollars in millions)
For the Periods Ended September 30, 2019 and 2018

	Compensation	Burial	Education and VR&E	Total
Liability at October 1, 2017	**$ 2,805,100**	**$ 4,900**	**$ 50,714**	**$ 2,860,714**
Expense:				
Interest on the Liability Balance*	102,700	200	1,281	104,181
Actuarial (Gain)/Loss				
Changes in Experience (Veterans Counts, Status)*	45,500	(100)	14,596	59,996
Changes in Assumptions:				
Changes in Discount Rate Assumption	94,900	200	(1,454)	93,646
Changes in COLA Rate Assumption	(3,600)	-	-	(3,600)
Changes in Other Assumptions	(24,500)	2,200	11,407	(10,893)
Net (Gain)/Loss from Changes in Assumptions	66,800	2,400	9,953	79,153
Prior Service Costs*	14,300	-	-	14,300
Total Expense	229,300	2,500	25,830	257,630
Less Amounts Paid*	(85,300)	(200)	(10,875)	(96,375)
Net Change in Actuarial Liability	144,000	2,300	14,955	161,255
Liability at September 30, 2018	**$ 2,949,100**	**$ 7,200**	**$ 65,669**	**$ 3,021,969**
Liability at October 1, 2018	**$ 2,949,100**	**$ 7,200**	**$ 65,669**	**$ 3,021,969**
Expense:				
Interest on the Liability Balance**	103,800	300	1,501	105,601
Actuarial (Gain)/Loss				
Changes in Experience (Veterans Counts, Status)**	121,200	(100)	12,651	133,751
Changes in Assumptions:				
Changes in Discount Rate Assumption	55,700	100	35	55,835
Changes in COLA Rate Assumption	(30,300)	(100)	3	(30,397)
Changes in Other Assumptions	(4,500)	-	37,095	32,595
Net (Gain)/Loss from Changes in Assumptions	20,900	-	37,133	58,033
Prior Service Costs **	20,700	-	-	20,700
Total Expense	266,600	200	51,285	318,085
Less Amounts Paid**	(93,000)	(300)	(11,067)	(104,367)
Net Change in Actuarial Liability	173,600	(100)	40,218	213,718
Liability at September 30, 2019	**$ 3,122,700**	**$ 7,100**	**$ 105,887**	**$ 3,235,687**

* The sum of these changes represents Veterans benefits actuarial cost, excluding changes in actuarial assumptions on the Statement of Net Cost for FY 2018.

** The sum of these changes represents Veterans benefits actuarial cost, excluding changes in actuarial assumptions on the Statement of Net Cost for FY 2019.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

VA has unfunded Environmental and Disposal Liabilities in the amount of $934 million and $926 million as of September 30, 2019, and 2018, respectively. The majority of VA's unfunded Environmental and Disposal Liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal. Included in the total unfunded Environmental and Disposal Liabilities are the liabilities for friable asbestos removal, $238 million and $232 million, for September 30, 2019, and 2018, respectively; and nonfriable asbestos removal, $430 million and $431 million, for September 30, 2019, and 2018, respectively.

While some facilities have applied prevailing state regulations that are more stringent than Federal guidelines, Occupational Safety and Health Administration and Environmental Protection Agency regulations are the legal basis 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.

It is at least reasonably possible that the estimated liabilities will change, as a result of changes in applicable laws and regulations, technology, future location requirements or plans, budgetary resources, and changes in future economic conditions including inflation and deflation.

NOTE 15. OTHER LIABILITIES

Other Liabilities are liabilities not reported elsewhere in the Balance Sheet. They consist of funded and unfunded liabilities within the intragovernmental and public categories. Funded liabilities are generally considered to be current liabilities. Unfunded liabilities represent future financial commitments that are currently not funded and considered noncurrent.

Other Liabilities (dollars in millions) As of September 30, 2019	Funded	Unfunded
Intragovernmental		
Credit Reform Act Subsidy Re-estimates *	$ 2,405	$ -
General Fund Receipt Accounts Liability	55	-
Workers Compensation (FECA) and Other Employee Benefits	409	443
Future Funded Expense - Contract Dispute Act **	-	199
Other	29	-
Accrued Annual Leave***	25	2,314
Energy Savings Performance Contracts and Similar Unfunded Contracts	-	299
Accrued Payables	150	-
Accrued Salaries and Benefits	1,537	-
Contingent Legal Liabilities (Note 18)	-	1,122
Deposit and Clearing Account Liability	297	-
Other	30	-
Total Other Liabilities	**$ 4,937**	**$ 4,377**

Other Liabilities (dollars in millions) As of September 30, 2018	Funded	Unfunded
Intragovernmental		
Credit Reform Act Subsidy Re-estimates *	$ 3,362	$ -
General Fund Receipt Accounts Liability	60	-
Workers Compensation (FECA) and Other Employee Benefits	356	446
Future Funded Expense - Contract Dispute Act **	-	233
Other	27	-
Accrued Annual Leave***	23	2,325
Accrued Payables	139	-
Accrued Salaries and Benefits	1,327	-
Contingent Legal Liabilities (Note 18)	-	1,103
Deposit and Clearing Account Liability	217	-
Other	39	-
Total Other Liabilities	**$ 5,550**	**$ 4,107**

*Credit Reform Act Subsidy Re-estimates represents excess subsidy due to Treasury as a result of downward re-estimates.

**Future Funded Expense – Contract Dispute Act represents a liability to Treasury's Judgment Fund Branch for amounts paid by Treasury on behalf of VA for claims related to Contract Dispute Acts (CDA). VA is required to reimburse Treasury for claims involving CDAs.

***Annual leave is accrued when earned and is adjusted at the end of each reporting period to reflect current pay rates of cumulative leave earned but not taken. Sick and other types of leave are expensed as taken.

NOTE 16. LEASES

VA has both capital and operating leases. Capital leases consist primarily of buildings, along with computer, information technology, medical, and office equipment.

The following is an analysis of the leased property under capital leases by major classes that is included in general PP&E as disclosed in Note 9.

Capital Lease Assets (dollars in millions) As of September 30, 2019	Cost	Accumulated Amortization	Net Book Value
Buildings	$ 13	$ (13)	$ -
Equipment	22	(21)	1
Leased Property Under Capital Lease	**$ 35**	**$ (34)**	**$ 1**
Amortization Expense		**$ -**	

Capital Lease Assets (dollars in millions) As of September 30, 2018	Cost	Accumulated Amortization	Net Book Value
Buildings	$ 13	$ (13)	$ -
Equipment	24	(21)	3
Leased Property Under Capital Lease	**$ 37**	**$ (34)**	**$ 3**
Amortization Expense		**$ 1**	

Operating leases consist of equipment and real property leases that are funded annually and expensed as incurred. Operating equipment leases generally consist of medical and office equipment with terms of five years or less and have equal payments over the lease term. Operating real property leases generally consist of Veterans medical facilities and clinics, regional and district benefits offices, and administrative facilities.

For the period ended September 30, 2019, VA had 1,977 real property leases in effect consisting of approximately 27 million square feet and base annual minimum rental obligations of approximately $902 million. Of the operating real property leases, VHA accounts for 85 percent, VBA accounts for 10 percent, and Indirect Administrative Program offices account for 5 percent. These real property leases generally have lease terms ranging from 1 to 50 years and all operating leases are funded annually by appropriation of funds by Congress. Approximately 61 percent of the real property leases have an initial lease term of 5 years or less; approximately 31 percent have initial lease terms of 6 to 10 years; approximately 4 percent have initial lease terms of 11 to 15 years; and approximately 4 percent have initial lease terms of 16 years and more. Certain leases contain renewal, termination, and cancellation options.

Approximately 83 percent of VA leases are executed directly with third-party commercial property owners (public third-party direct leases) with the balance of the leases executed by the General Services Administration (GSA) (intragovernmental leases) on behalf of VA. GSA charges rental rates for space that approximates commercial rental rates for similar properties. The terms of Occupancy Agreements (OA) with GSA vary according to whether the underlying assets are owned directly by the Federal Government or rented by GSA from third-party commercial property owners. VA executes cancellable and non-cancellable OAs with GSA. GSA OAs can be cancellable with varying periods of notice required (generally 4 to 6 months). For OAs executed after October 2011, periods of occupancy are generally one year. GSA OAs that are canceled require a payment of all unamortized tenant improvements and rent concessions not yet earned. GSA OAs may also be noncancellable, where VA would be financially responsible for rent payments on vacated space until the expiration of the OA, the termination of the OA permitted under the lease terms, or until the occupancy by a replacement tenant covers the total rent obligation of VA. However, VA normally occupies the leased properties for an extended period of time without exercising cancellation or termination clauses in the leases.

Annual base rent for operating real property leases is generally flat over the lease term; however, certain GSA OAs and third-party direct leases contain rent abatement and rent escalation clauses. For certain GSA OAs, the base rent is set for periods up to but not beyond five years. For certain GSA OAs with occupancy terms in excess of five years or that incur capitalized building improvement or replacement costs, the base rental rate is reassessed every five years to reflect current market rental rates and additional real property investments. The GSA OAs and third-party direct leases also require VA to reimburse increases in common area maintenance costs and operating costs over base year amounts annually based on increases in the CPI. Additionally, these GSA OAs and third-party direct leases require VA to reimburse increases in real estate taxes over a base year amount at least annually and, in certain cases, VA may pay the common area maintenance costs, operating costs, and real estate taxes directly.

Future commitments for real property and equipment operating leases are based on leases in effect as of September 30, 2019. VA normally occupies leased real property for the entire initial lease term without exercising cancellation and termination options. As a result, the operating lease commitment table that follows includes real property leases over the noncancellable initial lease term. Real property lease data is maintained in a centralized database and does not capture future fixed rent increases, which are considered immaterial to the financial statements taken as a whole and are therefore excluded from the operating lease commitment table that follows.

Due to the number of equipment operating leases and the decentralization of equipment lease records, VA does not

present information on noncancellable equipment leases.

VA's FY 2019 operating lease rental costs are $259 million for real property rentals and $183 million for equipment rentals. The FY 2018 operating lease costs are $189 million for real property rentals and $180 million for equipment rentals.

Excluded from the following table are leases of properties that have expired as of September 30, 2019, and prior, but are still occupied by VA. On occasion, VA will retain occupancy of properties once the full term of the lease has expired and continue to remit rent on a monthly basis in accordance with the holdover provisions of the expired lease agreement. In other instances, VA enters into a standstill agreement that simply preserves the terms and conditions of the lease, providing continuation of required rent payments to maintain occupancy. These commitments are excluded from the five-year lease commitment table pending a long-term lease renewal contract or the vacancy of the space by VA. The rent expense associated with standstill and holdover leases is considered immaterial and is included in the FY 2019 Statement of Net Costs. The following table represents VA's projected future noncancellable operating lease commitments.

Future Payments Due for Non-cancellable Real Property Operating Leases (dollars in millions)

For the Years Ending:	GSA OAs	Third-Party Direct Leases	Total Real Property
2020	$ 210	$ 439	$ 649
2021	153	408	561
2022	94	366	460
2023	86	339	425
2024	73	307	380
2025 and Thereafter (in total)	261	2,360	2,621
Total Future Lease Payments	**$ 877**	**$ 4,219**	**$ 5,096**

VA is a lessor of certain underutilized real estate properties within the Department under its Enhanced-Use Lease (EUL) program authorized by Congress. Title 38, U.S.C. Section 8161-8169, Enhanced-Use Leases of Real Property, authorizes VA to lease real property under VA's control or jurisdiction to other public and private entities on a long-term basis (up to 75 years) only for the provision of supportive housing, in return for cash at fair value if receiving consideration. VA's previous EUL authority expired on December 31, 2011, and was reauthorized on August 6, 2012, effective January 1, 2012, under P.L. 112-154, Section 211, limited to supportive housing, and set to expire on December 31, 2023. The previous authority under which all current operational leases were executed allowed VA to enter into EULs for receipt of rental income or in-kind consideration, such as facilities, space, services, or other forms of consideration. All such VA consideration for these leases is intended to further its mission to effectively serve Veterans and is not limited

to supportive housing. Additional information on EULs is available in Note 24.

The leases related to NCA's leasing of excess land and buildings at cemeteries are more fully described in Note 20 under the caption, Public Exchange Transactions. The EUL program consists of 77 operational leases of land and/or buildings to the public and private sector. The rental income recognized from the EUL program and the NCA leasing program is $2 million for each of the periods ended September 30, 2019, and 2018. The future rental income to be recognized over the next five years and thereafter from the EUL program and NCA leasing program described above approximates $70 million.

NOTE 17. LIFE INSURANCE LIABILITIES

VA administers six life insurance programs: USGLI, NSLI, VSLI, VRI, S-DVI, and VMLI, which are described in Note 1.N. In addition, VA supervises the SGLI and the VGLI programs, which provide coverage to members of the uniformed armed services, reservists, and post-Vietnam Veterans and their families. All SGLI-insured Veterans are automatically covered under the Traumatic Injury Protection (TSGLI) program, which provides for insurance payments to Veterans who suffer a serious traumatic injury in service. VA has entered into a group policy with Prudential to administer these programs.

Premiums for the SGLI and VGLI programs are set by mutual agreement between VA and Prudential and are based on program experience. SGLI premiums for active duty personnel and their families are deducted from the Servicemember's pay by the Armed Services components through the DoD, which, 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 VA. Under title 38, U.S.C. Sections 1971(e) and 1977(f), VA is responsible for assessing the contingency reserve balance held by Prudential. Additionally, if and when the Secretary determines the contingency reserve balance held by Prudential is adequate and there are excess funds, Prudential will transfer the excess funds into VA's revolving fund for this program. VA is then responsible for investing the excess funds in Treasury securities.

SGLI and VGLI insurance liabilities are recorded in Prudential's accounting records and are not reflected in the VA's liabilities because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. DoD pays for any TSGLI claim costs in excess of premiums collected from Servicemembers in accordance with title 38, U.S.C. Sections 1980(e)(6) and (7).

The Secretary determines the claim 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 costs identified by the Secretary are paid by the uniformed services, not from the Servicemembers' premiums, as are all other programs costs.

For SGLI and VGLI, Prudential holds reserves needed for claims and administration while the group policy is in effect. Further, a contingency reserve is used to account for adverse fluctuations in claims under the policy, as required by law. These reserves are maintained in Prudential's financial records since the risk of loss is assumed by Prudential and its reinsurers. Within its revolving fund, VA holds excess funds that are not required to cover program liabilities held by Prudential but are available to support the SGLI and VGLI programs. In June 2019, the Secretary determined that $3.4 billion held by Prudential for VGLI were excess reserve funds that were no longer needed to sustain the adverse fluctuations of the program. As a result, Prudential and VA signed an agreement to transfer the $3.4 billion to VA over a period of five years. VA received the first installment in August 2019 for $300 million. As of June 30, 2019, Prudential also held a contingency reserve for SGLI in the amount of $1.19 billion. VA's assessment of the target level of the SGLI contingency reserve indicated that a range of $600 million to $900 million was optimal. VA determined that the excess SGLI contingency reserve funds should be transferred from Prudential to VA. Since there are several factors influencing the level of the contingency reserve, VA is examining various options for the timing and amount of the transfer.

The insurance reserves for USGLI, NSLI, VSLI, and VRI are reported as liabilities covered by budgetary resources, while part of the S-DVI and VMLI reserves are reported as liabilities not covered by budgetary resources. A downward trend in reserve liabilities will continue for programs that cover World War II and Korean War Era Veterans due to the declining numbers of policyholders. The USGLI program, established to manage World War I Veteran policies, was closed to new issues in 1951. The liability reserve remaining on this program is $1 million.

Insurance Liability (Reserve) Balances (dollars in millions) As of September 30, 2019				
Program	**Insurance Death Benefits**	**Death Benefit Annuities**	**Disability Income & Waiver**	**Reserve Totals**
NSLI	$ 1,821	$ 26	$ 7	$ 1,854
USGLI	-	1	-	1
VSLI	983	3	4	990
S-DVI	740	5	762	1,507
VRI	59	-	-	59
VMLI	246	-	-	246
Subtotal	$ 3,849	$ 35	$ 773	$ 4,657
Unearned Premiums				27
Insurance Dividends Left on Credit or Deposit and Related Interest Payable				810
Dividend Payable to Policy Holders				24
Unpaid Policy Claims				185
Insurance Liabilities Reported on the Balance Sheet				5,703
Less Liability not Covered by Budgetary Resources (Note 12)				(1,620)
Liability Covered by Budgetary Resources				**$ 4,083**

Insurance Liability (Reserve) Balances (dollars in millions) As of September 30, 2018				
Program	**Insurance Death Benefits**	**Death Benefit Annuities**	**Disability Income & Waiver**	**Reserve Totals**
NSLI	$ 2,276	$ 30	$ 10	$ 2,316
USGLI	-	1	-	1
VSLI	1,088	3	5	1,096
S-DVI	711	6	770	1,487
VRI	73	-	1	74
VMLI	243	-	-	243
Subtotal	$ 4,391	$ 40	$ 786	$ 5,217
Unearned Premiums				31
Insurance Dividends Left on Credit or Deposit and Related Interest Payable				921
Dividend Payable to Policy Holders				28
Unpaid Policy Claims				199
Insurance Liabilities Reported on the Balance Sheet				6,396
Less Liability not Covered by Budgetary Resources (Note 12)				(1,603)
Liability Covered by Budgetary Resources				**$ 4,793**

Unpaid Policy Claims consist of insurance claims that are pending at the end of the reporting period, an estimate of claims that have been incurred but not yet reported, and a liability for disbursements in transit.

These amounts represent insurance liabilities that have been incurred prior to the end of the reporting period and are payable from the insurance funds.

Schedule for Reconciling Life Insurance Unpaid Policy Claim Liability Balance (dollars in millions) As of September 30, 2019				
Program	Unpaid Claim Liability Balance as of October 1, 2018	Claims Expenses	Less Payments to Settle Claims	Ending Balance of the Unpaid Policy Claim Liability
NSLI	$ 132	$ 509	$ (526)	$ 115
USGLI	1	-	(1)	-
VSLI	27	147	(142)	32
S-DVI	27	118	(116)	29
VRI	5	16	(17)	4
VMLI	7	37	(39)	5
Total	**$ 199**	**$ 827**	**$ (841)**	**$ 185**

A. CASH SURRENDER VALUE

The cash surrender value represents the amount that is contractually available to a policyholder upon voluntary termination of their life insurance policy. The likelihood that all policies will terminate in the same time period is remote.

Cash Surrender Value (dollars in millions) As of September 30, 2019	
Program*	Values
NSLI	$ 1,754
VSLI	956
S-DVI	690
VRI	57
Total	**$ 3,457**

*Under VMLI, since the insured homeowner has no equity in the policy, claims are payable to mortgage companies.

B. PROGRAM COSTS AND FUNDING SOURCES

Premiums for the administered life insurance programs are based on mortality and interest assumptions that are set by law. They vary by fund, type of policy, and type of benefit. The mortality tables that were used include the American Experience Table, 1958 CSO Basic Table, the X-18 Table, the 1941 CSO table, and the 2001 CSO Male Composite Ultimate Mortality Table. The interest rates that were applied ranged from 2.25 percent to 4.5 percent.

The NSLI, VSLI, and VRI programs are self-supporting through the collection of premiums, which are used to fund current operations. The USGLI program is also self-supporting, but was declared paid-up in 1983, and no longer collects premiums. Interest income and the release of investment reserves are used to cover funding shortfalls in these programs. In addition, interest income from insurance policy loans may be used.

The S-DVI and VMLI programs are designed to provide insurance coverage to disabled Veterans at standard premium rates. Therefore, premiums do not cover

the operating costs of those programs and appropriations are used to cover the funding shortfalls.

In the NSLI, VSLI, VRI, and S-DVI programs, qualifying insureds who have incurred a disability that prevents them from engaging in substantially gainful employment can have their premiums on their policies waived.

Insurance Program Costs, Premiums Collected, and Appropriations Used (dollars in millions)
For the Period Ended September 30, 2019

Program	Program Costs	Premiums Collected	Appropriations Used
NSLI	$ 629	$ 51	$ -
VSLI	199	20	-
S-DVI	143	68	75
VRI	20	1	-
VMLI	41	6	34
Total	**$ 1,032**	**$ 146**	**$ 109**

C. INVESTMENTS

In accordance with SFFAS No. 51, investment activities related to insurance programs must be disclosed. Although investments related to life insurance programs are disclosed in the Special Bonds line of Note 5 at a summary level, the following presentation provides the break out of investment activity by insurance programs.

Purchases represent new investments and reinvestment of interest payments received from Treasury. Investments are redeemed when needed to cover funding shortfalls.

Schedule for Reconciling Investments in Treasury Securities for Life Insurance Reserves (dollars in millions)
As of September 30, 2019

Adminstered Programs*	Investments in Treasury Securities for Life Insurance Reserves, October 1, 2018	Purchases	Redemptions	Ending Balance of Investments in Treasury Securities for Life Insurance Reserves
NSLI	$ 3,016	$ 97	$ (656)	$ 2,457
USGLI	2	-	-	2
VSLI	1,486	58	(187)	1,357
VRI	100	3	(21)	82
Total Adminstered	**4,604**	**158**	**(864)**	**3,898**
Supervised Programs	**1**	**300**	**-**	301
Total Adminstered and Supervised Programs	**$ 4,605**	**$ 458**	**$ (864)**	**$ 4,199**

* S-DVI and VMLI are not self supporting, and therefore, have no assets available for investment.

D. 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 at the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. Due to the nature of life insurance coverage, the possibility that claims filed in any time period will equal the entire insurance in-force amount is remote.

The supervised programs' policies and face value are not included in VA's liabilities because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. As a result, the following information provided under the supervised programs is for informational purposes only and is unaudited.

The face value of the insurance provided by Prudential and its reinsurers represents 99 percent of the total insurance in-force for both FY 2019 and 2018.

	2019 Policies (# of policies)	2018 Policies (# of policies)	2019 Face Value (dollars in millions)	2018 Face Value (dollars in millions)
Supervised Programs (UNAUDITED)				
SGLI Active Duty	1,423,000	1,427,000	$ 543,043	$ 545,317
SGLI Ready Reservists	632,500	711,500	201,269	228,737
SGLI Post Separation	82,000	83,000	29,640	30,241
SGLI Family - Spouse	945,000	979,000	93,074	96,316
SGLI Family - Children	1,680,000	1,773,000	16,800	17,730
TSGLI*	-	-	205,550	213,850
VGLI	432,940	432,120	77,897	75,636
Total Supervised	**5,195,440**	**5,405,620**	**1,167,273**	**1,207,827**
Administered Programs				
NSLI	160,992	203,807	2,056	2,597
VSLI	80,504	90,488	1,189	1,335
S-DVI	279,112	277,063	2,934	2,911
VRI	6,299	7,902	66	84
USGLI**	6	20	-	-
VMLI	2,592	2,614	358	354
Total Administered	**529,505**	**581,894**	**6,603**	**7,281**
Total Supervised and Administered Programs	**5,724,945**	**5,987,514**	**$ 1,173,876**	**$ 1,215,108**

* TSGLI is an automatic rider for all SGLI-insured Servicemembers and the policies are included in the SGLI policy counts.

**USGLI has only six active policies remaining with a face value of less than $500,000.

E. POLICY DIVIDENDS

The Secretary determines annually the excess funds available for dividend payment. Policy dividends for FY 2019 and 2018 were $52 million and $60 million, respectively.

NOTE 18. COMMITMENTS AND CONTINGENCIES

VA is a party in administrative proceedings, legal actions, and tort claims arising from various sources including disputes with contractors, challenges to compensation and education award decisions, loan guarantee indemnity debt cases, and allegations of medical malpractice. Certain legal matters to which VA may be a named party are administered by and, in some instances, litigated by the Department of Justice. Some of these instances may ultimately result in decisions, settlements, or awards adverse to the Federal Government. In some cases, the loss amount that occurs may be paid from the

Judgment Fund, which is maintained by Treasury.

VA records a contingent liability for pending legal claims where losses are determined to be probable and the amounts can be estimated. This liability is $1.1 billion for both FY 2019 and FY 2018. As shown in the table below, this figure comprises the liability for cases and claims not brought under the Federal Tort Claims Act and an estimated liability for medical malpractice and other tort claims. The liability from existing medical malpractice and other tort claims is estimated using generally accepted actuarial standards and procedures. Estimates of future claim payments are discounted using Treasury spot rates as of August 2019, and 2018, respectively.

Contingent Legal Liability (dollars in millions)
For the Periods Ended September 30, 2019 and 2018

FY 2019	**Accrued Liabilities**	**Estimated Range of Loss**	
Legal Contingencies		**Low**	**High**
Probable - Medical Malpractice and Other Torts	$ 774	$ 774	$ 774
Probable - Non-Tort	348	348	362
Reasonably Possible - Non-Tort		33	85
Total	**$ 1,122**	**$ 1,155**	**$ 1,221**

FY 2018	**Accrued Liabilities**	**Estimated Range of Loss**	
Legal Contingencies		**Low**	**High**
Probable - Medical Malpractice and Other Torts	$ 756	$ 756	$ 756
Probable - Non-Tort	347	347	367
Reasonably Possible - Non-Tort		153	184
Total	**$ 1,103**	**$ 1,256**	**$ 1,307**

Additionally, as of September 30, 2019, and 2018, there are cases and claims not brought under the Federal Tort Claims Act, where there is at least a reasonable possibility that a loss may occur, for which the potential range of loss cannot be determined.

In 2019 the Court of Appeals for Veterans Claims (CAVC) issued a precedential Order in a case concerning reimbursement of non-VA emergency treatment for non-service-connected conditions. The court certified a class of claimants in the matter and also invalidated the related VA regulation on payment limitations. VA must readjudicate claims denied under the invalidated regulation and may have to pay or reimburse claimants for co-insurance and deductibles associated with their health-plan contract's coverage of the non-VA emergency treatment. VA has not previously paid or reimbursed for these expenses. This will also impact VA's treatment of future claims for reimbursement of certain emergency

treatment. It has not yet been determined whether there will be an appeal of this decision.

Also, in 2019, the CAVC rendered a decision on a case that, if it stands, could grant certain Veterans who qualify for both MGIB and Post-9/11GI Bill benefits an extra 12 months of eligibility. VA is awaiting a decision on VA's motion for full Court review.

VA is currently working to develop estimates of the potential cost impact associated with each of these decisions.

VA is also required to record an expense and imputed financing source for the Judgment Fund's pending claims and settlements. The Judgment Fund accounting is shown in the following table.

Judgment Fund (dollars in millions)
For the Periods Ended September 30, 2019 and 2018

	2019	2018
Fiscal Year Settlement Payments	$ 119	$ 126
Less Contract Dispute and "No Fear" Payments	(5)	(11)
Imputed Financing - Paid by Other Entities*	**$ 114**	**$ 115**

* The Imputed Financing - Paid by Other Entities in the table above, when combined with the Total Imputed Expenses – Employee Benefits reported in Note 13, reconciles to Total Imputed Financing costs reported in the Statement of Changes in Net Position.

It is the opinion of management that resolution of pending legal actions as of September 30, 2019, will not materially affect operations or the financial position when consideration is given to the availability of the Judgment Fund appropriation to pay some court-settled legal cases.

Any payments due that may arise relating to canceled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990. The amount of unobligated and obligated authority relating to appropriations canceled is $690 million and $992 million for September 30, 2019, and 2018, respectively.

VA provides medical care to Veterans on an "as-available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), the Secretary makes an annual enrollment decision that identifies which Veterans, by priority, will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled Veterans, and changes in cost. While VA expects to continue to provide medical care to Veterans in future years, an estimate of this amount cannot be reasonably made. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For FY 2015 through FY 2019, the average medical care cost per year is $68.5 billion.

NOTE 19. FUNDS FROM DEDICATED COLLECTIONS

SFFAS No. 43, *Funds from Dedicated Collections*: *Amending SFFAS No. 27, Identifying and Reporting Funds from Dedicated Collections*, defines funds from dedicated collections as an individual fund with explicit authority to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes and to account for and report on the receipt, use, and retention of the revenues, and/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

The source of revenue and other financing sources is a material public source that requires disclosure and program management responsibility. VA's funds from dedicated collections consist of trust, special, and revolving funds that remain available over time. Trust funds do not involve a fiduciary relationship with an individual or group but are designated exclusively for a specific activity, benefit, or purpose.

Treasury does not set aside assets to pay future expenditures associated with these funds. The cash receipts collected from the public for funds from dedicated collections are deposited in the Treasury and are used for general Government purposes.

Treasury security investments, discussed in Note 1 and presented in Note 5, are assets of funds from dedicated collections that provide the fund the authority to draw upon the Treasury for future authorized expenditures.

Treasury securities held by a fund from dedicated collections are an asset of the fund and a liability of the Treasury, so they are eliminated in the consolidation of the Financial Report (FR) of the U.S. Government.

VA's funds are grouped as insurance, medical care, benefits, and burial in the following tables.

Dedicated Collections Fund Name	Authority	Purpose of Fund	Financing Source
Servicemembers and Veterans Group Life Insurance	38 U.S.C. 1965	Insurance to active duty, ready and retired reservists and cadets attending service academies and ROTC.	Public, Veterans
Veterans Reopened Insurance Fund	38 U.S.C. 1925	Insurance to World War II and Korean Veterans.	Public, Veterans
Service-Disabled Veterans Insurance Fund	38 U.S.C. 1922	Insurance to Veterans with service-connected disabilities.	Public, Veterans
National Service Life Insurance Fund	38 U.S.C. 1920	Insurance - Premiums insure WWII Veterans.	Public, Veterans
U.S. Government Life Insurance	38 U.S.C. 1955	Insurance - Premiums insure WWI Veterans.	Public, Veterans
Veterans Special Life Insurance Fund	38 U.S.C. 1923 101-228	Insurance - Premiums insure Korean conflict Veterans.	Public, Veterans
Canteen Service Revolving Fund	38 U.S.C. 78	Medical Care - Operates the canteen services at hospitals.	Revenue from product sales
Medical Care Collections Fund	P.L. 105-33 111 Stat 665	Medical Care - Third-party and patient co-payments for medical services.	Public, primarily insurance carriers
General Post Fund, National Homes	38 U.S.C. 8301	Medical Care - Donations for patient benefits.	Public, mostly Veterans
Post-Vietnam Era Education Assistance	38 U.S.C. 3222	Benefits - Subsidizes the cost of education to Veterans.	Veterans, DoD
Cemetery Gift Fund	38 U.S.C. 2407	Burial - Donations for Veterans cemeteries.	Public donors
National Cemetery Administration Facilities Operation Fund	P.L. 108-454	Burial - Proceeds benefit land and buildings.	Proceeds from buildings/land leases

SECTION II: FINANCIAL SECTION

The following tables provide consolidated information on assets, liabilities, cumulative results of operations, net cost of operations, and changes in net positions related to funds from dedicated collections.

Balance Sheet – Funds from Dedicated Collections (dollars in millions)
As of September 30, 2019

	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Assets:					
Fund Balance with Treasury	$ 69	$ 373	$ 63	$ 2	$ 507
Investments with Treasury (Note 5)	4,237	121	-	-	4,358
Accounts Receivable*	3,114	1,527	-	-	4,641
Other Assets	211	112	-	9	332
Total Assets	**$ 7,631**	**$ 2,133**	**$ 63**	**$ 11**	**$ 9,838**
Liabilities and Net Position:					
Payables to Beneficiaries	$ 10	$ 49	$ 1	$ -	$ 60
Other Liabilities	5,457	28	-	-	5,485
Total Liabilities	**5,467**	**77**	**1**	**-**	**5,545**
Cumulative Results of Operations	2,164	2,056	62	11	4,293
Total Liabilities and Net Position	**$ 7,631**	**$ 2,133**	**$ 63**	**$ 11**	**$ 9,838**

*A significant component of Accounts Receivable includes the excess contingency reserve funds from Prudential.

Statement of Net Cost – Funds from Dedicated Collections (dollars in millions)
For the Period Ended September 30, 2019

Gross Program Costs	$ 415	$ 599	$ -	$ 1	$ 1,015
Less Earned Revenues	311	4,514	-	-	4,825
Net Cost/(Benefit) of Operations	**$ 104**	**$ (3,915)**	**$ -**	**$ 1**	**$ (3,810)**

Statement of Changes in Net Position – Funds from Dedicated Collections (dollars in millions)
For the Period Ended September 30, 2019

Net Position Beginning of Period	**$ (1,219)**	**$ 2,013**	**$ 62**	**$ 12**	**$ 868**
Budgetary and Other Financing Sources	3,487	(3,872)	-	-	(385)
Net (Cost)/Benefit of Operations	(104)	3,915	-	(1)	3,810
Change in Net Position	**3,383**	**43**	**-**	**(1)**	**3,425**
Net Position End of Period	**$ 2,164**	**$ 2,056**	**$ 62**	**$ 11**	**$ 4,293**

Balance Sheet – Funds from Dedicated Collections (dollars in millions)
As of September 30, 2018

	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Assets:					
Fund Balance with Treasury	$ 54	$ 363	$ 63	$ 2	$ 482
Investments with Treasury (Note 5)	4,651	91	-	-	4,742
Accounts Receivable	2	1,505	-	-	1,507
Other Assets	230	106	-	10	346
Total Assets	**$ 4,937**	**$ 2,065**	**$ 63**	**$ 12**	**$ 7,077**
Liabilities and Net Position:					
Payables to Beneficiaries	$ 10	$ 22	$ 1	$ -	$ 33
Other Liabilities	6,146	30	-	-	6,176
Total Liabilities	**6,156**	**52**	**1**	**-**	**6,209**
Cumulative Results of Operations	(1,219)	2,013	62	12	868
Total Liabilities and Net Position	**$ 4,937**	**$ 2,065**	**$ 63**	**$ 12**	**$ 7,077**

Statement of Net Cost – Funds from Dedicated Collections (dollars in millions)
For the Period Ended September 30, 2018

Gross Program Costs	$ 534	$ 627	$ -	$ 2	$ 1,163
Less Earned Revenues	447	4,155	-	-	4,602
Net Cost/(Benefit) of Operations	**$ 87**	**$ (3,528)**	**$ -**	**$ 2**	**$ (3,439)**

Statement of Changes in Net Position – Funds from Dedicated Collections (dollars in millions)
For the Period Ended September 30, 2018

Net Position Beginning of Period	$ (1,220)	$ 1,967	$ 62	$ 14	$ 823
Budgetary and Other Financing Sources	88	(3,482)	-	-	(3,394)
Net (Cost)/Benefit of Operations	(87)	3,528	-	(2)	3,439
Change in Net Position	**1**	**46**	**-**	**(2)**	**45**
Net Position End of Period	**$ (1,219)**	**$ 2,013**	**$ 62**	**$ 12**	**$ 868**

NOTE 20. EXCHANGE TRANSACTIONS

A. EXCHANGE REVENUES

Exchange revenue consists primarily of medical revenue recognized when earned from other Federal agencies or the public as a result of costs incurred or services performed on their behalf; revenue from Servicemember contributions for the reimbursement of education benefit programs, insurance revenue from insurance policy premiums paid by policyholders; excess contingency reserve funds from Prudential for the VGLI and

SGLI programs, and housing revenue from interest earned on direct loans.

Exchange revenue is usually based on the full cost associated with the goods exchanged or services performed. Although VA recognizes full cost per SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, 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 for sharing facilities, contracts for services, and contracts for use of equipment where reimbursement rates are negotiated in the best interest of the Federal Government.

B. PUBLIC EXCHANGE TRANSACTIONS

VA's Loan Guarantee Program collects certain fees that are set by law. Rental fees are collected on a small number of properties during the period when the property is titled to VA.

The loan guarantee funding fees collected for September 30, 2019, and 2018, are $2.1 billion and $2.0 billion, respectively. The loan guarantee lender participation fees collected for September 30, 2019, and 2018, are $3 million and $2 million, respectively.

NCA leases lodges at seven cemeteries to not-for-profit groups, four for historic preservation, and four for office space at no cost. These groups are required to provide the upkeep and pay the costs for utilities, insurance, minor repairs, maintenance, and any other costs associated with the lodges.

NCA has agricultural licenses at 15 cemeteries with private sector entities, for which it receives rental payments and one with a not-for-profit group at no cost. One permit is licensed to the Federal Aviation Administration. Two easements are leased to commercial entities, which are required to pay annual fees for access to the land. NCA also leases vacant land at three cemeteries to local community-based entities at negligible cost.

Under 38 CFR 17.101, reasonable costs are used to bill for reimbursable health care services, public workers' compensation, and tort and no-fault or uninsured motorists' insurance cases.

Reasonable costs are based on provider costs in the market area of each VA facility. Under regulations issued pursuant to Section 38 U.S.C. 1729 and published at 38 CFR 17.101, third-party payers may elect to pay VA's billed costs (less applicable deductible or copayment amounts) for the care and services provided to Veterans. Alternatively, third-party payers may elect to pay VA an amount, generally known as usual and customary, that it would pay to other providers for care and services in the same geographic area.

Per 38 CFR 17.102, cost-based and inter-agency per diems are calculated annually to produce rates used to bill for medical care or services provided by VA that are:

(a) Furnished in error or based on tentative eligibility;

(b) For a medical emergency, workers' compensation (Intragovernmental only), humanitarian emergency;

(c) To pensioners of allied nations;

(d) For research purposes in circumstances under which VA medical care appropriation is to be reimbursed by VA research appropriation; and

(e) To beneficiaries of the DoD or other Federal agencies, when the care or service provided is not covered by an applicable sharing agreement.

These per diem costs are derived primarily from cost and workload data from the VHA Office of Finance Cost Reports.

NOTE 21. NET PROGRAM COSTS BY ADMINISTRATION

Schedule of Net Program Costs by Administration (dollars in millions)
For the Period Ended September 30, 2019

	Veterans Health Administration	Veterans Benefits Administration	National Cemetery Administration	Indirect Administrative Program Costs	Total
Intragovernmental Costs					
Program Costs	$ 12,496	$ 864	$ 58	$ 473	$ 13,891
Less Earned Revenues	(68)	(375)	-	(258)	(701)
Net Intragovernmental Program Costs	**12,428**	**489**	**58**	**215**	**13,190**
Program Costs	80,922	114,706	333	1,821	197,782
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	-	155,685	-	-	155,685
Less Earned Revenues	(4,580)	(298)	-	(198)	(5,076)
Net Program Costs	**76,342**	**270,093**	**333**	**1,623**	**348,391**
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	88,770	270,582	391	1,838	361,581
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	58,033	-	-	58,033
Net Cost of Operations	**$ 88,770**	**$ 328,615**	**$ 391**	**$ 1,838**	**$ 419,614**

Schedule of Net Program Costs by Administration (dollars in millions) For the Period Ended September 30, 2018	Veterans Health Administration	Veterans Benefits Administration	National Cemetery Administration	Indirect Administrative Program Costs	Total
Intragovernmental Costs					
Program Costs	$ 11,427	$ 795	$ 53	$ 459	$ 12,734
Less Earned Revenues	(58)	(459)	-	(223)	(740)
Net Intragovernmental Program Costs	**11,369**	**336**	**53**	**236**	**11,994**
Program Costs	73,059	104,966	279	1,648	179,952
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	-	82,102	-	-	82,102
Less Earned Revenues	(4,230)	(388)	-	(149)	(4,767)
Net Program Costs	**68,829**	**186,680**	**279**	**1,499**	**257,287**
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	80,198	187,016	332	1,735	269,281
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	79,153	-	-	79,153
Net Cost of Operations	**$ 80,198**	**$ 266,169**	**$ 332**	**$ 1,735**	**$ 348,434**

NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

A. BORROWING AUTHORITY

The Loan Guarantee Program principal repayment is expected over a 30-year period from the date of issuance of debt. Borrowing is repaid to Treasury through the proceeds of portfolio loan collections, funding fees, and the sale of loans to housing trusts. The Vocational Rehabilitation Program principal repayment is expected within 10 months from the date of issuance of debt. Loans generally have a duration of one year, and repayment is made from offsetting collections.

Borrowing Authority For the Periods Ended September 30, 2019 and 2018	2019	2018	2019	2018
	Dollars In Millions		Interest Rate	
Home Loan Guarantee Program	**$ 110**	**$ 107**	**2.9%**	**2.9% to 3.1%**
Vocational Rehabilitation Program Direct Loans	**$ -**	**$ 1**	**2.2%**	**1.4%**

B. PERMANENT INDEFINITE APPROPRIATIONS

VA has three permanent and indefinite appropriations to cover unexpected housing losses. The Veterans Home Loan Program account 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 eligible Veterans and their families for the purchase, construction, or improvement of homes they occupy. The Native American Housing Loan Program 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. The Veterans Housing Benefit Program Liquidating account is a Loan Guarantee Revolving Fund that contains all of VA's pre-credit reform direct and guaranteed loans. It holds fund balances received from reimbursements from financing accounts for loan modifications and rentals of foreclosed properties not yet transferred to VA. This account is also used to maintain property management expenses prior to the sale of foreclosed properties.

C. EXPLANATIONS OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

The table below documents the material differences between the FY 2018 Statement of Budgetary Resources and the actual amounts reported in the FY 2020 Budget of the U.S. Government. The FY 2021 Budget of the United States with the actual FY 2019 Statement of Budgetary Resources amounts will not be available until February 2020. Once published, the FY 2019 actual data will be available on the OMB website, http://www.whitehouse.gov/omb/budget.

Explanations of Differences Between the SBR and the Budget of the U.S. Government
(dollars in millions)
For the Period Ended September 30, 2018

	Budgetary Resources	New Obligations & Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Actual Balances per the 2020 Budget of the U.S. Government	**$ 241,322**	**$ 209,590**	**$ (2,663)**	**$ 184,808**
Reconciling Items: *			**-**	**-**
Expired Unobligated Funds	3,089	-	-	-
Expired Prior Year Budget Authority	456	-	-	-
Expired Upward Adjustments	-	(891)	-	-
Medical Care Collection Fund - Copayments	-	-	(3,528)	-
Special Funds not in the U.S. Budget but in the SBR	6	2	(1)	1
Offsetting Differences between the U.S. Budget and the SBR	-	-	(74)	-
Miscellaneous Differences	(3)	1	-	(5)
Per the 2018 Statement of Budgetary Resources	**$ 244,870**	**$ 208,702**	**$ (6,266)**	**$ 184,804**

*The material reconciling items are: expired unobligated balances, health care copayments, special and trust funds, and Distributed Offsetting Receipts. These items are included in the Statement of Budgetary Resources and the SF-133, Report on Budget Execution and Budgetary Resources, but are not in the Budget of the U.S. Government. Expired Upward Adjustments are reported in the Budget of the U.S. Government but not in the Statement of Budgetary Resources.

D. USE OF UNOBLIGATED BALANCES OF BUDGET AUTHORITY

Within the Status of Budgetary Resources of the Statement of Budgetary Resources, Unobligated Balances represents Apportioned and Unapportioned amounts of unexpired VA funds. The Unobligated Balances also include expired authority which remains available for five additional fiscal years for recording and adjusting previously recorded obligations but cannot be used to fund new obligations.

Unobligated VA funds are available for use as defined in the 2019 Appropriation Acts (P.L. 115-244) and the 2019 Additional Supplemental Appropriations for Disaster Relief Act (P.L. 116-20). These purposes include Veterans medical care, research, education, construction and maintenance of VA buildings, Veterans and dependents benefits, Veterans life insurance, loan guarantee programs, Veterans burial benefits, administrative functions, and disaster relief. Various obligation limitations are imposed on individual VA appropriations.

E. UNDELIVERED ORDERS AT THE END OF A PERIOD

Undelivered Orders (dollars in millions) As of September 30, 2019 and 2018	2019		2018	
	Paid	Unpaid	Paid	Unpaid
Intragovernmental Undelivered Orders	$ 1,765	$ 2,431	$ 1,251	$ 2,323
Undelivered Orders	35	13,312	59	13,785
Total Undelivered Orders	**$ 1,800**	**$ 15,743**	**$ 1,310**	**$ 16,108**

F. CONTRIBUTED CAPITAL

Contributed Capital (dollars in millions) As of September 30, 2019 and 2018	2019	2018
General Post Fund	$ 83	$ 46
Total Donations	**$ 83**	**$ 46**

G. LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

Legal Arrangements Affecting the Use of Unobligated Balances (dollars in millions) As of September 30, 2019 and 2018	2019	2018
Unapportioned Amounts Unavailable for Future Apportionments	$ 9,025	$ 11,233
Expired Authority	3,070	3,089
Total Unobligated Balances	**$ 12,095**	**$ 14,322**

NOTE 23. BUDGET AND ACCRUAL RECONCILIATION

The Budget and Accrual Reconciliation (BAR) presents the relationship between budgetary and financial (proprietary) accounting by reconciling budgetary outlays to the net cost of operations.

The following schedule begins with proprietary net cost of operations and is adjusted by components of net cost that are not part of budget outlays, and components of budget outlays that are not part of net cost, to reconcile with budgetary net outlays.

The components of net cost that are not part of the budget outlays section accounts for proprietary items that do not result in budgetary outlays during the current fiscal year. This includes depreciation, credit reform re-estimates, changes to assets and liabilities (including actuarial liabilities), transfers, and imputed financing.

The components of budget outlays that are not part of net cost section accounts for budgetary outlays that do not result in proprietary cost for the current fiscal year. This includes prior year credit reform subsidy re-estimates and acquisition of assets.

The net outlays section matches Net Agency Outlays on the Statement of Budgetary Resources and the sum of all prior BAR sections.

Budget and Accrual Reconciliation (dollars in millions)
For the Period Ended September 30, 2019

	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	**$ 13,190**	**$ 406,424**	**$ 419,614**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation	-	(1,872)	(1,872)
Property, Plant, and Equipment Disposal and Reevaluation	-	(234)	(234)
Year-End Credit Reform Subsidy Re-Estimates	(2,538)	3,501	963
Other	-	(1,095)	(1,095)
Increase/(Decrease) in Assets:			
Accounts Receivable	(3,721)	3,513	(208)
Loans Receivable	-	(2)	(2)
Other Assets	515	(27)	488
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts Payable	311	1,325	1,636
Salaries and Benefits	(54)	(212)	(266)
Insurance and Guarantee Program Liabilities	-	1,086	1,086
Environmental and Disposal Liabilities	-	(8)	(8)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	4,438	(218,133)	(213,695)
Other Financing Sources			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(3,043)	-	(3,043)
Transfers Out (In) Without Reimbursement	(198)	-	(198)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(4,290)**	**(212,158)**	**(216,448)**
Components of the Net Outlays That Are Not Part of Net Cost			
Effect of Prior Year Agencies Credit Reform Subsidy Re-Estimates	(957)	-	(957)
Acquisition of Capital Assets	197	2,534	2,731
Other	(160)	(3,056)	(3,216)
Total Components of Net Outlays That are Not Part of Net Cost	**(920)**	**(522)**	**(1,442)**
Net Outlays (Calculated Total)	**$ 7,980**	**$ 193,744**	**$ 201,724**

Related Amounts on the Statement of Budgetary Resources	
Outlays, Net (total)	$ 209,588
Distributed Offsetting Receipts	(7,864)
Agency Outlays, Net	**$ 201,724**

Budget and Accrual Reconciliation (dollars in millions)
For the Period Ended September 30, 2018

	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	**$ 11,995**	**$ 336,439**	**$ 348,434**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation	-	(2,061)	(2,061)
Property, Plant, and Equipment Disposal and Reevaluation	-	(265)	(265)
Year-End Credit Reform Subsidy Re-Estimates	(94)	2,477	2,383
Other	(1,103)	1,897	794
Increase/(Decrease) in Assets:			
Accounts Receivable	1,268	(42)	1,226
Loans Receivable	-	(56)	(56)
Other Assets	646	29	675
Investments	(1)	-	(1)
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts Payable	14	(9,909)	(9,895)
Salaries and Benefits	(17)	(74)	(91)
Insurance and Guarantee Program Liabilities	-	1,846	1,846
Environmental and Disposal Liabilities	-	17	17
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(2,555)	(160,052)	(162,607)
Other Financing Sources			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(2,752)	-	(2,752)
Transfers Out (In) Without Reimbursement	(221)	-	(221)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(4,815)**	**(166,193)**	**(171,008)**
Components of the Net Outlays That Are Not Part of Net Cost			
Effect of Prior Year Agencies Credit Reform Subsidy Re-Estimates	(1,479)	-	(1,479)
Acquisition of Capital Assets	409	2,198	2,607
Acquisition of Inventory	-	1	1
Other	(132)	115	(17)
Total Components of Net Outlays That are Not Part of Net Cost	**(1,202)**	**2,314**	**1,112**
Net Outlays (Calculated Total)	**$ 5,978**	**$ 172,560**	**$ 178,538**

Related Amounts on the Statement of Budgetary Resources	
Outlays, Net (total)	$ 184,804
Distributed Offsetting Receipts	(6,266)
Agency Outlays, Net	**$ 178,538**

NOTE 24. PUBLIC-PRIVATE PARTNERSHIPS

VA is engaged in various collaborative relationships with private sector entities in which the goals, structures, governance, roles, and responsibilities were mutually determined to produce a risk-sharing arrangement. These relationships are referred to as public-private partnerships (P3), which must be reported beginning in FY 2019 in accordance with SFFAS No. 49, *Public-Private Partnerships: Disclosure Requirements*. While many of VA's relationships are classified as and may be referred to as a P3, only those meeting the disclosure requirements outlined in SFFAS No. 49 are disclosed. EULs, Energy Saving Performance Contracts (ESPC), and Utility Energy Service Contracts (UESC) meet the disclosure requirements outlined in SFFAS No. 49 and, accordingly, are disclosed below.

ENHANCED USE LEASES

VA has entered into public-private partnerships as part of its EUL program. This program allows VA to manage underutilized property through leasing arrangements with state or local governments or private sector organizations, which may include both nonprofit and for-profit organizations.

As described in Note 16, Under title 38, U.S.C. section 8161-8169, Enhanced-Use Leases of Real Property, VA is authorized to lease real property under VA's control or jurisdiction to private entities on a long-term basis (up to 75 years). Under current authority, the leased property may be developed for Supportive Housing that will enhance the property and support the mission of VA. VA may only receive cash at fair value if receiving consideration for the lease. In previous versions of the EUL authority, the project could also include other forms of reuse, such as office buildings, parking, energy generation, or other mixed-use development. Under this previous authority, VA could obtain cash, facilities, space, services, or other forms of consideration.

Each EUL is memorialized in an enforceable lease agreement that fully documents the rights and responsibilities of the parties. The EUL provides for the resolution of disputes and risk management.

The EUL program consists of 77 operational leases of land and/or buildings to the public and private sector. There are also four active projects with signed leases that are not yet operational as buildings are still under construction. EULs are located on VA sites throughout the nation.

The majority of the EUL projects serve to provide safe, affordable transitional as well as permanent supportive housing for Veterans and their families. In these arrangements, the properties are leased to commercial real estate developers who then finance, design, develop, construct, operate, and maintain the property. Under these types of arrangements, VA does not assume any risk or make any guarantees to finance the commercial developments. The partner assumes all financial obligations and risks associated with the private development.

In some instances, the developer must finance the development with public issue bonds.

There are instances where the VA leases back space or services from its EUL lessees as authorized under the previous statute. In these types of arrangements, VA obtains the space or services under favorable terms or at reduced costs.

VA will not participate in, or allow its underlying interest in, the land or properties to be used as security for financing an EUL project. VA does not provide any kind of guaranty for the purpose of private-party financing. VA will not approve any project-related financing that includes requirements that might deny, restrict, or subordinate VA's right to terminate the EUL where the lessee has breached the contract and failed to cure.

In accordance with the terms and conditions outlined in each EUL, VA may not unilaterally terminate an EUL for convenience as is common in many Government contracts. VA may agree to a mutual termination of the lease in certain contexts.

VA will only pursue termination of an EUL prior to the end of the lease term in the event of default, noncompliance, or nonperformance by the lessee. In the instance where termination for one of these events occurs, VA does not owe or pay any fees, costs, expenses, or penalties. The lessee bears all risk in such cases.

Upon the expiration of an EUL lease term, the property additions, improvements, or enhancements revert to VA ownership unless the Secretary decides to transfer ownership to the developer.

Benefits to VA from the EUL program include:

- Revenue in the form of lease payments;
- Cost avoidance, i.e., the value of goods or services provided by the lessees that would have otherwise been paid by VA; and
- Cost savings, i.e., discounts realized on necessary VA purchases, such as energy, office space, or parking.

The following information pertains to VA EUL agreements:

Enhanced Use Leases (dollars in millions)
As of September 30, 2019

Capital Contribution by VA	Funding by Private Sector	Revenue during FY 2019	Est Revenue over the Remaining Life of the Project	Est Annual Cost Avoidance	Est Cost Avoidance over the Life of the Project	Est Annual Cost Savings	Est Cost Savings over the Life of the Project
$ 64	$ 1,484	$ 2	$ 70	$ 100	$ 3,028	$ 8	$ 764

ENERGY SAVINGS PERFORMANCE CONTRACTS AND UTILITY ENERGY SERVICE CONTRACTS

VA has entered into several ESPCs and UESCs to procure energy savings and facility improvements. These contract vehicles do not require up-front capital costs or special appropriations from Congress.

Federal agencies are authorized to enter into ESPCs under National Energy Conservation Policy Act (42 U.S.C. § 8287), as amended. The regulations implementing the ESPC statutory authority is 10 CFR Part 436, subpart B. An ESPC is a partnership between an agency and an energy service company (ESCO) to reduce energy, water, and/or related operating costs and to assist agencies with upgrading aging infrastructure, systems, and equipment. After being selected for a potential award, the ESCO conducts a comprehensive audit to assess energy and water improvements that have been identified by VA. In consultation with VA, the ESCO designs and constructs a project that meets the agency's needs and arranges financing to pay for the project. The ESCO guarantees that the improvements will generate sufficient energy cost savings to pay for the project over the term of the contract.

By statute, ESPCs cannot exceed 25 years. After a contract ends, all additional cost savings accrue to VA, and title to installed capital goods, equipment, and improvements are typically retained by VA. VA is responsible for contract administration over the term of the contracts.

Authorized by the Energy Policy Act of 1992, P.L. 102-486 (codified as 42 U.S.C. 8256), UESC is a limited-source contract between a Federal agency and its serving utility for energy- and water-efficiency improvements and demand-reduction services. UESCs can provide energy, water, or sewage services, as well as provision of technical services and/or up-front project financing for energy efficiency, water conservation, and renewable energy investments, allowing Federal agencies to pay for the services over time, either on their utility bill or through a separate agreement.

UESCs also are not to exceed 25 years in duration. After a contract ends, all additional cost savings accrue to VA. Under UESCs, VA retains title to all installed capital goods, equipment, and improvements.

Under OMB Memorandum M-98-13, and M-12-21, ESPC and UESC repayments can be funded on an annual basis. Contracts can be terminated for convenience in part or in full. In the case of a termination, VA may be responsible for outstanding loan balances and early termination or payment fees. Measurement and verification of energy savings is required under ESPCs and UESCs.

The benefits of ESPCs and UESCs include the following:

- Infrastructure improvements that pay for themselves over time;
- Ability to install longer payback energy and water conservation measures by bundling savings with shorter payback measures;

- Reduced vulnerability to budget impacts from utility rate hikes and extreme weather; and
- Enhanced ability to plan and budget accounts.

The following information pertains to VA ESPCs and UESCs:

ESPC and UESC Accepted (dollars in millions)
As of September 30, 2019

Type of Contract	# of Projects	Capital Contribution by VA	Funding by Private Sector	Cost Savings Over the Life of the Project	Payments During FY 2019	VA Liability as of 9/30/2019
ESPCs Completed	13	$ 48	$ 273	$ 541	$ 39	$ 253
UESCs Completed	7	31	64	108	10	46
Total	**20**	**$ 79**	**$ 337**	**$ 649**	**$ 49**	**$ 299**

ESPC and UESC In-Process (dollars in millions)
As of September 30, 2019

Type of Contract	# of Projects	Capital Contribution by VA	Funding by Private Sector	Cost Savings Over the Life of the Project	Payments During FY 2019	VA Liability Upon Acceptance
ESPCs Under Construction	4	$ 16	$ 187	$ 370	$ 16	$ 211
UESCs Under Contruction	4	39	23	31	27	23
Total	**8**	**$ 55**	**$ 210**	**$ 401**	**$ 43**	**$ 234**

NOTE 25. RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION FOR THE FINANCIAL REPORT COMPILATION PROCESS

To prepare the FR of the U.S. Government, the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows VA's financial statements and VA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2018 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2019 FR will be posted to this site as soon as it is released, generally in January.

The term "non-Federal" is used to designate amounts that result from transactions with the public. These include transactions with Veterans; businesses; nonprofit entities; and state, local, and foreign governments.

VA's Balance Sheet is presented at the combined level, while the Reclassified Balance Sheet is presented at a consolidated level. A change in presentation is necessary to eliminate activity between the Funds From Dedicated Collections (detailed in Note 19) and All Other Funds. This is presented in the Net Position section of the schedule below.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet (dollars in millions)
As of September 30, 2019

FY 2019 VA Balance Sheet		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	**Amount**	**Amount**	**Reclassified Financial Statement Line**
ASSETS			**ASSETS**
Intra-Governmental Assets			**Intra-Governmental Assets**
FBWT	$ 58,306	$ 58,306	FBWT
Investments, Net	4,358	4,319	Federal Investments
		39	Interest Receivable – Investments
Total Investments, Net	4,358	4,358	*Total Reclassified Investments, Net*
Accounts Receivable	9	8	Accounts Receivable
		1	Transfers Receivable
Total Accounts Receivable	9	9	*Total Reclassified A/R*
Other	1,762	1,762	Advances to Others and Prepayments
Total Intra-Governmental Assets	**$ 64,435**	**$ 64,435**	**Total Intra-Governmental Assets**
Cash and Other Monetary Assets	4	4	Cash and Other Monetary Assets
Investments, Net	140	140	Debt and Equity Securities
Accounts Receivable, Net	6,078	6,078	Accounts and Taxes Receivable, Net
Direct Loan and Loan Guarantees, Net	1,397	1,397	Loans Receivable, Net
Inventory and Related Property, Net	49	49	Inventory and Related Property, Net
General PP&E, Net	27,164	27,164	PP&E, Net
Other	38	38	Other Assets
Total Assets	**$ 99,305**	**$ 99,305**	**Total Assets**
LIABILITIES			**LIABILITIES**
Intra-Governmental Liabilities			**Intra-Governmental Liabilities**
Accounts Payable	126	126	Accounts Payable
Total Accounts Payable	126	126	*Total Reclassified Accounts Payable*
Debt	569	569	Loans Payable
Other Liabilities	3,540	206	Accounts Payable
		750	Benefit Program Contributions Payable
		23	Advances from Others and Deferred Credits
		2,460	Liability to General Fund for Custodial and Other Non-Entity Assets
		101	Other liabilities (Without Reciprocals)
Total Other Liabilities	3,540	3,540	*Total Reclassified Other Liabilities*
Total Intra-Governmental Liabilities	**4,235**	**4,235**	**Total Intra-Governmental Liabilities**
Accounts Payable	12,161	12,161	Accounts Payable
Loan Guarantee Liability	7,636	7,636	Loan Guarantee Liabilities
Federal Employee and Veteran Benefits	3,242,812	3,242,812	Federal Employee and Veteran Benefits Payable
Insurance Liabilities	5,703	16	Accounts payable
		5,660	Federal employee and veteran benefits payable
		27	Other liabilities
Total Insurance Liabilities	5,703	5,703	*Total Reclassified Insurance Liabilities*
Environmental and Disposal Liabilities	934	934	Environmental and Disposal Liabilities
Other Liabilities	5,774	5,774	Other Liabilities
Total Liabilities	**$ 3,279,255**	**$ 3,279,255**	**Total Liabilities**

NET POSITION			
Unexpended Appropriations – All Other Funds	33,486	33,486	Net Position – Funds Other than those from Dedicated Collections
Cumulative Results of Operations – All Other Funds	(3,217,729)	(3,217,729)	Net Position – Funds Other than those from Dedicated Collections
		(3,875)	Elimination of Internal Transfers
Cumulative Results of Operations – Funds from Dedicated Collections	4,293	4,293	Net Position – Funds from Dedicated Collections
		3,875	Elimination of Internal Transfers
Total Cumulative Results	(3,213,436)	(3,213,436)	*Total Cumulative Results*
Total Net Position	**(3,179,950)**	**(3,179,950)**	**Total Net Position**
Total Liabilities & Net Position	**$ 99,305**	**$ 99,305**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost (dollars in millions) For the Period Ended September 30, 2019

FY 2019 VA SNC		Line Items Used to Prepare FY 2019 Government-wide SNC	
Financial Statement Line	**Amount**	**Amount**	**Reclassified Financial Statement Line**
Gross Costs	$ 367,358	**$ 353,467**	**Non-Federal Gross Cost**
		7,150	Benefit Program Costs
		3,043	Imputed Costs
		1,402	Buy/Sell Costs
		45	Purchase of Assets
		24	Borrowing and Other Interest Expense
		2,272	Other Expenses (w/o Reciprocals)
		(45)	Purchase of Assets Offset
		$ 13,891	**Total Intragovernmental Costs**
Total Gross Costs	**$ 367,358**	**$ 367,358**	**Total Reclassified Gross Costs**
Earned Revenue	(5,777)	(5,076)	**Non-Federal Earned Revenue**
		(347)	Buy/Sell Revenue
		(167)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		(187)	Borrowing and Other Interest Revenue
		(701)	**Total Intragovernmental Earned Revenue**
Total Earned Revenue	**$ (5,777)**	**$ (5,777)**	**Total Reclassified Earned Revenue**
Gain/Loss-Pension/ORB/OPEB Assumptions	58,033	58,033	Gain/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost	**$ 419,614**	**$ 419,614**	**Net Cost**

SECTION II: FINANCIAL SECTION

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position (dollars in millions)
For the Period Ended September 30, 2019

FY 2019 VA SCNP		Line Items Used to Prepare FY 2019 Government-wide SCNP	
Financial Statement Line	**Amount**	**Amounts**	**Reclassified Financial Statement Line**
UNEXPENDED APPROPRIATIONS			
Unexpended Appropriations, Beginning Balance	$ 37,780	$ 37,780	Net Position, Beginning of Period
Appropriations Received	197,963	197,963	Appropriations Received as Adjusted
Other Adjustments	(908)	(908)	Appropriations Received as Adjusted
Appropriations Transferred In/Out	128	143	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
		(15)	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred In/Out	128	128	Total Reclassified Appropriations Transferred In/Out
Appropriations Used	(201,477)	(201,477)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 33,486**	**$ 33,486**	**Total Unexpended Appropriations**
CUMULATIVE RESULTS OF OPERATIONS			
Cumulative Results, Beginning Balance	$(2,999,330)	$(2,999,330)	Net Position, Beginning of Period
Other Adjustments	(6)	(6)	Other Budgetary Financing Sources
Appropriations Used	201,477	201,477	Appropriations Expended
Non-Exchange Revenues	133	133	Accruals for Agency Amounts to be Collected in a TAS other than the General Fund
Total Non-Exchange Revenues	**133**	**133**	**Total Reclassified Non-Exchange Revenue**
Donations and Forfeitures of Property	24	24	Other Taxes and Receipts (Non-Federal)
Transfers In/Out w/o Reimbursement – Budgetary	198	198	Expenditure Transfers-In of Financing Sources
Other	580		**Non-Federal Other**
		3,412	Miscellaneous Earned Revenues
		3,412	**Total Non-Federal Other**
			Intragovernmental Other
		(3,790)	Non-Entity Collections Transferred to the General Fund
		958	Accrual for Non-Entity Custodial Collections Transferred to the General Fund
		(2,832)	**Total Intragovernmental Other**
Total Other	**580**	**580**	**Total Reclassified Other**
Donations and Forfeitures of Cash and Cash Equivalents	59	59	Other Taxes and Receipts (Non-Federal)
Imputed Financing	3,043	3,043	Imputed Financing Sources (Federal)
Total Financing Sources	**205,508**	**205,508**	**Total Financing Sources**
Net Cost of Operations	**(419,614)**	**(419,614)**	**Reclassified Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	**(3,213,436)**	**(3,213,436)**	**Net Position – Ending Balance**
Total Net Position	**$(3,179,950)**	**$(3,179,950)**	**Total Net Position**

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

NON-FEDERAL PHYSICAL PROPERTY

Annually, VA provides funding to state governments for the purchase, construction, or major renovation of physical property owned by the state. In most cases, these grant programs involve matching funds from the states.

Non-Federal Physical Property Investments (dollars in millions)
For the Periods Ended September 30, 2015 - 2019

	2019	2018	2017	2016	2015
State Extended Care Facilities	$ 150	$ 90	$ 90	$ 140	$ 105
State and Tribal Veterans Cemeteries	45	45	52	49	47
Total Grant Program Costs	**$ 195**	**$ 135**	**$ 142**	**$ 189**	**$ 152**

The Extended Care Facilities Grant Program assists states in acquiring facilities to provide domiciliary, nursing home, and other day health care for Veterans, and to expand, remodel, or alter existing buildings to provide domiciliary, nursing home, and day health care for Veterans in state homes. VA participates in two grant-in-aid programs for states. Under title 38 CFR Part 59, VA may participate in up to 65 percent of the cost of construction or acquisition of state nursing homes or domiciliaries or in renovations of existing state homes. VA also provides per diem payment for the care of eligible Veterans in state homes.

The Veterans Cemetery Grants Program was established in 1978. The program assists states, territories, and Federally recognized tribal governments in providing gravesites for Veterans in those areas where VA's national cemeteries cannot fully satisfy their burial needs. VA can now provide up to 100 percent of the development cost for an approved project. For establishment of new cemeteries, VA can provide the operating equipment. State or Tribal organizations provide the land and agree to operate the cemeteries in accordance with the operational standards and measures of VA's NCA. VA has awarded grants totaling more than $817 million to establish, expand, improve, operate, and maintain 114 Veterans cemeteries in 48 states and territories including tribal trust lands, Guam, Saipan, and Puerto Rico. NCA-supported state cemeteries provided more than 39,450 interments in 2019.

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

HUMAN CAPITAL

Investment in Human Capital through the Post-9/11 GI Bill programs and the VR&E program is comprised of expenses for educational resources to supplement opportunities for Veterans, reservists, and certain family members of Veterans.

The VR&E program also assists Veterans to achieve maximum independence in daily living when the severity of their disability prohibits suitable employment. Spouses and family member may also be eligible for education and training assistance. In fact, 25 percent of those benefitting from VA's education programs are non-Veterans. VA's investment in Human Capital does not include expenses for internal Federal education and training of civilian employees.

PROGRAM OUTCOME

Human Capital Investments (dollars in millions)
For the Periods Ended September 30, 2015 - 2019

	2019	2018	2017	2016	2015
Program Expenses					
Education and Training-Dependents of Veterans	$ 836	$ 584	$ 537	$ 526	$ 493
Vocational Rehabilitation and Education Assistance	10,960	13,975	13,960	14,503	13,543
Administrative Program Costs	456	537	536	533	512
Total Program Expenses	**$ 12,252**	**$ 15,096**	**$ 15,033**	**$ 15,562**	**$ 14,548**
Program Outputs (Participants)					
Dependent Education	116,507	103,644	99,265	95,477	91,755
Veterans Rehabilitation	95,427	132,189	117,742	107,491	86,928
Veterans Education	628,260	851,157	898,633	931,097	922,497

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

HEALTH PROFESSIONALS EDUCATION

VA assists in the training of health professionals for its own needs and those of the Nation. VHA conducts education and training programs to enhance the quality of care provided to Veterans within the VA health care system. Building on the long-standing partnerships between VA and the Nation's academic institutions, VA plays a leadership role in defining the education of future professionals to meet the changing needs of the Nation's health care delivery system.

VA's education mission contributes to high-quality health care of Veterans by providing a climate of scientific inquiry and evidence-based practice, rapid application of medical advances, supervised trainees in clinical care, and the recruitment of highly qualified health care professionals.

PROGRAM OUTCOMES

Health Professionals Education Investments
For the Periods Ended September 30, 2015-2019

	2019	2018	2017	2016	2015
Program Expenses (dollars in millions)					
Physician Residents and Fellows	$ 795	$ 767	$ 746	$ 715	$ 689
Associated Health Residents and Students	177	167	162	171	168
Instructional and Administrative Support	995	935	892	903	851
Total Program Expenses	**$ 1,967**	**$ 1,869**	**$ 1,800**	**$ 1,789**	**$ 1,708**
Program Outputs (in units)					
Health Professions Rotating Through VA:					
Physician Residents and Fellows	46,027	44,028	43,100	43,400	41,534
Medical Students	26,894	24,683	24,683	24,283	22,931
Nursing Students	25,194	27,519	27,519	28,389	27,275
Associated Health Residents and Students	26,075	26,277	26,292	27,121	28,663

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

INVESTMENT IN RESEARCH AND DEVELOPMENT (R&D)

VA's R&D program is unique. It focuses entirely on health issues that affect the daily lives of Veterans and all Americans through health care discovery and innovation in helping Veterans regain their health, resume an active lifestyle, or reclaim their vital roles in family and community.

It is comprised of expenses incurred to support the programs that span the continuum from biomedical research through the translation of research into practice in the VA Health Care System. The R&D activities are presented in three major categories:

(1) Basic research, the systematic study to discover new knowledge or refined knowledge that advances health care for Veterans and the Nation;
(2) Applied research, the systematic work to apply scientific knowledge to develop effective individualized care solutions for Veterans; and
(3) Experimental development, the systematic use of the knowledge and understanding gained from research to deploy new materials, devices, systems, or methods, including the design and development of prototypes and processes.

Research & Development Investments (dollars in millions)
For the Periods Ended September 30, 2015-2019

	2019	2018	2017	2016	2015
Basic Research	$ 613	$ 514	$ 501	$ 368	$ 367
Applied Research	757	701	721	769	673
Experimental Development	29	28	24	30	29
Total Program Expenses	**$ 1,399**	**$ 1,243**	**$ 1,246**	**$ 1,167**	**$ 1,069**

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

PROGRAM OUTCOMES

VA's goal is to improve the health of nearly 3.5 million Veteran patients and lay the groundwork for improved patient care within VA. Nested within the VHA, VA R&D is viewed by many experts as a model for rigorous, impactful research. Its goal is to be the premier research organization leading four main services working together to address the full spectrum of Veterans' health care and to contribute to the Nation's knowledge about disease and disability. Investments are 100 percent funded through Research Projects that are relevant to VA's Health Care Mission and treated as expenses in determining the net cost of operations. R&D is divided between Basic, Applied, and Experimental Development on a percentage basis:

(1) **Biomedical Laboratory R&D Service:** 100 percent basic, conducting preclinical and clinical research to understand life processes from the molecular, genomic, and physiological level diseases and disabilities affecting Veterans. It includes research on animal models and investigations of tissues, blood, or other biologic specimens from humans.

(2) **Clinical Science R&D Service:** 100 percent applied conducting research that focuses on intact human beings as the unit of examination. Examples include interventional and effectiveness studies, clinical, epidemiological, and technological studies.

(3) **Health Services R&D Service:** 100 percent applied pursuing research at the interface of health care systems, patients, and health care outcomes. Health Service R&D underscores all aspects of VA health care such as quality, access, patient outcomes, and health care costs.

(4) **Rehabilitation R&D Service:** 85 percent applied, 15 percent experimental development, dedicated to the well-being of America's Veterans through a full spectrum of research: from approved rehabilitation research projects, through evaluation and technology transfer to final clinical application.

Research and Development Measures-Actual
For the Periods Ended September 30, 2015-2019

	2019	2018	2017	2016	2015
Number of Research and Development Projects	2,180	2,180	2,150	2,205	2,224

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

More than 60 percent of VA researchers are also clinicians who provide direct patient care. This allows VA Research to quickly move scientific discovery from the research setting to advancements in health care and to recruit the best and brightest health care professionals. The following are significant outcomes of the research and experimental development projects and their accomplishments in FY 2019:

Posttraumatic Stress Disorder (PTSD)

VA's investment in R&D funds efforts to understand, diagnose, assess, and treat PTSD. In 2019, researchers examined the records of more than 2,200 Veterans and conducted a literature review for studies on patients with mild traumatic brain injury and several other conditions: PTSD, depression, substance use disorders, suicidal thoughts or attempts, and anxiety disorders. VA uses two main psychotherapies to treat PTSD – prolonged exposure and cognitive processing therapy – and they are usually delivered in 8 to 12 weekly sessions.

Women's Health

VA researchers are looking at a broad range of health issues related to women Veterans, including gender differences in health status and health care; risk and resilience factors; mental and behavioral health; the impacts of military service, era of service, and combat; sexual trauma; gynecological and reproductive care; access to care; and women Veterans' experiences of and preferences for care. In 2019, VA's R&D conducted several studies. Reports of harassment were more common among women with histories of military sexual trauma; other trauma exposure; anxiety, depression, or PTSD; and poorer health. The results provide key insights that could improve planning care in VA related to women's health issues.

Hepatitis C

Hepatitis C is a bloodborne disease marked by inflammation of the liver. Veterans who served in the Vietnam War era, have alcohol or substance use disorders, or have psychiatric conditions are more likely to be infected with Hepatitis C. VA is the single largest care provider in the United States for Hepatitis C. As of March 2019, VA had treated more than 116,000 Veterans with oral hepatitis C medications and is on track to cure 100,000 Veterans.

Infectious Diseases

VA's ongoing research is advancing the understanding, prevention, and treatment of numerous infectious diseases. In 2019, VA developed several effective new preventive strategies, vaccines, and drugs for infectious diseases ranging from the common cold to major public health threats such as tuberculosis, Acquired Immunodeficiency Syndrome, hepatitis C, pneumonia, shingles, infectious lung disease, and influenza.

SECTION II: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

Genetics

In 2019, researchers from the VA San Diego and Connecticut health care systems, used genome mapping and survey data from more than 11,000 new recruits and deployed soldiers of European ancestry. VA's R&D focuses on research into the genetic basis of diseases and the development of precision medicine—the practice of using a person's genes, proteins, and other individual traits to identify the best treatments. New knowledge about the role of genes in health and disease holds the promise of developing safer, more effective, personalized treatments for many conditions.

Diabetes

Diabetes affects nearly 25 percent of VA's patient population. The disease is also the leading cause of blindness, end-stage renal disease, and amputation for VA patients. In 2019, according to the VA Diabetes Trial (Cooperative Study 465), patients who had intensively controlled their blood sugar levels during the trial had no better survival rates than those who did not. VA researchers are working to develop better ways to prevent or treat diabetes, especially in special populations such as the elderly, amputees, minorities, spinal cord injured patients, and those with kidney or heart disease.

SECTION II: REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

DEFERRED MAINTENANCE AND REPAIRS

Deferred maintenance and repairs are maintenance and repair activities not performed when they should have been or were scheduled to be and therefore, are put off or delayed for a future period. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain an asset. Maintenance and repair estimates are recorded for capitalized assets and are distinguished from capital improvements that expand the capacity of an asset or otherwise upgrade it to serve needs different from, or significantly greater than, its current use.

Management determines the level of service and condition that is acceptable to carry out VA's mission, which may vary by VA components that include VHA, VBA, NCA, and Indirect Administrative Program Costs. It is VA's policy to ensure that medical equipment and critical facility equipment systems are maintained, repaired, and managed in a safe and effective manner; therefore, deferred maintenance and repairs are not applicable to them.

VA facilities reported their cost estimates for deferred maintenance and repairs by performing periodic Facility Condition Assessment (FCA) Surveys, which are inspections of PP&E based on generally accepted methods and standards. These are consistently applied to assign condition ratings and estimate costs for each fixed asset to correct deficiencies. An independent interdisciplinary professional contractor team tours and evaluates approximately 6,000 VA buildings on a three-year cycle, assessing all components. Building components assessed include architectural structural, mechanical, plumbing, and electrical systems. Also included for assessment are capitalized, fully depreciated, and noncapitalized elements of general PP&E, heritage assets, and stewardship land. Each property, plant, or equipment component is given a description, an estimate of remaining useful life, and a grade from "A" to "F" based on VA's standard evaluation guidelines. Any building component graded "D" (poor) and "F" (critical) is given an estimated correction cost and recorded in Deferred Maintenance and Repairs, except where deficiencies will be replaced by capital expenditures. See Notes 1, 9, and 10 for additional information on general PP&E and heritage assets.

SECTION II: REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

VA is experiencing an upward trend in Deferred Maintenance and Repairs as a result of: (1) increased maintenance and repair costs as buildings age; (2) maintenance and repair budgets that have not grown in proportion with an increasing portfolio of owned space and inflation rates; and (3) expanded scope of FCA survey requirements, which significantly increase cost estimates when sites are reevaluated.

Schedule of Deferred Maintenance and Repairs (dollars in millions)
As of September 30, 2019

	2019 Beginning Balance	2019 Ending Balance
General PP&E	$ 11,330	$ 11,998
Heritage Assets	939	992
Total Deferred Maintenance and Repairs	**$ 12,269**	**$ 12,990**

SECTION II: REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF BUDGETARY ACTIVITY

Schedule of Budgetary Activity (dollars in millions)
As of September 30, 2019

	Veterans Health Administration						
	0140 Medical Community Care	0152 Medical Support	0160 Medical Services	0162 Medical Facilities	0172 Veterans Choice Fund	All Other Funds	VHA Total
Budgetary Resources							
Unobligated balance from prior year budget authority, net	$ 1,397	$ 422	$ 3,962	$ 1,501	$ 5,836	$ 4,146	$ 17,264
Appropriations	9,681	7,098	52,951	6,894	-	10,027	86,651
Borrowing authority	-	-	-	-	-	-	-
Spending authority from offsetting collections	-	50	124	21	-	492	687
Total Budgetary Resources	**$ 11,078**	**$ 7,570**	**$ 57,037**	**$ 8,416**	**$ 5,836**	**$ 14,665**	**$ 104,602**
Status of Budgetary Resources							
New obligations and upward adjustments	$ 10,852	$ 7,302	$ 52,852	$ 6,858	$ 3,304	$ 9,809	$ 90,977
Apportioned, unexpired accounts	143	38	2,113	1,407	2,532	4,519	10,752
Unapportioned, unexpired accounts	-	-	-	-	-	2	2
Unexpired unobligated balance, end of year	143	38	2,113	1,407	2,532	4,521	10,754
Expired unobligated balance, end of year	83	230	2,072	151	-	335	2,871
Unobligated balance, end of year	226	268	4,185	1,558	2,532	4,856	13,625
Total Status of Budgetary Resources	**$ 11,078**	**$ 7,570**	**$ 57,037**	**$ 8,416**	**$ 5,836**	**$ 14,665**	**$ 104,602**
Outlays, net							
Outlays, net	$ 11,896	$ 6,939	$ 52,388	$ 6,045	$ 3,906	$ 7,814	$ 88,988
Distributed offsetting receipts	-	-	-	-	-	(3,995)	(3,995)
Agency Outlays, net	**$ 11,896**	**$ 6,939**	**$ 52,388**	**$ 6,045**	**$ 3,906**	**$ 3,819**	**$ 84,993**

(continues on next page)

SECTION II: REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of Budgetary Activity (dollars in millions)
As of September 30, 2019

	Veterans Benefits Administration						
	0102 Compensat -ion and Pensions	0137 Readjust -ment Benefits	4129 Veteran Housing Program	8132 Life Insurance Fund	0151 General Operating Expenses	All Other Funds	VBA Total
Budgetary Resources							
Unobligated balance from prior year budget authority, net	$ 2,473	$ 7,063	$ 10,929	$ 6	$ 234	$ 1,510	$ 22,215
Appropriations	100,763	9,832	-	591	2,956	532	114,674
Borrowing authority	-	-	-	-	-	110	110
Spending authority from offsetting collections	-	198	3,807	33	1,433	1,419	6,890
Total Budgetary Resources	**$ 103,236**	**$ 17,093**	**$ 14,736**	**$ 630**	**$ 4,623**	**$ 3,571**	**$ 143,889**
Status of Budgetary Resources							
New obligations and upward adjustments	$ 101,515	$ 13,679	$ 5,984	$ 630	$ 4,446	$ 1,794	$ 128,048
Apportioned, unexpired accounts	1,721	3,414	-	-	83	1,497	6,715
Unapportioned, unexpired accounts	-	-	8,752	-	-	235	8,987
Unexpired unobligated balance, end of year	1,721	3,414	8,752	-	83	1,732	15,702
Expired unobligated balance, end of year	-	-	-	-	94	45	139
Unobligated balance, end of year	1,721	3,414	8,752	-	177	1,777	15,841
Total Status of Budgetary Resources	**$ 103,236**	**$ 17,093**	**$ 14,736**	**$ 630**	**$ 4,623**	**$ 3,571**	**$ 143,889**
Outlays, net							
Outlays, net	$ 100,451	$ 13,205	$ 2,125	$ 693	$ 2,862	$ 361	$ 119,697
Distributed offsetting receipts	-	-	-	(35)	-	(3,648)	(3,683)
Agency Outlays, net	**$ 100,451**	**$ 13,205**	**$ 2,125**	**$ 658**	**$ 2,862**	**$ (3,287)**	**$ 116,014**

(continues on next page)

SECTION II: REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of Budgetary Activity (dollars in millions)
As of September 30, 2019

	NCA	Indirect Administrative Programs					VA
	Total	0142 General Admin	1122 Board of Veterans Appeals	4537 Supply Fund	All Other Funds	Total	TOTAL
Budgetary Resources							
Unobligated balance from prior year budget authority, net	$ 29	$ 72	$ 25	$ 299	$ 93	$ 489	$ 39,997
Appropriations	361	356	167	-	193	716	202,402
Borrowing authority	-	-	-	-	-	-	110
Spending authority from offsetting collections	1	308	-	1,478	1,015	2,801	10,379
Total Budgetary Resources	**$ 391**	**$ 736**	**$ 192**	**$ 1,777**	**$ 1,301**	**$ 4,006**	**$ 252,888**
Status of Budgetary Resources							
New obligations and upward adjustments	$ 371	$ 686	$ 168	$ 1,399	$ 1,247	$ 3,500	$ 222,896
Unobligated Balance, end of year:							
Apportioned, unexpired accounts	12	5	1	378	34	418	17,897
2304 - Exempt from apportionment, unexpired accounts	-	-	-	-	-	-	-
Unapportioned, unexpired accounts	2	5	16	-	13	34	9,025
Unexpired unobligated balance, end of year	14	10	17	378	47	452	26,922
Expired unobligated balance, end of year	6	40	7	-	7	54	3,070
Unobligated balance, end of year	20	50	24	378	54	506	29,992
Total Status of Budgetary Resources	**$ 391**	**$ 736**	**$ 192**	**$ 1,777**	**$ 1,301**	**$ 4,006**	**$ 252,888**
Outlays, net							
Outlays, net	$ 371	$ 300	$ 170	$ (97)	$ 159	$ 532	$ 209,588
Distributed offsetting receipts	-	-	-	-	(186)	(186)	(7,864)
Agency Outlays, net	**$ 371**	**$ 300**	**$ 170**	**$ (97)**	**$ (27)**	**$ 346**	**$ 201,724**

DEPARTMENT OF VETERANS AFFAIRS

OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Audit of VA's Financial Statements for Fiscal Years 2019 and 2018

AUDIT | REPORT #19-06452-12 | NOVEMBER 19, 2019

DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL
WASHINGTON, DC 20001

November 19, 2019

MEMORANDUM

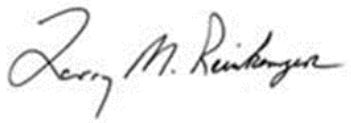
TO: Secretary of Veterans Affairs (00)

FROM: Assistant Inspector General for Audits and Evaluations (52)

SUBJECT: Audit of VA's Financial Statements for Fiscal Years 2019 and 2018

1. We contracted with the independent public accounting firm CliftonLarsonAllen LLP (CLA) to audit VA's financial statements as of September 30, 2019, and 2018, and for the fiscal years (FYs) then ended. This audit is an annual requirement of the Chief Financial Officers Act of 1990. The results of CLA's audit are presented in the attached report.
2. CLA provided an unmodified opinion on VA's financial statements for FYs 2019 and 2018. With respect to internal control, CLA identified five material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The five identified material weaknesses with respect to internal control are as follow:
   - Controls over significant accounting estimates and transactions, which includes in part a prior material weakness and incorporates a prior significant deficiency, both reported since FY 2016
   - Accrued liabilities, undelivered orders, and reconciliations, which is reported in part from a prior material weakness and incorporates a prior significant deficiency, both reported since FY 2016
   - Financial systems and reporting, which has been reported as a material weakness since FY 2015, with "systems and" added to the title in FY 2018
   - Information technology security controls, which has been reported as a material weakness for more than 10 years
   - Entity level controls including chief financial officer organizational structure, which has been reported as a material weakness in part since FY 2016 and was expanded to include entity level controls in FY 2018

3. CLA identified the following conditions regarding noncompliance with laws and regulations:
   - Substantial noncompliance with federal financial management systems requirements and the United States Standard General Ledger at the transaction level under the Federal Financial Management Improvement Act (FFMIA) of 1996, which has been reported in part for more than 10 years
   - Improvements needed in order to fully comply with the intent of the Federal Managers' Financial Integrity Act, which has been reported since FY 2015
   - Instances of noncompliance with Title 38 United States Code § 5315 pertaining to the charging of interest and administrative costs, which has been reported for more than 10 years
   - VA reported one violation of the Antideficiency Act, Title 31 United States Code § 1341 (a), in July 2019 and had one potential violation. In addition, five other violations, which are carried forward from prior years, are under further discussion with the Office of Management and Budget. CLA has reported violations of the Antideficiency Act since FY 2012.
   - Noncompliance with the Improper Payments Elimination and Recovery Act for FY 2018, as reported by the Office of Inspector General since 2012
4. CLA is responsible for the attached audit report dated November 19, 2019, and the conclusions expressed in the report. We do not express opinions on VA's financial statements, internal control, or compliance with FFMIA. We also do not express conclusions on VA's compliance with laws and regulations. The independent auditors will follow up on these internal control and compliance findings and evaluate the adequacy of corrective actions taken during the FY 2020 audit of VA's financial statements.



LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

Attachment

INDEPENDENT AUDITORS' REPORT

To the Secretary
And Inspector General
United States Department of Veterans Affairs

Report on the Financial Statements

We have audited the accompanying consolidated financial statements (financial statements) of the United States Department of Veterans Affairs (VA), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

VA management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). Those standards and OMB Bulletin 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Veterans Affairs (VA) as of September 30, 2019 and 2018, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Emphasis of Matter

As discussed in Note 13 to the financial statements, VA continued to refine the impact of the new enrollee assumption used in its education/retraining type program (education) estimates in FY 2019. A material weakness in Controls over Significant Accounting Estimates and Transactions is included in the Report on Internal Control over Financial Reporting. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. require that the information in the VA's Management Discussion and Analysis (MD&A), Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) sections be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB), which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. All other information exclusive of the financial statements, MD&A, RSI, and RSSI as listed in the table of contents of the Agency Financial Report is presented for purposes of additional analysis and is not a required part of the financial statements. In addition, management has included references to information on websites or other data outside of the Agency Financial Report. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered VA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VA's internal control or on management's assertion on internal control included in the MD&A.

Accordingly, we do not express an opinion on the effectiveness of VA's internal control or on management's assertion on internal control included in the MD&A.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of VA's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified certain deficiencies in internal control, described below and in Exhibit A which we consider to be material weaknesses.

Controls Over Significant Accounting Estimates and Transactions

The Veterans Benefits Administration (VBA) models used to estimate the education benefits and loan guarantee liabilities warrant management's continued focus. In addition, VBA's control activities related to review, approval, and monitoring over significant accounting transactions need improvement.

Accrued Liabilities, Undelivered Orders, and Reconciliations

In FY 2019, VA implemented a new actuarial model to estimate the cost of care provided by community healthcare providers to its veterans but not yet paid as of September 30. VA needs to develop and formalize procedures that support internal controls surrounding this estimate, including documentation, look-back analyses, and reconciliation of data inputs included in the model to the general ledger. Also, VA continues to have weaknesses that include the lack of sufficient reconciliations of its feeder/subsidiary systems to the Financial Management System (FMS) and monitoring activities to validate the accuracy and completeness of balances derived from its procurement process.

Financial Systems and Reporting

VA's legacy FMS has an antiquated information technology infrastructure with limited functionality. Consequently, FMS requires extensive journal entries, manual processes, and reconciliations in order for VA to produce a set of auditable financial statements. Further, VA continues to have various financial reporting issues though some improvements have occurred since the prior year in certain areas.

Information Technology Security Controls

VA continues to have control weaknesses in Configuration Management, Access Controls, Security Management, and Contingency Planning.

Entity Level Controls including Chief Financial Officer (CFO) Organizational Structure

VA continues to have serious control weaknesses throughout the organization with respect to financial reporting, as described in this report. These weaknesses are attributed to a decentralized and fragmented organizational structure for financial management; weaknesses in risk assessment and monitoring; the lack of an effective, comprehensive, and integrated financial management system and a challenging IT environment; and the undue reliance placed on manual processes to identify or correct errors with financial information.

Compliance with Laws, Regulations, Contracts, and Grant Agreements

As part of obtaining reasonable assurance about whether VA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a material effect on the financial statements.

The results of our tests disclosed instances of noncompliance or other matters, described below and in Exhibit B, that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 19-03.

We also performed tests of compliance with certain provisions of the Federal Financial Management Improvement Act (FFMIA). Under FFMIA, each agency must implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. As described in Exhibit B, the results of our tests of these provisions disclosed instances in which VA's financial management systems did not substantially comply with (1) Federal financial management systems requirements and (2) the USSGL at the transaction level.

Management's Responsibility for Internal Control and Compliance

VA management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, (3) ensuring VA's financial management systems are in substantial compliance with FFMIA requirements, and (4) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing whether VA's financial management systems substantially comply with the FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to VA. We limited our tests to certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct effect on the determination of the material financial statement amounts and disclosures. 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. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

Management's Response to Findings

Management has presented a response to the findings identified in our report. We did not audit VA's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of VA's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 26, 2018. The status of prior year findings is presented in Exhibit C.

Purpose of the Report on Internal Control over Financial Reporting and on Compliance

The purpose of the Report on Internal Control over Financial Reporting and on Compliance is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of VA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CLIFTONLARSONALLEN LLP

Greenbelt, Maryland
November 19, 2019

EXHIBIT A
Material Weaknesses

1. Controls over Significant Accounting Estimates and Transactions

Background:
VBA is responsible for administering various programs that provide financial and other forms of assistance to veterans, their dependents, and survivors. Three benefit programs that significantly impacted VA's financial statements for FY 2019 reporting that also had weaknesses with respect to significant accounting estimates or transactions were: (1) Education Programs (2) Loan Guaranty Program, and (3) Group Term Life Insurance Program. These programs are described with more detail in the succeeding paragraphs below.

VBA manages several education benefit programs with total disbursements of $14 billion in FY 2019. The VBA Office of Financial Management (OFM) estimates the present value of these future benefits as of the end of the fiscal year. The Post- 9/11 GI Bill (Chapter 33) is the largest education program (approximately 80 percent of total education disbursements) and is available for individuals who served active duty after September 10, 2001. The other education programs included in the estimate are the (1) Montgomery GI Bill Active Duty (Chapter 30), (2) Vocational Rehabilitation and Employment (Chapter 31), and (3) Survivor's and Dependents' Educational Assistance Program Chapter (35).

VBA also manages VA's Home Loan Guaranty program that provides a guaranty to commercial lenders against losses from veterans' mortgage loan defaults. VBA uses complex models to estimate future cash flows over the life of the loans and determine the cost of these guarantees on a present value basis for budgetary and financial reporting purposes. These models ultimately produce an estimate that is reported as the largest component of the Liability for Loan Guarantee (LLG) in the balance sheet. VBA's OFM, headed by VBA's CFO, is responsible for preparing the LLG estimate and maintaining the models. OFM considers its model to be an econometric model.

VA also provides a term life insurance program to servicemembers (Servicemember Group Life Insurance (SGLI)) and veterans (Veterans' Group Life Insurance (VGLI)) that VBA oversees. VA selected a third party service provider to act as the primary insurer to the program (see 38 United States Code (U.S.C.) § 1966). Since the third party provider assumes all the risks of managing the premiums and benefit payments, there is no reporting requirement for VA, as the policy holder, to record its insurance program activities until a transfer of excess funds is required. By law, the Secretary of VA has the authority to transfer excess contingency reserve funds from the third party service to VA's revolving fund (see 38 U.S.C. § 1971(e) and § 1977(f)).

Conditions:

VBA management is responsible for establishing a process for preparing accounting estimates as well as reviewing any significant transactions that pose financial reporting risk to VA. With respect to accounting estimates, the established process should include relevant aspects of internal controls such as adequate review and approval of the estimate by appropriate levels of authority, and comparison of prior estimates with subsequent results to assess reliability of the process used to develop the estimate. In addition, management is responsible for designing and executing effective internal controls over financial transactions and events to prevent or detect a material reporting error. We found that the controls over significant accounting estimates and transactions still require some enhancements.

EXHIBIT A
Material Weaknesses

A. Veterans Benefits Actuarial Liability Estimate

The accuracy of VBA's education program liability estimates is highly dependent on the reasonableness of the assumptions used and the completeness of the underlying data within the actuarial models. During FY 2019, VBA management hired a team of permanent actuaries to assist with the modeling efforts and enhanced the actuarial models for the education programs by refining the actuarial assumption and data inputs. These education program estimates account for approximately $106 billion of VA's $3.243 trillion federal employee and veterans benefits liability reported on VA's financial statements. These enhancements were primarily due to the results of an experience study conducted on the future new enrollee's assumption. The future new enrollees represent those who are eligible for the educational benefit but have never enrolled in the program and are estimated to enroll in the future. These efforts resulted in an improvement to remediate prior year control weaknesses; however, VA should continue to evaluate and refine the assumptions and data input elements and perform a look back analysis. For example:

- VA was not able to obtain data on active service members from the Department of Defense (DoD). Therefore, the benefit projections for other beneficiary categories were extrapolated to reflect those benefits.
- The models did not recognize limitation of eligible participant's usage under two or more programs which subsequently led to an on-top adjustment.
- The initial population that was used to build the future new enrollee model was based on data at the end of FY 2017. Therefore, due to this data set being two fiscal years behind, an adjustment factor and assumptions were applied to the liability calculation for future new enrollees.
- A lookback analysis (i.e., comparing actual results to model projections) to assess the precision of the estimation methodology used to calculate the estimated liability was performed at the auditor's request instead of VA management proactively initiating the analysis.

B. Loan Guaranty Liability

In prior years, VBA took several steps to improve its existing Variable Default Model (VDM) and Cash Flow Model by addressing some of the model deficiencies. Despite these improvements, the following major deficiencies remain in three main areas as summarized below:

1. VDM model assumptions and specification
    a) The VDM model is designed to estimate the probability of default at the loan cohort level. Specifically, cohorts are defined by the year of loan origination and the type of loan product (for example, an adjustable rate mortgage loan). The lack of loan level modeling to include location, mark-to-market, and other underwriting characteristics at the individual loan level creates potential for bias and/or inefficiencies in assumptions. Forecasting estimates using loan-level data would allow for more robust modeling and the amount and timing of each cash flow.
    b) The dependent variable is constructed from a composite data set of two materially different data series. Prior to 1991, the default amount was calculated as the estimated amount of default. After 1991, the default amount is the sum of acquisition costs and claim amounts.
    c) The year-over-year percentage change in median price of existing homes sold is used for cohorts prior to 2007, whereas the year-over-year percentage change in the Federal Housing Finance Agency (FHFA) purchase-only house price index is used for cohorts after 2007.

d) The Cash Flow Model uses a moving average versus a predictive approach, where predictive models are able to factor in the fundamental drivers of the cash flows and cohort performance.
e) VA changed from an Ordinary Least Squares (OLS) estimator to a Logistic Regression (logit) estimator in FY 2018. Estimating the proportion of loan balances default at a cohort level is not an appropriate use of the logit estimator. As currently employed, the logit is estimating the probability that the entire cohort defaults, which is an unlikely scenario representing a flawed estimation approach.

2. Use of Microsoft Excel spreadsheet application to carry out complex modeling calculations and estimates
   a) Using Microsoft Excel as the software package rather than a statistical software package for specifying and executing the model is suboptimal in producing reliable reestimates.
   b) This methodology reduces the transparency and readability of the model, complicates error checking, and makes sensitivity analysis difficult at best.

3. Internal control
   a) The model documentation lacks information on why certain choices are made. For example, the documentation does not provide information on the selection or results of statistical tests used to identify the functional form of the model and does not provide the basis for several management overrides. Moreover, the methodology to "smooth" 135 default rates from 2011 to 2019 was not clearly documented and explained in the provided model documentation.
   b) VBA has improved its documentation by defining the processes for engaging senior OFM leadership outside of the budget office for critical decisions and oversight of various loan guarantee subsidy modelling activities, including model development, risk assessment, assumption development and review, and model validation. However, there was limited evidence that these control activities were implemented, and in some cases, approvals were verbal where no evidence could be provided.
   c) Inadequate evidence existed documenting that the Cash Flow Model was tested for reliability by comparing estimated cash flows to actual cash flows and assessing the model's ability to replicate program performance.

C. <u>Excess Contingency Reserve Transfers for Supervised Insurance Programs</u>

VA provides a term life insurance program to servicemembers (SGLI) and veterans (VGLI). VA selected a third-party service provider to administer these programs. In FY 2019, VA recognized a receivable from the third-party provider for $3.4 billion for the VGLI program. We observed the following weaknesses with respect to the identification, recording, and transferring of excess contingency reserve funds held by the third-party.

- Lack of effective collaboration and communication between program and financial offices that further impeded timely resolution of the matter.
- Lack of an established process documented in formal policy and procedures to identify excess contingency reserves in a timely manner, including an established threshold or materiality consideration.
- Research, review, and approval over the accounting treatment for the excess contingency reserves did not encompass a broader consideration of Financial Accounting Standards Board issuances to supplement FASAB guidance that led to an incorrect initial assessment.

The above weaknesses with respect to VBA's significant estimates and transactions result in an increased risk of a material misstatement or inadequate disclosure in VA's financial statements. Further, key stakeholders may make operational or programmatic decisions based on incomplete or inaccurate financial data.

Criteria:

The Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government,* state the five components of internal control must be effectively designed, implemented, and operating together in an integrated manner, for an internal control system to be effective. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.

OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, provides guidance to Federal managers on improving accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, and reliable financial reporting.

FASAB's Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of The Federal Government,* states "Postemployment benefits other than pensions (OPEB) include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, Section 35, "Reasonable Estimates," states, "The entity's estimates should reflect its judgment about the outcome of events based on past experience and expectations about the future. Estimates should reflect what is reasonable to assume under the circumstances."

FASAB's Federal Financial Accounting and Auditing Technical Release 6*: Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*, provides specific guidance for loan and loan guarantee programs.

Cause:

A. The education models are relatively new, and historical experience and review of data is needed to further refine or stabilize the education models. Management did not perform adequate analysis that compared actuals to estimates to identify potential improvements to the models. Also, there are data limitations (including time constraints) that pose challenges on the completeness and accuracy of the data inputs and underlying assumptions.

B. Management has been delayed in addressing the corrective actions for the loan guaranty models identified in the prior year.

C. There were no established policies and procedures documented with respect to the excess contingency reserve funds. Further, there was ineffective communication between the program and financial offices within VA.

Effect:

These conditions increase the risk of material misstatements to VA's largest liability and inaccurate financial reporting.

Recommendations:

We recommend that the Assistant Secretary for Management/CFO and the VBA CFO:

1. Continue to follow or strengthen the following practices regarding the actuarial models:
   a) Conduct the appropriate analyses and validation of data sources.
   b) Review and ensure the reasonableness of assumptions used and document the rationale behind these assumptions.
   c) Actuarial assumptions should be updated/refined as credible experience dictates. While model results are not equally sensitive to all assumptions, regular review and update of assumptions help maintain model integrity.
   d) Consider changes in conditions or programs that require further research and analysis to update the assumptions when necessary. Elements that require a change to the model assumptions/inputs should be clearly documented and supported.
   e) Continue to perform sensitivity analyses to determine the effect of changes in the assumptions on these accounting estimates.
   f) Document the consideration of alternative assumptions or outcomes and why management has rejected them or how management has otherwise addressed estimation uncertainty in making the accounting estimate (e.g., a sensitivity study, etc.).

2. Continue and expand look-back analyses on assumptions and other relevant factors used in the calculation as well as the total cost estimated to ensure accuracy of financial reporting.
   a) Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates.
   b) Identify significant variances to be investigated and researched.
   c) Segregate those already enrolled versus new entrants and by each of the applicable programs and document the information in the analysis.

3. Include the following enhancements to the VA Home Loan Guaranty Modeling activities:
   a) Exclude cohort data prior to 1992 from the model and switch to FHFA purchase-only house price index as it is available to 1976.
   b) Compare model accuracy generated by logistic regression with alternative modeling methodologies every year to see whether logistic regression produces the optimal result.
   c) Switch to loan level data as input to the default model versus at a cohort level.
   d) Include variables at the loan level to account for underwriting characteristics, geographic specific house price appreciation, and mark-to-market loan-to-value.
   e) Switch from moving average to predictive model.
   f) Move from a Microsoft Excel spreadsheet-based model to using a statistical software package appropriate for estimating proportional probabilities.
   g) Follow Federal Financial Accounting and Auditing Technical Release 3 (Revised): *Auditing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform – Amendments to TR 3,* Appendix A: *Acceptable Sources of Documentation for Subsidy Estimates and Reestimates*.
   h) Implement a set of policies and procedures for a model risk management oversight and governance structure, with a control framework that defines the roles and responsibilities for program, budget, department and government stakeholders. Ensure implementation of those policies and procedures are evidenced with proper documentation and sign off.
   i) Implement the remaining unresolved recommendations noted within the VA Budget Model Verification Report issued in FY 2017.

4. Establish policy and procedures to identify and transfer excess contingency reserves on a timely basis and for the proper accounting treatment. Additionally:
   a) Provide training and/or awareness seminars to program offices and personnel on their responsibility to identify and report significant financial events impacting the VA.
   b) Increase transparency and collaboration among organizations under the CFO's leadership to ensure timely identification of significant accounting events.

2. Accrued Liabilities, Undelivered Orders, and Reconciliations

Background:

The Veterans Health Administration (VHA) purchases medical services for veterans from community health care providers under its VA Community Care (Community Care or VACC) programs. VHA's Office of Community Care (OCC) manages all VA Community Care programs. In FY 2019, VHA implemented the Obligation at Payment (OAP) method for all VACC programs, which operate in Funds 0140 and 0172. Under the OAP model, VHA records VACC obligations when claims are adjudicated. Once the vendor claim is approved for payment, FMS automatically increases the available obligation balance to match the adjudicated/approved claim amount. The OAP methodology was implemented prospectively; thus, obligations recorded prior to FY 2019 were not subject to this method.

In addition, VA Office of Management hired an actuary to implement a new actuarial model to estimate the cost of care incurred but not reported (i.e., cost of services rendered by community healthcare providers for which VA has not yet received a claim). VA must record an estimated liability for such unpaid expenses. The new actuarial model was implemented to remediate long standing concerns over VA's ability to accurately estimate these costs of care. This new "Incurred But Not Reported" (IBNR) model was implemented in the third quarter of FY 2019.

Conditions:

VA continues to have weaknesses in the following areas:

A. <u>IBNR Model</u>
During our testing of the June 30 balances, we found that documentation for the IBNR model implemented by VA did not clearly describe important assumptions and judgments used to develop the IBNR liability. For example, there was insufficient documentation to support the appropriateness of the lag ratios (i.e., ratios based on the time from when services are rendered to when VA receives a claim) and the development of the claim payment trend. Also, a look back analysis was not performed to assess the reasonableness of the IBNR model's estimated results for June 30.

Also, the financial data used in the IBNR model had material differences compared to the balances recorded in VA's FMS general ledger. VA management did not clearly indicate which source systems were used for the IBNR transaction input, which information is necessary to support a proper reconciliation of the data with FMS. Further, VA management did not provide a sufficient explanation for the materiality thresholds used to determine which VACC program costs would be included or excluded from the IBNR model as of June 30.

Subsequent to year-end, VA management provided an updated IBNR model with the requested information and data reconciliations. However, we found that management continued to have reconciliation issues at year-end and did not adequately reconcile the data inputs in the IBNR model with the general ledger, which resulted in a reduction to the final IBNR liability of approximately $420 million. Complete documentation, reconciliations, and look-back analyses are important controls surrounding actuarial estimates.

B. Accrued Expense Methodology for Pre-FY 2019 VACC Programs

Prior to FY 2019, VHA generally obligated its Community Care funds through an estimation process using VA Form 1358, "Obligation or Change in Obligation" (1358s). These estimates were performed at the beginning of each fiscal year, and subsequent adjustments were made to derive the monthly estimated obligation for each category of care (e.g., inpatient care, outpatient care, etc.). At year-end, VA used an auto accrual process in FMS to record accrued expenses based on the remaining outstanding 1358 obligation balances regardless of whether the services were provided. This process continued during FY 2019 that resulted in overstatements of VA's accounts payable balance although VA made adjustments during the year.

C. Non-VACC Program Expenses and Related Obligations

As reported in previous years and in the Financial Systems and Reporting material weakness, VA does not perform a complete reconciliation of all outstanding obligations and expenditures between the Integrated Funds Distribution Control Point Activity, Accounting and Procurement System (IFCAP), Centralized Administrative Accounting Transaction System (CAATS), Electronic Contract Management System (eCMS) and FMS at the transaction level. Not performing periodic cumulative reconciliations between these subsidiary systems and FMS increases the risk that all activities are not accurately reflected in the financial records, and ultimately, in the financial statements.

Further, the extensive use of 1358s to record financial transactions related to procurement obligations continued in FY 2019. As of September 30, 2019, VA's obligations based on 1358s approximated $9.7 billion. VA allows 21 different categories of use, and they are integral to the operation of some large VA programs. In most cases, 1358s bypass conventional contracting controls by design, in order to support program circumstances or needs. Consistent with the prior year control deficiencies, the 1358 transactions were not closely monitored and validated by management to ensure recorded obligations and accrued expenses were not overstated. VA's auto-accrual process based on open obligations cannot replace active monitoring and requires careful monitoring itself.

Also, VA did not have an adequate process to validate accounts payable and accrued balances. Estimates for the accrued balance amounts should be compared against actual payment data from FMS. A comprehensive look-back analysis or validation of its accrual methodology for its non-VACC activity was not performed for the majority of the fiscal year which resulted in a significant manual adjustment of approximately $1.4 billion at year end to accurately report the Accounts Payable balance at September 30, and a $500 million manual adjustment to accurately report undelivered orders.

In addition, we observed instances of the following across VA from our sample testing that affect the accuracy of financial reporting related to the non-VACC programs:

- Untimely liquidation of inactive undelivered orders (UDOs) – Delays ranged from four months to three years.
- Untimely recording of contracts or modifications into the general ledger system (FMS) – Delays ranged from approximately two months to eight months.

- Recording of obligations prior to contract execution – Obligations, including purchases through the National Acquisition Center (NAC), were recorded in FMS up to 1 year and 1 month prior to the execution of the contracts or contract amendments.
- Over-obligation of funds – Recorded obligations exceeded the contract or purchase order amounts.
- Proper procurement procedures were not followed in obtaining goods or services – We identified a variety of exceptions.

Criteria:

See GAO's *Standards for Internal Control in the Federal Government* and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123) criteria in Material Weakness 1.

Additionally, the FMFIA requires agencies to implement controls that ensure obligations and costs are in compliance with applicable laws and that revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Cause:

VA was unable to hire a new actuary for the IBNR model until the third quarter and to implement a new IBNR model until late in the third quarter. As a result, VA management did not have time and/or did not adequately plan and perform its due diligence responsibility when preparing the accrued expense methodology for its June and September 30 reporting. This situation continued through year-end. Regarding the accrued expense methodology for pre-FY 2019 VACC programs, management did not change the process based on their anticipation that those obligation balances would continue to decline and not be material at year-end. Also, the information technology system used to record VA's financial activities and events have significant system limitations that hinder its ability to accurately report the financial transactions. Further, VA is a highly decentralized organization accompanied by the lack of effective oversight and monitoring controls.

Effect:

These conditions led to inaccurate financial reporting, and some conditions led to misstatements for obligations, accrued expenses, and UDOs which required manual adjustments to accurately report balances at September 30.

Recommendations:

We recommend that the Assistant Secretary for Management/CFO in conjunction with other administration and organizational CFOs, as appropriate:

1. Develop and formalize procedures that support internal control surrounding the IBNR liability estimate and management's responsibilities. Such procedures should include documentation requirements and reconciliation of data input to the general ledger before claims data is input into the IBNR model.

2. Update or refine the assumptions and inputs used within the IBNR model based on further review of historical claim data and/or claim patterns. In addition, perform retroactive testing of the data in order to validate the methods selected and provide insight on margin and trend assumption development.

3. For pre-FY 2019 VACC programs, ensure continued communication and coordination of accounting policies and procedures are effectively communicated between the CFOs, OCC, Veterans Integrated Service Networks (VISN), and medical centers so that key accounting and financial management controls with respect to open obligations and accrued expenses are properly performed.

4. Continue efforts to develop and refine auditable methodologies for establishing and validating non-VACC obligations and accruals. Elements that require a change to the obligation and accrual methodologies should be clearly documented and supported.

5. For non-VACC programs, establish and implement detailed guidance and procedures to assist staff in reviewing open obligations and automated accruals for potential adjustment. Include instructions on performing root cause analysis and performing follow-up analysis on aged obligations. Supplement the guidance with training. Continue efforts to reduce the use of 1358s, research alternatives that provide better control, and improve monitoring of them. Develop strategies and controls to ensure the proper recording of contracts or modifications in FMS.

6. Improve the periodic look-back validations and analyses of obligation and accrual balances reported for all programs against subsequent activity to:
   a) Ensure accuracy of financial reporting and to maximize budgetary resources.
   b) Identify significant variances to be investigated and researched.

7. Perform monthly consolidated reconciliations of obligations and expenditures recorded in IFCAP, CAATS, eCMS, and FMS for all open obligations to ensure the accounting information is valid and proper.

3. Financial Systems and Reporting

Background:

An agency's financial systems and reporting are essential to prepare accurate and timely financial statements. VA implemented its legacy core financial management and general ledger system, FMS, in 1992. There have been a variety of federal financial reporting requirements that have been increasingly demanding and complex for agencies to implement. VA's current financial system has limited functionality to meet the current financial management and reporting needs. VA utilizes another application, the Management Information Exchange (MinX) system, to consolidate general ledger activities from FMS and create financial statements for external financial reporting. This process requires significant manual intervention and creates risks to the accuracy and completeness of financial reporting.

Conditions:

VA continues to refine its financial reporting practices. However, many of these issues have existed for years and require extensive efforts to change the current business processes, research legacy differences, and implement solutions to resolve them. Those long standing issues require time and sustained VA-wide efforts to ensure proper implementation. Through FY 2019, VA's financial systems and reporting issues continued to exist in the following areas:

A. <u>Lack of FMS Reconciliations with Subsidiary Systems</u>
VA has several legacy subsidiary systems that no longer meet the financial management system requirements and do not have a two-way interface with FMS. We reported these IT control deficiencies in our prior year audit reports. See the FFMIA non-compliance section for specific details of the condition in FY 2019. The reconciliations between the subsidiary systems where the

financial transactions were initiated and FMS were either not performed, partially performed, performed decentralized, or performed manually. Consequently, VA's accounting and financial reporting is severely hindered by system and business process limitations. Subsidiary systems where the financial events were initiated were not always the systems that directly fed information into FMS, which further exacerbated the reconciliation issues.

B. Extensive Reliance on the Use of Journal Vouchers (JVs)
VA continues to reduce its dependency on manual efforts to accurately report its balances at year-end. However, consistent with prior years, VA still records a large number of manual adjustments to prepare its financial statements. Most of these adjustments consist of "top-side" entries recorded into MinX. Top-side entries are manual adjustments recorded outside of VA's general ledger system and are used to accurately report financial statement balances at a point in time. Each accounting period in MinX is independent which requires numerous JVs, manual reconciliations, and analyses to be re-performed and re-entered to produce VA's quarterly financial statements and trial balances. The use of manual adjustments such as top-side entries often bypass controls instituted for ordinary transaction processing and increases the risk of introducing errors into financial reporting.

C. Issues with Intragovernmental Agreements and Reconciliations
VA does not have a complete centralized repository for all active intragovernmental agreements to support and facilitate its transaction level research and reconciliation. As a result, accounts involving intragovernmental financial transactions, such as obligations, unfilled customer orders, and offsetting collections recorded in FMS, did not agree to the intra-agency agreement amounts. The VA intragovernmental differences by trading partner approximated $603 million as of June 30, 2019.

Due to FMS system limitations, transactions were mapped to the incorrect Federal or Non-Federal attributes as a default. FMS does not have the system functionality to meet the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting requirements. The high-volume, high dollar JVs are entered into MinX to adjust trading partner and general ledger attributes (including adding main account codes) in order for VA's trial balance submission to pass GTAS edits. The JVs recorded by management include categories such as "No Trading Partner," "IntraVA," "Unknown," etc.

D. Recording of Prior Year Budgetary Recoveries
In FY 2019, VA designed and implemented an automated tool to assist with data cleansing efforts related to prior year recoveries transactions. These efforts were needed to address long standing system limitations which had previously resulted in inaccurate reporting for these types of transactions. Consequently, VA management recorded material adjustments to correct errors in recoveries accounts for approximately $1.8 billion during the year.

E. Budgetary to Proprietary Analyses (Tie Points) Contained Material Differences
The Budgetary to Proprietary analysis (i.e. tie points) is a monitoring control used to identify potential recording errors that exist between the USSGL budgetary accounts and the corresponding proprietary accounts. VA made significant improvements researching the underlying causes to its tie point differences in resolving the outstanding reconciling transactions and/or balances as compared to prior year. However, there remained an absolute difference of $403 million ($72 million net value) at September 30, 2019. A portion of this variance related to adjustments that were made for system issues.

F. Lack of Reconciliation and Timely Clearing of Deposit/Clearing Account Activities
VA continues to lack a centralized and consolidated process to properly report, reconcile, and monitor the outstanding unapplied deposit/clearing account activities relating to the $300 million

reported in Note 3, Fund Balance with Treasury, to the financial statements. Management was unable to provide a detailed report containing valid and outstanding transactions that still needed to be researched and applied to the proper account at year-end.

Criteria:

See GAO's *Standards for Internal Control in the Federal Government* and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123) criteria in Material Weakness 1.

OMB Memorandum M-13-23, Appendix D to Circular No. A-123, *Compliance with the Federal Financial Management Improvement Act of 1996* (Appendix D), states as part of its scope: "Transactions are posted to the financial system in accordance with the standard general ledger accounting requirements the Department of Treasury (Treasury) published in the USSGL supplement to the Treasury Financial Manual (TFM)."

Appendix D also states, "The Federal Government's financial management system policy is to make the best use of financial management systems to initiate, record, process, and report transactions to support agency missions in making business decisions and to provide transparency to the public. These systems shall help agencies ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations."

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Appendix F, provides the authoritative guidance with regard to recording recoveries.

Cause:

The age and limitations of VA's various financial management systems caused VA to record numerous manual JVs and implement extensive manual processes and controls to prepare its financial statements for external reporting purposes. In addition, adequate internal controls were lacking in the following key areas: 1) centralized and consolidated reconciliations for key accounts, 2) complete inventory, proper accounting, and monthly reconciliation of intra and interagency agreements 3) reporting for prior year recoveries transactions, and 4) researching and clearing of deposit/clearing account activities. Also, management considered the budgetary to proprietary variances to be immaterial.

Effect:

These weaknesses increased the risk of errors in the financial reporting process.

Recommendations:

We recommend that the Assistant Secretary for Management/CFO in coordination with the VHA CFO and the VBA CFO:

1. With respect to FMS reconciliations with subsidiary systems:
   a) Perform an enterprise risk management (ERM) review that includes all of VA's subsidiary systems to inventory all types of VA's financial transactions and how they are initiated, interfaced, and ultimately recorded in FMS. Such an analysis can be performed in conjunction with the system modernization efforts including identifying the gaps and developing gap alternatives to address the systems that will not be part of the modernization.

b) Establish a risk register for each of those systems and prioritize system modernization or institute system fix efforts. Coordinate efforts with the Office of Information and Technology (OIT) and the relevant business offices to ensure complete and consolidated reconciliations between those subsidiary systems and the general ledger system are performed on a monthly basis.
c) Strengthen the FMS cumulative reconciliation with the subsidiary systems that includes performing complete and consolidated reconciliations between those subsidiary systems and FMS on a predetermined frequency basis (i.e. monthly) to support the accuracy and completeness of financial reporting.

2. With respect to JVs:
   a) Continue to monitor the JV recording process surrounding the research and review of account differences and subsequent adjustments. Focus on addressing the common root causes of these JVs in order to:
      - Implement the necessary system fixes to reduce the volume and value of JVs prior to system modernization.
      - Ensure any risks identified are considered and addressed in the upcoming system modernization efforts.
      - Continue reviewing and researching all JVs recorded in the FMS Station 151 default account and reclassify them to the proper funds and accounts promptly.
   b) Perform a pro forma analysis to validate major accounting entries with their posting logic and attribute settings in FMS and the subsidiary ledgers used by the various business lines. Continue efforts to correct and establish missing FMS transaction posting logic to minimize the use of manual JVs. Manual JVs should be used only for unusual transactions, as a general rule (e.g., quarterly accruals, timing differences, or unusual one-time entries, etc.).

3. With respect to intra-governmental agreements and reconciliations:
   a) Comply with the reimbursable policy to provide the final agreement and continue to work to maintain and validate all intragovernmental agreements in the centralized repository to ensure that all agreements are current and contain all the required terms and conditions. Perform an inventory review of those agreements to:
      - Determine whether balances are recorded in FMS accurately.
      - Ensure that agreements in the repository reflect an active or closed status, identify obligation amounts separately from contract/agreement values, and ensure that values are supported by agreements or task orders released against the agreement.
   b) Continue to review closed agreements and determine whether these agreements need to be renewed, maintained in the repository, or archived.
   c) Produce reliable subsidiary trading partner reports with details at the transaction level that can be linked to the agreement level to facilitate management's review and reconciliation with the trading partner reporting in GTAS and in the financial statements. Any corrections made as a result of the research should be documented and recorded in FMS at the transaction level.
   d) Continue to strengthen VA's controls and processes as described in the Treasury Financial Manual Volume I, Part 2, Chapter 4700, Appendix 6, *Intragovernmental Transaction Guide*, issued in July 2019, Section 2.3, for:
      - Authoritative Source Reconciliation (subsection 2.3.1)
      - Material Difference Reports (subsection 2.3.2)
      - Root Cause/Corrective Action Plan Process (subsection 2.3.3)
      - Dispute Resolution Process (subsection 2.3.4)
      - Measure IGT Activity/Scorecards (subsection 2.4)

e) Continue to provide training/webinars/guidance documents on the use, accounting, and reconciliation of intragovernmental agreements to ensure their proper implementation throughout VA (including using correct vendor code structure with GTAS main account codes).
f) As part of the system modernization, consider the following:
   - Ensure a two-way interface occurs between the repository and the general ledger system when a transaction occurs.
   - Automate cumulative reconciliation between the repository and the general ledger system monthly.
   - Provide automated notification to the agreement holder when the agreement is expiring in 60 days (or based on management's own set timelines) and when it has expired. *Until system modernization occurs, management must continue to improve their controls and processes as recommended in the other Recommendations.*

4. With respect to prior year budgetary recoveries:
   a) Document the policies and procedures to identify and adjust for any prior year recovery (PYR) errors in FMS including management's assessment of completeness that all errors are identified and removed.
   b) Continue to enhance and improve the PYR automation tool to aid with eliminating and correcting errors caused by FMS limitations. In instances when the PYR tool is turned off or not used, perform an analysis of transactions occurring during that period and identify any errors that would have otherwise been captured and addressed by the PYR tool so the errors can be manually corrected.
   c) Continue to perform an assessment to validate the transactions included in the population of PYR prior to recording them on the financial statements.
   d) Ensure when changes to an obligation's internal cost accounting structure, such as a modification to the budget object class code, transaction code (i.e., MO to SO), or federal/non-federal attributes are made, the accounting treatment is properly reflecting the activity per USSGL and OMB Circular A-11 guidance, and the transaction is not erroneously recorded as prior year recoveries.
   e) Perform in-depth analyses and/or reviews of the PYR automated tool results to assess accuracy. The review should consist of selecting a predetermined sample of transactions and vouching to supporting documentation.
   f) As part of the system modernization efforts, establish PYR transaction codes that are consistent with USSGL when transactions occur.

5. With respect to budgetary to proprietary analysis:
   a) Continue to research significant discrepancies to determine the cause, and document resolution of variances as part of management's updated review process.

6. With respect to deposit/clearing account activities:
   a) Develop an effective process to properly monitor and age all deposit/clearing activities back to transaction level detail for the 101000 account showing the document ID, station information, date transaction is recorded, and the outstanding balance. Unreconciled differences should be researched and resolved within 60 days pursuant to management policy. This should be performed as part of the Fund Balance with Treasury reconciliation and as a monitoring control to ensure completeness.

4. Information Technology Security Controls

VA relies extensively on information technology (IT) system controls to initiate, authorize, record, process, summarize, and report financial transactions in the preparation of its financial statements. Many of VA's legacy systems have been obsolete for several years. For example, VA's core financial accounting system, FMS, is coded in Common Business Oriented Language (COBOL) - a programming language developed in the late 1950s and VA's system employed at the medical centers - Veterans Health Information Systems and Technology Architecture (VistA) was built in the late 1970s. Because of their age, legacy systems are more burdensome and costly to maintain, cumbersome to operate, and difficult to adapt to meet today's operational and security requirements. Internal controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud, and other illegal acts.

Our review of IT controls covered general and selected business process application controls across 24 selected VA medical centers, regional offices, and major data centers. As noted in prior years' audits, VA continues to have weaknesses in Configuration Management, Access Controls, Security Management, and Contingency Planning Controls designed to protect mission-critical systems from unauthorized access, alteration, or destruction.

Our current year audit identified security weaknesses that were corrected in some locations and for certain control activities and systems; however, weaknesses still persist. Examples of VA improvements in its IT control environment include further implementation of system monitoring and logging tools and techniques. Additionally, in order to establish more consistent processes, VA continued centralizing some control functions that in prior years were disbursed across the field sites. VA also has continued predictive scanning of its networks allowing for the identification of vulnerabilities across field offices. Further, VA has begun to transition systems to a new IT Governance, Risk and Compliance (GRC) Tool and is planning on having their entire system inventory migrated in the upcoming year to improve the process for assessing, authorizing, and monitoring the security posture of the agency.

The aforementioned controls require time to mature and show evidence of their effectiveness. Additionally, controls need to be applied in a holistic manner to information systems across VA in order to be considered consistent and fully effective. Accordingly, we continue to see information system security deficiencies similar in type and risk level to our findings in prior years and an overall inconsistent implementation of the security program. Moving forward, VA needs to ensure a proven process is in place across the agency. VA also needs to continue to address control deficiencies that exist in other areas across all VA locations.

We continue to find control deficiencies in Configuration Management, Access Controls, Security Management, and Contingency Planning domains. Most importantly, we continue to identify significant technical weaknesses in databases, servers, and network devices that support transmitting financial and sensitive information between VA's medical centers, regional offices, and data centers. This is a result of an inconsistent application of vendor patches and outdated system software that could jeopardize the data integrity and confidentiality of VA's financial and sensitive information. VA has made progress in deploying current security patches; however, older patches and previously identified vulnerabilities related to configuration weaknesses and outdated system software continue to persist on its networks. While some progress was made in these areas, VA needs to improve deployment of security patches, system upgrades, and system configurations that will mitigate significant security vulnerabilities and enforce a consistent management process across all field offices. We also identified issues related to access controls and configuration management for financially significant applications. In addition, VA continues to operate key financial management systems using outdated technology that hinders mitigation of

certain vulnerabilities. We also identified instances of unsupported software that did not have extended vendor support.

Many of these weaknesses can be attributed to an inconsistent enforcement of an agency-wide information security program across the enterprise and ineffective communication between VA management and the individual field offices. Therefore, VA needs to improve its performance monitoring to ensure controls are operating as intended for all systems and at all facilities. Further, VA should communicate security deficiencies to the appropriate personnel, who take responsibility for implementing corrective actions and ensuring those actions are taken. Our assessment of the general and application controls of VA's key IT infrastructure and financial systems identified the following conditions:

Conditions:

A. Configuration Management

- Systems including key databases supporting financial applications were not timely patched or securely configured to mitigate known and unknown information security vulnerabilities. The deployment of vendor patches and system upgrades to mitigate the vulnerabilities was decentralized, inconsistent, and not effective across all VA facilities. Furthermore, VA did not have a complete inventory of the devices connected to its networks and thus we could not verify that all of VA's computers undergo continuous monitoring to ensure they remain securely configured, free of technical vulnerabilities, and adequately patched.
- VA did not effectively scan all devices connected to VA's network to mitigate security risks posed by these devices. Additionally, vulnerabilities were identified on trusted hosts that had the capability to communicate with medical devices protected by network segmentation.
- Key financial management systems use outdated technology that hinders mitigation of certain vulnerabilities. While VA has purchased extended support for some of its software, we noted many instances of unsupported software that did not have extended vendor support. This has resulted in numerous unresolved security issues that expose other VA systems to possible security breaches stemming from unmitigated software vulnerabilities.
- VA made progress in implementing controls to segment medical devices; however, we continued to identify instances where segmentation was not appropriately designed or configured for ensuring medical devices are properly segregated from general use systems and networks.
- Although VA continued to document and implement new baselines, weaknesses remain in the process for developing, approving, and implementing configuration baseline standards. Specifically, VA was in the process of reviewing its systems environment, identifying systems that did not have secure baseline configuration guides in place and developing baseline configuration guides for those systems. In addition, VA did not consistently monitor compliance with its established configuration baselines. Further, VA's baseline security process does not adequately address emerging security threats and vulnerabilities that could adversely impact mission critical systems.
- The process for developing and maintaining an accurate listing of software, hardware, and component inventory was not fully implemented throughout the enterprise.
- Change management procedures for authorizing, documenting, testing, and approving system changes were not consistently implemented for networks and mission-critical systems.
- VA did not employ automated mechanisms to prevent the execution of changes to systems prior to approval and did not consistently monitor for unauthorized changes across all system platforms.

- An agency-wide process was not fully implemented for identifying and removing unauthorized application software on Agency systems. VA has made progress by expanding automated software monitoring and continues to work on implementing an enterprise-wide continuous monitoring solution for unauthorized software.

B. Access Controls

- Password standards were not consistently implemented and enforced across multiple VA systems, including the network domain, databases, and key financial applications. Specifically, we identified default passwords, easily guessed passwords, and blank passwords on these platforms.
- Inconsistent reviews of user access rights had resulted in numerous generic, system, terminated, and inactive user accounts that were not removed from the applications and networks. Several financial applications were identified with inadequate controls related to inactive accounts, audit logging, and segregation of duties. In addition, inconsistent exit clearance processes for employees contributed to an increased number of separated employees with active system user accounts or accounts that were not disabled timely.
- Proper completion of user access requests was not consistently performed to eliminate conflicting roles and enforce principles of least system privilege. In addition, technical access controls were not implemented in key financial applications to ensure access is based on defined roles and adequate separation of duties.
- Monitoring of access for individuals with elevated application privileges was lacking within the production environment of several major applications.
- Identification, notification, and remediation of security and privacy incidents were not consistently implemented to ensure incidents were resolved timely. In addition, network and application security event logs, which provide audit trails, were not consistently maintained, correlated, or reviewed across all facilities and systems.
- Multi-factor authentication was not fully in place throughout the period. VA was at roughly 88% enforcement for 2019.

C. Security Management

- Security Control Assessments (SCAs) were not consistently performed for new systems gaining an Authority to Operate and existing systems going through re-authorization. In addition, most SCAs were conducted by groups that were not independent of the system management process and they did not always assess the effectiveness of the existing controls in place.
- System security plans were incomplete and did not reflect the current environment. Specifically, medical and special purpose systems were assigned to the Regional General Support System boundaries; however, the inventory of these devices was not reflected in the associated system security plans and the control implementation details specific to these devices were not addressed.
- Background reinvestigations were not performed timely and tracked effectively and the VA's system of record was inaccurate. In addition, some personnel did not receive the proper level of investigation for their position sensitivity levels and there was no centralized method for monitoring the investigation status of contractors.
- Plans of Action and Milestones (POA&Ms) were not consistently updated to incorporate all known control weaknesses, reflect changes to milestones, and documentation was inadequate to support closed actions. In addition, control weaknesses identified during SCAs were not always tracked individually in POA&Ms.

D. Contingency Planning

- There were instances of unplanned outages or disruptions where systems or services were not recovered within prescribed Recovery Time Objectives.

- Contingency and Disaster Recovery Plans and exercises did not always consider system interdependencies and did not identify critical system assets.

Criteria:

OMB Circular A-130, Appendix I, *Responsibilities for Protecting and Managing Federal Information Resources,* states that, "Federal agencies must implement information security programs and privacy programs with the flexibility to meet current and future information management needs and the sufficiency to comply with Federal requirements and manage risks. As technologies and services continue to change, so will the threat environment. Agency programs must have the capability to identify, respond to, and recover from current threats while protecting their information resources and the privacy of the individuals whose information they maintain. The programs must also have the capability to address new and emerging threats. To be effective, information security and privacy considerations must be part of the day-to-day operations of agencies. This can best be accomplished by planning for the requisite security and privacy capabilities as an integral part of the agency strategic planning and risk management processes, not as a separate activity. This includes, but is not limited to, the integration of Federal information security and privacy requirements (and security and privacy controls) into the enterprise architecture, system development life cycle activities, systems engineering processes, and acquisition processes."

OMB Circular A-130 also states that, "Agencies shall implement an agency-wide risk management process that frames, assesses, responds to, and monitors information security and privacy risk on an ongoing basis across the three organizational tiers (i.e., organization level, mission or business process level, and information system level)."

The Federal Information Security Modernization Act of 2014 (FISMA), amended the FISMA Act of 2002 that requires each agency to develop an agency-wide information security program that includes:

- Periodic assessments of risk, including the magnitude of harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support the operations and assets of the organization;
- Policies and procedures that are based on risk assessments, cost-effectively reduce information security risks to an acceptable level and address information security throughout the life cycle of each organizational information system;
- Plans for providing adequate information security for networks, facilities, information systems, or groups of information systems, as appropriate;
- Security awareness training to inform personnel of the information security risks associated with their activities and their responsibilities in complying with organizational policies and procedures designed to reduce these risks;
- Periodic testing and evaluation of the effectiveness of information security policies, procedures, practices, and security controls to be performed with a frequency depending on risk, but no less than annually;
- A process for planning, implementing, evaluating, and documenting remedial actions to address any deficiencies in the information security policies, procedures, and practices of the organization;
- Procedures for detecting, reporting, and responding to security incidents; and
- Plans and procedures for continuity of operations for information systems that support the operations and assets of the organization.

Cause:

Dispersed locations, continued reorganization, and diversity of applications have impacted facilities' and management's ability to consistently remediate IT security deficiencies across the enterprise. For example, VA's complex and disparate financial system architecture has resulted in a lack of common system security controls and inconsistent maintenance of IT mission-critical systems. Also, VA recently underwent a system boundary re-organization which aligned their main systems along regional/district territories. This has created system boundaries that are extremely large and complex and encompass many system environments, components and services across VA. Consequently, VA continues to be challenged with consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and newly implemented systems.

VA has had several leadership and organizational changes throughout the last several years. The lack of consistent leadership and continued reorganization of components within VA, such as the centralization of data centers and the shift of control from the local sites to regional and enterprise levels, has caused delays in communicating established policies with personnel throughout VA. In addition, VA lacks an effective and consistent corrective action process for addressing and monitoring known internal security vulnerabilities on databases and network infrastructures.

Effect:

By not effectively implementing and enforcing IT policies and procedures, there is an increased risk that financial and personally identifiable information may be inadvertently or deliberately misused and may result in improper disclosure or theft without detection. Further, key financial management systems use outdated technology that hinders mitigation of certain security vulnerabilities. Without remediating all significant security vulnerabilities, systems could be compromised resulting in potential harm to confidentiality, integrity, and availability of VA sensitive data.

Recommendations:

The Assistant Secretary for the Office of Information and Technology should continue to analyze and prioritize remediation efforts to accomplish security and control objectives. Key tasks should include, but are not limited to:

1. Implement improved mechanisms to continuously identify and remediate security deficiencies on VA's network infrastructure, database platforms, and Web application servers in support of the established policy timeframes.

2. Implement improved processes to ensure all VA organizations and systems are included in the vulnerability management program. Implement processes to consolidate the security responsibilities for local facility systems, not managed by OIT, and ensure security scans are performed with credentials and the subsequent vulnerabilities are remediated in a timely manner.
3. Develop and implement a strategic plan to address unsupported technology.

4. Continue to implement controls to restrict medical devices from unnecessary access to the general network.

5. Maintain up-to-date, complete, and accurate security baseline configurations for all platforms. Ensure that all baselines are appropriately implemented, tested, and monitored for compliance with established VA security standards.

6. Implement improved procedures for establishing, documenting, and monitoring an accurate software and hardware inventory across the enterprise.

7. Implement improved change control procedures to ensure the consistent documentation, testing, and approval of system changes for VA financial applications and networks.

8. Implement improved procedures for preventing and detecting potential unauthorized changes across all platforms.

9. Fully develop a comprehensive list of approved and unapproved software and implement automated continuous monitoring processes to identify and prevent the use of unauthorized software on agency devices.

10. Implement improved processes to ensure compliance with VA password policy and security configuration baselines on domain controllers, operating systems, databases, applications, and network devices.

11. Implement improved processes for periodic reviews of network and financial applications to ensure appropriate user access rights. Remove generic and inactive accounts on systems and networks.

12. Implement improved processes to ensure the proper completion and retention of user access request forms that enforce principles of least system privilege, prior to granting system access.

13. Implement improved processes to ensure the proper completion of termination processes for separated employees. Verify that VA property, including access badges, are returned and system accounts are disabled timely.

14. Implement technical access controls that will restrict user access based on defined roles and enforce adequate separation of duties principles.

15. Strengthen agency-wide incident response procedures to ensure timely notification, reporting, updating, and resolution of computer security incidents in accordance with VA standards.

16. Implement improved processes for monitoring system audit logs for unauthorized or unusual activities across all systems and platforms. Ensure privileged user account activity is monitored on all systems and applications. Implement improved procedures for analyzing all significant audit logs and ensure audit logs are maintained in accordance with VA policy contained within Handbook 6500.

17. Fully implement two-factor authentication for system access throughout the agency.

18. Implement an improved continuous monitoring program to ensure that independent system security evaluations are performed prior to granting authority to operate decisions.

19. Implement improved processes for updating key security documentation to include results from applicable security control assessments. Additionally, such updates will ensure all required information is included and accurately reflects the current environment, new security risks, and applicable Federal standards.

20. Implement improved processes to ensure security control implementation status and risks are accurately reported to support a comprehensive risk management program across the

organization.

21. Strengthen processes to ensure appropriate levels of background investigations are completed for applicable VA employees and contractors in a timely manner.

22. Strengthen processes to ensure local facilities track reinvestigations for employees and contractors in high-risk positions and that all reinvestigations are initiated in a timely manner.

23. Implement improved processes for local facilities to accurately and timely report any changes in position sensitivity levels. Furthermore, local facilities should ensure position descriptions are appropriately marked for position risk and sensitivity levels in accordance with VA and Office of Personnel Management standards.

24. Formalize the methodology used to assign position sensitivity and designations within the Human Resource business processes to ensure that employees with similar positions are required to have the same level of background investigation.

25. Implement improved processes for establishing and maintaining accurate investigation data within an authoritative system of record for the VA.

26. Strengthen processes to ensure that POA&Ms are developed for known weaknesses and they are tracked and updated in a timely manner.

27. Implement improved processes to ensure closed POA&Ms are adequately supported with appropriate documentation.

28. Ensure that deficiencies are tracked individually for each control weakness instead of consolidating findings under one control.

29. Review the system boundaries, recovery priorities, and recovery operations to determine where changes need to occur to ensure established recovery objectives are consistently met.

30. Fully consider and document system interdependencies in existing contingency plans to include critical information systems, components, and detailed recovery priorities.

5. Entity Level Controls including CFO Organizational Structure

Background:

The establishment and execution of an internal controls system is critical to meet an agency's operational, programmatic, and financial objectives. Entity-level controls have a pervasive effect on VA's internal control system and encompass the elements of control environment, control activities, monitoring, risk assessment, and information and communication.

With respect to the control environment, management is responsible for establishing an organizational structure, assigning responsibility, and delegating authority to achieve the entity's objectives. VA's financial management structure is decentralized, with most of VA's budget authority and financial statement accounts under the operational control of its major administrations and offices. The reliability of VA's financial reporting as a whole is largely dependent on the quality of financial management at these organizations.

EXHIBIT A
Material Weaknesses

The Assistant Secretary for Management is VA's statutory CFO, as required under the CFO Act. The VA CFO has responsibility for establishing financial policy, systems and operating procedures for all VA financial entities; providing guidance on all aspects of financial management; and producing VA's consolidated financial reports. VA administrations and other offices are responsible for implementing those policies and producing the financial information that the VA CFO's office consolidates. Business components, such as VHA, VBA, and the National Cemetery Administration (NCA), have their own CFOs, who oversee financial management operations and follow the chain of command within those organizations. These CFOs have reporting lines of authority to the head of their components, not to the VA CFO. Further, VHA's financial management functions are managed by three categories of CFOs - the VHA CFO, the OCC CFO, and 18 VISN CFOs, each under different lines of reporting.

Condition:

VA continues to have serious control weaknesses throughout the organization with respect to financial reporting. These weaknesses are attributed to a decentralized and fragmented organizational structure for financial management and reporting; the lack of an effective, comprehensive, and integrated financial management system and a challenging IT environment; and the undue reliance placed on manual processes to identify or correct errors with financial information. Active involvement from VA's senior leadership on a continued basis is needed to effectively mitigate the control weaknesses identified in this report.

A. Control Environment

During FY 2018, VA established the CFO Council to serve as an advisory committee to the VA CFO to address longstanding financial management control weaknesses. The Council held meetings throughout FY 2019. We have observed some improvements in VA's financial reporting practices in certain areas; however, we also found new control deficiencies. Specifically, we identified the following:

- Given the system issues and decentralization, there were instances where VA lacked the additional oversight and coordination needed in providing reliable and accurate financial information to support certain financial statement line items in a timely and auditable manner. For example, this information was needed to support VA's balances for obligations and recoveries and the significant transactions related to the excess contingency funds.

- VA does not provide sufficient organizational authority for the VA CFO to fully perform all responsibilities under the CFO Act, such as overseeing financial personnel or developing and maintaining an integrated agency accounting and financial management system, including financial reporting and internal controls. The different CFOs report through their own organizational chains of command rather than to the VA CFO. The VA CFO also does not have, as an alternative, formal authority to participate in matters such as performance evaluations of financial personnel. As a result, responsibility and accountability are not effectively aligned.

Consistent with our prior year observation, VA's current governance structure does not include strong accountability controls for financial management at the enterprise level. More time is needed to assess the effectiveness of the CFO Council in supporting these mitigating factors.

In summary, financial management responsibility and accountability should be aligned in such a way that supports a strong internal control system, including entity-level controls for the department as a whole, and prevents, reduces, and eventually eliminates VA's material weaknesses.

B. Control Activities, Monitoring, and Risk Assessment

The control activities of an organization are the policies, procedures, and techniques that management uses to address operational, programmatic, and financial reporting risks. These activities require sufficient and descriptive documentation that is clear and concise to ensure that the appropriate steps are executed to achieve the desired objective. In addition, active monitoring by VA at the entity level and within each business line (e.g. VHA, VBA, and NCA) is critical to evaluating the design and effectiveness of the internal control system. An effective monitoring system uses control activities such as regular management and supervisory reviews, reconciliation, automated tools, and other activities to identify deficiencies in need of corrective action. Overall, VA's risk assessment process should provide the principal basis for developing the appropriate responses to risks. However, we continue to report repeated weaknesses in VA's financial management and IT environment. VA has not effectively mitigated these weaknesses in a timely manner.

In FY 2019, we continued to identify deficiencies in control activities, monitoring, and risk assessment at the entity level as identified in this report. These conditions have been discussed in detail in Material Weaknesses 1-4 and Compliance 1-2 and include the following:

- Incomplete documentation for all key significant business processes (called process narratives) affecting financial management that describe VA's most current key control activities
- Incomplete reconciliations for subsidiary/feeder systems to FMS (general ledger)
- Lack of a look-back analysis (i.e., comparing actual results to model projections) for the education program actuarial models and the IBNR model
- Insufficient or inadequate development and execution of IT control activities
- Incomplete or insufficient reconciliations and look-back analysis for accrual/IBNR
- Review, approval, and monitoring controls surrounding the identification, recording, and transferring of excess contingency reserve funds held by third-party provider to VA
- Various continued deficiencies for the loan guaranty model

Details can be found in the sections of this report describing individual material weaknesses and noncompliance with FFMIA and FMFIA. Although VA has been working to identify root causes and made some improvements, many of these issues have existed for years and require changes to the existing business processes and systems to resolve them. The resolution of these longstanding weaknesses requires senior management attention and VA-wide efforts and time to ensure consistent and focused implementation.

C. Information and Communication

The quality of information within VA is vital to users for decision-making purposes and the evaluation of key operational, programmatic, and financial reporting measures. Also, the IT systems and communication infrastructure should produce information that is relevant, reliable, timely, and free from material errors or inconsistencies. Throughout the fiscal year, we found that VA management could not provide accurate and complete data to support certain account balances in a timely manner. In some instances, great efforts were needed to provide the required support for examination. These conditions have been discussed in detail in Material Weaknesses 1-3 and include the following:

- Delays in implementing and documenting the IBNR estimation methodology and performing reconciliations to ensure data completeness
- Lack of a complete centralized repository for intragovernmental agreements
- Extensive use of journal vouchers due to system limitations
- Lack of a centralized and consolidated process to properly report, reconcile, and monitor the outstanding unapplied deposit/clearing account activities

- Continued invalid PYR transactions although an automated tool was implemented that helped reduce the number of erroneous transactions
- Lack of effective collaboration and communication amongst appropriate offices to resolve excess contingency reserves issue in a timely manner

Criteria:

See GAO's *Standards for Internal Control in the Federal Government* and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123) criteria in Material Weakness 1.

The CFO Act of 1990 stipulates the following:

Sec. 902. Authority and functions of agency Chief Financial Officers, states:
"a. An agency Chief Financial Officer shall—

1. report directly to the head of the agency regarding financial management matters;
2. oversee all financial management activities relating to the programs and operations of the agency;
3. develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which—
   A. complies with applicable accounting principles, standards, and requirements, and internal control standards;
   B. complies with such policies and requirements as may be prescribed by the Director of the Office of Management and Budget;
   C. complies with any other requirements applicable to such systems; and
   D. provides for--
      i. complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management;
      ii. the development and reporting of cost information;
      iii. the integration of accounting and budgeting information; and
      iv. the systematic measurement of performance;
4. make recommendations to the head of the agency regarding the selection of the Deputy Chief Financial Officer of the agency;
5. direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including-

   A. the preparation and annual revision of an agency plan to-- (i) implement the 5-year financial management plan prepared by the Director of the Office of Management and Budget under section 3512(a)(3) of this title; and (ii) comply with the requirements established under sections 3515 and subsections (e) and (f) of section 3521 of this title;
   B. the development of agency financial management budgets;
   C. the recruitment, selection, and training of personnel to carry out agency financial management functions;
   D. the approval and management of agency financial management systems design or enhancement projects;
   E. the implementation of agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control;
6. monitor the financial execution of the budget of the agency in relation to actual expenditures, and prepare and submit to the head of the agency timely performance reports."

Cause:

VA has not adequately designed and placed the appropriate controls in operation to remediate the financial reporting risks associated with a decentralized reporting structure. Also, VA has a complex, disjointed, and legacy financial system architecture that cannot fully support financial management needs without significant manual intervention.

Effect:

The lack of an effective entity level control, including the decentralized reporting structure coupled with legacy system issues, has led to systemic and pervasive control deficiencies that impedes the Department's ability to process, summarize, and report reliable financial information in a timely manner. Also, VA may not fully comply with existing federal financial reporting guidelines and related laws, regulations, contracts, and grant agreements.

Recommendations:

We recommend that the VA Secretary and Deputy Secretary:

1. Provide the VA CFO office with authority to actively participate in:
    - Approving job descriptions and skill requirements for those who head VA components' financial management activities and operations.
    - Selection and recommendation of those individuals.
    - Their annual performance evaluation.

We recommend the VA Assistant Secretary for Management/CFO and CFO Council:

2. Work to develop a transparent and accountable culture across organizational components by:
    - Openly sharing information regarding issues, root causes of issues/findings, analyses, and best practices.
    - Work with responsible parties to implement corrective actions to timely address and mitigate identified issues/risks.
    - Encourage communication and collaboration under the CFO's leadership to establish working level committees to resolve any identified accounting, financial management, and financial reporting issues.
    - Involve other stakeholders such as key leaders from acquisition, logistics, and asset management to collaboratively address financial management issues and develop risk mitigation strategies.
    - Provide the necessary financial management training and performance monitoring to continuously elevate the financial management capabilities and knowledge within VA.

3. Ensure that system modernization efforts address and support remediation of the material weaknesses, significant deficiencies, and system deficiencies identified in this report, as well as meet all Federal system requirements.

EXHIBIT B
Compliance Findings

1. Noncompliance with FFMIA

Financial Management Systems

VA's complex, disjointed, and legacy financial management system architecture has continued to deteriorate and no longer meets the increasingly stringent and demanding financial management and reporting requirements mandated by the Treasury and OMB. VA continues to be challenged in its efforts to apply consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and systems. As a result, VA's financial management systems do not substantially comply with the Federal financial management systems requirements and the USSGL at the transaction level, as required by FFMIA Section 803(a). These conditions should be read in conjunction with all material weaknesses reported in Exhibit A, including Material Weakness 4 concerning the IT security control environment.

A. Federal Financial Management System Requirements

VA's core accounting system, FMS, was implemented in 1992. Since that time, Federal financial reporting requirements have become more complicated and the level of financial information required by Congress and other oversight bodies has become increasingly demanding and complex. Some of the effects of FMS' limited functionality are described in the material weakness, "Financial Systems and Reporting." Due to these limitations, VA utilizes a separate accounting system, MinX, to consolidate general ledger activities from FMS to produce auditable financial statements and GTAS trial balances. Further, each accounting period in MinX is independent and thus, numerous manual JVs, reconciliations, and analyses must be reperformed and reentered in each period to produce VA's financial statements and GTAS trial balances. FMS' functionality limitations are further exacerbated due to the age of FMS.

As reported in previous years, complete and consolidated reconciliations between FMS and the following subsidiary/feeder systems were not performed throughout FY 2019:

- *Electronic Contract Management System (eCMS).* eCMS is an intranet-based contract management system mandated by VA policy. Source documentation of all actions pertaining to open-market procurements over a certain threshold are required to be created and maintained in eCMS. However, VA does not utilize eCMS to electronically process the approval and reviews performed for its acquisitions. Obligation of funds and assignment of purchase order numbers are still performed in IFCAP.

  In addition, VA has not fully implemented a standard procurement file structure in eCMS to maintain acquisition documentation in a consistent and efficient manner. As a result, it was difficult at times to find acquisition documentation to support the procurement process followed by VA. The information in this system is incomplete and can be unreliable.

- *Veterans Health Information Systems and Technology Architecture (VistA).* VistA is VHA's decentralized system utilized for patient billing and collection transactions. Each medical center has its own instance of VistA that must be separately maintained and updated. VistA contains the detailed subsidiary records that support the FMS general ledger control accounts.

  In the case of the Medical Care Collections Fund (MCCF), VistA does not provide management with the ability to effectively and efficiently monitor MCCF activities at the transaction level. In particular, although billing and collection functions have been centralized at the Consolidated Patient Accounting Centers (CPACs), CPAC personnel still cannot generate combined reports for all the facilities under their purview. Reports are

generated separately for individual medical centers, which leads to inefficiencies in operations and revenue management. Further, a nationwide report at a sufficient level of detail cannot be generated. For financial reporting, MCCF revenues are recorded in FMS through a lump-sum journal entry based on station-by-station data. This complicates reconciliation of revenue transactions to collections and the supporting audit trail. In addition, as VistA is not able to produce a consolidated accounts receivable aging report at a sufficient level of detail, management does not have the tools to properly assess the reasonableness of its allowance for loss provision or perform a retrospective analysis to ascertain the reasonableness of its allowance methodology.

- *Integrated Funds Distribution Control Point Activity, Accounting and Procurement System (IFCAP)*. IFCAP is a module within VistA that is used by VHA, contracting officers, and other VA personnel to initiate and authorize purchase requisitions for goods and services, as well as to accumulate vendor invoices for payment. Further, transactions initiated and recorded in IFCAP cannot be centrally and completely reconciled to those in FMS or to the procurement source documentation maintained in eCMS.

Further, the following subsidiary systems do not have two-way interface among key systems that share financial data or with FMS:

- The Centralized Administrative Accounting Transaction System (CAATS)
- The Benefits Delivery Network (BDN)
- The Veterans Services Network (VETSNET)
- The interface from the Long Term Solutions (LTS) system to BDN is a one-way process. Education benefit payments were determined and processed in LTS and transferred through the system interface to BDN for payments by VBA. However, the payment data in BDN did not feed back into LTS to show the entire history from eligibility and entitlement determinations, to actual payment processed. No reconciliation is performed to ensure consistency of relevant data in both systems.
- The Education benefits for the various programs are processed using different applications (e.g., BDN, LTS, C-WINRS (system used to process chapter 31 benefits), FOCAS (system used for Flight on the Job Training program), etc.), some of which do not interface with FMS. Further, due to the limited functionality of these systems, intensive manual efforts are necessary to adjudicate and process education benefits. These manual processes create additional inherent risk and leave room for error.

Moreover, certain subsidiary systems were not integrated with each other resulting in additional manual input that produced inefficiencies and manual errors. For example, for veterans who submit applications for Education benefits through the VA Online Application System (VONAPP), the applications are scanned into TIMS and then manually input into LTS for the processing of each initial claim. The lack of information interface from VONAPP to LTS creates additional inherent risk and leaves room for manual input error.

B. <u>USSGL at the Transaction Level</u>

FMS did not substantially comply with the USSGL at the transaction level for the following:

- Certain USSGL transaction codes continue to be missing from FMS. For example, VA cannot record USSGL transaction code A118 in its financial system. As a result, a workaround is required to put anticipated funds apportioned into the proper account 4590 - Apportionments - Anticipated Resources - Programs Subject to Apportionment. The process is currently not being performed through a JV but is a hardcoded adjustment to the GTAS Bulk File which inherently increases the risk of misstatement in the VA financial statements.

- FMS does not allow for 6-digit USSGL account reporting as required by the Treasury Financial Manual.
- FMS is outdated and unable to keep up with the existing Treasury reporting requirements.
  - The existing FMS posting logic was not updated for required Treasury account attributes established in the USSGL. As a result, VA management needed to execute workarounds to compensate for FMS' system limitations. For example, the modification of the FMS chart of accounts to incorporate letters and general ledger numbers in subsidiary ledger accounts to classify Federal and non-Federal (i.e., public) transactions. However, mapping issues in FMS prevent the proper application of Federal and non-Federal attributes when a business event occurs. This limitation contributed to VA's extensive reliance on JVs.
  - FMS also lacks the appropriate edit checks to ensure the proper posting of intragovernmental transactions, which results in significant trading partner-related adjustments as part of its GTAS submission to the Treasury.
  - Account codes with differences in descriptions did not match the USSGL description.
  - The FMS chart of accounts was not consistent with USSGL.

2. Noncompliance with FMFIA

VA management continues to make progress in FY 2019 by strengthening VA Administrations' use of the Reporting Entity Assessment tool to assess VA-wide entity level risk and to consolidate various on-going assessment efforts throughout VA to increase efficiency. However, according to management, efforts were invested in certain processes that will be impacted by the system modernization initiative.

The guidance established by OMB Circular A-136, *Financial Reporting Requirements*, identified the following assurances to be provided by management:

- Effectiveness and efficiency of internal control over programmatic operations (FMFIA § 2)
- Conformance with financial systems requirements (FMFIA § 4)
- Effectiveness of internal control over financial reporting (FMFIA § 2)
- A summary of material weaknesses (FMFIA § 2), instances of non-compliance (FMFIA § 4), a summary of the assurance (unmodified, modified, or no assurance), and a summary of corrective actions to resolve the material weaknesses and instances of non- compliance

We found the following areas in need of improvement in order to fully comply with the intent of FMFIA:

- VA did not implement best practices to use transactional level testing to support the assurance statements at the individual reporting entity level, which ultimately support the Secretary's assurance statement.
- VA's internal control process was unable to remediate recurring material weaknesses, prior year significant deficiencies, and noncompliance matters, although VA plans to address some issues through system modernization.
- VA did not perform recent tests of design and effectiveness over key cycles in FY 2019 such as Financial Reporting.

3. 38 USC 5315

Consistent with previous years, VBA did not charge interest or administrative costs on delinquent payments for receivables outstanding over 90 days related to the compensation, pension, and education benefit programs.

The requirement to charge interest and administrative costs on receivables not paid "within a reasonable period of time" after notification is specified in 38 USC Sec 5315, *Interest and*

administrative cost charges on delinquent payments of certain amounts due the United States. VA's policy to not charge interest has been long-standing and is based on a former VA Deputy Secretary's July 1992 instruction.

As a result of the directive, VA is noncompliant with 38 USC 5315.

Other Matters

4. Actual and Potential Violations of the Antideficiency Act

VA reported one violation of the Antideficiency Act, 31 U.S.C 1341 (a) in July 2019 and has one potential violation. In addition, five other violations, which are carried forward from prior years are under further discussion with OMB's Office of General Counsel (OGC).

5. Noncompliance with Improper Payments Elimination and Recovery Act

On June 3, 2019, the VA Office of Inspector General reported that VA did not fully comply in FY 2018 with the Improper Payments Elimination and Recovery Act, 31 U.S.C. 3321.

EXHIBIT C
Status of Prior Year Findings

Our assessment of the current status of the recommendations from the prior year audit is presented below.

Type of Finding	*FY 2018 Finding*	*Fiscal Year 2019 Status*
Material Weakness	Community Care Obligations, Reconciliations, and Accrued Expenses	Modified Repeat – See FY 2019 Material Weakness Finding 2
Material Weakness	Financial Systems and Reporting	Modified Repeat – See FY 2019 Material Weakness Finding 3
Material Weakness	Information Technology Security Controls	Repeat – See FY 2019 Material Weakness Finding 4
Material Weakness	Compensation, Pension, Burial, and Education Actuarial Estimates	Modified Repeat – See FY 2019 Material Weakness Finding 1
Material Weakness	Entity Level Controls including CFO Organizational Structure	Modified Repeat – See FY 2019 Material Weakness Finding 5
Significant Deficiency	Loan Guarantee Liability	Modified Repeat – See FY 2019 Material Weakness Finding 1
Significant Deficiency	Procurement, Undelivered Orders, Accrued Expenses, and Reconciliations	Modified Repeat – See FY 2019 Material Weakness Finding 2
Compliance Finding	Noncompliance with FFMIA	Repeat – See Compliance Finding 1
Compliance Finding	Noncompliance with FMFIA	Repeat – See Compliance Finding 2
Compliance Finding	Noncompliance with 38 U.S.C. 5315	Repeat – See Compliance Finding 3
Compliance Finding	Non-compliance with 38 U.S.C. 3733	Resolved
Compliance Finding	Actual and Potential Violations of the Antideficiency Act	Repeat – See FY 2019 Compliance Finding 4
Compliance Finding	Noncompliance with Improper Payments Elimination and Recovery Act	Repeat – See FY 2019 Compliance Finding 5

VA RESPONSE TO THE AUDITORS' REPORT

Department of Veterans Affairs

Memorandum

Date: November 19, 2019

From: Assistant Secretary for Management and Chief Financial Officer (004)

Subj: Report of the Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2019 and 2018

To: Assistant Inspector General for Audits and Evaluations (52)

1. We have reviewed the Report of the Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2019 and 2018 and are pleased with the receipt of an unmodified opinion. Please extend to your staff and the staff of CliftonLarsonAllen, LLP our appreciation for their detailed planning, hard work, and cooperation during this year's audit.

2. The Department's senior officials and I, as well as program managers in the Veterans Health Administration, Veterans Benefits Administration, National Cemetery Administration, and affected Staff Offices are aware of the results of the audit. We will focus on developing remediation plans and taking corrective actions to address the findings and recommendations in your audit report.

3. Thank you again for your efforts in helping us reach another successful conclusion of the audit cycle.

Jon J. Rychalski

OTHER INFORMATION

Marine with spinal cord injury regains mobility with robotic gear

It took Marine Corps Veteran, Tim Conner, more than a year of training and waiting, but it paid off. He was finally able to take home his new (exoskeleton) legs.

Conner has used a wheelchair since 2010. An accident left him with a spinal cord injury, and he is the first Veteran at Tampa Bay VA Medical Center to be issued an exoskeleton for home use. The robotic exoskeleton, made by ReWalk, provides powered hip and knee motion that lets Conner stand upright and walk.

Before being issued his own exoskeleton, Conner underwent four months of training, then took a test model home for four months as a trial run. He then had to wait several more months for delivery. He was so excited about getting it that he mistakenly arrived a week early to pick it up.

"They said, "You're here early, it's the thirtieth,'" Conner said with a laugh. "I was like, that's not today. I looked at my phone and said, 'Oh my God, I'm excited, what can I say.'"

For Conner, the most significant advantage of the exoskeleton is being able to stand and walk again. Which, in turn, motivates him to stay healthy.

"I'm not 3-and-a-half, 4 feet tall anymore. I'm back to 5-8," Conner said. "Not only can I stand up and look eye-to-eye to everybody. I'm not always kinking my neck looking up at life. It's been able to allow me to stay motivated, to stay healthy, because you have to be healthy to even do the study for this program. That is going to keep me motivated to stay healthy and live longer than what could be expected for the average person in my situation."

Exoskeleton

The exoskeleton is an expensive piece of equipment, with some versions costing as much as $100,000. According to Dr. Kevin White, chief of the Tampa Bay VA spinal cord injury service, that is why the hospital has been conducting research on the units.

"We wanted to know that the patient when they get it, they're actually going to utilize it in the community," said White. "If they're showing that benefit, the VA has made a commitment to make sure that any Veteran who needs it and qualifies, whether it's a spinal cord injury and even stroke. That they have that opportunity, and we provide it free of charge."

Walking in the exoskeleton is like "a mixture between Robocop, Ironman, and Forrest Gump," said Conner. "It is pretty cool, especially when you're walking and people are like, 'Oh my God, look at this guy. He's a robot.' But I can't imagine walking without it, so it's just a normal way of walking. It feels the same way it did if I didn't have a spinal cord injury."

Picture previous page: Marine Corps Veteran, Tim Conner walks tall in his exoskeleton

SECTION III: OTHER INFORMATION

DEPARTMENT OF VETERANS' AFFAIRS INSPECTOR GENERAL'S VA MANAGEMENT AND PERFORMANCE CHALLENGES

Department of Veterans Affairs
Office of Inspector General
Washington, DC 20420

FOREWORD

The Office of Inspector General's (OIG) mission is to serve Veterans, their families, caregivers, and the public by conducting effective oversight of the Department of Veterans Affairs (VA) programs. OIG recommends advancements to VA services, processes, and systems that will improve the lives of Veterans and make the best use of taxpayer dollars. Each year, the Inspector General provides VA with an annual update summarizing serious management and performance challenges identified by OIG work, as well as an assessment of VA's progress in addressing those challenges.

This report contains a summary of the major management challenges addressed by OIG's work and the status of VA's efforts to redress them. Six areas were identified through OIG's oversight of the VA: (1) Strengthening leadership and workforce investments; (2) Improving health care access and quality of care; (3) Ensuring the accuracy and timeliness of benefits services; (4) Enhancing financial management and controls; (5) Overseeing the compliance and integrity of procurement practices; and (6) Minimizing risks and increasing effectiveness for information management systems.

OIG conducts extensive oversight of VA programs and operations in each of these six areas through independent audits, inspections, investigations, and reviews. OIG recognizes the Veterans Health Administration has the largest integrated public health system in the Nation with prodigious changes underway for enhancing care, including expanding community care; implementing a new electronic health records system; and modernizing core systems—all while tackling Veteran suicide, the opioid crisis, and other vital issues. Implementation of a massive and complicated benefits system challenged by changes in technology and in its claims and appeals processes is provided by the Veterans Benefits Administration. In addition, the National Cemetery Administration strives to deliver services and benefits in a compassionate and efficient manner. Each of these administrations require stable leadership throughout its organization; adequate numbers of trained qualified staff; and effective quality assurance.

While primarily focused on these significant challenges, OIG continues to see deficiencies in these and other key areas. This report recognizes where significant progress has been made and commends all VA leaders and personnel who have identified challenges and promotes high-quality services and benefits to the Nation's Veterans and their families.

MICHAEL J. MISSAL
Inspector General

SECTION III: OTHER INFORMATION

Major Management Challenge		Estimated Resolution Time frame (Fiscal Year)	Page #
No.	Description		
OIG 1	**Strengthening Leadership and Workforce Investment**		
1A	Overcoming a Culture of Complacency	Ongoing	180
1B	Addressing Key Leadership Vacancies and Other Staffing Shortages	2021	183
1C	Investing in Workforce Development	2020	185
OIG 2	**Improving Health Care Access and Quality of Care**		
2A	Improving Quality of Care	2020	188
2B	Enhancing Access to Care	2021	192
2C	Ensuring That Effective Core Services Are Available to Promote Quality and Timeliness of Care	2019	195
OIG 3	**Ensuring the Accuracy and Timeliness of Benefit Services**		
3A	Improving the Accuracy and Timeliness of Claims Decisions and Appeals	2020	199
3B	Identifying and Mitigating the Risk of Benefits-related Fraud, Waste, and Abuse	2020	201
3C	Effectively and Efficiently Administering Education and Other Benefits	2020	202
OIG 4	**Enhancing Financial Management and Controls**		
4A	Improving Financial Controls	Ongoing	206
4B	Reducing Improper Payment Rates	2022	207
4C	Improving Management of Appropriated Funds	Resolved	209
OIG 5	**Overseeing the Compliance and Integrity of Procurement Practices**		
5A	Improving Contracting Practices	Ongoing	211
5B	Improving Purchase Card Practices	2021	213
OIG 6	**Minimizing Risks and Increasing Effectiveness for Information Management Systems**		
6A	Ensuring Effective Information Security Program and System Security Controls	2020	216
6B	Mitigating Risks and Poor Outcomes Caused by Information Technology Planning and Implementation	Various	218

OIG CHALLENGE #1: STRENGTHENING LEADERSHIP AND WORKFORCE INVESTMENT

STRATEGIC OVERVIEW

As in prior years VA faces significant challenges in carrying out its mission to serve Veterans due in large part to leadership and workforce investment issues. These difficulties are exacerbated by the Department's size and complexity of operations. For FY 2019, VA is operating under a $201.1 billion budget and is the second-largest Federal employer, with more than 380,000 employees serving an estimated 19.6 million Veterans. VA maintains a presence in every state, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Republic of the Philippines, and the U.S. Virgin Islands. It also operates an integrated health care system that has approximately 9 million enrolled Veterans.

VA is making efforts to address many of the challenges it faces. An example is VA's reported intention to become a High Reliability Organization (HRO) through efficiencies in three main areas: (1) committing to improve safety and reliability through leadership's vision, decisions, and actions; (2) implementing a culture of safety in which values and practices are used to prevent harm and to learn from mistakes; and (3) using effective tools that continuously improve the organization. VA has also reported modifying its HR information system, HR Smart, to have a more accurate picture of position counts and vacancies, with tools for improved health care provider recruiting and retention consistent with the VA MISSION Act.

Still, the need for continued improvement in several areas is evident, as noted in OIG reports published over the past fiscal year. As shown below, OIG oversight has revealed three key areas of concern related to leadership and workforce development:

- A culture of complacency or lack of personal responsibility to effect meaningful change is a common contributing factor to deficiencies in VA facilities and program offices. While strong leadership and governance can help address climate issues, it must be infused into all workforce development efforts;
- Unstable leadership and vacancies or temporary assignments to key positions are often at the heart of persistent problems facing VA; and
- Staffing shortages and inadequate staff development also continue to undercut many VA efforts to properly manage its systems, programs, and services.

To assist VA in making needed improvements, OIG has prioritized oversight in each of these areas.

OIG SUB-CHALLENGE #1A: OVERCOMING A CULTURE OF COMPLACENCY

Although VA employs many talented and committed people, one of the greatest obstacles to sustained advancement is the resignations of employees and leaders that identified problems will not be redressed. This is manifested in failures to report wrongdoing, broken systems or processes going unaddressed for long periods, and nonengagement in problem-solving and change implementation. For example, in the OIG report on Falsification of Blood Pressure Readings at the Danville Community Based Outpatient Clinic in Salem, Virginia, a primary care provider was found to have falsified information in patients' medical records for several years. Specifically, the care provider documented patients' blood pressure readings as 139/89 more than 30 percent of the time reviewed (just below a threshold that would have required follow-up), including for high-risk patients diagnosed with hypertension, diabetes, or atherosclerotic cardiovascular disease. OIG review demonstrated that leaders and staff knew of the misconduct but did not take appropriate action. The Chief of Staff did not thoroughly review the allegations after being contacted by OIG twice in 2018, and employees who had knowledge of the allegations as early as 2016 also failed to act.

Similarly, in Orthopedic Surgery Department and Other Concerns at the Carl T. Hayden VAMC in Phoenix, Arizona, the OIG describes long-standing accountability issues among orthopedic surgery department staff, including how that department tolerated on-call surgeons who did not consistently manage complex patient care needs and relied on physician assistants to find other surgeons to care for patients, resulting in potential care delays.

These two recent OIG reports echo the types of concerns raised in Critical Deficiencies at the Washington, DC VAMC—a seminal report that describes the breakdown of systems and leadership at multiple levels and an acceptance by many personnel that circumstances will never change. While that facility has shown progress in several areas, there are 12 recommendations that remain unimplemented more than a year following the report's issuance, as described in a June 2019 OIG congressional testimony on "Ensuring Quality Health Care for Our Veterans." Further, the persistence and pervasiveness of these types of issues contributed to the Comptroller General's decision to continue to include VA health care on GAO's High-Risk List.

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #1A

Estimated Resolution Timeframe: ongoing

Responsible Agency Official: Secretary of Veterans Affairs

In April 2019, the Secretary signed the first-ever VA-wide Employee Engagement (EE) Plan, which provides strategic direction to guide EE efforts across the Department. VHA achieved a 63.9 percent response rate for the 2019 VA All Employee Survey (AES), which is up 2.3 percent from last year. In 2017, the VHA response rate was 59.5 percent. This steady increase in response rate is good indicator of improved

EE. We saw improvements in 2018 AES data on items related to culture of complacency. This fiscal year we gathered EE best practices from sites that showed significant improvement in that metric from 2017 to 2018. This fiscal year, targets related to AES data sharing and data use were included in SES performance plans throughout VA to encourage the involvement of employees at all levels in improvement processes.

In response to the recommendations for OIG 18-05410-62, Falsification of Blood Pressure Readings at the Danville Community Based Outpatient Clinic, OIG closed recommendations 1 and 5. Recommendations for items 2-4 remain open. All patients potentially impacted were contacted and care provided if needed. The facility has instituted a review of VHA Support Service Center data as part of Ongoing Professional Peer Evaluation cycles. The facility continues to monitor for unusual patterns in patient clinical data. We have created a standard operating procedure (SOP) in the Primary Care Service for data exchange with Community Based Outpatient Clinics (CBOC), as well as a standardized reporting structure between the Primary Care Service, CBOCs, and the Salem VAMC. All Contracting Officer Representatives (COR) at the Salem VAMC have received training and re-education.

In reference to the Phoenix report on Orthopedic Surgery, clinical leadership conducted a review on all aspects of decision-making and care provided to Patients X and Y on March 11, 2019. Leadership determined all aspects of the decision-making and care were appropriate for the patients. An Institutional Disclosure was conducted with Patient X's next of kin on July 31, 2019. On March 7, 2019, the Orthopedic Section implemented the "On-Call Protocol for Orthopedic Surgery" to clarify the on-call relationship between physician assistants and the orthopedic surgeons. Surgery leadership took appropriate action on the letter of expectation issued to Surgeon A (former Chief of Orthopedics). In January 2019, the Surgery Service developed an SOP for scheduling add-on surgical cases, including after hours "emergency" cases in the operating room (OR). The six recommendations from the Veterans Integrated Service Network (VISN) Site Visit were implemented for the Anesthesia program operations. Construction was approved in August 2017 to address the Sterile Processing Service (SPS) space constraints that limit capacity and productivity is in the design phase. SPS implemented the CensiTrac Instrument Tracking System on March 11, 2019. In February 2019, Surgery Service updated the core privileges for orthopedic surgery to reflect procedures performed. Policy 11-118, Utilization of Physician Assistants, was signed by the Medical Center Director on August 8, 2019, and published.

With support from VISN 5 and VHA, the Washington, DC VAMC has worked tirelessly to address the Critical Deficiencies Report. The organization has developed, revised, and updated policies and procedures to ensure compliance with regulatory bodies, standards of practice, and standards of care. The organization

has reviewed and updated their governance structure. Committees and councils that provide oversight to the departments and report to leadership have been reinstituted. Policies and procedures are in place to ensure that supplies, instruments, and equipment are available throughout the Medical Center when needed. Weekly rounds have been implemented by logistics and SPS to Performance and Accountability report levels, wall-to-wall inventories, utilization of Generic Inventory Package, Prime Vendor Utilization, Utilization of AEMS/MERS system, inventory and reconcile warehouse items, conduct quality checks in SPS, implement tracking systems for equipment in SPS, and replace broken or missing instruments. Multidisciplinary OR huddles have been implemented to improve communication between the OR and SPS.

The DC VAMC has also worked diligently to provide education and training to staff regarding new and revised policies and SOPs, the governance structure, newly implemented systems and programs, privacy, records management, and other programmatic changes. The Medical Center also worked with Fiscal, Logistics, Prosthetics and other services to return clinical purchases to Logistics, to improve fund controls, accountability of purchases, and segregation of duties. Funds have been made available for Prosthetics to ensure that services are not stopped for Veterans. As of August 7, 2019, 31 of 40 (78 percent) of the Critical Issues have been accepted for closure, including 28 recommendations closed during FY 2019.

VHA has committed to becoming an HRO, building upon lessons learned from existing HRO efforts within VHA and other health care systems. VHA will train, educate, and coach all leaders and staff in high reliability principles and practices. HRO transformation will impact the entire organization from health system leaders to care teams as we redouble our focus on safety to create an enterprise-wide Just Culture of greater reliability and "Zero Harm."

Five Principles of HROs:

HRO principles strive to turn psychologically unsafe cultures of complacency into Just Cultures:

(1) Sensitivity to Operations. Staff maintain situational awareness of how their decisions may impact system performance.

(2) Reluctance to Simplify. Staff apply data and systems thinking to challenge assumptions and identify the multiple causes of a problem.

(3) Deference to Expertise. The organization places decision-making authority in the right hands.

(4) Preoccupation with Failure. Employees are rewarded for anticipating risks, identifying problems, and sharing mistakes requiring system improvements.

(5) Commitment to Resilience. Staff is trained to respond to errors quickly, contain them, and learn from them.

HROs in aviation, energy, advanced manufacturing, and health care avoid catastrophic events of harm and continually improve performance, despite operating in environments with significant hazards and

complex time-sensitive processes. Health care organizations have a special responsibility to assure the safety of their patients and employees; a health care HRO delivers consistently safe and reliable health care in a culture where high-reliability principles and practices span the entire organization.

OIG SUB-CHALLENGE #1B: ADDRESSING KEY LEADERSHIP VACANCIES AND OTHER STAFFING SHORTAGES

The root cause of many issues identified in OIG oversight reviews was poor leadership, vacant and temporary key positions, and staffing shortages. In the past year, VA filled such key positions as VA Secretary, Assistant Secretary for Human Resources and Administration, and Assistant Secretary for the Office of Information and Technology (OIT). Yet many vital positions are still without a permanent leader. As of July 1, 2019, VA had been without a permanent leader for VHA for more than 28 months; had an Acting Deputy Secretary for nearly a year; and currently has an Acting General Counsel. At program offices and VA facilities, these challenges affect governance and performance—often manifesting as confusion about roles and responsibilities for critical functions, lack of personnel to timely complete needed tasks, and inaction on persistent problems.

For example, the OIG report Inadequate Governance of the VA Police Program at Medical Facilities describes how VA's police program has a splintered governance structure to oversee the Federal law enforcement officers who secure facilities and protect patients, visitors, employees, and VA property. VA lacks an effective staffing model to determine the appropriate number and composition of the police force at each medical facility. This is concerning because lack of facility-appropriate police staffing models, coupled with police officer shortages at VAMCs, can affect security activities such as the frequency and location of patrols. Similarly, in Alleged Quality of Care Issues in the Community Living Centers at the Northport VA Medical Center in New York, OIG notes ongoing challenges to maintain baseline nurse staffing levels, which facility leaders sought to address through floating assignments and overtime.

In five years of publishing the determination of VHA occupational shortages, OIG has noted serious and persistent concerns with staffing. In response to requirements set out in the VA Choice and Quality Employment Act of 2017 (the Choice Act), the most recent iteration of this recurring report included staffing levels and identified shortages at the facility level. Among the occupations with the most frequently cited shortages were medical officers, nurses, HR managers, and police officers. The 2018 survey highlights the need for staffing models that identify and prioritize staffing needs at the national level while allowing flexibility at the facility level. OIG has made recommendations related to the development and implementation of such staffing models in each of its previous staffing determination reports.

Staffing for future needs requires hiring in anticipation of future losses, as well as ongoing and projected changes in demand, staffing productivity, and staff allocations.

OIG recognizes that VHA has made progress in implementing staffing models in primary care and inpatient nursing and that actions are underway to codify updated position categories to enable VHA facilities to more precisely define their clinical and nonclinical staffing requirements. However, considerable work remains to inform staffing requirements at the enterprise level and to facilitate national recruitment efforts and budget formulation.

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #1B

Estimated Resolution Timeframe: 2021

Responsible Agency Official: Assistant Secretary for Human Resources and Administration/Office of Security and Preparedness

Every large organization will have what appears to be many vacancies due simply to normal retirements and job changes, but VA strives for full staffing capacity. Full staffing capacity refers to the number of personnel needed at a point in time to accomplish VA's mission to care for Veterans and their families with dignity and respect. Full staffing capacity requirements change over time and are updated based on new business and workload requirements. Key drivers that impact full staffing capacity include increases in services provided for a growing mission, changes in state-of-the-art health care, opportunities to continue supportive partnerships with the community, changes in the size and needs of the population being served, and evolving legislative mandates.

To improve VA's ability to plan for staffing requirements, in October 2017 the Secretary established an enterprise-wide manpower management function. VA's Manpower Management Service has been actively working with the Administrations to develop standard processes to validate staffing requirements (i.e., staffing models, staffing standards, and benchmarking tools). Concurrently, each Administration established an internal manpower management functionality to meet their mission-specific needs.

VA is developing staffing models and validating staffing standards. Full manpower position management and governance over VA's organizational structure, position management, and workload-based staffing requirements is anticipated in early FY 2021. When fully implemented, manpower management processes will enable VA to more accurately define full staffing capacity requirements. These requirements will enhance VA's existing strategic human capital planning processes to ensure that workload demand is balanced by measures of quality, access, and Veteran satisfaction.

VA has many long-standing clinical staffing models (e.g., specialty care, primary care, mental health, nursing, pharmacy, and rehabilitative care) and is continuing to develop and validate other models, especially for nonclinical functional areas and positions that are Congressionally mandated (such as scribes and peer specialists per the VA MISSION Act). Implementation of validated staffing requirements will assist in standardizing care delivery, ensuring the best care is

delivered in the most efficient way possible as measured by health outcomes.

As VA's manpower management capabilities continue to expand, staffing data will become more finely tuned and will better position VA to identify and overcome staffing gaps with more fidelity.

In response to Recommendation 1 in OIG Report, Inadequate Governance of VA Police Program at Medical Facilities (No. 17-01007-01), VA is currently assessing the need to centralize management of the VA Police and will determine a way ahead by the end of FY 2019. In response to Recommendation 2, VA will develop a Department-wide police staffing model by September 30, 2019. VA will update related policies and implement the model in FY 2020.

In reference to OIG 17-03347-290, Alleged Quality of Care Issues in the Community Living Centers at the Northport VA Medical Center, New York, OIG previously closed recommendations 1, 3, 4, and 7. Recommendations 2, 5, 8, and 9 remain open. The facility provided documentation and requested closure of recommendations 2, 5, and 8 while 9 is in progress. All Emergency Response Team calls were reviewed and analyzed by the committee and compliance was monitored. In the Community Living Center, a new rounding process was implemented as defined in the Safety Rounds standard operating procedure and compliance was documented and monitored. Policies and practices related to Emergency Medical Responses were updated and all staff including resident physicians were trained and compliance is monitored. Education specific to Emergency Medical Responses occurred on a continual basis for rotating resident physicians.

The VISN 2 Director required continuous monitoring of the action plan for Emergency Medical Response that included document review of policies and procedures, committee minutes, post code reports, closed medical record reviews, and direct observation of unannounced comprehensive mock code drills, reported to the VISN Quality, Safety, and Value Council.

OIG SUB-CHALLENGE #1C: INVESTING IN WORKFORCE DEVELOPMENT

To meet VA's important mission, leaders must cultivate their workforce by providing appropriate training, regular, and constructive performance feedback, and intervening promptly to address issues of concern. Comprehensive Healthcare Inspection Program (CHIP) reports for FYs 2018 and 2019 have raised the OIG's concerns about employee training. For example, the OIG CHIP reports for the Washington DC VAMC and the VAMC in Marion, Illinois, found that for significant numbers of staff involved in managing patients' central lines there was no evidence they received required infection prevention education. As described in later sections, changes in information technology systems and processes also require training that has been found lacking or inadequate. For example, when VBA moved to a national work queue for processing disability claims, Veterans submitting complex claims such as those related to Lou Gehrig's Disease (ALS) or

military sexual trauma often lost access to specially trained processors with expertise in those areas (see Challenge 3).

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #1C

Estimated Resolution Timeframe: 2020

Responsible Agency Officials: USH and USB

In conjunction with extensive clinical skills training, VHA conducts leadership development programs focused on building the leadership competencies of health care professionals, particularly the Health Care Leadership Development Program for employees aspiring to VAMC senior leadership team positions.

In reference to OIG 18-01155048, CHIP Review of the Marion VA Medical Center, Illinois, OIG closed recommendations 2-3 and recommendations 1, 4-6 remain open. The facility has completed all remaining actions and requested closure on all open recommendations in their August 2019 status update. The facility instituted a new process for tracking peer reviews for solo providers to ensure they are performed by providers with similar training and privileges; improved oversight and reporting of physical security deficiencies to ensure timely completion; improved the program for oversight and review of controlled substances awaiting destruction; and added central line-associated bloodstream infection education to New Employee Orientation to ensure all nurses are trained.

In reference to OIG 17-01757-50, CHIP Review of the Washington, DC VA Medical Center, the Washington, DC VAMC is committed to providing our staff the training necessary to ensure the safety of our patients and our workforce. To ensure compliance, actions included a complete review of related policies and procedures, improved systems to document staff education, and a new training process specifically targeting new hires. The staff designed and implemented a Central Line bundle of care - standardized equipment, supplies, and procedures designed to prevent infections. Evidence of compliance is presented to leadership weekly. As a result, the Medical Center realized a 57 percent reduction in central line acquired infections through the first three quarters of FY 2019 compared to the same period for FY 2018. Sustainability of this improvement is supported by a strong process for new nurse orientation, annual retraining of existing staff, and monitoring of completion. Additionally, the staff is extending this process to other hospital-acquired conditions and achieving similar results.

VBA is committed to processing all claims, regardless of complexity, as efficiently and correctly as possible. The National Work Queue (NWQ) has allowed VBA to better utilize resources nationally by distributing disability claims to regional offices (RO) with available capacity to complete the work. However, in this model, certain aspects of expertise may have been diminished – such as eliminating specialized processing teams at ROs. To combat this unintended effect, VBA reestablished specialized claims processing teams at each RO in November 2018. These specialized teams process the most complex-type cases and are comprised of

specially trained claims adjudicators with expertise in handling those claims. By reestablishing these specialized claims processing teams at every RO, VBA continues to leverage the operational efficiencies offered by the NWQ, while also developing personnel who have the appropriate specialized training and expertise to accurately process the most complex cases, such as those related to Amyotrophic Lateral Sclerosis (ALS), military sexual trauma (MST), traumatic brain injury, etc. VBA has a robust training catalog through the National Training Curriculum, which ensures experienced claims processors have the means to acquire enhanced skills, take refresher training, or receive training on emerging skill requirements.

KEY RELATED LINKS:

- VA 2020 Budget Request: Fast Facts; VA Office of Budget, Budget in Brief, March 2019, BiB-24.
- OIG Report: Strategic Plan: Implementation Update May 2019.
- OIG Report, Falsification of Blood Pressure Readings at the Danville Community Based Outpatient Clinic, Salem, Virginia, Report No. 18-05410-62, January 29, 2019.
- OIG Report, Orthopedic Surgery Department and Other Concerns at the Carl T. Hayden VA Medical Center, Phoenix, Arizona, Report No. 18-02493-122, May 7, 2019.
- OIG Report, Critical Deficiencies at the Washington, DC VA Medical Center, Report No. 17-02644-130, March 7, 2018.
- OIG Congressional Testimony, "Ensuring Quality Healthcare for Our Veterans," June 20, 2019.
- GAO Report, "Managing Risks and Improving VA Health Care," High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas, GAO-19-157SP, March 6, 2019.
- OIG Report, Inadequate Governance of the VA Police Program at Medical Facilities, Report No. 17-01007-01, December 13, 2018.
- OIG Report, Alleged Quality of Care Issues in the Community Living Centers at the Northport VA Medical Center, New York, Report No. 17-03347-290, September 18, 2018.
- OIG Report, OIG Determination of Veterans Health Administration's Occupational Staffing Shortages FY 2018, Report No. 18-01693-196, June 14, 2018.
- OIG Report, Comprehensive Healthcare Inspection Program Review of the Washington DC VA Medical Center, Report No. 17-01757-50, January 28, 2019.
- OIG Report, Comprehensive Healthcare Inspection Program Review of the Marion VA Medical Center, Illinois, Report No. 18-01155-48, December 27, 2018.

OIG CHALLENGE #2: IMPROVING HEALTH CARE ACCESS AND QUALITY OF CARE

STRATEGIC OVERVIEW

VHA reported providing health care services to nearly 7 million Veterans in FY 2018 through its network of more than 170 VAMCs and 1,000 outpatient sites as well as through care purchased from non-VA providers in the community. In its National Strategy for Preventing Veteran Suicide, VHA announced suicide prevention as its highest clinical priority. As part of its efforts to reduce suicide among Veterans and improve mental health services, VA has focused on the Veterans Crisis Line, Suicide Prevention Coordinators, and S.A.V.E. Suicide Prevention Gatekeeper Training. These prevention efforts require engagement with community partners.

Recognizing that quality care is dependent on having supplies and equipment where and when they are needed, VA is migrating to a new inventory management system, the Defense Medical Logistics Standard Support. VA has stated it anticipates this system will help streamline supply chain management by consolidating the administration of expendable supplies and nonexpendable equipment into one system that will improve acquisition and integration issues.

Despite work in these areas, recent OIG reviews indicate that VHA continues to face obstacles in delivering quality health care to Veterans, particularly as they address the challenges associated with the nationwide opioid epidemic and other behavioral health needs that significantly affect Veterans.

These issues are also inextricably linked to VHA's ongoing efforts to provide timely access to care, even as there is a significant expansion of community care programs. Challenges with appointment wait times, scheduling, and consult management continue to be highlighted in OIG reviews. Deficiencies in VA hospital core services also undermine the ability of health care professionals to provide quality care. For example, without strong oversight to ensure VA personnel's full utilization of an effective and efficient system for medical supply and equipment management, patients may experience delays and cancelations in surgical procedures as well as with other treatments. The following three areas highlight the OIG's ongoing concerns with:

- Quality of care;
- Timely access to care; and
- Effective core services.

OIG SUB-CHALLENGE #2A: IMPROVING QUALITY OF CARE

VHA's goal is to deliver high-quality, safe, reliable, and Veteran-centered coordinated care. To meet this goal, VHA has announced that it is working to foster a culture of integrity and accountability in which personnel are vigilant and mindful, proactively risk-aware, and committed to consistently providing quality care while seeking continuous improvement. VHA requires that its facilities operate a quality, safety, and value (QSV) program to monitor the quality of patient care and performance

improvement activities, aspects of which the OIG routinely oversees through inspections.

VHA's Enterprise Framework for QSV includes peer reviews of clinical care, utilization management (UM) reviews, and patient safety incident reporting with related root cause analyses. Among VHA's approaches for safeguarding patients is the mandated reporting of incidents to its National Center for Patient Safety. Incident reporting helps VHA learn about system vulnerabilities and how to address them. Required root cause analyses help to more accurately identify and rapidly communicate potential and actual causes of harm to patients throughout the organization.

During FY 2018 CHIP site visits, the OIG identified concerns with multiple QSV functions. For example, the implementation of improvement actions recommended by peer review committees. VHA requires that when peer review committees recommend individual improvement actions, clinical managers implement them. During FY 2018 CHIP site visits, OIG inspected 386 peer reviews that identified the need for individual improvement actions and did not find evidence of action implementation in 48 of the peer reviews (12 percent). This likely prevented immediate and long-term improvements in patient care by involved health care providers. More information on this deficiency, as well as concerns with documentation of physician UM advisers' decisions in the national database, interdisciplinary review of that data, and provision of feedback to the employees who reported the incidents about the root cause analysis actions taken, will be reviewed in an upcoming OIG summary of 2018 CHIP reports.

In addition to quality assurance difficulties, VHA experiences many challenges as it seeks to provide quality health care services to Veterans. Among them is providing continuity of quality care when Veterans access both VA and community-based health care and pharmacy services. OIG has identified as a particular concern high-risk patients with chronic pain and mental illness. In Review of Pain Management Services in VHA Facilities, OIG found that of the more than 5.7 million VA patients (nonhospice/palliative care) with at least one clinical encounter during the review period, nearly 17 percent were dispensed opioids. OIG observed that 94 percent of this population had been diagnosed with pain or mental health issues, and nearly 57 percent with both. OIG noted important opportunities to improve the safety of patients receiving opioid therapy and made 10 recommendations to VHA's Executive in Charge, seven of which have been implemented as of July 2019. The OIG also completed two reviews of illicit drug deaths that occurred in VA residential rehabilitation treatment programs (see Bath, New York, and VISN 10 reports in resource list). These reviews highlighted the critical importance of closely monitoring patients with both pain and mental illness, especially while those patients are undergoing intensive treatment.

As part of its ongoing oversight of VA's delivery of mental health care, OIG remains vigilant to VA's progress on strengthening suicide prevention programs. Despite VA's

considerable attention and commitment to preventing Veteran suicide, the OIG continues to identify opportunities for improvement. For example, in a mid-2018 report, *Review of Two Mental Health Patients Who Died by Suicide, William S. Middleton Memorial Veterans Hospital, Madison, Wisconsin*, OIG highlights shortcomings with the root cause analysis completed after a suicide, citing superficial data collection and a conflict of interest for one of the participants conducting the review who was involved in the Veteran's care. VA's ongoing work to improve the rigor of these root cause reviews is essential to gleaning important lessons that will reduce the risk of future tragedies. Recent reports, such as *Deficiencies in Discharge Planning for a Mental Health Inpatient Who Transitioned to the Judicial System from a Veterans Integrated Service Network 4 Medical Facility,* underscore the need for consistently high-quality discharge planning from inpatient mental health treatment. The *Review of Mental Health Clinical Pharmacists in Veterans Health Administration Facilities* emphasizes that all VA personnel providing mental health care should have clearly defined and coordinated roles consistent with state law.

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #2A

Estimated Resolution Timeframe: 2020

Responsible Agency Official: USH

As OIG notes, "VHA requires that its facilities operate a quality, safety, and value program to monitor the quality of patient care and performance improvement activities". It has been recognized that the central office structure does not mirror the facility and VISN structures, resulting in inconsistent oversight and support for the field.

Multiple initiatives related to modernization efforts have helped to address gaps and improve quality in VHA. Proposals for governance and VHA central office reorganization are in development to replicate programmatic and accountability structures at all levels. The proposed structures address quality and safety gaps to support improved flow of information vertically to address challenges and support organization priorities around quality and safety.

These changes allow for better promotion of evidence-based quality initiatives and allow for coordinated efforts to address and follow up on challenges identified through internal and external reviews, such as efforts to ensure facilities have effective multidisciplinary committee to review utilization management data and efforts committees follow up on improvement action plans from peer review committees and root cause analysis recommendations.

In reference to OIG 16-03137-208, Supervision and Care of a Residential Treatment Program Patient at a VISN 10 Medical Facility, OIG closed the recommendations on May 10, 2019. VHA made changes to internal documentation to ensure uniformity, conducted monthly treatment plan audits to ensure compliance with policy requirements, created process for review and documentation requirements for weekend programming expectations, implemented a process for program managers to review any restrictions

including documentation in Computerized Patient Record System (CPRS), and conducted a 90-day medical record review to identify gaps in interdisciplinary documentation that has illustrated sustained compliance.

In reference to OIG 18-00037-154, Review of Mental Health Clinical Pharmacists in Veterans Health Administration Facilities, all nine recommendations remain open. The Office of Mental Health and Suicide Prevention (OMHSP) conducted national calls to VISN and facility Mental Health leadership regarding the appropriate role of Clinical Pharmacy Specialists (CPS) in interprofessional teams providing mental health care, including reference to the relevant policies that define CPS practice. OMHSP has further reviewed the process by which referrals are made to (and between) members of the mental health interprofessional team (including CPS) and shared the results broadly to maximize awareness of existing tools for managing the referral process. OMHSP has also updated national policy regarding team-based care to provide further clarity. To ensure even greater collaboration, Pharmacy Benefits Management added a representative from OMHSP to the Clinical Pharmacy Executive Board. Also, a VHA risk assessment team representing multiple offices is under development to assess potential risks related to the oversight of interprofessional mental health outpatient care teams in general.

In reference to OIG 16-03137-208, Supervision and Care of a Residential Treatment Program Patient at a VISN 10 Medical Facility, OIG previously closed recommendations 1-5. The facility made changes to internal documentation to ensure uniformity, conducted monthly treatment plan audits to ensure compliance with policy requirements, created process for review and documentation requirements for weekend programming expectations, implemented a process for program managers to review any restrictions including documentation in CPRS, and conducted a 90-day medical record review to identify gaps in interdisciplinary documentation that has illustrated sustained compliance.

In reference to OIG 18-03576-158, Deficiencies in Discharge Planning for a Mental Health Inpatient Who Transitioned to the Judicial System from a Veterans Integrated Service Network 4 Medical Facility, the facility fully implemented recommendations 7 and 10. Recommendations 2 and 8 have been completed by the Mental Health Social Work supervisor. The psychosocial template was revised to include surrogate information (Recommendation 4). Recommendation 5 has been partially completed with discharge process education having been given to the inpatient social workers. Facility is in the process of providing education to all inpatient and covering psychiatrists. The discharge process for hand-off communication has been revised (Recommendation 6) while recommendations 3 and 9 remain open. The facility has been exceeding the benchmark of 90 percent for the VA National Mental Health metric of having a mental health coordinator assigned to

mental health inpatients if one has not already been assigned. A list of consultative resources for use by the inpatient mental health staff has been developed and posted on the facility's intranet site. Inpatient mental health staff were notified of these available resources via email in August 2019.

In reference to OIG 17-01823-287, Illicit Fentanyl Use and Urine Drug Screening Practices in a Domiciliary Residential Rehabilitation Treatment Program at the Bath VA Medical Center, recommendation 1 remains open. The facility instituted a new urine drug screen tracking process and trained all domiciliary clinical staff on interpretation of urine lab results. The facility began providing in-house fentanyl screening, which reduced the turnaround time from 8.3 days to less than 2 hours and allowed for more timely and appropriate interventions to support recovery. The VISN monitored turnaround times and notification of results through the network Quality, Safety, Value Council. Domiciliary staff were provided upgrades to personal protective equipment and were trained in conducting safe and effective searches of personal belongings.

In reference to OIG 17-02643-239, Review of Two Mental Health Patients Who Died by Suicide, William S. Middleton Memorial Veterans Hospital, Madison, Wisconsin, OIG closed all the recommendations in the report. The facility strengthened processes to ensure timely notification of county monitoring agencies in the case of court settlement violations. The facility developed a process to improve family notification in discharge planning, reviewed and revised the mental health clinical assessment process, and strengthened auditing of adherence to psychiatric medication safety prescribing guidelines. A collaborative agreement was developed to address specific conditions that require oversight of psychiatric clinical pharmacists by psychiatrists. Institutional disclosure was completed. Additional staff were interviewed for the root cause analysis.

OIG SUB-CHALLENGE #2B: ENHANCING ACCESS TO CARE

Despite a committed effort to improve access to care at VA facilities, and through enhanced community care and telehealth options, access continues to be a significant challenge for VHA. For more than a decade, the OIG, GAO, VA, and others have issued numerous reports regarding concerns with delays or barriers to accessing VA care. These include lengthy or inaccurately recorded Veteran wait times for appointments, poor scheduling practices, consult management backlogs, and concerns with care in the community.

Recent OIG reviews highlight the challenges associated with enhancing access through care in the community. For example, the OIG report on *Alleged Nonacceptance of VA Authorizations by Community Care Providers in Fayetteville, North Carolina,* determined that at least 15 area community care providers stopped accepting VA patients from January 2015 through July 2017 primarily because claims were not being paid in a timely manner and providers had difficulty resolving unpaid claims. At the time of the review, VA's OCC was responsible for paying non-VA

care claims and the network's third-party administrator, Health Net, was responsible for paying Choice claims. OIG determined that community providers who had stopped accepting non-VA care authorizations waited 46 days on average for their claims to be processed in 2017. OIG also found provider frustration occurred when Health Net's clearinghouse automatically rejected some Choice claims and did not notify providers.

In addition to payment delays that compromise access to community care, recent OIG reviews have highlighted the challenges presented by the bifurcation of care between community and VA providers. In Delays and Deficiencies in Obtaining and Documenting Mammography Services at the Atlanta VA Healthcare System, OIG notes serious process concerns:

- No defined process to track (1) patients whose scheduled appointments were canceled or (2) patients who may have experienced delays in care;
- Failure of a [reviewing] physician to consistently determine the clinical appropriateness of requested care [related to mammogram orders or consult submissions];
- Lack of a streamlined process for scheduling mammography imaging studies and retrieving results, and inconsistencies between facility practice and policy related to the tracking of mammography reports;
- Backlog in scanning non-VA documents into patients' VA electronic health records that may further impede clinical oversight; and
- Deficiencies in the Women Veterans Health Program, including the number of available designated women's health primary care providers and executive committee oversight.

Although four of seven OIG recommendations to address these concerns have been closed as of July 2019, significant work is still needed to strengthen care coordination between VA and community providers.

The OIG's hotline continues to see both quality of care and access to care as frequent causes for complaints and allegations of wrongdoing. Resolving timely access challenges is complicated by VA's need to implement the VA MISSION Act (including consolidating community health care programs into a single program that meets the needs of Veterans, community providers, and VA staff) while providing uninterrupted services.

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #2B

Estimated Resolution Timeframe: 2021

Responsible Agency Official: USH

VA has invested heavily in our direct delivery system, leading to reduced wait times for care in VA facilities that currently meet or exceed the quality and timeliness of care provided by the private sector. VA has begun to build an integrated, holistic system of care that combines the best of VA, our Federal partners, academic affiliates, and the private sector. VA improved access across its more than 1,200 facilities even as Veteran participation in VA health care continued to increase. At the same time, the recently

implemented Veterans Community Care Program consolidated VA's separate community care programs and put care in the hands of Veterans and got them the right care at the right time from the right provider.

As part of the VA MISSION Act signed into law on June 6, 2018, VA developed access standards that meet the medical needs of Veterans and support VA's goal of making sure that Veterans have access to care when and where they need it. The access standards strengthen VA health care by empowering Veterans with more care choices through VA medical facilities and in the community, enabling Veterans to find the balance in the system that is right for them. Care and services are augmented by integrated partnerships, and community partners complement increasingly timely, high-quality care provided by VA medical facilities.

To ensure closer coordination with VA's community providers on resolution of payment issues and enable the continued expansion of VA's community care network, the OCC appointed a Provider Engagement manager, regional provider relations specialists, and national customer service specialists to work with providers on a range of issues spanning education, claims processing, and payment reconciliation. Together, our integrated team is working with providers to create systematic and organized solutions for emergent issues they raise. VA will continue to refine its provider-focused activities to ensure better service and support to community providers, thereby addressing issues that may be compromising access to community care.

VA is also modernizing its IT systems to replace a patchwork of old technology and manual processes that slowed down the administration and delivery of community care and created issues for some of our community providers. The new IT systems will streamline all aspects of community care – from eligibility, authorizations, appointments, and care coordination through to claims and payments – all while improving overall communication between Veterans, community providers, and VA staff members. For providers, implementation of the Electronic Claims Adjudication Management System will automate much of the community care referral and claims process and ensure greater quality and accuracy in claims handling while supporting timelier payments.

Finally, during FY 2019, VA developed and deployed the Provider Profile Management System (PPMS), a consolidated repository housing nationwide provider and facility information from Community Care Network (CCN) providers and providers under VA Provider Agreements. The system will expand over time to include other providers such as those working in Indian Health Service and DoD facilities. PPMS will offer provider profile information and interface to multiple VA applications to support reporting and analysis capabilities. It provides the capability to confirm provider availability and supports search functions by treating specialties and physical locations. PPMS will not be used to measure network adequacy, but rather will

provide an inventory of available providers. Through its use, PPMS provides further evidence that VA is moving towards an integrated, holistic system of care that combines the best of VA, our Federal partners, academic affiliates, and the private sector.

In reference to OIG 17-05228-279, Alleged Nonacceptance of VA Authorizations by Community Care Providers, Fayetteville, North Carolina, Fayetteville, NC VA Coastal Healthcare System (HCS) Community Care staff held monthly teleconference phone calls with Third-party Administrator (Tri-West) leadership and field agents, VISN 6 Business Implementation Manager, and Community Care staff from VISN 6 stations. During the monthly calls, network providers (by specialty) were discussed for Fayetteville, NC VA Coastal HCS catchment area and when deficient coverage is identified, strategies are discussed and implement to recruit additional vendors, or perform vendor recovery actions when required. Additionally, Fayetteville, NC VA Coastal HCS Community Care staff recruited vendors for Veteran Care Agreements and CCN. These vendors were uploaded to Physician Profile Management System and the database was reviewed on a bimonthly basis to identify recruitment priorities.

In reference to OIG 17-02679-283, Delays and Deficiencies in Obtaining and Documenting Mammography Services at the Atlanta VA Healthcare System, OIG previously closed recommendations 1, 5, 6, and 7. Recommendations 2, 3, and 4 remain open. The Atlanta VA HCS Director ensured that patients with mammography orders in an active, pending, or scheduled status were provided clinical care with appropriate documentation. Clinical appropriateness reviews of mammography consults were performed to ensure that the correct imaging study was ordered for the patient's clinical presentation. Providers who were trained in provision of women Veterans' health care were designated as Women's Health Primary Care Providers, with the required number of women assigned to their panel, and provided gender-specific care. The facility Director provided executive level oversight of the Women Veterans Program to ensure that the coordination and streamlining of service level functions.

OIG SUB-CHALLENGE #2C: ENSURING THAT EFFECTIVE CORE SERVICES ARE AVAILABLE TO PROMOTE QUALITY AND TIMELINESS OF CARE

It is critical that hospitals have effective core services, including supply and equipment inventory controls, that promote quality care and patient safety in fast-paced environments. Recent oversight reviews, the most noteworthy of which was at the Washington, DC VAMC, illustrate the resourcefulness and dedication necessary for medical professionals to provide quality care when a hospital's essential business functions are broken. The breakdown of these functions presents risks to patients, particularly when the lack of supplies or instruments causes surgical procedures to be canceled or delayed. In the June 2019 congressional testimony referenced earlier on Enhancing Quality Healthcare, the OIG indicated those problems have not been

fully resolved. In Expendable Inventory Management System: Oversight of Migration from Catamaran to the Generic Inventory Package, the OIG reviewed this core inventory system transition and evaluated whether medical centers that participated in this migration accurately managed expendable medical supplies. The following findings were reported:

- VAMCs encountered challenges as part of the inventory management system migration;
- Significant discrepancies existed between the Generic Inventory Package data and physical inventory counts for expendable medical supplies; and
- Proper inventory monitoring and management was lacking at many VA medical centers.

While some of the issues stemmed from failure by VHA and the VISN to provide adequate oversight of the migration, OIG identified other factors that caused inventory data inaccuracies, ranging from erroneous to nonexistent inventory management practices. VA efforts are underway to address the recommendations from this review, and VA should apply the lessons learned to inform other inventory management or system migrations underway.

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #2C

Estimated Resolution Timeframe: 2019

Responsible Agency Official: USH

VHA Procurement & Logistics Office (P&LO) Policy, Training, and Assessment (PTA) conducted the first annual Quality Control Review (QCR) training on June 12, 2019 for the VISN Chief Supply Chain Officers (CSCOs). This training provided instruction on how a QCR should be conducted, tools available, and what should be reviewed during a QCR to validate compliance.

To improve QCR content, PTA stood up an Integrated Product Team (IPT) comprised of program office and field staff to review and update the current QCR checklist and scoring grid. This IPT revised these tools to reflect changes in question focus and quality, as well as a scoring grid to address deficiencies notated in the OIG report. One of the key changes to the QCR scoring tool was to add a risk matrix similar to the process used for reviews by The Joint Commission. The PTA team created a Standard Operating Procedure for an audit program in FY 2019.

In July 2019, a biweekly QCR Executive Summaries of the status of QCR action plans were submitted to VHA P&LO senior leadership. Additionally, PTA created a standing monthly action item for VISN CSCOs to track the status of the completion of facility action plans from the FY 2019 QCRs.

To mitigate instrumentation shortages at the Washington, DC VAMC, the National Program Office of Sterile Processing (NPOSP) collaborated with the Washington, DC VAMC SPS to ensure the procurement and purchase of all needed instrumentation for that facility. This was accomplished by procuring a monthly contract with a third-party vendor for instrumentation to arrive at the Washington, DC VAMC SPS twice monthly. This contract also provided

preventative maintenance, repaired, or verified instruments as requiring replacement.

In FY 2019, upon the recommendation of NPOSP, the facility SPS created and filled additional positions to include a Reusable Medical Equipment Educator, a new SPS chief, and several SPS technicians. Prior to NPOSP's interventions in 2019, there were often many missing surgery count sheets and outdated surgery count sheets. Surgery count sheets name exactly what instruments are included for each surgery type. In 2019, 100 percent of the surgical case count sheets were updated and are complete.

NPOSP verified that instrumentation needs were met at the facility SPS by means of performing repeated site reviews, to include March 2019. Monthly calls were conducted throughout FY 2019 among facility SPS leadership, Facility leadership, and NPOSP to follow and update their Corrective Action Plan. As a result, no issue briefs have been generated due to surgical case cancellations related to instrumentation deficits.

In reference to OIG 17-02644-130, Critical Deficiencies at the Washington, DC VA Medical Center, the facility worked diligently with support from VISN 5 to develop, revise, and update policies, SOPs and processes to ensure compliance with regulatory bodies, standards of practice, and standards of care.

The leadership reviewed and revised their governance structure and have re-engaged committees and councils that provide oversight to the departments that report to the leadership team. The facility implemented revised or new policies and SOPs to ensure that supplies, instruments, and equipment are available throughout the institution. These policies and standard operating procedures included weekly rounding by Logistics, reviews of Performance Accountability Report levels, wall-to-wall inventories, utilization of Generic Inventory Package, Prime Vendor Utilization, Utilization of AEMS/MERS system, inventory and reconciliation of the warehouse. In SPS, quality checks have been instituted including the implementation of Vensero and Censitrack, new procedures for replacing broken/missing instruments and a multidisciplinary daily OR huddle. The facility worked diligently to provide training and education to staff on new/revised processes, policies, and SOPs; governance structure, new implemented systems/programs, privacy, records management, Temptrack, and other process changes. The institution also worked with Fiscal, Logistics, Prosthetics, and services to return clinical purchases to Logistics, improve fund controls, improve accountability of purchases, and ensure segregation of duties. Funds were made available consistently for Prosthetics to assure that services were not stopped for Veterans. Regarding staffing, the leadership at the facility strived to hire and detail staff to key positions to continue providing services to Veterans. Great efforts were made by the facility to improve quality, services, and accountability of assets and to comply with regulations and standards of care.

In reference to OIG 17-05246-98, Expendable Inventory Management System: Oversight of Migration from Catamaran to the Generic Inventory Package, recommendations 1-6 remain open and are not expected to be fully implemented until April 2020.

KEY RELATED LINKS:

- VA Office of Budget, Fiscal Year 2020 Budget Submission (March 2019), II: VHA-279;
- VA Pocket Card, VA Benefits & Health Care Utilization, April 30, 2019.
- U.S. Department of Veterans Affairs, National Strategy for Preventing Veteran Suicide: 2018-2028.
- Comprehensive Healthcare Inspection Program (CHIP) Reports.
- OIG Report, Review of Pain Management Services in Veterans Health Administration Facilities, Report No. 16-00538-282, September 17, 2018.
- OIG Report, Illicit Fentanyl Use and Urine Drug Screening Practices in a Domiciliary Residential Rehabilitation Treatment Program at the Bath VA Medical Center, New York, Report No. 17-01823-287, September 12, 2018.
- OIG Report, Supervision and Care of a Residential Treatment Program Patient at a Veterans Integrated Service Network 10 Medical Facility, Report No. 16-03137-208, July 12, 2018.
- OIG Report, Review of Two Mental Health Patients Who Died by Suicide, William S. Middleton Memorial Veterans Hospital, Madison, Wisconsin, Report No. 17-02643-239, August 1, 2018.
- OIG Report, Deficiencies in Discharge Planning for a Mental Health Inpatient Who Transitioned to the Judicial System from a Veterans Integrated Service Network 4 Medical Facility, Report No. 18-03576-158, July 2, 2019.
- OIG Report, Review of Mental Health Clinical Pharmacists in Veterans Health Administration Facilities, Report No. 18-00037-154, June 27, 2019.
- OIG Report, Alleged Nonacceptance of VA Authorizations by Community Care Providers, Fayetteville, North Carolina, Report No. 17-05228-279, September 20, 2018.
- OIG Report, Delays and Deficiencies in Obtaining and Documenting Mammography Services at the Atlanta VA Healthcare System, Report No. 17-02679-283, September 13, 2018.
- OIG Report, Expendable Inventory Management System: Oversight of Migration from Catamaran to the Generic Inventory Package, Report No. 17-05246-98, May 1, 2019.
- OIG Report, Critical Deficiencies at the Washington DC VA Medical Center, Report No. 17-02644-130, March 7, 2018.

OIG CHALLENGE #3: ENSURING THE ACCURACY AND TIMELINESS OF BENEFIT SERVICES

STRATEGIC OVERVIEW

VBA delivered approximately $105 billion in Federally authorized benefits and services to eligible Veterans, their dependents, and survivors in 2018. Recent VBA initiatives and policy changes have been well-intentioned to expedite the benefits process but have sometimes resulted in an increased rate of inaccuracies.

OIG reports also identified other recurring deficiencies, such as poor planning and a lack of adequate controls and information technology functionality (see Challenge 6), which resulted in the inefficient delivery of services, inaccurate benefits, and an elevated risk for fraud. Further detail is provided below on the work the OIG performed on identified challenges to identify ways to:

- Improve prompt and accurate benefit claims and appeals processing;
- Help VBA identify fraud, waste, and abuse within benefits services; and
- Increase the efficiency of education and other benefits administration.

OIG SUB-CHALLENGE #3A: IMPROVING THE ACCURACY AND TIMELINESS OF CLAIMS DECISIONS AND APPEALS

As described in the November 2018 OIG congressional testimony, "VA's Development and Implementation of Policy Initiatives," the OIG identified common systemic issues that contributed to the troubling outcomes detailed in four report findings. These include deficient control activities, inadequate program leadership and monitoring, a lack of information technology system functionality, and the unintended impacts of VBA's NWQ implementation. The work queue changes, for example, led to the discontinuance of some specialized claims processing teams. The OIG reported that about 45 percent of ALS claims completed from April through September 2017 had erroneous decisions, with estimated underpayments of about $750,000 and overpayments of about $649,000 to a total of 230 Veterans. These errors reflect the complexity of these claims, which most rating personnel did not review often enough to maintain proficiency in the area. ALS claims can involve a wide range of medical complications, evaluations, and special monthly compensation levels. Similarly, within the last year, OIG reported on related concerns regarding the adjudication of other complex claims, particularly those for MST. Discontinued specialized claims processing ultimately led to inaccurate decisions. In implementing OIG recommendations, VBA reintroduced specialized teams to complete more complex cases involving military sexual trauma and ALS.

As discussed in another June 2019 congressional hearing on "Ensuring Access to Disability Benefits for Veteran Survivors of Military Sexual Trauma," OIG made six recommendations to the USB in its 2018 report (Denied Posttraumatic Stress Disorder Claims Related to Military Sexual

Trauma). The recommendations included that VBA review all approximately 5,500 military sexual trauma-related claims denied from October 2016 through September 2017, take corrective action on those claims in which VBA staff did not follow all required steps, assign military sexual trauma-related claims to a specialized group of claims processors, and improve oversight and training on addressing these claims. The Under Secretary concurred with the recommendations and has already taken steps to address them, particularly in the area of training.

VA PROGRAM RESPONSE: OIG SUB-CHALLENGE #3A:

Estimated Resolution Timeframe: 2020

Responsible Agency Official: USB

VBA is committed to processing all claims and appeals, regardless of complexity, as efficiently and correctly as possible. In November 2018, VBA reestablished specialized claims processing teams at each RO. This allows VBA to continue to leverage the operational efficiencies offered by the NWQ, while also developing personnel who have the appropriate specialized training and expertise to accurately process the most complex cases, such as those related to ALS, MST, traumatic brain injury, etc.

VBA is also committed to enhancing the oversight of the adjudication of claims requiring specialized processing. During FY 2019, VBA completed a review of 9,724 MST claims previously denied between October 2016 through June 2018, to certify whether appropriate actions were taken. In cases where additional actions were determined necessary, VBA is currently taking corrective action and anticipates completion by the end of FY 2019. In addition, the Quality Assurance staff in VBA's Compensation Service has a dedicated team conducting quality reviews on specific topics, which are referred to as special focus reviews. This team is conducting a special focused review of MST-related claims in the last quarter of FY 2019 to assess the quality of MST claims decisions. Any erroneous decisions found during this review will be returned to the ROs for corrective action. This review will provide findings and recommendations to identify areas for improvement through training. In FY 2019, VBA also completed a special focused review of ALS-related claims. Findings of that special review were presented to ROs during the June 2019 monthly national Quality Assurance call. VBA also drafted technical business requirements to enhance system functionality that will generate language in ALS-related notification letters informing Veterans of any additional special monthly benefits to which they may be entitled because of their ALS disability.

VBA also remains committed to enhancing the oversight of its appeals program and improving the quality and processing timeliness of its appeals decisions. VA successfully implemented the Veterans Appeals Improvement and Modernization Act of 2017 (AMA) on February 19, 2019, which streamlines the disagreement process and establishes three decision review options: higher-level review, supplemental claim, or appeal to the Board

of Veterans' Appeals (Board). This is one of the most significant statutory changes to affect VA in decades. VBA's Decision Review Operations Centers (DROC) have processed the intake of over 80,776 AMA claims since February 19, 2019. DROCs are processing higher-level reviews and other AMA-related claims in 33.3 days, well below the 125-day timeliness goal. VBA's Appeal Management Office, which is responsible for the oversight of VBA's appeals, is also committed to eliminating its nonremand legacy appeals, which it expects to resolve in FY 2020. By end of July 2019, VBA had less than 152,000 in its nonremand legacy inventory (compensation and pension appeals). Furthermore, VBA is leveraging feedback from the higher-level reviews and Board remands to improve claims decision accuracy.

OIG SUB-CHALLENGE #3B: IDENTIFYING AND MITIGATING THE RISK OF BENEFITS-RELATED FRAUD, WASTE, AND ABUSE

VBA has a duty to identify and mitigate the risk of benefits fraud to protect the integrity of the program and ensure that Veterans receive their full and correct benefit entitlements. VA's ongoing "Seek to Prevent Fraud, Waste and Abuse" (STOP FWA) initiative is expected to ensure a more consistent approach throughout VA to curtail misconduct. Nonetheless, the OIG continues to identify areas of concern. For example, in Timeliness of Final Competency Determinations, the OIG identifies delays in completing final competency determinations, resulting in potentially incompetent beneficiaries receiving ongoing benefits payments for extended periods without the protection of a VA-appointed fiduciary.

Further, during the first half of FY 2019, the OIG opened 108 investigations involving the fraudulent receipt of VA monetary benefits, including those for deceased payees, fiduciary fraud, identity theft, and fraud by beneficiaries, which resulted in 39 arrests. The OIG also obtained more than $8.5 million in court-ordered fines, restitution, penalties, and civil judgments; achieved more than $33.4 million in savings, efficiencies, and cost avoidance; and recovered more than $5.9 million.

VA PROGRAM RESPONSE: OIG SUB-CHALLENGE #3B:

Estimated Resolution Timeframe: 2020

Responsible Agency Official: USB

Utilizing contract support, VBA created algorithmic programs to proactively identify fraudulent direct deposit changes, improper benefits payments in VA's Disability Compensation and Pension programs, as well as assisting State and Federal investigative agencies with evidence collection. During FY 2019, VBA completed the initial analysis that identified approximately $181 million in potential improper payments as a result of deceased Veterans, beneficiaries, and dependents not originally caught in the Social Security Administration (SSA) Death Master file match. In August 2019, VBA expanded its information sharing agreement with SSA to include information regarding deceased dependents of VA Disability Compensation and Pension benefit recipients. This expansion strengthened the current data exchange with SSA that notifies VBA of a

primary beneficiary's death. The new data sharing agreement promotes more timely adjustments of VA's monthly monetary benefits, reduces improper payments, and decreases potential overpayments. By increasing the scope of Federal matching programs, VBA can streamline and improve the accuracy of benefit calculating by relying less on self-reported claimant information.

VBA continues to utilize proactive algorithms that identified over 70 percent of all fraudulent direct deposit changes before the Veteran or VA beneficiary knew they were victims of fraud. As of August 1, 2019, the algorithms identified over 3,300 fraud cases, and allowed VBA to prevent or recover over $4.29 million from being stolen from Veterans and the VA. VBA has provided OIG full access to the evidence and analyses for the 3,300 fraud cases. To better serve Veterans who were victims of fraud, VBA scripted automated investigation determinations and revamped the process to ultimately reduce Veteran victim repayment times from over 28 days to less than 6 business days.

In efforts to further assist OIG, VBA's analytics team continues to build out connected case and trend analysis investigation models to graphically show active fraud rings as well as provide both raw and aggregated data to investigators. In addition to proactively identifying payment redirect fraud, VBA continues to develop algorithms to identify fraudulent benefits double-dipping schemes as well as improper payments due to people, process, and system errors. Over the past two years, VBA identified and remediated over 70 Veterans who were being double paid as a result of duplicate corporate records. VBA also sent six additional proactive fraud investigation requests to OIG.

VBA is currently overhauling its fiduciary field examination process and implementing new technology allowing the agency to increase efficiencies, better utilize valuable resources, and strengthen oversight of the fiduciary program. In April 2019, VBA implemented overarching procedural changes to its fiduciary accounting and misuse process to improve identification of misuse when an accounting is delinquent, erroneous, or incomplete. Three months later, VBA revised its procedural guidance reducing process delays for final incompetency determinations when VA beneficiaries submit additional evidence. Together, these process improvements and technology advancements allow VBA to reduce fraud, waste, and abuse in VA benefit programs.

OIG SUB-CHALLENGE #3C: EFFECTIVELY AND EFFICIENTLY ADMINISTERING EDUCATION AND OTHER BENEFITS

Recent hearings and media accounts have focused attention on concerns that eligible Veterans are not receiving their benefits promptly, particularly those related to education. There are concerns about VA overpayments related to benefits as well. OIG reports and congressional testimony (see resource list below) highlight significant financial risks related to how education benefits—including those under the *Post-9/11 Veterans Educational Assistance Act of 2008* (Post-9/11 GI Bill) and the Forever GI Bill—are administered.

In *VA's Oversight of State Approving Agency Program Monitoring for Post-9/11 GI Bill Students*, the OIG estimates that 86 percent of state approving agencies did not adequately oversee Veterans' education and training programs to make certain that only eligible programs participated. OIG estimated that, without correction, VBA could issue an estimated $2.3 billion in improper payments to ineligible programs over the next five years.

VBA also faces challenges in efficiently administering benefits under the Survivors' and Dependents' Educational Assistance Program, the VA's second-largest education program. For example, OIG found in *Delays in the Processing of Survivors' and Dependents' Educational Assistance Program Benefits Led to Duplicate Payments* that delays in processing program benefit adjustments also led to overpayments totaling approximately $4.5 million through February 1, 2018. The causes of those delays include the lack of management of the electronic mailboxes at the regional and national levels, an ineffective notification process, and the lack of system functionality to flag cases with duplication of benefits. In addition, some workload distribution rules caused cases not to be distributed when ready for processing. Continued delays could result in an estimated $22.5 million in improper payments over a five-year period.

As an example of challenges encountered outside the education arena, the OIG report on Exempt Veterans Charged VA Home Loan Funding Fees found that about 72,900 Veterans were charged about $286.4 million in funding fees between 2012 and 2017 despite those Veterans being exempt from such fees because they were entitled to receive VA disability compensation. Also, VBA's Loan Guaranty Service managers that oversee VA's home loan guaranty program were aware since October 2014 that thousands of exempt Veterans may have been charged home loan funding fees. The team estimated VA had not yet given about $189 million in funding fee refunds to about 53,200 exempt Veterans. VA has taken steps to address this problem.

VA PROGRAM RESPONSE: OIG SUB-CHALLENGE #3C:

Estimated Resolution Timeframe: 2020

Responsible Agency Official: USB

In February 2019, VA awarded a software development and systems integration contract to Accenture Federal Services to make the necessary IT changes and updates to support the processing of education benefits under the Post-9/11 Veterans Educational Assistance Act of 2008 (Post-9/11 GI Bill) and the Harry W. Colmery Veterans Educational Assistance Act (Forever GI Bill). The Forever GI Bill is one of the most significant statutory changes to affect the Post-9/11 GI Bill benefit program since its inception. Since its passage, VA implemented 26 GI Bill-related provisions from the Colmery Act and is on-track to deploy the IT solution on December 1, 2019, for sections 107 and 501 of the Colmery Act.

VBA negotiated an amendment to the FY 2020 State Approving Agencies (SAA) cooperative agreement that requires SAAs

to evaluate program and operational changes that may affect a program's continued eligibility, at a minimum once every 24 months, beginning October 1, 2019. Furthermore, VBA established a work group to strengthen program oversight by developing a system of controls to ensure education and training programs comply with Title 38 requirements, protect taxpayers' and students' interests, and reset quality assurance metrics for the approval process and annual compliance surveys. Lastly, VBA contracted with W.P Cioffi for a recalibration of the SAA funding allocation model. Once the allocation model has been finalized, VBA will determine if adjustments to the funding distribution among the SAAs are warranted and if the total amount available for SAA contracts in statute is adequate.

VBA's Compensation Service and Education Service collaborated to identify cases with potential duplication of compensation and Dependents' Educational Assistance benefits and create an email portal directly notifying the Veterans service centers. VBA submitted IT business requirements for system functionality that will flag cases with duplication of benefits with a claim identifier, establish a system work item, and create a recurring report. The NWQ began assigning cases with the claim identifier for compensation award adjustments to remove the school child allowance and minimize any duplication of benefits and overpayment of benefits to Veterans.

VA recognizes the importance of ensuring our nation's Veterans are assessed fees and charges in accordance with VA policy, statutes, and regulations. VBA began processing home loan funding fee refunds on approximately 130,000 loans at all eight of its VA regional loan centers on July 1, 2019, and expects to complete the work no later than September 30, 2019. Going forward, refunds will be processed monthly for all Veterans who receive a retroactive VA disability rating during the previous month and any exempt Veterans who were charged in error by lenders on loans that were guaranteed during the previous month. Historically, VA tasked lenders with verifying the "exempt" status of Veteran homebuyers and the Department would identify waiver cases using its own internal loan audit process or by relying on Veterans contacting VA directly. Certificates of Eligibility (COE) include the Veteran's current funding fee exemption status. Information about funding fee refunds is also included on the COE to fully inform nonexempt Veterans who may later receive a retroactive rating. Information about funding fee refunds is also provided in disability compensation award letters. VA also modified the "home loan welcome" letter to make sure Veterans know they may qualify for a loan fee waiver, should they later obtain a VA disability compensation award. Lenders are now required to ask Veterans and Servicemembers if they have a disability claim pending with VA, and if so, to update the funding fee exemption status within three days of closing. Additional information about funding fee refunds has been added to the nationwide phone system menu. This menu prompt offers a detailed recorded message about funding

fees, followed by the option to speak with a Loan Specialist.

KEY RELATED LINKS:

- VA Office of Budget, Budget in Brief, March 2019, BiB-24.
- OIG Congressional Testimony, "VA's Development and Implementation of Policy Initiatives," November 29, 2018.
- OIG Report, Accuracy of Claims Involving Service-Connected Amyotrophic Lateral Sclerosis, Report No. 18-00031-05, November 20, 2018.
- OIG Congressional Testimony, "Ensuring Access to Disability Benefits for Veteran Survivors of Military Sexual Trauma, June 20, 2019.
- OIG Report, Denied Posttraumatic Stress Disorder Claims Related to Military Sexual Trauma, Report No. 17-05248-241, August 21, 2018.
- OIG Report, Timeliness of Final Competency Determinations, Report No. 17-05535-292, September 28, 2018.
- OIG Congressional Testimony, "Examining Ongoing Forever GI Bill Implementation Efforts," May 9, 2019.
- Semiannual Report to Congress, Issue 81, October 1, 2018–March 31, 2019: 27.
- OIG Issue Statement, Forever GI Bill: Early Implementation Challenges, Report No. 19-06452-97, March 20, 2019.
- OIG Report, VA's Oversight of State Approving Agency Program Monitoring for Post-9/11 GI Bill Students, Report No. 16-00862-179, December 3, 2018.
- OIG Report, Delays in the Processing of Survivors' and Dependents' Educational Assistance Program Benefits Led to Duplicate Payments, Report No. 18-01278-13, December 18, 2018.
- OIG Report, Exempt Veterans Charged VA Home Loan Funding Fees, Report No.18-03250-130, June 6, 2019.

OIG CHALLENGE #4: ENHANCING FINANCIAL MANAGEMENT AND CONTROLS

STRATEGIC OVERVIEW

Sound financial management is integral not only to ensuring the best use of limited public resources, but also to collecting, analyzing, and reporting reliable data to inform resource allocations. To that end, addressing shortcomings in VA's financial management would improve stewardship of the public resources entrusted to VA's use. Each year, OIG audits VA's consolidated financial statements, as required under the Chief Financial Officers Act, and completes a mandatory review of VA's compliance with IPERA. OIG also reviews other programs and activities to assess VA's management of appropriated funds.

During these reviews, VA's financial management system has routinely been identified as a contributing factor to internal control weaknesses. VA's system is over 25 years old and has limited functionality to meet current financial management and reporting needs. To address this, VA's FMBT program is focused on migrating VA

to a financial and acquisition management system solution that is compliant with Federal requirements. VA reports the FMBT program will increase the transparency, accuracy, timeliness, and reliability of financial information across VA, resulting in improved fiscal accountability to taxpayers and increased opportunity to improve care and services to Veterans.

While the migration to a new system should help facilitate improvement in some areas, OIG has concerns with VA's persistent struggle to adhere to IPERA requirements and the consequent increase in improper payments through noncompliant programs and activities. Specific issues identified during the OIG's work this year relate to:

- Financial controls;
- Improper payment rates; and
- VA's ability to manage appropriated funds.

OIG SUB-CHALLENGE #4A: IMPROVING FINANCIAL CONTROLS

The audits of VA's financial statements for FYs 2017 and 2018 identify five material weaknesses, which represent a deficiency or combination of deficiencies in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

The five material weaknesses identified are:

(1) Community care obligations, reconciliations, and accrued expenses;

(2) Financial systems and reporting;

(3) IT security controls;

(4) Compensation, pension, burial, and education actuarial estimates; and

(5) Entity controls, including those pertaining to the organizational structure of financial management and Chief Financial Officers.

The report also notes significant deficiencies regarding loan guarantee liability and procurement, undelivered orders, accrued expenses, and reconciliations. Four of the five material weakness were found in the prior year's audit. There were also two significant deficiencies. Because some of these deficiencies were due in part to limitations in VA's financial and acquisition systems, complete resolution will only be possible upon the successful completion of the FMBT program. VA expects this transformation to yield a modern financial and acquisition management solution with standardized business processes and reporting capabilities.

System shortcomings were also behind noncompliance with the FFMIA. VA was noncompliant with Federal financial management systems requirements and the United States Standard General Ledger at the transaction level under FFMIA. VA reported one violation of the Antideficiency Act in September 2018 and at this writing is in the process of reporting a second violation identified in FY 2018. In addition, VA identified five other violations of the Antideficiency Act that are carried forward from prior years and are under further discussion with the OMB's Office of General Counsel, as well as noncompliance with IPERA for FY 2017, the basis for which was previously reported by the OIG since 2012.

VA'S PROGRAM RESPONSE: OIG SUB-CHALLENGE #4A

Estimated Resolution Timeframe: Ongoing

Responsible Agency Officials: OM, OIT; Administrations

VA is committed to resolving the five material weaknesses and has been making incremental improvements to mitigate them. To address the significant challenge of replacing antiquated systems, which is the main cause for many of these weaknesses, VA embarked on a major systems improvement initiative to modernize the financial and acquisition systems. This effort will increase the transparency, accuracy, timeliness, and reliability of financial information, resulting in improved financial controls and fiscal accountability to American taxpayers.

In addition, VA is taking targeted actions to address the material weaknesses pertaining to the benefits program actuarial liabilities. Specifically, VA hired two additional certified actuaries in FY 2019 to address the material weaknesses related to establishing benefits program liabilities.

VA implemented a new Obligate at Payment process in FY 2019 for Community Care. This process allows us to obligate at the time of payment, thus reducing our stale obligation population. Furthermore, VA hired a Chief Actuary to develop and support an actuarial model to determine the liability for Community Care's incurred but not reported transactions.

To address the material weakness around financial reporting, VA continues to use a standardized approach for performing quarterly financial statement variance analysis and monthly abnormal balance reviews. This helps to identify the root causes that drive abnormal balances and the actions needed to correct them; as well as providing well-developed explanations to address material variances. VA has also developed procedures and controls to continually decrease the number of manual journal vouchers. VA continues to perform monthly analysis to further decrease the variances between budgetary to proprietary tie points.

In response to Entity controls, including those pertaining to the organizational structure of financial management and Chief Financial Officers, VA's CFO established a formal CFO council to facilitate communication and control over Departmentwide CFO functions and is using the council meetings to discuss remediation activity for the Financial Statement audit. The Administrations and program offices are actively engaged and continuously working to improve and strengthen controls in financial management.

OIG SUB-CHALLENGE #4B: REDUCING IMPROPER PAYMENT RATES

VA continues to struggle to comply with the requirements of IPERA, as evidenced by a significant increase in improper payments in FY 2018. In the 2018 Agency Financial Report, VA discloses improper payments totaling $14.73 billion, an approximately 38 percent increase from the $10.66 billion reported in FY 2017. This increase was primarily due to VA identifying and reporting

higher improper payments for eight programs and activities—seven in VHA and one in VBA. Several programs and activities were identified as noncompliant for several consecutive years—four for four years, one for three years, and four for two years.

With the implementation of the VA MISSION Act, which carries the risk of significant cost overruns, it is imperative that VA continue to address the root causes of improper payments for community care identified during OIG audits. For example, the 2018 OIG report on *Bulk Payments Made under Patient-Centered Community Care/Veterans Choice Program Contracts* raised major concerns about how VA processed aggregate payments (referred to as "bulk payments"). The OIG determined that third-party administrators submitted requests for, and VA made, 253,641 duplicate payments on 4,758,759 claims (5.3 percent) through the bulk payment process from March 4, 2016, through March 31, 2017. Due to ineffective internal controls, VA failed to identify improper claims submitted by third-party administrators and made a total of $101.4 million in estimated overpayments to them. Other payment errors occurred because VA did not effectively follow internal control principles identified in the GAO's *Standards for Internal Control in the Federal Government*. VA is currently working to ensure proper processes are in place to prevent payment of duplicate claims. VA is also reviewing and determining an appropriate process to recoup the identified overpayments.

In another example, OIG's report on *Use of Not Otherwise Classified Codes for Prosthetic Limb Components* revealed that from October 2014 through July 2017, VHA spent approximately $38 million on prosthetic items classified using a not-otherwise-classified code, overpaying vendors about $7.7 million. Using an incorrect code can cause an overpayment because items not otherwise classified are not subject to established reimbursement rates.

VA PROGRAM RESPONSE: OIG SUB-CHALLENGE #4B

Estimated Resolution Timeframe: 2022

Responsible Agency Official: Assistant Secretary for Management and CFO (Lead); Executive in Charge VHA; USB; and Principal Executive Director and Chief Acquisition Officer Office of Acquisition, Logistics, and Construction

VA did report approximately $14.73 billion in improper payments in its FY 2018 Agency Financial Report, which is an increase over prior years. As also noted in the AFR, most of these improper payments (87.3 percent) did not represent a loss or waste. VA fully understands the risk of loss in its programs and is committed to implementing changes that will prevent this going forward. However, because the definition of improper payments also includes administrative errors such as failure to follow a requirement that did not result in loss, VA cannot focus on only those payments that result in a loss. VA has worked diligently to understand the root causes that are causing its improper payments and develop realistic plans and

timelines for implementing corrective actions, which will increase compliance. All programs with an improper payment rate above 10 percent have a corrective action plan in place to reduce the improper payment rate to under 10 percent within three years. While those corrective actions are being worked daily, many address systemic issues that will take time to implement (such as VA MISSION Act and awarding contracts in other programs). This means that VA will not fully report the results of all ongoing and planned corrective actions until the FY 2022 Agency Financial Report. However, as corrective actions are successfully implemented during this timeframe, VA will report reductions. We remain committed to reducing improper payments, especially monetary loss, while still ensuring that our actions do not impact timely access to care.

OIG SUB-CHALLENGE #4C: IMPROVING MANAGEMENT OF APPROPRIATED FUNDS

Federal agencies are expected to abide by the body of law that governs how appropriated funds may be used, adhering to the golden rules of fiscal law: purpose, time, and amount.[2] However, OIG reviews reveal that VA has struggled in this regard. One example from a recent OIG report on *Decision Ready Claims Program Hindered by Ineffective Planning* related to improper payments for medical exams to support Veterans' applications or claims for disability compensation. VBA contravened Federal statutes and regulations by obligating and expending more than $10.5 million for contract medical examinations before Veterans applied for disability compensation benefits. Because no claim had been made at the time of the medical examination, there was no entitlement to such examination under Federal law, and no appropriated funds were available to pay for it. Accordingly, any such obligation and expenditure would violate the Antideficiency Act, in addition to potentially being an improper payment.

VA again appeared to have difficulty in cost-effectively implementing a major initiative. In *Lost Opportunities for Efficiencies and Savings During Data Center Consolidation,* detailing VA's approach to migrating IT server infrastructure to data centers, the OIG found that VA did not maintain complete, up-to-date data center inventories. VA also lacked an adequate plan to meet optimization targets for data centers at its existing facilities. Consequently, VA lost opportunities to consolidate data centers that would increase its operational efficiency and achieve additional cost savings. Furthermore, VA did not satisfy the data center consolidation strategy provisions of the Federal IT Acquisition

[2] Purpose ("necessary expense rule") is using the appropriated funds specifically for the purpose intended by Congress. Time ("bona fide needs rule") is obligating the appropriated amount within the allowed time for each specific type of funding. Amount (*Antideficiency Act*) prohibits obligations and expenditures in advance or in excess of an appropriation. See GAO, Principles of Federal Appropriations Law, 2016 rev., ch. 2, § C.1, GAO-16-464SP (Washington, DC: March 2016).

Reform Act. VA also did not meet the OMB's FY 2018 target of $85.35 million in planned savings and cost avoidances. VA has efforts underway to effectively communicate OMB's Data Center Optimization Initiative requirements to all staff responsible for its data centers. In addition, VA is developing a mechanism for validating the accuracy and completeness of reported data center information to the OIT's National Data Center Program team.

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #4C

Estimated Resolution Timeframe: Resolved

Responsible Agency Officials: USB and the Assistant Secretary for OIT and Chief Information Officer (CIO)

This sub-challenge is covered by two VA organizations: VBA and OIT. The organizations have responded specifically to those parts of the challenge that pertain to them.

Veterans Benefits Administration response:

VBA's Decision Ready Claims (DRC) program ended on February 19, 2019, and no additional medical disability examinations were requested under that program after that date. VBA disagreed with OIG's interpretation of the Antideficiency Act citing detailed interpretation of VA appropriation statutes as well as legal precedent. Given that the expenses for DRC examinations allowed VBA to carry out its general function of providing examinations for claimants, it is VBA's position that expenses related to these examinations constitute an appropriated or necessary expenditure. Additionally, of the $10.5 million cited by OIG as improper payments made under the DRC program, only $972,000 (9.3 percent) was actually expended.

OIT's response:

Regarding OIG's report, *Lost Opportunities for Efficiencies and Savings During Data Center Consolidation* (Report No. 16-04396-44): since the audit took place in 2016, the OIT developed an accurate mechanism for validating the accuracy and completeness of reported data center information to the OMB. The OMB closure target was arbitrarily set up and did not take Agencies' missions into consideration. To meet the OMB closure target, VA would have been required to close mission-critical data centers providing health care services to Veterans. VA and OMB worked together to establish an informal target of 60 data center closures in FY 2018, which VA exceeded by closing 78.

The Data Center Optimization Initiative (DCOI) strategic plan for FY 2017 and FY 2018 did not include cost savings targets since VA was not closing brick and mortar data centers but moving servers from communications closets to computer rooms. The reasoning behind the lack of cost savings/avoidances was also communicated to OMB. The realized cost avoidance VA reported was based on utilizing two Federally shared data centers in lieu of using a commercial lease when consolidating VistA.

The updated DCOI memo, published on June 25, 2019, provides updated DCOI metrics for FY 2019 and FY 2020, these now include: Energy Metering,

Virtualization, Server Utilization, and Availability.

OIG closed all recommendations for the cited report, *Lost Opportunities for Efficiencies and Savings During Data Center Consolidation* (Report No. 16-04396-44) – effective July 1, 2019.

KEY RELATED LINKS:

- OIG Report, Audit of VA's Financial Statements for Fiscal Years 2018 and 2017, Report No. 18-01642-09, November 26, 2018.
- OIG Report, VA's Compliance with the Improper Payments Elimination and Recovery Act for FY 2018, Report No. 18-05864-127, June 3, 2019.
- OIG Report, Bulk Payments Made under Patient-Centered Community Care/Veterans Choice Program Contracts, Report No. 17-02713-231, September 6, 2018.
- OIG Report, Use of Not Otherwise Classified Codes for Prosthetic Limb Components, Report No. 16-01913-223, August 27, 2018.
- OIG Report, Decision Ready Claims Program Hindered by Ineffective Planning, Report No. 18-05130-105, May 21, 2019.
- OIG Report, Lost Opportunities for Efficiencies and Savings During Data Center Consolidation, Report No. 16-04396-44, January 30, 2019.

OIG CHALLENGE #5: OVERSEEING THE COMPLIANCE AND INTEGRITY OF PROCUREMENT PRACTICES

STRATEGIC OVERVIEW

VA procures tremendous quantities of goods and services from vendors through contracts and purchase card transactions to facilitate departmental operations and deliver medical care and benefits to Veterans. To provide oversight of that effort, in FY 2018, OIG assessed procurement practices through preaward and postaward contract reviews, program reviews, and investigations. Recent OIG reviews noted ongoing opportunities to strengthen VA's procurement practices. The improvements recommended to correct these deficiencies will decrease the risk of continued waste. As discussed below,

- OIG uncovered significant discrepancies between VA contracting practices and requirements, as well as vendor noncompliance; and
- VA continued to experience potential illegal or improper purchasing due to an overall failure to identify and detect improper purchase card practices.

Without improvements, VA faces challenges to ensuring that goods and services are acquired properly and promptly.

OIG SUB-CHALLENGE #5A: IMPROVING CONTRACTING PRACTICES

VA continues to struggle to maximize opportunities for contract-related cost

savings and recoveries, which OIG identifies through preaward and postaward contract reviews as well as audits. In the first six months of FY 2019 alone, through 35 preaward reviews,[3] OIG identified nearly $1.3 billion in potential cost savings that could be negotiated by VA. During the same period, through postaward contract reviews, some of VA's vendors were found to be noncompliant with contracts or specific terms. OIG completed 18 postaward reviews that resulted in $22 million in recoveries of contract overcharges, including approximately $8.6 million related to the Veterans Health Care Act compliance with pricing requirements, recalculation of Federal ceiling prices, and appropriate classification of pharmaceutical products.

OIG also recently published an audit of VA's Transformation Twenty-One Total Technology Next Generation multiple award contract, which involves awards to 28 contractors for IT services with a total maximum value of $22.3 billion. While the OIG did not identify violations of Federal and VA acquisition regulations (VAAR), the audit team found oversight weaknesses that, if not corrected, could increase the likelihood of VA conducting business with contractors unable to provide services according to contract requirements. These weaknesses place IT systems and hundreds of millions of taxpayer dollars at risk and potentially harm VA's ability to fulfill its mission to care for Veterans.

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #5A

Estimated Resolution Timeframe: Ongoing

Responsible Agency Official: Principal Executive Director of Office of Acquisition, Logistics, and Construction

The Office of Acquisition, Logistics, and Construction has an established procedure for pre- and postaward reviews for the Federal Supply Schedule (FSS) Program, which are currently performed by the OIG. Preaward and postaward reviews are performed when an offer or contract meets the established dollar threshold, when irregularities are found, or as required by P.L. 102-585, Veterans Health Care Act of 1992 (pertains to covered drugs). Once the review is complete, the FSS contracting staff considers and uses the OIG recommendations when negotiating contract pricing and determining an award. With postaward reviews, VA negotiates a settlement to recover any overcharges. This practice has been in place for over 39 years and will continue as long as the VA FSS program is viable.

Although OIG's audit of VA's Transformation Twenty-One Total Technology – Next Generation contract identified what they consider oversight weaknesses despite no violations of Federal or VAAR, VA's Chief Acquisition

[3] In May 2018, VA revised its Directive 1663 that requires CORs to submit sole source proposals for health care resources valued at $400,000 or more annually to the OIG for a preaward review.

Officer and Senior Procurement Executive agreed to present the OIG's recommendations for additional policy to the Department's Senior Procurement Council to review and assess full consideration, impacts, and implied benefits of additional policy, and to establish standards for internal controls within VA at an enterprise level, rather than imposing additional requirements just for Technology Acquisition Center (TAC) contracting staff. This enterprise approach is further supported by the most recent GAO report that concludes VA's regulations and policies are both outdated and disjointed, calling them difficult for contracting officers to use. OIG's recommendations that indicate TAC alone should put policies in place, as identified in their report, would serve to further exacerbate the very problem identified by the GAO as it relates to disjointed Departmental policy.

OIG SUB-CHALLENGE #5B: IMPROVING PURCHASE CARD PRACTICES

VA's Financial Services Center (FSC) Data Analytics team has developed an interactive analytics dashboard with a comprehensive view of VHA purchase card behavior. This data is generated by the FSC using data obtained directly from US Bank with supporting detail. The dashboard was started in 2018 to help the FSC flag potential purchase card issues. VA reports it is being rolled out in 2019 and will be available for purchase card managers to help them monitor purchase card behavior in their facility. The dashboard is meant to provide an improved level of transparency over purchase card use and includes analytical tools for reviewers to drill down to the transaction level for details on purchases such as those from high-risk vendors, transactions over the purchase cardholder's limit, and potential split purchases.

Despite efforts to improve monitoring, the OIG continues to see instances in which VA personnel are inappropriately using purchase cards to circumvent the contracting process and otherwise misusing purchase cards, which can undercut VA goals and invite fraud and abuse. This is particularly the case when the same employees are both ordering and receiving goods or services, leaving these activities largely unchecked. VA continues to face barriers to ensure that purchase cardholders acquire goods and services properly and in a timely manner when there is a bona fide need. In one example, an OIG fraud investigation resulted in charges that the defendants used a VA purchase card to pay fraudulent invoices. A former VA supervisor and his wife provided a third-party vendor with fraudulent invoices from her company for goods and services that were not actually provided to the vendor. The vendor then fabricated his own set of fraudulent invoices to bill VA for goods and services. The amount of the invoices billed to VA and paid for with the VA purchase card equaled the amount the vendor paid the wife's company plus a 30 percent commission. The loss to VA is at least $714,000.

Another example illustrates how lax oversight of purchase card transactions can affect Veterans. After receiving an OIG hotline allegation that a Veteran had waited

over six months for prosthetics ordered and paid for by VA, OIG requested a response from the VAMC in San Antonio, Texas. The medical center determined that the purchasing agent failed to follow up with the vendor to ensure that the required order had been received. As a result of this case inquiry, the purchasing agent received appropriate counseling, new cross-checks between purchase card transactions and receipts were implemented, and a supervisory purchasing agent was hired. The OIG subsequently closed the matter.

In the report on the *FY 2018 Risk Assessment of VA's Charge Card Program*, the OIG found that VA's overall capacity to detect illegal, improper, or erroneous purchases is unchanged from the prior year.

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #5B

Estimated Resolution Timeframe: 2021

Responsible Agency Official: OM

VA manages one of the largest purchase card programs in the Federal government. In FY 2018, VA spent $4.6 billion on over 7.1 million transactions. Such high volume of transactions increases the risks of fraud and errors. Understanding this risk, VA has made concerted efforts to improve the program controls over the past ten years.

Among the internal controls VA has implemented are reducing the number of purchase card accounts, and restricting high-risk merchant category codes, e.g., sporting goods. In addition, VA performs quarterly statistical audits of charge card purchases to ensure cardholders and approving officials reconcile their transactions timely to verify that purchases are proper. VA confirms that all purchase card transactions over the micro purchase threshold are made by warranted contracting officers. Furthermore, VA Financial Policy requires ongoing training for all purchase cardholders every two years. In addition to the internal controls implemented and as noted by OIG, VA FSC developed an interactive analytics dashboard with a comprehensive view of VA purchase card transactions. The FSC recently added a Compliance Audit Division (CAD) to assist in reviewing card activities and to identify and reduce risk. Furthermore, the CAD will conduct random site inspections to verify inventories and receipt of the required orders.

There is no internal controls system that can stop all instances of fraudulent activities involving collusion. However, VA is committed to improving internal controls by making appropriate changes to Financial Policy as potential weaknesses are identified. The key oversight goal of VA's purchase card program remains reducing and eliminating the risk of fraud. VA will continue to refine and improve its purchase card program and associated purchase card practices and oversight.

KEY RELATED LINKS:

- Semiannual Report to Congress, Issue 81, October 1, 2018–March 31, 2019: 25 and 40.
- OIG Report, VA's Administration of the Transformation Twenty-One Total Technology Next Generation Contract, Report No. 17-04178-46, June 13, 2019.
- OIG Report, Fiscal Year 2018 Risk Assessment of VA's Charge Card Program, publication pending July 2019.

OIG CHALLENGE #6: MINIMIZING RISKS AND INCREASING EFFECTIVENESS FOR INFORMATION MANAGEMENT SYSTEMS

STRATEGIC OVERVIEW

Secure and well-integrated IT systems and networks are integral to VA mission-critical programs and operations. VA has taken steps to advance its security efforts, demonstrated by the continued implementation of VA's ECSP initiative. The related strategic plan is designed to help VA achieve transparency and accountability while securing Veterans' information. The ECSP team has launched 31 plans of action to address previously identified security and IT weaknesses.

However, since 2000, OIG has identified information management as a major management challenge. VA's problems with planning and implementing IT affect the health care and benefits systems serving millions of Veterans, their family members, and caregivers. The contributing causes include lack of leadership, decentralized governance in which roles and responsibilities are unclear, failures to adequately plan and test technology to ensure it meets VA personnel and other users' needs, and improper use or reliance on ill-suited software. These persistent issues are also concerning given the magnitude of VA's IT investments. For example, for FY 2020, VA has requested $4.3 billion to fund information system security, system development initiatives, and system operations and maintenance.

Systems changes, such as the one proposed for EHRs alone, can have a staggering impact on health care providers' ability to make informed decisions for their patients, as well as Veterans' ability to access their comprehensive records and to keep that information private. To replace VistA, VA's legacy electronic health record system, with a commercially available software product, VA contracted with Cerner to provide the Millennium EHR, the same system that the DoD is deploying globally to replace its legacy EHR systems. Given the tremendous size, scope, and complexity of the EHR replacement, VA will take approximately 10 years to deploy the system nationally. When factoring in program management and infrastructure improvements, the program could cost upwards of $16 billion. Replacing the IT system for use by these two massive, interconnected health care information systems requires robust, consistent

leadership, as well as individual and joint management structures. Additionally, VA must address the cultural and work process changes that the new system brings, requiring the training of hundreds of thousands of health care providers and workers. As VA's first go-live event in March 2020 approaches, there are still countless governance and planning decisions to be made to minimize the disruption caused by a transition of this scale. VA OIG has been monitoring VA's progress on this effort to ensure it is positioned to provide oversight and accountability.

As described below, in FY 2019, OIG completed audits and programs to recommend improvements to VA on:

- Ensuring appropriate information technology safeguards are in place, and
- Reducing the risks to patients and poor outcomes for other beneficiaries of VA programs when new or changed IT and related processes are carried out.

OIG SUB-CHALLENGE #6A: ENSURING EFFECTIVE INFORMATION SECURITY PROGRAM AND SYSTEM SECURITY CONTROLS

During an April 2019 hearing before the Subcommittee on Technology Modernization, House Committee on Veterans' Affairs, the OIG summarized audits that demonstrated IT systems development is a persistent challenge for VA. Its information security program and practices are the cornerstone to VA's ability to provide benefits and services to Veterans in a manner that protects the confidentiality, integrity, and availability of VA systems and data. The Federal Information Security Management Act (FISMA) requires that agencies and their affiliates, such as government contractors, develop, document, and implement an organization-wide security program for their systems and data. As reflected in OIG's FISMA Audit for Fiscal Year 2018, VA continues to face significant challenges in complying with the requirements of FISMA due to the nature and maturity of its information security program. To achieve better FISMA outcomes, VA needs to take actions that:

- Address security-related issues that contributed to the IT material weakness reported in the FY 2018 audit of VA's Consolidated Financial Statements;
- Improve deployment of security patches, system upgrades, and system configurations that will mitigate significant security vulnerabilities and enforce a consistent process across all field offices; and
- Improve performance monitoring to ensure controls are operating as intended at all facilities and communicate identified security deficiencies to the appropriate personnel so they can take corrective actions to mitigate significant security risks.

Further, although VA has made measurable progress in implementing recommendations from prior audits, a recommendation from the FY 2006 audit pertaining to background investigations and reinvestigations for staff occupying sensitive IT positions is still pending.

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #6A

Estimated Resolution Timeframe: October 1, 2019

Responsible Agency Officials: Assistant Secretary for OIT and CIO

Since the 2018 OIG FISMA Audit report, VA continues to take proactive steps to address security-related issues and improve upon its organization-wide security program – focusing on information security, cybersecurity, and privacy throughout the enterprise. VA utilizes ECSP to align with VA's mission and core values; strengthen risk management processes in compliance with Executive Order 13800, "Strengthening the Cybersecurity of Federal Network and Critical Infrastructure"; support business strategic modernization initiatives inclusive of financial systems; and provide innovative cybersecurity solutions that protect the Veteran in alignment with FISMA. VA has also aligned to both the National Institute of Standards and Technology (NIST) Risk Management Framework (RMF) and the NIST Cybersecurity Framework (CSF) to manage the agency's cybersecurity risk. CSF provides VA with greater visibility into risk at the enterprise level, while RMF provides visibility into risk at the system level.

To address security-related issues that contributed to the IT Material Weakness, VA has implemented 33 compensating controls, along with remediation activities that reduce risks to an acceptable level. These activities provide additional mitigation of identified risks as well as strengthening the operating capabilities of controls across the organization. The implementation of the compensating controls involves collaboration across VA to address and mitigate identified deficiencies and is intended to prepare VA ahead of the next audit cycle beginning on October 1, 2019.

To mitigate security vulnerabilities and enforce a consistent process across all field offices, VA has established a Vulnerability Management Program, which provides centralized oversight of vulnerability monitoring and response processing spanning across VA facilities, medical centers, central office, ROs, and remote field operations. Since the program started, 65 million vulnerabilities have been remediated, accounting for a 66 percent reduction in aged vulnerabilities. ECSP has also prioritized Cybersecurity Projects and established accountable offices, assigned roles and responsibilities for delivery, and implemented mechanisms for tracking and monitoring the success of each project through closure. Programs and projects were prioritized to address the following identified activities:

- Security patches improving upon the software that is required for VA applications, accelerating VA's current remediation patch process. Since 2015, VA has achieved a 75 percent reduction in time to patch, measuring at 98 percent remediation;
- System upgrades via efforts such as the implementation of a new Governance, Risk, and Compliance tool that automates security documentation and enables greater visibility into cyber risks; and

- System configurations through enhancements to VA's Configuration Management program addressing system development and change management processes. In alignment with these efforts, VA has documented 54 original baselines as well as conducted 596 annual baseline reviews.

VA has also improved upon performance monitoring to validate that controls are operating as intended by continuing the implementation of VA's Information Security Continuous Monitoring/Continuous Diagnostic Monitoring Cybersecurity Project. This enables VA to maintain situational awareness of its security posture and make informed, timely security decisions. As of August 2019, 95 percent of sites have implemented ForeScout and supporting policies are active. Additionally, the incorporation of the RMF permits VA to monitor and analyze compliance, measure operational risk, and ultimately make risk-based determinations for an information system's Authority to Operate. This allows VA to enforce continuous evaluations and monitor identified vulnerabilities to identify the appropriate personnel that take corrective actions to mitigate significant security risks.

The estimated resolution timeframe is October 1, 2019, based on the planned completion of compensating control activates addressing the cybersecurity risks identified in the OIG Material Weakness findings, which would be reduced to an acceptable level.

OIG SUB-CHALLENGE #6B: MITIGATING RISKS AND POOR OUTCOMES CAUSED BY INFORMATION TECHNOLOGY PLANNING AND IMPLEMENTATION

Recent OIG reviews demonstrate that new IT must be introduced thoughtfully to mitigate risks to patients. This conclusion builds on an independent assessment that inadequate collaboration between VA's centralized IT organization and VHA has led to a failure to prioritize IT capabilities that support VHA's needs. For example, in *Delayed Radiology Test Reporting at the Dwight D. Eisenhower VA Medical Center in Leavenworth, Kansas*, the OIG reports that radiologists did not receive training on new software that generates alerts regarding abnormal test results. This was problematic because missing alerts was cited as a factor that contributed to providers' failure to timely communicate those results and the need for clinical follow-up. Although action is underway to correct the issues at the medical center, VA will need to scale training and risk-mitigation strategies systemwide as it implements the new EHR system.

The modernization effort will also need to take into consideration prior OIG concerns about opioid prescribing coordination, particularly between VA facilities and care in the community, as well as avoiding lag times in sharing records (as evidenced by large backlogs in scanning documentation into patient records).

IT problems can also have a serious effect on Veterans, their dependents, and caregivers when benefits are inappropriately delayed, canceled, or

inaccurately calculated. Following the OIG report on *Program of Comprehensive Assistance for Family Caregivers: Management Improvements Needed*, in which missteps are detailed in the program's planning and implementation, OIG continues to conduct oversight work on whether VHA takes timely and consistent action to appropriately discharge Veterans and their caregivers from the program. This includes actions to subsequently cancel caregiver stipend payments following a Veteran's or caregiver's death, or the Veteran's incarceration or hospitalization. With the expansion of the program under the VA MISSION Act, there will be additional stresses on VHA to make IT improvements that help ensure it avoids, identifies, and promptly resolves improper payments to caregivers due to deaths, incarcerations, or relevant hospitalizations of Veterans.

VBA also discontinued the Decision Ready Claims program, which OIG found was hindered by ineffective planning and lack of stakeholder involvement. VSOs had issues accessing the appropriate systems to file the claims and lacked resources to fill their anticipated role in helping Veterans prepare required documents. Overall, claim filing time was not found to be reduced. Discontinuing the program should allow VBA to refocus on more successful strategies and to use the lessons learned from this program to inform future planning.

VBA also struggled to implement key provisions of the Forever GI Bill that affected Veterans' housing allowance payments because VA lacked an accountable official to oversee the IT system implementation during most of the effort. This lack of oversight resulted in unclear communication of implementation progress and inadequately defined expectations, roles, and responsibilities of the various VA business lines and contractors involved. VBA has since put in place efforts to ensure that education claims are processed in accordance with the new law and that beneficiaries retroactively receive affected benefits, which will be monitored by the OIG.

VA'S PROGRAM RESPONSE: SUB-CHALLENGE #6B

Estimated Resolution Timeframe: Various

Responsible Agency Officials: Assistant Secretary for OIT and CIO, USH, USB

(This sub-challenge is covered by multiple VA organizations: OIT, VHA, and VBA. The organizations have responded specifically to those parts of the challenge that pertain to them.)

OIT's response:

Since the 2018 OIG FISMA Audit report, VA continues to take proactive steps to address security-related issues and improve upon its organization-wide security program – focusing on information security, cybersecurity, and privacy throughout the enterprise. VA utilizes the ECSP to align with VA's mission and core values; strengthen risk management processes in compliance with Executive Order 13800, "Strengthening the Cybersecurity of Federal Network and Critical Infrastructure"; support business strategic modernization initiatives inclusive of financial systems; and provide innovative cybersecurity solutions that protect the Veteran in alignment with

FISMA. VA has also aligned to both the NIST RMF and the NIST CSF to manage the agency's cybersecurity risk. CSF provides VA with greater visibility into risk at the enterprise level, while RMF provides visibility into risk at the system level.

To address security-related issues that contributed to the IT Material Weakness, VA has implemented 33 compensating controls, along with remediation activities that reduce risks to an acceptable level. These activities provide additional mitigation of identified risks as well as strengthening the operating capabilities of controls across the organization. The implementation of the compensating controls involves collaboration across VA to address and mitigate identified deficiencies and is intended to prepare VA ahead of the next audit cycle beginning on October 1, 2019.

To mitigate security vulnerabilities and enforce a consistent process across all field offices, VA has established a Vulnerability Management Program, which provides centralized oversight of vulnerability monitoring and response processing spanning across VA facilities, medical centers, central office, ROs, and remote field operations. Since the program started, 65 million vulnerabilities have been remediated, accounting for a 66 percent reduction in aged vulnerabilities. ECSP has also prioritized Cybersecurity Projects and established accountable offices, assigned roles and responsibilities for delivery, and implemented mechanisms for tracking and monitoring the success of each project through closure. Programs and projects were prioritized to address the following identified activities:

- Security patches improving upon the software that is required for VA applications, accelerating VA's current remediation patch process. Since 2015, VA has achieved a 75 percent reduction in time to patch, measuring at 98 percent remediation;
- System upgrades via efforts such as the implementation of a new Governance, Risk, and Compliance tool that automates security documentation and enables greater visibility into cyber risks; and
- System configurations through enhancements to VA's Configuration Management program addressing system development and change management processes. In alignment with these efforts, VA has documented 54 original baselines as well as conducted 596 annual baseline reviews.

VA has also improved upon performance monitoring to validate that controls are operating as intended by continuing the implementation of VA's Information Security Continuous Monitoring/Continuous Diagnostic Monitoring Cybersecurity Project. This enables VA to maintain situational awareness of its security posture and make informed, timely security decisions. As of August 2019, 95 percent of sites have implemented ForeScout and supporting policies are active. Additionally, the incorporation of the RMF permits VA to monitor and analyze compliance, measure operational risk, and ultimately make risk-based determinations for an information system's Authority to Operate. This allows

VA to enforce continuous evaluations and monitor identified vulnerabilities to identify the appropriate personnel that take corrective actions to mitigate significant security risks.

The estimated resolution timeframe is October 1, 2019, based on the planned completion of compensating control activates addressing the cybersecurity risks identified in the OIG Material Weakness findings, which would be reduced to an acceptable level.

VHA's response:

In reference to OIG 17-04003-222, the Program of Comprehensive Assistance for Family Caregivers (PCAFC): Management Improvements Needed, two of the six recommendations identified by OIG have been closed. Recommendations 2, 3, 4, and 6 remain open and are targeted to be completed by the end of FY 2019.

To address recommendation 1, VHA Directive 1152 was amended to include 14 standard operating procedures governing the delivery of PCAFC. Guidance is inclusive of PCAFC monitoring requirements, expectations for documenting changes in Veteran's functioning and degree of need including tier changes and discharge from PCAFC based on no longer meeting eligibility, as well as ensuring facilitation of referrals to appropriate supports and services. VHA wishes to note that in December 2018, VA issued a temporary suspension on reassessments leading to discharges or decreases in tier level and this suspension remains in effect. Eligibility determinations for PCAFC are complex and historically application processing times have resulted in delayed decisions. In the second quarter of FY 2019, a VHA-wide performance metric was established with a goal of processing 90 percent more applications within 90 days or less. Through July 2019, 88.90 percent of application decisions have been made in less than 90 days during the fiscal year.

As part of recommendation 1 and recommendation 5, OIG recommended the establishment and strengthening of a governance structure to monitor and oversee the administration of PCAFC. VHA has established a VISN Lead at every VAMC with a specific point of contact at each VISN office to ensure workload monitoring, provide guidance, coaching, and support to Caregiver Support Coordinators (CSC) within the VISN and ensure compliance with national policy and procedures. Both recommendations 1 and 5 are closed.

To improve accuracy of eligibility determinations as noted as an area for improvement in recommendation 2, VHA has developed and implemented a required clinical eligibility training for all new CSCs and VISN leads, as well as a required annual refresher training for CSCs and VISN leads. An annual training for all providers who participate in eligibility decisions has been developed and is pending deployment.

To address recommendation 3, the need for well-defined process for documenting changes in Veterans' health conditions during monitoring sessions to determine if those changes warrant a reassessment of the need for care or the level of care, a standardized process for documenting

changes in Veterans' health conditions during monitoring sessions was deployed as part of the VHA Directive update and also as a training on monitoring expectations to include guidance on the type and frequency of monitoring assessments, documentation of such assessments, and communication of such assessments to participants of the PCAFC was delivered to the CSC field in January 2019. To support accurate documentation of these actions, a toolkit was developed and deployed to the field in August 2019 to provide an additional resource for field-based staff in support of accurate data capture.

OIG further recommended that VHA should establish assessment guidelines that caregiver support coordinators should follow when a Veteran's need for care changes. An SOP is in development.

In response to OIG's recommendation to assess adequacy of staffing levels needed to implement PCAFC as intended, VHA has developed a staffing model to support PCAFC at local facilities based on facility complexity, type (rural/urban), and number of approved participants. This recommended staffing model can be adjusted at the local level to allow VISNs the ability to base staffing on individual facility needs. Guidelines were disseminated to VISN Directors in Q3 2019, and Networks were given the opportunity to request staffing to meet the capabilities required for the Caregiver Support Program (CSP). The VISN CSP leads, the national CSP program office reviewed the requests, and the majority of the requested positions were approved as they were supported by the staffing model. Notification to the field for these approvals was completed in August 2019 so that hiring can commence. Staffing is just one aspect of ensuring that the PCAFC is implemented as intended. In addition to disseminating application processing time metrics to Network directors this fiscal year, as identified earlier in this update, a Key Performance Metric report is disseminated quarterly to national CSP Managers demonstrating numbers of applications, approvals, denials, revocations, and timeliness of application determinations.

In reference to OIG 18-00980-84, Delayed Radiology Test Reporting at the Dwight D. Eisenhower VA Medical Center, Leavenworth, Kansas, all five remain open. The facility has completed the following: updated local policies for Reporting Critical and Abnormal Imaging Test Results and Protected Peer Review to align with current VHA directives, provided training to radiologists on the national diagnostic codes and the software that triggers view alerts, completed a management review of the provider, and performed an institutional disclosure to the Veteran. A request for closure was submitted for all five recommendations on July 1, 2019.

VBA's response:

VBA continues to evolve its IT program risk management capabilities. In partnership with VA's OIT, VBA is continuing to adopt agile development practices in concert with OIT Enterprise Project Management efforts. Across the spectrum of VBA IT initiatives, agile development practices continue to identify avenues for the development and production release of improved IT systems.

VBA is continually refining its governance practices and has adopted leadership driven forums to improve the collaboration with IT. The Benefits Systems Accountability Board routinely drives improved risk management and operational adjustments to VBA and OIT initiatives to improve service to Veterans and their dependents. OIT has improved its collaboration with VBA through improved practices adopted by its account management strategies.

In addition to improved development practices and improved governance capabilities, VBA and OIT are partnering in establishing OIT's ERM Framework. OIT's ERM Strategy and OIT's ERM Framework adhere to Federal regulations and mandates, including OMB Circular No. A-123, which requires agencies to implement an ERM capability that aligns to strategic planning and strategic review processes as established by the *Government Performance and Results Act Modernization Act of 2010*. The goal of ERM is to identify, assess, report, mitigate, and monitor risks affecting VBA's ability to carry out its mission. Altogether, improved agile development practices, improved governance capabilities, and expanded ERM capabilities continue to evolve and add key features to improve accountability and oversight of the development and deployment of VBA IT systems.

In February 2019, VA awarded a Software Development and Systems Integration contract to Accenture Federal Services to make the necessary IT changes and updates to support processing of education benefits under the Post-9/11 Veterans Educational Assistance Act of 2008 (Post-9/11 GI Bill) and the Colmery Act. VA is on-track to deploy the IT solution on December 1, 2019, for sections 107 and 501 of the Colmery Act. VBA anticipates meeting this challenge and address all existing beneficiaries in FY 2020.

To ensure this project remains on schedule, VBA established an Executive Steering Committee (ESC) consisting of senior leaders from OIT, VBA's Education Service (EDU), and VBA's Office of Business Process Integration (OBPI). The ESC meets weekly to review the implementation's progress, resolve any challenges or blockers to success, and ensure proper communication is occurring across this enterprise effort. Additionally, a Program Integration Office (PIO) was established with support from MITRE and includes staff from OIT, EDU, and OBPI. The PIO is responsible for all daily work related to the Colmery Act's implementation.

KEY RELATED LINKS:

- OIG Statement for the Record, "Mission Critical: Caring for Our Heroes," May 22, 2019
- OIG Congressional Testimony, "Mapping the Challenges and Progress of the Office of Information and Technology," April 2, 2019.
- OIG Report, Federal Information Security Modernization Act Audit for Fiscal Year 2018, Report No. 18-02127-64, March 12, 2019.
- OIG Report, Delayed Radiology Test Reporting at the Dwight D. Eisenhower VA Medical Center, Leavenworth, Kansas (VA Eastern Kansas Health

Care System), Report No. 18-00980-84, March 7, 2019.

- OIG Report, Program of Comprehensive Assistance for Family Caregivers: Management Improvements Needed, Report No. 17-04003-222, August 16, 2018.
- OIG Report, Decision Ready Claims Program Hindered by Ineffective Planning, Report No. 18-05130-105, May 21, 2019.
- OIG Congressional Testimony, "Examining Ongoing Forever GI Bill Implementation Efforts," May 9, 2019.
- OIG Issue Statement, Forever GI Bill: Early Implementation Challenges, Report No. 19-06452-97, March 20, 2019.
- The MITRE Corporation, Independent Assessment of the Health Care Delivery Systems and Management Processes of the Department of Veterans Affairs, Volume I: Integrated Report, September 1, 2015.

SECTION III: OTHER INFORMATION

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summary of audit-related or management-identified material weaknesses and the noncompliance with FFMIA and Federal financial management system requirements outlined in the 2019 AFR.

TABLE 1 - SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	Unmodified				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Controls Over Significant Accounting Estimates and Transactions	1	0	0	0	1
Liability for Community Care, Undelivered Orders, Reconciliations, and Accrued Expenses	1	0	0	0	1
Financial Systems and Reporting	1	0	0	0	1
IT Security Controls	1	0	0	0	1
Entity Level Controls including CFO Organizational Structure	1	0	0	0	1
Total Material Weaknesses	**5**	**0**	**0**	**0**	**5**

DID YOU KNOW?

What's innovation really doing at VHA? It's easy to talk about programs and ideas that should be changing and saving Veteran lives. But is it really happening? At VHA's Innovation Experience (iEx), Oct. 22 and 23, 2019, VA released the first ever VHA State of Innovation Report. The report will give Veterans and the public an in-depth look at just how innovation is affecting their lives. A few highlights of the report include:

Veteran Signals (VSignals) *has used artificial intelligence to help stakeholders identify patient feedback and concerns and help VHA staff identify Veterans at risk of suicide or homelessness with over three million completed surveys.*

The Alerts & Recall Closed Loop Communication System *integrates the capabilities of four web-based reporting applications to increase safety and mitigate risks for over 5.85 million Veterans, a scale unrivaled in the private sector.*

Project HAPPEN (Hospital-Acquired Pneumonia Prevention by Engaging Nurses) *has saved 45 Veteran lives and resulted in a $9.98 million cost avoidance by equipping hospitalized Veterans and their caregivers with the information and assistance they need to reduce the risk of developing hospital-acquired pneumonia.*

The Clinical Video Telehealth *neurology follow-up program is increasing access to care and rehabilitation to rural Veterans with multiple sclerosis (MS) through digital solutions, impacting the 33 percent of Veteran patients with MS who live in rural areas.*

TABLE 2 - SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	**Modified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls Over Significant Accounting Estimates and Transactions	1	0	0	0	0	1
Financial Systems and Reporting	1	0	0	0	0	1
Loan Guaranty Liability	1	0	0	1	0	0
Total Material Weaknesses	**3**	**0**	**0**	**1**	**0**	**2**
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	**Modified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
GAO High-Risk List	1	0	0	0	0	1
Budget Constraints for Updates to VBA Critical IT Systems	1	0	1	0	0	0
Liability for Community Care, Undelivered Orders, Reconciliations, and Accrued Expenses	1	0	0	0	0	1
Entity Level Controls including CFO Organizational Structure	1	0	0	0	0	1
Total Material Weaknesses	**4**	**0**	**1**	**0**	**0**	**3**
Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	**Systems conform, except for the below nonconformance**					
Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IT Security Controls	1	0	0	0	0	1
Total Nonconformances	**1**	**0**	**0**	**0**	**0**	**1**

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
1. **System Requirements**	Lack of compliance noted	Lack of compliance noted
2. **Accounting Standards**	No lack of compliance noted	No lack of compliance noted
3. **USSGL at Transaction Level**	Lack of compliance noted	Lack of compliance noted

SECTION III: OTHER INFORMATION

PAYMENT INTEGRITY

In FY 2019, VA successfully reduced improper payments in 11 programs. Overall, VA is reporting a reduction of $2.74 billion even with the addition of two new programs, DIC and Disaster Relief Funding.

In FY 2019, OMB provided new guidance[4] for reporting that requires agencies to break out improper payments as monetary loss (also known as overpayments), non-monetary loss, and unknown. However, VA continues to be concerned about the requirement to report payments as improper when they do not represent a monetary loss or underpayment. In FY 2019, VA has approximately $11.99 billion in improper payments; however, only about 8 percent (less than $1 billion) represent a monetary loss. The remaining 92 percent or $11 billion must still be reported as improper even though it cannot be recovered and are discussed in more detail below. To remedy this concern and its resulting burden on taxpayers, VA has submitted several legislative proposals that will increase the return on investment for agencies that report improper payments.

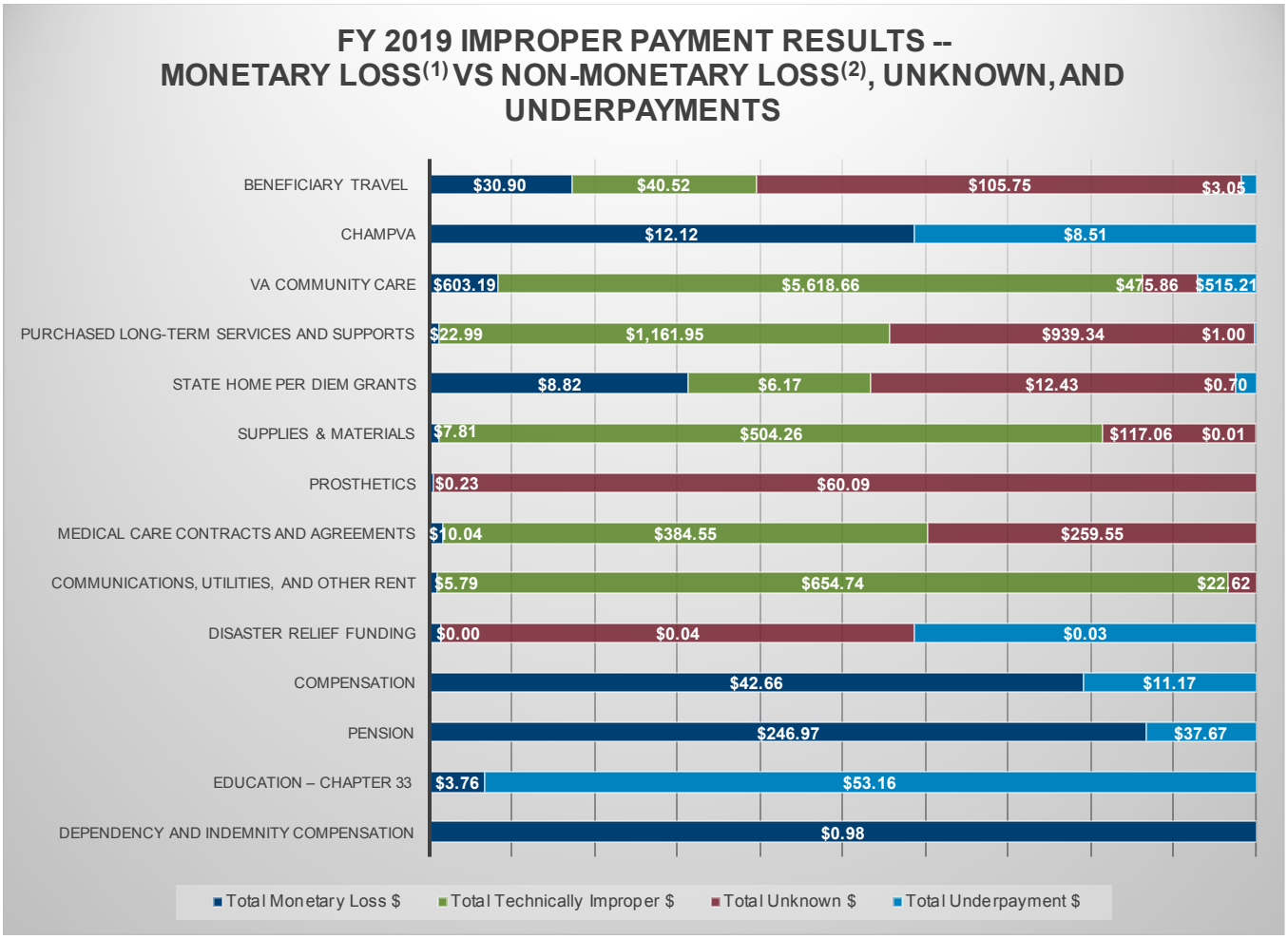
UNDERSTANDING VA'S IMPROPER PAYMENT

Since FY 2017, VA has worked to increase the transparency of reporting improper payments by defining those payments that result in monetary losses and non-monetary losses. In FY 2019, VA determined only about 8 percent of improper payments reported represent a monetary loss. An actual monetary loss can be characterized as an overpayment, duplicate payment, payment to the wrong person, or payment when the supplies or services were not received by the recipient. Due to the legislative definition, implementing guidance, and recommendations from the OIG, VA must also identify other types of payments as improper even though they do not represent a loss. These improper payments are referred to by OMB as non-monetary loss and can be further broken down into two subcategories, underpayments and technically improper (TI). Underpayments represent payments to an eligible recipient, but in an amount lower than what should have been paid. TI relates to payments that were made to the right person in the right amount but lack compliance with a legislative or regulatory requirement. VA is also required to report a third category of improper payments, unknown, which are defined as improper payments where VA is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.

[4] OMB Circular No. A-136, *Financial Reporting Requirements*, dated June 28, 2019.

SECTION III: OTHER INFORMATION

The chart below reports the monetary loss, non-monetary loss (underpayments and TI), and unknown improper payments by program. The projected amounts shown are based on a statistical calculation; therefore, the projected monetary losses do not represent amounts that VA can recover because individual recoverable payments have not been identified.



Notes:

(1) Total Monetary Loss, also known as overpayment, includes two sub-categories:
- Monetary Loss Estimate Within Agency Control – An overpayment that resulted in a monetary loss to the agency due to errors in agency program processing or billing (except for such a payment authorized by law); and
- Monetary Loss Outside Agency Control – An overpayment that resulted in a monetary loss to the Federal Government due to factors beyond the Agency's control.

In FY 2019, $976.38 million (98 percent) of Monetary Losses were Within VA Control. The remaining $19.88 million (2 percent) were Monetary Losses Outside VA Control, as reported for CHAMPVA ($3.98 million) and Pension ($15.90 million) for improper payments due to Program Design or Structural Issues.

(2) Total Non-monetary Loss is the amount of Underpayments and Technically Improper added together.

As stated in OMB Circular No. A-123, Appendix C, dated June 26, 2018, agencies may consider the acceptable amount of risk of improper payments to still achieve mission objectives. VA's overarching priority is providing Veterans with high-quality benefits, care, and services that meet their needs. While VA is committed to reporting improper payments correctly and is actively working to prevent future improper payments, in certain cases, VA must continue to put technicalities aside to better serve Veterans rather than prevent these improper payments. For example, in FY 2018 (the year payments reported as improper were made), VA was still required to utilize the Federal Acquisition Regulation (FAR) when purchasing care in communities across the country; however, there are multiple instances where the providers did not or would not agree to enter into FAR-compliant agreements even though the rate paid is legislatively mandated at the Department of Health and Human Services (HHS) CMS rate.[5] This puts the VA in the position of either declining to do business with the provider or moving forward with a non-FAR-compliant agreement to provide needed Veteran health care. These and other acquisition-related errors that did not result in a loss continue to represent a large portion of VA's TI payments, 70 percent or $8.37 billion improve the reduction of improper payments. As such, Corrective Action Plans are updated regularly to try to maximize reductions in improper payments.

WHEN DO CORRECTIVE ACTIONS IMPACT IMPROPER PAYMENTS?

Because IPERA reviews are of prior year payments, the results of corrective actions developed in FY 2019 and implemented during FY 2020 will not be fully reported on until the FY 2022 AFR.

PAYMENT REPORTING

In FY 2019, VA identified $123.88 billion of payments that were subject to IPERA testing for measuring improper payments compliance. Of this amount, testing identified $11.99 billion of statistically projected improper payments. The table on the following page summarizes VA's total improper payments in FY 2019. More detailed information on VA's improper payments, including historical improper payment data, can be found on PaymentAccuracy.gov.

[5] Although the VA MISSION Act, Pub. L. 115–182, June 6, 2018, 132 Stat. 1393), was enacted in 2018, VA will not be able to determine these payments proper until regulations have been implemented – a process that could take more than two years.

FY 2019 TOTAL IMPROPER PAYMENTS (IP) BY PROGRAM

($ in millions) (1)

Program or Activity	2019 Outlays	2019 Proper %	2019 Proper $	2019 IP Rate (based on 2018 actual data)				2019 IP Amount (based on 2018 actual data)			
				Over Payment (2)	Non-Monetary Loss(3)	Unknown	Total IP %	Over Payment(2)	Non-Monetary Loss(3)	Unknown	Total IP $
Beneficiary Travel	958.99	81.21	778.77	3.22	4.54	11.03	18.79	30.90	43.57	105.75	180.22
CHAMPVA	1,270.36	98.38	1,249.73	0.95	0.67	0.00	1.62	12.12	8.51	0.00	20.63
VA Community Care	7,811.81	7.67	598.89	7.72	78.52	6.09	92.33	603.19	6,133.87	475.86	7,212.92
Purchased Long Term Services and Supports	2,282.18	6.87	156.89	1.01	50.96	41.16	93.13	22.99	1,162.96	939.34	2,125.29
State Home Per Diem	1,317.63	97.87	1,289.52	0.67	0.52	0.94	2.13	8.82	6.87	12.43	28.11
Supplies and Materials	2,826.45	77.74	2,197.32	0.28	17.84	4.14	22.26	7.81	504.27	117.06	629.13
Prosthetics	2,859.38	97.89	2,799.06	0.01	0.00	2.10	2.11	0.23	0.00	60.09	60.32
Medical Care Contracts and Agreements	993.01	34.13	338.88	1.01	38.72	26.14	65.87	10.04	384.54	259.55	654.13
Communications Utilities, and Other Rent	1,573.62	56.59	890.47	0.37	41.61	1.44	43.41	5.79	654.74	22.62	683.15
Disaster Relief Funding(4)	19.46	99.61	19.39	0.01	0.16	0.22	0.39	0.00	0.03	0.04	0.07
Compensation	78,909.77	99.62	78,855.94	0.05	0.01	0.00	0.07	42.66	11.17	0.00	53.83
Pension	5,290.77	94.62	5,006.13	4.67	0.71	0.00	5.38	246.97	37.67	0.00	284.64
Education – Chapter 33	10,832.56	99.47	10,775.64	0.03	0.49	0.00	0.53	3.76	53.16	0.00	56.92
Dependency and Indemnity Compensation(4)	6,935.38	99.99	6,934.40	0.01	0.00	0.00	0.01	0.98	0.00	0.00	0.98
Totals	**123,881.37**	**90.32**	**111,891.03**	**7.56%**	**0.51%**	**1.61%**	**9.68%**	**9,367.11**	**630.51**	**1,992.74**	**11,990.34**

Notes to the Table:

(1) In FY 2019, VA tested and reported on payments made in FY 2018. These payments were made directly by VA using Federal money.
(2) Also known as Monetary Loss.
(3) Includes underpayments and technically improper payments.
(4) These programs were identified as being at risk for significant improper payments in FY 2018 and tested for the first time in FY 2019.

ROOT CAUSE OF IMPROPER PAYMENTS FOR PROGRAMS BELOW OMB THRESHOLD

The following tables summarize the dollar amounts associated with each OMB root cause for those programs that are below the OMB threshold for significant improper payments.

SECTION III: OTHER INFORMATION

IMPROPER PAYMENT ROOT CAUSE PROGRAMS BELOW OMB THRESHOLD (1)

($ IN MILLIONS)

Reason for Improper Payment			Program Design or Structural Issues	Inability to Authenticate Eligibility		Failure to Verify					Administrative or Process Error Made By			Medical Necessity	Insufficient Documentation to Determine	Other Reason (explain)	TOTAL
				Inability to Access Data	Data Needed Does Not Exist	Death Data	Financial Data	Excluded Party Data	Prisoner Data	Other Eligibility Data	Federal Agency	State or Local Agency	Other Party				
Disaster Relief Funding(6)	Monetary Loss (7)	Over payment	-	-	-	-	-	-	-	-	$0.001	-	-	-	-	-	$0.001
	Non-Monetary Loss	Under payment	-	-	-	-	-	-	-	-	$0.03	-	-	-	-	-	$0.03
		Technically Improper	-	-	-	-	-	-	-	-	-	-	-	-	-	-	$-
	Unknown		-	-	-	-	-	-	-	-	-	-	-	-	$0.04	-	$0.04
Compensation (4,5)	Monetary Loss	Over payment	-	-	-	-	-	-	-	-	$42.66	-	-	-	-	-	$42.66
	Non-Monetary Loss	Under payment	-	-	-	-	-	-	-	-	$11.17	-	-	-	-	-	$11.17
		Technically Improper	-	-	-	-	-	-	-	-	-	-	-	-	-	-	$-
	Unknown		-	-	-	-	-	-	-	-	-	-	-	-	-	-	$-
Education – Chapter 33(2)	Monetary Loss	Over payment	-	-	-	-	-	-	-	-	$3.76	-	-	-	-	-	$3.76
	Non-Monetary Loss	Under payment	-	-	-	-	-	-	-	-	-	-	$53.16	-	-	-	$53.16
		Technically Improper	-	-	-	-	-	-	-	-	-	-	-	-	-	-	$-
	Unknown		-	-	-	-	-	-	-	-	-	-	-	-	-	-	$-
Dependency and Indemnity Compensation (3)	Monetary Loss	Over payment	-	-	-	-	$0.98	-	-	-	-	-	-	-	-	-	$0.98
	Non-Monetary Loss	Under payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	$-
		Technically Improper	-	-	-	-	-	-	-	-	-	-	-	-	-	-	$-
	Unknown		-	-	-	-	-	-	-	-	-	-	-	-	-	-	$-

Notes:

(1) In FY 2019, VA tested and reported on payments made in FY 2018.
(2) Education – Chapter 33 expects to reduce improper payments by 0.01 percentage points to 0.52 percent in FY 2020.
(3) Dependency and Indemnity Compensation expects to set a reduction target after a 24-month reporting cycle when a full baseline has been established and reported.
(4) Compensation expects to reduce improper payments by 0.01 percentage points to 0.06 percent in FY 2020.
(5) Due to Compensation reporting over $100 million in monetary loss in FY 2018, the program was required under the President's Management Agenda Cross Agency Priority Goal 9 to report quarterly on activities and accomplishments that reduce monetary loss. Those activities and accomplishments can be found at PaymentAccuracy.gov. Compensation Service has remained committed to actions that reduce monetary loss and continues to tailor corrective actions to reduce improper payments. As a result, in FY 2019, the program reduced improper payments from $399 million in FY 2018 to $53.8 million in FY 2019, thus reducing the error rate from 0.55 percent to 0.068 percent. Monetary loss was reduced from $239 million in FY 2018 to $42.6 million in FY 2019.
(6) Disaster Relief Funding expects to set a reduction target after a 24-month reporting cycle when a full baseline has been established and reported.
(7) Monetary Loss is characterized as an overpayment, duplicate payment, payment to the wrong person, or payment when the supplies or services were not received by the recipient.

ROOT CAUSE AND CORRECTIVE ACTION PLAN FOR PROGRAMS ABOVE OMB THRESHOLD

Of the 14 VA programs identified as high risk, 10 programs exceeded the statutory thresholds for error rates and/or amounts of improper payments and require corrective action reporting. In order to comply with OMB Circular No. A-136, *Financial Reporting Requirements*, dated June 28, 2019, for each program that met the OMB threshold for significant improper payments, a table presents the monetary loss (also known as overpayments), underpayments and TI (also known as non-monetary loss), and unknown improper payments for each OMB root cause and the corrective action(s). OMB requires additional reporting for those programs with either $100 million in monetary loss and/or $2 billion in annual estimated improper payments. This reporting is included for VA Community Care (VACC), Purchased Long-Term Services and Supports (PLTSS), and Pension programs. Please see footnote for Compensation in previous section for additional required reporting.

Presented below are the corrective actions for VA programs that exceeded the statutory thresholds for error rates and/or amounts of improper payments.

BENEFICIARY TRAVEL

Beneficiary Travel is organizationally aligned under VHA Member Services. The program consists of mileage reimbursement, common carrier, and special mode transportation (ambulance, wheelchair van, etc.) to eligible Veterans and other beneficiaries. The actual cost for meals, lodging, or both may also be provided in limited circumstances but is not to exceed 50 percent of the amount allowed for government employees. The Beneficiary Travel program is discretionary in nature with funding coming from the yearly VA health care medical care services appropriation.

The program expects to reduce improper payments for beneficiary travel by 0.5 percentage points to 18.29 in FY 2020.

BENEFICIARY TRAVEL CORRECTIVE ACTION PLANS

OMB ROOT CAUSE	IMPROPER PAYMENT AMOUNT	CORRECTIVE ACTION	TARGET COMPLETION DATE
Insufficient Documentation to Determine	Unknown: $105.75M	Implement an integrated electronic invoice payment solution to improve accuracy of VHA ambulance invoice processing. Implementation is scheduled to begin in October 2019 with full deployment by May 2020.	May 2020
		Actively work with VA Medical Centers during the current IPERA testing cycle to remediate improper payments where appropriate.	June 2020
		Identify and submit proposed enterprise-wide infrastructure solutions to address management of staffing requirements, training, standardized business processes, program-level monitoring, and quality assurance reporting.	September 2020
		Conduct site visits to high-risk and other facilities throughout the fiscal year. Site visits allow for personalized training to ensure the documentation required from facilities properly support payment accuracy for mileage or special mode transportation.	September 2020
Program Design or Structural Issue	TI: $40.52M	Release a series of recurring online Veterans Transportation Service and Beneficiary Travel national educational forum sessions annually to increase standardization of processes in the field. Each interactive forum is targeted to issues such as covered benefits, increasing field compliance with established policies, and improving consistencies in payment methodologies. Updates to the national Mobility Management Academy curriculum are also completed annually.	September 2020
Administrative or Process Error Made by the Federal Agency	Monetary Loss: $30.90M Underpayments: $3.05M	Provide guidance to Beneficiary Travel stakeholders to ensure contract claims are paid in accordance with contract terms.	December 2019
		Implement the Beneficiary Travel Self-Service System (BTSSS) commercial off-the-shelf software which will provide a customized and enhanced tool to streamline claims, automate eligibility determinations, payment processing, detection and prevention of improper payments, along with enhanced reporting and auditing capabilities. BTSSS deployment is expected to start in May 2020 with full implementation in July 2020.	September 2020
Failure to Verify - Other Eligibility Data	Monetary Loss: $0.003M	Publish policy changes to improve clarity in current administrative qualification criteria.	September 2020

CHAMPVA

The Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA) is a health care benefits program in which VA shares the cost of covered health care services and supplies, usually as a secondary payer or payer of last resort, for certain eligible beneficiaries. CHAMPVA beneficiaries are the spouses, widow(er)s, children, or a caregiver of a qualifying Veteran sponsor.

The VHA OCC will implement, or has implemented, the following corrective actions to ensure greater compliance with IPERA. With the implementation of these actions, the program expects to reduce improper payments by 0.12 percentage points to 1.50 percent in FY 2020.

CHAMPVA CORRECTIVE ACTION PLANS

OMB ROOT CAUSE	IMPROPER PAYMENT AMOUNT	CORRECTIVE ACTION	TARGET COMPLETION DATE
Administrative or Process Error Made by Federal Agency	Monetary Loss: $8.05M Underpayments: $8.51M	Develop and implement recurring voucher examiner sustainment trainings and institute ongoing monthly communications with reminders and tips focused on improving the accuracy of patient responsibility and other health insurance coverage calculations, as well as data entry, and ensuring proper use of documented policy/procedures.	December 2019
		Provide system enhancements/updates to ensure artificial intelligence programing selects correct data based on type of claim, place of service, and/or zip code.	September 2020
Program Design or Structural Issue	Monetary Loss: $3.99M	Implement Information Technology (IT) system modifications designed to improve the accuracy and efficiency of vendor selection, vendor setup, and incomplete vendor information. Continuation of this IT project from FY 2017 will significantly contribute to improper payment reduction.	December 2019
Failure to Verify - Other Eligibility Data	Monetary Loss: $0.08M	Develop Tip of the Day and issue to all Eligibility, Enrollment, and Verification employees to check, not only rating decisions, but also to check the ratings information to ensure the decision is based on service connect condition to ensure eligibility.	Completed October 2018

VA COMMUNITY CARE

The VACC program provides timely and specialized care to eligible Veterans. The program allows VA to authorize Veteran care at community care facilities when the needed services are not available through the VA, or when the Veteran is unable to travel to a VA facility.

The VHA OCC will implement or has implemented the following corrective actions to ensure greater compliance with IPERA. With the implementation of these corrective actions, the program expects to reduce improper payments by 2.33 percentage points to 91 percent in FY 2020.

VACC CORRECTIVE ACTION PLANS

OMB ROOT CAUSE	IMPROPER PAYMENT AMOUNT	CORRECTIVE ACTION	TARGET COMPLETION DATE
Administrative or Process Error Made by Federal Agency	Monetary Loss: $603.19M Underpayments: $515.21M	Implement the remaining Medicare Fee Schedules into VA's Fee Basis Claims System. Schedules include: -Durable Medical Equipment, Prosthetics/Orthotics, and Supplies -Home Health Prospective Payment System	Completed July 2019
		Utilize OCC's current quality review audit process to identify incorrect adjudication trends and apply training/guidance based on findings.	April 2020
Program Design or Structural Issue	TI: $5,618.66M	Implement a process within the Healthcare Referral Management (HSRM) to manage information associated with delegations of authority. This capability will allow VA to verify staff have designated authority to obligate VA for community care services.	Completed July 2019
		With the implementation of the MISSION Act on June 6, 2019, all community care will be purchased using Veteran Care Agreements (VCA) or the CCN contract, which will eliminate errors related to care purchased outside of a formal contract.	December 2019
		Implement HSRM, a commercial off-the-shelf product for community care referrals and authorizations. HSRM will enable VA staff to use an industry-standard referral and authorization system and ensure the appropriate documentation is available to support Veteran eligibility and authorization of services, therefore decreasing instances of improper payments.	December 2019
		Implement HSRM for the creation of Community Care referrals.	September 2021
Insufficient Documentation to Determine	Unknown: $475.86M	With the implementation of the MISSION Act on June 6, 2019, all community care will be purchased using VCAs or the CCN contract.	Completed June 2019
		Implement the 72-hour notification process for community emergency care to include the updates to the CPRS Hospital Notification note to generate a consult that will prompt the need for an authorization.	December 2019
		Clarify guidance regarding eligibility and program selection when adjudicating claims. Review claims processed for appropriate eligibility and program selections.	January 2020

VACC continues to tailor its corrective actions to develop and implement processes to reduce improper payments. For example, VACC remains committed to actions that will reduce monetary loss, which represent 8.36 percent of the program's FY 2019 total improper payments. Due to VACC reporting over $100 million in loss and over $2 billion of improper payments in FY 2018, the program was required under the President's Management Agenda Cross Agency Priority Goal 9 to report quarterly on those activities and accomplishments that have reduced monetary loss. One of the corrective actions that VACC implemented was ensuring the remaining Medicare Fee Schedules were updated in VA's Fee Basis Claims System, as well as implementation of the VA MISSION Act on June 6, 2019. Even though VACC is required to report quarterly on these activities related to monetary loss, the majority of the program's corrective action efforts are focused on the reduction of non-monetary loss improper payments, which are about 92 percent of improper payments in FY 2019. For these errors that represent a non-monetary loss,

VACC has incorporated corrective actions on the use of CCNs and VCAs under the VA MISSION Act to ensure proper delegation of authority or contracted rates are established for payments.

PURCHASED LONG-TERM SERVICES AND SUPPORTS

PLTSS is organizationally aligned under the VHA Office of Geriatrics and Extended Care (GEC) that strives to empower Veterans and the Nation to rise above the challenges of aging, disability, or serious illness. GEC programs are for Veterans of all ages, including older, frail, chronically ill patients; their families; and their caregivers. Further, because the course of chronic illness varies, and health care needs of chronically ill patients change, it is possible that services of one, some, or all GEC long-term services and supports will be required over time.

The program will implement the following corrective actions to ensure greater compliance with IPERA. With the implementation of these corrective actions, VHA expects to reduce improper payments by 1.0 percentage point, to 92.13 percent in FY 2020.

PURCHASED LONG-TERM SERVICES AND SUPPORTS CORRECTIVE ACTION PLANS

OMB ROOT CAUSE	IMPROPER PAYMENT AMOUNT	CORRECTIVE ACTION	TARGET COMPLETION DATE
Program Design or Structural Issue	TI: $1,161.96M	Through the implementation of the MISSION Act, specifically related to VCA, clarify delegation of authority through the issuance of a memo and convert individual authorizations to VCAs. This will ensure those making referrals have proper delegation and not ordering services greater than $10,000 per Standard Episode of Care (SEOC).	December 2019
		Through the implementation of the MISSION Act, specifically related to the CCN contract, introduce the use of SEOC and HSRM to make referrals that reduce ordering officer delegation and individual authorization errors.	September 2021
Insufficient Documentation to Determine	Unknown: $939.34M	Establish points of contact for each field office and coordinate IPERA formal education and training on documentation requirements that lead to improper payments. Additionally, hold concurrence meetings with field offices to discuss preliminary improper payments and obtain additional documentation to reduce documentation errors.	April 2020
Administrative or Process Error Made by a Federal Agency	Monetary Loss: $22.99M Underpayments: $1.00M	Mandate the use of Electronic Claims Administration Management System (eCAMS) that includes a new rate schedule standardizing the approach to reimbursement that addresses errors related to claims not paid according to contract or paid lesser of billed charge or VA fee schedule.	December 2019

PLTSS continues to tailor its corrective actions to develop and implement processes to reduce improper payments. For example, PLTSS remains committed to actions that will reduce monetary loss, which represent 1.08 percent of the program's FY 2019 total improper payments. Due to PLTSS reporting over $2 billion of improper payments in FY 2018, the program was required under the President's Management Agenda Cross Agency Priority Goal 9 to report quarterly

on those activities and accomplishments that reduce monetary loss. One of the corrective actions that PLTSS has implemented was to develop new fact sheets for PLTSS providers on common billing errors in VA, as well as provide monthly staff training on avoiding ineligible vendors and incorrect rates by verifying approved vendor list prior to authorization. Even though PLTSS is required to report quarterly on these activities related to monetary loss, most of the program's corrective action efforts are focused on the reduction of non-monetary loss, which are 99 percent of improper payments in FY 2019. For these errors that represent a non-monetary loss, PLTSS has incorporated corrective actions on the use of CCNs and VCAs under the VA MISSION Act to ensure proper delegation of authority or contracted rates are established for payments.

STATE HOME PER DIEM

The VHA State Home Per Diem (SHPD) program utilizes grants to provide Federal assistance to state facilities recognized for providing hospital, nursing home, and domiciliary care to eligible Veterans. SHPD's mission is to maintain and improve Veterans' quality of life by helping states defray the costs of operating and constructing state homes through per diem payments and construction grants.

The program will implement the following corrective actions to ensure greater compliance with IPERA. With the implementation of these corrective actions, VHA expects to reduce improper payments by 0.2 percentage points to 1.93 percent in FY 2020.

STATE HOME PER DIEM CORRECTIVE ACTION PLANS

OMB ROOT CAUSE	IMPROPER PAYMENT AMOUNT	CORRECTIVE ACTION	TARGET COMPLETION DATE
Insufficient Documentation to Determine	Unknown: $12.43M	Conduct concurrence review of IPERA quarterly samples to discuss preliminary results and obtain additional documentation to reduce documentation errors. Additionally, enhance VAMC oversight processes to incorporate validation and verification activities of required improvements and corrections.	June 2020
Administrative or Process Error Made by Federal Agency	Monetary Loss: $8.82M Underpayments: $0.70M	Finalize the development and implementation of the web-based training program to strengthen knowledge of processing procedures and guidelines.	December 2019
Program Design or Structural Issue	TI: $6.17M	Implement phase two of the development of a web-based application process for submission and approval. The implementation will reduce the processing time while increasing information accuracy, timeliness of communications, and the quality of data for analytics and reporting.	June 2020

COMMUNCIATIONS UTILITIES AND OTHER RENT, MEDICAL CARE CONTRACTS AND AGREEMENTS, AND SUPPLIES AND MATERIALS[6]

Communications, Utilities, and Other Rent funds payments for use of communications, utility services, and charges for possession and use of land, structures, or equipment owned by others. With the implementation of the below actions, VHA expects to reduce improper payments by 5 percentage points, to 38.41 percent in FY 2020.

Medical Care Contracts and Agreements includes contracts for research, medical and educational data or services, reimbursements at contract per-diem rates for hospitalization, dialysis treatment furnished by a non-VA facility, indirect charges added for research and demonstration projects, and contracted Emergency Medical Services. With the implementation of the below actions, VHA expects to reduce improper payments by 1 percentage point, to 64.87 percent in FY 2020.

Supplies and Materials includes items acquired by formal contract or other form of purchase that are ordinarily consumed or expended within one year after they are put into use, converted in the process of construction or manufacturing, or used to form a minor part of equipment or fixed property, or other property not separately identified in the asset accounts. With the implementation of the below actions, VHA expects to reduce improper payments by 3 percentage points, to 19.26 percent in FY 2020.

The program will implement or has implemented the following corrective actions to ensure greater compliance with IPERA.

[6] In FY 2019, the Communications, Utilities, and Other Rent; Medical Care Contracts and Agreements; and Supplies and Materials programs have been combined because these programs have similar causes of errors and corrective actions, as well as the same SAO. Combining these programs into one CAP eliminates duplication of effort and ensures efficiency in creating and maintaining the status of corrective actions for these programs. However, these programs will continue to be tested separately per OMB's guidance to "not put programs or activities into groupings that may mask significant improper payment rates by the large size or scope of a grouping."

COMMUNICATIONS, UTILITIES, AND OTHER RENT; MEDICAL CARE CONTRACTS AND AGREEMENTS; AND SUPPLIES AND MATERIALS CORRECTIVE ACTION PLANS

OMB ROOT CAUSE	IMPROPER PAYMENT AMOUNT	CORRECTIVE ACTION	TARGET COMPLETION DATE
Program Design or Structural Error	CUOR TI: $654.74M MCCA TI: $384.54M Supplies and Materials TI: $504.26M	Place utilities on contract to ensure compliance with FAR Part 41.	December 2019
		Removed unneeded instructions from regulations; thereby removing requirements imposing additional burdensome documentation per OMB Circular No. A-123, Appendix C.	September 2019
Insufficient Documentation to Determine	CUOR Unknown: $22.62M MCCA Unknown: $259.55M Supplies and Materials Unknown: $117.06M	Issue memorandum listing IPERA responsibilities. Additionally, create a concurrence process and meet with field offices to discuss missing documentation and provide a forum for each field office to provide additional supporting documentation during IPERA testing.	April 2020
Administrative or Process Error Made by Federal Agency	CUOR Monetary Loss: $5.79M MCCA Monetary Loss: $10.04M Supplies and Materials Monetary Loss: $7.81M Underpayments: $0.01M	Identify where lump-sum funding could be managed more effectively to ensure payment is in accordance with contracts. Some areas being explored include restructuring existing contracts, including national contracts; requiring secondary level approval of invoices by contract specialists before payment; implementing ordering systems; and rejecting invoices that do not comply with contract requirements.	September 2021

PROSTHETICS

Prosthetics funds the provision of medically prescribed prosthetic and sensory aids, devices, assistive aids, repairs, and services to eligible disabled Veterans to facilitate the treatment of their medical conditions.

The National Program Office for Prosthetic and Sensory Aids Service (PSAS) will implement the following corrective actions to ensure greater compliance with IPERA. With the implementation of these corrective actions, VHA expects to reduce improper payments by 0.01 percentage point, to 2.10 percent in FY 2020.

Prosthetics is reporting an overall reduction in improper payments of 28.42 percent from the previous year, despite an increase in program outlays. In FY 2018, PSAS implemented a corrective action on the purchase of durable medical equipment and supplies to raise the purchase authority from $3,500 to $10,000. This directly impacts procurement actions for PSAS, which allowed for the streamlining of ordering processes, unburdening VA contracting officers previously required to purchase PSAS between $3,500 and $10,000, reducing the volume of contract administration and untimely creation of contracts errors, and most importantly, improving the Veteran's experience and access to care. Prosthetics was also able to decrease monetary loss to the government, dropping from 2.36 percent to 0.01 percent, due to the creation of partnerships with internal offices that are responsible for VA's national contracts.

These partnerships have assisted with the reduction of data entry errors and the application of incorrect payment methodologies. Also, Prosthetics continues to utilize the concurrence process with VISN and facility leadership to review each sample for proper documentation and provide on-the-spot education and training, which has supported the additional 18.9 percent reduction from FY 2018. Over the next year, Prosthetics will continue to develop and implement effective corrective actions to further reduce improper payments.

PROSTHETICS CORRECTIVE ACTION PLANS

OMB ROOT CAUSE	IMPROPER PAYMENT AMOUNT	CORRECTIVE ACTION	TARGET COMPLETION DATE
Insufficient Documentation to Determine	Unknown: $60.09M	Continue IPERA formal education and training with other service lines to continue compliance efforts. Provide training to Contracting Officers on the IPERA contracting testing to avoid procurement errors that lead to improper payments. Additionally, IPERA training sessions for purchase card managers, fiscal, logistics, and other field personnel.	April 2020
Administrative or Process Error Made by Federal Agency	Monetary Loss: $0.23M	Review specific errors and use practical examples during formal training to ensure a more thorough understanding of the cause of error and actions required to support a proper payment.	February 2020

PENSION

The VA Pension program helps Veterans and their families cope with financial challenges by providing supplemental income through Veterans Pension and Survivors Pension benefit programs. Pension will implement, or has implemented, the following corrective actions to ensure greater compliance with IPERA. With the implementation of these actions, the program expects to reduce improper payments by 0.52 percentage point, to 4.86 percent in FY 2020.

PENSION CORRECTIVE ACTION PLANS

OMB ROOT CAUSE	IMPROPER PAYMENT AMOUNT	CORRECTIVE ACTION	TARGET COMPLETION DATE
Program Design or Structural Issue	Monetary Loss: $15.90M	Implement Up-front Verification Expansion to use Federal Tax Information on new claims for increase, dependency adjustments, and medical expense reporting.	June 2020
Failure to Verify: Death Data	Monetary Loss: $6.62M	Use SSA Death Master File (DMF) to identify deceased dependents allows VA to remove deceased dependents from Veteran's award in a more timely manner.	September 2019
Failure to Verify: Financial Data	Monetary Loss: $172.86M Underpayments: $22.15M	Use Up-front Verification Expansion to use Federal Tax Information on new claims for increase, dependency adjustments, and medical expense reporting.	June 2020
Failure to Verify: Other Eligibility Data (Medicaid Nursing Home)	Monetary Loss: $1.25M	Update National Training Curriculum to be in alignment with current procedures and processes. Provide mandated refresher training to employees to ensure proper claims processing and timely award adjustments are made.	Ongoing

OMB ROOT CAUSE	IMPROPER PAYMENT AMOUNT	CORRECTIVE ACTION	TARGET COMPLETION DATE
Administrative or Process Error Made by Federal Agency	Monetary Loss: $5.91M Underpayments: $4.57M	Perform biweekly QMS reviews and annual Targeted Program Reviews to identify training issues, trends, and determine if employees followed proper policies and procedures in making accurate and timely claim decisions. Reviews also ensure awards are made in the correct payment amount and released to the proper claimant.	Ongoing
Other Reason (Incorrect Income)	Monetary Loss: $44.43M Underpayments: $10.95M	Performs biweekly QMS reviews and annual Targeted Program Reviews to identify training issues, trends, and determine if employees followed proper policies and procedures in making accurate and timely claim decisions. Reviews also ensure awards are made in the correct payment amount and released to the proper claimant.	Ongoing

Due to Pension reporting over $100 million of monetary-loss-related improper payments in FY 2019, the program was required under the President's Management Agenda Cross Agency Priority Goal 9 to report quarterly on those activities and accomplishments that reduce monetary loss. Pension and Fiduciary (P&F) Service remains committed to actions that will reduce monetary loss and continues to tailor its corrective actions to develop and implement processes to reduce improper payments. For example, implementation of expanded up-front verification began in June 2019 aimed at reducing errors associated with Program Design and Structural Issues and Failure to Verify Financial Data. Also, the national pension training curriculum is undergoing updates as well as focused manual updates in an attempt to decrease the amount of improper payments resulting due to Administrative or Process Errors.

RECAPTURE OF IMPROPER PAYMENTS REPORTING

VA has not excluded any programs or activities with outlays of $1 million or more from the payment recapture audit program. Results of recapture activities are reported below.

VETERANS HEALTH ADMINISTRATION

VHA's payment recapture audit program is focused on identifying and recovering overpayments.

OCC AUDIT AND RECOVERY EFFORTS

The OCC develops an annual audit plan that independently assesses the CHAMPVA, SHPD, and VACC programs and associated operations. Recommendations and corrective actions are developed in response to the audits. OCC's audit teams include:

- **Veteran Family Member Benefit Audit Team**: identifies overpayments in the CHAMPVA program through the IPERA

audit, a biannual eligibility determination audit, and special audits identified from other audit findings or requested by leadership.

- **State Home Program Audit and VA Care in the Community Teams**: structured to perform the IPERA audits for their respective programs.
- **Special Audit Team**: focuses on special audit requests from both internal and external stakeholders.

In FY 2019, OCC recovered $2,123,634 in recoveries and offsets from monetary loss identified in prior-year recovery audit contracts. OCC is currently preparing a procurement package for a new recovery audit contract which will review claims from the VACC, CHAMPVA, and Spina Bifida Health Care programs. OCC plans to award the new recovery audit contract in early FY 2020.

VETERANS BENEFITS ADMINISTRATION

In an effort to identify and recapture improper payments, VBA uses a combination of quality reviews and payment reviews to identify possible duplicates and overpayments. The majority of VBA programs perform quality reviews on randomly selected cases that ensure eligibility determinations, proper case processing, and payment accuracy. For all other programs, VBA performs payment reviews to identify potential duplicate payments and other potential improper payments. VBA tracks, monitors, and recovers overpayments eligible for recovery through combined efforts of the Debt Management Center (DMC), the Administrative and Loan Accounting Center, and Regional Offices.

ROOT CAUSE OF IMPROPER PAYMENTS

VBA identified that a majority of payment errors were due to administrative and process errors, failure to verify financial data, failure to verify other eligibility data, lack of supporting documentation, and program design or structural issue. Overpayments as a result of administrative and process errors were found to be mainly due to rating decision errors. In such instances, under current regulations, VA rating disability decisions are legally binding unless VA determines a finding of fraud or clear and unmistakable error. As a result, these losses cannot be recovered.

COLLECTION PROCESS

DMC provides accounts receivable and debt management services for VBA and is responsible for collecting debts resulting from an individual's participation in VA's Disability Compensation, Pension, or Education programs. Once a debt has been established, it is referred to DMC, which pursues the collection of all debts through lump-sum offset from current or future benefit payments or by installment payments agreed upon by the debtor. If DMC cannot collect the debt, the delinquent debt is referred to the Treasury Offset Program (TOP) for collection.

VBA local offices are also responsible for establishing and collecting debts for the loan guaranty program, general operating expenses, and other programs where the debt is not currently handled by DMC. For duplicate or other monetary loss identified,

VBA determines collectability and, if needed, establishes a debt in the core financial management system.

In accordance with 38 U.S.C. § 5302, VBA may waive benefit debts arising from participation in a benefit program when collection would be against equity and good conscience and no evidence exists of fraud, misrepresentation, or bad faith. VBA will notify the debtor of his or her rights and remedies and the consequences of failure to cooperate with collection efforts. The debtor has the right to dispute the existence or amount of the debt or to request a waiver from collection of the debt. VBA may waive benefit debts when the facts and circumstances of the particular case indicate a need for reasonableness and moderation in the exercise of the Government's rights and if the waiver request was made within the specified timeframes.

FINANCIAL SERVICES CENTER

FSC is a franchise fund (fee-for-service) organization that provides payment services to VHA, NCA, VBA, and VA's Central Office (VACO) Staff Offices. FSC's recapture and recovery program is focused on detection, prevention, and recovery of overpayments for each program FSC services that expends $1 million or more annually.

POST-PAYMENT REVIEW

FSC reviewed $3.7 billion in payments during FY 2018 and $1.4 billion during FY 2019 to identify potential duplicate payments. If possible duplicate payments are found, they are forwarded to FSC's payment resolution team for action.

Payments issued outside of FSC that are identified as potential duplicate payments are forwarded to the appropriate VA facility for resolution. Additionally, payment files over $2,500 are matched monthly against disbursed payments over the previous two fiscal years to identify if any possible duplicate payments exist. These matches are researched to ensure there are no false positives and then sent to either the FSC payment resolution team or to the appropriate VA facility for verification and collection. All possible duplicates identified are monitored to resolution. FSC identified $5.4 million in duplicate payments during FY 2019, of which $2.2 million were recovered. The results from these reviews are used to strengthen recapture and recovery activities and internal controls over payments.

Similarly, FSC personnel recovered an additional $4.4 million from payments made to an incorrect recipient or by an overpayment. FSC also reviews payments with interest penalties over $50. This consists of reviewing interest payments and determining if interest was accurate and appropriate. If an interest payment is determined to be inaccurate, it is sent to the FSC payment resolution team for verification and/or collection. Finally, to verify the accuracy and timeliness of payments, statistically valid payment reviews are conducted monthly and quarterly.

ROOT CAUSE OF IMPROPER PAYMENTS AND CORRECTIVE ACTIONS

FSC has identified several root causes for improper payments including erroneous

input of invoice numbers, dates, or vendor identification numbers; and vendor invoicing inconsistencies such as resubmitted invoices using different invoice numbers, dates, or purchase order numbers, and means of submission. The root causes of improper payments could be traced to insufficient documentation to verify the accuracy of the payment. Other root causes of improper payments are caused by agencies' inability to authenticate the eligibility of the individuals or entities receiving government funds. The identification of the cause of past improper payments aids in developing new automated processes within a system or tool to identify and/or prevent potential improper payments in the future.

Corrective action plans have resulted in extraction of key payment data from paper invoices to reduce input errors to ensure consistency in payment processing and streamline procedures.

COLLECTION PROCESS

Bills of Collection (BOC) are generated by FSC for all overpayments of $50 or more. When monetary loss has been detected during postpayment reviews, the following collection process is used to recover the funds from the vendor or employee:

- When the full amount of an improper payment was paid via electronic funds transfer (EFT), FSC processes a letter of reversal/letter of indemnity to recover the funds by having the bank reverse the erroneous transaction.
- In cases where the improper payment is paid via treasury check or where the improper amount was less/more than the full amount of the EFT, FSC or VA stations process a BOC requesting the vendor to return the funds for the improper amount.
- Payments that are determined not to be collected (too small money amount, vendor out of business, or political) are justified and reported in accordance with OMB Circular No. A-136.

After a minimum of 45 days, if the vendor has not returned the funds, requested additional information, or disputed the BOC, an internal offset is processed to collect the funds from the next FSC-issued payment(s) to that same vendor until the BOC is satisfied. If previous attempts to collect are unsuccessful, FSC refers the debt to TOP to collect the funds from the next government-issued payment(s) to the vendor or employee until the bill is satisfied.

PAYROLL

DFAS processes VA's payroll transactions. When the Defense Civilian Payroll System payroll system disburses an overpayment, DFAS oversees the debt collection process for VA. Debts due to overpayment of wages generally occur for two reasons: (1) a retroactive time and attendance adjustment or (2) retroactive personnel data was processed in the system.

COLLECTION PROCESS

Under the terms of the Debt Collection Improvement Act (DCIA), the agency is only required to give full due process notification for a debt that is incurred for pay periods older than four pay periods and over $50. Debts incurred within the most recent four pay periods or less than $50 do not require advance notification prior to collection but

will receive a remark on their Leave and Earning Statement.

Debts repaid within the same tax year will have the net debt amount collected. If the debt repayment crosses into another tax year, or collections start in another tax year, then the gross debt amount will be collected. DFAS will issue a tax certification after the tax year ends that may be used by the employee to claim that repayment amount on their taxes. Employees have 30 days from the debt letter date to have a request submitted to the DFAS payroll office to have debt collections placed on hold pending the outcome of a hearing or waiver request. If this request is not received by the DFAS payroll office within the 30-day limit and the debt collections have begun, they will not be placed on hold, even if the employee requests a waiver at a later date. Employees have three years to request a waiver. If collections are started and a waiver is requested later and is approved, DFAS will refund all collections made prior to that time.

OFFICE OF ACQUISITION AND LOGISTICS

VA's Office of Acquisition, Logistics and Construction (OALC) works with OIG's Office of Contract Review (OCR) to recover funds owed to the Government for monetary loss under the health care Federal Supply Schedule contracts awarded by VA due to: (1) defective pricing, whether the prices for the items awarded were based on accurate, complete, and current commercial pricing disclosures by the offeror during contract negotiations; (2) price reduction violations, whether the contractor complied with the terms and conditions of the Price Reductions Clause; and (3) whether manufacturers of covered drugs have complied with the pricing provisions contained in Section 603 of P.L. 102-585. Other reviews conducted by OCR include health care resource proposals, claims, and other special-purpose reviews. In FY 2019, this audit recovery program recovered more than $32 million.

SECTION III: OTHER INFORMATION

IMPROPER PAYMENT RECAPTURE ACTIVITIES
VETERANS HEALTH ADMINISTRATION [1]

($ in millions)

Overpayments Recaptured Through Payment Recapture Audits						Overpayments Recaptured Outside of Payment Recapture Audits	
Program or Activity	Type of Payment	Amount Identified	Amount Recaptured	2019 Recapture Rate	2020 Recapture Rate Target	Amount Identified	Amount Recaptured
Beneficiary Travel	Benefit	-	-	-	-	0.91	0.82
CHAMPVA [2, 4]	Benefit	8.83	9.29	105%	85%	0.00	20.64
VA Community Care – Choice [4]	Benefit	0.00	2.12	-	-	1.41	1.07
Purchased Long-Term Services and Supports	Benefit	-	-	-	-	0.26	0.25
State Home Per Diem Grants [4]	Grant	-	-	-	-	-	-
Supplies and Materials	Other	-	-	-	-	0.16	0.16
Communications, Utilities, and Other Rent	Other	-	-	-	-	0.29	0.28
Medical Community Contracts and Agreements	Other	-	-	-	-	0.02	0.02
Prosthetics	Other	-	-	-	-	0.01	0.01
Other VHA Programs [3]	Other	-	-	-	-	1.90	213.65
Total	**-**	**8.83**	**11.41**	**129%**	**-**	**4.96**	**236.85**

Notes:

(1) Current-year data is reported in table above.

(2) CHAMPVA recapture/recovery data is combined with OCC programs: Caregiver Support, Foreign Medical, and Spina Bifida Health Care. Overpayments recaptured outside of payment recapture audits consist of unsolicited funds received.

(3) Other VHA programs include the following VHA activities: Compensated Work Therapy/Incentive Therapy; DoD/VA Medical Facility Demonstration Fund; Equipment; Facility Maintenance and Operations; Grants - Homeless Per Diem; Medical and Prosthetic Research; Non-Medical Contracts and Agreements; Professional Services Contracts; Information Technology Services; TOP; MCCF; and Other Contracts, Services, Agreements, and Miscellaneous.

(4) There is currently no amount identified for recovery or outstanding amount since the OCC contract is no longer active.

SECTION III: OTHER INFORMATION

IMPROPER PAYMENT RECAPTURE ACTIVITIES
VETERANS BENEFITS ADMINISTRATION AND VACO STAFF OFFICES [1]

($ in millions)

Overpayments Recaptured Through Payment Recapture Audits						Overpayments Recaptured Outside of Payment Recapture Audits	
Program or Activity	Type of Payment	Amount Identified	Amount Recaptured	2019 Recapture Rate	2020 Recapture Rate Target	Amount Identified	Amount Recaptured
Compensation and Pension	Benefit	0.91	0.14	15%	62%	2,723.61	872.11
Loan Guaranty	Benefit	4.34	3.95	91%	42%	135.52	6.55
Education	Benefit	0.00	0.00	0%	62%	1,186.37	654.05
Payroll[2]	Other	-	-	-	-	38.06	23.74
VBA General Operating Expense	Other	0.02	0.02	77%	79%	0.23	0.23
NCA Burial Programs	Other	-	-	-	-	0.05	0.04
VACO Programs[3]	Other	-	-	-	-	1.64	1.64
OIG Post Award Contract Reviews	Other	-	-	-	-	45.45	32.31
Total	**-**	**5.27**	**4.10**	**78%**	**-**	**4,130.94**	**1,590.68**

Notes:
(1) Current-year data is reported in table above.
(2) Payroll figures are provided by DFAS, VA's payroll provider.
(3) VACO programs include the following activities/programs: OALC Major and Minor Construction; OIT; General Administration Annual; Franchise Fund; Supply Fund; and Employee Travel.

SECTION III: OTHER INFORMATION

DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDITS (1)

($ in millions)

Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other
CHAMPVA	9.29	Benefit	-	-	-	9.29	-	-	-
Compensation and Pension	0.14	Benefit	-	-	-	0.14	-	-	-
Loan Guaranty	3.94	Benefit	-	-	-	3.94	-	-	-
VA Community Care-Choice	2.12	Benefit	-	0.25	-	1.87	-	-	-
VBA General Operating Expense	0.02	Other	-	-	-	0.02	-	-	-
TOTAL	**15.50**	**-**	**-**	**0.25**	**-**	**15.25**	**-**	**-**	**-**

Notes:

(1) Current-year data is reported in table above.

AGING OF OUTSTANDING PAYMENTS IDENTIFIED IN PAYMENT RECAPTURE AUDITS (1)

($ in millions)

Program or Activity	Type of Payment (contract, grant, benefit, loan, or other)	Amount Outstanding (0-6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectable
CHAMPVA (2)	Benefit	3.5	-	12.81	0.17
Compensation and Pension	Benefit	0.39	0.38	-	-
Loan Guaranty	Benefit	0.24	1.34	0.49	-
VA Community Care-Choice (2)	Benefit	-	-	-	-
VBA General Operating Expense	Other	0.00	0.00	0.00	-
TOTAL	**-**	**4.13**	**1.72**	**13.71**	**0.17**

Notes:

(1) Current-year data is reported in table above.
(2) There is currently no amount identified for recovery or outstanding amount since the OCC contract is no longer active.

AGENCY IMPROVEMENT OF PAYMENT ACCURACY WITH THE DO NOT PAY INITIATIVE

VA'S PREPAYMENT AND PREAWARD ACTIVITY

The Do Not Pay (DNP) Initiative is an important step in reducing improper payments. It reinforces VA's current operational processes with policy and defined expectations. VA's activities for the DNP Initiative can be discussed as two main activities: those performed in conjunction with use of the Treasury DNP Portal and those monitoring efforts done by VA offices outside the portal.

The DNP Portal is a beneficial support tool that adds value to this initiative. However, VA has identified areas of improvement working in the portal and, in partnership with Treasury, is working to identify automated solutions and maximize VA's use of the DNP Portal. VA has incorporated the following databases for use within the portal: Death Master File (DMF), Public; System for Award Management Restricted; List of Excluded Individuals/Entities (LEIE); and Credit Alert Verification Reporting System (CAIVRS), with LEIE and CAIVRS having single search functionality. However, the DNP Portal is currently used for postpayment reviews, which do not allow payments to be stopped before they are made. VA uses monitoring systems outside of the DNP Portal to stop payments to vendors and recipients that have been identified as ineligible for receiving payments.

VETERANS HEALTH ADMINISTRATION

As part of VHA's DNP initiatives, multiple external activities outside the DNP Portal are in place that focus on the prevention of overpayments and are further described below.

Within VHA/OCC, the Department of Program Integrity leverages data, systems, and applications for the development of various controls to mitigate fraud, waste, and abuse and prevent improper payments.

Expedited Payment Process – The Expedited Payment process continues to yield significant cost avoidance numbers. However, as OCC expected, we are seeing a downward trend of third-party claims submissions based on timely filing rules. To date, OCC has avoided $17.5 million in duplicate payments for FY 2019.

Quality Inspector Tool – As of June 2019, OCC developed, tested, and deployed an additional 11 prepayment business rules into the PIT to complement our existing JRules inventory, totaling 36 base rules and 15 sub rules. This implementation of duplicate logic has increased cost avoidance by 415.6 percent from $2.5 million in FY 2018 to $13.1 million for FY 2019.

Top Potential Duplicate Report (TPDR) – The TPDR is a manually generated report that flags high-dollar claims with paid amounts greater than $1,000 for duplicate analysis. Through this process the field reviews the report and stops the payment

as appropriate prior to disbursement, thus, OCC avoided $17.6 million of improper payments for FY 2019.

Due to the manual process of TPDR, OCC determined that duplicate logic should be developed/deployed within Fee Basis Claim System claims processing workflow. This prepayment process would be more efficient and therefore eliminate the manual use of TPDR altogether. Subsequently, OCC deployed duplicate logic in March 2019 expanding the scope and review of claims to $250 and above, with an ultimate goal of eliminating TPDR reporting.

VETERANS BENEFITS ADMINISTRATION

As part of VBA's DNP activities, multiple internal and external activities outside the DNP Portal are in place that focus on the prevention of overpayments. VBA receives continuous information from several Federal agencies, which it uses to verify the status of VA beneficiaries. The following describes these agreements:

Fugitive Felon Match – OIG enters into computer matching agreements (CMAs) with law enforcement agencies for matching lists of individuals with felony arrest warrants against VA records to identify beneficiaries that might be fugitive felons. Matches are researched for accuracy and benefits are adjusted as per applicable regulations.

Social Security Verification Match – Once a year, the Social Security Administration (SSA) provides information on SSA rates for recipients of VA pension and Parents' DIC to verify reported income.

SSA Prison Match – Under a Memorandum of Understanding, SSA provides VA with information on prisoners. Periodically, data from Compensation and Pension (C&P) records are run against SSA's inmate database to identify VA beneficiaries who may be subject to reduction or termination of benefits.

Bureau of Prisons (BOP) Match – BOP provides VBA with information on Federal prisoners. On a monthly basis, C&P files are matched with BOP's inmate database to identify incarcerated beneficiaries, which may require a reduction or termination of benefits.

Social Security DMF – SSA compiles death information into a system of record called the DMF. On a weekly basis, C&P master records are matched with the DMF to identify possibly deceased beneficiaries in order to terminate benefits.

For this reporting period, $75.9 million payments were matched with the DNP databases.

FINANCIAL SERVICES CENTER

The FSC reviews the Financial Management System file of commercial vendor payments scheduled for payment three times daily for payment amounts $50 and greater. FSC then matches vendor payments, excluding medical payments, against the previous 90 days of disbursed payments to identify potential duplicate payments before their submission for disbursement. These matches are researched to ensure there are no false positives and then sent to either the FSC payment resolution team or to the appropriate VA facility for verification and

cancellation. Duplicate payments identified through this process are canceled before the payments are made.

In addition, FSC has implemented corrective actions to include increased use of electronic invoicing and optical character recognition technology to minimize improper payments via reviews in the prepayment state. From these prepayment review efforts, FSC stopped $1.7 million from being disbursed in error during FY 2019.

BARRIERS

While regulatory and statutory requirements continue to pose challenges, VA is working with Congress and stakeholders to identify ways to simplify statutory and regulatory to include improvements to legislation requiring the identification and reporting of improper payments.

Overall, when attempting to implement required improper payment identification and correction activities, the current definition of an improper payment is a barrier as it requires VA to report improper payments that do not represent a loss to the government. This results in spending extra time and resources to identify and reduce improper payments that do not provide any monetary benefits or cost savings to the Federal government. Additionally, each year the agency's inspector general is required to determine whether the agency complies with IPERA regulatory requirements in meeting improper payment reduction targets.

However, as VA reports improper payments one year in arrears, corrective actions to reduce improper payments normally do not take effect for at least two years. The need to report and measure the effectiveness of corrective actions annually prevents some programs from fully implementing corrective actions that will resolve complex and systemic problems.

VETERANS HEALTH ADMINISTRATION

There are no statutory or regulatory barriers that limit corrective actions in reducing improper payments for VHA programs reporting improper payments.

VETERANS BENEFITS ADMINISTRATION

COMPENSATION[7]

Compensation Service complies with laws and regulations pertaining to due process under 38 CFR 3.103(b)(2), which requires an independent verification followed by a

[7] Though Compensation reported improper payments below the OMB threshold, Compensation is reporting this barrier per the OIG report on *VA's Compliance with the Improper Payments Elimination and Recovery Act for FY 2018* dated June 3, 2019. OIG recommended the USB continue to report statutory barriers preventing complete resolution of drill pay improper payments in future Agency Financial Reports until resolved.

notification of adverse action prior to reduction or termination of a Veteran's or beneficiary's benefit payment. This due process takes a minimum of 60 days, which results in the continuation of payments at improper rates during this timeframe. VA proposed a new Active Service Rule regulation to change the current process. The public comments period ended on June 18, 2019. Comments received resulted in an updated draft that is going through the concurrence process. It is expected that the new regulation will be approved and implemented by the end of FY 2020.

PENSION

P&F Service is committed to streamlining policies and procedures and automating business processes to provide Veterans their deserved benefits in a timely manner. Pension has identified and submitted two legislative proposals that would expand the program's ability to better identify, prevent, and recover improper payments. In FY 2012, VA received permission from the Internal Revenue Service to transmit and store Federal tax information (FTI) electronically. Using this electronic data feed, the Pension Management Centers can verify a claimant's reported income prior to the grant of benefits. However, VA is prohibited from disclosing FTI to contractors. The inability of VA contractors to access FTI prohibits VA from sunsetting some of its legacy systems. This proposal, submitted every year since 2013, would eliminate the need for VA to create a complex IT solution to mitigate contractor access to VA systems and benefits-related documents that contain tax information.

The inability of VA contractors to access FTI prohibits VA from sunsetting some of its legacy systems. This proposal, submitted every year since 2013, would eliminate the need for VA to create a complex IT solution to mitigate contractor access to VA systems and benefits-related documents that contain tax information.

In addition, since 2015, VA has submitted a legislative proposal to extend the length of CMAs to align with the timeframes found in the Improper Payments Elimination and Recovery Improvement Act of 2012. The Computer Matching and Privacy Protection Act of 1988 requires Federal agencies to enter into written CMAs specifying the terms under which they will match records. Increasing the time that agreements remain active would reduce administrative burden, promote consistency, enhance continuity of agency operations, and create economies of scale by reducing the needed man-hours to complete and maintain these agreements.

There are no statutory or regulatory barriers that limit VA's correction actions in reducing improper payments for any other VBA programs.

ACCOUNTABILITY

While the majority of VA's improper payments do not represent a loss or fiscal irresponsibility, VA is committed to reducing improper payments and acknowledges that accountability is necessary to achieve significant reductions. VA has identified a Senior Accountable Official (SAO), who is ultimately responsible for reducing improper payments in their program(s) and preparing noncompliant reporting. VA also had four high-priority programs requiring additional reporting during FY 2019. This level of reporting ensures awareness of the current status and actions needed to obtain compliance across VA. Executive oversight of VA's root causes of improper payments and activities to address them is done via the VA CFO Council, which may convene IPERA-focused meetings if needed. However, the regularly scheduled meeting focuses significantly on financial management challenges and activities, making this an appropriate venue for addressing challenges reducing improper payments. The table below identifies the designated SAO for each program reporting above the OMB threshold and how they are being held accountable for reducing and recapturing improper payments through annual performance appraisal criteria.

Summary of Accountability Mechanisms for Program Senior Accountable Officials

Program	SAO	Annual Performance Appraisal Criteria
Beneficiary Travel	Executive Director of Member Services	The designated program SAO is accountable for ensuring execution of corrective action plans, meeting IPERA reduction targets, and establishing and maintaining sufficient internal controls that prevent and detect improper payments. The SAO's performance plan includes measurable metrics to reduce future improper payments.
CHAMPVA	Assistant Deputy Under Secretary for Health for Community Care (ADUSH/CC)	
VA Community Care	ADUSH/CC	
Purchased Long-Term Services and Supports	Associate Executive Director for GEC	
Communications, Utilities, and Other Rent Medical Care Contracts and Agreements Supplies and Materials	Executive Director of Procurement and Logistics	
Prosthetics	National Program Director for PSAS	

Program	SAO	Annual Performance Appraisal Criteria
Pension	Executive Director of P&F Service	The program SAO and is accountable for ensuring execution of corrective action plans, meeting IPERA reduction targets, and establishing and maintaining sufficient internal controls that prevent and detect improper payments. The SAO's performance plan includes requirements for the following: (1) make certain that transactions performed are in accordance with established policies, regulations, and procedures; (2) discuss and coordinate program integrity issues with VA's OIG and GAO; (3) develop and certify that corrective measures are implemented as part of the operations function; (4) ensure the program develops and maintains efficient systems of internal and external program integrity controls; (5) manage the program responsibilities under IPERA and other internal auditing practices established by law; (6) identify training issues and develop material to address claim processing deficiency, and ensure claim processors have enough information to make accurate decisions; (7) conduct national quality reviews and discuss results with leadership/management; (8) provide constructive feedback with regards to goals of significant impact on service outcomes; and (9) ensure organization standards related to quality, customer service, and timeliness are met.

AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

VA is committed to improving its financial processes, demonstrating fiscal responsibility and integrity, strengthening technology controls, minimizing the risks of improper payments, and reducing improper payments.

The below 10 programs describe the internal controls, human capital, and information systems and other infrastructure needed to reduce improper payments to the levels that VA has targeted.

VETERANS HEALTH ADMINISTRATION

VHA is focused on improving financial and procurement processes. Many processes are manually intensive, and the new financial management system will automate internal controls and help with VHA staffing shortages.

Veterans Transportation Program (VTP) has ongoing initiatives such as the enterprise-wide infrastructure solutions, implementation of BTSSS, and an electronic invoice payment solution. Despite delays in the development lifecycle of BTSSS, the vendor completed the solution; however, a recent issue was identified regarding the VA Enterprise Cloud hosting environment. VTP collaborates weekly with VA OIT to ensure action is being taken to remediate the issue and delays are monitored closely.

CHAMPVA

CHAMPVA and VHA OIT have developed a solution to ensure accuracy of ambulance services and bilateral procedure claims by using a business rule management system that manages and deploys business rules, supports the development of rule-based applications and allows business users to contribute their knowledge through rule management. This solution has allowed significant IT resources to be utilized on other IT priorities.

VA COMMUNITY CARE

OCC implemented the HSRM system strategically in FY 2019 and implemented

the eCAMS, to meet volume and performance requirements, utilizing health care rules and web services-based architecture.

OCC staff will use an industry-standard referral and authorization system to prepare and complete all referrals and authorizations through the use of HSRM. HSRM functionality will help OCC staff to ensure the appropriate documentation is available to support Veteran eligibility and authorization of services. It is expected there will be an immediate positive impact on processing time and accuracy by standardizing adjudication and reducing the complexity of the adjudication function through the use of eCAMS.

PURCHASED LONG-TERM SERVICES AND SUPPORTS

With the implementation of the VA MISSION Act, improvements are being made to the current infrastructure that will further reduce improper payments. VA now has community care purchasing authority under VCAs, which are not subject to FAR and VAAR requirements. This will expand the base of PLTSS providers, which addresses timely services and care for Veterans, and is expected to result in a signification reduction of technically improper payments by FY 2022.

STATE HOME PER DIEM GRANTS

SHPD program application and invoice processing activities are performed at 102 VAMCs across the country. At each location, current operations include use of VA's established monthly invoicing process in the Invoice Payment Processing System, as well as an automated application process, spreadsheet-based tracking process, and manual data entry into a stand-alone SQL database. Improper payments are an inherent risk in this environment due to manual mistakes, lack of data tracking, validation and integration with VA systems (e.g., VistA, Eligibility System Redesign), as well as transparency in approval and payment workflows. In FY 2020, VA will begin to automate and streamline aspects of the SHPD program application process towards a more modernized environment in the VA Cloud.

COMMUNICATIONS, UTILITIES, AND OTHER RENT; MEDICAL CARE CONTRACTS AND AGREEMENTS; AND SUPPLIES AND MATERIALS

VA does not have a comprehensive information system for contracts, orders, and payments. The variety of contracts, orders, and commercial practices makes it difficult to create such a system. Therefore, corrective actions must be designed at the contract level, rather than the agency level, using local or ad hoc systems including manual procedures to implement corrective actions. These local and ad hoc corrective actions take a long time to develop, implement, and institutionalize as seen in the long-term projected completion dates.

The new VA financial management transformation provides an opportunity to identify areas where improper payments can be reduced by eliminating duplicative tasks and adding in automated internal controls for customers and contracting officers. Program officials are actively working to ensure that requirements are addressed as the systems are implemented.

PROSTHETICS

PSAS identified actions and improvements and has implemented changes to processes under current structure to reduce improper payments. For example, PSAS has focused efforts on the implementation of 8123 authority, which streamlines the ordering process for prosthetics appliances. Additionally, in FY 2018, PSAS implemented a corrective action on the purchase of durable medical equipment and supplies to raise the purchase authority from $3,500 to $10,000. This directly impacted procurement actions for PSAS and allowed for the streamlining of ordering processes, unburdening VA contracting officers, reducing the volume of contract administration and untimely creation of contracts errors, and most importantly, improving the Veterans experience and access to care. Prosthetics was also able to decrease monetary loss to the government, from 2.36 percent to 0.01 percent, due to the creation of partnerships with internal offices that are responsible for VA's national contracts. These partnerships have assisted with the reduction of data entry errors and the application of incorrect payment methodologies. VA will continue to assess internal systems and infrastructure to identify present and future state support system(s) for resources needed to reduce PSAS improper payments and sustain process improvement initiatives.

VETERANS BENEFITS ADMINISTRATION

VBA continues to implement internal controls, acquire human resources, and develop information systems and other infrastructure to reduce improper payments. While VBA has the necessary information infrastructure to meet current improper payment reviews, system enhancements and additional IT funds would allow further reduction in improper payments.

PENSION

P&F Service has implemented automated processes to aid in the prevention of improper payments. For example, VBA performs postaward audits focused on the verification of income. When discrepancies are identified, automatic due process notices are issued that allow recipients the ability to submit evidence supporting changes in income and assets. Failure to provide evidence of continued eligibility can result in termination of benefits.

Additionally, in FY 2019, VBA began autogenerating annual notices for income, assets, and dependency status changes. These notices will serve as a reminder to recipients to report up-to-date eligibility information and any resulting responses will ensure the issuance of proper payment amounts.

P&F Service has also been working to implement up-front verification expansion which includes a review of FTI for claims involving special monthly pension, medical and income adjustments, and dependency-related issues. Due to competing priorities, VBA was unable to implement in recent years. However, implementation of up-front verification will be executed in phases which began in June 2019, with the final phase scheduled for implementation in FY 2020.

SAMPLING AND ESTIMATION

In FY 2019, VA was required to select a statistically valid sample for testing and estimating improper payments for 14 VA programs. VA documented its approach for each program within each program's respective sampling plan. Consistent with the prior year's statistical sampling approaches, VA used systematic random sampling and stratified sample designs to separate the payment data into homogeneous strata for each of the fourteen programs being tested and to select payments for testing. The payment characteristics used to stratify the payment populations vary by program but can include subprogram(s), sub-organization, payment type, and dollar amount.

Sample sizes varied by program and were determined using historical program error rates and statistical power calculations. Payments selected for testing were then reviewed against program-specific criteria to determine payment accuracy. In many instances, samples were selected quarterly to allow payment testing activities to begin earlier in the FY, and in other instances, samples were selected semiannually or annually.

VA submitted sampling plans to OMB that included seven statistically valid sample plans and seven statistically valid and rigorous plans, all of which comply with OMB Circular No. A-123, Appendix C. For seven VA programs with improper payment rates expected to be above 10 percent, VA chose to implement a statistically valid plan as additional sampling was not expected to increase insight into the program's causes of errors. The statistically valid sampling approach allows for results greater than the 3 percent precision at 95 percent confidence to attain the "rigorous" designation. This approach enables VA to focus resources on developing and implementing corrective actions to reduce future improper payments for these programs. As improper payment rates for these programs improve, then VA expects estimate precision to improve enabling VA to implement a rigorous plan attaining estimate precision less than 3 percent in future years. The remaining sampling plans were structured to be statistically valid and rigorous to attain a 95 percent confidence interval with a 3 percent or better precision level. In consultation with the OIG, VA chose to refine the methods used to derive the improper payment ratio estimate and the estimate of the precision in FY 2019.

RISK ASSESSMENTS

In FY 2019, VA was only required to complete IPERA risk assessments for three[8] programs. These were accomplished using an objective and comprehensive risk assessment questionnaire to satisfy risk assessment requirements for IPERA as well as the Fraud Reduction and Data Analytics Act and the GAO Fraud Risk Framework. These three programs consisted of two newly identified VBA programs[9] in FY 2018 and the OIG[10]. The results of the risk assessments for each program are depicted below as follows.

Chart 1: FY 2019 Risk Assessment Results – Programs Not Susceptible to Significant Improper Payments

Administration/ VACO	Program	Description	Risk Level
VBA	Spina Bifida – Chapter 18	Provides disability benefits for individuals suffering from Spina Bifida whose biological parent is or was a Vietnam Veteran or a Veteran with covered service in Korea.	Low
VBA	Veterans Retraining and Assistance Program (VRAP)	Provides training assistance to unemployed Veterans in high-demand occupational fields.	Low
VACO	Office of Inspector General	Conducts effective oversight of the programs and operations of the VA through independent audits, inspections, and investigations.	Medium

[8] According to the FY 2018 AFR, VA stated that four programs would complete a risk assessment in FY 2019. However, upon further review, the Burial Flags program is not required to complete a risk assessment due to the program's outlays being comprised of intra-governmental payments. OMB Circular No. A-123, Appendix C, Part I, (C)(5), states, "Improper Payment Information Act of 2002 does not require agencies to include payments made by a Federal Agency to another Federal agency. Therefore, agencies are not obligated to review intra-governmental transactions."

[9] Spina Bifida – Chapter 18, and Veterans Retraining Assistance Program.

[10] OIG last performed a risk assessment in FY 2016. OMB Circular No. A-123, Appendix C, Part 1, (C)(1), states, "For programs that are deemed to be not susceptible to significant improper payments, agencies must perform risk assessments at least once every three years."

SECTION III: OTHER INFORMATION

FRAUD REDUCTION REPORT

OVERVIEW

In FY 2019, VA continued to improve its efforts to combat fraud, waste, and abuse (FWA) through the Seek to Prevent Fraud, Waste, and Abuse (STOP FWA) initiative.

The initiative, led by the Assistant Secretary for Management, will improve governance and understanding of current activities, as well as identify programs that need additional strategies to mitigate the risk of FWA.

The following sections provide additional information about VA's fraud reduction efforts and established strategies and activities.

VA'S FRAUD REDUCTION EFFORTS

VA's OIG reported $136.9 million in confirmed fraud in FY 2019. As part of its fraud reduction effort, VA implemented financial and administrative controls relating to fraud risk and improved use of Federal fraud risk management principles to manage fraud risks in major programs.

IMPLEMENTATION OF THE FRAUD RISK PRINCIPLE (STANDARDS FOR INTERNAL CONTROLS)

The GAO Standards for Internal Control in the Federal Government sets internal control standards for Federal entities using 17 internal control principles. Principle 8, Assess Fraud Risk, requires management to consider the potential for fraud when identifying, analyzing, and responding to risk. To comply with GAO internal control standards, VA Administrations and Staff Offices annually complete an internal control assessment, which includes a report on their activities for assessing fraud risk, as required by Principle 8. VA Administrations and Staff Offices submit evidence to support their assessment to VA's Office of Business Oversight (OBO), identify any deficiencies, and create corrective action plans. OBO elevates reported deficiencies to VA management.

IMPLEMENTATION OF OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR NO. A-123, WITH RESPECT TO MANAGING FRAUD RISK

In alignment with OMB Circular No. A-123 guidance to integrate ERM and internal control functions, VA's OEI developed the virtual VA Enterprise Risk Management (VAERM) Process repositories, which integrate all aspects of the Risk Management process, including fraud risk and internal controls. In FY 2019, OBO implemented a fraud risk survey using a program-based comprehensive assessment

designed to address the principles in the GAO Framework for Effective Fraud Risk Management. OBO shared the assessment results with Administrations for vetting and distribution to VAERM for inclusion in VA's risk register.

IDENTIFICATION OF RISK AND VULNERABILITIES TO FRAUD

In FY 2019, VA addressed fraud risk using a comprehensive risk survey questionnaire that scores responses based on 10 fraud risk factors. The assessment enables VA to identify the extent programs are susceptible to fraud and pinpoint the programs at highest risk. In FY 2019, VA worked with the highest fraud risk programs from the prior year assessments and required those programs to identify their top fraud risks and mitigation plans. VA also initiated the current year assessment during FY 2019 and will again work with high-risk programs to identify top vulnerabilities.

PAYROLL

The full deployment of the VA Time and Attendance System (VATAS) in July 2018 provided the agency with a web-based, centralized, and standardized timekeeping system that helps reduce risk and vulnerabilities to fraud in payroll. With more than 400,000 users, VATAS has a robust Help Desk team comprised of subject matter experts to support stations and users across the country. This support, along with a myriad of tools, desktop reference guides, instructional videos, and a searchable knowledgebase on the VATAS SharePoint site, facilitates the timeliness and accuracy of timesheet processing, in accordance with policy, and improves the delivery of approximately $1.6 billion in payroll each pay period.

Having a centralized timekeeping system provides the agency both greater insight through surveillance capabilities and enhanced reporting tools to help identify trends as well as risks and potential fraud in payroll processing. The VA workforce is educated on the proper use of VATAS, and the abundance of training and support ensures VATAS can provide increased oversight and the reduction of fraud risk.

In FY 2019, payroll began centralization efforts of payroll services. This approach standardizes processes and ensures proper governance over employee pay. Surveillance capabilities and additional security enhancements are in place to mitigate entry points for FWA. Training on payroll operations is performed biweekly to ensure any new laws, legislation, and/or policy updates are understood and updated in payroll protocol.

BENEFICIARY PAYMENTS

VBA's Counter-Fraud teams identify FWA activities using advanced analytics and investigatory techniques to protect Veterans' benefits payments and the integrity of the agency. As of September 2019, VBA resolved 3,904 cases where Veterans had their benefits redirected. Of $10.32 million in actual or attempted benefits theft, the VBA teams prevented or recovered $4.97 million, equating to an increased recovery rate from approximately 40 percent in FY 2018 to approximately 48 percent in FY 2019.

GRANTS

In FY 2019, OBO assessed VHA Homeless Veteran Grants to determine if they were being used as intended and administered in compliance with current legislation. OBO conducted Grant Per Diem and Supportive Services for Veteran Families Grantee reviews to (1) determine if Grantee costs were allocable, allowable, and reasonable in accordance with OMB directives; (2) ensure services were being provided to Veterans as prescribed by program requirements; (3) confirm compliance with expense thresholds and program cap requirements; and (4) review Grantee fiscal operations to determine if effective internal controls and fraud risk management existed.

LARGE CONTRACTS

In FY 2019, OALC's Risk Management and Compliance Service included an assessment of fraud indicators in all contracting compliance reviews. The reviews were performed by identifying applicable fraud indicators (e.g., numerous change orders, unusual prequalification requirements, unusual bidding patterns) and reviewing contract file documentation to assess the potential for fraud. Any suspected fraud identified during compliance reviews would be referred to the OIG. For all other risks and vulnerabilities identified during the reviews, where warranted, the Heads of the Contracting Activities may have required responsible offices to develop corrective action plans to implement internal controls.

CHARGE CARDS (PURCHASE AND TRAVEL)

The FSC tracks and analyzes charge card transactions through development and use of a full range of analytic methods, such as data collection, data integration, and data profiling, and use of predictive models/forensic accounting methods. These audits and data analyses gather transactional data from card charges to identify spend patterns, anomalies, and usage violations that enable the Department to correct deficiencies and make programmatic changes to minimize risk and prevent future violations. Results of all analyses and OMB Circular No. A-123 compliant audits are provided to VA executive leadership for distribution to oversight bodies for business process improvements.

ESTABLISHED STRATEGIES, PROCEDURES, AND OTHER STEPS TO CURB FRAUD

VA is taking a data analytics-driven approach and is leveraging partnerships with outside entities to reduce FWA risks across the Department.

The OCC's Department of Program Integrity (DPI) Program Integrity Tool (PIT) data repository has a new online feed from a source claims adjudication system, eCAMS, that replaces a legacy system used to process community care claims. DPI is currently validating eCAMS data files for claim line scoring and incorporation into a bidirectional feed with PIT. The bidirectional feed will be critical for the expansion and use of a predefined FWA business logic inventory, called JRules, used as prepayment edits and in

postpayment FWA detection. Leveraging the consolidated repository of business rules will ensure all claims processing data is centralized for scoring and reviewed for FWA prior to payment. Furthermore, the new system feed will expand the data repository with new information to perform analysis and provider outlier detection across programs.

As another major strategy to curb fraud, VA leveraged partnerships with outside entities. During the fiscal year, VA developed detailed actions plans in response to six comprehensive recommendations issued by the Prevention of Fraud, Waste, and Abuse Advisory Committee (PFWAAC) at the end of FY 2018. The action plans were focused on strengthening OCC's program integrity and antifraud efforts. VA began implementing the action plans by first working on a five-year strategy to lay a roadmap for continuous improvement in the years ahead. The strategy will help VA stay on track in implementing the remainder of the PFWAAC recommendations.

Other VA steps to curb fraud included our continued partnership with HHS CMS. VA and CMS approved a computer matching agreement that will enable VA and CMS to share provider screening information, which will protect VA patients and health care funds. VA and CMS expect data matching to begin in early FY 2020. VA and CMS are exploring the next phases of the partnership to continue the collaborative relationship to fight fraud to the benefit of both agencies, as well as taxpayers.

SECTION III: OTHER INFORMATION

REDUCE THE FOOTPRINT

Consistent with the OMB Freeze the Footprint memorandum (M-12-12), OMB released Reduce the Footprint (RTF) (M-12-12 section 3) on March 25, 2015. As VA's mission continues to expand and evolve in its efforts to meet the needs of Veterans and their families, VA continues to implement a suite of strategies to manage the office and warehouse space necessary to provide service to Veterans. VA successfully submitted its RTF implementation plan to OMB and GSA covering the FY 2019 through FY 2023 time period, as well as a draft of the plan covering the FY 2020 through FY 2024 time period. The plan includes multiple strategies for better utilizing space, as well as presenting owned asset disposal opportunities. VA also completed its third full year (FY 2018) of the RTF initiative against the newly established FY 2015 baseline. VA will continue to work with OMB and GSA to pursue aggressive disposal and reuse opportunities in support of RTF.

BASELINE COMPARISON

	FY 2015 Baseline	FY 2018 Reported	Change
Square Footage (in millions)	28.24	27.12	-3.9%

REPORTING OF OPERATION AND MAINTENANCE COSTS – OWNED AND DIRECT LEASE BUILDINGS

	FY 2017 Reported Cost	FY 2018 Reported Cost	Change
Operation and Maintenance Cost (in millions)	$131.55	$138.53	0.5%

VA's total square feet subject to RTF for FY 2018 was 27.12 million, representing a decrease of approximately 3.9 percent over the FY 2015 baseline of 28.24 million.

VA has implemented new administrative office space standards to shrink overall space requirements. The new standard applies to new projects and lease renewals. The standard does not generate an immediate space reduction; however, as leases are replaced, and the new standard used, overall office space will eventually be reduced. VA is also focusing on disposing vacant or underutilized assets (both office

and warehouse) to help provide additional reduction in the portfolio.

VA estimated to reduce 312,600 square feet of its office and warehouse space between FY 2020 and FY 2024. In terms of seeking opportunities for reduction targets in office and warehouse space, VA continues to focus on disposal of unneeded assets.

In terms of costs, total operation and maintenance costs as reported in the Federal Real Property Profile increased 0.5 percent from $131.55 million in FY 2017 to $138.53 million in FY 2018.

SECTION III: OTHER INFORMATION

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990 (the Inflation Adjustment Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. Four statutes are excluded under the Inflation Adjustment Act: the Internal Revenue Code of 1986, the Tariff Act of 1930, the Occupational Safety and Health Act of 1970, and the Social Security Act. The table below depicts the covered civil monetary penalties that are under VA's purview.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
Veterans' Benefits Improvement and Health-Care Authorization Act of 1986, as amended	False Loan Guaranty Certifications	1986	2019 (via regulation)	The greater of (a) two times the amount of Secretary's loss on the loan, or (b) another appropriate amount not to exceed $22,927	VBA/Loan Guaranty	Federal Register 84 (01/31/2019): 65551-65552
Program Fraud Civil Remedies Act of 1986, as amended	Fraudulent Claims or Statements	1986	2019	$11,463	All VA Programs	Federal Register 84 (01/31/2019): 65551-65552

VA recently published a regulation in the Federal Register, reflecting the Federal Civil Penalties annual inflation adjustment for FY 2019, in January 2019. VA will also publish an updated regulation in the Federal Register, reflecting the Federal Civil Penalties annual inflation adjustment for FY 2020, soon after the October 2019 CPI factor is published.

APPENDIX A: ABBREVIATIONS AND ACRONYMS

Acronym	Definition
ADUSH	Assistant Deputy Under Secretary for Health
ADUSH/CC	Assistant Deputy Under Secretary for Health for Community Care
AES	All Employee Survey
AFR	Agency Financial Report
AMA	Veterans Appeals Improvement and Modernization Act of 2017
APP&R	Annual Performance Plan and Report
BAR	Budget and Accrual Reconciliation
BOC	Bills of Collection
BOP	Bureau of Prisons
BTSSS	Beneficiary Travel Self-Service System
C&P	Compensation and Pension
CAATS	Centralized Automated Accounting Transaction System
CAD	Compliance Audit Division
CAIVRS	Credit Alert Verification Reporting System
CAP	Corrective Action Plan
CAVC	Court of Appeals for Veterans Claims
CBOC	Community Based Outpatient Clinics
CCN	Community Care Network
CDA	Contract Dispute Acts
COE	Certificates of Eligibility
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CHAMPVA	Civilian Health and Medical Program of the Department of Veterans Affairs
CHIP	Comprehensive Healthcare Inspection Program
CMA	Computer Matching Agreements

Acronym	Definition
CMS	Centers for Medicare and Medicaid Services
COLA	Cost-of-Living Adjustment
CPI	Consumer Price Index
CPRS	Computerized Patient Record System
CPS	Clinical Pharmacy Specialists
CSC	Caregiver Support Coordinators
CSCO	Chief Supply Chain Officers
CSF	Cybersecurity Framework
CSO	Commissioner's Standard Ordinary
CSRS	Civil Service Retirement System
CX	Customer Experience
CXL	Corneal Collagen Crosslinking
DATA Act	Digital Accountability and Transparency Act of 2014
DEA	Dependent Education Assistance
DFAS	Defense Finance and Accounting Service
DMC	Debt Management Center
DMF	Death Master File
DNP	Do Not Pay
DO CAP	Delivery Operations CAP
DoD	Department of Defense
DOL	Department of Labor
DPI	Department of Program Integrity
DROC	Decision Review Operations Centers
eCAMS	Electronic Claims Adjudication Management System
eCMS	Electronic Contract Management System
ECSP	Enterprise Cybersecurity Program
ECST	Enterprise Cyber Security Team
EDU	VBA's Education Service

APPENDIX A: ABBREVIATIONS AND ACRONYMS

Acronym	Definition
EE	Employee Engagement
EFT	Electronic Funds Transfer
EHR	Electronic Health Record
EHRM	Electronic Health Record Modernization
ERM	Enterprise Risk Management
ESC	Executive Steering Committee
ESCO	Energy Service Company
ESPC	Energy Saving Performance Contracts
EUL	Enhanced-Use Lease
FAR	Federal Acquisition Regulation
FBWT	Fund Balance with Treasury
FCA	Facility Condition Assessment
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act
FMBT	Financial Management Business Transformation
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management System
FR	Financial Report
FSC	Financial Services Center
FSS	Federal Supply Schedule
FTE	Full-Time Equivalent
FTI	Federal Tax Information
FY	Fiscal Year
FWA	Fraud, Waste, and Abuse
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office

Acronym	Definition
GEC	Geriatrics and Extended Care
GSA	General Services Administration
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
HR	Human Resources
HRO	High Reliability Organization
HSRM	HealthShare Referral Management
IBNR	Incurred But Not Reported
ICA	Internal Controls Assessment
iFAMS	Integrated Financial and Acquisition Management System
IFCAP	Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement System
IP	Improper Payments
IPERA	Improper Payments Elimination and Recovery Act
IPT	Integrated Product Team
IT	Information Technology
IUS	Internal Use Software
LEIE	List of Excluded Individuals/Entities
LGY	Loan Guaranty Service
MCCF	Medical Care Collections Fund
MGIB-AD	Montgomery GI Bill Active Duty
MISSION	Maintaining Systems and Strengthening Integrated Outside Networks
MST	Military Sexual Trauma
NCA	National Cemetery Administration
NIST	National Institute of Standards and Technology
NPOSP	National Program Office of Sterile Processing
NSLI	National Service Life Insurance
NWQ	National Work Queue

APPENDIX A: ABBREVIATIONS AND ACRONYMS

Acronym	Definition
OA	Occupancy Agreements
OALC	Office of Acquisition, Logistics, and Construction
OAWP	Office of Accountability and Whistleblower Protection
OBO	Office of Business Oversight
OBPI	Office of Business Process Integration
OCC	Office of Community Care
OCR	Office of Contract Review
OEI	Office of Enterprise Integration
OIG	Office of Inspector General
OIT	Office of Information and Technology
OM	Office of Management
OMB	Office of Management and Budget
OMHSP	Office of Mental Health and Suicide Prevention
OPM	Office of Personnel Management
P&F	Pension and Fiduciary
P&LO	Procurement and Logistics Office
PCAFC	Program of Comprehensive Assistance for Family Caregivers
PFWAAC	Prevention of Fraud, Waste, and Abuse Advisory Committee
PIT	Program Integrity Tool
PIO	Program Integration Office
P.L.	Public Law
PLTSS	Purchased Long-Term Services and Supports
PP&E	Property, Plant, and Equipment
PSAS	Prosthetic and Sensory Aids Service
PTA	Policy, Training, and Assessment
PTSD	Posttraumatic Stress Disorder
QCR	Quality Control Reviews

Acronym	Definition
QSV	Quality, Safety, and Value
R&D	Research and Development
REO	Real Estate Owned
RMF	Risk Management Framework
RO	Regional Office
RSI	Required Supplementary Information
RTF	Reduce the Footprint
S-DVI	Service-Disabled Veterans Insurance
SAA	State Approving Agencies
SAM	System for Award Management
SAO	Senior Accountable Officials
SECRETARY	Secretary of Veterans Affairs
SEOC	Standard Episode of Care
SFFAS	Statement of Federal Financial Accounting Standards
SGLI	Servicemembers' Group Life Insurance
SHPD	State Home Per Diem program
SLVHCS	Southeast Louisiana Veterans Health Care System
SOA	Statement of Assurance
SOP	Standard Operating Procedure
SPS	Sterile Processing Service
SSA	Social Security Administration
STOP FWA	Seek to Prevent Fraud, Waste, and Abuse
TAC	Technology Acquisition Center
TOP	Treasury Offset Program
TPDR	Top Potential Duplicate Report
TRE	Trainee Recruitment Events
TSGLI	Servicemembers' Group Life Insurance Traumatic Injury Protection
UESC	Utility Energy Service Contracts
UM	Utilization Management
USB	Under Secretary for Benefits

APPENDIX A: ABBREVIATIONS AND ACRONYMS

Acronym	Definition
USGLI	United States Government Life Insurance
USH	Under Secretary for Health
USSGL	U.S. Standard General Ledger
U.S.C.	United States Code
VA	Veterans Affairs
VAAR	VA Acquisition Regulation
VACC	VA Community Care
VACO	VA Central Office
VAERM	VA Enterprise Risk Management
VAMC	VA Medical Center
VATAS	VA Time and Attendance System
VBA	Veterans Benefits Administration
VBM	Valuation Basic Male
VCA	Veteran Care Agreements
VCS	Veterans Canteen Service
VEO	Veteran Experience Office
VGLI	Veteran's Group Life Insurance
VHA	Veterans Health Administration
VI&I	Veterans' Insurance & Indemnities
VISN	Veterans Integrated Service Network
VistA	Veterans Information System and Technology Architecture
VMLI	Veterans' Mortgage Life Insurance
VR&E	Vocational Rehabilitation and Employment
VRC	Vocational Rehabilitation Counselor
VRI	Veterans Reopened Insurance
VSLI	Veterans Special Life Insurance
VSO	Veterans Service Organizations
VTP	Veterans Transportation Program
WIP	Work-in-Process

APPENDIX B: VA ONLINE

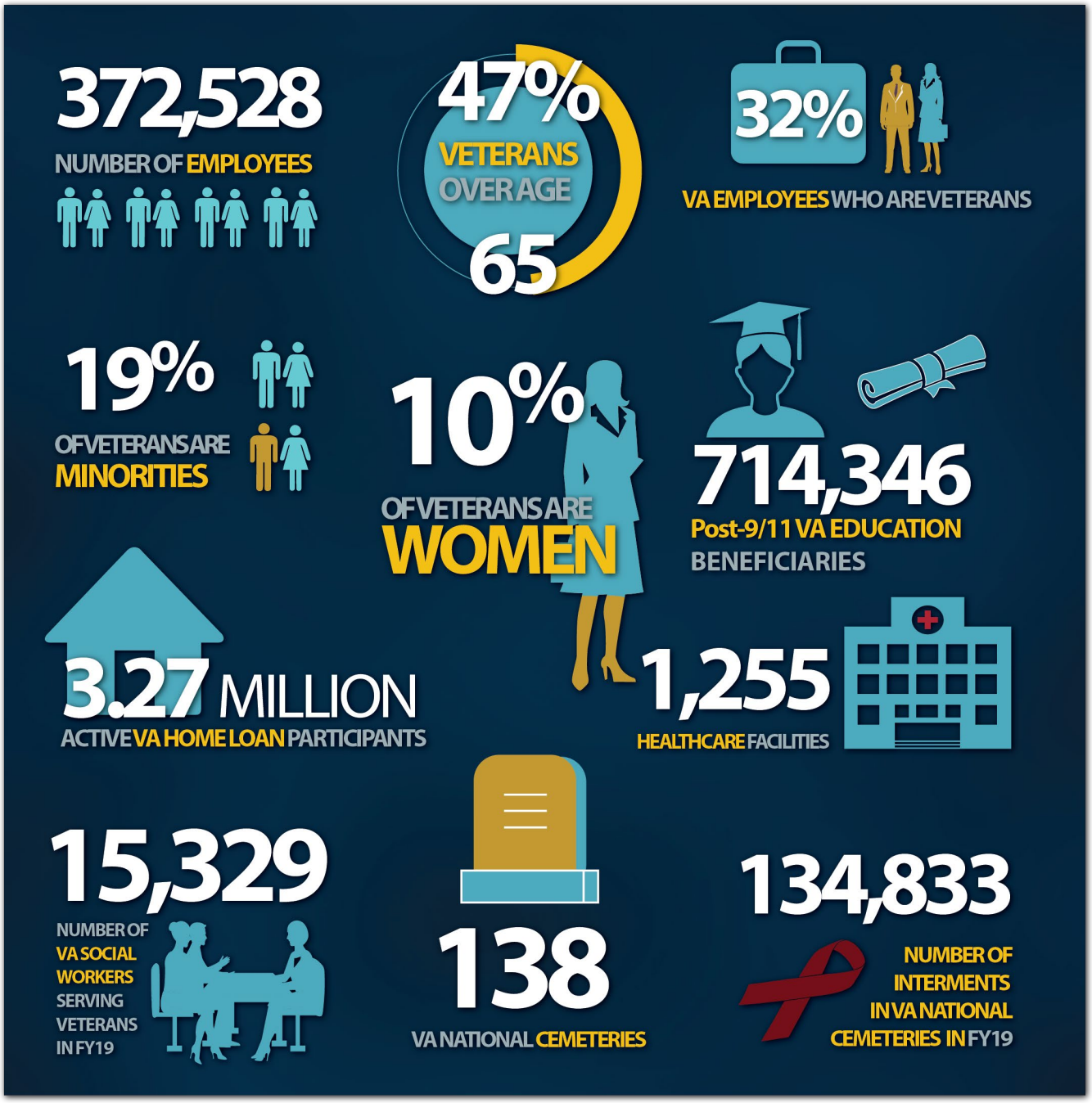
What Information Do You Need?	Web site
VA's Home Page	www.va.gov
VA's AFR Submission and Strategic Plans	www.va.gov/performance
VA's Budget Submission	www.va.gov/budget/products.asp
Health Care in VA	www.va.gov/health-care/
Managing My Health as a Veteran	www.myhealth.va.gov
Medical Research in VA	www.research.va.gov
Clinical Training Opportunities and Education Affiliates	www.va.gov/oaa
Office of Rural Health	www.ruralhealth.va.gov
Public Health	www.publichealth.va.gov
Health Promotion and Disease Prevention	www.prevention.va.gov/
Employment	www.vaforvets.va.gov
VA Benefits	www.benefits.va.gov
Education Benefits for Veterans	www.gibill.va.gov
Insurance for Servicemembers and Veterans	www.benefits.va.gov/insurance
Vocational Rehabilitation and Employment	www.benefits.va.gov/vocrehab
Disability Compensation for Veterans	www.benefits.va.gov/compensation/
Pension Information for Veterans and Survivors	www.benefits.va.gov/pension
Educational and Vocational Counseling	www.benefits.va.gov/vocrehab/edu_voc_counseling.asp
Dependent and Survivor Benefits	www.va.gov/opa/persona/dependent_survivor.asp
Dependency and Indemnity Compensation	www.benefits.va.gov/COMPENSATION/types-dependency_and_indemnity.asp
Home Loans	www.benefits.va.gov/homeloans/index.asp
eBenefits	www.ebenefits.va.gov
Vow to Hire Heroes	www.benefits.va.gov/vow
Burial and Memorial Benefits for Veterans	www.cem.va.gov
Opportunities for Veteran-Owned Small Businesses	www.va.gov/OSDBU/index.asp
Minority Veterans	www.va.gov/centerforminorityVeterans/
Women Veterans	www.va.gov/womenvet
Survivors Assistance	www.va.gov/survivors
Operations, Security, and Preparedness	www.osp.va.gov
Recently Published VA Regulations	www.va.gov/ORPM/
VA's Social Media Sites	www.va.gov/opa/SocialMedia.asp
Human Resources and Administration	www.vacareers.va.gov/

APPENDIX B: VA ONLINE

What Information Do You Need?	Web site
Reports, Surveys, or Statistics Regarding the Veteran Population	www.va.gov/vetdata/
Freedom of Information Act	www.va.gov/foia/
Privacy Policy Information	www.va.gov/privacy/
VA Directives and Handbooks	www.va.gov/vapubs/
Energy Management Program Service	www.energy.va.gov
Center for Faith-based and Neighborhood Partnerships	www.va.gov/cfbnpartnerships/
Homelessness Info	www.va.gov/homeless/
VA Transition Assistance Program	https://www.benefits.va.gov/tap/tap-index.asp

This page has been intentionally left blank.

VA BY THE NUMBERS



Paul Morigi/AP Images for Smithsonian National Museum of the American Indian

www.va.gov

I CARE
DEPARTMENT OF VETERANS AFFAIRS

DEPARTMENT OF VETERANS AFFAIRS
UNITED STATES OF AMERICA