



## **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.

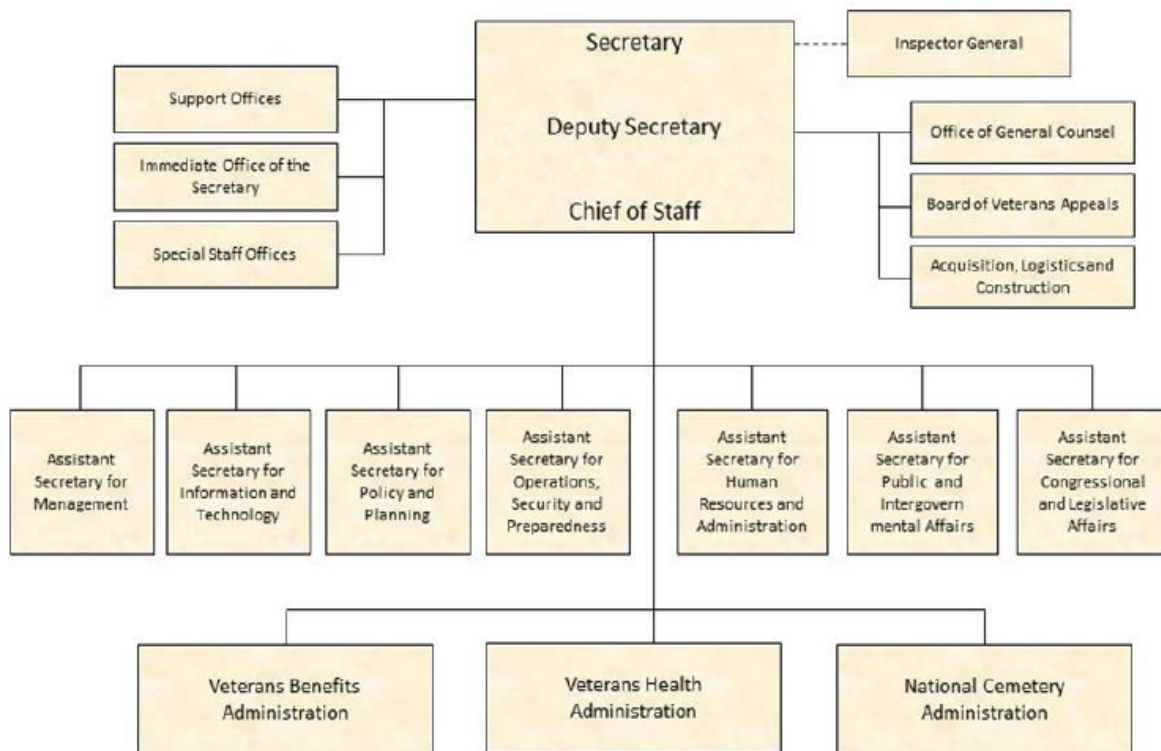
- The **Veterans Benefits Administration (VBA)** provides a variety of benefits to Veterans and their families.
  - **Compensation Benefits.** The VBA compensation program provides monthly payments and ancillary benefits to Veterans, in recognition of the average potential loss of earning capacity caused 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

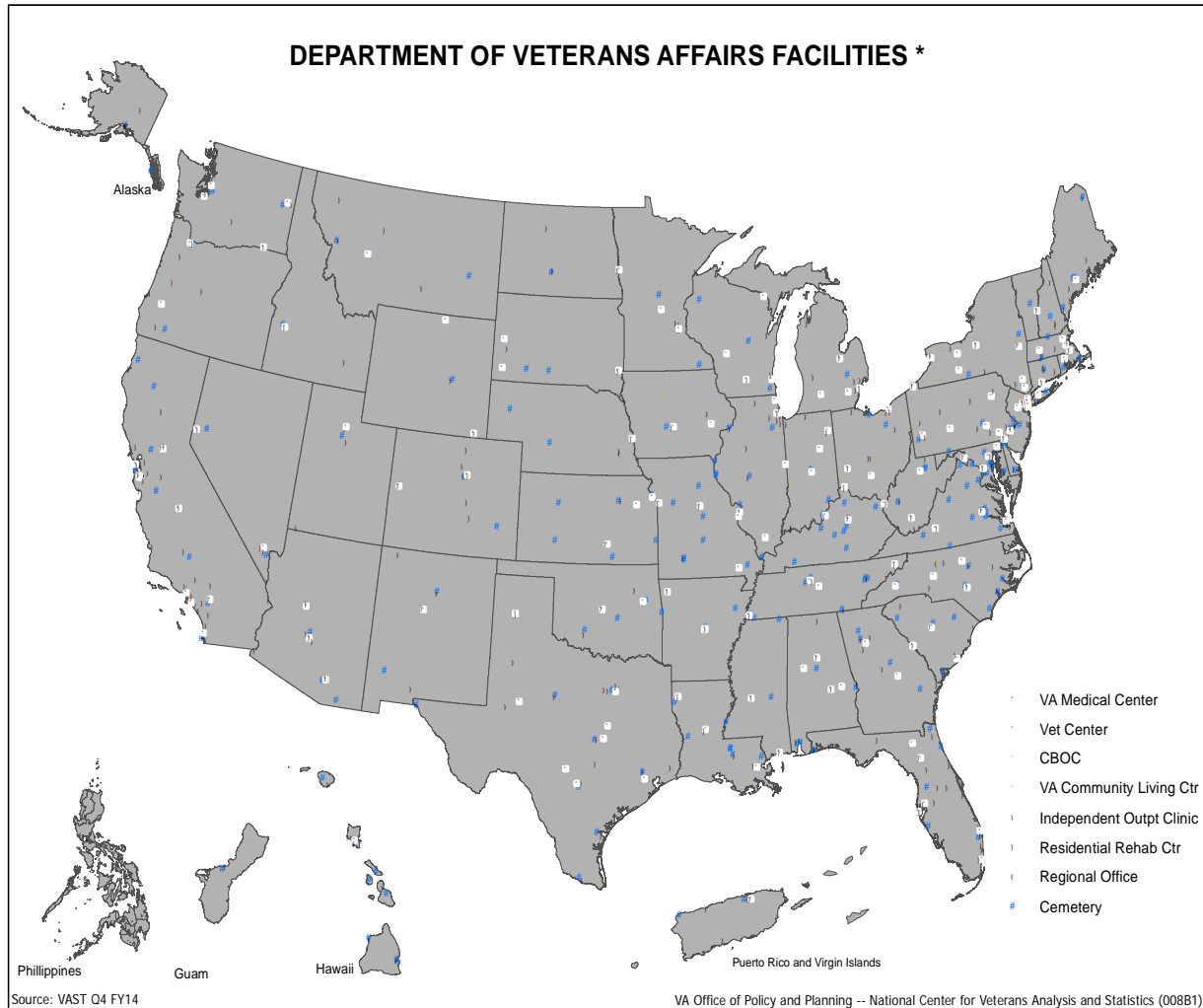


Source: VA Functional Organizational Manual v.3.0



## 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.



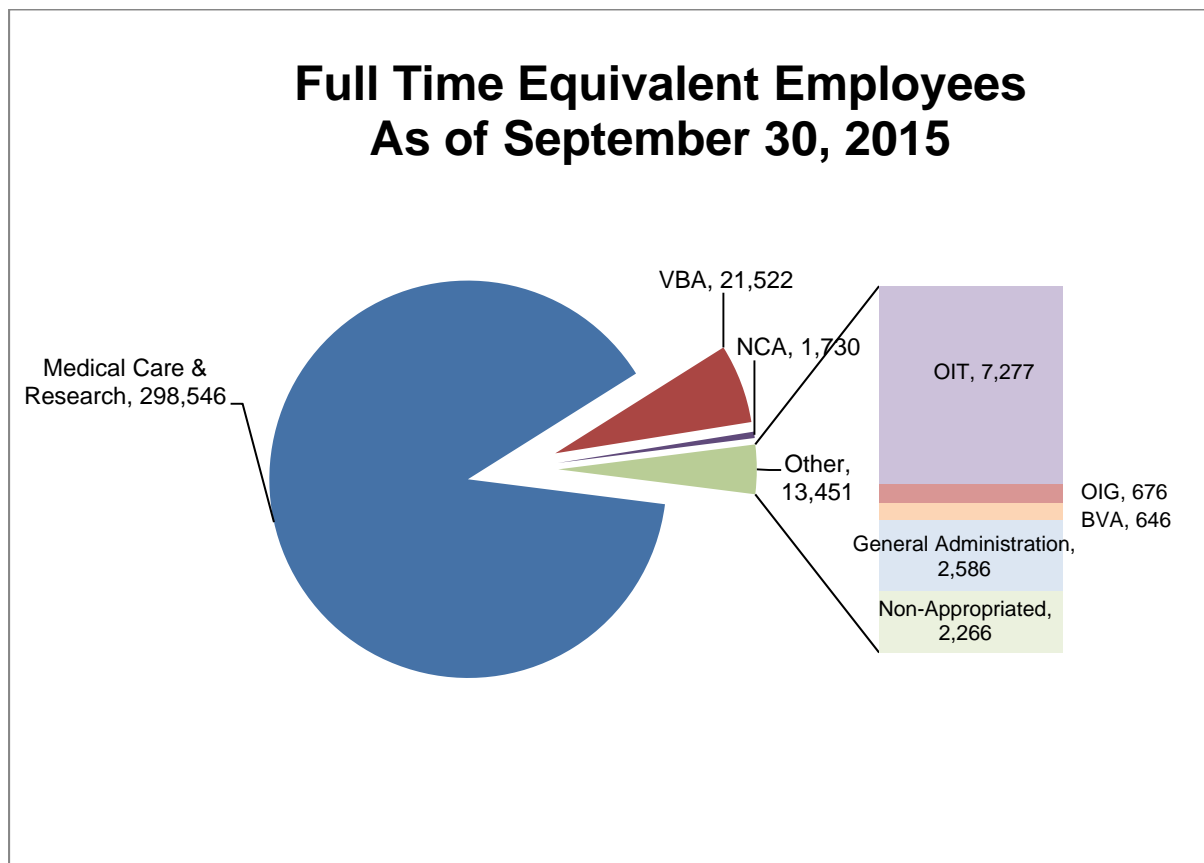
\*Although State Veterans Cemeteries are included on the above map, they are not VA facilities, per se. VA provides grants for the establishment of state-operated cemeteries, which provide a burial and memorial benefit to Veterans.



## 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.

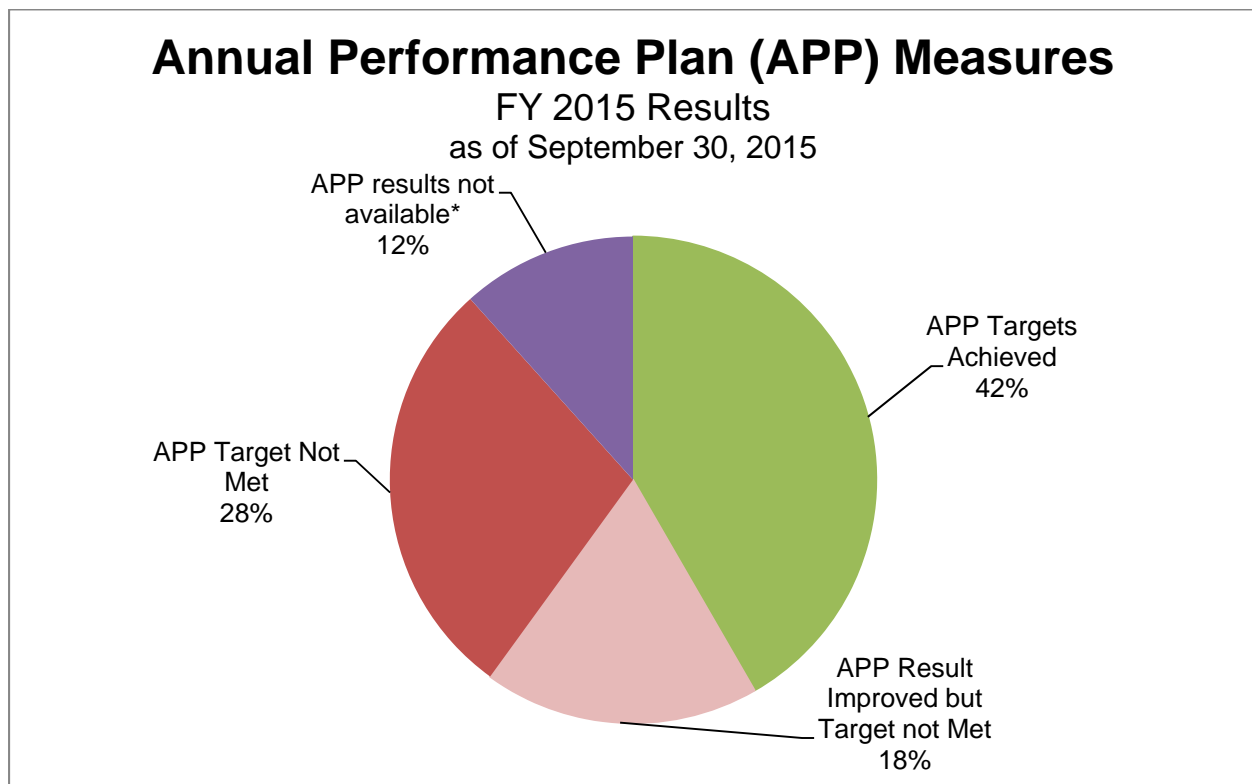
As shown below, more than 298,000 FTE support VA's health care system, one of the largest in the world. Among the remaining over 36,000 FTE employees, approximately 21,522 are involved with providing compensation and pension, as well as other benefits to Veterans and their families, 1,730 FTE provide 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 its 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



**MISSION:** To fulfill President Lincoln's promise

- "...To care for him who shall have borne the battle, and for his widow and his orphan"
- By serving and honoring the men and women who are America's Veterans

#### GUIDING PRINCIPLES

People Centric   Results Driven   Forward Looking

#### TRENDS

Demographic And Societal Change   Rapidly Evolving Technology   Shifting Roles Of Government

#### FY 2014-2015 AGENCY PRIORITY GOALS

Access **A**

Backlog **B**

Homelessness **H**

#### STRATEGIC GOALS

**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 Servicemembers, 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
<b>1. Empower Veterans to Improve Their Well-Being</b>	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.	<b>Noteworthy Progress</b>
<b>1. Empower Veterans to Improve Their Well-Being</b>	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.	<b>Noteworthy Progress</b>



Strategic Goal	Strategic Objective	Summary	End of Year Assessment
<b>2. Enhance and Develop Trusted Partnerships</b>	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.	<b>Focus Area for Improvement</b>
<b>2. Enhance and Develop Trusted Partnerships</b>	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.	<b>Noteworthy Progress</b>
<b>2. Enhance and Develop Trusted Partnerships</b>	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.	<b>Noteworthy Progress</b>
<b>3. Manage and Improve VA Operations to Deliver Seamless and Integrated Support</b>	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.	<b>Noteworthy Progress</b>
<b>3. Manage and Improve VA Operations to Deliver Seamless</b>	Objective 3.2: Evolve VA Information Technology Capabilities to Meet	OIT has delivered a significant number of technology solutions and enhancements to assist the workforce in healthcare and benefits delivery, including the expansion of	<b>Focus Area for Improvement</b>



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](http://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](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](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 processors. 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.

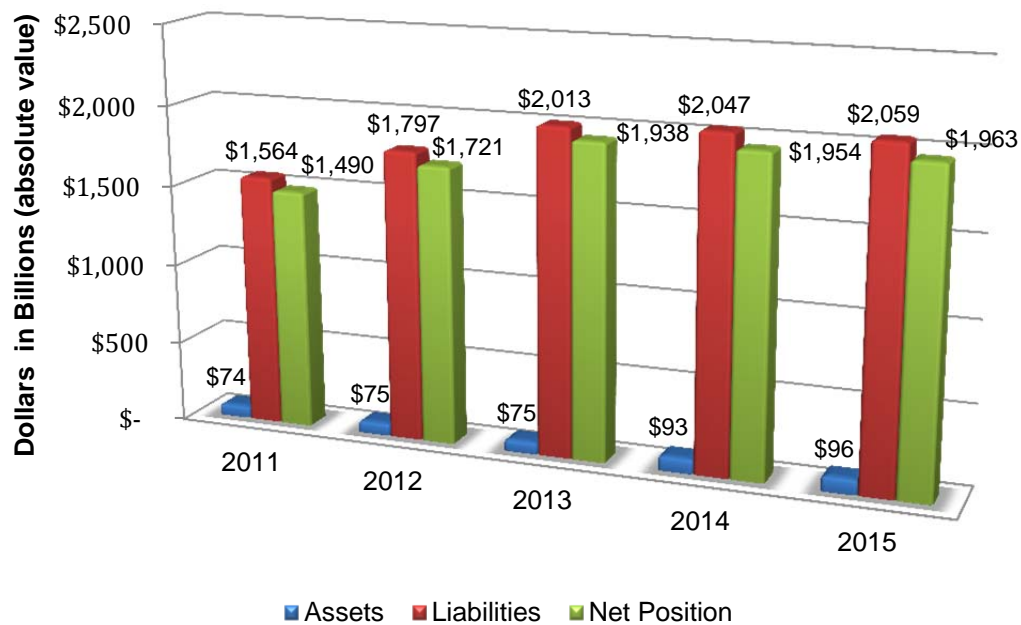
CliftonLarsonAllen (CLA) an independent public accounting firm reviewed our financial statements and provided an unmodified opinion for the 17<sup>th</sup> consecutive year, thus demonstrating our successful efforts to ensure that taxpayer resources are used effectively and efficiently in support of 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.



## BALANCE SHEET

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.

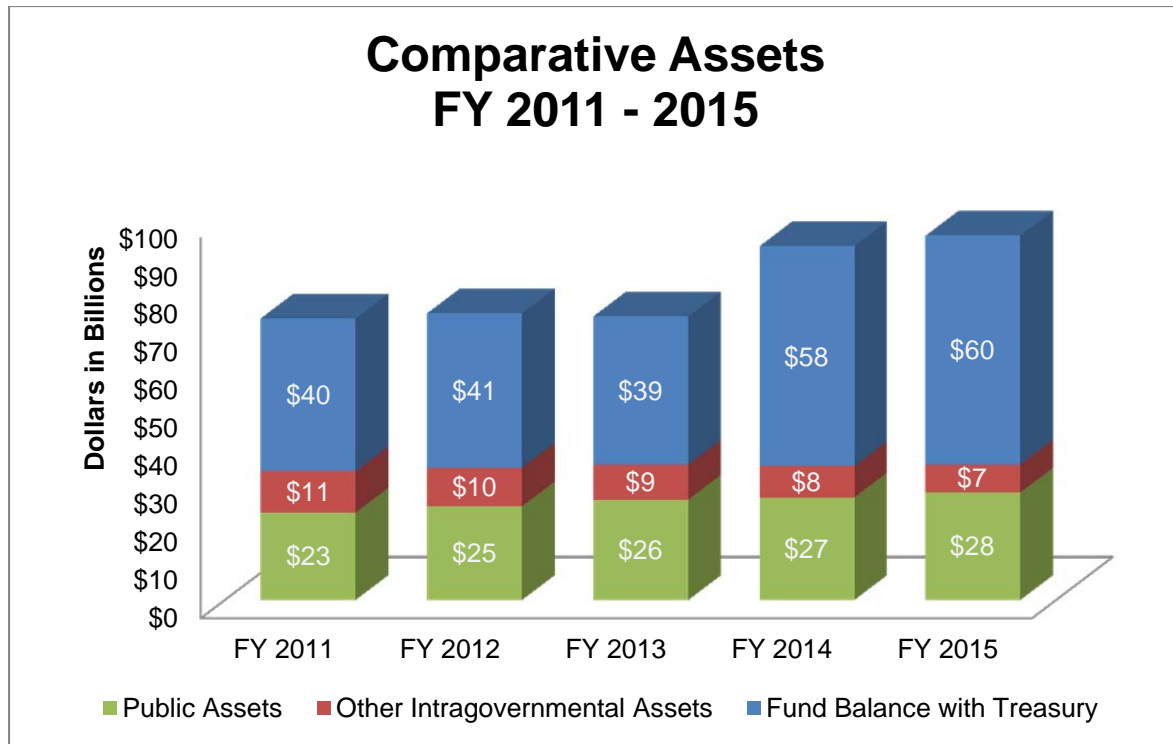
### Comparative Total Assets, Liabilities, and Net Position FY 2011 - FY 2015





## Assets

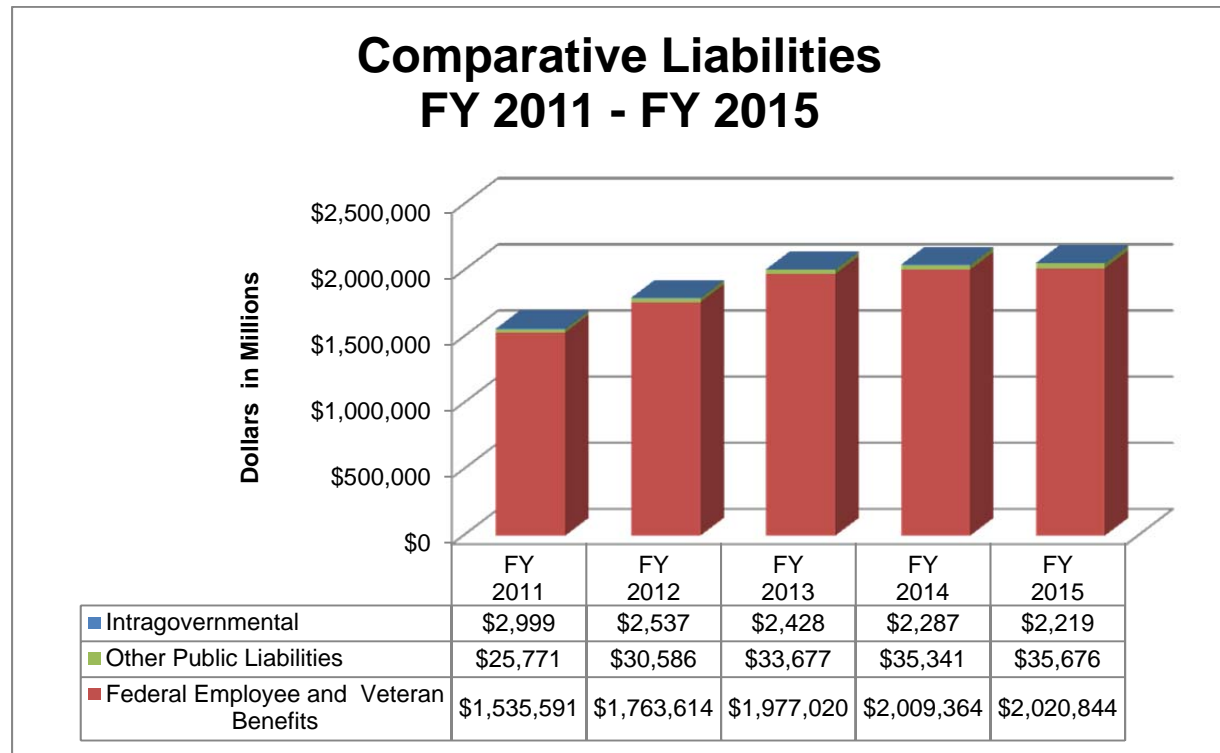
As displayed in the figure below, VA's assets do not show significant change from FY 2014 to FY 2015.





## Liabilities

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



## 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.

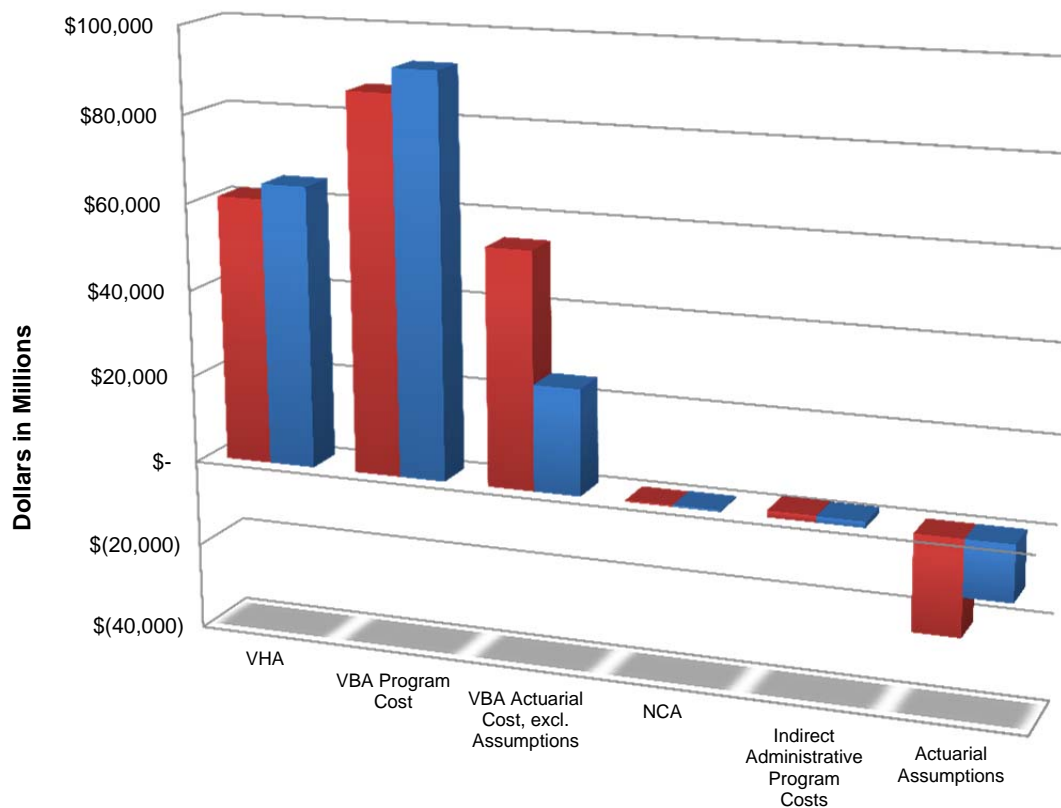
VBA's net program costs declined 17.3 percent primarily due to the lower actuarial cost changes based on experience changes over the comparative periods. During prior years the experience changes from, for example, actual Veteran count compared to model estimates, were more volatile. Absent this actuarial 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



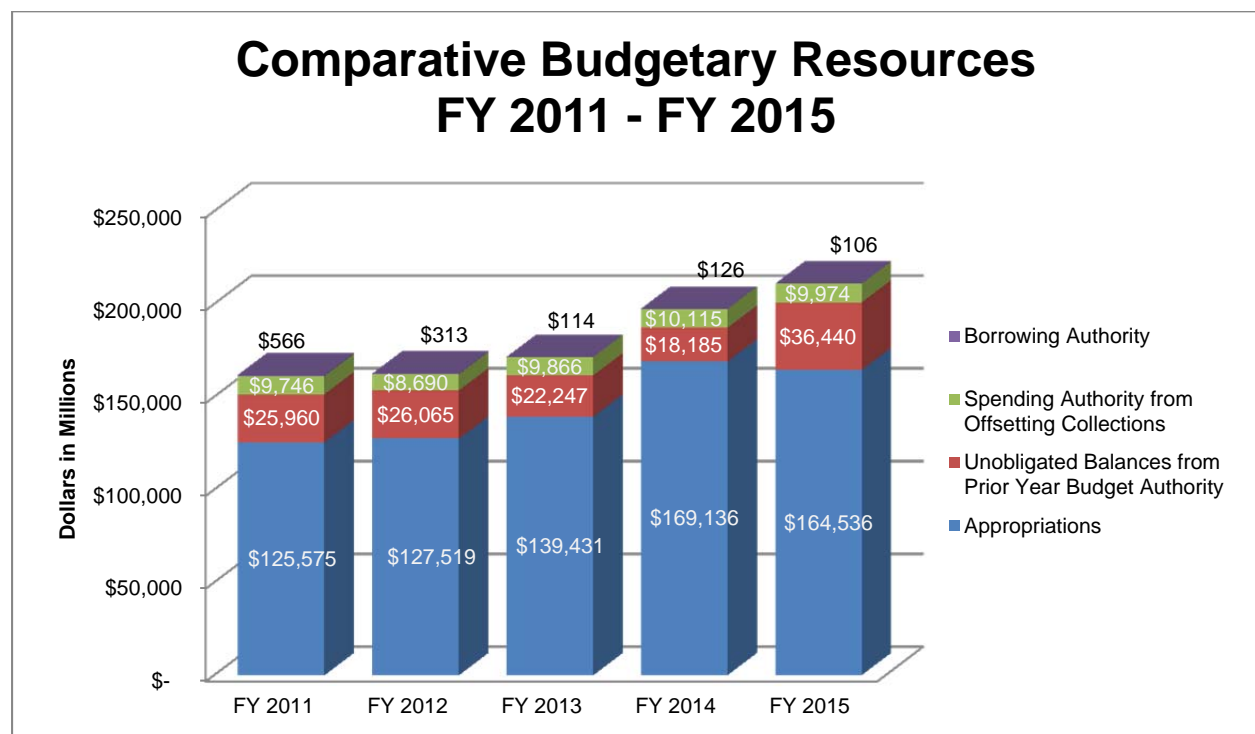
	VHA	VBA Program Cost	VBA Actuarial Cost, excl. Assumptions	NCA	Indirect Administrative Program Costs	Actuarial Assumptions
■ 2014	\$61,186	\$86,800	\$54,400	\$310	\$1,539	\$(22,100)
■ 2015	\$64,732	\$92,410	\$24,400	\$404	\$1,411	\$(13,000)



## 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.

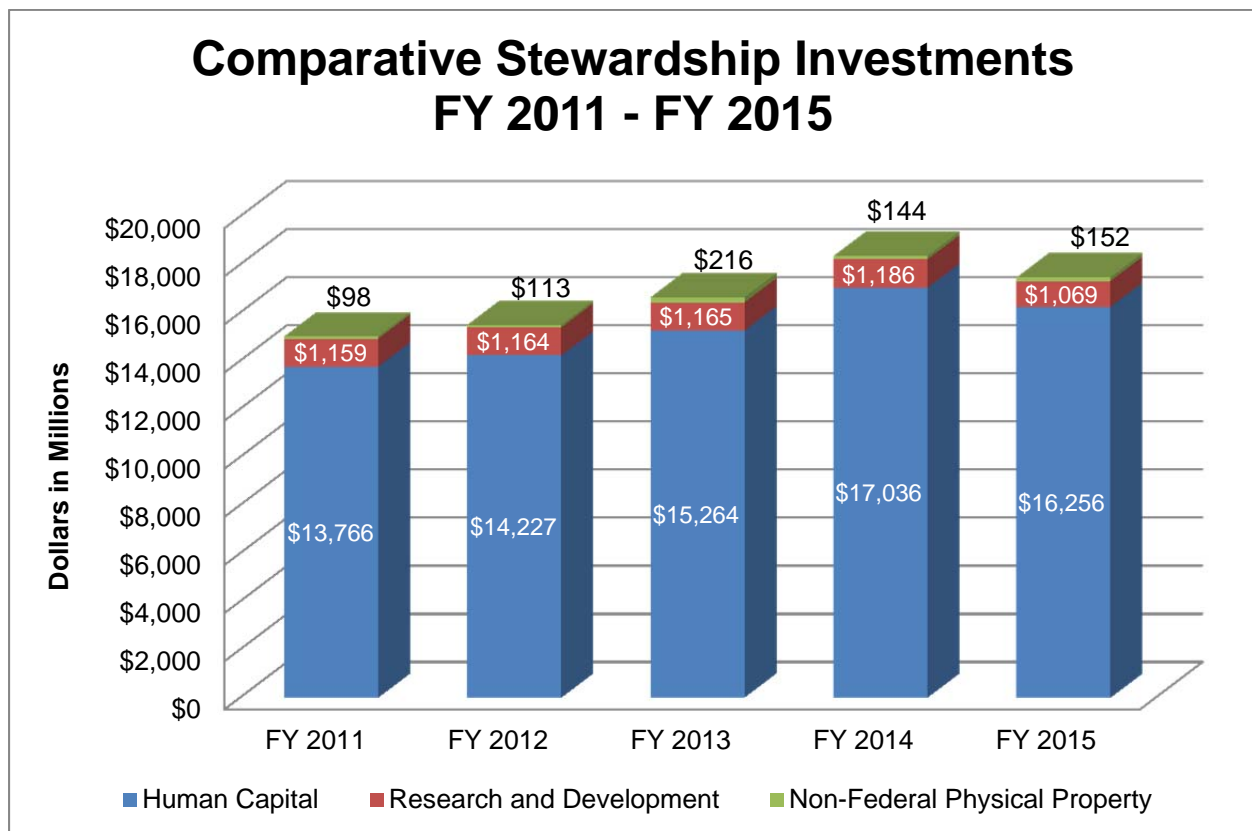


There was an increase in total budget authority of \$14 billion primarily due to the unobligated carryover from FY 2014 which included \$15 billion of appropriations received in August 2014 related to the VACAA appropriation under Public Law 113-146. The purpose of this law was to accelerate and improve 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.

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

Robert A. McDonald  
Secretary of Veterans Affairs



## MANAGEMENT ASSURANCES AND CONTROLS

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.



	<b>Centralized Automated Accounting Transaction System (CAATS)</b>
	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.
	<b>Personnel and Accounting Integrated Data System (PAID)</b>
	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.
	<b>VA Time and Attendance System (VATAS)</b>
	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.
	<b>Invoice Payment Processing System (IPPS)</b>
	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.
	<b>E-Gov Travel Service 2 (ETS2)</b>
	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.
	<b>Prime Vendor Payment System</b>
	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.