VA

U.S. Department
of Veterans Affairs

2015

Agency Financial Report (AFR)

2015 Agency Financial Report

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THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 16, 2015

To the President of the United States, President of the Senate, Speaker of the House of Representatives, and the President Pro Tempore of the Senate:

This report highlights the Department of Veterans Affairs' (VA) accomplishments and challenges in providing health care and benefits delivery to our Veterans according to our mission as provided by President Lincoln: "To care for him who shall have borne the battle, and for his widow and his orphan." To accomplish this mission, we provide timely access to earned health care and benefits for millions of Veterans. It is a responsibility that we do not take lightly.

In the last year, VA has been capturing lessons learned as we continued to increase options to Veterans in pursuing health services through VA facilities and care in the community. VA has increased its capacity to serve Veterans' health-care needs by focusing on four pillars: staffing, space, productivity, and VA community care. At VA facilities, we have increased net staffing and the number of primary care exam rooms. We have extended the number of clinic hours to nights and weekends. We also leveraged care in the community options for Veterans, including those pertaining to the Choice Act.

Even as we increase access and transform, important challenges remain, and there will be more in the future as Veteran demographics evolve. Health services and benefits sought by Veterans often peak years after conflicts end, and the demands increase as Veterans age and exit the workforce. Looking forward, the VA Budget and Choice Improvement Act codified the Department's initiative to develop a plan to consolidate all non-Department provider programs by establishing a single new program for furnishing hospital care and medical services to enrolled Veterans. We are committed to simplifying the complex array of programs through which VA delivers care in the community.

Additionally, we are transforming our way of doing business by putting the Veteran first in all we do through a new overarching initiative we call MyVA. The MyVA vision is to provide a seamless, unified Veteran Experience across the entire organization and throughout the country. Our five initial priorities are:

- Improving the Veteran experience;
- Improving the employee experience;
- Achieving support services excellence;
- Establishing a culture of continuous performance improvement; and
- Enhancing strategic partnerships.

CliftonLarsonAllen (CLA), an independent public accounting firm reviewed our financial statements and provided an unmodified opinion for the 17th consecutive year, thus demonstrating our successful efforts to ensure that taxpayer resources are used effectively and efficiently in support of Veterans and their families. Although VA received an unmodified audit opinion, we must continue to improve our financial management in fiscal year (FY) 2016, as CLA has cited VA with four material weaknesses and two significant deficiencies.

This year's audit continued to identify a repeat material weakness related to information technology systems configuration management controls, access controls, security management, and systems contingency planning. In July 2015, the new Chief Information Officer (CIO) established an Enterprise Cybersecurity Strategy Team to review VA's cybersecurity posture. The team delivered a strategy and implementation plan in late September 2015 that will transform CIO's focus on cybersecurity with a goal of resolving the material weakness in 2016.

VA received two related material weaknesses, one pertaining to procurement, undelivered orders, and reconciliation processes and the other centered on care in the community transaction processing and reconciliation processes. Issues found related to untimely recording of obligations in the accounting system and obligations of funds without valid Federal Acquisition Regulation, and the lack of reconciliation processes between referrals for Veterans receiving care and related transactions recorded in the accounting system. VA is currently seeking a legislative proposal to better facilitate care in the community. In FY 2016, VA is also focusing on reforming and improving how we purchase care in the community but challenges will remain in the absence of legislative change.

Additionally, VA received a material weakness on financial reporting because our antiquated accounting system lacks current Federal functionalities and controls. VA plans to replace its accounting system and will embark on a multi-year initiative to migrate to a Federal shared service provider starting in FY 2016. In the meantime, VA will continue to improve our business processes and reliability of our data.

VA received two significant deficiencies. The first addresses the accrual process for financial reporting. This finding occurred when estimated expenses did not align with the actual payments. In FY 2016, VA plans to work with program offices to perform analysis of existing processes, review historical data, and evaluate the timing of services received and payments processed.

The second significant deficiency related to the Chief Financial Officer organizational structure. The current structure is fragmented and results in ineffective financial management systems and controls. VA will perform an assessment of the current reporting structure by the end of second quarter FY 2016, determine the need for reorganization and/or realignment, and provide recommendations for the optimal solution to senior leadership.

In addition to the material weaknesses and significant deficiencies, VA experienced a dramatic increase in our improper payment rate in FY 2015. This was due to the VA Office of Inspector General citing VA for inconsistent compliance with Federal laws in providing care in the community to Veterans in the May 2015 Improper Payments Elimination and Recovery Act compliance review. This is a departure from how VA has historically reported the care in the community payments. In the past, the payments were deemed proper if they were made in accordance with negotiated prices/regulation and paid to the correct party who provided the services requested. These instances were cited even though VA did not waste taxpayer money by paying too much for services or pay the wrong parties but instead, provided Veterans access to health care when it could not be provided at a VA facility. We are committed to stopping inconsistent compliance with laws and regulations and reduce the improper payment rate through legislative proposals and business process re-engineering in FY 2016.

Based on internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete, reliable and accurately describes VA results for FY 2015. The Agency Performance Plan and Report, due in February 2016, will contain more detail on VA's performance measures.

Caring for our Nation's Veterans is the highest honor and privilege for the men and women who serve VA. I thank you for your consideration of our annual report and appreciate your continued support of our mission.

Sincerely,

Robert A. McDonald

Enclosure

About the Agency Financial Report

The Department of Veterans Affairs (VA) Fiscal Year (FY) 2015 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, 2014, through September 30, 2015. This report provides an overview of VA's programs, accomplishments, challenges, and management's accountability for the resources entrusted to us. We have prepared this report in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. This document consists of three primary sections:

- **Management's Discussion and Analysis.** The Management's Discussion and Analysis (MD&A) section provides an overview of the entire report. Specifically, the MD&A presents an overview of performance and financial highlights for FY 2015. It also discusses VA's compliance with legal and regulatory requirements and provides a summary of the audit results and management assurances.

- **Financial Section**. The Financial Section includes the Report of the Independent Auditors, the Department's Principal Financial Statements, Notes to the Principal Financial Statements, Required Supplementary Stewardship Information, and Required Supplementary Information.

- **Other Information.** The Other Information section contains additional financial information including the Schedule of Spending, the Office of Inspector General's FY 2015 assessment of management challenges facing the Department, the Improper Payments Elimination And Recovery Act Of 2010 (IPERA) Report, as well as appendices to this AFR.

The Department has chosen to produce an AFR and Annual Performance Report. In February 2016 the following additional reports will be available on the Department's website (http://www.va.gov/budget/report/):

- FY 2015 VA Summary of Performance and Financial Information

- FY 2015 and FY 2017 Annual Performance Plan and Report

Section I. Management's Discussion and Analysis Agency and Mission Information

Mission

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

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

History

The United States has the most comprehensive system of assistance for Veterans of any nation in the world, with roots that can be traced back to 1636, when the Pilgrims of Plymouth Colony were at war with the Pequot Indians. The Pilgrims passed a law that stated that disabled soldiers would be supported by the colony.

National cemeteries were first developed in the United States during the Civil War. Due to mounting war casualties, on July 17, 1862, Congress empowered President Abraham Lincoln, "to purchase cemetery grounds and cause them to be securely enclosed, to be used as a national cemetery for the soldiers who shall die in the service of the country." In 1973, the Department of the Army transferred 82 of its 84 national cemeteries to the custody of the VA. At the same time, VA elevated the status of its own 21 cemeteries to that of national cemeteries, creating VA's current national cemetery system.

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

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

Following World War II, there was a vast increase in the Veteran population and Congress enacted large numbers of new benefits for war Veterans, the most significant of which was the World War II GI Bill, signed into law June 22, 1944. It is said that the GI Bill had more impact on the American way of life than any law since the Homestead Act of 1862. The GI Bill placed VA second to the War and Navy Departments in funding and personnel priorities. Modernizing the VA for a new generation of Veterans was crucial, and replacement of the "Old Guard" World War I leadership became a necessity.

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

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

Organization

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

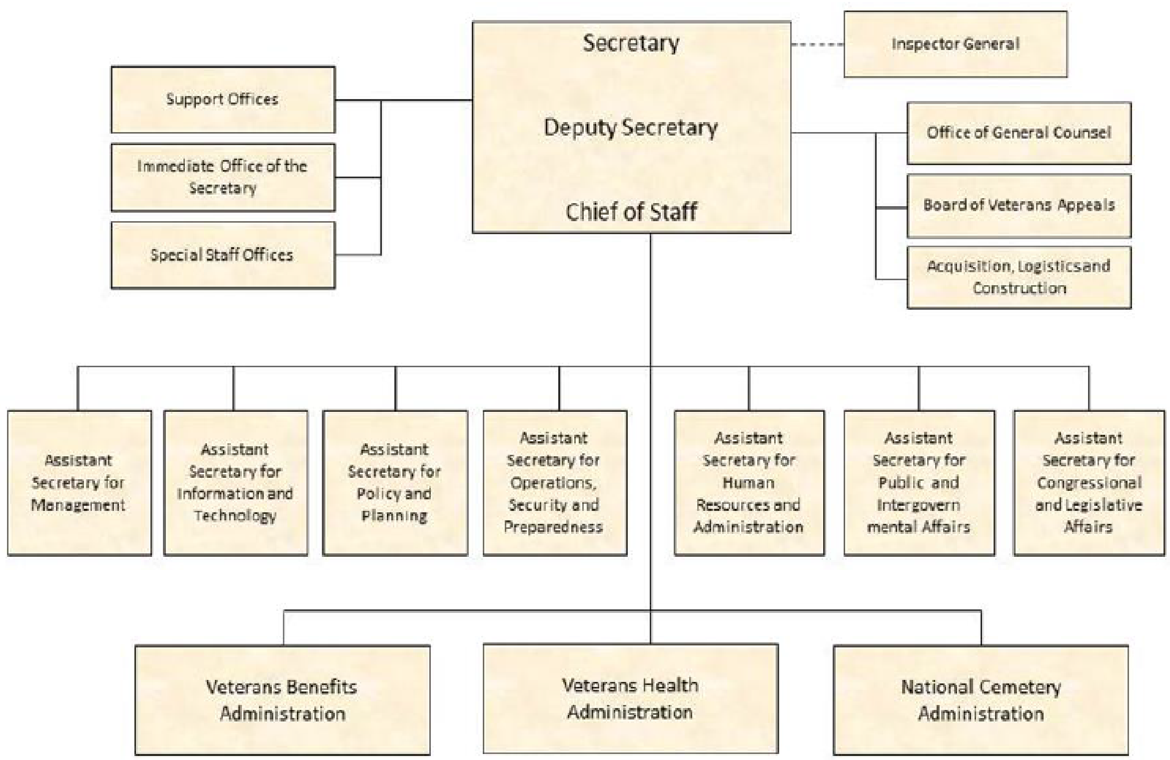
- The **Veterans Health Administration** (VHA) provides a broad range of primary care, specialized care, and related medical and social support services that are uniquely related to Veterans' health or special needs. VA advances medical research and development in ways that support Veterans' needs by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

- The **Veterans Benefits Administration** (VBA) provides a variety of benefits to Veterans and their families.
  - **Compensation Benefits.** The VBA compensation program provides monthly payments and ancillary benefits to Veterans, in recognition of the average potential loss of earning capacity caused by a disability incurred in or aggravated during active military service. This program also provides monthly payments, as specified by law, to surviving spouses, dependent children, and dependent parents in recognition of the economic loss caused by the Veteran's death during active military service or, subsequent to discharge from military service, as a result of a service-connected disability.
  - **Pension Benefits.** The VBA Pension program provides needs-based monthly benefits payments, to eligible Veterans with nonservice-connected disabilities, who served in a time of war. This program also provides monthly payments, as specified by law, to income-eligible surviving spouses and dependent children of deceased wartime Veterans who die as a result of a disability unrelated to military service.
  - **Fiduciary Services.** The VBA Fiduciary services program provides services to Veterans and beneficiaries who, because of injury, disease, infirmities or age, or because they are minor children, are unable to manage their financial affairs. This program appoints fiduciaries, generally family members or caregivers, to manage the beneficiaries' VA benefits.
  - **Educational Opportunities.** The VBA education programs provide eligible Veterans, Servicemembers, Reservists, surviving spouses, and dependent children the opportunity to achieve their educational or vocational goals.
  - **Vocational Rehabilitation and Employment Services**. The VBA Vocational Rehabilitation and Employment (VR&E) program assists Veterans with service-connected disabilities and employment handicap impairment in substantial part from a service-connected disability) prepare for, find, and maintain suitable employment.
  - **Home Ownership Promotion.** The VBA Loan Guaranty Program helps eligible Veterans, active duty personnel, surviving spouses, and members of the Reserve components and the National Guard by providing access to favorable loan terms.
  - **Life Insurance Benefits**. The VBA Insurance Program provides all Servicemembers and their families with universally available life insurance, which is automatically issued without underwriting.

- The **National Cemetery Administration** provides burial and memorial benefits to Veterans and their eligible family members.
- The VA staff offices provide a variety of services to the Department including information technology, human resources management, strategic planning, Veterans outreach and education, financial management, acquisition, and facilities management.

This information is depicted in the organizational chart below.

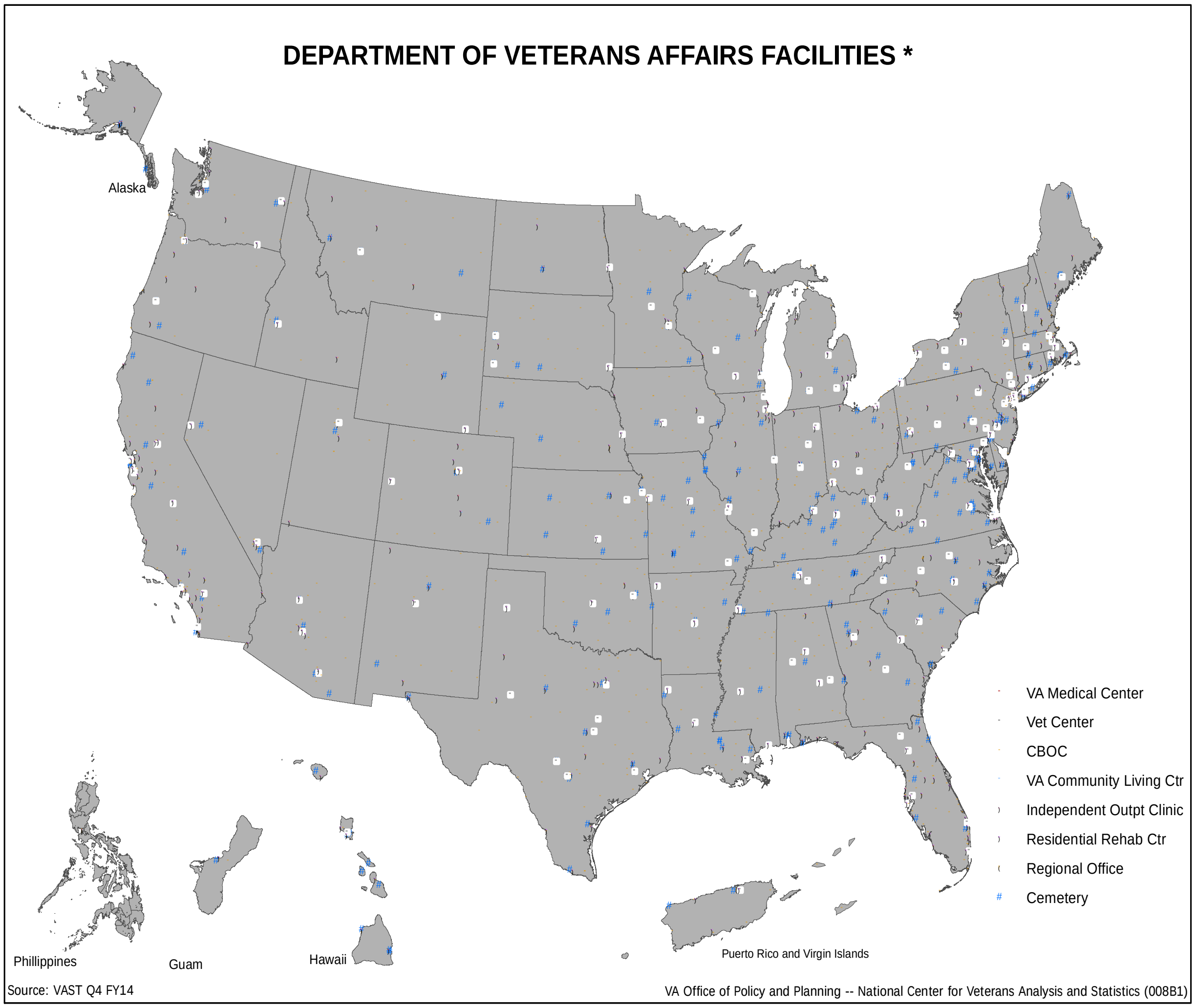
DEPARTMENT OF VETERANS AFFAIRS



Source: VA Functional Organizational Manual v.3.0

Major Facilities

The chart below depicts VA's geographical locations as of September 30, 2015. The map identifies 150 Medical Centers, 300 Vet Centers, 830 Community-based Outpatient Clinics (CBOC), 136 VA Community Living Centers, 6 Independent Output Clinics, 105 Domiciliary Residential Rehabilitation Centers, 227 National and State Cemeteries, and 56 Regional Offices.

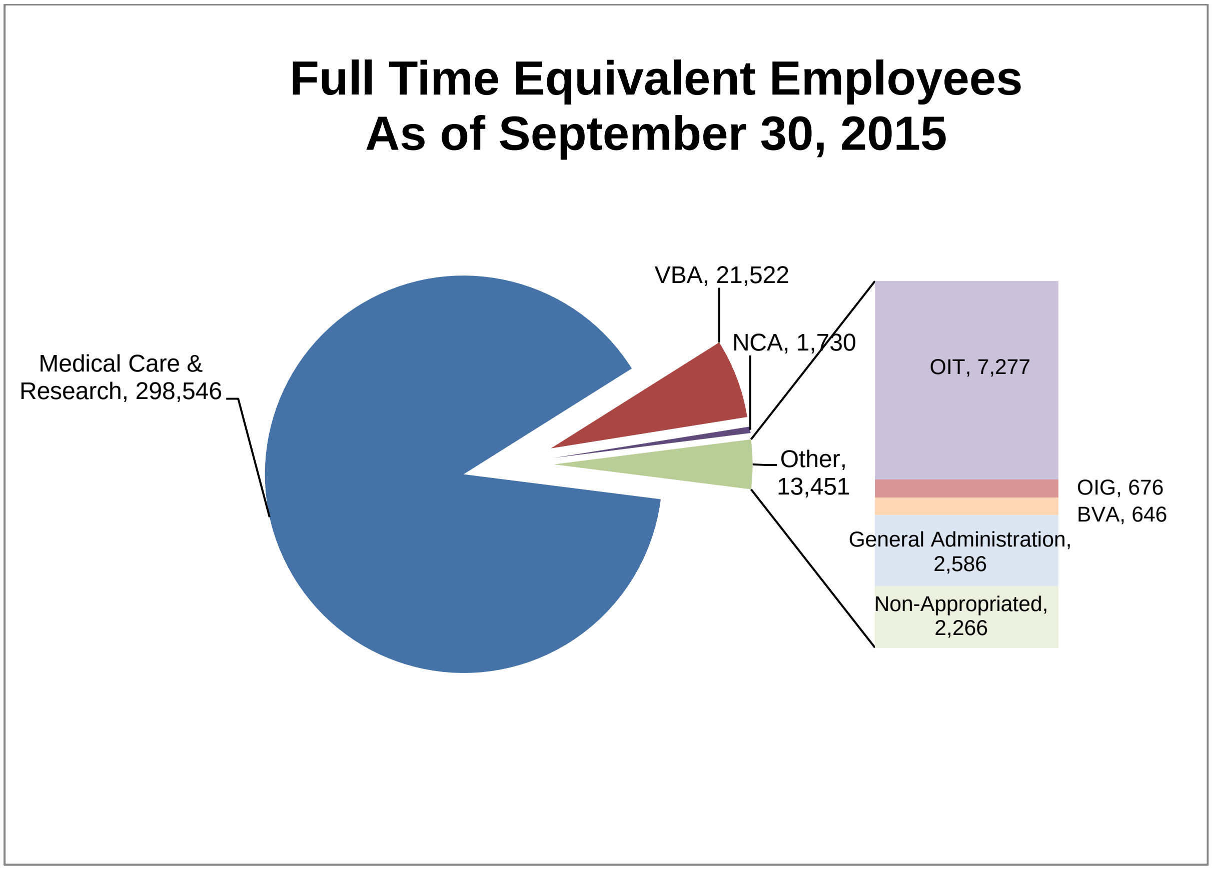


*Although State Veterans Cemeteries are included on the above map, they are not VA facilities, per se. VA provides grants for the establishment of state-operated cemeteries, which provide a burial and memorial benefit to Veterans.

Human Capital Resources

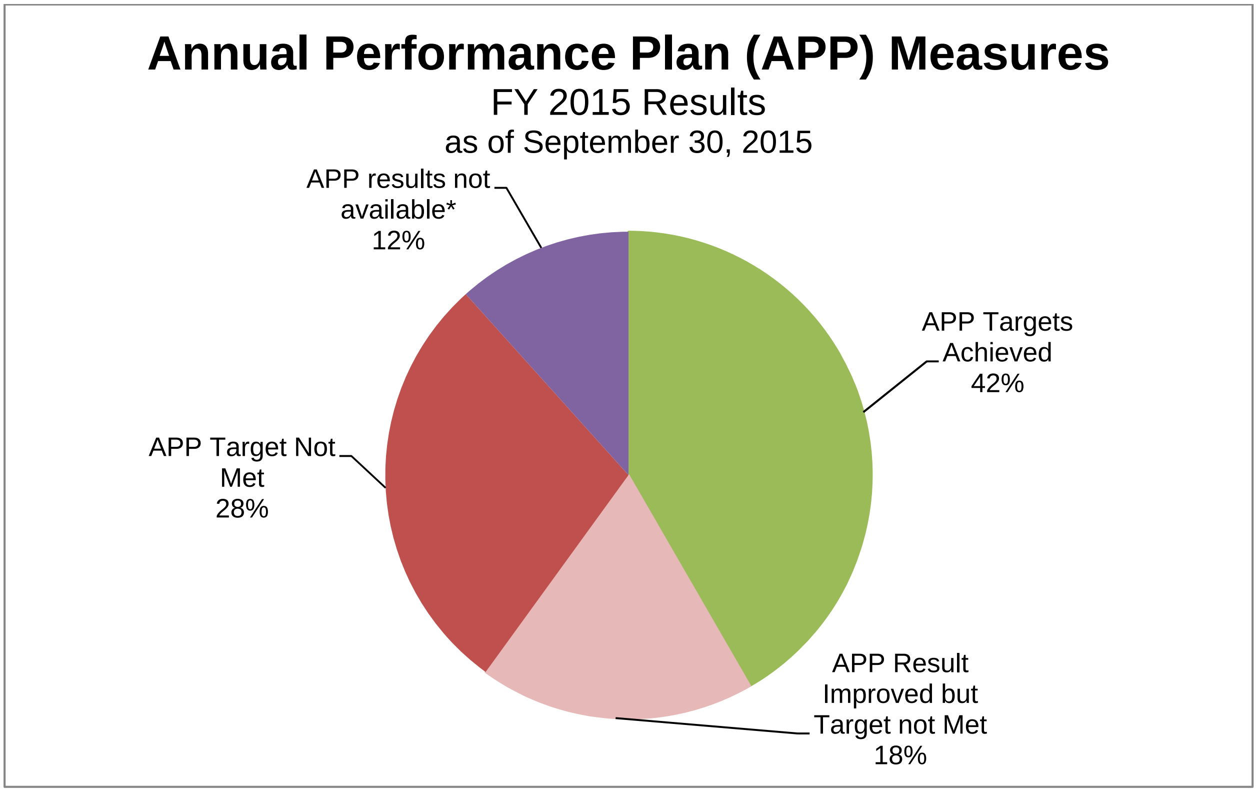
As of September 30, 2015, the Department employed approximately 335,000 full time equivalent (FTE) employees nationwide. The chart below shows the distribution of FTE employees by program area.

As shown below, more than 298,000 FTE support VA's health care system, one of the largest in the world. Among the remaining over 36,000 FTE employees, approximately 21,522 are involved with providing compensation and pension, as well as other benefits to Veterans and their families, 1,730 FTE provide burial and memorial benefits for Veterans and their eligible spouses and children, and 13,451 FTE employees, located primarily in the Washington, DC area, provide policy, administrative, information technology, and management support to the programs.



Summary of Performance Highlights

During FY 2015, VA made progress towards meeting the strategic goals and supporting objectives established in the *Veterans Affairs FY 2014–2020 Strategic Plan*. Additionally, VA made progress towards meeting the three agency priority goals targeted for FY 2015. The tables in this section provide a summary of VA's progress towards meeting it strategic goals and agency priority goals. A detailed discussion of results for the Department's FY 2015 performance goals, assessment methodologies, metrics, external reviews, and documentation of performance data will be presented in the *FY 2015 FY17 VA Annual Performance Plan and Report* to be released in February 2016 and posted on the VA website at http://www.va.gov/performance/. As indicated below, VA met 42% of its FY 2015 Annual Performance Plan (APP) targets.



*Seven of 21 baseline measures did not report results for FY 2015. Targets will be set based on FY 2015 results and performance will be provided in FY 2016.

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

Strategic Goals and Objectives Highlights

Department of Veterans Affairs Strategic Plan Framework

I CARE
DEPARTMENT OF VETERANS AFFAIRS

MISSION: To fulfill President Lincoln's promise
- ***"…To care for him who shall have borne the battle, and for his widow and his orphan"***
- **By serving and honoring the men and women who are America's Veterans**

GUIDING PRINCIPLES			TRENDS		
People Centric	Results Driven	Forward Looking	Demographic And Societal Change	Rapidly Evolving Technology	Shifting Roles Of Government

FY 2014-2015 AGENCY PRIORITY GOALS

Access A	**Backlog** B	**Homelessness** H

STRATEGIC GOALS	STRATEGIC OBJECTIVES
Empower Veterans to Improve Their Well-being	• Improve Veteran wellness and economic security H • Increase customer satisfaction through improvements in benefits and services delivery policies, procedures, and interfaces A B
Enhance and Develop Trusted Partnerships	• Enhance VA's partnership with DoD • Enhance VA's partnerships with Federal, state, private sector, academic affiliates, Veteran Service Organizations, and non-profit organizations H • Amplify awareness of services and benefits available to Veterans through improved communications and outreach
Manage and Improve VA Operations to Deliver Seamless and Integrated Support	• Make VA a place people want to serve • Evolve VA information technology capabilities to meet emerging customer service/empowerment expectations of both VA customers and employees • Build a flexible and scalable infrastructure through improved organizational design and enhanced capital planning • Enhance productivity and improve efficiency of the provision of Veteran benefits and services • Ensure preparedness to provide services and protect people and assets continuously and in time of crisis

CORE VALUES

Integrity	*Commitment*	*Advocacy*	*Respect*	*Excellence*

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

Strategic Goal 1: Empower Veterans to Improve Their Well-being
Military service provides Servicemembers with tremendous skills, experience, and honor, but may also result in equally significant sacrifices and challenges. VA will work to ensure Veterans are empowered, independent, self-sustaining, and well equipped for civilian life. Each Veteran is unique, yet shaped by: their generation; the conditions of their military service, including any war or conflict in which they served; their gender; their ethnicity; and their support system of faith, family, friends, and caregivers. Each has different needs and expectations, which may change many times between the time they take their induction oath and when the last benefit is received by their survivors. VA will both directly, and in collaboration with its partners, deliver benefits and services in an integrated, client-centered portfolio that is personalized to meet each Veteran's needs and situation. Success will be measured in terms relevant to individual Veteran outcomes from VA benefits and services.

Strategic Objective 1.1: Improve Veteran Wellness and Economic Security
Numerous programs provide a broad spectrum of benefits and support services that assist Veterans and eligible beneficiaries. To enable Veterans and eligible beneficiaries to choose the best benefits and services for their needs, VA will improve coordination between our programs, leverage supportive interactions between programs, and reduce overlap across programs. Success will be measured by the differences made in the lives of the Veterans we serve. Our actions include decreasing Veteran unemployment, decreasing home foreclosures, decreasing homelessness, reducing processing times for disability compensation claims, increasing preventive care and healthy lifestyle changes, and increasing access to and utilization of virtual care modalities.

Strategic Objective 1.2: Increase Customer Satisfaction through Improvements in Benefits and Services Delivery Policies, Procedures, and Interfaces
VA is a customer service organization. Complicated application processes, long processing timelines or difficulties getting information and appointments impact the client's experience and satisfaction. Veterans and eligible beneficiaries deserve a support system that is responsive to their needs. VA must keep pace with Veterans' expectations and transform its customer services – soliciting regular customer feedback, streamlining processes, and delivering consistent service across customer preferred channels. We live in a connected world. The rapid pace of technological advancement is reshaping Veterans' expectations regarding how services, benefits, and support should be delivered. Today's client expects instant access to information and self-service options via the Internet, and increasingly through mobile devices like tablets and smartphones (and the next generation "smart" devices that are yet to be deployed).

To provide a personalized experience, we must listen, learn, and understand the needs and expectations of those we serve. We must have the knowledge, information, and insight to understand why some choose not to fully engage with VA.

Strategic Goal 2: Enhance and Develop Trusted Partnerships

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

Strategic Objective 2.1: Enhance VA's Partnership with DoD Summary

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

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

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

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

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

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

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

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

VA recognizes that an organization is only as strong as its people, and realizes that it must build on successes and continue to transform the way it manages human capital. VA is a customer service organization. VA's greatest asset is its workforce. VA's workforce must be able to adapt to the changing demographics, needs, and expectations of the Veteran population as well as changes in the workforce population. More than 30 percent of VA's workforce is eligible for retirement, including roughly 50 percent of VA's senior executives. Today, we have skills gaps in health care, acquisition, claims processing, human resources (HR), and information technology (IT), and we need to address those and build the workforce for tomorrow. The skills needed for success in the future are not the skills of today. VA must recruit, train, motivate, and lead its workforce with inspired and inspiring leadership. VA must consider human capital management and workforce planning as key enablers for every initiative or project we undertake in order to have the right people with the right skills in the right job at the right time.

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

The explosion of information capabilities available to all citizens via the Internet and mobile computing has forever changed how individuals communicate with each other and with providers of goods and services. Information "on demand" is now a core expectation, as well as the ability to transact both work and personal business "anytime, anywhere." These trends have resulted in tremendous changes to what individuals expect in terms of customer service and how they expect to manage their own work life and career. For VA this presents huge challenges and opportunities in terms of how it delivers services to Veterans and eligible beneficiaries and how it empowers its employees to perform their duties. New and emerging IT capabilities must be delivered that:

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

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

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

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

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

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

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

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

Strategic Goal	Strategic Objective	Summary	End of Year Assessment
1. Empower Veterans to Improve Their Well-Being	Objective 1.1: Improve Veteran Wellness and Economic Security	Veteran wellness and economic security have benefited from positive strides to reduce Veteran Homelessness, sustained Patient Aligned Care Team (PACT) focus on health promotion and disease management, enhanced visibility of jobs available for Veterans via the Veterans Employment Center, launch of GI Bill comparison tool, and increase in actual procurement dollars awarded to Veteran-Owned Small Businesses (VOSBs) and Service-Disabled Veteran-Owned Small Businesses (SDVOSBs), in spite of an apparent decline in contracting percentages.	**Noteworthy Progress**
1. Empower Veterans to Improve Their Well-Being	Objective 1.2: Increase Customer Satisfaction through Improvements in Benefits and Services Delivery Policies, Procedures, and Interfaces	The Veteran Experience Office is working to streamline VA presence (online and offline) to increase customer satisfaction. VA has made significant strides in reducing the claims backlog from 611,000 to 71,352, a reduction of 88.3% as of September 30, 2015. VA has also made progress in improving access and reducing wait times for Veterans. Veterans Access Choice and Accountability Act (VACAA) implementation has started and NCA continues to increase access to burial options for rural, Tribal as well as urban Veterans.	**Noteworthy Progress**

Strategic Goal	Strategic Objective	Summary	End of Year Assessment
2. Enhance and Develop Trusted Partnerships	Objective 2.1: Enhance VA's Partnership with DoD	DoD-VA joint activities remain at risk due to several factors: continued development of joint performance metrics for interoperability of modernized electronic health records by Dec 31, 2015; need for continued process improvements to meet and sustain the joint VA-DoD Integrated Disability Evaluation System (IDES) performance goal for processing 80% of all claims within 295 days; and continued need for a DoD tracking tool to verify all Servicemembers not filing a VA disability claim receive a separation examination.	**Focus Area for Improvement**
2. Enhance and Develop Trusted Partnerships	Objective 2.2: Enhance VA's Partnerships with Federal, State, Private Sector, Academic Affiliates, Veteran Service Organizations, and Non-Profit Organizations	The MyVA Strategic Partnership priority began leveraging resources external to VA on a consistent basis to include creating a Strategic Partnerships Directive and Plan; completing a "needs assessment"; and Beta-testing a relational database to manage, track, and report on external stakeholder engagement activities and partnerships.	**Noteworthy Progress**
2. Enhance and Develop Trusted Partnerships	Objective 2.3: Amplify Awareness of Services and Benefits Available to Veterans through Improved Communications and Outreach	VA has a strong digital media presence, with a combined reach of more than 5 million via social media, email subscriptions and blog visitors that is effective in communicating VA's service and benefits offerings to Veterans and their families.	**Noteworthy Progress**
3. Manage and Improve VA Operations to Deliver Seamless and Integrated Support	Objective 3.1: Make VA a Place People Want to Serve	The MyVA "Improve Employee Experience" priority was launched with a focus to instruct senior leaders and culture-shift all employees. For that, an SES Engagement Playbook and a frontline leader Engagement Handbook were developed to guide engagement among employees. VA-wide "Leaders Developing Leaders" problem solving/change management training began with SECVA and will cascade through all leadership. Other Webinars added. Completed a Culture Case Study with findings on critical factors that promote a collaborative, Veteran-oriented culture. Established the I CARE Honor Award to recognize those who consistently exhibit core "I CARE" values. VA launched an intranet site to facilitate career planning paired with a spectrum of competency-building courses.	**Noteworthy Progress**
3. Manage and Improve VA Operations to Deliver Seamless	Objective 3.2: Evolve VA Information Technology Capabilities to Meet	OI&T has delivered a significant number of technology solutions and enhancements to assist the workforce in healthcare and benefits delivery, including the expansion of	**Focus Area for Improvement**

Strategic Goal	Strategic Objective	Summary	End of Year Assessment
and Integrated Support	Emerging Customer Service / Empowerment Expectations of Both VA Customers and Employees	wireless capability in VA hospitals. Each month OI&T foils millions of attempts to penetrate its networks which threaten Veteran and other sensitive information. Additionally, VA will continue to focus on strengthening controls that ensure accessibility of the Agency's external and internal facing websites, applications and eforms, many of which were created outside OI&T.	
3. Manage and Improve VA Operations to Deliver Seamless and Integrated Support	Objective 3.3: Build a Flexible and Scalable Infrastructure through Improved Organizational Design and Enhanced Capital Planning	The MyVA Regionalization task force drafted an Integrated Plan for standing up 5 new Districts in support of Veteran Experience efforts. Mission requirements have also been developed for the initiative. The MyVA Support Services priority is determining the "as-is" and proposing a future state for nine support services in order to optimize the organization, functions and activities of VA's core support functions to best serve our internal customers to the ultimate benefit of Veterans. The MyVA Performance improvement priority launched VA 101 training for all employees to build their knowledge and awareness of critical VA and Veteran-specific topics. Their efforts support a culture of continuous performance and outcome improvement. Work continues to establish milestones for standup to include impacted systems, processes and services and dependencies for successful implementation.	**Noteworthy Progress**
3. Manage and Improve VA Operations to Deliver Seamless and Integrated Support	Objective 3.4 Enhance Productivity and Improve the Efficiency of the Provision of Veteran Benefits and Services	VA construction of medical facilities remains an outstanding challenge; Implemented several Federal Strategic Sourcing Initiatives (FSSI) to leverage purchasing power and reduce costs	**Focus Area for Improvement**
3. Manage and Improve VA Operations to Deliver Seamless and Integrated Support	Objective 3.5: Ensure Preparedness to Provide Services and Protect People and Assets Continuously and in Time of Crisis	Strong efforts to increase VA's security and preparedness (insider threat directive, PIV card rollout and MyVA Support Services Excellence Pilot).	**Noteworthy Progress**

Agency Priority Goal Highlights

VA has identified three Agency Priority Goals (APG) focused on improving service to Veterans and eligible beneficiaries. Achieving these goals requires extensive collaboration across VA organizations and non-VA partners. In addition to having long-term benefits for Veterans, each APG will result in short-term and high-impact improvements in VA performance. The following sections provide a synopsis of the activity under each goal as of the third quarter, FY 2015. For more detailed information, please visit www.Performance.gov .

END VETERAN HOMELESSNESS

Goal Statement: Working cooperatively, VA and the Department of Housing and Urban Development (HUD) aim to reduce the number of Veterans living on the streets and experiencing homelessness to zero as measured by the 2016 Point-In-Time (PIT) Count.

Overview: VA has taken decisive action toward its goal of ending homelessness among Veterans. The End Veteran Homelessness initiative is intended to prevent Veterans and their families from entering homelessness, as well as to assist our homeless Veterans in exiting homelessness as safely and quickly as possible. VA's "no wrong door" philosophy will ensure that homeless and Veterans at risk for homelessness have timely access to appropriate housing and services. Any door a Veteran comes to – whether at a medical center, regional office, or community organization – will be empowered to provide the necessary tools to offer Veteran assistance. Ending homelessness among Veterans will advance the mission of VA by ensuring that all Veterans and their families achieve housing stability.

Results:

1. **Moves to Permanent Housing**. At the end of the third quarter FY 2015, an estimated 44,266 Veterans were placed in permanent housing, including moves into the HUD-VA Supportive Housing (HUD-VASH) program and moves from VA residential and Supportive Services for Veteran Families (SSVF) programs into permanent housing.

2. **HUD-VASH.** As of June 30, 2015, the total number of HUD-VASH vouchers allocated by HUD is 68,773. Of these vouchers, 65,163 HUD-VASH vouchers were in use, with 58,161 Veterans housed, and 7,002 in the process of obtaining permanent supportive housing.

3. **Grant and Per Diem (GPD) Program.** At the end of third quarter FY 2015, 11,077 Veterans were discharged to permanent housing and 36,440 Veterans have received services.

4. **Supportive Services for Veteran Families (SSVF) Program.** To accelerate SSVF deployment, VA amended the February 3, 2015 Notice of Funding Availability (NOFA) to allow grantees with existing 3-year, non-renewable awards to apply for funding. Communities elected to apply for accelerated funding in order to close any rapid rehousing resource gaps that may have been identified in the gaps analysis.

5. **Access to Mainstream Benefits.** United States Interagency Council on Homelessness (USICH), VA, Social Security Administration (SSA), and the Department of Health and Human Services (HHS) released the joint guidance "Key Strategies for Connecting People Experiencing Homelessness to Supplemental Security Income/Social Security Disability Insurance's (**SSI/SSDI)**" which includes specific strategies for assisting Veterans experiencing homelessness to obtain SSI/SSDI benefits. http://www.ssa.gov/homelessness/docs/Final_Key-Strategies-for-Connecting-People-Experiencing-Homelessness.pdf

6. **Identification and Referral Guide.** USICH and VA produced an identification and referral guide to help community-based providers more broadly to help identify veterans experiencing homelessness. http://usich.gov/resources/uploads/asset_library/Veterans_Referral_Tool_2015_FINAL.pdf

IMPROVE VETERANS ACCESS TO BENEFITS AND SERVICES

Goal Statement: Improve client and stakeholder awareness of, and access to, VA benefits and health care services. By September 30, 2015, VA will increase the use of virtual service options by increasing the percent of claims received electronically, the number of accredited Veterans service officers registered on the Stakeholder Enterprise Portal (SEP), the number of registered eBenefits users, and the percent of patients who access VA health care using a virtual format such as Video Telehealth (VT) or online services.

Overview: VA's focus in FY 2015 is to deliver seamless and integrated services while increasing the efficiency and effectiveness of virtual access. To achieve the best possible outcomes for Veterans, Servicemembers, and eligible beneficiaries, VA will improve access to, and encourage the use of, its virtual benefits and services. VA and the Department of Defense (DoD) have established a jointly supported portal known as eBenefits, which allows Veterans, Servicemembers, and other eligible beneficiaries to access and submit information when, where, and how they want.

Results: Electronic Claims Filing: As of June 30, 2015, the percentage of disability compensation claims received electronically by VA grew to 11.2 percent; an increase of 1.8 percentage points over the second quarter of FY 2015. While the cumulative percentage for the fiscal year is below target, progress is being made, as demonstrated by a peak of 15.5 percent in the month of June 2015. During the third quarter FY 2015, 33,891 compensation claims and 28,023 dependency claims were submitted electronically.

eBenefits: As of June 30, 2015, the eBenefits portal has 4,912,599 registered users. Since March 31, 2015, 240,020 new individuals obtained access to eBenefits. This represents a 5.1-percent increase. eBenefits met and exceeded the target for this quarter.

SEP: SEP has 2,699 Veterans Service Organization (VSO) representatives registered as of June 30, 2015, representing 90 unique organizations. Since March 31, 2015, 657 new individuals obtained access to SEP.

This represents a 32.2-percent increase over the previous quarter. VSOs, attorneys, and claim agents are actively submitting claims electronically on behalf of claimants via SEP. The SEP electronic claim receipts target is 2.2 percent of the overall 20-percent goal for FY 2015 electronic claim receipts. As of June 30, 2015, electronic claim receipts via SEP grew to three percent, already exceeding the goal of 2.2 percent.

Virtual Care Measure (VCM): As of June 2015, the Veterans Health Administration (VHA) had a combined total of 2,097,849 individuals accessing care using a virtual format. This is an eight-percent increase over second quarter FY 2015 and exceeds the 32-percent target for third quarter FY 2015. VHA will exceed its overall goal of 35 percent for FY 2015.

VCM covers a number of tools, such as: Home Telehealth, Secure Messaging, and electronic consults (e-consult). Secure messaging makes up the greatest portion of VCM users, giving Veterans instant access to their health care team. Telehealth is the next most frequent VCM used within VA, providing convenient care to Veterans directly in their homes and communities.

Specialty Care Services (SCS) currently provides consultation on one component in VCM. Specialty Care Access Network-Extension for Community Healthcare Outcomes (SCAN-ECHO) is an initiative for ongoing education and training for primary care providers (PCP), as well as a means to provide virtual, clinical consultation without the patient present. PCPs present cases to a team of specialty care clinicians. These case presentations are usually submitted as a consult; this component of SCAN-ECHO is counted in the VCM. However, the overarching goal of this program is to increase the knowledge and skills of PCPs and their teams to provide increased care in community-based outpatient clinics (CBOCs), particularly those in rural areas where specialty input would require travel or follow up with non-VA clinicians, which could decrease continuity and care coordination. Over time, PCPs will increase their capacity to care for patients with complex medical conditions in local CBOCs. This aspect of SCAN-ECHO is not a component of the VCM. This initiative now exists in 34 medical and surgical specialty areas and is coordinated between SCS, Rural Health, and other VHA partners to provide education, consultation, and clinical support to PCPs and their teams through video-teleconferencing (v-tel). While neither e-consult nor SCAN-ECHO has a specific FY 2015 goal, both programs contribute to the overall VCM. Through the third quarter of FY 2015, 332 SCAN ECHO clinics have been held, involving 853 total presentations. E-consults have transitioned to field and clinical operations sustainment. Management of e-consults is completely field based and impacted by consult policy developed through the Access and Clinic Administration Program.

Workload for e-Consult FY 2015: Through June 2015, e-consults averaged 17.88 percent of all similar consult request responses in the same locations and services. Through June 2015, there have been 339 e-consults clinics in 54 different specialties initiated, 259 arose at facilities receiving support from our office. Through June 2015, 450,369 e-consults were completed.

Secure Messaging (SM): As of June 2015, My HealtheVet has 3,326,993 registrants marking a 10.9-percent increase to the fiscal year baseline and exceeding the end of fiscal year target of 10 percent. As of June 2015, My HealtheVet has 1,572,432 patients opted in for SM, marking a 44.2 percent increase to the FY 2015 baseline and exceeding the end of fiscal year target of 35 percent.

VA telehealth programs continue to expand and are a priority in VA's commitment to increasing access to care for Veterans, especially in rural and remote locations. The target is to have 16 percent of Veterans receiving care via telehealth by the end of FY 2015. As of June 30, 2015, 4,557 Veterans have accessed care via Clinical Video Telehealth (CVT). This represents a 44-percent increase compared during the same period in FY 2014. Veterans can continue to use this service to access their VA healthcare team through webcams, personal computers, laptop computers, and Apple iPad tablets. Telehealth Services continue to distribute CVT tablets (please see CVT tablets section below) with peripheral clinical devices (e.g., stethoscope, pulse oximeter, blood pressure cuff, thermometer) to Veterans who need these technologies at home to connect to their VA care team via CVT. In FY 2015, the National Telemental Health Center had 651 uniques with 2,912 encounters, compared to 698 uniques with 3,615 encounters for all of FY 2014. Through the end of June FY 2015, CVT transplant evaluations increased to 273 uniques with 302 encounters from 180 uniques with 317 encounters in FY 2014. In FY 2015, genomic medicine encounters increased to 1,430 uniques with 1,457 encounters compared to 1,825 uniques and 1,871 encounters in FY 2014.

Telehealth Services and the Office of Rural Health are responding to the Section 204 “Mobile Medical Center” (MMC) portion of the Veterans Choice legislation to ensure that telemed capacity is available on all mobile medical units and mobile Vet Centers. The Telemedicine Assessment subgroup continues to analyze and evaluate MMC minimum standards and best practices for telehealth services.

Of the 34 primary care MMCs identified by the subgroup’s inventory analysis and survey, nine report providing telehealth services and one formally reports workload through Decision Support Service (DSS) telehealth secondary codes. The most common services provided by MMCs were mental health and primary care. The subgroup has completed a survey of status quo and summary report of key findings and is drafting a ‘Mobile Medical Unit (MMU) Program Management’ Directive to establish the authority and policy for VHA definition of procedures for activation, management, and operation/expectation of operation of MMUs to include telehealth capability.

As of June 30, 2015, VHA and the Office of Information Technology (OIT) provided thirteen medical centers with the capability to have live interactive consultation with intensive care unit (ICU) specialists. These include five Veterans Integrated Service Network (VISN) 15 medical centers who consult with ICU specialists in VISN 23 and seven VISN 7 medical centers linked to the VISN 10 tele-ICU support center. VISN 23 now supports 78 beds and VISN 10 supports 72 beds, for a national total of 150 tele-ICU beds for VHA. In third quarter FY 2015, implementation of tele-ICU capability was completed for Wilkes-Barre VA Medical Center which means an additional 16 beds will be activated prior to the conclusion of the fourth quarter. The Joint Incentive Fund (JIF) collaboration with DoD includes the installation of three sites in VISN 23 in the next 24 months.

In the third quarter, Telehealth Services developed a collaborative agreement and will sign the official charter with SCS by August 28, 2015, to create operations manuals, guidance documents, and training for tele-endocrinology; tele-hematology/oncology; telehealth to non-VA sites; tele-wound care; t-tele-pulmonary/ sleep-spirometry; tele-pain; tele-endocrinology; tele-infectious disease; tele-women’s health; tele-pharmacy, tele-ICU and tele-primary care. Additionally, the Preventative Medicine charter is nearing completion and will be signed during the fourth quarter.

- In June 2014, the web-enabled application that permits Veterans to access Home Telehealth (HT) care and case management services from their VA clinical care coordinator using the Veterans own PCs, laptops, and smartphones was released nationally. At the end of the third quarter of FY 2015, 2,938 Veterans were enrolled across all VISNs. The program goal is to increase this total by 250 Veterans per month and reach 3,000 Veterans by the end of the fourth quarter of FY 2015.

- The Low Intensity/Low Acuity pilot (L2) pilot will use web-enabled technologies for health promotion and disease prevention for stable patients with care coordinator panel sizes of 400. Currently, the five pilot sites are continuing to hire and fill positions. Each site has developed a local integrated project team and conducted clinical workflow analyses to address collaboration and communication with Patient Aligned Care Teams and clinical processes. In addition, four separate workgroups comprised of L2 staff have submitted proposed L2 Disease Management Protocols (four of which have already been submitted to the vendor for implementation); recommendations for revision of HT training to meet L2 needs; developed proposed L2 note titles and templates for documentation, which are in final stages towards implementation; and reviewed and recommended patient and provider outreach tools, including a brochure. The project is on target to complete the goal of generating a proof of concept by the end of FY 2015. Plans are to enroll the first pilot patient by the end of July 2015 once the vendor has completed programming and the documentation templates for the pilot have been completed.

  Telehealth Services and Women's Health Services are working collaboratively to complete a telecolposcopy proof of concept design as the first step to determine if expanding colposcopy diagnostic evaluations via CVT will meet safety requirements and patient needs. During the third quarter Telehealth Services and Women's Health Service met to conduct a virtual demonstration of telehealth technologies. Through the demonstration process, Women's Health Services clinical leadership recognized the complexity of the collaboration between 'both' sites (i.e., the specialist provider site plus the patient site) participating in the telecolposcopy service. From that, the decision was to proceed cautiously and carefully to determine if, in fact, this is a safe and effective specialty for telehealth.

- The Blanket Purchase Agreement (BPA) solicitation for the CVT patient tablet was completed, and the technology was made available to all VISNs prior to the end of FY 2014. Piloting of the technology is also completed, and the VISNs have begun the process of ordering the tablets using the Denver Acquisitions and Logistics Center (DALC). Processes and resources to use DALC to make the tablet technology available for issuance to individual patients, in multiple clinical programs across VHA, were completed during the third quarter of FY 2015.

The CVT tablet business requirement document (BRD) is completed and approved by National Telehealth Governance Board (NTGB) to explore expansion of the program with projected growth of 5,000 in FY 2015, up to 50,000 in FY 2016 as well as purchase of the scaled-down tablets for mental health use. So far this fiscal year, more than 300 tablets have been distributed to Veterans and the DALC presently has a backorder for additional units. The project team continues working to integrate the tablets with the Telehealth Scheduling System (TSS).

The TSS will enable the coordination and scheduling of the patients, providers, and treatment rooms for establishing CVT appointments. The base TSS technology was deployed to the national server prior to the end of FY 2014 and all VISNs have initiated deployment activities, which include the addition, provisioning, and training of system users; validating and updating telehealth site information; and constructing the telehealth service agreements (TSAs). The team initiated a new OIT Project Management Accountability System and a new contract for development of general program improvements, integration with multiple vendor platforms, and integration with the VA Medical Appointment Scheduling System (MASS). The project team deployed the capability of management of the TSAs and the proxy credentialing and privileging processes. At the close of the third quarter of FY 2015, more than 7,560 users were registered. Telehealth Services awaits a 10N memo directing TSS use in all VISNs by end of the fiscal year. The TSS project recently received Veterans Access, Choice, and Accountability funding to continue the project integration with MASS and the Veterans Health Information Systems and Technology Architecture (VistA).

ELIMINATE THE DISABILITY CLAIMS BACKLOG

Goal Statement: Improve accuracy and reduce the time it takes to complete disability benefit claims. Eliminate the disability claims backlog, and process all claims in 125 days with 98 percent accuracy in 2015.

Overview: VA will provide timely, accurate decisions on Veterans' disability compensation and eliminate the claims backlog in fiscal year FY 2015. Improving quality and reducing the length of time it takes to process disability claims are integral to VA's mission of providing benefits to eligible Veterans in a timely, accurate, and compassionate manner. In FY 2013, VBA began measuring the accuracy of individual issues for each claim ("issue-based accuracy"), as it provides a more detailed measure of workload proficiency. However, VBA will continue to monitor and report out on claim-based accuracy as a key indicator for this Agency Priority Goal. To improve benefits delivery, VA is transitioning to an electronic claims process that will reduce processing time and increase accuracy. As of the end of June 2015, over 94 percent of VBA's inventory is in an electronic format and is being processed electronically by VBA employees using the Veterans Benefits Management System (VBMS). All claims are either received electronically or are converted to electronic format for processing.

Results: During the third quarter of FY 2015, VBA made progress on the execution of its claims transformation plan to change the way benefits and services are delivered to Veterans, their families, and Survivors for generations to come.

From the peak in March 2013 through June 30, 2015, the claims backlog (defined as claims that have been pending over 125 days) was reduced from 611,073 to 125,278 claims, a 79.5-percent decrease. The total inventory of claims dropped 56.6 percent from the peak of 883,930 in July 2012 to 383,988 on June 30, 2015. During this quarter, the percentage of claims in the backlog decreased from 42.3 percent at the end of March 2015 to 32.6 percent at the end of June 2015. VBA projects a continued decline throughout the remainder of FY 2015.

There are specific factors of VA's claims process and the specific nature of some claims that contribute to extended processing. Some claims will continue to take longer than 125 days to process, as VA works to ensure that VA meets its legal obligations to assist Veterans in the development of their claims and provide their full entitlement to benefits. VA will always consider additional evidence or new medical conditions added throughout the claims process; however, late evidence or new contentions stop the momentum made in processing the claim, as they usually require a new round of evidence-gathering, medical examinations, and analysis. VA's legal duty to assist Veterans in fully developing their claims is an obligation we take seriously and won't sacrifice in order to meet a 125 day goal. Additionally, some complex disability claims may require more extensive evidence gather, or face difficulties securing necessary evidence. Where possible, VA mitigates the impact of extended processing by providing Veterans with an interim rating decision on as many claimed disabilities as possible, while keeping the claim open to develop for the needed evidence to decide all claims. VBA projects that 15% of rating claims fall into the category where they cannot be completed in 125 days.

During this quarter, VBA's three month claim-based accuracy decreased from 91.6 percent at the end of March 2015 to 89.8 percent at the end of June 2015. Issue-based accuracy decreased slightly from 96.2 percent at the end of March 2015 to 95.9 percent at the end of June 2015. Quality continues to be a strong focus area for VBA. Consistent with Government Accountability Office (GAO) best practices for quality assurance programs, VBA uses a 95-percent confidence level with a five-percent margin for error in accuracy reporting. Although there is a slight decrease in reported accuracy from the second quarter to the third quarter, the difference is within the five-percent margin of error on both claim-based and issue-based accuracy. This means that the accuracy of VBA disability rating claims has not substantially changed in the past quarter. VBA continues to monitor errors and trends to provide feedback and training for VA employees.

As we have made major progress in reducing the claims backlog, we have also dramatically increased the accuracy of our claim decisions. VA's aspirational 98 percent accuracy goal for disability claims was initially reflected in the 2005 President's Budget as a method to drive VBA's decision quality as high as possible – and VA has done that with monumental progress over the past 4 years. In fact, VA is now correct 98 percent of the time in each of the 8 categories measured within a Veteran's disability claim. Reaching 98 percent accuracy in each of these 8 categories is an important measure of confidence for Veterans, and VA will continue to drive quality to even higher levels.

A recently contracted external analysis found that VA's 98 percent claim-level accuracy goal is not considered to be achievable in VA's current human-operated system. Claim-level accuracy measures the claim with the "pass or fail" method. In order to pass, every issue within each of the 8 error categories must be 100-percent accurate to "pass." Because Veterans are claiming more disabilities than ever before – with separating Servicemembers in our Benefits Delivery at Discharge Program averaging 16 medical conditions per claim – attaining 98 percent accuracy at the claim level is virtually impossible.

Each quarter, VBMS releases new features and functionalities, allowing the system to evolve to meet the needs of the organization and claim processers. As major software releases are implemented, VBMS progresses toward the future end-state of a complete, end-to-end electronic claims processing system. Several VBMS enhancements were implemented in the third quarter of FY 2015. In June 2015, VBMS released update 9.0 which included enhancements for claims development, evaluation builders, and pension awards functionality. These enhancements support increased employee productivity and facilitate greater rating consistency among claim adjudicators across the Nation.

At the end of this quarter, 94.7 percent of the claims inventory for rating end products was in digital format for electronic processing, and that percentage grows daily. Paper claims received by VBA are immediately sent for scanning and digitally uploaded to VBMS. As of the end of the FY 2015 third quarter, more than 1.6 billion images have been scanned through the Veterans Claims Intake Program with 99-percent image accuracy. Scanning provides a front-end catalyst that facilitates shared access to the claims folder and eliminates transfer time delays throughout the claims process.

Due to VBA's extensive outreach efforts, more Veterans are using an electronic intake method – the joint Department of Defense (DoD)/VA web portal eBenefits – to submit claims electronically. In FY 2013, 2.4 percent of Veterans' claims (20,035) were received electronically; the number has already increased to 15 percent (33,954) by the third quarter of FY 2015. As of June 30, 2015, there are 4.9 million registered eBenefits users with access to benefits information and the capability to submit claims online through Electronic Claims Submission and upload evidence that will feed directly into VBMS. Registered eBenefits users with a free premium-level account can also track the status of their claims and access a variety of other benefit information including pension, education, health care, home loan eligibility, and vocational rehabilitation and employment. Additionally, the Stakeholder Enterprise Portal (SEP), an electronic web portal that mirrors eBenefits, allows VA partners and Veterans Service Organizations (VSOs) with power of attorney to electronically file claims for benefits and services on behalf of Veterans.

VBA continues to work closely with Congressional and VSO partners to promote VBA's Fully Developed Claim (FDC) program, which reduces the longest phase of the claims-processing timeline by allowing Veterans to certify that they have submitted their claims with all available supporting information and non-Federal private medical evidence. Many Veterans are submitting their claims as FDCs, and more continue to do so thanks in large part to strong support and endorsement by our VSO partners. From April 1, 2015, through June 30, 2015, approximately 52.4 percent of claims received were submitted as FDCs. Under current law (through August 5, 2015), Veterans filing their initial disability compensation claim as an FDC may be eligible for up to one year of retroactive benefits.

None of the progress VBA has made would be possible without the tremendous support VA receives from its partners including Congress, its VSO partners, and county and state departments of Veterans Affairs. VBA's progress is also the result of unprecedented effort and dedication by the 21,000+ VBA employees, of which over 50 percent are Veterans themselves, and the support provided by our partners in VA's Office of Information and Technology and the Veterans Health Administration.

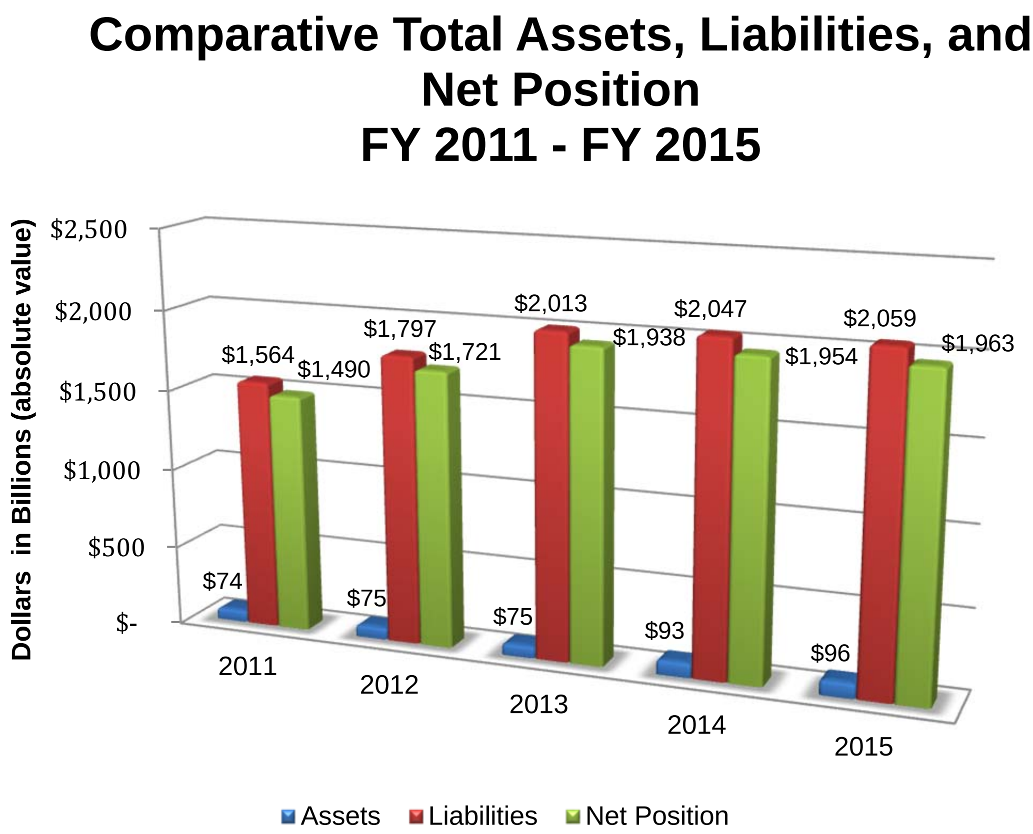
Summary of Financial Highlights

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) (United States Code). The statements have been prepared from the Department's books and records in accordance with Generally Accepted Accounting Principles (GAAP) prescribed by the Federal Accounting Standards Advisory Board (FASAB) and the formats prescribed by the Office of Management and Budget (OMB).

In addition to the financial statements, VA produces financial reports that are used to monitor and control budgetary resources, which are prepared from the same books and records. The financial statements should be read with the realization that VA is a component of the U.S. Government, a sovereign entity.

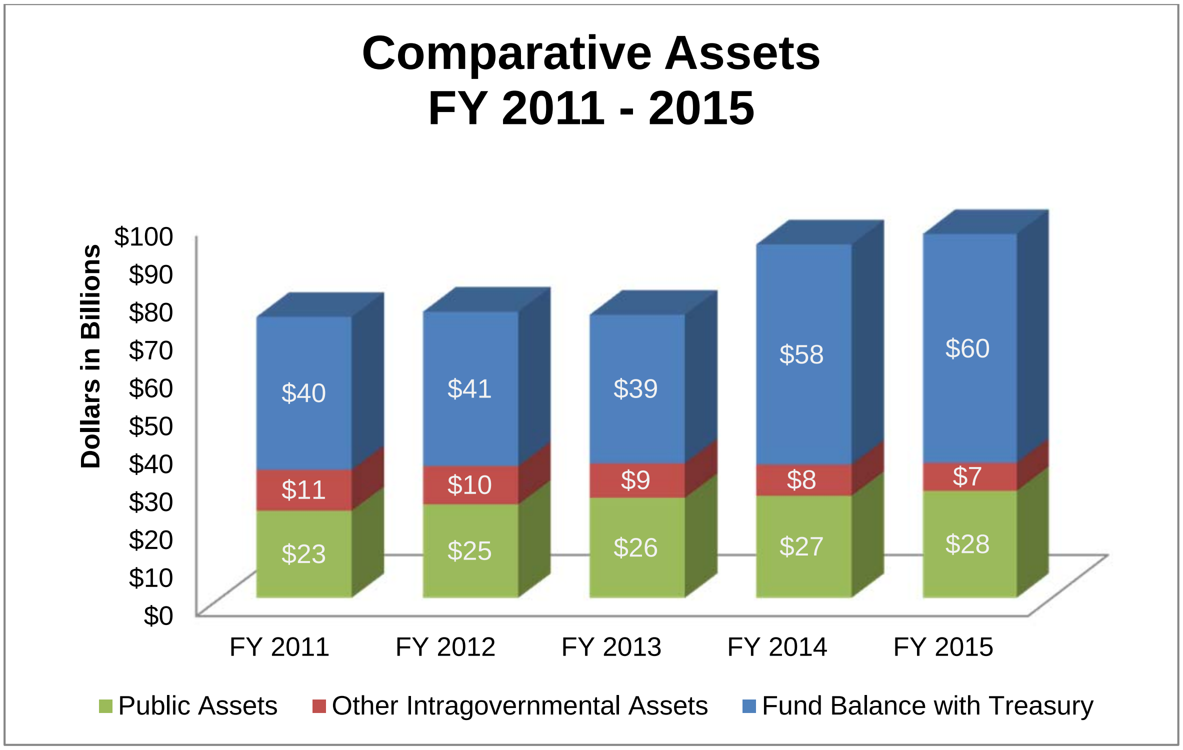
CliftonLarsonAllen (CLA) an independent public accounting firm reviewed our financial statements and provided an unmodified opinion for the 17th consecutive year, thus demonstrating our successful efforts to ensure that taxpayer resources are used effectively and efficiently in support of Veterans and their families. Although VA received an unmodified audit opinion, we must continue to improve our financial management in fiscal year (FY) 2016, as CLA has cited VA with four material weaknesses and two significant deficiencies.

As shown in the figure below, there was no significant change in VA's total assets, liabilities, and net position from FY 2014 to FY 2015.



Assets

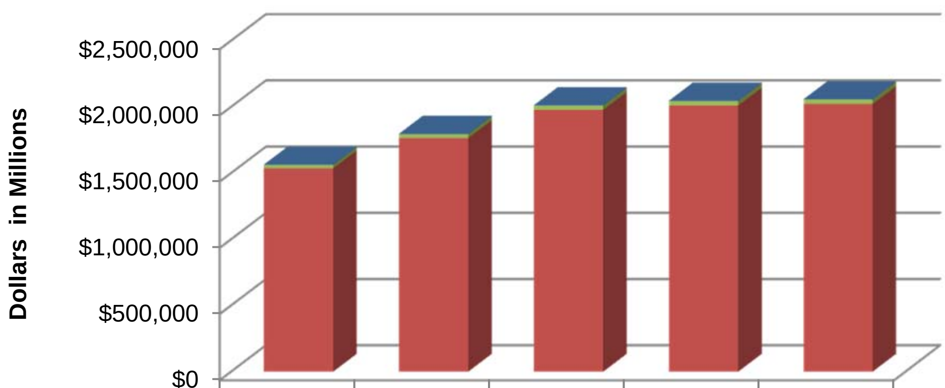
As displayed in the figure below, VA's assets do not show significant change from FY 2014 to FY 2015.



Liabilities

As displayed in the figure below, VA's liabilities do not show significant change from FY 2014 to FY 2015.

Comparative Liabilities
FY 2011 - FY 2015



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Intragovernmental	$2,999	$2,537	$2,428	$2,287	$2,219
Other Public Liabilities	$25,771	$30,586	$33,677	$35,341	$35,676
Federal Employee and Veteran Benefits	$1,535,591	$1,763,614	$1,977,020	$2,009,364	$2,020,844

NET COST OF OPERATIONS

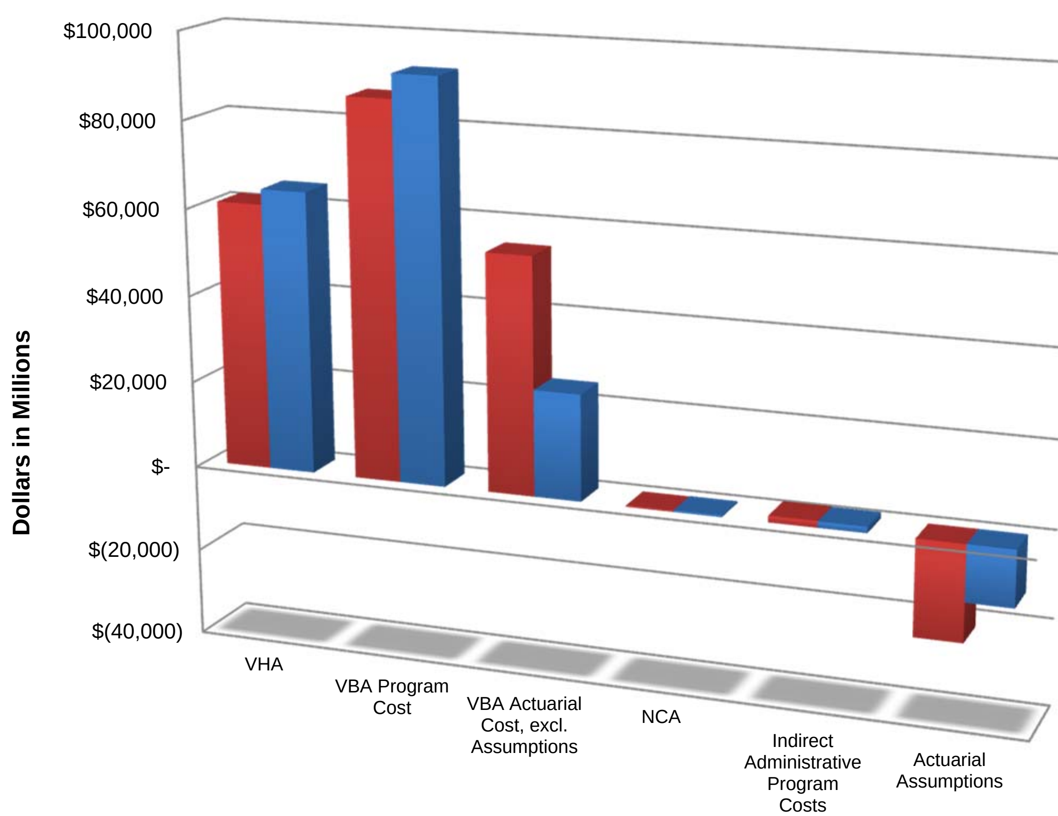
VA operated at a net cost of $170 billion in 2015, compared to a net cost of $182 billion in FY 2014. As shown in the chart below, VHA's net program costs increased 5.8 percent primarily due to an increase in Veteran demand for medical care. The principal increases include: employee compensation and benefits ($2.1 billion) for medical personnel such as physicians, registered nurses, and health technicians; contract services ($1.7 billion) mainly for non-VA medical care provided to Veterans; and materials and supplies expense ($2.1 billion) primarily for pharmaceuticals.

VBA's net program costs declined 17.3 percent primarily due to the lower actuarial cost changes based on experience changes over the comparative periods. During prior years the experience changes from, for example, actual Veteran count compared to model estimates, were more volatile. Absent this actuarial change, VBA's net program costs rose $5.6 billion or 6.4 percent primarily related to higher compensation and pension payments to Veterans. The number of payments increased by 2.5 million reflecting VBA's focused efforts on reducing the claims backlog.

The change in Net Cost of Operations from actuarial assumption changes was an increase of $9.1 billion primarily resulting from an increase in cost from discount rate assumption changes ($117.3 billion) largely offset by a decrease in cost from changes in Cost-of-Living Adjustment (COLA) rate assumptions ($87.6 billion). Both of these changes are driven by the lower average interest rates and related inflation estimates during FY 2015 compared to FY 2014.

The statement of net position remains almost unchanged from a deficit of $1.95 trillion in FY 2014 to a deficit of $1.96 trillion for FY 2015. This represents a 0.5 percent change from FY 2014.

Comparative Statement of Net Cost FY 2014 - FY 2015

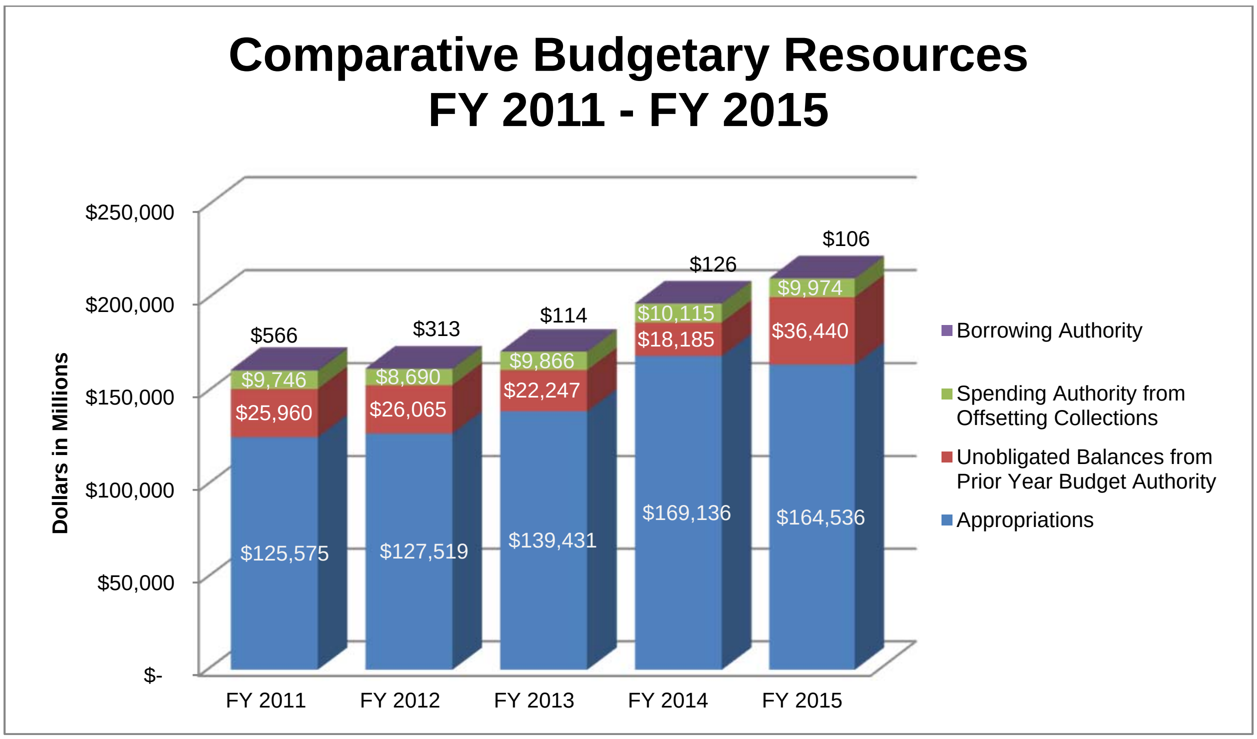


	VHA	VBA Program Cost	VBA Actuarial Cost, excl. Assumptions	NCA	Indirect Administrative Program Costs	Actuarial Assumptions
2014	$61,186	$86,800	$54,400	$310	$1,539	$(22,100)
2015	$64,732	$92,410	$24,400	$404	$1,411	$(13,000)

BUDGETARY RESOURCES

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

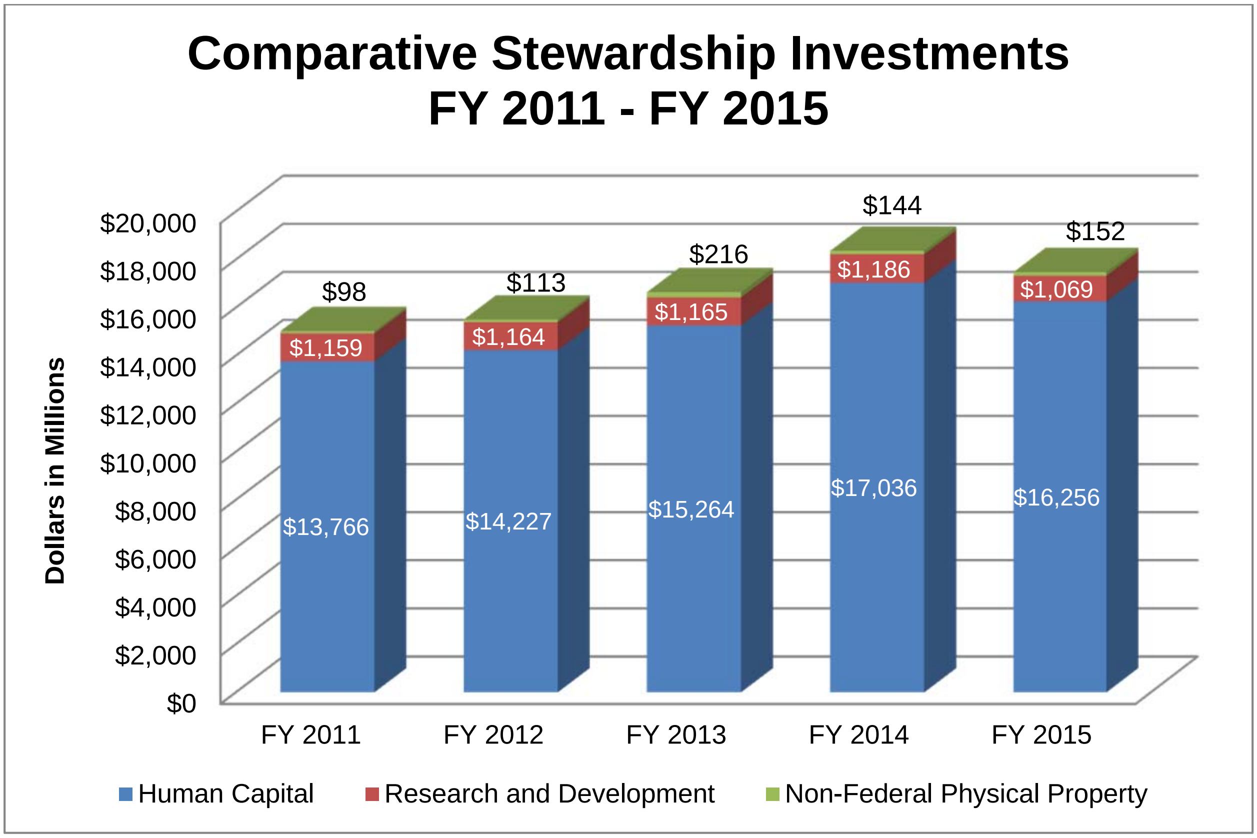
For FY 2015, VA's total budget authority of $211.1 billion primarily consisted of $164.5 billion in appropriation authority and $36 billion in the unobligated balance from prior year budget authority.



There was an increase in total budget authority of $14 billion primarily due to the unobligated carryover from FY 2014 which included $15 billion of appropriations received in August 2014 related to the VACAA appropriation under Public Law 113-146. The purpose of this law was to accelerate and improve Veterans access to medical services. VACAA is multi-year funding, and will require significant process changes within VHA to effectively administer and expend this new funding resource. On July 31, 2015, the President signed into law the VA Budget and Choice Improvement Act which requires VA, among other provisions, to develop a plan to consolidate all non-Department provider care programs by establishing one program to be known as the Veterans Choice Program.

STEWARDSHIP INVESTMENTS

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



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

Management Controls, Systems and Legal Compliance with Laws and Regulations

November 13, 2015

STATEMENT OF ASSURANCE

The Department of Veterans Affairs management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123, Management's Responsibility for Internal Control. These objectives are to ensure (1) effective and efficient operations; (2) compliance with applicable laws and regulations; and (3) reliable financial reporting. The safeguarding of assets is a subset of these objectives.

The Department, in accordance with the requirements of OMB Circular A-123, Appendix A, has completed its evaluation of the management and financial system internal controls, as of September 30, 2015. As a result of this assessment, the Department can provide qualified assurance that managements' internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations were operating effectively in their design and operation. This qualified assurance results from the following material weaknesses.

1) Information Technology Security controls. The Department continues to experience challenges with the consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and newly implemented systems. The continued reorganization of components within the Department, such as the centralization of data centers and the shift of control from the Medical Centers to Regional levels, has caused delays in communicating established policies with personnel throughout the Department. In addition, the Department lacks an effective and consistent corrective action process for addressing and monitoring known internal security vulnerabilities on databases and network infrastructures.
2) Procurement, undelivered orders, and reconciliations. The Department has weaknesses related to procurement, canceling of obligations and reconciliation activities. The Department will educate personnel involved in the procurement process and update policies to strengthen internal controls.
3) Care in the Community. The evaluation revealed a long-standing problem in the way the Department has purchased care in the community for Veterans. The Department has been inconsistent in its adherence to the requirements of federal procurement laws and regulations when acquiring care. Specifically, the Department has identified innumerable instances of unauthorized commitments resulting from agreements with providers where the Department exceeded its authority. The Department has also experienced issues with the timing, processing and monitoring of transactions, as well as inadequate contractor oversight The Department recognizes this issue to have a material effect on its internal controls in multiple components and is taking strides to reach compliance with all applicable laws in its business practices as well as pursuing relief from a legislative proposal. Until those solutions are fully realized, the Department

will continue to override compliance controls in order to provide uninterrupted care to our nation's Veterans.

4) Financial Reporting. Limitations within the Department's Financial Management System (FMS) result in an over-reliance on journal vouchers, an increased need for analytics, and issues with intra-governmental activities. The Department will pursue the possibility of either upgrading its current financial system or migrating to a shared service provider.

In addition to the material weaknesses discussed above, the Department also noted non-compliance issues related to: (1) Federal Financial Management Improvement Act of 1996 (FFMIA); (2) FMFIA; (3) Title 38 United States Code (U.S.C.) Section 5315 and 31 U.S.C. §3717; (4) Antideficiency Act; and (5) 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).

The Department will address the above material weaknesses and instances of non-compliance through the continued assessment of its operational activities and related internal controls.

Robert A. McDonald
Secretary of Veterans Affairs

VA Management is required to provide assurances related to the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA), to include an assessment of the effectiveness of internal controls over financial reporting and a summary of material weaknesses.

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires agencies to establish internal controls over their programs and financial systems that conform to federal financial systems principles, standards, and requirements. VA managers monitor and improve the effectiveness of management controls associated with their programs and financial systems throughout the year. The results of evaluations of the adequacy on programs internal controls provide the basis for the Secretary's annual assessment of, and report on, management controls. VA managers are required to identify and report material weaknesses relating to their programs, operations and internal control over financial reporting pursuant to FMFIA sections 2 and non-conformance with Government-wide financial systems requirements pursuant to FMFIA section 4.

Internal Control Over Financial Reporting (FMFIA Section 2)

The 2015 *Independent Auditor's Report on Internal Control over Financial Reporting* disclosed one material weakness, "Information Technology Security Controls," as a weakness under FMFIA. VA managers continue to make progress in correcting this material weakness. In 2015, VA set out to develop a Cybersecurity Strategy and Implementation Plan to provide the Department with a holistic, executable plan to position the VA to proactively mitigate cyber threats. The Continuous Readiness in Information Security Program (CRISP) team is responsible for implementation of cybersecurity goals to include protecting Veteran information and data, defending VA's cyberspace ecosystem, protecting VA infrastructure and assets, enabling effective operations, and recruiting and retaining a cybersecurity workforce. In addition, the auditors disclosed three other material weaknesses namely, "Procurement, Undelivered Orders and Reconciliations", "Purchase Care Processing and Reconciliations", and "Financial Reporting" under program and financial – related weaknesses.

OMB Circular A-123

OMB Circular A-123, Appendix A, Management's Responsibility for Internal Control, defines the requirements for conducting management's assessment of internal control over financial reporting in Federal agencies. In FY 2015, VA completed a comprehensive assessment of internal controls over financial reporting covering VA's key business processes. These processes directly affected specific financial management statement accounts and the internal control over financial reporting. Management's assessment of internal control over financial reporting included an evaluation of such elements as the design and operating effectiveness of key financial reporting, controls, process documentation, accounting and finance policies, and our overall control environment. VA engaged an independent public accounting firm to assist in an internal control assessment pursuant to OMB Circular A-123, Appendix A.

VA used a risk-based approach to identify key internal controls over financial reporting for material financial statement accounts. VA tested internal controls rated as "high-risk" as well as controls rated as "moderate-risk." Low-risk controls are evaluated periodically through self-assessment procedures conducted by Department managers.

Summary of Material Weaknesses
The auditors' report on internal controls reported four material weaknesses: "Information Technology (IT) Security Controls" (repeat comment), "Procurement, Undelivered Orders, and Reconciliations", "Purchase Care Processing and Reconciliations," and Financial Reporting. With respect to the IT material weakness, the auditors noted progress and improvement in the IT controls environment but also observed several areas, which continue to need enhancements.

This year's audit reported a repeated material weakness related to information technology systems configuration management controls, access controls, security management, and systems contingency planning. In July 2015, the new Chief Information Officer (CIO) established an Enterprise Cybersecurity Strategy Team to review VA's cybersecurity posture. The team delivered a strategy and implementation plan in late September 2015 that will transform CIO's focus on cybersecurity with a goal of resolving the material weakness in 2016.

VA received two related material weaknesses, one pertaining to procurement, undelivered orders, and reconciliation processes and the other centered on Care in the Community transaction processing and reconciliation processes. Issues found related to untimely recording of obligations in the accounting system and obligations of funds without valid Federal Acquisition Regulation, and the lack of reconciliation processes between referrals for Veterans receiving care and related transactions recorded in the accounting system. VA is currently seeking a legislative proposal to better facilitate Care in the Community. In FY 2016, VA is also focusing on reforming and improving how we purchase care in the community but challenges will remain in the absence of legislative change.

The fourth material weakness related to financial reporting because of its antiquated accounting system that lacks current federal functionalities and controls. VA plans to replace its accounting system and will embark on a multi-year initiative to migrate to a federal shared service provider starting in FY 2016. In the meantime, VA will continue to improve its business processes and reliability of its data.

VA received two significant deficiencies. The first addresses the accrual process for financial reporting. This finding occurred when estimated expenses did not align with the actual payments. In FY 2016, VA plans to work with program offices to perform analysis of existing processes, review historical data, and evaluate the timing of services received and payments processed.

The second significant deficiency related to the CFO organizational structure. The current structure is fragmented and results in ineffective financial management systems and controls. VA will perform an assessment of the current reporting structure by the end of second quarter FY 2016, determine the need for reorganization and/or realignment, and provide recommendations for the optimal solution to senior leadership. VA management at every level has been tasked with sustaining the effort in resolving program and financial-related weaknesses, as well as implementing sound solutions for all audit recommendations. In order to ensure continued success in remediating audit findings, VA has enhanced its communication and coordination with VA Administrations and staff offices involved in strategic planning, budget formulation, budget execution, performance, and financial management.

Federal Financial Management Improvement Act of 1996 (FFMIA)
The FFMIA requires agencies to implement and maintain financial systems that comply substantially with federal financial system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

VA's financial management systems substantially complied with Federal accounting standards, but did not substantially comply with Federal financial management systems requirements, and the USSGL at the transaction level. VA continues to work to remediate this material weakness.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

Government Charge Card Abuse Prevention Act of 2012
The Charge Card Abuse Prevention Act (Charge Card Act) requires agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Furthermore, the Act requires

agencies to report purchase card violations, and the Inspector General to conduct periodic risk assessments of Government charge card programs.

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

Digital Accountability and Transparency Act of 2014 (DATA Act)
The DATA Act expands the *Federal Funding Accountability and Transparency Act of 2006* to increase accountability and transparency in federal spending, making federal expenditure information more accessible to the public. It directs the federal government to use government-wide data standards for developing and publishing reports, and to make more information, including award-related data, available on the USASpending.gov website. The standards and website allow stakeholders to track federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. VA is performing an agency-wide evaluation of the existing data elements to assist in determining how best to meet the requirements. VA is preparing now for the implementation of the DATA Act starting in 2016.

Veterans Access, Choice and Accountability Act of 2014 (Choice Act)
The Choice Act provides new authorities, funding, resources, and other tools to help support increased health care access for Veterans and their families. The legislation allows eligible participants to receive care from non-VA facilities if wait times for VA medical care exceeds 30 days or if the participant lives more than 40 miles away from a VA medical care facility. VA implemented the Choice Act in 2015, leveraging existing clinical and financial management systems to authorize medical care, reimburse medical providers, and maintain oversight and controls of program expenditures.

Federal Information Security Management Act of 2002 (as amended by Federal Information Security Modernization Act of 2014) (FISMA)
The FISMA requires Federal agencies to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency. The Office of the Inspector General (OIG) performs an annual evaluation of the Department's compliance with FISMA requirements. In the instance the OIG detects any issues of concern, the VA addresses these concerns by developing a corrective action plan, inclusive of routine updates until issue closure.

FINANCIAL SYSTEMS FRAMEWORK

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

VA Financial Management Systems as defined by OMB Circular A-123, Appendix D	
Financial Systems	**Financial Management Systems (FMS)**
	FMS is VA's financial system of record for funds control, general ledger balances, and Treasury disbursements. A highly customized version of the Federal Financial System (FFS), a certified Commercial Off-The-Shelf (COTS) package, FMS, was originally installed at the VA beginning in 1992 and is used throughout the Department. In FY 2015, VA implemented a major system enhancement to improve compliance with OMB Circular A-11 guidance on the treatment of Prior Year Recoveries.
	Management Information Exchange (MinX)
	The MinX system creates agency consolidated financial statements, footnotes, required supplemental information, and GTAS submission files. MinX was developed in 2005 using Oracle's Hyperion Financial Management software. In FY 2015, VA completed a major upgrade, implementing the current version of Oracle Enterprise Performance Management.
Mixed Systems	**Veterans Health Information Systems and Technology Architecture (VistA)**
	VistA, implemented in 1996, is the VA's clinical and administrative system at more than 1,500 sites of care, including each Veterans Affairs Medical Center (VAMC), Community Based Outpatient Clinic (CBOC), and Community Living Center (CLC). A mission critical operational system, VistA contains nearly 200 modules, both operational and financial. The VistA system interfaces with FMS to send financial transactions such as accounts receivable summary level balances from the AR module, payments from the Fee Basis module, and fixed asset detailed transactions.
	Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement System (IFCAP)
	IFCAP is a module of the VistA system. It includes automated budgetary, procurement, reconciliation, and inventory processes in support of VA's purchase order process. The IFCAP system interfaces with FMS to provide purchase order transactions.
	Electronic Contract Management System (eCMS)
	eCMS supports the acquisition lifecycle of VA. The eCMS system, implemented in 2006, interfaces with IFCAP to provide contract data required for procurement transactions and receives Procurement Requests (PRs) from IFCAP to begin the procurement cycle.

	Centralized Automated Accounting Transaction System (CAATS)
	The CAATS system was developed by VBA to enhance financial transaction data entry at VBA and NCA field offices. Implemented in 2008, CAATS controls data entry of transactions by tailoring the choices allowed for each office. The transactions entered into CAATS are sent to FMS and eCMS for processing.
	Personnel and Accounting Integrated Data System (PAID)
	The PAID system continues to support HR processing and, as required, enhancements that impact data exchange with VA's payroll provider, the Defense Finance and Accounting Service (DFAS). A new human resources (HR) Line of Business solution began implementation throughout VA in 2015 and will eventually lead to the decommissioning of the PAID system.
	VA Time and Attendance System (VATAS)
	In 2015, VA began redeployment of its Web-based time and attendance system (VATAS) adding approximately 28,000 users with a total user base of over 55,000. Additional enhancements were developed and implemented throughout the year in preparation for the start of the redeployment.
	Invoice Payment Processing System (IPPS)
	Invoice Payment Processing System (IPPS) – IPPS is a digital invoice processing platform incorporating electronic invoice submission, automated approval workflow, 3-way matching capability, and advanced business rule functionality with interfaces to the VA Financial Management System and FSC electronic content management system. IPPS processed over 1.1 million invoices valued at over $13 billion during FY 2015.
	E-Gov Travel Service 2 (ETS2)
	In FY 2014, VA transitioned to ETS2, Concur Government Edition (CGE). This system affects all employees who travel, approve official travel, assist others in the creation and/or submission of documents, maintain a system of record, or make travel arrangements for beneficiary travelers.
	Prime Vendor Payment System
	The prime vendor payment system automates payments under a nationwide pharmaceutical prime vendor centralized purchasing contract. During 2015, 147 VA medical centers used the Prime Vendor Payment System to electronically process over 623,000 transactions worth over $6.1 billion. VA ensures vendors who participate in its multi-billion dollar Prime Vendor procurement programs are paid on time. These vendors provide VA medical centers with an efficient way to order supplies at low, negotiated contract prices and guarantee delivery within 24 hours, eliminating the need for warehousing large volumes of supplies.

Key Legislative Authority

VA exists to administer the laws, found in Title 38 of the United States Code, providing benefits and other services to Veterans and the dependents and beneficiaries of Veterans.

Section II. Financial Results Section

Letter from the Interim Chief Financial Officer

November 16, 2015

The Department of Veterans Affairs (VA) is pleased to announce that it has received its 17th consecutive unmodified ("clean") audit opinion on the Department's consolidated financial statements. The enclosed audit provides an assessment of the Department's detailed financial information and stewardship of taxpayer resources in support of our mission to fulfill President Lincoln's charge to care for those "who shall have borne the battle" and their families. Entrusted to serve our Nation's 23 million living Veterans, as well as memorialize those who have died, we believe the Department must be transparent and accountable to Veterans and its broad community of stakeholders.

In fiscal year (FY) 2015, VA faced a number of significant financial management challenges. The independent public accounting firm, CliftonLarsonAllen LLP (CLA), found four material weaknesses in: (1) Information Technology (IT) Controls (repeat finding); (2) Procurement, Undelivered Orders and Reconciliations; (3) Purchased Care Processing and Reconciliations; and (4) Financial Reporting. VA has also identified a long-standing problem in the way the Department has purchased care in the community for Veterans, and has reported it as a material weakness in its internal controls.

In addition, CLA found two significant deficiencies: (1) in Accrued Expenses (repeat finding), and (2) in the Chief Financial Officer Organizational Structure. VA was found to be inconsistent in its compliance with a number of federal laws and regulations including the Federal Financial Management Improvement Act, the Federal Manager's Financial Integrity Act of 1996, and the Improper Payments Elimination and Recovery Act (IPERA).

VA has also experienced a sizable increase in our improper payment rate in FY 2015 due to the VA Office of Inspector General citing VA for inconsistent compliance with federal laws in providing care in the community to Veterans in the May 2015 IPERA compliance review. These instances were cited even though VA did not waste taxpayer money by paying too much for services or pay the wrong parties, but instead provided Veterans access to health care when it could not be provided at a VA facility. We are dedicated to stop inconsistent compliance with laws and regulations and reduce the improper payment rate in FY 2016 through legislative proposals and business process re-engineering.

VA is committed to working vigorously to address these significant challenges and improve its financial stewardship.

Edward J. Murray

Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS				
CONSOLIDATED BALANCE SHEETS (dollars in millions)				
AS OF SEPTEMBER 30,		**2015**		**2014**
ASSETS (Note 2)				
INTRAGOVERNMENTAL				
Fund Balance with Treasury (Note 3)	$	60,183	$	57,887
Investments (Notes 5 and 19)		7,022		7,827
Accounts Receivable (Note 6)		46		40
Other Assets		310		352
TOTAL INTRAGOVERNMENTAL ASSETS		**67,561**		**66,106**
PUBLIC				
Cash (Note 4)		4		5
Investments (Note 5)		178		178
Accounts Receivable, Net (Note 6)		2,182		2,631
Direct Loans and Loan Guarantees, Net (Note 7)		1,806		1,838
Inventory and Related Property, Net (Note 8)		49		49
General Property, Plant and Equipment, Net (Note 9)		24,068		22,283
Other Assets		12		20
TOTAL PUBLIC ASSETS		**28,299**		**27,004**
TOTAL ASSETS	**$**	**95,860**	**$**	**93,110**
Heritage Assets (Note 10)				
LIABILITIES (Note 12)				
INTRAGOVERNMENTAL				
Accounts Payable	$	372	$	290
Debt (Note 11)		681		697
Other Liabilities (Notes 13, 15, 16 and 18)		1,166		1,300
TOTAL INTRAGOVERNMENTAL LIABILITIES		**2,219**		**2,287**
PUBLIC				
Accounts Payable		10,948		11,740
Loan Guarantee Liability (Note 7)		9,913		8,908
Federal Employee and Veteran Benefits (Note 13)		2,020,844		2,009,364
Environmental and Disposal Liabilities (Note 14)		860		789
Insurance Liabilities (Note 17)		8,380		9,145
Other Liabilities (Note 15)		5,575		4,759
TOTAL PUBLIC LIABILITIES		**2,056,520**		**2,044,705**
TOTAL LIABILITIES		**2,058,739**		**2,046,992**
Commitments and Contingencies (Note 18)				
NET POSITION				
Unexpended Appropriations – All Other Funds		37,376		36,398
Cumulative Results of Operations – Funds from Dedicated Collections (Note 19)		906		1,008
Cumulative Results of Operations – All Other Funds		(2,001,161)		(1,991,288)
TOTAL NET POSITION		**(1,962,879)**		**(1,953,882)**
TOTAL LIABILITIES AND NET POSITION	**$**	**95,860**	**$**	**93,110**

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

DEPARTMENT OF VETERANS AFFAIRS		
CONSOLIDATED STATEMENTS OF NET COST (dollars in millions)		
FOR THE YEARS ENDED SEPTEMBER 30,	**2015**	**2014**
NET PROGRAM COSTS BY ADMINISTRATION (Note 21)		
Veterans Health Administration		
Gross Cost	$ 68,984	$ 64,997
Less Earned Revenue	(4,252)	(3,811)
Net Program Cost	64,732	61,186
Veterans Benefits Administration		
Gross Cost		
Program Costs	93,368	88,037
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	24,400	54,400
Less Earned Revenue	(958)	(1,237)
Net Program Cost	116,810	141,200
National Cemetery Administration		
Gross Cost		
Program Costs	304	310
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	100	-
Less Earned Revenue	-	-
Net Program Cost	404	310
Indirect Administrative Program Costs		
Gross Cost	1,762	1,831
Less Earned Revenue	(351)	(292)
Net Program Cost	1,411	1,539
NET PROGRAM COSTS BY ADMINISTRATION BEFORE CHANGES IN VETERANS BENEFITS ACTUARIAL LIABILITY ASSUMPTIONS	**183,357**	**204,235**
CHANGES IN ACTUARIAL LIABILITY ASSUMPTIONS (Note 13)		
COMPENSATION:		
Changes in Discount Rate Assumption	79,900	(37,400)
Changes in COLA Rate Assumption	(72,200)	15,400
Changes in Other Assumptions	(20,700)	-
TOTAL COMPENSATION	(13,000)	(22,000)
BURIAL:		
Changes in Discount Rate Assumption	200	(100)
Other Changes	(200)	-
TOTAL BURIAL	-	(100)
NET (GAIN)/LOSS FROM ACTUARIAL LIABILITY ASSUMPTIONS	**(13,000)**	**(22,100)**
NET COST OF OPERATIONS (Note 21)	**$ 170,357**	**$ 182,135**

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

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (dollars in millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Funds from Dedicated Collections (Note 19)	All Other Funds	Eliminations	2015 Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$ 1,008	$ (1,991,288)	$ -	$ (1,990,280)
Budgetary Financing Sources				
Appropriations Used	-	158,742	-	158,742
Nonexchange Revenue	-	(1)	-	(1)
Donations and Forfeitures of Cash and Cash Equivalents	21	-	-	21
Transfer In/Out Without Reimbursement	(3,409)	3,676	-	267
Other Financing Sources (Nonexchange)				
Donations and Forfeitures of Property	35	-	-	35
Transfers In/Out Without Reimbursement	(2)	(1)	-	(3)
Imputed Financing	-	1,880	-	1,880
Other	-	(559)	-	(559)
Total Financing Sources	(3,355)	163,737	-	160,382
Net Cost/(Benefit) of Operations	(3,253)	173,610	-	170,357
Net Change	**(102)**	**(9,873)**	**-**	**(9,975)**
Ending Balance – Cumulative Results	906	(2,001,161)	-	(2,000,255)
Unexpended Appropriations				
Beginning Balance	-	36,398	-	36,398
Budgetary Financing Sources				
Appropriations Received	-	161,872	-	161,872
Appropriations Transferred In/Out	-	188	-	188
Other Adjustments	-	(2,342)	-	(2,342)
Appropriations Used	-	(158,740)	-	(158,740)
Total Budgetary Financing Sources	-	978	-	978
Total Unexpended Appropriations	**-**	**37,376**	**-**	**37,376**
Total Net Position	**$ 906**	**$ (1,963,785)**	**$ -**	**$ (1,962,879)**

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

DEPARTMENT OF VETERANS AFFAIRS

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (dollars in millions)

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Funds from Dedicated Collections (Note 19)	All Other Funds	Eliminations	2014 Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$ 843	$ (1,960,540)	$ -	$ (1,959,697)
Budgetary Financing Sources				
Appropriations Used	-	149,628	-	149,628
Nonexchange Revenue	-	9	-	9
Donations and Forfeitures of Cash and Cash Equivalents	27	-	-	27
Transfer In/Out Without Reimbursement	(3,038)	3,173	-	135
Other Financing Sources (Nonexchange)				
Donations and Forfeitures of Property	40	1	-	41
Transfers In/Out Without Reimbursement	-	14	-	14
Imputed Financing	-	2,169	-	2,169
Other	-	(471)	-	(471)
Total Financing Sources	(2,971)	154,523	-	151,552
Net Cost/(Benefit) of Operations	(3,136)	185,271	-	182,135
Net Change	**165**	**(30,748)**	**-**	**(30,583)**
Ending Balance – Cumulative Results	1,008	(1,991,288)	-	(1,990,280)
Unexpended Appropriations				
Beginning Balances	-	21,211	-	21,211
Budgetary Financing Sources				
Appropriations Received	-	166,963	-	166,963
Appropriations Transferred In/Out	-	138	-	138
Other Adjustments	-	(2,286)	-	(2,286)
Appropriations Used	-	(149,628)	-	(149,628)
Total Budgetary Financing Sources	-	15,187	-	15,187
Total Unexpended Appropriations	**-**	**36,398**	**-**	**36,398**
Total Net Position	**$ 1,008**	**$ (1, 954,890)**	**$ -**	**$ (1,953,882)**

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

DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources (Note 22)		
Unobligated Balance, brought forward, October 1	26,446	7,529
Recoveries of Prior Year Unpaid Obligations	2,993	-
Other Changes in Unobligated Balance	(440)	(88)
Unobligated Balance from Prior Year Budget Authority, Net	28,999	7,441
Appropriations (Discretionary and Mandatory)	164,536	-
Borrowing Authority (Discretionary and Mandatory)	-	106
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	5,602	4,372
Total Budgetary Resources	**$ 199,137**	**$ 11,919**
Status of Budgetary Resources		
Obligations Incurred	$ 170,586	$ 3,090
Unobligated Balance, End of Year:		
Apportioned	16,331	-
Unapportioned	12,220	8,829
Total Unobligated Balance, End of Year	28,551	8,829
Total Budgetary Resources	**$ 199,137**	**$ 11,919**
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid Obligations, brought forward, October 1	28,205	342
Obligations Incurred	170,586	3,090
Outlays (Gross)	(169,122)	(3,114)
Recoveries of Prior Year Unpaid Obligations	(2,993)	-
Other Adjustments	-	-
Unpaid Obligations, End of Year	$ **26,676**	**$ 318**
Uncollected Payments:		
Uncollected Payments, Fed Sources, brought forward, October 1	(1,905)	-
Change in Uncollected Payments, Fed Sources	233	-
Uncollected Payments, Fed Sources, End of Year,	$ **(1,672)**	**$ -**
Memorandum (Non-Add) Entries:		
Obligated Balance, Start of Year	$ 26,300	$ 342
Obligated Balance, End of Year	25,004	318
Budget Authority and Outlays, Net		
Budget Authority, Gross (Discretionary and Mandatory)	$ 170,138	$ 4,478
Actual Offsetting Collections (Discretionary and Mandatory)	(5,905)	(4,406)
Change in Uncollected Payments, Fed Sources (Discretionary and Mandatory)	233	-
Budget Authority, Net (Total) (Discretionary and Mandatory)	**$ 164,466**	**$ 72**

DEPARTMENT OF VETERANS AFFAIRS				
COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions)				
FOR THE YEAR ENDED SEPTEMBER 30, 2015				
Outlays, Gross (Discretionary and Mandatory)	$	169,122	$	3,114
Actual Offsetting Collections (Discretionary and Mandatory)		(5,905)		(4,406)
Outlays, Net (Total) (Discretionary and Mandatory)		163,217		(1,292)
Distributed Offsetting Receipts		(3,731)		(269)
Agency Outlays, Net (Discretionary and Mandatory)	**$**	**159,486**	**$**	**(1,561)**

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

DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources (Note 22)		
Unobligated Balance brought forward, October 1	$ 10,901	$ 5,167
Recoveries of Prior Year Unpaid Obligations	2,510	-
Other Changes in Unobligated Balance	(297)	(96)
Unobligated Balance from Prior Year Budget Authority, Net	13,114	5,071
Appropriations (Discretionary and Mandatory)	169,136	-
Borrowing Authority (Discretionary and Mandatory)	-	126
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	4,862	5,253
Total Budgetary Resources	**$ 187,112**	**$ 10,450**
Status of Budgetary Resources		
Obligations Incurred	$ 160,666	$ 2,921
Unobligated Balance, End of Year:		
Apportioned	7,305	-
Unapportioned	19,141	7,529
Total Unobligated Balance, End of Year	26,446	7,529
Total Budgetary Resources	**$ 187,112**	**$ 10,450**
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid Obligations, brought forward, October 1	$ 27,644	$ 346
Obligations Incurred	160,666	2,921
Outlays (Gross)	(157,604)	(2,925)
Recoveries of Prior Year Unpaid Obligations	(2,510)	-
Other Adjustments	9	-
Unpaid Obligations, End of Year	**$ 28,205**	**$ 342**
Uncollected Payments:		
Uncollected Payments, Fed Sources, brought forward, October 1	(2,094)	-
Change in Uncollected Payments, Fed Sources	189	-
Uncollected Payments, Fed Sources, End of Year	**$ (1,905)**	**$ -**
Memorandum (Non-Add) Entries:		
Obligated Balance, Start of Year	$ 25,550	$ 346
Obligated Balance, End of Year	26,300	342

(continues on next page)

DEPARTMENT OF VETERANS AFFAIRS

COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions) (continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budget Authority and Outlays, Net		
Budget Authority, Gross (Discretionary and Mandatory)	$ 173,998	$ 5,379
Actual Offsetting Collections (Discretionary and Mandatory)	(5,066)	(5,342)
Change in Uncollected Payments, Fed Sources (Discretionary and Mandatory)	189	-
Budget Authority, Net (Total) (Discretionary and Mandatory)	**$ 169,121**	**$ 37**
Outlays, Gross (Discretionary and Mandatory)	$ 157,604	$ 2,925
Actual Offsetting Collections (Discretionary and Mandatory)	(5,066)	(5,342)
Outlays, Net (Total) (Discretionary and Mandatory)	152,538	(2,417)
Distributed Offsetting Receipts	(3,418)	(46)
Agency Outlays, Net (Discretionary and Mandatory)	**$ 149,120**	**$ (2,463)**

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

For the Years Ended September 30, 2015 and 2014, (dollars in millions, unless otherwise noted)

1. Summary of Significant Accounting Policies

Organization
The mission of the Department of Veterans Affairs (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 of VA (SECVA). The Secretary's office includes a Deputy Secretary and a Chief of Staff. The SECVA has direct lines of authority over the Under Secretary for Health, the Under Secretary for Benefits, 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 support the Secretary.

Reporting Entity and Basis of Presentation
VA's consolidated financial statements, including the Combined Statements of Budgetary Resources, report all activities of VA components. VA components include the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA), and Indirect Administrative Program Costs. The consolidated financial statements meet the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GMRA) of 1994. The 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 Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the 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, these consolidated financial statements do not reflect the results of all financial decisions applicable to VA as though the Department were a stand-alone entity. VA's fiscal year end is September 30th.

Basis of Accounting
The principal financial statements are prepared in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and OMB Circular No. A-136, *Financial Reporting Requirements*, as revised. The Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally*

Accepted Accounting Principles, 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 combined statements 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 sheets, statements of net cost, and statements of changes in net position. In order to prepare reliable consolidated financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions were eliminated from VA's consolidated financial statements. However, to remain consistent with the aggregate of the account-level information presented in budgetary reports, the statements of budgetary resources are not consolidated but combined; therefore elimination of intra-entity transactions is not permitted.

Budgets and Budgetary Accounting

Budgetary accounting measures appropriation and consumption of budget/spending authority or other budgetary resources, and facilitates compliance with legal constraints and controls over the use of federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of 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 Combined Statements of Budgetary Resources (SBR) are the basic financial statements that report the Department's Budgetary Resources, Status of Budgetary Resources, Change in Obligated Balance as of year-end and Budget Authority and Outlays, Net for the year ended. 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 Combined SBR are included in the Required Supplementary Information (RSI) section on the Schedule of Budgetary Activity shown by major account. The Combined SBR is prepared on a combined basis, not a consolidated basis, and therefore, does not include intra-entity eliminations.

See Note 22 for further disclosure on Budgets and Budgetary Accounting.

Revenues and Other Financing Sources

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, United States Code, 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 CFR Regulation 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 and surgical or non-surgical. The nationwide average rates used to determine billable amounts for services provided for inpatient care are updated annually effective October 1st and nationwide average rates for billable amounts for outpatient and professional care are updated annually effective January 1st . The updated charges are published by a Notice in the Federal Register and the charges are available on the VHA Chief Business Office (CBO) website Reasonable Charges (Rates) Information or (http://www1.va.gov/CBO/apps/rates/). 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.

Exchange revenue consists of: benefits revenue from reimbursement of education benefit programs from Servicemember contributions that are transferred to the general fund account with the Department of the Treasury (Treasury); insurance revenue from insurance policy premiums paid by policyholders; and housing revenue from interest earned on direct loans.

Nonexchange revenue (e.g., donations) is recognized when received, and the related receivables, refunds, and offsets are recognized when measurable and legally collectible. Nonexchange revenue consists of: benefits revenue from reimbursement of education benefit programs by the Department of Defense (DoD); insurance revenue from interest earned from Treasury on investments of insurance policy premiums; and housing revenue from interest earned from Treasury on uninvested balances in financing accounts and reestimates of subsidy.

Imputed financing sources consist of imputed revenue for expenses relating to legal claims paid by the Treasury Judgment Fund and post-retirement benefits for VA employees paid by the Office of Personnel Management (OPM).

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.

Federal Credit Reform Act of 1990

Direct loan obligations and loan guarantee commitments made after 1991, are governed by the Federal Credit Reform Act of 1990 (the Credit Reform Act). The financial statement disclosures herein are in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 2, *Accounting for Direct Loans and Guarantees*, as amended. 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 reestimates 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 that reduces direct loans and guaranteed loans receivable reported in the consolidated 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 consolidated 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 reestimates of interest rates and application of loan technical/default provisions approved by OMB.

Direct loans obligated before October 1, 1992, are not subject to the Federal 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, 1992, 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 reestimated each year as of the date of the financial statements. Loan losses are reestimated 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.

Fund Balance with Treasury

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

Revolving funds, used by the Supply Fund and Franchise Fund, finance a cycle of business-like operations through amounts received from the sale of products or services. The collections are used to finance its spending, usually on a self-sustaining basis. Revolving funds record the collections and the outlays in the same Treasury account. A revolving fund is a form of permanent appropriation receiving authority to spend collections and do not generally receive appropriations.

Appropriated funds are general fund expenditure accounts established to record amounts appropriated by law for the general support of Federal Government activities and the subsequent expenditure of these funds. It includes spending from both annual and permanent appropriations.

Special funds are an appropriation account established to record appropriations, obligations, and outlays financed by the proceeds of special fund receipts which are dedicated collections by law for a specific purpose or program. Medical Care Collections Fund and Lease of Land and Building (NCA Facilities Operation Fund) are special funds.

The section 'Status of Fund Balance with Treasury' in the Note 3 table represents VA's unobligated balances, obligated balances and deposit and clearing accounts. The unobligated and obligated balances presented in that section may not equal related amounts reported on the Combined SBR. The unobligated and obligated balances reported on the SBR are supported by FBWT, as well as other budgetary resources that do not affect FBWT, primarily expired authority.

Cash

Cash consists of Canteen Service and Agent Cashier advances at VA field stations. Treasury processes all other cash receipts and disbursements. Occasionally, cash includes cash held by non-federal trusts. Funds held by non-federal trusts are restricted and may be used only in accordance with the terms of the trust agreements.

Investments

Investments are reported 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. Insurance program investments, which comprise most of VA's investments, are in non-marketable Treasury special bonds and certificates. Interest rates for Treasury special securities are initially set based on average market yields for comparable Treasury issues. Special bonds, which mature during various years (through the year 2030), are generally held to maturity unless needed to finance insurance claims and dividends. Other program investments are in securities issued by Treasury, with the exception of non-federal Trust investments in mutual funds and the Loan Guaranty Program investments in housing trust certificates. No securities have been reclassified as securities available for sale or early redemption. Additionally, no permanent impairments of securities have occurred. See Note 19 for additional disclosure of intragovernmental investments in Treasury securities 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.

Accounts Receivable

Accounts receivable are reported 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 VA's historical experience and collection efforts and the contractual nature of the balance due. 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.

Accounts receivable consists of intragovernmental accounts receivable and public accounts receivable. Intragovernmental accounts receivable consists 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 consists primarily of (a) amounts due for Veterans' health care, (b) amounts due for compensation, pension, and readjustment benefit overpayments, (c) amounts due for education benefits and readjustment overpayments and (d) other miscellaneous receivables due primarily for general fund advances, insurance, Loan Guaranty receivables and medical research.

VA is required by Public Law (P.L.) 96-466 to charge interest and administrative costs on benefit debts similar to charges levied on other debts owed the Federal Government. VA's current policy 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.

Loans Receivable

Loans receivable consist of direct loans and defaulted guaranteed loans receivable. Included in direct loans are vendee loans, acquired loans, and Native American direct loans. These three types of loans receivable are part of the VA Loan Guaranty Program. Direct loans also include loans on Veterans' insurance policies. The loans receivable are secured by the underlying real estate and insurance policies. The present value of the cost VA will bear as guaranteed loans default is an element of the mortgage loan benefit that VA provides to Veterans. This cost is reflected in the financial statements as the liability for guaranteed loans and the allowance for subsidy for defaulted guaranteed loans included in the balance of loans receivable.

Vendee loans are direct loans issued to a third party borrower for the acquisition price of foreclosed real estate sold by VA after the transfer of the property by a private sector mortgage lender upon default of a loan subject to the VA Loan Guaranty Program. Acquired loans are VA guaranteed loans in default that VA purchases from the private sector mortgage lender and services the loan with the Veteran directly after VA determines that the Veteran can service the debt service payments. Native American direct loans are special financing that enables Native Americans to purchase or construct a home on federally recognized trust land.

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. Prior to November 2, 1987, policy loans were issued at fixed rates depending on the fund and time period. The remaining fixed rate loans are at 4 percent and 5 percent. All policy loans issued since November 2, 1987, have a variable interest rate with a minimum of 5 percent and a maximum of 12 percent. Rate changes are tied to the ten-year constant maturities, U.S. Treasury Securities Index and may only change on October 1. The variable rate has been 5 percent since October 1, 2001.

The interest due is equal to the interest rate times the loan balance as of the loan anniversary date. Any interest for the year not paid within 20 days of the anniversary date is added to the loan balance. Policyholders may repay loans at their discretion as long as the loan amount plus accumulated interest does not exceed 94 percent of the cash surrender value. If this occurs, the policyholder is notified that their policy will be surrendered unless a minimum payment is received within 90 days. At the policyholder's death or the maturity of the policy, any loan indebtedness is deducted from the insurance proceeds.

Loans receivable for direct loans are recorded as funds are disbursed. The carrying amount of direct loans receivable includes the remaining balance of the amount disbursed, interest receivable, an allowance for loan losses using the allowance method for pre-1992 loans, the present value of an allowance for subsidy costs for post-1991 loans and the fair market value less cost to dispose of foreclosed property based on the present value of future cash flows from the property.

Loans receivable for defaulted guaranteed loans are recorded when amounts are disbursed by VA to fund its guaranty with the lender for defaulted loans and represents the net value of the assets related to the pre-1992 and post-1991 guaranteed loans that defaulted. The carrying amount of the guaranteed loans receivable includes the amount dispersed by VA for its guaranty under the defaulted loans, an allowance for loan losses using the allowance method for pre-1992 loans and the fair market value less cost to dispose of foreclosed property based on the present value of future cash flows from the property.

For loans obligated prior to October 1, 1991, the loan loss allowance is estimated based on past experience and an analysis of outstanding balances. For loans obligated after September 30, 1991, the allowance for subsidy costs adjustment is due to the interest rate differential between the loans and borrowing from Treasury, the estimated delinquencies and defaults, net of recoveries, offsets from fees, and other estimated cash flows.

The provision for losses on vendee loans is based upon historical loan foreclosure results applied to the average loss on defaulted loans. The calculation is also based on the use of the average interest rate of U.S. interest-bearing debt as a discount rate on the assumption that the VA's outstanding vendee or direct loans will default over a 12-year period. For 2015 and 2014, VA determined that these vendee loans have sufficient equity, due to real estate appreciation and buy-down of principal, to minimize or eliminate any potential loss to VA.

The 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. To determine the future cash flows from a foreclosed property, VA obtains an independent appraisal of the property to determine fair market value which is reduced by estimated future carrying and disposal costs such as acquisition, management, selling and transfer costs and estimated gains or losses on property resale.

VA accrues interest on performing and non-performing loans receivable until the outstanding balance is paid in full. Performing loans receivable are those loans where the amount due on the outstanding balance is paid in full by the established due date. Non-performing loans receivable are those loans where the amount due on the outstanding balance is not paid in full by the established due date which results in a delinquency of the indebtedness. Interest receivable is accrued on the non-performing loan balance until the amount due is paid to a current status, debt is paid in full or otherwise resolved through compromise, waiver of the charges or termination of collection action. VA charges a fixed interest rate on loans issued for the duration of the loan term, including any delinquency period. The interest rate is set at loan inception based on three benchmark interest rates tracked by VA. Payments that are received from the debtor are applied first to penalties and administrative costs, second to interest receivable and third to outstanding debt principal.

The recorded value of loans receivable, net, and the value of assets related to direct 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 resulting in a realized gain or loss on sale.

Inventories

Inventories consist primarily of items such as Canteen Service retail store stock held for current sale and are reported at cost using the weighted-average cost method. Inventory that is excess, obsolete or unserviceable is reported at its estimated net realizable value. Upon disposal, any difference between the inventory's recorded amount and the value received for the inventory will be recognized as a gain or loss.

VA follows the purchase method of accounting for operating supplies, medical supplies, and pharmaceutical supplies in the hands of end users. The purchase method provides that these items be expensed when purchased. VA defines an end user as a VA medical center, regional office, or cemetery.

Property, Plant, and Equipment

The majority of the general property, plant, and equipment are used to provide medical care to Veterans. Property, plant, and equipment, including transfers from other federal agencies, leasehold improvements, other structures not classified as buildings and capital leases are valued at net carrying cost. Multi-use heritage assets are recognized and presented with general property, plant and equipment in the basic financial statements and additional information for the multi-use heritage assets with only incidental government use are classified as and included with the heritage assets information in Note 10. When the capitalization criteria are met, major additions, replacements, and alterations are capitalized, whereas routine maintenance and repairs are expensed when incurred.

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 non-recurring maintenance projects.

Construction project costs incurred during the design and development phases are recorded in the appropriate Construction Work-in-Process (WIP) accounts including all materials, supplies, services, capital equipment, transportation costs, incremental overhead or support costs, and other construction-related costs directly attributable to the project. The assets are transferred to either capitalized or non-capitalized property, plant, and equipment, 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 is also subject to the $1 million threshold for capital assets. The costs subject to capitalization are incurred during the software development phase, and include the design of the chosen path, programming development, installation of hardware and testing, and are accumulated in Software in Development until a project is successfully tested and placed in service. The capitalized costs are amortized on a straight-line basis, and the amortization term is in accordance with the planned life cycle established during the software's planning phase, which generally ranges from 2 to 4 years. Preliminary design phase costs and post implementation costs are expensed as incurred.

Property, plant and equipment, including construction WIP, internal use software and capitalized lease assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset or asset group is not recoverable, an impairment loss is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including quoted market values and third party independent appraisals, as considered necessary.

VA follows Technical Release 14, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*, which clarifies existing SFFAS 6, *Accounting for Property, Plant, and Equipment*, requirements to account for the disposal, retirement, or removal from service of general property, plant, and equipment (G-PP&E), as well as, the recognition and measurement of disposal related cleanup costs. The guidance differentiates between permanent and other than permanent removal from service of G-PP&E assets and delineates events that trigger discontinuation of depreciation and removal of G-PP&E from accounting records.

The removal from service is considered other than permanent; unless there is evidence of management's documented decision to permanently remove the asset from service and the asset's use is terminated. Permanent removal from service is evident from management's documented decision to dispose of an asset by selling, scrapping, recycling, donating or demolishing the asset. If only the termination of use or management's decision to permanently remove an asset from use occurs, but not both business events, then permanent removal from service has not occurred and there is no change in the G-PP&E reported value and depreciation continues. Likewise, in the case of G-PP&E cleanup costs, if only one of the two business events has occurred, permanent removal from service has not occurred and any cleanup costs associated with disposal, closure, and/or shutdown should continue to be expensed and accumulate as a liability.

When VA documents its decision to permanently remove an asset from service by selling, scrapping, recycling, donating or demolishing the asset and the asset's use is terminated, depreciation and amortization ceases in anticipation of disposal, retirement, or permanent removal from service; the G-PP&E accounts along with associated accumulated depreciation/amortization is removed from the G-PP&E accounts and recorded in an appropriate asset account at its expected net realizable value. Any difference in the book value of the G-PP&E and its expected net realizable value is recognized as a gain or a loss in the period of adjustment. The expected net realizable value is adjusted at the end of each accounting period and any further adjustments in value are recognized as a gain or a loss.

There are no restrictions on the use or convertibility of G-PP&E. For disclosure regarding Heritage Assets see Note 10.

SFFAS No. 40, *Definitional Changes to Deferred Maintenance; Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*, was adopted by VA for the year ended September 30, 2012. This standard clarifies that repair activities should be included to better reflect asset management practices and improve reporting on deferred maintenance and repairs activities not performed when they should have been, or were scheduled to be, therefore, are put off or delayed for a future period.

FASAB issued SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standard 6, 14, 29 and 32*, which is effective for periods beginning after September 30, 2014. This standard requires expanded qualitative and quantitative disclosure of the deferred maintenance and repairs, including (1) maintenance and repair policies and how they are applied, (2) ranking and prioritizing maintenance and repair activities among other activities, (3) determining acceptable condition standards, (4) whether deferred maintenance and repairs are related solely to capitalized G-PP&E and stewardship property, plant and equipment or to non-capitalized or fully depreciated G-PP&E, (5) G-PP&E excluded from measurement and/or reporting of deferred maintenance and repairs and the rationale for the exclusion of other than non-capitalized or fully depreciated G-PP&E, (6) beginning and ending deferred maintenance and repair balances by category of G-PP&E, and (7) explanation of significant changes from the prior year. Management does not believe that implementation will have a material effect on financial position, results of operations or disclosures. For additional disclosures on deferred maintenance and repairs of G-PP&E, see RSI.

SFFAS No. 44, *Accounting for Impairment of General Property, Plant and Equipment Remaining in Use*, is effective for periods after September 30, 2014. This Statement establishes accounting and financial reporting standards for impairment of G-PP&E remaining in use, except for internal use software. G-PP&E is considered impaired when there is a significant and permanent decline in the service utility of G-PP&E or expected service utility for construction WIP and management has no reasonable expectation that the lost service utility will be replaced or restored. Existing processes and internal controls are expected to reasonably assure identification and communication of potential material impairments, such as those related to deferred maintenance and repairs, and VA will not be required to conduct annual or other periodic surveys solely for the purpose of applying impairment standards.

The loss from impairment is recognized and reported in the statement of net cost in program costs or costs not assigned to programs. Reversals of impairment losses are not recognized. Where an impairment loss is not recognized, adjustments to the G-PP&E's depreciation methods, useful life or salvage value estimates may be appropriate. In the period the impairment loss is recognized, disclosure of the G-PP&E remaining in use for which an impairment loss is recognized, the nature and amount of the impairment, and the financial statement classification of the impairment loss will be provided in the notes to the financial statements. Management does not believe that implementation will have a material effect on financial position and results of operations.

Other Assets

Intragovernmental Other Assets are reported at cost and consist primarily of Intragovernmental Advances - Federal and are primarily advances to the Army Corps of Engineers (Corps) and the General Services Administration (GSA). Public Other Assets are reported at cost and consist of Public Advance Payments made by VHA primarily 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.

Accounts Payable

Accounts payable are amounts owed by VA for goods and services received from, progress in contract performance made by, and rents due to other entities and scheduled compensation, pension and education benefits payable to Veterans. Accounts payable do not include liabilities related to on-going continuous expenses such as employee’s salaries, benefits, annuities for insurance programs, interest payable and loan guarantee losses and Veterans compensation, pension and education benefits payable, which are covered by other liabilities. 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.

Intragovernmental accounts payable consists of amounts owed to other Federal Government agencies and accounts payable from cancelled appropriations. The remaining accounts payable consist of amounts due to the public. Intragovernmental and public accounts payable are covered by budgetary resources.

Loan Guarantees

VA provides loan guarantees using two types of guaranty programs. Under one 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 loan holder. If the loan holder acquires the property which 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 reports the liability on the guarantee of loans in accordance with the requirements of the Credit Reform Act. For these loans, the Liability for Loan Guarantees 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 on a defaulted loan. 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.

The second loan guaranty program involves the sale of direct loans. VA has the authority to bundle vendee and acquired 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 acquired in the sale and will issue certificates backed by the mortgage loans and installment contracts. The certificates represent interests in the assets of the Trust and investors 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. It is at least reasonably possible that the proceeds from the sale of VA's loans will differ from the reported carrying value of those loans and the underlying value of their related assets resulting in a realized gain or loss on sale. 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.

VA reports the liability on the guarantee of loans sold under the Vendee Mortgage Trust and American Housing Trust programs in accordance with the requirements of the Credit Reform Act. For these loans, the Liability for Loan Guarantees represents the present value of the estimated net cash outflows considered most likely to be paid by VA arising from a claim against the guarantee. These 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.

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., post-modification liability minus pre-modification 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 resulting in a modification gain being recognized. An increase in the loan guarantee liability due to a modification reflects increased costs to VA resulting in a modification loss being recognized. The carry amount of the loan guarantee liability reflects the post-modification liability balance.

VA and loan servicers perform loan modifications under current laws without the need to modify executed subsidy estimates for existing loan guarantees from 1992 to 2015.

Insurance Liabilities

Insurance Liabilities for VA's life insurance programs include: policy reserves; unearned premiums; insurance dividends left on deposit and related interest payable; accrued interest payable on insurance policies and dividends payable to policyholders.

Actuarial reserve liabilities for VA's insurance programs for 2015 and 2014 are based on mortality and interest rate assumptions that vary by fund, type of policy, and type of benefit. The interest rate assumptions range from 2.25 to 4.0 percent. The mortality assumptions include the American Experience Table, the X-18 Table, the 1941 Commissioners Standard Ordinary (CSO) Table, the 1958 CSO Basic Table, the 1980 CSO Basic Table, and the 2001 Valuation Basic Male (VBM) Table.

National Service Life Insurance (NSLI) basic policy reserves for permanent plans are based on the American Experience Table with 3 percent interest, except for the Modified Life plans, which are based on the 1958 CSO Basic Table with 3 percent interest, and paid-up additions purchased by dividends, which are based on the 2001 VBM Table with 4 percent interest. The reserve for Term policies is based on the 2001 VBM Table with 4 percent interest and the age 70 rate (the capped premium) of $6.18 per month per $1,000 face amount.

United States Government Life Insurance (USGLI) permanent plan policy reserves are based on the American Experience Table with 2.5 percent interest and are held on a net single premium basis.

Veterans Special Life Insurance (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 percent interest. The reserve for Term policies is based on the 2001 VBM Table with 4 percent interest and the age 70 rate (the capped premium) of $5.87 per month per $1,000 face amount.

Service-Disabled Veterans Insurance (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 5-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.

Veterans Reopened Insurance (VRI) basic policy reserves are based on an interest rate of 3.5 percent and a mortality basis that varies by segment ("J", "JR" or "JS") 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. For "JS", the basis is the American Experience Table, and the reserve is a single premium. Reserves for paid-up additions are based on the 2001 VBM Table and 4 percent interest for "J", the 1958 CSO Basic Table and 4 percent interest for "JR", and 150 percent of the 1958 CSO Basic Table and 4 percent interest for "JS".

The Veterans' Mortgage Life Insurance (VMLI) program is operated through the Veterans' Insurance & Indemnities (VI&I) fund. The reserve for VMLI policies is 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 is comprised of 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 deposit with VA, accrue interest at a rate that varies by fund relative to the fund's investment portfolio earnings. For 2015 and 2014, the interest rates ranged from 3.5 percent to 5.0 percent.

The SECVA determines annually the excess funds available for dividend payment. Policyholders can elect to: (1) receive a cash payment; (2) prepay premiums; (3) repay loans; (4) purchase paid-up insurance; or (5) deposit the amount in an interest-bearing account. 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 2015 and 2014, a discount rate of 4 percent (2.5 percent for USGLI), 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.

Annual Leave
Federal employees' annual leave 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 non-vested 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.

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

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

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

Pension, Other Retirement Benefits, and Other Post-Employment Benefits
Each employing federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees. Factors used in the calculation of these pensions and post-retirement health and life insurance benefit expenses are provided by OPM to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS); VA makes contributions according to both plan's requirements. CSRS and FERS are multi-employer 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.

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, cost of living adjustments, presumptive service conditions resulting in disability benefits coverage and life expectancy, impact the amount of the liability.

Discount rates used to measure the actuarial liabilities are based on spot rates derived from the 10-year average historical interest rate yield curve on Treasury securities at September 30 of each year for the 10-year historical period with maturities consistent with the period of expected future payments. As a result, each year for which expected future payments are projected has a separate discount rate associated with it. However, a single weighted average discount rate is also disclosed that may be used for all projected future payments that results in a present value that is not materially different than the resulting present value using multiple-rates.

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 known material changes in the number of participants covered (enrollment) during the 4th quarter. The method used to measure the liabilities provides for consistency in the underlying relationship between discount rate, Cost-of-Living Adjustment (COLA), and the other economic assumptions. For 2015, valuation techniques or their application used to measure the fair value of the actuarial liabilities were consistently applied compared to the previous year.

From time to time, VA may determine it is preferable to make refinements to the valuation techniques or their application used to measure the fair value of the actuarial liabilities because VA management concludes that the resulting measurements are equally or more representative of fair value of the actuarial liabilities in the circumstances and were due to improved computer software modeling capability and/or improved information. The resulting changes in fair 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.

Congress established a process to guide the creation of new presumptive disability benefit payments through the Agent Orange Act of 1991, P.L. No. 102-4. The SECVA relying on independent studies by the Institute of Medicine (IOM) determines whether presumptions of service connection are warranted and presumptive disability benefit payments are due. Upon determination by the SECVA that presumptive disability benefit payments are due, there is a waiting period and a final regulation is issued. In accordance with the Agent Orange Act, the adjudication of cases based on the new presumption has begun and a liability has been recognized.

SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting Gains and Losses from Changes in Assumptions, and Selecting Discount Rates and Valuation Dates* (SFFAS 33) applies to the actuarial liabilities recognized for Veterans compensation and burial obligations reported in VA's financial reports prepared pursuant to FASAB standards.

SFFAS 33 requires the display of gains and losses from changes in long-term assumptions used to measure liabilities for Veterans compensation and burial obligations, as separate line items on the Statements of Net Cost. The Standard also requires disclosure in notes to the financial statements of a reconciliation of beginning and ending Veterans compensation and burial obligations balances, including all material components of expense "from experience" and "from assumptions changes" by significant programs and in total. In addition, SFFAS 33 provides standards for selecting the discount rate assumption to measure the Veterans compensation and burial obligations as of the reporting date and selecting a valuation date for estimating the obligation which will establish a consistent method for such measurements.

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.

Non-Federal Trusts

VA has entered into enhanced-use leases to maximize use of underutilized VA property. Certain enhanced-use leases were entered into with non-federal trusts. VA leased back the assets developed by the non-federal trusts under long-term leases. The assets developed by the non-federal trusts include cogeneration plants, office buildings, or parking garages and were financed with public bonds. The public bonds are repaid from the cogeneration fees and lease payments made by VA under the leases as long as VA utilizes these facilities. Under the lease arrangements, VA is the primary beneficiary of the trust assets with the obligation to absorb the majority of any expected losses and receive the majority of the residual returns that could be significant. As a result, VA has a controlling financial interest in the non-federal trust assets under the enhanced-use leases. Accordingly, the assets, liabilities, and results of operations of these six trusts under the enhanced-use leases are consolidated with VA operations in the accompanying consolidated financial statements.

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.

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

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 and other employee payroll withholdings and personal funds of patients included in FBWT; downward reestimates for the Veterans Housing Program included in Intragovernmental Accounts Receivable; and amounts due to Treasury for medical costs billed to Veterans included in Public Accounts Receivable.

There are offsetting liabilities in the consolidated balance sheet for the non-entity assets reported below. Offsetting liabilities are included in Intragovernmental Other Liabilities and Accounts Payable and Public Other Liabilities, Insurance Liabilities and Accounts Payable. There is no balance in the consolidated net position from the non-entity assets.

Non-Entity Assets
as of September 30,

		2015		2014
Fund Balance with Treasury	$	138	$	118
Intragovernmental Accounts Receivable		349		1
Public Accounts Receivable		38		73
Total Non-Entity Assets	$	525	$	192

3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30,				
		2015		2014
Entity Assets				
Trust Funds	$	78	$	91
Revolving Funds		9,664		8,360
Appropriated Funds		49,820		48,850
Special Funds		430		407
Other Fund Types		53		61
Total Entity Assets		60,045		57,769
Non-Entity Assets				
Other Fund Types		138		118
Total Non-Entity Assets		138		118
Total Entity and Non-Entity Assets	$	60,183	$	57,887
Reconciliation of VA General Ledger Balances with Treasury				
Balance per VA General Ledger	$	60,212	$	52,992
Reconciled Differences, Principally Timing		(29)		4,792
Unreconciled Differences		-		103
Fund Balance with Treasury	$	60,183	$	57,887
Status of Fund Balance with Treasury				
Unobligated Balance				
Available	$	16,203	$	7,267
Unavailable		19,566		25,071
Obligated Balance Not Yet Disbursed		23,932		25,085
Deposit /Clearing Account Balances		482		464
Fund Balance with Treasury	$	60,183	$	57,887

4. Cash

Cash as of September 30,				
		2015		2014
Canteen Service	$	2	$	2
Agent Cashier Advance		2		3
Total Cash	$	4	$	5

5. Investments

Investment Securities									
as of September 30, 2015									
		Cost	Amortization Method		Amortized (Premium) / Discount	Interest Receivable	Investments, Net		Market Value
Intragovernmental Securities (Note 19)									
Non-Marketable: Special Bonds	$	6,865	N/A	$	-	49	6,914	$	6,914
Treasury Notes		108	Effective Interest		(1)	1	108		108
Total	$	6,973		$	(1)	50	7,022	$	7,022
Public Securities									
Trust Certificates (Loan Guaranty)	$	140	N/A	$	-	-	140	$	140
Mutual Funds (Non-Federal Trusts)		45	Straight-line		(7)	-	38		38
Total	$	185		$	(7)	-	178	$	178
as of September 30, 2014									
Intragovernmental Securities (Note 19)									
Non-Marketable: Special Bonds	$	7,700	N/A	$	-	60	7,760	$	7,760
Treasury Notes		67	Effective Interest		(1)	1	67		67
Total	$	7,767		$	(1)	61	7,827	$	7,827
Public Securities									
Trust Certificates (Loan Guaranty)	$	140	N/A	$	-	-	140	$	140
Mutual Funds (Non-Federal Trusts)		44	Straight-line		(6)	-	38		38
Total	$	184		$	(6)	-	178	$	178

6. Accounts Receivable, Net

Accounts Receivable, Net as of September 30,		2015		2014
Intragovernmental Accounts Receivable	$	46	$	40
Public Accounts Receivable				
Medical Care	$	2,803	$	2,655
Contractual Adjustment and Allowance for Loss Provision		(1,613)		(1,113)
Net Medical Care		1,190		1,542
Compensation and Pension		1,298		1,281
Allowance for Loss Provision		(633)		(564)
Net Compensation and Pension		665		717
Education Benefits		431		419

Accounts Receivable, Net as of September 30,		
Allowance for Loss Provision	(175)	(150)
Net Education Benefits	256	269
Other	126	124
Allowance for Loss Provision	(55)	(21)
Net Other	71	103
Total Public Accounts Receivable	4,658	4,479
Total Contractual Adjustment and Allowance for Loss Provision	(2,476)	(1,848)
Public Accounts Receivable, Net	$ 2,182	$ 2,631

The Total Contractual Adjustment and Allowance for Loss Provision as a percentage of Total Public Accounts Receivable was approximately 47 percent and 41 percent at September 30, 2015 and 2014, respectively. The Medical Care Contractual Adjustment and Allowance for Loss Provision as a percentage of Total Medical Care related accounts receivable was approximately 47 percent and 42 percent at September 30, 2015 and 2014, respectively.

Included in the Medical Care Contractual Adjustment and Allowance for Loss Provision is an Allowance for Contractual Adjustment of $747 million and $697 million or approximately 56 percent and 55 percent, respectively of MCCF third party receivables of $1.34 billion and $1.27 billion at September 30, 2015 and 2014, respectively.

The Compensation and Pension Allowance for Loss Provision as a percentage of Total Compensation, Pension and Readjustment Benefit Overpayment-related accounts receivable was approximately 49 percent and 45 percent at September 30, 2015 and 2014, respectively. The Education Benefits Allowance for Loss Provision as a percentage of Total Education Benefits and Readjustment Benefit Overpayment-related accounts receivable was approximately 41 percent and 36 percent at September 30, 2015 and 2014, respectively. Post-Vietnam Era, Veterans Education Account Allowance for Loss Provision as a percentage of Total Post-Vietnam Era, Veterans Education Account Overpayment-related accounts receivable was approximately 98 percent and 99 percent at September 30, 2015 and 2014, respectively.

7. Direct Loans and Loan Guarantees

As more fully discussed in Note 1 under the Loans Receivable and Loan Guarantees sections, the accounting for direct loans receivable and loan guarantee liabilities made after 1991 is governed by the Credit Reform Act. Disclosure of direct loans receivable and loan guarantee liabilities is provided in accordance with SFFAS 2, *Accounting for Direct Loans and Guarantees*, as amended.

VA operates the following direct loan and loan guaranty programs:

- Home Loans

- Vocational Rehabilitation and Employment
- Insurance

The VA Home Loan program is the largest of the loan programs. It 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.

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

VA projects, funds, and reports the long-term direct costs for these loans, which includes estimates of loan lifetime costs incurred by the government from making VA loans. These estimates of long-term costs are updated annually and represent capital required to cover expected lifetime loan losses. Some drivers for the reestimated capital required are as follows:

1. Service-connected home loans are a larger proportion of new home loan guarantees in 2015. Purchase home loans, however, are a smaller proportion of new home loan guarantees in 2015. Service-connected home loans have lower funding fee rates compared to purchase home loans and generate less collection for the government.
2. A lower projected recovery rate in 2016 for existing home loans based on actual recoveries in 2015. The lower recovery rate generates less property sales proceeds, or recoveries on defaulted loans.
3. Interest expense on additional cash set aside to cover future mortgage losses. Additional cash is set aside because of more service-connected refinance home loans and the owner home loan recovery rate.

VA performs economic modeling and analysis using available loan portfolio data and economic assumptions correlated with some key loan data (foreclosures, outlays and collections, home prices, interest rates, and loan prepayments and terms). These estimates are based on current conditions that may change in the future. Actual results may differ materially from estimated amounts.

The Vocational Rehabilitation and Employment direct loans provide temporary financial assistance to eligible beneficiaries. Loans provided under this program are interest free and must be repaid within 10 months.

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.

Direct Loans

The following tables summarize the carrying amount of loans receivable related to pre-1992 and post-1991 direct loans. The carrying amount of direct loans receivable includes the remaining balance of the amount disbursed, interest receivable, an allowance for loan losses using the allowance method (estimated uncollectible loans) for pre-1992 loans, the present value of an allowance for subsidy costs for post-1991 loans, and the fair market value less cost to dispose of foreclosed property based on the present value of future cash flows from the property. An analysis of loans receivable and the nature and amounts of the subsidy costs associated with the direct loans are provided in the tables that follow:

Loans Receivable and Related Foreclosed Property and Insurance Policy Loans From Direct Loans as of September 30, 2015

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated					
Prior to 1992 (Allowance for Loss Method)	$ 3	6	-	-	$ 9
Insurance Policy Loans	308	8	-	-	316
Total Loans Receivable and Related Foreclosed Property and Insurance Policy Loans, Excluding Direct Loans Obligated After 1991, Net					$ 325

	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated After 1991	$ 471	20	58	25	$ 574
Total Loans Receivable and Related Foreclosed Property and Insurance Policy Loans from Direct Loans, Net					$ 899

Loans Receivable and Related Foreclosed Property and Insurance Policy Loans From Direct Loans as of September 30, 2014	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated					
Prior to 1992 (Allowance for Loss Method)	$ 5	6	-	-	$ 11
Insurance Policy Loans	345	8	-	-	353
Total Loans Receivable and Related Foreclosed Property and Insurance Policy Loans, Excluding Direct Loans Obligated After 1991, Net					$ 364

	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated After 1991	$ 512	19	58	27	$ 616
Total Loans Receivable and Related Foreclosed Property and Insurance Policy Loans from Direct Loans, Net					$ 980

Direct Loans Disbursed

The total amount of new direct loans disbursed for the years ended September 30, 2015 and 2014, was $9.6 million and $4.8 million, respectively.

Subsidy Expense for Post-1991 Direct Loans

Subsidy expense reflected no material change over the prior year and the methodology used to compute the subsidy expense was consistent with the prior year.

Input data and assumptions were changed based on analysis of loan performance and economic conditions in 2015. Actual borrower collections were better than anticipated, which translated into increased funding for direct loans in 2015. The fund's outstanding mortgage interest rates were revised downward, based on 2015 financial results. The changes in economic assumptions were marginal drivers in analysis of change in subsidy estimates for future potential bad loans. Actual home price appreciation, mortgage rate, and Treasury bond yield were better than their predicted values. The combination of extra actual collections and revised mortgage rates should produce lower future mortgage interest income.

The subsidy expense for direct loans is as shown:

Direct Loan Subsidy Expense for the years ended September 30,	2015	2014
Interest Differential	$ (2)	$ (2)
Defaults	1	1
Subtotal	(1)	(1)

Direct Loan Subsidy Expense		
for the years ended September 30,		
Interest Rate Reestimates	6	3
Technical Reestimates	(3)	(25)
Total Direct Loan Subsidy Expense	$ 2	$ (23)

Budgetary Subsidy Rates for Direct Loans by Component

The subsidy rates disclosed below pertain only to the current year loans. 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 loans and prior year(s) loans. The subsidy expense reported in the current year also includes reestimates.

Budgetary Subsidy Rates for Direct Loans by Component	
Interest Differential	(37.12%)
Defaults	12.06%
Fees	(1.60%)
Other	.81%

Allowance for Subsidy for Direct Loans (Post-1991)

For these loans, 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. For 2015, the subsidy rate is (20.79) percent for Veterans Housing Direct – Vendee Loans, (5.06) percent for Veterans Housing Direct – Acquired Loans, and (17.04) percent for Native American Direct. For 2014, the subsidy rate is (24.13) percent for Veterans Housing Direct – Vendee Loans, (5.00) percent for Veterans Housing Direct – Acquired Loans, and (16.75) percent for Native American Direct. The negative balances related to the allowance for subsidy shown below represent an increase in the post -1991 direct loan balances reported in the direct loan table.

Schedule for Reconciling Subsidy Cost Allowance Balances		
Beginning Balance, Changes and Ending Balance		
	2015	**2014**
Beginning balance of the allowance	$ (59)	$ (56)
Subsidy expense for direct loans disbursed during the reporting years by component:		
Interest subsidy costs	(2)	(2)
Default costs (net of recoveries)	1	1
Total of the above subsidy expense components	(1)	(1)
Adjustments:		
Foreclosed property acquired	(7)	(11)
New Loans	1	-
Loans written off	8	(3)
Subsidy allowance amortization	(3)	2
Change in reestimate approved by OMB	-	32
Total Adjustments	(1)	20

Beginning Balance, Changes and Ending Balance				
Ending balance of the allowance before reestimates		(61)		(37)
Subsidy reestimates by component				
Interest rate reestimate		6		3
Technical/default reestimate		(3)		(25)
Total of the above reestimate components		3		(22)
Ending balance of the allowance	$	(58)	$	(59)

Loan Guarantees

The following tables summarize the carrying amount of loans receivable related to pre-1992 and post-1991 defaulted guaranteed loans. The carrying amount of the guaranteed loans receivable includes the amount dispersed by VA for its guaranty under the defaulted loans, an allowance for loan losses using the allowance method (estimated uncollectible loans) for pre-1992 loans, and the fair market value less the cost to dispose of foreclosed property based on the present value of future cash flows from the property.

An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy costs associated with loan guarantees are provided in the tables that follow:

Loans Receivable and Related Foreclosed Property from Loan Guarantees as of September 30, 2015

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans – Pre-1992 Guarantees (Allowance for Loss Method)	$ 22	-	8	2	$ 32
Defaulted Guaranteed Loans - Post-1991 Guarantees	9	-	-	866	875
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees					$ 907

Loans Receivable and Related Foreclosed Property from Loan Guarantees as of September 30, 2014

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans- Pre-1992 Guarantees (Allowance for Loss Method)	$ 28	-	5	3	$ 36
Defaulted Guaranteed Loans – Post-1991 Guarantees	5	-	-	817	822
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees					$ 858

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 such as 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.

Recent volatility in the United States 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 years ended September 30, 2015 and 2014.

Real Estate Owned as of September 30,		**2015**		**2014**
Opening Balance	$	846	$	1,048
Acquisitions Direct Loans	$	14	$	30
Acquisitions Guaranteed Loans	$	1,501	$	1,528
Gain/Loss on Sale	$	(263)	$	(368)
Proceeds from Sale	$	(1,415)	$	(1,649)
Property Management Expense	$	210	$	257
Ending Balance	$	893	$	846

As of September 30, 2015 and 2014, the number of residential properties in VA’s inventory was approximately 7,645 and 8,180, respectively. For 2015 and 2014, the average holding period from the date properties were conveyed to VA until the date properties were sold was approximately 6 months and 9 months, respectively. The number of properties for which foreclosure proceedings are in process was approximately 29,649 and 29,900 as of September 30, 2015 and 2014, respectively.

Guaranteed Loans as of September 30,		**2015**		**2014**
Guaranteed Loans Outstanding:				
Outstanding Principal of Guaranteed Loans, Face Value	$	453,877	$	389,272
Amount of Outstanding Principal Guaranteed	$	117,375	$	101,506
Loan Principal Collections, New Guaranteed Loans	$	(1,337)	$	(756)
Termination of Outstanding Principal Guaranteed, Face Value	$	(69,702)	$	(36,793)
New Guaranteed Loans Disbursed:				
Outstanding Principal of Guaranteed Loans, Face Value	$	134,307	$	86,819

Guaranteed Loans		
as of September 30,		
Amount of Outstanding Principal Guaranteed	$ 33,776	$ 22,043
Number of New Loans Disbursed	558,434	386,872
Liabilities for Pre-1992 and Post-1991 Loan Guarantees, Excluding Loan Sale Guarantees (Present Value Method)	$ 9,772	$ 8,753

Subsidy Expense for Post-1991 Loan Guarantees

Pursuant to the Credit Reform Act, subsidy costs for new loan guarantees, net of up front funding fees, must be obligated at the time the loan is disbursed. The current and prior year upward reestimate was principally caused by increasing claim payments following the housing crisis, increasing demand for new refinance loan guarantees resulting from lower mortgage rates, higher home sale prices and a recovering housing market. Specifically, the Loan Guarantee Financing Account (4129) operating income deteriorated on higher foreclosure claim payments that were inconsistent with rising home prices. The loan guarantee average funding fee rate deteriorated on higher demand for refinance loan guarantees. Deterioration in the average funding fee rate relative to budget contributed to upward reestimates. The subsidy expense for loan guarantees related to the Loan Guaranty Program is as shown:

Guaranteed Loan Subsidy Expenses		
for the years ended September 30,		
	2015	**2014**
Defaults	$ 2,566	$ 1,384
Fees	(2,161)	(1,404)
Subtotal	405	(20)
Interest Rate Reestimates	43	58
Technical Reestimates	57	367
Total Guaranteed Loan Subsidy Expenses	$ 505	$ 405

Budgetary Subsidy Rates for Loan Guarantees by Component

The subsidy rates disclosed below pertain only to the loans guaranteed in the current year. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year loan guarantees issued and prior year(s) loan guarantees issued. The subsidy expense reported in the current year also includes reestimates.

Budgetary Subsidy Rates for Loan Guarantees	
Defaults	1.69%
Fees	(1.42)%

Liability for Loan Guarantees (Post-1991)

VA guarantees the loan against loss at foreclosure for which VA pays net cash flow up to a legally specified maximum based on the value of individual loans. VA will pay the lender the guarantee and foreclosure expenses. If an agreement can be made with the Veteran, VA may acquire the loan by refunding the lender for the loan. The subsidy rate for 2015 was 0.27 percent. In the table below, the current year and prior year upward reestimate was principally caused by a higher proportion of new refinance loan guarantees and unanticipated increase claim payment rates for some older loan guarantees with steady improvements in housing market conditions.

Schedule for Reconciling Loan Guarantee Liability Balance
Beginning Balance, Changes and Ending Balance

	2015	2014
Beginning balance of the liability	$ 8,532	$ 7,559
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Default costs (net of recoveries)	2,566	1,384
Fees and other collections	(2,161)	(1,404)
Total of the above subsidy expense components	405	(20)
Adjustments:		
Fees received	1,804	1,366
Foreclosed property	(645)	(352)
Claim payments to lenders	(972)	(940)
Interest accumulation on the liability balance	181	162
Change in reestimate approved by OMB	138	332
Total Adjustments	506	568
Ending balance of the liability before reestimates	9,443	8,107
Subsidy reestimates by component		
Interest rate reestimate	43	58
Technical/default reestimate	57	367
Total of the above reestimate components	100	425
Ending balance of the liability	$ 9,543	$ 8,532

Schedule for Reconciling Pre-1992 Loan Guarantee Liabilities
Beginning Balance, Changes and Ending Balance

	2015	2014
Beginning balance of the liability	$ 222	$ 208
Claims	1	(1)
Foreclosed Properties	(2)	(1)

Veteran Liability Debts	4	20
Amortization of Liability Balance	4	(4)
Total	$ 229	$ 222

Loan Sales

VA owns mortgages and real estate on certain defaulted loans that were guaranteed by VA and have gone through the foreclosure process with the lender. 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. 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 and the underlying value of their related assets resulting in a realized gain or loss on sale.

Under the sale agreement, the Trust owns the mortgage loans and other property acquired in the sale and makes elections to treat certain of its assets as one or more Real Estate Mortgage Investment Conduits (REMIC) 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.

During the period 1992 through 2014, the total loans sold amounted to $14.2 billion. VA recognized no loan sale proceeds or gain or loss on sale of loans during 2015. The components of the outstanding balance for guaranteed loans sold are summarized in the table below:

Outstanding Balance of Loan Sale Guarantees - Guaranteed Loans Sold
as of September 30,

	2015	2014
Outstanding Balance Guaranteed Loans Sold, Start of Year	$ 1,415	$ 1,597
Payments, Repayments, and Terminations	(207)	(182)
Outstanding Balance Guaranteed Loans Sold, End of Year	$ 1,208	$ 1,415

Subsidy Expense for Loan Sale Guarantees

Pursuant to the Credit Reform Act, subsidy costs for new loan sale guarantees must be obligated at the time the loan sale is closed. The subsidy expense for loan sale guarantees is below:

Loan Sale-Guaranteed Loan Subsidy Expense
for the years ended September 30,

	2015	2014
Defaults	$ -	$ -
Fees	-	-
Other	-	-
Subtotal	-	-
Interest Rate Reestimates	(21)	2
Technical Reestimates	(7)	(13)
Total Loan Sale-Guaranteed Subsidy Expense	$ (28)	$ (11)

Schedule for Reconciling Loan Sale Guarantee Liability Balances

Beginning Balance, Changes and Ending Balance	**2015**	**2014**
Beginning balance of the liability	$ 154	$ 166
Adjustments:		
Claim payments to lenders	(3)	(24)
Interest accumulation on the liability balance	9	9
Change in reestimate approved by OMB	9	14
Total Adjustments	15	(1)
Ending balance of the liability before reestimates	169	165
Subsidy reestimates by component		
Interest rate reestimate	(21)	2
Technical/default reestimate	(7)	(13)
Total of the above reestimate components	(28)	(11)
Ending balance of the liability	$ 141	$ 154

Program Totals

Total Loans Receivable and Related Foreclosed Property, Net
as of September 30,

	2015	2014
Total Direct Loans	$ 899	$ 980
Total Guaranteed Loans	907	858
Total Loans Receivable and Related Foreclosed Property, Net	$ 1,806	$ 1,838

Total Subsidy Expense
for the years ended September 30,

	2015	2014
Total Direct Loans	$ 2	$ (23)
Total Guaranteed Loans	505	405
Total Loan Sales	(28)	(11)
Total Subsidy Expense	$ 479	$ 371

Total Liabilities for Loan Guarantees
as of September 30,

	2015	2014
Total Loan Guarantee Liability	$ 9,543	$ 8,532
Total Pre-1992 Loan Guarantee Liability	229	222

Total Liabilities for Loan Guarantees		
as of September 30,		
	2015	2014
Total Loan Sale Guarantee Liability	141	154
Total Liabilities for Loan Guarantees	$ 9,913	$ 8,908

Administrative Expense

Administrative expense for direct and guaranteed loans for the fiscal years ended September 30, 2015 and 2014, was $161 million and $160 million, respectively.

8. Inventory and Related Property, Net

Inventory		
as of September 30,		
	2015	2014
Purchased for Resale	$ 49	$ 49
Total Inventories	$ 49	$ 49

9. General Property, Plant and Equipment

General Property, Plant and Equipment as of September 30, 2015	Cost	Accumulated Depreciation /Amortization	Net Book Value
Land and Improvements	$ 1,425	$ (373)	$ 1,052
Buildings	29,424	(15,811)	13,613
Equipment	4,236	(2,657)	1,579
Other Structures and Capital Leases	4,128	(2,293)	1,835
Internal Use Software	1,441	(1,060)	381
Construction Work in Progress	4,620	-	4,620
Internal Use Software in Development	988	-	988
Total Property, Plant, and Equipment	$ 46,262	$ (22,194)	$ 24,068

General Property, Plant and Equipment as of September 30, 2014	Cost	Accumulated Depreciation /Amortization	Net Book Value
Land and Improvements	$ 1,345	$ (298)	$ 1,047
Buildings	27,253	(15,035)	12,218
Equipment	4,371	(2,568)	1,803
Other Structures and Capital Leases	3,941	(2,153)	1,788
Internal Use Software	1,033	(784)	249
Construction Work in Progress	4,855	-	4,855
Internal Use Software in Development	323	-	323
Total Property, Plant, and Equipment	$ 43,121	$ (20,838)	$ 22,283

Depreciation and amortization expense totaled $1.7 billion and $1.7 billion in 2015 and 2014, respectively. Loss on disposition of assets totaled $281 million and $476 million in 2015 and 2014, respectively.

10. Heritage Assets

Heritage assets are properties that possess one or more of the following characteristics: historical or natural significance, cultural, educational or aesthetic value, or significant architectural characteristics. 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 administer federally owned, administered, or controlled prehistoric or historic resources in a spirit of stewardship for the inspiration and benefit of present and future generations.

Generally, additions to and withdrawals of VA's heritage assets 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 or devise that were considered material to the consolidated financial statements for 2015 and 2014, therefore, fair value disclosure is not required for heritage assets acquired by donation or devise. VA classifies its heritage assets as: Art Collections (including artwork, archives, historic medical equipment, medals and awards, furniture, archaeological materials, and photographs); Buildings and Structures (including historic hospitals, quarters, lodges, and chapels, but excluding multi-use buildings); Monuments/Historic Flag Poles, Other Non-Structure Items (including rostrums, gates and historic walls); Archaeological Sites; and Cemeteries. According to VA’s policy for heritage assets, only developed sections of National Cemeteries are classified as heritage assets.

VA has 1,289 multi-use heritage assets that are included in General PP&E (and not a part of the count shown below). These multi-use heritage assets are being utilized as administration, operation, engineering and maintenance buildings.

VA expensed $4.3 million and $7.9 million of heritage asset costs associated with acquisition, construction, renovation and/or modification of VA-owned personal property and buildings and structures declared as heritage assets for the years ended September 30, 2015 and 2014, respectively.

Heritage Assets in Units				
as of September 30,	**2014 Balance**	**2015 Additions**	**2015 Withdrawals**	**2015 Balance**
Art Collections	13	14	-	27
Buildings and Structures	562	153	-	715
Monuments/Historic Flag Poles	1,293	-	(17)	1,276
Other Non-Structure Items	515	275	-	790

Heritage Assets in Units				
as of September 30,	2014 Balance	2015 Additions	2015 Withdrawals	2015 Balance
Archaeological Sites	4	9	-	13
Cemeteries	*164	5	-	*169
Total Heritage Assets in Units	2,551	456	(17)	2,990

* This total accounts only for open, operational cemeteries, not those under development.

11. Debt

Intragovernmental Debt as of September 30,	2014 Beginning Balance	2014 Net Borrowing	2014 Ending Balance	2015 Net Borrowing	2015 Ending Balance
Loan Guaranty Debt					
Debt to the Treasury	$ 749	$ (58)	$ 691	$ (16)	$ 675
Debt to the Federal Financing Bank	5	-	5	-	5
Total Loan Guaranty Debt	754	(58)	696	(16)	680
Direct Loans Debt – Vocational Rehabilitation Program					
Debt to the Treasury	2	(1)	1	-	1
Debt to the Federal Financing Bank	-	-	-	-	-
Total Direct Loans Debt	2	(1)	1	-	1
Total Debt					
Debt to the Treasury	751	(59)	692	(16)	676
Debt to the Federal Financing Bank	5	-	5	-	5
Total Debt	$ 756	$ (59)	$ 697	$ (16)	$ 681

At September 30, 2015 and 2014, all debt is classified as intragovernmental debt. Except as noted above, VA had no debt due to any other Federal agency and all debt is covered by budgetary resources.

Loan Guaranty Program debt has a 30-year term from the date of issuance and bears interest at the Treasury securities rate at the time of borrowing. The interest rates on debt issued in 2015 ranged from 3.20 to 3.70 percent and 1.65 to 2.75 percent for debt issued in 2014. The interest rates on all outstanding debt issued ranged from 1.00 to 7.59 percent in 2015 and 1.00 to 7.59 percent in 2014. Interest expense was $24 million for 2015 and $27 million for 2014.

Vocational Rehabilitation Program Direct Loan debt has a 2-year term from the date of issuance and bears interest at the Treasury securities rate at the time of borrowing. The interest rates on debt issued was 1.00 percent in 2015 and 2014. The interest rate on all outstanding debt issued is 1.00 percent in 2015 and 1.00 percent in 2014. Interest expense was $42 million for 2015 and $37 million for 2014.

Net borrowings related to the Loan Guaranty Program debt and Direct Loans Program debt do not include any amounts that result from refinancing debt.

No debt was held by the public during 2015 or 2014. There were no redemptions or calls of debts before maturity or write-offs of debt owed to the Treasury.

12. Liabilities Not Covered By Budgetary Resources

Liabilities Not Covered By Budgetary Resources as of September 30,	2015	2014
Workers' Compensation (FECA)*	$ 2,721	$ 2,728
Annual Leave	2,071	1,987
Judgment Fund	2,029	1,692
Environmental and Disposal Liabilities	860	789
Veterans Compensation and Burial	2,018,600	2,007,100
Insurance	1,519	1,442
Amounts due to Non-Federal Trust	125	134
Total	$ 2,027,925	$ 2,015,872

* The actuarial estimate for workers' compensation provided by DOL was computed using an interest rate of 3.13 percent for wage benefits and 2.49 percent for medical benefits to discount the projected annual benefit payments as of September 30, 2015. For September 30, 2014, an interest rate of 3.46 percent was used for wage benefit and 2.86 percent was used for medical benefits.

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided.

Total Unfunded Liabilities include Workers' Compensation (FECA) which is comprised of the actuarial Workers' Compensation (FECA) Liability, Accrued FECA Liability for DOL funded costs not yet appropriated and Unfunded Employee Liability. The Accrued FECA Liability and Unfunded Employee Liability are Intragovernmental Liabilities totaling $477 million and $464 million at September 30, 2015 and 2014, respectively.

13. Federal Employee and Veteran Benefits Liabilities

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 entitled, Imputed Financing under Other Financing Sources (Nonexchange) in the Consolidated Statement of Changes in Net Position, representing the amount being financed directly through the benefit plan's administrative entity. The table below summarizes the imputed expenses reported by VA for its employees' benefit plans

Federal Employee Benefits: Imputed Expenses-Employee Benefits				
Years ended September 30,				
		2015		**2014**
Civil Service Retirement System	$	339	$	714
Federal Employees Health Benefits		1,424		1,318
Federal Employees Group Life Insurance		4		4
Total Imputed Expenses-Employee Benefits*	$	1,767	$	2,036

*The total imputed expenses in the table above, when combined with the Imputed Financing – Paid by Other Entities reported in the table reconciliation of judgment fund operating expense in Note 18 reconciles to Imputed Financing Costs reported in the Consolidated Statement of Changes in Net Position.

Veteran Benefits

Eligible Veterans who die or are disabled during active military service-related causes, as well as their dependents, receive compensation benefits and 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.

Federal Employee and Veteran Benefits Liabilities				
as of September 30,				
		2015		**2014**
Workers' Compensation (FECA)	$	2,244	$	2,264
Compensation		2,014,000		2,002,600
Burial		4,600		4,500
Total Federal Employee and Veteran Benefits Liabilities	$	2,020,844	$	2,009,364

VA provides certain Veterans and/or their dependents with pension benefits if the Veteran died or was disabled from nonservice-related causes, based on annual eligibility reviews. The actuarial present value of the future liability for pension benefits is a nonexchange transaction and is not required to be recorded on the balance sheet. The projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2015 and 2014, was $94.1 billion and $102.8 billion, respectively.

Assumptions Used to Calculate the Veteran Benefits Liability
Several significant actuarial assumptions were used in the valuation of compensation and burial benefits to calculate the present value of the liability. A liability was recognized for the projected benefit payments to: (1) those beneficiaries, including Veterans and survivors, currently receiving benefit payments; (2) current Veterans who will in the future become beneficiaries of the compensation program; and (3) a proportional share of those in active military service as of the valuation date who will become Veterans in the future. Future benefits payments to survivors of those Veterans in classes (1), (2), and (3) above are also incorporated into the projection. The projected liability does not include any administrative costs. Actual administrative costs incurred annually are included in the Veterans Benefits Administration's Net Program Costs shown in the accompanying Statements of Net Cost.

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. Discount rates at September 30, 2015 and 2014, were based on the 10-year average historical spot rates derived from quarterly Yield Curves for Treasury *Nominal Coupon Issues* published by the US Treasury at the end of each quarter for the periods June 30, 2014, to March 31, 2015, and June 30, 2013, to March 31, 2014, for September 30, 2015 and 2014, respectively. The spot rates derived from the 10-year average historical interest rate yield curve on Treasury securities for each year of expected future payments range from 1.59 percent to 4.19 percent and from 0.40 percent to 4.39 percent as of September 30, 2015 and 2014, respectively. These spot rates produced a single weighted average discount rate of 4.08 percent and 4.29 percent as of September 30, 2015 and 2014, respectively, that could be applied to the expected future cash flows to produce a present value that is not materially different than the present value using multiple rates.

All calculations were performed separately by age for the Compensation and Burial programs.

The Veterans benefit 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 liability balance multiplied by the single weighted average discount rate used to compute the Veterans benefit liability balance for the prior year. Changes in experience include the number of Veterans and dependents receiving payments, changes in degree of disability connected with military service, changes in the number of presumptive conditions, the on-going incidence rate and the prevalence of the presumptive conditions in the Veteran population and the impact of those changes on future years. Changes in actuarial assumptions include changes in the spot rates derived from the 10-year average historical interest rate yield curve on Treasury securities, cost of living adjustments, presumptive service conditions resulting in benefits coverage, mortality and disability claims rates and backlog of Veterans claims to be processed. Prior service costs relate to new benefits due to administrative, judicial or legislative changes.

The total number of Veterans, estimated future military separations and total number of beneficiary participants are determined through actual record level data and projected American Community Survey data. The amount of benefits by beneficiary category and age were based on current amounts being paid, future cost of living adjustments (COLA), change in degree of disability connected with military service and revised factors based on current year actual data related to the incidence and prevalence of presumptive service conditions in existence in the Veteran population at September 30, 2015 and 2014, respectively, resulting in benefits coverage to determine the average benefits per Veteran for each future time period, and changes in other factors that affect benefits. The average COLA rate used for all future years at September 30, 2015 and 2014, was 2.44 percent and 2.61 percent, respectively. Beginning in 2015, COLA rates for future years are based on Treasury Breakeven Inflation Rates published by the US Treasury.

Life expectancies of beneficiaries collecting benefits from the Compensation program were based upon studies of mortality experience of those beneficiaries between 2002 and 2008. Life expectancies of Veterans not yet collecting these benefits used in the calculation of the liability for future beneficiaries are based on mortality derived from rates developed by the Social Security Administration and published in the 2015 Trustees Report. 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, 2015.

VA has a unique program that is not a defined benefit plan and has 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 and Burial Actuarial Liabilities table that follows below.

The reconciliation table that follows the narrative below shows that the total liability for 2015 of $2.02 trillion increased $11.5 billion from the 2014 liability of $2.01 trillion.

The change in liability was primarily due to an $80 billion increase from the change in the discount rate assumption largely offset by a decrease of $72 billion in the COLA assumption. The reduction in average interest rates during the current year accounts for both of those changes. The weighted average discount rate decreased from 4.29 percent to 4.08 percent in 2015. This change resulted in an increase in costs related to the discount rate assumption. The average COLA rate used for all future years at September 30, 2015 and 2014, was 2.44 percent and 2.61 percent, respectively.

Beginning in 2015, COLA rates for future years are based on Inflation Rates published by the US Treasury.

Reconciliation of Veterans Compensation and Burial Actuarial Liabilities
For the Year Ended September 30,

		Compensation		Burial		TOTAL
Liability at October 1, 2013	$	**1,970,200**	$	**4,600**	$	**$1,974,800**
Expense:						
Interest on the Liability Balance*		82,700		200		82,900
Actuarial (Gain)/Loss from Current Year Activity						
Changes in Experience (Veterans Counts, Status)*		36,800		-		36,800
Changes in Assumptions:						
Changes in Discount Rate Assumption		(37,400)		(100)		(37,500)
Changes in COLA Rate Assumption		15,400		-		15,400
Net (Gain)/Loss from Changes in Assumptions		(22,000)		(100)		(22,100)
Prior Service Costs (Adjustment to Benefits)*		-		-		-
Total Expense		97,500		100		97,600
Less Amounts Paid*		(65,100)		(200)		(65,300)
Net Change in Actuarial Liability		32,400		(100)		32,300
Liability at September 30, 2014		**2,002,600**		**4,500**		**2,007,100**
Expense:						
Interest on the Liability Balance**		85,900		200		86,100
Actuarial (Gain)/Loss from Current Year Activity						
Changes in Experience (Veterans Counts, Status)**		9,500		100		9,600
Changes in Assumptions:						
Changes in Discount Rate Assumption		79,900		200		80,100
Changes in COLA Rate Assumption		(72,200)		(200)		(72,400)
Changes in Other Assumptions		(20,700)				(20,700)
Net (Gain)/Loss from Changes in Assumptions		(13,000)		-		(13,000)
Total Expense		82,400		300		82,700
Less Amounts Paid**		(71,000)		(200)		(71,200)
Net Change in Actuarial Liability		11,400		100		11,500
Liability at September 30, 2015	$	**2,014,000**	$	**4,600**	$	**2,018,600**

* The sum of these changes represents Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions on the Statement of Net Cost for 2014.
** The sum of these changes represents Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions on the Statement of Net Cost for 2015.

14. Environmental and Disposal Liabilities

VA had unfunded environmental and disposal liabilities in the amount of $860 million and $789 million as of September 30, 2015 and 2014, respectively. The majority of the unfunded liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal. As of September 30, 2015, the liablities for friable and non-friable asbestos removal were $235 million and $410 million, respectively.

While some facilities have applied prevailing state regulations that are more stringent than Federal guidelines, the 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, possibly materially, 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.

15. Other Liabilities

Other liabilities are liabilities not reported elsewhere in the Consolidated Balance Sheets. They consist of Funded and Unfunded Liabilities. Funded liabilities are generally considered to be current liabilities. Unfunded liabilities are generally considered to be non-current liabilities.

Other Intragovernmental Funded Liabilities
as of September 30,

	2015	2014
Deposit and Clearing Account Liabilities	$ 1	$ 268
Accrued Expenses - Federal	7	13
Deferred Revenue	56	52
Custodial Liabilities	43	74
Credit Reform Act Subsidy Reestimates*	347	246
Accrued VA Contributions for Employee Benefits	235	183
Total Other Intragovernmental Funded Liabilities	$ 689	$ 836

*The subsidy amount for each guaranteed loan is reestimated annually to ensure amounts reflect the actual losses on guaranteed loans. Based on the reestimated amounts, additional subsidy funds are provided for or excess funds are returned to Treasury.

Other Intragovernmental Unfunded Liabilities
as of September 30,

	2015	2014
Accrued FECA Liability	$ 472	$ 458
Unfunded Employee Liability	5	6
Total Other Intragovernmental Unfunded Liabilities	$ 477	$ 464
Total Other Intragovernmental Liabilities	$ 1,166	$ 1,300

Other Public Funded Liabilities				
as of September 30,				
		2015		2014
Accrued Funded Annual Leave	$	22	$	21
Accrued Expenses		165		168
Accrued Salaries and Benefits		911		747
Capital Lease Liability		2		11
Other		246		(5)
Total Other Public Funded Liabilities	$	1,346	$	942

Other Public Unfunded Liabilities				
as of September 30,				
		2015		2014
Accrued Unfunded Annual Leave*	$	2,071	$	1,987
Amounts due to non-Federal trust		125		134
Other		4		4
Judgment Fund-Unfunded**		2,029		1,692
Total Other Public Unfunded Liabilities	$	4,229	$	3,817
Total Other Public Liabilities	$	5,575	$	4,759

* 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.
** The Judgment Fund liability amount represents the estimate for future payments on legal cases that will be paid by the Treasury Judgment Fund on behalf of VA (see Note 18, Contingencies).

16. Leases

VA has both capital and operating leases. The net capital lease liability was $2 million and $11 million as of September 30, 2015 and 2014, respectively. Capital leases consist primarily of information and computer technology, medical equipment, office equipment and real property. The capital lease liabilities are classified as Other Public Funded Liabilities in Note 15 since capital leases entered into after 1991 are required to be fully funded by budgetary resources in the first year of the lease.

The following is an analysis of the leased property under capital leases by major classes that is included in G-PP&E as disclosed in Note 9 (in millions of dollars):

Capital Lease Assets						
as of September 30, 2015						
		Cost		Accumulated Amortization		Net Book Value
Real Property	$	17.7	$	(16.7)	$	1.0
Equipment		31.6		(23.9)		7.7
Leased Property Under Capital Lease	$	49.3	$	(40.6)	$	8.7
Amortization Expense			$	3.3		

Capital Lease Assets
as of September 30, 2014

	Cost	Accumulated Amortization	Net Book Value
Real Property	$ 17.7	$ (16.1)	$ 1.6
Equipment	39.4	(28.9)	10.5
Leased Property Under Capital Lease	$ 57.1	$ (45.0)	$ 12.1
Amortization Expense		$ 3.8	

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 level 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 that enable VA to fulfill its mission to care for and provide benefits to Veterans.

For the year ended September 30, 2015, VA had 1,954 real property leases in effect consisting of approximately 24 million square feet and base annual minimum rental obligations of approximately $682 million. Of the operating real property leases, VHA accounts for 85.2 percent, VBA accounts for 10.0 percent, Indirect Administrative Program offices account for 4.5 percent and NCA accounts for the balance. These real property leases generally have lease terms ranging from one year to fifty years and all operating leases are funded annually by appropriation of funds by Congress. Approximately 68 percent of the real property leases have an initial lease term of five years or less; approximately 25 percent have initial lease terms of six to ten years; approximately 4 percent have initial lease terms of eleven to fifteen years; and approximately 3 percent have initial lease terms of sixteen years and more. Certain leases contain renewal, termination and cancellation options.

Approximately 85 percent of VA leases are executed directly with third party commercial property owners (third party direct leases) with the balance of the leases executed by GSA on behalf of VA. GSA charges rental rates for space that approximates commercial rental rates for similar properties. The terms of occupancy agreements (OAs) 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 four to six months). For OAs executed after October 2011, periods of occupancy are generally one year. GSA OAs that are cancelled require a payment of all unamortized tenant improvements and rent concessions not yet earned. GSA OAs may also be non-cancellable, 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 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 5 years. For certain GSA OAs with occupancy terms in excess of 5 years or that incur capitalized building improvement or replacement costs, the base rental rate will be reassessed every 5 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 Consumer Price Index (CPI), 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, 2015. 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, the future commitments for equipment leases have been estimated using the expense from 2015 in lieu of actual lease terms being reflected for the 5-year period in the disclosure table below. VA does not believe this disclosure method produces information that is materially different than using actual equipment lease terms.

VA's 2015 operating lease rental costs were $678 million for real property rentals and $166 million for equipment rentals. The 2014 operating lease costs were $658 million for real property rentals and $148 million for equipment rentals.

Excluded from the following table are leases of properties that have expired as of September 30, 2015, 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. These commitments are excluded from the 5-year lease commitment table pending a long-term lease renewal contract or the vacancy of the space by VA. The rent expense associated with holdover leases is reflected in the 2015 expense in the statements of net costs. The following table represents VA's projected future operating lease commitments (in millions of dollars):

Projected Future Operating Lease Commitments

Years Ending September 30,	GSA OAs	Third Party Direct Leases	Total Real Property	Equipment
2016	$ 181	$ 407	$ 588	$ 166
2017	172	380	552	166
2018	156	355	511	166
2019	124	323	447	166
2020	105	289	394	166
2021 and Thereafter (in total)	214	2,180	2,394	-
Total Future Lease Payments	$ 952	$ 3,934	$ 4,886	$ 830

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. 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 consideration or no consideration. VA's previous EUL authority expired on Dec. 31, 2011 and was reauthorized under Public Law 112-154 Section 211, limited to supportive housing. The previous authority under which all of the current operational leases were executed allowed VA to enter into EULs for receipt of rental income or in-kind consideration (such as cost avoidance, cost savings, and enhanced services benefitting Veterans) as all or part of the consideration for the lease to further its mission to effectively serve Veterans and was not limited to supportive housing.

The leases related to the EUL and 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 58 operational leases of land and/or buildings to the public and private sector, including the Non-Federal Trusts discussed in Note 1. The rental income recognized from the EUL program and the NCA leasing program for the years ended September 30, 2015 and 2014, respectively, are immaterial to the financial statements. VA believes that the future rental income to be recognized over the next 5 years from the EUL program and NCA leasing program described above will continue to be immaterial; therefore, the table of future minimum rental income commitments is not presented.

17. Insurance Programs

Through VA, the Government administers six life insurance programs: the United States Government Life Insurance (USGLI) program; the National Service Life Insurance (NSLI) program; the Veterans Special Life Insurance (VSLI) program; the Veterans Reopened Insurance (VRI) program, which covers Veterans who served during World Wars I, II, and the Korean Conflict eras; the Service-Disabled Veterans Insurance (S-DVI) program, which was established in 1951 to meet the insurance needs of Veterans who received a service-connected disability rating and is open to new issues; and the Veterans Mortgage Life Insurance (VMLI) program, which covers severely disabled Veterans and are open to new issues. VMLI is part of the Veterans Insurance and Indemnities (VI&I) fund.

In addition, VA supervises the Servicemembers Group Life Insurance (SGLI) and the Veterans Group Life Insurance (VGLI) programs, which provides coverage to members of the uniformed armed services, reservists, and post-Vietnam Veterans and their families. All SGLI insureds 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 the Prudential Insurance Company of America to administer these programs.

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

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

The insurance reserves for the administered programs are reported as liabilities covered by budgetary resources, while part of the S-DVI and VI&I reserves are reported as liabilities not covered by budgetary resources. Reserves for SGLI and VGLI are maintained in Prudential's financial records since the risk of loss is assumed by Prudential and its reinsurers. United States Code, Title 38, requires that the Life Insurance programs invest in Treasury securities.

Actuarial reserve liabilities for the administered life insurance programs are based on the mortality and interest assumptions that vary by fund, type of policy, and type of benefit. The interest assumptions range from 2.25 to 4 percent. The mortality assumptions include the American Experience Table, the 1941 Commissioners Standard Ordinary (CSO) Table, the 1958 CSO Basic Table, the 1980 CSO Basic Table, the 2001 CSO Table and the 2001 Valuation Basic Male (VBM) Table.

Insurance Liability (Reserve) Balances
as of September 30, 2015

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$ 3,847	$ 49	$ 22	$ 3,918
USGLI	1	1	-	2
VSLI	1,343	5	9	1,357
S-DVI	610	6	787	1,403
VRI	130	1	1	132
VI&I	229	-	-	229
Subtotal	$ 6,160	$ 62	$ 819	$ 7,041
Unearned Premiums				44
Insurance Dividends Left on Deposit and Related Interest Payable				1,245
Dividends Payable to Policyholders				48
Unpaid Policy Claims				2
Insurance Liabilities reported on the Consolidated Balance Sheet				8,380
Less Liability not Covered by Budgetary Resources				(1,519)
Liability Covered by Budgetary Resources				$ 6,861

Insurance Liability (Reserve) Balances
as of September 30, 2014

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$ 4,448	$ 57	$ 27	$ 4,532
USGLI	2	2	-	4
VSLI	1,408	6	11	1,425
S-DVI	575	6	777	1,358
VRI	155	1	1	157
VI&I	213	-	-	213
Subtotal	$ 6,801	$ 72	$ 816	$ 7,689
Unearned Premiums				49
Insurance Dividends Left on Deposit and Related Interest Payable				1,346
Dividends Payable to Policyholders				59
Unpaid Policy Claims				2
Insurance Liabilities reported on the Consolidated Balance Sheet				9,145
Less Liability not Covered by Budgetary Resources				(1,442)
Liability Covered by Budgetary Resources				$ 7,703

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.

The supervised programs' policies and face value are not reflected in the VA reporting entity 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 information provided below under the Supervised Programs is for informational purposes only and is unaudited.

Prudential and its reinsurers provided coverage to 5,567,448 and 5,739,444 policy holders with a face value of $1.2 trillion and $1.3 trillion for 2015 and 2014, respectively.

The face value of the insurance provided by Prudential and its reinsurers represents 99 percent of the total insurance in-force for both 2015 and 2014. The number of policies represents the number of active policies remaining in the program at the end of the fiscal year.

	2015 Policies	2014 Policies	2015 Face Value	2014 Face Value
Supervised Programs (UNAUDITED)				
SGLI Active Duty	1,425,000	1,461,000	$ 547,671	$ 563,681
SGLI Ready Reservists	745,500	753,500	247,637	253,499
SGLI Post Separation	95,000	91,000	35,023	33,798
SGLI Family - Spouse	973,000	1,037,000	95,903	102,200
SGLI Family - Children	1,901000	1,972,000	19,010	19,720
TSGLI*	-	-	217,050	221,450
VGLI	427,948	424,944	68,699	66,002
Total Supervised	5,567,448	5,739,444	$ 1,230,993	$ 1,260,350
Administered Programs				
NSLI	370,281	438,252	$ 4,655	$ 5,462
VSLI	120,466	130,637	1,730	1,847
S-DVI	266,840	260,895	2,794	2,725
VRI	14,515	17,492	154	185
USGLI	672	1,071	1	2
VMLI	2,567	2,485	333	313
Total Administered	775,341	850,832	$ 9,667	$ 10,534
Total Supervised and Administered Programs	6,342,789	6,590,276	$ 1,240,660	$ 1,270,884

*TSGLI coverage is a rider attached to SGLI coverage, so policies under SGLI also have TSGLI.

Policy Dividends

The SECVA determines annually the excess funds available for dividend payment. Policy dividends for 2015 and 2014 were $109 million and $129 million, respectively.

18. Commitments and Contingencies

VA is a party in various administrative proceedings, legal actions, and tort claims arising from various sources including: disputes with contractors, challenges to compensation and education award decisions, loan guaranty indemnity debt cases, and allegations of medical malpractice. Certain legal matters to which VA may be a named party are administered by and, in some instances, litigated by, the Department of Justice. Generally, amounts (more than $2.5 thousand for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award are funded from the Judgment Fund, which is maintained by Treasury. Medical malpractice cases comprised 30 percent and 88 percent of the amounts funded on behalf of VA by the Judgment Fund in 2015 and 2014, respectively. Contract dispute payments for 2015 and 2014 were $225 million and $5.8 million, respectively. The discrimination case payments for 2015 and 2014 were $5.5 million and $2.4 million, respectively. The liability from existing medical malpractice claims is estimated using generally accepted actuarial standards and procedures. The estimated future payments related to these existing claims are discounted using Treasury spot rates as of September 30, 2015 and 2014.

VA recorded a liability for pending legal claims that are estimated to be paid by the Judgment Fund. This liability is established for all pending claims whether reimbursement is required or not and was $2 billion for 2015 and $1.69 billion for 2014.

There were 46 contract and personnel law cases, where there was at least a reasonable possibility that a loss may occur, with financial exposure ranging from $654 million to $1.9 billion in aggregate for 2015. Within that range, $401 million is considered probable and is recorded as a liability. In 2014, the range of exposure was $245 million to $1.3 billion, from 27 cases, of which $93 million was probable and recorded as a liability.

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

Judgment Fund
For the Years Ended September 30,

		2015		**2014**
Fiscal Year Settlement Payments	$	343	$	141
Less Contract Dispute and “No Fear” Payments		(230)		(8)
Imputed Financing-Paid by Other Entities*		113		133
Increase (Decrease) in Liability for Claims		337		299
Operating Expense	$	450	$	432

*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 Consolidated Statement of Changes in Net Position.

It is the opinion of management that resolution of pending legal actions as of September 30, 2015, 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. The 2015 tort payments were $112.3 million and 2014 tort payments were $133 million.

Any payments due that may arise relating to cancelled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990. The amount of unobligated and obligated authority relating to appropriations cancelled on September 30, 2015 and 2014, was $514.2 and $286.6 million, 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 SECVA 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 2011-2015, the average medical care cost per year was $44 billion.

19. Funds from Dedicated Collections

SFFAS 43, *Funds from Dedicated Collections: Amending SFFAS 27, Identifying and Reporting Earmarked Funds*, 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 fund's sources of revenue and other financing sources are non-federal sources that are material and that require disclosure of all funds from dedicated collections for which VA has program management responsibility. The Treasury does not set aside assets to pay future expenditures associated with funds from dedicated collections. VA's funds from dedicated collections consist of trusts, special and revolving funds that remain available over time. The "trust" funds do not involve a fiduciary relationship with an individual or group but are designated exclusively for a specific activity, benefit, or purpose.

The investments (Treasury Securities discussed in Note 1 and presented in Note 5) are assets of funds from dedicated collections that are issued as evidence of specific dedicated receipts from fund activities by the fund and that provide the fund the authority to draw upon the Treasury for future authorized expenditures related to the fund's specific purpose. The investments (Treasury Securities) are not general fund assets of the Federal Government, since their use is restricted to the funds' purpose, and are not non-entity assets. When the fund redeems its Treasury Securities to make expenditures, the Treasury will finance those expenditures in the same manner that it finances all other expenditures.

VA's Funds from Dedicated Collections are as follows and the classification of each fund into the grouping of Insurance, Medical Care, Benefits and Burial as shown in the condensed financial statements that follow is designated in the "Purpose of Fund" column below:

Dedicated Collections Fund Name	Treasury Symbol	Authority	Purpose of Fund	Financing Sources
Servicemen's Group Life Insurance	36x4009	38 U.S.C 1965	Insurance to active duty, ready reservists, retired reservists and cadets attending service academies and ROTC.	Public, Veterans
Veterans Reopened Insurance Fund	36x4010	38 U.S.C. 1925	Insurance - Provides insurance to World War II and Korea Veterans.	Public, Veterans
Service-Disabled Veterans Insurance Fund	36x4012	38 U.S.C. 1922	Insurance - Provides insurance to Veterans with service-connected disabilities.	Public, Veterans
National Service Life Insurance Fund	36x8132	38 U.S.C. 1920	Insurance - Premiums insure WWII Veterans.	Public, Veterans
U.S. Government Life Insurance	36x8150	38 U.S.C. 1955	Insurance - Premiums insure WWI Veterans.	Public, Veterans
Veterans Special Life Insurance Fund	36x8455	38 U.S.C. 1923 101-228	Insurance - Premiums insure Korean conflict Veterans.	Public, Veterans
Canteen Service Revolving Fund	36x4014	38 U.S.C. 78	Medical Care -Operates the canteen services at hospitals.	Revenue from product sales
Medical Care Collections Fund	36x5287	P.L. 105-33 111 Stat 665	Medical Care - Third-party and patient co-payments for medical services.	Public, primarily insurance carriers
Enhanced-Use Lease Trusts	N/A	38 U.S.C 8162	Medical Care - Lease underutilized VA property.	Public
General Post Fund, National Homes	36x8180	38 U.S.C. 101-228	Medical Care - Donations for patient benefits.	Public, mostly Veterans
Post-Vietnam Era Education Assistance Program	36x8133	38 U.S.C. 3222	Benefits - Subsidizes the cost of education to Veterans.	Veterans, DoD
Cemetery Gift Fund	36x8129	38 U.S.C. 2407	Burial - Donations for Veterans cemeteries.	Public donors
National Cemetery Administration Facilities Operation Fund	36x5392	P.L. 108-454	Burial - Proceeds benefit land and buildings.	Proceeds from buildings/land leases

The following tables provide consolidated condensed information on assets, liabilities, fund balances, net costs, and changes in fund balances related to Cumulative Results of Operations – Funds from Dedicated Collections in the Consolidated Statements of Changes in Net Position:

Balance Sheet – Funds from Dedicated Collections as of September 30, 2015	**Insurance**	**Medical Care**	**Benefits**	**Burial**	**Funds from Dedicated Collections**
Assets:					
Fund Balance with Treasury	$ 64	$ 367	$ 64	$ 2	$ 497
Investments with Treasury (Note 5)	6,914	108	-	-	7,022
Other Assets	341	1,612	-	14	1,967
Total Assets	$ 7,319	$ 2,087	$ 64	$ 16	$ 9,486
Liabilities and Net Position:					
Payables to Beneficiaries	$ 221	$ 51	$ 1	$ -	$ 273
Other Liabilities	8,159	148	-	-	8,307
Total Liabilities	8,380	199	1	-	8,580
Unexpended Appropriations	-	-	-	-	-
Cumulative Results of Operations	(1,061)	1,888	63	16	906
Total Liabilities and Net Position	$ 7,319	$ 2,087	$ 64	$ 16	$ 9,486

Statement of Net Cost – Funds from Dedicated Collections for the Year Ended September 30, 2015					
Gross Program Costs	$ 708	$ 646	$ -	$ 1	$ 1,355
Less Earned Revenues	588	4,020	-	-	4,608
Net Program Costs	120	(3,374)	-	1	(3,253)
Costs Not Attributable to Program Costs	-	-	-	-	-
Net Cost/(Benefit) of Operations	$ 120	$ (3,374)	$ -	$ 1	$ (3,253)

Statement of Changes in Net Position – Funds from Dedicated Collections for the Year Ended September 30, 2015					
Net Position Beginning of Period	$ (977)	$ 1,916	$ 63	$ 6	$ 1,008
Budgetary and Other Financing Sources	36	(3,402)	-	11	(3,355)
Net Cost/(Benefit) of Operations	120	(3,374)	-	1	(3,253)
Change in Net Position	(84)	(28)	-	10	(102)
Net Position End of Period	$ (1,061)	$ 1,888	$ 63	$ 16	$ 906

Balance Sheet – Funds from Dedicated Collections as of September 30, 2014	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Assets:					
Fund Balance with Treasury	$ 58	$ 388	$ 64	$ 2	$ 512
Investments with Treasury (Note 5)	7,760	67	-	-	7,827
Other Assets	382	1,680	-	4	2,066
Total Assets	$ 8,200	$ 2,135	$ 64	$ 6	$ 10,405
Liabilities and Net Position:					
Payables to Beneficiaries	$ 244	$ 63	$ 1	$ -	$ 308
Other Liabilities	8,933	156	-	-	9,089
Total Liabilities	9,177	219	1	-	9,397
Unexpended Appropriations	-	-	-	-	-
Cumulative Results of Operations	(977)	1,916	63	6	1,008
Total Liabilities and Net Position	$ 8,200	$ 2,135	$ 64	$ 6	$ 10,405

Statement of Net Cost – Funds from Dedicated Collections for the Year Ended September 30, 2014	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Gross Program Costs	$ 811	$ 321	$ -	$ -	$ 1,132
Less Earned Revenues	662	3,607	-	-	4,269
Net Program Costs	149	(3,286)	-	-	(3,137)
Costs Not Attributable to Program Costs	-	-	-	-	-
Net Cost/(Benefit) of Operations	$ 149	$ (3,286)	$ -	$ -	$ (3,137)

Statement of Changes in Net Position – Funds from Dedicated Collections for the Year Ended September 30, 2014	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Net Position Beginning of Period	$ (877)	$ 1,652	$ 63	$ 5	$ 843
Budgetary and Other Financing Sources	49	(3,022)	-	1	(2,972)
Net Cost/(Benefit) of Operations	149	(3,286)	-	-	(3,137)
Change in Net Position	(100)	264	-	1	165
Net Position End of Period	$ (977)	$ 1,916	$ 63	$ 6	$ 1,008

20. Exchange Transactions

Exchange Revenues

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 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; benefits revenue from reimbursement of education benefit programs from Servicemember contributions that are transferred to the general fund account with the Department of the Treasury (Treasury); insurance revenue from insurance policy premiums paid by policyholders; and housing revenue from interest earned on direct loans. Exchange revenues are discussed further in Note 1 under Revenues and Other Financing Sources.

Exchange revenue is usually based on the full cost associated with the goods exchanged or services performed. Although VA recognizes full cost per SFFAS 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 that are in the best interest of the Federal Government.

Public Exchange Transactions

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

The loan guarantee funding fees collected for 2015 and 2014 were $1.8 billion and $1.4 billion, respectively. The loan guarantee lender participation fees collected for 2015 and 2014 were $2.2 million and $2.1 million, respectively.

NCA leases lodges at five cemeteries to not-for-profit groups at no cost, four for historic preservation and one for office space. 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 eleven cemeteries with private sector entities, for which it receives rental payments. Two permits are licensed to the Federal Aviation Administration and Department of Interior at no cost. Total rental revenues earned under the contracts above were $104 thousand and $120 thousand for 2015 and 2014, respectively.

VA's Medical Care Collections Fund, "Conforming Amendments," changed the language of specific sections of 38 USC Chapter 17 to substitute "reasonable charges" for "reasonable cost." The VHA Chief Business Office (CBO) is responsible for implementing and maintaining these reasonable charges for billing third-party payers for services provided to insured Veterans for treatment of nonservice-connected conditions.

Reasonable charges are used to bill for reimbursable health care services, non-federal workers' compensation, tort-feasor and no-fault or uninsured motorists insurance cases.

Reasonable charges are based on provider charges in the market area of each VA facility. Under regulations issued pursuant to section 1729 and published at section 17.101, Title 38, Code of Federal Regulations, third party payers may elect to pay VA's billed charges (less applicable deductible or co-payment 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.

Cost-based per diems are calculated annually to produce rates used to bill for medical care or services provided by VA:

(a) in error or on tentative eligibility;
(b) in a medical workers' compensation (other than federal), 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 a national cost allocation report.

Intragovernmental Exchange Transactions
Intragovernmental costs relate to the source of goods and services purchased by VA and not to the classification of related intragovernmental revenue. Classification of revenue and/or costs as "Intragovernmental" or "With the Public" is determined on a transaction by transaction basis for disclosure purposes. Classification of preceding transactions in a product's life cycle will not have an impact on classification of subsequent transactions. The purpose of this classification is to enable the Federal Government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

VA and DoD have authority to enter into agreements and contracts for the mutual use or exchange of use of hospital and domiciliary facilities and other resources. The providing agency shall be reimbursed for the cost of the health care resources based on the methodology agreed to by VA and DoD. Facility directors have the flexibility to consider local conditions and needs and the actual costs of providing the services. VA's General Counsel has determined that full cost recovery is not mandated. VHA captures the total amount of reimbursements received under DoD sharing agreements, but the total amount billed below full cost is not readily available. VHA is in the process of developing mechanisms to report this information in the future.

When VA furnishes medical care or services for beneficiaries of other federal agencies, and that care or service is not covered by an applicable local sharing agreement, the billing rates used are determined and published annually by the VHA CFO. Interagency billing rates are determined from cost and workload data in the Decision Support System.

21. Net Program Costs by Administration

Schedule of Net Program Costs by Administration					
For the Period Ending September 30, 2015 (Dollars in Millions)	**Veterans Health Administration**	**Veterans Benefits Administration**	**National Cemetery Administration**	**Indirect Administrative Program Costs**	**Total**
Program Costs					
Intragovernmental Costs	$ 9,207	$ 716	$ 43	$ 443	$ 10,409
Less Earned Revenues	(64)	(552)	-	(162)	(778)
Net Intragovernmental Program Costs	9,143	164	43	281	9,631
Public Costs	59,777	92,652	261	1,318	154,008
Veterans Benefits Actuarial Costs, Excluding Changes in Actuarial Assumptions (Note 13)	-	24,400	100	-	24,500
Less Earned Revenues	(4,188)	(406)	-	(188)	(4,782)
Net Public Program Costs	55,589	116,646	361	1,130	173,726
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	64,732	116,810	404	1,411	183,357
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	(13,000)	-	-	(13,000)
Net Cost of Operations	$ 64,732	$ 103,810	$ 404	$ 1,411	$ 170,357

Schedule of Net Program Costs by Administration					
For the Period Ending September 30, 2014 (Dollars in Millions)	**Veterans Health Administration**	**Veterans Benefits Administration**	**National Cemetery Administration**	**Indirect Administrative Program Costs**	**Total**
Program Costs					
Intragovernmental Costs	$ 8,938	$ 656	$ 40	$ 489	$ 10,123
Less Earned Revenues	(67)	(611)	-	(224)	(902)
Net Intragovernmental Program Costs	8,871	45	40	265	9,221
Public Costs	56,059	87,381	270	1,342	145,052
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	-	54,400	-	-	54,400
Less Earned Revenues	(3,744)	(626)	-	(68)	(4,438)
Net Public Program Costs	52,315	141,155	270	1,274	195,014
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	61,186	141,200	310	1,539	204,235
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	(22,000)	(100)	-	(22,100)
Net Cost of Operations	$ 61,186	$ 119,200	$ 210	$ 1,539	$ 182,135

22. Disclosures Related to the Statements of Budgetary Resources

Budgetary Accounting

Budgetary resources, which include new budget authority, unobligated balances, direct spending authority, and obligation limitations, are forms of authority given to VA allowing it to incur obligations. Budget authority is provided by Federal law to enter into financial obligations that will result in immediate or future outlays involving Federal Government funds. Budget authority may be classified by the period of availability (1-year, multiple-year, no-year or available until expended), by the timing of congressional action (current or permanent), or by the manner of determining the amount available (definite or indefinite).

Budget authority from appropriations is the most common form of providing for the specific amount of money authorized by Congress for approved work, programs, or individual projects. Appropriations do not represent cash actually set aside in the Treasury for purposes specified in the appropriation act; they represent amounts that VA may obligate during the period of time specified in the respective appropriation acts. An appropriation may make funds available from the general fund, special funds, or trust funds.

Borrowing authority is budget authority enacted to permit VA to borrow money and then to obligate against amounts borrowed. It may be definite or indefinite in nature. The funds are borrowed from the Treasury and Federal Financing Bank.

Spending authority from offsetting receipts and collections is budget authority that permits VA to obligate and expend funds from sources that are not appropriated. Offsetting collections are authorized by law to be credited to appropriation or fund expenditure accounts. They result from (1) business-like transactions or market-oriented activities with the public, (2) intragovernmental transfers, and (3) collections from the public that are governmental in nature but required by law to be classified as offsetting. Collections resulting from business-like transactions with the public and other government accounts are also known as reimbursements. Laws authorizing offsetting collections make them available for obligation to meet the account's purpose without further legislative action.

Offsetting collections include reimbursements, transfers between federal and trust fund accounts, offsetting governmental collections, and refunds. For accounting purposes, earned reimbursements are also known as revenues. These offsetting collections are netted against gross outlays in determining net outlays from such appropriations.

Offsetting receipts are collections that are offset against gross outlays but are not authorized to be credited to expenditure accounts. Offsetting receipts are deposited in receipt accounts. Like offsetting collections, they result from (1) business-like transactions or market oriented activities with the public, (2) intragovernmental transfers, and (3) collections from the public that are governmental in nature but required by law to be classified as offsetting receipts.

The Status of Budgetary Resources reflects the obligations incurred, the unobligated balances at the end of the period that remain available, and unobligated balances at the end of the period that are unavailable except to adjust or liquidate prior year obligations. Unobligated balances currently unavailable may become available subject to apportionment by OMB and allotment by VA.

Apportionments are distributions made by OMB of amounts available for obligation in an appropriation or fund account. Apportionments divide amounts available for obligation by specific time periods (usually quarters), activities, projects, objects, or a combination thereof. The amounts so apportioned limit the amount of obligations that may be incurred.

Upon apportionment and allotment, obligations can be incurred. Obligations represent a commitment that creates a legal liability for VA to pay for goods and services ordered or received, or a legal duty on the part of VA that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of VA. An obligation is the amount of orders placed, contracts awarded, services received, and other transactions occurring during a given period that would require payments during the same or future period.

Obligational authority is an amount carried over from one year to the next if the budget authority is available for obligation in the next fiscal year. Not all obligational authority that becomes available in a fiscal year is obligated and paid out in that same year. Balances are described as (1) obligated, (2) unobligated, or (3) unexpended.

An obligated balance is the amount of obligations already incurred for which payment has not yet been made, including undelivered orders and other unliquidated obligations. Budget authority that is available for a fixed period expires at the end of its period of availability, but the obligated balance of the budget authority remains available to liquidate obligations for 5 additional fiscal years. At the end of the fifth fiscal year, the account is closed and any remaining balance is cancelled.

An unobligated balance is the portion of obligational authority that has not yet been obligated. For an appropriation account that is available for a fixed period, the budget authority expires after the period of availability ends but its unobligated balance remains available for 5 additional fiscal years for recording and adjusting obligations properly chargeable to the appropriations period of availability such as to record previously unrecorded obligations or to make upward or downward adjustments in previously recorded obligations, such as contract modifications properly within scope of the original contract. At the end of the fifth fiscal year, the account is closed and any remaining balance is cancelled.

The unexpended balance represents the sum of the obligated and unobligated balances.

An outlay is the amount of checks, disbursement of cash, or electronic transfer of funds to liquidate a Federal obligation. Under the Credit Reform Act, the credit subsidy cost is recorded as an outlay when a direct or guaranteed loan is disbursed. Outlays during a fiscal year may be for payment of obligations incurred in prior years (prior-year obligations) or in the same year.

The caption, Appropriations under Budgetary Resources, in the Combined Statements of Budgetary Resources (SBR), does not agree to the caption Budgetary Financing

Sources – Appropriations Received in the Consolidated Statements of Changes in Net Position. The amount in the Combined SBR includes appropriations from the General Fund and Special Receipt Funds, while the Consolidated Statements of Changes in Net Position includes appropriations from the General Fund only.

The caption, Spending Authority from Offsetting Collections under Budgetary Resources in the Combined SBR, does not agree to the caption Earned Revenue in the Consolidated Statements of Net Cost. The amount in the Combined SBR includes Credit Reform subsidies for interest, fees and principal as required by Treasury reporting requirements, while the Consolidated Statements of Net Cost includes interest only.

Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations
For the Years Ended September 30,

	2015	2014
Category A, Direct	$ 158,658	$ 148,452
Category B, Direct	10,251	9,978
Category A, Reimbursable	854	803
Category B, Reimbursable	3,913	4,354
Total Obligations Incurred	$ 173,676	$ 163,587

Category A, consists of amounts requested to be apportioned by each calendar quarter in the fiscal year. Category B, consists of amounts requested to be apportioned on a basis other than calendar quarters, such as activities, projects, objects, or a combination of these categories. Direct obligations are for statutory work, programs or projects. Reimbursable obligations are for business-like transactions with the public or other government agencies. The amounts by year and category reconcile to the SF 132, Apportionment and Reapportionment Schedule, the SF 133, Report on Budget Execution and Budgetary Resources, and the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) as required by OMB Circular No. A-11, Section 120.

Adjustments to Budgetary Resources and Prior Year Recoveries
The recoveries of prior year unpaid obligations were $3.0 billion and $2.5 billion for 2015 and 2014, respectively.

For both 2015 and 2014, VA appropriations were subjected to a $1.8 billion rescission each year under the provisions of P.L. 113-235, *Consolidated and Further Continuing Appropriations Act, 2015* and P.L. 113-6*, Consolidated and Further Continuing Appropriations Act, 2014*, respectively.

Borrowing Authority
The Loan Guaranty Program had borrowing authority of $466 million and $356 million as of September 30, 2015 and 2014, respectively. The interest rates on the borrowing authority ranged from 1.00 to 2.60 percent for 2015 and 2014. Principal repayment is

expected over a 30-year period from the date of issuance of debt. Direct Loans under the Vocational Rehabilitation Program had borrowing authority of $2.2 million and $2.5 million as of September 30, 2015 and 2014, respectively. The interest rate on the borrowing authority was 1.00 percent for 2015 and 2014. Principal repayment is expected over a 2-year period from the date of issuance of debt. The Loan Guaranty Program 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 loans generally had a duration of one year, and repayment was made from offsetting collections.

Permanent Indefinite Appropriations

VA has four housing benefit programs that have permanent and indefinite appropriations to cover unexpected losses.

Explanations of Differences Between the SBR and the Budget of the US Government

The table below documents the material differences between the 2014 SBR and the actual amounts reported in the 2016 Budget of the United States Government. The 2017 Budget of the United States with the actual 2015 SBR amounts will not be available until February 2016. Once published, the 2015 actual date will be available on the OMB website at: www.whitehouse.gov/omb.

Explanations of Differences Between the SBR and the Budget of the US Government
Year Ended September 30, 2014

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
2014 Actual Balances per the 2016 Budget of the U.S. Government (in millions)	**193,284**	**$ 161,085**	**$ (3,463)**	**$ 150,121**
Reconciling Items:				
Prior Year Recoveries of Unpaid Obligations	2,510	2,510		
Expired accounts not in the US Budget	1,760			
Recovery Act, Special, and Trust Funds not in the US Budget	428			
Refunds and drawbacks not in the US Budget	(383)			
Miscellaneous Differences	(36)	(8)	(1)	
Per the 2014 Statement of Budgetary Resources	**197,563**	**$ 163,587**	**$ (3,464)**	**$ 150,121**

Use of Unobligated Balances of Budget Authority

Available unobligated balances on the SBR are comprised of current fiscal year apportioned funds for annual, multi-year, and no-year appropriations from Congress as well as revolving and trust funds. Other balances not available are comprised of unobligated funds that were not apportioned by OMB for 2015 use and appropriated unobligated amounts that have expired, which generally are not available for new obligations, but can be used to increase existing obligations under certain circumstances.

Unobligated VA funds are available for uses defined in VA's 2015 Appropriation Law (P.L. 113-235). These purposes include: Veterans medical care, research, education, construction and maintenance of VA buildings, Veterans and dependents benefits, Veterans life insurance, loan guaranty programs, Veterans burial benefits, and administrative functions. Various obligation limitations are imposed on individual VA appropriations.

Undelivered Orders at the End of a Period
The amount of budgetary resources obligated for unpaid undelivered orders for the years ended 2015 and 2014 was $14.9 billion and $16.4 billion, respectively.

Contributed Capital
The amount of contributed capital received during 2015 consisted of donations in the amount of $44.3 million to the General Post Fund, $0.4 million to the Supply Fund and $11.1 million to the National Cemetery Gift Fund. The amount of contributed capital received during 2014 consisted of donations in the amount of $65.8 million to the General Post Fund, $0.5 million to the Supply Fund and $0.5 million to the National Cemetery Gift Fund.

23. Reconciliation of Net Cost of Operations to Budget

The objective of the information shown below is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to VA with its net cost of operations.

DEPARTMENT OF VETERANS AFFAIRS		
RECONCILIATION OF NET COSTS OF OPERATIONS TO BUDGET		
For the Years Ended September 30,	**2015**	**2014**
Resources Used to Finance Activities		
Obligations Incurred	$ 173,676	$ 163,587
Less Offsetting Collections, Receipts and Adjustments	(16,854)	(16,193)
Net Obligations	156,822	147,394
Donations of Property	35	41
Transfers Out	(3)	14
Imputed Financing	1,880	2,169
Other Financing Sources	(559)	(471)
Total Resources Used to Finance Activities	**158,175**	**149,147**
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services and Benefits Ordered But Not Yet Provided	515	181
Resources that Finance the Acquisition of Assets	(6,739)	(5,378)
Resources that Fund Expenses Recognized in Prior Periods	(1,138)	(2,412)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	4,540	5,562
Total Resources that Do Not Fund Net Cost of Operations	(2,822)	(2,047)
Total Resources Used to Finance the Net Cost of Operations	**155,353**	**147,100**
Costs That Do Not Require Resources in the Current Period		
Increase in Annual Leave Liability	84	80
Increase (Decrease) in Environmental and Disposal Liability	70	(34)
Increase (Decrease) to Judgement Fund Future Funded Expense	562	-
Reestimates of Credit Subsidy Expense	(194)	346
Increase in Exchange Revenue Receivable from the Public	106	(501)
Increase (Decrease) in Veterans Benefits and Other Noncurrent Liabilities	11,620	32,722
Depreciation and Amortization	1,656	1,731
Bad Debt Related to Uncollectible Non-Credit Reform Receivables	810	98
Loss on Disposition of Assets	281	476
Undistributed Offsetting Receipts	(4)	-
Other	13	117
Total Costs That Do Not Require Resources in the Current Period	**15,004**	**35,035**
Net Cost (Benefit) of Operations	**$ 170,357**	**$ 182,135**

VA Office of Inspector General

OFFICE OF AUDITS & EVALUATIONS

Department of Veterans Affairs

Audit of VA's Financial Statements for Fiscal Years 2015 and 2014

November 16, 2015
15-01708-36

Department of Veterans Affairs

Memorandum

Date: November 16, 2015

From: Acting Assistant Inspector General for Audits and Evaluations (52)

Subj: Audit of VA's Financial Statements for Fiscal Years 2015 and 2014

To: Secretary of Veterans Affairs (00)

1. We contracted with the independent public accounting firm, CliftonLarsonAllen LLP, to audit VA's financial statements as of September 30, 2015 and 2014, and for the years then ended. This audit is an annual requirement of the Chief Financial Officers Act of 1990. The results of CliftonLarsonAllen LLP's audit are presented in the attached report.

2. CliftonLarsonAllen LLP provided an unqualified opinion on VA's fiscal year (FY) 2015 and 2014 financial statements. With respect to internal control, CliftonLarsonAllen LLP identified four material weaknesses.

- Information technology security controls, which is a repeat condition
- Procurement, undelivered orders, and reconciliations, which is a new condition
- Purchased care processing and reconciliations, which is a new condition
- Financial reporting, which was elevated from a significant deficiency.

3. CliftonLarsonAllen LLP also identified two significant deficiencies, accrued operating expenses, which is a repeat condition, and CFO organizational structure for VHA and VA, which is a new condition.

4. They also reported the following conditions with respect to noncompliance with laws and regulations:

- Substantial noncompliance with applicable 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

- Improvements needed in complying with the Federal Managers' Financial Integrity Act

- Instances of non-compliance with section 5315, title 38, United States Code, pertaining to the charging of interest and administrative costs

- Three possible violations of the Antideficiency Act that VA is investigating, two of which involve the combination of minor construction projects above the $10 million ceiling, beyond which Congressional approval for use of funds is required. The other investigation involves obligation of a contract in the wrong fund. VA is in the process of reporting two other violations that also involve the combination of minor construction projects.

- Less than full compliance with IPERA for FY 2014 as reported by the Office of Inspector General.

5. CliftonLarsonAllen LLP is responsible for the attached audit report dated November 16, 2015, 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 2016 audit of VA's financial statements.

Gary K Abe

Gary Abe

Attachment

CliftonLarsonAllen LLP
www.claconnect.com

INDEPENDENT AUDITORS' REPORT

To the Secretary
And Deputy Inspector General
Department of Veterans Affairs

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Department of Veterans Affairs (VA), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, 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 consolidated financial statements (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 audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; and 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. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department of Veterans Affairs as of September 30, 2015 and 2014, 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.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that VA's Management Discussion and Analysis (MD&A), other Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI), be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, who 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 MD&A and other RSI 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 the 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 sections exclusive of the financial statements, MD&A, other 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, RSI, or RSSI. 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*

Report on 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. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, we identified certain deficiencies in internal control, described below and in Exhibits A and B, respectively, that we consider to be material weaknesses and significant deficiencies.

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 the VA's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below and in Exhibit A to be material weaknesses.

Information Technology Security Controls

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

Procurement, Undelivered Orders and Reconciliations

> VA does not perform a consolidated and centralized reconciliation for procurement obligations recorded in its Integrated Funds Distribution, Control Activity Point, Accounting and Procurement (IFCAP) system with its general ledger system. In addition, VA lacks adequate controls surrounding its extensive use of miscellaneous obligating documents, and other pervasive and long standing procurement related issues continue to exist.

Purchased Care Processing and Reconciliations

> The Veterans Health Administration (VHA) had weaknesses in its design and implementation of controls over the purchased care program, from transaction authorization to liquidation of unfulfilled authorizations.

Financial Reporting

> Due to its age and limited functionality, VA's legacy Financial Management System (FMS) continues to require extensive manipulations, journal entries, manual processes, and reconciliations in order for VA to produce a set of auditable financial statements.

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. We consider the deficiencies described below and in Exhibit B to be significant deficiencies.

Accrued Operating Expenses

VA does not have an adequate process to subsequently validate the reasonableness of its accrued operating expenses.

CFO Organizational Structure for VHA and VA

VA has a long history of decentralization in its Chief Financial Officer (CFO) organizational structure, which has led to challenges with entity-level accounting and financial management controls.

Report on Compliance and Other Matters

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.

The results of our tests, exclusive of those required by the Federal Financial Management Improvement Act of 1996 (FFMIA) as discussed below, disclosed instances of noncompliance and other matters, described below and in Exhibit C, that are required to be reported in accordance with *Government Auditing Standards*.

Noncompliance with Federal Managers' Financial Integrity Act (FMFIA)

VA did not provide adequate documentation to support its Section II and IV assurance statements, and its OMB Circular A-123 Appendix A testing was insufficient to address financial reporting risks of material misstatements.

Noncompliance with 38 USC 5315

The Veterans Benefit Administration (VBA) did not charge interest or recover administrative costs on delinquent payments from veterans related to certain receivables for Compensation, Pension, and Education.

Actual and Potential Violations of the Antideficiency Act

VA is engaged in investigating three possible violations of the Antideficiency Act, 31 U.S.C. 1341(a), and is in the process of reporting two other violations.

Noncompliance with Improper Payments Elimination and Recovery Act

On May 14, 2015, the VA Office of Inspector General reported that VA did not fully comply in FY 2014 with the Improper Payments Elimination and Recovery Act.

Systems Compliance with FFMIA Requirements

Under FFMIA, we are required to report whether the financial management systems used by VA substantially comply with the FFMIA Section 803(a) requirements. To meet this requirement, we performed tests of compliance with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level. However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. Except for matters described in Exhibit C, where VA did not substantially comply with applicable Federal financial management systems requirements and the USSGL at the transaction level, the results of our tests of FFMIA disclosed no instances in which VA's financial management systems did not substantially comply with applicable Federal accounting standards.

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 FMFIA, (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, (3) ensuring VA's financial management systems are in substantial compliance with FFMIA requirements, and (4) ensuring compliance 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 of compliance to certain provisions of laws, regulations, contracts and grant agreements that have a direct effect on the financial statements. 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 12, 2014. The status of prior year findings is presented in Exhibit D.

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

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report 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

CliftonLarsonAllen LLP

Calverton, Maryland
November 16, 2015

EXHIBIT A
Material Weakness

1. Information Technology Security Controls (Repeat Condition)

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. 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 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. Examples of VA improvements in its IT control environment include continued implementation of a Continuous Readiness in Information Security Program to ensure continuous monitoring year-round. As part of the Continuous Readiness in Information Security Program initiative, we noted continued improvements related to reducing the number of individuals with outdated background investigations, improving data center web application security, and ensuring consistent compliance with *United States Government Configuration Baseline* standards. In addition, VA has continued predictive scanning of its networks allowing for the identification of vulnerabilities across field offices. Furthermore, VA has continued the implementation of an IT Governance, Risk and Compliance (GRC) Tool 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. 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. 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 as 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 patches; however, older patches and previously identified vulnerabilities related to configuration weaknesses and outdated system software persist on its networks. Even though VA has made some progress in these areas, more progress must be made to improve deployment of patches, system upgrades, and configuration management to mitigate security vulnerabilities and to implement a centralized process that is consistent across all field offices. In addition, VA continues to operate key financial management systems using outdated technology that hinders mitigation of certain vulnerabilities.

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 at all facilities and 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:

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. For example, we noted large variances in the number of critical and high vulnerabilities across all sites. Furthermore, VA did not have a complete inventory of the devices connected to its networks and thus we could not verify that all of the Department's computers undergo monitoring to ensure they remain securely configured, free of technical vulnerabilities, and adequately patched.
- Key financial management systems use outdated technology that hinders mitigation of certain vulnerabilities.
- VA needs to strengthen its methodologies for monitoring medical devices and ensuring they are properly segregated from other networks.
- Several VA organizations shared the same local network at some medical centers and data centers; however, the systems were not under the common control of the local site. Specifically, some non-Office of Information Technology (OIT) controlled networks had significant critical or high known vulnerabilities that weaken the overall security posture of the local sites.
- VA has not fully documented or approved security baseline deviations against Defense Information Systems Agency's - Security Technical Implementation Guide for various system platforms. In addition, existing security baselines have not been fully reviewed or updated to ensure that computer platforms comply with approved standards.
- Change management policies and procedures for authorizing, testing, and approving system changes were not consistently implemented for networks and mission-critical systems.
- An agency-wide process has not been implemented for identifying and removing unauthorized application software on Agency systems. VA is working on implementing an enterprise wide continuous monitoring solution for unauthorized software.

Access Controls

- Password standards were not consistently implemented and enforced across multiple VA systems, including the network domain, databases, and key financial applications. In addition, multi-factor authentication for remote and local system access had not been fully implemented across the agency.
- Inconsistent reviews of networks and financial application user access resulted in numerous generic, system, terminated, and inactive user accounts that were not removed from the system. In addition, inconsistent exit clearance processes for separated employees contributed to the increase in the number of inactive user accounts.

- Proper completion of user access requests was not consistently performed to eliminate conflicting roles and enforce principles of least system privilege.
- Monitoring of access for individuals with elevated application privileges within a major application's production environment was lacking.
- Identification, notification, and remediation of security incidents were not consistently implemented to ensure incidents were resolved timely. In addition, network security event logs, which provide audit trails, were not consistently maintained or reviewed across all facilities.

Security Management

- Security management documentation including risk assessments, system security plans, and privacy impact assessments were not completed properly and did not reflect the current system environment. In addition, security controls were not effectively monitored and adequately documented, and system assessments and authorizations were not performed in accordance with Federal standards.
- Key financial application system security plans had not been updated to reflect current information security controls in accordance with National Institute of Standards and Technology (NIST) Special Publication 800-53 "*Security and Privacy Controls for Federal Information Systems and Organizations,* Revision 4." This version of the NIST Special Publication was updated on February 19, 2014, with an April 1, 2014, implementation deadline for executive agencies.
- Background reinvestigations were not performed timely and tracked effectively. In addition, personnel were not receiving the proper levels of investigation for their position sensitivity levels.
- Plans of Action and Milestones (POA&Ms) were not completed by their milestone dates and were not updated to reflect changes to milestones. POA&M closures were not supported with adequate documentation. Additionally, POA&Ms did not contain sufficient detail to describe the control weaknesses or the corrective actions taken to close the findings. Furthermore, weaknesses identified, as part of security control assessments were not entered within the GRC Tool in a timely manner and corresponding POA&Ms were not developed timely to track corrective actions or remediation.

Contingency Planning

- Backup tapes were not encrypted prior to sending to offsite storage at selected facilities and data centers.
- Contingency plans did not reflect the current operating environment. Specifically, contingency plans had not been updated to reflect changes in system boundaries, roles and responsibilities, and did not clearly identify alternate processing and storage sites.
- Contingency plans were not tested for the capability to failover to alternate processing sites.

Criteria:

OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources*, states that, "Agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications."

EXHIBIT A
Material Weakness

The Federal Information Security Management Act of 2002 (FISMA), as amended,[1] requires that each agency 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 disjointed financial system architecture has resulted in a lack of common system security controls and inconsistent maintenance of IT mission-critical systems. 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. The continued reorganization of components within VA, such as the centralization of data centers and the shift of control from the medical centers to regional 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.

[1] The Federal Information Security Modernization Act of 2014 - Amends the FISMA Act of 2002 to: (1) reestablish the oversight authority of the Director of the Office of Management and Budget (OMB) with respect to agency information security policies and practices, and (2) set forth authority for the Secretary of Homeland Security (DHS) to administer the implementation of such policies and practices for information systems.

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 vulnerabilities.

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 a process to ensure all VA organizations are included in the vulnerability management program and implement improved mechanisms to continuously identify and remediate security deficiencies on VA's network infrastructure, database platforms, and Web application servers.
2. Strengthen patch and vulnerability management program to address security deficiencies identified during our assessments of VA's database platforms and network infrastructure.
3. Develop and implement a strategic plan to address outdated technology that is no longer supported by the vendor.
4. Strengthen processes and controls to ensure medical devices are appropriately protected from other networks.
5. Consolidate the security responsibilities for non-OIT systems under a common control for each site and ensure vulnerabilities are remediated in a timely manner.
6. Maintain up-to-date, complete, accurate, and readily available baseline configurations and ensure that all baselines are appropriately implemented, tested, and checked for compliance with established VA security standards.
7. Implement improved change control procedures to ensure the consistent testing and approval of system changes for VA financial applications and networks.
8. Fully develop a comprehensive list of approved and unapproved software and implement continuous monitoring processes to identify and prevent the use of unauthorized software on agency devices.
9. Implement improved processes to ensure compliance with VA policy for password and security configuration baselines on domain controls, operating systems, databases, applications, and network devices.
10. Fully implement two-factor authentication for remote and local system access throughout the agency.
11. Implement improved processes for the periodic review of network and financial applications to identify and remove generic and inactive accounts on systems and networks. Recertify that access remains appropriate and is restricted to necessary personnel.
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 exit checklists for separated employees to verify that VA property, including access badges, is returned.
14. Implement access monitoring within production environments for individuals with elevated system privileges.

EXHIBIT A
Material Weakness

15. Strengthen agency-wide incident response procedures to ensure timely notification and resolution of computer security incidents in accordance with VA standards. In addition, continue to develop and document a system of metrics that can objectively measure organizational incident response capabilities, such as timeframes for remediation and closure of security events, with an emphasis on higher risk security-related incidents.
16. Implement a process for monitoring system audit logs for unauthorized or unusual activities. Implement procedures for analyzing audit logs and ensuring such logs are maintained in accordance with VA 6500 policy.
17. Implement an improved continuous monitoring program in accordance with the NIST Risk Management Framework; specifically regarding evaluating the effectiveness of security controls and ensuring systems are authorized to operate prior to connecting to such systems VA networks.
18. Implement improved processes for reviewing and updating key security documentation, including risk assessments, system security plans, and privacy impact assessments on an annual basis. Such updates will ensure all required information is included and accurately reflects the current environment, new security risks, and applicable federal standards.
19. Strengthen processes to ensure appropriate levels of background investigations are completed for all applicable VA employees and contractors in a timely manner.
20. Strengthen processes to ensure local facilities track reinvestigations for employees and contractors in high-risk positions and the Security Investigation Center initiates all reinvestigations in a timely manner. Additionally, implement 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 the Office of Personnel Management Position Designation Automation Tool.
21. Strengthen processes to ensure that POA&Ms include sufficient detail to describe the control weaknesses, corrective actions, target completion dates, and milestone progress. Additionally, implement improved processes to ensure closed POA&Ms are adequately supported with appropriate documentation.
22. Implement improved processes to ensure that all identified weaknesses are incorporated into the GRC Tool timely and corresponding POA&Ms are developed to track corrective actions and remediation.
23. Implement processes to ensure the encryption of backup data prior to transferring storage media offsite.
24. Strengthen processes for periodic reviews and updates of contingency plans to ensure all required information is included and plans accurately represent the current environment and critical components.
25. Implement improved processes for the testing of contingency plans and failover capabilities for financial applications and general support systems to ensure that critical components can be recovered at an alternate site in the event of a system failure or disaster.

2. Procurement, Undelivered Orders and Reconciliations

Background:

VA obligates its budgetary resources when it enters into a binding legal agreement, such as a contract with a third party, or through an estimation process using VA Form 1358, *Obligation or Change in Obligation* (referred to as "1358s" or "miscellaneous obligations"). After the receipt of goods and services or at the end of the agreement period, any previously obligated but undisbursed amounts, also known as undelivered orders (UDOs), should be de-obligated, enabling the unused funds to potentially become available for other agency program needs. When the unneeded obligations continue to remain on VA's books, they are considered to be inactive and invalid obligations.

Condition:

VA had weaknesses in the design and implementation of controls over procurement processes related to VA's financial reporting, from transaction inception to liquidation of unused obligations. The key elements of the control deficiencies are as follows:

A. <u>Pervasive and Long Standing Procurement Related Issues Affecting Financial Reporting</u>

We observed instances of the following across VHA from our sample testing that affect the accuracy of financial reporting:

- *Untimely liquidation of inactive UDOs* – Delays ranged from nine months to four years and six months.
- *Untimely recording of contracts or modifications into the general ledger system (FMS)* – Delays ranged from approximately one month to over four months.
- *Recording of obligations prior to contract execution* – Obligations were recorded in FMS up to approximately eight months prior to execution of the contract amendments.
- *Over-obligation of funds* – Recorded obligations exceeded the contract or purchase order amounts.
- *Lack of support for 1358 obligations* – Amounts obligated using 1358s were not supported.
- *Proper procurement procedures were not followed in obtaining goods or services* – We noted a variety of exceptions.
- *Obligations were recorded months or years after receiving goods or services* – In addition, the subsequent contract ratification caused further delay in payment to the vendors ranging from several weeks up to two years.

B. <u>Lack of Control Surrounding the Extensive Use of 1358s</u>

As previously reported by the Government Accountability Office (GAO), VA has used 1358s for over 60 years and utilizes them for the procurement of goods and services extensively. As of September 30, 2015, VA's use of 1358s exceeded $10 billion. VA allows 23 different categories of use, and they are integral to the operation of some large VA programs. In some cases, 1358s bypass conventional contracting controls by design in order to support program circumstances or needs. However, we noted several weaknesses in the extensive use of 1358s. Frequently, these obligations in VA's general ledger were based on estimates that were difficult or not possible to trace to the underlying transactions or were not based on a consistent estimation process. They were used when contracts and interagency agreements would have provided stronger internal control through the oversight of contracting officers. Further, 1358 transactions were not closely monitored and validated by management to ensure obligations incurred and accrued expenses were not overstated. These estimates for 1358s did not follow a consistent methodology, were not monitored for their reasonableness throughout the year and adjusted in a timely manner based on actual spending patterns, and were not reconciled to source documentation or FMS.

C. Reconciliations

VA utilizes the IFCAP system to initiate and authorize requests for goods and services, monitor status of funds, establish obligations, confirm receipt of goods and services, and record vendor payments. In addition, VA also utilizes the Electronic Contract Management System (eCMS) to maintain procurement documentation. As reported in previous years, VA does not perform a complete reconciliation of all outstanding obligations and expenditures between IFCAP, 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.

Criteria:

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. According to 31 U.S.C. 1501 (a), an amount shall be recorded an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person.

Cause:

These conditions were due to a highly decentralized organization accompanied by the lack of effective oversight and monitoring controls, system limitations, policy weaknesses, and lack of adequate training for personnel involved in the financial reporting processes. In addition, communication between business lines and administrative offices within VA did not always take place in a timely manner.

Effect:

Material misstatements of obligations incurred and UDOs may occur and not be detected timely as a result of these control weaknesses.

Recommendations:

We recommend that the VA Interim Assistant Secretary for Management/Interim Chief Financial Officer:

1. In coordination with appropriate program officials, reassess the use of 1358s to:
    - Ensure their use is extremely limited and complies with law, and responsibility for their use is properly delegated to appropriate officials as it is similar to the financial responsibility associated with an executed contract.

- Provide guidance on appropriate estimation methodologies and supporting documentation.

2. Periodically monitor the extent and nature of 1358s used throughout VA and as appropriate, require the automatic liquidation of outstanding 1358 obligations within a reasonable timeframe.

3. Perform monthly reconciliations of obligations and expenditures recorded in IFCAP, eCMS, and FMS for all open documents to ensure the accounting information is valid and proper. Develop a plan to overcome system limitations to the extent possible.

4. Provide training to 1358 preparers on the use of contracts and interagency agreements in place of 1358s.

We recommend that the Under Secretary for Health in coordination with the Principal Executive Director for Office of Acquisition, Logistics, and Construction and Interim Assistant Secretary for Management:

5. Monitor adherence to key controls over the recording of procurement transactions in the financial systems.

6. Monitor all open projects in IFCAP to determine the validity of the outstanding UDOs.

3. Purchased Care Processing and Reconciliations

Background:

VHA purchases medical services for veterans from community health care providers under the Purchased Care Program (also known as the "Non-VA Medical Care Program" and "Care in the Community Program"). Approximately $7.6 billion was budgeted for FY 2015. Additionally, VA hired two contractors in September 2013 – TriWest Healthcare Alliance Corporation (TriWest) and Health Net Federal Services, LLC (Health Net) – to establish the Patient Centered Community Care (PC3) program. Under PC3, these contractors were to establish a network of community providers and coordinate care between veterans and the network. The Contractors pay the providers directly for services and then bill VA at rates agreed-upon per the contracts, plus an administrative fee.

In August 2014, Congress passed the Veterans Access, Choice, and Accountability Act of 2014 (Choice Act), thereby establishing the Veterans Choice Program (Choice). Under Choice, veterans who either live 40 miles or more from the nearest VA medical facility or have clinical waiting period for needed care shorter than VA's wait-time goals, are eligible to receive care. To implement Choice, VA modified the existing PC3 contracts to include requirements imposed by the Choice Act. The primary duties of the Contractors are to maintain a network of Non-VA providers, coordinate with veterans eligible for Choice to schedule appointments with these providers, maintain a call center, and distribute Choice Cards, which inform veterans that they may be eligible for Choice.

Section 106 of the Choice Act transferred authority to pay for non-VA care to VHA's Chief Business Office (CBO). VHA uses the Fee Basis Claims System (FBCS) to authorize, process and pay for purchased care. FBCS was utilized in a decentralized manner in that each Medical Center or Veterans Integrated Service Network (VISN) had its own instance of FBCS.

Conditions:

VHA had weaknesses in its design and implementation of controls over the Purchased Care Program, from transaction authorization to liquidation of unfulfilled authorizations. The key elements of the control deficiencies are as follows:

A. <u>Manual Nature of Transaction Processing for Purchased Care</u>

We noted the following deficiencies with respect to the manual nature of purchased care transactions:

- Purchased care authorizations were manually entered into FBCS upon medical approval in another system, the Veterans Health Information Systems and Technology Architecture (VistA). The lack of transaction interface and integration between VistA and FBCS created inefficiency and increased the risk for error.
- Costs for purchased care authorizations were manually estimated and entered into FBCS, leading to inconsistencies in the application of estimation methodologies. The Outpatient Cost Estimation Tool resided in each localized FBCS database, allowing for a greater degree of cost deviation and implementation variance among the medical centers.
- Necessary adjustments to initial cost estimates were not performed in a timely manner to ensure greater accuracy in the reporting of budgetary resources status.
- Centralized, consolidated, and consistent monitoring of cost estimate accuracy, transaction recording, and timely liquidation of expired authorizations was not performed.
- A "look-back" analysis to validate the reasonableness of cost estimation was not conducted.
- Additionally, for the Choice program, the process for gathering and compiling veteran appointment and authorization data was provided to VHA by the Contractors via a weekly Excel spreadsheet, which was manually intensive and increased the risk of error. The lists of veterans provided by the Contractors varied from week to week, and the process required to register the veterans based on those lists also relied on manual input, which was inefficient, redundant, and left room for error.

B. <u>Financial Transactions Recorded in FBCS Not Reconciled with FMS</u>

Purchased care authorizations were recorded in FBCS, exceeding $5.3 billion as of September 30, 2015. However, VHA used another redundant and manual process to estimate purchased care related costs in IFCAP, which were then transmitted as obligations to FMS. For the majority of obligations, amounts recorded in VA's general ledger could not be directly tied to individual purchased care authorizations in FBCS. Centralized and complete reconciliations were not performed for amounts recorded in FBCS, IFCAP, and FMS for obligations and disbursements.

C. <u>Contractor Invoice Not Validated Prior to Payment</u>

According to VHA's contracts with TriWest and Health Net, these contractors were to pay non-VA providers directly for services provided to veterans. The contractors then billed VHA for those services, based on contract rates. Evidence of supporting documentation, such as medical records from the non-VA providers, was not required prior to payment to the contractors. VHA received an invoice from the contractors and reimbursed them based on the amounts billed. Contractor invoices were sometimes paid without VHA validating whether the rates, patients receiving services (including those with or without third party insurance), and registration fees were accurate.

D. Inadequate Contractor Oversight when Key Financial Management Controls Were Heavily Relied Upon

VHA placed a high degree of reliance on self-certifications by TriWest and Health Net regarding their adherence to contract terms. VHA did not have procedures in place to verify that the contractors' key processing controls related to services provided to veterans, appointment scheduling, reimbursements, and billing were effectively and efficiently designed and implemented. CBO performed only desk reviews of contractor monthly reports and invoices. As an alternative, contractors were also not required to undergo an independent examination of their controls, such as one performed in accordance with Statement on Standards for Attestation Engagements, No. 16, *Reporting on Controls at a Service Organization*, published by the American Institute of Certified Public Accountants.

Criteria:

Under OMB Circular A-123, *Management's Responsibility for Internal Control*, management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Appendix D of this circular, *Compliance with the Federal Financial Management Improvement Act of 1996*, defines financial reporting objectives to include reliable, timely, and accurate financial information for managing day-to-day operations and reporting on an agency's financial condition, and maintaining internal control over financial reporting. Effective and efficient operations objectives are defined as including the maintaining of cost effective financial operations.

Cause:

The Choice Act required the Veterans Choice Program to be implemented in a relatively short time frame, from passage of the Choice Act in August 2014 to program implementation in November 2014. In addition, all Purchased Care programs were consolidated under CBO in FY 2015 pursuant to the legislation. As such, CBO did not have adequate time to implement efficient and effective procedures, both manual and system, and ensure proper controls were in place. Many of the processes are consequently performed manually by CBO personnel. In addition, the manual processes are exacerbated by system limitations. For example, since each medical center has a separate instance of VistA, a veteran registered in one medical center's VistA does not appear in another's instance, which results in manual re-entry.

CBO had not developed and disseminated standardized and comprehensive policies and procedures for medical centers to follow with respect to purchased care processing, accounting, budgeting, and internal control functions. CBO also did not have adequate policies and procedures for its own monitoring activities. CBOs activities were not integrated with VA and VHA CFO responsibilities under the CFO Act to develop and maintain integrated accounting and financial management systems; oversee recruitment, selection, and training of personnel to carry out agency financial management functions; and direct, manage, and provide policy guidance and oversight of all agency financial management personnel, activities, and operations. The VA CFO and VHA CFO were not actively involved in CBO's implementation of the Purchased Care programs.

Significant system limitations also hindered effective and efficient operations and controls for the Purchased Care programs. For example, FBCS generally does not directly interface with IFCAP and FMS.

Effect:

These conditions could cause balances for obligations, expenses, and UDOs, as reported in the financial statements, to be misstated. CBO also may not be able to adequately asses its budgetary needs for the various Purchased Care programs.

Recommendations:

We recommend that the Under Secretary for Health:

1. Centralize, or at a minimum, integrate all purchased care accounting and financial management functions with the VHA CFO's responsibilities to support good communication, policy development and implementation, and monitoring.

2. Work with the VA CFO and VA Chief Information Officer to ensure that implementation and deployment of the Healthcare Claims Processing System (HCPS), the new system to replace FBCS, eliminates manual entries, enforces consistent cost estimation, and monitors timely liquidation of expired authorizations. Functionality should include:
   - Linkage to the veterans' registration information from the enrollment system via the look-up and import functions to eliminate duplicate manual registration. Such information should also include the veterans' third party insurance information.
   - Cost estimation for the authorization that is based on agreed upon or standard rates by category of care and by geographic location when the initial authorization is issued by VA.
   - Ability for non-VA providers' feedback for recommended care and procedures to be performed on the veteran and VA's approval or rejection for the recommended care upon review.
   - Controls to ensure adjustment of the authorization when needed.
   - Notification by non-VA providers of appointment fulfilment and actual procedures performed to update the costs for the purchased care.
   - Drop down menu for how long the authorization is good and automatic liquidation of authorization the day after it expires.
   - Two way interface with FMS from the inception of the purchased care authorization to payment processing and support for monthly centralized, consolidated, complete, and timely obligation and disbursement reconciliations between FMS and HCPS, once implemented.

3. Until HCPS is fully implemented, develop policies and procedures to ensure authorization estimates are based on contractual rates and consistently applied, expired authorization estimates are liquidated from both FBCS and IFCAP, claims submitted by TriWest and Health Net are approved for payment based on agreed-upon rates, and that transaction level details in FBCS, IFCAP, and FMS are reconciled monthly.

4. Perform periodic look-back analyses on cost estimates and obligation balances to ensure accuracy of financial reporting and to maximize budgetary resources.

5. Implement mandatory training for VHA staff involved in the Purchased Care programs to efficiently standardize the programmatic and accounting procedures.

6. Require that Health Net and TriWest undergo an independent examination of their processing controls. In the meantime, CBO should implement its own monitoring controls to avoid over-reliance on contractor-provided data.

7. Develop and implement controls to ensure payments to TriWest and Health Net are made in accordance with applicable laws and contract provisions, and in a timely manner to the non-VA providers in order to ensure veterans receive the necessary quality of care.

8. Obtain the tools necessary to perform comprehensive audits over Purchased Care claims for accuracy and share results with all relevant parties.

4. Financial Reporting

Condition:

The FMS is VA's legacy core financial management and general ledger system. Due to FMS' limited functionality to meet 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 reporting. However, this process still requires significant manual intervention and workarounds to ensure accurate financial reporting. These limitations increase the risk of errors in the financial reporting process and become more apparent over time as additional reporting requirements accrue. Although VA has been working diligently to identify root causes and has made necessary improvements to address the various financial reporting, business process, and FMS limitation issues in FY 2015, more improvement is needed. Through FY 2015, VA's financial reporting issues continued to exist in the following areas:

A. <u>Over Reliance and Use of Journal Vouchers:</u>

VA makes a substantial number of adjustments, called journal vouchers (JVs), to its accounts in order to prepare VA's financial statements. Most of these adjustments are due to FMS limitations and are "top-side" entries into MinX. Top-side entries are those entries that VA makes directly into MinX when consolidating and preparing VA's financial statements. These entries do not flow through VA's general or subsidiary ledgers and are not subject to normal financial system controls. Although legitimate reasons exist for top-side entries, their overuse is indicative of system or control problems.

The substantial use of top-side entries in MinX, in particular by the VBA, which recorded approximately 70 percent of the overall JVs' absolute value, creates a complicated and labor-intensive financial reporting environment. For example, each accounting period in MinX is independent, which requires that numerous JVs, manual reconciliations, and analyses be reperformed and reentered to produce VA's quarterly financial statements and trial balances for the U.S. Department of the Treasury (Treasury). Additionally, JVs were often posted with limited descriptions and supporting documentation. We also noted that VA administrations and business lines did not use JV categories and entry descriptions consistently. JVs were used primarily for the following reasons:

- To fix inaccuracies in the budgetary accounts due to limitations in the FMS Budget Execution Module and to properly reflect balances in the SF-133, *Report On Budget Execution And Budgetary Resources*.
- To correct errors made in FMS and to clear identified abnormal balances that had remained uncorrected and unresolved for years.
- To adjust for Federal/Non-Federal and trading partner reclassifications.

Use of manual adjustments such as top-side entries increases the risk of introducing errors into financial reporting and requires a high level of review and analysis to mitigate the risk of material errors in the financial statements.

B. Inadequate Flux Analyses for Financial Reporting

A key control in the financial reporting process is the quarterly review of financial statements to identify trends and fluctuations in financial statement balances using analytical procedures. Analytical procedures validate the relationship among accounts and financial statement line items, as well as verify management's expectations. VA's internal controls over financial reporting require a quarterly analysis of the financial statements by each of the CFO at the Administration levels, as well as an overall VA consolidated level analysis to be performed by the central office. Even though the VA CFO issued guidance and provided training in FY 2015 to Administration staff on preparing and properly documenting explanations for variances, continued improvement is needed. Throughout FY 2015, numerous gaps were identified in the analytical process as follows:

- Appropriate comparative analysis over accounts in the financial statements was still lacking. There were no management documented expectations as to anticipated account performance at either the consolidated level or business line level that could then be compared to actual results in the financial statements.
- Management provided an incomplete financial statement analysis and did not have a centralized process to perform a quality control review to ensure that the analysis provided by its various administrations was reasonable and validated.
- Amounts at the business line level fluctuation analysis did not tie back to the consolidated and consolidating financial statements.
- Explanations provided by the business lines for large variances were inconsistent with the dollar value of the changes. Explanations either exceeded or did not sufficiently cover the amount of the fluctuation by significant amounts. This issue was more prevalent in the VBA analytics.

C. Budgetary to Proprietary Analyses Contained Material Differences

VA instituted a process to perform "Budgetary to Proprietary" analysis by Treasury Fund Symbol to determine and fix out of balance accounts during FY 2015. This analysis compares budgetary accounts with closely related proprietary accounts to ensure consistency and accuracy. The exercise was incomplete as some of the tie points with significant differences were either under review by VBA and VHA, or awaiting response from other business lines. Necessary research to determine what caused those significant differences and resolve them was not completed at September 30, 2015.

D. Significant Abnormal Balances Reported

An abnormal balance is an account balance that shows a debit balance when it should be a credit balance and vice versa. VA sent out a data call request to the administrations with instructions on how to perform the abnormal balance review for the third quarter of FY 2015. The e-mail requested explanations for abnormal balances over $10 million. Significant abnormal balances at the fund level and gaps in the implementation by the administrations were noted. For significant abnormal balances identified at the fund level from the VBA and VHA business lines, no explanations were provided and no research was conducted to promptly resolve those abnormal balances. Many of those balances have remained in the accounts for years.

E. Issues with Intra-governmental Agreements and Reconciliations

VA does not have a centralized repository for all active intra- and inter-agency agreements. As a result,

- Accounts involving intra-governmental transactions, such as the Unobligated Balance Brought Forward, or Spending Authority from Offsetting Collections recorded in the Statement of Budgetary Resources (SBR), were not complete and accurate.
- Management may not be able to properly identify and support intra-governmental transactions and balances with trading partners and may be required to post adjustments to be consistent with trading partner balances. Throughout FY 2015, management recorded significant JVs under the “Adjust to Trading Partner Category” to meet Treasury’s Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting requirements.

In addition, FMS does not have the functionality to meet new GTAS reporting requirements at the time of transaction processing. Currently, high-volume, high dollar JVs are entered into MinX to adjust trading partner and general ledger attributes in order for the VA’s trial balance submission to pass GTAS edits. The JVs recorded by management included categories such as “No Trading Partner,” “IntraVA,” “Unknown,” etc.

VA management has a corrective action plan in place to develop a centralized repository database to house interagency agreements. As of September 30, 2015, the action was not complete to ensure a complete identification, recording, and reconciliation of all intra-governmental transactions.

F. Recording of Prior Year Budgetary Recoveries

VA initially reported approximately $3.6 billion as recoveries of prior year unpaid obligations (recoveries) at September 30, 2015. Many of the transactions reported as recoveries were not true recoveries, but were related to error corrections for valid, existing obligations, such as vendor name changes and reclassification of budget object class codes, vendor codes, accounting strings, etc. No de-obligation of excess funds actually occurred in these instances. In addition, some of the recovery transactions were not recorded in a timely manner with de-obligation delays ranging from 11 months to 1 year and 7 months between the last activity date of the obligation in FMS and the date the recovery transaction was processed.

G. <u>Internal Use Software Costs Not Properly Captured and Capitalized in Accordance with Federal Accounting Standards No. 4 and 10</u>

VA did not properly capitalize project costs for its internal use software in accordance with Statement of Federal Financing Accounting Standard (SFFAS) No. 4, *Managerial Cost Accounting,* and No. 10, *Accounting For Internal Use Software.*

Due to limitations with VA's project management scheduling system, Primavera, management did not properly record its internal labor costs and associated benefits involving VA employees to the Internal Use Software in Development account. SFFAS No. 10 requires the capitalized value of internally developed software to include these costs when incurred during the software development stage. We also noted that Primavera:

- Did not interface with FMS or with VA's Project Management Accountability System (PMAS)
- Required manual data input based on weekly staff time cards, increasing the risk that data might not be complete
- Did not code labor costs by project phase (i.e., Preliminary Design, Development, and Post Implementation/Operational phases)

Further, management did not properly capture associated project contract, hardware, and software costs during FY 2015. Towards year-end, management reclassified approximately $647 million from expense accounts to the Internal Use Software in Development account, which represented a 189 percent increase.

H. <u>Accounting and Reporting of Real Property Transferred from the Navy</u>

VA received a transfer of 624 acres of land in June 2014 from the Department of the Navy, which was not recorded until FY 2015. Of the 624 acres transferred, 282 acres were assigned to VHA and 342 acres to the National Cemetery Administration (NCA). VHA recorded its share of 282 acres of land at the fair market value of $423 million in April 2015. NCA did not record their portion of the land transfer as of June 30, 2015. VA subsequently reversed the recorded value of the entire land transfer down to $1.4 million in September 2015. In addition, VA did not provide significant source documentation for our review until October 2015, such as the original deed and the discounted value of the property in accordance with SFFAS No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment*.

Criteria:

OMB Circular A-123, *Management's Responsibility for Internal Control*, makes management responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

EXHIBIT A
Material Weakness

Cause:

The FMS system limitations 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 for the review and approval of JVs to avoid erroneous JVs from being recorded in FMS. Further, many of the long standing JV recording and financial reporting issues could have been eliminated through increased oversight, monitoring, coordination, and communication by the VA CFO and among various VA groups. Lastly, VBA and VHA did not implement significant portions of the VA CFO's guidance on financial reporting, and the VA CFO did not ensure information provided by the administrations was complete, accurate, and properly validated prior to consolidation.

Effect:

The extensive use of manual JVs and lack of fully developed manual reconciliations, periodic analyses and centralized oversight and monitoring of financial data increased the risk of errors in the financial reporting process.

Recommendations:

We recommend that the Interim Assistant Secretary for Management/Interim Chief Financial Officer:

1. With respect to JVs:
   - Work with VA Administrations and business lines to limit the use of manual JVs to transactions such as quarterly accruals and unusual one-time entries. Standardize journal entry categories throughout VA, establish policies on recording them, and monitor their use quarterly. Eliminate multi-function JVs. Perform a pro forma analysis of the effects of adjusting entries prior to recording them and consult with budget officials for budgetary adjustments.
   - Conduct an analysis of the FMS Budget Execution model to identify gaps in functionality and develop corrective actions.
   - Resolve and clean up legacy data issues in FMS.
   - Update FMS general ledger account titles and descriptions, USSGL attributes and invalid posting combinations; remove invalid or inactive entries; and analyze VBA and VHA interfaces for needed improvements.

2. With respect to flux analysis, budgetary to proprietary analysis, and abnormal balances:
   - Ensure flux analysis at the administrations is performed from period to period for all financial statement line items, not just those identified at the consolidated level. Follow up with the administrations when significant and unusual fluctuations or relationships are not properly supported and explained.
   - Perform account relationship tests at the Treasury Fund Symbol on a quarterly basis to verify that proper relationships exist between budgetary and proprietary accounts, and resolve abnormal account balances.

3. With respect to intra-governmental agreements and reconciliations:
   - Work with the administrations and business lines to complete the inventory of interagency agreements. Perform a review of them to determine whether balances are recorded in FMS accurately. Produce reports on transactions with other Federal

agencies with sufficient detail to link those transactions to relevant interagency agreements to facilitate reconciliations with trading partners.

4. With respect to prior year budgetary recoveries:
   - Perform an assessment to validate the transactions included in the total population of prior year budgetary recoveries, and develop a process to estimate and record any necessary adjusting entries.
5. With respect to Internal Use Software:
   - Work with OIT to develop a complete inventory of all costs to be capitalized. Perform a reconciliation of costs captured in Primavera and FMS to ensure the accuracy of reported balances in FMS.

We recommend that the VBA and VHA CFOs:

6. Work with the VA CFO to identify reasons for JVs and institute the necessary controls and system improvements to eliminate the extensive use of JVs.

7. Ensure the timely review of quarterly financial statements in accordance with the VA CFO's guidance. The analysis should include management's expectations and adequate detailed explanations.

8. Work with their budget and program offices to identify all classes of transactions that require intra-agency agreements, ensure the agreements are up to date, and upload the agreements to the VA's central repository.

EXHIBIT B
Significant Deficiencies

1. Accrued Operating Expenses

Background:

Accrued operating expenses are comprised of two components—invoices received but not yet paid, and goods and services received but not yet invoiced. VA estimates the amount of goods and services received but not yet invoiced using either an automatic calculation by FMS or a manual process. The auto-accrual process uses the transaction's period of performance, the amount obligated, and the amount expended to calculate an accrued amount at the end of the reporting period, which is then subsequently reversed at the beginning of the following month.

Generally, obligations that are expected to have goods or services performed ratably over the life of the contract are flagged in FMS to be auto-accrued. Those types of transactions are defined by management as those with a budget object class code of 2600 or lower. A manual accrual is calculated quarterly for major and minor construction projects, and non-recurring maintenance (NRM) projects, based on amount expended and percentage of completion. This manual entry is necessary as those construction projects are not included in the auto-accrual process. Major construction, minor construction, and NRM projects with an outstanding UDO balance greater than $5 million, $2 million, and $800 thousand, respectively, are evaluated manually for accruals based on their percentage of completion estimated by the on-site engineers at the medical centers.

Condition:

We noted a significant number of exceptions that demonstrated the limitations of the estimation process when the contract monitoring and timely financial data review did not exist:

- FMS automatically calculated an accrual when no goods or services were provided at period end. FMS accrued the entire outstanding balance of an obligation when the end date for the contractual performance period had passed. However, without manual review and adjustment, this accrual occurred even if performance was not complete or if the obligated funds were no longer needed. Although the automatic process helped mitigate the risk of accruing too little, it also increased the risk of accruing too much when VA did not monitor actual performance under contracts and adjust FMS accordingly. We noted that existing outstanding accruals expected to be liquidated were not sufficiently monitored.
- We noted many instances where outstanding accruals remained in FMS from prior years, but were not reversed at the beginning of the fiscal year.

VHA did not have a formalized and comprehensive process to subsequently validate the reasonableness of its accrual estimates by using actual payment data from FMS. It only performed limited look-back analysis for minor programs. Management did not have an effective process to reasonably assess the liabilities owed at the end of the reporting period.

Criteria:

SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, states, "When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of goods. If invoices for these goods are not available when the financial statements are prepared, the amounts owed should be estimated."

Cause:

VA does not have an effective validation process for the accrued expenses balance, including a look-back analysis.

Effect:

Without an effective process, VA's estimates of its accrued expense liability and related expense and budgetary accounts could be significantly misstated.

Recommendations:

We recommend that the Interim Assistant Secretary for Management/Interim Chief Financial Officer:

1. Develop procedures for validating the completeness and accuracy of the accrual estimate, including review of contract performance periods, an analysis of subsequent payments, and acceptable levels of precision. Such validation should be performed for all program elements with transactions subject to accrual and over a few years to show a trend of the estimates. Unusual fluctuations, if any, should be investigated and research conclusions documented by management. Work with contracting personnel to help align the methodology to actual spending patterns.

2. Continue to reevaluate the automatic accrual methodology against actual cost patterns. Refine the accrual methodology to closely align with the actual spending patterns when warranted.

We recommend that the Under Secretary for Health in coordination with the Interim Assistant Secretary for Management/Interim Chief Financial Officer:

3. Strengthen controls to ensure an accrual is properly recorded to account for the goods or services received. Accruals should be recorded when services are received, regardless of when they are paid for. Conversely, a system-generated accrual should not be executed if no work is being performed on a project. In addition, management should continue to evaluate the accrual flag system methodology, as well as the accuracy of the manual accruals, based on the actual cost patterns to ensure that the resulting accruals are materially consistent with actual costs incurred.

2. CFO Organizational Structure for VHA and VA

Background:

The Chief Financial Officers Act of 1990 (CFO Act) requires each executive department to have a CFO to support more effective general and financial management practices. Each CFO is to report directly to the head of the agency and is responsible for key financial activities within the department, including:

- Overseeing all financial management activities relating to the programs and operations of the agency;

- Developing and maintaining an integrated agency accounting and financial management system, including financial reporting and internal controls; and
- Directing, managing, and providing policy guidance and oversight of agency financial management personnel, activities, and operations.

Condition:

Although the CFO Act does not require a particular organizational structure, we observed that VA has a decentralized and fragmented financial management and reporting structure that does not operate in a fully integrated manner. In such an environment, necessary communication, coordination, and accountability across internal organizational boundaries can be more difficult to achieve and increase the risk of gaps in internal control over financial reporting.

We observed the following fragmentation of financial management responsibilities and accountability within VA that has led to control weaknesses or increased the risk of such gaps.

A. <u>Fragmentation within VHA</u>

VHA's financial management structure is extremely fragmented with financial personnel reporting up various chains of authority, with only one comparatively small group reporting to the VHA CFO. Overall, VHA's financial management functions are currently managed by three groups – the VHA CFO, the CBO CFO, and the 21 VISN CFOs. VHA does not have one CFO with overall authority to direct or coordinate VHA's financial management activities. Instead, each organization has separate responsibilities and management reporting lines that finally converge with the Principal Deputy Under Secretary for Health.

In particular, the VHA CFO has primary responsibility for the oversight of VHA's budget formulation and execution, accounting policies, financial statements and other duties, but not for financial operations. Instead, CBO CFO is responsible for the financial management of the Purchased Care program, and VISN CFOs oversee the activities of medical center CFOs. This division of responsibilities, as operating within VHA, results in a fragmented structure where communication and monitoring controls are affected. For example, the VHA CFO did not have knowledge or information related to Purchased Care business processes or financial management controls developed and implemented by CBO. Such "stovepiping" is not consistent with the CFO Act. Further, correcting the two material weaknesses directly attributable to VHA will require more coordination and more centralized monitoring of financial management functions among the different CFO organizations, which the current structure makes more difficult to achieve.

B. <u>VA CFO Roles and Responsibilities</u>

The Assistant Secretary for Management is VA's statutory CFO, as required under the CFO Act, and heads VA's Office of Management (OM). OM is responsible for providing leadership for the Department's budget, financial management, capital asset management, and business oversight functions.

Similar to other Federal agencies, VA has major business components, such as VHA, VBA, and NCA, which perform key business and financial management operations. Those components have CFOs to manage their day to day accounting and financial management functions. These CFOs have reporting lines of authority to the heads of their components, not to the VA CFO. As such, accounting and financial management polices established by the VA CFO were left to the component CFOs for their implementation, which was not always consistent.

Criteria:

The CFO Act identifies the responsibilities of an agency's CFO with respect to financial management, including internal control. GAO's *Standards for Internal Control in the Federal Government* identifies the importance of clear assignments of responsibility, accountability mechanisms, communication lines, and monitoring.

Cause:

VA and VHA have historically been decentralized organizations. As funding for VHA continues to increase and as a result of the Choice Act, CBO has received more budget execution and financial management monitoring responsibilities, which has allowed it to become a financial management authority separate from the VHA CFO.

Effect:

The lack of consolidated financial management authority within VHA can lead to communication and coordination difficulties, duplication of efforts, inefficiencies, and inconsistencies in how financial management policies are executed and monitored. This could also lead to internal control deficiencies, which in turn could cause errors in the financial statement balances. Similarly, the current accountability structure for VA financial management as a whole can lead to inconsistent implementation of policy, ineffective processes, and uncorrected internal control weaknesses.

Recommendations:

We recommend that the VA Secretary and Deputy Secretary evaluate VA's financial management structure to ensure clear assignments of responsibility, strong accountability mechanisms, effective communication lines, and appropriate monitoring with respect to internal control over VA's financial management, and to ensure the fulfillment of the VA CFO's responsibilities under the CFO Act.

EXHIBIT C
Compliance Findings

1. FFMIA

Financial Management Systems

VA's complex, disjointed, and legacy financial management system architecture has continued to deteriorate and no long 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.

A. Federal Financial Management System Requirements

VA's core accounting system, FMS, was implemented in the 1990s. Since that time, Federal financial reporting requirements have become more complicated and the level of financial information needed 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 Reporting." Due to these limitations, VA utilizes 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 by operational and security vulnerabilities as VA continues to operate FMS on a database that is no longer supported by the vendor.

In addition, the following subsidiary systems are not interfaced with FMS. Complete and consolidated reconciliations between FMS and these subsidiary systems were not performed throughout FY 2015:

- *Veterans Integrated Systems 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. Because the commitment accounting module was not activated during the implementation of FMS, obligations in FMS are recorded based on approved purchase requisitions or Miscellaneous Obligating Documents (1358s) from IFCAP instead of valid contracts or purchase orders. 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 the eCMS.

- *Fee Basis Claims System (FBCS)*. FBCS is used to manage the authorization and payment processes for VHA's purchased care program. FBCS sits "on top" of VistA and is run in a decentralized manner similar to VistA. Transactions initiated in FBCS were not completely reconciled to those in IFCAP and in FMS.

- 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 $25 thousand must be 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 implemented a standard procurement file structure in eCMS to maintain acquisition documentation in a consistent and efficient manner. It is often left to the preference of individual contracting officers, and 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.

B. <u>USSGL at the Transaction Level</u>

FMS did not substantially comply with the USSGL at the transaction level for the following:

- Configuration setup issues caused an incorrect year-end account close that required JVs to adjust the beginning balances by over $500 billion (absolute value).

- Budgetary execution transaction code and interface issues resulted in incorrect data in accounts that have long remained unresolved in FMS. Significant JVs were needed to correct the balances. During our review of JVs, we noted that VA adjusted budgetary account balances based on proprietary account balances.

- FMS lacked functionality to meet GTAS reporting requirements. We noted that VA was unable to record certain intragovernmental transactions in accordance with USSGL attributes at the individual transaction level. This situation also created the need for VA to record significant JVs. FMS also lacks the appropriate edit checks to ensure the proper posting of intragovernmental transactions. As a result, VA recorded over $100 billion (absolute value) in trading partner-related adjustments as part of its GTAS submission to the Treasury.

2. Federal Managers' Financial Integrity Act

Improvement is needed with respect to the process for preparing the Secretary's signed statements of assurance on internal control that are required by the FMFIA and OMB Circular A-123, *Management's Responsibility for Internal Control*. These assurances are summarized by OMB Circular A-136, *Financial Reporting Requirements*, according to the following categories:

- Effectiveness of internal control over operations (FMFIA § 2)
- Conformance with financial management system requirements (FMFIA § 4)
- Effectiveness of internal control over financial reporting (FMFIA § 2, Appendix A)

We noted the following areas in need of improvement in order to fully comply with the intent of FMFIA:

A. <u>Supporting Documentation Not Available for Self-Certifications</u>

VA relies on self-certifications from its component and business line managers to prepare the Secretary's assurance statement on the effectiveness of internal control over operations and conformance with financial management system requirements (FMFIA § 2 & 4). Most of the responses provided by line managers did not identify internal control issues. Supporting documentation was not available to validate many of these self-certifications. VA has not fully implemented a process to monitor or validate the support behind these self-certifications.

B. <u>VA Business Lines Should Perform their Own Internal Reviews to Support Assurance Statement</u>

When business lines reported internal control deficiencies (FMFIA § 2 & 4), many were based on findings identified by the Office of Inspector General or other independent auditors. The various administrations and business lines did not perform their own entity-wide assessment of internal control in a complete manner that corresponded to their program, operation and management risks.

C. <u>Improvements Needed to Support Assurance Statement on Financial Reporting</u>

OMB Circular A-123, Appendix A, requires VA to take additional steps to support the assertion on the effectiveness of internal control over financial reporting. We noted the following exceptions:

- <u>Internal Control Testing</u>
    - Management tested controls on a four-year cycle, or not at all for those rated as low risk. According to the implementation guide for OMB Circular A-123, Appendix A, (Implementation Guide) prepared by the Chief Financial Officers Council and posted on OMB's website, tests of internal control should be performed, at a minimum, every three years when the risk is low, controls are stable, and there are no deficiencies.

- Management did not apply a "life cycle" approach to the testing of transactions within a business cycle; i.e., tracing a transaction for a particular business process from initiation through reporting in the financial statements. Instead, selected attributes within a transaction cycle were tested, resulting in incomplete control assessments for business cycles relevant to the financial statements.
- Management did not use materiality thresholds to determine an exception's dollar impact on financial statements or consider whether a material weakness existed.

We note that VA's testing program did not report the material differences and the related material weaknesses that we identified from our testing.

- Coordination of Internal Control Reviews: VA's Senior Assessment Team (SAT) is responsible for oversight of VA's internal control over financial reporting, including an annual assessment supporting the required assurance statement. Under the SAT charter, the Internal Control Service (ICS) within OM is responsible for the assessment of internal control over financial reporting. However, current practice is for OALC and the OIT to separately perform their own internal control reviews. Active oversight of the OALC and OIT reviews or their coordination with ICS by the SAT to ensure proper coverage of all areas falling under OMB Circular A-123, Appendix A was not implemented.

- Business Process Documentation: According to the Implementation Guide, management should document key financial reporting processes and controls. VA does this through process narratives. We observed that several narratives were not updated in a timely manner to reflect actual operations, or they contained errors. In addition, some process narratives did not focus on key controls or missed the opportunity to discuss gaps in the design of controls. For example, the financial reporting narrative did not mention the inherent limitations existing in FMS that resulted in significant JVs to enable proper financial reporting of budgetary accounts.

3. 38 USC 5315

Consistent with previous years, our testing of a sample of receivables from debtors continued to note the following exceptions:

- In a sample of compensation and pension receivables, 22 of the 45 items tested were outstanding over 90 days. VBA did not charge interest on any of the delinquent receivables.
- In a sample of 45 education receivables, 41 of the 45 items tested were outstanding over 90 days. VBA did not charge interest or administrative costs on these 41 delinquent receivables.

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*. Additional Government-wide procedures for charging interest and administrative costs are specified in 31 USC 3717, *Interest and penalty on claims*, but as to VA, those provisions are largely superseded by 38 U.S.C. 5315. VA's policy to not charge interest has been long-standing and is based on a former VA Deputy Secretary's July 1992 instruction.

With regards to education receivables, the failure to charge interest and administrative costs occurred when these types of receivables were assigned to the Debt Management Center (DMC) for processing. The DMC technicians did not have the capability to apply the interest charge in the system.

As a result of the directive and DMC system limitations, VA is noncompliant with 38 USC 5315.

Other Matters

4. Actual and Potential Violations of the Antideficiency Act

VA is engaged in investigating three possible violations of the Antideficiency Act, 31 U.S.C. 1341(a), and is in the process of reporting two other violations. Two of the investigations involve the combination of minor construction projects. The combined total project values exceeded the $10 million ceiling, beyond which Congressional approval for use of funds is required. Another investigation involves obligation of a contract in the wrong fund. Two of the violations in the process of being reported also involve the combination of minor construction projects.

5. Improper Payments Elimination and Recovery Act

On May 14, 2015, the VA Office of Inspector General reported that VA did not fully comply in FY 2014 with the Improper Payments Elimination and Recovery Act, 31 U.S.C. 3321. (VA Office of Inspector General report, *FY 2014 Review of VA's Compliance with the Improper Payments Elimination and Recovery Act*, Report No. 14-03380-356.)

EXHIBIT D
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 2014 Finding***	***Fiscal Year 2015 Status***
Material Weakness	Information Technology Security Controls	Repeat – See FY 2015 Material Weakness Finding 1
Significant Deficiency	Financial Reporting	Repeat – See FY 2015 Material Weakness Finding 4
Significant Deficiency	Accrued Operating Expenses	Repeat – See FY 2015 Significant Deficiency Finding 1
Compliance Finding	Noncompliance with FFMIA	Repeat – See Compliance Finding 1
Compliance Finding	Noncompliance with the Debt Collection Improvement Act	Repeat – See Compliance Finding 3

Management's Response to Auditor's Report

Department of
Veterans Affairs

Memorandum

Date:

From: Interim Assistant Secretary for Management and Interim Chief Financial Officer (004)

Subj: Report of the Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2015 and 2014

To: Assistant Inspector General for Auditing (52)

1. The Office of Management has reviewed the Report of the Audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements for Fiscal Years (FY) 2015 and 2014 and we are pleased with the receipt of an unmodified opinion. We are also pleased that we met the 2015 reporting timeline established by the Office of Management and Budget. 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. Thank you again for your efforts in another successful conclusion of the audit cycle.

Edward J. Murray

Required Supplementary Stewardship Information (Unaudited)

(dollars in millions, unless otherwise noted)

1. 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.

Grant Program Costs										
Years Ended September 30,		**2015**		**2014**		**2013**		**2012**		**2011**
State Extended Care Facilities	$	105	$	92	$	180	$	66	$	54
Veterans Cemeteries (NCA)		47		52		36		47		44
Total Grant Program Costs	$	152	$	144	$	216	$	113	$	98

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. 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. Over the last five fiscal years, the State Home Construction Grant Program has awarded grants in excess of $500 million. VA also provides per diem payment for the care of eligible Veterans in state homes.

Since, the cemetery program was established in 1980, it helped establish, expand, improve, operate and maintain 95 Veterans cemeteries in 47 states and territories including Tribal trust lands, Northern Mariana Islands, and Guam, which provided more than 35,000 burials in 2015. VA awarded grants totaling more than $664 million. State or Tribal organizations provide the land and agree to operate the cemeteries.

2. Human Capital

Investment in human capital is comprised of expenses for education and training programs for eligible Servicemembers, Veterans, and family members, and are intended to increase or maintain national economic productive capacity. It does not include expenses for internal Federal education and training of civilian employees.

Veterans and Dependents Education

Years Ended September 30,		2015		2014
Program Expenses				
Education and Training-Dependents of Veterans	$	493	$	518
Vocational Rehabilitation and Education Assistance		13,543		14,206
Administrative Program Costs		512		502
Total Program Expenses	$	14,548	$	15,226
Program Outputs (Participants)				
Dependent Education		91,755		90,641
Veterans Rehabilitation		86,928		93,363
Veterans Education		922,497		970,765

Veterans and Dependents Education

Years Ended September 30,		2013		2012
Program Expenses				
Education and Training-Dependents of Veterans	$	487	$	444
Vocational Rehabilitation and Education Assistance		12,693		11,727
Administrative Program Costs		372		389
Total Program Expenses	$	13,552	$	12,560
Program Outputs (Participants)				
Dependent Education		89,618		94,618
Veterans Rehabilitation		89,708		85,436
Veterans Education		971,597		871,188

Veterans and Dependents Education

Years Ended September 30,		2011
Program Expenses		
Education and Training-Dependents of Veterans	$	567
Vocational Rehabilitation and Education Assistance		11,259
Administrative Program Costs		370
Total Program Expenses	$	12,196
Program Outputs (Participants)		
Dependent Education		96,078
Veterans Rehabilitation		81,097
Veterans Education		822,808

Program Outcomes

VA's education and training programs are intended to provide higher education to dependents that might not be able to participate otherwise. The rehabilitation and employment programs are provided to service-disabled Veterans, and are designed to improve employability and promote independence for the disabled. Educational programs for active duty personnel, reservists, and Veterans provide higher education assistance to those who are eligible under the new Post-9/11 GI Bill, MGIB and the Veterans Educational Assistance Program. Education and training assistance is provided to dependents of Veterans who died of a service-connected disability or whose service-connected disability was rated permanent and total. The Vocational Rehabilitation and Employment program provides evaluation services, counseling, and training necessary to assist Veterans in becoming employable and maintaining employment to the extent possible. The program is open to Veterans who have a 10 percent or greater service-connected disability rating and are found to have a serious employment handicap. The Veterans Education program provides educational assistance to eligible Servicemembers and Veterans, and eligible family members.

3. Health Professions Education

Health Professions Education					
Years Ended September 30,					
	2015	**2014**	**2013**	**2012**	**2011**
Program Expenses					
Physician Residents and Fellows	$ 689	$ 748	$ 692	$ 663	$ 637
Associated Health Residents and Students	168	157	164	153	114
Instructional and Administrative Support	851	905	856	851	819
Total Program Expenses	$ 1,708	$ 1,810	$ 1,712	$ 1,667	$ 1,570
Program Outputs					
Health Professions Rotating Through VA:					
Physician Residents and Fellows	41,534	40,420	38,106	37,104	36,984
Medical Students	22,931	21,541	20,218	21,502	20,516
Nursing Students	27,275	29,067	25,948	32,349	25,931
Associated Health Residents and Students	28,663	27,771	33,228	25,839	31,869
Total Program Outcomes	120,403	118,799	117,500	116,794	115,300

Program Outcomes

Title 38 U.S.C. mandates that VA assist 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 health care 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 who provide clinical care; and the recruitment of highly qualified health care professionals.

4. Research and Development (R&D)

Investments in research and development comprise those expenses for basic research, applied research, and development that are intended to increase or maintain national economic productive capacity or yield other benefits. In October 2015, the Research and Development program was decremented $20.2 million as its share of the bill for the construction of the Denver Replacement Medical Center. That decrement was applied proportionally among the programs.

Program Expense
Year Ended September 30, 2015

	Basic	Applied	Development	Total
Medical Research Service	$ 195.1	$ -	$ -	$ 195.1
Rehabilitative Research and Development	-	88.3	15.6	103.9
Health Services Research and Development	-	99.0	-	99.0
Cooperative Studies Research Service	-	170.3	-	170.3
Medical Research Support	172.0	315.3	13.7	501.0
Total Program Expenses	$ 367.1	$ 672.9	$ 29.3	$ 1,069.3

Program Expense
Year Ended September 30, 2014

	Basic	Applied	Development	Total
Medical Research Service	$ 218.6	$ 102.4	$ -	$ 321.0
Rehabilitative Research and Development	8.0	59.3	36.7	104.0
Health Services Research and Development	-	90.1	-	90.1
Cooperative Studies Research Service	18.8	66.3	-	85.1
Medical Research Support	-	586.0	-	586.0
Total Program Expenses	$ 245.4	$ 904.1	$ 36.7	$ 1,186.2

Program Expense
Year Ended September 30, 2013

	Basic	Applied	Development	Total
Medical Research Service	$ 192.0	$ 90.0	$ -	$ 282.0
Rehabilitative Research and Development	7.0	52.0	36.3	95.3
Health Services Research and Development	-	90.0	-	90.0

Program Expense
Year Ended September 30, 2013

	Basic	Applied	Development	Total
Cooperative Studies Research Service	40.6	75.0	-	115.6
Medical Research Support	-	581.9	-	581.9
Total Program Expenses	$ 239.6	$ 888.9	$ 36.3	$ 1,164.8

Program Expense
Year Ended September 30, 2012

	Basic	Applied	Development	Total
Medical Research Service	$ 191.0	$ 92.0	$ -	$ 283.0
Rehabilitative Research and Development	6.7	52.0	36.6	95.3
Health Services Research and Development	-	88.6	-	88.6
Cooperative Studies Research Service	40.4	75.2	-	115.6
Medical Research Support	-	581.0	-	581.0
Total Program Expenses	$ 238.1	$ 888.8	$ 36.6	$ 1,163.5

Program Expense
Year Ended September 30, 2011

	Basic	Applied	Development	Total
Medical Research Service	$ 166.1	$ 80.0	$ -	$ 246.1
Rehabilitative Research and Development	8.7	68.6	47.4	124.7
Health Services Research and Development	-	85.3	-	85.3
Cooperative Studies Research Service	43.2	80.3	-	123.5
Medical Research Support	-	579.8	-	579.8
Total Program Expenses	$ 218.0	$ 894.0	$ 47.4	$ 1,159.4

In addition, VHA researchers received grants from the National Institutes of Health in the amount of $386 million in 2015. During this same period, grants totaling $233 million came from other organizations. The grants received went directly to researchers and are not considered part of the VA entity. They are being disclosed here but are not accounted for in the financial statements.

Program Outcomes

For 2015, VA's R&D general goal related to stewardship was to ensure that Pre-clinical Research and Clinical Research Programs (excluding Cooperative Studies Program (CSP) met the needs of the Veteran population and contributed to the Nation's knowledge about disease and disability. Target levels were established for the: (1) percent of funded research projects relevant to VA's health-care mission in designated research areas and (2) number of research and development projects. Strategies were developed in order to ensure that performance targets would be achieved.

Research and Development Measures-Actual					
Years Ended September 30,					
	2015	2014	2013	2012	2011
Percent of Funded Research Projects Relevant to VA's Health-Care Mission	100.0%	100.0%	100.0%	100.0%	100.0%
Number of Research and Development Projects	2,224	2,184	2,241	2,249	2,200

VA's Pre-clinical Research and Clinical Research Program's (excluding CSP) goal is to be the premier research organization, leading our Nation's efforts to discover knowledge and create innovations that promote and advance the health and care of Veterans and the Nation. To achieve this goal, VA targets research projects that address special needs of Veteran patients and balance research resources among basic and applied research to ensure a complementary role between the discovery of new knowledge and the application of these discoveries to medical practice.

Required Supplementary Information (Unaudited)

(dollars in millions, unless otherwise noted)

1. 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, 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 which expand the capacity of an asset or otherwise upgrade it to serve needs different from, or significantly greater than, its current use.

In April 2012, FASAB issued SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standard 6, 14, 29 and 32,* which is effective for periods beginning after September 30, 2014. The standard required expanded qualitative and quantitative disclosure of deferred maintenance and repairs.

Management determines the level of service and condition that is acceptable to carry out VA's mission, which may vary by VA components which include VHA, VBA, NCA, and Indirect Administrative Program Costs. It is VA 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 property, plant and equipment based on generally accepted methods and standards 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 every VA building on a 3-year cycle, assessing all components. Each property, plant, and 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 to the consolidated financial statements for additional information on general PP&E and heritage assets.

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 increasing portfolio of owned space, and (3) expanded scope of FCA survey requirements significantly increase cost estimates when sites are reevaluated.

Deferred Maintenance and Repairs		
as of September 30, 2015	**Ending Balance**	**Beginning Balance**
General PP&E	$ 9,166	$ 8,477
Heritage Assets	883	672
Total Deferred Maintenance and Repairs	$ 10,049	$ 9,149

2. Schedule of Budgetary Activity Year Ended September 30, 2015

	Total Budgetary Resources	Obligations Incurred	Spending Authority from Offsetting Collections and Adjustments	Obligated Balance Net, Oct. 1	Obligated Balance Net, Sept. 30	Total Outlays
Veterans Health Administration						
0152 Medical Admin	$ 6,413	$ 5,817	$ 344	$ 1,135	$ 790	$ 5,818
0160 Medical Care	54,192	48,970	1,823	8,582	5,383	50,346
0162 Medical Facilities	6,957	5,574	354	2,772	2,927	5,065
0167 Information Technology	4,825	4,146	276	1,894	1,948	3,815
0172 Veterans Choice Fund	10,000	3,499	-	-	2,264	1,235
All Other	6,551	2,960	749	3,409	2,716	2,904
Total	$ 88,938	$ 70,966	$ 3,546	$ 17,792	$ 16,028	$ 69,183
Veterans Benefits Administration						
0102 Compensation, Pension, Burial Benefits	$ 81,857	$ 76,039	$ 310	$ 5,540	$ 6,038	$ 75,231
0137 Readjustment Benefits	16,140	13,820	560	688	713	13,236
0151 General Operating Expenses	3,246	3,118	573	403	346	2,602
4127 Direct Loan Financing	176	82	101	1	-	(18)
4129 Guaranteed Loan Financing	11,524	2,966	4,259	340	316	(1,269)
8132 National Service Life Insurance Fund	955	955	48	1,053	947	1,013
All Other	4,424	2,307	1,119	491	477	1,201
Total	$ 118,322	$ 99,287	$ 6,970	$ 8,516	$ 8,837	$ 91,996
National Cemetery Administration						
Total	$ 329	$ 308	$ 8	$ 165	$ 151	$ 314
Indirect Administrative Program Costs						
0142 General Admin	749	708	393	179	180	314

	Total Budgetary Resources	Obligations Incurred	Spending Authority from Offsetting Collections and Adjustments	Obligated Balance Net, Oct. 1	Obligated Balance Net, Sept. 30	Total Outlays
1122 Board Veterans' Appeals	99	96	-	-	7	89
4537 Supply Fund	1,566	1,403	1,337	(153)	(11)	(76)
All Other	1,053	908	817	143	130	106
Total	$ 3,467	$ 3,115	$ 2,547	$ 169	$ 306	$ 433
Total of all Administrations	$ 211,056	$ 173,676	$ 13,071	$ 26,642	$ 25,322	$ 161,926

Section III. Other Information

Schedule of Spending (Unaudited)

The Combined Schedule of Spending (SOS) presents an overview of how and where VA is obligating and spending money. The data used to populate this schedule is the same underlying data used to populate the SBR. The SOS presents total budgetary resources and year-to- date total obligations incurred for VA.

The budgetary information in this schedule is presented on a combined basis consistent with the account-level information presented in the SF 133, Report on Budget Execution and Budgetary Resources, and the SBR. Consolidation, which involves line by line elimination of inter-entity balances is not permitted for this schedule.

Credit reform financing accounts are material to VA's financial statements; therefore, the budgetary accounts and non-budgetary credit reform accounts are presented separately similar to the presentation in the SBR.

As some of the implementation and reporting details of the SOS are still being developed, OMB has directed the schedule be included in Other Information to permit VA to explore the optimal means of implementation and reporting. VA is interested in public feedback from the users of the financial statements regarding the presentation and classification of the data in the schedule of spending to evaluate the usefulness of the information as presented and possible alternatives to the current presentation, if necessary, to meet VA users' needs.

The SOS is presented in three sections as required for CFO Act agencies. The first section is entitled "What Money is Available to Spend?" This section of the SOS presents total budgetary resources that were available to spend reconciled to obligations incurred as shown in the Status of Budgetary Resources section of the SBR.

The second section is entitled "How was the Money Spent/Issued?" This section of the SOS presents services or items that were purchased and how obligations are incurred or the payment type within each VA administration consistent with the SBR and classified by the OMB Budget Object Class (BOC) as defined in OMB Circular No. A-11. The most significant BOCs and payment types are presented separately within each VA administration with the remaining BOCs presented in aggregate as "Other" within each administration. The "Total Amounts Agreed to be Spent" line item in this section of the schedule reconciles to obligations incurred in the SBR.

The third section is entitled "Who did the Money go to?" and reconciles to obligations incurred in the SBR. This section of the SOS presents obligations incurred as either Federal or Non-Federal obligations within each VA Administration. VA does not have any special lines of business or special trading partners beyond the existing presentation that requires separate disclosure to accurately reflect its business activities.

USAspending.gov prime award financial data for VA contracts, grants and insurance is a subset of the obligations incurred and is reported in VA's financial systems, but is based on and reported when amounts are paid not when obligations are incurred which creates timing and reconciliation requirements between the two sets of data. Additionally, the current USAspending.gov data is not integrated with or maintained in the same financial management and reporting system as the SBR. USAspending.gov does not track or report data by obligations incurred numbers as reported in the SBR and SOS financial management system. VA is currently working on a system solution to cost effectively address timing differences and reconcile the data in both systems to enable it to integrate the current financial reporting and management assurance frameworks, validate the accuracy and completeness of the prime award financial data and provide assurance that internal controls are operating effectively when these new reporting requirements become effective. This process is not meant to supplant existing VA processes currently established that reconcile USAspending.gov prime award data with the SBR or the SF 133.

DEPARTMENT OF VETERANS AFFAIRS
COMBINED SCHEDULE OF SPENDING – UNAUDITED (dollars in millions)
FOR THE YEARS ENDED SEPTEMBER 30,

	2015		2014	
	Budgetary	Non-Budgetary Credit Program	Budgetary	Non-Budgetary Credit Program
What Money is Available to Spend?				
Total Resources	$ 199,137	$ 11,919	$ 187,112	$ 10,450
Less Amount Available but Not Agreed to be Spent	(16,331)	-	(7,305)	-
Less Amount Not Available to be Spent	(12,220)	(8,829)	(19,141)	(7,529)
Total Amounts Agreed to be Spent	**$ 170,586**	**$ 3,090**	**$ 160,666**	**$ 2,921**
How was the Money Spent/Issued?				
Veterans Health Administration				
Personnel Compensation and Benefits	$ 32,731	$ -	$ 30,502	$ -
Other Contractual Services	15,490	-	14,177	-
Supplies and Materials	11,542	-	9,447	-
Land and Structures	2,820	-	2,523	-
Equipment	2,976	-	1,825	-
Rent, Communications and Utilities	2,463	-	2,196	-
Grants, Subsidies and Contributions	1,848	-	1,658	-
Travel and Transportation of Persons	1,095	-	967	-
Other	-	-	67	-
Veterans Benefits Administration (Including Veterans Benefits, Life Insurance, Housing Credit and Administration)				
Insurance Claims and Indemnities*	77,940	511	72,221	937
Grants, Subsidies and Contributions**	14,976	736	15,880	75
Personnel Compensation and Benefits	2,126	-	2,009	-
Other Contractual Services	945	242	779	313
Rent, Communications and Utilities	165	-	155	-
Interest and Dividends	-	42	208	37
Land and Structures	1	1,517	3	1,529
Other	43	42	109	30
National Cemetery Administration				
Personnel Compensation and Benefits	142	-	136	-
Other Contractual Services	72	-	83	-
Grants, Subsidies and Contributions	47	-	51	-
Supplies and Materials	11	-	10	-
Rent, Communications and Utilities	12	-	11	-
Other	24	-	13	-
Indirect Program Administration				
Other Contractual Services	1,003	-	910	-
Personnel Compensation and Benefits	818	-	771	-
Equipment	617	-	902	-
Supplies and Materials	444	-	369	-
Rent, Communications and Utilities	156	-	143	-
Other	79	-	31	-
*Reconciling Adjustment for Prior Year Recoveries****	-	-	2,510	-
Total Amounts Agreed to be Spent	**$ 170,586**	**3,090**	**$ 160,666**	**$ 2,921**

DEPARTMENT OF VETERANS AFFAIRS
COMBINED SCHEDULE OF SPENDING – UNAUDITED (dollars in millions)
FOR THE YEARS ENDED SEPTEMBER 30,

	2015		2014	
	Budgetary	Non-Budgetary Credit Program	Budgetary	Non-Budgetary Credit Program
Where did the Money go to?				
Veterans Health Administration				
Federal	10,238	-	8,450	-
Non-Federal	60,727	-	54,912	-
Veterans Benefits Administration (Including Veterans Benefits, Life Insurance, Housing Credit and Administration)				
Federal	1,749	319	2,908	37
Non-Federal	94,447	2,771	88,454	2,884
National Cemetery Administration				
Federal	51	-	48	-
Non-Federal	257	-	258	-
Indirect Program Administration				
Federal	553	-	542	-
Non-Federal	2,564	-	2,584	-
*Reconciling Adjustment for Prior Year Recoveries****	-	-	2,510	-
Total Amounts Agreed to be Spent	**$ 170,586**	**$ 3,090**	**$ 160,666**	**$ 2,921**

*Primarily Veterans' pension and disability compensation costs, insurance program costs and loan guaranty program losses.
**Primarily Veterans' educational readjustment benefit programs, special adaptive housing costs and loan subsidy and reestimate costs.
***This line reflects VA's estimate of recoveries of prior year unpaid obligations for 2014 totaling $2.5 billion. This adjustment was recorded as an increase in "Recoveries of Prior Year Unpaid Obligations" and an increase in "Obligations Incurred" in the Combined Statement of Budgetary Resources for the year ended September 30, 2014. During 2015, VA implemented a software change in its Financial Management System (FMS) to record prior year recoveries that results in a more accurate report of changes to prior year transactions with no need for reconciling adjustments.

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summary of audit-related or management-identified material weaknesses and the non-compliance with FFMIA and Federal financial management system requirements outlined in the 2015 Annual Financial Report.

Table 1 - Summary of Financial Statement Audit

Audit Opinion	**Unmodified**				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
IT Security Controls	1	0	0	0	1
Financial Reporting	0	1	0	0	1
Procurement, Undelivered Orders and Reconciliations	0	1	0	0	1
Purchased Care Processing and Reconciliations*	0	1	0	0	1
Total Material Weaknesses	**1**	**3**	**0**	**0**	**4**

Table 2 - Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	**Qualified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Reporting	0	1	0	0	0	1
Total Material Weaknesses	**0**	**1**	**0**	**0**	**0**	**1**

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	**Qualified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Procurement, Undelivered Orders and Reconciliations	0	1	0	0	0	1
Purchased Care Processing and Reconciliations*	0	1	0	0	0	1
Total Material Weaknesses	**0**	**2**	**0**	**0**	**0**	**2**

Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	**Systems conform, except for the below non-conformance**					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IT Security Controls	1	0	0	0	0	1
Total Non-Conformances	**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 substantial compliance noted	Lack of substantial compliance noted
2. Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	Lack of substantial compliance noted	Lack of substantial compliance noted

* 'Purchased Care Processing and Reconciliations' is stated on the Secretary's Statement of Assurance as 'Care in the Community'

Improper Payments Elimination and Recovery Act of 2010 (IPERA) Report

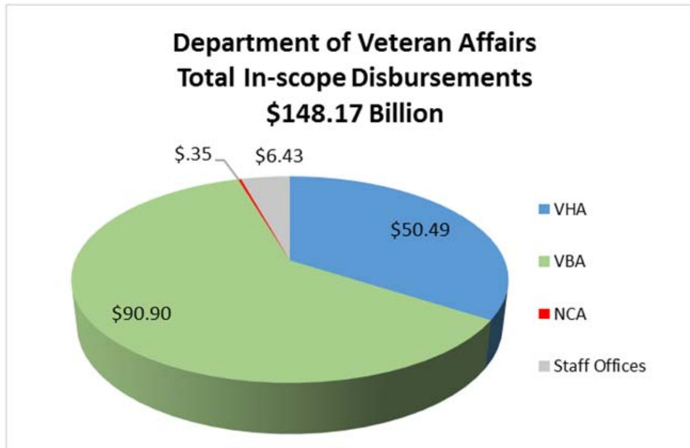
Overview

The reduction of improper payments is a top financial management priority for the Department of Veterans Affairs (VA). The results of this year's IPERA review of improper payments demonstrate that VA is in need of significant improvement over remediating improper payments. In FY 2015, VA established a new office – the Improper Payments Remediation and Oversight (IPRO) Office – whose sole focus is to implement, monitor and report on VA's progress in reducing improper payments. IPRO has a singular focus on reducing improper payments elevating the priority of this important objective in the Department. In addition, VA plans to re-double its focus on root causes, develop and implement the right corrective actions and regularly monitor progress leveraging the Improper Payments Governing Board – a board comprised of senior agency officials that can help drive accountability. However, as VA ensures that its corrective actions address the root causes of improper payments, the Department must do so without impacting Veterans timely access to care.

In a May 2015 report, VA Office of Inspector General's (OIG) application of the definition of improper payments included transactions where purchases did not follow acquisition regulations. Under OIG's application of the definition, VA must classify every payment made that did not follow all Federal Acquisition Regulations and where VA exceeded its regulatory authority as improper. This is a departure from how VA has traditionally reported improper payments related to the care in the community programs. Historically, VA only reported instances of care in the community as improper payments where the wrong party was paid, the wrong amount was paid, a duplicate payment was made, or services were not received. To ensure VA is making every effort to report in compliance with the statute and provide transparency, the Department has decided to apply OIG's definition of improper payments. This decision has resulted in a significant increase in both percentage and amount of improper payments made in two programs that acquire care in the community.

While the increase in the improper payment rate is not ideal under any circumstance, the Department contends that the increase does not represent improper payments where VA has wasted taxpayer money by paying too much for services or paying the wrong parties. The Department is confident that the significant majority of dollars associated with the improper payment increase in these two programs was spent to provide Veterans access to health care. While VA recognizes that our long-standing practice with care in the community is a control deficiency and has contributed to the significant increase in our improper payment rates, we cannot immediately stop this practice. Discontinuing our current practice will put millions of our Veterans at risk of not receiving critical medical services in a timely fashion. The Department is committed to finding a solution that balances our need to fix the long-standing practice while not sacrificing our mission to provide timely and quality medical services to our Veterans. In FY 2016, VA will begin a multi-organization initiative to re-engineer our business practices and continue to seek legislative change that will provide relief from the restrictive regulations.

In FY 2014, VA issued $160.59 billion in diverse payments, of which $148.17 billion were subject to IPERA processes for measuring improper payments compliance. The amount of disbursements subject to IPERA review increased by more than $9.7 billion from 2013 to 2014, a 7 percent increase due primarily to the annual increases in program outlays across VA programs.



VA is comprised of three Administrations and a Central Office function. A brief description of the four components follows:

VHA

The Veterans Health Administration's (VHA) mission is to honor America's Veterans by providing exceptional health care that improves their health and well-being. With 152 VA Medical Centers (VAMCs) nationwide, VHA manages one of the largest health care systems in the United States. VAMCs, within the Veterans Integrated Service Network (VISN), work together to provide health care to Veterans in their geographic areas.

VBA

The Veterans Benefits Administration (VBA) manages five district offices and 56 regional offices to ensure necessary benefits and services are administered to Service members, Veterans, their families, and Survivors.

NCA

The National Cemetery Administration (NCA) manages 5 Memorial Service Networks (MSNs) and 131 National Cemeteries in 40 states and Puerto Rico, as well as 33 soldiers' lots and monuments. NCA provides Veterans and their families with the final resting places in national shrines and with lasting tributes that commemorate their service and sacrifice to our Nation.

Staff Offices

The VA Central Office is comprised of eight entities that serve as the managerial, policy, and administrative hub for Departmental activities.

Section I. Risk assessments performed for VA programs.

Annually, VA conducts risk assessments for all programs and activities that are new, have received a significant increase in funding, have experienced significant legislative changes, or have not undergone a full risk assessment in three years. During FY 2015, there were 11 VHA programs and 1 Staff Office existing activity that required risk assessment. VA uses qualitative and quantitative risk assessment factors to identify those programs that may be highly susceptible to significant improper payments as follows:

Qualitative factors:

1. Payment processing and internal control environment
   - Whether procurement, eligibility determinations, payment, and collection policies and procedures are well documented and accessible to staff;
   - Whether management plays an active role in establishing, implementing and monitoring internal controls, and holds program management and staff accountable for adhering to internal controls;
   - Whether employees receive appropriate training;
   - Whether segregation of duties exist in the procure to payment cycle;
   - Whether reviews are performed to ensure the payment is accurate and proper prior to issuance; and
   - Whether the program has recapture or collection activities designed to recoup improper payments.

2. Risk criteria set forth in OMB Circular A-123 Appendix C
   - Program length, complexity, payment volume, eligibility, and changes;
   - Personnel; and
   - Audit findings.

3. Information systems environment
   - Assessing the controls around the information systems

4. Contracting activities
   - Whether there are internal controls to mitigate acquisition risk

5. Monitoring environment
   - Whether employees have adequate time to complete and review work;
   - Whether program management provides oversight and monitors for fraudulent activity; and
   - Whether audit reports of the program are free from significant deficiencies and material weaknesses or have been remediated.

Quantitative factors:

1. Whether the previous testing results were greater than the statutory thresholds defined in the A-123 guidance,

2. Future risk indicators,

3. Expected program disbursement amounts, and

4. Inherent risks of improper payments due to the nature of agency programs or operations.

The results of the risk assessments came back with all 12 programs being low risk. In addition, during FY 2015, VA did not request any program exemptions from OMB.

For FY 2015 reporting, VA had 14 programs that were tested and reported on IPERA compliance, including six VHA programs, six VBA programs and two VA-wide activities. From the past risk assessments of these 14 programs, ten programs were deemed high risk and four programs were deemed low risk. As set forth in A-123, Appendix C, these ten high risk programs are already reporting an improper payment estimate, so they were not required to perform risk assessments. The required IPERA reporting is detailed in *Section III, Improper Payment Reporting for VA Programs* (Table 1).

Programs and Activities Assessed for Risk of Improper Payments in FY 2015
After undergoing the assessment and associated risk scoring, as mentioned before, these 11 VHA programs and 1 VA-wide activity were deemed low risk. Brief descriptions of these programs and activities follow below.

VHA

- **Canteen Service:** Operates approximately 172 canteens at VAMCs across the country as self-sustaining businesses at no cost to American tax payers.
- **Caregiver Support:** Provides medical, travel, training, and financial benefits to approved primary caregivers of eligible Veterans and service members who sustained a serious injury, including traumatic brain injury, psychological trauma or other mental disorder incurred or aggravated in the line of duty, on or after September 11, 2001.
- **DoD/VA Healthcare Sharing Incentive Fund:** Provides funding for creative sharing initiatives at facility, regional, and national levels to facilitate the mutually beneficial coordination, use, or exchange of health care resources, with the goal of improving the access to, quality, and cost effectiveness of the health care provided to beneficiaries of both departments.
- **Grants for Construction of State Extended Care Facilities:** Provides grant payments to construct State Home facilities for furnishing domiciliary or nursing home care to Veterans, and to expand, remodel, or alter existing buildings for furnishing domiciliary nursing home and adult day health care or hospital care to Veterans in State Homes.

- **Highly Rural Transportation Grants:** Provides grants to eligible entities to assist Veterans in highly rural areas through innovative transportation services to travel to VAMC, and otherwise assist in providing transportation services in connection with the provision of VA medical care to Veterans.
- **Homeless Care:** Provides contracts for the care and treatment for homeless Veterans.
- **Indian Health Services:** Reimburses Indian Health Service (IHS) or Tribal Health Program (THP) for payment of claims for direct healthcare services provided to Veterans under the Reimbursement for Direct Health Care Services Agreements.
- **Other Services:** Provides contracts and agreements for consulting and purchases of goods and/or services.
- **Pharmacy Medical Facilities:** Provides care by the VAMC or clinics with new or emergent prescriptions being dispensed directly from that VAMC or clinic.
- **Spina Bifida Health Care:** Provides benefits designed for Vietnam Veterans' and certain Korean Veterans' birth children diagnosed with Spina Bifida who are in receipt of a VA Regional Office award for Spina Bifida benefits.
- **Support Services for Veteran Families:** Provides grants to private non-profit organizations and consumer cooperatives that provide supportive services to very low-income Veteran families living in or transitioning to permanent housing.

Staff Offices

- **Payments to Federal Employees (PFE) – Travel:** Provides payments to Federal employees for Government related travel.

Section II. Statistical sampling processes performed for VA programs.

All VA IPERA sampling plans have been prepared by a statistician and certified by an agency official in accordance with OMB Circular A-123, Appendix C. Consistent with the prior year's statistical sampling approach, VA used a stratified sample design to separate the payment data into homogeneous strata by sub-program(s), sub-organization, or by type and dollar amount. The payments were ordered by amount within each stratum and a systematic random sample was selected to ensure a consistent representation of the payment universe. The sample size for each stratum was calculated using a proportional allocation method. For all programs, the program universe was constructed by collecting all payments from each fiscal quarter with samples selected from every quarter.

Strata modifications were made on an as-needed basis for the respective programs. Strata definitions were altered for Civilian Health and Medical Program of the VA (CHAMPVA), Compensation and Payroll programs to account for inherent structural differences in governing policy and regulations, implementation within each program and to provide better insight. For CHAMPVA, payments were divided into cohorts for the type of service, type of payment processing and payment size. Compensation program payments were divided into cohorts based on Veteran disability rating and payment size. The Payroll program payments were divided into cohorts based on Title

5 or 38 payments and pay plan. A systematic random sample was selected from each stratum to ensure a consistent representation of the payment universe.

Sample sizes varied by program and were determined using historical program error rates and power estimates that would meet precision OMB requirements. The sample size for each stratum was calculated using a proportional allocation method and historical information on improper payments. Payments selected for testing were then reviewed against program specific criteria to determine payment accuracy.

Section III. Improper payment reporting for VA programs.

Table 1
Improper Payment (IP) Reduction Outlook
($ in millions)[(1)]

Program or Activity	2014 (based on 2013 actual data)			2015 (based on 2014 actual data)					2016 (based on 2015 estimated data)			2017 (based on 2016 estimated data)			2018 (based on 2017 estimated data)		
	OUTLAYS ($)	IP %	IP $	OUTLAYS ($)	IP %	IP $	Over-payments $	Under-payments $	OUTLAYS ($)	IP %	IP $	OUTLAYS ($)	IP %	IP $	OUTLAYS ($)	IP %	IP $
Beneficiary Travel	816.84	5.09	41.57	811.55	6.22	50.48	48.50	1.98	835.90	6.20	51.83	860.98	6.10	52.52	886.81	6.00	53.21
CHAMPVA	1,020.93	4.83	49.26	1,135.34	3.41	38.75	26.48	12.27	1,169.40	3.40	39.76	1,204.49	3.30	39.75	1,240.63	3.20	39.70
VA Community Care (2, 3)	3,371.19	9.24	311.46	3,912.17	54.77	2,142.69	2,096.25	46.44	4,029.54	53.00	2,135.66	4,150.43	50.00	2,075.22	4,274.95	47.00	2,009.23
Purchased Long Term Services and Support (3)	1,373.38	8.95	122.87	1,479.71	59.14	875.128	868.984	6.144	1,524.11	57.00	868.7427	1,569.84	55.00	863.412	1,616.94	53.00	856.9782
State Home Per Diem Grants	954.55	3.02	28.81	1,077.84	2.02	21.766	20.906	0.860	1,110.18	2.00	22.20	1,143.49	1.90	21.73	1,177.80	1.80	21.20
Supplies and Materials	2,361.82	0.00	0.06	2,457.24	1.32	32.440	32.44	-	2,530.96	1.31	33.16	2,606.89	1.30	33.89	2,685.10	1.29	34.64
Compensation (4)	53,913.44	1.32	713.16	58,449.56	2.33	1,361.35	713.72	647.63	71,698.78	2.33	1,670.58 (5)	76,758.03	2.33	1,788.46 (5)	80,457.95	2.33	1,874.67 (5)
Pension	5,583.60	4.64	258.85	5,832.79	4.53	264.19	232.70	31.49	5,610.44	4.52	253.59	5,947.34	4.51	268.23	6,310.60	4.50	283.98
VR&E	925.43	1.73	15.98	1,081.22	1.04	11.26	11.19	0.07	1,170.66	1.03	12.06	1,308.53	1.02	13.35	1,368.70	1.01	13.82
Education – Chapter 33	10,723.00	-	-	11,172.65	1.21	135.05	125.59	9.46	12,542.87	1.20	150.51	13,570.55	1.19	161.49	14,196.43	1.18	167.52
Education – Chapter 1606	151.08	0.66	1.00	147.15	1.05	1.55	0.56	0.99	152.14	1.04	1.58	156.60	1.03	1.61	161.66	1.02	1.65
Education – Chapter 1607	83.25	0.47	0.39	67.33	2.23	1.50	1.01	0.49	51.00	2.22	1.13	52.00	2.21	1.15	51.24	2.20	1.127
Disaster Relief Act – Hurricane Sandy (6)	19.64	2.04	0.40	27.27	5.71	1.558	1.558	-	22.83	5.70	1.301	48.80	5.60	2.733	66.16	5.50	3.64
PFE – Payroll	24,360.00	0.13	32.62	25,812.71	0.15	38.46	29.59	8.87	27,103.00	0.14	37.94	28,459.00	0.13	37.00	29,881.00	0.12	35.86
Totals	105,658.15	1.49	1,576.43	113,464.53	4.39	4,976.172	4,209.478	766.694	129,551.81	4.08	5,280.0437	137,836.97	3.89	5,360.545	144,375.97	3.74	5,397.2252

Notes to Table 1:

(1) In FY 2015, VA tested and reported on payments made in FY 2014.

(2) The VA Community Care program was previously reported in the FY14 Performance and Accountability Report as the Non-VA Medical Care program. The mission and objectives of the program remain the same.

(3) In the May 2015 VA OIG report on VA's compliance with IPERA, VA OIG cited contracting discrepancies related to VHA's compliance with FAR as improper. This would force VA to classify a large number of payments as improper and the Department is concerned this would misrepresent the actions taken to provide timely care to Veterans. VA has reported these systemic issues in the VA Statement of Assurance required by the FMFIA, Section II, as a material weakness.

(4) The changes necessary in the IPERA process are in statute and regulation. By changing these statutes and regulations, our processes can subsequently change. However, based on the current process to change regulations, this can take years to see effect. Therefore, Compensation anticipates no changes in reduction targets for the next three fiscal years.

(5) The increase in improper payment amounts for Compensation out years is due to an increase in program outlays and not the actual error rate.

(6) The remaining Disaster Relief Act funds are 5 year appropriations which are planned to be obligated in full as of the end of FY17. The remaining budgeted outlays of $46.41 million of these multi-year appropriations will be paid during FY18 and beyond.

Section IV. Improper payment root cause categories identified in VA programs.

Table 2 (For VHA)
Improper Payment Root Cause Category Matrix
($ in millions)(1)

Reason for Improper Payment (2)		Beneficiary Travel		CHAMPVA		VA Community Care		Purchased Long Term Services and Support		State Home Per Diem Grants		Supplies and Materials	
		Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment
Program Design or Structural Issue		-	-	-	-	1,745.68	-	765.924	-	-	-	-	-
Inability to Authenticate Eligibility		-	-	-	-	-	-	-	-	-	-	-	-
Failure to Verify:	Death Data	-	-	-	-	-	-	-	-	-	-	-	-
	Financial Data	-	-	-	-	-	-	-	-	-	-	-	-
	Excluded Party Data	-	-	-	-	-	-	-	-	-	-	-	-
	Prisoner Data	-	-	-	-	-	-	-	-	-	-	-	-
	Other Eligibility Data (explain)	18.46 (3)	-	1.93 (4)	-	29.88 (5)	-	-	-	4.724 (6)	0.082 (6)	-	-
Administrative or Process Error Made By	Federal Agency	22.38	1.98	23.39	12.27	301.64	46.44	75.418	6.144	0.984	0.136	10.79	-
	State Agency	-	-	-	-	-	-	-	-	0.33	0.642	-	-
	Other Party	-	-	-	-	-	-	-	-	-	-	-	-
Medical Necessity		5.04	-	-	-	-	-	-	-	-	-	-	-
Insufficient Documentation to Determine		2.62	-	1.16	-	19.05		27.642	-	14.868	-	21.65	-
Other Reason (explain)		-	-	-	-	-	-	-	-	-	-	-	-
TOTAL		48.50	1.98	26.48	12.27	2,096.25	46.44	868.984	6.144	20.906	0.860	32.44	-

Notes to Table 2 (For VHA):

(1) In FY 2015, VA tested and reported on payments made in FY 2014.

(2) In the May 2015 VA OIG report on VA's compliance with IPERA, VA OIG cited contracting discrepancies related to VHA's compliance with FAR as improper. This would force VA to classify a large number of payments as improper and the Department is concerned this would misrepresent the actions taken to provide timely care to Veterans. VA has reported these systemic issues in the VA Statement of Assurance required by the FMFIA, Section II, as a material weakness.

(3) Improper payments in Beneficiary Travel are due to lack of administrative qualification of the beneficiary or failure to verify services were received.

(4) Improper payments in CHAMPVA are due to the recipient being ineligible for payment.

(5) Improper payments in VA Community Care are due to the Veteran being ineligible for Fee care.

(6) Improper payments in State Home Per Diem Grants (both over and under payments) are due to unverified service connection or ineligible resident.

(7) A sampled payment in the State Home Per Diem Grants program can have multiple causes of error. The total payment error is the net of errors associated with each cause of error. Using this methodology, the following dollar amounts would be reported in Table 2: failure to verify other eligibility data $6.09 in overpayments and 0.08 in underpayments; administrative or process error made by Federal agency $10.25 in overpayments and 0.34 in underpayments; administrative or process error made by State agency $0.34 in overpayments and 0.57 in underpayments; and insufficient documentation to determine $4.34 in overpayments. Therefore, the reported estimate in Table 2 would be $22.01 million. As Table 1 and Table 2 must reconcile, VHA assigned the improper payments to the first error cause for reporting purposes so that it will reconcile to the overall program estimate of $21.766 million reported in Table 1.

Table 2 (For VBA, Disaster Relief Act and Payroll)
Improper Payment Root Cause Category Matrix
($ in millions)(1)

Reason for Improper Payment		Compensation		Pension		VR&E		Education – Chapter 33		Education – Chapter 1606		Education – Chapter 1607		Disaster Relief Act – Hurricane Sandy		PFE - Payroll	
		Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment
Program Design or Structural Issue		-		0.05	-	-	-	-	-	-	-	-	-	-	-	-	-
Inability to Authenticate Eligibility		-	-	2.15	-	-	-	-	-	-	-	-	-	-	-	-	-
Failure to Verify:	Death Data	-	-	23.18	-	-	-	-	-	-	-	-	-	-	-	-	-
	Financial Data	-	-	72.94	23.14	-	-	-	-	-	-	-	-	-	-	-	-
	Excluded Party Data	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
	Prisoner Data	-	-	10.56	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other Eligibility Data (explain)	-	-	17.61 (2)	-	-	-	-	-	-	-	-	-	-	-	-	-
Administrative or Process Error Made By	Federal Agency	713.72	647.63	36.90	-	11.19	0.07	-	9.46	0.14	0.92	1.01	0.49	1.1507	-	29.59	8.87
	State Agency	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other Party	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Medical Necessity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insufficient Documentation to Determine		-	-	69.31	8.35	-	-	125.59	-	-	-	-	-	0.4073	-	-	-
Other Reason (explain)		-	-	-	-	-	-	-	-	0.42 (3)	0.07 (3)	-	-	-	-	-	-
TOTAL[1]		713.72	647.63	232.70	31.49	11.19	0.07	125.59	9.46	0.56	0.99	1.01	0.49	1.5580	0	29.59	8.87

Notes to Table 2 (For VBA, Disaster Relief Act and Payroll):

(1) In FY 2015, VA tested and reported on payments made in FY 2014.

(2) Pension improper payments in 'Failure to Verify: Other Eligibility Data' category resulted from inability to verify residency at Medicaid Nursing Homes.

(3) Education – Chapter 1606 improper payments in 'Other' category resulted from delay in paying cost of living adjustments.

Section V. Corrective actions being undertaken by VA programs.

Of the 14 VA programs identified as high risk, 8 programs exceeded the statutory thresholds for error rates and/or amounts of improper payments and are discussed below. The thresholds are defined as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5

percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays).

VHA

Corrective actions for the 5 VHA programs that exceeded the statutory thresholds are presented below.

1. Beneficiary Travel

The Beneficiary Travel program is organizationally aligned under the VHA Chief Business Office (CBO). The program consists of mileage reimbursement and special mode transportation (ambulance, wheelchair van, etc.) to eligible Veterans and other beneficiaries.

Corrective Action Plan

CBO will implement, or has implemented, the following corrective actions to ensure greater compliance. With the implementation of these actions, VA expects to reduce improper payments by 0.02 percentage points in 2016. The Deputy Chief Business Officer for Member Services is accountable for ensuring execution of the corrective action plans.

Administrative or Process Error Made by Federal Agency

Error Cause	Corrective Actions	Completion Date
Payments made without claimant signatures, reimbursements for benefits not allowable, payments made in the incorrect amount, or duplicate payments.	Nationwide compliance reporting was continued to confirm facility implementation of the supplemental tool to the Veterans Health Information Systems and Technology Architecture (VistA) beneficiary travel application that increased automation and decreased manual errors in the field.	March 2015
	CBO released a series of online Beneficiary Travel new claims processes to use time optimization option available in the dashboard that will reduce administrative and processing errors.	April 2015

Error Cause	Corrective Actions	Completion Date
	System patches were developed and released to enhance the accuracy of Beneficiary Travel claims processing and address deductible issues, missing claim date information and expanded special mode account selection options. These capabilities along with the ability to import electronic invoices in one standard format will reduce administrative and process errors.	September 2015
	The SharePoint Scheduling and Reporting System (SPSRS) to improve payment tracking became required for all Veterans Transportation Service locations without RouteMatch software. With built-in scheduling and document storage capabilities, SPSRS offers new reporting metrics and allows VISN and Program Office access to real-time payment information. SPSRS training for Mobility Managers is offered on a monthly basis. National deployment is scheduled to be completed by September 2016.	September 2016

Failure to Verify Other Eligibility Data

Error Cause	Corrective Actions	Completion Date
Payments made to an ineligible recipient.	The Veterans Financial Application Means Test Expiration Elimination was released as a Beneficiary Travel patch to improve reporting of claimant administrative eligibilities. In December 2014, priority updates to complement the documentation of administrative eligibility using the Beneficiary Travel Calculator were released.	March 2014

Medical Necessity

Error Cause	Corrective Actions	Completion Date
Lack of clinical documentation on file for special mode transportation.	CBO released an online Beneficiary Travel national training certification to increase standardization of processes in the field. Additionally, recurring national training sessions are conducted for Beneficiary Travel staff on relevant issues such as covered benefits, increasing field compliance with established policies, and improving consistencies in payment methodologies.	November 2014
	VA anticipates publication of proposed legislated program changes that will reduce improper payments. CBO has drafted modifications to Beneficiary Travel regulations to incorporate and clarify these regulatory changes	June 2017

Insufficient Documentation to Determine

Error Cause	Corrective Actions	Completion Date
Lack of supporting documents to validate payment.	CBO implemented a new Beneficiary Travel claim form to use when the Veteran is not requesting travel benefits in person. The new form reduces the insufficient documentation to determine errors.	July 2014

2. CHAMPVA

CHAMPVA is a health care benefits program in which VA shares the cost of covered health care services and supplies with eligible beneficiaries.

Corrective Action Plan

CBO will implement, or has implemented, the following corrective actions to ensure greater compliance. With the implementation of the below actions, VA expects to reduce improper payments by 0.01 percentage points in 2016. The Chief Business Office Purchased Care **(**CBOPC) Chief Operating Officer is accountable for ensuring execution of the corrective actions plans below. All corrective actions are monitored by the Quality and Corrective Action Plan (QCAP) Manager and tracked through a database to ensure successful implementation.

Administrative or Process Error Made by Federal Agency

Error Cause	Corrective Actions	Completion Date
Data entry errors, incorrect vendor file setup, incorrect claim redevelopment, lack of prior payment review, or system calculation errors when processing the claim.	CBO implemented automated business rules (J-Rules) that ensure certain bill types are appropriately adjudicated as outpatient or inpatient services.	April 2015
	CBO established a monthly "Think Tank" team in the Review and Resolution Department to engage front line employees in developing solutions to eliminate errors by identifying process improvements.	July 2015
	In 2014, CBO submitted multiple requests to the Office of Information and Technology (OI&T) for priority consideration. Two requests were submitted to fix catastrophic cap calculations within the automated claims processing system. Correcting these system inaccuracies will reduce errors associated with calculating the beneficiary's cost share. Two system enhancements were submitted to address errors associated with incorrect payments for ambulance services and payments for procedures with technical and professional components. The enhancement addressing ambulance payments is in progress and the enhancement to improve accurate calculation of procedures with technical and professional components has been completed. The final system improvement submitted was to automate the vendor file clean-up process that will reduce the number of vendor records by inactivating duplicate and inactive vendors. The reduction in vendor options will increase more accurate vendor selections.	December 2015

Failure to Verify Other Eligibility Data

Error Cause	Corrective Actions	Completion Date
Incorrectly determining a beneficiary's eligibility as a result of incorrect data received in the initial application for CHAMPVA benefits or changes in the beneficiary's status.	100 percent of initial eligibility determinations are reviewed and inaccuracies corrected.	Ongoing
	Additional quality reviews were implemented to monitor recent eligibility determinations. Training is provided when errors are detected.	Ongoing
	Data matches with Centers for Medicare & Medicaid Services and TRICARE are being utilized to detect changes in the beneficiary's status that could affect CHAMPVA eligibility.	Ongoing

Insufficient Documentation to Determine

Error Cause	Corrective Actions	Completion Date
Lack of supporting documents to validate payment.	CBO developed and implemented a monitoring plan to review claims sent to designated queues to ensure proper release according to policy and procedures	September 2015

3. VA Community Care

The VA Community Care program is used to provide timely and specialized care to eligible Veterans. The program allows VA to authorize Veteran care at a non-VA health care facility when the needed services are not available through the VA, or when the Veteran is unable to travel to a VA facility. In the May 2015 VA OIG report on VA's compliance with IPERA, VA OIG cited contracting discrepancies related to VHA's compliance with FAR and where VHA exceeded its regulatory authority as improper. Under OIG's application of the definition, VA must classify every payment made that did not follow all Federal Acquisition Regulations and where VA exceeded its regulatory authority as improper. This is a departure from how VA has traditionally reported improper payments related to the care in the community programs. Historically, VA only reported instances of care in the community as improper payments where the wrong party was paid, the wrong amount was paid, a duplicate payment was made, or services were not received. To ensure VA is making every effort to report in compliance with the statute and provide transparency, the Department has decided to apply OIG's definition of improper payments. This decision has resulted in a significant increase in both percentage and amount of improper payments in the VA Community Care program.

Corrective Action Plan

CBO will implement, or has implemented, the following corrective actions to ensure greater compliance. With the implementation of these actions, VA expects to reduce improper payments by 1.77 percentage points in 2016. The CBOPC Chief Operating Officer is accountable for ensuring execution of the corrective action plans below. All corrective action plans are forwarded to the QCAP Manager to ensure they are successfully executed and tracked through a database.

Program Design or Structural Issue

Error Cause	**Corrective Actions**	**Completion Date**
Lack of appropriate acquisition actions as described below.	CBO released a memo outlining a hierarchy to appropriately purchase care in the community through the use of VAAR compliant contracts such as the contract for the Veteran's Choice Program.	May 2015
	A legislative proposal was submitted for Congressional consideration that would allow VA-initiated Veteran care agreements to authorize required non-VA medical services.	May 2015

38 USC 1703 provides authority for VA to purchase hospital care or medical services from public and private entities when VA cannot provide the necessary hospital care or medical services because of geographic inaccessibility or because the required services are not available. The statute, along with other applicable authorities, does not specify monetary limitations or restrictions on care purchased.

VA has multiple initiatives underway that serve as remediation. On May 12, 2015 The Acting Principal Deputy Under Secretary for Health issued a memorandum to VISN Directors establishing a mandatory hierarchy for the purchase of care in the community.

Within the hierarchy, VAMCs are instructed to first attempt to refer a Veteran to another local VA facility in accordance with usual inter-facility referral patterns. If a local VA facility cannot accept the Veteran then the facility is instructed to utilize other sharing agreement authorities with Department of Defense facilities or IHS and THP organizations. When these facilities are not capable of providing the necessary care then the VA facility is instructed to utilize the authority granted by the Veterans Choice and Accountability Act (Public Law 113-146 aka VA Choice Program) and attempt to schedule the Veteran using the Patient Centered Community Care (PC3)/VA Choice contract. If the Veteran is not eligible under the Choice Program the facility is still capable of attempting to schedule the Veteran under a PC3 authorization outside of the Choice Program. Authorizations issued in accordance with these authorities comply with all contract laws.

In late calendar year 2015 VA plans to introduce the use of VA initiated provider agreements as authorized by PL 113-146. These provider agreements are non-contractual agreements that do not have to comply with FAR or VA Acquisition Regulations and will only be authorized for use when the contractor cannot schedule an otherwise eligible Veteran. Additionally, the local VA facilities will have to document satisfaction of the provider agreement criteria prior to signature and issuance of the agreements.

Because of the requirements of the hierarchy, the existence of the PC3 contract, and the new authorities granted by the Choice Act, VA should be able to acquire the vast majority of services without the need for Individual Authorizations. Only after a VA facility exhausts all of these avenues for providing care in the community may a facility then utilize Individual Authorizations to approve Veterans to receive care in the community.

In an attempt to eliminate the need for individual authorizations entirely, VA submitted a legislative proposal to Congress in May of 2015 requesting provider agreement authority to cover all Care in the Community for Veterans. If this authority is granted by the Congress, VA will have a vehicle exempted from many Federal contracting laws that will allow VA to provide timely care of the highest quality while complying with all applicable regulations and statutes.

Administrative or Process Error Made by Federal Agency

Error Cause	**Corrective Actions**	**Completion Date**
Claims processor selecting the wrong schedule to pay, not properly applying the Fee Basis Claims System (FBCS) scrubber edits, or other payment methodology errors. There errors were also attributed to lack of required contracts where a VAMC	CBO provided training and released supporting articles in The Bulletin (a publication for care in the community) on the subject of contract claims processing.	December 2014
	CBO will implement a system modification to FBCS that addresses compliance with claims processing standards, decreases improper payments, increases productivity, and enhances user ease of use, by integrating a module for Eligibility and Enrollment.	December 2015
	CBO will develop training and establish expectations on how to properly utilize FBCS supervisory review queue to review targeted	January 2016

Error Cause	Corrective Actions	Completion Date
referred a Veteran to a facility or hospital and only had authority to pay using a contract.	claims for proper adjudication.	
	CBO will develop a master list of VA Community Care training modules, identify target recipients by position, and determine the frequency of re-training required.	January 2016
	CBO will develop and implement a comprehensive internal controls procedures guide for VA Community Care that addresses all functional areas of the program.	April 2016
	CBO will develop and implement a standard process for issuing delegations of authority that support VA Community Care operations for routing, reporting, and monitoring processes.	July 2016

Failure to Verify Other Eligibility Data

Error Cause	Corrective Actions	Completion Date
Payments for patients that were not eligible for Fee care.	CBO released desk procedures to replace the current procedure guides. The desk procedures are a tool that contains information on topics currently found in multiple guides, making it easier to locate information in support of improved payment processing.	August 2014

Insufficient Documentation to Determine

Error Cause	Corrective Actions	Completion Date
Documents not being available or not supplied to justify services paid.	CBO provided training and released supporting articles in The Bulletin on the importance of complying with the National Archives and Records Administration documentation retention requirements and the need to provide audit documentation within set timelines.	September 2014
	CBO constructed a web-based repository using SharePoint for the storage of VA	May 2015

Error Cause	Corrective Actions	Completion Date
	Community Care contracts in support of timely, accurate contract claims processing.	

Additional Corrective Actions for Findings Identified by VA's Management Quality Assurance Service

Error Cause	Corrective Actions	Completion Date
Administrative or process error made by Federal Agency	CBOPC developed additional business logic rules in the Program Integrity Tool to help mitigate improper payments on Outpatient Prospective Payment System (OPPS) claims when codes billed by the provider do not follow the Medicare OPPS payment methodology as required. This review is conducted in the prepayment state and prevents improper payments from being made.	December 2014
	CBOPC developed written guidance to assist staff in researching Veterans' insurance coverage information when making eligibility determinations under 38 USC 1725. The guidance contains reference to VHA repositories where complete Veterans' insurance information may be reviewed, such as the Compensation and Patient Record Interchange system, which lists other VA facilities where Veterans may have reported their insurance coverage. The guidance also provides for the interim testing of 38 USC 1725 ineligibility revolving around Veterans' insurance coverage as a disqualifying factor.	March 2015
Failure to verify other eligibility data	CBOPC developed training for USC 1725 eligibility determinations. The training includes ways to identify insurance and validation procedures, to determine if a Veteran has an effective reimbursable insurance plan that will make payment on the claims.	May 2015

4. Purchased Long Term Services and Support

The Purchased Long Term Services and Support program is organizationally aligned under the VHA Geriatrics and Extended Care (GEC) Office that strives to advance quality care for aging and chronically ill Veterans by providing policy direction for the development, coordination, and integration of geriatrics and long term care clinical programs. In the May 2015 VA OIG report on VA's compliance with IPERA, VA OIG cited contracting discrepancies related to VHA's compliance with FAR and where VHA exceeded its regulatory authority as improper. Under OIG's application of the definition, VA must classify every payment made that did not follow all Federal Acquisition Regulations and where VA exceeded its regulatory authority as improper. This is a departure from how VA has traditionally reported improper payments related to the care in the community programs. Historically, VA only reported instances of care in the community as improper payments where the wrong party was paid, the wrong amount was paid, a duplicate payment was made, or services were not received. To ensure VA is making every effort to report in compliance with the statute and provide transparency, the Department has decided to apply OIG's definition of improper payments. This decision has resulted in a significant increase in both percentage and amount of improper payments in the Purchased Long Term Services and Support program.

Corrective Action Plan

GEC will implement, or has implemented, the following corrective actions to ensure greater compliance. With the implementation of these actions, VA expects to reduce improper payments by 2.14 percentage points in 2016. Presently, there is a legislative proposal pending before Congress and the changes within the program will have a significant impact on the error rate. The GEC Chief Consultant is accountable for ensuring execution of the corrective action plans shown below.

Program Design or Structural Issue

Error Cause	Corrective Actions	Completion Date
Lack of appropriate acquisition actions.	GEC has taken action to convert provider agreements to FAR based contracts to be compliant with the law and reduce improper payments. The vast majority of nursing home agreements have been converted (225 out of 300). GEC will provide individual technical assistance to the remaining VAMCs that are converting outstanding agreements to contracts.	To be determined based upon Congressional action on pending legislative proposal
	GEC will implement payment processes to incorporate AN98 process change to ensure purchased home and community-based	To be determined based upon

Error Cause	Corrective Actions	Completion Date
	service (HCBS) payments are made correctly. It must be noted that this cannot be completed without legislative action.	Congressional action on pending legislative proposal

In 2007, VHA commenced a test of provider agreements under 38 U.S.C. 1720(c)(1)(A). The purpose of the test was to determine if VHA could use a non-contract instrument to purchase nursing home care, based on locally established Medicare rates and to assist VAMCs which were experiencing severe problems in contracting for care due to Federal contracting and other non-clinical Federal rules. In 2009, on advice of Counsel, VHA ceased adding new test sites as it was determined that VA did not have authority to enter into provider agreements. The only permissible alternative with community-based nursing homes is a FAR-based contract for nursing home services. In February 2014, VHA instructed VAMCs to convert all provider agreements to contracts at the earliest possible date.

Proposed Legislation (S. 739) will potentially resolve the long standing issue related to VA's authority to enter into provider agreements to purchase services from private vendors. The legislation, based on an Administration proposal, has been introduced in the Senate and would fix legal deficiencies in VA's ability to purchase non-VA care using non-FAR based agreements. Without corrections to the law to support non-FAR agreements, VA will lose many community providers who currently partner with VA to provide extended care to our Veterans.

As part of a revision to Title 38 Code of Federal Regulations § 17.56, a change in the payment regulation impacts community care providers for home health services and hospice care without an existing contract in place. If VA does not have a contract in place, VA will pay non-VA home health services and hospice care claims utilizing the Centers for Medicare and Medicaid Services Medicare fee schedule or Home Health Prospective Payment System amount (Medicare Rate), when possible. The effective date for the new payment methodology was June 1, 2014; however, the implementation date was October 1, 2014. VHA continues to seek resolution of long-standing legal issues which led to the incomplete implementation of AN98. Ultimately, this issue requires legislative action for complete resolution. In 2015, VHA considered § 17.56 errors as improper payments.

Administrative or Process Error Made by Federal Agency

Error Cause	Corrective Actions	Completion Date
Payment methodology errors or delayed creation or renewal of contracts. Specifically, VHA has experienced agencies/homes that are unwilling to sign or re-sign contracts. There have been situations where it would be clinically inappropriate to move Veterans from these facilities which have led VA to continue paying for services.	GEC will release a tool-kit and checklist for completing the authorization template that will include accurate rate information, which will significantly reduce payment errors made in the incorrect amount, prevent the wrong schedule being used, and improve the claim approval process. It will also prompt the review of contracts to ensure they are current.	To be determined based upon Congressional action on pending legislative proposal
	GEC will conduct multiple trainings to educate the field on updated policies surrounding authorization and proper payment methodologies. Trainings will be held with national Purchased Long Term Services and Supports groups to include GEC.	To be determined based upon Congressional action on pending legislative proposal
	GEC will conduct separate trainings with VHA contracting for staff in the field to reiterate the importance of timely contract renewal processes to ensure accurate authorizations are established.	To be determined based upon Congressional action on pending legislative proposal
	GEC will implement payment processes to incorporate AN98 process change to ensure purchased HCBS payments are made correctly.	To be determined based upon Congressional action on pending legislative proposal

Insufficient Documentation to Determine

Error Cause	Corrective Actions	Completion Date
Missing admission applications or the lack of sufficient documentation made available to justify services paid.	GEC will submit a change request to embed the Case-Mix and Budget Tool in the authorization template to verify a Veteran's need for service and the amount of service needed, which will reduce lack of documentation errors in the authorization	To be determined based upon Congressional action on pending legislative proposal

5. State Home Per Diem Grants

Under the State Home Per Diem Grants program, states may provide care for eligible Veterans in need of care in three different types of programs: nursing home, domiciliary, and adult day health care.

Corrective Action Plan
CBO will implement, or has implemented, the following corrective actions to ensure greater compliance. With the implementation of these actions, VA expects to reduce improper payments by 0.02 percentage points in 2016. The CBOPC Director of Program Administration is accountable for ensuring execution of the corrective action plans below. All corrective action plans are forwarded to the QCAP Manager to ensure they are successfully executed and tracked through a database.

Insufficient Documentation to Determine

Error Cause	Corrective Actions	Completion Date
Missing admission applications or caused by documentation not being available or not supplied to justify services paid.	CBOPC completed the review of backlogged State Home Per Diem forms (10-10SH, 10-10EZ, 10-5588) in its central repository.	July 2015

Failure to Verify Other Eligibility Data

Error Cause	Corrective Actions	Completion Date
Unverified service connection of the	VA Handbook 1601SH.01 was completed and sent for concurrence to facilitate	June 2015

Error Cause	Corrective Actions	Completion Date
Veteran or ineligible resident.	standardization of program requirements to VISNs.	

Administrative or Process Error Made by Federal Agency

Error Cause	Corrective Actions	Completion Date
Incomplete admission applications, incomplete receiving report on the invoice, or data entry errors resulting in an incorrect amount paid.	CBO provided application training as part of the ongoing monthly training to VAMC staff.	January 2015
	A system-wide electronic tracking tool for calculating daily cost of care and validating payment accuracy was implemented at all VAMCs.	June 2015
	CBO provided training to VAMC staff on improper payment errors, corrective action plans, and on the CBO database and how to submit program related questions.	July 2015
	An automated 10-10SH application was implemented in two VISNs.	September 2015
	An executive decision memorandum was completed for regionalization of operations based on the organizational change pilot conducted in 2014 to start projected rollout in 2016.	September 2017
	A feasibility gap analysis was completed to determine what is required to bring the program into compliance with the Digital Accountability and Transparency Act of2014.	September 2017

Administrative or Process Error Made by State Agency

Error Cause	Corrective Actions	Completion Date
Admission application for new residents not being received within 10-days and payment was issued for days of care prior to the date VA received the form	The State Home Per Diem Roles and Responsibilities Reference Guide was sent to the field and uploaded to the program's SharePoint site.	June 2015

Error Cause	Corrective Actions	Completion Date
for processing or when an incorrect calculation was recorded on the invoice (10-5588) and was not identified prior to payment.		

VBA

Corrective actions for the three VBA programs that exceeded the statutory thresholds are presented below.

1. Compensation

VA provides compensation to Veterans who are at least 10 percent disabled because of injuries or diseases that occurred or were aggravated during active military service.

Corrective Action Plan

The Compensation program will implement the following corrective actions to ensure greater compliance. However, the program does not anticipate changes in reduction targets for the next three fiscal years as the changes necessary in the IPERA process are in statute and regulations. Based on the current process to change regulations, this can take years to see the effect in the program. The Deputy Director, Policy and Procedures, Compensation Service and Assistant Deputy Under Secretary for Field Operations are the responsible accountable officials for improper payment reduction targets.

Improper Payment Reason: Administrative or Process Error made by Federal Agency

Error Cause	Corrective Actions	Completion Date
Improper payments totaled $1.36 billion with administrative or process error made by federal agency errors accounting for 100 percent of improper payments.	Identify reasons for underpayments in evaluations and determine best course of action for change in rules. This will involve working with appropriate offices to: 1) define and document requirements for additional parameters for quality review, 2) identify problems and impediments with current process, 3) assess training need for rating to address procedural and quality lapses and revise training, and 4) where appropriate, conduct training to	September 2016

Error Cause	Corrective Actions	Completion Date
	appropriate field rating employees to address identified lapses to curtail under evaluation.	
	Identify ways to process dependency claims more timely with continued use of contractors to process dependency claims. Temporary Veteran Service Representatives will conduct quality reviews of contractor work. Data analysis from these reviews will be used to examine the variants of how work is processed to drive future training needs.	September 2016
	Explore additional opportunities to automate or simplify drill pay. Tasks include developing and revising applicable forms to allow Veterans to waive drill pay, working with applicable staff to implement an interim solution to automation and implement a finalized automation plan and updating manual for simplification.	September 2016
	Through the development of a training plan and program, implement improvements to increase the skill certification pass rate which will reduce error rates associated with rating claims processing, to include correct processing of temporary total (100%) ratings.	September 2016
	Increase quality accuracy rates through implementation of improvements to skill certification and training on administrative actions.	September 2016
	Reduce errors associated with separation pay withholdings to include training to increase understanding for processing rules involving separation procedures.	September 2016
	Review and update procedural guidance to ensure clarity and revise policies and update field of changes, as necessary.	January 2016
	Develop and conduct consistency studies targeted on error trends found in test reviews.	July 2016

2. Pension

VA helps Veterans and their families cope with financial challenges by providing supplemental income through Veterans Pension and Survivors Pension benefit programs.

Corrective Action Plan
Pension will implement the following corrective actions to ensure greater compliance. Through implementation of these actions, it is anticipated improper payments will be reduced by 0.01 percentage points in 2016. The Director of Pension and Fiduciary Service and Assistant Deputy Under Secretary for Field Operations are the responsible accountable officials for reducing improper payments.

Improper Payment Reason: Failure to Verify Financial/Death/Prisoner/Other Eligibility Data

Error Cause	Corrective Actions	Completion Date
Approximately $147.43 million of improper payments resulted due to failure to verify financial/death/prisoner/ other data errors. Pension will implement the following corrective actions to ensure greater compliance.	Implementation of automatic suspension and termination of benefits upon notice of death was completed in July 2014. Currently exploring the possibility of establishing an agreement with Social Security Administration (SSA) to share data and information with regards to surviving spouse death.	September 2016
	Implement Veteran upfront income verification with Internal Revenue Service (IRS) and SSA was completed in November 2013. Upcoming tasks include extending upfront income verification to claims for special monthly pension, dependency, and medical adjustment and expanding the Federal Tax Information for all pension claims.	November 2015
	Implement the National Training Curriculum for FY 2016 to include refresher training to ensure Pension Management Center (PMC)	December 2015

Error Cause	Corrective Actions	Completion Date
	employees understand what income and expense to use when making pension determinations and IPERA awareness training.	
	Work in conjunction with the Office of Field Operations to establish PMCs timeliness standards for completing incarceration/fugitive felon adjustments and prepare and provide written and oral guidance for dissemination.	December 2015
	Provide refresher training on the VBA letter on fugitive felons.	December 2015
	Investigate whether VBA can improve data matching with the Bureau of Prisons or other sources to identify benefits awards that require adjustments.	December 2015

Improper Payment Reason: Insufficient Documentation to Determine

Error Cause	Corrective Actions	Completion Date
Approximately $77.66 million of improper payments resulted due to insufficient documentation to determine errors. Pension will implement the following corrective actions to ensure greater compliance.	Review PMC Capture Unit standard operating procedures and pertinent manual provisions regarding the scanning and uploading of documents. Revise materials to determine appropriate timeliness and process for scanning and uploading.	December 2015
	Centralized mail will transition the current mail processing to a centralized receipt and virtual analysis concept by using the United States Postal Service, contractor-operated scanning and automated work routing processes to add VA	December 2015

	correspondence received via mail directly to the Veterans Benefits Management System (VBMS) eFolder. This will eliminate paper handling and expeditiously upload claims, evidence, and other mail to a Veterans eFolder in VBMS.	

Improper Payment Reason: Administrative or Process Error Made Federal Agency, Inability to Authenticate Eligibility, and Program Design and Structural Issue

Error Cause	Corrective Actions	Completion Date
Approximately $36.90 million of improper payments resulted due to administrative or process error made by federal agency errors, $2.15 million due to inability to authenticate eligibility errors, and about $50 thousand due to program design and structural issue errors. Pension will implement, or has implemented, the following corrective actions to ensure greater compliance.	Perform Systematic Technical Accuracy Reviews (STAR) to identify deficiencies and disseminate findings to the PMCs on a monthly basis to include share claim specific errors, IPERA and special findings. This includes sharing specific errors with individual stations and require corrections be completed and increasing the frequency of site visits at the PMC and incorporate IPERA awareness training and compliance into site visit protocol.	On-going
	Review manual, policies, and procedures to determine if clarifications and/or updates are needed.	October 2015

3. Education – Chapter 33

VA offers higher education and training benefits to Veterans, Service members, and their families who served after September 10, 2001.

Corrective Action Plan
Education will implement the following corrective actions to ensure greater compliance. Through implementation of these actions, it is anticipated improper payments will be

reduced by 0.01 percent in 2016. The Director of Education Service is the responsible accountable official for bringing about a reduction in improper payments.

Improper Payment Reason: Insufficient Documentation to Determine

Error Cause	Corrective Actions	Completion Date
Out of the estimated $135.05 million in improper payments, approximately $125.59 million resulted due to insufficient documentation to determine errors.	VBA education programs conduct random compliance surveys at schools and training facilities to review compliance with VA education benefit reporting requirements. In instances where a school or training facility is found to be in non-compliant with IPERA, VBA takes necessary measures to collect over-payments and correct any identified under-payments. Additionally, VBA provides necessary training for school and training facility officials to assist them in adhering to VA education benefit reporting requirements. Finally, VBA suspends approval of programs, schools, and training facilities due to non-compliance with VA education benefit as appropriate.	October 2016
	Update School Certifying Official Handbook to include Standard Operating Procedures surrounding document requests for IPERA reviews. This handbook provides processes and procedures to VA Certifying Officials and anyone at a school involved with certification of beneficiaries of VA education benefits.	March 2016

Improper Payment Reason: Administrative or Process Error Made by Federal Agency

Error Cause	Corrective Actions	Completion Date
Out of the estimated $135.05 million in improper payments, approximately $9.46 million resulted due to administrative or process error made by federal agency.	Conduct refresher training for Regional Processing Offices on Chapter 33 manual entry procedures with a focus on the reduction of improper payments.	October 2015

Section VI. Internal control over payments made by VA programs.

This year, VA assessed the internal controls over payments made by VA programs in the five components of internal control.

Control Environment

This year VA has begun to place more emphasis on improving the control environment over payments. In FY 2015, the VA Interim CFO established the IPRO organization charged with improving leadership, oversight and guidance for the Department on reducing improper payments. Working through the CFO, IPRO has begun to engage the Improper Payments Governing Board to work on resolving long-standing issues with improper payments. The members of the Improper Payments Governing Board include the Deputy Assistant Secretary for Finance, the CFOs of the Administrations, and senior level program staff. The Administrations and IPRO provide briefings to the Improper Payments Governing Board on the status and progress of efforts to comply with IPERA requirements, corrective actions and emerging issues. During FY 2016, the VA CFO and IPRO will continue to engage the Governing Board using an increased focus on corrective actions to help reduce improper payments.

Additionally, the Administrations have assigned managers and staff to oversee and administer IPERA activities within the respective Administrations. During FY 2015, each of the programs reporting in excess of the statutory thresholds identified key members of management responsible for the implementation of corrective actions and the associated reduction in improper payments.

Risk Assessment

VA developed a two-step process that requires all programs and activities perform a Pre-Risk Assessment each year and a Risk Assessment, if required, based on the results of the Pre-Risk Assessment. The Pre-Risk Assessment determines whether the program or activity is new, has undergone a risk assessment within three years, had a significant change in legislation or increase in funding, or had a change that resulted in a substantial program or activity impact. If the results of the Pre-Risk Assessment Questionnaire determine that a risk assessment is required for a program or activity, the reporting entities complete the Risk Assessment. It should be noted that all programs currently reported under IPERA do not require risk assessments. The 12 risk assessments required and performed for VA programs in fiscal year 2015 resulted in those programs and activities being of low or medium risk susceptibility for improper payments (see Section I above for additional detail on these programs).

For those programs or activities resulting in high-risk assessments that are expected to exceed at least 1.5 percent and $10 million in total program outlays or $100 million at any rate, the program office developed: (1) statistical sampling to determine the improper payment rate, and (2) reported corrective action plans within the Annual Financial Report.

Additionally, throughout the performance of the annual IPERA process, consideration is given to the findings noted through the reports issued under the VA OIG's IPERA review, the VA's CFO Act financial statement audit, the findings of the A-123 Appendix A process, other VA OIG reporting related to the high risk programs and other significant issues that could impact IPERA compliance. These reports are reviewed and compared to the planned testing approaches of the relevant programs to ensure proper consideration of the noted risks.

Control Activities

Management's implementation of internal controls over payment processes includes existence of documentation to support payments made, the assessment of design and operating effectiveness of internal controls over payments, the identification of deficiencies related to payment processes, and whether or not effective compensating controls are present.

There are controls in place at both VHA and VBA to perform pre-payment and/or pre-award reviews. These procedures have the effect of preventing improper payments before they are made. Treasury's Do Not Pay Program is also being utilized to prevent improper payments. VA continues to move to more analytic tools and preventative procedures which will also have the effect of reducing the number of payments subject to recapture processes.

Information and Communication

VA's Improper Payments Program includes reporting and communication of information on preventing, reducing and recapturing improper payments both internally and to outside agencies. VA developed a SharePoint site to coordinate information for the Improper Payments Program. This site is within the VA security perimeter and houses training materials, testing documentation, and signed copies of completed templates. Additionally VA communicates the importance, the results, and the activities of the Program and the Improper Payments Governing Board meetings.

VA conducts various IPERA status meetings with stakeholders throughout the Department to discuss planning and progress, as well as ensure engagement and understanding of the Improper Payments Program. VA has undertaken efforts to update policy guidance, handbooks and training for processing personnel. Through the IPERA process, VA has prepared IPERA testing guides and systems crosswalks to help inform and train staff. The systems crosswalks identify key information systems and the relevant IPERA documentation obtained from them. VA engages program level managers and staff in IPERA related meetings throughout the fiscal year to discuss testing approaches, investigate scenarios, review specific payment samples and develop corrective action plans.

Additionally, there are clear lines of authority and responsibility within each program, the respective oversight offices within each Administration and at the VA Central Office level.

Monitoring

VA engages in multiple monitoring activities to determine if payments are made properly and tests the strength of documentation requirements and standards to support testing of design and operating effectiveness for key payment controls.

VA monitors accounts and activities in the Improper Payment Program through testing and remediation of identified weaknesses in controls. VA developed templates to help reporting entities in developing test plans for their programs and enable complete and accurate reporting of test results. VA's policy requires that test plans include, at a minimum:

- The details of each test planned for each program and payment type;
- The criteria to be applied in determining whether a payment is improper; and
- The steps necessary to determine the appropriateness of each payment, including review and verification of program managers for identified improper payments.

Table 3 contains an assessment of the internal control standards for VA programs that exceeded the improper payment thresholds of A-123, Appendix C.

Table 3
Status of Internal Controls

Internal Control Standards	Beneficiary Travel	CHAMPVA	VA Community Care	Purchased Long Term Services and Supports	State Home Per Diem Grants	Compensation (1)	Pension	Education – Chapter 33
Control Environment	3	3	3	2	3	3	3	3
Risk Assessment	3	3	2	2	4	3	3	3
Control Activities	3	3	2	2	4	3	3	3
Information and Communication	3	3	3	2	3	3	3	3
Monitoring	3	3	3	3	3	3	3	3

Notes to Table 3:

(1) The internal control review is based on current controls in place for working claims. Some errors identified during the payment review were authorized prior to the implementation of current controls.

Legend:

4 = Sufficient controls are in place to prevent IPs
3 = Controls are in place to prevent IPs but there is room for improvement
2 = Minimal controls are in place to prevent IPs
1 = Controls are not in place to prevent IPs

Section VII. Accountability for reducing and recovering improper payments made by VA programs.

The Department's Improper Payments Governing Board is led by VA's Interim Chief Financial Officer, and includes the Deputy Assistant Secretary for Finance, the Administration CFOs, and senior level program staff as participating members. The Governing Board is focused on achieving IPERA compliance, identifying root causes of improper payments, establishing reduction goals and implementing corrective actions to reduce/prevent improper payments. During FY 2015, the Governing Board continued to drive accountability by proactively engaging all stakeholders. Accountability was increased by requiring program officials to attend these meetings and/or provide direct support to the respective Administration CFOs.

VHA

Annually, VHA publishes a Director Executive Career Field performance plan to communicate to senior executives the expectations of VA. The plan includes the goal of financial stewardship, which is to support the overall Department goal of best practices in financial and business processes. Each VISN ensures continual monitoring of facility performance on key financial and business compliance indicators and VA Leaders are measured on their ability to meet program performance targets. In 2015, VHA will issue VISN level reports to provide a comparison between VISNs, analysis of specific error categories and a breakout of facility level improper payment performance. This detailed information assists VISN Directors in understanding the frequency and occurrence of improper payments. In 2015, VHA will also require VAMCs to provide facility level corrective action plans and recovery efforts for each improper payment identified in the IPERA review to supplement national corrective actions reported in Section V of this report. More specifics for each of the high risk programs reporting above the statutory thresholds follow:

1. Beneficiary Travel

The Deputy Chief Business Officer for Member Services is accountable for ensuring execution of corrective action plans. Each individual reporting Program Office Director and corresponding subordinates are also held accountable to the senior executive performance plan expectations. Unique program corrective action plans are reported on a weekly, bi-weekly and monthly basis to senior executives for tracking and monitoring.

2. CHAMPVA

The CBOPC Chief Operating Officer is accountable for ensuring execution of corrective actions plans. CBOPC Operations has the primary responsibility for the processing of CHAMPVA claims and works to address and correct improper payments. When errors are identified, CBOPC supervisors work to identify trends and provide education to the voucher examiners regarding the issue both individually and as a group. The Chief Operating Officer and the Director of Operations' performance plans include goals for financial stewardship, and the identification and implementation of corrective actions to address improper payments.

3. VA Community Care

The CBOPC Chief Operating Officer is accountable for ensuring execution of corrective action plans. CBOPC Operations has the primary responsibility for the processing of community care claims and works to address and correct improper payments. When errors are identified, CBOPC staff work to identify trends and provide education at both a local and national level. If additional training is needed, mentoring can be provided to the site by CBOPC staff. The Chief Operating Officer and the Director of Operations' performance plans include goals for financial stewardship, and the identification and implementation of corrective actions to address improper payments.

4. Purchased Long Term Services and Supports

The GEC Chief Consultant is accountable for ensuring execution of corrective action plans and will develop and monitor a performance measure related to improper payments.

5. State Home Per Diem Grants

The CBOPC Director of Program Administration is accountable for ensuring execution of corrective action plans. The State Home Per Diem Program Office works directly with the facility when improper payments are identified, as well as broadly across the program through monthly training events. A bill of collection standard operating procedure has been developed for use in capturing identified improper payments. The Chief Operating Officer, the Director of Program Administration, and the Department Chief's performance plans all include goals for financial stewardship. Specifically, the Chief of the State Home Per Diem Program's performance plan includes a goal to develop corrective action plans within 30-days of a finding being identified that addresses improper payments, oversight of payments, and the prevention and detection of fraud, waste and abuse.

<u>VBA</u>

The Under Secretary for Benefits (USB) continues to emphasize accountability and integrity at every level within the Administration. Underscoring the commitment to achieving the goals set forth in IPERA, the USB appointed the Chief Financial Officer and Deputy Chief Financial Officer as senior accountable officials for achieving IPERA compliance. Overseen by both the CFO and Deputy CFO, the VBA committee of program managers, program officials and key accountable officers from all business lines continue their efforts in establishing and implementing guidelines and policies to meet improper payment reporting requirements.

1. Compensation and Pension

With the launching of the VBA Transformation Plan, leadership developed goals and initiatives to transform VBA into a streamlined, high-technology 21st century organization, which is enabling VBA to process Compensation, Pension, and DIC claims within prescribed time constraints, while maintaining high levels of accuracy. With Veterans and their families always at the forefront of all VBA strategic goals, the Transformation Plan is designed to transform three major areas: people, process, and technology. The sweeping multi-faceted changes are improving internal process controls and are poised to significantly reduce improper payments as a result of increased automation and improved accuracy.

VBA Regional Office Directors, Veterans Service Center Managers, PMC Managers, and all other management personnel share the same performance goals standards with respect to delivering high-quality products and benefits to Veterans. Non-supervisory employees are also responsible for maintaining standards set forth by management, to include maintaining quality, continued training, and staying abreast of legislative and technological changes in order to reduce or avoid improper payments.

2. Education

Regional Processing Office Directors, Education Officers, all education management personnel, and individual employees are rated on accuracy of education claims processing. Local and national testing of education claims processing is conducted. Findings are used to target training, as well as the development of Performance Improvement Plans, as necessary.

Section VIII. VA's information systems and infrastructure put in place to reduce improper payments.

VHA

There are significant staffing shortages within VHA. Many errors were attributed to delayed creation or renewal of contracts due to staffing shortages in the contracting and community care offices. As well, requests for fixes or improvements to information systems, which address improper payments, must compete to be prioritized within the Office of Information and Technology. The competitions for prioritization and limited staffing negatively impacts the requested system fixes and improvements. Additional information on the VHA programs which are reporting improper payments in excess of the statutory thresholds follow.

1. **Beneficiary Travel**
   Long term infrastructure and information system solutions for the Beneficiary Travel Program are underway. Initial funding approvals and key milestones have been met. Beginning in 2012, previous annual requests for funding were not successful during funding prioritization. Project start date is scheduled for fiscal year 2016.

2. **CHAMPVA**
   CBO has submitted multiple requests to the Office of Information and Technology for priority consideration, which would reduce errors by addressing identified systems issues and expand automated business rules to reduce the number of human entries and decisions. Additional quality reviews were implemented to monitor eligibility determinations. In 2015, data matches with Centers for Medicare and Medicaid Services and TRICARE are being utilized to detect changes in the beneficiary’s status. CBO also utilizes queues for secondary review of claims which meet certain criteria, such as possible duplicate claims, or setting a percentage of voucher examiner claims to be reviewed by a lead.

3. **VA Community Care**
   Several information systems have been developed to assist in decreasing improper payments within this program, and are detailed in Section X of this report. For example, FBCS contains a claim scrubber that provides valuable information and edits to staff to assist them with appropriate claims processing. The Quality Inspector Tool is an audit tool run by the supervisor before batches are released to effectively identify errors and decrease improper payments. The Snap Web Duplicate Payment Program identifies duplicate payments in a prepayment state and the Program Integrity Tool uses a set of business rules to detect and prevent improper payments in a prepayment state.

4. **Purchased Long Term Services and Support**
   The improper payment rate for Purchased Long Term Services and Support has been impacted by acquisition issues. Creation of contracts in the community can take an extensive amount of time, partly due to the complicated nature of federal contracting regulations.

5. **State Home Per Diem Grants**
   The State Home Per Diem program currently relies on the Electronic Tracking Tool, a semi-automated Excel spreadsheet that reconciles the gains and losses related to resident activity at the State Veteran Home, and OB10 (Tungsten), for managing invoicing. The program recently completed an analysis to be in compliance with the Digital Accountability and Transparency Act of 2012 along with a 100 percent review of backlogged forms in its central repository. In 2015, the program automated the 10-10SH application form and implemented it in two VISNs. Continued improvements are anticipated once the future state of this program is realized.

<u>VBA</u>

VBA strives to improve payment practices and procedures by working in a collaborative environment to identify ways to streamline processes and enhance plans to reduce improper payments. Overall, these processes will improve consistency and data accuracy to help reduce improper payments. While VA has the necessary information infrastructure to meet current improper payment levels, additional information technology funds would allow further reduction in improper payments. Additional information on the VBA programs which are reporting improper payments in excess of the statutory thresholds follow.

1. **Compensation and Pension**
   VBA continues to enhance its automatic suspension and termination of benefit payments to Veterans and beneficiaries upon notice of death through data received from SSA. VBA is in the requirements stages of terminating and suspending awards upon notification of incarcerated beneficiaries from Bureau of Prisons. The Pension program has implemented upfront verification of income agreements between VBA, IRS, and SSA, which include timely verification of income received from all sources by a claimant prior to VA benefits eligibility determination.

2. **Education**
   VBA fielded and continues to update the Long Term Solution (LTS) to reduce manual data input requirements by VBA education claims processing employees. Additionally, VBA works closely with school and training facility officials to provide them access to web-based enrollment reporting systems. This facilitates timely and accurate transmission of enrollment data. Electronic submission of enrollment data supports the end-to-end automation function of LTS which automatically processes Chapter 33 claims using a rules-based engine requiring no human intervention, therefore reducing input data errors. End-to-end automation processed 51% of Chapter 33 supplemental claims in FY 2014. VBA internal controls include quarterly reviews of claims processing at the national level, annual site visits at the regional processing offices, and random surveys of

schools and training facilities to monitor compliance with claims processing procedures and enrollment reporting requirements.

Section IX. Statutory and regulatory barriers limiting VA corrective actions.

VHA

There are several statutory or regularity barriers impacting the VA Community Care and PLTSS programs which limit implementation of VHA's corrective actions. If the legislative proposals are passed, they will significantly decrease improper payments and improve Veterans access to care.

- A legislative proposal was submitted for Congressional consideration that would allow VA-initiated Veteran care agreements to authorize required non-VA medical services.
- Legislation has been introduced in the US Senate S.739 that would address VA's legal authority to enter into provider agreements for services.

VBA

For an adverse change in benefits, Veterans and/or beneficiaries are entitled to pre-determination notice of any decision made by VA (38 CFR 3.103), with limited exceptions. This results in continued payment at improper rates for a minimum of 60 days following discovery which impacts the Compensation and Pension programs.

Since the principles of due process are mandated by the Constitution, continued payments during the notification of reduction period are a necessary cost of administering the VBA Compensation and Pension programs.

Veterans and/or beneficiaries are responsible for notifying VBA of any event that may affect benefit payments, such as dependency changes. Additionally, notification of receipt of drill pay, by program design, occurs after activity has been completed, and annual notification from the Department of Defense has occurred. Late notifications of these events will subsequently cause improper payments until adequate notification is received. Though there are currently data matching systems in place, we consider this to be third party information. As required by law, due process must be provided before any adverse action is taken. VBA is continuing efforts to automate processes and working with stakeholders and partnering agencies to receive upfront information, which will allow timely adjustments, as part of our commitment to minimize and eliminate improper payments. This includes up-front notification for active duty pay offsets, and automation of non-rating related award actions.

Section X. Recapture of improper payment reporting for VA programs.

VA performed recapture audits for all programs with outlays of $1 million or more. VA has not excluded any programs or activities that are applicable from the payment recapture audit.

VHA

VHA's payment recapture audit program is focused on preventing, detecting and recovering overpayments. As part of VHA's payment recapture audit program, VHA utilized both internal and external payment recapture activities including the following:

CBO Internal Audit and Recovery Efforts

- Claim Check/Claim Scrubber Tool: performs a validation check prior to releasing payments. Claim Check prevented $52,950,000 in improper payments for FY 2014.
- Artificial Intelligence: translates policies and regulations into a form that can be acted on by the system, which is applied to medical claims submitted for payment. Artificial Intelligence prevented $40,150,000 in improper payments for FY 2014.
- Quality Inspector Tool: provides push-button inspection of all outpatient claims processed through FBCS to ensure proper payment in a pre-payment status. The tool avoided $19,460,874 in improper payments for FY 2014.
- SnapWeb Duplicate Payment Program: designed to identify potential duplicate payments in a pre-payment state. The use of the program avoided $5,844,598 in improper payments for FY 2014.
- Program Integrity Tool: a comprehensive set of program integrity tools to reduce fraud, waste, and abuse and improve payment accuracy in a pre-payment status. The tool avoided $805,373 in improper payments for FY 2014.
- Recapture Recovery Initiative: tracks overpayment collection and resolution of underpayments. During FY 2014, CBO recaptured $353,425 of identified improper payments.
- CBO Audit Teams conducted 18 audits over six different programs. These audits identified improper payments in the amount of $10,373,617 in FY 2014, which were referred to the Recapture Recovery Initiative to track the collection of overpayments, and resolution of underpayments.
    - 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 management.
    - Virtual Audit Team: structured to perform the IPERA audit and quarterly proper payment audits for the VA Community Care program and State Home Per Diem Grants program.

- Special Audit Team: focuses on special audit requests from both internal and external stakeholders.

CBO External Audit and Recovery Efforts

- CBO has retained recovery contracts for VA Community Care, CHAMPVA, and Spina Bifida Health Care through August 2013. Currently, CBO is working with contracting to establish a new recovery contract. VHA, through the use of recovery audit contracts, continued to collect $619,270 in overpayments throughout FY 2014. As well, proposed legislation would allow CBO to conduct recovery audits not only by contract, but internally as well.

VBA

In an effort to identify and recapture improper payments, VBA used a combination of full-case quality reviews and payment reviews to identify possible duplicates and overpayments.

The majority of VBA programs perform quality reviews on randomly selected cases. 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 ROs.

Root Cause of Improper Payments

VBA identified that a majority of payment errors were due to administrative and process errors made by the federal agency and insufficient documentation to determine.

Collection Process

The DMC 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 the DMC, which aggressively 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 the 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 improper payments identified, VBA determines collectability, and if needed, establishes a debt in the core Financial Management System (FMS).

In accordance with 38 U.S.C. 5302, VBA may waive benefit debts arising as a result of 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.

PFE

Improper payments to employees found through testing are recovered as they are identified. The recovery is made by adjusting the employees' paychecks for the amount of improper payment. Errors are confirmed with the employee's station payroll staff and once confirmed, payroll staff make the necessary adjustments. In some instances, improper payments were made to employees who have separated from the agency and VA does not currently have a way to recover those overpayments. However, the timing of the testing will be moved closer to payment dates so that the testing is done on a more real-time basis.

FSC

Most VA vendor payment activities are centralized at the FSC, a franchise fund (fee for service) organization, which services VHA, NCA, and the Staff Offices. FSC's payment recapture and recovery activities are focused on preventing, detecting and recovering overpayments and includes a four step process including a post-payment review, root cause review and collection process.

Pre-Payment Review

Three times a day, FSC matches scheduled commercial vendor payments against other payments and against the previous 90 days of disbursed payments to identify and prevent duplicate payments before their submission to the Department of the Treasury for disbursement. Duplicate payments identified through this process are cancelled before the payments are made.

Post-Payment Review

FSC performs several post-payment reviews to detect improper payments:

- Payment files in excess of $2,500 are matched against disbursed payments over the previous 2 fiscal years to identify duplicate payments.
- Various performance measure reviews of payments are conducted using statistical sampling to verify their accuracy and timeliness.
- Reviews are conducted on FSC-issued interest penalty payments over $50 to determine if interest was actually due to the vendor.
- Vendor statements are reviewed to recover any outstanding prior year vendor credits not previously collected.

In addition, FSC periodically reviews audit reports prepared by VA's OIG and the GAO to identify additional potential areas of interest.

Root Cause of Improper Payments
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. FSC has implemented corrective actions to include increased use of electronic invoicing and optical character recognition technology to minimize improper payments. This process extracts key payment data from paper invoices to reduce input errors along with a business rules engine ensuring consistency in payment processing and streamlined procedures.

Collection Process
For improper payments detected in post-payment reviews, the following recovery actions are used by FSC, as appropriate, to recover the funds from the vendor/employee.

- On payments paid via EFT, where the improper payment amount was the full amount of the EFT payment, FSC processes a Letter of Reversal/Letter of Indemnity in an attempt to recover the funds by having the bank reverse the erroneous transaction back to Department of Treasury as a returned EFT.
- In cases where the improper payment is paid via check or where the improper amount was less than the full amount of the EFT, FSC/VA facilities process a bill of collection requesting the vendor return the funds for the improper amount.
- After a minimum of 45 days, if the bill of collection has not been repaid and no correspondence has been received from the vendor disputing the bill or requesting additional information, FSC sets up an internal offset to collect the funds from the next FSC-issued payment(s) to the vendor until the bill is satisfied.
- If all attempts to collect the debt are unsuccessful, FSC sends 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.

The Office of Acquisition, Logistics, and Construction (OALC) Activities
OALC works with OIG's Office of Contract Review (OCR) to recover funds owed VA due to defective pricing and price reduction violations. As part of OIG's post-award contract reviews, staff also looks for and collects overcharges that were the result of the contractor charging more than the contract price. Other reviews conducted by OCR include health care resource proposals, claims, and special purpose reviews.

Table 4 (For VHA)
Improper Payment Recaptures with and without Audit Programs [(1)]
($ in millions)

	Overpayments Recaptured Through Payment Recapture Audits																							Overpayments Recaptured Outside of Payment Recapture Audits	
	Contracts					Grants					Benefits					Other					Total			
Program or Activity	Amount Identified	Amount Recaptured	2014 Recapture Rate	2015 Recapture Rate Target	2016 Recapture Rate Target	Amount Identified	Amount Recaptured	2014 Recapture Rate	2015 Recapture Rate Target	2016 Recapture Rate Target	Amount Identified	Amount Recaptured	2014 Recapture Rate	2015 Recapture Rate Target	2016 Recapture Rate Target	Amount Identified	Amount Recaptured	2014 Recapture Rate	2015 Recapture Rate Target	2016 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
Beneficiary Travel	-	-	-	-	-	-	-	-	-	-	0.87	0.67	77.01	80.00	85.00	-	-	-	-	-	0.87	0.67	0.57	0.38
CHAMPVA (2)	-	-	-	-	-	-	-	-	-	-	11.7368	11.2518	95.87	85.00	90.00	-	-	-	-	-	11.7368	11.2518	-	9.39
VA Community Care	-	-	-	-	-	-	-	-	-	-	0.05	0.04	80.00	85.00	90.00	-	-	-	-	-	0.05	0.04	0.84	0.48
Purchased Long Term Services and Supports	-	-	-	-	-	-	-	-	-	-	0.01	0.01	100.00	95.00	95.00	-	-	-	-	-	0.01	0.01	0.01	0.01
State Home Per Diem Grants	-	-	-	-	-	0.01	0.01	100.00	95.00	95.00	-	-	-	-	-	-	-	-	-	-	0.01	0.01	1.27	1.27
Supplies and Materials	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.376	0.335	89.10	90.00	95.00	0.376	0.335	0.34	0.33
Other VHA Programs 1 (3)	-	-	-	-	-	0.20	0.20	100.00	95.00	95.00	-	-	-	-	-	3.25	2.88	88.62	90.00	95.00	3.45	3.08	5.79	4.66
Other VHA Programs 2 (4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.07	0.05	71.43	85.00	90.00	0.07	0.05	0.31	0.26

Notes to Table 4:

(1) VA is reporting improper payments identified and recaptured during the period of October 1, 2013 through September 30, 2014. Additionally, VA is reporting the estimated recapture rate targets for FYs 2015 and 2016.

(2) CHAMPVA data is combined with CBO programs: Foreign Medical, Spina Bifida Health Care, and Caregiver Stipend. Overpayments recaptured outside of payment recapture audits consist of unsolicited funds received.

(3) Other VHA programs 1, using Medical Care Funds, includes the following programs for reporting purposes: Communications, Utilities, and Other Rent; Compensated Work Therapy and Incentive Therapy.
VHA - Equipment; Homeless Per Diem Grants; Insurance Claims and Interest Expense; Land and Structures; Other Services; Consolidated Mail Outpatient Pharmacy; Pharmacy Medical Facilities; Printing and Reproduction; Prosthetics; and Other VHA Activities.

(4) Other VHA programs 2, using Non-Medical Funds, includes the following programs for reporting purposes: DoD-VA Medical Facility Demonstration Fund; General Post Fund; Medical and Prosthetic Research; and Medical Facilities Recovery Act.

Table 4 (Remaining VA Programs)
Improper Payment Recaptures with and without Audit Programs [(1)]
($ in millions)

Program or Activity	Overpayments Recaptured Through Payment Recapture Audits																						Overpayments Recaptured Outside of Payment Recapture Audits	
	Contracts					Grants					Benefits					Other					Total			
	Amount Identified	Amount Recaptured	2014 Recapture Rate	2015 Recapture Rate Target	2016 Recapture Rate Target	Amount Identified	Amount Recaptured	2014 Recapture Rate	2015 Recapture Rate Target	2016 Recapture Rate Target	Amount Identified	Amount Recaptured	2014 Recapture Rate	2015 Recapture Rate Target	2016 Recapture Rate Target	Amount Identified	Amount Recaptured	2014 Recapture Rate	2015 Recapture Rate Target	2016 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
Compensation	-	-	-	-	-	-	-	-	-	-	1.51	1.05	79.54	62.00	62.00	-	-	-	-	-	1.51	1.05	-	-
Pension	-	-	-	-	-	-	-	-	-	-	0.04	0.01	25.00	25.00	25.00	-	-	-	-	-	0.04	0.01	-	-
VR&E	-	-	-	-	-	-	-	-	-	-	0.03	0.02	66.67	85.00	85.00	-	-	-	-	-	0.03	0.02	-	-
Education	-	-	-	-	-	-	-	-	-	-	0.02	-	0.00	62.00	62.00	-	-	-	-	-	0.02	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loan Guaranty	-	-	-	-	-	-	-	-	-	-	4.36	3.55	81.42	42.00	42.00	-	-	-	-	-	4.36	3.55	0.39	-
VBA Other Direct Benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.05	0.04	80.00	69.00	69.00	0.05	0.04	-	-
VBA GOE Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.07	0.07	100.00	85.00	85.00	0.07	0.07	-	-
NCA Burial Programs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.89	0.13	14.61	85.00	85.00	0.89	0.13	0.23	0.23
PFE - Payroll	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.14	0.01
Staff Offices (2)	7.87	7.45	94.66	85.00	85.00	-	-	-	-	-	-	-	-	-	-	0.02	0.02	100.00	85.00	85.00	7.89	7.47	5.92	5.61
Total	7.87	7.45	94.66			0.21	0.21	100.00			18.6268	16.6018	89.13			4.726	3.525	74.59			31.4328	27.7868	15.81	22.63

Notes to Table 4:

(1) VA is reporting improper payments identified and recaptured during the period of October 1, 2013 through September 30, 2014. Additionally, VA is reporting the estimated recapture rate targets for FYs 2015 and 2016.

(2) Staff Offices include the following programs: CDCO Franchise Fund; HRA General Administration Annual; OALC Major and Minor Construction; OGC General Administration Annual; OIG; OIT programs; OM Franchise Fund and General Administration Annual; Supply Funds; and VA Employee Travel.

Table 5
Disposition of Funds Recaptured Through Payment Recapture Audits
($ in millions) (1)

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
All VHA Programs (2)	15.4468	All	-	-	-	15.4468	-	-	-
Compensation (3)	1.05	Benefit	-	-	-	1.05	-	-	-
Pension (3)	0.01	Benefit	-	-	-	0.01	-	-	-
VR&E (3)	0.02	Benefit	-	-	-	0.02	-	-	-
Loan Guaranty (4)	3.55	Benefit	-	-	-	3.55	-	-	-
Other Direct Benefits (3)	0.04	Other	-	-	-	0.04	-	-	-
VBA – GOE Fund (4)	0.07	Other	-	-	-	0.07	-	-	-
NCA Burial Programs	0.13	Other	-	-	-	0.13	-	-	-
Staff Offices	7.47	Other	-	-	-	7.47	-	-	-
TOTAL	27.7868	-	-	-	-	27.7868	-	-	-

Notes to Table 5:
(1) Amounts represent the disposition of funds recovered through payment recapture audits during FY 2014.
(2) Title 38 U.S.C. allows VHA to retain and use the recovery funds as no-year funding. The significant benefit to VA assures that lengthy collection activities, typically required to conduct these recovery actions, do not negatively impact the ability to use these funds. In addition, this benefit guarantees strong participation by assuring full recovery for medical facilities
(3) All funds recovered within the fiscal year of appropriation are returned to the fund for its original purpose. Funds recovered after the fiscal year ends, and up to five years after the appropriation has expired, are used for adjustment purposes only.
(4) Improper payments identified and recovered were from programs where the funds had not expired. All recoveries were returned to the fund for original purpose.

Table 6
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 (include justification in Payment Recapture Narrative)
Beneficiary Travel	Benefit	0.18	0.02	-	-
CHAMPVA (2)	Benefit	-	-	-	0.485
VA Community Care	Benefit	-	0.01	-	-
Purchased Long Term Services and Supports	Benefit	-	-	-	-
State Home Per Diem Grants	Grant	-	-	-	-
Supplies and Materials	Other	0.03	0.01	-	-
Other VHA Programs 1 (3)	Other	0.35	0.02	-	-
Other VHA Programs 2 (4)	Other	0.02	-	-	-
Compensation	Benefit	0.46	-	-	-
Pension	Benefit	0.03	-	-	-
VR&E	Benefit	0.01	-	-	-
Education	Benefit	0.02	-	-	-
Insurance	Benefit	-	-	-	-
Loan Guaranty	Benefit	0.81	-	-	-
Other Direct Benefits	Other	0.01	-	-	-
VBA GOE Fund	Other	-	-	-	-
NCA Burial Programs	Other	0.76	-	-	-
PFE - Payroll	Other	-	-	-	-
Staff Offices (5)	Contract/Other	0.32	0.10	-	-
Total		3.00	0.16	-	0.485

Notes to Table 6:

(1) VA is reporting improper payments identified, recovered, and outstanding for the period of October 1, 2013 to September 30, 2014.

(2) CHAMPVA data is combined with CBO programs: Foreign Medical, Spina Bifida Health Care, and Caregiver Stipend. Write off were initiated where amounts determined to not be collectable.

(3) Other VHA programs 1, using Medical Care Funds, includes the following programs for reporting purposes: Communications, Utilities, and Other Rent; Compensated Work Therapy and Incentive Therapy; VHA - Equipment; Homeless Per Diem Grants; Insurance Claims and Interest Expense; Land and Structures; Other Services; Consolidated Mail Outpatient Pharmacy; Pharmacy Medical Facilities; Printing and Reproduction; Prosthetics; Transportation of Persons and Things (not including beneficiary travel and employee travel); and Other VHA Activities.

(4) Other VHA programs 2, using Non-Medical Funds includes the following programs for reporting purposes: DoD-VA Medical Facility Demonstration Fund; General Post Fund; Medical and Prosthetic Research; and Medical Facilities Recovery Act.

(5) Staff Offices include the following programs: CDCO Franchise Fund; HRA General Administration Annual; OALC Major and Minor Construction; OGC General Administration Annual; OIG; OIT programs; OM Franchise Fund and General Administration Annual; Supply Funds; and VA Employee Travel.

Section XI. Additional comments on VA efforts to reduce improper payments.

VHA

VA is committed to providing Veterans access to timely, high-quality health care. In today's complex and changing health care environment, where VA is experiencing a steep increase in demand for care, it is essential that VA partner with providers in communities across the country to meet the needs of Veterans. VA is working diligently to resolve the issue surrounding the limitations on its authority to enter into agreements with private vendors to purchase services without following FAR. VA is taking a comprehensive approach to resolving this issue through legislation and reviewing internal processes to identify areas to increase compliance without impacting access to care.

VBA

In 2014, VBA, on VA OIG's recommendation, added a review of school submitted enrollment documents to validate enrollment data into the IPERA review. While this additional step has proven beneficial and increases the confidence in education benefits IPERA review findings, it has also occasionally identified schools or training facilities that are not in compliance with VA enrollment reporting requirements or other regulatory requirements. In instances where a school or training facility cannot come into compliance, or those rare instances where the school or training facility is egregiously violating VA enrollment reporting or other regulatory requirements, VBA must suspend or withdraw approval. During the FY 2014 IPERA review, two payments were reviewed that were initiated by a school or training facility whose approval was withdrawn. Therefore, VBA was unable to acquire the information and documentation necessary to validate reported enrollment data from the school or training facility. Out of caution, and to ensure VBA reported the most accurate information possible, these payments were determined to be improper and accounted for 52% of the reported error rate and an estimated $49 million of the reported improper payment amount. While this phenomenon inflates reported improper education benefit amounts, VBA remains committed to enforcing school and training facility compliance and recognizes that it may impact the improper payment rate.

Staff Offices

IPRO will be examining the Improper Payments Program in FY 2016 to identify strategic and tactical improvements that can be made to improve the overall program. Key focus areas of this review include:

- Leveraging the Improper Payments Governing Board to improve collaboration, coordination and accountability of program offices that own the processes that support the various payments and benefits that Veterans receive;
- Conducting lessons learned from past improvement efforts to determine what has worked well and what can be improved;

- Establishing a comprehensive review process for the development of corrective action plans to ensure that planned actions will address the root causes for the improper payments;
- Examining where additional training, tools and desk aids can reduce errors and reduce improper payments; and
- Identifying and prioritizing IT enhancements needed to reduce manual processes prone to errors.

All of the above actions will strengthen the VA Improper Payment Program with the objective of lowering the rate of improper payments and improving internal controls.

Section XII. VA's reduction of improper payments with the Do Not Pay Initiative.

Treasury provides monthly matching of all VA payment files with the public Death Master File (DMF) and the System for Award Management (SAM) (also known as the public Excluded Parties List System) databases in Do Not Pay (DNP). VA provides a monthly extract of VA's Financial Management System (FMS) vendor file to Treasury for matching against all available databases contained in the DNP portal. VA continues to look for opportunities where other control measures may be leveraged to comply with IPERA.

As a result of VA's existing activities and programs designed to prevent improper payments, only a minimal number of payment errors have been detected through the DNP matching process. More information is provided below on other activities and programs VA utilizes to prevent improper payments.

VHA

The FSC provides VHA with the matches it receives from Treasury on a monthly basis for Agency Location Codes (ALCs) 36001200 and 36000785. These matches are from DMF and SAM databases described above. VHA then applies additional business rules for increased accuracy and sends out results to the VISNs and VAMCs. Once feedback is received on the accuracy of the payment, VHA consolidates the results and submits them to FSC. As a result of VA's existing activities and programs designed to prevent improper payments, only a minimal number of payment errors have been detected through the DNP matching process.

VHA performs pre-award checks against SAM for all contracts greater than $3,000 as part of the procurement process. Internal control procedures for purchase cardholders require cardholders to check the SAM database for excluded parties prior to each new order for regular and recurring purchases to the same vendor. Cardholders are required to document matching against the SAM database on a quarterly basis. CBO's Program Integrity Tool was updated to include the List of Excluded Individuals/Entities (LEIE) to check all Community Care claims processed in FBCS in a pre-payment state.

VBA

For this reporting period, over 71.12 million payments were matched with the DNP databases. In addition, VBA has agreements with other federal agencies such as SSA, IRS, and BOP, to share information on a recurring basis to determine VA beneficiaries' eligibility. Information derived from the matches may be used to adjust VA benefit payments.

NCA

For this reporting period, approximately 30 thousand payments were matched with the DNP databases. No improper payments were identified.

FSC
The FSC processed vendor payments for goods and services on behalf of VA central office, VHA, NCA, and VBA. The FSC implemented a DNP continuous monitoring process to reduce erroneous vendor payments in accordance with IPERA. The continuous monitoring process includes a monthly match of vendors that compares the existing VA FMS vendor file with Treasury's DNP solution.

Treasury provides matches based upon two criteria: 1) Taxpayer Identification Number, and 2) Name. The matches are then forwarded to VHA, VBA, and NCA for investigation and adjudication. If warranted, a payment hold is placed on the vendor record in FMS which prevents processing of future payments associated with the ineligible payee.

Grants
VA's Grant Program Offices (GPOs) utilize the DNP portal to determine the eligibility status of an applicant prior to award. Through the use of the portal, program offices are able to quickly confirm a potential awardee's eligibility status and to make thorough decisions regarding the award of federal funds.

Table 7
Results of the Do Not Pay Initiative in Preventing Improper Payments(1)

	Number (#) of payments reviewed for improper payments	Dollars ($) of payments reviewed for improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the DMF only (2)	94,150,000	112,792,120.00	9	11,303.00	94,149,991	112,780,817.00
Reviews with the SAM only (3)	94,150,000	112,792,120.00	0	0	94,150,000	112,792,120.00
Reviews with databases not listed in IPERA (4)	125,859	88,390,000.00	38,226	22,920,000.00	87,633	65,470,000.00

Notes to Table 7:
(1) Amounts represent the results of the Do Not Pay Initiative for FY 2014.
(2) Matching against the Death Master File of the Social Security Administration (DMF). VBA currently has effective internal control mechanisms in place to identify and stop improper payments through a pre-existing data matching agreement program with SSA's private DMF database. Until legislative changes are enacted, VBA will continue to stop payments through the private DMF.
(3) Matching against the System for Award Management (SAM).
(4) VBA currently has effective internal control mechanisms in place to identify and stop improper payments through a pre-existing data matching agreement program with SSA's private DMF database. Until legislative changes are enacted, VBA will continue to stop payments through the private DMF.

Freeze the Footprint (FTF)

OMB Memorandum 12-12, *Promoting Efficient Spending to Support Agency Operations*, section 3 and OMB Management Procedures Memorandum 2013-02, the Freeze the Footprint policy implementation guidance require CFO Act departments and agencies not increasing the total square footage (SF) of their domestic office and warehouse inventory compared to the FY 2012 baseline, unless increased footage is offset through consolidation, co-location, or disposal of space from the inventory of that agency.

Baseline Comparison

	FY 2012 Baseline	FY 2014 Reported	Change
Square Footage (in millions)	28.87	29.59	0.72

Reporting of Operation and Maintenance Costs – Owned and Direct Lease Buildings

	FY 2012 Reported Cost	FY 2014 Reported Cost	Change
Operation and Maintenance Costs (in millions)	$99.57	$110.81	$11.24

VA's total SF subject to FTF for 2014 was 29.6 million SF, which represents a 2.5 percent increase over the 2012 baseline of 28.9 million SF.

VA anticipated footprint growth in 2013 – 2015, due to large projects previously approved in years prior to FTF that were already under construction or lease acquisition. These projects began to enter the portfolio in 2013 and continued in 2014, driving VA above its 2012 baseline. While VA continued to increase above the 2012 baseline, the growth in 2014 was significantly smaller compared to growth experienced in 2013.

VA has implemented new administrative office space standards to shrink the overall space requirements. The new standard applies to new projects and lease renewals. The standard does not generate an immediate space reduction, but as leases are replaced and the new standard used, overall office space will eventually be reduced. Also, VA is focusing on disposing vacant or underutilized assets (both office and warehouse) to help provide additional reduction in the portfolio.

In terms of cost, total operation and maintenance costs as reported in the Federal Real Property Profile (FRPP) rose 11.3 percent from $99.6 million in FY 2012 to $110.8 million in FY 2014. Each year, operation and maintenance costs increase by a few percentage points due to inflation, which escalates lease rental rates, utility rates, and other costs. In addition, VA did see growth in its FTF SF, which also contributed to an increase in operational costs. This combination of factors resulted in an increase in total operations and maintenance costs as reported in FRPP.

OIG Foreword to Major Management Challenges

Department of Veterans Affairs
Office of Inspector General
Washington, DC 20420

FOREWORD

Our Nation depends on VA to care for the men and women who have sacrificed so much to protect our freedoms. These servicemembers made a commitment to protect this Nation, and VA must continue to honor its commitment to care for these heroes and their dependents in a manner that is as effective and efficient as possible. VA health care and benefits delivery must be provided in a way that meets the needs of today's veterans and veterans from earlier eras. It is vital that VA health care and benefits delivery work in tandem with support services like financial management, procurement, and information management to be capable and useful to the veterans who turn to VA for the benefits they have earned.

Office of Inspector General (OIG) audits, inspections, investigations, and reviews recommend improvements in VA programs and operations, and act to deter criminal activity, waste, fraud, and abuse in order to help VA become the best-managed service delivery organization in Government. Each year, pursuant to Section 3516 of Title 31, United States Code, OIG provides VA with an update summarizing the most 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 the updated summation of major management challenges organized by the five OIG strategic goals—health care delivery, benefits processing, financial management, procurement practices, and information management—with assessments of VA's progress on implementing OIG recommendations.

OIG will continue to work with VA to address these issues to ensure the best possible service to the Nation's veterans and their dependents.

Linda A. Halliday

LINDA A. HALLIDAY
Deputy Inspector General

Major Management Priorities and Challenges

Major Management Challenge		Estimated Resolution Timeframe (Fiscal Year)	Page #
No.	**Description (Responsible Office)**		
OIG 1	**Health Care Delivery (VHA)**		
1A	Quality of Care **(VHA)**	2016	III-60
1B	Access to Care **(VHA)**	2016	III-67
1C	Care for Homeless Veterans **(VHA)**	2015	III-71
OIG 2	**Benefits Processing (VBA)**		
2A	Improving the Accuracy of Claims Decisions **(VBA)**	2016	III-75
2B	Improving Data Integrity and Management Within the VA Regional Offices **(VBA)**	2016	III-79
2C	Improving Management of the Fiduciary Program **(VBA)**	2016	III-82
OIG 3	**Financial Management (OM,OIT,VHA,VBA)**		
3A	Compliance with the Improper Payments Elimination and Recovery Improvement Act **(OM,VHA,VBA)**	2016	III-86
3B	Improving Management of Appropriated Funds **(OM,OIT,VHA)**	2015	III-89
OIG 4	**Procurement Practice (OALC,VHA)**		
4A	Improving Contracting Practices **(OALC,VHA)**	2015 (OALC, OPIA) 2016 (VHA)	III-93
4B	Improving Oversight of Patient Centered Community Care Contracts **(OALC,VHA)**	2015 (OALC) 2016 (VHA)	III-96
OIG 5	**Information Management (OIT)**		
5A	Develop an Effective Information Security Program and System Security Controls **(OIT)**	2016	III-98
5B	Improving Compliance with Federal Financial Management Improvement Act **(OIT)**	Unknown	III-102
5C	Improving Accountability and Oversight of the Project Management Accountability System **(OIT)**	2015	III-104

OIG CHALLENGE #1: HEALTH CARE DELIVERY
-Strategic Overview-

Historically, the Veterans Health Administration (VHA) has been a national leader in the quality of care provided to patients when compared with other major U.S. health care providers. However, in recent years, VHA has experienced significant challenges in delivering high quality, timely health care in an environment of increased and varied demand, competing goals and priorities, operational inefficiencies, organizational barriers, and inadequate information systems to manage health care resources efficiently and effectively.

The Office of Inspector General (OIG) invests about 40 percent of its resources in overseeing the health care issues of our Nation's veterans by conducting inspections at VA medical centers (VAMCs) and community based outpatient clinics (CBOCs), national reviews and audits, issue-specific Hotline reviews, and criminal investigations. The following sub-challenges highlight the major issues facing VHA today.

OIG Sub-Challenge #1A: Quality of Care (VHA)

1. Making Mission-Driven Decisions. VHA's primary mission is, and should be, the delivery of high quality health care. VHA has a number of critical missions that include: (1) the provision of quality healthcare, (2) the training of tomorrow's healthcare providers, (3) the provision of healthcare to all citizens in a time of national disaster, and (4) the advancement of medical research. VA must consistently make decisions to ensure that veteran's healthcare is always the highest priority mission. Within VHA, the first test of a management decision should be an assessment of its impact upon the delivery of quality health care. For example, veterans who receive their medical care through VA need timely access to emergency care. The management of a possible myocardial infarction, stroke, or appendicitis requires not only a sophisticated emergency room and readily available imaging, but hospital specialty treatment rooms and dedicated teams to provide timely critical care. Many smaller VAMCs cannot provide timely expert care for patients with these conditions. VHA's decision to operate an emergency room or urgent care center should have the quality delivery of this care as its most important standard. Arguments that veterans prefer to receive their care at VA or that this care creates contracting difficulties are secondary to the imperative that high quality care be provided. All medical care provided at each facility should be considered against this test.

VHA's Program Response
Estimated Resolution Timeframe: 2016
Responsible Agency Official: Under Secretary for Health

Completed VHA FY 2015 Milestones:
(This sub-challenge is not related to any specific OIG reports or recommendations; VHA has no milestones or pending action items on which to report. VHA provides general comment in response to OIG's statements)

In the past year, the vast shortage of clinicians in VHA and the resultant difficulty Veterans experienced in accessing VA care shocked the country. Yet, clinician shortage and access problems are not unique to VA; private citizens in every community across the country experience similar, if not greater, difficulty accessing their private clinicians, especially in rural areas (40 percent of Veterans enrolled in VHA live in rural areas, compared with approximately 25 percent of the U.S. population). The Congressional decision to broaden the ability for Veterans to qualify for federally subsidized private health care increased the demand on local providers who are already in short supply because of coverage expansion and an aging population. Diverting Veterans to the private sector has not yet demonstrated a substantial increase in health care access for Veterans.

OIG's comments regarding VHA leadership decision making sheds light on the complex nature of managing a national health care system comprised of over 1,500 sites of care across 50 states and U.S. Territories. VHA leadership decisions are mission driven and nearly always influenced by competing demands, such as funding, urgency, ethical justification, implementation of law, and Congressional or Executive Branch priorities. For example, in the setting of limited funding, VHA might need to decide between providing urgent financial support to a facility having difficulty providing critical services to Veterans seeking care today compared to hiring 1,600 new mental health providers nationally within 6 months as mandated by Congress. Both are essential to ensure Veterans have access to care, yet one will take precedence over the other.

Certainly there are times when short-term goals, such as urgent hiring of 1,600 new mental health providers over a 6 month period, interfere with VHA's ability to consistently support innovation at local VAMCs. There are times when national emergencies, like Hurricanes Katrina and Sandy, substantially divert resources from facilities across the country, thus interfering with VHA's ability to provide timely access to care for all Veterans at all sites. And there are times when concerns about quality of care supersede access to care, such as converting an emergency room to an urgent care center when the site does not have appropriate staff to meet quality of care standards.

While it is not the first test VHA leadership considers when making decisions, assessment of the impact on the delivery of quality health care is a strong and important element of the decision making process. Currently VHA leadership's first concern is whether any individual Veteran is at risk of harm and whether they received the care they need in the immediate situation. The next element of the decision is to assess the situation and gather pertinent facts. Leadership then considers options and proposals for resolving the situation. Within consideration of the options, VHA leadership considers the impact of the decision on the delivery of quality health care.

2. Aligning Resources with Health Care Needs. VHA provides veterans with comprehensive primary and specialty medical care; however, VHA continues to face challenges in matching health care needs with the appropriate resources. VHA's system-wide budget and execution data does not permit ready analysis at the Department or clinic level across VHA. The cost of providers and support staff is often a relevant cost in health care financial analysis. VHA does not have an adequate system to build the human requirements to provide health care appropriate for financial analysis. In recognition of this issue, Congress passed *The Choice Act,* which requires the OIG to report on the staffing needs of VHA for the next 5 years. OIG issued its first report on January 30, 2015, in which we noted that the five occupations with the largest staffing shortages were Medical Officer, Nurse, Physician Assistant, Physical Therapist, and Psychologist. The data underlying this initial determination was essentially VHA's "wish list" for talent, not a requirements-driven list. The data relied on ranking by VAMC leaders and produced a system-wide occupational ranking. While ranking data provides useful information on the relative needs, it does not provide the level of detail required to produce staffing targets. Data such as that generated by implementation of a staffing model would better facilitate an ongoing process by which VHA could adjust facility staffing. Additionally, this would facilitate comparison of current staffing to staffing model targets, further understanding of facility level barriers, and targeted interventions to address critical staffing needs.

<u>Completed VHA FY 2015 Milestones:</u>
As required by VACAA Section 301d, VHA developed, completed and submitted to Congress (March 9, 2015) a report outlining the staffing needs for each medical facility. In this report, VHA described advantages to be gained in further connecting the three pillars of clinical staff modeling, workforce planning and budget formulation. The report cited the nascent VA Planning, Programming, Budgeting and Execution (PPBE) (i.e., Manage for Results) process, whereby specific programs and initiatives will be qualified in terms of requirements on behalf of Veterans Care, and quantified in terms of both human capital and budget.

The FY16/FY17 PPBE cycle is underway, and programs are being introduced into this model, representing a key first step in achieving the objectives of Manage for Results. Simultaneously, VHA continues to evolve staffing models, to include implementation of the recently-refined Specialty Care productivity standards, and refinement of models in other practice areas, to include Primary Care and Mental Health.

As noted in the VACAA Staffing report cited above, there's no one-size-fits-all approach to clinical staff modeling; challenges in the private sector and Department of Defense are very similar to ours. VHA recognizes the value of applying staffing models as an aid to requirements development, leading to improved alignment of resources. Ongoing activities such as workforce planning, manage for Results and staffing frameworks will help VHA realize greater efficiencies.

3. Promoting Safe Opioid Prescribing Practices. Of increasing concern in VA and the nation is the use of opioids to treat chronic pain and other conditions. Patients prescribed opioids frequently have complex comorbid conditions, making them more likely to be given multiple medications that can interact dangerously with opioid medications and potentially lead to death. In May 2014, OIG issued a national review, *Healthcare Inspection—VA Patterns of Dispensing Take-Home Opioids and Monitoring Patients on Opioid Therapy* (Report Number 14-00895-163), which described some of the issues facing patients on high dosages of opioids. The report included six recommendations to ensure that patients on opioids receive follow-up evaluations and urine drug tests, that medication reconciliations are performed to avoid adverse drug interactions, and that acceptable standards are followed when prescribing opioids in conjunction with acetaminophen and/or benzodiazepines. In addition to this national review, since 2011, OIG has issued nine reports detailing opioid prescription issues within VA. Common themes from these reports include:

- The use of high dose opioids in patients with a substance use disorder and mental illness is a common clinical situation.
- Adherence to clinical guidelines is not routine.
- Primary care providers bear the responsibility for managing these complex patients, often with limited support from pain management experts and related specialists.
- The use of high dose opioids causes friction within provider groups, where opinions on the proper use of these medications vary.
- Non-traditional therapies that may offer the benefit of less narcotic use are not fully utilized.

The use of high dose opioids for the primary treatment of pain conditions is all too common within the veteran population. OIG reviews have found that VHA is not following its own policies, procedures, and guidelines for managing patients with chronic pain. While OIG notes that VHA has taken actions to implement a number of OIG recommendations, VHA leadership must be vigilant in monitoring facility compliance with opioid prescription policies, ensuring recommendations are implemented, and promoting effective, evidence-based alternatives.

Completed VHA FY 2015 Milestones:
VA is actively engaged in a system-wide, multimodal approach to addressing opioid misuse and opioid use disorder in Veterans receiving care from VA. While these approaches are organized under several different and discreet programs, they are designed to be complementary and synergistic to achieve the same desired clinical outcomes; that is, safe and effective pain management. VA's own data, peer reviewed medical literature, and Centers for Medicare and Medicaid Services (CMS), suggest that VA is making progress relative to the rest of the Nation.

Fiscal Year 2015 activities/milestones include: (1) deploying VA's Academic Detailing (AD) program which includes dissemination of provider and patient education materials and promotion of VA evidence-based Clinical Practice Guidelines; (2) providing medication disposal services to allow Veterans to physically dispose of unwanted/unneeded medications; (3) obtaining informed consent and standardized education "Taking Opioids Responsibly" as mandated by policy published May 2015; (4) rationale for routine urine drug screening for Veterans on long-term opioid therapy and guidance to facilities with regard to verbal consent documentation. (Nationally 76.7% of patients on long-term opioid therapy have a documented urine drug screen within the prior 12 months.); (5) Substance Use Disorder (SUD) treatment and on-going monitoring for Veterans who are diagnosed with SUD, but who require opioid analgesics; (6) increased access to complementary and integrative medicine treatments for pain management; (7) providing opioid overdose education and naloxone distribution to high-risk patients; (8) regulation permitting VA prescribers to access the state PDMPs and VA to share their controlled substances prescribing data and drafted policy requiring VA providers to access state databases when prescribing controlled substance; and (9) implementation of the opioid therapy risk report available to VA prescribers at the point of care in the electronic medical record for a thorough assessment of risk for adverse outcomes facilitating more effective care coordination and case management; this complements the Opioid Safety Initiative (OSI) dashboard aggregate trending data; (10) development of an OSI Toolkit with 12 documents/lessons providing guidance / education on evaluation and management of risk including tapering opioid and benzodiazepines; (11) development and publication of an evidence-based DoD-VA pain management curriculum for primary care (JPEP); (12) further development of a system-wide DoD-VA program of training providers in acupuncture, with more than 1700 trainees; development and promulgation of the Pain Mini-residency.

Peer Reviewed Medical Literature—Published in Journal "PAIN"
This study reviewed the duration of opioid therapy, the median daily dose of opioids, and the use of opioids in Veterans with substance abuse disorders and co-morbid chronic non-cancer pain. Dr. Edlund and colleagues found that: (1) half of all Veterans receiving opioids for chronic non-cancer pain, are receiving them short-term (i.e., for less than 90 days per year); (2) the daily opioid dose in VA is generally modest, with a median of 20 Morphine Equivalent Daily Dose (MEDD), which is considered low risk; (3) the use of high-volume opioids (in terms of total annual dose) is not increased in VA

patients with substance use disorders as has been found to be the case in non-VA patients. Dr. Edlund and the other authors concluded “this suggests appropriate vigilance at VA, which may be facilitated by a transparent and universal electronic medical record.”

VA Data

The Opioid Safety Initiative’s (OSI) key clinical metrics measured from Quarter 4 Fiscal Year 2012 (beginning in July 2012) to Quarter 4 Fiscal Year 2015 (ending in September 2015) demonstrate VA’s success with: 125,307 fewer patients receiving opioids (679,376 patients to 554,069 patients); 42,141 fewer patients receiving opioids and benzodiazepines together (122,633 patients to 80,492 patients); 94,507 more patients on opioids that have had a urine drug screen to help guide treatment decisions (160,601 patients to 255,108); 105,543 fewer patients on long-term opioid therapy (438,329 to 332,786); the overall dosage of opioids is decreasing in the VA system as 13,73115,172 fewer patients (59,499 patients to 44,327 patients) are receiving greater than or equal to 100 Morphine Equivalent Daily Dosing. The desired results of the Opioid Safety Initiative have been achieved during a time that VA has seen an overall growth of 108,519 patients (3,959,852 patients to 4,068,371 patients) that have utilized VA outpatient pharmacy services.

Comparison of CMS and VA Data

The most recent prescription opioid utilization data for the United States from the National Health and Nutrition Examination Survey is available through 2012. This data is of limited value for comparison of VA’s effort to address opioid overutilization as the VA’s Opioid Safety Initiative (OSI) was not deployed to all VA facilities until August 2013. CMS data for Part D beneficiaries is available through 2014. Although CMS Part D beneficiaries are predominately over the age of 65 and VA facilities serve a population that represents a wider age distribution, it is still important to review how the CMS Overutilization Monitoring System (OMS) and the VA Opioid Safety Initiative (OSI) are measuring and monitoring opioid utilization trends. Since VA does not have access to CMS’s OMS quarterly reports, which is more sensitive to trend organizational change as it relates to opioid utilization, select VA OSI metric data was annualized to demonstrate the positive trends of both VA’s OSI and CMS’s OMS data that is available in their April 6, 2015 note to Medicare Advantage Organizations, Prescription Drug Plan Sponsors, and other interested parties.

In 2014, CMS’s Part D enrollees utilizing opioids is 30.8 percent (12,308,735 out of 39,982,962 enrollees) and is consistent with estimated percentage of 30 percent of all USA adults who experience chronic pain. Overall, Part D enrollee opioid utilization, excluding hospice and cancer patients, from 2011 to 2014 has increased 22 percent (10,049,914 to 12,308,735 beneficiaries). The percent increase needs to be taken into context that the overall number of Part D beneficiaries has increased 27 percent (31,483,841 to 39,982,962) during the same time frame.

In 2014, VA Outpatient Veterans utilizing opioids was 17.5 percent (1,037,236 out of 5,927,104 Veterans) and is below the estimated percentage of 30 percent of all USA adults who experience chronic pain despite chronic pain being more prevalent in the Veteran population. For VA, overall opioid utilization from 2011 to 2014 has decreased 7 percent (1,112,324 to 1,037,236 Veterans). During this same time frame, the number of VA Outpatients has increased 6 percent (5,606,082 to 5,927,104 Veterans).

4. Ensuring Care Coordination. Veteran patients are not only complex because of comorbidities but also because they often receive health care from multiple locations both within and outside VA. For example, a patient may have a primary care provider at a CBOC, a mental health provider at the parent VAMC, and specialty care providers at both the parent VAMC and in the community through non-VA care. Patients may also prefer to have a non-VA primary care provider or may be mobile and see VA and non-VA providers in multiple cities or states. A study by VA's Health Services Research and Development group found that of the "6.5 million Veterans who received health care coverage under VA, Medicare, or Medicaid in fiscal year 2006 …, approximately one-third used more than one system of care."[2]

VHA's electronic health record (EHR) can be of tremendous benefit for managing patients who receive care from multiple providers and in multiple locations; however, it requires that EHR entries be timely, accurate, complete, and reviewed accordingly by providers. On November 14, 2014, OIG issued *Healthcare Inspection—Quality and Coordination of Care Concerns at Three Veterans Integrated Service Network 11 Facilities* (Report Number 14-01519-40). The review chronicled the case of a Veteran who received care at multiple VA facilities and some non-VA facilities. OIG found that communication breakdowns and providers' failures to review information available in the patient's EHR during care transitions compromised the patient's mental health and primary care. The exchange of health care information was particularly important for this high-risk patient with a complex psychosocial background and chronic pain history who was treated by multiple clinicians. OIG also found an absence of oversight in facilitating the continuum of care, which was especially challenging in this case as it touched several VAMCs, a CBOC, and multiple non-VA care sites. OIG made several recommendations to strengthen EHR documentation and oversight and care coordination. In addition, in recent months, OIG also issued two reports in which we reported backlogs and/or the lack of scanning of non-VA health care information into EHRs.

OIG's findings related to coordination of care are especially significant as VA expands non-VA health care options to veterans and more veterans opt to receive their health care from multiple sources, both VA and non-VA.

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[2] Vandenberg P, Uppal G, Barker A, Flemming D. "The Impact of the Affordable Care Act on VA's Dual Eligible Population." http://www.hsrd.research.va.gov/publications/forum/apr13/apr13-1.cfm.

Completed VHA FY 2015 Milestones:
The Care Coordination/Care Transitions workgroup was chartered on April 30, 2015 to conduct a literature review, assess current care coordination processes and approaches; and develop evidence-informed policy recommendations for the optimization and coordination of Veteran care both within VA and within the larger continuum of community care. The specific work includes: identifying care coordination standards of care and best practices being employed both within VA and in community settings; assessing current care coordination processes and approaches within VA and how they compare to identified care standards and developing subject matter expert/evidence-informed policy recommendations for how coordination of Veteran care both within VA and within the larger continuum of community care can be optimized.

A preliminary report summarizing the completed work was submitted to the Office of the Deputy Under Secretary for Health for Policy and Services in early July 2015, with a final report including policy recommendations is expected to be completed in September 2015.

The preliminary report described a framework emerging within the literature and among national agencies for organizing and considering care coordination/care transitions, programs, and processes. A review of the literature highlighting several core elements of interest and focus including: population health approaches, care coordination/transition practices including those embedded within medical home platforms, data-informed/event defined interventions, and cross-network integration efforts.

The preliminary report also provided a cursory gap analysis of “best” and “deficient” care coordination/care transition practices within VHA. Several key themes and issues were identified including the importance of leadership, direction and oversight by a qualified Social Worker or Registered Nurse Case Manager to anticipate and coordinate Veteran needs. Scenarios that identified where care coordination needs were assessed and proactive care plans were developed in which can be improved in alignment with “best” practices occurring systematically within the VHA health care system.

The next step for this workgroup is to reconvene to develop specific recommendations for leadership consideration.

OIG Sub-Challenge #1B: Access to Care (VHA)

In FY 2015 the OIG published a series of five reports on VHA’s Patient-Centered Community Care (PC3) program. In April 2014, the OIG received a request from the U.S. House of Representatives Committee on Appropriations to review VA’s FY 2014 PC3 costs and the $13 million cost savings estimate presented in VA’s budget submission. Our analysis of available PC3 data determined that inadequate price analysis, high up-front contract implementation fees, and low PC3 utilization rates impeded VA from achieving its $13 million PC3 cost saving estimate. OIG found that

FY 2014 PC3 costs totaled about $14.9 million more than if VA had used the non-VA care program to purchase the same health care services. VA assumed that the PC3 contractors would develop adequate provider networks, VA medical facilities would achieve desired 25 to 50 percent contract utilization rates, and accrued PC3 cost savings for health care services would more than offset the contractors' fees. These flawed assumptions contributed to significant PC3 contract performance problems and a 9 percent PC3 utilization rate in FY 2014. OIG recommended the Interim Under Secretary for Health (USH) revise VA's PC3 cost analyses and address VA's low PC3 utilization rates. Additionally, OIG recommended the Executive Director, Office of Acquisition, Logistics, and Construction (OALC), ensure all required contract documents are maintained in the PC3 contract files.

In July 2014, the OIG received an allegation asserting that VHA's use of PC3 contracted care was causing patient care delays. The allegation highlighted issues identified by VHA staff at seven VAMCs and one Veterans Integrated Service Network (VISN). OIG substantiated that PC3 contracted care issues were causing delays in care. PC3 was not achieving its intended purpose to provide Veterans timely access to care from a comprehensive PC3 provider network. OIG found pervasive dissatisfaction under both of the PC3 contracts, which has led all nine of the VA medical facilities reviewed by OIG to stop using the PC3 program as intended. From January 1 through September 30, 2014, the national utilization rate of the PC3 program was only about 9 percent.

Further, it took VHA an average of 19 days from the date of a VHA clinician's initial consult to submit the authorization to the PC3 contractors. OIG projected PC3 contractors returned, or should have returned, almost 43,400 of 106,000 authorizations because of limited network providers and blind scheduling (scheduling without patient involvement). PC3 contractors scheduled appointments without discussing the tentative appointment with the Veteran. OIG determined delays in care occurred because of the limited availability of PC3 providers to deliver needed care. VHA also lacks controls to ensure VA medical facilities submit authorizations and PC3 contractors schedule appointments and return authorizations timely. VHA needs to improve PC3 contractor compliance with timely notification of missed appointments and providing required medical documentation, as well as monitoring of completed authorizations. Also, VHA needs to ensure PC3 contractors submit authorizations within acceptable timeframes, evaluate the PC3 contractors' network, revise contract terms to eliminate blind scheduling, and implement controls to ensure PC3 contractors comply with requirements.

OIG also conducted a review of the adequacy of the PC3 provider networks and determined that inadequate PC3 provider networks contributed significantly to VA medical facilities' limited use of PC3. VA medical facility staff found the PC3 networks inadequate because:

- They lacked needed specialty care providers.

- Returned PC3 authorizations had to be re-authorized through non-VA care, thus increasing Veterans' wait times for care.
- More timely care was available to Veterans through non-VA care than PC3.

VHA expenditure of under $3.8 million in FY 2014 on PC3 health care services constituted less than 0.14 percent of VHA's approximate $2.8 billion in non-VA health care service expenditures in FY 2014. The expenditures ranged from $0 to about $468,000 for VA's 129 medical facilities with 50 VA medical facilities reporting no PC3 health care expenditures. During the first 6 months of FY 2015, VHA increased its PC3 health care service purchases to about $34.1 million. However, this still constituted less than 5 percent of VHA's $730.4 million non-VA care expenditures for the same period. VHA did not ensure the development of adequate PC3 provider networks and the use of PC3 because it lacked an effective governance structure to oversee the Chief Business Office's (CBO) planning, awarding, and implementation of PC3. The CBO also did not provide critical information needed for PC3 contract specifications, develop an adequate network access performance measure, and lacked an effective PC3 implementation strategy.

OIG conducted another PC3 review to determine whether PC3 contractors provided clinical documentation and reported critical findings as specified in their contract performance requirements. OIG estimated PC3 contractors did not meet the clinical documentation requirements for 68 percent of episodes of care during the period of review from January 1 through September 30, 2014. Of the 68 percent, OIG estimates that 48 percent of the clinical documentation was provided to VA late and 20 percent of the clinical documentation was incomplete. Only an estimated 32 percent of the episodes of care had the required supporting clinical documentation, which was well below the 90 percent contract performance standard for outpatient and 95 percent for inpatient documentation.

VHA made improper payments to PC3 contractors when payments were made to Health Net and TriWest prior to the return of complete clinical documentation. OIG estimated 20 percent of the documentation that was incomplete and provided to VA by PC3 contractors resulted in improper payments of about $5,400 to Health Net and $864,000 to TriWest from January 1 through September 30, 2014. OIG also determined that VHA did not apply the maximum allowable disincentive for lack of meeting contract performance requirements. OIG determined the maximum allowable disincentive that could be applied to Health Net's administrative fee was $15,909 for the period of July through September 2014. VHA only applied a disincentive of about $753 to Health Net for this 3 month period. By limiting the disincentive to only $753, VHA missed an opportunity to enforce performance requirements by penalizing Health Net an additional $15,156.

The PC3 contractors did not meet clinical documentation requirements because VA lacked an effective program for monitoring the contractors' performance. Contracting Officer Representatives (CORs) do not have an independent source of VA data to verify contractor compliance with the contracts' Quality Assurance Surveillance Plan (QASP). The primary tool used by CORs to verify contractors' compliance was monthly reports populated with data that was self-reported by the contractors. As a result, VA lacks adequate visibility and assurance that Veterans are provided adequate continuity of care, and is at risk of improperly awarding incentive fees or not applying disincentive fees.

OIG also found that TriWest providers had performed colonoscopies and biopsied polyps for which the results should have been reported to VA as a critical finding. TriWest's monthly reports only reported one of three critical findings. OIG could not find evidence that TriWest notified VA of the critical findings within 48 hours as required under the provisions of the PC3 contract. The PC3 contracts have specific terms and conditions to identify and report critical findings, and prescribe financial penalties for not doing so. However, after interviewing CORs and reviewing the QASP, OIG determined there was not an adequate process established for CORs to verify whether the contractor exceeds, meets, or does not meet the performance standard. As a result, VA has not assessed financial penalties or issued any corrective action letters related to critical finding reporting to enforce TriWest meet contract performance standards.

VHA's Program Response
Estimated Resolution Timeframe: FY 2016
Responsible Agency Official: Under Secretary for Health

Completed FY 2015 Milestones:
In response to the concerns raised in the OIG reports "PC3 Contracts' Estimated Cost Saving" and "Review of Allegations of Delays in Care Caused by PC3", VHA's Chief Business Office for Purchased Care (CBOPC) has formed an integrated project team (IPT) to lead a new Patient-Centered Community Care (PC3) cost analysis. The IPT executed a contract for completion of a cost benefit analysis. Upon completion, the cost benefit analysis will help IPT members analyze potential cost savings VA may realize with future changes to the VA managed healthcare model, to include PC3. VHA's CBOPC also developed a comprehensive action plan that addresses delays in care findings associated with PC3 contracted care issues.

With regard to OIG report, "Review of VA's Patient Centered Community Care (PC3) Contracts Estimated Cost Savings," OALC corrected the identified deficiency and all documentation for the two contract files has been re-input into the Electronic Contract Management System (eCMS). Completion occurred prior to June 15, 2015 and OALC had requested OIG consider closure of the recommendation.

With regard to OIG's report on PC3 Provider Network Adequacy (published September 29, 2015), in fiscal year 2016 VHA will take actions to improve governance and oversight processes for managing PC3 provider networks, in coordination with other non-VA care efforts, such as the Choice Program. With regard to OIG's report on PC3

Health Record Coordination (published September 30, 2015), in fiscal year 2016 VHA will tighten internal controls on contractors responsible for submitting documentation of care prior to receiving payment.

OIG Sub-Challenge #1C: Care for Homeless Veterans (VHA)

VHA's National Call Center for Homeless Veterans (the Call Center) is VA's primary vehicle for communicating the availability of VA homeless programs and services to Veterans and community providers. OIG assessed the effectiveness of the Call Center in helping Veterans obtain needed homeless services. OIG determined that homeless and at-risk Veterans (homeless Veterans) who contacted the Call Center often experienced problems either accessing a counselor and/or receiving a referral after completing the Call Center's intake process. Of the estimated 79,500 homeless Veterans who contacted the Call Center in FY 2013, just under 21,200 (27 percent) could only leave messages on an answering machine as counselors were unavailable to take calls, almost 13,000 (16 percent) could not be referred to VA medical facilities because their messages were inaudible or lacked contact information, and approximately 3,300 (4 percent) were not referred to VA medical facilities despite the caller providing all necessary information.

Also, referred homeless Veterans did not always receive the services needed because the Call Center did not follow up on referrals to medical facilities. Of the approximately 51,500 referrals made in FY 2013, the Call Center provided no feedback or recommended improvements to VA medical facilities to ensure the quality of the homeless services. OIG noted that 85 percent of the 60 Veterans' records reviewed lacked documentation to prove the Veterans had received needed support services. In addition, the Call Center closed just under 24,200 (47 percent) referrals even though the VA medical facilities had not provided the homeless Veterans any support services. In total, OIG identified 40,500 missed opportunities where the Call Center either did not refer the homeless Veterans' calls to medical facilities or it closed referrals without ensuring homeless Veterans had received needed services from VA medical facilities. OIG recommended the Interim USH stop the use of the answering machine, implement effective Call Center performance metrics to ensure homeless Veterans receive needed services, and establish controls to ensure the proper use of Call Center purpose funds.

OIG also conducted an audit of the Grant and Per Diem (GPD) Program's case management oversight to determine if VHA ensures services to eligible Veterans are provided in accordance with grant agreements. OIG determined VHA's oversight of homeless providers' case management helped to ensure services were provided in accordance with grant agreements for those Veterans in the program. However, GPD Program eligibility requirements need to be clarified so all homeless Veterans have equal access to case management services. OIG found 15 of 130 (12 percent) VA medical facilities within 6 different VISNs required veterans to be eligible for VA health care to participate in the GPD Program. Additionally, of the 59 grant applications that these 15 medical facilities oversaw during FY 2014, 4 had grant applications with the same eligibility limitation. GPD policy only requires an individual to have served in the active military, naval, or air service, and who was discharged or released under conditions other than dishonorable to participate in the GPD Program.

VHA Handbooks and the United States Code provide minimum active duty requirements to be eligible for VA health care benefits. VHA has been silent on addressing this additional eligibility requirement in their current policy. VHA has not aggressively pursued an Office of General Counsel formal opinion and confusion at all program levels regarding GPD Program eligibility requirements has resulted in inequitable access to case management services. In addition, OIG observed medication security issues with 5 of 22 (23 percent) providers we visited within 5 of the 6 medical facilities in our sample. This occurred because VHA and program providers did not ensure controls were sufficient to properly secure medications. As a result, Veterans' health and rehabilitation are potentially at risk if needed medications become lost or stolen. OIG recommended the Interim USH establish a definitive legal position on GPD eligibility, revise policies and the grant application approval process, if necessary, when a formal opinion is provided to VHA, and ensure Veteran medications are safely secured through additional inspections and controls.

VHA's Program Response
Estimated Resolution Timeframe: **FY 2016**
Responsible Agency Official: Under Secretary for Health

Completed FY 2015 Milestones:
In January, 2015, the Health Resource Center (HRC) terminated the use of the answering machine at the National Call Center for Homeless Veterans (NCCHV) and implemented an Interactive Voice Response (IVR) System which allows for an infinite call queue and automatically pushes the caller to the first available responder.

HRC implemented new operation standards, processes, and organization for NCCHV to include: call forecasting and scheduling to ensure calls are handled quickly and within less than a 5 percent abandonment rate and with minimal wait times; new organizational chart aligned under HRC's Clinical Services Department; performance standards following HRC Call Center guiding principles to provide the highest level of program oversight by holding all staff levels directly accountable; metrics tracking for hourly, daily, weekly, monthly, and yearly call specifics; standardized processes such as the Threatening Caller and Medical Emergency Standard Operating Procedures; reporting structure for calls to support collaboration and national awareness; referral response monitoring to ensure referrals are sent correctly and crucial information is identified pertaining to calls; adequate NCCHV staff training; and proper funding controls to satisfy the recommendations of the OIG audit.

The 15 medical centers identified during the review that were requiring Veterans to be eligible for VA health care to participate in the Grant Per Diem (GPD) Program were contacted and informed to use the definition of Veteran noted in VA regulations and policy. In addition, the VA GPD liaison staff was contacted via email in June 2014 to provide a reminder regarding the definition of Veterans for GPD.

VHA recognizes the risk associated with the storage of medications in its GPD funded transitional housing programs and has already taken actions to address OIG's recommendation. The GPD program established specific medication review standards in August 2013. These standards are incorporated into the annual re-inspection process and provide guidance to both VHA staff and GPD providers as to expectations regarding appropriate medication control systems within GPD funded programs. The standards include the requirement that individually stored medications must be safely and securely stored.

The GPD National Program Office reviewed medication control systems during the GPD operational provider call as well as the monthly GPD liaison call in November 2014.

VHA also initiated a national review of all operational GPD programs on November 2014, to ensure medication storage in these programs conformed to medication storage standards. Additional clarification was provided about the expectation for secured storage of medication. VA medical centers responsible for the oversight of the operations programs confirmed conformance with the medication storage standards.

OIG CHALLENGE #2: BENEFITS PROCESSING
-Strategic Overview-

Delivering timely and accurate benefits is central to VA's mission. VBA is responsible for oversight of the nationwide network of VAROs that administer a range of Veterans benefits programs, including compensation, pension, education, home loan guaranty, vocational rehabilitation and employment, and life insurance. These programs are estimated to pay out over $99 billion in claims to Veterans and their beneficiaries in FY 2016.

OIG conducts inspections of all 56 VARO's and the VSC in Cheyenne, WY, on a 3-year cycle to examine the accuracy of claims processing and the management of VSC operational activities. After completion of each inspection, OIG issues reports with inspection results to the VARO Director, the appropriate Area Director, Compensation Service, Office of Field Operations, as well as to Members of Congress. These inspections address the processing of high-risk claims such as temporary 100 percent disability evaluations, residual disabilities related to traumatic brain injuries (TBI), and special monthly compensation (SMC) claims and related ancillary benefits payments reserved for Veterans with quality of life issues due to severe disabilities related to military service. In FY 2013, OIG initiated the second cycle of reviews of the 57 offices. As of June 2015, OIG has completed 52 of the 57 inspections during this new cycle.

Persistent large inventories of pending claims for benefits pose a continuing challenge for the Veterans Benefits Administration (VBA). While VBA has made progress in reducing its inventory of rating related claims, OIG is concerned that the improvement was at the expense of other VBA workload such as its non-rating and appeals workload. OIG is also concerned that the manner in which VBA reports and accounts for its workload lacks transparency and creates self-imposed challenges in managing the workload. For example, at the end of FY 2014, VBA reported its Compensation Maintenance non-rating inventory was 460,458; however, in FY 2015, VBA discontinued reporting the total number pending in this inventory and only reported on the average number of days the workload had been pending—as of August 2015, this inventory had been pending on average 281 days. Additionally, VBA does not include dependency-related claims in its non-rating workload nor is this workload monitored on VBA's Directors Performance Dashboards. As of August 2015, VBA had 226,286 dependency claims in its inventory pending on average for 359 days. Similarly, as of August 2015, VBA reported the total number of Notices of Disagreements (NOD) pending was 216,437—pending on average for approximately 400 days. However, this number is not reflective of VBA's total inventory of appealed claims as it does not include appealed claims that have advanced from the initial NOD stage to the advanced or remand stage. VBA attributes this backlog to an increase in the disability claims workload, in part due to returning Iraq and Afghanistan Veterans, reopened claims from Veterans with chronic progressive conditions related to Agent Orange, relaxed evidentiary requirements to process post-traumatic stress disorder claims, and additional claims from an aging Veteran population with declining health issues. In efforts to address this backlog, VBA has implemented multiple transformation initiatives, including claims digitization and automated processing using the Veterans Benefits Management System. Other initiatives included provisional ratings for claims over 2 years old, expedited rollout of Disability Benefits Questionnaires, and mandatory overtime for claims processing staff at VBA's 56 VA Regional Offices (VAROs) and a Veterans Service Center (VSC) in Cheyenne, WY. Efforts to reduce the backlog of claims waiting to be processed have resulted in VBA actions to reprioritize workloads and redirect resources from other workloads to process rating-related disability claims. Recent and planned changes for VBA include implementation of standardized forms before claims processing actions can begin and a National Workload Queue which VBA plans to roll out beginning in FY 2016.

VBA continues to experience challenges in ensuring all 56 VAROs comply with VA regulations and policies and deliver consistent operational performance. Some initiatives to reduce the claims backlog were put in place without adequate controls. OIG continues to report the need for enhanced policies and procedures, training, oversight, quality reviews, and other management controls to improve the timeliness and accuracy of VBA's disability claims processing. OIG reports issued in 2015 highlight continued VBA challenges in managing the claims backlog and ensuring accuracy in disability benefits processing.

OIG Sub-Challenge #2A: Improving the Accuracy of Claims Decisions (VBA)

VBA staff faced challenges providing accurate decisions on Veterans' disability claims. For our inspections, OIG sampled claims with certain medical disabilities considered to be at higher risk of processing errors, thus results do not necessarily represent the overall accuracy of disability claims processing at the VAROs. Claims processing that lacks compliance with VBA procedures could increase the risk of improper benefits payments to Veterans and their families. . From September 2014 through June 2015, OIG inspected 16 VAROs and reported on their performance in five claims areas:

- Temporary 100 percent disability evaluations.
- Residual disabilities related to TBI.
- SMC and related ancillary benefits.
- Systematic Analyses of Operations (SAOs).
- Dates of claims.
- Benefits reductions.

OIG determined VA Benefit Office staff did not correctly process 19 percent of the total 1,232 disability claims sampled, resulting in over $2.7 million in improper benefits payments. Specifically, VARO staff incorrectly processed:

- 26 percent of 480 temporary 100 percent disability evaluations, resulting in identification of more than $1.9 million in improper benefits payments.
- 8 percent of 437 TBI claims, resulting in identification of approximately $42,700 in improper disability payments.
- 24 percent of 315 claims involving SMC and ancillary benefits resulting in identification of more than $772,400 in improper benefits payments.

VARO staff used incorrect dates when establishing claims in VBA's electronic system of records for 3 percent of the 480 cases reviewed. OIG also determined VARO staff did not correctly process or complete 32 percent of 443 proposed benefits reductions cases, resulting in approximately $879,900 in improper benefits payments.

Beginning in FY 2014, VBA began concurrently tracking the accuracy of rating-related disability claims using the traditional, claims-based model and a newly implemented issue-based model. Since the issue based model was implemented in October 2013, the accuracy rates have remained at approximately 96 percent. As such, OIG is concerned that the increased accuracy reported using the issue-based model is related to the change in methodology rather than actual improvement in the accuracy of claims being processed.

VBA's Program Response
Estimated Resolution Timeframe: 2016
Responsible Agency Official: Acting Under Secretary for Benefits

<u>Completed 2015 Milestones:</u>
VA is committed to providing Veterans with the care and services they have earned and deserve. The Veterans Benefits Administration (VBA) is currently undergoing the largest transformation in its history to fundamentally redesign and streamline the delivery of benefits and services to Veterans, their families, and Survivors. As of September 30, 2015, VBA has reduced the inventory of disability claims requiring a rating decision from 883,930 in July 2012 to 363,034 (a 58.9-percent reduction), and the backlog of disability claims pending over 125 days from 611,073 in March 2013 to 71,352 (an 88.3-percent reduction). Additionally, the average age of pending claims was reduced from 282 days in March 2013 to 93.1days (a 67-percent reduction). These dramatic improvements were achieved without sacrificing quality. Nationally, claim-based accuracy increased from 83 percent in FY 2011 to 90.7 percent. Issue-based accuracy has remained high at 96.3 percent and increased to over 98 percent in seven of the eight error categories, with the last one at 97.7 percent. Issue-based accuracy is measured by individually evaluating medical conditions within a rating-related compensation claim. Each issue must go through the same claims process that represents a series of completed tasks, such as development, research, adjudication, and decision, that could result in a specific benefit for a Veteran or survivor. More importantly, issue-based accuracy provides VBA the opportunity to precisely target medical issues where adjudication is most error-prone and additional training is needed.

Combined with such initiatives as increased brokering of claims, centralized mail, access to the Social Security Administration's Government Services Online system, electronic service treatment records, and mandatory overtime, VBA completed a record-breaking 1.4 million rating bundle claims in FY 2015 surpassing the previous record of 1.3 million claims in FY 2014.

As VBA continues to receive and complete more disability claims, one result is a corresponding increase in non-rating claims. Despite completing a record 2.7 million non-rating claims in FY 2014, this volume of work continues to grow. In FY 2015, VBA received 3.1 million non-rating claims, an increase of 15.3 percent over FY 2014 and 36.2 percent over FY 2013. Nationwide, VBA has identified a need for an additional 625 full-time employees to bring the non-rating workload to a steady-state inventory in FY 2017.

Even as VBA focused on its priority goal to eliminate the disability rating claims backlog for Veterans who have been waiting the longest, and is achieving record-breaking levels of production, VBA did not ignore non-rating claims. As part of the transformation effort, VBA developed a new Rules-Based Processing System (RBPS) to automate dependency claim submission and payment through self-service features. Over 225,000 Veterans have already filed their request to add or change their dependency status online. Over 60 percent of the dependency claims filed through RBPS are automatically processed and paid within one to two days. VBA also contracted for assistance with entering data from dependency claims filed in paper form into RBPS. In October 2014, VBA implemented the Dependency Rapid Response Pilot at the St. Louis and Phoenix National Call Centers, where call agents take dependency claims over the phone and submit them to the contractors to enter the data into RBPS. Full pilot implementation to the remaining call centers was completed in September 2015.

Similar to the increase in non-rating claims, the volume of appeals increases as VBA continues to receive and complete a record-breaking number of disability rating claims. Over the past 20 years, VA appeals rates have held steady between 11 and 12 percent of the total volume of completed disability rating claims. It is important to note that in VA's current appeals process, a Veteran's record remains open, meaning new evidence can be presented at any time during the appeal, which triggers a fresh review of the entire appealed decision.

While specific metrics reported on the Director's Performance Dashboard change over time, and as noted by the OIG, did not include the non-rating portion of VBA's claims inventory in FY 2015, non-rating claims have been consistently reported over the past decade as part of the Traditional Aggregate (TA) Tab of the publically available Monday Morning Workload Report (MMWR), with additional detail provided on the TA-Regional Office tab of the same report. Dependency-related claims have been and remain included in the non-rating workload of the MMWR. In addition, VBA provides other, internal claims reporting tools that allow senior VBA leadership and local regional offices to drill down to individual claims for detailed workload management purposes. The

MMWR provides transparent reporting on the entire appeals inventory, to include those in the Form-9, Remand, or Travel Board stages, as well as Notice of Disagreements.

Since VBA issued guidance on temporary 100-percent disability evaluations, VBA has improved the timeliness of appropriate action. As of September 30, 2015, the average days pending for temporary 100-percent claims (End Product 684) was 84 days, an improvement of 262 days. Overall inventory of these claims has decreased by 83 percent, from 7,925 in February 2014, to 1,344 as of September 30, 2015.

VA currently requires each Veterans Service Center Manager (VSCM) complete a program of systematic analyses of operations (SAO). Under current policies and procedures, VSCMs must complete ten SAOs that generally cover all areas of service center operations, including timeliness, quality, and internal controls, and may conduct additional SAOs on specific areas of operations as necessary. Additionally, Compensation Service (CS) reviews each regional office's (RO) most recent SAOs prior to all CS site visits to ensure that all required areas are sufficiently analyzed by RO management; operational weaknesses are identified, with appropriate recommendations for improvement; and recommendations from the previous year's SAOs were completed.

In May 2013, VBA issued Fast Letter (FL) 13-10, *Guidance on Date of Claim Issues*, which provided guidance to ROs that was designed to ensure there was no disincentive in VBA’s processing procedures to take action on any previously undecided claim that may be subsequently identified in a Veteran’s claims record (possibly many years or even decades later). As a result of OIG’s investigations related to this guidance, VBA quickly took several measures. VBA terminated the use of FL 13-10, informed all VBA personnel to no longer use FL 13-10, and directed all VBA personnel to immediately follow the permanent procedural guidance in the M21-1MR and M21-4 for all claims, including those referred to as “found claims” in FL 13-10.

VBA also developed and mandated new refresher training courses for Veterans Service Representatives and Rating Veterans Service Representatives on the topics of military retired pay, severance pay, special monthly compensation (SMC), and effective dates. In addition, VBA updated training materials on the following topics for the VSC personnel:

- Temporary 100-percent disability evaluations
- Residual disabilities related to TBI
- SMC and related ancillary benefits.
- Dates of claims
- Benefits reductions

OIG Sub-Challenge #2B: Improving Data Integrity and Management Within VA Regional Offices (VBA)

Since June 2014, OIG has initiated 13 reviews addressing allegations of mismanagement and data manipulation at 11 of VBA's 56 VAROs—indicating systemic trends involving inappropriately enhanced performance metrics. OIG substantiated and reported on issues relating to data manipulation and mismanagement at the following VAROs: Baltimore, Boston, Hawaii, Houston, Los Angeles, Oakland, and Philadelphia.

In late May 2014, the OIG began receiving a number of allegations through the VA OIG Hotline of mismanagement at the Philadelphia VARO. Many of these allegations involved staff who had a serious mistrust of VARO management. OIG substantiated serious issues involving mismanagement and distrust of VARO management which impeded the effectiveness of its operations and services to Veterans. Overall, OIG made 35 recommendations for improvement at the Philadelphia VARO, encompassing mismanagement of VA resources resulting in compromised data integrity, lack of financial stewardship, and lack of confidence in management's ability to effectively manage workload, to include mail management and protecting documents containing personally identifiable information (PII). There is an immediate need to improve the operation and management of this VARO and take actions to ensure a more effective work environment. Further, the extent to which management oversight has been determined to be ineffective and/or lacking requires VBA's oversight and action. It is imperative to ensure VBA leadership and the VARO Director implement plans to ensure the unprocessed workload OIG identified is processed and to provide appropriate oversight that is critical to minimizing the potential future financial risk of making inaccurate benefit payments. This includes maintaining oversight needed to ensure all future workload is processed timely and in ensuring the accurate and timely delivery of benefits and services. As of September 2015, VBA provided sufficient evidence to close 16 of the 35 recommendations. OIG will continue to follow up on the progress VBA makes toward implementing the corrective actions for the remaining 19 recommendations.

In July 2014, the OIG received a request for assistance from the Under Secretary for Benefits (USB) to review allegations that the VARO in Oakland, CA, had not processed nearly 14,000 informal requests. The allegation indicated some claims dated back to the mid-1990s. In addition, another complainant alleged that "informal claims" were being improperly stored. OIG substantiated the allegations that VARO staff had not processed informal claims. OIG confirmed that staff had not properly controlled these claims documents, which were accidently found in a filing cabinet, during a construction project. OIG did not identify any current storage or control issues during our site visit.

VARO management advised that a team assisting the Oakland VSC had located approximately 14,000 informal claims, some of which dated back to the mid-1990s, then saying they had identified 13,184 claims with 2,155 needing reviews. At the time of our onsite review, OIG could not confirm the existence of the 13,184 informal claims, of which were 2,155 claims needing review or action. OIG reviewed a sample of 34 of these newly “discovered” claims and found 7 (21 percent) remained unprocessed. While no claims in our sample dated back to the mid-1990s, some were as old as July 2002. OIG also found VARO staff had repeatedly reviewed these seven informal claims from December 2012 through June 2014 for various reasons, but took no additional action on them as required. VARO staff did not maintain adequate records or provide proper supervision to ensure informal claims received timely processing. From April through May 2014, the VARO discovered additional claims where the VARO’s special project team had previously annotated these claims as reviewed. VARO management determined these claims remained unprocessed. VARO management did not initially determine how many informal claims it found until it created a tracking spreadsheet in June 2014. Then, management determined staff did not process 537 informal claims. As a result, Veterans did not receive consideration for benefits to which they may have been entitled. OIG recommended the VARO Director complete and certify the review of the 537 informal claims, take appropriate action, and provide documentation to certify these actions are complete. Also, the Director should better enforce compliance with existing VBA and VARO policies pertaining to the processing of informal claims.

OIG also received an anonymous allegation in July 2014 that staff at the Little Rock VARO inappropriately applied VBA Fast Letter 13-10, “Guidance on Date of Claim Issues,” dated May 20, 2013. The complainant alleged that adjusting the dates of claims was done to give the appearance that VBA was making more progress than it actually had in eliminating its backlog of disability claims. In June 2014, the USB suspended use of Fast Letter 13-10 after the OIG determined staffs were misapplying the guidance at another VARO. OIG had previously reported to the USB that the guidance was used inappropriately to adjust dates of claims for unadjudicated claims discovered in the files. Changes to Veterans’ claims were made to process old mail instead of unadjudicated claims information found in the files. OIG substantiated the allegation that Little Rock VARO staff adjusted dates of claims for unadjudicated claims discovered in the files; however, staff did so in compliance with VBA Fast Letter guidance in effect at that time. OIG reviewed documentation on 48 unadjudicated claims that VARO staff located in claims folders from May 2013 through June 2014. Staff adjusted the dates of claim for all 48 cases reviewed, resulting in the claims having more current dates than the dates they were initially received within VA.

VBA staff interviewed by OIG raised concerns that the use of this guidance led to Veterans being provided with incorrect information on claims processing timeliness. The application of this guidance was also considered inconsistent with VBA standard policy requiring use of the earliest date that a document is stamped as received at a VA facility as the date of claim. This VARO maintained records of the changes made to Veterans’ claims per the requirements in the guidance. To mitigate the potentially adverse effect the date adjustments would have on Veterans’ benefits, Little Rock VARO staff took the initiative to develop a spreadsheet to track all unadjudicated claims found in the claims folders where dates of claims were changed. Based on OIG’s review, it was concluded that adjusting the dates of aging claims to more recent “discovered” dates resulted in a lack of assurance that staff would expedite processing of the discovered unadjudicated claims, further delaying benefits decisions for Veterans. Adjusting the dates of claims also misrepresented the time required for VARO staff to process the claims, potentially making performance look better than in actuality. In order to minimize confusion or misinterpretation of guidance for future claims processing, OIG recommended that VBA maintain a standard, universal policy for establishing dates of claims. Of further concern, VBA took immediate action to notify VARO’s to suspend the use of the Fast Letter pending further guidance on June 27, 2014; however, the Fast Letter was not terminated until January 2015.

VBA’s Program Response
Estimated Resolution Timeframe: 2016
Responsible Agency Official: Acting Under Secretary for Benefits

Completed 2015 Milestones:
VBA takes OIG reports seriously and has taken action to address the issues raised. VBA will continue to aggressively address all recommendations made by OIG until achieving full resolution. Specifically, as it pertains to the Philadelphia RO, under the Director’s leadership, the RO has made tremendous improvements in service to Pennsylvania Veterans in addition to serving national missions such as processing pension and survivor claims, and assisting Veterans and other beneficiaries at the call centers. The RO has reduced the backlog of compensation claims from its peak in December 2011 at 12,826 claims to 2,608 as of September 30, 2015, a 79.7 percent improvement. Additionally, the average days pending has also improved from 264 days in April 2013, to 129.7 days as of September 30, 2015, a 134.3 day improvement. Furthermore, the backlog of pension and survivor claims has also been reduced from its peak in July 2013 at 13,306 claims to 666 as of September 30, 2015, a 95 percent improvement while also reducing wait times by 80 days. As of September 30, 2015, 16 of the 35 recommendations made by OIG are closed, and 6 of the remaining 19 recommendations were fully implemented by VBA and VBA will request closure by OIG.

The Oakland RO concurred with the OIG’s recommendations to improve operations and fully implemented all of the recommendations. The Oakland RO conducted two separate reviews of the approximately 13,000 informal claim documents to identify items that could potentially affect a Veteran’s benefits and needed correction. About three percent of the documents required further action, which has been completed. The Oakland RO also recently implemented the national centralized mail initiative, which significantly reduces the potential for delayed handling of paper documents. All of the Oakland RO’s claim-related mail is now directed to a centralized scanning facility for conversion from paper to electronic digital format.

In May 2013, VBA issued FL 13-10, *Guidance on Date of Claim Issues*, which provided guidance to ROs that was designed to ensure there was no disincentive in our processing procedures to take action on any previously undecided claim that may be subsequently identified in a Veteran's claims record (possibly many years or even decades later). This FL instructed ROs to use the date the claim was discovered ("found") in the claims record, instead of the date the claim was received, for tracking purposes. This was done while ensuring that the date the claim was originally received was used as the effective date for any benefits awarded to the claimant. This ensured the full benefits due were paid to the claimant.

Special controls were put in place to manage and oversee this process. Authority to apply these procedures and establish a claim based on a discovered document was delegated only to RO Directors and Assistant Directors. ROs were also required to notify VBA's Compensation Service when any claim was established based on discovered documents.

As a result of OIG's investigations on found claims guidance, VBA quickly took several measures. VBA terminated the use of FL 13-10 effective June 27, 2014. VBA informed all RO personnel to no longer use FL 13-10, and directed all VBA personnel to immediately follow the permanent procedural guidance in the M21-1MR and M21-4 for all claims, including those referred to as "found claims" in FL 13-10.

Prior to March 24, 2015, Veterans were entitled to submit a claim in any format, including handwritten notes or letters. At times, this led to claims being discovered later in the process. Effective March 24, 2015, VA implemented an important regulatory change to make the claims process easier and more efficient for Veterans through the use of standardized claim and appeal forms. This regulatory change includes a new intent to file process that replaces the informal claims process. This gives the applicants additional time to gather all of the information and evidence needed to submit their formal application for benefits. This new process protects the earliest possible effective date if the applicant is determined eligible for benefits and helps ensure anyone wishing to file a claim receives the information and assistance they need.

OIG Sub-Challenge #2C: Improving Management of the Fiduciary Program (VBA)

The Fiduciary Program was established to protect Veterans and other beneficiaries who, due to injury, disease, or age, are unable to manage their VA benefits. Field examinations are a critical tool for VBA to assess the competency and welfare of these beneficiaries. OIG conducted an audit to assess whether the Fiduciary Program scheduled and completed field examinations within timeliness standards. The audit also assessed whether the program prepared field examination reports, and followed up on reported concerns in accordance with policy. VBA did not meet timeliness standards for about 45,500 (42 percent) of approximately 109,000 pending and completed field examinations during calendar year (CY) 2013. OIG followed-up by examining reported program performance for the first 9 months of CY 2014 and determined that field examinations not completed and already exceeding timeliness standards increased approximately 15 percent from about 19,000 in January 2014 to approximately 21,900 in September 2014. This occurred because field examination staffing did not keep pace with the growth in the beneficiary population. Also, VBA did not staff the hubs according to their staffing plan, and did not use all relevant performance measures for the field examination function. As a result, untimely field examinations placed about $360.7 million in benefit payments and approximately $487.6 million in estate values at increased risk.

In addition, VBA did not schedule required field examinations for a projected 1,800 beneficiaries in CY 2013. Lapses in field examination scheduling occurred because of inadequate management oversight to ensure required field examinations were scheduled. As a result, OIG projected the Fiduciary Program did not schedule field examinations for about 1,800 beneficiaries, placing beneficiaries' well-being and approximately $36.1 million in benefit payments at increased risk in CY 2013. OIG recommended the USB implement a plan to meet timeliness standards for field examinations, expand program performance measures, improve controls to identify unscheduled field examinations, and enhance case management system functionality.

OIG also conducted an audit to determine whether VBA protected the VA-derived income and estates of beneficiaries, who are unable to manage their financial affairs, when misuse of beneficiary funds is alleged. Misuse is the diversion of funds for the use of anyone other than the beneficiary and/or VA-recognized dependents. If misuse is suspected or alleged, certain actions must be taken within specific timeframes. They are termed "misuse actions." For the period January 1 through December 31, 2013, OIG determined 147 of 304 (48 percent) required misuse actions associated with the management of 122 beneficiaries were not performed timely or according to policy. These conditions occurred due to increases in workload, a lack of policies, and staff not being clear about some policies. Also, VBA did not perform monitoring or quality reviews of all misuse activities. OIG projected that, during CY 2013, VBA did not timely complete required actions to ensure the protection of 758 beneficiaries. These beneficiaries had combined VA-derived estates of approximately $45.2 million. VBA also did not take action to restore $2.1 million of misused funds. Unless VBA ensures actions taken are timely and according to policy, VBA may not adequately protect approximately $16 million in annual benefits payments or $80 million during CYs 2014 through 2018. OIG recommended the USB implement mechanisms to ensure VBA completes misuse actions timely and as required.

VBA beneficiary funding managed by the Fiduciary Program are at risk for fraud based on program weaknesses. From April 1, 2010, to March 31, 2015, OIG conducted 216 investigations involving fiduciary fraud and arrested 94 fiduciaries and/or associates. OIG investigations highlight program vulnerabilities that are exploited by unscrupulous individuals at the expense of VA beneficiaries.

Three recent examples illustrate the effective approach OIG has in combating fiduciary fraud by pursuing prosecution and court-ordered restitution against those individuals diverting funds intended for VA beneficiaries. In the first example, a former VA-appointed fiduciary, who was also an administrator of a nursing home, was indicted and arrested for Misappropriation by a Fiduciary. A VA OIG investigation determined that the defendant embezzled more than $313,000 from a Veteran. In the second example, a former VA fiduciary was arrested for Theft of Government Funds and Misappropriation by a Federal Fiduciary. A VA OIG investigation revealed that for over 5 years the defendant stole approximately $141,000 from 22 Veterans, using "excessive fees" and her sham company to justify excessive expenses. In the last example, a former VA fiduciary was sentenced to 30 months' incarceration and 3 years' supervised release after pleading guilty to Theft of Government Funds. A VA OIG, Social Security Administration (SSA) OIG, Railroad Retirement Board OIG, and the Montana Attorney General's Office investigation revealed that the defendant embezzled $369,585 of SSA, VA, and railroad retirement funds while operating a for-profit fiduciary business.

VBA's Program Response
Estimated Resolution Timeframe: 2016
Responsible Agency Official: Acting Under Secretary for Benefits

Completed 2015 Milestones:
In FY 2015, VBA implemented improvements to enhance service delivery and protection of beneficiaries within its fiduciary program. These efforts include implementing operational efficiencies, clarifying and strengthening policies and procedures, modernizing information technology systems, and providing training to fiduciary program staff and fiduciaries. In October 2014, VBA implemented policy to streamline the field examination process for certain beneficiaries who are at a lower risk of exploitation, such as those who reside in a facility licensed or monitored by a state or other government agency, or whose fiduciary is also their spouse. These beneficiaries and their fiduciaries are contacted via telephone or letter to assess their well-being and financial position. By soliciting information through a streamlined process for this specific population of beneficiaries, VBA is able to devote additional resources to perform face-to-face visits with those beneficiaries who are at greater risk. This is expected to reduce the follow-up field examination backlog.

VBA revised its site survey protocol in December 2014 and July 2015, to ensure that site visit teams conduct comprehensive inspections of fiduciary hub compliance with program policies and procedures. Under the protocol, the site visit teams also review processing operations and station controls for data integrity, quality, and training. In FY 2015, VBA conducted site visits at two fiduciary hubs.

In January 2015, VBA deployed its electronic Knowledge Management (KM) system to all fiduciary program staff. KM replaced the fiduciary intranet site and several other reference points, making it the single source for all fiduciary-related information used by program personnel. The site includes the Fiduciary Program Manual, all pertinent regulations, statutes, job aides, and other program guidance.

VBA also took steps to enhance procedures that identify and prevent misuse of beneficiary funds. In February 2015, VBA developed mandatory misuse training for all

VBA fiduciary personnel. This training provided instruction on how to identify misuse and take appropriate action depending upon the employee's position. Additionally, in May 2015, VBA released a custom misuse workflow in the Beneficiary Fiduciary Field System (BFFS) that facilitates and tracks all misuse actions from the allegation of misuse to the collection of the debt against the fiduciary. These measures will ensure accountability of misuse action processing.

In June 2015, VBA implemented a quality review database within BFFS, which provided increased data analysis capabilities for accuracy review and improved tracking of error trends. Incorporation of both the sampling methodology and reporting database will allow for real-time review of cases to expedite feedback to the fiduciary hubs.

In July 2015, VBA completed a work measurement study (WMS) of fiduciary work tasks performed by field examiners and legal instruments examiners. The WMS captured work performed using BFFS and other efficiencies gained in the fiduciary program responsibilities. The WMS information will assist VBA in more accurately defining and quantifying the time involved in completing fiduciary program work and resource requirements.

The above initiatives reflect VBA's priority and focus on improving and enhancing the oversight of beneficiaries to ensure their well-being, and appointing and conducting oversight of fiduciaries who manage their benefits.

OIG CHALLENGE #3: FINANCIAL MANAGEMENT
-Strategic Overview-

Sound financial management represents not only the best use of limited public resources, but also the ability to collect, analyze, and report reliable data on which resource use and allocation decisions depend. OIG's oversight assists VA in identifying opportunities to improve the quality of VA's financial information, systems, and assets. Addressing these and other issues related to financial systems, information, and asset management would promote improved stewardship of the public resources entrusted for VA's use.

For the 16th consecutive year, OIG's independent auditors provided an unqualified opinion on VA's FY 2013 and FY 2014 consolidated financial statements (CFS). VA restated its FY 2013 financial statements for Cumulative Results of Operation and Unexpended Appropriations, although this had no effect on Total Net Position. As a result, the contractor replaced its FY 2013 auditor's report with its FY 2014 report on the restated financial statements. With respect to internal control, the contractor identified one material weakness, "Information Technology Security Controls," which was a repeated condition. They also identified two significant deficiencies, "Financial Reporting" and "Accrued Operating Expenses." Additionally, the contractor reported that VA did not substantially comply with Federal financial management systems requirements and cited instances of non-compliance with section 5315 of title 38 and section 3715 of title 31 of the United States Code pertaining to the charging of interest and recovery of administrative costs. The independent auditors will follow up on these internal control and compliance findings and evaluate the adequacy of corrective actions taken during the FY 2015 audit of VA's CFS.

OIG Sub-Challenge #3A: Compliance with the Improper Payments Elimination and Recovery Improvement Act (Office of Management (OM), VHA, VBA)

OIG conducted an FY 2014 review to determine whether VA complied with the requirements of the Improper Payments Elimination and Recovery Act (IPERA). VA reported improper payment estimates totaling approximately $1.6 billion in its FY 2014 Performance and Accountability Report (PAR) compared with $1.1 billion in its FY 2013 PAR. The increase was due primarily to higher estimated improper payments for the Compensation and Pension programs under VBA. VA did not comply with two of six IPERA requirements for FY 2014. VBA reported four programs that did not meet its reduction targets and VHA reported a missed target for one program. Further, VBA did not meet the requirement to publish an improper payment estimate for one program because the estimate was not considered reliable. OIG also noted VA's risk and that VA should assess acquisition risk in some programs currently not reporting under IPERA. Further, VBA and VHA should make improvements in their sample evaluation procedures. While reviewing VBA's Compensation program, OIG noted this program crossed an Office of Management and Budget (OMB) threshold for potential designation as a high-priority program due to OIG's review identifying additional improper payments within the sample transactions. For this reason, OIG increased the projection of the potential improper payment in VBA's Compensation program.

OIG also conducted an audit to determine the accuracy of payments for VHA's non-VA medical care emergency transportation claims. Inaccurate payments affect VA's commitment to delivering timely and high quality health care to Veterans while controlling costs. OIG found that VHA's Non-VA Medical Care Program improperly paid 129 of 353 (37 percent) emergency transportation claims from April 1 through September 30, 2013. Of the total 353 payments valued at $585,800, the 129 improper payments amounted to $167,600. These claims were improperly paid because staff did not conduct an adequate review to ensure that all documentation was received prior to processing the claim and did not correctly determine Veterans' eligibility for emergency transportation. Staff also misunderstood the criteria for processing non-service and service-connected emergency transportation claims. As a result, OIG projected an annual improper payment amount of approximately $11.2 million. Over the next 5 years, OIG projected improper payments of approximately $56.2 million if claims processing controls are not strengthened. OIG recommended the Interim USH implement periodic training and systematic reviews of emergency transportation claims, and instruct the sampled VA medical facilities to initiate recovery of overpayments and reimbursement of underpayments identified in this audit.

VA Program Response
Estimated Resolution Timeframe: FY 2016
January 2016 (For Risk Assessment Recommendations)
2015 (For OIT)
Responsible Agency Officials
Acting Assistant Secretary for Management and Interim Chief Financial Officer (Lead), Under Secretary for Health, and Acting Under Secretary for Benefits, Assistant Secretary for Information and Technology

Completed FY 2015 Milestones:
When the 2013 Performance and Accountability Report was published, VBA anticipated higher improper payment estimates for FY 2014 since we were in the process of enhancing our FY 2014 test plans to cover additional elements that could lead to identification of additional improper payments or to address prior OIG findings. Using the enhanced test plans, VBA did identify additional improper payments, which led to the FY 2014 estimates exceeding the target reduction rates.

As reported in the 2014 Performance and Accountability Report, the target error rate for Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA) was 4.80 percent. In 2015, VHA expects to be compliant and report an error rate that meets the reduction target for CHAMPVA. VHA increased the sample size in the CHAMPVA review from 364 to 1,500 for Fiscal Year 2015 and revised its sample design to reduce the risk presented by outliers. The updated sample design stratifies by services and selects more samples from potential high risk areas to focus on problem areas and gain a better understanding of the root cause(s) of error.

In 2014, OIG cited contracting discrepancies related to VHA's compliance with Federal Acquisition Regulations and VA Acquisition Regulations (VAAR). In the 2015 Improper Payments Elimination & Recovery Improvement Act (IPERIA) review, VHA incorporated contracting aspects into the test plans for Non-VA Medical Care and Purchase Long Term Services and Supports program reviews, which resulted in a significant increase in improper payments over the prior year. These errors relate to program design and structural issues.

The Chief Business Office for Purchased Care (CBOPC) has taken multiple steps to address OIG findings identified during the review of emergency transportation claim payments made under VHA's Non-VA Medical Care Program. Efforts to recoup overpayments and complete additional reimbursements for underpayments were initiated and newly developed training reinforcing appropriate processing guidelines and authorities were delivered to staff. This training has since been delivered to a live audience twice and is available upon request.

In FY 2015, VBA's Compensation Service revised its test plans to focus on feedback received from the Quality Review Teams conducting the sampling testing. Refresher training was conducted for testers to assist them in recognizing improper payments. VBA initiated a strategic partnership with the Department of Defense to incorporate a process to streamline upfront waivers for active duty/drill pay. Due to resource constraints, DoD was unable to agree to the proposed implementation. VBA will revisit this with DoD in FY 2016. VBA's Vocational Rehabilitation and Employment Service completed nationwide deployment of an advanced training program on fiscal issues, aimed at training Vocational Rehabilitation Counselors on key control weaknesses previously identified during review and quality assurance testing. VBA's Pension and Fiduciary (P&F) Service expanded its upfront income verification for original claims to improve decision accuracy and program integrity. Refresher training was conducted for Pension Management Center (PMC) employees on determinations of benefits and award adjustments. P&F Service is incorporating IPERA awareness training and compliance into the PMC site visit protocol. VBA's Education Service incorporated processes into its IPERA review for the Post-9/11 GI Bill that request additional documentation from schools validating enrollment data. The test plan was revised to include source document reviews. Additionally, refresher training is provided to regional processing offices, schools, and training facilities to ensure adherence to proper reporting and focusing on reducing improper payments.

<u>FY 2015 – FY 2016 OM Action Plan:</u>
In May 2015, the Office of Management (OM) established a new Improper Payments Remediation and Oversight (IPRO) Office, reporting to the Associate Deputy Assistant Secretary for Finance. IPRO is charged with improving leadership, oversight, and guidance for the Department on improper payment estimation and reporting, as well as strategically evaluating current Governance processes and procedures to identify opportunities for improvements. Under the leadership of the Director, IPRO, VA

expects to improve coordination across the Department, and ensure corrective action plans are implemented and addressing the root causes of deficiencies resulting in improper payments, that are within the Department's control to remediate. In response to OIG's recommendation to ensure risk assessments properly account for known acquisition risks, responsible program officials amended risk assessments for the 12 programs required to perform risk assessments in FY 2015 on FY 2014 disbursements to consider acquisition risk. IPRO also updated the IPERA Risk Assessment to be used by VA Programs going forward in FY 2016 and beyond, to ensure acquisition risks are considered and will codify the updated risk assessment in IPERA policy in early FY 2016. In addition, IPRO led a coordinated effort to assess acquisition risk in 19 programs not currently reporting under IPERA, to address OIG's other acquisition risk related recommendations. The results of this effort will be used to inform management's risk assessments of FY 2015 disbursements in FY 2016.

OIG Sub-Challenge #3B: Improving Management of Appropriated Funds (OM, OIT, VHA)

OIG conducted a review of the Service-Oriented Architecture Research and Development (SOARD) information technology (IT) pilot project in response to allegations received by the VA OIG Hotline. OIG evaluated the merits of four allegations that VHA mismanaged SOARD. OIG substantiated an allegation that VHA misused Medical Support and Compliance (MS&C) appropriations to pay for SOARD instead of using Congressionally-mandated IT systems appropriations. This occurred because the former Assistant Deputy USH for Administrative Operations inappropriately authorized $2.6 million of MS&C appropriations for SOARD. In addition, the former USH inappropriately approved an additional $48.8 million of MS&C appropriations to deploy Maximo, the software for SOARD, nationwide. VA's Office of Information and Technology (OIT) subsequently denied VHA's request for additional IT Systems appropriations for SOARD, thus ending nationwide deployment of Maximo before VHA could obligate the $48.8 million. Additionally, although OIT used the Project Management Accountability System (PMAS) to manage SOARD, OIT lacked controls to prevent VHA's improper use of MS&C appropriations before using PMAS to manage IT projects. OIG did not substantiate the other two allegations. OIG recommended the Interim USH establish an oversight mechanism, remedy all MS&C appropriations used to pay for SOARD, and determine if VA should take administrative action against VHA senior officials involved in SOARD funding decisions. OIG also recommended the Executive in Charge, OIT, obtain Chief Financial Officer certification that VA is using proper appropriations to fund IT projects.

In addition, OIG received a hotline allegation that VHA had "parked" approximately $43 million in annual appropriations at the U.S. Government Printing Office (GPO) and the funds remained unexpended. OIG initiated this review to determine if VHA's CBO legally had the GPO "hold" funds, appropriated for use in one fiscal year, for use in another year, making them 'no-year' funds. OIG substantiated the allegation. OIG identified a breakdown of VA's fiscal controls and a lack of management oversight that led to the parking of funds. These expired funds were held for an excessively long period and VA financial managers failed to detect, properly use, and manage these funds responsibly. Approximately $35.2 million of approximately $43.1 million had remained at the GPO unused for 36 months. In addition, VHA's CBO paid approximately $5.6 million to the VA Supply Fund in service fees and only expended approximately $2.3 million from October 2011 through July 2014. As such, CBO was able to use the funds in its 'GPO account' at its discretion and with no designated purpose. VA officials responsible for Supply Fund management acknowledged that they should not have accepted the funds without a *bona fide* need, or charged fees on funds transferred through these accounts. OIG recommended the Deputy Assistant Secretary for Acquisition, Logistics, and Construction remedy the inappropriate expenditure of approximately $2.3 million of expired funds, determine whether VA should de-obligate any outstanding balances, and evaluate the need to return Supply Fund service fees of approximately $5.6 million.

OIG also recommended the Deputy Assistant Secretary for Acquisition, Logistics, and Construction implement a corrective action plan to ensure that fiscal controls are enforced to avoid future misuse of appropriated funds. Also, OIG recommended the Deputy Assistant Secretary for Finance review the fiscal controls in the Financial Management System (FMS) to ensure data integrity and an audit trail that reflects the occurrence and source of any accounting record changes. Finally, OIG recommended VA management determine the appropriate administrative action to take, if any, against the staff directing the misuse of the appropriated funds and circumventing controls over the management of funds.

VA's Program Response
Estimated Resolution Timeframe: FY 2016
Responsible Agency Official: Under Secretary for Health, Deputy Assistant Secretary for Finance and Acting Deputy Chief Financial Officer
Assistant Secretary for Information and Technology

Resolved February, 2015: The Office of Inspector (OIG) identified a lack of transparency in FMS regarding any changes made to obligation end dates. They indicated that changes to obligation end dates were not clearly documented or readily available for analysis and reporting purposes. The OIG also noted that extracting the documents required intervention from VA Finance.

Due to the large volume of financial transactions, FMS only stores certain information, in this case, zero dollar administrative changes such as a date change, for a limited number of days. As a result, these types of zero dollar administrative changes are visible to the user community for a very limited amount of time.

Due to this system deficiency, certain audit trails are only available for a short time period. To remediate this issue, a process was implemented in February 2015 to store this administrative information relating to obligations at the time they are processed. As a result, the information is now stored daily providing the ability to track the history of all new obligations from the implementation date forward.

Completed FY 2015 Milestones:
In response to the OIG finding that VHA misused $2.6 million of Medical Support and Compliance (MS&C) appropriations to pay for VHA's program office to pilot the deployment process for Maximo software instead of using Information Technology System appropriations, VHA and Office of Information & Technology's (OIT) formalized the process for reviewing project funding requests. Each VHA project is reviewed to ensure it supports VHA's strategic plan. Then, the VHA Resource Management Committee and the National Leadership Council review and approve for final funding. To strengthen the OIT oversight mechanisms, the OIT Planning, Budgeting & Budget Execution Board established a standing OIT/Non-OIT Working Group. This working group is chaired by the Director of OIT Financial Management & Oversight and the members include: VHA, Office of General Counsel, Veterans Benefits Administration, and others. If this working group determines that a VHA project requires non-OIT funding, VHA will institute the administration's oversight mechanism for usage of MS&C appropriations.

The Office of the Inspector General (OIG) found that VHA had "parked" approximately $43 million in annual appropriations at the U.S. Government Printing Office (GPO). The Office of Acquisition and Logistics (OALC) worked with VHA to process the necessary transactions to fund these expenditures with the correct year of appropriated funds.

OALC returned $35 million of unexpended funds from GPO to VHA. In addition, they returned all Supply fund fees associated with this recommendation.

OALC implemented a corrective action plan to ensure that fiscal controls are enforced to avoid future misuse of appropriated funds, including inappropriate use of the VA Supply Fund, and the parking of funds. Also, OALC discontinued the collection of funds from the customer in advance of orders and issued new internal policy for acquiring printing and copying services requiring all requisitions and funding commitments be validated by the VA Supply Fund Chief Financial Officer. OALC further insured that the VA Supply Fund is not used for "parking of funds" by requiring all 1VA+ obligations of expiring funds comply with the policy issued by OALC, which requires approval by the sponsoring organization's Deputy Under Secretary, or equivalent as well as approval by OALC Head of Contracting Authority.

Completed 2015 MMC Sub-challenge Milestones (OIT):

VA's Office of Information and Technology has implemented the appropriate internal controls through its planning, programming, budgeting and execution (PPBE) processes as well as provides oversight for compliance through its PPBE Board, which is chaired by the Deputy Assistant Secretary for IT Resource Management/IT Chief Financial Officer. OI&T is also working with the Administrations to create comprehensive guidance on the use of the IT appropriation and other VA appropriations, for the acquisition, development, and operation of VA IT resources in a secure, consistent, effective and efficient manner, as directed by Congressional authority and in compliance with all federal laws and regulations.

OIG CHALLENGE #4: PROCUREMENT PRACTICE
-Strategic Overview-

VA operations require the efficient procurement of a broad spectrum of services, supplies, and equipment at national and local levels. OIG audits and reviews of support service contracts, PC3, and allegations regarding other contracts identified systemic deficiencies in all phases of the procurement process, including planning, solicitation, negotiation, award, and administration. OIG attributes these deficiencies to inadequate oversight and accountability.

Recurring systemic deficiencies in the procurement process, including the failure to comply with the Federal Acquisition Regulation and VA Acquisition Regulation, and the lack of effective oversight increase the risk that VA may award contracts that are not in the best interest of the Department. Further, VA risks paying more than fair and reasonable prices for supplies and services and making overpayments to contractors. VA must improve its acquisition processes and oversight to ensure the efficient use of VA funds and compliance with applicable acquisition laws, rules, regulations, and policies.

OIG Sub-Challenge #4A: Improving Contracting Practices (OALC, VHA)
In FY 2012, OMB reported that Government spending for support service functions had quadrupled over the past decade. Previous OIG audits identified recurring systemic deficiencies in virtually all phases of VHA contracting processes. VHA's support service contract costs increased 60 percent from approximately $503 million for about 5,100 contracts in FY 2012 to just over $805 million for about 4,700 support service contracts in FY 2013. OIG found VHA did not have effective internal controls or follow existing controls to ensure adequate development, award, monitoring, and documentation of support service contracts. Within our statistical sample of 95 support service contracts, OIG found 1 or more deficiencies in each contract reviewed. The contract deficiencies included insufficient documentation of key contract development and award decisions, assurance that paid invoice amounts were correct and funds were de-obligated following the contract completion, and a complete history of contract actions in VA's mandatory Electronic Contract Management System (eCMS).

These deficiencies occurred because VHA management did not have an effective quality assurance program, integrated oversight process reviews were not completed, and contracting officers did not delegate and meet with contracting officers' representatives as required. If VHA does not take timely action to improve its support service contracting processes, OIG estimated it will inappropriately compete, award, and manage contract funds totaling $159 million annually or $795 million over the next 5 years through FY 2019. OIG recommended VHA improve their quality assurance and training programs, revise and complete integrated oversight process reviews, objectively evaluate contracting officer's performance, and ensure contracting officers' representatives are delegated and met with quarterly. The Interim USH concurred with

OIG's recommendations and provided an acceptable action plan. OIG will follow up on the implementation of the corrective actions.

OIG also evaluated the merits of complaints received by the VA OIG Hotline that VA's Office of Public and Intergovernmental Affairs (OPIA) awarded an outreach contract to Woodpile Studios, Inc. The complainants alleged the contract award resulted in no apparent increase in VA services used by Veterans and that OPIA continued to solicit for additional contracts. OIG substantiated the allegations regarding OPIA mismanagement of its outreach contracts. OIG confirmed that in July 2010, OPIA awarded a contract to Woodpile to provide support for outreach campaigns at an initial cost of $5.2 million. However, OPIA could not demonstrate that contract activities resulted in increased awareness of and access to VA health care, benefits, and services for Veterans. OIG also confirmed that OPIA solicited significant new outreach service contracts without evaluating the effectiveness of the previous contract. OPIA management stated that leadership turnover contributed to ineffective oversight of the outreach contract management and solicitations. Consequently, Woodpile contractors performed functions that were inherently Governmental.

Questionable use of a labor-hour order instead of a performance-based contract contributed to invoices for activities that did not clearly link to accomplishment of VA outreach goals. By awarding new contracts without first evaluating the performance of the prior Woodpile contract, OPIA continued to expend funds on questionable outreach activities. OPIA also lacked performance metrics to fully assess improvements in access to VA benefits and services for Veterans. OIG recommended that the Assistant Secretary for OPIA ensure effective oversight of outreach contract management and prevent contractors from performing inherently Governmental tasks. The Assistant Secretary should also implement metrics to ensure the outreach campaigns improve Veteran awareness and access to VA services.

In addition, OIG substantiated allegations relating to the award and administration of contracts to Tridec Technologies for the Virtual Office of Acquisition software development project. The contracts, valued at more than $15 million, were awarded sole-source to Tridec by VA's Technology Acquisition Center utilizing the provisions of section 8127 of title 38 of the United States Code. The review substantiated that VA management officials, one of whom had a personal relationship with one of Tridec's owners, split the requirements to ensure that Tridec was awarded the contracts without competition. Two former VA management officials, one of whom was a personal friend of one of Tridec's owners, engaged in lack of candor when interviewed by OIG criminal investigators.

VA's Program Response
Estimated Resolution Timeframe (VHA): FY 2016
Estimated Resolution Timeframe Fiscal Year (OPIA): FY 2015
Estimated Resolution Timeframe OALC: FY 2015
Title of Responsible Agency Officials: Under Secretary for Health (VHA), Acting Deputy Assistant Secretary, Office of Public and Intergovernmental Affairs (OPIA), Principal Executive Director, Office of Acquisition, Logistics, and Construction (OALC)

VHA Completed FY 2015 Milestones:
The VHA Procurement and Logistics Office (P&LO) has been working to ensure effective quality assurance and training programs, integrated oversight processes, and Contracting Officer Representation (COR) programs are in place. In FY 2015, VHA P&LO further defined the roles and responsibilities of CORs and contracting officers and increased their efforts to build collaborative and supportive relationships with CORs across VHA. VHA P&LO established an integrated project team to develop alternate solutions for addressing deficiencies in the quality assurance program and the integrated oversight process. The VHA P&LO internal procurement audit office completed additional audits in FY 2015 to increase monitoring of contract deficiencies and to increase management accountability efforts. VHA P&LO plans to continue addressing internal controls and the quality of contracts in FY 2016 and will coordinate with the Department's MY VA Support Services team.

OPIA Completed FY 2015 Milestones:
To ensure all OPIA Contracting Officer's Representatives (COR) appropriately manage all contracts, OPIA coordinates with OALC to draft and publish Standard Operating Procedures (SOP) to be adhered to by all OPIA CORs and Program Managers. The SOP was published in FY 2015, and addressed the following five completed milestones pertaining to this sub-challenge: ensuring proper procedures are followed for all significant contract modifications; appropriate oversight is conducted for all outreach contracts; correct contract types are utilized for contracted work; significantly limit the use of Time and Materials contracts; and ensure Statements of Work and contracts include specific performance-based metrics.

Completed FY 2015 Milestones:
In OIG Sub-Challenge #4A, reference to the Office of Public and Intergovernmental Affairs' contract with Woodpile derived from the related VA OIG issued report, Number 13-01545-11, "Review of Alleged Mismanagement of VA's Office of Public and Intergovernmental Affairs Outreach Contract." Although the VA OIG report only provided recommendations for the program office (OPIA) to resolve, and none for OALC's action, OALC implemented the corrective actions listed below to remedy the contractor's performance.

(1) The Contracting Officer (CO) suspended the vendor's work on the contract after receiving allegations from the Contracting Officer Representative (COR) that the contractors were performing outside the scope of the contract.

(2) The CO also asked the contractor to submit more detailed invoices to clearly outline services provided.

(3) After talking to all parties, the CO determined that no further services were necessary, terminated the contract, and the contractor was notified of such.

(4) During its review, OIG requested basic contract information from the CO, which CO provided accordingly.

(5) The CO determined all performance deliverables were rendered and accepted prior to the work suspension and subsequent contract termination.

OIG Sub-Challenge #4B: Improving Oversight of Patient Centered Community Care Contracts (OALC,VHA)

OIG's review of PC3 contracts is a series of five reports published on PC3 in FY 2015. OIG determined that PC3 contracts were not developed or awarded in accordance with acquisition regulations, established VA policy, and commercial best practices. OIG found significant weaknesses in the planning, evaluation, and award due to this non-compliance. These regulations and policies ensure services acquired are based on need and at fair and reasonable prices.

VA awarded PC3 in September 2013, to provide a comprehensive, nationwide network of high-quality, specialty health care services for Veterans. The contracts were awarded for approximately $27 billion for a 1-year base period, with the option to renew the contracts annually for each of the succeeding 4 years. The contracting officials solicited proposals from vendors without clearly articulating VA's requirements. Thus, the vendors bidding on the solicitation had very little information upon which to base the type of specialty health care services they would need to provide, where they were to provide them, or the frequency of which specialty care services would be needed at which location. Therefore, the risk for providing the unknown amount of network was placed on the contractors and additional risk can lead to limited competition. OIG found documentation supporting vital contract award decisions was either not in VA's eCMS or incomplete. In the few documents available, OIG noted the awarded costs were actually negotiated at higher rates than proposed by one of the vendors in its original proposal. The rationale for these decisions was not documented in the price negotiation memorandum.

VA's Program Response
Estimated Resolution Timeframe (VHA): FY 2016
Estimated Resolution Timeframe (OALC): June 2015
Responsible Agency Official: Under Secretary for Health (VHA), Principal Executive Director, Office of Acquisition, Logistics, and Construction (OALC)

Completed FY 2015 Milestones:
VHA's Chief Business Office for Purchased Care (CBOPC) formed an integrated project team (IPT) to lead a new Patient-Centered Community Care (PC3) cost analysis. The IPT has executed a contract for completion of a cost benefit analysis. Upon completion, the cost benefit analysis will help the IPT analyze potential cost savings VA may realize with future changes to the VA managed healthcare model, to include PC3. VHA's CBOPC also developed a comprehensive action plan that addresses delays in care findings associated with PC3 contracted care issues.

Completed FY 2015 Milestones:
OALC has corrected the identified deficiency and has requested closure of the recommendations. Specifically, all documentation for the two contract files has been re-input into the Electronic Contract Management System (eCMS). Completion occurred prior to June 15, 2015. Over 250 paper files were scanned, as needed, and then those and any available electronic files were uploaded into the PC3 (Patient Centered Community Care) contract files, located within eCMS.

OIG CHALLENGE #5: INFORMATION MANAGEMENT (OIT)
-Strategic Overview-

The use of IT is critical to VA providing a range of benefits and services to Veterans, from medical care to compensation and pensions. If managed effectively, IT capital investments can significantly enhance operations and support the secure and effective delivery of VA benefits and services. However, when VA does not properly plan and manage its IT investments, they can become costly, risky, and counter-productive. Lacking proper safeguards, computer systems also are vulnerable to intrusions by groups seeking to obtain sensitive information, commit fraud, disrupt operations, or launch attacks against other systems.

Under the leadership of the Executive in Charge for IT, VA's OIT is positioning itself to facilitate VA's transformation into a 21st century organization through improvement strategies in five key IT areas: (1) quality customer service, (2) continuous readiness in information security, (3) transparent operational metrics, (4) product delivery commitments, and (5) fiscal management. OIT's efforts are also focused on helping accomplish VA's top three agency priority goals of expanding access to benefits and services, eliminating the claims backlog in 2015, and ending Veteran homelessness in 2015.

However, OIG oversight work indicates that additional actions are needed to effectively manage and safeguard VA's information resources and processing operations. As a result of the FY 2014 CFS audit, OIG's independent auditor reported that VA did not substantially comply with requirements of the Federal Financial Management Improvement Act of 1996. While providing an unqualified opinion on the CFS, the independent auditor continues to identify IT security controls as a material weakness.

OIG work indicates VA has only made marginal progress toward eliminating the material weakness and remediating major deficiencies in IT security controls. OIT also has not fully implemented competency models, identified competency gaps, or created strategies to ensure its human capital resources can support VA's current and future mission requirements with necessary IT enhancements or new initiatives. Despite implementation of PMAS to ensure oversight and accountability, VA is still challenged in effectively managing its IT systems initiatives to maximize the benefits and outcomes from the funds invested.

OIG Sub-Challenge #5A: Develop an Effective Information Security Program and System Security Controls (OIT)

Secure systems and networks are integral to supporting the range of VA mission-critical programs and operations. Information safeguards are essential, as demonstrated by well-publicized reports of information security incidents, the wide availability of hacking tools on the internet, and the advances in the effectiveness of attack technology. In several instances, VA has reported security incidents in which sensitive information has been lost or stolen, including PII, thus exposing millions of Americans to the loss of privacy, identity theft, and other financial crimes. The need for an improved approach to information security is apparent and one that senior Department leaders recognize. OIG's recent work on the CFS audit supports OIG's annual Federal Information Security Management Act (FISMA) assessment. During FY 2014, OIG reported that VA continued to implement its Continuous Readiness in Information Security Program to ensure continuous monitoring year-round and establish a team responsible for resolving the IT material weakness. In August 2013, VA also implemented an IT Governance, Risk and Compliance Tool to improve the process for assessing, authorizing, and monitoring the security posture of the agency. As FISMA work progressed, OIG noted more focused VA efforts to implement standardized information security controls across the enterprise. OIG also noted improvements in role-based and security awareness training, improved contingency plan testing, a reduction in the number of outstanding Plans of Action and Milestones (POA&M), the development of initial baseline configurations, a reduction in the number of IT individuals with outdated background investigations, and improvement in data center web application security.

However, these controls require time to mature and show evidence of their effectiveness. Accordingly, OIG continues 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. OIG continues to find control deficiencies in security management, access controls, configuration management, and contingency planning. Most importantly, OIG continues to identify significant technical weaknesses in databases, servers, and network devices that support transmitting financial and sensitive information between VAMCs, VAROs, and Data Centers. This is a result of an inconsistent application of vendor patches that could jeopardize the data integrity and confidentiality of VA's financial and sensitive information.

VA has made progress in deploying current patches; however, older patches and previously identified vulnerabilities continue to persist on networks. Even though VA has made some progress in these areas, more progress must be made to improve deployment of patches that will mitigate security vulnerabilities and to implement a centralized process that is consistent across all field offices. 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 at all facilities and communicate security deficiencies to the appropriate personnel tasked with implementing corrective actions.

OIG's FY 2014 FISMA audit report discussed control deficiencies in four key areas:

(1) configuration management controls, (2) access controls, (3) change management, and (4) service continuity controls. Improvements are needed in these key controls to prevent unauthorized access, alteration, or destruction of major application and general support systems. VA has over 9,000 system security risks and corresponding POA&Ms that still need to be remediated to improve the overall information security posture. More importantly, OIG continues to identify significant technical weaknesses in databases, servers, and network devices that support the transmission of sensitive information among VA facilities. Many of these weaknesses may be attributed to inconsistent enforcement of an agency-wide information security program and ineffective communication between VA management and the individual field offices. The FY 2014 FISMA report provided 27 current recommendations to the Executive in Charge for Information and Technology to improve VA's information security program. The report also highlighted 6 unresolved recommendations from prior years' assessments for a total of 33 outstanding recommendations. Overall, OIG recommended that VA focus its efforts in the following areas:

- Addressing security-related issues that contributed to the IT material weakness reported in the FY 2014 CFS audit of the Department.
- Successfully remediating high-risk system security issues in its POA&Ms.
- Establishing effective processes for evaluating information security controls via continuous monitoring and vulnerability assessments.

In October 2014, the House Committee on Veterans' Affairs provided the OIG a complainant's allegation that the VA Palo Alto Health Care System Chief of Informatics entered into an illegal agreement with Kyron, a health technology company, to allow data sharing of sensitive VA patient information. This allegation involved Veterans' PII, protected health information, and other sensitive information being vulnerable to increased risks of compromised confidentiality. Allegedly, sensitive VA patient information was transmitted outside of VA's firewall. The complainant also alleged Kyron personnel received access to VA patient information through VA systems and networks without appropriate background investigations.

OIG did not substantiate the allegations that the Chief of Informatics formed an illegal agreement with Kyron or that sensitive patient information was transmitted outside of VA's firewall. However, OIG substantiated the allegation that Kyron personnel received access to VA patient information without appropriate background investigations. Based on our interviews, a review of available documentation and relevant criteria, and personal judgment, OIG determined the Chief of Informatics, who was also the local program manager for the pilot program, failed to ensure Kyron personnel met the appropriate background investigation requirements before granting access to VA patient information. The Chief of Informatics also failed to ensure Kyron personnel completed VA's security and privacy awareness training.

Further, the Information Security Officers failed to execute their required responsibilities in accordance with VA Handbook 6500, Information Security Program. OIG found that

Information Security Officers did not coordinate, advise, and participate in the development and maintenance of system security documentation and system risk analysis prior to Kyron placing its software on a VA server. As a result, Kyron did not have formal authorization to operate its software on a VA server. Given the nature and seriousness of sensitive Veteran data being vulnerable to increased risks of compromised confidentiality, OIG recommended the VA Executive in Charge for Information and Technology take immediate action to ensure the local and regional Information Security Officers determine the appropriate security level for Kyron's software and pilot program.

VA's Program Response
Estimated Resolution Timeframe: 2016
Responsible Agency Official: Assistant Secretary for Information and Technology

Completed 2015 MMC Sub-challenge Milestones:
VA established an Enterprise Cybersecurity Strategy Team (ECST) to define an overall cybersecurity strategy across VA, including management of current projects such as CRISP, and holistic development and review of VA's cybersecurity requirements and operations.

VA implemented a centralized approach for gathering information security metrics and managing compliance related to the prioritization and implementation of critical patches across the enterprise. VA uses security automated tools to scan for vulnerabilities across assets to map critical and high-level vulnerabilities. As part of the Department of Homeland Security (DHS) Cyber Sprint effort, VA identified High Value Assets (HVA) and reviewed security practices and controls around VA HVAs.

VA developed streamlined assessment and authorization processes with technically-focused risk-based accreditation requirements. VA also standardized Security Control Assessment (SCA) procedures across the enterprise, refining procedures based on past OIG findings and lessons-learned from SCA site visits. In FY 2015, DHS' US-CERT began providing weekly cyber hygiene reports that contained the results of US-CERT vulnerability scans of VA Internet facing hosts. For all the cyber hygiene reports delivered in FY 2015, the VA has resolved all of the small number of critical vulnerabilities identified in those reports. Eight were deemed false positives by US-CERT and one was patched within two weeks of notification. None of these critical vulnerabilities exceeded the 30 day limit for patching/mitigation, and VA is currently working to address all other vulnerabilities identified in VA systems as a result of our own vulnerability scans on our systems.

VA made multiple access control improvements in FY 2015 to ensure that VA networks are protected from threats. As part of its "defense in depth" strategy, VA acquired new network monitoring capabilities, improved vulnerability scanning of outward-facing applications, increased desktop security, and enhanced its speed in detecting and combating attackers. Increasing numbers of malware attempts are now blocked at the gateway, before attacks reach VA networks. In the wake of large-scale PII breach incidents (OMB Reference Number: AR-15-20001C), and as directed by the Federal CIO Cyber Sprint Strategy, the VA began its search for the specific DHS identified indicators of compromise (IOC) on April 20, 2015 and completed the initial pass of network on June 9, 2015. VA also began a more comprehensive implementation of two-factor authentication (2FA) across the Department. In July 2015, the Deputy Assistant Secretary for Information Security directed two-factor authentication for internal access to VA systems. As of the end of July 2015, 80% of all VA users (non-patient facing) are required to access VA networks through PIV authentication, by managerial direction and/or technical controls. As of August 2015, VA has achieved 50% compliance, and full compliance will be achieved in FY 2016.

The VA also is making progress in reducing the number of staff with elevated privileges.

OIG Sub-Challenge #5B: Improving Compliance with Federal Financial Management Improvement Act (OIT)

VA is not in substantial compliance with the Federal financial management systems requirements of the Federal Financial Management Improvement Act of 1996. This condition is due to VA's complex, disjointed, and legacy financial management system architecture that has difficulty meeting increasingly demanding financial management and reporting requirements. In particular, OIG's independent financial statement auditors reported the following:

- VA's core accounting system — FMS — has functional limitations that were further exacerbated by operational and security vulnerabilities due to the age of the system and its supporting technology.
- VA's Integrated Funds Distribution Control Point Activity, Accounting and Procurement System (IFCAP)—a major feeder system to FMS for obligations—has only a one-directional interface with FMS. Therefore, IFCAP is not updated for changes to obligations made in FMS, and VA is unable to perform a complete reconciliation of obligations and fund status between the two systems.
- The Veterans Health Information Systems and Technology Architecture (VistA) does not provide VA with the ability to effectively and efficiently monitor nationwide Medical Care Collection Fund (MCCF) activities. Personnel cannot generate combined reports for all facilities under their purview, and a nationwide report cannot be generated to aggregate MCCF transactions at a sufficient level of detail. Reconciliation of revenue transactions to collections and the supporting audit trail is more complicated. Additionally, VistA cannot 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.
- Transactions initiated and recorded in IFCAP cannot be reconciled to the procurement source documentation maintained in eCMS. Also, eCMS does not

have a procurement file structure to maintain acquisition documentation in a consistent and efficient manner. The information in eCMS is incomplete and could be unreliable.

VA's Program Response
Estimated Resolution Timeframe: Unknown
Responsible Agency Official: Assistant Secretary for Management

To improve compliance with the Federal Financial Management Improvement Act (FFMIA) Assurance Statement process, VA provides oversight and review of internal controls over financial reporting. VA has been investigating the best approach to replace the aging Financial Management System (FMS). We acknowledge all of the items identified in the OIG Sub-Challenge #5B: Improving Compliance with Federal Financial Management Improvement Act (OIT). This is a complex issue and replacing the FMS is a fundamental step in the overall solution. There are more than 50 major interfaces that send data to FMS. Current interface capability is very limited with the legacy system and gives rise to the problems identified. VA will conduct exploration of the Federal Shared Service providers for a possible solution to replace the outdated FMS system. We anticipate beginning this process in earnest during FY16.

Two systems, Electronic Contract Management System (eCMS) and Integrated Funds Control, Accounting, and Procurement (IFCAP), are not interfaced for the exchange of obligation data. Reconciliation can partially occur as Contracting Officers do enter the IFCAP purchase order number (FMS Obligation number) into eCMS following the processing of the VA Form 2138, Order for Supplies or Services in IFCAP. For Centralized Administrative Accounting Transaction System (CAATS) transactions, since eCMS generates the obligation number for passing onto FMS, a100% reconciliation can occur. Enterprise Acquisition Service (EAS) has reported on this finding in the past to the Office of Management. The core application of eCMS is a Commercial Off-the-Shelf (COTS) product. As such, EAS must rely on the COTS manufacturer to make product enhancements. Contracting personnel can and do maintain acquisition and procurement files in eCMS, and the COTS product does allow an index of items to be created, mimicking common file structures of the past paper environments. Since Contracting Officers are the only federal employees that can "obligate" the federal government and the core obligation documents are created and maintained in eCMS, the obligation data in eCMS should be considered official. The unreliability stems from the fact that for IFCAP transactions, no data interface exists despite two attempts to resolve that issue.

OIG Sub-Challenge #5C: Improving Accountability and Oversight of the Project Management Accountability System (OIT)

Although steps were taken to improve PMAS, OIT still has not fully infused PMAS with the discipline and accountability necessary for effective oversight of IT development projects more than 5 years after system launch. Two OIT offices did not adequately perform planning and compliance reviews. The PMAS Business Office (PBO) still had

Federal employee vacancies, and the PMAS Dashboard lacked a complete audit trail of baseline data. Project managers continued to struggle with capturing incremental costs, and project teams were not reporting costs related to enhancements on the PMAS Dashboard.

These conditions occurred because OIT did not provide adequate oversight to ensure OIG's prior recommendations were sufficiently addressed and that controls were operating as intended. OIT also did not adequately define enhancements in the PMAS Guide. As a result, VA's portfolio of IT development projects was potentially being managed at an unnecessarily high risk. OIG also identified approximately $6.4 million in cost savings OIT could achieve by hiring Federal employees to replace contract employees currently augmenting PBO staff.

VA's Program Response
Estimated Resolution Timeframe: 2015
Responsible Agency Official: Assistant Secretary for Information Technology

Completed 2015 MMC Sub-challenge Milestones:

OI&T has established procedures to ensure the office of Product Development completes all required Planning Reviews. As specified by PMAS Guide 5.0, the relevant Offices of Responsibility (OOR) within OI&T conduct Planning Reviews within their respective organizational units. The outcomes of these reviews determine whether a recommendation is made for a project to remain in a planning state, move to the provisioning state or active state, be re-evaluated, or be closed. This process was implemented in the second quarter of FY 2015.

To ensure personnel performing Compliance Reviews assess the accuracy and reasonableness of cost information reported in PMAS, OI&T modified its policies, practices, and methodologies in February 2015. These changes ensure that project teams input into the PMAS Dashboard all data that is necessary to capture and report planned and actual total project and increment level costs. Enterprise Risk Management (ERM) is currently assessing the Compliance Review process; upon completion of this activity, ERM will document the process established by Program Planning and Oversight (PPO), Service Delivery and Engineering (SDE), and OOR to record project cost information. ERM will then develop a review process to validate dashboard data.

To ensure that project managers capture and report reliable cost data and maintain adequate audit trails to support how cost information is reported, OI&T is manually inputting cost information into the PMAS Dashboard. Since the start of FY 2015, relevant OORs within OI&T have reviewed the detailed cost data that is captured in the Milestone review deck with project managers prior to all pre-briefs for Milestone Zero (MS0) through Milestone Four (MS4), and have ensured alignment with cost details in the Budget Tracking Tool (BTT) and other data sources. These practices will continue, and will yield greater accuracy of the cost data that is manually entered into the PMAS Dashboard at the time of the Milestone review.

OI&T has defined the phrase “enhancement of an existing system or its infrastructure” in a PMAS policy memorandum signed on June 5, 2015. VA will incorporate this language into the next version of the PMAS Guide, but the signing of the memorandum substantiates the change in policy immediately. Project costs will be tracked in the PMAS Dashboard, as specified in the clarified policy.

Only two of the thirteen approved FTE PMAS Business Office (PBO) positions are currently vacant. Candidates for these positions are currently being sought.

OI&T has implemented an interim approach that allows for an audit trail of planned, revised, and actual cost data, until OI&T is able to develop capabilities that allow the PMAS Dashboard to interface with the systems and databases where relevant authoritative financial information is maintained.

APPENDIX A

The Appendix lists selected reports pertinent to the five key challenges discussed. However, the Appendix is not intended to encompass all OIG work in an area.

OIG MAJOR MANAGEMENT CHALLENGE #1: HEALTH CARE DELIVERY

Healthcare Inspection–Alleged Suicides and Inappropriate Changes to Mental Health Treatment Program, Coatesville VA Medical Center, Coatesville, Pennsylvania
9/30/2015 | 13-04038-521 | Summary |

Review of Allegations Regarding Quality of Care, Professional Conduct, and Contractual Issues for Cardiothoracic Surgery and Perfusion Services at the VA North Texas Health Care System Provided by the University of Texas—Southwestern Medical Center
9/30/2015 | 14-04598-461 | Summary |

Review of Alleged Inappropriate Referrals at VHA's Southern Nevada Healthcare System to a Non-VA Medical Provider
9/30/2015 | 15-01590-523 | Summary |

Review of Patient-Centered Community Care (PC3) Health Record Coordination
9/30/2015 | 15-00574-501 | Summary |

Healthcare Inspection–Follow-up Review of the Pause in Providing Inpatient Care VA Northern Indiana Healthcare System, Fort Wayne, Indiana
9/29/2015 | 13-00670-540 | Summary |

Healthcare Inspection–Quality of Care Concerns in a Diagnostic Evaluation, Jesse Brown VA Medical Center, Chicago, Illinois
9/29/2015 | 14-02952-498 | Summary |

Review of Allegations of Inappropriately Completed Consults and Inappropriate Bonuses at the St. Louis VA Health Care System
9/29/2015 | 14-03434-530 | Summary |

Review of VHA's Patient-Centered Community Care (PC3) Provider Network Adequacy
9/29/2015 | 15-00718-507 | Summary |

Healthcare Inspection–Alleged Substandard Prostate Cancer Screening, VA Eastern Colorado Health Care System, Denver, CO
*9/3/2015 | 14-03833-385 | Summary *

Healthcare Inspection–Alleged Delayed Mental Health Treatment and Other Care Issues, Kansas City VA Medical Center, Kansas City, MO
9/2/2015 | 14-03531-402 | Summary |

Review of Alleged Mismanagement at the Health Eligibility Center
9/2/2015 | 14-01792-510 | Summary |

OIG Determination of Veterans Health Administration's Occupational Staffing Shortages
9/1/2015 | 15-03063-511 | Summary |

Review of VHA's Alleged Mishandling of Ophthalmology Consults at the Oklahoma City VAMC
8/31/2015 | 15-02397-494 | Summary |

Audit of VHA's Efforts To Improve Veterans' Access to Outpatient Psychiatrists
8/25/2015 | 13-03917-487 | Summary |
Healthcare Inspection–Unexpected Death of a Patient During Treatment with Multiple Medications, Tomah VA Medical Center, Tomah, WI
8/6/2015 | 15-02131-471 | Summary |
Healthcare Inspection–Alleged Mold and Environment of Care Concerns in the Spinal Cord Injury and Disorders Units, Hunter Holmes McGuire VA Medical Center, Richmond, Virginia
7/30/2015 | 15-02842-450 | Summary |
Healthcare Inspection–Review of the Operations and Effectiveness of VHA Residential Substance Use Treatment Programs
7/30/2015 | 15-01579-457 | Summary |
Healthcare Inspection–Deficient Consult Management, Contractor, and Administrative Practices, Central Alabama VA Health Care System, Montgomery, Alabama
7/29/2015 | 14-04530-452 | Summary |
Healthcare Inspection–Mental Health-Related Deficiencies and Inadequate Leadership Responsiveness, Central Alabama VA Health Care System, Montgomery, Alabama
7/29/2015 | 14-04530-414 | Summary |
Healthcare Inspection–Delay in Emergency Airway Management and Concerns about Support for Nurses, VA Northern California Health Care System, Mather, CA
7/28/2015 | 15-00533-440 | Summary |
Healthcare Inspection–Quality of Care Issues, Sheridan VA Healthcare System, Sheridan, Wyoming
7/14/2015 | 14-00903-422 | Summary |
Healthcare Inspection–Alleged Dental Service Scheduling and Other Administrative Issues, VA Palo Alto Health Care System, Palo Alto, CA
7/9/2015 | 14-04755-428 | Summary |
Healthcare Inspection–Alleged Poor Quality of Care and Refusal to Pay for Lung Transplantation, Iowa City VA Health Care System, Iowa City, Iowa
7/9/2015 | 15-01968-424 | Summary |
Healthcare Inspection–Alleged Colorectal Cancer Screening and Administrative Issues, VA Palo Alto Health Care System, Palo Alto, California
7/9/2015 | 14-04754-407 | Summary |
Healthcare Inspection–Vascular Surgery Resident Supervision, VA Nebraska-Western Iowa Health Care System, Omaha, Nebraska
7/9/2015 | 14-04037-404 | Summary |
Healthcare Inspection–Communication and Quality of Care Concerns, VA Black Hills Health Care System, Fort Meade, SD
7/8/2015 | 14-04491-394 | Summary |
Healthcare Inspection–Staff and Management Concerns at the Jacksonville Outpatient Clinic, Jacksonville, Florida
7/8/2015 | 14-04401-416 | Summary |
Healthcare Inspection–Alleged Consult Processing Delay Resulting in Patient Death, VA Eastern Colorado Health Care System, Denver, Colorado

7/7/2015 | 14-04049-379 | Summary |

Healthcare Inspection–Alleged Short-Stay Rehabilitation Unit Concerns, Tuscaloosa VA Medical Center, Tuscaloosa, Alabama

7/7/2015 | 15-01445-400 | Summary |

Healthcare Inspection–Alleged Quality of Care Issues at the Community Based Outpatient Clinic, Casa Grande, AZ

7/7/2015 | 14-04260-395 | Summary |

Healthcare Inspection–Scheduling, Staffing, and Quality of Care Concerns at the Alaska VA Healthcare System, Anchorage, AK

7/7/2015 | 14-04077-405 | Summary |

Healthcare Inspection–Testing for Legionella, VA Pittsburgh Healthcare System, Pittsburgh, Pennsylvania

7/6/2015 | 14-03688-399 | Summary |

Healthcare Inspection–Alleged Quality of Care Concerns, Gene Taylor Community Based Outpatient Clinic, Mount Vernon, Missouri

7/6/2015 | 14-04547-398 | Summary |

Healthcare Inspection–Alleged Lapse in Timeliness of Care, West Palm Beach VA Medical Center, West Palm Beach, Florida

7/2/2015 | 15-00191-406 | Summary |

Review of Alleged Delays in Care Caused by Patient-Centered Community Care (PC3) Issues

7/1/2015 | 14-04116-408 | Summary |

Healthcare Inspection–Alleged Mental Health Access and Treatment Deficiencies, Brunswick Community Outpatient Clinic, Brunswick, Georgia

6/30/2015 | 15-01116-390 | Summary |

Review of Alleged Mismanagement of Medical Supplies at the VA Medical Center, East Orange, New Jersey

6/29/2015 | 15-01927-375 | Summary |

Audit of VHA's Homeless Providers Grant and Per Diem Case Management Oversight

6/29/2015 | 14-01991-387 | Summary |

Healthcare Inspection–Alleged Improper Maintenance of Reprocessing Equipment, Huntington VA Medical Center, Huntington, West Virginia

6/25/2015 | 14-02634-397 | Summary |

Healthcare Inspection–Quality and Coordination of Care Concerns at Two Veterans Integrated Service Network 15 Facilities

6/25/2015 | 14-04547-401 | Summary |

Healthcare Inspection–Credentialing and Privileging Concerns, Wm. Jennings Bryan Dorn VA Medical Center, Columbia, SC

6/24/2015 | 14-05078-393 | Summary |

Healthcare Inspection–Evaluation of a Patient's Care and Disclosure of Protected Information, Atlanta VA Medical Center, Decatur, Georgia

6/23/2015 | 15-02276-391 | Summary |

Healthcare Inspection–Administrative and Quality of Care Concerns, Martinsburg VA Medical Center, Martinsburg, West Virginia

5/21/2015 | 13-04212-346 | Summary |

Review of Alleged Mismanagement of Radiologists Interpretations at Central Arkansas Veterans Healthcare System
4/30/2015 | 14-04493-198 | Summary |

Healthcare Inspection–Alleged Lack of Timeliness and Quality of Care Concerns at the Memphis VA Medical Center, Memphis, Tennessee
4/16/2015 | 15-00347-154 | Summary |

Healthcare Inspection–Lapses in Access and Quality of Care, VA Maryland Health Care System, Baltimore, Maryland
4/14/2015 | 14-03824-155 | Summary |

Healthcare Inspection–Patient Telemetry Monitoring Concerns, Michael E. DeBakey VA Medical Center, Houston, Texas
3/31/2015 | 14-03927-197 | Summary |

Healthcare Inspection–Suicide Risk and Alleged Medical Management Issues, Hampton VA Medical Center, Hampton, Virginia
3/30/2015 | 14-02139-156 | Summary |

Healthcare Inspection-Delay of Care, Goshen Community Based Outpatient Clinic, Goshen, Indiana
3/24/2015 | 15-00794-151 | Summary |

Healthcare Inspection–Staffing and Quality of Care Issues in the Community Living Center, Charlie Norwood VA Medical Center, Augusta, Georgia
3/19/2015 | 14-02437-117 | Summary |

Audit of VHA's Home Telehealth Program
3/9/2015 | 13-00716-101 | Summary |

Healthcare Inspection–Inadequate Follow-Up of an Abnormal Imaging Result, Charlotte Community Based Outpatient Clinic, Charlotte, North Carolina
3/9/2015 | 15-00190-146 | Summary |

Healthcare Inspection–Alleged Mismanagement of Gastroenterology Services and Quality of Care Deficiencies, Captain James A. Lovell Federal Health Care Center, North Chicago, Illinois
3/3/2015 | 14-04473-132 | Summary |

Healthcare Inspection–Radiology Scheduling and Other Administrative Issues, Phoenix VA Health Care System, Phoenix, Arizona
2/26/2015 | 14-00875-133 | Summary |

Healthcare Inspection–Alleged Lack of Training and Support for Interventional Radiology Procedures, Salem VAMC, Salem, Virginia
2/18/2015 | 14-02022-134 | Summary |

Alleged Consult Management Issues and Improper Conduct, W.G. (Bill) Hefner VA Medical Center, Salisbury, North Carolina
2/18/2015 | 14-04194-118 | Summary |

Healthcare Inspection–Staffing and Patient Care Issues, West Palm Beach VA Medical Center, West Palm Beach, Florida
2/12/2015 | 14-01708-123 | Summary |

Healthcare Inspection–Alleged Inappropriate Prescribing of Controlled Substances and Alleged Abuse of Authority, Tomah VA Medical Center, Tomah, Wisconsin
2/6/2015 | 11-04212-127 | Summary |

OIG Determination of Veterans Health Administration's Occupational Staffing Shortages
1/30/2015 | 15-00430-103 | Summary |

Interim Report–Review of Phoenix VA Health Care System's Urology Department, Phoenix, AZ
1/28/2015 | 14-00875-112 | Summary |

Healthcare Inspection–Alleged Quality of Care and Courtesy Issues at the Alamosa Community Based Outpatient Clinic, Alamosa, Colorado
1/13/2015 | 14-00615-61 | Summary |

Healthcare Inspection–Ophthalmology Service Concerns, VA Illiana Health Care System, Danville, Illinois
1/8/2015 | 14-02412-69 | Summary |

Healthcare Inspection–Alleged Insufficient Staffing and Consult Management Issues, Carl Vinson VA Medical Center, Dublin, Georgia
1/7/2015 | 14-04702-60 | Summary |

Healthcare Inspection–Quality of Care Issues, West Palm Beach VA Medical Center, West Palm Beach, Florida
12/18/2014 | 14-02887-64 | Summary |

Healthcare Inspection–Follow-Up Evaluation of Quality of Care, Management Controls, and Administrative Operations, William Jennings Bryan Dorn, VA Medical Center, Columbia, SC
12/15/2014 | 13-00872-52 | Summary |

Healthcare Inspection–Evaluation of the Veterans Health Administration's National Consult Delay Review and Associated Fact Sheet
12/15/2014 | 14-04705-62 | Summary |

Healthcare Inspection–Alleged Inappropriate Opioid Prescribing Practices, Chillicothe VA Medical Center, Chillicothe, OH
12/9/2014 | 14-00351-53 | Summary |

Audit of VHA's National Call Center for Homeless Veterans
12/3/2014 | 13-01859-42 | Summary |

An Analysis of Mental Health, Primary Care, and Specialty Care Productivity and Related Issues, El Paso VA Health Care System, El Paso, Texas
12/2/2014 | 14-05128-51 | Summary |

Healthcare Inspection–Radiology Scheduling and Other Administrative Issues, VA Loma Linda Healthcare System, Loma Linda, California
11/24/2014 | 14-00661-43 | Summary |

Healthcare Inspection–Quality and Coordination of Care Concerns at Three Veterans Integrated Service Network 11 Facilities
11/14/2014 | 14-01519-40 | Summary |

Healthcare Inspection–Alleged Nursing Deficiencies Led to Patient's Death, Hampton VA Medical Center, Hampton, Virginia
11/5/2014 | 13-02527-23 | Summary |

Healthcare Inspection–Follow-Up of Quality of Care, Management, and Operations, Iowa City VA Health Care System, Iowa City, Iowa
10/21/2014 | 14-01261-03 | Summary |

Healthcare Inspection–Emergency Department Concerns, Dwight D. Eisenhower VAMC, Leavenworth, Kansas
10/1/2014 | 14-03212-295 | Summary |

Congressional Testimony 9/22/2015
Statement of Linda A. Halliday Deputy Inspector General Office of Inspector General Department of Veterans Affairs Before The Committee On Homeland Security And Governmental Affairs United States Senate Hearing On Improving VA Accountability: Examining First-Hand Accounts Of Department Of Veterans Affairs Whistleblowers Read

Congressional Testimony 8/25/2015
Statement of Andrea C. Buck, MD Chief of Staff For Healthcare Oversight Integration Office of Inspector General Department of Veterans Affairs Before The Committee On Veterans' Affairs United States Senate Field Hearing On Exploring The Veterans Choice Program's Problems in Alaska Read

Congressional Testimony 7/30/2015
Statement of Linda A. Halliday Deputy Inspector General Office of Inspector General Department of Veterans Affairs Before the Subcommittee on Military Construction, Veterans Affairs, and Related Agencies Committee on Appropriations United States Senate Hearing on Whistleblower Claims at the U.S. Department of Veterans Affairs Read

Congressional Testimony 7/1/2015
Statement of the Office of Inspector General, Department of Veterans Affairs, Statement for the Record, Senate Homeland Security and Governmental Affairs Committee Hearing "Watchdogs Needed: Top Government Investigators Left Unfilled for Years" Read

Congressional Testimony 4/30/2015
Statement of The Office of Inspector General Department of Veterans Affairs Before The Committee On Veterans' Affairs United States House Of Representatives Hearing On "Examining Access And Quality Of Care And Services For Women Veterans" Read

Congressional Testimony 4/29/2015
Statement of John D. Daigh, Jr., M.D., CPA Assistant Inspector General Office of Healthcare Inspections Office of Inspector General Department of Veterans Affairs Before The Committee On Veterans' Affairs United States Senate Hearing On "GAO's High Risk List And The Veterans Health Administration" Read

Congressional Testimony 3/30/2015
Statement of John D. Daigh, Jr., M.D., CPA, Assistant Inspector General For Healthcare Inspections Office of Inspector General Department of Veterans Affairs Before A Joint Field Hearing Of The Committee On Veterans Affairs United States House Of Representatives And The Committee On Homeland Security And Governmental Affairs United States Senate On The Operations Of The Tomah VA Medical Center Tomah, Wisconsin Read

Congressional Testimony 3/30/2015
Oral Statement of John D. Daigh, Jr., M.D., CPA, Assistant Inspector General For Healthcare Inspections Office of Inspector General Department of Veterans' Affairs Before The Committee On Veterans' Affairs US House Of Representatives And Committee On Homeland Security And Governmental Affairs United States Senate Hearing On Tomah Department Of Veterans Affairs Medical Center Read

Congressional Testimony 3/26/2015
Statement Of John D. Daigh, Jr., M.D., CPA, Assistant Inspector General For Healthcare Inspections Office of Inspector General Department of Veterans Affairs Before The Committee On Veterans' Affairs United States Senate Hearing On "Opiate Prescription Policies Of The Department Of Veterans Affairs And Efforts In Combating Overmedication" Read

Congressional Testimony 3/19/2015
Statement of Richard J. Griffin Deputy Inspector General Office of Inspector General Department of Veterans Affairs Before The Committee On Appropriations Subcommittee On Military Construction, Veterans Affairs, And Related Agencies United States House Of Representatives Read

OIG CHALLENGE #2: BENEFITS PROCESSING

Review of VBA's Alleged Mismanagement of Unemployability Benefits at VARO Seattle, Washington

9/30/2015 | 15-02745-522 | Summary |

Audit of Fiduciary Program Controls Addressing Beneficiary Fund Misuse

8/27/2015 | 13-03922-453 | Summary |

Review of Alleged Shredding of Claims-Related Evidence at the VA Regional Office Los Angeles, California

8/17/2015 | 15-04652-448 | Summary |

Audit of Fiduciary Program's Management of Field Examinations

6/1/2015 | 14-01883-371 | Summary |

Review of Alleged Data Manipulation and Mismanagement at VA Regional Office Philadelphia, PA

4/15/2015 | 14-03651-203 | Summary |

Review of Alleged Data Manipulation at VA Regional Office, Boston, Massachusetts

4/15/2015 | 15-01332-121 | Summary |

Review of Alleged Data Manipulation at VA Regional Office Honolulu, HI

3/26/2015 | 15-00880-157 | Summary|

Review of Alleged Data Manipulation at the VA Regional Office Little Rock, Arkansas

2/26/2015 | 14-03963-139 | Summary |

Review of Alleged Mismanagement of Informal Claims Processing at VA Regional Office Oakland, California

2/18/2015 | 14-03981-119 | Summary |

Congressional Testimony 6/11/2015

Statement of Gary K. Abe Deputy Assistant Inspector General for Audits and Evaluations Office of Inspector General Department of Veterans Affairs Before The Subcommittee On Disability Assistance And Memorial Affairs Committee on Veterans' Affairs United States House of Representatives Hearing On "Exploring VA's Fiduciary Program" Read

Congressional Testimony 4/22/2015

Statement of Linda A. Halliday, Assistant Inspector General For Audits and Evaluations Office of Inspector General Department of Veterans Affairs Before the Committee on Veterans' Affairs United States House of Representatives Hearing on "Philadelphia and Oakland: Systemic Failures and Mismanagement" Read

Congressional Testimony 10/3/2014

OIG Statement at House Veterans' Affairs Subcommittee Field Hearing on "Rhetoric v. Reality: Investigating the Continued Failures of the Philadelphia VA Regional Office - Statement of Linda Halliday, Assistant Inspector General for Audits and Evaluations, before the Subcommittee on Disability Assistance and Memorial Affairs, Committee on Veterans Affairs, US House of Representatives, Field Hearing, October 3, 2014, at Burlington County College, Pemberton Campus, Pemberton, New Jersey. Read

OIG CHALLENGE #3: FINANCIAL MANAGEMENT

Review of Alleged Improper Pay at VHA's Hudson Valley Health Care System
9/30/2015 | 15-02053-537 | Summary |

Review of Alleged Mismanagement of VHA's Service-Oriented Architecture Research and Development Pilot Project
8/5/2015 | 14-00545-343 | Summary |

FY 2014 Review of VA's Compliance With the Improper Payments Elimination and Recovery Act
5/14/2015 | 14-03380-356 | Summary |

Audit of Non-VA Medical Care Claims for Emergency Transportation
3/2/2015 | 13-01530-137 | Summary |

Review of Alleged Misuse of VA Funds to Develop the Health Care Claims Processing System
3/2/2015 | 14-00730-126 | Summary |

Audit of VA's Financial Statements for Fiscal Years 2014 and 2013
11/12/2014 | 14-01504-32 | Summary|

OIG CHALLENGE #4: PROCUREMENT PRACTICE

Review of a Covered Drug Manufacturer's Interim Agreement under Letter Contract with VA's National Acquisition Center
9/30/2015 | 14-02899-415 | Summary |

Review of Land Purchase for the Replacement Hospital in Louisville, Kentucky
9/17/2015 | 14-02666-456 | Summary |

Review of Healthcare Services Contracts at VA Pittsburgh Healthcare System in Pittsburgh, Pennsylvania
8/7/2015 | 13-03592-443 | Summary |

Improper Use of Title 38 Section 8153 Contracts to Fund Educational Costs of the Graduate Medical Education Programs of Affiliated Schools of Medicine
7/7/2015 | 14-04259-409 | Summary |

Review of VA's Patient Centered Community Care (PC3) Contracts Estimated Costs Savings
4/28/2015 | 14-02916-336 | Summary|

Review of Allegations Regarding the Technical Acquisition Center's Award of Sole-Source Contracts to Tridec for the Virtual Office of Acquisition
12/8/2014 | 12-02387-59 | Summary |

Review of Alleged Mismanagement of VA's Office of Public and Intergovernmental Affairs Outreach Contracts
11/20/2014 | 13-01545-11 | Summary |

Audit of VHA's Support Service Contracts
11/19/2014 | 12-02576-30 | Summary |

Congressional Testimony 5/14/2015

Statement of Linda A. Halliday Assistant Inspector General For Audits And Evaluations Office of Inspector General Department of Veterans Affairs Before The Subcommittee On Oversight And Investigations Committee On Veterans' Affairs United States House Of Representatives Hearing On "Waste, Fraud, And Abuse In VA's Purchase Card Program" Read

Congressional Testimony 3/16/2015
Statement of Maureen T. Regan Counselor To The Inspector General Office Of Inspector General, Department of Veterans Affairs Before The Committee On Veterans' Affairs United States House of Representatives Hearing On "The Power Of Legislative Inquiry – Improving The VA By Improving Transparency" Read

Congressional Testimony 3/16/2015
Oral Statement of Maureen T. Regan Counselor to the Inspector General Office of Inspector General, Department of Veterans Affairs Before the Committee on Veterans' Affairs United States House of Representatives Hearing on "The Power of Legislative Inquiry- Improving the VA by Improving Transparency" Read

OIG CHALLENGE #5: INFORMATION MANAGEMENT

Review of Alleged Data Sharing Violations at VA's Palo Alto Health Care System
9/28/2015 | 14-04945-413 | Summary |

Follow-up Review of VA's Veterans Benefits Management System
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Federal Information Security Management Act Audit for Fiscal Year 2014
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Follow-up Audit of the Information Technology Project Management Accountability System
1/22/2015 | 13-03324-85 | Summary |

Review of Alleged Mismanagement at VHA's Massachusetts Veterans Epidemiology Research and Information Center
12/17/2014 | 14-00517-54 | Summary |

Congressional Testimony 11/18/2014
Statement of Sondra F. McCauley Deputy Assistant Inspector General For Audits And Evaluations Office of Inspector General Department of Veterans Affairs Before The Committee On Veterans' Affairs United States House Of Representatives Hearing On "VA's Longstanding Information Security Weaknesses Are Increasing Patient Wait Times And Allowing Extensive Data Manipulation" Read

High Risk Areas

High-Risk Areas Identified by the U.S. Government Accountability Office (GAO)

The U.S. Government Accountability Office (GAO) evaluates VA's programs and operations. In February 2015, GAO issued an update to its High-Risk Series (GAO-15-290). The GAO-identified High-Risk Areas (HRAs) that are specific to VA are summarized below. In response to each of the HRAs, the Department has provided the following:

- ***Estimated resolution timeframe (fiscal year)*** for VA to eliminate each HRA
- ***Responsible Agency Official*** for each HRA
- ***Completed 2015 milestones*** in response to the HRA
- ***Planned 2016 milestones*** along with ***estimated completion quarter***

High-Risk Area		Estimated Resolution Timeframe (Fiscal Year)	Page #
No.	Description		
GAO 1	**Managing Risks and Improving VA Health Care (VHA)**	**2016 - 2018**	**III-117**
GAO 2	**Improving the Management of IT Acquisitions and Operations (OIT)**	**Continuing Resolution**	**III-125**
GAO 3	**Improving and Modernizing Federal Disability Programs (VBA)**	**2016**	**III-127**
	Appendix		

GAO High Risk Area	1: Managing Risks and Improving VA Health Care (VHA)
GAO Write-up	Although VA has taken actions to address recommendations GAO has made related to VA health care, there are currently more than 100 that have yet to be fully resolved, including recommendations related to the five broad areas of concern highlighted in GAO's High Risk Series: 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*. For example, to ensure that its facilities are carrying out processes at the local level more consistently—such as scheduling Veterans' medical appointments and collecting data on Veteran suicides—VA needs to clarify its existing policies. VA also needs to strengthen oversight and accountability across its facilities by conducting more systematic, independent assessments of processes that are carried out at the local level, including how VA facilities are resolving specialty care consults, processing claims for non-VA care, and establishing performance pay goals for their providers. GAO also recommended that VA work with DOD to address the administrative burdens created by the lack of interoperability between their two IT systems. A number of GAO's recommendations aim to improve training for staff at VA facilities, to address issues such as how staff are cleaning, disinfecting, and sterilizing reusable medical equipment, and to more clearly align training on VA's new nurse staffing methodology with the needs of staff responsible for developing nurse staffing plans. Finally, GAO has recommended that VA improve its methods for identifying VA facilities' resource needs and for analyzing the cost-effectiveness of VA health care. **Sub-part 1: Ambiguous policies and inconsistent challenges** Ambiguous VA policies lead to inconsistency in the way VA facilities carry out processes at the local level. In numerous reports, we have found that this ambiguity and inconsistency may pose risks for Veterans' access to VA health care, or for the quality and safety of VA health care they receive. For example, in December 2012, we reported that unclear policies led staff at VA facilities to inaccurately record the required dates for appointments, and to inconsistently track new patients waiting for outpatient medical appointments at VA facilities. These practices may have delayed the scheduling of Veterans' outpatient medical appointments and may have increased Veterans' wait times for accessing care at VA facilities. In some cases, we found that staff members were manipulating medical appointment dates to conform to VA's timeliness guidelines, which likely contributed further to the inaccuracy of VA's wait-times data for outpatient medical appointments. Without accurate data, VA lacks assurance that Veterans are receiving timely access to needed health care. In November 2014, we reported that VA policies lacked clear direction for how staff at VA facilities should document information about Veteran suicides as part of VA's behavioral health autopsy program (BHAP). The BHAP is a national initiative to collect demographic, clinical, and other information about Veterans who have died by suicide and use it to improve the department's suicide prevention efforts. In a review of a sample of BHAP records from five VA facilities, we found that more than half of the records had incomplete or inaccurate information. The lack of reliable data limits the department's opportunities to learn from past Veteran suicides and ultimately diminishes VA's efforts to improve its suicide prevention activities. We have also identified gaps in VA policies related to facilities' response to adverse events—clinical incidents that may pose the risk of injury to a patient as the result of a

GAO High Risk Area	1: Managing Risks and Improving VA Health Care (VHA)
	medical intervention or the lack of an appropriate intervention, such as a missed or delayed diagnosis, rather than due to the patient's underlying medical condition. Specifically, we found that VA policies were unclear as to how focused professional practice evaluations (FPPE) should be documented, particularly what information should be included. An FPPE is a time-limited evaluation during which a VA facility assesses a provider's professional competence when a question arises regarding the provider's ability to provide safe, quality patient care. In our December 2013 report, we reported that gaps in VA's FPPE policy may hinder VA facilities' ability to appropriately document the evaluation of a provider's skills, support any actions initiated, and track provider-specific incidents over time.
Estimated Resolution Timeframe	FY 2017
Responsible Official	Under Secretary for Health
Completed FY 2015 Milestones	On August 4, 2015, the Under Secretary for Health charged a workgroup to develop a plan and implement process changes to improve enterprise policy management in the Veterans Health Administration (VHA) and assist the field in developing appropriate local policies that align with national policies. This workgroup's efforts will serve to address High Risk Area 1, Ambiguous Policies and Inconsistent Process; and High Risk Area 2, Inadequate Oversight and Accountability, which are inextricably linked.
Planned FY 2016 Milestones	VHA will evaluate the overall requirements, existing documentation for policy making, implementation, and communication to create an assessment through consistent analysis (Q1). With key stakeholders, VHA will generate a prioritized list of VHA's top tier strategies to address GAO high risk areas based on a systematic and consistent methodology (Q1). Recommendations, including an implementation plan, will be completed and presented to VHA leadership for approval (Q2). VHA will assign responsibilities for the implementation of approved strategies. At minimum, elements of the implementation plan will include accountability for implementation, determination of any revised or additional response/mitigation strategies, and implementation of a consistent policy monitoring and reporting approach (Q2).

GAO High Risk Area	1: Managing Risks and Improving VA Health Care (VHA) Sub-part 2: Inadequate Oversight and Accountability
GAO Write-up	We also have found weaknesses in VA's ability to hold its health care facilities accountable and ensure that identified problems are resolved in a timely and appropriate manner. Specifically, we have found that (1) certain aspects of VA facilities' implementation of VA policies are not routinely assessed by the department; (2) VA's oversight activities are not always sufficiently focused on its facilities' compliance with applicable requirements; and (3) VA's oversight efforts are often impeded by its reliance on facilities' self-reported data, which lack independent validation and are often inaccurate or incomplete. In a July 2013 report, for example, we reported that VA needed to take action to improve the administration of its provider performance pay and award systems. In that report, we found that VA had not reviewed performance goals set by its facilities for providers and, as a result, did not have reasonable assurance that the goals created a clear link between performance pay and providers' performance in caring for Veterans. At four VA facilities included in our review, performance pay goals covered a range of areas, such as clinical competence, research, teaching, patient satisfaction, and administration. Providers who were eligible for performance pay received it at all four of the facilities we reviewed, despite at least one provider in each facility having personnel actions taken against them related to clinical performance in the same year. Such personnel actions resulted from issues including failing to read mammograms and other complex images competently, practicing without a current license, and leaving residents unsupervised during surgery. In March 2014, we found that VA lacked sufficient oversight mechanisms to ensure that its facilities were complying with applicable requirements and not inappropriately denying claims for non-VA care. Specifically, the March 2014 report cited noncompliance with applicable requirements for processing a sample of non-VA emergency care claims. The noncompliance caused staff at four VA facilities to inappropriately deny about 20 percent of the claims we reviewed and to fail to notify almost 65 percent of Veterans whose claims we reviewed that their claims had been denied. We found VA's field assistance visits, one of the department's primary methods for monitoring facilities' compliance with applicable requirements, to be lacking. In these annual on-site reviews at a sample of VA facilities, VA officials were to examine the financial, clinical, administrative, and organizational functions of staff responsible for processing claims for non-VA care; however, we found that these visits did not examine all practices that could lead VA facilities to inappropriately deny claims. Further, although VA itself recommended that managers at its facilities audit samples of processed claims to determine whether staff processed claims appropriately, the department does not require VA facilities to conduct such audits, and none of the four VA facilities we visited were doing so. In a September 2014, report and in three previous testimonies for congressional hearings, we identified weaknesses in VA's oversight of Veterans' access to outpatient specialty care appointments in its facilities. VA officials told us they use data reported by VA facilities to monitor how the facilities are performing in meeting VA's guideline of completing specialty care consults—requests from VA providers for evaluation or management of a patient for a specific clinical concern, or for a specialty procedure, such as a colonoscopy—within 90 days. We found cases where staff had incorrectly closed a consult even though care had not been provided, and found that VA does not routinely audit consults to assess whether its facilities are appropriately managing them and accurately documenting actions taken to resolve them. Instead, VA relies

GAO High Risk Area	**1: Managing Risks and Improving VA Health Care (VHA)** **Sub-part 2: Inadequate Oversight and Accountability**
	largely on facilities' self-certification that they are doing so.
Estimated Resolution Timeframe	FY 2017
Responsible Official	Under Secretary for Health
Completed FY 2015 Milestones	On August 4, 2015, the Under Secretary for Health charged a workgroup to develop a plan and implement process changes to improve enterprise policy management in the Veterans Health Administration (VHA) and assist the field in developing appropriate local policies that align with national policies. This workgroup's efforts will serve to address High Risk Area 1, Ambiguous Policies and Inconsistent Process; and High Risk Area 2, Inadequate Oversight and Accountability, which are inextricably linked.
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GAO High Risk Area	**1: Managing Risks and Improving VA Health Care (VHA)** **Sub-part 3: Information Technology Challenges**
GAO Write-up	In recent reports, we also have identified limitations in the capacity of VA's existing information technology (IT) systems. Of particular concern is the outdated, inefficient nature of certain systems, along with a lack of system interoperability—the ability to exchange information—which presents risks to the timeliness, quality, and safety of VA health care. For example, we have reported on VA's failed attempts to modernize its outpatient appointment scheduling system, which is about 30 years old. Among the problems cited by VA staff responsible for scheduling appointments are that the system requires them to use commands requiring many keystrokes and does not allow them to view multiple screens at once. Schedulers must open and close multiple screens to check a provider's or a clinic's full availability when scheduling a medical appointment, which is time-consuming and can lead to errors. VA undertook an initiative to replace its scheduling system in 2000 but terminated the project after spending $127 million over 9 years, due to weaknesses in project management and a lack of effective oversight. The department has since renewed its efforts to replace its appointment scheduling system, including launching a contest for commercial software developers to propose solutions, but VA has not yet purchased or implemented a new system. In FY 2014, we reported that interoperability challenges and the inability to electronically share data across facilities led VA to suspend the development of a system that would have allowed it to electronically store and retrieve information about surgical implants (including tissue products) and the Veterans who receive them nationwide. Having this capability would be particularly important in the event that a manufacturer or the Food and Drug Administration (FDA) recalled a medical device or tissue product because of safety concerns. In the absence of a centralized system, VA clinicians track information about implanted items using stand-alone systems or spreadsheets that are not shared across VA facilities, which makes it difficult for VA to quickly determine which patients may have received an implant that is subject to a safety recall. Further, as we have reported for more than a decade, VA and the DOD lack electronic health records systems that permit the efficient electronic exchange of patient health information as military servicemembers transition from DOD to VA health care systems. The two departments have engaged in a series of initiatives intended to achieve electronic health record interoperability, but accomplishment of this goal has been continuously delayed and has yet to be realized. The ongoing lack of electronic health record interoperability limits VA clinicians' ability to readily access information from DOD records, potentially impeding their ability to make the most informed decisions on treatment options, and possibly putting Veterans' health at risk. One location where the delays in integrating VA's and DOD's electronic health records systems have been particularly burdensome for clinicians is at the Captain James A. Lovell Federal Health Care Center (FHCC) in North Chicago, the first planned fully integrated federal health care center for use by both VA and DOD beneficiaries. We found in June 2012 that due to interoperability issues, the FHCC was employing five dedicated, full-time pharmacists and one pharmacy technician to conduct manual checks of patients' VA and DOD health records to reconcile allergy information and identify possible interactions between drugs prescribed in VA and DOD systems.
Estimated Resolution Timeframe	FY 2016 - 2018

GAO High Risk Area	**1: Managing Risks and Improving VA Health Care (VHA)** **Sub-part 3: Information Technology Challenges**
Responsible Official	Under Secretary for Health
General Statement VHA	VA Information Systems Technology Architecture (VistA) Evolution (VE) is the joint VHA-OIT program chartered to improve interoperability of clinical information systems, to promote quality and efficiency of health care, and to improve the acquisition of information management capabilities. It manages modernization of the healthcare components of current VistA. The modernized collection of these products is called VistA 4, which will be completed in FY 2018. By the end of 2016, in accordance with the 2014 National Defense Authorization Act (NDAA), VistA 4 will include many improvements that allow interoperability of health care information. Its major product is the Enterprise Health Management Platform (eHMP), which is a platform built around VHA's current Electronic Health Record.
Completed FY 2015 Milestones	The VE program team stood up an integrated program management office (PMO), delivering eHMP version 1.2, which allows clinicians and managers to view and act on a complete longitudinal picture of patients with data from all VA locations, DoD, and eventually the community. VA made significant progress in electronic exchange of patient health information through ongoing partnerships with federal and community partners. VA Lifetime Electronic Record (VLER) Health, also known as the Veterans Health Information Exchange (VHIE), provides bidirectional exchange of Health Information with private sector and some Federal partners. VHIE doubled the number of partners to 59 total, reaching 600 plus hospitals nationwide. Monthly rates of VHIE clinical adoption transactions and required Veteran's authorizations both increased by 400 percent. In addition, VA and DoD exchanged over 40 million requests for patient information back and forth through to support direct patient care, which is in line with the previous year. Most importantly, VHA now has information systems that provide an advanced level of interoperability for clinical use through the Joint Legacy Viewer (JLV) and eHMP. JLV is a clinical information viewer that collects into memory a patient's data and presents it as a single longitudinal record, and is a product of collaboration with the Defense Health Agency (DHA) and Defense Medical Information Exchange (DMIX). In FY 2015 there were three releases of the JLV application each closing additional interoperability gaps, standardizing more data domains and providing a continually more powerful tool to staff in both Departments. VA JLV users grew more than 13-fold from the start of FY 2015 to the end of Q3 FY 2015.
Planned FY 2016 Milestones	VE will begin testing eHMP v 1.3 in select sites (Q2). Milestones relevant to clinicians and patients include: national availability of eHMP v1.3 and transition of part of the clinical JLV user community to this product; beginning of testing of eHMP 2.0, which will include much of the basic capabilities required for outpatient primary care and consults; VistA scheduling enhancements; delivery of capability to natively capture structured data for many outpatient functions; delivery of VistA Immunization Management Module 2.0; and mapping of clinically relevant data domains to national standards to meet 2014 NDAA requirements (Q4). VHA looks forward to opportunities to consult with GAO to refine FY 2016 goals.

GAO High Risk Area	**1: Managing Risks and Improving VA Health Care (VHA)** **Sub-part 4: Inadequate Training for VA Staff**
GAO Write-up	In a number of reports, we have identified gaps in VA training that could put the quality and safety of Veterans' health at risk. In other cases, we have found that VA's training requirements can be particularly burdensome to complete, particularly for VA staff who are involved in direct patient care. In a November 2014 report that examined VA's monitoring of Veterans with major depressive disorder (MDD) and whether those who are prescribed an antidepressant receive recommended care, we determined that VA data may underestimate the prevalence of major depressive disorder among Veterans and that a lack of training for VA clinicians on diagnostic coding may contribute to the problem. In a review of medical record documentation for a sample of Veterans, we found that VA clinicians had not always appropriately coded encounters with Veterans they diagnosed as having MDD, instead using a less specific diagnostic code for "depression not otherwise specified." VA's data on the number of Veterans with MDD are based on the diagnostic codes associated with patient encounters; therefore, coding accuracy is critical to assessing VA's performance in ensuring that Veterans with MDD receive recommended treatments, as well as measuring health outcomes for these Veterans. In a May 2011 review, we found that training for staff responsible for cleaning and reprocessing reusable medical equipment (RME), such as endoscopes and some surgical instruments, was lacking. Specifically, VA had not specified the types of RME for which training was required; in addition, VA provided conflicting guidance to facilities on how to develop this training. Without appropriate training on reprocessing, we found that VA staff may not be reprocessing RME correctly, posing patient safety risks. In our October 2014, report on VA's implementation of a new, nationally standardized nurse staffing methodology, staff from selected VA facilities responsible for developing nurse staffing plans reported that VA's individual, computer-based training on the methodology was time-consuming to complete and difficult to understand. These staff members said they had difficulty finding the time to complete it while also carrying out their patient care responsibilities. Many suggested that their understanding of the material would have been greatly improved with an instructor-led, group training course where they would have an opportunity to ask questions.
Estimated Resolution Timeframe	FY 2017
Responsible Official	Under Secretary for Health
Completed FY 2015 Milestones	VHA governance committees and workforce programs analyzed GAO reports and developed an action plan to address cited concerns and recommend the establishment of an enterprise learning system that identifies learning requirements aligned with the organizational strategies; allocates appropriate resources; evaluates return on investment; and provides oversight and authority to enforce VHA education and make decisions on national educational initiatives and requirements. VHA eliminated or deferred over 31,900 burdensome mandatory training assignments for physicians, nurse practitioners and physician assistants to allow them to focus on direct clinical care. New VA/VHA rules and guidance were administered in Quarter 1 of FY 2015 to streamline professional training conference planning, approval, oversight, and reporting processes. As a result of the changes in FY 2015, two to three times the number of VHA clinicians have been able to attend VA-sponsored and non-VA sponsored conferences. This provides clinicians the

GAO High Risk Area	**1: Managing Risks and Improving VA Health Care (VHA)** **Sub-part 4: Inadequate Training for VA Staff**
	opportunity to attend trainings that maintain clinical licensure and supports clinical competence.
Planned FY 2016 Milestones	VHA governance committees will engage and collaborate with workforce programs to define requirements and a way forward (Q1). VHA will develop and submit requirements for the financial system (Q2). VHA will develop an implementation plan (Q2) for the Under Secretary for Health's approval by (Q3) to establish an enterprise learning system for piloting and implementation in FY 2017 including national training policies and processes for setting national standards, accountability, vetting, and leveraging processes. VHA looks forward to opportunities to consult with GAO to refine FY 2016 goals.

GAO High Risk Area	**1: Managing Risks and Improving VA Health Care (VHA)** **Sub-part 5: Unclear resource needs and allocation priorities**
GAO Write-up	In many of our reports, we have found gaps in the availability of data required by VA to efficiently identify resource needs and to ensure that resources are effectively allocated across the VA health care system. For example, in October 2014, we reported that VA facilities lacked adequate data for developing and executing nurse staffing plans at their facilities. Staffing plans are intended to help VA facilities identify appropriate nurse staffing levels and skill mixes needed to support high-quality patient care in the different care settings throughout each VA facility, and are used to determine whether their existing nurse workforce sufficiently meets the clinical needs of each unit, or whether they need to hire additional staff. At selected VA facilities, staff responsible for developing and executing the nurse staffing plans told us that they needed to use multiple sources to collect and compile the data in some cases manually. They described the process as time-consuming, potentially error-prone, and requiring data expertise they did not always have. In a May 2013 report, we reported that VA lacked critical data needed to compare the cost-effectiveness of non-VA medical care to that of care delivered at VA facilities. Specifically, VA lacks a data system to group medical care delivered by non-VA providers by episode of care all care provided to a Veteran during a single office visit or inpatient stay. As a result, VA cannot efficiently assess whether utilizing non-VA providers is more cost-effective than augmenting its own capacity in areas with high non-VA health care utilization. In a September 2014 report, we identified concerns with VA's management of its pilot dialysis program, which had been implemented in four VA-operated clinics. Specifically, we found that, five years into the pilot, VA had not set a timetable for the completion of its dialysis pilot or documented how it would determine whether the pilot was successful, including improving the quality of care and achieving cost savings. We also found that VA data on the quality of care and treatment costs were limited due to the delayed opening of two of the four pilot locations. Veterans who receive dialysis are one of VA's most costly populations to serve, but VA has limited capacity to deliver dialysis in its own facilities, and instead refers most Veterans to non-VA providers for this treatment. VA began developing its dialysis pilot program in FY 2009 to address the increasing number of Veterans needing dialysis and the rising costs of providing this care through non-VA providers.

GAO High Risk Area	**1: Managing Risks and Improving VA Health Care (VHA)** **Sub-part 5: Unclear resource needs and allocation priorities**
Estimated Resolution Timeframe	FY 2018
Responsible Official	Under Secretary for Health
Completed FY 2015 Milestones	The Under Secretary for Health implemented the Integrated Clinical Program Review (ICPR) process to assess clinical and business objectives associated with a discrete group of cohesive Integrated Clinical Practice Teams. The ICPR process represents a functional reorientation of strategy, resource planning, and execution. These teams will synchronize with the Federal Program Inventory.
Planned FY 2016 Milestones	ICPR teams will be developed that foster vertical and horizontal integration across the organization (Q1). ICPR teams will develop approved business plans that describe key clinical and business outcomes (Q2). Business plans will be used to determine business priorities and future year allocations (Q3).

GAO High Risk Area	**2: Improving the Management of IT Acquisitions and Operations (OIT)**
GAO High Risk Area	Failed IT projects often suffer from a lack of disciplined and effective management, such as project planning, requirements definition, and program oversight and governance. In many instances, agencies have not consistently applied best practices that are critical to successfully acquiring IT investments. GAO has identified nine critical factors underlying successful major acquisitions that support the objective of improving the management of large-scale IT acquisitions across the federal government: (1) program officials actively engaging with stakeholders; (2) program staff having the necessary knowledge and skills; (3) senior department and agency executives supporting the programs; (4) end users and stakeholders involved in the development of requirements; (5) end users participating in testing of system functionality prior to end user acceptance testing; (6) government and contractor staff being stable and consistent; (7) program staff prioritizing requirements; (8) program officials maintaining regular communication with the prime contractor; and (9) programs receiving sufficient funding. GAO has identified two ongoing investments at VA with significant issues requiring attention: • The DOD and VA electronic health records initiative is intended to share data among the departments' health information systems, but achieving this has been a challenge for these agencies over the last 15 years. In March 2011, the Secretaries of DOD and VA committed their two departments to developing a new, common, integrated electronic health record, and in May 2012 announced their goal of implementing it across the departments by 2017. The departments estimated the life-cycle cost of this effort at about $25 billion. However, as GAO noted, the Secretaries announced in February 2013 that instead of developing a new common, integrated electronic health record system, the departments would focus on integrating health records from separate DOD and VA systems. VA has stated that it will continue to modernize its existing system while pursuing the integration of health data, while DOD announced in May 2013 that it planned to purchase a commercial, off-the-shelf product. The Secretaries offered several reasons for this new direction, including cutting costs, simplifying the problem of integrating DOD and VA health data, and meeting the needs of Veterans and Servicemembers sooner rather than later. Nevertheless, the Departments' recent change in the program's direction and history of challenges in improving their health information

GAO High Risk Area	2: Improving the Management of IT Acquisitions and Operations (OIT)
	systems heighten concern about whether this latest initiative will be successful. • VA has invested significant resources into developing a system for outpatient appointment scheduling, but these efforts have faced major setbacks. The department terminated its previous scheduling system project in September 2009, after spending an estimated $127 million over 9 years. The investment was to modernize VA's more than 25-year-old outpatient scheduling system, but the department had not yet implemented any of the planned system's capabilities before terminating the project. On October 1, 2009, VA began a new initiative that it refers to as HealtheVet Scheduling. In May 2010, we reported that VA's efforts to successfully complete the Scheduling Replacement Project were hindered by weaknesses in several key project management disciplines and a lack of effective oversight that, if not addressed, could undermine the department's second effort to replace its scheduling system. GAO recommended that, as the department proceeded with future development, it take actions to improve key processes, including acquisition management, system testing, and progress reporting, which are essential to the department's second outpatient scheduling system effort.
Estimated Resolution Timeframe	Continuing Resolution
Responsible Official	Assistant Secretary for Information Technology
Completed FY 2015 Milestones	OI&T continues to use program management principles and practices to ensure the involvement of stakeholders and users in the key acquisition processes for IT investments. Specifically, VA program managers actively engage with stakeholders through established Integrated Project Teams (IPTs) and OI&T and VA executive leadership (to include VA Deputy Secretary) reviews that provide oversight and guidance (VistA Evolution is reviewed weekly). For Medical Appointment Scheduling System (MASS) and VistA Evolution, there is active IPT representative engagement in acquisition, development, and evaluation of offerors' proposals. The VHA Access and Clinical Administration Program prioritizes all functional requirements for MASS. The VistA Evolution Executive IPT, which includes representatives from VHA, OI&T and the Interagency Program Office, prioritizes all functional requirements for VistA Evolution. The Departments of Defense and Veterans Affairs agreed to focus efforts on the exchange of health care information as a viable alternative allowing each Department to pursue separate courses of modernization for their electronic health records. End users and stakeholders are actively involved in the development of requirements and participating in testing system functionality. MASS program end users were involved in developing requirements for the MASS acquisition and evaluating offeror proposals. For VistA Evolution, business stakeholders provide business requirements and are involved in developing and approving all requirements specifications for acquisitions. Likewise, MASS and VistA Evolution end-users are included in testing activities for all end-user facing capabilities. To ensure appropriate program staff have the necessary skills, MASS and VistA Evolution assigned leadership have Federal Acquisition Certification Program/Project Manager senior certification credentials. Both programs have stable government project staff and mechanisms are in place to ensure quality and timeliness of contractor deliverables regardless of contractor staff. VistA Evolution program leadership maintains regular communication with prime contractors. **MASS Completed Milestones for FY15**: MASS Request for Proposal released November 19, 2014; proposals received January 9, 2015; Final Source Selection briefing occurred May 18, 2015; and briefing to the Deputy Secretary occurred June 17, 2015. MASS Award/Execution is pending. **VistA Evolution Completed Milestones for FY15:** Feature Set 1 completed September 30, 2014;

GAO High Risk Area	2: Improving the Management of IT Acquisitions and Operations (OIT)
	and Feature Set 2 completed September 30, 2015.
Planned FY 2016 Milestones	**MASS Planned Milestones for FY15:** Complete Pilot Implementation Plan, receive leadership approval for pilot implementation in Q1FY16; start requirements gathering, analysis, and pre-assessment; start design and approvals in Q2FY16; complete design and approvals; complete requirements gathering, analysis, and pre-assessment in Q3FY16; receive approval to start development; and begin development and pilot implementation in Q4FY16. **VistA Evolution Completed Milestones for FY16:** feature Set 3 deliverables: FileMan Modernization in Q1FY16; enhancements to Pharmacy National Deployment in Q2FY16; VistA Service Assembler Infrastructure Build Out in Q3FY16; enhancements to Electronic Health Management Platform (eHMP); Interoperable Electronic Health Record (EHR); VistA Scheduling Enhancements (VSE); VistA Immunization (VIMM) Enhancements; and API Exposure, 2.0 in Q4FY16.

GAO High Risk Area	3: Improving and Modernizing Federal Disability Programs (VBA)
GAO Write-up	Federal disability programs across government remain fragmented and in need of modernization. Numerous federal programs provide a patchwork of services and supports to people with disabilities, and work independently without a unified vision and strategy or set of goals to guide their outcomes. Further, three of the largest disability benefit programs—managed by the Social Security Administration (SSA) and the Department of Veterans Affairs (VA) —rely on outdated criteria to determine whether individuals should qualify for benefits. Although SSA and VA have undertaken efforts to update their criteria, aspects of their programs continue to emphasize medical conditions when assessing an individual's ability to work without sufficient consideration of improvements offered by advances in medicine, technology, or changes in the modern work environment. Moreover, these programs may continue to face growing disability claims workloads resulting in part from individuals with disabilities leaving the workforce during a difficult economic recovery and from Servicemembers returning from war. These workload challenges are likely to persist, notwithstanding SSA and VA efforts to process more claims. Beginning in 2009 and continuing after GAO's 2013 update, VA has made progress in updating the criteria it uses for rating disability, and has developed project plans and identified resources to help ensure its efforts are successful. However, some of its plans have yet to be tested. VA made progress updating its disability ratings, but has yet to finalize and implement initial revisions. VA's plans to conduct regular updates of its ratings every 10 years are relatively new and its plans to ensure sufficient capacity going forward are still in process. As such, it will take time to determine whether VA's efforts to date are sufficient. VA will need to continue to closely monitor its progress and to seek additional capacity as needed. Continued leadership focus is needed on VA's appeals backlog. Specifically, VA should continue to develop plans to reform and streamline its appeals process, and to accurately monitor its workload across components, including monitoring the effect that increased claims decisions have on appeals workloads.
Estimated Resolution Timeframe	2016

GAO High Risk Area	**3: Improving and Modernizing Federal Disability Programs (VBA)**
Responsible Official	Acting Undersecretary for Benefits
Completed FY 2015 Milestones	In FY 2015, VBA continued to execute its claims transformation plan, the aim of which is to change the way it delivers benefits and services to Veterans, their families, and survivors for generations to come. VBA continues to leverage the capabilities of its electronic applications (e.g., the Veterans Benefits Management System (VBMS) and the Veterans Relationship Management (VRM)) by adding increased functionality. As of September 30, 2015, VBA went from touching 5,000 tons of paper annually to processing 99.8 percent of disability compensation claims electronically. There are 342,000 claims in the electronic inventory and only 21,000 pension and dependency and indemnity compensation (DIC) claims in paper. VBA has completed 3.7 million rating decisions and over 2 million claims in VBMS. Due to VBA's extensive outreach efforts, more Veterans are using the joint Department of Defense (DoD)/VA web portal eBenefits to interact with VBA. Veterans can now file claims online through eBenefits. Additionally, the Stakeholder Enterprise Portal, an electronic web portal that mirrors eBenefits, allows VA partners and Veterans Service Organizations (VSOs) to electronically file claims for benefits and services on behalf of Veterans they represent. These actions and initiatives support VBA's efforts to improve the timeliness and accuracy of claims processing. With the growing number of appeals and current legislative structure, VA cannot efficiently serve Veterans in the appeals process. VA's *Strategic Plan to Transform the Appeal Process*, which was submitted to the Senate Committee on Veterans' Affairs in February 2014, focuses on employee training, tools, and assignment of work; streamlining the appeal process; and implementing modern technology solutions in systems that are under development. However, VA cannot fully transform its appeal process without stakeholder support for resources and legislative reform. In 2015, ROs implemented an Appeals Checklist to ensure employees adhered to proper procedures when certifying and transferring jurisdiction of appeals to the Board of Veterans' Appeals (the Board) and shipping files to the Veterans Claims Intake Program for scanning into VBMS. In addition, effective March 25, 2015, VA requires claimants to file notices of disagreement on a standard form. VBA has made significant process towards eliminating the claims backlog and improving accuracy. As of September 30, 2015, VBA: • Reduced backlog from peak of 611,073 in March 2013 to 71,352, an 88.3-percent reduction in 30 months – lowest since VBA started measuring the backlog. • Reduced inventory from peak of 883,930 in July 2012 to 363,034, a 58.9-percent reduction. The lowest level since 2008. • Increased claim-level accuracy from 83 percent in June 2011 to 90.7 percent; at the issue-level, accuracy is 96.3 percent. • Completed a record-breaking 1.4 million claims in FY 2015. • Veterans with a pending claim are waiting an average of 189 days less for a claim decision, from peak of 282 days in March 2013 to 93 days. VBA improved the availability and accessibility of claims processing policy and procedural guidance by consolidating them into a single web portal, the Compensation and Pension Knowledge Management Portal. The M21-1, or "Live Manual," is an integrated, up-to-date resource that incorporates into one authoritative source existing guidance previously found in various locations.

GAO High Risk Area	3: Improving and Modernizing Federal Disability Programs (VBA)
	VBA continued to make progress with updating the VA Schedule for Rating Disabilities (VASRD). In FY 2015, VBA published the following five body systems as proposed regulations in the Federal Register: Hemic and Lymphatic, Gynecological and Breast, Eye, Endocrine, and Dental/Oral. VBA continued to provide Quality Review Team (QRT) challenge sessions for new QRT members to promote uniformity. VBA conducted 22 consistency studies during the fiscal year to provide individual computer-based training on high-error subjects to persons who did not pass a pre-test. In addition, VBA conducted monthly quality calls that focused on both authorization and rating issues, also allowing participants to receive training, discuss error trends, and other technical topics. VBA also refined its Systematic Technical Accuracy Review (STAR) sampling methodology to account for claims production and processing accuracy at each RO to determine sample size. VBA no longer excludes claims from the sample based upon a change of jurisdiction. Instead, VBA samples completed work according to the RO that completed the claim. This change, which began in February 2015, ensures that VBA's quality review sample includes brokered claims. Further, VBA now calculates and reports the margin of error for its accuracy data. The Private Medical Record (PMR) Program, which uses contractors to obtain private treatment records, was deployed nationally in November 2014. Upon implementation, the program was fully integrated with the Centralized Mail (CM) program, which resulted in VBA receiving all of its responses electronically. Since national deployment and the implementation of optimized changes in August 2015, the PMR program has processed over 148,000 requests, with the average request pending less than 11 days. VBA continues to develop an upfront income verification process by expanding the data sharing agreement with Social Security Administration (SSA) that enables VBA to electronically and securely receive federal tax information. Once VBA receives a claim for a total evaluation based upon individual employability (TDIU), VBA will request the reported employment wages through the SSA portal and receive a response within 10 to16 days. This process will more efficiently and timely provide VBA with income data and maintain the integrity of the TDIU program while reducing improper payments. In FY 2015, VBMS completed three major and eleven minor releases, which included: • New rating evaluation builders • Enhanced mapping and pre-population of additional Disability Benefits Questionnaire data into rating calculators • Enhancements to claim establishment, development, rating, and awards functionality • Standardized correspondence to Veterans and/or third party representatives VBMS continues to reduce reliance on legacy computer applications, reduce processing time, and improve accuracy by increasing consistency. In addition, VBMS delivered National Work Queue (NWQ) functionality in support of a national paperless workload management initiative that will be deployed to all ROs in November 2015. Some of the VBMS functionalities that will support the NWQ include the Command Center, a robust deferral process, automatic routing of claims to ROs, and enhanced automatic assignment features within the RO.

GAO High Risk Area	3: Improving and Modernizing Federal Disability Programs (VBA)
	VBA continued to make progress in simplifying burial benefit payments. VBA finalized the business requirements for automating plot/interment payments. In addition, VBA completed implementation of VBMS awards functionality for DIC and pension claims. In September 2015, VBA began a pilot program to process burial and accrued awards in VBMS. After successful validation, VBA will deploy this functionality to the Pension Management Centers. The Enterprise Veterans Self-Service (EVSS) is one element of VRM that supports the long-term vision of VA, providing information and services by conveniently and seamlessly interacting with Veterans, Servicemembers, VSOs, and the community of VA business partners and stakeholders. EVSS streamlines access to self-service capabilities (such as eBenefits, viewing claim and appeals status, electronically chatting with VBA public contact personnel, and electronically submitting forms) and provides a fully-functional and secure entry point to VA's web-based systems. In FY 2015, EVSS deployed four major releases that provided multiple enhancements and/or new features.
Planned FY 2016 Milestones	Increased VBMS functionality will help reduce reliance on legacy systems, support integration with DoD, improve electronic communications, and provide Veterans access to their eFolder. (Q4) VBA and the Board will continue to partner on training throughout FY 2016 to increase efficiencies in appeals processing. Active engagement with stakeholders, including VSOs and Congress, on ways to further modernize the VA appeals process will also continue in FY 2016. (Q4) VBA expects to publish the proposed rules for the remaining VASRD body systems by the end of FY 2016. (Q4) VBA will continue to use consistency studies, QRT training sessions, and monthly quality calls to provide training and address error trends, urgent issues, and technical concerns. (Q4) The PMR program will continue to focus on process improvements, including working with larger healthcare networks to provide records more timely, further streamlining the CM process, and automatically sending record requests received through e-Benefits to the PMR vendor for completion. (Q4) VBA will implement the upfront verification of wages for TDIU claimants, as well as begin annual eligibility reviews of the wages for Veterans already receiving TDIU. (Q2) VBA will implement the post-award audit process to replace the former income verification match, ensuring that those receiving pension benefits maintain their eligibility. (Q2) VBA will automatically suspend awards by utilizing information received from the SSA death match. (Q3) VBA will begin to release the NWQ in a phased rollout to all ROs in early FY 2016. The NWQ is a paperless workload management initiative designed to improve VBA's overall productive capacity by allowing VBA to prioritize and distribute workload across the ROs. NWQ will allow VBA to achieve the following: • Standardize workload management best practices • Match work assignments with VBA capacity and resources • Increase output by identifying and routing actionable claims to ROs • Identify rework trends to identify and rectify training gaps

GAO High Risk Area	3: Improving and Modernizing Federal Disability Programs (VBA)
	VBA expects NWQ to positively impact quality using its diagnostic tool and the trends gathered from its robust deferral process. VBMS Major Release 9.1, which will implement a phased rollout of the NWQ at the first eight ROs, will be deployed in October 2015. In November 2015, VBA will deploy NWQ to all remaining VBA ROs. (Q1) VBA will automate the payment of plot/interment allowances. (Q1) After successful validation, VBA will deploy VBMS functionality for processing accrued and burial claims to the Pension Management Centers. (Q1) VBA will deploy EVSS updates every two months to rapidly provide more agile development and deliver new features. (Q4)

Abbreviations and Acronyms

ACA
Affordable Care Act

ACSI
American Customer Satisfaction Index

AD
Academic Detailing

ADA
Anti-Deficiency Act

AFGE
American Federation of Government Employees

AFR
Agency Financial Report

ALAC
Administrative and Loan Accounting Center

ALS
Amyotrophic Lateral Sclerosis

AMAS
Automated Monument Application System

AMC
Appeals Management Center

APA
Administrative Procedures Act

APG
Agency Priority Goal

ARRA
American Recovery and Reinvestment Act of 2009

BDD
Benefits Delivery at Discharge

BDN
Benefits Delivery Network

BFFS
Beneficiary Fiduciary Field System

BHAP
Behavioral Health Autopsy Program

BHIE
Bi-Directional Health Information Exchange

BOSS
Burial Operations Support System

BPA
Blanket Purchase Agreement

BPEB
Benefits Portfolio Executive Board

BPSC
Benefits Portfolio Steering Committee

BRD
Business Requirement Document

BTP
Beneficiary Travel Program

BTT
Budget Tracking Tool

BVA
Board of Veterans' Appeals

C&A
Certification and Accreditation

C&P
Compensation and Pension

CAATS
Centralized Automated Accounting Transaction System

CAMS
Capital Asset Management System

CAP
Combined Assessment Program

CARES
Capital Asset Realignment for Enhanced Services

CBO
Chief Business Office

CBOC
Community-Based Outpatient Clinic

CFS
Consolidated Financial Statements

CHAMPVA
Civilian Health and Medical Program of the Department of Veterans Affairs

CIP
Critical Infrastructure Program

CIO
Chief Information Officer

CLA
Clifton Larson Allen LLP

CLC
Community Living Center

CM
Centralized Mail

CMOP
Consolidated Mail Outpatient Pharmacy

CMS
Centers for Medicare and Medicaid Services

CO
Contracting Officer

COLA
Cost of Living Adjustment

COOP Continuity of Operations Plan

COR
Contracting Officer Representative

COTS
Commercial Off-the-Shelf

COVERS
Control of Veterans Records System

CPGI
Clinical Practice Guideline Index

CPEP
Compensation and Pension Examination Program

CRC
Colorectal cancer

CRISP
Continuous Readiness in Information Security Program

CRMS
Customer Relationship Management System

CSRS
Civil Service Retirement System

CVT
Clinical Video Telehealth

CLA
Clifton Larson Allen LLP

DATA Act
Digital Accountability and Transparency Act of 2014

DBQ
Disability Benefits Questionnaire

DMC
Debt Management Center

DIC
Dependency and Indemnity Compensation

DMDC
Defense Manpower Data Center

DoD
Department of Defense

DOOR
Distribution of Operational Resources

DRO
Decision Review Officer

DSS
Decision Support Service

EA
Enterprise Architecture

eCMS
Electronic Contact Management System

ECST
Enterprise Cybersecurity Strategy Team

EFT
Electronic Funds Transfer

E-GOV
Electronic Government

eHMP
Enterprise Health Management Platform

EHR
Electronic Health Record

EP
End Products

ERM
Enterprise Risk Management

EVD
Ebola Virus Disease

ETS2
E-Gov Travel Service 2

EVM
Earned Value Management

EVR
Eligibility Verification Reports

EVSS
Enterprise Veterans Self Service

EWL
Electronic Wait List

DMIX
Defense Medical Information Exchange

F&FE
Fiduciary and Field Examination

FAR
Federal Acquisition Regulations

FASAB
Federal Accounting Standards Advisory Board

FASB
Financial Accounting Standards Board

FBCS
Fee Basis Claims System

FDC
Fully Developed Claims

FECA
Federal Employees' Compensation Act

FERS
Federal Employees Retirement System

FFMIA
Federal Financial Management Improvement Act

FFS
Federal Financial System

FHHC
Federal Health Care Center

FHIE
Federal Health Information Exchange

FISCAM
Federal Information Systems Control Audit Manual

FISMA
Federal Information Security Management Act

FMFIA
Federal Managers' Financial Integrity Act

FMS
Financial Management System

FMTC
Financial Management Training Conferences

FOBT
Fecal Occult Blood Test

FPDS-NG
Federal Procurement Data System – Next Generation

FPPE
Focused Professional Practice Evaluation

FRPC
Federal Real Property Council

FSC
Financial Services Center

FSSI
Federal Strategic Sourcing Initiative

FTE
Full-time Equivalent

FTF
Freeze the Footprint

FY
Fiscal Year

GAAP
Generally Accepted Accounting Principles

GAO
Government Accountability Office

GPD
Grant Per Diem

GPO
Government Printing Office

GPRA
Government Performance and Results Act

GRC
Governance, Risk and Compliance

GSO
Government Services Online

GTAS
Government-wide Treasury Account Symbol Adjusted Trial Balance System

HAC
Health Administration Center

HCIP
Human Capital Investment Plan

HCN
Health Care Network

HHS
Health and Human Services

HIPAA
Health Information Portability and Accountability Act

HR
Human Resources

HRA
Human Resources & Administration

HRC
Health Resource Center

HRPP
Human Research Protection Program

HUD
Housing and Urban Development

HUD-VASH
HUD-VA Supportive Housing

HVA
High Value Assets

I CARE
Integrity Commitment Advocacy Respect Excellence

IA
Interagency Agreement

ICU
Intensive Care Unit

IDES
Integrated Disability Evaluation System

iEHR
Integrated Electronic Health Record

IHS
Indian Health Service

IOC
Indicators of Compromise

IPERA
Improper Payments Elimination and Recovery Act

IPIA
Improper Payment Information Act of 2002

IPO
Interagency Program Office

IPPS
Invoice Payment Processing System

IPRO
Improper Payments Remediation and Oversight

IRS
Internal Revenue Service

ISA
Interconnection Security Agreements

ISO
Information Security Officers

IT
Information Technology

IVM
Income Verification Match

IVR
Interactive Voice Response

IWT
Instructor Web-based Training

JFMIP
Joint Financial Management Improvement Program

JLV
Joint Legacy Viewer

KM
Knowledge Management

LGY
Loan Guaranty

LTC
Long-Term Care

MASSI
Medical Appointment Scheduling System

MCCF
Medical Care Collections Fund

MCO
Mission Critical Occupations

MEDD
Morphine Equivalent Daily Dose

MinX
Management Information Exchange

VLER
Virtual Lifetime Electronic Record

MMC
Major Management Challenge

MMC
Mobile Medical Center

MMWR
Monday Morning Workload Report

MOU
Memorandum of Understanding

MS&C
Medical Support and Compliance

MSN
Memorial Service Network

MSO
Military Service Organization

MTF
Military Treatment Facility

NAC
National Acquisition Center

NAGE
National Association of Government Employees

NCA
National Cemetery Administration

NCCHV
National Call Center for Homeless Veterans

NDAA
National Defense Authorization Act

NDMS
National Disaster Medical System

NIST
National Institute of Standards and Technology

NOD
Notice of Disagreement

NOFA
Notice of Funding Availability

NRP
National Response Plan

NSOC
Network and Security Operations Center

NTGB
National Telehealth Governance Board

NVC
Non-VA Medical Care

NWQ
National Work Queue

OAEM
Office of Asset Enterprise Management

OAI
Organizational Assessment and Improvement

OALC
Office of Acquisition, Logistics, and Coordination

OBC
Office of Business Continuity

OBO
Office of Business Oversight

OBPI
Office of Business Process Integration

OC
Operations Center

OCR
Office of Contract Review

OEF/OIF/OND
Operation Enduring Freedom/Operation Iraqi Freedom/Operation New Dawn

OGC
Office of General Counsel

OIG
Office of Inspector General

OIT
Office of Information and Technology

OLCS
On Line Certification System

OM
Office of Management

OMB
Office of Management and Budget

OMS
Overutilization Safety Initiative

OPIA
Office of Public and Intergovernmental Affairs

OPM
Office of Personnel Management

OSI
Opioid Safety Initiative

OWCP
Office of Workers' Compensation Program

P&LO
Procurement & Logistics Office

PACT
Patient Aligned Care Team

PAID
Personnel and Accounting Integrated Data

PAR
Performance and Accountability Report

PBO
PMAS Business Office

PC3
Patient Centered Community Care

PCP
Primary Care Provider

PII
Personally Identifiable Information

PIP
Prosthetics Inventory Package

PIT
Point in Time

PIV
Personal Identity Verification

P.L.
Public Law

PMAS
Program Management Accountability System

PMC
Pension Maintenance Center

PMP
Project Management Plan

PMR
Private Medical Record

POA&M
Plans of Actions & Milestones

PPBE
Planning, Programming, Budgeting and Execution

PP&E
Property, Plant & Equipment

PPA
Prompt Payment Act

PPO
Program Planning and Oversight

PSC
Prosthetic Service Card

PTSD
Post-Traumatic Stress Disorder

QA
Quality Assurance

QRT
Quality Review Team

RBPS
Rules Based Processing System

RIN
Regulation Identification Number

RO
Regional Office

RPO
Regional Processing Office

RVSR
Rating Veterans Service Representative

RVU
Relative Value Unit

SAC-F
Strategic Acquisition Center - Frederick

SAH
Specially Adapted Housing

SAM
Strategic Asset Management

SAO
Systematic Analysis of Operations

SBA
Small Business Administration

SCA
Security Control Assessment

SCAN-ECHO
Specialty Care Access Network-Extension for Community Healthcare Outcomes

SCI
Spinal Cord Injury

SCIP
Strategic Capital Investment Plan

SCIP SAT
Strategic Capital Investment Plan Automated Tool

SCS
Specialty Care Services

SDR
Service Delivery and Engineering

SDVOSB
Service Disabled Veteran Owned Small Business

SECVA
Secretary, Veterans Affairs

SEP
Stakeholder Enterprise Portal

SES
Senior Executive Service

SFFAS
Statement of Federal Financial Accounting Standards

SGLI
Servicemembers' Group Life Insurance

SHEP
Surveys of the Health Experiences of Patients

SMC
Strategic Management Council

SMC
Special Monthly Compensation

SOARD
Service-Oriented Architecture Research and Development

SOP
Standard Operating Procedures

SPAWAR
Space and Naval Warfare Systems Center

SPI
Separately Priced Item

SSA
Social Security Administration

STAR
Systematic Technical Accuracy Review

STDP
System-to-Drive-Performance

STR
Service Treatment Record

STVHCS
South Texas Veterans Health Care System

SUD
Substance Use Disorder

TA
Traditional Aggregate

TBI
Traumatic Brain Injury

TDIU
Total Disability Individual Unemployablity

THP
Tribal Health Program

TOP
Treasury Offset Program

TPSS
Training and Performance Support System

TSA
Telehealth Service Agreement

TSO
Training Support Office

TSS
Telehealth Scheduling System

USB
Under Secretary for Benefits

USH
Under Secretary for Health

U.S.C.
United States Code

US-CERT
United States Computer Emergency Readiness Team

USICH
US Interagency Council on Homelessness

VA
Veterans Affairs

VAAR
VA Acquisition Regulation

VACAA
Veteran Access, Choice and Accountability Act of 2014

VAMC
VA Medical Center

VARO
VA Regional Office

VASH
VA Supportive Housing

VASRD
VA Schedule for Rating Disabilities

VATAS
VA Time and Attendance System

VBA
Veterans Benefits Administration

VBMS
Veterans Benefits Management System

VCAA
Veterans Claims Assistance Act

VCGP
Veterans' Cemetery Grant Program

VCM
Virtual Care Measure

VE
Vista Evolution

VESO
Veteran Employment Services Office

VETSNET
Veterans Services Network

VGLI
Veteran's Group Life Insurance

VHA
Veterans Health Administration

VIP
Vendor Information Pages

VISN
Veterans Integrated Service Network

VistA
Veterans Information System and Technology Architecture

VLER
Virtual Lifetime Electronic Record

VOSB
Veterans Owned Small Business

VRM
Veterans Relationship Management

VR&E
Vocational Rehabilitation and Employment

VSC
Veterans Service Center

VSCM
Veterans Service Center Manager

VSO
Veterans Service Organization

VSR
Veterans Service Representative

VSSC
VHA Support Service Center

VT
Video Telehealth

WMS
Work Measurement Study

VA Online: Fast and Easy Access to Information

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

What Information Do You Need?	Web Site
Veterans' Home Page*	www.vets.gov
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	www1.va.gov/health/index.asp
VA Health Quality and Safety Performance	www.hospitalcompare.va.gov
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

What Information Do You Need?	Web Site
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.vetbiz.gov
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/veterans
Reports, Surveys, or Statistics Regarding the Veteran Population	www.va.gov/vetdata/
Freedom of Information Act	www.foia.va.gov/

What Information Do You Need?	***Web Site***
Privacy Policy Information	www.va.gov/privacy/
VA Directives and Handbooks	www.va.gov/vapubs/
Green VA	www.green.va.gov
Center for Faith-based and Neighborhood Partnerships	www.va.gov/cfbnpartnerships/
Homelessness Info	www.va.gov/homeless/

* Part of the Department of Veterans Affairs MyVA vision is to provide our Veterans with a seamless, unified Veteran Experience across the entire organization and throughout the country. In support of this goal VA is creating a website solely dedicated to helping Veterans learn about the benefits they've earned and providing a clear path for applying for them. MyVA's Veterans Experience office along with our Digital Service team are building a new Veteran-centric experience that will consolidate our services and benefit application process into one portfolio for an organized and distinct destination for Veterans.

Vets.gov initial release is planned for November 2015 and will provide clear instructions and steps for some of VA's most popular services and transactions. Vets.gov will evolve over the upcoming year as we include existing and build new self-service functionality and tools. The ultimate goal for Vets.gov is to become the single, one-stop shop for information and self-service for Veterans and those that care for them. Our initial launch will be your first look into how we are modernizing the Veteran experience. New content and functionality will be added week by week, with improvements based on user feedback and usage data, incrementally evolving to become a valued Veteran-focused digital experience.

U.S. Department of Veterans Affairs

Office of Management

810 Vermont Avenue, NW Washington, DC 20420

www.va.gov/budget/report

I CARE

DEPARTMENT OF VETERANS AFFAIRS