VA | U.S. Department of Veterans Affairs

FY 2016
Agency Financial Report (AFR)

Honoring the Past, Inspiring the Future

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MESSAGE FROM THE SECRETARY

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 15, 2016

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 duty to care for those who "shall have borne the battle" and for their families. To accomplish this sacred 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.

During fiscal year (FY) 2016, VA made great strides towards reaching our goal to become the number one customer service agency in the Federal Government. To achieve this goal, we applied the best practices and standards of top customer-service businesses. We conceived and organized a transformation initiative called MyVA, because that's exactly how we want Veterans to see us—a VA they are proud to call their own. We are building a high-performing organization into an integrated, customer-centric enterprise by leveraging VA's vast scope and scale on behalf of every Veteran we serve.

This year, VA accomplished the launch of the Million Veteran Program, a new initiative designed to study how genes impact health, in order to improve care for Veterans by establishing one of the largest databases of genetic, military exposure, lifestyle, and health information. In addition, we increased access to care. In March 2016, Veterans set a record for completed appointments—5.3 million inside VA, which is 730,000 more than March 2014; and VA issued 268,000 authorizations for Care in the Community—twice as many as in March 2014. In September 2016, VA completed 96.49 percent of appointments within 30 days of the clinically indicated or Veteran's preferred date; 90.78 percent within 14 days; 85.18 percent within 7 days; and 22.25 percent are actually completed on the same day. We are working to ensure that by the end of the calendar year 2016, Veterans will receive same-day services in primary care and mental health at all Veterans Health Administration (VHA) medical centers. As of September 30, 2016, 52 medical centers provided same-day services, and VHA is expected to attain these same-day service capabilities in 87 medical centers by the end of October 2016.

For the seventh year in a row, the Veterans Benefits Administration completed more than 1 million disability compensation rating claims. We have reduced pending claims (those over 125 days) by almost 90 percent, and the average wait time to complete a claim has dropped by 65 percent to 123 days. We paid insurance death claims in an average of 4 days with 100 percent accuracy. We distributed nearly $68 billion in Post-9/11 GI Bill benefits to 1.67 million Veterans and their dependents, since 2009. Additionally, we guaranteed 707,000 home loans and helped a record 97,000 Veterans avoid foreclosure, maintaining one of the lowest foreclosure rates in the industry.

The National Cemetery Administration continued implementation of new burial access policies that underpin the largest expansion of national cemeteries since the Civil War. Omaha and Cape Canaveral National Cemeteries were dedicated in 2016, which serve 280,000 Veterans and their families. VA also issued its 100th grant to open a state Veterans cemetery in Arizona. VA now serves 91.7% of the Veteran population (approximately 20 million Veterans) with convenient burial access. This year, VA interred 130,488 Veterans and eligible family members; cared for 3.6 million gravesites; maintained nearly 9,000 developed acres; processed 365,179 headstone and marker applications for cemeteries throughout the world; and produced 689,587 Presidential Memorial Certificates. To enhance Veterans' memorialization, VA launched the Veterans Legacy Program on Memorial Day. This initiative uses national cemeteries as educational platforms that connect Veterans' stories to educational themes.

In addition to these Veteran-facing improvements, VA recently selected the United States Department of Agriculture (USDA) as our Federal Shared Service Provider to provide a modern financial management solution with standardized business processes and reporting capabilities. Partnering with USDA allows VA to use an established and proven information technology solution to better serve its financial management needs. This partnership demonstrates VA's commitment to work with other agency partners to reduce duplication and redundancy across the government, while also improving both the quality and agility of administrative services. This effort will continue to increase the transparency, accuracy, timeliness and reliability of VA's financial information as a top FY 2017 VA Priority.

CliftonLarsonAllen (CLA), an independent public accounting firm, reviewed our financial statements and provided an unmodified opinion for the 18th 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 FY 2017, as CLA identified a number of areas that require improvement within our Department.

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 2016. The Agency Performance Plan and Report, due in February 2017, 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

VA's Fiscal Year (FY) 2016 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, 2015, through September 30, 2016. The AFR 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 2016. 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 2016 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.

Pursuant to OMB circular A-136, the Department has chosen to produce an AFR and an Annual Performance Plan and Report. The FY 2016 Annual Performance Plan and Report will be provided along with the Congressional Budget Justification in February, 2017 and will be available on the Department's Web site at: http://www.va.gov/budget/report/.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND ORGANIZATIONAL STRUCTURE

Mission

President Lincoln's immortal words – delivered in his Second Inaugural Address more than 140 years ago – best describe the VA's mission. 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, medical, and burial services to the millions of men and women who have served this country with honor. President Lincoln's words guide all VA employees in their commitment to providing the best medical care, benefits, social support, and lasting memorials that Veterans and their dependents deserve in recognition of Veterans' service to this Nation.

History

The United States has the most comprehensive Veterans assistance system of any nation in the world, which can be traced back to 1636, when the Pilgrims of Plymouth Colony were at war with the Pequot Indians. From the beginning, the English colonies in North America provided pensions for disabled Veterans. The first law in the colonies on pensions, enacted in 1636 by Plymouth, provided money to those disabled in the colony's defense against Native Americans.

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."

As the United States (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[1]. The GI Bill placed VA second to the War and Navy Departments in funding and personnel priorities.

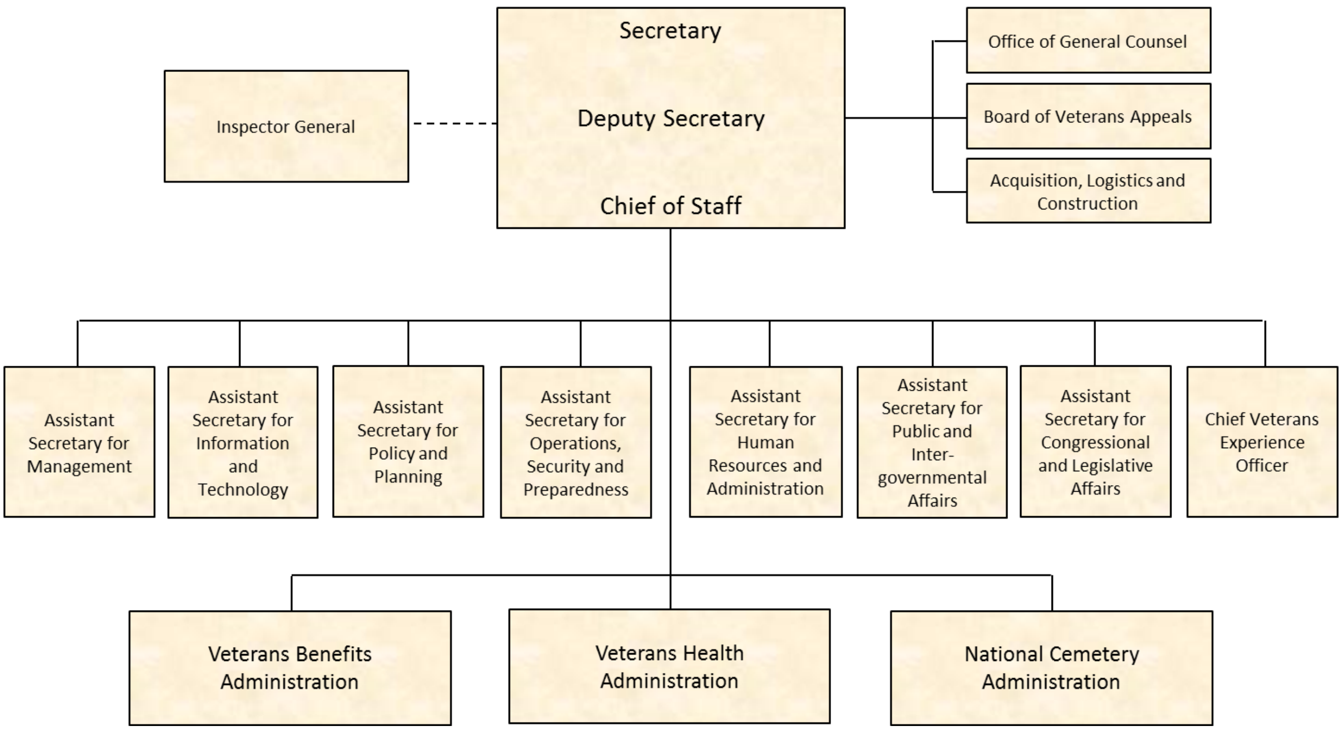
In 1973, the Department of the Army transferred 82 of its 84 national cemeteries to VA's custody. At the same time, VA elevated the status of its own 21 cemeteries to that of national cemeteries, creating VA's current national cemetery system.

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.

[1] Signed into law by President Abraham Lincoln on May 20, 1862, the Homestead Act encouraged Western migration by providing settlers 160 acres of public land. (Library of Congress, Web Guides)

Organization

DEPARTMENT OF VETERANS AFFAIRS



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

- **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. VHA advances medical research and development in ways that support Veterans' needs by pursuing medical research in areas that most directly address the diseases and conditions that affect Veterans.

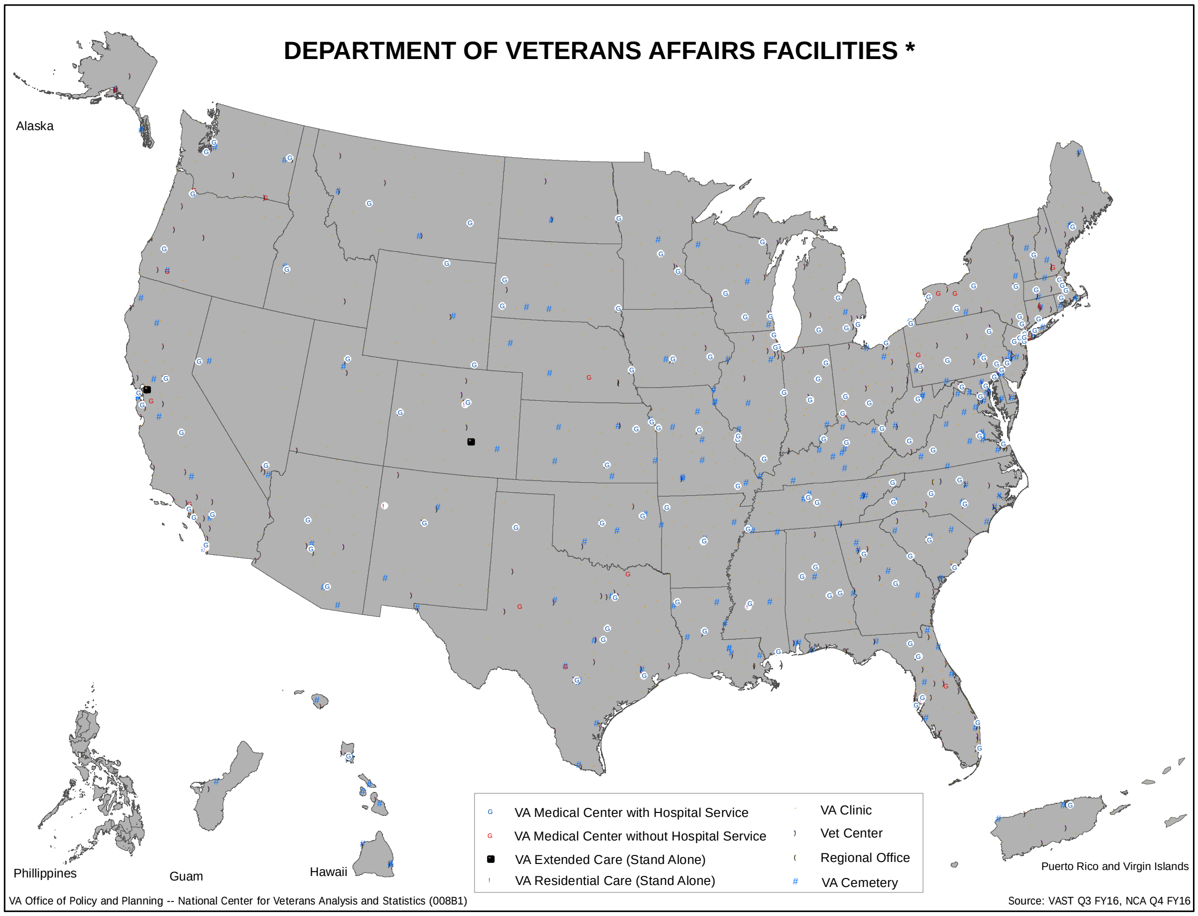
- **Veterans Benefits Administration** (VBA) provides a variety of benefits to Veterans and their families. These benefits include compensation, pension, fiduciary services, educational opportunities, vocational rehabilitation and employment services, home ownership promotion, and life insurance benefits.

- **National Cemetery Administration** provides burial and memorial benefits to Veterans and their eligible family members. These benefits include burial at national cemeteries, cemetery grants, headstones and markers, and medallions.

- **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.

Major Facilities

VA provides medical care, benefits, and burial services throughout the Nation. Shown below is a depiction of VA's geographical locations as of September 30, 2016. The map identifies 144 Medical Centers with Hospital Service and 24 without Hospital Service, 300 Vet Centers, 1,055 VA Clinics, 11 VA Residential and Extended Care Sites (Stand-Alone), 240 National, State, and Tribal Cemeteries, and 56 Regional Offices.

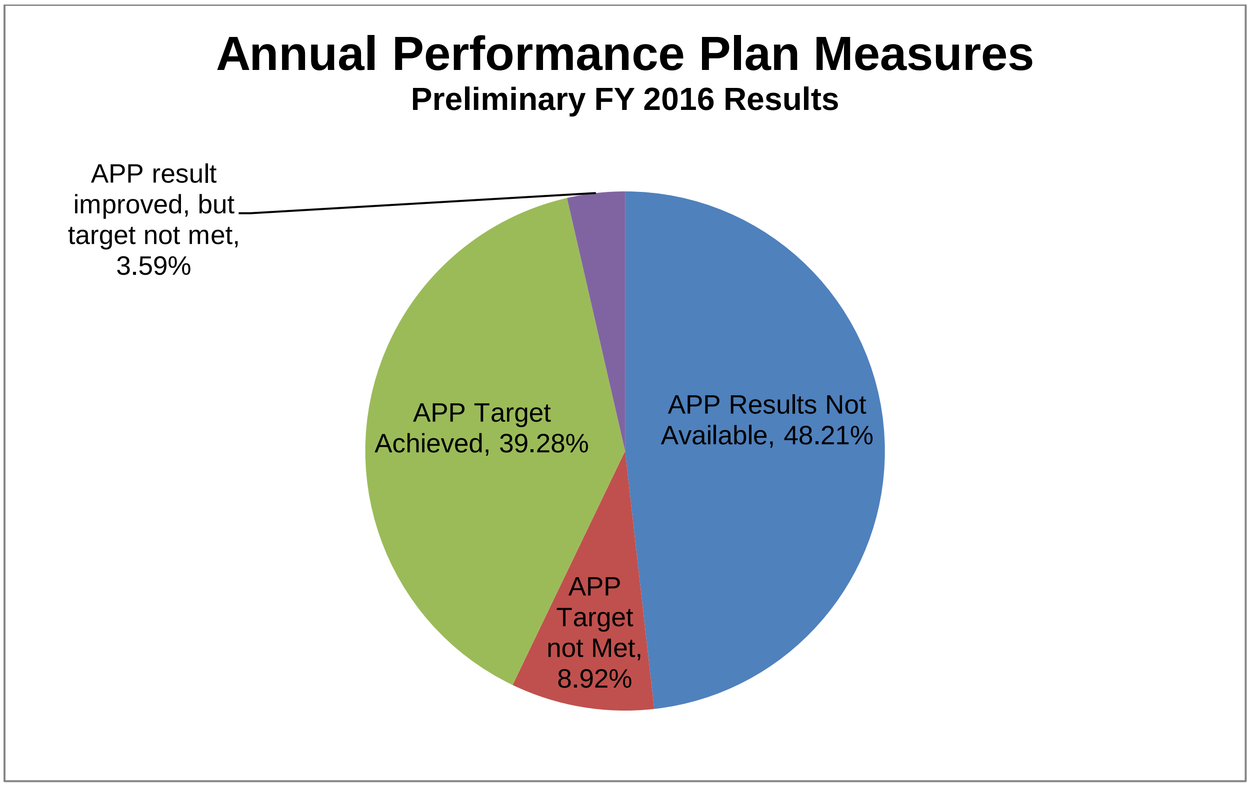


*Although State Veterans Cemeteries are included on the above map, they are not VA facilities, per se. VA provides grants for the establishment of State-operated cemeteries, which provide burial and memorial benefits to Veterans.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Summary of Performance Highlights

During FY 2016, 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 four agency priority goals targeted for FY 2016–2017. A detailed discussion of results for the Department's FY 2016 performance goals, assessment methodologies, metrics, external reviews, and documentation of performance data will be presented in the *FY 2018/2016 VA Annual Performance Plan and Report* to be released in 2017 and posted on the VA Web site at http://www.va.gov/budget/products.asp. The table below provides a preliminary summary of VA's progress towards meeting its Annual Performance Plan measures.



Strategic Goals and Objectives Highlights

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

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 2016-2017 AGENCY PRIORITY GOALS

Access (A) Veteran Experience (VE) Employee Engagement (EE) Backlog (B)

STRATEGIC GOALS	STRATEGIC OBJECTIVES
Empower Veterans to Improve Their Well-being	• Improve Veteran wellness and economic security • Increase customer satisfaction through improvements in benefits and services delivery policies, procedures, and interfaces (A) (VE) (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 • 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 (EE) • 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*

Visit www.va.gov/performance to View the Full Strategic Plan

Strategic Goals

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 from the time they take their induction oath until 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 time lines, 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 such as 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 Servicemembers from the moment they enter into service.

Strategic Objective 2.1: Enhance VA's Partnership with DoD

VA's lifelong 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 healthcare, benefits, and services provided to Servicemembers, Veterans, and other beneficiaries. VA will work closely with DoD to ensure these benefits and services are delivered through an integrated client-centric approach that anticipates and addresses client needs; that the delivery of healthcare is provided through a patient-driven healthcare 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 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 Nonprofit 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 efficiently and effectively provide Veterans and eligible beneficiaries an integrated, coordinated, personalized portfolio of benefits and services, 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 collaboration, and allow the building of 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 identify 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 whose 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 25 percent of VA's workforce is eligible for retirement, including roughly 50 percent of VA's senior executives. Today, we have skills gaps in healthcare, acquisition, claims processing, human resources (HR), and information technology (IT) that we need to address to 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 not only presents huge challenges, but also opportunities in terms of how it delivers services to Veterans and eligible beneficiaries as well as how it empowers its employees to perform their duties. New and emerging IT capabilities must be implemented 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 the future.

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, technological disasters, and terrorist attacks can occur at any time, in any place, and with little to no warning. VA must protect against and prepare to respond to, as well as recover from all hazards. Emergency response and preparedness is critical 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 an asset to the Nation. These aspects of "readiness" and "preparedness" define the Department's 4th Mission, which includes 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.

Agency Priority Goal (APG) Highlights

VA has identified four Agency Priority Goals (APG) focused on improving service to Veterans and eligible beneficiaries:

(1) Improve Access to Health Care as Experienced by the Veteran

(2) Improve Veterans' Experience with VA

(3) Improve VA's Employee Experience

(4) Improve Dependency Claims Processing.

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 summary of the issue each goal addresses and the performance metrics VA will use to track its progress.

VA has chosen to focus on two specific elements of its strategic plan through the APGs in order to create change for Veterans. VA's first strategic goal is to Empower Veterans to Improve Their Well-Being, which is supported by the strategic objective: Increase Customer Satisfaction Through Improvements in Benefits and Services Delivery Policies, Procedures, and Interfaces. VA's initiatives to Improve Access to Health Care, Improve Veterans Experience with VA, and Improve Dependency Claims Processing tie directly to the strategic objective just mentioned, which in turn, will empower Veterans to improve their well-being.

VA recognizes that in order to improve its services to Veterans, it must improve its employee's satisfaction with their jobs and working environment. The Employee Engagement APG is directly tied to the strategic objective, Make VA a Place People Want to Serve, which in turn ties to the third strategic goal: Manage and Improve VA Operations to Deliver Seamless and Integrated Support.

FY 2016 was spent developing the APG initiatives and establishing the related baseline measures. Reporting on APG results will be on a two-year cycle beginning in the fall of 2017.

APG 1 – Improve Access to Health Care as Experienced by the Veteran

<u>Overview:</u> VA has experienced unprecedented growth in demand for its services as a result of better recognition of service-connected conditions, innovative and favorable clinical offerings for complex and costly health conditions, and the growing needs of an aging Veteran population. VA is also embedded within the larger U.S. health system, which is similarly experiencing increased demand for services and shortages of key clinical professions due to advances in technology and the aging of the population.

In FY 2015, a congressionally mandated Independent Assessment of VA Healthcare Capabilities as well as an Institute of Medicine report highlighted that VA access, while meeting timeliness standards on average, still had unacceptable levels of variation by site for specific services. These independent reviews are candid in stating that highly specialized services required by Veterans are frequently not available in their communities, even from private sector providers. Those independent reports interviewed many U.S. medicine thought leaders; these experts highlighted the critical importance of addressing access challenges by taking a systems approach, recommending strategies such as modeling system supply and demand relationships, exploring design and policy changes, and creating a culture of service excellence that empowers the front line to experiment, identify limitations, and learn from trials.

The ultimate success of these strategies and programs must be evaluated through the eyes of the Veteran, as a noticeable improvement in their self-reported ability to receive needed care. Assessing access to healthcare through direct survey of patients is the only access measure currently endorsed by the National Quality Forum. Using a survey-based approach to measure access also provides additional advantages, such as the ability to benchmark with private sector health systems and avoiding the shortcomings of current VA scheduling software (a replacement scheduling system will not be in place until late FY 2017).

Goal: By September 30, 2017, the VA national access composite score will improve by 15 percent over baseline. This is a Veteran-centered composite measure that assesses Veteran perceptions of their experience with access to VA care by using data from the survey questions:

- Percent of Specialty Care patients who responded "Always" or "Usually" regarding their ability to get an appointment for needed care right away.
- Percent of Primary Care patients who responded "Always" or "Usually" regarding their ability to get an appointment for needed care right away.
- Percent of Primary Care patients who responded "Always" or "Usually" regarding their ability to get an appointment for a routine checkup as soon as needed.
- Percent of Specialty Care patients who responded "Always" or "Usually" regarding their ability to get an appointment for a routine checkup as soon as needed.

For detailed information about performance measure results and next steps for this Agency Priority Goal, please see Performance.gov (https://www.performance.gov/content/improve-access-health-care-experienced-veteran?view=public#overview).

APG 2 – Improve Veterans' Experience with VA

Overview: VA offers a remarkable array of services and benefits to Veterans and eligible dependents. But the experience is disjointed and inconsistent. There are hundreds of phone numbers and thousands of Web sites, each operating independently under different standards. Similarly, there are a wide array of VA and non-VA resources at the Federal, state, local, corporate, nonprofit, and tribal levels that are not coherently organized or coordinated into a single source or reference point for the Veteran. Veterans deserve better and so do VA staff, who care deeply about delivering the best possible outcome for Veterans.

VA is committed to improving customer experiences nationwide. Our goal: Fostering the delivery of effective and easy customer experiences in which Veterans feel valued. We are achieving this goal the same way the world's most successful companies do: by listening to our customers – Veterans, their families and supporters – when they describe how they want things to work. Equally important, we are listening to our employees about obstacles to excellence on-the-job. Employee empowerment is an essential part of the equation. This is user-centered design. It puts Veterans and the employees who serve them front and center.

VA faces a number of challenges and barriers:

- Siloed products and services without a common view of customers and their needs and wants.
- Customer touchpoints and experiences owned by individual product and service teams, not integrated within a complementary suite of offerings.
- Insular approach that does not account for the community resources used by customers.

To build trust among our customers, VA must consistently deliver customer experiences marked by effectiveness, ease, and engagement. To ensure comparability across VA's disparate service and product lines, the same measures of Trust and Customer Experience will be applied.

VA earns trust among Veterans by knowing them and showing that we care, by understanding and anticipating their needs, by providing fair benefits and timely services, by being there when they need us, and by keeping our promises. With every interaction, VA has the opportunity to deepen a trusting relationship with Veterans or to diminish that trust.

Goal: By September 30, 2017, VA will reach 90 percent agreement with the statement "I trust VA to fulfill our country's commitment to Veterans." Trust in VA is built one interaction at a time. The experience must be effective, it must be easy, and, ideally, it must be engaging and reflective of a valued, personal relationship with our customer. Trust is broken when VA does not consistently meet expectations in these three categories. VA will use customers' ratings of their individual experiences as indicators of performance toward the overall Veterans Experience goal.

The measures will include level of agreement with questions such as:

- Effectiveness: "I got the service I needed."
- Ease: "It was easy to get the service I needed."
- Engagement: "I felt like a valued customer."

These measures are also new, and will be implemented along the time line for the Trust measure indicated above. They will be added to new and existing VA customer experience surveys where responses will be correlated with operational data to highlight performance improvement opportunities that will improve Veterans' experiences.

For detailed information about performance measure results and next steps for this Agency Priority Goal, please see Performance.gov (https://www.performance.gov/content/improve-veterans-experience-va?view=public).

APG 3 – Improve VA's Employee Experience

Overview: Leader and managerial actions can help boost job satisfaction and ultimately improve business outcomes. Strong leaders are important to creating a positive organizational climate. Employees who are regularly engaged with their leaders are more innovative than others, more likely to want to remain with their employer, absent less often, enjoy greater levels of personal well-being, and perceive their workload to be more sustainable than others. Ultimately, our customer, the Veteran, will enjoy a higher level of satisfaction with VA services as a result of an improved Employee Experience. VA is committed to creating a work environment that provides all employees with a more consistent, positive Employee Experience, which improve the Veteran's experience with our organization. Studies indicate that employees who are satisfied with leadership behaviors provide a higher level of positive responses on employee surveys.

To evaluate progress, VA will use six questions from the Federal Employment Viewpoint Survey (FEVS) to pulse VA employees on a quarterly basis about their experience with VA leaders. The six questions were selected after a thorough review and assessment of what leadership behaviors can drive the biggest improvements in employee engagement and job satisfaction.

Transformational leaders engage in relationship-building and relationship-maintaining behaviors with their employees. Strong leaders tend to have the ability to motivate employees, establish trust, communicate goals, and generate commitment. Changing an organization's culture may take a decade or longer, especially with a large organization such as VA. This APG, which covers only a two-year time period, focuses on a strategy that primarily addresses improving leadership practices, and that can bring about measurable changes in a relatively short period of time.

The leadership strategy in this APG is supported by myriad programs and activities including strategic communications which, over time, should lead to improved favorable responses to the six employee survey questions. The leadership strategy also supports the accomplishment of one of VA's Strategic Objectives, "Make VA a Place People Want to Serve," and VA's MyVA Initiative. MyVA is what we are calling our transformation from VA's current way of doing business to one that puts Veterans in control of how, when, and where they wish to be served. It is a catalyst to make VA a world-class service provider.

VA realizes it will take more than one program or initiative to improve the Employee Experience and/or change VA employees' perceptions of its leaders. However, overall, VA believes that participation in leadership programs and the subsequent implementation of leadership practices should have a significant positive impact on employee perceptions of leadership.

Goal: Improve VA's Employee Experience by developing engaged leaders at all levels who inspire and empower all VA employees to deliver a seamless, integrated, and responsive VA customer service experience. Success by September 30, 2017, will be measured by an increase of four points or more in the percent of positive responses by VA employees (over VA's FY 2015 baseline) to the following statements:

(1) My supervisor provides me with constructive suggestions to improve my job performance.

(2) In my work unit, steps are taken to deal with a poor performer who cannot or will not improve.

(3) Employees have a feeling of personal empowerment with respect to work processes.

(4) I feel encouraged to come up with new and better ways of doing things.

(5) How satisfied are you with the information you receive from management on what is going on in your organization?

(6) My organization's leaders maintain high standards of honesty and integrity.

For detailed information about performance measure results and next steps for this Agency Priority Goal, please see Performance.gov (https://www.performance.gov/content/improve-va%E2%80%99s-employee-experience?view=public).

APG 4 – Improve Dependency Claims Processing

Overview: It is VA's mission and responsibility to ensure Veterans receive the benefits and services they have earned accurately and within a reasonable amount of time. Since FY 2009, VA's Agency Priority Goal (APG) for improving access to benefits was focused on eliminating the backlog of disability claims, defined as the number of rating-related claims pending more than 125 days. VA has made dramatic progress in reducing the backlog, improving the timeliness of decisions, and reducing the overall pending inventory of disability rating claims – while at the same time improving the quality of its decisions. To achieve these service improvements, VA defined the requirement, transformed claims processing through implementation of streamlined processes and systems, and accordingly focused resources on achieving the goal.

Veterans who are awarded disability compensation at the 30-percent level or higher are entitled to additional compensation for their eligible dependents. Approximately 70 percent of the 4.1 million Veterans currently receiving compensation are eligible for this additional benefit – nearly 45 percent more than those eligible for the same benefits just five years ago. As the status of these Veterans' dependents change (through marriage, divorce, death, birth or adoption of children, step-children, and school attendance for children over 18 years of age), adjustments must be made to Veterans' compensation awards.

With VA's record-levels of production of disability rating decisions (almost 1.4 million disability claims completed in FY 2015), more and more Veterans continue to be added to the compensation rolls. The result was an inventory at the end of FY 2015 of almost 227,000 pending dependency claims that have been pending, on average, nearly a year.

Ensuring that Veterans receive timely and accurate claim decisions is paramount. As VA continues to improve timeliness of disability claims decisions, VA will also focus on the dependency claims that are the direct result of the dramatic increase in completed disability rating decisions and growth in the number of Veterans receiving compensation at the higher disability evaluation levels.

Goal: Improve access to benefits and the customer experience for Veterans who are entitled to additional benefits for their dependents. By September 30, 2017, VA will reduce the overall inventory of dependency claims to 100,000 or fewer (a 56 percent improvement from the FY 2015 baseline of 227,000) and improve the average days to complete dependency claims to 125 days (a 43 percent improvement from the FY 2015 baseline of 221 days).

For detailed information about performance measure results and next steps for this Agency Priority Goal, please see Performance.gov (https://www.performance.gov/content/improve-dependency-claims-processing?view=public).

ANALYSIS OF ENTITY'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Statement of Assurance

November 15, 2016

The Department of Veterans Affairs (VA) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections Two and Four of the Federal Managers' Financial Integrity Act (FMFIA). VA conducted its assessment of risks and internal control in accordance with Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of the assessment, the Department can provide reasonable assurance that internal controls over operations and compliance were operating effectively as of September 30, 2016, except for the following material weaknesses reported:

(1) Unauthorized Commitments in Prosthetics: Unauthorized commitments associated with implant purchases were paid for without underlying contracts. Obligations were made by warranted contracting officers after the surgical implants were used. VA is deploying a new pre-authorization process, ensuring appropriate contracts are used to obligate the government prior to use of implants.

(2) Government Accountability Office (GAO) High-Risk List Areas: Every two years at the start of a new Congress, GAO calls attention to agencies and program areas that are high risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement, or are most in need of transformation. GAO's 2015 High-Risk List added "Managing Risks and Improving VA Health Care." GAO highlighted five primary risk issues: (1) ambiguous policies and inconsistent processes; (2) inadequate oversight and accountability; (3) information technology challenges; (4) inadequate training of VA staff; and (5) unclear resources and allocation priorities. VA submitted its management strategy to GAO to address the five high-risk issues. VA senior leadership is overseeing implementation of the strategy.

(3) Access to Care: Veterans experiencing long wait times for care challenged the Veterans Health Administration (VHA) to develop an open scheduling access. Open access means having space in "today's" schedule for patients to be seen, which means transitioning from a fully booked appointment schedule to a schedule with immediate appointment availability. To improve access to care, VA removed wait times from performance plans, retrained schedulers on a simplified scheduling process, established simplified wait time methods, and increased the volume of appointments completed. Additional actions in process include upgrading scheduling software, increasing and improving access to Community Care, and implementing a revised clinic management structure.

The Department noted non-compliance with: (1) FMFIA Section 4; (2) the Anti-Deficiency Act; (3) Procurement Policy – Federal Acquisition Regulation and VA Acquisition Regulation; (4) the 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); (5) Title 38 United States Code (U.S.C.) Section 5315 Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States, and 31 U.S.C. Section 3717, Interest and Penalty on Claims; and (6) 38 U.S.C. Section 3733, Property Management.

In addition, the Department conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the assessment, the Department can provide reasonable assurance that internal controls over financial reporting were operating effectively as of September 30, 2016, except for the following material weaknesses:

(1) Community Care: VHA has weaknesses in its design and implementation of controls over the Community Care program, from transaction authorizations to liquidation of unfulfilled authorizations. VA's financial statement auditor identified issues with reconciliations between the Fee-Basis Claims System (FBCS), Integrated Funds Distribution Control Point Activity Accounting & Procurement (IFCAP), and the Financial Management System (FMS). Obligations, expenses, accruals, and undelivered orders balances, as reported in the financial statements, could be misstated without a complete reconciliation and a monitoring process in place. Also, amounts obligated in FMS for Community Care do not match amounts authorized in FBCS. The financial statement auditor is also highlighting VA Community Care expenses as potentially grossly over-accrued. VHA has corrective action plans addressing: improving administration and oversight of the Veterans Choice Program; designing measurable processing standards for in-house and outsourced activities; assessing contractor compliance; improving standard operating procedures; creating reports to support analyses and reconciliations; instituting aggressive corrective action tracking; and replacing and enhancing Information Technology (IT) systems.

(2) IT Security Controls: VA continues to have an IT material weakness in: (1) Department-Wide Security Management Program; (2) Identity Management and Access Controls; (3) Configuration Management Controls; (4) System Development/Change Management Controls; (5) Contingency Planning; (6) Incident Response and Monitoring; (7) Continuous Monitoring; and (8) Contractor Systems Oversight. Remediation efforts remain a priority for VA and detailed corrective action plans are in place and closely monitored by senior management.

(3) Financial Reporting: VA's outdated legacy financial management systems are driving a myriad of financial reporting deficiencies that include overuse of journal vouchers, increased need for analytics, and issues with intra-governmental activities. VA is moving to a Federal Shared Service Provider solution, hosted by the United States Department of Agriculture, to modernize our financial management systems and processes in order to mitigate this weakness.

(4) Veterans Benefit Actuarial Liability: VA identified issues related to the new case rate assumption, which resulted in a substantial adjustment to the actuarial model and related liability on the financial statements. VA's financial statement auditor also identified internal control deficiencies in the control environment related to succession planning for the actuarial function. VA is actively developing corrective actions to address this issue, which include improving recruitment and retention efforts through designating the actuary role as a critical position and/or pursuing contract actions for actuary services.

(5) Veterans Education Benefit Liability: VA recorded the liability for education benefits as a non-exchange transaction rather than an exchange transaction. VA's accounting treatment failed to record a liability for future benefits and was, therefore, not compliant with the Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standard No. 5, Accounting for Liabilities of the Federal Government. VA is actively developing corrective actions to ensure accurate liabilities for future education benefits.

(6) Chief Financial Officer (CFO) Organizational Structure: VA's financial statement auditor reported a material weakness for the CFO organizational structure, noting VA operates under a decentralized environment with a fragmented financial management and reporting structure. The auditor stated the organizational structure does not operate in a fully integrated manner to enable effective financial reporting for internal and external purposes. In fiscal year (FY) 2016, VA recognized the challenges posed by the organizational structure and initiated corrective actions to improve the financial management control environment and financial management activities Department-wide. As a result, VA established a new CFO hierarchy structure that supports a strong dotted-line relationship between the Department CFO to all administrative and staff CFOs as well as their field financial personnel. This change went into effect since the beginning of FY 2017.

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

Robert A. McDonald
Secretary of Veterans Affairs

Summary of Internal Control Assessment

Summary of Process for Assessing Internal Controls

The Office of Management established the Office of Internal Controls (OIC) to oversee the internal control program and assist VA's major organizations in completing an internal controls assessment to support their Statements of Assurance. OIC developed an Entity-Level Internal Controls Assessment (ELICA) tool for evaluation of each of the 17 principles in the Government Accountability Office's Standards for Internal Control in the Federal Government (Green Book). The 17 principles fall into five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. In 2016, VA assessed the three distinct but overlapping objectives of internal control: operations, compliance, and reporting.

In FY 2016, the Department required 16 Administrations and major Staff Offices to complete an ELICA, identifying how the entity met the control objectives of each Green Book principle and concluding on the overall effectiveness of the principle, the control component, and the system of internal controls. If deficiencies were identified, management of the Administration or Staff Office, in accordance with OMB Circular A-123, exercised judgment in determining the severity of the deficiency.

Each Administration and Staff Office signed a Statement of Assurance based on the results of their ELICA. The Statement of Assurance provides an informed judgment of the overall adequacy and effectiveness of internal control. OIC analyzed ELICA submissions and Statements of Assurance to ensure the Statements appropriately captured material weaknesses identified during the internal controls assessment.

VA's internal controls governing body, the Senior Assessment Team, reviewed the material weaknesses, identified by the Administrations and major Staff Offices as well as, those identified as part of the financial statement audit.

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.

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 United States Standard General Ledger (USSGL) at the transaction level. VA continues to work to remediate this weakness.

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 Web site. The standards and Web site 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 of the DATA Act in 2017.

Veterans Access, Choice and Accountability Act of 2014 (Choice Act)

The Choice Act provides new authorities, funding, resources, and other tools to improve Veteran access to healthcare and requires VA to establish a temporary program (the Veterans Choice Program). This temporary program improves Veterans' access to healthcare by allowing eligible Veterans to use eligible healthcare providers outside of the VA system (non-VA care) based either on the distance a Veteran lives from a VA facility, or if he or she is experiencing wait times beyond the 30-day standard. Veterans must be enrolled in the VA healthcare system and must meet certain eligibility criteria to be eligible for the Veterans Choice Program.

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. Should the OIG detect any issues of concern, VA will address these concerns by developing a corrective action plan, inclusive of routine updates until issue closure.

Financial Systems Framework

VA's Financial Management Systems Strategy:

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

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

Current Financial Management System Framework:

VA's legacy financial management systems' environment consists of VA's core financial system, the Financial Management System (FMS), and a number of interfacing systems:

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

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

Future Financial Management Systems Framework:

The initial scope of the FMBT program is focused on transitioning VA from its legacy core financial management system (FMS) to a Federal Shared Service Provider's (FSSP) modern financial management system solution. The effort includes:

- Migrating to a financial management solution compliant with federal regulations
- Standardizing financial and acquisition management business processes across VA
- Replacing the financial management functionality of IFCAP and CAATS, the debt management functionality of CARS, and the procurement functionality of eCMS
- Implementing a new business intelligence solution and data warehouse for financial reporting
- Interfacing the FSSP solution with selected legacy VA systems not targeted for replacement.

The initial implementation phasing approach and time frames remain under development in conjunction with the ongoing FSSP planning and prediscovery efforts.

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.
Financial Systems	**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.
Mixed Systems	**Veterans Health Information Systems and Technology Architecture (VistA)**
	VistA, implemented in 1996, is VA's clinical and administrative system at more than 1,500 sites of care, including each VA 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.

VA Financial Management Systems as defined by OMB Circular A-123, Appendix D	
	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 life cycle 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)
	CAATS 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)/HR Smart
	A new human resources (HR) Line of Business (LOB) solution, HR Smart, began implementation throughout VA in 2015 and fully deployed on June 12, 2016, transitioning to operational status. HR·Smart is VA's personnel system of record that supports HR processing and, as required, enhancements that impact data exchange with the Defense Finance and Accounting Service (DFAS). HR·Smart will eventually lead to the decommissioning of the PAID system.
	VA Time and Attendance System (VATAS)
	In FY 2016, VA continued rolling out its Web-based time and attendance system (VATAS) successfully adding 73,500 users with a total user base of over 125,000. All of VA Central Office, NCA, and VBA are fully deployed to VATAS. VHA deployments, by VISN, are underway and scheduled to conclude in July 2018.
	Invoice Payment Processing System (IPPS)
	Invoice Payment Processing System (IPPS) is a digital invoice processing platform incorporating electronic invoice submission, automated approval workflow, three-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 1.4 million invoices valued at over 13.9 billion during FY 2016.
Mixed Systems	**E-Gov Travel Service 2 (ETS2)/ConcurGov**
	ConcurGov is VA's ETS2 solution and is used by all employees who perform TDY travel, approve official travel, assist others in the creation and/or submission of documents, maintain a system of record, or make TDY travel arrangements. In FY 2016, VA processed 137,150 TDY Travel episodes valued at $152.51 million.

ANALYSIS OF ENTITY'S FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). The statements have been prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB). The statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Balance Sheet

As shown in Chart 1, "Total Assets and Liabilities with Breakdown of FY 2016 Liabilities," the Department's total liabilities exceed total assets. Significant balance changes are detailed in Chart 2, "FY 2016 Significant Changes in Assets," and in Chart 3, "FY 2016 Significant Changes in Liabilities." The largest component of the Department's Balance Sheet is Federal Employee and Veterans Benefits, which comprises almost $2,558 billion (or approximately 98.7 percent) of the $2,591 billion amount reported for Total Liabilities. The most significant aspect of Federal Employee and Veterans Benefits, which is an unfunded liability, is the Department's compensation benefits to both Veterans with military service-related disabilities and the beneficiaries of deceased Veterans in recognition of a Veteran's military service. This amount is developed on an actuarial basis and is reported at the present value of expected future payments. The other two components accounting for the remaining balance of the Federal Employee and Veterans Benefits liability are education benefits expected to be used by Veterans or their dependents and burial-related benefits, including burial flag, headstone/marker, and other interment needs, to recognize the Veteran's sacrifices in service of the nation.

Chart 1: Total Assets and Liabilities with Breakdown of FY 2016 Liabilities

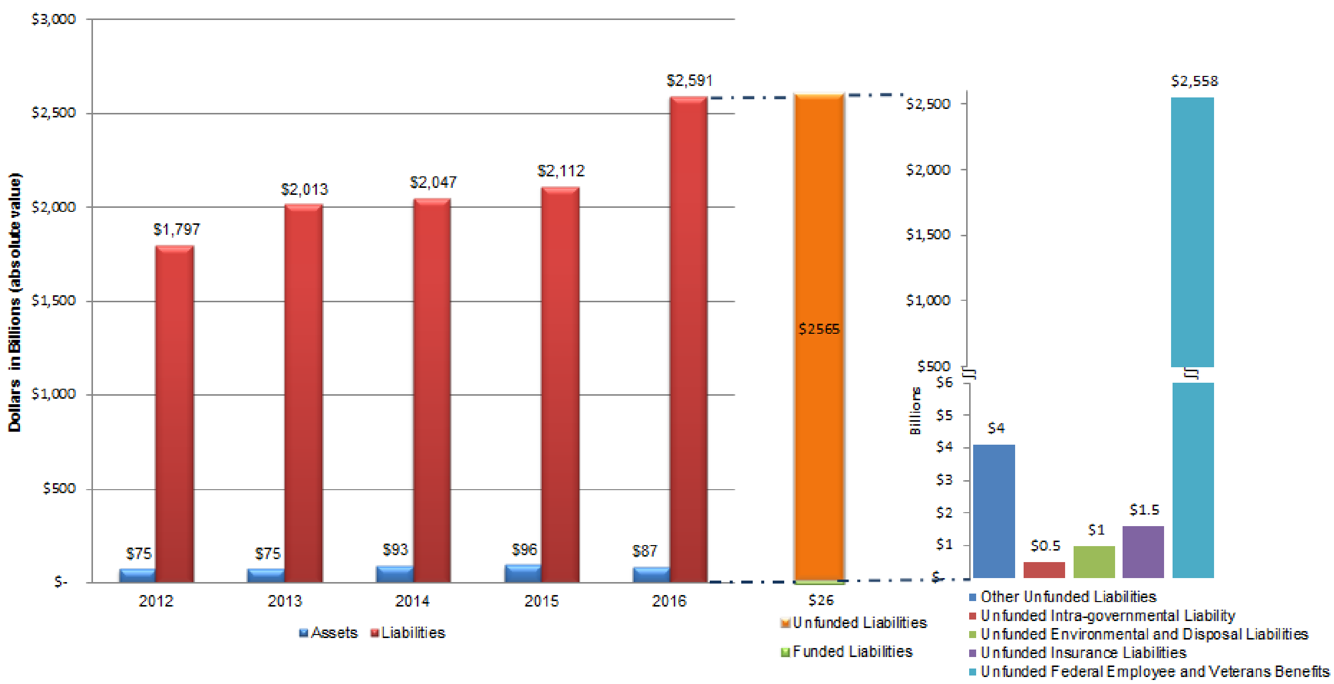
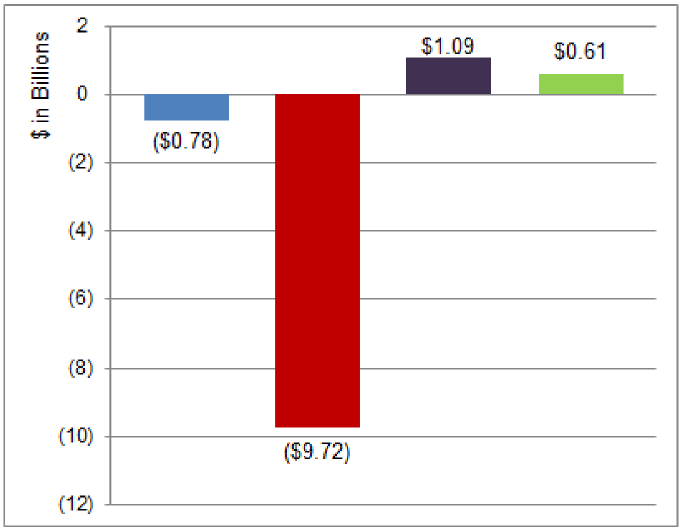


Chart 2: FY 2016 Significant Changes in Assets



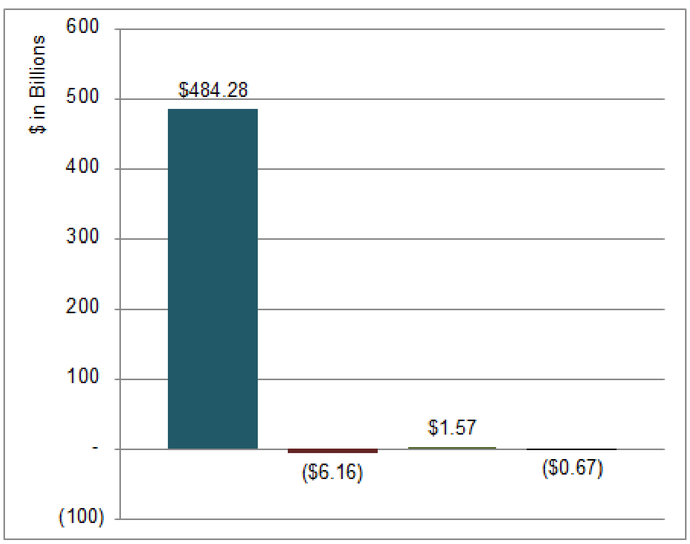
Intragovernmental - Investments: The decrease is primarily due to the withdrawal of insurance policy reserve amounts to fund necessary operating expenses.

Intragovernmental - Fund Balance with Treasury: The decrease is primarily due to the issuance of additional Compensation and Pension benefits payments.

Public - General Property, Plant and Equipment: The increase is primarily due to VHA's construction of new hospital buildings, and capitalization of a major internal-use software development cost.

Public - Accounts Receivable: The increase is primarily due to an increase for Medical Care provided by the Department and an offsetting decrease in Contractual Adjustment and Allowance for Loss Provision.

Chart 3: FY 2016 Significant Changes in Liabilities



Public - Federal Employee and Veteran Benefits: The increase is primarily due to changes in the actuarial estimate of future compensation and burial payments related to changes in the discount rate and COLA assumptions. It also includes an increase to the unfunded Veterans Education Benefits liability.

Public - Accounts Payable: The decrease is primarily due to advance payments made for Compensation and Pension and Post 9/11 Education.

Intragovernmental - Other Liabilities: The increase is primarily due to credit reform subsidy re-estimates associated with an improved housing market.

Public - Insurance Liabilities: The decrease is primarily due to the reduction in the inventory of active life insurance policies from FY 2015 to FY 2016.

Net Cost of Operations

VA operated at a net cost of $650.6 billion in FY 2016, compared to a net cost of $176.5 billion in FY 2015, the majority of the increase related to changes in actuarial estimates as discussed below. The major elements of net cost are shown in Chart 4, "Comparative Statement of Net Cost FY 2015 - FY 2016". A breakdown of program costs (gross) by the Department's three major programs, actuarial costs associated with future Veterans compensation and benefits, and other programs is included in Chart 5, "FY 2016 Program Costs (Gross)."

VHA's net program costs increased 7.0 percent primarily due to an increase in Veteran demand for medical care. As more Veterans utilized the benefits of the Choice Act, the program grew significantly from September 2015 to 2016, resulting in increased costs of $4.0 billion. Additionally, the Department made several changes to ensure Veterans had more timely access to quality care. The most significant of these changes was to increase the number of FTEs by 9,806 for medical services to widen the scope of medical professions that could provide the needed care to Veterans, thereby leading to an increase of in payroll and benefit expense.

VBA's gross program costs increased by $2.9 billion as VBA has put a focused effort into reducing the Compensation and Pension claims backlog by enhancing systems and use of mandatory overtime. In FY 2016, the amount of Veterans payments for Compensation & Pension increased by approximately $4.1 billion, or 2.7 million new payments, when compared to FY 2015. Also contributing to the change in gross program costs were growth of the average education benefit payment size and offsetting downward re-estimates of future housing benefit costs.

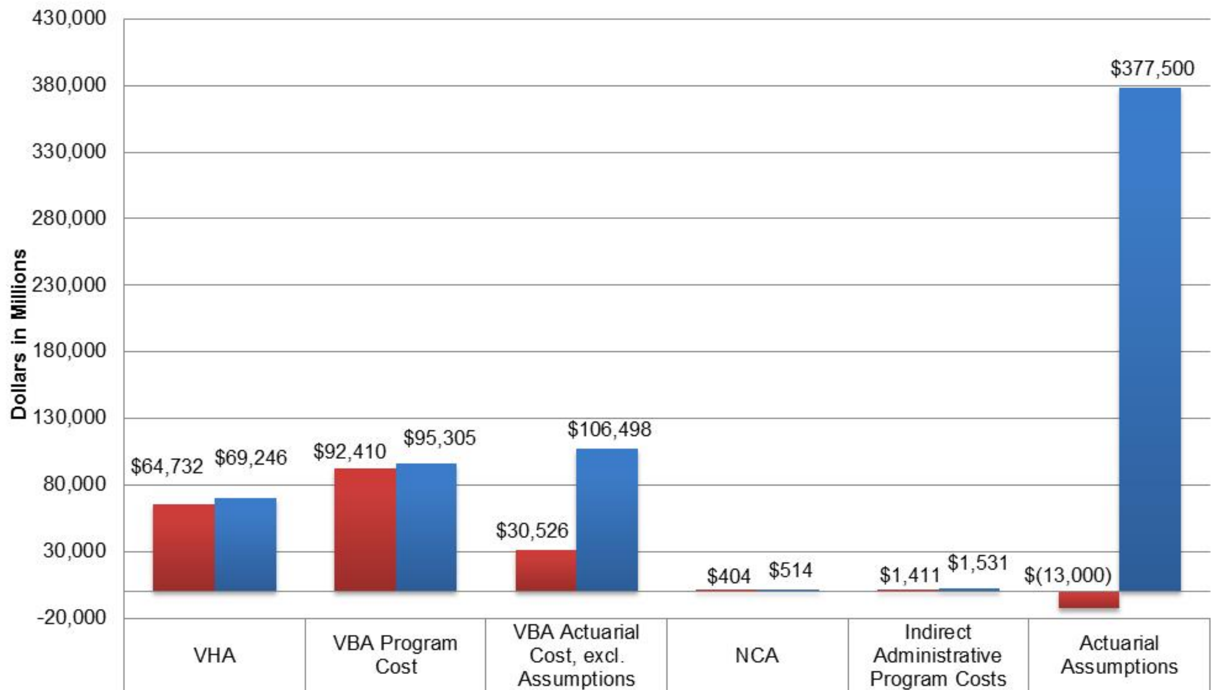
The most significant change in Net Cost of Operations was related to the actuarial costs associated with Veteran Benefits for Compensation, Burial, and Education, which increased by $466.6 billion from FY 2015 to FY 2016.

Actuarial costs excluding Changes in Assumptions increased by $76.1 billion, primarily resulting from an increase in costs from experience changes of $83.1 billion, which was offset by decreases of $3.5 billion in amounts paid and $3.5 billion in interest on liability. Experience adjustments increased by $65.8 billion, including the retroactive benefit payments adjustment which increased costs by $59 billion year over year. The average benefit payment size for Veterans and dependents decreased in FY 2016 in comparison to FY 2015, resulting in a decrease in costs of $34.3 billion. The claims backlog factor, which resulted in a reduction in the overall liability in FY 2015, was no longer applicable in the current period. Along with changes in beneficiary counts and veteran's population size, Veterans Educations Benefits, and other immaterial changes, this resulted in an increase in costs of approximately $51.6 billion.

Actuarial costs due to Changes in Actuarial Assumptions increased by $390.5 billion in FY 2016. One major assumption change was for the projected average growth in Compensation counts, which was updated to reflect the increase of new Compensation cases over the last five years and resulted in an increase to costs of $276.6 billion. Another assumption change which significantly contributed to the overall increase was for new mortality rates and mortality improvement factors, increasing costs by $44.5 billion. Additionally, changes in discount and cost-of-living adjustment rates, as well as other immaterial items, increased costs by $69.4 billion from FY 2015 to FY 2016.

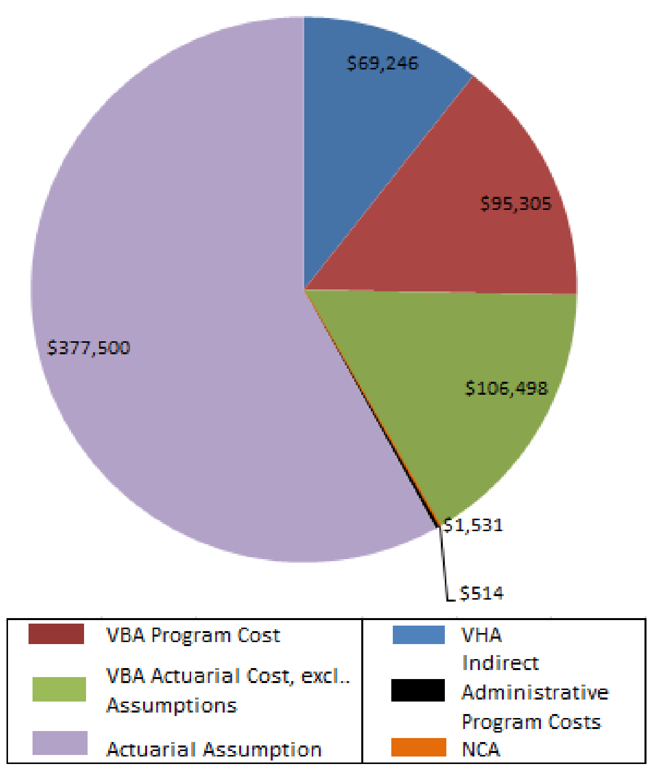
The statement of net position increased from a deficit of approximately $2,016 billion in FY 2015 to a deficit of approximately $2,504 billion in FY 2016.

Chart 4: Comparative Statement of Net Cost FY 2015 - FY 2016



	VHA	VBA Program Cost	VBA Actuarial Cost, excl. Assumptions	NCA	Indirect Administrative Program Costs	Actuarial Assumptions
2015	$64,732	$92,410	$30,526	$404	$1,411	$(13,000)
2016	$69,246	$95,305	$106,498	$514	$1,531	$377,500

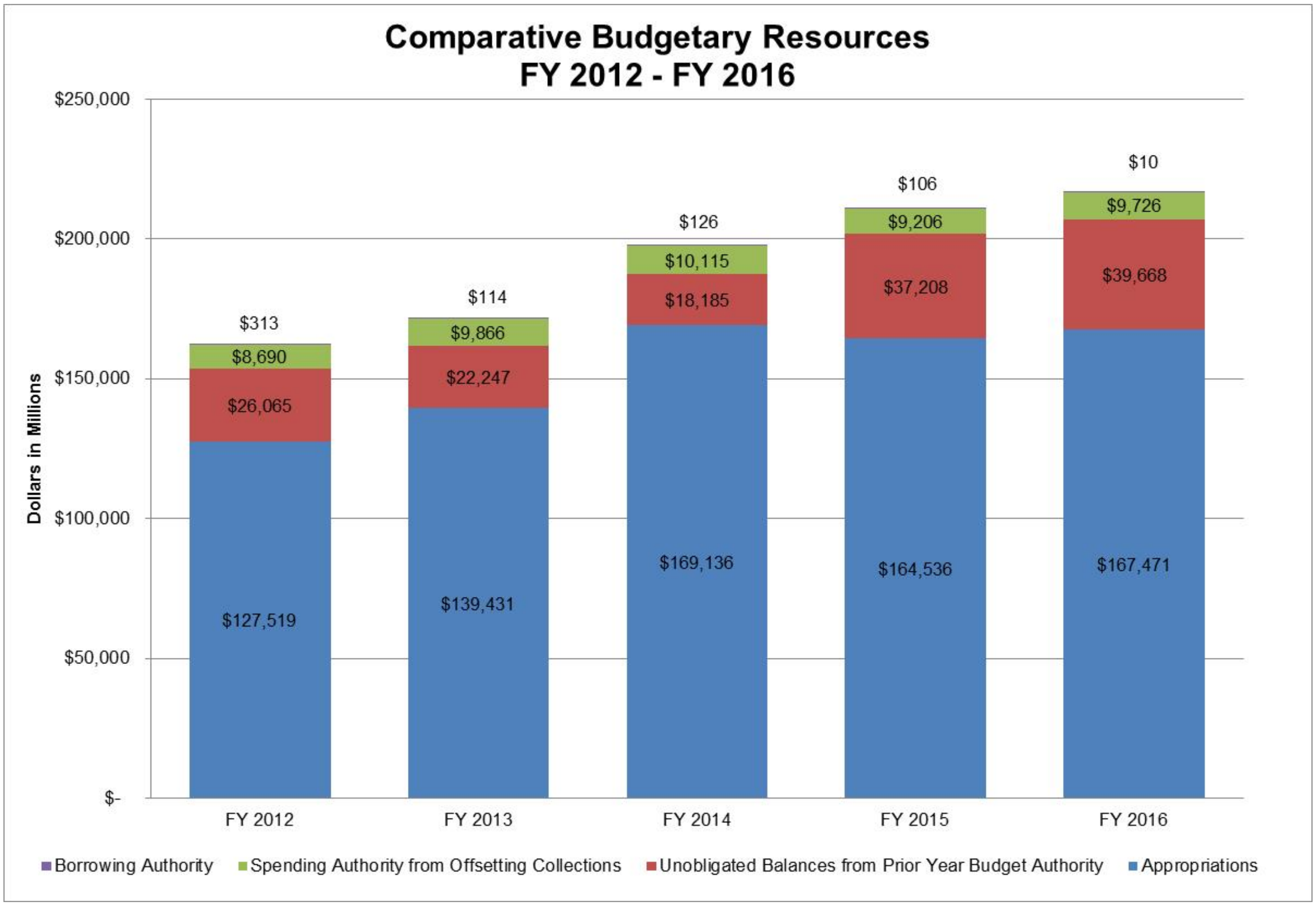
Chart 5: FY 2016 Program Costs (Gross)



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 2016, VA's total budget authority of $216.9 billion primarily consisted of $167.5 billion in appropriation authority and $39.7 billion in the unobligated balance from prior-year budget authority.



There was an increase of $2.9 billion in Appropriations which was attributable to the FY 2016 Omnibus appropriation bill for the Veterans Health Administration programs which provided for additional dollars in the areas of Medical Services and Major Construction.

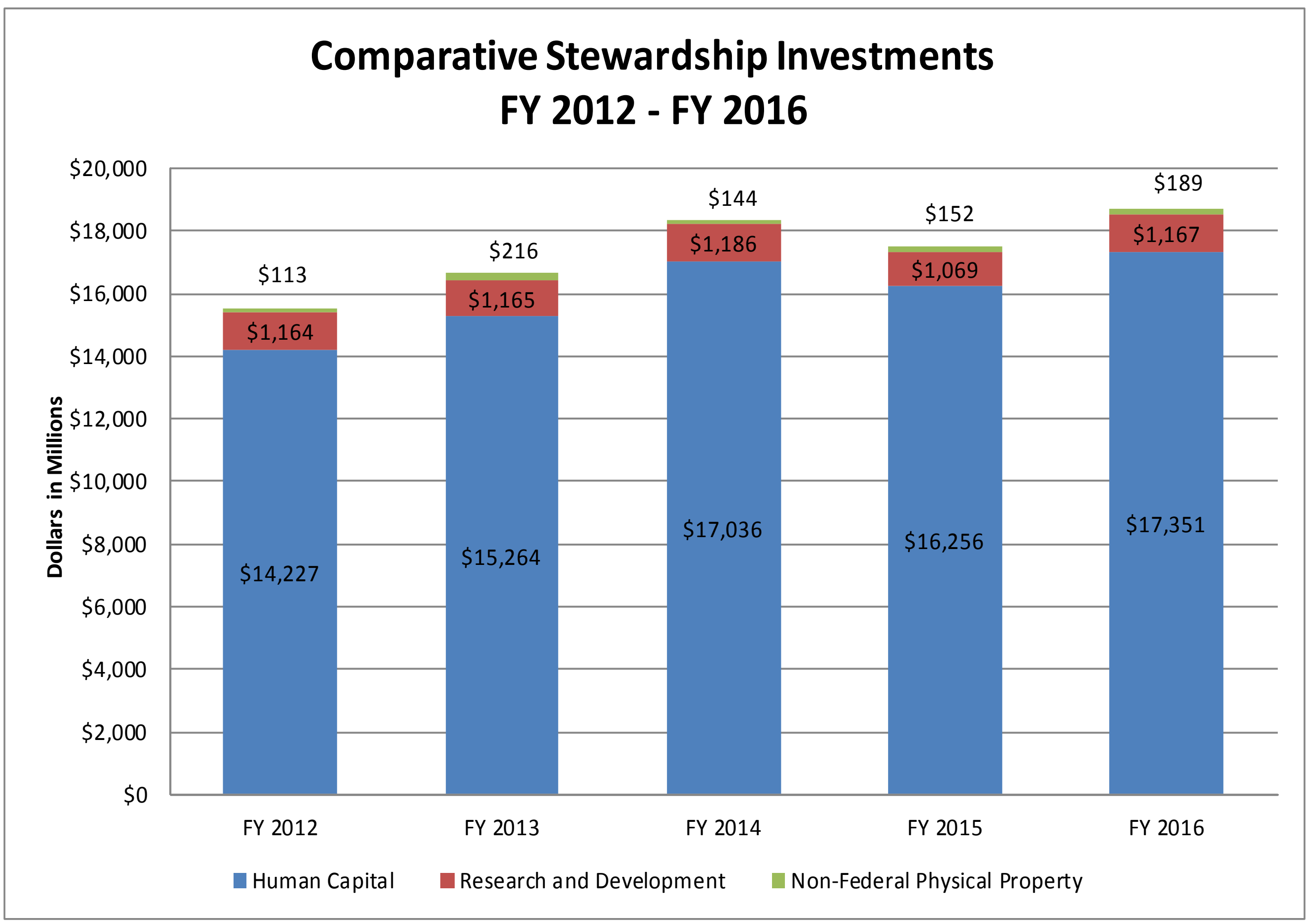
For FY 2016, an increase of $11.6 billion in Obligations Incurred was observed due to two major sources. The majority of the increase was attributed to a $5.7 billion increase to the Veterans Choice Act and Care in the Community programs as a result of Veterans demand for care, especially for non-VA medical care, while an additional $4.0 billion can be attributed to Veterans Benefits Administration Programs for Compensation and Pension Benefits payments resulting from a higher number of claims.

Additionally, there was an increase in Outlays of $14.7 billion primarily due to the issuance of an additional 2.7 million Compensation and Pension Benefits payments during FY 2016 as claims production levels have remained high due to efficiency gains from transformational process changes and information technology advances.

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.

Human capital investments make up over 90 percent of stewardship investments. This category includes rehabilitation and employment programs for service-disabled Veterans; education programs for active duty personnel, reservists, and Veterans; and education for healthcare professionals to enhance the quality of care provided to Veterans. 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.

SECTION II: FINANCIAL SECTION

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

November 15, 2016

The Department of Veterans Affairs (VA) is pleased to announce that it has received its 18th consecutive unmodified ("clean") audit opinion on its fiscal year (FY) 2016 consolidated financial statements. The enclosed financial statements provide the Department's detailed financial information and stewardship of taxpayer resources in support of its commitment to serve Veterans. We believe that the Department must be transparent and accountable to Veterans and its broad community of stakeholders.

I am especially proud of the steps VA is taking to move toward a Shared Service Provider to modernize VA's outdated financial management system. Achievement of this long-term goal will mitigate the Department's weakness in Financial Reporting. In addition, VA continued to successfully deploy the VA Time and Attendance System (VATAS) to 74,000 employees. This is one of the largest system implementations seen in VA, and it will eventually impact more than 340,000 employees. Since FY 2014, VATAS has deployed to more than 133,000 employees at 276 stations.

As a response to the revised OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, VA has made several organizational changes to strengthen its Internal Controls process and significant improvements to the way the program is managed.

In FY 2016, VA worked on remediating a number of significant financial management challenges. VA's Office of Financial Process Improvement and Audit Readiness has been working diligently with the program offices directly responsible for the four material weaknesses identified in FY 2015 by the independent auditor, CliftonLarsonAllen LLP (CLA). Corrective Action Plans (CAPs) have been developed, and a status of their progress is reported regularly to VA's Senior Assessment Team. VA was successful in downgrading the material weakness in Procurement, Undelivered Orders, and Reconciliations to a significant deficiency. In addition, CLA reported major improvements in addressing VA's financial reporting material weakness, including a large decrease in the number of journal vouchers and improved fluctuation analysis. CLA also highlighted that many of the financial reporting conditions are due to longstanding problems inherent in the legacy financial management system, which will remain until VA completes its migration to a Federal Shared Service Provider.

Despite our efforts to mitigate these audit findings, VA faced a number of significant audit challenges in FY 2016. CLA reissued three of the four material weaknesses from last year's audit: Information Technology Security Controls; Community Care Obligations, Reconciliations and Accrued Expenses; and, Financial Reporting. In addition, CLA elevated last year's significant deficiency in the Chief Financial Officer Organizational Structure to a material weakness and issued two new material weaknesses: (1) Education Benefits Accrued Liabilities and (2) Compensation, Pension and Burial Estimates and Model. Finally, CLA found one new significant deficiency: Loan Guaranty Liability Estimate.

VA's total amount of improper payments increased in FY 2016 despite more than half of the 14 programs reporting reductions in improper payments. The increase was a result of VA's enterprise-wide commitment to applying the improper payment definition correctly. Further, since VA reports improper payments 1 year in arrears, actions taken to reduce improper payments in FY 2015 and FY

2016 have not yet been fully realized. VA continues to enact specific corrective actions to remediate improper payments and strategically strengthen program integrity while ensuring Veteran access to healthcare and benefits.

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

Edward J. Murray

FINANCIAL STATEMENTS

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED BALANCE SHEETS (dollars in millions)

AS OF SEPTEMBER 30,		2016		2015 Restated (Note 24)
ASSETS (Note 2)				
INTRAGOVERNMENTAL				
Fund Balance with Treasury (Note 3)	$	50,459	$	60,183
Investments (Notes 5 and 19)		6,243		7,022
Accounts Receivable (Note 6)		44		46
Other Assets		681		310
TOTAL INTRAGOVERNMENTAL ASSETS		**57,427**		**67,561**
PUBLIC				
Cash (Note 4)		4		4
Investments (Note 5)		178		178
Accounts Receivable, Net (Note 6)		2,796		2,182
Direct Loans and Loan Guarantees, Net (Note 7)		1,636		1,806
Inventories and Related Property, Net (Note 8)		50		49
General Property, Plant and Equipment, Net (Note 9)		25,155		24,068
Other Assets		16		12
TOTAL PUBLIC ASSETS		**29,835**		**28,299**
TOTAL ASSETS	**$**	**87,262**	**$**	**95,860**
Heritage Assets (Note 10)				
LIABILITIES (Note 12)				
INTRAGOVERNMENTAL				
Accounts Payable	$	202	$	372
Debt (Note 11)		572		681
Other Liabilities (Notes 13, 15, 16 and 18)		2,736		1,166
TOTAL INTRAGOVERNMENTAL LIABILITIES		**3,510**		**2,219**
PUBLIC				
Accounts Payable		4,789		10,948
Loan Guarantee Liability (Note 7)		10,019		9,913
Federal Employee and Veterans Benefits (Note 13)		2,558,210		2,073,935
Environmental and Disposal Liabilities (Note 14)		989		860
Insurance Liabilities (Note 17)		7,713		8,380
Other Liabilities (Notes 12 and 15)		5,693		5,575
TOTAL PUBLIC LIABILITIES		**2,587,413**		**2,109,611**
TOTAL LIABILITIES		**2,590,923**		**2,111,830**
Commitments and Contingencies (Note 18)				
NET POSITION				
Unexpended Appropriations – All Other Funds		32,920		37,376
Cumulative Results of Operations – Funds from Dedicated Collections (Note 19)		865		906
Cumulative Results of Operations – All Other Funds		(2,537,446)		(2,054,252)
TOTAL NET POSITION		**(2,503,661)**		**(2,015,970)**
TOTAL LIABILITIES AND NET POSITION	**$**	**87,262**	**$**	**95,860**

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,	**2016**	**2015**
		Restated (Note 24)
NET PROGRAM COSTS BY ADMINISTRATION (Note 21)		
Veterans Health Administration		
Gross Cost	$ 73,572	$ 68,984
Less Earned Revenue	(4,326)	(4,252)
Net Program Cost	69,246	64,732
Veterans Benefits Administration		
Gross Cost		
Program Costs	96,222	93,368
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	106,498	30,526
Less Earned Revenue	(917)	(958)
Net Program Cost	201,803	122,936
National Cemetery Administration		
Gross Cost		
Program Costs	314	304
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	200	100
Net Program Cost	514	404
Indirect Administrative Program Costs		
Gross Cost	2,054	1,762
Less Earned Revenue	(523)	(351)
Net Program Cost	1,531	1,411
NET PROGRAM COSTS BY ADMINISTRATION BEFORE CHANGES IN VETERANS BENEFITS ACTUARIAL LIABILITY ASSUMPTIONS	**273,094**	**189,483**
CHANGES IN ACTUARIAL LIABILITY ASSUMPTIONS (Note 13)		
COMPENSATION:		
Changes in Discount Rate Assumption	66,900	79,900
Changes in Cost of Living Adjustment (COLA) Rate Assumption	(10,600)	(72,200)
Changes in Other Assumptions	321,100	(20,700)
TOTAL COMPENSATION	**377,400**	**(13,000)**
BURIAL:		
Changes in Discount Rate Assumption	100	200
Other Changes	-	(200)
TOTAL BURIAL	**100**	**-**
NET (GAIN)/LOSS FROM ACTUARIAL LIABILITY ASSUMPTIONS	377,500	(13,000)
NET COST OF OPERATIONS (Note 21)	**$ 650,594**	**$ 176,483**

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, 2016

	Funds from Dedicated Collections (Note 19)	All Other Funds	2016 Consolidated Total
Cumulative Results of Operations			
Beginning Balance	$ 906	$ (2,054,252)	$ (2,053,346)
Budgetary Financing Sources			
Other Adjustments	-	(5)	(5)
Appropriations Used	-	166,595	166,595
Donations and Forfeitures of Cash and Cash Equivalents	20	-	20
Transfers In/Out Without Reimbursement	(3,460)	3,745	285
Other Financing Sources (Nonexchange)			
Donations and Forfeitures of Property	89	-	89
Transfers In/Out Without Reimbursement	(14)	39	25
Imputed Financing	-	2,161	2,161
Other	-	(1,811)	(1,811)
Total Financing Sources	(3,365)	170,724	167,359
Net Cost/(Benefit) of Operations (Note 21)	(3,324)	653,918	650,594
Net Change	**(41)**	**(483,194)**	**(483,235)**
Cumulative Results of Operations	**865**	**(2,537,446)**	**(2,536,581)**
Unexpended Appropriations			
Beginning Balance	-	37,376	37,376
Budgetary Financing Sources			
Appropriations Received	-	164,812	164,812
Appropriations Transferred In/Out	-	135	135
Other Adjustments	-	(2,808)	(2,808)
Appropriations Used	-	(166,595)	(166,595)
Total Budgetary Financing Sources	-	(4,456)	(4,456)
Total Unexpended Appropriations	**-**	**32,920**	**32,920**
Total Net Position	**$ 865**	**$ (2,504,526)**	**$ (2,503,661)**

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, Restated (Note 24)

	Funds from Dedicated Collections (Note 19)	All Other Funds	2015 Consolidated Total
Cumulative Results of Operations			
Beginning Balance	1,008	(1,991,288)	(1,990,280)
Adjustment: Correction of Error	-	(46,965)	(46,965)
Beginning Balance, as adjusted	$ 1,008	$ (2,038,253)	$ (2,037,245)
Budgetary Financing Sources			
Appropriations Used	-	158,742	158,742
Nonexchange Revenue	-	(1)	(1)
Donations and Forfeitures of Cash and Cash Equivalents	21	-	21
Transfers 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 (Note 21)	(3,253)	179,736	176,483
Net Change	**(102)**	**(15,999)**	**(16,101)**
Cumulative Results of Operations	**906**	**(2,054,252)**	**(2,053,346)**
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**	**$ (2,016,876)**	**$ (2,015,970)**

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, 2016

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources (Note 22)		
Unobligated balance brought forward, October 1	$ 28,551	$ 8,829
Adjustment to unobligated balance, brought forward, October 1	(10)	-
Unobligated balance brought forward, October 1, adjusted	28,541	8,829
Recoveries of prior year unpaid obligations	2,663	-
Other changes in unobligated balance	(283)	(82)
Unobligated balance from prior year budget authority, net	30,921	8,747
Appropriations	167,471	-
Borrowing authority	-	10
Spending authority from offsetting collections	4,976	4,750
Total budgetary resources	**$ 203,368**	**$ 13,507**
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 182,317	$ 2,973
Unobligated balance, end of year:		
Apportioned, unexpired account	12,537	-
Unapportioned, unexpired accounts	5,297	10,534
Unexpired unobligated balance, end of year	17,834	10,534
Expired unobligated balance, end of year	3,217	-
Unobligated Balance, end of year	21,051	10,534
Total Budgetary Resources	**$ 203,368**	**$ 13,507**
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1	$ 26,676	$ 318
New obligations and upward adjustments	182,317	2,973
Outlays (gross) (-)	(183,968)	(2,928)
Recoveries of prior year unpaid obligations (-)	(2,663)	-
Unpaid Obligations, end of year	**$ 22,362**	**$ 363**
Uncollected Payments:		
Uncollected Payments, Fed Sources, brought forward, October 1 (-)	$ (1,672)	$ -
Change in Uncollected Pymts, Fed Sources (+ or-)	125	-
Uncollected Payments, Fed Sources, end of year (-)	**$ (1,547)**	**$ -**
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or-)	25,004	318
Obligated balance, end of year (+ or-)	20,815	363

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DEPARTMENT OF VETERANS AFFAIRS
COMBINED STATEMENT OF BUDGETARY RESOURCES (dollars in millions)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgetary	Non-Budgetary Credit Reform Financing Account
Budget Authority and Outlays, Net		
Budget authority, gross (discretionary and mandatory)	$ 172,447	$ 4,760
Actual offsetting collections (discretionary and mandatory) (-)	(5,819)	(4,786)
Change in uncollected pymts, Fed sources (discretionary and mandatory) (+ or -)	125	-
Recoveries of prior year paid obligations (discretionary and mandatory)	708	8
Budget Authority, net	**$ 167,461**	**$ (18)**
Outlays, gross (discretionary and mandatory)	$ 183,968	$ 2,928
Actual Offsetting Collections (discretionary and mandatory)	(5,819)	(4,786)
Outlays, net (total) (discretionary and mandatory)	178,149	(1,858)
Distributed Offsetting Receipts (-)	(3,818)	(313)
Agency Outlays, net (discretionary and mandatory)	**$ 174,331**	**$ (2,171)**

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
Unobligated balance brought forward, October 1, adjusted	26,446	7,529
Recoveries of prior year unpaid obligations	2,993	-
Other changes in unobligated balance	295	(55)
Unobligated balance from prior year budget authority, net	29,734	7,474
Appropriations	164,536	-
Borrowing authority	-	106
Spending authority from offsetting collections	4,867	4,339
Total budgetary resources	**$ 199,137**	**$ 11,919**
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 170,586	$ 3,090
Unobligated balance, end of year:		
Apportioned, unexpired account	16,331	-
Unapportioned, unexpired accounts	9,278	8,829
Unexpired unobligated balance, end of year	25,609	8,829
Expired unobligated balance, end of year	2,942	-
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
New obligations and upward adjustments	170,586	3,090
Outlays (gross) (-)	(169,122)	(3,114)
Recoveries of prior year unpaid obligations (-)	(2,993)	-
Unpaid Obligations, end of year	**$ 26,676**	**$ 318**
Uncollected Payments:		
Uncollected Payments, Fed Sources, brought forward, October 1 (-)	$ (1,905)	$ -
Change in Uncollected Pymts, Fed Sources (+ or-)	233	-
Uncollected Payments, Fed Sources, end of year (-)	**$ (1,672)**	**$ -**
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or-)	26,300	342
Obligated balance, end of year (+ or-)	25,004	318

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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
Budget Authority and Outlays, Net		
Budget authority, gross (discretionary and mandatory)	$ 169,403	$ 4,445
Actual offsetting collections (discretionary and mandatory) (-)	(5,905)	(4,406)
Change in uncollected pymts, Fed sources (discretionary and mandatory) (+ or -)	233	-
Recoveries of prior year paid obligations (discretionary and mandatory)	735	33
Budget Authority, net	**$ 164,466**	**$ 72**
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.
Formatting changes were made to the FY15 SBR to present comparative statement and to adhere to OMB A-136.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Organization

The VA's mission is to serve America's Veterans, their dependents, and their beneficiaries with dignity and compassion, and to serve as Veterans' 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.

B. Reporting Entity and Basis of Presentation

VA's consolidated financial statements, including the Combined Statement of Budgetary Resources (SBR), 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, which is a sovereign entity. VA interacts with, and is dependent upon, the financial activities of the Federal Government as a whole. Therefore, the results of all financial decisions reflected in these consolidated financial statements are not the sole decisions of VA as a stand-alone entity. VA's fiscal year end is September 30.

C. 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 statement of budgetary resources, which reflect the appropriation and consumption of budget and spending authority, and other budgetary resources, before eliminations.

The consolidated financial statements include the balance sheet, statement of net cost, and statement of changes in net position. 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 statement of budgetary resources are not consolidated but combined; therefore, elimination of intra-entity transactions is not permitted.

D. Budgets and Budgetary Accounting

Budgetary accounting measures appropriation and consumption of budget/spending authority or other budgetary resources, and facilitates compliance with legal constraints and controls over the use of 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 SBR is the basic financial statement that reports 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-end. 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.

E. 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 healthcare provided at VA and non-VA medical facilities. Generally, VA considers a Veteran's healthcare 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 under 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.

Non-exchange revenue (e.g., donations) is recognized when received, and the related receivables, refunds, and offsets are recognized when measurable and legally collectible. Non-exchange revenue consists of benefits revenue from reimbursement of education benefit programs by the 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 subsidy re-estimates.

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).

F. Transferring Budget Authority to Other Agencies

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

G. Fund Balance with Treasury

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

H. Investments

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

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

I. Accounts Receivable

Accounts receivable are reported in Note 6 at net realizable value measured as the carrying amount, less an allowance for loss provision or contractual adjustment for medical care, as considered necessary. Contractual adjustments are estimated for Medical Care Collection Fund (MCCF) receivables due from patients and insurance companies using the allowance method. The allowance is determined based on 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.

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 practice is not to charge interest on compensation, pension debts, and certain education benefits based on a July 1992 decision by the then VA Deputy Secretary.

J. Direct Loans and Loan Guarantees

Direct loan obligations and loan guarantee commitments made after 1991 are governed by the Federal Credit Reform Act of 1990 (the Credit Reform Act). The financial statement disclosures herein (Note 7) are in accordance with 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 re-estimates of interest rates, and application of loan technical/default provisions approved by OMB.

When the present value of cash inflows is less than the present value of cash outflows, a subsidy cost is incurred and reported as an allowance for subsidy costs, reducing direct loans and guaranteed loans receivable reported in the 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 re-estimates of interest rates, and application of loan technical/default provisions approved by OMB.

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

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

K. Inventory and Related Property, Net

Inventory consists of two distinct components: (1) primarily, Veterans Canteen Service (VCS) retail stock and (2) operating, medical, and pharmaceutical supplies that are not in the hands of end users.

L. Property, Plant, and Equipment (PP&E)

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 are recorded in Construction Work-in-Process (WIP) accounts. The assets are transferred to either capitalized or non-capitalized PP&E, as appropriate, when placed in service. Construction projects completed in multiple phases are recorded as Construction WIP until the project phase is placed in service. Personal property and equipment that do not meet the capitalization criteria are expensed upon being placed in service.

Individual items are capitalized if the useful life is 2 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. 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.

M. Other Assets

Intragovernmental Other Assets are reported at cost, consist primarily of Intragovernmental Advances, 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 Advances.

Payments are 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.

N. 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 ongoing 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.

O. 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.

United States Government Life Insurance (USGLI) permanent plan policy reserves are based on the American Experience Table (with 2.0 percent interest) and are held on a net single premium basis.

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

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 4.0 percent interest). The reserve for Term policies is based on the 2001 VBM

Table (with 4.0 percent interest) and the age 70 rate (the capped premium) of $5.87 per month per $1,000 face amount.

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 4.0 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 4.0 percent interest for JS.

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.

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 1 month in advance that are unearned at the end of the reporting period and a reserve for premiums paid 1 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 FY 2016 and FY 2015, the interest rates ranged from 3.5 percent to 4.75 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 FY 2016, a discount rate of 3.0 percent for NSLI (2.0 percent for USGLI, and 4.0 percent for VSLI and VRI), along with the appropriate accrual factor, was used. For FY 2015, a discount rate of 4.0 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.

The financial statement disclosures herein (Note 17) are in accordance with SFFAS 5, Accounting for Liabilities.

P. 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.

Q. 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.

R. 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, 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 contributes 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.

S. 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, and 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 result 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 August 31 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 FY 2016, 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.

The Veterans Education Benefit Liability represents unfunded, unpaid earned education benefits expected to be used by Veterans or their dependents. These amounts relate to Veterans who have met the necessary requirements to earn education benefits as part of the Post-9/11 GI Bill (Chapter 33), and for which VA has approved an original enrollment certification in the Long-Term Solution (LTS) system. See Note 13 for additional information on the Veteran's Education Benefit Liability.

The financial statement disclosures herein (Note 13) are in accordance with SFFAS 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting Gains and Losses from Changes in Assumptions, and Selecting Discount Rates and Valuations Dates.

T. 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.

U. 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.

V. 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.

W. 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 re-estimates 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 (dollars in millions)		
As of September 30,		
	2016	2015
Fund Balance with Treasury	$ 145	$ 138
Intragovernmental Accounts Receivable	1,606	349
Public Accounts Receivable	43	38
Total Non-Entity Assets	**$ 1,794**	**$ 525**

3. Fund Balance with Treasury

Funds with the U.S. Department of the Treasury primarily represent trust, revolving, appropriated, and special funds.

Trust fund balances consist primarily of amounts related to the Post-Vietnam Veterans Educational Assistance Program (VEAP) Trust Fund, the NSLI Fund, the USGLI Fund, the 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 does 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. Examples include Medical Services, Major Construction, and Veterans Choice funds.

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 table below 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 but also including special funds, general receipts, and medical care funds.

Fund Balance with Treasury (dollars in millions)				
As of September 30,				
		2016		2015
Entity Assets				
Trust Funds	$	79	$	78
Revolving Funds		11,396		9,664
Appropriated Funds		38,351		49,820
Special Funds		463		430
Other Fund Types		25		53
Total Entity Assets	**$**	**50,314**	**$**	**60,045**
Non-Entity Assets				
Other Fund Types		145		138
Total Non-Entity Assets		**145**		**138**
Total Entity and Non-Entity Assets	**$**	**50,459**	**$**	**60,183**
Reconciliation of VA General Ledger Balances with Treasury				
Balance per VA General Ledger	$	50,509	$	60,212
Reconciled Differences, Principally Timing		(50)		(29)
Fund Balance with Treasury	**$**	**50,459**	**$**	**60,183**
Status of Fund Balance with Treasury				
Unobligated Balance				
Available	$	12,412	$	16,203
Unavailable		17,653		19,566
Obligated Balance Not Yet Disbursed		19,898		23,932
Deposit /Clearing Account Balances		496		482
Fund Balance with Treasury	**$**	**50,459**	**$**	**60,183**

4. Cash

Unrestricted cash consists of Canteen Service and Agent Cashier advances at VA field stations. Treasury processes all other cash receipts and disbursements. Additionally, restricted cash occasionally includes cash held by non-Federal trust however, as of September 30, 2016, VA does not have any restricted cash.

Cash (dollars in millions)				
As of September 30,				
		2016		2015
Cash				
Canteen Service	$	2	$	2
Agent Cashier Advance		2		2
Total Cash	**$**	**4**	**$**	**4**

5. Investments

Federal Securities, which comprise most of VA's investments, are in non-marketable Treasury special bonds and notes. Special bonds, which mature during various years (through the year 2031), are generally held to maturity unless needed to finance insurance claims and dividends. Treasury notes help finance operations and events supported by the General Post Fund for the benefit of Veterans and their beneficiaries.

Non-Federal securities consist of Loan Guaranty Program investments in housing trust certificates and mutual funds from enhanced-use leases.

Investments (dollars in millions)						
As of September 30, 2016						
	Cost	**Amortization Method**	**Amortized (Premium)/ Discount**	**Interest Receivable**	**Investments, Net**	**Market Value**
Federal Securities (Note 19)						
Non-Marketable: Special Bonds	$ 6,095	N/A	$ -	40	6,135	$ 6,135
Treasury Notes	108	Effective Interest	(1)	1	108	108
Total	**$ 6,203**		**$ (1)**	**41**	**6,243**	**$ 6,243**
Non-Federal 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, 2015						
Federal Securities (Note 19)						
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**
Non-Federal 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**

6. Accounts Receivable, Net

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 account receivables consists primarily of (a) amounts due for Veterans' healthcare; (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.

Accounts Receivable, Net (dollars in millions)		
As of September 30,		
	2016	**2015**
Intragovernmental Accounts Receivable	**$ 44**	**$ 46**
Public Accounts Receivable		
Medical Care	$ 3,016	$ 2,803
Contractual Adjustment and Allowance for Loss Provision	(1,480)	(1,613)
Net Medical Care	1,536	1,190
Compensation and Pension	1,469	1,298
Allowance for Loss Provision	(584)	(633)
Net Compensation and Pension	885	665
Education Benefits	488	431
Allowance for Loss Provision	(183)	(175)
Net Education Benefits	305	256
Other	86	126
Allowance for Loss Provision	(16)	(55)
Net Other	70	71
Total Public Accounts Receivable	5,059	4,658
Total Contractual Adjustment and Allowance for Loss Provision	(2,263)	(2,476)
Public Accounts Receivable, Net	**$ 2,796**	**$ 2,182**

The Total Contractual Adjustment and Allowance for Loss Provision as a percentage of Total Public Accounts Receivable was approximately 45 percent and 53 percent at September 30, 2016 and September 30, 2015, 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 VA loan programs. The Home Loan program provides loan guarantees and direct loans to Veterans, Servicemembers, qualifying dependents, and limited non-Veterans to purchase homes and retain homeownership with favorable market terms.

VA operates in the broader mortgage marketplace; as a result, the VA 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 and factors for the favorable net current re-estimates are as follows:

(1) The combined effect of (a) better-than-anticipated recoveries and claims and (b) higher projected recovery rate. A higher projected recovery rate in 2017 for existing home loans, based on actual recoveries in 2016, generated more property sales proceeds or recoveries on defaulted loans.

(2) Actual borrower activity was better-than-anticipated, which translated into increased loan guarantee funding fees and direct loan collections in 2016. Most of the VA loans outstanding are for the recent cohorts 2010-2016. For example, the Loan Guarantee Housing Account for these cohorts accounts for 96 percent of current downward re-estimates. These loans represent substantial increases in VA loan production and market from new borrowers and refinanced loans from its older cohorts.

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

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.

Prior to November 2, 1987, life insurance policy loans were issued at fixed rates depending on the fund and time period. The remaining fixed rate loans are at 4.0 percent and 5.0 percent. All policy loans issued since November 2, 1987, have a variable interest rate with a minimum of 5.0 percent and a maximum of 12 percent. Rate changes are tied to the 10-year constant maturities, U.S. Treasury Securities Index and may only change on October 1. The variable rate has been 5.0 percent since October 1, 2001.

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

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 is provided in the tables that follow:

Loans Receivable and Related Foreclosed Property From Direct Loans (dollars in millions)

As of September 30, 2016

	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	$ 3	-	-	-	$ 3
Insurance Policy Loans	$ 276	7	-	-	$ 283
Total					**$ 286**

	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 FY 1991	$ 440	22	23	16	$ 501
Total					**$ 787**

Loans Receivable and Related Foreclosed Property From Direct Loans (dollars in millions)

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 FY 1992 (Allowance for Loss Method)	$ 3	6	-	-	$ 9
Insurance Policy Loans	$ 308	8	-	-	$ 316
Total					**$ 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 FY 1991	$ 471	20	58	25	$ 574
Total					**$ 899**

Direct Loans Disbursed

The total amount of new direct loans disbursed for the years ended September 30, 2016 and September 30, 2015, was $13.6 million and $9.6 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 2016. 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. In particular, the fund outstanding mortgage interest rates are revised downward, based on 2016 financial results. The combination of extra actual collections and revised mortgage rates should produce lower future mortgage interest income.

The net change in subsidy estimates reflect a steady housing recovery that contributes to favorable cash inflows. In general, a better housing market means less current re-estimates on average, and imply downward re-estimates. These re-estimates are a return of VA cash reserves to the U.S. Treasury to reduce the Federal budget deficit, short term.

Direct Loan Subsidy Expense (dollars in millions)		
As of September 30,		
	2016	**2015**
Interest Differential	$ (2)	$ (2)
Defaults	1	1
Subtotal	**(1)**	**(1)**
Interest Rate Reestimates	-	6
Technical Reestimates	(1)	(3)
Expense	**$ (2)**	**$ 2**

Budgetary Subsidy Rates for Direct Loans by Component (Post 1991)

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 re-estimates.

Subsidy rates for direct loans	
Interest Differential	(38.16%)
Defaults	15.61%
Fees	(2.00%)
Other	0.68%

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 2016, the subsidy rate is (25.58) percent for Veterans Housing Direct – Vendee Loans, 1.71 percent for Veterans Housing Direct – Acquired Loans, and (18.08) percent for Native American Direct. 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. 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 (dollars in millions)		
Beginning Balance, Changes and Ending Balance		
	2016	2015
Beginning balance of the allowance	$ (58)	$ (59)
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	(5)	(7)
New Loans	3	1
Loans written off	1	8
Subsidy allowance amortization	25	(3)
Change in execution	12	-
Total Adjustments	36	(1)
Ending balance of the allowance before reestimates	**(23)**	**(61)**
Subsidy reestimates by component		
Interest rate reestimate	-	6
Technical/default reestimate	(1)	(3)
Total of the above reestimate components	(1)	3
Ending balance of the allowance	**$ (24)**	**$ (58)**

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 that had secured the guaranteed loan at the liquidation sale, the loan holder can elect to convey the property to VA, which then attempts to resell the property at the best possible price and terms.

VA 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, which will result 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.

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 (dollars in millions)							
As of September 30, 2016							
		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)	$	23	-	(24)	1	$	-
Defaulted Guaranteed Loans - Post-1991 Guarantees	$	4	-	-	845	$	849
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees						**$**	**849**

Loans Receivable and Related Foreclosed Property from Loan Guarantees (dollars in millions)							
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**

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, which results in a modification gain being recognized. An increase in the loan guarantee liability due to a modification reflects increased costs to VA, which results in a modification loss being recognized. The carrying amount of the loan guarantee liability reflects the 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 2016.

Foreclosed Property

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

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

There has been no change in the methodology for calculating the amount recorded for foreclosed property, and there are no restrictions on the use or disposition of foreclosed property for the years ended September 30, 2016 and September 30, 2015.

Real Estate Owned (dollars in millions)		
As of September 30,		
	2016	**2015**
Opening Balance	$ 893	$ 846
Acquisitions Direct Loans	(6)	14
Acquisitions Guaranteed Loans	1,587	1,501
Gain/Loss on Sale	(314)	(263)
Proceeds from Sale	(1,509)	(1,415)
Property Management Expense	211	210
Ending Balance	**$ 862**	**$ 893**

As of September 30, 2016 and September 30, 2015, the number of residential properties in VA's inventory was approximately 7,273 and 7,645, respectively. For 2016 and 2015, the average holding period from the date properties were conveyed to VA until the date properties were sold was approximately 6 months and 6 months, respectively. The number of properties for which foreclosure proceedings are in process was approximately 40,811 and 29,649 as of September 30, 2016 and September 30, 2015, respectively.

Guaranteed Loans (dollars in millions)				
As of September 30,				
		2016		**2015**
Guaranteed Loans Outstanding:				
Outstanding Principal Guaranteed Loans, Face Value	$	517,184	$	453,877
Amount of Outstanding Principal Guarantee		132,782		117,375
Loan Principal Collections, New Guaranteed Loans		(1,383)		(1,337)
Termination of Outstanding Principal Guaranteed, Face Value		(88,577)		(69,702)
New Guaranteed Loans Disbursed:				
Outstanding Principal Guaranteed Loans, Face Value	$	151,884	$	134,307
Amount of Outstanding Principal Guarantee		38,002		33,776
Number of New Loans Disbursed□		609,023		558,434
Liabilities for Pre-1992 and Post-1991 Loan Guarantees, Excluding Loan Sale Guarantees (Present Value Method)	$	9,896	$	9,772

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 re-estimate was principally caused by increasing claim payments following the housing crisis, which increased 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 re-estimates. The subsidy expense for loan guarantees related to the Loan Guaranty Program is as shown:

Guaranteed Loan Subsidy Expenses (dollars in millions)				
As of September 30,				
		2016		**2015**
Defaults	$	3,059	$	2,566
Fees		(2,604)		(2,161)
Subtotal		455		405
Interest Rate Reestimates		(139)		43
Technical Reestimates		(1,407)		57
Total Guaranteed Loan Subsidy Expenses	**$**	**(1,091)**	**$**	**505**

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 re-estimates.

Budgetary Subsidy Rates for Loan Guarantees	
Defaults	1.65%
Fees	(1.40%)

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 2016 was 0.25 percent. In the table below, the current year and prior-year upward re-estimate 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 (dollars in millions)		
Beginning Balance, Changes and Ending Balance		
	2016	**2015**
Beginning balance of the liability	$ 9,543	$ 8,532
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Default costs (net of recoveries)	3,059	2,566
Fees and other collections	(2,604)	(2,161)
Total of the above subsidy expense components	**$ 455**	**$ 405**
Adjustments:		
Fees received	1,981	1,804
Foreclosed property and loans acquired	(310)	(645)
Claim payments to lenders	(764)	(972)
Interest accumulation on the liability balance	206	181
Change in reestimate approved by OMB	85	138
Total Adjustments	1,198	506
Ending balance of the liability before reestimates	**$ 11,196**	**$ 9,443**
Subsidy reestimates by component		
Interest rate reestimate	(139)	43
Technical/default reestimate	(1,407)	57
Total of the above reestimate components	(1,546)	100
Ending balance of the liability	**$ 9,650**	**$ 9,543**

Schedule for Reconciling Pre 1992 Loan Guarantee Liabilities (dollars in millions)		
Beginning Balance, Changes and Ending Balance		
	2016	**2015**
Beginning balance of the liability	$ 229	$ 222
Claims	1	1
Foreclosed Properties	(1)	(2)
Veteran Liability Debts	14	4
Amortization of Liability Balance	3	4
Total	**$ 246**	**$ 229**

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, which will result 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 2012, the total loans sold amounted to $14.2 billion. 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 (dollars in millions)				
As of September 30,				
		2016		**2015**
Outstanding Balance Guaranteed Loans Sold, Start of Year	$	1,208	$	1,415
Payments, Repayments, and Terminations		(162)		(207)
Outstanding Balance Guaranteed Loans Sold, End of Year	**$**	**1,046**	**$**	**1,208**

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 (dollars in millions)				
As of September 30,				
		2016		**2015**
Interest Rate Reestimates	$	(8)	$	(21)
Technical Reestimates		(5)		(7)
Total Loan Sale-Guaranteed Subsidy Expense	**$**	**(13)**	**$**	**(28)**

Schedule for Reconciling Loan Guarantee Liability Balances (dollars in millions)				
Beginning Balance, Changes and Ending Balance				
		2016		**2015**
Beginning balance of the liability	**$**	**141**	**$**	**154**
Adjustments:				
Claim payments to lenders		(18)		(3)
Interest accumulation on the liability balance		8		9
Change in reestimate approved by OMB		5		9
Total Adjustments		(5)		15
Ending balance of the liability before reestimates		**136**		**169**
Subsidy re-estimates by component				
Interest rate reestimate		(8)		(21)
Technical/default re-estimate		(5)		(7)
Total of the above reestimate components		(13)		(28)
Ending balance of the liability	**$**	**123**	**$**	**141**

Program Totals

Total Loans Receivable and Related Foreclosed Property, Net (dollars in millions)				
As of September 30,				
		2016		**2015**
Total Direct Loans	$	787	$	899
Total Guaranteed Loans		849		907
Total Direct Loans and Loan Guarantees	**$**	**1,636**	**$**	**1,806**

Total Subsidy Expense (dollars in millions)				
As of September 30,				
		2016		**2015**
Total Direct Loans	$	(2)	$	2
Total Guaranteed Loans		(1,091)		505
Total Loan Sales		(13)		(28)
Total Subsidy Expense	**$**	**(1,106)**	**$**	**479**

Total Liabilities for Loan Guarantees (dollars in millions)				
As of September 30,				
		2016		**2015**
Total Loan Guarantee Liability Post 1992	$	9,650	$	9,543
Total Pre-1992 Loan Guarantee Liability		246		229
Total Loan Sale Guarantee Liability		123		141
Total Liabilities for Loan Guarantees	**$**	**10,019**	**$**	**9,913**

Administrative Expense

The administrative expense for direct and guaranteed loans for the fiscal years ended September 30, 2016 and September 30, 2015, was $163 million and $161 million, respectively.

8. Inventory and Related Property, Net

Inventory consists primarily of VCS retail store stock held for current sale, and is reported at cost using the weighted-average cost method. VCS provides retail merchandise, food, and vending services across the country. Inventory also contains operating, medical, and pharmaceutical supplies at cost that are not in the hands of end users. Upon transfer to end users, these supplies are expensed. VA defines an end user as a VA medical center, regional office, or cemetery.

Inventory (dollars in millions)				
As of September 30,				
		2016		**2015**
VCS Retail Store Stock	$	31	$	36
Operating, Medical, and Pharmaceutical Supplies		19		13
Total Inventory	**$**	**50**	**$**	**49**

9. General Property, Plant and Equipment

The majority of general PP&E owned or leased by VA is used to provide medical care to Veterans. PP&E, including transfers from other Federal agencies, leasehold improvements, other structures not classified as buildings, and capital leases are valued at net cost. Multi-use heritage assets are recognized and presented with general PP&E in the basic financial statements.

Depreciation and amortization expense totaled $1.9 billion and $1.7 billion in 2016 and 2015, respectively. Loss on disposition of assets totaled $227 million and $281 million in 2016 and 2015, respectively.

General Property, Plant and Equipment (dollars in millions)
As of September 30, 2016

	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land and Improvements	$ 1,480	$ (474)	$ 1,006
Buildings	30,574	(16,725)	13,849
Equipment	4,118	(2,751)	1,367
Other Structures and Capital Leases	4,566	(2,485)	2,081
Internal Use Software	2,104	(1,397)	707
Construction Work in Progress	5,273	-	5,273
Internal Use Software in Development	872	-	872
Total Property, Plant, and Equipment	**$ 48,987**	**$ (23,832)**	**$ 25,155**

General Property, Plant and Equipment (dollars in millions)
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**

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 2016 and 2015; 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 1,284 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 $1.5 million and $4.3 million for the years ended September 30, 2016 and September 30, 2015, respectively, 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.

Heritage Assets in Units				
As of September 30,	**2015 Balance**	**2016 Additions**	**2016 Withdrawals**	**2016 Balance**
Art Collections	27	-	(1)	26
Buildings and Structures	715	65	(65)	715
Monuments/Historic Flag Poles	1,276	1	(10)	1,267
Other Non-Structure Items	790	-	(20)	770
Archaeological Sites	13	-	(4)	9
Cemeteries, Soldier's Lots and Monument Sites	167	3	-	170
Total Heritage Assets in Units	2,988	69	(100)	2,957

11. Debt

Intragovernmental Debt (dollars in millions)					
As of September 30,					
	2015 Beginning Balance	2015 Net Borrowing	2015 Ending Balance	2016 Net Borrowing	2016 Ending Balance
Loan Guaranty Debt					
Debt to the Treasury	$ 691	$ (16)	$ 675	$ (109)	$ 566
Debt to the Federal Financing Bank	5	-	5	-	5
Total Loan Guaranty Debt	**696**	**(16)**	**680**	**(109)**	**571**
Direct Loans Debt – Vocational Rehabilitation Program					
Debt to the Treasury	1	-	1	-	1
Total Direct Loans Debt	**1**	**-**	**1**	**-**	**1**
Total Debt					
Debt to the Treasury	692	(16)	676	(109)	567
Debt to the Federal Financing Bank	5	-	5	-	5
Total Debt	**$ 697**	**$ (16)**	**$ 681**	**$ (109)**	**$ 572**

At September 30, 2016 and 2015, 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 2016 ranged from 3.16 to 3.68 percent and 3.20 to 3.70 percent for debt issued in 2015. The interest rates on all outstanding debt issued ranged from 1.00 to 7.59 percent for both 2016 and 2015. Interest expense was $26 million for 2016 and $24 million for 2015.

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 rate on debt issued was 1.00 percent for both 2016 and 2015. The interest rate on all outstanding debt issued was 1.00 percent for both 2016 and 2015

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 2016 or 2015. 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

Total Unfunded Liabilities include Workers' Compensation, which is comprised of the actuarial Workers' Compensation Liability, Accrued FECA Liability for Department of Labor (DOL) funded costs not yet appropriated and Unfunded Employee Liability. The Accrued FECA Liability and Unfunded Employee Liability are Intragovernmental Liabilities totaling $487 million and $477 million at September 30, 2016 and September 30, 2015, respectively.

Liabilities Not Covered By Budgetary Resources (dollars in millions)		
As of September 30,		
	2016	**2015**
		Restated (Note 24)
Workers' Compensation (FECA)	$ 2,809	$ 2,721
Annual Leave (Note 15)	2,173	2,071
Judgment Fund (Note 15)	1,811	2,029
Environmental and Disposal Liabilities (Note 14)	989	860
Veterans Compensation and Burial (Note 13)	2,496,300	2,018,600
Education Benefits (Note 13)*	59,588	53,091
Insurance (Note 17)	1,582	1,519
Amounts due to Non-Federal Trust (Note 15)	115	125
Other	4	4
Total Liabilities Not Covered By Budgetary Resources	$ 2,565,371	$ 2,081,020
Total Liabilities Covered By Budgetary Resources	25,552	30,810
Total Liabilities*	**$ 2,590,923**	**$ 2,111,830**

*This line item has been restated from the previous year's reported amount to align with the FY 2015 restatement. See Note 24 Restatement.

13. Federal Employee and Veteran Benefits Liabilities

Federal Employee and Veterans Benefits liabilities are comprised of workers' compensation (FECA), compensation and burial benefits paid to Veterans and their beneficiaries, and Education benefits provided to Veterans and their dependents. The table below summarizes employee and Veteran benefit liabilities reported by VA on the Balance Sheet.

Federal Employee and Veterans Benefits Liabilities (dollars in millions)				
As of September 30,				
		2016		**2015** Restated (Note 24)
Workers' Compensation (FECA)	$	2,322	$	2,244
Compensation		2,491,400		2,014,000
Burial		4,900		4,600
Education Benefits*		59,588		53,091
Total Federal Employee and Veterans Benefits Liabilities*	$	**2,558,210**	$	**2,073,935**

*This line item has been restated from the previous year's reported amount to align with the FY 2015 restatement. See Note 24 Restatement.

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 (dollars in millions)				
As of September 30,				
		2016		**2015**
Civil Service Retirement System	$	303	$	339
Federal Employees Health Benefits		1,682		1,424
Federal Employees Group Life Insurance		5		4
Total Imputed Expenses-Employee Benefits*	$	**1,990**	$	**1,767**

* The Total Imputed Expenses – Employee Benefits when combined with the Imputed Financing Paid by Other Entities reported in Note 18 reconciles to the total Imputed Financing costs reported in the Consolidated Statement of Changes in Net Position with the difference being Department of Homeland Security (DHS) imputed costs associated with cybersecurity services.

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

Veteran Benefits (Compensation and Burial)

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

VA provides eligible Veterans and/or their dependents with pension benefits if the Veteran died or was disabled from non-service-related causes, based on annual eligibility reviews. The actuarial present value of the future liability for pension benefits is a non-exchange transaction and is not required to be recorded on the balance sheet. The projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2016 and September 30, 2015, was $87.2 billion and $94.1 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 become future beneficiaries of the compensation program; and (3) a proportional share of those on active military service as of the valuation date who will be future Veterans. 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, 2016 and September 30, 2015, were based on the 10-year average historical spot rates derived from quarterly Yield Curves for Treasury *Nominal Coupon Issues* published by Treasury at the end of each quarter for the periods April 1, 2006 to March 31, 2016, and April 1, 2005 to March 31, 2015, for September 30, 2016 and September 30, 2015, 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 1.16 percent to 4.26 percent and from 1.52 percent to 4.37 percent as of September 30, 2016 and September 30, 2015, respectively. These spot rates produced a single weighted average discount rate of 3.93 percent and 4.08 percent as of September 30, 2016 and September 30, 2015, 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, and 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, and presumptive service conditions resulting in benefits coverage, mortality, and disability claims rates. 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 Survey data. The amount of benefits by beneficiary category and age were based on current amounts being paid, future 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, 2016 and September 30, 2015, 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.

Life expectancies of beneficiaries collecting benefits from the Compensation program were based upon studies of mortality experience of those beneficiaries between 2011 and 2015. Life expectancies of Veterans not yet collecting these benefits used in the calculation of the liability for future beneficiaries are based on mortality derived from rates developed by the Office of the Actuary for the Veteran Population Model (VetPop2016). In addition, rates of benefit termination of beneficiaries due to reasons other than mortality are also reflected. Expected benefit payments have been explicitly modeled for the next 100 years. The Compensation projection only reflects benefits associated with military service through September 30, 2016.

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 2016 of $2.5 trillion increased $478 billion from the 2015 liability of $2.0 trillion.

The change in liability was primarily due to a $321 billion increase from the change in assumptions. The average growth in Compensation counts for the next 5 years is 2.1 percent, to reflect the last 5 years increase. This increased the liability of $277 billion, and the other $44 billion was from new mortality rates and mortality improvement factors. The other change in liability was due to a $67 billion increase from the change in the discount rate assumption, largely offset by a decrease of $11 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 4.08 percent to 3.93 percent in 2016. 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, 2016 and September 30, 2015 was 2.30 percent and 2.44 percent, respectively. Beginning in 2015, COLA rates for future years are based on Inflation Rates published by Treasury.

Reconciliation of Veterans Compensation and Burial Actuarial Liabilities (dollars in millions)						
For the Year Ended September 30,						
		Compensation		Burial		TOTAL
Liability at October 1, 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**
Expense:						
Interest on the Liability Balance**		82,200		200		82,400
Actuarial (Gain)/Loss from Current Year Activity						
Changes in Experience (Veterans Counts, Status)**		91,900		200		92,100
Changes in Assumptions:						
Changes in Discount Rate Assumption		66,900		100		67,000
Changes in COLA Rate Assumption		(10,600)		-		(10,600)
Changes in Other Assumptions		321,100		-		321,100
Net (Gain)/Loss from Changes in Assumptions		377,400		100		377,500
Total Expense		551,500		500		552,000
Less Amounts Paid**		(74,100)		(200)		(74,300)
Net Change in Actuarial Liability		477,400		300		477,700
Liability at September 30, 2016	$	**2,491,400**	$	**4,900**	$	**2,496,300**

* The sum of these changes, including the changes in Education Benefits liability shown in the schedule below, represents Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions on the Statement of Net Cost for 2015.
** The sum of these changes, including the changes in Education Benefits liability shown in the schedule below, represents Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions on the Statement of Net Cost for 2016.

Veterans Education Benefit Liability

Veterans with at least 90 days of aggregate service after September 10, 2001, or individuals discharged with a service-connected disability after 30 days are eligible to receive Post-9/11 GI Bill (Chapter 33) benefits, which includes tuition and fees and a monthly housing allowance. Eligibility for Veterans and/or their beneficiaries to use Chapter 33 benefits continues for 15 years after their last period of 90 consecutive days or more of active duty. Veterans are eligible for up to 36 months of enrollment in an educational institution, which includes a monthly housing allowance, yearly textbook and supplies stipend, and one-time payment for relocation. The Veteran's eligibility for these amounts is based upon the length of their active duty service. VA recognizes an education benefit liability once

VA has approved an original enrollment certification in the Long Term Solution system. VA estimates the unfunded education benefit liability by including the following assumptions:

(1) As of 9/30/2016 1,668,467 beneficiaries are currently eligible, and have an enrollment certification.
(2) Due to limited experience data, dropout rates were not incorporated into the model. The data from 2009 to 2016 was not sufficient to estimate the dropout rates. As an example, those who have dropped out can reclaim their eligibility for benefits up to the end of the 15-year window of eligibility. As more data becomes available, we will conduct further studies.
(3) For beneficiaries with remaining eligibility who are not using the benefits as of 9/30/2016, the model assumes the beneficiary will start using the benefits beginning in FY 2017.
(4) The model assumes that beneficiaries use the benefits for 6 months each year until all the benefits are exhausted. An experience study shows that the average length of benefit usage per year was 6 months.
(5) The annual payment trend rates used in the model were 4.38%, 4.25%, and 3.16% for FY 2017, FY 2018, and FY 2019 and later, respectively. The rates were estimated using historical data provided by VBA's Budget Office; these trend rates for the following years are:
    - FY 2017 was assumed to be the same as the actual change between FY2015 and FY2016;
    - FY 2018 was determined as the annualized trend rate from FY2014 to FY2016;
    - FY 2019 and later years were estimated as the annualized trend rate from FY2013 to FY 2016.
(6) The average total payment for FY 2016 was $14,565. This amount was computed using the number of eligible beneficiaries and payments made in FY 2016. Any direct DoD contributions (kicker amount) were discounted from the payments.

The Veteran Education Benefit Liability was composed of the following, as of September 30:

Veterans Education Benefits (dollars in millions)		
For the Year Ended September 30, 2014		
Liability for Veterans Education Benefits	$	**46,965**
Estimated Value of FY 15 Enrollment Certifications issued to new Veterans*		17,394
Interest on the Liability*		69
FY 15 Education Benefits Paid*		(11,337)
Total Veterans Education Benefits Liability as of September 30, 2015	**$**	**53,091**

Veterans Education Benefits (dollars in millions)		
For the Year Ended September 30, 2015		
Liability for Veterans Education Benefits	$	**53,091**
Estimated Value of FY 16 Enrollment Certifications issued to new Veterans**		18,010
Interest on the Liability**		196
FY 16 Education Benefits Paid**		(11,709)
Total Veterans Education Benefits Liability as of September 30, 2016	**$**	**59,588**

* The sum of these changes, including the changes in Compensation and Burial Benefits liability shown in the schedule above, represents Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions on the Statement of Net Cost for 2015.

** The sum of these changes, including the changes in Compensation and Burial Benefits liability shown in the schedule above, represents Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions on the Statement of Net Cost for 2016.

14. Environmental and Disposal Liabilities

VA had unfunded environmental and disposal liabilities in the amount of $989 million and $860 million as of September 30, 2016 and September 30, 2015, 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, 2016, the liabilities for friable and non-friable asbestos removal were $231 million and $457 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 within the Intragovernmental and Public categories. Funded liabilities are generally considered to be current liabilities. Unfunded liabilities represent future financial commitments that are currently not funded.

Other Intragovernmental Funded Liabilities (dollars in millions)				
As of September 30,				
		2016		**2015**
Clearing Account Liabilities	$	(2)	$	1
Accrued Expenses - Federal		9		7
Deferred Revenue		17		56
Credit Reform Act Subsidy Reestimates*		1,598		43
Custodial Liabilities		48		347
General Fund Receipts Liability		257		-
Accrued VA Contributions for Employee Benefits		322		235
Total Other Intragovernmental Funded Liabilities	**$**	**2,249**	**$**	**689**

*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 from or excess funds are returned to Treasury.

Other Intragovernmental Unfunded Liabilities (dollars in millions)		
As of September 30,		
	2016	**2015**
Accrued FECA Liability	482	472
Unfunded Employee Liability	5	5
Total Other Intragovernmental Unfunded Liabilities	487	477
Total Other Intragovernmental Liabilities	**2,736**	**1,166**

Other Public Funded Liabilities (dollars in millions)		
As of September 30,		
	2016	**2015**
Accrued Funded Annual Leave	$ 22	$ 22
Accrued Expenses	154	165
Accrued Salaries and Benefits	1,191	911
Capital Lease Liability	1	2
Other	222	246
Total Other Public Funded Liabilities	**$ 1,590**	**$ 1,346**

Other Public Unfunded Liabilities (dollars in millions)		
As of September 30,		
	2016	**2015**
Accrued Unfunded Annual Leave*	$ 2,173	$ 2,071
Amounts due to non-Federal trust	115	125
Judgment Fund-Unfunded**	1,811	2,029
Other	4	4
Total Other Public Unfunded Liabilities	**$ 4,103**	**$ 4,229**
Total Other Public Liabilities	**$ 5,693**	**$ 5,575**

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

16. Leases

VA has both capital and operating leases. The net capital lease liability was $1 million and $2 million as of September 30, 2016 and September 30, 2015, 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 general PP&E as disclosed in Note 9.

Capital Lease Assets (dollars in millions) As of September 30, 2016	Cost	Accumulated Amortization	Net Book Value
Real Property	$ 17.7	$ (17.0)	$ 0.7
Equipment	29.1	(24.1)	5.0
Leased Property Under Capital Lease	**$ 46.8**	**$ (41.1)**	**$ 5.7**
Amortization Expense		**$ 3.0**	

Capital Lease Assets (dollars in millions) 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**	

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 5 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, 2016, VA had 1,977 real property leases in effect, which consisted of approximately 25 million square feet and base annual minimum rental obligations of approximately $730 million. Of the operating real property leases, VHA accounts for 85.4 percent, VBA accounts for 9.6 percent, Indirect Administrative Program offices account for 4.5 percent, and NCA accounts for 0.5 percent. These real property leases generally have lease terms ranging from 1 to 50 years and all operating leases are funded annually by appropriation of funds by Congress. Approximately 67 percent of the real property leases have an initial lease term of 5 years or less; approximately 26 percent have initial lease terms of 6 to 10 years; approximately 3 percent have initial lease terms of 11 to 15 years; and approximately 4 percent have initial lease terms of 16 years and more. Certain leases contain renewal, termination, and cancellation options.

Approximately 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 4 to 6 months). For OAs executed after October 2011, periods of occupancy are generally 1 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) and reimburse increases in real estate taxes over a base year amount at least annually; 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, 2016. 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 non-cancellable 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 2016 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 2016 operating lease rental costs were $790 million for real property rentals and $177 million for equipment rentals. The 2015 operating lease costs were $678 million for real property rentals and $166 million for equipment rentals.

Excluded from the following table are leases of properties that have expired as of September 30, 2016, and prior, but are still occupied by VA. On occasion, VA will retain occupancy of properties once the full term of the lease has expired and continue to remit rent on a monthly basis in accordance with the holdover provisions of the expired lease agreement. In other instances, VA enters into a standstill agreement, which simply preserves the terms and conditions of the lease and provides continuation of required rent payments to maintain occupancy. 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 standstill and holdover leases is considered immaterial and is reflected in the 2016 expense in the statements of net costs. The following table represents VA's projected future operating lease commitments.

Projected Future Operating Lease Commitments (dollars in millions) For the Years Ending September 30,	GSA OAs	Third Party Direct Leases	Total Real Property	Equipment
2017	$ 205	$ 452	$ 657	$ 177
2018	189	425	614	177
2019	157	391	548	177
2020	163	355	518	177
2021	98	323	421	177
2022 and Thereafter (in total)	193	2,789	2,982	-
Total Future Lease Payments	**$ 1,005**	**$ 4,735**	**$ 5,740**	**$ 885**

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 (e.g., 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 60 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, 2016 and September 30, 2015, 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:

(1) United States Government Life Insurance (USGLI) program;
(2) National Service Life Insurance (NSLI) program;
(3) Veterans Special Life Insurance (VSLI) program;
(4) Veterans Reopened Insurance (VRI) program, which covers Veterans who served during World Wars I, II, and the Korean Conflict eras;
(5) 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
(6) Veterans Mortgage Life Insurance (VMLI) program, which covers severely disabled Veterans and is open to new issues. VMLI is part of the Veterans Insurance and Indemnities (VI&I) fund.

In addition, VA supervises the Servicemembers Group Life Insurance (SGLI) and the Veterans Group Life Insurance (VGLI) programs, which provide 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 2.0 to 4 percent. The mortality assumptions include the American Experience Table, the X-18 Table, the 1941 CSO Table, the 1958 CSO Basic Table, the 1980 CSO Basic Table, and the 2001 VBM Table.

Insurance Liability (Reserve) Balances (dollars in millions)				
As of September 30, 2016				
Program	**Insurance Death Benefits**	**Death Benefit Annuities**	**Disability Income & Waiver**	**Reserve Totals**
NSLI	$ 3,351	$ 42	$ 19	$ 3,412
USGLI	1	1	-	2
VSLI	1,269	4	8	1,281
S-DVI	646	6	788	1,440
VRI	109	1	1	111
VMLI	236	-	-	236
Subtotal	$ 5,612	$ 54	$ 816	$ 6,482
Unearned Premiums				40
Insurance Dividends Left on Deposit				1,149
Dividend Payable to Policy holders				38
Unpaid Policy Claims				4
Insurance Liabilities Reported on the Balance Sheet				7,713
Less Liability not Covered by Budgetary Resources (Note 12)				(1,582)
Liability Covered by Budgetary Resources				$ 6,131

Insurance Liability (Reserve) Balances (dollars in millions)				
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
VMLI	229	-	-	229
Subtotal	$ 6,160	$ 62	$ 819	$ 7,041
Unearned Premiums				44
Insurance Dividends Left on Deposit and Related Interest Payable				1,245
Dividend Payable to Policy holders				48
Unpaid Policy Claims				2
Insurance Liabilities Reported on the Balance Sheet				8,380
Less Liability not Covered by Budgetary Resources (Note 12)				(1,519)
Liability Covered by Budgetary Resources				$ 6,861

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 5,486,309 and 5,567,448 policy holders with a face value of $1.2 trillion and $1.2 trillion for 2016 and 2015, respectively.

The face value of the insurance provided by Prudential and its reinsurers represents 99 percent of the total insurance in force for both 2016 and 2015. The number of policies represents the number of active policies remaining in the program at the end of the fiscal year.

	2016 Policies	2015 Policies	2016 Face Value	2015 Face Value
	(# of policies)		(dollars in millions)	
Supervised Programs (UNAUDITED)				
SGLI Active Duty	1,415,000	1,425,000	$ 541,842	$ 547,671
SGLI Ready Reservists	742,500	745,500	243,913	247,637
SGLI Post Separation	88,000	95,000	32,231	35,023
SGLI Family - Spouse	955,000	973,000	93,998	95,903
SGLI Family - Children	1,855,000	1,901,000	18,550	19,010
TSGLI*	-	-	215,750	217,050
VGLI	430,809	427,948	71,365	68,699
Total Supervised	**5,486,309**	**5,567,448**	**$ 1,217,649**	**$ 1,230,993**
Administered Programs				
NSLI	309,658	370,281	$ 3,914	$ 4,655
VSLI	110,943	120,466	1,607	1,730
S-DVI	272,112	266,840	2,854	2,794
VRI	12,015	14,515	127	154
USGLI	348	672	1	1
VMLI	2,654	2,567	345	333
Total Administered	**707,730**	**775,341**	**$ 8,848**	**$ 9,667**
Total Supervised and Administered Programs	**6,194,039**	**6,342,789**	$ **1,226,497**	$ **1,240,660**

*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 2016 and 2015 were $84 million and $109 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 76 percent and 30 percent of the amounts funded on behalf of VA by the Judgment Fund in 2016 and 2015, respectively. Contract dispute payments for 2016 and 2015 were $35.6 million and $225 million, respectively. The discrimination case payments for 2016 and 2015 were $1.7 million and $5.5 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, 2016 and September 30, 2015.

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 $1.8 billion for 2016 and $2 billion for 2015.

There were 54 contract and personnel law cases, where there was at least a reasonable possibility that a loss may occur, with financial exposure ranging from $350 million to $2.5 billion in aggregate for 2016. Within that range, $276 million is considered probable and is recorded as a liability. In 2015, the range of exposure was reported as $654 million to $1.9 billion, but it should have been reported as $624 million to $3.2 billion, from 46 cases, of which $401 million was probable and recorded as a liability.

In 2016 there was a Court of Appeals for Veterans Claims decision that could change the procedure for Veteran reimbursement or payment of unauthorized private emergency treatment expense. While there is no liability or loss amount currently associated with this event, if there is no appeal, it could potentially result in a programmatic expansion with an estimated budgetary impact of an additional $2.3 billion in healthcare benefits payments over 5 years and $8.2 billion over 10 years.

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 (dollars in millions)
For the Years Ended September 30,

	2016	2015
Fiscal Year Settlement Payments	$ 201	$ 343
Less Contract Dispute and “No Fear” Payments	(37)	(230)
Imputed Financing-Paid by Other Entities*	164	113
Increase (Decrease) in Liability for Claims	(125)	337
Operating Expense	**$ 39**	**$ 450**

*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 with the difference being Department of Homeland Security (DHS) imputed costs associated with cybersecurity services.

It is the opinion of management that resolution of pending legal actions as of September 30, 2016 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 2016 tort payments were $164 million, and 2015 tort payments were $113 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, 2016 and September 30, 2015 was $990 million and $514.2 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; this is 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 2012-2016, the average medical care cost per year was $47 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 and 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 Source
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. 8301	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 (dollars in millions)					
As of September 30, 2016					
	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Assets:					
Fund Balance with Treasury	$ 38	$ 398	$ 63	$ 2	$ 501
Investments with Treasury (Note 5)	6,135	108	-	-	6,243
Other Assets	306	1,658	-	13	1,977
Total Assets	**$ 6,479**	**$ 2,164**	**$ 63**	**$ 15**	**$ 8,721**
Liabilities and Net Position:					
Payables to Beneficiaries	$ 208	$ 40	$ 1	-	$ 249
Other Liabilities	7,471	136	-	-	7,607
Total Liabilities	**7,679**	**176**	**1**	**-**	**7,856**
Unexpended Appropriations	-	-	-	-	-
Cumulative Results of Operations	(1,200)	1,988	62	15	865
Total Liabilities and Net Position	**$ 6,479**	**$ 2,164**	**$ 63**	**$ 15**	**$ 8,721**

Statement of Net Cost – Funds from Dedicated Collections (dollars in millions)					
For the Year Ended September 30, 2016					
Gross Program Costs	$ 701	$ 623	$ -	$ 2	$ 1,326
Less Earned Revenues	518	4,132	-	-	4,650
Net Program Costs	**183**	**(3,509)**	**-**	**2**	**(3,324)**
Costs Not Attributable to Program Costs	-	-	-	-	-
Net Cost/(Benefit) of Operations	**$ 183**	**$ (3,509)**	**$ -**	**$ 2**	**$ (3,324)**

Statement of Changes in Net Position – Funds from Dedicated Collections (dollars in millions)					
For the Year Ended September 30, 2016					
Net Position Beginning of Period	$ (1,061)	$ 1,888	$ 63	$ 16	$ 906
Budgetary and Other Financing Sources	44	(3,409)	(1)	1	(3,365)
Net Cost/(Benefit) of Operations	183	(3,509)	-	2	(3,324)
Change in Net Position	**(139)**	**100**	**(1)**	**(1)**	**(41)**
Net Position End of Period	**$ (1,200)**	**$ 1,988**	**$ 62**	**$ 15**	**$ 865**

Balance Sheet – Funds from Dedicated Collections (dollars in millions) 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 (dollars in millions) 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 (dollars in millions) 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**

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 the following: 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 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 2016 and 2015 were $2.0 billion and $1.8 billion, respectively. The loan guarantee lender participation fees collected for 2016 and 2015 were $2.3 million and $2.2 million, respectively.

NCA leases lodges at six cemeteries to not-for-profit groups at no cost: four for historic preservation and two 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 ten 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 $90 thousand and $104 thousand for 2016 and 2015, 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 Office of Community Care, Revenue Operations Payer Relations Office (PRO) Rates and Charges 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 healthcare services, non-Federal workers' compensation, tort, 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 and Inter-Agency per diems are calculated annually to produce rates used to bill for medical care or services provided by VA:

(a) in error or based on tentative eligibility;
(b) in a medical emergency, workers' compensation (Federal only), humanitarian emergency;
(c) to pensioners of allied nations;
(d) for research purposes in circumstances under which VA medical care appropriation is to be reimbursed by VA research appropriation; and

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

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

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 healthcare 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 Office of Community Care, Revenue Operations PRO Rates and Charges. Interagency billing rates are determined from cost and workload data in the VHA Office of Finance Cost Reports.

21. Net Program Costs by Administration

Schedule of Net Program Costs by Administration (dollars in millions)

For the Period Ending September 30, 2016 (Dollars in Millions)

	Veterans Health Administration	Veterans Benefits Administration	National Cemetery Administration	Indirect Administrative Program Costs	Total
Program Costs					
Intragovernmental Costs	$ 10,380	$ 1,277	$ 50	$ 482	$ 12,189
Less Earned Revenues	17	(514)	-	(403)	(900)
Net Intragovernmental Program Costs	**$ 10,397**	**$ 763**	**$ 50**	**$ 79**	**$ 11,289**
Public Costs	63,192	94,945	264	1,572	159,973
Veterans Benefits Actuarial Costs, Excluding Changes in Actuarial Assumptions (Note 13)	-	$ 106,498	$ 200	$ -	$ 106,698
Less Earned Revenues	(4,343)	(403)	-	(120)	(4,866)
Net Public Program Costs	**$ 58,849**	**$ 201,040**	**$ 464**	**$ 1,452**	**$ 261,805**
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	$ 69,246	$ 201,803	$ 514	$ 1,531	$ 273,094
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	377,400	100	-	377,500
Net Cost of Operations	**$ 69,246**	**$ 579,203**	**$ 614**	**$ 1,531**	**$ 650,594**

Schedule of Net Program Costs by Administration (dollars in millions), Restated					
For the Period Ending September 30, 2015 Restated (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 Cost, Excluding Changes in Actuarial Assumptions (Note 13)*	$ -	$ 30,526	$ 100	$ -	$ 30,626
Less Earned Revenues	(4,188)	(406)	-	(188)	(4,782)
Net Public Program Costs	**$ 55,589**	**$ 122,772**	**$ 361**	**$ 1,130**	**$ 179,852**
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	$ 64,732	$ 122,936	$ 404	$ 1,411	$ 189,483
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	(13,000)	-	-	(13,000)
Net Cost of Operations*	**$ 64,732**	**$ 109,936**	**$ 404**	**$ 1,411**	**$ 176,483**

*This line item has been restated from the previous year's reported amount to align with the FY 2015 restatement. See Note 24 Restatement.

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 that allow 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 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

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. 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. Obligations incurred for direct and reimbursable obligations by apportionment category are shown below (in millions).

Apportionment Categories of Obligations Incurred (Dollars in Millions)			
For the Years Ended September 30,			
	2016	2015	Change
Category A, Direct	$ 89,671	$ 156,958	$ (67,287)
Category B, Direct	90,910	11,951	78,959
Category A, Reimbursable	1,114	854	260
Category B, Reimbursable	3,595	3,913	(318)
Total Obligations Incurred	**$ 185,290**	**$ 173,676**	**$ 11,614**

Mandatory program apportionments were allocated to Category B in accordance with OMB guidance in 2016. In the table above, Category A, Direct, and Category B, Direct for 2015, were changed to reflect a late adjustment. Category A, Direct, and Category B, Direct, were previously reported as $158,658 and $10,251, respectively.

Adjustments to Budgetary Resources and Prior Year Recoveries

The recoveries of prior year unpaid obligations were $2.7 billion and $3.0 billion for 2016 and 2015, respectively.

For both 2016 and 2015, VA appropriations were subjected to a $1.8 billion rescission each year under the provisions of P.L. 114-113, *Consolidated Appropriations Act, 2016* and P.L. 113-235*, Consolidated and Further Continuing Appropriations Act, 2015*, respectively.

Borrowing Authority

The Loan Guaranty Program had borrowing authority of $62 million and $466 million as of September 30, 2016 and 2015, respectively. The interest rates on the borrowing authority ranged from 1.00 to 2.95 percent for 2016 and 2015. 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 $3.0 million and $2.2 million as of September 30, 2016 and 2015, respectively. The interest rate on the borrowing authority was 1.00 percent for 2016 and 2015. 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 1 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 2015 SBR and the actual amounts reported in the 2017 Budget of the U.S. Government. The 2018 Budget of the United States with the actual 2016 SBR amounts will not be available until February 2017. Once published, the 2016 actual data 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 (dollars in millions)				
For the Year Ended September 30, 2015				
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
2015 Actual Balances per the 2017 Budget of the US Government (in millions)	$ 206,900	$ 173,922	$ 447	$ 161,924
Reconciling Items: *				
Expired Funds	4,167	-	-	1
Recovery Act, Special, and Trust Funds	235	-	(3,552)	-
Special Research Fund	(245)	(245)	-	-
Offsetting Differences	-	-	(895)	-
Miscellaneous Differences	(1)	(1)	-	-
Per the 2015 Statement of Budgetary Resources	$ 211,056	$ 173,676	$ (4,000)	$ 161,925

*The material reconciling items are: Expired Unobligated Balances; Recovery Act, Special and Trust Funds; and Distributed Offsetting Receipts. These items are reported in the Statement of Budgetary Resources and the SF 133, Report on Budget Execution and Budgetary Resources, but are not in the Budget of the US Government.

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 2016 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 the 2016 Appropriation Act (P.L. 114-113). 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 undelivered orders for the years ended 2016 and 2015 was $ 15.5 billion and $13.5 billion, respectively. In 2015, the reported amount of $14.9 billion represented only unpaid undelivered orders. The amounts presented above have been updated to include unpaid and paid undelivered orders and prior year recoveries.

Contributed Capital

During 2016, VA received donations totaling $109.1 million: $108 million to the General Post Fund, $0.3 million to the Supply Fund, and $0.8 million to the National Cemetery Gift Fund. In 2015, contributed capital totaled $55.8 million in donations: $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.

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 (dollars in millions)		
As of September 30,	**2016**	**2015**
Resources Used to Finance Activities		Restated (Note 24)
Obligations Incurred	185,290	173,676
Less Offsetting Collections, Receipts and Adjustments	(16,962)	(16,854)
Net Obligations	168,328	156,822
Donations of Property	89	35
Transfers-out	25	(3)
Imputed Financing	2,161	1,880
Other Financing Sources	(1,811)	(559)
Total Resources Used to Finance Activities	**168,792**	**158,175**
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services and Benefits Ordered But Not Yet Provided	216	515
Resources that Finance the Acquisition of Assets	(6,140)	(6,739)
Resources that Fund Expenses Recognized in Prior Periods	(1,894)	(1,138)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	4,915	4,540
Total Resources that Do Not Fund Net Cost of Operations	(2,903)	(2,822)
Total Resources Used to Finance the Net Cost of Operations	**165,889**	**155,353**
Costs That Do Not Require Resources in the Current Period		
Increase in Annual Leave Liability	102	84
Increase in Environmental and Disposal Liability	130	70
Increase (Decrease) to Judgement Fund Future Funded Expense	(194)	562
Reestimates of Credit Subsidy Expense	(1,033)	(194)
Increase in Exchange Revenue Receivable from the Public	(639)	106
Increase (Decrease) in Veterans Benefits and Other Noncurrent Liabilities*	484,252	17,746
Depreciation and Amortization	1,890	1,656
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	(39)	810
Loss on Disposition of Assets	227	281
Undistributed Offsetting Receipts	(6)	(4)
Other	15	13
Total Costs That Do Not Require Resources in the Current Period	484,705	21,130
Net Cost (Benefit) of Operations*	**$ 650,594**	**$ 176,483**

*This line item has been restated from the previous year's reported amount to align with the FY 2015 restatement. See Note 24 Restatement.

24. Restatements

In FY 2016, VA assessed the application of *Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government*, as it relates to Post- 9/11 GI Bill (Chapter 33) liabilities. The Post- 9/11 GI Bill is an education benefit program for individuals who served on active duty after September 10, 2001.

Prior to FY 2016, the liability recorded for Chapter 33 benefits was limited to funds that had not been disbursed at the end of month and did not include future liability amounts that were probable. Upon further review of SFFAS 5, management determined that accrued Chapter 33 education benefits are most closely aligned to Other Postemployment Benefits (OPEB) and should be recognized at the time an accountable event occurs, and that any portion of costs that remain unpaid at the end of the period should be recorded as a liability. This change in the application of SFFAS 5 resulted in a material adjustment to prior period financial statements and is treated as a correction of an error.

The error correction, and the related effect on the previously issued financial statements, was identified when the subsequent period's audited financial statements were imminent. In accordance with OMB Circular A-136, VA restated the FY 2015 Balance Sheet, Statement of Net Cost, and the Statement of Changes in Net Position in the FY 2016 AFR.

The following table illustrates the effect of the error correction on the impacted prior year financial statements.

Statement of Changes

Restated Balances as of September 30, 2015 (dollars in millions)

	2015 As Previously Reported	Adjustments Increase (Decrease)	2015 As Restated
Consolidated Balance Sheet			
Public			
Federal Employee and Veterans Benefits (Note 13)	$ 2,020,844	$ 53,091	$ 2,073,935
Total Public Liabilities	2,056,520	53,091	2,109,611
Total Liabilities	**$ 2,058,739**	**$ 53,091**	**$ 2,111,830**
Net Position			
Cumulative Results of Operations – All Other Funds	$ (2,001,161)	$ (53,091)	$ (2,054,252)
Total Net Position	(1,962,879)	(53,091)	(2,015,970)
Total Liabilities and Net Position	**$ 95,860**	**$ -**	**$ 95,860**
Consolidated Statements of Net Cost			
Veterans Benefits Administration			
Gross Costs			
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	$ 24,400	$ 6,126	$ 30,526
Net Program Costs	116,810	6,126	122,936
Net Program Costs by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	183,357	6,126	189,483
Net Cost of Operations	**$ 170,357**	**$ 6,126**	**$ 176,483**
Consolidated Statement of Changes in Net Position			
Cumulative Results of Operations – All Other Funds			
Beginning Balance	$ (1,991,288)	$ -	$ (1,991,288)
Correction of Error	-	(46,965)	(46,965)
Beginning Balances, as adjusted	(1,991,288)	(46,965)	(2,038,253)
Net Cost of Operations	173,610	6,126	179,736
Net Change	**$ (9,873)**	**$ (6,126)**	**$ (15,999)**
Cumulative Results of Operations - All Other Funds	(2,001,161)	(53,091)	(2,054,252)
Total Net Position	**$ (1,963,785)**	**$ (53,091)**	**$ (2,016,876)**
Cumulative Results of Operations – Total			
Beginning Balance	(1,990,280)	-	(1,990,280)
Correction of Errors	-	(46,965)	(46,965)
Beginning Balances, as adjusted	(1,990,280)	(46,965)	(2,037,245)
Net Cost of Operations	170,357	6,126	176,483
Net Change	(9,975)	(6,126)	(16,101)
Cumulative Results of Operations	**(2,000,255)**	**(53,091)**	**(2,053,346)**
Total Net Position	**$ (1,962,879)**	**$ (53,091)**	**$ (2,015,970)**

VA Office of Inspector General

OFFICE OF AUDITS & EVALUATIONS

Department of Veterans Affairs

Audit of VA's Financial Statements for Fiscal Years 2016 and 2015

November 15, 2016
16-01484-82

Department of Veterans Affairs

Memorandum

Date: November 15, 2016

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

Subj: Audit of VA's Financial Statements for Fiscal Years 2016 and 2015

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, 2016 and 2015, and for the years then ended. This audit is an annual requirement of the Chief Financial Officers Act (CFO) of 1990. The results of CliftonLarsonAllen LLP's audit are presented in the attached report.

2. CliftonLarsonAllen LLP provided an unmodified opinion on VA's fiscal years (FYs) 2016 and 2015 financial statements. With respect to internal control, CliftonLarsonAllen LLP identified six material weaknesses.

- Information technology security controls, which is a repeat condition
- Education benefits accrued liability, which is a new condition
- Control environment surrounding the compensation, pension, and burial actuarial estimates, which is a new condition
- Community care obligations, reconciliations, and accrued expenses, which is a combination of previously reported conditions
- Financial reporting, which is a repeat condition
- CFO organizational structure for VA and VHA, which is elevated from a significant deficiency

3. CliftonLarsonAllen LLP also identified two significant deficiencies.

- Procurement, undelivered orders, accrued expenses, and reconciliations, which is a combination of previously reported conditions
- Loan guaranty liability estimate, which is a new condition

4. VA restated its prior period financial statements to correct a material error related to an accrued liability for its education benefit programs. As a result, CliftonLarsonAllen LLP withdrew its previously issued auditors' report dated

November 16, 2015 and replaced it with the attached Independent Auditors' Report that covers the restated financial statements. The matter is described in the attached auditors' report in the paragraph titled "Emphasis-of-Matter Regarding a Correction of an Error" and in the material weakness titled "Education Benefits Accrued Liability." Note 24 to the financial statements also describes the matter.

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

- Substantial noncompliance with Federal financial management systems requirements and the United States Standard General Ledger at the transaction level under the Federal Financial Management Improvement Act (FFMIA) of 1996
- Improvements needed in complying with the Federal Managers' Financial Integrity Act
- Instances of noncompliance with section 5315, title 38, United States Code, pertaining to the charging of interest and administrative costs
- Noncompliance with section 3733, title 38, United States Code, pertaining to the vendee loan program
- Six violations of the Antideficiency Act, as reported to CliftonLarsonAllen LLP by VA, two of which have been reported to Congress and four of which VA is in the process of reporting
- Noncompliance with the Improper Payments Elimination and Recovery Act for FY 2015, as reported by the Office of Inspector General

6. CliftonLarsonAllen LLP is responsible for the attached audit report dated November 15, 2016 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 2017 audit of VA's financial statements.

Larry M. Reinkemeyer

LARRY M. REINKEMEYER

Attachment

CliftonLarsonAllen LLP
www.claconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Department of Veterans Affairs (VA), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, 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.; 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VA as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Emphasis-of-Matter Regarding a Correction of an Error

As discussed in Note 24 to the financial statements, certain errors resulting in understatement of amounts previously reported for Federal Employee and Veterans Benefits, and Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions, and overstatement of amounts previously reported for Cumulative Results of Operations – All Other Funds as of September 30, 2015, were discovered during the current year. Accordingly, amounts reported for Federal Employee and Veterans Benefits, Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions, and Cumulative Results of Operations – All Other Funds have been restated in the fiscal year (FY) 2015 financial statements now presented, and an adjustment has been made to Cumulative Results of Operations – All Other Funds and Federal Employee and Veterans Benefits as of September 30, 2014, to correct the material misstatement. Our previously issued auditors' report dated November 16, 2015, is withdrawn and replaced by this Independent Auditors' Report on the restated financial statements. A material weakness in Education Benefits Accrued Liability is included in the Report on Internal Control Over Financial Reporting. Our opinion is not modified with respect to this matter.

Other Matters

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

<u>*Other Information*</u>
Our audits were 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, RSI, and RSSI as listed in the table of contents of the Agency Financial Report is presented for purposes of additional analysis and is not a required part of the financial statements. In addition, management has included references to information on websites or other data outside of the Agency Financial

Report. This information has not been subjected to the auditing procedures applied in the audits 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 audits 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.

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 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.

<u>Information Technology Security Controls</u>

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

<u>Education Benefits Accrued Liability</u>

The Veterans Benefit Administration's (VBA) accounting and financial reporting for veterans' education benefits did not comply with FASAB Statement of Federal Financial Accounting Standard (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*.

<u>Control Environment Surrounding the Compensation, Pension and Burial Actuarial Estimates</u>

Succession planning for VA's Office of the Actuary did not exist. The lack of a qualified and resident Chief Actuary managing and taking full responsibility for VA's compensation, pension and burial modelling resulted in a lack of segregation of duties and in issues related to outdated assumptions used for the model and errors in its calculations.

Community Care Obligations, Reconciliations, and Accrued Expenses

The Veterans Health Administration (VHA) continues to have weaknesses in its design and implementation of controls over the Community Care programs - from transaction obligations, liquidation of unfulfilled authorizations, and reconciliations to the related accrued expenses.

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. VA continues to have various financial reporting issues though some improvements have occurred since the prior year in certain areas.

CFO Organizational Structure for VA and VHA

VA's long history of decentralization and lack of financial management accountability in its Chief Financial Officer (CFO) organizational structure have led to continued challenges with entity-level accounting, financial management, oversight, and financial reporting controls, as illustrated in the matters reported above.

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.

Procurement, Undelivered Orders, Accrued Expenses, and Reconciliations

VA does not perform a consolidated and centralized reconciliation for procurement obligations recorded in its procurement subsidiary systems with its general ledger system. In addition, VA lacks adequate controls surrounding its extensive use of Miscellaneous Obligating Documents, accrued expenses, and other pervasive and long standing procurement related issues continue to exist.

Loan Guaranty Liability

VBA's loan guaranty liability estimation model has consistently shown significant differences between its forecasts and actual program results that lead to concerns about the reliability of the model estimates.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

The results of our tests, exclusive of those discussed below, disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 15-02. The results of our tests disclosed instances of noncompliance or other matters, described below and in Exhibit C, that are required to be reported in accordance with *Government Auditing Standards*.

We also performed tests of compliance with certain provisions of the Federal Financial Management Improvement Act (FFMIA). However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. Under FFMIA, each agency must implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. As described in Exhibit C, the results of our tests disclosed instances in which VA's financial management systems did not substantially comply with (1) Federal financial management systems requirements and (2) the USSGL at the transaction level.

Management's Responsibility for Internal Control and Compliance

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

Auditors' Responsibilities

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

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

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

Management's Response to Findings

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

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of VA's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 16, 2015. 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

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance 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 15, 2016

EXHIBIT A
Material Weaknesses

1. Information Technology Security Controls (Repeat Condition)

Background:

VA relies extensively on information technology (IT) system controls to initiate, authorize, record, process, summarize, and report financial transactions in the preparation of its financial statements. Many of VA's legacy systems have been obsolete for several years. For example, VA's core financial accounting system, FMS, is coded in Common Business Oriented Language (COBOL) - a programming language developed in the late 1950s and VA's system employed at the medical centers - Veterans Health Information Systems and Technology Architecture (VistA) - was built in the late 1970s. Because of their age, legacy systems are more burdensome and costly to maintain, cumbersome to operate, and difficult to adapt to meet today's operational requirements. Internal controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud, and other illegal acts. Our review of IT controls covered general and selected business process application controls across 24 selected VA medical centers, regional offices, and 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. In addition, VA implemented the Enterprise Cybersecurity Strategy Team to serve as the core for enhancing strategic security priorities and coordinating remediation activities. As part of these initiatives, we noted continued improvements related to reducing the number of individuals with outdated background investigations, improving the use of two-factor authentication, implementing an enhanced audit log tool 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 domains. Most importantly, we continue to identify significant technical weaknesses in databases, servers, and network devices that support transmitting financial and sensitive information between VA's medical centers, regional offices, and data centers. This is a result of an inconsistent application of vendor patches and outdated system software that could jeopardize the data integrity and confidentiality of VA's financial and sensitive information. VA has made progress in deploying current security patches; however, older patches and previously identified vulnerabilities related to configuration weaknesses and outdated system software continue to persist on its networks. While some progress was made in these areas, VA needs to improve deployment of security patches, system upgrades, and system configurations that will mitigate significant security vulnerabilities and enforce a consistent process 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. Furthermore, VA did not have a complete inventory of the devices connected to its networks and thus we could not verify that all of VA's computers undergo continuous monitoring to ensure they remain securely configured, free of technical vulnerabilities, and adequately patched.
- Key financial management systems use outdated technology that hinders mitigation of certain vulnerabilities. While VA has purchased extended support for some of its software, we noted many instances of unsupported software that did not have extended vendor support. This has resulted in numerous unresolved security issues that expose other VA systems to possible security breaches stemming from unmitigated software vulnerabilities.
- VA needs to strengthen its methodologies for monitoring medical devices and ensuring they are properly segregated from other networks.
- VA did not effectively scan all medical devices and other systems connected to VA's network to mitigate security risks posed by these devices. Additionally, Office of Information and Technology (OIT) did not accept responsibility to manage the configuration and security of these devices in accordance with VA policy.
- Several VA organizations shared the same local network at some medical centers and data centers; however, not all systems were under the common control of the local site. Consequently, some non-OIT controlled networks had significant critical or high risk vulnerabilities that weaken the overall security posture of the local sites.
- There were weaknesses in the process for developing, approving, and implementing configuration baseline standards. Specifically, VA was in the process of reviewing its systems environment, identifying systems that did not have secure baseline configuration guides in place and developing baseline configuration guides for those systems.

- 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 was not fully 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. Specifically, we identified default passwords, easily guessed passwords, and blank passwords. In addition, multi-factor authentication for remote and local system access had not been fully implemented across the agency.
- Inconsistent reviews of user access resulting in numerous generic, system, terminated, and inactive user accounts that were not removed from the applications and networks. In addition, inconsistent exit clearance processes for employees contributed to an increase number of separated employees with active system user accounts.
- Proper completion of user access requests was not consistently performed to eliminate conflicting roles and enforce principles of least system privilege. In addition, technical access controls were not implemented in key financial applications to ensure access is based on defined roles and adequate separation of duties.
- Monitoring of access for individuals with elevated application privileges 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 and application security event logs, which provide audit trails, were not consistently maintained, encrypted or reviewed across all facilities.

Security Management

- VA had not implemented effective processes to ensure that system Authority to Operates (ATOs) were conducted and completed in accordance with the National Institute of Standards and Technology (NIST) Risk Management Framework and VA policy. Specifically, existing processes allowed certain system ATOs to expire and allowed certain systems to be improperly reauthorized by an official without the proper authority. In addition, we identified several systems without valid ATOs. Furthermore, VA has not implemented processes for conducting security control assessments of medical devices, minor applications, facility special purpose systems, and industrial control systems before allowing such systems to connect to VA's network or the Internet. As a result, OIT has not fully considered the security risks of these systems and devices that are not managed by OIT but are connected to VA's general network.
- 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.
- Background reinvestigations were not performed timely and tracked effectively. In addition, some personnel did not receive the proper level of investigation for their position sensitivity levels. However, we did note some improvement over last year.
- Plans of Action and Milestones (POA&Ms) were not closed in a timely manner, not consistently updated to reflect changes to milestones, did not contain scheduled

completion dates, and documentation was inadequate to support closed actions. In addition, functionality limitations with the GRC Tool caused an unnecessary use of manual resources to record and monitor the status of POA&Ms when re-accrediting systems.

Contingency Planning

- Contingency plans did not reflect the current operating environment. Specifically, contingency plans did not clearly identify alternate processing sites, did not contain a complete system inventory or backup procedures, and detailed recovery procedures were not documented in the contingency plans. In addition, contingency plans were not updated to incorporate the lessons learned from contingency planning testing.
- Contingency plans were not tested to ensure failover capability to alternate processing sites.

Criteria:

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

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

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

- Periodic assessments of risk, including the magnitude of harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support the operations and assets of the organization;
- Policies and procedures that are based on risk assessments, cost-effectively reduce information security risks to an acceptable level and address information security throughout the life cycle of each organizational information system;

- Plans for providing adequate information security for networks, facilities, information systems, or groups of information systems, as appropriate;
- Security awareness training to inform personnel of the information security risks associated with their activities and their responsibilities in complying with organizational policies and procedures designed to reduce these risks;
- Periodic testing and evaluation of the effectiveness of information security policies, procedures, practices, and security controls to be performed with a frequency depending on risk, but no less than annually;
- A process for planning, implementing, evaluating, and documenting remedial actions to address any deficiencies in the information security policies, procedures, and practices of the organization;
- Procedures for detecting, reporting, and responding to security incidents; and
- Plans and procedures for continuity of operations for information systems that support the operations and assets of the organization.

Cause:

Dispersed locations, continued reorganization, and diversity of applications have impacted facilities' and management's ability to consistently remediate IT security deficiencies across the enterprise. For example, VA's complex and disparate financial system architecture has resulted in a lack of common system security controls and inconsistent maintenance of IT mission-critical systems. Further, key financial management systems use outdated technology that hinders mitigation of certain security vulnerabilities. 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 local sites 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.

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. Without remediating all significant security vulnerabilities, systems could be compromised resulting in potential harm to confidentiality, integrity, and availability of VA financial and sensitive data.

Recommendations:

The Assistant Secretary for Information and Technology and Chief Information Officer 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 and systems 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.

EXHIBIT A
Material Weaknesses

2. Implement an improved 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 unsupported technology.

4. Strengthen processes and controls to monitor medical devices and ensure they are properly segregated from other networks.

5. Implement processes to consolidate the security responsibilities for local facility systems not currently managed by OIT and ensure security vulnerabilities are remediated in a timely manner.

6. Maintain up-to-date, complete, accurate, and readily available security baseline configurations for all platforms. Ensure that all baselines are appropriately implemented, tested, and monitored 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 controllers, 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 reviews of network and financial applications to ensure appropriate user access rights. Remove generic and inactive accounts on systems and networks.

12. Implement improved processes to ensure the proper completion of termination exit checklists for separated employees. Verify that VA property, including access badges, are returned and system accounts are disabled.

13. 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.

14. Implement technical access controls that will restrict user access based on defined roles and enforce adequate separation of duties principles.

15. Implement improved access monitoring within production environments for individuals with elevated system privileges.

EXHIBIT A
Material Weaknesses

16. Strengthen agency-wide incident response procedures to ensure timely notification and resolution of computer security incidents in accordance with VA standards.

17. Implement improved processes for monitoring system audit logs for unauthorized or unusual activities across all systems and platforms. Implement improved procedures for analyzing audit logs and ensure audit logs are maintained and protected in accordance with VA Handbook 6500, *Risk Management Framework for VA Information Systems – Tier 3: Information Security Program*.

18. Implement processes to ensure all VA systems and devices are authorized to operate and system security controls are properly evaluated before allowing such systems to connect to VA's general network or the Internet.

19. Implement an improved continuous monitoring program in accordance with the NIST Risk Management Framework; specifically regarding evaluating the effectiveness of security controls.

20. 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 should ensure all required information is included and accurately reflects the current environment, new security risks, and applicable federal standards.

21. Strengthen processes to ensure appropriate levels of background investigations are completed for all applicable VA employees and contractors in a timely manner.

22. Strengthen processes to ensure local facilities track background reinvestigations for employees and contractors in high-risk positions and the Security Investigation Center initiates all reinvestigations in a timely manner. Additionally, implement improved processes for local facilities to accurately and timely report any changes in position sensitivity levels. Furthermore, local facilities should ensure position descriptions are appropriately marked for position risk and sensitivity levels in accordance with the Office of Personnel Management Position Designation Automation Tool.

23. 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.

24. Implement system enhancements to the GRC Tool to address the issue of re-opening closed POA&Ms.

25. 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.

26. 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. Education Benefits Accrued Liability

Background:

VBA manages several education benefit programs with total disbursements of $14.5 billion in FY 2016. The Post-9/11 GI Bill is the largest program (over 80 percent of disbursements) and is available for individuals who served in active duty after September 10, 2001. Since the establishment of this program in FY 2009, the total education benefits paid by VBA have experienced steady increases, while the other education programs have experienced decreases.

Prior to FY 2016, management viewed education benefit payments as non-exchange transactions and did not consider them to be post-employment benefits. Consequently, management only recorded a liability for the amounts that were due for payment but had not yet been disbursed at the period end.

Conditions:

VBA's consideration of education benefits as non-exchange transactions did not comply with FASAB SFFAS 5, *Accounting for Liabilities of the Federal Government.* SFFAS No. 5 states *"An exchange transaction arises when each party to the transaction sacrifices value and receives value in return. There is a two-way flow of resources or of promises to provide resources. In an exchange transaction, a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future."* The education benefit is an exchange transaction because the veterans perform service and in return, received a promise of deferred compensation such as future education benefits.

In addition, VBA's position that education benefits were not post-employment benefits was not consistent with SFFAS No. 5, which states, *"Postemployment benefits other than pensions (OPEB) include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. OPEB include salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment and workers' compensation benefits paid by the employer entity."* SFFAS No. 5 states that for OPEB, the expense should be recognized at the time the accountable event occurs and any part of that cost unpaid at the end of the period is a liability.

VBA management, upon its subsequent recognition of the education benefits as exchange transactions and OPEB, provided its initial calculation model to estimate the education benefit accrued liability. However, that calculation did not define the accountable event that made the OPEB liability probable and measurable, and as a result, was not compliant with SFFAS No. 5, which states, "*FASAB believes that an accrual based on the occurrence of an actual event, such as a job-related injury or a decision to reduce the entity's workforce generally, is a reasonable approach. Such an event makes the future outflow of resources probable and measurable*." VA then defined the accountable event as when it has approved an original enrollment certification in its Long-Term Solution system.

An education benefits accrued liability for approximately $59.6 billion was reported by management as of September 30, 2016, along with the necessary restatement of prior year reported balances. Management asserted that the estimated amount was based on the existing available data with a conservative assumption that all eligible education benefits will be used by the veterans or their beneficiaries who were enrolled with the education institutions as of the end of the reporting period. In addition, management asserted that due to the relatively short duration of the program, an experience study could not have been performed to confirm the aforementioned assumption or the assumption that each approved veteran or beneficiary will continue to use the benefits in a consistent pattern for six months per year until all the benefits are exhausted. Management did not provide an actuarial report that complies with actuarial standards of practice and signed by an accredited actuary.

Criteria:

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123), revised on July 15, 2016, provides guidance to Federal managers on improving accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, and reliable financial reporting.

Effect:

The accrued liability for education benefits and related expenses on VA's financial statements were materially misstated.

Recommendations:

We recommend that the VBA Chief Financial Officer in coordination with the Interim Assistant Secretary for Management and Interim Chief Financial Officer:

1. Establish internal controls to periodically review and assess VBA's operations that have financial impact to ensure proper accounting and financial reporting of those programs and operations.

2. Perform an experience study to confirm the validity of the key assumptions used in the calculation model. Key assumptions to be validated should include, at the minimum:
   - The percentage of students who are expected to use all eligible benefits within the 15-year eligibility period, compared to those who are not.
   - The pattern of those who do and do not re-enroll with an education institution within the eligibility period (by duration from the original date of enrollment).
   - Experience data that supports management's six month benefit use per year assumption. The latter should consider all eligible students with remaining coverage months, and not focus solely on those students that are taking courses.

   As part of the study, management should focus on trending patterns based on available data and comparison with similar programs or studies, and consideration of outliers so as not to distort the overall results of the study.

3. Perform periodic look-back analyses on assumptions and other relevant factors used in the calculation, as well as the total cost estimated to ensure accuracy of financial reporting. Segregation of those already enrolled versus new entrants and by each of the applicable education programs should be maintained in the analysis.

4. Document the following key elements related to management's assessment of the estimate and assumptions:
   - Consideration of alternative assumptions or outcomes and why management has rejected them or how management has otherwise addressed estimation uncertainty in making the accounting estimate (e.g., a sensitivity study, etc.).
   - Refinement of its current accrual methodology and calculation for other education benefit programs by separately accounting for them.
   - Sources of data used by management in its calculation and any data limitations of which financial statement readers should be made aware.
   - Assessment that the significant assumptions used by management are reasonable.

5. Revise and update policies, procedures, and process narratives relevant to VBA's accounting and financial reporting of education benefits.

6. Produce an actuarial report that complies with Actuarial Standard of Practice No. 41, *Actuarial Communications* that is signed by an accredited actuary.

3. Control Environment Surrounding the Compensation, Pension and Burial Actuarial Estimates

Conditions:

VA provides compensation, pension and burial (C&P) benefits to eligible Veterans and their beneficiaries. The VA Office of Policy and Planning's (OPP) Office of the Actuary (OACT) estimates the present value of the future C&P liabilities at the end of the fiscal year. The unfunded Veterans compensation and burial liability amount reported in VA's Balance Sheet as of September 30, 2016, was approximately$2.5 trillion.

OACT's Chief Actuary left VA in July 2016. OACT did not have a successor Chief Actuary with the appropriate qualifications and experience to take full responsibility and manage the C&P actuarial model. Management initially proposed to use an actuary that had the appropriate credential but lacked employee benefits experience to manage the C&P actuarial model assumptions and review the related calculations. Experience with employee benefits liability modelling is necessary to ensure appropriate judgments are used in developing the estimates. During September 2016, management placed a credentialed actuary who was on detail from another agency to be the responsible actuary signing the year end C&P actuarial report. OACT did not have an effective succession plan to ensure the required expertise was available and that a succession candidate was properly trained to assume the key role when the Chief Actuary left. In addition, the lack of succession planning resulted in the lack of segregation of duties causing various modelling errors to occur during the interim period.

OACT also identified at year end that its disability compensation new case rate assumption was outdated. The last experience study was performed in FY 2012 covering the period FY 2006 to FY 2011. However, VBA has since experienced growth in its total compensation counts from FY 2012 to FY 2016, and such increase was not considered in its initial modelling. In addition, OACT did not review the actuary report issued by the Department of Defense (DoD) to ensure its key assumptions are reasonable in light of DoD's experience which could ultimately affect VA. OACT revised its new case rate, which resulted in an additional $277 billion adjustment to

VA's reported amount. Due to the short time frame, a more thorough study was not performed and presented in an actuarial report.

Criteria:

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* provides criteria for designing, implementing and operating an effective internal control system and such criteria is defined through five components and seventeen principles. One of the principles, Demonstrate Commitment to Competence, states "Management should demonstrate a commitment to recruit, develop, and retain competent individuals. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Expectations of Competence
- Recruitment, Development, and Retention of Individuals
- Succession and Contingency Plans and Preparation"

Effect:

The lack of an effective succession plan placed the timely estimation of VA's largest liability at risk, and the lack of implementation and monitoring controls over the C&P modelling resulted in a material adjustment to the liability estimate late in the audit process.

Recommendations:

We recommend the Interim Assistant Secretary for Management and Interim Chief Financial Officer and the VBA Chief Financial Officer work with the Assistant Secretary for Policy and Planning to:

1. Develop a succession plan to ensure the required expertise is available before personnel with highly technical and specialized skills leave the agency. Such succession planning is key to helping VA continue achieving its internal and external reporting objectives.

2. Develop a team with the necessary expertise to estimate the Veterans compensation, pension and burial liabilities, and prepare the related footnote disclosures. This should include appointing or engaging a responsible actuary with a qualified actuary to perform peer review of the work performed by the responsible actuary. In this context, "peer review" can only be performed by an individual with qualifications equal or superior to the responsible actuary.

3. Strengthen controls to ensure the C&P modelling is performed by the appropriate level of personnel to:
    - Conduct the appropriate analysis and validation of data sources.
    - Review and ensure the reasonableness of assumptions used and document the rationale behind these assumptions.
    - Consider changes in conditions or programs that require further research and analysis. Update the assumptions when necessary.
    - Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates.

- Compare the relevant assumptions used in the DoD actuary report to VA's model assumptions, and assess their impact, if any. Update the assumptions when necessary.

4. Conduct a more thorough study of the new case rates that supports management's assumptions and present the results in the actuarial report that complies with Actuarial Standard of Practice No. 41, *Actuarial Communications*.

4. Community Care Obligations, Reconciliations and Accrued Expenses

Background:

VHA purchases medical services for veterans from community health care providers under the Community Care programs, which are comprised primarily of the Veterans Choice Program (Choice), and the "Fee Basis" Care program (Fee Basis), along with several other smaller programs. Approximately $5.7 billion was budgeted for Choice and $6.5 billion was budgeted for Fee Basis in FY 2016. Actual payments in the amounts of $4.3 billion were expended for Choice while $4.6 billion were expended for Fee Basis as of September 30, 2016.

When Congress passed the Veterans Access, Choice, and Accountability Act of 2014 (Choice Act), VA modified the existing Patient Centered Community Care (PC3) program contracts, serviced by TriWest Healthcare Alliance Corporation (TriWest) and Health Net Federal Services, LLC (Health Net), to include requirements imposed by the Choice Act. Under the PC3 program, 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. Under the Choice program, 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, pay providers for services provided to the veterans, maintain a call center, and distribute Choice Cards, which inform veterans that they may be eligible for Choice.

Under Section 106 of the Choice Act, VHA's Office of Community Care (OCC) was authorized to manage all VA Community Care (VACC) programs. VHA traditionally uses the Fee Basis Claims System (FBCS) to authorize, process and pay for community care claims. FBCS was utilized in a decentralized manner in that each medical center or Veterans Integrated Service Network (VISN) had its own instance of FBCS. This decentralized structure remained for the Fee Basis programs, while OCC centralized the Choice program and managed it through a single instance of FBCS.

Conditions:

VHA continued to have weaknesses in its design and implementation of controls over the VACC programs, specifically with transaction authorization and obligation, monitoring and timely liquidation of unfulfilled authorizations, reconciliations, and the related accrued expenses. Key control deficiencies were as follows:

A. <u>Manual and Inconsistent Nature of Estimating Costs of Care Across VHA</u>

The process for estimating costs of care was manual and amounts estimated were entered into FBCS by the VACC staff at each medical center. The current pricing tools developed were not consistently used by VACC staff at the medical centers and by OCC, resulting in the VACC staff using their subjective judgement in deploying their own costing methods and causing a wide variation in amounts estimated. We noted numerous examples of obligations being overstated compared to the actual payments made during our testing. As a result, VA management performed its own analysis and recorded journal entries in the approximate amount of $1.9 billion to liquidate the overstated Choice obligations and $2.6 billion to liquidate the overstated Fee Basis obligations in VA's general ledger at September 30, 2016.

B. <u>Lack of Authorization and Obligation Monitoring</u>

OCC did not have a centralized and consolidated process to validate or monitor the obligation amounts recorded for Choice or Fee Basis programs. A "look-back" analysis to validate the reasonableness of cost estimation was not conducted. In addition, $204 million of Fee Basis obligations had no activity for over 90 days at June 30, 2016. These obligations were not validated or monitored at a centralized, nation-wide level. As a result, funds were being held as obligated when they should have been closed out. Furthermore, untimely liquidation of obligations due to patients having other health insurance also contributed to obligations being overstated for the Choice program during FY 2016.

C. <u>Pervasive Overstatement of Obligations Resulting in the Overstatement of Accrued Expenses</u>

FMS accrued the entire outstanding balance of an obligation when the end date for the contractual performance period had passed, regardless of whether goods or services were provided at period end. As a result, the overestimation of medical care obligations resulted in an overstatement of accrued expenses at period end. Management performed its own review and recorded "topside" journal entries in the amount of $1.1 billion to reverse the Choice over accrued expenses and $1.9 billon to reverse the Fee Basis over accrued expenses at September 30, 2016. We also noted that existing outstanding accruals expected to be liquidated were not sufficiently monitored and properly adjusted in FMS.

D. <u>Consolidated Reconciliation of Transactions Recorded in FBCS with FMS Was Not Performed on a Monthly Basis</u>

Authorizations in FBCS were manually calculated and compared against obligations in the Integrated Funds Distribution, Control Point Activity Accounting and Procurement (IFCAP) system and FMS. Obligations in these systems were based on VA Form 1358, *Obligation or Change in Obligation* (referred to as "1358s" or "miscellaneous obligations"). This manual process increased the risk of errors to the financial statements.

A nationwide consolidated reconciliation for community care authorizations recorded in FBCS—exceeding $4.9 billion as of September 30, 2016—was not performed with the amounts recorded in FMS for obligations and disbursements throughout most of the year. Material differences for obligations were noted between FBCS and FMS. OCC eventually provided a preliminary nationwide manual reconciliation from FBCS to IFCAP and FMS for all VACC programs as of June 30, 2016. However, the data quality and accuracy, as well as material differences identified in the reconciliations require further research and still need great improvement.

In addition, liquidation of invalid obligations occurred only at the FMS level, and not at the FBCS level. Transactions processed in FBCS do not have two-way interface with FMS. As a result, financial adjustments made in FMS were not automatically updated in the FBCS, creating further reconciliation issues. Consequently, year-end reconciliations between FBCS, IFCAP, and FMS could not be relied upon.

E. Other Transaction Processing Related Issues Affecting Financial Reporting

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

- *Untimely Claim Processing and Payment* – A backlog of 120,000 claims due to the delay in registering veterans for Choice existed as of late July 2016, as stated by VA.
- *Inadequate Contractor Oversight when Key Financial Management Controls Were Heavily Relied Upon* – One contractor did not 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. As such, procedures were not in place in FY 2016 to verify that the contractors' key financial controls were effectively and efficiently designed and implemented, including contractors' management and timely payment of claims.

Criteria:

OMB Circular A-123 provides guidance to Federal managers on improving accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

Cause:

Significant system limitations hindered effective and efficient operations and controls for the VACC programs. For example, FBCS generally does not directly interface with IFCAP and FMS. Also, since each medical center has a separate instance of FBCS, it was difficult to consolidate information and manage programs from the overall perspective. FMS' auto-accrual function did not operate effectively.

In addition, OCC did not have adequate policies and procedures for its own monitoring activities. OCC's activities also were not integrated with VA and VHA CFO responsibilities under the Chief Financial Officers Act of 1990 (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 VACC financial management personnel, activities, and operations. The VA and VHA CFOs were not actively involved in OCC's implementation of the VACC programs.

Effect:

These conditions could cause balances for obligations, accrued expenses, and undelivered orders (UDOs), as reported in the financial statements, to be misstated. OCC also may not be able to adequately asses its budgetary needs for the various VACC programs.

Recommendations:

We recommend that the Under Secretary for Health:

1. Implement Enterprise Risk Management (ERM) principles for VACC programs in accordance with OMB Circular A-123, especially given the high risks associated with these programs.

2. Ensure the close coordination and integration between the CFOs, OCC, VISN, and medical centers so key accounting and financial management controls are properly designed, implemented and monitored for VACC programs.

3. Implement policies, procedures, and a reliable and accepted pricing tool to ensure:
   - FBCS authorization estimates are reliable and consistent cross all medical centers.
   - Expired authorization estimates are promptly liquidated from both FBCS and IFCAP.
   - Transaction level details in FBCS, IFCAP, and FMS for obligations and disbursements are reconciled monthly in a complete and nationwide consolidated manner (including the month-end cut-off date to be on the last date of the month).

4. Perform periodic look-back validations and analyses on obligation and accrual balances reported for all VACC programs against subsequent activity to:
   - Ensure accuracy of financial reporting and to maximize budgetary resources.
   - Identify significant differences to be investigated and researched.
   - Adjust the accrual methodology to reflect actual VACC spending patterns.

5. Ensure that management’s monitoring controls include:
   - Detailed reviews and validation of cost estimations and reconciliations performed.
   - Timely liquidation of long outstanding or canceled appointments.
   - Measurement of the number of days for financial events, such as appointment fulfillment, provider invoicing, and payments to be completed.

6. Use existing reports, such as the “Top 1,000 Outliers” and “High Cost Authorizations” reports, reports detailing inactivity, and reports on actual disbursements of claims paid, to identify necessary adjustments due to erroneous or otherwise incorrect estimates, and to monitor trends over time.

7. Develop a process that:
   - Validates that bills from Health Net and TriWest do not include costs chargeable to other health insurance.

- Ensures other health insurance information maintained by VA is shared with the contractors to facilitate the accuracy of their billing.
- Makes cumulative adjustments to Choice obligations based on other health insurance payments and evaluates the need to continue to make such adjustments on either a monthly or quarterly basis.

8. Improve estimation of accrued amounts by:
   - Finalizing accrual methodologies for the Choice and other VACC programs.
   - Considering the use of an actuarial model, if appropriate.
   - Developing a process to electronically and consistently monitor patient appointment and provider billing status on a real time basis to better its data gathering and analysis of claims data. Such information should be used for “incurred but not reported” claim estimates and forecasting of budgetary resource needs as those programs continue to grow.

9. Work with OIT to modernize the IT infrastructure supporting key VACC programs to:
   - Facilitate data transparency from inception (authorization) to completion (payment and receipt of medical records) that also can be interfaced with the general ledger system.
   - Consider web-based management and real-time interactive engagement with providers on consults, authorizations, receipt of claims and medical records, adjudication of claims, and notification of provider payments.
   - Decrease manual processes where possible.

10. Regarding claims payments:
    - Clear the current backlog of Choice claims waiting for payment by the Financial Services Center.
    - Automate controls over Choice registration and claims processing at the Financial Services Center.

11. Ensure both contractors undergo an annual independent examination of their controls that include VA specific procedures, and provide examination results in a timely fashion for VA’s reliance as a system user.

5. Financial Reporting

Conditions:

VA’s legacy core financial management and general ledger system, FMS, was implemented in 1992. Since that time, Federal financial reporting requirements have become more complicated and the level of financial information needed by management, Congress, and other oversight bodies has become increasingly demanding and complex. FMS’s outdated chart of accounts and transaction codes are not USSGL compliant. 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 continue to accumulate. Although VA has been working diligently to identify root causes and has made necessary improvements in areas such as reduced use of journal vouchers (JVs) and fluctuation analysis, many of these issues have existed for years and require extensive efforts to change existing business processes, research legacy differences and implement solutions to resolve them. VA's CFO has taken the lead in addressing many of the reported matters since the prior year. However, those long standing issues require time and sustained VA wide efforts to ensure their proper implementation. Through FY 2016, VA's financial reporting issues continued to exist or emerge in the following areas:

A. Lack of FMS Reconciliations with Subsidiary Systems

VA has several legacy subsidiary systems that no longer meet financial management system requirements and do not have a two-way interface with FMS. Key VBA and VHA subsidiary systems - including VistA, IFCAP, Benefits Delivery Network (BDN), the Veterans Service Network (VETSNET), Insurance General Ledger (IGL), and Centralized Administrative Accounting Transaction System (CAATS) - only have a one way interface with FMS. Reconciliations between the subsidiary systems where the financial transactions were initiated and FMS were either not performed, partially performed, performed decentrally, or performed manually. As a result, VA's accounting and financial reporting is severely hindered by system and business process limitations.

B. Extensive Use of Journal Vouchers:

Despite significant improvements, VA still recorded a large 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 VBA, which recorded approximately 77 percent of the overall MinX JVs' absolute value, created a complicated and labor-intensive financial reporting environment. Transactions from VBA's subsidiary systems, BDN and VETSNET, were not completely cross-mapped to accounts in FMS and the necessary cleanup to reconcile and resolve long standing cumulative differences was not performed timely. As a result, the MinX JVs were used to achieve VA's financial reporting requirements. In addition, JVs posted in prior years and housed in a default account (i.e., Station 151) were not reclassified to the proper fund symbols or accounts after the financial reporting periods were closed resulting in large accumulated balances in FMS, which further increased the risk of misstatements in financial reporting.

Further, each accounting period in MinX is independent, which requires numerous JVs, manual reconciliations, and analyses to be reperformed and reentered to produce VA's quarterly financial statements and trial balances for the U.S. Department of the Treasury (Treasury).

Use of manual adjustments such as top-side entries often bypass controls instituted for ordinary transaction processing and increases the risk of introducing errors into financial reporting. The use of JVs requires a high level of review and analysis to mitigate the risk of material errors in the financial statements.

EXHIBIT A
Material Weaknesses

C. Inadequate Fluctuation 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 CFO at the administration level, as well as an overall VA consolidated level analysis to be performed by the central office. VA made significant improvements in this area in FY 2016; however, continued enhancements are required by VA management and its Administrations and staff offices to develop a consistent and appropriate comparative analysis and to identify the underlying cause of unusual variances or unexpected changes.

D. Budgetary to Proprietary Analyses Contained Material Differences

VA instituted a process to perform "Budgetary to Proprietary" account analysis by Treasury Fund Symbol to fix out of balance accounts during FY 2015. This analysis compared budgetary accounts with closely related proprietary accounts to ensure consistency between them. Due to FMS and subsidiary system limitations, and timing issues, significant differences continued to exist throughout FY 2016.

E. 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. Significant abnormal balances continued to exist at the fund level at September 30, 2016. Significant abnormal balances identified at the fund level from the VBA and VHA business lines are not being researched and cleared from VA's trial balance in a timely manner. Many of those balances have remained in the accounts for years.

F. Issues with Inter-Agency 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 obligations, unfilled customer orders, and offsetting collections recorded in FMS did not agree to the inter-agency agreement amounts and no reconciliation was performed to ensure their agreements.

In addition, due to FMS system limitations, transactions were mapped to the incorrect Federal or Non-Federal attributes as a default. FMS does not have the functionality to meet new Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting requirements at the time of transaction processing. High-volume, high dollar JVs were 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.

G. VBA Beginning Balance Adjustment

VBA processed a beginning balance adjustment in the amount of $836 million in FMS to address an abnormal balance. That adjustment resulted in an out of balance condition between the beginning FY 2016 and ending FY 2015 balances for Unexpended Appropriations and Cumulative Results of Operations in the Statement of Changes in Net Position.

EXHIBIT A
Material Weaknesses

H. Recording of Prior Year Budgetary Recoveries

VA initially reported approximately $4.2 billion as recoveries of prior year unpaid obligations (recoveries) at September 30, 2016. 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. As a result of those conditions, VA recorded top side entries in the total amount of approximately $1.5 billion to adjust the recovery balances recorded in FMS.

I. Lack of Reconciliation and Timely Clearing of Deposit/Clearing Account Activities

VA did not have a centralized and consolidated process to properly report, reconcile, and monitor the deposit/clearing account balances and related activities reported in the net value of $496 million in Note 3, Fund Balance with Treasury, to the financial statements during FY 2016.

J. Internal Use Software Costs Not Properly Captured and Capitalized in Accordance with SFFAS No. 4 and 10

VA did not properly capitalize project costs for its internal use software in accordance with 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
- Required manual data input based on weekly staff time cards, increasing the risk that data might not be accurate or complete
- Did not code labor costs by project phase (i.e., Preliminary Design, Development, and Post Implementation/Operational phases)

Further, management did not properly record indirect costs in FMS in accordance with SFFAS No. 4, and No.10 to capitalize the full costs of the project during the software development phase.

K. Late Capitalization of Assets

Assets with a gross cost of approximately $673 million were acquired prior to FY 2016, but not recorded until the current fiscal year by VHA medical centers and OIT.

Criteria:

OMB Circular A-123 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.

Cause:

The age and limitations of VA's various financial management systems caused VA to record numerous manual JVs and implement extensive manual processes and controls to prepare its financial statements for external reporting purposes. 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. In addition, adequate internal controls were lacking in the following key areas: 1) centralized and consolidated reconciliations for key accounts, 2) account fluctuation and budgetary to proprietary analyses, 3) researching and clearing of abnormal balances and Deposit/Clearing account activities, 4) timely capitalization of acquired assets, and 5) software capitalization in accordance with FASAB standards. Lastly, VBA and VHA did not implement significant portions of the 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:

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

Recommendations:

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

1. With respect to FMS reconciliations with subsidiary systems:
    - Perform an ERM review that includes all of VA's subsidiary systems to inventory all of VA's financial transactions and how they are interfaced or recorded in FMS. Such an analysis can be performed in conjunction with the Digital Accountability and Transparency Act of 2014 (i.e., DATA Act) implementation efforts.
    - After such mapping is performed, management should establish its risk register for each of those systems and prioritize their system modernization or institute system fix efforts by working with OIT and the relevant Business Administrations to ensure the complete and consolidated reconciliations between those subsidiary systems and FMS are performed on a monthly basis. This ERM assessment should be done in a consolidated and integrated manner.

2. With respect to JVs:
    - Establish or continue to implement policies and procedures:
        - To ensure that VA centralizes the JV recording process and sets controls surrounding the research and review of account differences and subsequent adjustments. The process and controls should include:
            - Standardized categories of JVs, including the type of journal entries to be recorded throughout VA.
            - Guidance for recording and reporting JVs, and monitoring and analyzing their use in order to reduce the volume.
            - Requirement that budgetary entries initially recorded in FMS be consistent with amounts in Treasury warrants, Standard Form (SF)-132, *Apportionment and Reapportionment Schedule*, and SF-133, *Report on Budget Execution and Budgetary Resources.*

        - Requirement to review significant entries to ensure their accuracy and appropriateness before posting.
    - Once the JV process has been standardized, monitoring should be performed to ensure that the policies and procedures are being implemented properly.
- Continue efforts to correct and establish missing FMS transaction posting logic to minimize the use of manual JVs. Manual JVs should be used only for unusual transactions, as a general rule (e.g., quarterly accruals, timing differences, or unusual one-time entries, etc.).
- Perform the following analyses:
    - An analysis over recurring, monthly MinX JVs used to adjust FMS balances to the SF-132 and the SF-133.
    - A pro forma analysis to ensure that post-closing effects are considered prior to recording adjusting entries into the general ledger system. Upon the recording of significant or material adjustments for budgetary entries, financial managers should review the entries with the budget officials to ensure both are in agreement prior to posting. The review should include JVs proposed by financial management as well as JVs proposed by the VA budget staff to ensure consistency with all financial reporting documents (i.e., SF-132 and SF-133, and Continuing Resolutions funding calculations).
    - Routinely review all JVs recorded in the FMS Station 151 default account and reclassify them to the proper funds and accounts timely.
    - Consider revising the financial reporting and closing memorandum to move up the dates for periods 13, 14, and 15 to allow for a more timely year-end close process. In addition, an analysis should be performed to determine how period 14 and 15 entries can be eliminated by instituting tighter controls surrounding the financial reporting process at year-end.
- Implement a control log to track all activities performed in the updated MinX software environment. This will ensure that a history and audit trail of transactions processed is readily available and accessible for analysis, research needs, and general reference.

3. With respect to account fluctuation analysis:
    - Formalize policy for fluctuation analysis and include:
        - At the consolidated and administration levels, quarter to quarter and year to year comparisons, and comparisons to budgeted amounts and projected needs to detect anomalies, emerging trends, and to facilitate funds management. Some of the analysis (i.e., with the Statements of Net Cost, Budgetary Resources, and Changes in Net Position) should be performed in conjunction with the program or budget offices' input.
        - Setting the administrative and staff office analysis threshold at a sufficiently low level to provide coverage for fluctuations at the consolidated level.
        - Procedures for Administrations and staff offices to report on inconsistencies and unexpected fluctuations. Explanations for fluctuations that meet the materiality thresholds should be required, and those fluctuations should be described in terms of operational changes or trends and not just increases or decreases in subsidiary accounts.
        - Quality control reviews of the components' analyses performed by the Office of Management's Office of Financial Policy (OFP). Components should address OFP feedback earnestly and timely. OFP should hold periodic training workshops to share lessons learned or best practices.

4. With respect to budgetary to proprietary analysis and abnormal balances:
    - Perform budgetary to proprietary account relationship tests and the abnormal balance review at the Treasury Fund Symbol level by fund type on a quarterly basis and resolve discrepancies.
    - Research discrepancies and tie points that do not work, determine the cause, and document resolutions. A reconciliation of the numbers included in the analysis to the MinX trial balance should be performed to support the validity of the analysis.

5. With respect to intra-governmental agreements and reconciliations:
    - Continue to work with all VA Administrations to fully implement a centralized repository of all intragovernmental agreements.
    - Perform an inventory review of those agreements to:
        - o Determine whether balances are recorded in FMS accurately.
        - o Ensure that agreements in the repository reflect an active or closed status.
        - o Consider whether closed agreements need to be renewed, maintained in the repository or archived.
    - 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.

6. With respect to prior year budgetary recoveries:
    - Continue to perform an assessment to validate the transactions included in the total population of prior year budgetary recoveries, and improve the process to estimate and record any necessary adjusting entries.
    - Establish transaction codes for prior year budgetary recoveries that are consistent with USSGL as part of VA's system modernization efforts.

7. With respect to Deposit/Clearing account activities:
    - Develop a centralized process to identify and reconcile all Deposit/Clearing activities. Unreconciled differences should be researched and resolved within 60 days pursuant to management policy. This should be performed as part of the Fund Balance with Treasury reconciliation to ensure completeness.

8. 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.

9. With respect to late capitalization of assets:
    - Enhance communication among the logistics, engineering, contracting, and fiscal offices to improve and formalize the flow of information in a timely manner to ensure accurate accounting and reporting of fixed asset transactions.
    - Strengthen controls to ensure that the construction work-in-process projects are reviewed at least quarterly to identify completed projects that should be capitalized and depreciated as fixed assets in accordance with VA's Financial Policy and Procedures.

10. Update the OMB Circular A-123 cycle narratives to remove outdated financial reporting information and document current procedures performed in the financial reporting

process, including, but not limited to, the use of MinX and FMS JVs, fluctuation review analysis, budgetary to proprietary analysis, abnormal balance review, and use of the central repository for inter-agency agreements.

We recommend that the VBA and VHA Chief Financial Officers:

11. Work with the Assistant Secretary for Management and Chief Financial Officer to identify reasons for JVs and institute the necessary controls including the appropriate and effective communication channels, and system improvements to eliminate the extensive use of JVs. Unusual JVs must be elevated to upper management for their review and approval.

6. CFO Organizational Structure for VA and VHA

Background:

The CFO Act requires each executive department to have a CFO to assess, direct, and manage the entity's overall financial management risks to enable efficient and effective business operations and meet the entity's internal and external financial reporting needs.

Condition:

VA's decentralized and fragmented organizational structure for financial management and reporting does not operate in a fully integrated manner. Based on our observations of the overall control environment, and through the results of our testing, we noted that overall accounting and financial reporting risks are not being effectively managed at the highest level of governance.

A. <u>Responsibility and accountability for VA's financial management is divided</u>

The Assistant Secretary for Management is VA's CFO. The VA CFO has particular responsibility for establishing financial policy, systems and operating procedures for all VA financial entities; providing guidance on all aspects of financial management; and producing VA's consolidated financial reports. VA administrations and other offices are responsible for implementing those policies and producing the financial information that the VA CFO's office consolidates. Business components, such as VHA, VBA, and National Cemetery Administration (NCA), have their own CFOs, who oversee financial management operations and follow the chain of command within those organizations.

Most of VA's budget authority and financial statement accounts are under the operational control of its major administrations and offices. The reliability of VA's financial reporting as a whole, therefore, is dependent, in a large part, on the quality of financial management at these organizations.

Under the CFO Act and VA policy, the VA CFO has responsibility for strategically planning and overseeing all financial management activities relating to the programs and operations of VA. However, the current organizational structure diminishes the VA CFO's ability to fulfill that role. In particular, the VA CFO has limited direct authority over financial management at these organizations. For example, VA's CFO does not have any formal authority to manage VA's financial and business operations from top down, integrate various but similar business operations to achieve consistency and efficiency, establish and manage accountability for financial management functions deployed throughout VA, and to ensure the proper recruitment, placement and retention of key financial personnel who affect VA's financial reporting as a whole. As such, VA's governance structure does not include strong accountability controls for financial management at the enterprise level.

In addition, VHA's financial management structure, in particular, is very fragmented with financial personnel reporting up to the Principal Deputy Under Secretary for Health through three different CFO organizational structures—the VHA CFO, the VA OCC CFO, and the 19 Veterans Integrated Service Networks CFOs through the Deputy Under Secretary for Health for Operations and Management. The VHA CFO's responsibilities are limited and do not cover the activities of the other CFOs.

B. Examples of Difficulties in Financial Management Governance and Coordination

We observed numerous instances where VA's decentralized organizational structure contributed to material weaknesses cited in this report.

- *Veterans Education Benefits Accrued Liability*: We did not observe cooperation and coordination between the VA and VBA CFO organizations on this matter that affected VA's consolidated financial statements until very late in the audit. VBA's position on the issue, presented in August, was inadequate and incorrect, and resulted in a rushed and very late effort to develop an acceptable estimation methodology with supporting data.

- *Control Environment Surrounding Veterans Benefits Compensation, Pension and Burial Actuarial Estimates:* The Compensation and Burial actuarial estimate is the largest number in VA's consolidated financial statements—over $2.5 trillion. VA's OACT, within VA's OPP, prepares the estimate based on information and data provided by VBA. The VA CFO, VBA CFO, and the OPP did not ensure an acceptable succession and contingency plan for key personnel, which became evident upon the sudden departure of the primary, certified actuary responsible for the calculation.

- *Financial Reporting:* The VA CFO's office is responsible for producing VA's consolidated financial statements, but it must consolidate accounts that are mostly under the operational control of other organizations. Therefore, the VA CFO's office is dependent upon VA's major components to perform adequate reconciliations, data clean-up and reviews of those accounts, such as fluctuation analysis, budgetary to proprietary account comparisons, and research and resolution of abnormal balances. We observed numerous instances where VA's major components had not implemented or completed these procedures.

  Further, a breakdown in communication occurred when VBA adjusted beginning balances for unexpended appropriations and cumulative results of operations, resulting in an out of balance condition affecting the financial statements.

  We also noted the worsening of late capitalization of assets by VHA medical centers and OIT, and the untimely reconciliation and monitoring of aged suspense account activities by VA components. The VA CFO has no direct reporting lines of authority to ensure these matters are corrected.

- *Community Care Obligations, Reconciliations and Accrued Expenses:* The obligations and accrued expenses for VACC programs are material to VA's consolidated financial statements. Primary financial management responsibility rests with the OCC. Neither the VHA CFO nor VA CFO has any formal authority over financial practices in this office. We observed many financial management difficulties faced by this office, particularly in accounting for accurate obligations, transaction reconciliations, and the estimation of accrued expenses.

C. <u>Noncompliance with the CFO Act</u>

VA's decentralized and fragmented organizational structure for financial management and reporting is not organizationally structured, and does not operate in, a fully integrated manner, as described above. As such, VA does not provide sufficient organizational authority for the VA CFO to perform fully the following responsibilities under the CFO Act:

- Oversee all financial management activities relating to the programs and business operations of the agency
- Direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including the recruitment, selection, and training of personnel to carry out agency financial management functions
- Develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which:
  - Complies with applicable accounting principles, internal control standards, and OMB policies and requirements
  - Provides for complete, reliable, consistent, and timely information, which is prepared on a uniform basis and responsive to the financial information needs of agency management

We also observed that VA has collaborative committees, such as the Senior Assessment Team and the Financial Policy Steering Group, where internal control, reporting, and policy matters are considered and decisions are made on a consensus basis. Such collaboration is recommended to ensure that components are fully involved in those matters that affect them, their collective expertise is utilized, their concerns are recognized and addressed, and they can agree with the decisions made. However, such collaborative decision-making cannot negate or overrule the VA CFO's responsibilities as delineated above under the CFO Act. Regardless of the committee structure, the VA CFO has primary responsibility for the department's proper adherence to accounting principles, standards and requirements.

Criteria:

The Chief Financial Officers Act of 1990, GAO's *Standards for Internal Control in the Federal Government*, and OMB Circular A-123*.*

Cause:

VA's CFO organizational structure has historically been decentralized. We also observed that as funding for VHA continues to increase, it appears that more budget execution and financial management monitoring responsibilities are given to the OCC instead of the VHA CFO, resulting in further erosion in VHA's CFO responsibilities and VHA's noncompliance with the intent and principles of the CFO Act.

Effect:

The decentralization of financial management functions among the VA component entities without organizational reporting and accountability back to the VA CFO has decreased the VA CFO's ability to affect financial management at the components and across the VA enterprise. This weakness also presents a significant risk to VA's planned conversion to a shared service provider in order to modernize its financial systems.

In addition, due to the decentralization of VHA CFO responsibilities, there is a lack of effective centralized and consolidated monitoring, oversight and accountability over VHA's overall accounting and financial reporting functions. This can lead to duplication of efforts, inefficiencies, waste of resources, and inconsistencies on how financial management directives and policies are executed and monitored. This could also cause a breakdown of internal controls, which could lead to material errors in the financial statement balances.

Recommendations:

We recommend that the VA Secretary and Deputy Secretary:

1. Provide the VA CFO office with sufficient authority to oversee all financial management activities relating to the business operations of the agency. At a minimum, the VA CFO should have specific formal authority for:
    - Approving job descriptions and skill requirements for those who head VA components' financial management activities and operations.
    - Participating in the selection of those individuals.
    - Participating in their annual performance evaluation.

2. Implement ERM in accordance with OMB Circular A-123. As part of this implementation:
    - Enable the VA CFO's office to centralize and consolidate its oversight and monitoring role.
    - Establish a sound and integrated governance structure that engages all members within VA management, and focuses on having the right competencies in place across accounting, financial reporting, and financial management roles.
    - Work to develop a transparent and accountable culture to:
        - Openly share information regarding potential risks.
        - Implement corrective actions to timely address and mitigate the identified risks.
        - Encourage communication and collaboration under the CFO's leadership to resolve any identified accounting, financial management and financial reporting issues.

We recommend that the Under Secretary for Health:

3. Consolidate VHA's CFO responsibilities such that the VHA CFO's office has the necessary authority to oversee all VHA's accounting, budgeting, and financial management activities relating to all VHA business operations. All medical center CFOs should be accountable to the VISN CFOs who then are accountable to the VHA CFO office. In addition, the OCC CFO and all other program CFOs should be accountable to the VHA CFO's office. The VHA CFO should in turn, be accountable to the VA CFO as well as the Deputy Under Secretary for Health. The VHA CFO's responsibilities, in

conjunction with the VA CFO, should be consistent with the CFO Act and include the following:

- Developing and maintaining integrated accounting and financial management systems;
- Directing, managing, and providing policy guidance and oversight of all VHA financial management personnel, activities, and operations;
- Approving and managing VHA financial management systems design and enhancement projects;
- Developing VHA's budgets for financial management operations and improvements;
- Overseeing the recruitment, selection, and training of VHA personnel to carry out agency financial management functions;
- Implementing VHA asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control; and
- Monitoring the financial execution of the VHA budget in relation to actual expenditures.

EXHIBIT B
Significant Deficiencies

1. Procurement, Undelivered Orders, Accrued Expenses 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 1358s. After the receipt of goods and services or at the end of the agreement period, any previously obligated but undisbursed amounts, i.e., 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 has made progress in its overall monitoring of obligations during FY 2016 excluding the VACC program, which is reported as a material weakness in Exhibit A. However, certain control deficiencies continued to exist as the year-end adjustments to de-obligate invalid delivered or undelivered obligations were projected to be approximately $822 million as follows:

A. <u>Reconciliations</u>

VA utilizes the IFCAP and CAATS 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 and in the Financial Reporting material weakness, VA does not perform a complete reconciliation of all outstanding obligations and expenditures between IFCAP, CAATS, 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.

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

As previously reported by the GAO, VA has used 1358s for over 60 years and utilizes them for the procurement of goods and services extensively. As of September 30, 2016, VA's UDOs based on 1358s approximated $5.6 billion. VA allows 23 different categories of use, and they are integral to the operation of some large VA programs. In most cases, 1358s bypass conventional contracting controls by design, in order to support program circumstances or needs. 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 inter-agency 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.

C. <u>Lack of Comprehensive Look-back Analysis</u>

VA's 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. VA did not have an adequate process to validate these estimates against actual payment data from FMS. As a result, the overestimation of obligations resulted in an overstatement of accrued expenses at period end. A comprehensive look-back analysis or validation of its accrual methodology was not performed throughout the year resulting in an overstatement of accounts payable at the approximate amount of $709 million as of September 30, 2016.

D. Pervasive and Long Standing Procurement Related Issues Affecting Financial Reporting

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

- *Untimely liquidation of inactive UDOs* – Delays ranged from one month to one year and three months.
- *Untimely recording of contracts or modifications into the general ledger system (FMS)* – Delays ranged from approximately one month to one year and six months.
- *Recording of obligations prior to contract execution* – Obligations, including purchases through the National Acquisition Center (NAC), were recorded in FMS up to three years and ten months prior to the execution of the contract amendments.
- *Over-obligation of funds* – Recorded obligations exceeded the contract or purchase order amounts.
- *Proper procurement procedures were not followed in obtaining goods or services* – We 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 four years.

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 as 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 requisitions and financial reporting processes. Communication between business lines and administrative offices within VA did not always take place in a timely manner. In addition, an effective validation process for the accrued expenses balance, including a look-back analysis, was lacking.

Effect:

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

EXHIBIT B
Significant Deficiencies

Recommendations:

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

1. Work with OIT to ensure the two-way interface of financial data between the procurement subsidiary systems and the general ledger system is part of the VA's ongoing systems modernization efforts. Develop common data elements and fields to facilitate the reconciliation and flow of information between the general ledger system and subsidiary procurement systems, including IFCAP, eCMS, and CAATS, to enable a consolidated and comprehensive reconciliation.

2. In coordination with appropriate procurement and program officials, assess whether key controls established for 1358 obligations, are adequately designed to ensure that the use of 1358s is extremely limited and for obligations immaterial in dollar amounts as the use of 1358s often bypasses the procurement processes outlined in the Federal Acquisition Regulation (FAR). In addition, establish controls to ensure that the responsibility of those utilizing 1358s is properly delegated to the appropriate officials as the obligation is similar to the financial responsibility associated with an executed contract.

3. Evaluate the design and execution of controls around the use of 1358s as follows:
   - Work in coordination with the administrations to perform a complete assessment of existing goods and services procured through 1358s to determine whether contract execution/ratification is necessary.
   - Include a standard methodology within policies and procedures that the users of 1358s should follow to support the amounts obligated by type of transaction, including guidance on how to perform a look-back analysis to ascertain the validity of the estimation process.
   - Engage the help of the Office of Acquisition, Logistics, and Construction (OALC) and the Budget Office to review and develop policies and procedures for 1358s to ensure the documentation supports the use of 1358s and is compliant with VA's appropriations law and the FAR.
   - Work with OALC to establish the necessary acquisition structure and provide training to 1358 preparers and approvers on the use of contracts and inter-agency agreements in place of 1358s.
   - Establish a policy that requires the automatic liquidation of remaining balances on 1358s within a reasonable timeframe. In addition, this policy needs to be implemented in coordination with the automated accrual methodology within FMS to ensure the accrued expenses balance reflects the actual liability incurred and can be substantiated.

4. Closely monitor the use of 1358 obligations, particularly when the Form 1358 is used as a vehicle for recording inter-agency agreements. For any instances where the "MISCN" vendor code is associated with a Federal obligation, review transaction activity to ensure that the appropriate trading partner codes are used. If Federal trading partner codes are not associated with the obligation, evaluate for potential misclassification between Federal and non-Federal activity and evaluate the impact, if any, on management's Treasury's GTAS reporting.

5. Perform monthly consolidated reconciliations of obligations and expenditures recorded in IFCAP, CAATS, eCMS, and FMS for all open documents to ensure the accounting information is valid and proper. Develop a plan to research and adjust the balances based on documentary evidence.

6. With respect to accrued expenses:
   - Develop procedures for validating the completeness and accuracy of underlying data used in preparing the accrual estimate, including contract performance periods, an analysis of subsequent payments, and acceptable levels of precision.
   - Develop a process to validate accounts payable accrual methodology by comparing the estimates with subsequent payments. Such validation should be performed for all program elements included in the accrual process and over a few years to show a trend of the estimates. Unusual fluctuations, if any, should be investigated and research conclusions documented.

We recommend that the Under Secretary for Health, Under Secretary for Benefits, and the Principal Executive Director, OALC in coordination with the Interim Assistant Secretary for Management and Interim Chief Financial Officer:

7. Implement the existing procurement and contracting controls to ensure that all acquisitions, obligations, and procurement-related documents are maintained in accordance with the FAR to support acquisition decisions made by management and the obligation amount recorded in VA’s financial statements.
   - The contract documents should be maintained in eCMS following a consistent filling schema so they can be readily retrieved for examination. All documentation to support the procurement process, procurement decisions, and the amounts reported in VA’s financial statements, should be properly completed, maintained, and readily available for examination.
   - Contracting personnel, along with each Administration’s CFO, should develop a process to periodically and proactively monitor all open projects in IFCAP, CAATS, etc. to ensure their understanding of the order’s status and determine the validity of the outstanding UDOs.
   - Fiscal staff should work closely with Contracting to ensure that contract or purchase order modifications, if reasonably justified, are executed prior to the project end date previously agreed upon.

8. Continue to implement VA’s Financial Policies and Procedures to ensure the following:
   - Dollar amounts in FMS accurately reflect the status of the obligation.
   - Timeframe for the obligation recorded in FMS is valid (i.e., both the beginning and end dates are correctly reflected in the obligation).
   - Obligations are supported by sufficient detail (documentary evidence), which should also include the project performance period in the contract/purchase order and in their subsequent modifications to ensure proper accounting.
   - Obligations are reconciled to source documents, to include obligating documents, receiving reports, invoices and payments.
   - Aged obligations are valid and recorded correctly.

9. Strengthen controls to ensure that facility asset acquisition and planning is well-coordinated among all key parties involving capital asset management, construction and facilities management, contracting, logistics, fiscal service, etc., so that funds are

obligated when the facility is ready to execute the service, construction, purchase, etc.; and that all relevant source documentation is maintained for record (e.g., procurement files, signed contracts, etc.).

10. Provide the necessary periodic training and implement controls at the facility level to strengthen staff's knowledge and compliance with the appropriations law, to reinforce the importance of reviewing the obligating documentation and relevant files, including invoices prior to payment certification, so that payments are made properly, recorded promptly, represent authorized services, and are posted to the correct obligation.

11. Strengthen controls to minimize instances of unauthorized commitments. When situations are identified that require contract ratification, fiscal, contracting, and the originating service line should act together to timely process and obligate funds in the appropriate budget fiscal year. New obligations should not be paid for and recorded against prior year expired funds per OMB Circular A-11, *Preparation, Submission, and Execution of the Budget* (OMB Circular A-11).

12. Ensure that when changes to an obligation's internal cost accounting structure – such as a modification to the Budget Object Class code or transaction code (i.e., MO to SO) – are made, the accounting treatment is properly reflecting the activity per USSGL and OMB Circular A-11.

13. Implement controls to record transactions timely only based on executed contracts in FMS in the correct funding year and ensure that contractor performance does not begin without the official contract.

14. Establish a mechanism in which the Contracting Officer's Technical Representative and the Contracting Officer can receive advance notification upon the contract's expiration to renew, extend or close out the expiring contract before the performance period ends. Controls should be implemented to ensure timely processing of contract amendments so that contract performance periods remain current and accurate, and that inputs for calculating accruals and other contract milestones with financial impact are tracked appropriately.

15. Monitor active interagency agreements where VA is either the buyer or the seller to ensure timely and accurate recording of revenues, accounts receivable, obligations, undelivered orders, expenses, unfilled customer orders, etc. Officially signed interagency agreements should be dated to indicate the effective date of the agreement.

We recommend that the Under Secretary for Health, Under Secretary for Benefits, and the Principal Executive Director, OALC:

16. Ensure obligations are not being incurred without the bona fide need that derives from robust acquisition planning and procurement for services. In addition, work with NAC to ensure that high tech medical equipment acquisitions are executed in a timely manner, to prevent delinquent obligations or obligations that are unsupported by contract activity. Provide the necessary medical center training to ensure documentation for requisition requests is complete and compliant with NAC's procurement policies and procedures. Consider a mechanism to allow NAC to directly record obligations on medical center's books upon signing of the contract/purchase order with the vendor.

17. Implement controls that stations liquidate their excess obligations upon the issuance of NAC purchase orders to ensure the amounts obligated in VA's general ledger, including both the equipment cost and the NAC surcharge, agree to the amounts on the signed purchase order with the vendor.

2. Loan Guaranty Liability

Background:

VA's Home Loan Guaranty program provides a guaranty to commercial lenders against losses from veterans' mortgage loan defaults. VBA uses complex models (regression-based variable default model and cash flow-model) to estimate future cash flows and determine the cost of these guarantees on a present value basis for budgetary and reporting purposes.

Condition:

VBA did not have a defined and documented process for engaging and involving senior leadership outside of the budget office for critical decisions and oversight over various loan guaranty subsidy modelling activities, including; model development, risk assessment, assumption development and review, and model validation. Our audits have identified a number of structural deficiencies in the design of VA's variable default model and cash flow model that have impacted VA's ability to effectively forecast future program cash flows following the housing crisis. As a result, VA's models have consistently shown significant differences between the model forecasts and actual program performance, which led to concerns about the reliability of the model estimates. These differences are mostly evident in the cohorts after the housing crisis (FY 2010 and later years), which comprise approximately 84 percent of the future cash flows supporting the Loan Guaranty Liability.

In addition, VBA provided limited comment notes within the model to explain various model revisions, but there was no evidence that these items were reviewed and approved by someone outside of the Budget office. Similarly, evidence of management's review and analysis of the model's assumptions and outputs to include an actual to estimate analysis, and the review of the currency and appropriateness of the assumptions, were not documented.

Based on discussions with management regarding this issue, VBA revised certain model assumptions, reducing the Loan Guaranty Liability as of September 30, 2016, by $830 million.

Criteria:

Federal Financial Accounting and Auditing Technical Release No. 6*: Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*, states that:

- Cash flow models should be tested for reliability as part of the approval process by comparing estimated cash flows to actual cash flows and assessing the model's ability to replicate a credit program's performance.
- Preparing reliable and timely direct loan and loan guarantee subsidy estimates must be a joint effort between the budget, CFO and program offices at each agency.
- *Special emphasis for programs that have peak periods* – Where applicable, an acceptable monitoring process should provide extra emphasis during periods when cohorts are experiencing significant increases or decreases in defaults, prepayments, recoveries, or other cash flows.

- If the most recent estimated cash flows of a cohort are different from the actual experience, these differences and the reasons for these differences may affect the future estimated cash flows of that cohort. The effects on the future cash flows of that cohort need to be assessed and included in the reestimate, and the reasons for the estimated effects need to be documented.

Cause:

VBA has not updated its documented set of policies and procedures outlining key aspects of its model risk management activities and how they are to be performed since 2008. It did not have a formalized annual process, to include senior management outside of the budget office, to review the design of its cash flow models, fully evaluate the comparison of actual cash flows to forecasted cash flows, and analyze the effects of program attributes or operations that could identify potential errors in their estimates caused by changing programmatic or macroeconomic variables.

In addition, VBA obtained an independent validation review of the model in FY 2012 but did not implement any of the recommendations from that review.

Effect:

A lack of a current, clearly defined, and documented (1) governance structure, (2) internal controls framework, and (3) policies and procedures over the housing modelling development and activities may result in:

- Significant misstatement of the liability within the financial statements.
- Ineffective monitoring and oversight by those parties ultimately responsible for these estimates.

Recommendations:

We recommend that the Interim Assistant Secretary for Management and Interim Chief Financial Officer work with the VBA Chief Financial Officer to:

1. Perform an annual comparison of the actual program cash flows to modeled cash flows and document management's analysis as to the resulting reasonableness of future model forecasts and any compensating model adjustments that may be considered necessary.

2. Design and implement a set of policies and procedures for a model risk management oversight and governance structure, with a control framework that defines the roles and responsibilities for program, budget, department and government stakeholders.

EXHIBIT C
Compliance Findings

1. Noncompliance with FFMIA

Financial Management Systems

VA's complex, disjointed, and legacy financial management system architecture has continued to deteriorate and no longer meets the increasingly stringent and demanding financial management and reporting requirements mandated by the Treasury and OMB. VA continues to be challenged in its efforts to apply consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and systems. As a result, VA's financial management systems do not substantially comply with the Federal financial management systems requirements and the USSGL at the transaction level, as required by FFMIA Section 803(a). These conditions should be read in conjunction with all material weaknesses reported in Exhibit A.

A. Federal Financial Management System Requirements

VA's core accounting system, FMS, was implemented in 1992. Since that time, Federal financial reporting requirements have become more complicated and the level of financial information 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 due to the age of FMS.

In addition, complete and consolidated reconciliations between FMS and the following subsidiary systems were not performed throughout FY 2016:

- *Integrated Funds Distribution Control Point Activity, Accounting and Procurement System (IFCAP)*. IFCAP is a module within *Veterans Integrated Systems Technology Architecture (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 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.

- 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 fully implemented a standard procurement file structure in eCMS to maintain acquisition documentation in a consistent and efficient manner. As a result, it was difficult at times to find acquisition documentation to support the procurement process followed by VA. The information in this system is incomplete and can be unreliable.

- *Veterans 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.

- *Fee Basis Claims System (FBCS)*. FBCS is used to manage the authorization and payment processes for VHA's VACC programs. 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 for the majority of FY 2016.

Furthermore, the following subsidiary systems do not have two-way interface amongst key systems that share financial data or with FMS:

- The Centralized Administrative Accounting Transaction System (CAATS)
- The Benefits Delivery Network (BDN)
- The Veterans Services Network (VETSNET)
- The interface from the Long Term Solutions system to BDN is a one-way process. Education benefit payments were determined and processed in LTS and transferred through the system interface to BDN for payments by the VBA. However, the payment data in BDN did not feed back into LTS to show the entire history from eligibility and entitlement determinations, to actual payment processed. No reconciliation is performed to ensure consistency of relevant data in both systems.

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.

- The FMS Year-End Accounting Table (YACT) continued to close into improper subsidiary general ledger accounts that were not compliant with USSGL, which led to significant unresolved legacy abnormal balances. As a result, FMS or MinX JVs were required to adjust or reclassify balances in the general ledger to make the financial statements auditable or to pass GTAS reporting edit checks.
- Certain USSGL transaction codes continue to be missing from FMS. For example,
  - USSGL transaction code A468, required to record Anticipated Non Expenditure Transfers, was not available in FMS.
  - VA cannot record in its financial system, USSGL transaction code A118. As a result, a workaround is required to put anticipated funds apportioned into the proper account 4590 - Apportionments - Anticipated Resources - Programs Subject to Apportionment.
- FMS is outdated and unable to keep up with the existing Treasury reporting requirements.
  - The existing FMS posting logic was not updated for required Treasury accounting attributes established in the USSGL. As a result, work arounds were necessary to address missing required attributes defined by Treasury Financial Manual. An example of VA's work around is the modification of the FMS chart of accounts to incorporate letters and general ledger numbers in subsidiary ledger accounts to classify Federal and non-Federal transactions. This situation 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 $102 billion (absolute value) in trading partner-related adjustments as part of its GTAS submission to the Treasury.

2. FMFIA

VA management made progress in FY 2016 by creating a new office to lead VA wide OMB Circular A-123 efforts. OMB Circular A-123 provides implementing guidance for FMFIA. A new process was established to assess VA wide entity level risk and to consolidate various on-going assessment efforts throughout VA to increase efficiency. Based on management's timeline, these implementation efforts are expected to take two years to develop with incremental changes expected for FY 2016, and the full operational capability realized in FY 2018. As a result of this new undertaking, improvement is still needed with respect to the process for preparing the Secretary's signed statements of assurance on internal control that are required by the FMFIA in FY 2016. These assurances are summarized by OMB Circular A-136, *Financial Reporting Requirements*, according to the following categories:

- Effectiveness and efficiency of internal control over programmatic operations (FMFIA § 2)
- Conformance with financial systems requirements (FMFIA § 4)
- Effectiveness of internal control over financial reporting (FMFIA § 2, Appendix A)

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

- Management continued to report internal control deficiencies (FMFIA §2, §4 and Appendix A) based on findings identified by the Office of Inspector General or other independent auditors.
- Documentation and procedures to support how VA validated its 16 Reportable Entities' (REs') internal controls in a complete manner that corresponded to their program,

operation, and financial management risks lacked consistency and was incomplete. In addition, there was a lack of integration regarding the information being relied upon by the various REs to develop their assurance statements as consideration was not given to Material Weaknesses reported by other REs based on their operations.

- Management's understanding and assessment of the controls implemented by its service organizations was incomplete and inadequately documented. In addition, several service organizations' Statement on Standards for Attestation Engagement No. 16 reports for FY 2016 were not obtained and reviewed, and necessary user controls were not instituted by management.
- Clear alignment of the results and the key risks identified through management's OMB Circular A-123, Appendix A, assessment did not exist. Results of the control assessment could not be linked to the risks identified to formulate a conclusion as to whether key risks identified were being mitigated by effective internal controls.
- Key controls that impacted VA's operations were not tested timely.
- Several process 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 and implementation of controls.

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, 15 of the 30 items tested were outstanding over 90 days. VBA did not charge interest on any of the delinquent receivables.
- In a sample of 15 education receivables, 9 of the 15 items tested were outstanding over 90 days. VBA did not charge interest or administrative costs on 7 of the 9 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*. 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.

4. 38 USC 3733

When a defaulted mortgage loan guaranteed by VA goes to foreclosure, the property associated with the loan may be conveyed by the lender back to VA. Properties conveyed to VA can then be sold for cash, or sold by VA with VA "Vendee" Loan financing. VA offers Vendee loan financing as a tool to reduce the amount of time that property remains in its inventory, thereby reducing the cost of maintaining the property.

VA did not comply with 38 USC 3733, which requires VA to offer loan financing for the sale of no less than 50 percent of VA owned foreclosed properties. The buyers of VA's foreclosed property were denied approximately $3 billion in VA financing for foreclosed properties from FY 2013 through September FY 2016. VA issued a stop-work order to its servicer on August 27, 2012, to stop the origination of Vendee loans until such time the stop-work order was lifted. Since 2012, VA has not completed its rulemaking process to reactivate the Vendee loan program.

The Vendee loan program was set to expire on September 30, 2016, but Public Law 114-228 extended the program through FY 2017.

Other Matters

5. Actual and Potential Violations of the Antideficiency Act

VA reported two violations of the Antideficiency Act, 31 U.S.C. 1341(a) in August 2016, and is in the process of reporting four other violations. VA is also investigating two possible violations of the Antideficiency Act.

One of the reported violations involves VHA's use of Medical Support and Compliance (MS&C) funds in the approximate amount of $93 million for the development of the Health Care Processing System. The other reported violation involves the obligation of funds from the Joint Department of Defense/VA Medical Facility Demonstration Fund in excess of an apportionment in FY 2012.

Two of the violations in the process of being reported involve the combination of minor construction projects and one is related to the combination of non-recurring maintenance projects. The fourth violation in the process of being reported involves the use of MS&C funds to pay for the Service-Oriented Architecture Research and Development software instead of the congressionally mandated IT Systems appropriations.

The two investigations are related to the combination of minor construction projects. The combined total project values exceeded the $10 million ceiling, beyond which Congressional approval for the use of funds is required.

6. Noncompliance with Improper Payments Elimination and Recovery Act

On May 12, 2016, the VA Office of Inspector General reported that VA did not fully comply in FY 2015 with the Improper Payments Elimination and Recovery Act, 31 U.S.C. 3321.

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 2015 Finding***	***Fiscal Year 2016 Status***
Material Weakness	Information Technology Security Controls	Repeat – See FY 2016 Material Weakness Finding 1
Material Weakness	Procurement, Undelivered Orders and Reconciliations	Repeat – See FY 2016 Material Weakness Finding 4 and Significant Deficiency Finding 1
Material Weakness	Purchased Care Processing and Reconciliations	Repeat – See FY 2016 Material Weakness Finding 4
Material Weakness	Financial Reporting	Repeat – See FY 2016 Material Weakness Finding 5
Significant Deficiency	Accrued Operating Expenses	Repeat – See FY 2016 Material Weakness Finding 4 and Significant Deficiency Finding 1
Significant Deficiency	CFO Organizational Structure for VHA and VA	Repeat – See FY 2016 Material Weakness Finding 6
Compliance Finding	Noncompliance with FFMIA	Repeat – See Compliance Finding 1
Compliance Finding	Noncompliance with Federal Managers' Financial Integrity Act (FMFIA)	Repeat – See Compliance Finding 2
Compliance Finding	Noncompliance with 38 USC 5315	Repeat – See Compliance Finding 3
Compliance Finding	Actual and Potential Violations of the Antideficiency Act	Repeat – See Compliance Finding 5
Compliance Finding	Noncompliance with Improper Payments Elimination and Recovery Act	Repeat – See Compliance Finding 6

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

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 (dollars in millions)					
For the Years Ended September 30,	**2016**	**2015**	**2014**	**2013**	**2012**
State Extended Care Facilities	$ 140	$ 105	$ 92	$ 180	$ 66
State Veterans Cemeteries	49	47	52	36	47
Total Grant Program Costs	**$ 189**	**$ 152**	**$ 144**	**$ 216**	**$ 113**

The Extended Care Facilities Grant Program assists states in acquiring facilities to provide domiciliary, nursing home, and other day healthcare for Veterans and to expand, remodel, or alter existing buildings to provide domiciliary, nursing home, and day healthcare 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 5 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 32,000 burials in 2016. VA awarded grants totaling more than $714 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.

Program Outcome

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 to eligible family members.

Veterans and Dependents Education (dollars in millions)				
For the Years ended September 30,				
		2016		**2015**
Program Expenses				
Education and Training-Dependents of Veterans	$	526	$	493
Vocational Rehabilitation and Education Assistance		14,503		13,543
Administrative Program Costs		533		512
Total Program Expenses	**$**	**15,562**	**$**	**14,548**
Program Outputs (Participants)				
Dependent Education		95,477		91,755
Veterans Rehabilitation		107,491		86,928
Veterans Education		931,097		922,497

Veterans and Dependents Education (dollars in millions)				
For the Years ended September 30,				
		2014		**2013**
Program Expenses				
Education and Training-Dependents of Veterans	$	518	$	487
Vocational Rehabilitation and Education Assistance		14,206		12,693
Administrative Program Costs		502		372
Total Program Expenses	**$**	**15,226**	**$**	**13,552**
Program Outputs (Participants)				
Dependent Education		90,641		89,618
Veterans Rehabilitation		93,363		89,708
Veterans Education		970,765		971,597

Veterans and Dependents Education (dollars in millions)		
For the Years ended September 30,		
		2012
Program Expenses		
Education and Training-Dependents of Veterans	$	444
Vocational Rehabilitation and Education Assistance		11,727
Administrative Program Costs		389
Total Program Expenses	**$**	**12,560**
Program Outputs (Participants)		
Dependent Education		94,618
Veterans Rehabilitation		85,436
Veterans Education		871,188

3. Health Professionals Education

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 healthcare 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 healthcare professionals to meet the changing needs of the Nation's healthcare delivery system.

VA's education mission contributes to high quality healthcare 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 healthcare professionals.

Program Outcomes

Health Professions Education					
For the Years Ended September 30,					
	2016	2015	2014	2013	2012
Program Expenses (dollars in millions)					
Physician Residents and Fellows	$ 715	$ 689	$ 748	$ 692	$ 663
Associated Health Residents and Students	171	168	157	164	153
Instructional and Administrative Support	903	851	905	856	851
Total Program Expenses	**$ 1,789**	**$ 1,708**	**$ 1,810**	**$ 1,712**	**$ 1,667**
Program Outputs in units					
Health Professions Rotating Through VA:					
Physician Residents and Fellows	43,400	41,534	40,420	38,106	37,104
Medical Students	24,283	22,931	21,541	20,218	21,502
Nursing Students	28,389	27,275	29,067	25,948	32,349
Associated Health Residents and Students	27,121	28,663	27,771	33,228	25,839
Total Program Outcomes	**123,193**	**120,403**	**118,799**	**117,500**	**116,794**

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.

Program Expense (dollars in millions)

For the Year ended September 30, 2016

	Basic	Applied	Development	Total
Medical Research Service	$ 199.1	$ -	$ -	$ 199.1
Rehabilitative Research and Development	-	91.4	16.1	107.5
Health Services Research and Development	-	107.3	-	107.3
Cooperative Studies Research Service	-	216.8	-	216.8
Medical Research Support	169.2	353.1	13.7	536.0
Total Program Expenses	**$ 368.3**	**768.6**	**29.8**	**1,166.7**

Program Expense (dollars in millions)

For the 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 (dollars in millions)

For the 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 (dollars in millions)				
For the 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
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 (dollars in millions)				
For the 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**

In addition, estimates are that VHA researchers received grants of $685 million from the National Institutes of Health and other Federal and non-VA sources in 2016. 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 2016, VA's R&D general goal related to stewardship was to ensure that Pre-clinical Research and Clinical Research Programs, excluding the 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					
For the Years ended September 30,					
	2016	2015	2014	2013	2012
Percent of Funded Research Projects Relevant to VA's Health-Care Mission	100%	100%	100%	100%	100%
Number of Research and Development Projects	2,205	2,224	2,184	2,241	2,249

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)

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 and, therefore, are put off or delayed for a future period. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain an asset. Maintenance and repair estimates are recorded for capitalized assets and are distinguished from capital improvements that expand the capacity of an asset or otherwise upgrade it to serve needs different from, or significantly greater than, its current use.

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; these components 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 PP&E 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 approximately 6,000 VA buildings on a 3-year cycle and assesses all components. Building components assessed include architectural structural, mechanical, plumbing, and electrical systems. Also included for assessment are capitalized, fully depreciated, and non-capitalized elements of general PP&E, heritage assets, and stewardship land. Each PP&E 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) or F (critical) is given an estimated correction cost and recorded in Deferred Maintenance and Repairs, except where deficiencies will be replaced by capital expenditures. See Notes 1, 9, and 10 for additional information on general PP&E and heritage assets.

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

SCHEDULE OR DEFERRED MAINTENANCE AND REPAIRS (dollars in millions)		
As of September 30, 2016	**Ending Balance**	**Beginning Balance**
General PP&E	$ 9,671	$ 9,166
Heritage Assets	996	883
Total Deferred Maintenance and Repairs	**$ 10,667**	**$ 10,049**

SCHEDULE OF BUDGETARY ACTIVITY (dollars in millions)
As of September 30, 2016

	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	$ 6,721	$ 6,107	$ 80	$ 730	$ 882	$ 5,875
0160 Medical Care	59,020	55,173	1,318	6,215	7,926	52,144
0162 Medical Facilities	6,093	5,719	273	2,756	2,995	5,207
0167 Medical Facilities	4,871	4,258	271	1,948	2,108	3,827
0172 Veterans Choice Fund	7,736	3,233	635	1,664	1,744	2,518
All Other	6,803	3,691	713	2,716	2,627	3,067
Total	$ 91,244	$ 78,181	$ 3,290	$ 16,029	$ 18,282	$ 72,638
Veterans Benefits Administration						
0102 Compensation, Pension, & Burial Benefits	$ 82,914	$ 80,073	$ 231	$ 6,037	143	85,736
0137 Readjustment Benefits	17,180	14,265	546	713	182	14,250
4127 Direct Loan Financing	96	37	108	-	-	(71)
4129 Guaranteed Loan Financing	13,213	2,880	4,655	316	361	(1,820)
8132 National Service Life Insurance Fund	847	847	26	946	853	914
0151 General Operating Expenses	3,332	3,163	554	346	500	2,455
All Other	4,146	2,435	1,091	477	462	1,359
Total	$ 121,728	$ 103,700	$ 7,211	$ 8,835	$ 2,501	102,823
National Cemetery Administration						
Total	$ 343	$ 320	$ 6	$ 151	$ 151	$ 314
Indirect Administrative Program Cost						
0142 General Administration	$ 793	$ 727	$ 422	$ 181	$ 203	$ 283
1122 Board of Veterans Appeals	114	110	1	7	10	106
4537 Supply Fund	1,526	1,299	1,365	(11)	(59)	(18)
All Other	1,127	953	848	130	90	145
Total	$ 3,560	3,089	$ 2,636	$ 307	$ 244	$ 516
Total of all Administrations	$ 216,875	$ 185,290	$ 13,143	$ 25,322	$ 21,178	$ 176,291

SECTION III: OTHER INFORMATION

SECTION A: 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.

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. During FY16, VA began a financial management transformation initiative, in which the Department will migrate from its legacy financial systems environment to an integrated finance and acquisition system hosted by a Federal Shared Service Provider (FSSP). Successful completion of this transformation will result in new capabilities to address these issues.

DEPARTMENT OF VETERANS AFFAIRS
SCHEDULE OF SPENDING – UNAUDITED (dollars in millions)
For the Years Ended September 30,

	2016 Budgetary	2016 Non-Budgetary Credit Program	2015 Budgetary	2015 Non-Budgetary Credit Program
What Money is Available to Spend?				
Total Resources	$ 203,368	$ 13,507	$ 199,137	$ 11,919
Less Amount Available but Not Agreed to be Spent	(12,537)	-	(16,331)	-
Less Amount Not Available to be Spent	(8,514)	(10,534)	(12,220)	(8,829)
Total Amounts Agreed to be Spent	**$ 182,317**	**$ 2,973**	**$ 170,586**	**$ 3,090**
How was the Money Spent/Issued?				
Veterans Health Administration				
Personnel Compensation and Benefits	$ 35,062	$ -	$ 32,731	$ -
Other Contractual Services	17,663	-	15,490	-
Supplies and Materials	11,688	-	11,542	-
Land and Structures	3,625	-	2,820	-
Equipment	2,563	-	2,976	-
Rent, Communications and Utilities	2,511	-	2,463	-
Grants, Subsidies and Contributions	1,897	-	1,848	-
Travel and Transportation of Persons	1,185	-	1,095	-
Other	1,987	-	-	-
Veterans Benefits Administration (Including Veterans Benefits, Life Insurance, Housing Credit and Administration)				
Insurance Claims and Indemnities*	81,804	756	77,940	511
Grants, Subsidies and Contributions**	15,354	333	14,976	736
Personnel Compensation and Benefits	2,149	-	2,126	-
Other Contractual Services	933	221	945	242
Rent, Communications and Utilities	186	-	165	-
Interest and Dividends	207	26	-	42
Land and Structures	2	1,591	1	1,517
Other	92	46	43	42
National Cemetery Administration				
Personnel Compensation and Benefits	151	-	142	-
Other Contractual Services	77	-	72	-
Grants, Subsidies and Contributions	49	-	47	-
Supplies and Materials	12	-	11	-
Rent, Communications and Utilities	13	-	12	-
Other	18	-	24	-
Indirect Program Administration				
Other Contractual Services	1,050	-	1,003	-
Personnel Compensation and Benefits	864	-	818	-
Equipment	522	-	617	-
Supplies and Materials	425	-	444	-
Rent, Communications and Utilities	159	-	156	-
Other	69	-	79	-
Total Amounts Agreed to be Spent	**$ 182,317**	**$ 2,973**	**$ 170,586**	**$ 3,090**

DEPARTMENT OF VETERANS AFFAIRS				
SCHEDULE OF SPENDING – UNAUDITED (dollars in millions)				
For the Years Ended September 30,				
	2016		**2015**	
Where did the Money go to?	**Budgetary**	**Non-Budgetary Credit Program**	**Budgetary**	**Non-Budgetary Credit Program**
Veterans Health Administration				
Federal	$ 11,506	$ -	$ 10,238	$ -
Non-Federal	66,675	-	60,727	-
Veterans Benefits Administration (Including Veterans Benefits, Life Insurance, Housing Credit and Administration)				
Federal	1,947	348	1,749	319
Non-Federal	98,780	2,625	94,447	2,771
National Cemetery Administration				
Federal	50	-	51	-
Non-Federal	270	-	257	-
Indirect Program Administration				
Federal	511	-	553	-
Non-Federal	2,578	-	2,564	-
Total Amounts Agreed to be Spent	**$ 182,317**	**$ 2,973**	**$ 170,586**	**$ 3,090**

*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.

SECTION B: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summary of audit-related or management-identified material weaknesses and the noncompliance with FFMIA and Federal financial management system requirements outlined in the 2016 Agency Financial Report.

Table 1 - Summary of Financial Statement Audit

Audit Opinion	**Unmodified**				
Restatement	**Yes**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
IT Security Controls	1	0	0	0	1
Education Benefits Accrued Liability	0	1	0	0	1
Control Environment Surrounding the Compensation, Pension, and Burial Actuarial Estimates	0	1	0	0	1
Community Care Obligations, Reconciliations, and Accrued Expenses	1	0	0	0	1
Financial Reporting	1	0	0	0	1
CFO Organizational Structure for VA and VHA	0	1	0	0	1
Procurement, Undelivered Orders and Reconciliations	1	0	1	0	0
Total Material Weaknesses	**4**	**3**	**1**	**0**	**6**

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	1	0	0	0	0	1
Education Benefits Accrued Liability	0	1	0	0	0	1
Control Environment Surrounding the Compensation, Pension and Burial Actuarial Estimates	0	1	0	0	0	1
Total Material Weaknesses	**1**	**2**	**0**	**0**	**0**	**3**
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	**Qualified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Community Care Obligations, Reconciliations, and Accrued Expenses	1	0	0	0	0	1
CFO Organizational Structure for VA and VHA	0	1	0	0	0	1
Procurement, Undelivered Orders and Reconciliations	1	0	1	0	0	0
Total Material Weaknesses	**2**	**1**	**1**	**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 compliance noted	Lack of compliance noted
2. Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	Lack of compliance noted	Lack of compliance noted

SECTION C: FREEZE THE FOOTPRINT

Section 3 of OMB Memorandum 12-12, *Promoting Efficient Spending to Support Agency Operations* established the "Freeze the Footprint" (FTF) policy intended to control utilization and spending associated with real property. OMB Management Procedures Memorandum 2013-02, Freeze the Footprint policy implementation guidance requires that all CFO Act Executive Branch Departments and agencies shall not increase the total square footage (sq. ft.) of their domestic office and warehouse inventory compared to the FY 2012 baseline, unless increased footage is offset through consolidation, colocation, or disposal of space from the inventory of that agency.

Baseline Comparison

	FY 2012 Baseline	FY 2015 Reported	Change
Square Footage (in millions)	28.87	29.82	0.95

Reporting of Operation and Maintenance Costs – Owned and Direct Lease Buildings

	FY 2012 Reported Cost	FY 2015 Reported Cost	Change
Operation and Maintenance Cost (in millions)	$99.57	$143.80	$44.23

VA's total sq. ft. subject to FTF for FY 2015 was 29.82 million, which represents a 3.3 percent increase over the FY 2012 baseline of 28.87 million.

VA anticipated footprint growth from FY 2013 to FY 2015, due to large projects previously approved in years prior to FTF, which were already under construction or lease acquisition. These projects began to enter the portfolio in FY 2013 and continued through FY 2014 and FY 2015, driving VA above its FY 2012 baseline. While VA continued to increase sq. ft. above the FY 2012 baseline, the growth in FY 2015 was significantly smaller compared to FY 2013.

VA has implemented new administrative office space standards to shrink overall space requirements. The new standard applies to new projects and lease renewals. The standard does not generate an immediate space reduction; however, as leases are replaced and the new standard used, overall office space will eventually be reduced. VA is also focusing on disposing vacant or underutilized assets (both office and warehouse) to help provide additional reduction in the portfolio.

In terms of costs, total operation and maintenance costs as reported in the Federal Real Property Profile (FRPP) rose 44.4 percent from $99.57 million in FY 2012 to $143.80 million in FY 2015. Due to inflation, each year, operation and maintenance costs increased by a few percentage points which escalates lease rental rates, utility rates, and other costs. In addition, VA experienced growth in its FTF sq. ft., 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.

SECTION D: CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The *Federal Civil Penalties Inflation Adjustment Act of 1990* (the Inflation Adjustment Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties (CMP) to maintain their deterrent effect. Four statutes are excluded under the Inflation Adjustment Act: the *Internal Revenue Code of 1986*, the *Tariff Act of 1930*, the *Occupational Safety and Health Act of 1970*, and the *Social Security Act*. The table below depicts the covered civil monetary penalties that are under the Department's purview.

Statutory Authority	**Penalty (Name or Description)**	**Year Enacted**	**Latest year of adjustment (via statute or regulation)**	**Current Penalty Level ($ Amount or Range)**	**Sub-Agency/ Bureau/ Unit**	**Location for Penalty Update Details**
Veterans' Benefits Improvement and Health-Care Authorization Act of 1986, as amended	False Loan Guaranty Certifications	1986	2016	The greater of 2 times the amount of loss not to exceed $21,563	Veterans Benefits Administration/ Loan Guaranty	Federal Register 81(06/22/2016): 40524-40525
Program Fraud Civil Remedies Act of 1986, as amended	Fraudulent Claims or Statements	1986	2016	$10,781	All VA Programs	Federal Register 81(06/22/2016): 40524-40525

SECTION E: IMPROPER PAYMENTS DETAILED REPORT

Overview

The reduction of improper payments continues to be a top financial management priority for VA. VA is focused on increasing IPERA compliance while also providing Veterans the benefits and services they have earned and deserve. In FY 2016, VA issued guidance to ensure the improper payment definition was consistently applied when testing acquisition payments in the Department. Leadership also increased communication to clarify roles and responsibilities in VA's IPERA program to further increase effectiveness of corrective actions to reduce improper payments. VA continued to leverage the IPERA Governing Board ensuring collaboration and awareness of improper payment challenges at the executive leadership level. The IPERA Governing Board, comprised of senior leadership, has worked to strategically strengthen program integrity by providing oversight of program activities to address vulnerabilities in programs, implement effective corrective actions, and track issues to resolution.

In FY 2016, VA is reporting an increase in overall improper payments from the amount reported in FY 2015; however, more than half of the 14 programs reporting improper payments successfully saw a reduction. The majority of the increase was a result of VA's enterprise-wide commitment to applying the improper payment definition correctly. Further, since VA reports improper payments one year in arrears, actions taken to reduce improper payments in FY 2015 and FY 2016 have not yet been fully realized. VA continues to enact specific corrective actions to remediate improper payments and strategically strengthen program integrity while ensuring Veteran access to healthcare and benefits.

In FY 2015, VA issued $172.24 billion in diverse payments, of which $158.88 billion were subject to IPERA processes for measuring improper payments compliance. The amount of disbursements subject to IPERA review increased by more than $10.7 billion from 2014 to 2015, approximately a 7 percent increase due primarily to annual increases in program outlays across VA programs.

Section I. Risk Assessments Performed for VA Programs

In FY 2016, VA performed 73 required risk assessments for programs previously considered low risk.

VA uses qualitative and quantitative risk assessment factors to identify programs that may be susceptible to significant improper payments. Within the risk assessment process the following Office of Management and Budget (OMB) requirements are evaluated:

- Whether the program reviewed is new to the agency
- The complexity of the program reviewed, particularly with respect to determining correct payment amounts
- The volume of payments made annually
- Whether payments or payment eligibility decisions are made outside of the agency, for example, by a state or local government, or a regional federal office

- Recent major changes in program funding, authorities, practices, or procedures
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate
- Inherent risks of improper payments due to the nature of agency programs or operations
- Significant deficiencies in the audit reports of the agency including, but not limited to, VA Office of Inspector General (OIG) or Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification
- Results from prior improper payment work.

In addition to these risk elements, risk assessments include additional factors that could lead to improper payments. As such, some of these factors include:

- Assessing additional internal controls and inherent risk due to the nature of the program
- Assessing the controls around information systems
- Determining adequacy of controls in contracting activities
- Assessing the level of monitoring and oversight over payment activities.

Additionally in 2015 and 2016, the VA Office of Management conducted a review of 12 low-risk programs with disbursements greater than $1 billion or greater than 90 percent of expenditures made to vendors. This review was performed in response to an OIG recommendation in the FY 2014 Review of VA's Compliance with IPERA. In 2016, VA considered the results of the judgmental review when assigning risk ratings in relation to acquisition activities for these 12 programs.

During FY 2016, the following programs completed risk assessments and qualitative and quantitative factors identified the programs as not susceptible to significant improper payments as defined by OMB Circular A-123 Appendix C. Chart 1 below provides the results:

Chart 1: FY 2016 Risk Assessment Results - Programs Not Susceptible to Significant Improper Payments		
Administration/VACO	**Program**	**Description**
Veterans Health Administration (VHA)	Activities with other Federal Agencies	Payments for direct inpatient and outpatient medical care, furnished by the U.S. Army, U.S. Air Force, U.S. Navy, and all other Federal hospitals.
VHA	Alcohol & Drug Treatment Rehabilitation	Contracted care payments for treatment and rehabilitation services for Veterans with alcohol, drug dependence, or abuse disabilities.
VHA	Canteen Service	Canteens operate at VA Medical Centers (VAMC) across the country as self-sustaining businesses.
VHA	Caregiver Stipend	Provides comprehensive assistance including healthcare, travel expenses, training, mental health services, respite care, and financial benefits to approved primary caregivers of eligible Veterans and Servicemembers who sustained a serious injury, including traumatic brain injury, psychological trauma or other mental disorders incurred or aggravated in the line of duty, on or after September 11, 2001.
VHA	Clothing Allowance	Benefit program providing a clothing allowance to eligible Veterans to replace or repair their clothing.

Chart 1: FY 2016 Risk Assessment Results - Programs Not Susceptible to Significant Improper Payments		
Administration/VACO	**Program**	**Description**
VHA	Compensated Work Therapy/Incentive Therapy	Funds therapeutic work remuneration for Veterans in VAMCs through contracts with private industry providers or other sources.
VHA	Department of Defense (DoD)/VA Joint Incentive fund	Funds sharing initiatives at facility, regional, and national levels to facilitate the mutually beneficial coordination, use, or exchange of healthcare resources.
VHA	DoD/VA Medical Facility Demonstration Fund	Funds the operation of an integrated Federal healthcare facility that provides care to eligible VA and DoD beneficiaries.
VHA	Equipment	Personal property payments for medical, dental, and scientific equipment, vehicles and machinery, automatic data processing equipment, and office equipment.
VHA	Facility Maintenance and Operations	Funds facility engineering and housekeeping operations.
VHA	Foreign Medical Program	A healthcare benefit program for U.S. Veterans with VA rated service connected condition(s) living or traveling abroad.
VHA	General Post Fund	A trust fund consisting of gifts, bequests, and proceeds from the sale of property left in the care of VA facilities by former beneficiaries.
VHA	Grants Highly Rural Transportations	Provides grants to eligible entities to assist Veterans in highly rural areas with transportation services to VAMCs in connection with medical care.
VHA	Grants - Homeless Per Diem	Grant program offered annually to fund community-based agencies providing transitional housing or service centers for homeless Veterans.
VHA	Grants for Construction of State Extended Care Facilities	Grant program for the construction of State Home facilities for furnishing domiciliary or nursing home care to Veterans.
VHA	Homeless Care	Program that coordinates and provides contracts for the care and treatment for homeless Veterans.
VHA	Indian Health Services (HIS) / Tribal Health Program (THP) Reimbursement Agreement	Reimburses IHS or THP for payment of claims for direct healthcare services provided to Veterans under the Reimbursement for Direct Health Care Services Agreements.
VHA	Information Technology Services	Funds patient-centered care by facilitating the deployment of innovative, secure health data systems and collecting, analyzing, and disseminating health information for Veterans, Caregivers, clinicians, and administrative staff for decision making.
VHA	In-house Provider Services	Covers fees paid for clinical services to individuals in major employee classifications, which are provided on the grounds of a VA facility.
VHA	Insurance Claims and Interest Expense	Comprises of payments related to insurance claims and interest expense.
VHA	Land and Structures	Funds land and interest on land, buildings and other structures. Includes funding for buildings, non-structural improvements, architectural and engineering services, and fixed equipment, when acquired under contract.
VHA	Medical and Prosthetic Research	Funds basic biomedical research through the translation of research into practice, emphasizing the health concerns of Veterans.
VHA	Medical Facilities Recovery Act	The American Recovery and Reinvestment Act provided $1 billion for the VHA non-recurring maintenance program for fiscal years 2009/2010.
VHA	Non-Medical Contracts and Agreements	Includes contractual services with the public or another Federal agency. Examples include contracted security guards, transcription services contracts, advertising expenses, licensing for bus drivers, and legal fees.

Chart 1: FY 2016 Risk Assessment Results - Programs Not Susceptible to Significant Improper Payments		
Administration/VACO	**Program**	**Description**
VHA	Off-Station Provider Services	Provides funding for clinical services provided by Non-VA staff in a community setting.
VHA	Other Contracts, Services, Agreements, and Miscellaneous	Includes contracts for consulting and purchases of goods and services from Government accounts.
VHA	Pharmacy-Consolidated Mail Outpatient Pharmacies	Provides funding and contracts for the delivery of completed prescriptions to the patient by mail or other carrier.
VHA	Pharmacy - Medical Facilities	Provides care by the VAMC or clinics with new or emergent prescriptions being dispensed directly from that VAMC or clinic.
VHA	Printing and Reproduction	Funds printing, binding, graphic arts, reproduction, and related services.
VHA	Professional Services Contracts	Funds professional costs for consultants, attendings, and scarce medical specialists who are not VA staff.
VHA	Shared Services	Provides clinical contracts between VA and their sharing partners (e.g., Universities, DoD).
VHA	Special Adaptive Equipment and Maintenance	Benefit program that provides equipment and training to enable a disabled Veteran to operate a motor vehicle safely.
VHA	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.
VHA	Support Services for Veteran Families	Provides grants to nonprofit organizations and consumer cooperatives that provide supportive services to low-income Veteran families living in or transitioning to permanent housing.
VHA	Transportation of Things	Includes charges incurred for the transportation of things.
Veterans Benefits Administration (VBA)	Dependency and Indemnity Compensation	Benefit payable to surviving spouse, child, or parent of Servicemembers who died while on active duty, active duty for training, or inactive duty training or survivors of Veterans who died from service-connected disabilities.
VBA	Burial	VA burial allowances for partial reimbursements of an eligible Veteran's burial and funeral costs.
VBA	Restored Entitlement Program for Survivors	Educational benefits available to certain survivors of deceased veterans in addition to Chapter 35 benefits.
VBA	Automobile Grants	Automotive grant to be used towards the purchase of an automobile or other conveyance for Servicemembers with certain service-connected disabilities.
VBA	Montgomery GI Bill (Chapter 30)	Education benefits available to individuals who first entered active duty at any time after June 30, 1985; or to individuals who were eligible to receive Chapter 34 benefits on December 31, 1989.
VBA	Survivor and Dependents Education Assistance (Chapter 35)	Education benefit available to spouse or dependents for degree and certificate programs, apprenticeships/on-the-job training, correspondence courses, and other programs.
VBA	Education – Reporting Fees	Compensation available to institutions which helps cover the cost of administering their VA programs, including, but not limited to, attendance at VA sponsored training conferences. Institutions are compensated for each student (based on prior-year enrollment) which is to be used by the schools for the purposes of certification.
VBA	Education – State Approving Agencies	Compensation available to State Approving Agencies for certifying schools on behalf of VA and performing compliance audits.
VBA	Special Adaptive Housing	Grant available to severely disabled Veterans and Servicemembers to adapt or acquire suitable housing.

Chart 1: FY 2016 Risk Assessment Results - Programs Not Susceptible to Significant Improper Payments		
Administration/VACO	**Program**	**Description**
VBA	Loan Production	Loan Production helps Servicemembers, Veterans, and eligible surviving spouses become homeowners by providing a home loan guaranty benefit.
VBA	Loan Administration	Oversees lenders' activities for delinquent guaranteed loans.
VBA	Property Management	Portfolio of properties owned by VA that are either foreclosed or purchased under certain circumstances. VA oversees the contractor who manages these properties until they are sold.
VBA	Direct Loans	Portfolio of vendee/acquired and Native American direct loans managed by VA.
VBA	Loan Sales	VBA bundles together a portfolio of direct loans and sales them to investors. These loans are guaranteed so default payments are issued by this program.
VBA	National Service Life Insurance	Life insurance available to Servicemembers and Veterans who served during World War II era.
VBA	Service Disabled Veterans Insurance	Life insurance available to Veterans who apply within two years of receiving a new service-connected disability rating and total disabled Veterans.
VBA	Servicemen's Group Life Insurance	Low-cost term life insurance coverage available to eligible Servicemembers.
VBA	United Stated Government Life Insurance	Life insurance available to Servicemembers and Veterans who served during World War I era.
VBA	Veterans Insurance and Indemnities	For military and naval insurance, national service life insurance, Servicemembers indemnities, service-disabled Veterans insurance, and Veterans mortgage life insurance.
VBA	Veterans Reopened Insurance	Life insurance available to disabled Servicemembers and Veterans who served during the World War II and Korean War eras.
VBA	Veterans Special Life Insurance	Life insurance available to Servicemembers and Veterans who served during the Korean War era.
VBA	General Operating Expenses	Provides general operating expenses.
VBA	Vocational Rehabilitation and Employment Contract Counseling	Contract counseling provides service in remote areas and in situations where the workload has expanded beyond the capacities of existing VA staff.
VBA	Equal Access to Justice Act	Provides for the award of attorney fees and other expenses to eligible individuals and small entities who are parties to certain adversary adjudications in administrative proceedings against the Federal Government.
National Cemetery Administration	Burial	Provide burial and memorial benefits to Veterans and eligible family members.
VA Central Office (VACO)	Enterprise Operations	VA's Office of Information and Technology infrastructure and data center operations.
VACO	Office of General Counsel (OGC), Management, Planning, and Analysis (MPA)	MPA consists of Human Resources, Budget & Procurement, Knowledge Management, Reports, Planning, and Statistics, and Workforce Planning & Professional Development divisions which administratively support all of OGC nationwide operations.
VACO	OIG	Conducts effective oversight of the programs and operations of the VA through independent audits, inspections, and investigations.

Chart 1: FY 2016 Risk Assessment Results - Programs Not Susceptible to Significant Improper Payments		
Administration/VACO	**Program**	**Description**
VACO	Travel	The FSC provides centralized program administration and management of VA's E-Gov Travel Service 2 (ETS2) and the VA Permanent Change of Station (PCS) Portal. ETS2 is a Government-wide, Web-based, world-class Temporary Duty (TDY) travel management service and the PCS Portal is a VA-wide Web-based travel management service. Both systems provide streamlined services and apply best practices to realize travel efficiencies while delivering transparent, accountable, and sustainable TDY and PCS travel services.
VACO	Supply Fund	Created to operate and maintain a VA supply system for procurement of supplies, equipment, and personal services.
VACO	Human Resources Administration	Leads the development and implementation of human capital management strategies, policies, and practices to cultivate an engaged, proficient, and diverse workforce, one that will continue to transform and improve the delivery of services to Veterans and their families.
VACO	Office of Information & Technology	Provides support to veterans and their families through adaptable, secure, and cost effective technology services across the Department.
VACO	Office of Acquisition, Logistics and Construction (OALC)	Multifunctional organization responsible for directing the acquisition, logistics, construction, and leasing functions within the VA.
VACO	General Administration	Provides for necessary operating expenses of the Department of Veterans Affairs, not otherwise provided for, including administrative expenses in support of Department-wide capital planning, management and policy activities, uniforms, or allowances.

VA determined that four programs reviewed are at-risk for significant improper payments. VA will report estimated improper payments for these programs in the FY 2017 Agency Financial Report in accordance with OMB Circular A-123, Appendix C. Chart 2 on the following page provides the detail on the new programs determined at-risk of significant improper payments:

Chart 2: FY 2016 Risk Assessment Results - New Programs at Risk to Significant Improper Payments[2]				
Administration/ VACO	**Program**	**Description**	**Explanation of Assessment of Risk Level**	**FY Improper Payment Rate and Amount will be Reported**
VHA	Communications, Utilities, and Other Rent	Payments for use of communications, utility services, and charges for possession and use of land, structures, or equipment owned by others.	Probe sample results identified an elevated risk when obtaining utility services greater than the simplified acquisition threshold of $150,000 where FAR requirements are not always met[3].	FY 2017
	Medical Care Contracts and Agreements	Includes contracts for research, medical and educational data or services, reimbursements at contract per-diem rates for hospitalization, dialysis treatment furnished by a non-VA facility, indirect charges added for research and demonstration projects, and contracted EMS services.	Probe sample results identified an elevated risk where contracts were not always in place when required, payments were not made in the correct amount, and lack of supporting documentation existed.	FY 2017
	Prosthetics	Funds the provision of medically prescribed prosthetic and sensory aids, devices, assistive aids, repairs, and services to eligible disabled Veterans to facilitate the treatment of their medical conditions.	During testing of a judgmental sample, VHA identified situations where delivery of a product to the Veteran is made prior to a contract or purchase order in place. Specifically, this situation occurred often for medical/surgical implant devices where the procurement actions for the device were made after the appliance was used and received by the Veteran during surgery. Since the surgical implant was used prior to the order being placed, the payment has been identified as improper causing the program to be susceptible to significant improper payments.	FY 2017
	VA Community Care Choice payments made from the Veterans Choice Fund[4]	A temporary program to improve Veterans' access to healthcare by allowing certain Veterans to elect to receive healthcare from eligible providers outside of VA. Established by section 101 of the Veterans Access, Choice, and Accountability Act of 2014.	The VA Community Care Choice payments totaled $15M and are considered susceptible to significant improper payments due to the lack of an available tool to properly determine the correct amount paid.	FY 2017

[2] New programs determined to be susceptible to improper payments as a result of the FY 2016 risk assessments will design and implement appropriate statistical sampling and estimation methods to produce statistically valid improper payment estimates the fiscal year following (FY 2017) the fiscal year in which the risk assessment was conducted in accordance with OMB Circular A-123 Appendix C.

[3] If utility services costs are above $150,000 annually, a contract should be executed or based on FAR 41.202(c), when a utility supplier refuses to execute a tendered contract as outlined in 41.201(b), the agency shall obtain a written definite and final refusal signed by a corporate officer or other responsible official of the supplier (or if unobtainable, document any unwritten refusal) and transmit this document, along with statements of the reasons for the refusal and the record of negotiations, to GSA at the address specified at 41.301(a). Unless urgent and compelling circumstances exist, the contracting officer shall notify GSA prior to acquiring utility services without executing a tendered contract. After such notification, the agency may proceed with the acquisition and pay for the utility service under the provisions of 31 U.S.C. 1501(a)(8).

[4] The Veterans Choice Fund had $700M in disbursements in FY 2015. The majority of these disbursements were cost transfers to pay for medical expenses allowable under the Account Adjustment statute, 31 U.S.C. 1534. The payments consisting of cost transfers out of the Veterans Choice Fund to other VHA programs maintained the risk level of their corresponding reporting program and were tested in FY 2016, if applicable. VHA created strata for VA Community Care Choice where initial expenses for FY 2015 totaled $15M. Like all new programs a risk assessment was conducted to determine its risk level. The risk assessment identified the VA Community Care Choice payments to be susceptible to significant improper payments and will be tested as a part of the 2017 IPERA activities under the VA Community Care program consistent with reporting in other high-risk programs.

VA identified 14 High-Risk programs in previous fiscal years. Chart 3 below provides VA's high-risk programs and a description of the program's activities:

Chart 3: FY 2016 High-Risk Programs		
VA Administration/VACO	**VA Program Name**	**Description**
VHA	Beneficiary Travel	Beneficiary Travel is organizationally aligned under VHA Member Services. The program consists of mileage reimbursement, common carrier, and special mode transportation (ambulance, wheelchair van, etc.) to eligible Veterans and other beneficiaries. In addition, VA can provide or reimburse for the actual cost of bridge tolls, road tolls, and tunnel tolls. The actual cost for meals, lodging or both, not to exceed 50 percent of the amount allowed for government employees may also be provided in limited circumstances. The Beneficiary Travel Program is discretionary in nature with funding coming from the yearly VA healthcare medical care services appropriation.
VHA	Civilian Health and Medical Program (CHAMPVA)	CHAMPVA is a healthcare benefits program in which the VA shares the cost of covered healthcare services and supplies usually as a secondary payer or payer of last resort with certain eligible beneficiaries.
VHA	VA Community Care	VA Community Care is used to provide timely and specialized care to eligible Veterans. The program allows VA to authorize Veteran care at community care facilities when the needed services are not available through the VA, or when the Veteran is unable to travel to a VA facility.
VHA	Purchased Long Term Services and Supports	Purchased Long-Term Services and Supports is organizationally aligned under the VHA Geriatrics and Extended Care (GEC) Office that strives to empower Veterans and the Nation to rise above the challenges of aging, disability, or serious illness. GEC programs are for Veterans of all ages, including older, frail, chronically ill patients, their families and their caregivers. Further, because the course of chronic illness varies and healthcare needs of chronically ill patients change, it is possible that services of one, some, or all GEC long-term Services and Supports will be required over time.
VHA	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 healthcare.
VHA	Supplies and Materials	Includes supplies and materials whether acquired by formal contract or other form of purchase which are ordinarily consumed or expended within 1 year after they are put into use, converted in the process of construction or manufacture, or used to form a minor part of equipment or fixed property or other property not separately identified in the asset accounts.
VBA	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.

Chart 3: FY 2016 High-Risk Programs		
VA Administration/VACO	**VA Program Name**	**Description**
VBA	Pension	VA helps Veterans and their families cope with financial challenges by providing supplemental income through Veterans Pension and Survivors Pension benefit programs.
VBA	Vocational Rehabilitation and Employment (VR&E)	VR&E program helps Veterans with service-connected disabilities and an employment handicap prepare for, find, and maintain suitable careers.
VBA	Education – Chapter 33	VA offers higher education and training benefits to Veterans, Servicemembers, and their families who served after September 10, 2001.
VBA	Education – Chapter 1606	VA offers education and training benefits to eligible members of the Selected Reserve.
VBA	Education – Chapter 1607	VA provides educational assistance to members of the Reserve components called or ordered to active duty in response to a war or national emergency declared by the president or Congress.
VACO	Disaster Relief Act – Hurricane Sandy (HS)	The Disaster Relief Appropriations Act provides aid to rebuild VA facilities after the Hurricane Sandy disaster.
VACO	Payments to Federal Employees (PFE) – Payroll	VA provides PFE - Payroll to employees through the DFAS.

Section II. Statistical Sampling Processes Performed for VA Programs

The 14 VA programs identified as susceptible to significant improper payments in FY 2015 are required to select an annual sample for testing and report estimated improper payments in FY 2016 in accordance with OMB Circular A-123, Appendix C. Compliance can be accomplished by testing a standard statistically valid sample of transactions. 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. Program universes were constructed by collecting payments from each fiscal quarter. Samples were then selected from each quarter.

Strata definitions were modified from the prior year for certain programs to account for governing policy and regulation changes, structural differences in program implementation, and to provide better program insight. Strata modifications were made on an as-needed basis for the following programs:

- VA Community Care used a combination of cost center, budget object code, and transaction code and payment size to divide payments into different cohorts.
- State Home Per Diem Grants and Purchase Long-Term Services and Supports used a combination of cost center and payment size, specific to each program, to divide the universe of payments into different cohorts.
- The Choice Act funding was associated with different VHA program payments. High-risk programs affected by this funding source (Beneficiary Travel, VA Community Care, and

Purchase Long-Term Services and Supports), had these payments classified in separate cohorts. A small number of samples were selected from each program, reviewed and included in program projections.

- Education programs used the business transaction codes and payment size to divide payments into cohorts.

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 OMB precision 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	2015 (based on 2014 actual data)			2016 (based on 2015 actual data)					2017 (based on 2016 estimated data)			2018 (based on 2017 estimated data)			2019 (based on 2018 estimated data)		
	OUTLAYS ($)	IP %	IP $	OUTLAYS ($)	IP %	IP $	Over-payments $	Under-payments $	OUTLAYS ($)	IP %	IP $	OUTLAYS ($)	IP %	IP $	OUTLAYS ($)	IP %	IP $
Beneficiary Travel (2)	811.55	6.22	50.48	890.06	7.37	65.64	63.04	2.60	916.76	7.35	67.38	944.26	7.30	68.93	972.59	7.20	70.03
CHAMPVA	1,135.34	3.41	38.75	1,145.73	4.70	53.87	30.52	23.35	1,180.10	4.69	55.35	1,215.50	4.60	55.91	1,251.97	4.50	56.34
VA Community Care (2,3)	3,912.17	54.77	2,142.69	4,728.95	75.86	3,587.245	3,568.1722	19.0728	4,870.82	75.00	3,653.11	5,016.94	73.00	3,662.37	5,167.45	71.00	3,668.89
Purchased Long Term Services and Supports (2,3)	1,479.71	59.14	875.128	1,705.60	69.15	1,179.49	1,176.41	3.08	1,756.77	69.00	1,212.17	1,809.47	67.00	1,212.35	1,863.76	65.00	1,211.44
State Home Per Diem Grants	1,077.84	2.02	21.766	1,126.26	2.57	28.93	27.47	1.46	1,160.05	2.50	29.00	1,194.85	2.40	28.68	1,230.69	2.30	28.31
Supplies and Materials	2,457.24	1.32	32.440	2,476.71	0.90	22.27	22.24	0.03	2,551.01	0.89	22.70	2,627.54	0.88	23.12	2,706.37	0.87	23.55
Compensation	58,449.56	2.33	1,361.35	63,864.04	0.59	376.577	256.159	120.418	74,869.19	0.58	434.24	79,332.14	0.56	444.26	84,428.92	0.53	447.47
Pension	5,832.79	4.53	264.19	5,594.76	2.27	127.097	120.906	6.191	5,605.58	2.26	126.69	5,915.77	2.24	132.51	6,287.52	2.21	138.95
VR&E	1,081.22	1.04	11.26	1,260.38	0.55	6.95	6.92	0.03	1,444.91	0.54	7.80	1,556.94	0.52	8.10	1,652.48	0.49	8.10
Education – Chapter 33	11,172.65	1.21	135.05	11,344.07	0.03	3.92	3.92	-	11,969.61	0.02	2.39	12,564.69	-	-	13,118.27	-	-
Education – Chapter 1606	147.15	1.05	1.55	143.47	0.06	0.088	.076	.012	148.79	0.05	0.074	154.82	0.03	0.046	161.10	-	-
Education – Chapter 1607	67.33	2.23	1.50	47.73	1.31	0.623	.363	.260	32.86	1.30	0.427	17.78	1.28	0.228	17.87	1.25	0.223
Disaster Relief Act – HS	27.27	5.71	1.558	23.61	3.66	0.865	.865	-	37.26	3.65	1.36	37.26	3.64	1.357	33.12	3.63	1.203
PFE – Payroll (4)	25,812.71	0.15	38.46	27,368.24	0.12	32.079	24.786	7.293	28,841.65	0.12	34.610	30,456.78	0.12	36.548	32,162.36	0.12	38.595
Totals	113,464.53	4.39	4,976.172	121,719.61	4.51	5,485.644	5,301.8472	183.7968	135,385.36	4.17	5,647.301	142,844.74	3.97	5,674.409	151,054.47	3.77	5,693.101

Notes to Table 1:
(1) In FY 2016, VA tested and reported on payments made in FY 2015.
(2) The Beneficiary Travel, Purchase Long Term Services and Supports, and VA Community Care programs have not shown improper payment reductions in recent years. VA established reduction targets to show reduction while ensuring established targets are achievable. Statistically valid testing for IPERA is completed one year in arrears; so changes are not seen until up to 2 years later. For example, in 2016, VA will report the results of improper payments found from testing FY 2015 disbursements. Therefore, changes implemented in FY 2016 will not be tested and reported on until FY 2017 and will likely not impact projections until FY 2018. For VHA programs, VHA is taking a comprehensive approach to resolving acquisition issues through legislation changes and reviewing internal processes to identify areas to increase compliance without impacting Veterans access to care.
(3) VA is committed to providing care for our Veterans. VA will continue to ensure that all Veterans get the care they need and deserve, which may result in authorizations that are categorized as improper payments because VHA does not have the authority to purchase care in the community without following FAR. Currently, when a Veteran needs care that cannot be provided timely at a VA facility, they are referred to a community provider. If VA does not have a contract with the provider that adheres to FAR, the payment for that care is considered improper.
(4) Due to systems enhancements and ongoing changes in VA's internal business processes and procedures for Payments to Federal Employees that may impact future improper payment rates, VA has kept the target improper payment rates for future years at .12.

High-Priority Program Reporting: Supplemental Measures

Under Executive Order 13520 and its implementing guidance, OMB identifies programs that have more than $750 million in annual estimated improper payments. VA has three programs that OMB deemed high-priority programs: VA Community Care, Purchased Long-Term Services and Supports, and Compensation Services. These programs are required to perform additional activities to drive the reduction of improper payments. As such, VA has diligently worked to meet the additional requirements for its high-risk programs, and information on VA's efforts can be found on PaymentAccuracy.gov.

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 community care facilities when the needed services are not available through the VA, or when the Veteran is unable to travel to a VA facility.

To facilitate appropriate oversight, the Department of Audits and Internal Controls within the Office of Community Care (OCC) completes testing throughout the fiscal year to ensure adequate internal controls are in place, which included 11 audits of VA Community Care during FY 2015. In addition, an internal audit team executes an annual audit plan that independently assesses the VA Community Care program and associated operations. Recommendations and corrective actions are developed in response to the audits.

To ensure adequate controls are in place, the Community Care Operations Program Office maintains a procedure guide that details the types of monitors that are required for the VA Community Care program. The Claims Adjudication and Reimbursement directorate is responsible for ensuring the procedure guide is thoroughly implemented, which is annually tested for sufficiency and compliance by the Department of Audits and Internal Controls. Any deficiencies identified during internal controls testing require identifying the cause and developing a corrective action plan, which is monitored through completion by the Internal Controls staff.

To comply with the Executive Order 13520, VA Community Care developed two supplemental measures and targets for FY 2016 and FY 2017:

1. **Percentage of non-contract disbursements in the VA Community Care Program**

   As of September 2016, payments associated with non-contract authorizations totaled $4.14 billion, accounting for approximately 69 percent of VA Community Care. By September 30, 2017, OCC will reduce payments associated with non-contract VA Community Care authorizations by 4 percent, from 69 percent to the target of 65percent. VA's goal is to decrease the number of non-contract authorizations issued under 38 U.S.C. 1703 and increase the amount of non-VA healthcare services purchased through contracts awarded in accordance with FAR. Compliance with FAR reduces improper payment designations due to lack of acquisition authority to purchase care.

   For the purposes of this measure, OCC tracks the payments associated with non-contract VA Community Care authorizations and will provide updated information quarterly. The movement from non-contract authorizations to contracts awarded in accordance with FAR is one of multiple steps OCC is taking to remediate the errors identified in FY 2015 that contributed to the significant increase in improper payments. Compliance with these purchasing authorities reduces contracting errors which led to the high-priority designation.

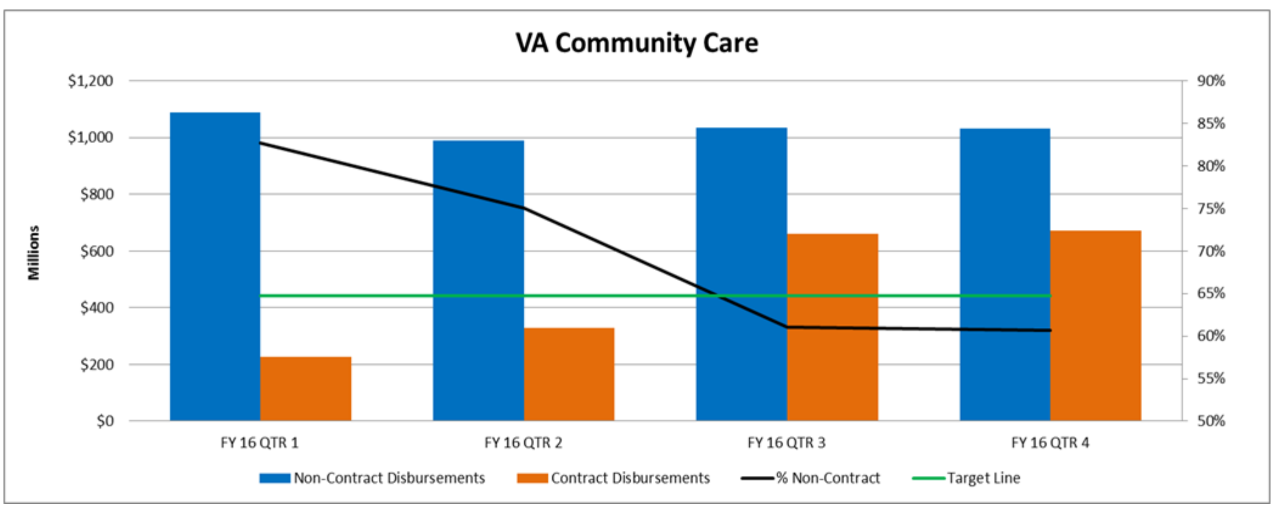
   In the fall of 2015, the Acting Principal Deputy Under Secretary for Health issued a memorandum to Veterans Integrated Service Network (VISN) Directors establishing a mandatory hierarchy for the purchase of care in the community. Within the hierarchy, VAMCs are instructed to first attempt to refer a 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 Indian Health Services and Tribal

Health Program 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 referred to as VA Choice Program) and 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 scheduling the Veteran under a PC3 authorization outside of the Choice Program. Authorizations issued in accordance with these authorities are in compliance with FAR and other regulations.

In late calendar year 2015, VA introduced 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 (VAAR) 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.

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 2015 requesting provider agreement authority to cover all care in the community for Veterans. If this authority is granted by Congress, VA will have a vehicle to provide timely, quality care while complying with all applicable regulations and statutes and will drastically reduce its reported improper payment rate.

The graph depicts total VA Community Care disbursements for FY 2016, broken into two categories that reflect whether payments were associated with contracts following FAR. The green line represents the target performance by the end of FY 2016, which is that payments associated with non-contract authorizations are less than 65 percent. The black line represents the actual performance by quarter.



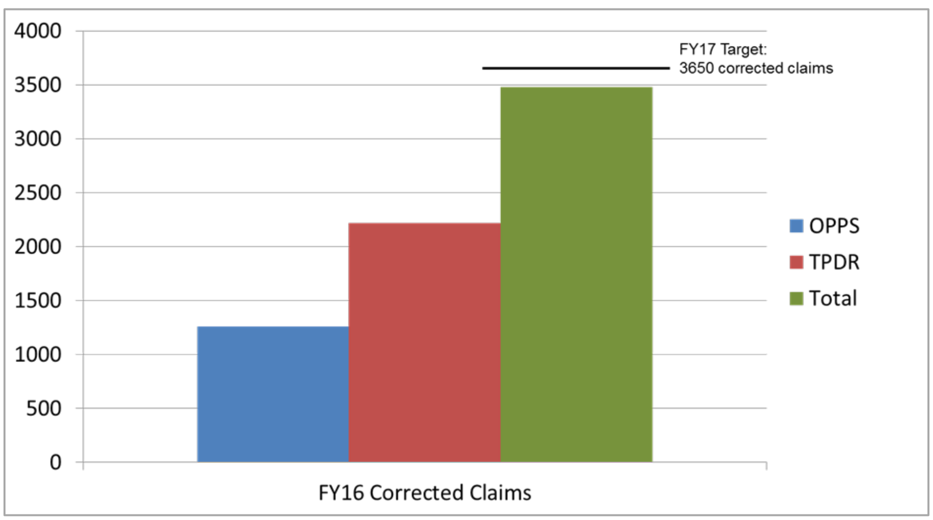
Source for the data is FMS payment files.

There are risks associated with this supplemental measure. The impact associated with VA facilities using the Choice program to acquire community-based care will not be fully be realized as part of the annual IPERA reviews for at least two more years, at which point the impact could be only short-term and tempered if and when Choice contracts are no longer available due to depleted funding and the needed legislative changes go unrealized. Until such time as proposed legislative and contractual remedies are implemented, VA will continue to utilize individual authorizations as required to support Veterans' timely access to care which will negatively impact this supplemental measure outcome

2. Number of claims corrected prepayment through utilizing analytic and qualitative tools during claims processing in the VA Community Care Program

As of September 2016, 3,480 claims were corrected prepayment. By September 30, 2017, OCC will increase the number of claims corrected in a prepayment state by 5 percent, from 3,480 claims in FY 2016 to the target of 3,650 claims in FY 2017, through use of analytic and qualitative tools. The increased utilization of the analytic and qualitative tools will increase the number of noncompliant healthcare claims identified in prepayment phase, allowing VA Community Care claims processing staff to proactively review, correct, and ultimately prevent improper payments before a payment is disbursed. OCC will be tracking the progress and provide updated information quarterly.

The graph depicts the number of VA Community Care claims corrected by OCC staff in a prepayment state in FY 2016 because a mandated qualitative tool identified the claim as a potential improper payment for review. The blue bar represents claims corrected through use of the Outpatient Prospective Payment System report; the red bar represents claims corrected through use of the Top Potential Duplicate Report; and the green bar represents the total of claims corrected through use of the two reports. The black line represents the FY 2017 performance target.



Sources: Program Integrity Tool Data Repository and Central Fee/SnapShot Web.

In March 2016, OCC leadership mandated the use of qualitative tools during claims processing to proactively review claims while in a prepayment state for common processing errors or errors resulting from gaps in technology that lead to improper payments. The tools had been developed and made available previously, but it wasn't until the organizational realignment of staff from the VAMCs to OCC that a mandate was possible. The primary risk associated with this measure hinges on the mandate to utilize the tools. Should staff not comply with the mandate, it will directly impact the measure. OCC leadership is monitoring utilization on a monthly basis to ensure compliance with the mandate and address areas for improvement as they arise

Purchased Long-Term Services and Supports

The Purchase Long-Term Services and Supports program is organizationally aligned under the VHA Geriatrics and Extended Care (GEC) Office that strives to empower Veterans and the Nation to rise above the challenges of aging, disability, or serious illness. The mission of GEC is to honor Veterans' preferences of health, independence, and well-being by advancing expertise, programs, and partnerships. GEC programs are for Veterans of all ages, including older, frail, chronically ill patients, their families and their caregivers. Further, because the course of chronic illness varies and healthcare needs of chronically ill patients change, it is possible that services of one, some, or all GEC long-term Services and Supports will be required over time. Existing internal controls over payments appear to be functioning. VHA and Office of Internal Control review indicates additional controls are needed in the authorization process.

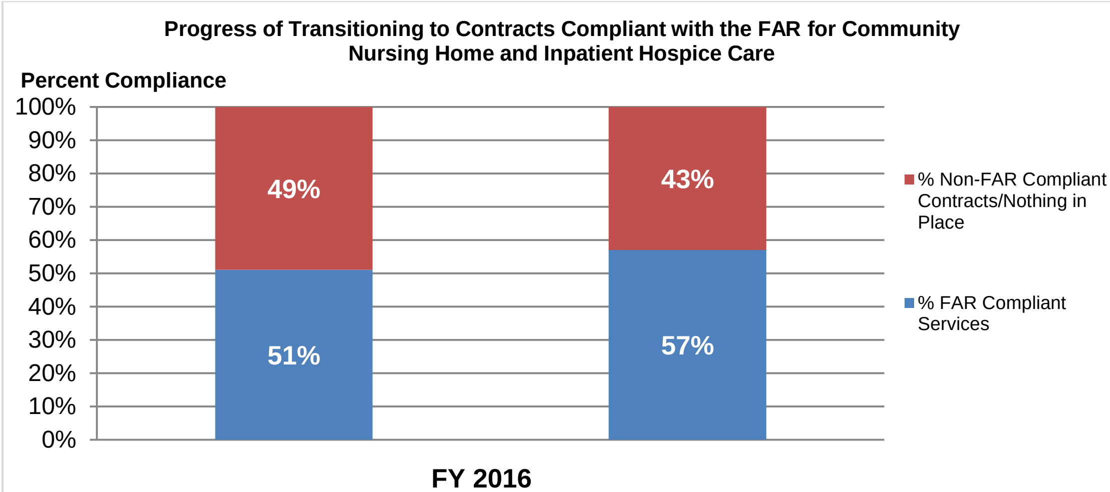
To comply with Executive Order 13520, Purchase Long-Term Services and Supports developed one supplemental measure and target for FY 2016 – 2017:

1. **Percent of compliant contracts for Community Nursing Home and Inpatient Hospice Care**

   As of September 2016, 57 percent of Purchased Long-Term Services and Supports contracts fully comply with FAR. By September 30, 2017, VHA's goal is to increase the number of contracts complying with FAR for Community Nursing Homes and Inpatient Hospice Care to 85 percent. This increase directly correlates with the decrease of non-contract authorizations and the transition to contracts in compliance with FAR. Compliance with purchasing authorities reduces contracting errors which previously led to improper payment classifications. The increase to FAR compliant contracts will ultimately reduce the amount of improper payments. VHA is tracking the progress and will provide updated information quarterly.

   There are risks associated with this supplemental measure. Market factors could affect VHA's ability to increase the percentage of FAR-compliant contracts. Some markets with strong trade associations have proved resistant to conversion to FAR-based contracts, despite years of VA open contract solicitations. VHA has more control over the ability to shift individual authorizations to provider agreements for home care services. Home care agencies have welcomed provider agreements which offer a recognized structure to the VA-agency relationship and do not require compliance with FAR.

   This measure was developed during FY 2016 and shows an increase of contracts in compliance with the FAR from 51 percent to 57 percent at the end of FY 2016. The following graph depicts percentage of contracts following FAR for Community Nursing Homes and Inpatient Hospice Care.



Sources: VHA Contracting, List of Active Extended Care Contracts and GEC Community Nursing Home Certification Report.

Compensation

VBA provides benefits and services to Veterans, their families and survivors in a responsive, timely, and compassionate manner in recognition of their service to our Nation. VBA's Compensation program provides monthly benefit payments to eligible Veterans in recognition of the effects of mental and physical disabilities incurred or aggravated from trauma, diseases, injuries, or events during active military service.

To facilitate appropriate oversight and maintain internal controls, Compensation Services continuously tests each fiscal year for improper payments, works with quality assurance personnel to identify and coordinate problem areas for remediation, provides training and review of regional office employees, ensures targets and measurable milestones in place, and appointed Accountable Officials to oversee IPERA remediation activities to drive the reduction of improper payments.

To comply with Executive Order 13520, Compensation developed three supplemental measures and targets for FY 2016 – 2017:

1. Percentage of Errors Related to Inaccurate Disability Evaluations Assigned

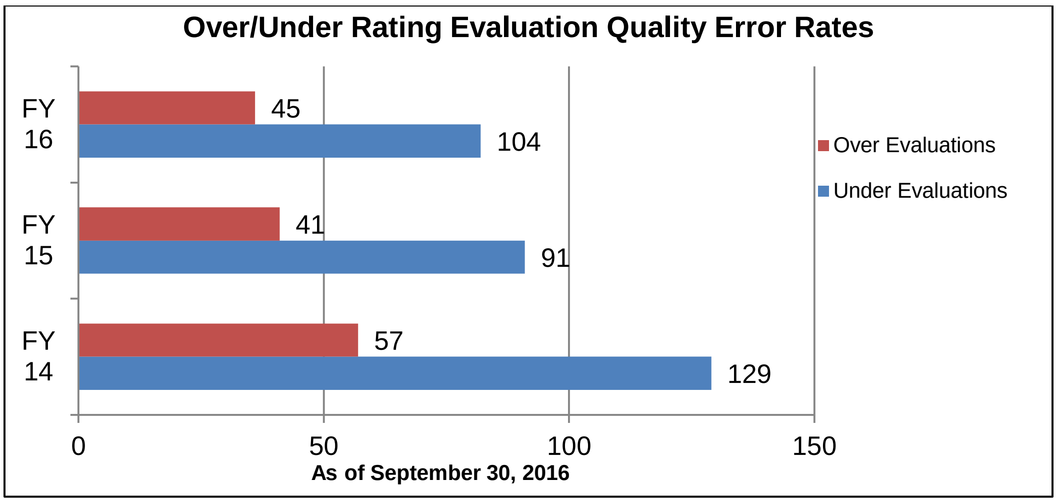
As of September 30, 2016, errors related to inaccurate disability evaluations accounted for 1.15 percent of quality assurance errors. By September 30, 2017, VBA will reduce the errors related to inaccurate disability evaluations from 1.15 percent to no more than 1.12 percent. The number of known errors in disability evaluations is based on quality assurance testing and includes instances where (1) the veteran is being underpaid disability compensation (under-evaluations) and (2) the veteran is being overpaid disability compensation (over-evaluations). The error rate for the under/over-evaluations in FY 2014 was 1.25 percent and dropped to 1.15 percent in FY 2015. VA is targeting a 2 percent decrease in the error rate to get to the target error rate of 1.12 percent. VBA is continuously tracking the progress and provide updated information biannually.

This Supplemental Measure targets errors resulting in incorrect amounts paid because the Veteran was entitled to higher/lower evaluation. Veterans are being evaluated and assigned a disability rating but the assigned ratings are lower or higher than they are entitled to under the Schedule for Rating Disabilities, 38 CFR Part 4. The root cause of these errors is that the Rating Veterans Service Representative assigns a disability rating that is lower/higher than the rating the Veteran is entitled to for their medical condition.

VBA has made strides in improving quality and consistency of Veterans' disability evaluations through the use of standardized and automated evaluation tools. Historically, Veterans have been evaluated and assigned a disability rating either higher or lower than they are entitled under the Schedule for Rating Disability leading to improper payments. VBA is taking steps to increase quality, which will impact the accuracy of disability evaluations and impact improper payments related to these errors.

The risk associated with this measure is that it only impacts current and future rating decisions. Since administrative errors made on rating decision determinations are usually not recoverable, Compensation Service is taking action to ensure that the correct rating evaluation is made. We mandate the use of job aids such as the evaluation builder, and the special monthly compensation calculator, to facilitate more accurate rating decisions. We also update manual guidance and administer consistency studies (consisting of a pretest, training, and posttest), on several aspects of rating evaluations.

The graphical representation below represents the reduced number of errors by fiscal year related to errors associated with over and under evaluations. Improvements in numbers are contributed to the use and compliance with standardized tools, to include the Evaluation Builder and Special Monthly Compensation Calculator.



Source: Statistical Technical Assessment Review

2. Number of Dependency Claims In Inventory

As of September 2016, VBA's dependency claim inventory is less than 115,000. By September 30, 2017, VBA will reduce the inventory of dependency claims by approximately 127,000 (about 56 percent) to 100,000. Dependency claims are among the major drivers of improper payments. At the end of FY 2015, the dependency claims inventory was almost 227,000. VBA is continuously tracking the progress and provide updated information quarterly.

Veterans who are awarded disability compensation at the 30-percent level or higher are entitled to additional compensation for their eligible dependents. Approximately 70 percent of the 4.1 million Veterans currently receiving compensation are eligible for this additional benefit – nearly 45 percent more than those eligible for the same benefits just five years ago. As the status of these Veterans' dependents change (through marriage, divorce, death, birth or adoption of children, step-children, and school attendance for children over 18 years of age), adjustments must be made to Veterans' compensation awards. With VA's record-breaking levels of production of disability rating decisions (almost 1.4 million disability claims completed in FY 2015), more and more Veterans continue to be added to the compensation benefits.

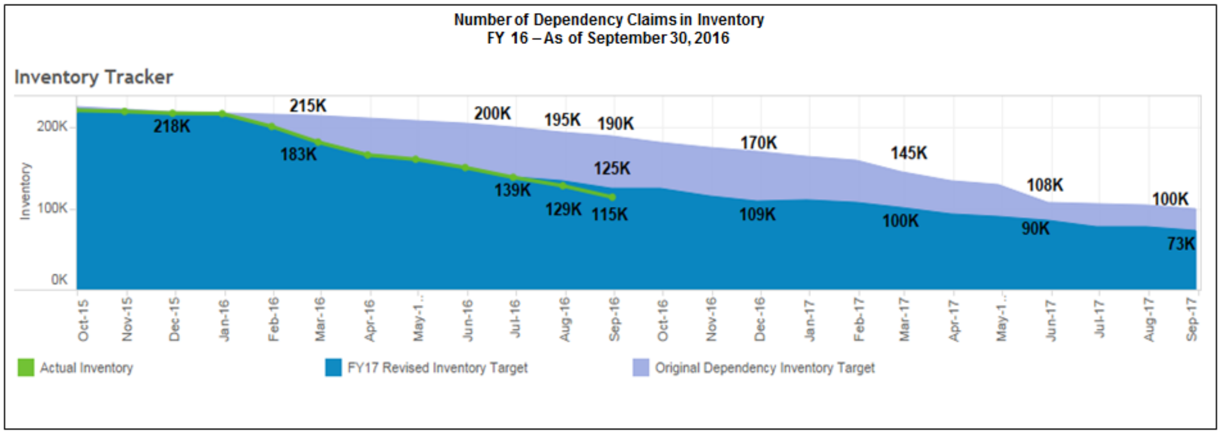
Veterans are required to provide the necessary evidence to add a dependent(s) into their monthly benefit and notify VA of changes in their dependent status. Improper payments occur when dependents are not added/removed timely when VA had the evidence on file of the change. Ensuring that Veterans receive timely and accurate claim decisions is paramount. The risks associated with this measure are that VBA is reliant on the beneficiary to update dependent status and the workload continues to increase as eligibility to dependency benefits continues to grow. As VA continues to improve timeliness of disability claims decisions, VBA will also focus on the dependency claims that are the direct result of the dramatic increase in completed disability rating decisions and growth in the number of Veterans receiving compensation at the higher disability evaluation levels.

VBA has already taken steps to expand our capability to address this growing inventory, which is a direct result of VBA's record-breaking achievements in reducing the claims backlog. Primarily, VBA engineered a rules-based processing system that is designed to complete most dependency claims. Veterans input data about their dependents into an automated form in eBenefits. VA has identified a set of exceptions that prevent automated processing and is reviewing the costs and functional requirements to eliminate these exceptions and expand Veterans' self-service.

In addition, VBA launched a pilot program in FY 2015 under which VA call center agents, who routinely receive calls from Veterans about the status of their dependency claims, obtained, and input dependency claim data to enable VA's rules-based processing system to automate dependency adjustments. The pilot proved successful as another method to expand automated processing to add a minor biological child, a spouse, a child in school between the ages of 18 and 23, and remove a spouse due to death or divorce. Since inception, more than 42,000 dependency claims were processed under the pilot. The program was expanded to the remaining call centers at the end of September 2015. All National call centers handle most dependency adjustments at the point of call while on the phone with the Veteran.

Processing dependency claims more timely will ultimately impact the amount of improper payments. VBA has an aggressive plan to reduce the inventory to 100,000 by the end of FY 2017. As the dependency claim inventory is reduced, claims are processed more timely and erroneous omissions of dependents from monthly benefit payments is also reduced. This ensures Veterans are receiving the accurate benefit payment they are eligible for, reducing the number of errors and, ultimately, the amount of improper payments.

The graphical representation below illustrates VBA's progress towards reducing the dependency inventory to 100,000 by September 30, 2017. As of September 30, 2016, the inventory was less than 115,000 which is a 47 percent decrease from December 2015.



Source: Performance Analysis & Integrity Non-Rating Bundle/Other Than Rating Dashboard (Report Hub)

When adjustments are made to correct dependency errors, the Veteran/beneficiary is notified in writing of any proposed adverse action. After the prescribed due process period, action is taken to reduce or terminate, and post-determination notice is provided to the Veteran/beneficiary. Any overpayment generated from this adverse action will be referred to the Debt Management Center for collection.

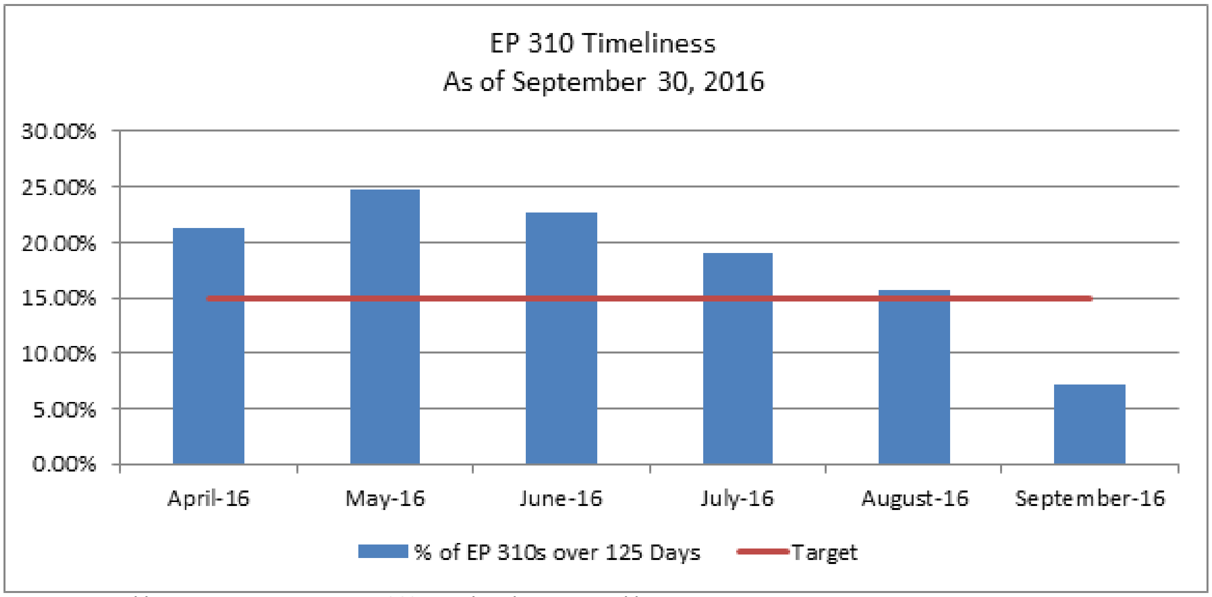
3. Percentage of Temporary 100 Percent Disability Claims Pending Over 125 Days

As of September 2016, 7.3% percent of temporary 100% disability compensation claims are pending over 125 days. By September 30, 2017, VBA's goal is to reduce the number of temporary 100 percent disability claims pending for more than 125 days to no more than 15 percent of the total claims. Veterans are assigned temporary 100% evaluations for disabilities warranting 100% disability compensation for a finite period of time. Untimely processing may result in a Veteran keeping their 100% disability longer than potentially needed, resulting in an improper payment. Historically, VBA was not able to consistently achieve this standard when processing the temporary 100 percent disability claims. VBA is working to eliminate claims older than 125 days through routine monitoring of the pending workload. However, VBA has implemented tools to help track aging claims and promptly take necessary actions. VBA is continuously tracking the progress and provide updated information quarterly.

VBA policy requires a temporary total 100% evaluation benefit reduction disability for a service-connected disability following a veteran's surgery or when specific treatment is needed. At the end of a mandated period of convalescence or treatment, Regional Office staff are required to request a follow-up medical examination if available evidence is not adequate to help determine whether to continue the veteran's 100% disability evaluation. It was found that VBA was not correctly evaluating and monitoring temporary total 100% evaluation benefit reduction disability resulting in improper payments. The risk associated with this measure is that if the Veteran does not receive the medical examination or medical evidence is not available within 125 days, the temporary 100% evaluation may be unnecessarily prolonged.

VBA implemented a procedure to ensure appropriate action is taken on all temporary 100-percent disability evaluations within 180 days of inclusion on the monitoring report, or maturation of VBA's future examination indicator that is established when the Veteran is awarded a temporary 100-percent evaluation. In addition, the Office of Field Operations (OFO) monitors the temporary 100-percent workload and distributes reports weekly to all Regional Offices showing specific claims requiring expedited processing. VBA has developed measureable milestones and performance goals are in place to track progress. VBA will continue to work diligently to decrease the percentage of temporary 100 Percent Disability Claims Pending Over 125 Days and focus efforts on completing any necessary adjustment within 125 days.

The graphical representation below illustrates VBA's progress towards reducing the number of temporary 100 percent disability claims pending more than 125 days to no more than 15 percent of total claims. As of September 30, 2016, 7.3% over of temporary 100 percent disability compensation claims were pending over 125 days.



Source: PA&I Weekly Reports – Temporary 100% Review (Reports Hub)

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		Beneficiary Travel		CHAMPVA		VA Community Care		Purchased Long Term Services and Supports		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		-	-	6.51	14.23	3,327.6433	-	923.19	-	-	-	-	-
Inability to Authenticate Eligibility		-	-	-	-	-	-	-	-	-	-	-	-
Failure to Verify:	Death Data	-	-	-	-	-	-	-	-	-	-	-	-
	Financial Data	-	-	-	-	-	-	-	-	-	-	-	-
	Excluded Party Data	-	-	-	-	-	-	-	-	-	-	-	-
	Prisoner Data	-	-	-	-	-	-	-	-	-	-	-	-
	Other Eligibility Data (2,3,4,5,6)	25.05	-	0.03	-	125.5607	-	1.36	-	0.94	-	-	-
Administrative or Process Error Made By	Federal Agency	17.59	2.60	23.98	9.12	104.4136	19.0728	199.00	3.08	2.18	0.75	5.55	0.03
	State or Local Agency	-	-	-	-	-	-	-	-	0.32	0.71	-	-
	Other Party	-	-	-	-	-	-	-	-	-	-	-	
Medical Necessity		8.47	-	-	-	-	-	-	-	-	-	-	-
Insufficient Documentation to Determine		11.93	-	-	-	10.5546	-	52.86	-	24.03	-	16.69	-
Other Reason (explain)		-	-	-	-	-	-	-	-	-	-	-	-
TOTAL		63.04	2.60	30.52	23.35	3,568.1722	19.0728	1,176.41	3.08	27.47	1.46	22.24	0.03

Notes to Table 2(For VHA):

(1) In FY 2016, VA tested and reported on payments made in FY 2015.
(2) Beneficiary Travel improper payments are due to lack of administrative qualification of the beneficiary or failure to verify/document services were received.
(3) CHAMPVA improper payments are due to the recipient being ineligible for payment because Veteran/Beneficiary information was not input or determined correctly either at the time of application or after the application has been entered and program office is not notified of the change.
(4) VA Community Care improper payments are due to the Veteran being ineligible for Fee care.
(5) Purchased Long-Term Services and Supports improper payments are due to the Veteran being ineligible for purchased care.
(6) State Home Per Diem Grants improper payments are due to unverified service connection or ineligible resident.

Table 2.1 (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 – HS		PFE - Payroll	
		Over pay-ment	Underpay-ment	Overpay-ment	Underpay-ment	Over pay-ment	Underpay-ment	Over-pay-ment	Under-pay-ment	Over pay-ment	Under pay-ment	Over pay-ment	Under pay-ment	Over pay-ment	Underpay-ment	Overpay-ment	Under pay-ment
Program Design or Structural Issue		-	-	-	-	-	-	-	-	-	-	-	-	-	-	.001	-
Inability to Authenticate Eligibility		119.382	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Failure to Verify:	Death Data	-	-	12.738	-	-	-	-	-	-	-	-	-	-	-	-	-
	Financial Data	-	-	26.945	2.831	-	-	-	-	-	-	-	-	-	-	-	-
	Excluded Party Data	-	-	-	-	-	-	-	-	-	-	-	-	.002	-	-	-
	Prisoner Data	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other Eligibility Data (2)	2.853	3.497	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administrative or Process Error Made By	Federal Agency	132.343	116.921	2.001	-	6.92	0.03	3.92	-	.076	.012	.363	.260	.802	-	12.552	7.293
	State Agency	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other Party	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Medical Necessity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insufficient Documentation to Determine		1.581	-	35.530	-	-	-	-	-	-	-	-	-	.045	-	12.233	-
Other Reason (3, 4)		-	-	43.692	3.360	-	-	-	-	-	-	-	-	.016	-	-	-
TOTAL		256.159	120.418	120.906	6.191	6.92	0.03	3.92	-	.076	.012	.363	.260	.865	-	24.786	7.293

Notes to Table 2.1 (For VBA, Disaster Relief Act and Payroll):

(1) In FY 2016, VA tested and reported on payments made in FY 2015.
(2) Other Eligibility Data represents failure to verify dependency data.
(3) Other reason category for Pension represents recipients not notifying VA of income changes in a timely manner.
(4) Other reason category for Disaster Relief Act – HS represents a fund transfer error.

Section V. Corrective Actions Being Undertaken by VA Programs

Corrective Action Plans (CAPs) are used to remediate errors identified as the root cause of improper payments. Each program reviews CAPs annually to ensure plans focus on the root causes of the errors, thus making it more likely that targets are met. Of the 14 VA programs identified as high-risk, 7 programs exceeded the statutory thresholds for error rates and/or amounts of improper payments and are discussed below.

VHA

Of the six VHA programs identified as high risk, five programs exceeded the statutory thresholds for error rates and/or amounts of improper payments and are discussed below.

1. Beneficiary Travel

Member Services 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 2017. The Acting Deputy Under Secretary for Health for Operations Management is accountable for ensuring execution of the corrective action plans.

Member Services has been prioritizing clinical need, timely access, and payment processing above administrative details that could delay critical care or Veteran travel reimbursements. Since 2014, VA has redoubled efforts to provide quality care to Veterans and has taken steps at national and local levels to ensure timely access to care. VHA has delivered a coordinated, systemwide initiative to accelerate care to Veterans. Each VAMC is either enhancing their clinic capacity to help Veterans get care sooner, or where we cannot increase capacity, increasing the care we acquire in the community.

Corrective Actions to Address Root Causes:

Root Cause: Failure to Verify Other Eligibility Data (38.16%)

- Error Cause: Payments made to an ineligible recipient where the beneficiary did not meet administrative qualification criteria through service connection, income level, reception of VA pension, travel related to Compensation and Pension, or emergency situations.

  In December 2015, the Beneficiary Travel calculator was updated to collect income information when necessary to determine eligibility for those Veterans who are not required or exempt from entering Means Tests or Copay Tests or those eligible who wish to have their deductible requirement waived.

  This action was complete in January 2016, when National training was provided to the field on how to implement the new changes.

- Error cause: Failure to verify services were received or proof that medical care was provided due to not having real-time access to national level Beneficiary Travel claim data. In May 2016, the Web-based solution (VetRide) will further improve payment tracking for all Veterans Transportation Service locations. Four sites have passed user acceptance testing and transitioned from RouteMatch or the SharePoint Scheduling and Reporting System to VetRide as of June 2016.

  Anticipated completion date of this corrective action is December 2018.

Root Cause: Administrative or Process Error Made by Federal Agency (30.75%)

- Error cause: Payments made without claimant signatures, reimbursements for benefits not allowable, payments made in the incorrect amount or duplicate payments due to lack of automated payment processes. System patches were developed and released to enhance the accuracy of 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.

  This action was complete in September 2016.

  Additionally, system patches are being developed to enhance the accuracy of claims processing. These capabilities address waiver, deductible, and dashboard issues and will reduce administrative and process errors.

  Anticipated completion date of this corrective action is September 2017.

  As a long-term automated solution Beneficiary Travel Self-Service Solution (BTSSS) is being created to allow self-service and improved electronic travel claims processing of payments. The BTSSS will completely automate the front end of the mileage claims processing up to the point of payment then will integrate with fiscal systems for completion of payment. While maintaining segregation of duties, results will reduce administrative, processing, and lack of documentation errors of mileage, special mode transportation and other than mileage payments.

  Anticipated completion date is approximately 3 to 5 years.

Root Cause: Insufficient Documentation to Determine (18.18%)

- Error cause: Lack of supporting documentation to validate payment due to insufficient tracking mechanisms. In February 2016, The OCC and Member Services partnered to pilot an electronic Beneficiary Travel invoice payment solution using the Fee Basis Claims System (FBCS) nationwide. The pilot program is expected to improve the timeliness and accuracy of ambulance invoices. The initial pilot phase was executed in April 2016 and completed in May 2016.

  This action was complete in May 2016.

- Error cause: Lack of supporting documents to validate payment. VHA revised the 2016 IPERA testing checklist for 2017 into two separate testing plans to clarify the documentation required from facilities to properly support payment accuracy for either a mileage or special mode transportation claim.

  This action was complete in September 2016.

Root Cause: Medical Necessity (12.91%)

- Error cause: Lack of medical documentation on file for special mode transportation due to poor storage and retrieval processes or lack of medical justification notes. The Computerized Patient Record System reminder templates were developed and released to enhance the accuracy of claims processing. In July 2015, the templates were approved for national use and were tested at various locations. The new clinical templates reduce medical necessity errors resulting from lack of medical justification to support the payment. The templates were mandated for national use in May 2016.

  This action was complete in May 2016.

- Error cause: Lack of medical documentation on file for special mode transportation to show travel was medically required and/or preauthorized. In August 2014, the VHA released a new series of recurring online Beneficiary Travel national educational forum sessions to increase standardization of processes in the field. Each interactive forum is targeted to facility and VISN level Beneficiary Travel, Enrollment, and Financial staff on relevant issues such as covered benefits, increasing field compliance with established policies, and improving consistencies in payment methodologies. In November 2014, two on-demand Beneficiary Travel national training certifications were released: one for Beneficiary Travel Claim Processors and one for Beneficiary Travel Supervisors. Completion of training was nationally mandated in February 2016.

  This action was complete in February 2016.

- Error cause: Lack of medical justification on file for special mode transportation. VA anticipates publication of proposed legislated program changes that will reduce improper payments related to lack of medical necessity. At this stage of the rulemaking, these changes are currently within VHA concurrence.

  Anticipated completion date is approximately 3 to 5 years.

2. CHAMPVA

OCC will implement, or has implemented, the following corrective actions to ensure greater compliance. With the implementation of the below actions, VHA expects to reduce improper payments by 0.01 percentage points in 2017. The Executive Director of Delivery Operations is accountable for ensuring execution of the corrective action plans. All corrective actions are monitored by the Quality and Corrective Action Plan Manager and tracked through a database to ensure successful implementation.

CHAMPVA is in the process of finalizing a Business Requirements Document to support contracting out development of outstanding technology modifications. Once the contract can be awarded and development completed, OCC anticipates a 25-60 percent reduction in improper payments. Interim corrective actions that address the major error causes include continued revisions and staff training on vendor file management and selection processes, daily prepayment reviews of a percentage of claims for accuracy, and manual reconciliation process for vendor types that are associated with high error rates such as Sole Community Hospitals.

Corrective Actions to Address Root Causes:

Root Cause: Administrative or Process Error Made by Federal Agency (61.43%)

- Error cause: Beneficiary having other health insurance that should have been billed prior to VA, incorrect claim redevelopment, incorrect vendor file setup or vendor selection, incorrect patient responsibility, data entry error, incorrect queue clearing, or system calculation errors when processing the claim. CHAMPVA is a secondary payer when a beneficiary has other health insurance and should only pay after the primary insurance plan has paid against the claim. Errors in the vendor data files can create improper payments and manual data entry errors. VHA has developed a Business Requirements Document to support multiple system modifications that will significantly contribute to improper payment reduction. System enhancements include streamlining vendor selection, lowering threshold for claims to be routed to a High Dollar Review Queue, elimination of manual work-arounds for reopened claims, and other enhancements to improve payment accuracy.

  This action was complete in September 2016.

  In addition, VHA implemented a daily postpayment review on all claims paid over $75,000 to identify major processing issues more timely and facilitate sustainment training for individual staff.

  This action was complete in October 2016.

  VHA is also developing a process that allows for Sole Community Hospitals' vendor files, that also have a General Hospital vendor file, to be reviewed for critical changes prior to staff use to avoid vendor file selection errors.

  Anticipated completion date is November 2016.

Root Cause: Program Design or Structural Issue (38.51%)

- Error cause: Improper processing documentation (bill, itemized statement, etc.), incorrect or untimely eligibility documentation, vendor documentation, or other health insurance documentation in the initial application resulting in an improper payment. Many of these errors come from documentation gaps, which result when a change in health insurance status or marital status was not available in time to properly process the initial benefits application or a claim. VHA reviewed existing vendor desk procedures for the Health Care Reimbursement staff, made necessary updates, and conducted refresher training for all voucher examiners, leads, and queue clearers for the critical connection between payment accuracy and proper vendor and facility type selection.

  This action was complete in August 2016.

Root Cause: Failure to Verify Other Eligibility Data (0.06%)

- Error cause: Beneficiary's information not input in accordance with policy (i.e., date of marriage, date of birth, Medicare dates, etc.) or eligibility status incorrectly determined for CHAMPVA benefits either at the time of application or after the application has been entered and program office is not notified of the change. These types of errors are very difficult to prevent due to not having access to real-time data. In 2015, data matches with Centers for Medicare and Medicaid Services and Tricare are being utilized to detect changes in the beneficiary's status that could affect CHAMPVA eligibility.

  This corrective action is ongoing.

3. VA Community Care

OCC 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 0.86 percentage points in 2017. The Executive Director of Delivery Operations is accountable for ensuring execution of the corrective action plans. All corrective action plans are forwarded to the Quality and Corrective Action Plan Manager to ensure they are successfully executed and tracked through a database.

VA has requested a change in legislation to become compliant with FAR and has been actively pursuing remedies since the issue was first raised during the OIG's 2015 review of VA's compliance with IPERA. Until such time as proposed legislative and contractual remedies are implemented, VA will continue to utilize individual authorizations as required to support Veterans' timely access to care. As a result, VHA's IPERA improper payment rate will continue to exceed the 10 percent threshold. VA is taking steps to mitigate the situation in absence of legislative relief. In May 2015, VHA issued a hierarchy of care memorandum that requires the Choice contract to be the primary vehicle for Veteran care outside the VA Healthcare System. In the fall of 2015, the hierarchy of care memorandum was further revised. Should the Choice program be unable to support the needed care, further options are delineated with individual authorizations being the last option. The impact associated with VA facilities using the Choice program to acquire community-based care will not begin to be realized as part of the annual IPERA reviews for at least two more years, at which point the impact could be only short-term and tempered if and when Choice contracts are no longer available due to depleted funding and the needed legislative changes go unrealized.

VA Community Care utilizes a highly manual claims processing system with limited automation to process claims for community-based services. This manual system, coupled with multiple program authorities and payment schedules, has created a very complex process that leaves the program open to human error throughout the claims adjudication process. In October 2015 a plan to consolidate Community Care programs was submitted to Congress for consideration. Key elements of this plan include creating a singular community care program that meets the needs of Veterans while remaining simple to administer and easy to understand and moving towards a claims payment system where a high percentage of claims are auto-adjudicated, enabling timely and accurate reimbursement.

Interim corrective actions have been developed to address short-term processing accuracy needs. In March 2016, OCC leadership mandated that staff utilize qualitative tools that review claims in a prepayment state for potential improper payments, allowing staff an opportunity to correct errors in advance of the payment being finalized. One of the tools scans for potential duplicate payments across the entire VA Community Care payment system, something that cannot be done in real time by staff members due to the decentralized nature of the current claims processing system. Another tool reviews claims for potential coding errors, such as unbundled charges, that lead to improper payments.

Guidance and standard operating procedures are also in development to support proper application of claims system coding edits. The current claims system relies on Medicare edits to drive claims processing; however, there are times when care authorized by VHA is outside of the Medicare billing standard. In those instances it is appropriate for VHA to issue payment in accordance with the authorized services, but it is equally important that documentary evidence be available to justify to payment when edits do not apply to the claim.

A new corrective action that will be implemented in October 2016 is a daily prepayment review of VA Community Care inpatient claims to ensure appropriate payment methodology and calculations are applied by staff. Errors within this claim type tend to be high-dollar value with multiple providers submitting claims for one episode of care. This manual review will be resource-intensive, but OCC anticipates a significant contribution to reducing improper payments.

Additional corrective actions underway include reinforcing to staff that expired contracts, such as the former Project HERO contracts, cannot be used to authorize or pay for community care services and collaborating with OCC revenue staff to improve the availability of insurance information in Veterans Health Information Systems and Technology Architecture (VistA). Under 38 USC 1725, VHA has authority to consider the availability of third party insurance in its claims processing decisions. When staff do not have timely access to accurate insurance information, it creates a situation where claims may be processed correctly at the time but become incorrect once the full information is available. By collaborating with OCC revenue staff to streamline the availability of this information, it is OCC's belief that the number of improper payment findings associated with the error cause "not an eligible Veteran" will quickly diminish.

Corrective Actions to Address Root Causes:

Root Cause: Program Design or Structural Issue (92.8%)

- Error cause: Lack of appropriate acquisition actions. 38 U.S.C. 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. The VA OIG has cited contracting discrepancies related to compliance with the FAR and where VHA exceeded its regulatory authority as improper. Beginning in 2015, if FAR or VAAR were not fully met, VHA considered the payments improper. This error cause had a significant impact on the program being designated as a high-priority program and the corrective actions have been tailored to meet compliance while balancing Veterans' access to care. To help address, OCC submitted to Congress a plan to consolidate Community Care programs under a singular authority.

  This action was complete in October 2015.

  In addition, VA implemented the use of VA Provider Agreements utilizing the authority already provided by the Choice Act.

  This action was complete in February 2016.

In May 2015, Community Care 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 Veterans Choice Program. The implementation of this memo is ongoing with full impact and compliance anticipated during FY 2017. Additionally, within FY 2017, OCC will release a memo related to 38 U.S.C. 1703 individual authorizations clarifying to field facilities the need to utilize other purchasing mechanisms.

Anticipated completion date is September 2017.

Also in May 2015, a legislative proposal was submitted for Congressional consideration that would allow VA-initiated Veteran care agreements as authority for required non-VA medical services. Additionally, VA provided comments on multiple bills in this session of Congress that may achieve the same goal.

This corrective action is pending Congressional action.

Root Cause: Failure to Verify Other Eligibility Data (3.5%)

- Error cause: Payments made for patients not eligible for non-VA care. VHA will collaborate across business lines to improve availability of insurance information available to voucher examiners in order to appropriately adjudicate claims under 38 USC 1725.

  Anticipated completion date is July 2017.

Root Cause: Administrative or Process Error Made by Federal Agency (3.4%)

- Error cause: Claims processor selecting the wrong schedule to pay, not properly applying the FBCS scrubber edits, or other payment methodology errors. Errors were also attributed to lack of required contracts where a VAMC referred a Veteran to a facility or hospital and only had authority to pay using a contract such as Rehabilitation Hospitals and Long-Term Acute Care Hospitals. 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.

  This action was complete in December 2015.

  VHA also mandated utilization of three qualitative tools that proactively identify potential improper payments among claims in a prepayment state.

  This action was complete in March 2016.

  VHA updated the Non-VA Inpatient Hospital Payment Methodology Procedure Guide to incorporate newborn care processes.

  This action was complete in September 2016.

VHA developed and implemented guidance and standard operating procedures regarding adherence to FBCS scrubber edits and proper processes to follow when scrubber edits do not apply to the claim.

This action was complete in September 2016.

VHA implemented a manual, prepayment review of inpatient claims to ensure appropriate payment methodology and calculations.

Anticipated completion date is November 2016.

VHA will develop a written statement and make an announcement regarding use of expired contracts to authorize and/or pay for Community Care.

Anticipated completion date is November 2016.

VHA will develop business case for adding professional coding staff to the organizational structure to improve training, processes, monitoring, and compliance.

Anticipated completion date is December 2017.

Root Cause: Insufficient Documentation to Determine (0.3%)

- Errors cause: Lack of supporting documentation to validate payment or justify services paid. VHA will revise the Compensation & Pension desk procedures to incorporate step-by-step instructions.

  Anticipated completion date is November 2016.

4. Purchased Long Term Services and Supports

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 0.15 percentage points in 2017. The GEC Chief Consultant is accountable for ensuring execution of the corrective action plans.

In February 2014, VHA instructed VAMCs to convert all nursing home agreements to contracts following the FAR at the earliest possible date. Beginning in 2015, if FAR or VAAR contracting requirements were not met, VHA considered the payments improper.

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. Beginning with 2015, VHA considered § 17.56 errors as improper payments.

Corrective Actions to Address Root Causes:

Root Cause: Program Design or Structural Issue (78.27%)

- Error cause: Lack of appropriate acquisition actions to include error cause mentioned under this section for VA Community Care and errors resulting from the AN98 regulatory change. These error causes had a significant impact on the program being designated as a high-priority program and the corrective actions are tailored to meet compliance while balancing Veterans access to care. VHA will incorporate regulatory change (AN98) on payment processes for non-skilled Purchased Home and Community-Based Services (HCBS) to correct errors in payment structure. These changes would affect Homemaker/Home Health Aide services (H/HHA), Purchased Skilled Home Community Adult Day Health Care, In-Home Respite and Veteran Directed HCBS. The primary effect would be on H/HHA as that is the largest program.

  Anticipated completion date is April 2017.

  VHA continues to implement regulatory change on payment processes for Purchased Skilled Home Care to correct errors in payment structure.

  Anticipated completion date of the re-evaluation of this corrective action is March 2017.

  In April 2016, VHA introduced Local VA Provider Agreements to purchase non-skilled HCBS in lieu of individual authorizations to correct errors in acquisitions.

  Anticipated completion date is September 2017.

Root Cause: Administrative or Process Error Made by Federal Agency (17.13%)

- Error cause: Lack of appropriate acquisition actions to include lack of contracts, delayed creation or renewal of contracts, and payment methodology errors. These error causes had a significant impact on the program being designated as a high-priority program and the corrective actions have been tailored to meet compliance while balancing Veterans access to care. VHA 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. Active oversight and technical assistance will be provided to VISNs and VAMCs.

  Anticipated completion date is December 2016.

  VHA 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. Active oversight and technical assistance will be provided to VISNs and VAMCs. VHA will also increase utilization of Medicare benchmark rates for Hospice Care.

  Anticipated completion date is December 2016.

  VHA is also working to embed the Purchased HCBS Case Mix and Budget Tool into the authorization template and increase awareness of Bowel and Bladder payment procedures by completing a Desk Guide for distribution to VAMC staff that outlines proper procedures that must be followed when determining payment rates for these services.

Anticipated completion date is April 2017.

VHA will also convert purchasing of Nursing Home Care and Inpatient Hospice Care to FAR-based contracts

Anticipated completion date is September 2017.

Root Cause: Insufficient Documentation to Determine (4.48%)

- Error cause: Missing admission applications or the lack of sufficient documentation provided to justify services paid. VHA conducted IPERA training for VISN and stations to highlight the preferred format of requested documentation to increase compliance and establish best practices for submission. Updated and distributed the Documentation Guide and Checklist with embedded examples to provide additional resources to complete data calls. Training will be updated annually and information will be covered in other written material.

  This action was complete in March 2016 and will be complete annually.

Root Cause: Failure to Verify Other Eligibility Data (0.12%)

- Error cause: Payments made for Veteran not eligible for care. VHA has conducted field training on timely and accurate contract renewals to ensure correct authorizations are established.

  This action was complete in May 2016

5. State Home Per Diem Grants

OCC 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 0.07 percentage points in 2017. The Executive Director of Delivery Operations is accountable for ensuring execution of the corrective action plans. All corrective action plans are forwarded to the Quality and Corrective Action Plan Manager to ensure they are successfully executed and tracked through a database.

VHA's State Home Per Diem Grants program has made significant progress since FY 2013 in reducing improper payments. In 2016 however, VHA was able to identify an increase in improper payments associated with missing or incomplete documentation for domiciliary residents. This is due in part to a change in sampling stratification allowing VHA to identify and address additional issues that will benefit the program long-term.

Historically, the State Home offices tracked patient movements manually until the Electronic Tracking Tool was mandated by the State Home program office. Implementing and conducting training on the new application form and updated invoice forms will streamline the eligibility and application processing time lines and improve associated invoice processing accuracy. These corrective actions are limited by the lack of encryption software that prevents full automation. A pilot is underway right now to assess the impact associated with automating the application form similarly to how the eligibility form was automated.

With the State Home program, the Approval and Denial letters are crucial to communicating application determinations to the State Home regarding each resident's status. If the VAMC does not properly issue Approval or Denial letters, the State Home operates under the assumption that the originally-submitted application is accurate for invoicing purposes, which leads to improper payments. The State Home program office has mandated each VAMC issue standardized letters to their State Homes and Domiciliary outlining the approval and level of care to be paid for each patient on a monthly basis. Standardizing these letters ensures proper communication between VAMCs and State Homes and facilitates continued payment accuracy.

Corrective Actions to Address Root Causes:

Root Cause: Insufficient Documentation to Determine (83.06%)

- Error cause: State Homes are required to submit complete applications within specified time frames and VA is required to reference those applications prior to processing payment. These errors resulted from missing admission applications or documentation not available or not supplied to justify services paid. VHA changed the source document for internal reviews from a VAMC-completed roster of documents to the mandated Electronic Tracking Tool, which will ensure VAMCs upload all applications to the SharePoint site once the State Homes submits completed applications. Additionally VA staff must utilize proper tracking mechanisms to accurately reconcile the invoice receiving report before issuing payment.

  This action was complete in October 2015.

  In addition, VHA implemented internal control processes for State Home Per Diem program staff to complete the application review using the Electronic Tracking Tool to identify errors, then follow-up with the field on correction of identified errors. Provided training and continued monitoring after review to ensure process improvements are maintained through quarterly progress reports.

  This action was complete in October 2015.

  VHA is continuing to redefine strategic relationship with the VISN/VAMC Business Implementation Managers and Fiscal Quality Assurance Managers to have a State Home Per Diem Point of Contact delegated at the VAMC of jurisdiction to process the eligibility of Veterans in the State Home. State Home program office has developed a SharePoint site to capture the Delegation of Authority appointments for the point of contact and State Home Per Diem Clerk as well as the Fiscal point of contact at every VAMC to target an interactive competency assessment to be taken yearly by these key staff to ensure properly trained staff are reviewing the application packages prior to payment.

  Anticipated completion date is January 2017.

Root Cause: Administrative or Process Error Made by Federal Agency (10.13%)

- Error cause: State Homes are required to submit complete applications within specified time frames and VA is required to reference those applications prior to processing payment. VA staff must also utilize proper tracking mechanisms to accurately reconcile the invoice receiving report before issuing payment. These errors resulted from incomplete admission applications, incomplete receiving report on the invoice, or data entry errors resulting in an incorrect amount paid. VHA will conduct training on the new application form with a more detailed administrative section and comprehensive instructions. The automated application will provide the State Veteran Home with a guided form that will highlight required information and restricts submission to only completed forms. Submits electronically and securely from the State Home to the VA once it has been filled out completely and has business rules built into the form to help standardize outcomes.

Anticipated completion date is April 2017.

Root Cause: Administrative or Process Error Made by State Agency (3.56%)

- Error cause: Admission application for new residents are not received within 10 days and payment for days of care was issued prior to the date VA received the form for processing or when an incorrect calculation was recorded on the invoice and was not identified prior to payment. VHA provided training on the updated invoice. Updated forms now have built-in calculations to decrease improper payments. Training will ensure claims for payment of benefits are processed accurately, in a timely manner, and are fully justified and documented for program management and auditing. Continue training quarterly during the State Home Per Diem monthly training call with the field with an emphasis on the time lines needed to ensure payment occurs from date of admission if application is received within 10 days of admission of the Veteran.

  This action was complete in September 2016.

Root Cause: Failure to Verify Other Eligibility Data (3.25%)

- Error cause: Errors caused by unverified service connection of the Veteran or ineligible resident. VHA provided training on the standardized Approval/Denial letters and appeal rights when the Veteran is denied the level of care due to eligibility.

  This action was complete in June 2016.

VBA

Corrective actions for the two VBA programs that exceeded the statutory thresholds are presented below.

1. Compensation

The Compensation program is implementing the following corrective actions to ensure greater compliance. With the implementation of these actions, VA expects to reduce improper payments by 0.01 percentage points in 2017. 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.

Corrective Actions to Address Root Causes:

Root Cause: Administrative or Process Error Made by: Federal Agency (66.19%)

- Error cause: Processing, failing to reduce benefits appropriately, entitlement to a higher evaluation errors, and dependency adjustments. These errors impact the payment amounts that our Veterans and beneficiaries receive. Compensation Service is reviewing the medical evaluation process and providing training to positively impact the quality of rating evaluations by regional offices. This will address issues/errors found where a Veteran was entitled to a higher or lower evaluation, but not evaluated at the correct disability level, or may or may not have been potentially entitled to extra special monthly compensation payment which resulted in an incorrect amount paid to the Veteran.

In addition, Compensation Service implemented improvements to reduce error rates associated with rating claims processing, to include correct processing of temporary total (100%) ratings. Consistency studies will assess and train regional office employees on specific subjects related to errors found on IPERA testing and quality reviews. During these consistency studies, there is a pretest which must be passed at the 100% correct rate, in order to bypass remedial training and a posttest. Improvement from pretest to the posttest is expected. This will enable employees to recognize the correct actions/procedures to take when processing temporary total ratings.

Also, Compensation Service is reviewing and updating procedural guidance via Knowledge Management manual throughout the fiscal year will ensure clarity. These changes occur due to changes in legislation, changes in policy, and procedural updates. Manual references are updated on an ongoing basis so regional office employees have the most current procedures.

Anticipated completion date is September 2017.

Root Cause: Failure to Verify: Other Eligibility Data (1.69%)

- Error cause: Veteran/beneficiaries are not correctly paid for their beneficiaries, not paid timely for their dependents, or timely removal of dependents was not done. This impacts the payment amount that our Veterans and beneficiaries receive for their dependents. Compensation Service continued use of Rules-Based Process System (RBPS) as an intermediate automated process for suitable dependency claims has resulted in an ongoing increase in acceptance of dependency claims through this electronic processing system. This is due to:

    - Identifying reasons for the rejection rate and determine best course of action for change in rules

    - Reviewing acceptance rates from programming rule to determine if additional updates are needed.

The continued use and improvements to the RBPS is expected to incrementally increase the acceptance rate for the automated processing of dependency claims.

In addition, Compensation Service uses consistency studies to assess and train regional office employees on specific subjects related to errors found on IPERA testing and quality reviews. During these consistency studies, there is a pretest which must be passed at the 100% correct rate, in order to bypass remedial training and a posttest. Improvement from pretest to the posttest is expected. This will enable employees to recognize the correct actions/procedures to take when processing dependency awards, and paying retroactive awards for dependents when there is an increased rating evaluation.

Anticipated completion date is September 2017.

Root Cause: Inability to Authenticate Eligibility (31.70%)

- Error cause: Rating decisions where service treatment records noted a diagnosis of a condition, which was shown at present but there was no nexus of this condition from service to the present. The Veteran had been granted service connected benefits for this condition in error. The eligibility for this Veteran to receive service connection for the condition is not warranted, and a clear and unmistakable error was called.

  Compensation Services continues to review and update procedural guidance via Knowledge Management manual throughout the fiscal year to ensure clarity. These changes occur due to changes in legislation, changes in policy, and procedural updates. Manual references have been updated on an ongoing basis so regional office employees will have the most current procedures. In addition, develop and administer consistency studies targeting error trends found on testing.

  Anticipated completion date is September 2017.

Root Cause: Insufficient Documentation to Determine (0.42%)

- Errors related to dependency entitlement and payment occurred when Veteran/beneficiaries are not correctly paid for their beneficiaries, not paid timely for their dependents, or timely removal of dependents due to sufficiency of documentation. This impacts the payment amount that our Veterans and beneficiaries receive for their dependents. Compensation Service continued use of RBPS as an intermediate automated process for suitable dependency claims has resulted in an ongoing increase in acceptance rates due to:

  - Identifying reasons for the rejection rate and determine best course of action for change in rules

  - Reviewing acceptance rates from programming rule to determine if additional updates are needed.

  The continued use and improvements to the RBPS is expected to incrementally increase the acceptance rate for the automated processing. In addition, Compensation Service uses consistency studies to assess and train regional office employees on specific subjects related to errors found on IPERA testing and quality reviews. During these consistency studies, there is a pretest which must be passed at the 100% correct rate, in order to bypass remedial training and a posttest. Improvement from pretest to the posttest is expected. This will enable employees to recognize the correct actions/procedures to take when processing dependency awards, and paying retroactive awards for dependents when there is an increased rating evaluation.

  Anticipated completion date is September 2017.

2. Pension

Pension 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 0.01 percentage points in 2017. The Director of Pension and Fiduciary Service and Assistant Deputy Under Secretary for Field Operations are the responsible accountable officials for reducing improper payments.

Corrective Actions to Address Root Causes:

Root Cause: Administrative or Process Error Made by: Federal Agency (1.57%)

- Error cause: Miscalculation of income and medical expenses that resulted in the erroneous payment of VA benefits to Veterans and their survivors. In addition, employees did not properly calculate or process and authorize the claims which led to the incorrect disbursement of VA payments. Pension Service conducted site visits to assist the Pension Management Center (PMC) in identifying or detecting any operational deficiencies that may have negatively impacted the accurate and efficient processing and authorization of pension-related claims. The site visit team also addressed training-related issues and provided awareness of how incorrect actions taken on pension claims impacts IPERA. This increased awareness may help reduce the number and amount of over/underpayments made to Veterans and survivors.

  This action was complete in FY 2016:

  - Philadelphia site PMC visit completed in November 2015
  - Milwaukee PMC site visit completed in April 2016
  - St. Paul PMC site visit completed in August 2016.

  In addition, Pension Service, in conjunction with Employee Development and Training (ED&T), hosted an Instructor Qualification Workshop (IQW) in July 2016, which is designed to enhance the skills sets of employees responsible for providing training with the PMCs. IQW should improve the overall quality of training which can assist employees in gaining a better understanding of the importance of accurately processing pension claims.

  This action was complete in July 2016.

  Pension Service is in the process of developing standardized training for pension, DIC, burial, and accrued benefits, which is scheduled for implementation in FY 2017. The training will ensure consistency in the processing and authorization of pension-related claims.

  Target completion dates of the training:

  - Standardized Pension Training scheduled to begin in FY 2017 and will be ongoing (new hires and refresher)

Root Cause: Failure to Verify: Death Data (10.02%)

- Error cause: Survivor benefits were continuously paid although Share SSA system interface showed beneficiary as deceased. In addition, notification of beneficiary's death had not been received by VA. VA implemented automatic suspension of beneficiary's benefits based on system notification from the Social Security Administration. This action occurs weekly and results in award suspension (payments are suspended) as well as a notification to the beneficiary's estate and a work item for the Regional Office (RO). The work item requires the RO to take final action in a timely manner by terminating the deceased beneficiary's VA benefits. This also reduces the possibility of an overpayment due to the beneficiary's death. In addition, Pension Service ensures the PMC process these work items in a timely manner.

  This action was complete in July 2014.

Root Cause: Failure to Verify: Financial Data and Other Reason (60.45%)

- Error cause: Failure or inability to verify financial data. VBA began using Federal Tax Information (FTI) obtained from the IRS and SSA for income evaluation when processing original claims. This evaluation is designed to validate income prior to initiating benefits as opposed to the historical process of paying benefits and then validating income.

  This action was complete in November 2013.

  Additionally, Pension Service is extending the utilization of FTI for income verification to all pension claims, to include claims for special monthly pension, dependency, and medical adjustment. Pension Service will also implement the National Training Curriculum (NTC), which includes refresher training, to ensure PMC employees understand what income and expense to use when making pension determinations and the impact that improper claims adjudication has on IPERA.

  Anticipated completion date of these corrective actions:

  - January 2017 (expansion of upfront income verification)
  - Estimated completion is December 2016 (NTC Training).

Root Cause: Insufficient Documentation to Determine (27.96%)

- Errors cause: Lack of supporting documents to validate payment. Pension completed its transition to a centralized receipt and virtual analysis concept by using the United States Postal Service and a contractor-operated scanning and automated work routing process that results in VA correspondence received via mail being directly scanned into a digital format. Once scanned, the mail is evaluated by the PMCs Intake Processing Center (IPC) for claims establishment and direct upload into the Veterans Benefits Management System (VBMS) eFolder. This eliminated paper handling and provides expeditious uploading of claims, evidence, and other mail to a Veterans eFolder in VBMS.

  This action was complete in February 2016.

Section VI. Internal Control Over Payments Made by VA Programs

VA continues to evaluate and strengthen internal controls to improve program and payment activities throughout the Department. VA is leveraging its existing internal control environment and assurance process to evaluate whether VA's internal controls over improper payments are in place and operating effectively.

In response to requirements of the Federal Managers Financial Integrity Act of 1982, VA established an agency-wide management control program, which is managed by the Office of Internal Controls. VA accomplishes the objectives of the program by:

1. Integrating management controls into business processes and financial management systems at all organizational levels

2. Reviewing management controls and financial management systems' controls on a regular basis

3. Developing corrective action plans for control weaknesses and monitoring those plans until weaknesses are eliminated.

The long-term efforts of the Department are beginning to have a tangible impact on reducing the rate of improper payments in some programs. In 2014, VA identified six programs as noncompliant, by 2015 that number rose to eight. In 2016, VA's internal process will report only five programs. This turnaround is the direct result of the Department's oversight and attitude of establishing and maintaining sound internal controls. VA understands there is still work to be done. In FY 2017, VA will continue efforts to ensure accurate determination of root causes of improper payments and the actions needed to eliminate that cause of improper payments.

To ensure a comprehensive assessment of VA's high-priority programs, the Department's Office of Internal Controls evaluated the effectiveness of both key and non-key internal controls when evaluating the risk, information and communication, control activities and environment, and monitoring for VACC, PLTSS, and Compensation. Evaluating the effectiveness of these controls identifies areas needing improvement and will help ensure the Department is making payments timely and accurately.

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

Table 3: Internal Control Standards														
Internal Control Standards	**Beneficiary Travel**	**CHAMPVA**	**VA Community Care**	**Purchase Long Term Services and Supports**	**State Home Per Diem Grants**	**Supplies and Material**	**Compensation**	**Pension**	**VR&E**	**Education – Chapter 33**	**Education – Chapter 1606**	**Education – Chapter 1607**	**Disaster Relief Act - HS**	**Payroll**
Control Environment	2	2	2	2	2	2	3	3	4	4	4	4	3	4
Risk Assessment	2	2	2	2	2	2	3	3	3	4	4	4	3	4
Control Activities	2	2	2	2	2	2	2	3	3	3	2	2	2	2
Information and Communication	2	2	2	2	2	2	3	3	3	4	4	4	3	3
Monitoring	2	2	2	2	2	2	3	3	3	4	4	4	3	3

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

Departmental oversight and accountability of improper payments is established via the Department's IPERA Governing Board. Led by VA's Interim Chief Financial Officer (CFO), the Governing Board is focused on achieving IPERA compliance, identifying root causes of improper payments, establishing reduction goals and implementing effective corrective actions to reduce/prevent improper payments. Other key membership includes the Deputy Assistant Secretary for Finance, the Administration CFOs, Senior Accountable Officials (SAO) and other senior-level program staff. During FY 2016, the Governing Board re-established its Charter and increased membership to ensure that all stakeholders were proactively engaged in the governance of reducing improper payments.

VA recognizes the importance of maintaining adequate internal controls to ensure proper payments, and is dedicated to continuous improvement in the overall disbursement processes. In FY 2016, VA repurposed existing resources to expand its 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 collaborates across the Department and with other Federal partners to strengthen integrity of payments and achieve essential goals in reducing improper payments. For FY 2017 and beyond, VA will continue its efforts to improve the integrity of its disbursements and actions to reduce improper payments.

In FY 2016, IPRO worked with SAOs to ensure that they understood roles and responsibilities. In early FY 2017, VA will codify this clarification in its IPERA financial policy. Updates will include, but are not limited to, identifying SAO responsibility for:

- Remediating improper payments
- Overseeing payment recapture audits
- Development and implementation of corrective action plans
- Development of supplemental measures for high-priority programs
- Quality of testing reviews

<u>VHA</u>

Throughout FY 2015, VA initiated the process of assessing the current state of IPERA and determined that actions could be taken to strengthen outcomes. One of the first changes was designating the right SAO to drive change and ultimately reducing improper payments. Designating SAOs resulted in increased awareness, ownership, and a path forward.

1. **Beneficiary Travel**

   The Acting Deputy Under Secretary for Health for Operations Management is designated as the program SAO and accountable for ensuring execution of corrective action plans. The SAO's FY 2017 performance plan will include a measure to meet the measurable milestones with 90 percent success based on date and action. Step down performance measures will be set as 80 percent and 70 percent.

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 tracked and monitored for routine reporting. In November 2015, Member Services added a Compliance and Internal Controls Program Office to assist in creating additional internal controls for its programs inclusive of Beneficiary Travel. This will increase accountability and Senior Executive knowledge and understanding of the complexity related to Beneficiary Travel payments and the IPERA process. The additional oversight also allows for new insight into the root causes of improper payments most notably identifying how VA is streamlining business practices to align payment processing to abide with laws while vigilantly upholding core values. VA's evaluation of the Veteran experience from transportation request to reimbursement has fostered key collaborative efforts and initiatives leading to long-term solutions.

2. CHAMPVA

The Executive Director of Delivery Operations is designated as the program SAO and accountable for ensuring execution of corrective action plans. OCC has the primary responsibility for the processing of CHAMPVA claims and works to address and correct improper payments. When errors are identified, OCC supervisors work to identify trends and provide education to the voucher examiners regarding the issue both individually and as a group. The Director of Claims Adjudication and Reimbursement's performance plan includes goals for financial stewardship and the identification and implementation of corrective actions to address improper payments.

3. VA Community Care

The Executive Director of Delivery Operations is designated as the program SAO and accountable for ensuring execution of corrective action plans. The SAO's FY 2017 performance plan includes a measure to meet the measurable milestones with 90 percent success based on date and action. Step down performance measures will be set as 80 percent and 70 percent.

OCC has the primary responsibility for the processing of community care claims and works to address and correct improper payments. When errors are identified, OCC 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 OCC staff. The Director of Claims Adjudication and Reimbursement and the Director of Community Care Operation's 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 designated as the program SAO and accountable for ensuring execution of corrective action plans. The SAO's FY 2017 performance plan includes a measure to meet the measurable milestones with 90 percent success based on date and action. Step-down performance measures will be set as 80 percent and 70 percent.

5. State Home Per Diem Grants

The Executive Director of Delivery Operations is designated as the program SAO and accountable for ensuring execution of corrective action plans. The State Home Per Diem Program Office has the primary responsibility for processing claims and works directly with the facility when improper payments are identified, as well as broadly across the program through monthly training events. The Director of Community Care Operation's performance plan includes goals for financial stewardship and the identification and implementation of corrective actions to address improper payments.

VBA

Principal Deputy Under Secretary for Benefits, Performing the Duties of Under Secretary for Benefits continues to emphasize accountability and integrity at every level within the Administration. Underscoring the commitment to achieving the goals set forth in IPERA, SAOs have been designated for each program to oversee IPERA remediation activities. Furthermore, a committee of program managers, program officials and key accountable officers from all business lines work in a collaborative environment, specifically for the purpose of establishing and implementing guidelines and policies to meet improper payment reporting requirements.

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 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 multifaceted 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 goal 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.

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 (OI&T). 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.

VA has a separate appropriation for information technology. All information technology funding requests compete for available funding. Administrative updates compete with clinical updates and often do not rate as high. VHA continues to present the updates for review each year. Additional information on the VHA programs which are reporting improper payments in excess of the statutory thresholds follow.

1. Beneficiary Travel

Long-term (3 to 5 years) infrastructure and information system solutions for the Beneficiary Travel program are underway. Initial funding approvals for key milestones have been met. Beginning in 2012, previous annual requests for funding were not successful during funding prioritization. Project start date for the BTSSS payment to Veterans began in FY 2016 with an award anticipated in FY 2017. Project funding for BTSSS payment to Vendors was funded in mid-FY 2016 with an anticipated award in FY 2018.

2. CHAMPVA

OCC has submitted multiple requests to the Office of Information and Technology over the last several years to improve the claims processing system for CHAMPVA. These changes would reduce errors by addressing identified system issues in VistA and expanding automated business rules to reduce the number of human entries and decisions. These changes have not yet been realized and OCC is in the process of finalizing a Business Requirements Document to support contracting out the development and implementation of these system changes with an estimated cost of $8 million. In the interim additional quality reviews were implemented to monitor eligibility determinations. Ongoing data matches with Centers for Medicare and Medicaid Services and Tricare are being utilized to detect changes in the beneficiary's status. OCC also utilizes queues for secondary review of claims which meet certain criteria such as possible duplicate claims, or setting a percentage of any voucher examiners 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.

Of an $8 million cost estimate placed with VA Community Care for needed long-term Information Technology solutions, $2 million is associated with incorporating new fee schedules and controls into the current claims processing system. Incorporating these new fee schedules into the system would reduce the manual retrieval and data entry during claims processing and allow increased oversight and payment accuracy. The remaining $6 million is associated with hosting fees for a new version of the current claims processing system that introduces significant auto-adjudication to the process. As previously discussed, the highly manual nature of the claims processing system coupled with complex programs and claims processing requirements directly contributes to the program's payment accuracy. Realizing this functionality would be two large steps forward towards improving the payment accuracy for errors not associated with FAR compliance.

4. Purchased Long-Term Services and Supports

The improper payment rate for Purchased Long-Term Services and Supports is 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 invoiced items within the e-invoicing system VA utilizes. Prior to the electronic tracking tool being constructed in Microsoft Excel, VAMC staff tracked patient movement manually. The implementation of the Electronic Tracking Tool has significantly improved payment accuracy for the State Home program; however, limitations remain. One of the primary issues that cannot be overcome in the current state is the existence of approximately 200 Excel workbooks that house the Electronic Tracking Tool. $500,000 in funding would support development of SQL integration of the workbooks and construction of artificial intelligence that would aid in tracking accuracy, national reporting and oversight, and support OCC compliance with the DATA Act that goes into effect May 2017. This enhanced solution would also include an encryption process for external stakeholders (State Veteran Homes) and aid in improving payment accuracy.

The program recently completed a 100 percent review of backlogged forms in its central repository. To support long-term technology improvement, the State Home program office received funding in 2015 to kick off a project referred to as the "Automated Grants Management System" and included this effort on its FY 2015 IPERA corrective action plan. However, lack of funding resulted in halting the project prior to development. The proposed Automated Grants Management solution would be a Web-based platform operating in an environment which is fully integrated with the full suite of VA and other Federal government databases, such as the Department of the Treasury. Both VA staff and State Home personnel would log into this common platform to request authorization, review requests, track residents, invoice, and report. This would eliminate the need for the Electronic Tracking Tool and facilitate the State Home program's compliance with the DATA Act. Continued improvements in payment accuracy are anticipated once the future state of this program is realized.

VBA

VBA has implemented internal controls, acquired human resources, and developed information systems and other infrastructure to reduce improper payments. While VBA has the necessary information infrastructure to meet current improper payment levels, system enhancements and additional IT funds would allow further reduction in improper payments.

1. Compensation

VBA has established a collaborative work group with members of the DoD to work toward a solution to move the current annual drill pay adjustment process to a monthly process. In the interim, VBA has established a process where due process is sent out simultaneously with the initial notice of the drill pay days for the previous fiscal year. This action will save 60 days, which will allow adjustments to be made quickly and efficiently.

2. **Pension**

The Centralized Mail Activity (CMA) process was implemented within the Pension Management Centers to reduce claimants' mail handling by employees and to provide a more efficient way of processing pension-related claims accurately and in a timely manner. Currently, VBA is in the testing phase of post award audits, which will allow automatic issuance of due process after independent verification of income from the claimant. VBA will also implement upfront verification expansion, which involves a review of FTI for all pension claims to include claims for special monthly pension, medical and income adjustments, and dependency-related issues. VBA continues to provide manual policies and procedural updates, conduct annual site visits to determine if proper internal controls are sufficient and assess training needs in order for employees to be proficient at claims processing.

Section IX. Statutory and Regulatory Barriers Limiting VA Corrective Actions

VHA

1. **Beneficiary Travel**

There are several statutory or regulatory barriers impacting the Beneficiary Travel Program that limit implementation of VHA's corrective actions. These are detailed below:

- A legislative proposal was submitted for Congressional consideration that would allow expansion of VA's Income Verification Matching (IVM) authority. This proposed legislation would amend 38 U.S.C. § 5317 to expand VA's IVM authority and consequently allow VA to verify the self-reported incomes of service-connected Veterans in enrollment priority groups two and three who are requesting based on income, transportation reimbursement benefits, and/or a medication copayment exemption. VA currently has authority to verify non service-connected Veterans' incomes by matching income data reported by these Veterans with the Internal Revenue Service. As a result, VA is at risk for possible non collection of legislatively required medication copayments as well as improper payments.

2. **VA Community Care and Purchase Long-Term Services and Supports**

VA Community Care and Purchase Long-Term Services and Supports were designated high-priority programs in November 2015 and have numerous challenges and barriers to overcome to improve payment accuracy. First and foremost is the matter of complying with FAR. VA will require a change in legislation to become compliant with the FAR and has been actively pursuing the required changes since the issue was first raised during the OIG's 2015 review of VA's compliance with IPERA.

Additional challenges that were also previously discussed pertain to the multiple legislative authorities and payment methodologies under VA Community Care that increase claims processing complexity coupled with the highly manual claims processing system. In October 2015, VA submitted a plan to Consolidate Community Care Programs to Congress that contains multiple elements in support of reducing improper payments and improving VA's compliance with IPERA. Key elements of this plan include creating a singular community care program that meets the needs of Veterans while remaining simple to administer and easy to understand and moving toward a claims payment system where a high percentage of claims are auto-adjudicated, which enables timely and accurate reimbursement. The consolidation of multiple programs into a singular authority would allow for greater consistency in fee schedules and contribute to improved accuracy and timeliness of payment.

VA also needs legislative authority to enter into provider agreements to purchase care in the community for our Veterans. This would eliminate a large portion of our improper payments. Currently, when a Veteran needs care that cannot be provided timely at a VA facility, they are referred to a community provider. If VA does not have a contract with the provider that adheres to the FAR the payment for that care is improper. The need for provider agreements is particularly acute for Purchased Long-Term Services and Supports. VA lost more than 500 community nursing homes due to additional contracting rules, which do not apply to Medicare providers.

- Non-FAR-based arrangements are necessary because some smaller providers and those who see only a few Veteran patients a year are often unwilling or unable to comply with the FAR. It is unrealistic that contracts can be awarded for all healthcare services a Veteran may need that cannot be provided by VA.

- VA's authority for provider agreements under Choice is limited – both time limited to the life of the Choice program, which is anticipated to expire in FY 2017, and to the services available under Choice. Choice cannot be used for nursing home care, which is another area where VHA greatly needs a non-FAR-based purchasing mechanism.

VBA

There are statutory or regulatory barriers affecting the Compensation and Pension programs that affect improper payments rates. In 2012, VA received permission from the Internal Revenue Service to transmit and store FTI electronically. Using this electronic data feed, VA successfully implemented an up-front income verification process, which allows its Pension Management Centers to verify a claimant's reported income during the initial claim adjudication process, prior to the granting of benefits. This approach allows VA to maintain the integrity of its program, while reducing improper payments.

Under current law, Federal agencies that use tax returns and return information for purposes of tax administration may disclose this information to contractors, to the extent that such disclosure is in connection with the processing, storage, transmission, and reproduction of such returns and return information, and the programming, maintenance, repair, testing, and procurement of equipment. Because VA does not use tax returns or tax information for tax administration purposes, section 6103 prohibits VA from using contractors to augment VA OI&T staff, or contractors and vendors that help administer benefit programs, if the contractors would encounter tax returns or return information. The prohibition inhibits innovation in agencies that rely on contractors to maintain agency systems. The prohibition also does not reflect current standards for Federal agencies' information security safeguards or paperwork reduction, as it relates to the use of contractors regarding maintenance of other sensitive records, such as healthcare records.

The proposal to give contractors access to FTI data, would enable VA to expand initiatives to verify eligibility for needs-based pension before making the first benefit payment by using tax return information. The current law complicates what would otherwise be a routine interagency data matching exercise by establishing unnecessarily restrictive disclosure requirements. The contractor prohibition in section 6103 precludes VA from using its current IT business model for purposes of developing and maintaining systems and for purposes of administering the income-based benefits programs where contractors and vendors are used to process documents. Consequently, it requires VA to expend scarce resources to safeguard tax information from contractors, despite the fact that VA contractors meet all of the Federal requirements for access to other sensitive information. This proposal would remove the requirement for VA to create a complex IT solution to mitigate contractor access to VA systems and benefits-related documents that contain tax information.

Lastly, VBA is continuing efforts to automate processes, expanding the use of up-front verification, and implementing postaudit awards. This will allow timely adjustments, as part of VA's commitment to reduce improper payments. This program improvement will prove beneficial to VBA Compensation and Pension programs.

Section X. Recapture of Improper Payment Reporting for VA Programs

OMB Circular A-136 requires detailed information recovery auditing programs, as well as other efforts related to the recapture of improper payments. Some VA programs have results to report in this area, and those results are included in the following tables. VA has not excluded any programs or activities with outlays of $1 million or more from the payment recapture audit program. VA is in the process of refining payment recapture and recovery activities. FY 2016 marks the first year that VA is reporting current-year recapture of improper payment data following a discussion with OMB in September 2016.

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 used both internal and external payment recapture activities including those identified below.

OCC Audit and Recovery Efforts

OCC's pricing software is comprehensive code auditing software that helps manage medical benefit dollars and lower administrative costs through accurate, consistent, and timely reimbursements per payment policies. The pricing software applies expert edits from the industry and provides recognized knowledge base to analyze claims for accuracy and applicability to the payment policies. The pricing software prevented $50.48 million in improper payments for FY 2015. In addition, 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 $52.05 million in improper payments for FY 2015.

OCC also has the Quality Inspector Tool, which provides push-button inspection of all outpatient claims processed through FBCS to ensure proper payment in a prepayment status. The tool avoided $15.22 million in improper payments for FY 2015. The SnapWeb Duplicate Payment Program was designed to identify potential duplicate payments in a prepayment state. The use of the program avoided $10.23 million in improper payments for FY 2015. The Program Integrity Tool provides a comprehensive set of program integrity tools to reduce fraud, waste, and abuse and improve payment accuracy in a prepayment status. The tool avoided $4.03 million in improper payments for FY 2015.

OCC's Recapture Recovery Activities tracked overpayment collection and resolution of underpayments for CHAMPVA, Caregiver Support, Foreign Medical, and Spina Bifida Health Care. In FY 2016, finance identified $10.28 million in overpayments and recovered $9.97 million.

OCC develops an annual audit plan that independently assesses the VA Community Care, State Home Per Diem, and CHAMPVA programs and associated operations. Recommendations and corrective actions are developed in response to the audits. Identified improper payments were referred to the Recapture Recovery Initiative to track the collection of overpayments and resolution of underpayments. OCC's audit teams include:

- Veteran Family Member Benefit Audit Team: identifies overpayments in the CHAMPVA program through the IPERA audit, a biannual eligibility determination audit, and special audits identified from other audit findings or requested by management.

- State Home Program Audit Team and VA Community Care Audit Team: structured to perform the IPERA audits for their respective programs.

- Special Audit Team: focuses on special audit requests from both internal and external stakeholders.

OCC retained external recovery contracts for VA Community Care, CHAMPVA, and Spina Bifida Health Care through August 2013. Currently, OCC is working with contracting to establish a new recovery contract. VHA, through the use of recovery audit contracts, continued to collect $462,502 in overpayments throughout FY 2015. As well, proposed legislation would allow OCC 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. A 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 Regional Offices.

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, failure to verify eligibility data, and inability to authenticate eligibility. Overpayments as a result of administrative and process errors made by the Federal agency were found to be mainly due to rating decision errors. In such instances, under current regulations, VA rating disability decisions are legally binding unless VA determines a finding of fraud or clear and unmistakable error (CUE), therefore preventing collection. VBA is taking deliberate action to correct these issues by using continuous process improvement and standardized tools to improve claims processing outcomes. When errors are discovered, Regional Offices take action as soon as possible to correct these ratings and ensure the most accurate evaluation for the Veteran.

Collection Process

DMC provides accounts receivable and debt management services for VBA. 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 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 time frames.

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 the improper payment.

FSC

Most VA vendor payment activities are centralized at the FSC, a franchise fund (fee for service) organization that services VHA, NCA, and the VACO. FSC's payment recapture and recovery activities are focused on preventing, detecting, and recovering overpayments and includes a four-step process that includes a postpayment review, root cause review, and collection process.

Prepayment 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.

Postpayment Review

FSC performs several postpayment 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 of more than $50 to determine if interest was actually due to the vendor.

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, which 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 to ensure consistency in payment processing and streamlined procedures.

Collection Process

For improper payments detected in postpayment reviews, the following recovery actions are used by FSC, as appropriate, to recover the funds from the vendor/employee:

- On payments paid via electronic funds transfer (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 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.

<u>OALC</u>

The VA Office of Acquisition and Logistics works with the OIG Office of Contract Review (OCR) to recover funds owed VA due to (1) defective pricing – whether the prices for the items awarded were based on accurate, complete, and current disclosures by the contractor during contract negotiations; and (2) price reduction violations – whether the contractor complied with the terms and conditions of the price reductions clause. As part of the OIG postaward 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 healthcare resource proposals, claims, and special purpose reviews. In FY 2016, this audit recovery program recovered more than $11 million.

Table 4 (For VHA)
Improper Payment Recaptures with and without Audit Programs [1]
($ in millions)

Program or Activity	Overpayments Recaptured Through Payment Recapture Audits: Contracts					Grants					Benefits					Other					Total		Overpayments Recaptured Outside of Payment Recapture Audits	
	Amount Identified	Amount Recaptured	2016 Recapture Rate	2017 Recapture Rate Target	2018 Recapture Rate Target	Amount Identified	Amount Recaptured	2016 Recapture Rate	2017 Recapture Rate Target	2018 Recapture Rate Target	Amount Identified	Amount Recaptured	2016 Recapture Rate	2017 Recapture Rate Target	2018 Recapture Rate Target	Amount Identified	Amount Recaptured	2016 Recapture Rate	2017 Recapture Rate Target	2018 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
Beneficiary Travel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.845	0.667
CHAMPVA (2)	-	-	-	-	-	-	-	-	-	-	10.28	9.97	96.98	85.00	85.00	-	-	-	-	-	10.28	9.97	-	6.92
VA Community Care – Choice (3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.219	0.983
State Home Per Diem Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.339	0.339
Supplies and Materials	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.089	0.073	82.02	85.00	85.00	0.089	0.073	0.267	0.247
Other VHA Programs (4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.498	0.338	67.87	85.00	85.00	0.498	0.338	8.285	7.671

Notes to Table 4:

(1) Starting in FY 2016, current-year data is reported in table 4.

(2) CHAMPVA recapture/recovery data is combined with OCC programs: Caregiver Support, Foreign Medical, and Spina Bifida Health Care. Overpayments recaptured outside of payment recapture audits consist of unsolicited funds received.

(3) FY 2016 disbursements include VA Community Care Choice payments within VA Community Care activities.

(4) Other VHA Programs includes the following VHA activities: Activities with Other Federal Agencies; Communications, Utilities, and Other Rent; Compensated Work Therapy/Incentive Therapy; DoD/VA Health Care Sharing Incentive Fund; DoD/VA Medical Facility Demonstration Fund; Equipment; General Post Funds; Grants-Homeless Per Diem; Homeless Care; Insurance Claims & Interest Expense; Land and Structures; Medical and Prosthetic Research; Other Services; Pharmacy – Medical Facilities; Prosthetics; and Transportation of Things.

Table 4.1 (Remaining VA Programs)
Improper Payment Recaptures with and without Audit Programs [1]
($ in millions)

Program or Activity	Overpayments Recaptured Through Payment Recapture Audits: Contracts					Grants					Benefits					Other					Total		Overpayments Recaptured Outside of Payment Recapture Audits	
	Amount Identified	Amount Recaptured	2016 Recapture Rate	2017 Recapture Rate Target	2018 Recapture Rate Target	Amount Identified	Amount Recaptured	2016 Recapture Rate	2017 Recapture Rate Target	2018 Recapture Rate Target	Amount Identified	Amount Recaptured	2016 Recapture Rate	2017 Recapture Rate Target	2018 Recapture Rate Target	Amount Identified	Amount Recaptured	2016 Recapture Rate	2017 Recapture Rate Target	2018 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
Compensation	-	-	-	-	-	-	-	-	-	-	0.1966	0.0559	28.43	62.00	62.00	-	-	-	-	-	0.1966	0.0559	-	-
Loan Guaranty	-	-	-	-	-	-	-	-	-	-	1.63	0.61	37.42	42.00	42.00	-	-	-	-	-	1.63	0.61	-	-
PFE – Payroll (2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	56.445	33.817
VBA GOE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.032	0.013
NCA Burial Programs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	.0537	.0537
VACO Programs (3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12.54	13.84
Total	-	-	-			-	-	-			12.1066	10.6359	87.85			0.587	0.411	70.02			12.6936	11.0469	80.026	64.551

Notes to Table 4.1:

(1) Starting in FY 2016, current-year data is reported in table 4.1.

(2) PFE – Payroll figures come from the Defense Finance and Accounting Service, VA's Payroll provider.

(3) VACO Programs include the following activities/programs: Corporate Data Center Operations (CDCO) Franchise Fund, HRA General Administration, OALC Major and Minor Construction, OI&T programs, General Administration, Supply Fund programs, to include OIG postaward contract reviews, Payroll, and 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)	10.381	All	-	-	-	10.381	-	-	-
Compensation (3)	0.0559	Benefits	-	-	-	0.0559	-	-	-
Loan Guaranty (3)	0.61	Benefits	-	-	-	0.61	-	-	-
TOTAL	11.0469	-	-	-	-	11.0469	-	-	-

Notes to Table 5:

(1) Starting in FY 2016, current-year data is reported in table 5.

(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) 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
CHAMPVA (2)	Benefits	-	-	-	0.31
Supplies and Materials	Other	0.016	-	-	-
Other VHA Programs (3)	Other	0.16	-	-	-
Compensation	Benefits	0.1343	0.0064	-	-
Loan Guaranty	Benefits	0.58	0.44	-	-
TOTAL	-	0.8903	0.4464	-	0.31

Notes to Table 6:

(1) Starting in FY 2016, current-year data is reported in table 6.

(2) CHAMPVA data is combined with OCC programs: Foreign Medical, Spina Bifida Health Care, and Caregiver Stipend. Write offs were initiated when amounts were determined to be uncollectable. Examples include:

a. The beneficiary is deceased.
b. The debt was discharged under bankruptcy.
c. Administratively written off because the Committee on Waivers and Compromise approved the beneficiaries' request for waiver.
d. Administratively written off due to inability to collect based on the age of the debt, Treasury Offset Program (TOP) reporting, the last date the vendor/beneficiary was paid, and the likelihood of future payments.
e. Administratively written off due to not meeting the criteria for TOP.

Some debts are considered permanent write-offs and others are considered temporarily written off. Permanent write-offs are: waivers, deceased, and debts discharged under bankruptcy. The others can be re-established in Vista if a means of collection is identified. Vista System limitations prevents an accounts receivable record from being labeled permanent write-off versus temporary write-off. The Third Party is not included in the write-off data because third party is a recovery effort and not considered debt owed.

(3) Other VHA Programs: Activities with Other Federal Agencies; Communications, Utilities, and Other Rent; Compensated Work Therapy/Incentive Therapy; DoD/VA Health Care Sharing Incentive Fund; DoD/VA Medical Facility Demonstration Fund; Equipment; General Post Funds; Grants-Homeless Per Diem; Homeless Care; Insurance Claims & Interest Expense; Land and Structures; Medical and Prosthetic Research; Other Services; Pharmacy – Medical Facilities; Prosthetics; and Transportation of Things.

Section XI. Additional Comments on VA Efforts to Reduce Improper Payments

VHA

VA is committed to providing Veterans access to timely, high-quality healthcare. In today's complex and changing healthcare 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 lack of 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

Within VBA's Compensation program, the Department strives to ensure that Veterans and their families receive needed benefits in the right amount and at the right time while making progress toward reducing and preventing improper payments. In 2016, OIG issued reports highlighting issues and areas of concern for certain high-risk programs; consideration is being given to these reports in evaluating future opportunities to strengthen internal controls and increase payment accuracy. VBA is working toward integrating solutions to these highlighted issues to reduce and eliminate improper payments.

The Compensation program error rate has improved during the last fiscal year with a decrease of 1.74 percentage points. Program improvements can be attributed, in part, to the increase in the statistical sample size, which allowed a more varied group of payments to be included for testing; provision of additional training to test case reviewers to address testing issues and to ensure that reviewing protocols are being adhered to; engagement of field operation leadership on IPERA issues to emphasize the importance of the reduction and elimination of improper payments; and the implementation of corrective actions. Compensation Service is continually working to reduce improper payments through monitoring test reviews and improving work processes for the claims of Veterans' and their dependents'.

In addition, VBA's Pension program has seen improvement in the IPERA error rates during the past 2 years due to system enhancements, which allow for accurate decisions to be made and direct focus on ensuring that benefits are properly paid or terminated in a timely manner.

VACO

In FY 2016, IPRO examined VA's IPERA activities to identify strategic and tactical improvements that can be made across the department. Key improvements include the following:

- Leveraged the IPERA Governing Board to improve collaboration, coordination, and accountability of program offices that own the processes that support the various payments and benefits disbursed;
- Conducted lessons learned from past improvement efforts to determine what has worked well and what can be improved;
- Collaborated with Federal partners to implement and integrate best practices
- Performed comprehensive review of acquisition practices across the department and incorporated additional aspects of potential acquisition vulnerability into testing;
- Increased Departmental awareness of root causes of improper payments; and
- Identified IT enhancements needed to reduce manual processes prone to errors.

All of the above actions strengthened IPERA activities across VA, helped VA progress in its objective of improving internal controls, and will contribute to corrective actions designed to reduce the rate of improper payments.

Section XII. VA's Reduction of Improper Payments with the Do Not Pay Initiative

VA and Treasury are working together to obtain greater utilization of the Do Not Pay (DNP) Portal, leverage existing Treasury analytical and processing capabilities, and increase VA's access and effectiveness with the DNP Portal. Currently, VA uses the DNP Portal for postpayment review activities, which do not allow

VA to stop payments before they are made. However, VA uses additional monitoring efforts outside of the DNP portal to stop payments to vendors and recipients that have already been determined ineligible for receiving payments. VA and Treasury are committed to continue working together to build on the recent progress and further leverage the DNP Initiative to ensure compliance with IPERA. Treasury provides monthly matching of all VA payment files with the public Death Master File (DMF) and the System for Award Management (SAM) databases in DNP. FY 2016 marks the first year that VA is reporting current-year DNP data following a discussion with OMB in September 2016.

VA has incorporated databases into existing business processes and programs to prevent improper payments. More information is provided below on other activities VA uses to prevent improper payments.

VHA

VA's 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 the DMF and SAM databases described above. VHA then applies internal 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 Treasury via the FSC. FSC relayed results to Treasury due to an IT issue preventing VHA from having direct access to DNP for the reporting period. Treasury and VA have since enabled users to log onto the DNP Portal using a Personal Identification Verification Card.

VHA performs preaward 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. OCC's Program Integrity Tool was updated to include the List of Excluded Individuals/Entities to check all Community Care claims processed in FBCS in a prepayment state.

VBA

VBA has agreements with other Federal agencies (e.g., Social Security Administration, Internal Revenue Service, Bureau of Prisons) 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.

Table 7
Results of the Do Not Pay Initiative in Preventing Improper Payments[1]
(in millions)

	Number (#) of payments reviewed for improper payments	Dollars ($) of payments reviewed for improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of improper payments reviewed and determined accurate	Dollars ($) of improper payments reviewed and determined accurate
Reviews with the Do Not Pay Databases (2)	93.64	123,805.44	0	0	0.019	30.67
Reviews with databases not listed in IPERA (3)	0.12	96.58	0.12	96.23	0.0004	.35

Notes to Table 7:
(1) Starting in FY 2016, current-year data is reported in Table 7.
(2) Databases VA utilizes for DNP- DMF and SAM. Data is October 2015 to August 2016, September data unavailable at publishing.
(3) VBA currently has effective internal control mechanisms in place to identify and stop improper payments through a preexisting data matching agreement with Social Security Administration’s private DMF database. Data reflects October 2015 through September 2016 timeframe.

SECTION F: MANAGEMENT AND PERFORMANCE CHALLENGES IDENTIFIED BY THE INSPECTORS GENERAL

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 provide 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 all veterans. It is vital that VA's health care and benefits delivery work in tandem with support services like financial management, procurement, and information management to be valuable and useful to the veterans who turn to VA for the services and 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 and detect 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 the major management challenges and high-risk areas facing the Department within OIG's six strategic goals—health care delivery, benefits processing, financial management, procurement practices, information management, and workforce investment—with assessments of VA's progress on implementing OIG recommendations.

In addition to OIG's major management challenges, VA has provided a response to each sub-challenge outlined by OIG. OIG takes exception to VA's responses for sub-challenges 2B and 3B as they minimize the importance of OIG findings in these areas and in some instances are incorrect. OIG's position is supported by the reports that have been issued during the past year.

For sub-challenge 2B, Improving Data Integrity, Internal Controls, and Management Within VA Regional Offices' (VARO), OIG disagrees with VBA's statement that the claims-related documents found in employees' personal shred bins for non-claims-related documents at the Los Angeles VARO would have passed through the final internal control process of a Records Management Officer's (RMO) review. OIG found the Los Angeles VARO did not have an RMO at the time of our review, which is VBA's final control to prevent shredding of claims-related documents under its January 2011 policy on management of veterans' and other governmental paper records. Additionally, Support Service Division (SSD) staff who took over the duties of the RMO at the Los Angeles VARO lacked training regarding maintaining, reviewing, protecting, and appropriately destroying veterans' and other governmental paper records.

In addition, VBA's assertion that only 0.0025 percent of the 438,000 documents reviewed by OIG at 10 VARO's during the national review of claims-related documents pending destruction at VAROs had the potential to affect benefits deflates the extent of inappropriate destruction of documents. Of the 155 claims-related documents, 69 (45 percent) were improperly scheduled for destruction; 2 of the documents affected benefits, 9 had the potential to affect benefits, and 58 did not affect benefits but were still required to be included in the veteran's claims folder or VBA's electronic system prior to destruction. OIG believes this error rate is a more accurate representation of the issue and is indicative of a systemic issue, and OIG reiterates that the potential effect on veterans cannot be minimized.

Finally, in their response VA states "VBA is addressing all recommendations made by OIG in the Follow-Up Audit of VBA's Internal Controls over Disability Benefits Questionnaires (DBQs)." This statement is incorrect. VBA did not concur with the report's Recommendation 5 and has reported they will not address this recommendation, which was that the Acting Under Secretary for Benefits revise VARO quality assurance review methodologies to review appropriate samples of claims including public-use DBQs.

For sub-challenge 3B, Improving Management of Appropriated Funds, the Interim Assistant Secretary for Management and Interim Chief Financial Officer's response concerning our report, Audit of VA's Conference Management for Fiscal Year 2014, states that OIG's assessment was based on an outdated VA policy on VA conference management and oversight, and did not identify any wasteful spending, abuse, or misuse of funds. Further, the response states that many of the issues of noncompliance identified by the OIG were the result of a complex and burdensome policy that did not accommodate how conferences were organized or executed across VA. Under the policy in place until March 2015, OIG identified a very high rate of noncompliance with VA's policy. While OIG agrees that VA implemented revisions to its policy on VA conference management and oversight in March 2015, OIG does not agree that the revisions invalidated the results of the review of conferences completed during FY 2014, nor improved overall accountability of the process. On the contrary, some of the "streamlining" in the policy, while likely to reduce VA organizations' compliance burden, weakened controls needed to ensure conferences are cost-effective and reduce the risk of inappropriate spending.

OIG will continue to work with VA to address these issues to ensure the best possible service and benefits to the Nation's veterans and their dependents.

MICHAEL J. MISSAL
Inspector General

Major Management Priorities and Challenges

Major Management Challenge		Estimated Resolution Time frame (Fiscal Year)	Page #
No.	**Description (Responsible Office)**		
OIG 1	**Health Care Delivery (VHA)**		**229**
1A	Quality of Care **(VHA)**	Various	229
1B	Access to Care **(VHA)**	Various	239
OIG 2	**Benefits Processing (VBA)**		**245**
2A	Improving the Accuracy and Timeliness of Claims Decisions **(VBA)**	2017	246
2B	Improving Data Integrity, Internal Controls, and Management Within VA Regional Offices **(VBA)**	2017	250
OIG 3	**Financial Management (Lead: OM, contributing: OIT,VHA,VBA)**		**254**
3A	Compliance with the Improper Payments Elimination and Recovery Act **(Lead: OM, contributing: VHA,VBA)**	2020	254
3B	Improving Management of Appropriated Funds **(Lead: OM, contributing: OIT,VHA)**	2017	257
3C	Improving the Timeliness of Payments to Purchased Care Providers **(VHA)**	2016	260
OIG 4	**Procurement Practice (Lead: OALC, contributing: VHA)**		**261**
4A	Improving Contracting Practices **(Lead: OALC, contributing: VHA)**	2016	262
4B	Improving Purchase Card Practices **(Lead: OALC, contributing: VHA)**	Ongoing	263
OIG 5	**Information Management (OIT)**		**265**
5A	Develop an Effective Information Security Program and System Security Controls **(OIT)**	2017	265
5B	Improving Compliance with Federal Financial Management Improvement Act **(Lead: OM, contributing: VHA, OCLA, VHA)**	2021	269

OIG CHALLENGE #1: HEALTH CARE DELIVERY

-Strategic Overview-

Historically, the VHA has been a national leader in the quality of care provided to patients when compared with other major U.S. healthcare providers. However, in recent years, VHA has experienced significant challenges in delivering high-quality, timely healthcare in an environment of increased and varied demand, competing goals and priorities, operational inefficiencies, organizational barriers, and inadequate information systems to manage healthcare resources efficiently and effectively.

VHA continues to face its most significant challenges in ensuring timely access to high-quality healthcare, whether that care is provided within VHA or through VHA's ability to arrange for services in the community. During fiscal year (FY) 2016, the Office of Inspector General (OIG) published multiple hotline inspection reports documenting access to care concerns that have existed within VHA in recent years, to include non-compliance with VHA scheduling policies resulting in delays in patient care and delays in obtaining care in the community through the Veterans Choice Program and other VHA programs. In some instances, these conditions resulted in delays in healthcare, placing patients at unnecessary risk.

OIG's August 26, 2014 report, *Veterans Health Administration Review of Alleged Patient Deaths, Patient Wait Times, and Scheduling Practices at the Phoenix VA Health Care System* identified numerous deficiencies in scheduling practices at the Phoenix VA Medical Center. Of particular concern, this year OIG published three reports identifying continuing access and quality of care challenges at the Phoenix VA Medical Center. In FY 2016, additional work by OIG identified continuing concerns regarding access to care issues in the urology service, a delay in care for a lung cancer patient, and access and quality of care deficiencies in the Emergency Department. Other conditions placing veterans at risk include weaknesses in testing and follow-up care of Veterans receiving prescription opioid pain medications; failure to plan for and maintain continuity of care during intermittent staffing shortages; lack of timely documentation in the medical record to ensure sound clinical decision-making; and deficiencies in Veterans Crisis Line Responsiveness and Quality.

OIG invests about 40 percent of its resources in overseeing the healthcare 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 subchallenges further highlight the major issues facing VHA today.

OIG Sub-Challenge #1A: Quality of Care (VHA)

1. Promoting Safe Opioid Prescribing Practices

During FY 2016, the use of opioids to treat chronic pain and other conditions continued to be a serious concern in VA and the nation. While opioids are considered an important part of pain management, they are also associated with serious adverse effects. 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. Clinicians vary widely in their chronic opioid therapy prescribing practices within VA and the Nation. An observed geographic variation cannot be accounted for even when taking into account other factors such as the healthcare utilization of the population.[5] This suggests that there is little agreement regarding the appropriate use of opioids for treating pain, especially chronic noncancer pain.

In FY 2016, OIG's Office of Healthcare Inspections (OHI) published three Hotline inspection reports addressing various aspects of VA opioid prescribing practices. OIG's FY 2016 work on this topic identified many of the same issues previously reported in our FY 2014 national review, *Healthcare Inspection—VA Patterns of Dispensing Take-Home Opioids and Monitoring Patients on Opioid Therapy* (Report Number 14-00895-163, issued May 14, 2014).

In *Healthcare Inspection—Poor Follow-Up Care and Incomplete Assessment of Disability, VA San Diego Healthcare System San Diego, California* (Report Number 15-00827-68, issued January 5, 2016), OIG determined that the quality of care provided for a patient's chronic pain did not follow recommendations of the VA/Department of Defense (DoD) *Clinical Practice Guideline for Management of Opioid Therapy for Chronic Pain*, a clinical practice guideline developed to promote evidence-based management of patients' chronic pain. OIG found that system providers did not order urine drug testing, complete a suicide risk assessment, or obtain an opioid pain care agreement as part of the patient's chronic pain therapy. The patient continued to receive refills of an opioid without a face-to-face assessment with a provider for 22 months. Also, in *Healthcare Inspection—Quality of Mental Health Care Concerns, VA Long Beach Healthcare System, Long Beach, California* (Report Number 14-04897-221, issued March 30, 2016), OIG found that a primary care provider did not refer a patient who was on long-term high-dose opioid treatment to specialists for a second level review as required by VA policy.

In *Healthcare Inspection—Alleged Inappropriate Opioid Prescribing Practices, Rutherford County Community Based Outpatient Clinic, Rutherfordton, North Carolina* (Report Number 15-01982-113, issued September 29, 2016), OIG identified challenges with the clinical environment in which CBOC providers prescribe opioids and manage the pain-related needs of their patients. OIG noted a lack of non-opioid pain management options for outpatients and, despite the opening of the Veterans' Integrated Pain Management Clinic at the parent facility, the high demand for non-opioid pain management options continue. OIG also found that facility leadership and primary care providers needed to improve adherence to required benzodiazepine appropriateness evaluations for patients on chronic opioid therapy who have post-traumatic stress disorder. Further, OIG found that facility leadership needed to develop proactive organizational solutions to ensure that consistent monitoring and timely patient reassessments and prescription refills could occur.

[5] McDonald DC, Carlson K, Izreal D. Geographic Variation in Opioid Prescribing in the U.S. *J Pain.* 2012 Oct;13(10):988–96.

VA's Program Response
Estimated Resolution Timeframe: VA will continue to follow the trends of the Opioid Safety Initiative (OSI) key clinical metrics for Fiscal Year 2017
Responsible Agency Official: Under Secretary for Health
Associated Strategic Goal: Empower Veterans to Improve their well-being
Strategic Objective: Improve Veteran wellness and economy security
Associated Performance Measure(s): No public-facing measures are associated with this issue.

VA is actively engaged in a systemwide, 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 the Centers for Medicare & Medicaid Services (CMS) suggest that VA is making progress relative to the rest of the Nation.

Fiscal year (FY) 2016 activities/milestones include: (1) utilizing 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) standardized education "Taking Opioids Responsibly" including rationale for obtaining informed consent and routine urine drug screening for Veterans receiving opioids for longer than 90-days; (4) substance use disorder (SUD) treatment and on-going monitoring for Veterans who are diagnosed with SUD but who require opioid analgesics; (5) increased access to complementary and integrative medicine treatments for pain management; (6) providing opioid overdose education and naloxone distribution to high-risk patients; (7) regulation permitting VA prescribers to access the state Prescription Drug Monitoring Programs and VA to share their controlled substances prescribing data and drafted policy requiring VA providers to access state databases when prescribing controlled substance; (8) the opioid therapy risk report is 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 OSI dashboard aggregate trending data; and (9) publication of a study in the journal "*"PAIN"*[6].

VA Data
The OSI key clinical metrics measured from Quarter 4 FY 2012 (beginning in July 2012) to Quarter 3 FY 2016 (ending in June 2016) demonstrate VA's success with: 171,529 fewer patients receiving

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[6] Patterns of opioid use for chronic noncancer pain in the Veterans Health Administration from 2009 to 2011. Edlund MJ, Austen MA, Sullivan MD, Martin BC, Williams JS, Fortney JC, Hudson TJ. Pain. 2014 Nov;155(11):2337-43. doi: 10.1016/j.pain.2014.08.033. Epub 2014 Aug 29. PMID: 25180008.

opioids (679,376 patients to 507,847 patients); 57,734 fewer patients receiving opioids and benzodiazepines together (122,633 patients to 64,899 patients); 90,588 more patients on opioids that have had a urine drug screen to help guide treatment decisions (160,601 patients to 251,189); 133,219 fewer patients on long-term opioid therapy (438,329 to 305,110); the overall dosage of opioids is decreasing in the VA system as 21,515 fewer patients (59,499 patients to 37,984 patients) are receiving greater than or equal to 100 Morphine Equivalent Daily Dosing. The desired results of the OSI have been achieved during a time that VA has seen an overall growth of 136,944 patients (3,959,852 patients to 4,095,350 patients) that have utilized VA outpatient pharmacy services.
In reference to the site-specific report, *Healthcare Inspection—Poor Follow-Up Care and Incomplete Assessment of Disability, VA San Diego Healthcare System San Diego, California* (Report Number 15-00827-68, issued January 5, 2016), VA San Diego Healthcare System (VASDHS) has worked to improve opioid safety and to follow the universal opioid precautions detailed in the VA/DoD Clinical Practice Guidelines for Management of Opioid Therapy for Chronic Pain in a number of different ways. The OSI resulted in further attention to opioid safety beginning in July of 2013. An OSI team has presented education to various services on opioid safety topics. The educational efforts included alerting staff to required minimal opioid universal precautions which include yearly urine toxicology screens, signed opioid use agreement, yearly check of State Prescription Drug Monitoring programs and follow-up visits every 6 months. The OSI team reviews all patients receiving narcotics in doses greater than 100mg morphine equivalents and makes recommendations in the chart to help guide primary care providers with difficult cases.

Reports monitoring progress with elements of the Guidelines and the OSI were developed with the assistance of VISN 22 Pain Committee and VISN22 PBM team. Specific note were implemented to document State Prescription Drug Monitoring, and presence of completed opioid agreements. The VISN 22 PBM team established a dashboard that allows tracking of the metrics and allows drill down to the provider level. At this time, the dashboard includes all of the opioid precautions except monitoring follow-up visit frequency. In Q1-2 FY 2016, a report was developed to track face-to-face visit frequency, and this report is currently being validated. Academic Detailers from the VISN22 Academic Detailing program meet with providers who are outliers to provide education on pain management and universal opioid precautions.

Primary care providers also have access to the nationally developed Opioid Therapy Risk Report (OTRR) which provides clinical teams with real-time information at point of care about various factors that are related to patient safety when they are prescribing long-term opioid analgesics to Veterans suffering from pain. Specific data about patients who are prescribed long-term opioids include: patient opioid prescription history; opioid doses; urine toxicology; pain scores; mental health diagnoses; most recent visits with Primary Care, Pain and/or Mental health clinics; future or pending primary care visits; completion of the Chronic Opioid consent; and Overdose Education and Naloxone Distribution (OEND) Kit dispensing.

VHASDHS informatics established local clinical reminders which alert the provider at visits when an opioid agreement is required, a urine drug screen is required, and state prescription monitoring is required. These reminders are displayed to all providers. Additionally, an opioid refill note was developed that is utilized to document when a patient calls for an opioid renewal. The note lists the status of opioid universal precautions including the last face-to-face visit with the prescribing provider. Finally, a functional assessment template was developed for Primary Care to use to track changes in function over time to understand the impact of treatment.

In Summary, VHASDHS has made considerable progress in improving opioid safety. Monitoring follow-up visit frequency for patients on chronic opioid therapy is a recent addition to our dashboard and reports. The OSI Team and Pain Council will continue to track progress monthly and report progress to VHASDHS Medical Executive Committee.

In reference to the site-specific report, *Healthcare Inspection—Quality of Mental Health Care Concerns, VA Long Beach Healthcare System, Long Beach, California* (Report Number 14-04897-221, issued March 30, 2016), the VA Long Beach Healthcare System (VALBHS) completed the following actions in FY 2016. In FY 2016, a Chronic Pain Management team was developed consisting of a Pain Specialist Physician, Pain Nurse Practitioner, Pain RN Case Manager, Pain Pharmacist, and Pain Psychologist. In Quarter 2, a Formal Chronic Pain Clinic Consult was established for tracking and monitoring patients beyond the Primary Care Chronic pain specialization. In Quarter 3, VALBHS developed an Interdisciplinary Chronic Pain Clinic emphasizing different methods of pain management. This clinic optimizes opioid dosage and focuses on patient safety. Also, this clinic optimizes pain modalities including holistic approaches to pain management.

VALBHS recognized that the combined efforts in supporting the OSI from various departments led to sequential and sustained progress towards the goals of the OSI. Additionally, VALBHS established a Patient Advisory Board. Members are the Chief of Primary Care, Chief of Mental Health/Provider, Chief Pharmacist, Pain Pharmacist, Chief of Pain, Inpatient Attending Physician, and Patient Advocate.

2. Care Continuity and Provider Coverage

To ensure continuity of care and minimize disruptions to patient care and follow-up, it is critical to develop and implement contingency plans for the sudden departure of care providers, staffing losses over time, and/or unexpected surges in demand. In FY 2016, OIG's OHI published two Hotline inspection reports detailing how the lack of staffing contingency plans contributed to significant patient care delays and patients being lost to follow-up. Effective staffing contingency plans would assist in not only identifying alternative care options, such as other VA facilities, non-VA care, or contracted care, but also in determining care priorities and methods for identifying high-risk patients.

In *Healthcare Inspection—Access to Urology Service, Phoenix VA Health Care System, Phoenix, AZ* (Report Number 14-00875-03, issued October 15, 2015), OIG determined that the Health Care System (HCS) suffered a significant urology staffing shortage, yet leaders did not have a plan to provide urological services during the shortage of providers in the Urology Service. HCS leaders' failure to respond promptly to the staffing crisis may have contributed to thousands of patients being "lost to follow-up" and staff frustration due to lack of direction.

In *Healthcare Inspection—Alleged Inappropriate Opioid Prescribing Practices, Rutherford County Community Based Outpatient Clinic, Rutherfordton, North Carolina* (Report Number 15-01982-113, issued September 29, 2016), OIG also noted how the CBOC experienced inadequate primary care provider staffing when a new provider abruptly resigned, leaving a panel of 1,100 patients without a provider. Patients were reportedly called about their clinic appointment cancellations during the first 2 days after the provider resigned; however, the facility had no contingency plan that would ensure continuity of, and access to, appropriate primary care. Reportedly, nurse practitioners assigned to the parent facility were detailed to see patients in the CBOC for a period of time, but this was not sufficient to cover the needs of patients on chronic opioid therapy. Nurse practitioners were unable to prescribe opioid medications, and the Chief of Primary Care had to fulfill this task by writing refill prescriptions from the facility 70 miles away.

VA's Program Response
Estimated Resolution Timeframe: 2020
Responsible Agency Official: Under Secretary for Health
Associated Strategic Goals:
Empower Veterans to Improve their Well Being
Manage and Improve VA Operations to Deliver Seamless and Integrated Support
Strategic Objective: Increase customer satisfaction through improvements in benefits and services delivery policies, procedures, and interfaces

Associated Performance Measure(s):

- OPM Federal Employees Viewpoint Survey Employee Engagement Index Score
- Employees have a feeling of personal empowerment with respect to work processes
- I feel encouraged to come up with new and better ways of doing things
- My organization's leaders maintain high standards of honesty and integrity
- Percent of patients who responded 'Always' regarding their ability to get an appointment for a routine checkup as soon as needed
- Percent of patients who responded 'Always' regarding their ability to get an appointment for needed care right away

Providing adequate staffing to meet the healthcare needs of patients is required in all healthcare systems. Planning for contingencies, including not only absences in critical staff due to illness or other personal circumstances but also situations in which these critical staff members leave abruptly, provides challenges for everyone. VA has taken multiple steps to try to address these challenges, including:

- Hiring primary care providers before patient case load increase to the level necessitating such hiring, using data such as a new provider's caseload already becoming 50 percent full. In addition, many practices have hired a "float" primary care provider to assist with unanticipated absences.
- Beginning to implement a policy expecting providers to give sufficient notice when they leave, with that expectation clearly spelled out when the provider is hired.
- Developing virtual care initiatives. One example is the joint Office of Rural Health (ORH) National Teleradiology Program (NTP), which provides remote, store, and forward image interpretation services to 20 rural VA sites of care where there are shortages in local radiology professionals. Since its 2010 inception, NTP has interpreted images for more than 350,000 rural Veterans at 20 rural sites across the country.
- Continuing to invest in new virtual care strategies, including TelePrimary Care, Telemental Health, TeleICU, and TeleAudiology.

- For rural populations, utilizing mobile medical units, telehealth technology, and close coordination with rural community providers. Transportation solutions include mobility management, shuttle service, and direct transport of rural Veterans to available VA providers.
- Deploying the Rural Expansion of Tele-Primary Care Enterprise-Wide Initiative. This initiative, Virtual IMPACT, is part of a comprehensive effort to provide timely access to primary care using telehealth clinical video technology. Virtual IMPACT uses a hub-and-spoke model of care to build a national solution that provides virtual primary care provider services to VHA sites with provider vacancies.
- Including the basic tenants of a contingency plan in the newly developed access policy and educating Group Practice Managers on the plan.
- Developing and implementing the Interim Staffing Program (ISP), which is VHA's ready-reserve of VACO-employed, VHA-credentialed, badged, and trained clinicians. ISP registered nurses support all aspects of nursing care, while its provider staff (including physicians, psychiatrists, psychologists, nurse-practitioners, and physician-assistants) deliver primary and subspecialty care. ISP clinicians arrive at subscribing VHA facilities ready to engage the electronic health record and to join the facility healthcare team in serving Veterans. Thus far in FY 2016, the scalable and expandable ISP has hired 39 additional clinicians to achieve a total clinician-complement of 120. Of our more-than125 deployments, several were critical and helped facilities preserve patient-access to care.
- Improving VHA's ability to recruit physicians through competitive salaries. The new annual pay ranges for primary care physicians approved by Secretary VA on June 22, 2016, will enhance VA's ability to recruit and retain highly qualified providers to serve our Nation's Veterans. This will take effect the first pay period following the required 60-day notification period in the Federal Register.

Ensuring optimal availability of staff for each specialty at all of VHA's 1,700 sites of care is a daunting challenge. Staffing to peak patient demand will dramatically increase costs, while staffing at average levels creates a waiting time for patients. No matter where the staffing level is at a given point in time, VHA will have unanticipated and sometimes unpredictable areas of provider loss leading to associated increases in waiting times. For example, losing nearly all of a urology department in a short time is a very different problem than losses associated with planned retirements. The strategic question is how to build reasonable contingency plans given many possible scenarios that may become reality. As noted above, these plans have included the use of telehealth, "float" hiring, and sharing of resources. In addition, many VA Medical Centers have chosen to implement contracts with local providers to support care being provided at facilities in as uninterrupted a manner as possible. Current authorities offer limited flexibility for offering overtime for employees or additional pay incentives for part time hires.

VHA's FY 2015 turnover rate was 9.3 percent. This includes voluntary quit rate of 4.9 percent and retirement rate of 3.2 percent and favorably compares to 18.8 percent quit rate and 30 percent total turnover rate among the healthcare and social services industry (Bureau of Labor Statistics, 2014). At the same time, sudden and unpredictable losses can lead to a local crisis. Certainly existing contracts, community care providers and locum tenens providers are an option.

To address long-term workforce shortages, ORH has partnered with the Office of Academic Affiliations since 2012 to invest in a Rural Health Training Initiative that provides workforce educational opportunities at 21 rural locations across the country for students, including physicians, nurses, pharmacists, mental health workers, and other allied healthcare professionals. Offering training opportunities in rural settings is likely to attract new hires. To date, this continuing program has trained more than 1,100 students in rural settings.

See the VHA Response for Sub-Challenge #1A4, which addresses access to urology services at the PVAHCS.

Upon publication of the OIG report, Healthcare Inspection—Alleged Inappropriate Opioid Prescribing Practices, Rutherford County Community-Based Outpatient Clinic, Rutherfordton, North Carolina (Report Number 15-01982-113, issued September 29, 2016), OIG closed recommendations 1 through 6, which closed the report. The facility implemented a number of corrective actions to address the OIG recommendations. As part of the Opioid Safety Initiative, the facility implemented a new Primary Care Opioid Renewal note. The Opioid Safety Initiative staff worked with both Primary Care Serve and Mental Health Service to complete the evaluations for the opioid therapy patients receiving benzodiazepines. The Veterans Integrated Pain Management Clinic staff worked with System Redesign Coordinators to analyze processes and develop improvements to increase scheduling efficiency and timeliness. The Primary Care physician positions were fully staffed by the end of 2016, which resulted in a ratio of one Gap physician for every 10 primary care panels. Additionally, the Primary Care Service and Chief of the Mental Health Service educated the staff on the importance of provider to provider communication to coordinate care for posttraumatic stress disorder patients receiving both opioids and benzodiazepines. Lastly, each week during leadership morning report, each Community Based Outpatient Clinic (CBOC) reported on quality measures, workload, patient satisfaction scores, access, staff vacancies affecting productivity, and other quality oversight data in order to ensure regular communication between the facility leadership and CBOC leadership.

3. Ensuring Veterans Crisis Line Responsiveness and Quality

According to its Web site, "the Veterans Crisis Line connects veterans in crisis and their families and friends with qualified, caring Department of Veterans Affairs responders through a confidential toll-free hotline, online chat, or text."[7] In FY 2016, OIG's OHI published a Hotline inspection report, *Healthcare Inspection—Veterans Crisis Line Caller Response and Quality Assurance Concerns, Canandaigua, New York* (Report Number 14-03540-123, issued February 11, 2016), addressing allegations received from a complainant on May 8, 2014, as well as additional allegations received from the U.S. Office of Special Counsel on February 3, 2015, of unanswered phone calls or calls routed to a voicemail system, lack of immediate assistance to callers, untrained staff, and confusing contact information for the Veterans Crisis Line (VCL), located in Canandaigua, New York.

OIG found that some calls routed to back-up centers went into a voicemail system and that the VCL and back-up center staff did not always offer immediate assistance to callers. For example, OIG's review identified over 20 calls that were routed to voicemail at 1 backup center. When VCL management investigated these complaints, they discovered that backup center staff was not aware the voicemail system existed; thus, they did not return these calls. In addition to being uncertain as to how long callers were in backup center queues, VCL management reported that they were unsure if the back-up centers thoroughly reported every call through direct contact or disposition e-mails to the VCL staff. Although VCL management had not confirmed this concern using call number data, they reported that calls had gone to back-up center voicemail systems without any notification to the VCL that a call had been received.

OIG also found that VCL social service assistants (SSAs), who do not answer calls but assist responders during interventions with individuals in crisis and conduct follow-up activities, did not receive

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[7] Veterans Crisis Line website, https://www.veteranscrisisline.net/, accessed 5/18/16.

orientation and ongoing training that met VCL training requirements. In addition, OIG could not find documentation that the majority of SSAs had received training on rescues and the use of potential resources. VCL supervisors could only find 2 of the 24 orientation checklists OIG requested for the SSAs hired between August 2012 and September 2014. During interviews, SSA staff reported that orientation consisted mostly of sitting with another SSA who may or may not have been experienced and access to a handbook that did not instruct them on specific SSA procedures or processes. Some SSAs stated that they did not feel they had adequate training and had received erroneous or inadequate information from other SSAs, including information regarding rescue procedures and consult resources.

OIG also identified gaps in the VCL quality assurance process, including an insufficient number of required staff supervision reviews, inconsistent tracking and resolution of VCL quality assurance issues, and a lack of collection and analysis of backup center data. OIG determined that a contributing factor for the lack of organized VCL quality assurance processes was the absence of a VHA directive or handbook to provide guidance for VCL quality assurance and other processes and procedures.

VA's Program Response
Estimated Resolution Timeframe: Fiscal Year (FY) 2016
Responsible Agency Official: Under Secretary for Health
Associated Strategic Goal: Empower Veterans to Improve their Well-being
Strategic Objective: Increase customer satisfaction through improvements in benefits and services delivery policies, procedures, and interfaces
Associated Performance Measure: Veterans experience of VA

Since its inception in July 2007, the Veterans Crisis Line (VCL) has answered nearly 2.4 million calls and initiated the dispatch of emergency services to callers in imminent crisis over 62,000 times. The Veterans Chat, an online, one-to-one "chat service" for Veterans who prefer reaching out for assistance using the internet, has answered nearly 294,000 requests for chat services since its inception on July 4, 2009. Since its inception in November of 2011, the Crisis Line texting service has answered nearly 56,000 requests for text services. The Text number is 838255. Staff has forwarded nearly 384,000 referrals to local VA Suicide Prevention Coordinators on behalf of Veterans to ensure continuity of care with Veterans local VA providers.

VCL has made significant progress in addressing the recommendations for quality assurance in response to OIG report, *Healthcare Inspection—Veterans Crisis Line Caller Response and Quality Assurance Concerns, Canandaigua, New York* (Report Number 14-03540-123, issued February 11, 2016). Canandaigua requested closure on recommendations 1, 5, and 6. Recommendations 2, 3, 4, and 7 remain in progress with a target completion of September 2016. Major milestones for FY 2016 include the following: realignment of VCL from Office of Mental Health Operations to VHA Member Services, resulting in increased call center resources and support; overall improvement of the New Employee Orientation experience, with streamlined curriculum, instruction, tracking, and reporting for both Health Science Specialist Responders and Social Services Assistants; and silent call monitoring of Responder calls began April 2016, with 70 percent success rate with one or more monitors completed for 98 percent of responders. The Standard Operating Procedures have been modified and improved with feedback from front line staff, ongoing tracking and resolution of complaints and compliments, along with use of an End of Call Satisfaction Question; creation of a VCL Handbook, an internal guide for VCL Employees; and the contract with Link2Health Solutions was executed on April 1, 2016, including monthly reporting with Quality Assurance Metrics.

4. Ensuring Timely Information for Clinical Decision Making

Complete and accurate documentation in patient electronic health records (EHRs) is essential for sound, fully-informed clinical decision making. When VA patients receive care from non-VA providers, it is critical that non-VA assessment and treatment records are obtained and promptly scanned into VA EHRs. VA policy requires results from non-VA care to be scanned into EHRs; however, the policy does not include timeliness standards for doing so.[8] In FY 2016, OIG's OHI published two Hotline inspection reports that identified deficiencies in obtaining and scanning non-VA clinical records, and OIG continues to identify similar issues in our ongoing work.

In *Access to Urology Service at the Phoenix HCS (Report Number* 14-00875-03, issued October 15, 2015*)* and *Healthcare Inspection—Delay in Care of a Lung Cancer Patient, Phoenix VA Health Care System, Phoenix, Arizona* (Report Number 14-00875-325, issued September 30, 2016), OIG found that non-VA providers' clinical documents were not consistently available for HCS providers to timely review. Consequently, referring providers may not have addressed potentially important recommendations and follow-up because they did not have access to these non-VA clinical records. These records are vital in understanding a patient's overall health status and care. Gaps in non-VA documentation, such as those found in these two Hotline inspections, put patients at risk and make continuity of care between various providers and specialties more difficult to achieve.

VA's Program Response
Estimated Resolution Timeframe: Complete
Responsible Agency Official: Under Secretary for Health
Associated Strategic Goal: Manage and Improve VA Operations to Deliver Seamless and Integrated Support **Strategic Objective:** Enhance productivity and improve efficiency of the provision of Veteran benefits and services
Associated Performance Measure(s): No public-facing measures are associated with this issue

VHA guidance has been developed and implemented by Non VA Care Coordination (NVCC) staff. NVCC staff work with Community Care providers to retrieve all necessary medical documentation for inclusion into the Veteran's Electronic Health Record. Once this information has been received and included in the Veterans Electronic Health Record, it is available for VA clinicians. Community Care has published bulletin articles on the subject and presented information on the Monthly National Call performed by the Community Care Operations Program Office. The Monthly National Call provides a forum in which processes are reviewed, to include new processes, changed processes, or refresher information on current processes.

In FY 2016, in reference to access to urology services and the site-specific report, Healthcare Inspection - Access to Urology Service, Phoenix VA Health Care System (PVAHCS), Phoenix, AZ (Report Number 14-00875-03, issued September 30, 2016), the VA Long Beach Healthcare System (VALBHS) completed the actions described below. Prior to the report's release, PVAHCS increased its Urology staffing to 7.5 of its allocated 8.5 clinical staff. PVAHCS continues to recruit for one staff

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[8] VHA Handbook 1907.01, *Health Information Management and Health Records,* March 19, 2015.

urologist. During 2016, PVAHCS reduced its average wait time to be seen in the Urology Clinic to 5 days for established patients and 14 days for new patients. Meetings between PVAHCS and TriWest leadership resulted in improved communications and more timely availability of records from non-VA healthcare providers. Tri-West coordinates care delivered by non-VA healthcare providers for the PVAHCS. All TriWest non-VA care providers are obligated by contract to provide medical records within 14 days. TriWest is obligated by contract to load those records into the portal within 48 hours of receipt so VA staff can retrieve the information. The results of services provided outside of the TriWest contract are returned to the Purchased Care Service and scanned into the computerized patient record system within four business days. PVAHCS and TriWest field staff conduct a weekly teleconference. PVAHCS reviewed eight cases identified by the OIG, took appropriate action, and addressed the results with the Veterans or their next of kin. On June 16, 2016, OIG closed report 14-00875-03 based on these actions.

OIG Sub-Challenge #1B: Access to Care (VHA)

1. Ensuring that VHA Scheduling Policies and Procedures are Followed So That Veterans Receive Timely Access to Care

In August 2014, OIG reported on a myriad of allegations regarding patient deaths, patient wait times, and scheduling practices at the Phoenix VA Health Care System. The report recommended, among other things, that the VA Secretary ensure that the facility follows VA consult guidance and appropriately reviews consults prior to closing them to ensure Veterans receive necessary medical care.

On June 20, 2016, OIG issued *Veterans Health Administration-Review of Alleged Manipulation of Appointment Cancellations at VA Medical Center, Houston, Texas* (Report Number 15-03073-275, issued June 20, 2016) addressing allegations that leadership at that facility and its associated CBOCs incorrectly recorded clinic cancellations as appointment cancellations requested by patients. OIG substantiated that two previous scheduling supervisors and a current director of two CBOCs instructed staff to incorrectly record cancellations as canceled by the patient. As a result, VHA's recorded wait times did not reflect the actual wait experienced by the Veterans and the wait time remained unreliable and understated. These issues have continued despite VHA having identified similar issues during a May and June 2014 systemwide review of access. These conditions persisted because of a lack of effective training and oversight. OIG made six recommendations to the Veterans Integrated Service Network (VISN) 16 Director to improve scheduling processes and ensure accountability for continued deficiencies.

OIG also published healthcare inspections which identified use of unapproved wait lists in calendar year 2015 at other facilities [*Eye Care Concerns Eastern Kansas Health Care System Topeka and Leavenworth, Kansas,* Report Number 15-00268-66*,* issued December 22, 2015; and *Access and Oversight Concerns for Home Health Services Washington DC VA Medical Center Washington, District of Columbia*, Report Number 14-03823-19, issued November 16, 2015].

Since the allegations at the Phoenix VA Health Care System in April 2014, OIG has conducted extensive work related to allegations of wait time manipulation that were investigated by OIG criminal investigators. OIG continues to receive such allegations.

OIG needed to hold release of information regarding the findings of these investigations for a time when doing so would not impede any planned executive or administrative action. OIG has provided information to VA's Office of Accountability Review for appropriate action and has completed and published more than 70 of these administrative summaries of criminal investigations on wait times. To date there has been one successful criminal prosecution, but largely OIG has found instances of substantiated administrative misconduct were more appropriate for referral to the Department for any administrative personnel action deemed appropriate rather than criminal prosecution.

VA's Program Response
Estimated Resolution Timeframe: 2019
Responsible Agency Official: Under Secretary for Health
Associated Strategic Goal: Manage and Improve VA Operations to Deliver Seamless and Integrated Support
Strategic Objective: Enhance productivity and improve efficiency of the provision of Veteran benefits and services; Evolve VA information technology capabilities to meet emerging customer service/empowerment expectations of both VA customers and employees

Associated Performance Measures:

- Percent of patients who responded 'Always' regarding their ability to get an appointment for a routine checkup as soon as needed
- Percent of patients who responded 'Always' regarding their ability to get an appointment for needed care right away
- Percent of primary care patients who respond "Always" regarding their ability to get an appointment for a routine checkup as soon as needed
- Percent of specialty care patients who respond "Always" regarding their ability to get an appointment for routine checkup as soon as needed
- Percent of primary care patients who respond "Always" regarding their ability to get an appointment for needed care right away
- Percent of specialty care patients who respond "Always" regarding their ability to get an appointment for needed care right away

VHA has 30+ year old scheduling software is designed as multiple "clinics" (multiple schedule calendars) for each provider rather than single "resources" (or one schedule calendar) per provider. The system does not allow VA the ability to measure or manage access with traditional community standards. For example, serving one patient by making multiple appointments at check-out requires over 10 minutes, hundreds of keystrokes, and review/management of multiple individual lists and clinics. This reality underlies the development, training, and implementation of a complex set of scheduling business rules among ~25,000 schedulers who turn over at a rate of ~25 percent per year in order to manage access in VA. In addition to the software, training, and turnover, the science of using certain administrative time stamps to reflect patient waiting times is underdeveloped.

In order to improve the reliability of the scheduling process, VA's strategic direction is multipronged: 1) move the evaluation and accountability for Veteran Access to measures that are more reflective of the Veterans experience of the scheduling process; 2) simplify the scheduling process, 3) improve the training, oversight and feedback and 4) improving electronic scheduling tools. VA has initiatives addressing each of these strategies in addition to improving customer service and Medical Support Assistant hiring.

Even the most sophisticated scheduling software and processes does not address the fundamental question of how best to evaluate the adequacy of access to needed healthcare services. For instance, there are no healthcare industry-wide benchmarks for clinic waiting times. VHA has made the strategic decision to gauge the ultimate success of our Access initiatives through the eyes of the Veteran, using the Consumer Assessment of Health Providers and Systems (CAHPS) survey. Our current Agency Priority Goal (APG) for Access for FY 2016-2017 focuses on improvement in the percentage of Veterans who state they can *Always* or *Usually* receive Primary Care and Specialty Care services when needed for Routine Care (e.g. check-ups) and Care Needed Right Away (urgent care). This agency goal is based on a composite of 4 CAHPS items. We note that CAHPS represents the only access measure currently endorsed by the National Quality Forum. CAHPS has the additional advantages of 1) ability to benchmark with private sector health systems and 2) avoiding potential for manipulation by assessing self-reported ability to receive care when needed for routine and urgent medical problems.

While VA's updated scheduling policy has been published, the development and implementation of the electronic scheduling application known as VistA Scheduling Enhancement has very high leverage potential to improve the day to day processes. In addition, VA is working toward enabling patients to directly schedule their own appointments through a hand-held application.

Accomplishments this year in these areas include:

- Publication of the Declaration of Access establishing VHA's access direction.
- Publication of VHA Outpatient Scheduling Process and Procedures policy.
- Finalization and anticipated Publication in September 2016 of the Consult and Outpatient Clinic Practice Management Policy.
- Establishment of systematic oversight for Consult processes.
- Development and field testing of Version 1.0 of VistA Scheduling Enhancement (VSE) which converts VHA scheduling to a graphical point and click application.
- Development and field testing of Veterans Appointment Request app allowing Veterans to first request and eventually make their own appointments from handheld applications.
- MyVA Access best practice implementation and support in the area of access.
- VHA "stand downs" to address pending urgent consults and appointments
- Implementation of the Consult Trigger Tool, an oversight tool to help improve consult management
- Completion of the first Consult Improvement Initiative, consisting of a group of 6 facilities working together to improve their consult performance.
- Development of new management reports assisting facilities in right-sizing the number of practices needed to maintain access.

Future strategic goals include developing, implementing, and training improved VA electronic scheduling software; training existing and new staff on VA's new scheduling policy; and enhancing oversight and feedback.

In reference to the site-specific report, *Review of Alleged Manipulation of Appointment Cancellations at VA Medical Center, Houston, Texas* (Report Number 15-03073-275, issued June 20, 2016), VHA notes OIG's concern and it is being addressed locally. It does not appear that this is a systemic issue. VHA welcomes OIG's recommendations on policies and procedures across the enterprise.

In reference to the site-specific report, *Healthcare Inspection – Eye Care Concerns Eastern Kansas Health Care System Topeka and Leavenworth, Kansas, Report Number 15-00268-66*, the OIG substantiated that the Leavenworth VA Medical Center (VAMC) Eye Clinic staff used an unapproved wait list for patients awaiting cataract surgery. However, the OIG did not substantiate that the unapproved wait list was created to falsify cataract surgery wait times. The Eastern Kansas Health Care System (EKHCS) Director and the VISN 15 Heartland Network Director both agreed that the list not an unapproved wait list; rather it was an electronic checklist used to ensure Veterans received the appropriate and necessary pre-surgical work-up prior to cataract surgery. The checklist was a tracking mechanism that followed multiple facets of care, including progress of clinical work-up through clinical disposition, and was maintained at the local facility. No VHA-wide mechanism was available that met the specific needs of the eye clinic procedures. In his report, the Assistant Inspector General for Healthcare Inspections disagreed with their assessment and maintained that the review found that list was used to track patients awaiting cataract surgery in lieu of the electronic wait list. The OIG substantiated that providers did not consistently enter eye care requests for new Leavenworth VAMC and Topeka VAMC Eye Clinic patients using the consult referral process as required. However, they did not substantiate the allegation that the providers did not follow the required consult process in an attempt to falsify wait times. The OIG did not substantiate that cataract surgeries were completed unnecessarily for the two identified patients or that patients were harmed while awaiting surgery.

In reference to improving home health services and to address the site-specific report, *Access and Oversight Concerns for Home Health Services Washington DC VA Medical Center Washington, District of Columbia* (Report Number 14-03823-19, issued November 16, 2015), the DC VA Medical Center completed a number of actions to described below. In FY 2016, staff revised the Geriatric and Extended Care Organizational Chart outlining the restructuring of the program. The Director signed the revised policy, Medical Center Memorandum, No. 11D-33 H/HHA Program. Staff training for the policy has been loaded into Talent Management System. There is now improved communication of between GEC reviews and referral sources of H/HHA by adding them as a co-signer. There is improved monitoring and oversight of DC VAMC's H/HHA EWL to ensure Veterans and family members are informed of delay in services and appropriate steps are followed in accordance with policy. An H/HHA monitoring tool was developed to assess staffs compliance of the program quality indicators. Random quarterly audits will be conducted. Staff developed an enhanced GEC screening process to better track and monitor referrals volume and dispositions. Additionally, there is ongoing monitoring and oversight activities of Veterans and community agencies receiving H/HHA services now occur.

2. Ensuring that VA Can Purchase Timely, High Quality Care in the Community

On February 11, 2016, OIG testified before the United States House of Representative's Subcommittee on Health, Committee on Veterans' Affairs, about the challenges VA faces in administering its purchased care programs. VA's purchased care programs include the Veterans Choice Program (VCP), Patient-Centered Community Care (PC3), Fee Basis Care, and other non-VA care programs. VA continues to experience challenges with Veterans receiving timely access to care in the VCP which was created in November 2014 under Public Law 113-146, Veterans Access, Choice, and Accountability Act of 2014.

On February 4, 2016, OIG issued *Review of Alleged Untimely Care at the Community Based Outpatient Clinic, Colorado Springs, Colorado* (Report Number 15-02472-46, issued February 4, 2016), substantiating the allegation that eligible Colorado Springs Veterans did not receive timely care in six reviewed services. The services were Audiology, Mental Health, Neurology, Optometry, Orthopedic, and Primary Care. OIG reviewed 150 referrals for specialty care consults and 300 primary care appointments and, of the 450 consults and appointments, 288 veterans encountered wait times in excess of 30 days. For all 288 veterans, VA staff either did not add them to the Veterans Choice List or did not add them to the list in a timely manner. Specifically, OIG found that:

- Scheduling staff used incorrect dates that made it appear the appointment wait time was less than 30 days for 59 of the 288 veterans; and
- Non-VA Care Coordination staff did not add 56 veterans to the VCL and did not add 173 veterans to the list in a timely manner; and
- Scheduling staff did not take timely action on 94 consults and primary care appointment requests.

As a result, VA staff did not fully use VCP funds authorized by Congress to afford Colorado Springs CBOC Veterans the opportunity to receive timely care.

Additionally, on February 5, 2016, OIG issued *Review of Alleged Patient Scheduling Issues at the VA Medical Center in Tampa, Florida* (Report Number 15-03026-101, issued February 5, 2016), substantiating that James A. Haley Veterans' Hospital staff did not always cancel the veteran's VA appointment when staff made a VCP appointment. Consequently, VA appointments were not available for other Veterans waiting for care. For example:

- OIG found that for 12 Veterans, staff did not cancel the Veterans' corresponding VA appointments because Non-VA Care Coordination staff did not receive prompt notification from the contractor when a Veteran scheduled a VCP appointment and no longer needed the VA appointment; and
- OIG substantiated that the facility did not add all eligible Veterans to the Veterans Choice List when their scheduled appointment was greater than 30 days from their preferred date, and that staff inappropriately removed veterans from the Veterans Choice List. This occurred because Tampa VAMC schedulers thought they were appropriately removing the veteran from the Electronic Wait List when they were actually removing the veteran from the Veterans Choice List.

VA's Program Response
Estimated Resolution Timeframe: Complete
Responsible Agency Official: Under Secretary for Health
Associated Strategic Goal: Manage and Improve VA Operations to Deliver Seamless and Integrated Support
Strategic Objective: Enhance productivity and improve efficiency of the provision of Veteran benefits and services
Associated Performance Measure(s): No public-facing measures are associated with this issue

VHA continues to work to improve access to care for all Veterans. Community Care has guidance outlining the process for managing Veteran Choice List appointments. This guidance has been reviewed in numerous training sessions, and is available for staff to download to be readily available. Information regarding this subject was also reviewed on a Monthly National Call.

In reference to the site-specific report, *Review of Alleged Untimely Care at the Community Based Outpatient Clinic, Colorado Springs, Colorado* (Report Number 15-02472-46, issued February 4, 2016), VHA has taken note of OIG's concern and shall address it locally. It does not appear that this is a systemic issue. VHA welcomes OIG's recommendations on policies and procedures across the enterprise.

VA Eastern Colorado Health Care System (ECHCS) fully supports the Veteran's right to pursue the "Choice" option if they meet eligibility criteria. We are currently in the top 5 facilities in the nation for the volume of referrals to the Veterans Choice Program. Through March of FY 2016, ECHCS has referred 27,716 episodes of care to our region's third party administrator, Health Net Federal Services (Health Net), resulting in 17,251 appointments in the community. To ensure we maintain this success, ECHCS has added Veterans Choice List entry criteria to the performance plans of schedulers and issued the revised plans during mid-year review in March 2016.

In regards to the appointment requests for newly enrolled Veterans within 1 day of the approved appointment, there is no known policy with this requirement. Per VHA Directive 2012-001 regarding time requirements for processing Enrollment applications, the office responsible for processing applications is responsible for processing all applications, regardless of the method of submission, into the Veterans Information Systems and Technology Architecture (VistA) within 5 business days of the time stamp date. The appointment requests for newly enrolled patients are populated onto the Newly Enrolled/Appointment Requested Report and processed daily by the site for which the Veteran requested care.

In reference to the site-specific report, *Review of Alleged Patient Scheduling Issues at the VA Medical Center in Tampa, Florida* (Report Number 15-03026-101, February 5, 2016), the Tampa VA Medical Center took the actions described below. The Acting Chief, Health Administration Service (HAS) collaborated with the VISN 8 Field Assistant who explained that any changes would require a national Contract Modification. At the national level, there are no plans for modification as the needed information is obtainable through the Health Net portal. HAS will continue to retrieve community CHOICE appointments through the portal and cancel VA appointments accordingly. On average, appointment notifications are received within two to ten days prior to the community CHOICE appointments.

The Acting Chief, HAS, validated that Health Net complies with the contract by updating the portal with the date/time of the community appointment. Health Net is not obligated to provide an electronic alert. HAS will continue to retrieve community appointments through the portal.

The HAS Performance Improvement (PI) section developed an audit program report in May 2015 which utilizes VistA. The report is run daily for the appointments made on the previous date. The report has three tabs that monitor Veteran's Choice List (VC List) entries, VCL Dispositioned entries, and appointments that should have been added to the VC List but were not. This report is sent daily via Outlook to all section chiefs and supervisors of scheduling staff with instructions on how to take action for each tab. The supervisors share the audit results with appropriate staff for awareness and corrective action.

HAS PI section runs the daily VC List reports to verify VC List entries were made. Those that have been dispositioned from the list are verified for "Deceased status" with Decedent Affairs staff. Veterans not identified as deceased are reported to supervisors to be re-entered correctly to the VC List. The HAS PI Committee performs ongoing audits for previously dispositioned Veterans, as well as audits to identify patients scheduled for appointments, but not entered to the VC List as required. The Committee reports their findings to the PI Section Chief. The PI Section Chief then sends a list to supervisors to have the corrective actions entered.

In accordance with the National Clarification to Scheduling Guidelines introduced in May 2015, the PI section conducted refresher scheduling training from July through September 2015. The training included CHOICE, Electronic Wait List/VC List training and was provided to all staff and supervisors possessing the scheduling menus. Staff were required to self-certify that they had attended, understood, and would comply with the training requirements. Training certification for those that attend training is entered in staff's Talent Management System (TMS) Learning History, and certification memorandums are maintained by the PI section.

The scheduling menus were removed from those staff that did not attend and certify compliance. CHOICE, Electronic Wait List /VCL training is now part of the scheduling training conducted at James A. Haley Veterans' Hospital prior to scheduling menus being assigned. Veterans are now entered on the VCL by a scheduler in the respective specialties.

OIG CHALLENGE #2: BENEFITS PROCESSING
-Strategic Overview-

Delivering timely and accurate benefits is central to VA's mission. The Veterans Benefits Administration (VBA) is responsible for oversight of the nationwide network of VA Regional Offices (VARO) 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 $104 billion in claims to Veterans and their beneficiaries in FY 2017.

OIG conducts inspections of all 56 VARO's and the Veterans Service Center (VSC) in Cheyenne, Wyoming, generally on a 3-year cycle to examine the accuracy of claims processing and the management of VSC operational activities. 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 2016, OIG inspected 5 VAROs—completing the second review cycle of VBA's 57 claims processing offices.

During FY 2016, OIG also reported the results of 14 reviews related to VBA programs, operations, and complaints received through OIG's Hotline Division. Since FY 2011, VBA has aggressively pursued multiple initiatives outlined in its Strategic Plan to eliminate the backlog of compensation claims, also referred to as rating-related claims. VBA's goal for reducing the backlog was to process all compensation claims within 125 days with 98 percent accuracy by 2015. However, OIG is concerned that the improvement made in reducing the backlog of compensation claims was at the expense of other VBA workload such as its non-rating and appealed claims workload.

The manner in which VBA reports and accounts for its workload lacks transparency and creates self-imposed challenges to managing that workload. For example, in April 2016, VBA reported it completed 135,172 dependency claims since the start of the FY—representing 32 percent of its target completion goal of 422,090 during FY 2016. As part of VBA's transformation efforts, VBA developed a Rules-Based Processing System (RBPS) to automate dependency claim submission and payment through self-service features; however, claims processed under RBPS are excluded from VBA's performance dashboards. VBA reported that over 60 percent of the dependency claims filed through RBPS are automatically processed and paid within 2 days; yet, dependency claims processed under traditional claims processing systems for FY 2016 have taken, on average, 353 days to complete. While VBA reports the success of RBPS, performance metrics such as the accuracy of claims processed using RBPS are unknown. It is unclear how VBA and stakeholders, to include OIG, can determine if VBA successfully reduced its inventory of dependency claims and whether or not improvement in this workload can be attributed to RBPS. Similarly, while VBA focused efforts on reducing its inventory of rating-related disability claims, its appealed claims inventory continued to rise. According to VBA's

Monday Morning Workload Reporting system, the appealed claims inventory increased by 31 percent—from 247,780 in September 2011 to 325,291 as of May 14, 2016.

OIG Sub-Challenge #2A: Improving the Accuracy and Timeliness of Claims Decisions (VBA)

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 claims decisions. Claims processing that lacks compliance with VBA procedures could increase the risk of improper benefits payments to Veterans and their families. During 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. In FY 2016, OIG reported on the performance of five VAROs in the following areas:

- Temporary 100 percent disability evaluations;
- Residual disabilities related to TBI;
- SMC and related ancillary benefits;
- Dates of claims; and
- Benefits reductions.

OIG determined VBA staff correctly processed disability claims related to TBI; however, 16 percent of the total 186 disability claims statistically selected from 5 VAROs that related to temporary 100 percent disability evaluations and SMC claims contained errors. The errors resulted in more than $186,000 in improper benefits payments. Specifically, VARO staff incorrectly processed:

- 20 percent of 114 temporary 100 percent disability evaluations, resulting in identification of more than $138,100 in improper benefits payments; and
- 32 percent of 19 claims involving SMC and ancillary benefits, resulting in identification of more than $47,900 in improper benefits payments.

VARO staff used incorrect dates when establishing claims in VBA's electronic system of records for 1 percent of the 150 cases reviewed. OIG also determined VARO staff did not correctly process or complete 26 percent of 141 proposed benefits reductions cases, resulting in approximately $206,400 in improper benefits payments. For the cases with processing delays, an average of 6 months elapsed before staff took the required actions to reduce benefits.

In FY 2014, as part of its transformation initiatives, VBA implemented an issue-level model for reporting the accuracy of claims processed at VAROs—deviating from its traditional claim-level model for reporting accuracy. VBA explained that under the issue-level model, a claims processor that properly decided 15 out of 16 medical issues correctly received an accuracy rate of 93.7 percent. Under the claim-level model, if one of the 16 issues were incorrectly decided, the entire claim would be an error. VBA began concurrently tracking the accuracy of rating-related disability claims using the traditional and claim-level model. Under the claim-level model, the accuracy of rating-related claims remained at approximately 90 percent while the accuracy of claims using the issue-level model remained around 96 percent through the second quarter of FY 2016. As such, OIG is concerned that the increased accuracy reported using the issue-level model is related to the change in methodology rather than actual improvement in the accuracy of claims being processed.

Additionally, in March 2015, VBA implemented a regulatory change that standardized the manner in which beneficiaries must submit claims. Prior to the regulatory change, beneficiaries were entitled to submit a claim in any format, including handwritten notes or letters. The regulatory change included a new "intent to file" process. VBA reported that the formalized process gives applicants additional time to gather all of the information and evidence needed to submit their formal application for benefits; however, VBA has a fundamental duty to assist Veterans in this process. OIG is concerned that the new policy created a mechanism in which claims processing staff could reject claims unless it was submitted on a specific form, thereby delaying assisting Veterans with their claims and ultimately in the delivery of benefits and services.

VA Program Response
Estimated Resolution Timeframe: 2017
Responsible Agency Official: Under Secretary for Benefits
Associated Strategic Goal: Empower Veterans to Improve Their Well-being
Strategic Objective: Increase customer satisfaction through improvements in benefits and services delivery policies, procedures, and interfaces

Associated Performance Measures:

- Percentage of VA Disability Rating Claims pending more than 125-days
- Percentage of Disability Compensation Rating Claims inventory pending more than 125-days
- National Accuracy Rate – Disability Compensation Rating Claims
- National Accuracy Rate – Disability Compensation Rating Claims – Issue Based
- Percent of Disability Compensation Claims received virtually/electronically
- Percentage of Dependency and Indemnity Compensation Claims inventory pending more than 125-days
- Non-Rating Claims, Compensation Average Days Pending
- Non-Rating Claims, Compensation Average Days to Complete
- Dependency Claims Processing: Inventory (Claims Pending)
- Dependency Claims Processing: Timeliness (Month-to-Date Average Days to Complete as of the last month of the year)
- Compensation: Overall customer satisfaction index score (out of 1000)
- Appeals Processing - Notices of Disagreement (NODs) Average Days Pending
- Appeals Processing - Formal Appeals to the Board (Form 9) Pending Inventory
- Appeals Processing - Notices of Disagreement (NODs) Pending Inventory

The Veterans Benefits Administration (VBA) is committed to providing Veterans with the care and services they have earned and deserve. As of September 30, 2016, the average age of pending compensation claims was 85 days, a 197-day reduction from the 282-day peak in March 2013. For the seventh year in a row, VBA completed over a million disability claims. Even as VBA focused on its priority goal to eliminate the disability rating claims backlog for Veterans who have waited the longest, and is achieving record-breaking levels of production, VBA remained focused on non-rating claims, as well. As VBA completed record-breaking numbers of disability rating claims in recent years, one result is an associated increase in the volume of non-rating claims and appeals. Despite completing three million non-rating and administrative action end products in fiscal year (FY) 2016, this volume of work continues to grow.

VBA developed the Rules-Based Processing System (RBPS) to automate adjustments for adding or removing dependents. During FY 2016, 66 percent of the dependency claims submitted through RBPS were automatically processed and Veterans' award adjustments were completed within one day. Claims that do not fit the criteria for automatic processing or claims that cannot be validated through the automated rules-based decision criteria are routed for manual processing. VBA will continue to focus efforts on completing the oldest dependency claims while continuing to reduce overall inventory. In the third quarter of FY 2016, VBA continued to track improvement projects across identified work streams to increase the volume of dependency claims eligible for automatic processing. Distribution of dependency claims through the National Work Queue (NWQ) will increase, further adding claims processing efficiency. VBA will continue to work with the myVA initiative to prioritize information technology improvements and market the electronic submission channels that enable automatic dependency claim processing.

Modernizing the appeals process through legislative reform and other people, process, and technology initiatives is one of VA's 12 Breakthrough Priorities. VBA received funding that allowed the hiring of 200 additional appeals full-time employees in FY 2016, increasing the appeals workforce to 1,495 employees. VBA also allocated $10 million in overtime funds for the appeals workload. The additional funding has allowed VBA to increase its appeals output to more than 202,000 appeals actions in FY 2016, which represents a 20 percent increase over FY 2015. VBA was able to lower the Substantive Appeal (VA Form 9) pending inventory by 11 percent, and the Board remand inventory by 8 percent in FY 2016, while maintaining a steady NOD pending inventory, compared to FY 2015. In addition, VBA issued over 30,000 more statements of the case in FY 2016 compared to the previous year. Overall, VBA resolved 113,197 appeals in FY 2016 – over 15,000 more appeal resolutions compared to FY 2015. Furthermore, beginning in November 2015, VBA started gathering requirements for processing appeals in VBMS, leveraging efficiencies through automation and the NWQ. However, as VA has increased claims decision output over the past 6 years, appeals volume has grown proportionately.

Despite the people, process, and technology improvements, increases in productivity have not been significant enough to keep pace with inflow of new appeals and the current appeals workload is projected to continue to grow. VBA received more than 176,000 new appeals in FY 2016 – nearly 63,000 appeals more than it was able to resolve. Within the current legal framework, the average processing time for all appeals resolved in FY 2016 was approximately 3 years. For those appeals that reach the Board, on average, Veterans were waiting at least 5 years for an appeals decision, with thousands of Veterans waiting much longer. VA projects that under the current process, without significant legislative reform, Veterans will be waiting an average of 10 years for a decision on their appeal by the end of 2027. Comprehensive legislative reform is required to modernize the VA appeals process and provide Veterans a decision on their appeal that is timely, simple, transparent, and fair. In early 2016, VA sponsored an "Appeals Summit" – a series of meetings held with Veterans Service Organizations (VSOs), advocacy groups, and congressional staff to design a new appeal process, with additional meetings and ongoing communication following. The product of these collaborative, detailed discussions between VA, VSOs, and other key stakeholders was a new appeals framework. VA provided Congress with draft language setting forth this framework, which is the subject of four bills pending in Congress (H.R. 5083, H.R. 5620, S. 3170, and S. 3328).

Nationally, claim-based accuracy increased from 84 percent in FY 2011 to 88.1 percent (+/- .8 percent margin of error), as of September 30, 2016, and issue-based accuracy remained high at 95.5 percent (+/- .3 percent margin of error). Issue-based accuracy is measured by assessing each medical disability decision within a rating-related compensation claim. Each issue a Veteran raises must go through the same series of discrete tasks, such as VBA providing duty to assist, gathering evidence, and making the decision. VBA may err on one aspect of the claim for a medical issue, but correctly process the remaining issues within the claim. Hence, the outcome of claim-based accuracy, which considers a claim to be processed either correctly or incorrectly, is not beneficial for analysis or training purposes and presents a misleading picture of VBA's accuracy. Issue-based accuracy provides VBA the opportunity to precisely target medical issues where adjudication is more error-prone and additional training is needed.

VBA continues to gain efficiency as a result of a blend of people, process, and technology improvements. The automation capabilities provided by the Veterans Benefits Management System (VBMS), coupled with the implementation of the NWQ and the Centralized Mail (CM) program, are clear examples of enhancements to increase the efficiency of claims processing.

VBMS deployed major releases in FY 2016, using an agile development model to deliver new functionality and enhancements to users every three months. These releases focused on the reduction of legacy systems, as well as automation, integration with the Department of Defense (DoD), and electronic access to communications for Veterans. For enhanced efficiency, VBMS can now systematically request DoD service treatment records when a Veteran initiates his or her claim. Additionally, VBMS now automatically triggers a review of a claim when requested evidence is marked as received, helping move the claim toward a decision.

In February 2016, VBA launched NWQ, a national workload distribution tool. NWQ was built within VBMS and takes advantage of paperless capabilities to improve VBA's overall production capacity and assist with reaching claims processing goals. With 99.7 percent of the pending disability compensation claims inventory converted to a digital format, VBA is able to efficiently and centrally manage the claims workload, set priorities nationally, and electronically distribute claims that are ready to be worked based on individual regional office (RO) capacity levels. As of May 8, 2016, all ROs are receiving disability rating claims through NWQ.

VBA completed deploying CM to all ROs in 2015, and completed deploying CM to the Pension Management Centers in FY 2016. Since deployment, VBA has gained proficiency in electronic mail processing and is now able to provide assistance with virtual mail processing as needed across ROs. VBA continues to explore the possibility of expanding CM use to other business lines.

Prior to March 24, 2015, Veterans could submit claims in any format, including handwritten notes or letters. This practice sometimes led to VBA discovering claims later in the process. Effective March 24, 2015, VBA regulations made 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 (ITF) process that replaces informal claims. The ITF process gives applicants additional time to gather all of the information and evidence needed to submit with their formal application for benefits. The ITF process protects the earliest possible effective date if VBA determines that the applicant is eligible for benefits and helps ensure anyone wishing to file a claim receives the information and assistance he or she needs.

VBA also developed and mandated new refresher training course for Veterans Service Representatives, Rating Veterans Service Representatives, and Decision Review Officers regarding special monthly compensation (SMC). In addition, VBA updated training materials on the following topics for the Veterans Service Center personnel:

- Temporary 100-percent disability evaluations
- Traumatic brain injury
- SMC and related ancillary benefits
- Dates of claims
- Benefits reductions

OIG Sub-Challenge #2B: Improving Data Integrity, Internal Controls, and Management Within VAROs (VBA)

VBA continues to experience challenges in ensuring all 56 VAROs comply with the Veterans Health Information Systems and Technology Architecture (VistA) regulations and policies and deliver consistent operational performance. During FY 2016, OIG published 14 reports relating to VBA program operations, management, and allegations of wrongdoing. In total, OIG made 41 recommendations for improvement and substantiated many of the allegations raised through OIG's Hotline. Recommendations for improvement addressed data integrity issues, weaknesses in internal controls, and mismanagement of VBA operations and programs. Specific challenges that OIG reported on in FY 2016 are summarized in this section.

In May 2016, OIG identified concerns warranting VBA management attention while assessing the merits of allegations that VARO management inappropriately interfered with established procedures for reconsidering local quality review errors at the San Diego VARO. In *Review of Alleged Manipulation of Quality Review Results at VA Regional Office San Diego, California*, (Report Number 15-02376-239, issued May 9, 2016), OIG determined VBA's local quality review program lacked controls sufficient to ensure staff took timely actions to correct claims processing errors identified during the quality review process. Of the 50 errors OIG sampled, 39 required corrective actions, such as revised decision documents, while the 11 remaining errors related to actions like improper development for evidence which did not require revised decision documents. On average, it took VARO staff 66 days to correct the errors. OIG recommended the San Diego VARO Director implement a plan to ensure staff comply with local policy to correct individual quality review errors and that the Under Secretary for Benefits (USB) establish a timeliness standard for VBA staff at its 56 VAROs to follow when correcting individual quality review errors.

OIG issued two reports, *Review of Alleged Data Manipulation of Appealed Claims at VA Regional Office Wichita, Kansas* (Report Number 15-03581-204, issued April 26, 2016) and *Review of VBA's Alleged Inappropriate Prioritization of Appeals at VA Regional Office Roanoke, Virginia* (Report Number 15-02384-212, issued April 19, 2016), related to data integrity and mismanagement. The data integrity issues regarding appealed claims processing actions at the Wichita VARO resulted from a lack of management oversight and conflicting guidance provided by the Compensation Service. The guidance required VARO staff to enter incomplete and/or inaccurate information in Veterans Appeals Control and Locator System (VACOLS). VACOLS is the electronic records system used to track and manage its appeals workloads—the effectiveness of tracking appealed claims is dependent upon the accuracy and timeliness of the information entered. OIG reviewed 36 Notices of Disagreements (NOD) at the Wichita VARO and found staff did not follow VBA policy when processing this workload. In addition to recommending that VARO staff correct the errors OIG identified, the USB modified the policy on processing the appealed claims workload to ensure appellate claims are accurately processed.

At the Roanoke VARO, OIG confirmed that leadership did not follow workload management plans, which required appeals staff to prioritize appealed claims based on the age of the appealed claims.

Instead, as directed by VBA's Southern Area Office Director to reduce appeals inventory, Roanoke VARO management implemented a NOD reduction plan. The reduction plan focused on processing less complex, newly initiated appeals. OIG confirmed that 82 percent of the appealed claims processed by Roanoke VARO staff in FY 2014 had been pending less than 1 year and that older appealed claims were not processed.

In January 2015, OIG received an anonymous allegation that staff at the Los Angeles, California, VARO were shredding mail related to veterans' disability compensation claims. The complainant also alleged that supervisors were instructing staff to shred these documents. OIG substantiated in *Review of Alleged Shredding of Claims-Related Evidence at VA Regional Office Los Angeles, California* (Report Number 15-04652-266, issued April 14, 2016), that VARO staff were not following VBA's January 2011 policy on management of Veterans' and other governmental paper records. OIG found nine claims-related documents that VARO staff incorrectly placed in personal shred bins for non-claims-related documents—eight of which had the potential to affect Veterans' benefits. OIG could not determine if records were incorrectly shredded prior to the visit because, as part of the normal contractor shred schedule, documents stored for destruction were picked up 11 days prior to OIG's visit. OIG will continue to follow up on the VARO's progress toward implementing the recommendations and corrective actions made in the report.

In order to determine whether the improper destruction of Veterans' claims-related documents was an isolated problem or a systemic issue, OIG conducted unannounced inspections at 10 selected VAROs across the nation. The 10 sites were Atlanta, Georgia; Baltimore, Maryland; Chicago, Illinois; Houston, Texas; New Orleans, Louisiana; Oakland, California; Philadelphia, Pennsylvania; Reno, Nevada; San Juan, Puerto Rico; and St. Petersburg, Florida. OIG found that VBA's controls were not effective to prevent VARO staff from potentially destroying claims-related documents, identifying 69 of 155 claims-related documents improperly scheduled for destruction at 6 of the 10 VAROs. As such, OIG concluded this was a systemic issue within VBA. OIG found that noncompliance with policy, inadequate controls, and outdated guidance led to the potential destruction of claims-related documents. VARO management and staff found VBA's policy confusing, they did not always receive annual training as required, and records management staff did not consistently review documents or maintain violation logs. These actions put documents at risk for inappropriate destruction, which can result in loss of claims and medical evidence, incorrect decisions, and delays in claims processing.

Additionally, VBA's shredding policy contained control weaknesses because supervisors were not required to document or track shredding violations, and records management staff were only required to spot check documents identified by employees as non-claims-related. The policy also lacked standardized procedures for the collection of documents, and VBA had not updated its policy to include procedures for electronic claims processing. OIG made seven recommendations in the report *Review of Claims-Related Documents Pending Destruction at VA Regional Offices* (Report Number 15-04652-146, issued April 14, 2016) to the Acting USB, including revising VBA policy on management of veterans' and other Governmental paper records to ensure documents printed from Veterans Benefits Management System (VBMS) are clearly identified, and to provide detailed standardized procedures for the collection and review of material by records management staff.

Furthermore, OIG confirmed that St. Petersburg VARO staff did not adequately prepare documents for scanning at VA contracted scanning facilities. OIG observed claims evidence that was improperly stored, comingled with contractor documentation, or that was disorganized and not ready for scanning. Overall, the St. Petersburg VARO had more than 41,900 mail packages containing claims material and over 1,600 boxes requiring scanning. OIG also found that VBA did not provide effective oversight of contractor personnel to ensure documents were timely processed or safeguarded at the contractor facility.

On February 25, 2016, OIG published the results of an audit to assess VBA's implementation of its 2012 recommendations to strengthen internal controls over Disability Benefit Questionnaires (DBQs) and to determine whether VBA could use DBQs more effectively. In *Follow-Up Audit of VBA's Internal Controls Over Disability Benefits Questionnaires* (Report Number 14-02384-45, issued February 25, 2016), OIG found VBA did not establish adequate controls to identify and minimize potential DBQ fraud or fully implement OIG's prior recommendations to address control weaknesses. OIG estimated that claims processors did not identify approximately 23,100 of about 24,700 claims (93 percent) that included DBQs. Generally, this occurred because VARO staff did not consistently and correctly apply special issue indicators in VBA's electronic systems to identify claims that included DBQs, and VBA lacked adequate policies and procedures and quality assurance reviews. Further, unnecessary medical examinations caused Veterans and VA to needlessly expend time and money and may have delayed Veterans receiving benefits. OIG estimated VA will spend at least $4.8 million annually and at least $24 million over the next 5 years for unnecessary VA examinations if DBQs are not used more effectively.

VA Program Response
Estimated Resolution Timeframe: 2017
Responsible Agency Official: Under Secretary for Benefits
Associated Strategic Goal: Empower Veterans to Improve Their Well-being
Strategic Objective: Increase customer satisfaction through improvements in benefits and services delivery policies, procedures, and interfaces

Associated Performance Measures:

- Percentage of VA Disability Rating Claims pending more than 125-days
- Percentage of Disability Compensation Rating Claims inventory pending more than 125-days
- National Accuracy Rate – Disability Compensation Rating Claims
- National Accuracy Rate – Disability Compensation Rating Claims – Issue Based
- Percent of Disability Compensation Claims received virtually/electronically
- Percentage of Dependency and Indemnity Compensation Claims inventory pending more than 125-days
- Non-Rating Claims, Compensation Average Days Pending
- Non-Rating Claims, Compensation Average Days to Complete
- Dependency Claims Processing: Inventory (Claims Pending)
- Dependency Claims Processing: Timeliness (Month-to-Date Average Days to Complete as of the last month of the year)
- Compensation: Overall customer satisfaction index score (out of 1000)

VBA takes seriously the issues OIG raised and has taken action to address them, and will continue to do so until they are resolved.

The issue related to appeals workload management was specific to the Roanoke RO, which VBA addressed locally rather than systemically. Five of the OIG reports noted above resulted in national recommendations, and VBA is implementing them as expeditiously as possible. On March 4, 2016, VBA established a five-day standard for correcting errors identified by Quality Review Teams. VBA reminded all RO staff about the policy for controlling appeals on April 28, 2016. In March 2015, as a result of OIG's findings from the St. Petersburg RO, VBA increased the number of visits to the scanning facilities, provided more detailed instructions for site audits, and authorized an on-site government staff member for each mail intake site.

VBA is committed to ensuring Veterans' records are protected and maintained with accuracy and care. OIG inspected the Los Angeles RO in January 2015, to review documents pending destruction. OIG reviewed approximately 13,800 documents to be shredded and found 9 claims-related documents in individual employees' shred boxes/envelopes, demonstrating a 99.93 percent accuracy rate of the RO's shredding process. VBA believes that OIG intercepted all of these documents before they completely passed through the RO's internal controls process, including the Records Management Officer's review. The OIG proceeded to conduct additional inspections regarding documents pending destruction at 10 ROs, reviewing 438,000 documents and noting 11 documents (0.0025 percent) that were erroneously identified for disposal and had the potential to affect benefits. While VBA knows that every Veteran's record is important and sincerely regrets these errors, it has been working diligently to eliminate the potential for errors by transforming its antiquated paper-based system to a fully electronic environment. Conversion of paper records to digital records significantly strengthens the systemic protection of Veterans' claim documents, early and rapidly integrating them into the Veterans' electronic claims folders. Ensuring these protections remains a top priority for VBA. VBA is also in the process of revising its records management policy to align with the current environment, which provides electronic document storage and centralized mail handling.

VBA is addressing all recommendations made by OIG in the *Follow-Up Audit of VBA's Internal Controls over Disability Benefits Questionnaires (DBQs)*. VBA revised the Adjudication Procedures Manual, M21-1, to clarify procedures pertaining to public-use DBQs. Specifically, the revisions updated guidance on how to obtain missing information from public-use DBQs, procedures for determining if clinicians who prepared the public-use DBQs are private or Veterans Health Administration clinicians, and additional steps to take after receiving insufficient public-use DBQs.

VBA also made improvements to the local quality assurance reviews. On January 1, 2016, VBA released a revised in-process review checklist to address compliance with public-use DBQ indicators, RO compliance with complete clinician's information on the public-use DBQs, and whether claims processors obtained unnecessary examinations after receiving DBQs adequate for rating purposes. In addition, on May 15, 2016, a revised Systematic Technical Accuracy Review checklist captured whether the submitted public-use DBQ was adequate for rating purposes.

VBA revised the standard operating procedure (SOP) for reviewing DBQs completed by non-VA providers. The revised SOP requires Compensation Service (CS) to analyze local quality assurance reviews to identify systemic issues related to the use of special-issue indicators, complete clinician information, and potential instances of unnecessary examinations.

VBA continues to assess the business requirements to verify the credentials of private physicians. VBA is also in the process of implementing front-end controls in the Veteran Claims Intake Program and Centralized Mail Portal, verifying the examiner by the National Provider Identifier (NPI), and by adding the private provider NPI as a data field so data can be pulled and sorted through data requests.

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 17th consecutive year, OIG's independent auditors provided an unqualified opinion on VA's FY 2015 and FY 2014 consolidated financial statements (CFS). With respect to internal controls, the contractor identified four material weaknesses, Information Technology Security Controls (a repeat condition); Procurement, Undelivered Orders, and Reconciliations; Purchase Care Processing and Reconciliations; and Financial Reporting. The independent auditors also identified two significant deficiencies, Accrued Operating Expenses (a repeat condition) and CFO Organizational Structure for VHA and VA. Additionally, the contractor reported that VA did not substantially comply with Federal financial management systems requirements and the United States Standard General Ledger at the transaction level under P.L. 104-208, Federal Financial Manager Improvement Act (FFMIA) of 1996, and cited instances of non-compliance with section 5315 of title 38 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 2016 audit of VA's CFS.

OIG Sub-Challenge #3A: Compliance with the Improper Payments Elimination and Recovery Act (Office of Management (OM), VHA, VBA)

OIG conducted an FY 2015 review to determine whether VA complied with the requirements of P.L. 111-204, Improper Payments Elimination and Recovery Act (IPERA) of 2010. VA reported improper payment estimates totaling approximately $5 billion in its FY 2015 Agency Financial Report (AFR), compared with $1.6 billion for FY 2014, primarily because of improvements in estimating improper payments for four programs. In both years, VA reported improper payment data based on the previous fiscal year activity. VA did not fully comply with IPERA. In fact, the Office of Management and Budget (OMB) designated the VA Community Care, Purchases Long Term Services and Support programs, and the Compensation programs as high-priority programs in FY 2016. Each of these programs had estimated improper payments in excess of OMB's threshold of $750 million. This designation places additional requirements on VA and OIG for FY 2016 reporting.

VA met four of six IPERA requirements for FY 2015 by publishing the AFR, performing risk assessments, publishing improper payment estimates, and providing information on corrective action plans. VA did not comply with two of the six IPERA requirements by not maintaining a gross improper payment rate of less than 10 percent and not meeting reduction targets for all programs published in the AFR. The two programs that exceeded the 10 percent threshold are the VA Community Care program and Purchased Long Term Care Support and Services program. The programs that did not meet reduction targets are: (1) Compensation; (2) Education Chapter 1606; (3) Education Chapter 1607; (4) VA Community Care; (5) Purchased Long Term Services and Support; (6) Beneficiary Travel; (7) Supplies and Materials; and (8) Disaster Relief Act—Hurricane Sandy.

In addition, VHA underestimated improper payments for one program and did not achieve the expected level of accuracy for two others. Likewise, VBA expended considerable effort to collect improper payments because of a program design issue with drill pay, and it needs to develop a plan and seek the assistance of Office of Management and Budget to coordinate future resolution. VA management concurred with OIG's recommendations, and OIG will follow up on corrective actions in the FY 2016 review.

OIG also conducted an audit to evaluate VBA's oversight of the Post-9/11 Veterans Educational Assistance Act of 2008 (Post-9/11 G.I. Bill) tuition and fee payments to determine if payments were appropriate and accurate (Report Number 14-05118-147, issued September 30, 2016). OIG's review of a sample of more than $1.7 million in payments made during the academic year from August 1, 2013, to July 31, 2014, determined that VBA Regional Processing Offices (RPOs) had made 46 improper payments to 20 schools. The RPOs made these improper payments totaling just under $90,900 on behalf of 43 of the 225 students reviewed. These improper payments occurred because:

- School certifying officials made errors, were unaware of program requirements, or did not follow program requirements when they submitted students' certifications for payment;
- VBA did not ensure sufficient verification and monitoring of tuition and fee certifications;
- VBA lacked adequate guidance on allowable book fees and repeated classes; and
- VBA did not verify and obtain supporting documentation for mitigating circumstances.

Of the more than $5.2 billion in payments made in academic year 2013-2014, OIG projected that VBA made about $247.6 million in improper payments. If VBA does not improve program controls, improper payments could total an estimated $1.2 billion over the next 5 academic years.

OIG also identified improper payments concerning incarcerated Veterans in *Audit of VBA's Compensation and Pension Benefit Payments to Incarcerated Veterans* (Report Number 13-02255-276, issued June 28, 2016). OIG conducted an audit to determine whether VBA was adjusting compensation and pension (C&P) benefit payments timely for Veterans incarcerated in Federal, state, and local penal institutions. Federal law requires VBA to reduce C&P benefits for Veterans incarcerated for more than 60 days in a Federal, state, or local penal institution. VARO and Pension Management Center (PMC) staff did not consistently take action to adjust C&P benefits for Veterans incarcerated in Federal penal institutions. Specifically, based on Federal incarceration data ranging from May 2008 through June 2015, VBA did not adjust veterans' C&P benefits, as required, in an estimated 1,300 of 2,500 cases (53 percent), which resulted in improper payments totaling approximately $59.9 million. Without improvements, OIG estimated VBA could make additional improper benefit payments totaling about $41.8 million for Federal incarceration cases from FY 2016 through FY 2020.

VARO and PMC staff also did not take consistent and timely action to adjust C&P benefits for veterans incarcerated in state and local penal institutions. Based on incarceration notifications received from March 2013 to August 2014—the most current data available at the time of OIG's audit—VBA did not effectively adjust veterans' C&P benefits in an estimated 3,800 of 21,600 state and local incarceration cases (18 percent), which resulted in significant delays and improper payments totaling approximately $44.2 million. Without improvements, OIG estimated VBA could make additional improper benefit payments totaling about $162 million for state and local incarceration cases from FY 2016 through FY 2020. In general, VBA did not place a priority on processing incarceration adjustments because VBA did not consider these non-rating claims to be part of the disability claims backlog. Both VBA Central Office and VARO staff consistently reported that incarceration adjustments were not a high priority.

OIG also identified improper payments during its review of VBA's SMC Housebound Benefits (Report Number 15-02707-277, issued September 29, 2016). The OIG reviewed whether VBA granted entitlement to all statutory housebound SMC benefits for veterans with a disability rated at 100 percent and additional disabilities independently rated at 60 percent. OIG also assessed whether VBA accurately processed SMC for veterans receiving compensation at the housebound rate. VBA's processing of SMC housebound benefits needs improvement. OIG identified processing inaccuracies in 45 of 250 cases where Veterans were entitled to statutory housebound benefits, resulting in estimated underpayments of $110.1 million through February 2015. Generally, errors occurred because staff overlooked the issue and VBA's electronic reminder was ineffective. In addition, VBA did not accurately process 127 of 247 cases where Veterans were being paid at the housebound rate. For cases with a combined evaluation of 90 percent or less, errors resulted in estimated overpayments of $44.3 million through February 2015. In many instances, the errors were due to ineffective training and a multi-step process in VBA's electronic system. Together, these errors resulted in improper payments of $154.4 million through February 2015.

VA's Program Response
Estimated Resolution Timeframe: FY 2020
Responsible Agency Officials: Interim Assistant Secretary for Management and Interim Chief Financial Officer (Lead), Under Secretary for Health, and Acting Under Secretary for Benefits, Principal Executive Director of Office of Acquisition, Logistics, and Construction
Associated Strategic Goal: Empower Veterans to Improve their Well-being
Strategic Objective: Increase customer satisfaction through improvements in benefits and services delivery policies, procedures, and interfaces

Associated Performance Measure(s): No public-facing measures are associated with this issue.

The Inspector General raised concerns about the VA's compliance with IPERA in their report released on May 15, 2015, and VA provided a detailed response in the FY 2015 Agency Financial Report (http://www.va.gov/finance/docs/afr/2015VAafrSectionIII.pdf, pg. 86). VA continues to address root causes of improper payments through the IPERA Governing Board and individual program corrective actions developed to mitigate findings from the OIG's 2016 IPERA report issued May 13, 2016.

In 2015, VA saw a significant increase in our improper payment rates. This was due to VHA's continued incorporation of contract compliance [Federal Acquisition Regulations (FAR) and VA Acquisition Regulations (VAAR)] into their test plans for VA Community Care and Purchased Long-Term Services and Support. This increased improper payment rate has continued into 2016 as VHA improves testing methodology and educating staff on proper contract regulations.

As the OIG noted, elimination of VBA improper payments for VA benefits processing related to military drill pay offsets are hampered by the current statutory framework. Legislative changes, funding, and computer system changes will be required, and therefore VA is working with the Office of Management and Budget (OMB) to determine whether this significant reform has long-term potential for implementation.

To help mitigate identified compliance issues within learning institutions, VBA will deploy an outreach team to assess areas of vulnerability in non-compliant institutions. In addition, VBA is updating the

School Certifying Official Handbook to include Standard Operating Procedures surrounding document retention and ensuring available documentation is provided timely for IPERA requests.

After reviewing the data on Federal incarcerations from May 2008 through June 2015, VBA identified a backlog of cases and initiated a review to process potential award adjustments. In the first quarter of FY 2016, VBA began a data-matching agreement with the Bureau of Prisons.

VBA deployed systemic changes to the Veterans Benefits Management System-Rating (VBMS-R) application on June 17, 2016, which included new programming that prevents staff from completing decisions without considering potential eligibility to statutory housebound benefits any time a Veteran has a single 100 percent evaluation. Rating Veteran Service Representatives and Decision Review Officers were required to take mandatory training on evaluating higher level of Special Monthly Compensation. This training was completed on July 1, 2016.

Utilizing proactive identification of root causes of improper payment, Compensation Service (CS) provided focused training to regional offices and deployed a Rules-Based Processing System for dependency claims to improve claim accuracy through automation. In FY 2016, VBA was able to reduce the number of pending dependence claims by approximately 50 percent.

Pension Service conducted site visits to assist the Pension Management Centers in identifying or detecting any operational deficiencies that may have negatively impacted the accurate and efficient processing and authorization of pension related claims. The site visit team also addressed training related issues and provided awareness of how incorrect actions taken on pension claims impacts IPERA.

Reducing improper payments is a high priority for VA's overall effort to strengthen financial management. VA is committed to achieving compliance with IPERA and remediating improper payments as part of our stewardship of taxpayer dollars.

VA continues to strengthen its efforts to ensure the improper payment definition is consistently applied, improve the accuracy and completeness of testing, develop and implement effective corrective actions, and increase awareness and accountability throughout the Department. Leadership has increased communication to clarify roles and responsibilities with Senior Accountable Officials to strategically strengthen program integrity by addressing vulnerabilities in programs, implementing effective corrective actions, and tracking issues to resolution.

OIG Sub-Challenge #3B: Improving Management of Appropriated Funds (OM, OIT, VHA)

In September 2012, OIG issued *Administrative Investigation of the FY 2011 Human Resources Conferences in Orlando, Florida* (Report Number 12-02525-291, issued September 30, 2012), which identified inadequate controls resulting in wasteful spending. OIG conducted an audit of FY 2014 conferences to assess the adequacy of the actions VA took to address identified control weaknesses identified in the September 2012 Administrative Investigation.

In OIG's report *Audit of VA's Conference Management for Fiscal Year 2014* (Report Number 15-01227-129, issued April 6, 2016), policy and oversight weaknesses were identified that could undermine the cost-effectiveness of conferences and increase the risk of inappropriate spending. VA organizations did not comply with policy for 11 of 12 randomly selected FY 2014 conferences. VA organizations did not prepare Conference Packages in accordance with policy for 10 conferences with budgets totaling approximately $11.6 million. VA organizations also did not prepare Final Conference Reports in accordance with policy for 11 of 12 conferences, with expenditures totaling approximately $7.9 million.

Weaknesses in policy implementation occurred because VA did not issue adequate guidance, implement adequate oversight procedures, or provide adequate accountability to ensure VA organizations complied with conference policies. As a result, these weaknesses contributed to VA reporting approximately $3.9 million in conference expenditures to Congress that could not be adequately traced to source documentation to verify their accuracy and appropriateness.

OIG also completed a report *Audit of VHA's Non-VA Medical Care Obligations*(Report Number 14-02465-47, issued January 12, 2016), that assessed whether VHA adequately managed non-VA medical care miscellaneous obligation cost estimates and related management and system controls. The Non-VA Care (NVC) Program expenditures of about $4.8 billion included $1.9 billion in obligated funds that remained unspent as of the end of FY 2013. Significant under or over obligation of these program funds could affect overall VHA operations.

VHA medical facilities did not adequately manage the obligations used to purchase NVC. From October 1, 2013, through March 31, 2015, VHA medical facility officials determined that they had overestimated the funds needed to pay for these services by about $543 million. The unnecessary obligation of these funds prevented VHA from using $543 million of the $1.9 billion (29 percent) obligated for NVC for any purpose during FY 2013. Reducing the over obligation of NVC funds from about 29 to 10 percent would have freed up about $358 million to acquire additional NVC services. This occurred because VHA did not:

- Provide the facilities with adequate tools to reasonably estimate the costs of NVC services;
- Require medical facility staff to routinely adjust cost estimates for individual authorized services to better reflect actual costs;
- Ensure NVC staff adjusted the estimated amount of obligated funds in the VistA after payments are complete; or
- Require facilities to analyze the accuracy of prior year obligation balances.

Additionally, in March 2015, U.S. Senator Mark Warner requested the OIG evaluate the merit of an allegation that a task order to develop e-learning courses for the supply chain workforce was improperly terminated. In *Review of the Alleged Improper Termination of the e-Learning Task Order* (Report Number 15-02776-240, issued September 19, 2016), OIG did not substantiate that VA's decision to terminate the e-learning task order was without just cause, as the Federal Acquisition Regulation (FAR) provides broad latitude for termination for convenience by the Government. However, OIG did determine that the Veterans Affairs Acquisition Academy did not properly plan and coordinate the e-learning task order with the Office of Logistics and Supply Chain Management officials. Consequently, it did not meet the program office's training needs. Had the Veterans Affairs Acquisition Academy taken the appropriate planning and coordination steps, it may have mitigated the termination risk and saved VA approximately $1.9 million for supply management courseware that was not completed.

OIG also substantiated an allegation that the Detroit VAMC had not installed and utilized 282 of 300 purchased televisions or their associated accessories in *Review of Alleged Waste of Funds at the VA Medical Center in Detroit, Michigan* (Report Number 16-02729-350, issued August 9, 2016). The facility acquired the equipment in September 2013 as part of a project to replace the patient television system in the facility, but as of April 2016, 282 of the televisions and associated accessories were in storage. Despite having all the televisions and accessories on hand for more than 2 years, the facility was unable to install the items in the patient rooms because they did not meet the design specifications identified in the patient television system architect and engineer (AE) services contract.

OIG determined Detroit VAMC officials did not communicate with the AE contractor in a timely manner to ensure the televisions purchased were compatible with the design and specifications of the project. As a result, the Detroit VAMC issued a contract modification for $19,052 to adjust the design and specifications of the project to support the televisions purchased. The televisions and related accessories should have been purchased closer to award of the construction contract. By purchasing these items more than 2 years before a construction contract to install them was awarded, the facility exposed itself to unnecessary financial risk in the event it does not proceed with the patient television system upgrade project. As of April 2016, the facility had not yet awarded a contract to install these televisions. Further, by purchasing too early in the process the facility allowed valuable warranties to expire, increasing the risk of incurring additional expenses to replace any faulty televisions.

VA's Program Response
Estimated Resolution Timeframe: 2017
Responsible Agency Official: Interim Assistant Secretary for Management and Interim Chief Financial Officer
Associated Strategic Goal: Manage and Improve VA Operations to Deliver Seamless and Integrated Support
Strategic Objective: Enhance Productivity and Improve Efficiency of the Provision of Veteran Benefits and Services
Associated Performance Measure(s): No Public Facing Measures are Associated with this Issue

VA is committed to financial management excellence through sound stewardship of taxpayer dollars. Thus, VA constantly strives to improve our financial practices and policies. In OIG's Audit of VA's Conference Management for Fiscal Year (FY) 2014 (Report Number 15-01227-129, issued April 6, 2016), VA's compliance was assessed with an outdated policy that was replaced in March of 2015. As such, many of the issues of noncompliance identified were the result of a complex and burdensome policy that did not accommodate how conferences were organized or executed across VA. Further, OIG's reported noncompliance with the outdated policy did not identify any wasteful spending, abuse or misuse of funds. Prior to the OIG's review, VA had developed an updated policy which maintained accountability, while ensuring it could be practicably applied in the development and approval of conferences.

VA acknowledges that its new policy did not specifically address those conferences held multiple times within a year or offered at Government-owned facilities. The policy will be further updated to provide additional clarity to the process and align with recent clarification from the Office of Management and Budget. VA takes its planning and execution of conferences seriously, and believes the new policy and procedures will ensure proper spending and accountability.

VA continues to make progress in addressing findings from the audit of VHA's Non-VA Medical Care Obligations (Report Number 14-02465-47, issued January 12, 2016). The Office of Community Care's Purchased Care program has enhanced the Fee Basis Claims System (FBCS) cost estimation tool to assist VA medical centers (VAMCs) in developing more accurate authorization estimates. In addition, on a daily and monthly basis, multiple reports are generated by Purchased Care and distributed to the VAMCs to identify potential issues with authorization estimates. In FY 2016, the Deputy Under Secretary for Health for Operations and Management added a requirement for all Veterans Integrated

Service Networks (VISNs) to certify that their VAMCs have completed a review of the previous months' FBCS authorization estimates for accuracy.

VA has also improved the reconciliation process between FBCS and the Financial Management System (FMS) by requiring VAMCs to reconcile FBCS authorization estimates to corresponding FMS obligations and payments on a monthly basis. VISN Directors certify monthly that the reconciliation is performed.

In March of 2015, Senator Mark Warner requested that OIG evaluate the merit of an allegation that a task order to develop e-learning courses for the supply chain workforce was improperly terminated; VA is awaiting final publication of the OIG report and any related recommendations.

VA concurred with the recommendations on the site-specific report, Review of Alleged Waste of Funds at the VA Medical Center in Detroit, Michigan (Report Number 16-02729-350, issued August 9, 2016), and has developed and implemented a plan to utilize the purchased televisions. A contract for the installation of the televisions cited in the report was awarded in June of 2016, and the installation project began in July of 2016.

VA takes our financial responsibilities seriously. Maintaining the public's trust of our financial stewardship remains one of our highest priorities.

OIG Sub-Challenge #3C: Improving the Timeliness of Payments to Purchased Care Providers (VHA)

In 2016, OIG testified before the Subcommittee on Health, Committee on Veterans' Affairs, United States House of Representatives, about the challenges VA faces in administering its purchased care programs. From August 2014 through February 1, 2016, VA has spent $224.4 million on the VCP. VA has reimbursed Health Net and Tri West $171.4 million of $224.4 million (76 percent) for administering the program and $53.0 million of $224.4 million (24 percent) for medical services provided to Veterans. OIG's audits and reviews have shown that VA faces challenges in administering its purchased care programs, not only with access to care, but with proper expenditure of funds, and timely payment of providers. VA lacked adequate processes to manage these funds and oversee program execution. While purchasing healthcare services from non-VA providers may afford VA flexibility in terms of expanded access to care and services that are not readily available at VA medical facilities, it also poses a significant risk to VA when adequate controls are not in place. With non-VA healthcare costs of about $6 billion in FY 2015 and future costs expected to increase, VA needs to improve program controls over timely payments. Without adequate controls, VA's consolidation plan is at increased risk of not achieving its goal of delivering timely and efficient healthcare to Veterans.

OIG determined veterans faced significant barriers accessing medical care through the VCP. These barriers included cumbersome authorization and scheduling procedures, insufficient provider networks, and potential liability for treatment costs. These barriers occurred because VCP implementation was inadequately planned and administrative burdens placed on network providers and low reimbursement rates discouraged their participation. As a result, from November 1, 2014, through September 30, 2015, very few veterans received care through the VCP. Only 13 percent of veterans who were waiting more than 30 days for VA care utilized the VCP. Those who successfully navigated the VCP's cumbersome procedures waited an average of 45 days to receive care. Also, VA spent about $165.2 million administering the program compared to $15.1 million providing medical care for veterans. VA is currently planning a new acquisition to replace the existing VCP contracts. For this new acquisition to be successful, VA will need to ensure OIG's recommended changes are addressed in a timely manner.

VA's Program Response
Estimated Resolution Timeframe: 2016
Responsible Agency Official: Under Secretary for Health
Associated Strategic Goal: Manage and Improve VA Operations to Deliver Seamless and Integrated Support
Strategic Objective: Enhance productivity and improve efficiency of the provision of Veteran benefits and services. Evolve VA information technology capabilities to meet emerging customer service/empowerment expectations of both VA customers and employees.
Associated Performance Measure(s): No public-facing measures are associated with this issue.

VA Community Care has taken steps to improve claims processing timeliness. As of July 22, 2016, 82.54 percent of all clean claims were aged less than 30 days as compared to 1 year ago when 70.45 percent of all claims were aged less than 30 days. This amounts to a 12 percent improvement over that period.

The Claims Adjudication and Reimbursement (CAR) program has made significant strides in reducing the aged inventory and has implemented standardized processes across the country to ensure claims are processed consistently with the same rules. CAR, in conjunction with Program Oversight and Informatics staff, has developed a "Dashboard" for field Supervisors to view claim level detail and staff member detail. This capability helps ensure that the oldest claims are being processed.

CAR has also established teams to work on the "other than clean claims" and "unauthorized claims". Such claims have gone from 56.95 percent in July 2015 to 75.85 percent, July 2016, aged less than 45 days in age. These claims are much more complicated and require specific eligibility to be met to approve these claims for payment.

CAR continues to monitor claims status and standardize claims processes in order to increase claims processing timeliness and reduce claims inventory.

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 FAR 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)

The replacement of the Denver VAMC, Eastern Colorado Health Care System (Denver project) has experienced significant, and unnecessary, cost overruns and schedule slippages. The project dates back to the late 1990s. This was in response to the region's growth in the veteran population and the need to replace an aging and inadequate facility built in 1951. VA's 2009 acquisition plan initially estimated the Denver project would cost approximately $536.6 million to build with construction finished in 2013. The project's $800 million budget included items such as the cost of land acquisition, design, construction, and consultant services. Congress provided appropriations between 2004 and 2012 to cover these costs. However, current estimates for the project place the final cost at $1.675 billion or more than twice VA's FY 2009 approved project budget.

The construction portion of the project was a little more than half completed and is estimated to be completed approximately two years after the new contract was awarded to Kiewit-Turner on October 30, 2015. VA issued a task order to the U.S. Army Corps of Engineers to provide oversight of this new contract. According to a VA official, activation of the hospital is estimated to take up to an additional six months and approximately $315 million. This means Veterans will not likely be served by a fully functioning facility before mid to late 2018 or almost 20 years after VA identified the need to replace and expand its aging facility in Denver.

The Denver project's escalating cost estimates and schedule slippages are the result of poor business decisions, inexperience with the type of contract used, and mismanagement by VA senior leaders. It is now too late for VA to undo the negative effects of its poor management decisions concerning the Denver project because it is a little more than half completed. Although, VA contracted the U.S. Army Corps of Engineers to manage the Denver project there are "lessons learned" that VA can apply to VA's remaining and future construction projects.

In *Review of Alleged Mismanagement of the Ambulette Services at the New York Harbor Healthcare System* (Report Number 15-04945-331, issued August 18, 2016), the allegation that VA acquisition personnel mismanaged the award of ambulette services task orders at the New York Harbor Healthcare System (NYHHS) was substantiated. Specifically, acquisition personnel improperly awarded two task orders for ambulette services when the contractor's Federal Supply Schedule contract did not offer the services VA was seeking. In addition, the contracting officer's award determination for the re-solicited requirement was not clearly justified. Further, acquisition personnel did not document all pertinent contracting actions in VA's Electronic Contract Management System (eCMS). This occurred because VA's Integrated Oversight Process (IOP) reviews designed to improve contract quality were not always completed. While the IOP was in place, contracting staff did not conduct required reviews for the first two task orders. If performed, these pre-award reviews may have revealed the vendor did not offer the services VA was seeking. Further, personnel turnover caused confusion as to who should ensure contract documentation was included in eCMS. As a result, acquisition personnel put VA at risk for protests and payment to protesters for restitution.

VA's Program Response
Estimated Resolution Timeframe: 2016
Responsible Agency Official: Principal Executive Director, Office of Acquisition, Logistics, and Construction
Associated Strategic Goal: Manage and Improve VA Operations to Deliver Seamless and Integrated Support
Strategic Objective: N/A
Associated Performance Measure(s): There are no public-facing measures associated with this issue

In regard to OIG's review of VA's National Acquisition Center's (NAC) procurement strategy used under the DoD Digital Imaging Network-Picture Archival Communication System contract (DIN-PACS), OALC has not received a copy of the draft report to provide comment. As summarized by OIG, in the text above, the following allegations were not substantiated: the manipulation of technical evaluations, excessive equipment purchases, or an award that was made 30 percent higher than recommended. OALC welcomes the opportunity to review the draft report, *Review of Alleged Contract Practices at the National Acquisition Center (NAC)* and any specific findings or recommendations when the draft report becomes available.

The Office of Inspector General previously raised concerns regarding the replacement of the Denver Medical Center in a draft report released in May 2016. VA provided a detailed response to the OIG in June 2016. An excerpt from our response follows:

The Office of Acquisition, Logistics, and Construction (OALC) agrees with the findings of the OIG draft report and acknowledges that it is too late to undo the mistakes made on the Denver project. OALC has learned from those mistakes and has embarked on an enterprise-wide effort to improve our processes. As indicated in the report, OALC and the Office of Construction and Facilities Management (CFM) in particular have put in place sound construction management processes based on best practices from private industry and other Federal agencies; lessons learned, including those from the Denver project; and recommendations made to the Department of Veterans Affairs (VA) from various stakeholders including the Office of the Inspector General (OIG), the Government Accountability Office, the United States Army Corp of Engineers (USACE), and construction industry partners. These process improvements will help ensure proper execution of our major construction projects and future success in the construction program, allowing VA to provide increased access to care for Veterans and their families around the country.

In regard to the report, *Review of Alleged Mismanagement of Ambulette Services Contract at the VA New York Harbor Healthcare System,* VHA Procurement and Logistics has initiatives to implement contracting officer warrant boards to assess employee skills prior to issuing contracting officer warrants. VHA revised the contract award review thresholds and processes to align risk with more robust review.

OIG Sub-Challenge #4B: Improving Purchase Card Practices (OALC, VHA)

In April 2014, OIG's OHI briefed VA New Jersey Health Care System (VANJHCS) leadership regarding the results of a criminal investigation of purchase card abuse in the Engineering Service. In OIG's report *Review of Potential Inappropriate Split Purchasing at VA New Jersey Health Care System* (Report Number 11-00826-261, issued April 26, 2016), the objective was to determine whether the inappropriate practice of split purchasing occurred in services other than the Engineering Service at VANJHCS.

OIG found the inappropriate practice of split purchasing extended beyond the Engineering Service at VANJHCS. OIG determined VANJHCS employees split purchases in 64 of the 76 purchase card transactions (84 percent) reviewed, totaling $125,270. This included 19 purchase cardholders working in 6 different services. Based on the sample results, OIG estimated that VANJHCS staff inappropriately made about 4,750 split purchases totaling approximately $8.9 million from December 2012 through May 2014. This occurred because of a disregard for internal controls that are an integral part of every Federal Government purchase card program. Additionally, management did not provide effective oversight and did not hold VANJHCS purchase cardholders, their supervisors, and the approving officials accountable for policy violations.

OIG estimated that split purchasing resulted in approximately $8.9 million in unauthorized commitments and increased the risk of fraud, waste, and abuse of taxpayer resources at VANJHCS. The lack of oversight and ineffective controls also prevented VANJHCS management from determining whether VANJHCS received all purchased goods and services. Management needs to take immediate corrective action and make long-term improvements to ensure sound financial stewardship of taxpayer resources.

VA's Program Response **Estimated Resolution Timeframe:** On-going **Responsible Agency Official:** Principal Executive Director, Office of Acquisition, Logistics, and Construction **Associated Strategic Goal:** Manage and Improve VA Operations to Deliver Seamless and Integrated Support **Strategic Objective:** N/A **Associated Performance Measure(s):** There are no public-facing measures associated with this issue

The VA New Jersey Health Care System (VANJHCS) Purchase Card Coordinator terminated 18 purchase cards that were issued to 18 different individuals to decrease the possibility of misuse. In addition, they centralized their purchasing program and hired one full-time employee assigned to the Chief of Logistics Service, who will manage the purchasing program. Purchase Card holders are currently required to complete the training, which is tracked in the Talent Management System (TMS). Purchase card training topics include unauthorized commitments, GSA SmartPay, quarterly reconciliations, procurement integrity, and online IFCAP training. TMS training is currently tracked and the Purchase Card Coordinator sends out monthly email reminders to the Service Chief and Purchase Card Holder. In addition, to ensure stronger oversight, VANJHCS Logistics Service, with assistance from the VA New York/New Jersey Veterans Integrated Service Network, reviewed all items used in the engineering shops. VANJHCS decided that all items would have master numbers in order to have these items added to the Generic Inventory Packages; and based upon usage, they will either be standard or on-demand. VANJHCS Logistics Inventory Management Specialists are assisting with completion. VANJHCS has encouraged each Service to review their recurring purchases in order to establish contracts for these items. In addition, the facility is currently reviewing all actual occurrences of split orders that have resulted in unauthorized commitments and will continue the ratification process as these are identified.

VHA Procurement is responsible for administration of the purchase card program within VHA. Split requirements are a continuous challenge for any purchase card program. VHA Procurement has collaborated with the Office of Management's Office of Internal Controls to identify and correct incidence of split requirements. With regard to the erroneous input of FPDS data, the situation was a one-time mistake in judgment by an employee. The action was corrected and no further strategic improvement was required.

VHA Procurement will continue to work the VA Office of Internal Controls to reduce the incidence of split requirements.

OIG CHALLENGE #5: INFORMATION MANAGEMENT
-Strategic Overview-

The use of information technology (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 Assistant Secretary and Chief Information Officer, VA's Office of Information and Technology (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, and ending Veteran homelessness.

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 2015 CFS audit, OIG's independent auditor reported that VA did not substantially comply with requirements of the FFMIA of 1996. While providing an unqualified opinion on the CFS, the independent auditor continues to identify IT security controls as a material weakness. Furthermore, CFS auditors noted material weaknesses related to: (1) contract procurements, undelivered orders, and account reconciliations; (2) purchased care processing; and (3) key processes supporting accurate financial reporting.

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 the Project Management Accountability System and VA's transition to the Veteran-focused Integration Process framework to ensure IT oversight and accountability, the Department 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 personally identifiable information, 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 Modernization Act (FISMA) assessment. During FY 2015, 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. In FY 2015, the VA's Chief Information Officer formed an Enterprise Cybersecurity Strategy team that was charged with delivering an enterprise cybersecurity strategic plan. The plan was designed to help VA achieve transparency and accountability while securing veteran information. The team's scope included management of current cybersecurity efforts, as well as development and review of VA's cybersecurity requirements from desktop to software to network protection.

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, 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 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 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 report *VA's Federal Information Security Modernization Act Audit for Fiscal Year 2015* (Report Number 15-01957-100, issued March 15, 2016), 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 9,500 system security risks and corresponding Plans of Action and Milestones (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. The FY 2015 FISMA report provided 31 current recommendations to the Assistant Secretary for Information and Technology to improve VA's information security program. The report also highlighted 4 unresolved recommendations from prior years' assessments for a total of 35 outstanding recommendations. Overall, OIG recommended that VA focus its efforts in the following areas:

- Address security-related issues that contributed to the IT material weakness reported in the FY 2015 CFS audit of the Department;
- Successfully remediate high-risk system security issues in its POA&Ms; and
- Establish effective processes for evaluating information security controls via continuous monitoring and vulnerability assessments.

In December 2014, OIG's Hotline Division received an allegation that ProCare Home Medical, Inc., (ProCare), located in Anchorage, Alaska, was improperly storing and sharing VA sensitive data on contractor personal devices in violation of Federal information security standards. More specifically, the complainant alleged that ProCare was allowing its employees to use personal computers and phones to access the company computer system and download VA sensitive data to include Veterans' personal health information. OIG substantiated the allegation that ProCare, according to its staff, accessed electronic sensitive Veteran data with its personal computers from home through an unauthorized cloud-based system without encryption controls in *Review of Alleged Contractor Information Security Violations in the Alaska VA Healthcare System* (Report Number 15-01994-238, issued July 12, 2016). OIG also noted that personnel or malicious users could potentially use personal devices on an unauthorized wireless network to access sensitive veteran information. Additionally, OIG determined that ProCare was storing sensitive hard copy and electronic Veteran information in an unsecured manner at their facility. OIG recommended the VA Northwest Health Network management assign a local contracting officer representative and information security officer to provide oversight of Alaska VA Healthcare System contractors. OIG also recommended the VA Northwest Health Network management, in conjunction with the Assistant Secretary for Information and Technology, conduct a site assessment of ProCare information security controls to ensure compliance with VA information security requirements.

VA's Program Response
Estimated Resolution Timeframe: December 2017
Responsible Agency Official: Assistant Secretary for the Office of Information and Technology (OI&T)
Strategic Goal – Manage and Improve VA Operations to Deliver Seamless and Integrated Support
Strategic Objective – Evolve VA information technology capabilities to meet emerging customer service/empowerment expectations of both VA customers and employees
External Facing Measure – There are no public-facing measures associated with this issue

VA is committed to protecting all Veteran information and VA data, and limiting access to only those with the proper authority. Meeting this commitment requires a comprehensive strategic approach that spans VA and the cyberspace ecosystem in which Veterans, VA, and VA's partners operate. In response, VA created the Enterprise Cybersecurity Strategy, which is predicated on protecting and countering the spectrum of threat profiles through a multi-layered defense in depth model spanning eight domains.

As part of its work, the Enterprise Cybersecurity Strategy Team created individual Plans of Action (POAs) to address the 35 recommendations provided by the OIG as a result of the FY 2015 Federal

Information Security Management Act Report. The goal of this effort is to remediate the VA's longstanding Material Weakness in information security while also improving the organization's security posture in support of protecting Veteran data. VA leadership – including the Secretary of the Department of Veterans Affairs – are tracking the status of the 35 OIG recommendations' POAs on a weekly basis to monitor progress of the actions taken by VA to address the identified weaknesses. These plans are part of a comprehensive Integrated Master Schedule with specific timelines to support closure of the identified weakness. As of this date, three of these plans are completed and awaiting final verification. The remaining 32 are projected for completion no later than December 2017.

With regard to improving access control, VA now has the ability to ensure security compliance for the computers used by all remote users who connect to the VA network using their government furnished equipment, due to our 3rd quarter, FY 2015 implementation of Network Access Control (NAC) for virtual private network connections. Beyond this capability, VA is planning to expand the above NAC capability, via efforts inextricably linked to the DHS Continuous Diagnostics and Monitoring (CDM) Program (CDM Phase 2), with an expansion of the asset discovery capability. This initiative is planned to be fully implemented by the end of July 2017. Further enhancement of the NAC capability would expand upon the asset discovery capability and is tentatively scheduled to be deployed by the end of 2018. Since the 3rd quarter of FY 2015, VA has also reduced the number of accounts with elevated privileges by 95 percent, from 267,000 to approximately 10,000, and remediated 23 million critical and high vulnerabilities as of July 2016. Through close partnership with the clinical staff in VHA, the new Chief Information Security Officer, with concurrence of the CIO, has rescinded prior Personal Identification Verification (PIV) exemptions and is now requiring 100% (PIV) participation, to include those providing patient care. OI&T and VHA are implementing a joint collaborative surge effort to better implement technical enforcement of PIV compliance beginning August 8, 2016. VA is also committed to improving its management of medical devices and has established a review process for ensuring appropriate Medical Device Isolation Architecture Access Control List (ACL) reviews have been applied. To date, 55% (2234 of 4061) ACLs have been remediated to provide better security to Veterans.

VA is not satisfied with the status quo and is committed to finding significant ways to remediate each deficiency that is highlighted within the MMC report. By the end of 2016, VA strives to accomplish the following:

- Enable two-factor authentication using PIV cards for 75% of VA personnel by September 30, 2016.
- Complete 15 cyber security plans of action by December 31, 2016 to address OIG recommendations.
- Eliminate three Material Weakness findings by December 31, 2016, leading to marked improvements in System Development/Change Management Controls, Continuous Monitoring, and Contractor Systems Oversight.
- Implement improvements in systems auditing during the 1st quarter, FY 2017, to provide increased visibility into security events and system alerts requiring attention.
- Continue to decrease the number of elevated privilege accounts to a target in keeping with the organizational risk tolerance.

As VA moves forward in the implementation of an enterprise security information and event management deployment, OI&T has implemented organizational improvements such as updating the firewall policy and updating the concept of operations related to the automated collection and analysis of application and systems audit logs. In addition to providing weekly status reports on key cybersecurity metrics to the CIO, OI&T is also in the process of implementing an IT dashboard, which will provide near-real-time situational awareness for VA IT executives on cybersecurity performance measurements and trends.

While VA still has more work to do to fully address all cybersecurity needs, the Department has made strides toward the future state and developed data-based performance measurement to demonstrate progress toward a number of goals, for both internal and external oversight purposes.

OIG Sub-Challenge #5B: Improving Compliance with Federal Financial Management Improvement Act (OIT)

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 (USSGL) at the transaction level. The OIG's independent financial statement auditors reported that VA's financial management systems did not substantially comply with Federal financial management systems requirements, and the USSGL at the transaction level. In particular, the auditors reported the following:

- VA's core accounting system—Financial Management System (FMS)—has functional limitations that were further exacerbated by operational and security vulnerabilities as VA continued to operate FMS on a database no longer supported by the vendor.
- VA's Integrated Funds Distribution Control Point Activity, Accounting and Procurement System (IFCAP) is a module within VistA that is used by VHA, contracting officers, and other VA personnel to initiate and authorize purchase of 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 eCMS.
- VistA does not provide management with the ability to effectively and efficiently monitor nationwide Medical Care Collection Fund activities at the transaction level. Consolidated Patient Accounting Center personnel cannot generate combined reports for all 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. Reconciliation of revenue transactions to collections and the supporting audit trail is more complicated. Additionally, 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.
- Fee Basis Claims System (FBCS) is used to manage the authorization and payment processes for VHA's purchase care program. FBCS sits "on top" of VistA and runs in a decentralized manner similar to VistA. Transactions initiated in FBCS were not completely reconciled to those in IFCAP and FMS.
- eCMS is an intranet-based contract management system mandated by VA policy. VA does not utilize eCMS to electronically process the approval and reviews performed for its acquisitions.
- Regarding noncompliance with the USSGL at the transaction level, budgetary execution transaction code and interface issues resulted in incorrect data in accounts that have long

remained unresolved in FMS. Significant journal entries were needed to correct the balances. FMS also lacked functionality to meet U.S. Department of the Treasury reporting requirements related to intragovernmental transactions, which created the need for significant journal entries.

The auditors reported that noncompliance with FFMIA was due to VA's complex, disjointed, and legacy financial management system architecture that has continued to deteriorate and no longer meets increasingly stringent and demanding financial management and reporting requirements. In VA's 2015 AFR, the Secretary stated that the Department will pursue the possibility of either upgrading its current financial system or migrating to a shared service provider.

VA's Program Response
Estimated Resolution Timeframe: 2021
Responsible Agency Official: Assistant Secretary for Information and Technology and Chief Information Officer, and Interim Assistant Secretary for Management and Interim Chief Financial Officer
Associated Strategic Goal: Manage and Improve VA Operations to Deliver Seamless and Integrated Support
Strategic Objective: Evolve VA Information Technology Capabilities to Meet Emerging Customer Service
Associated Performance Measure(s): No Public Facing Measures are Associated with this Issue

VA concurs that our legacy financial system does not fully comply with the Federal Financial Management Improvement Act (FFMIA). To address this significant challenge, VA has embarked on a major effort to replace our current financial system. VA plans to migrate to a Federal Shared Service Provider, as mandated by the Office of Management and Budget. This system modernization effort will resolve many of VA's current areas of noncompliance with FFMIA. As VA modernizes our financial system, we will assess the feasibility of updating other VA legacy feeder systems such as IFCAP, VistA, and eCMS. We will use this opportunity to re-engineer any outdated business processes. VA is committed to addressing long-standing financial system deficiencies and making our financial operations more efficient and effective.

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–Delay in Care of a Lung Cancer Patient, Phoenix VA Health Care System, Phoenix, Arizona
9/30/2016 | *14-00875-325* | *Summary* |

Healthcare Inspection–Surgical Service Concerns, Fayetteville VA Medical Center, Fayetteville, North Carolina
9/30/2016 | *15-00084-370* | *Summary* |

Healthcare Inspection–Alleged Inappropriate Opioid Prescribing Practices, Rutherford County Community Based Outpatient Clinic, Rutherfordton, North Carolina
9/29/2016 | *15-01982-113* | *Summary* |

Healthcare Inspection–Operating Room Reusable Medical Equipment and Sterile Processing Service Concerns, VA New York Harbor Healthcare System, New York, New York
9/29/2016 | *14-04274-418* | *Summary* |

OIG Determination of VHA Occupational Staffing Shortages
9/28/2016 | *16-00351-453* | *Summary* |

Healthcare Inspection–Lack of Follow-Up Care for Positive Colorectal Cancer Screening, New Mexico VA Health Care System, Albuquerque, New Mexico
9/27/2016 | *15-00018-349* | *Summary* |

Healthcare Inspection–Colorectal Cancer Screening Practices, Charlie Norwood VA Medical Center, Augusta, Georgia
9/22/2016 | *15-05328-373* | *Summary* |

Healthcare Inspection–Summarization of Select Aspects of the VA Pacific Islands Health Care System, Honolulu, Hawaii
9/22/2016 | *15-04655-347* | *Summary* |

Healthcare Inspection–Alleged Manipulation of Outpatient Appointments, Central Alabama VA Health Care System, Montgomery, Alabama
9/21/2016 | *15-03942-392* | *Summary* |

Healthcare Inspection–Emergency Department, Mental Health Service, and Suicide Prevention Training Concerns, Mann-Grandstaff VA Medical Center, Spokane, Washington
9/14/2016 | *15-03713-288* | *Summary* |

Healthcare Inspection–Administrative Response to Deaths and Quality of Care Irregularities, VA North Texas Health Care System, Dallas, Texas
8/26/2016 | *14-02725-316* | *Summary* |

Healthcare Inspection–Diagnosis and Treatment of a Patient's Adrenal Insufficiency at a Virginia VA Medical Center
8/25/2016 | *14-04505-346* | *Summary* |

Healthcare Inspection–Review of Primary Care Ghost Panels, Veterans Integrated Service Network 23, Eagan, Minnesota

8/11/2016 | 16-01708-340 | [Summary](#) |

Healthcare Inspection–Reported Primary Care Staffing at St. Cloud VA Health Care System, Veterans Integrated Service Network 23, Eagan, Minnesota

8/11/2016 | 15-05490-367 | [Summary](#) |

Healthcare Inspection–Psychiatry Partial Hospitalization Program and Management Concerns, Minneapolis VA Health Care System, Minneapolis, Minnesota

8/11/2016 | 14-04655-369 | [Summary](#) |

Healthcare Inspection–Cardiothoracic Surgery Program and Cardiac Catheterization Laboratory Concerns, Oklahoma City VA Health Care System, Oklahoma City, Oklahoma

8/4/2016 | 14-04361-348 | [Summary](#) |

Healthcare Inspection–Evaluation of Reported Wait Times, VA Greater Los Angeles Healthcare System, Los Angeles, California

6/30/2016 | 16-02197-339 | [Summary](#) |

Healthcare Inspection–Access and Quality of Care Concerns, Phoenix VA Health Care System, Phoenix, Arizona, and Delayed Test Result Notification, Minneapolis VA Health Care System, Minneapolis, Minnesota

6/23/2016 | 15-03867-287 | [Summary](#) |

Review of Allegation of Underutilized MRI Scanner in Waco, Texas

6/23/2016 | 15-01887-282 | [Summary](#) |

Review of VHA's Alleged Manipulation of Appointment Cancellations at VA Medical Center, Houston, Texas

6/20/2016 | 15-03073-275 | [Summary](#) |

Review of VA's Guidance on Protecting Religious Beliefs

6/16/2016 | 15-03700-283 | [Summary](#) |

Healthcare Inspection–Mental Health Service Concerns at the Knoxville VA Outpatient Clinic, James H. Quillen VA Medical Center, Mountain Home, Tennessee

6/7/2016 | 14-04435-265 | [Summary](#) |

Healthcare Inspection–Alleged Patient Safety Concerns, Miami VA Healthcare System, Miami, Florida

6/7/2016 | 14-03183-317 | [Summary](#) |

Healthcare Inspection–Quality of Care Concerns in the Management of a Hepatitis C Patient, Grand Junction Veterans Health Care System, Grand Junction, Colorado

5/11/2016 | 15-01599-289 | [Summary](#) |

Healthcare Inspection–Operating Room Concerns, Marion VA Medical Center, Marion, Illinois

5/5/2016 | 14-04310-280 | [Summary](#) |

Healthcare Inspection–Alleged Improper Management of Dermatology Requests, Fayetteville VA Medical Center, Fayetteville, North Carolina

5/3/2016 | 14-02890-286 | [Summary](#) |

Healthcare Inspection–Restraint Use, Failure To Provide Care, and Communication Concerns, Bay Pines VA Healthcare System, Bay Pines, Florida

4/13/2016 | 15-01432-264 | [Summary](#) |

Healthcare Inspection–Quality of Mental Health Care Concerns, VA Long Beach Healthcare System, Long Beach, California

3/30/2016 | 14-04897-221 | [Summary](#) |

Healthcare Inspection–Alleged Employee Intimidation Related to Research Study Results, VA North Texas Health Care System, Dallas, Texas
3/28/2016 | 15-01283-220 | Summary |
Healthcare Inspection–Veterans Crisis Line Caller Response and Quality Assurance Concerns, Canandaigua, New York
2/11/2016 | 14-03540-123 | Summary |
Review of Alleged Patient Scheduling Issues at the VA Medical Center in Tampa, Florida
2/5/2016 | 15-03026-101 | Summary |
Review of Alleged Mismanagement of Group Therapy Access at VA Outpatient Clinic, Austin, Texas
2/5/2016 | 14-04501-13 | Summary |
Review of Alleged Untimely Care at VHA's Community Based Outpatient Clinic, Colorado Springs, Colorado
2/4/2016 | 15-02472-46 | Summary |
Healthcare Inspection–Environment of Care and Safety Concerns in Operating Room Areas, Edward Hines Jr. VA Hospital, Hines, Illinois
1/19/2016 | 14-05173-92 | Summary |
Healthcare Inspection–Emergency Department Concerns, Central Alabama VA Health Care System, Montgomery, Alabama
1/14/2016 | 14-04530-41 | Summary |
Healthcare Inspection–Alleged Unsafe Patient Transportation Practices, VA Hudson Valley Health Care System, Montrose, New York
1/13/2016 | 15-02217-85 | Summary |
Healthcare Inspection–Patient Care Deficiencies and Mental Health Therapy Availability, Overton Brooks VA Medical Center, Shreveport, Louisiana
1/7/2016 | 14-05075-447 | Summary |
Healthcare Inspection–Pulmonary Medicine Clinic Appointment Cancellations, William Jennings Bryan Dorn VA Medical Center, Columbia, South Carolina
1/6/2016 | 15-00992-71 | Summary |
Healthcare Inspection–Poor Follow-Up Care and Incomplete Assessment of Disability, VA San Diego Healthcare System San Diego, California
1/5/2016 | 15-00827-68 | Summary |
Healthcare Inspection–Eye Care Concerns, Eastern Kansas Health Care System, Topeka and Leavenworth, Kansas
12/22/2015 | 15-00268-66 | Summary |
Healthcare Inspection–Quality of Care Concerns at a Residential Rehabilitation Treatment Program, VA Maryland HCS, Baltimore, Maryland
12/1/2015 | 14-01910-459 | Summary |
Healthcare Inspection–Point of Care Testing Program Concerns, Louis Stokes Cleveland VA Medical Center, Cleveland, Ohio
12/1/2015 | 14-02576-40 | Summary |
Healthcare Inspection–Access and Oversight Concerns for Home Health Services, Washington DC VA Medical Center, Washington, District of Columbia
11/16/2015 | 14-03823-19 | Summary |
Audit of the Seismic Safety of VA's Facilities
11/12/2015 | 14-04756-32 | Summary |
Healthcare Inspection–Alleged Program Inefficiencies and Delayed Care, Veterans Health Administration's National Transplant Program
11/5/2015 | 15-00187-25 | Summary |

Healthcare Inspection–Poor Access to Care Allegedly Resulting in a Patient Death at the Oxnard Community Based Outpatient Clinic, VA Greater Los Angeles Healthcare System, Los Angeles, California

10/28/2015 | *14-02890-497* | *Summary* |

Healthcare Inspection–Access to Urology Service, Phoenix VA Health Care System, Phoenix, Arizona

10/15/2015 | *14-00875-03* | *Summary* |

Congressional Testimony 2/11/2016

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 Health, Committee On Veterans' Affairs, United States House Of Representatives, Hearing On "Choice Consolidation: Improving VA Community Care Billing And Reimbursement" Read

Congressional Testimony 2/25/2016

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 House Of Representatives, Hearing On The Office of Inspector General's Work and
FY 2017 Budget Request Read

Congressional Testimony 4/19/2016

Statement of Larry Reinkemeyer, Assistant Inspector General For Audits And Evaluations (Designee), Office Of Inspector General, Department Of Veterans Affairs, Before The Committee On Veterans' Affairs, United States House Of Representatives, Hearing "A Continued Assessment Of Delays In Veterans' Access To Health Care" Read

Congressional Testimony 5/31/2016

Statement of Michael J. Missal, Inspector General, Department of Veterans Affairs, Before The Committee On Homeland Security And Governmental Affairs, United States Senate, Field Hearing On "The Quality And Culture Of Care At The Department Of Veterans Affairs Medical Center in Tomah, Wisconsin" Read

OIG CHALLENGE #2: BENEFITS PROCESSING

Review of Alleged Manipulation of Quality Review Results at VA Regional Office, San Diego, California

5/9/2016 | *15-02376-239* | *Summary* |

Review of Alleged Misuse of eBenefits Accounts by a VA Supportive Services for Veteran Families Provider

5/5/2016 | *15-01951-281* | *Summary* |

Review of Alleged Manipulation of Quality Review Results at VA Regional Office, San Diego, California

5/9/2016 | *15-02376-239* | *Summary* |

Review of Alleged Lack of Audit Logs for the Veterans Benefits Management System

4/28/2016 | *15-03802-222* | *Summary* |

Review of Alleged Data Manipulation of Appealed Claims at VA Regional Office, Wichita, Kansas

4/26/2016 | *15-03581-204* | *Summary* |

Review of VBA's Alleged Inappropriate Prioritization of Appeals at VA Regional Office, Roanoke, Virginia

4/19/2016 | *15-02384-212* | *Summary* |

Review of Claims-Related Documents Pending Destruction at VA Regional Offices

4/14/2016 | *15-04652-146* | *Summary* |

Review of Alleged Shredding of Claims-Related Evidence at VA Regional Office Los Angeles, California

4/14/2016 | *15-04652-266* | *Summary* |

Review of Alleged Untimely Processing of VBA's Specially Adapted Housing Grants at the Regional Loan Center in Phoenix, Arizona
3/31/2016 | 15-01651-209 | Summary |
Follow-Up Audit of VBA's Internal Controls Over Disability Benefits Questionnaires
2/25/2016 | 14-02384-45 | Summary |
Follow Up Review on the Mismanagement of Informal Claims Processing at the VA Regional Office, Oakland, California
1/8/2016 | 14-03981-54 | Summary |
Review of Alleged Supervisory Influence To Expedite a Friend's Disability Claim at VA Regional Office, New York, New York
1/7/2016 | 14-04302-12 | Summary |

Review of Alleged Problems With VBA's Veterans Benefits Management System and Claims Processing
1/6/2016 | 14-04816-72 | Summary |
Review of Alleged System Access Failures for Veterans' to VBA's eBenefits Program
1/5/2016 | 14-04810-05 | Summary |
Review of Alleged Beneficiary Travel Irregularities at Hudson Valley HCS, Hampton & Lexington VAMCs
12/7/2015 | 15-02400-524 | Summary |
Congressional Testimony 1/12/2016
Statement of Brent Arronte, 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 "1988 to 2016: VETSNET To VBMS: Billions Spent, Backlog Grinds On" Read
Congressional Testimony 4/14/2016
Statement For The Record Of The Office Of Inspector General Department of Veterans Affairs, For The Subcommittee On Economic Opportunity, The Committee On Veterans' Affairs, United States House Of Representatives, Legislative Hearing Read
Congressional Testimony 6/15/2016
Statement of Brent Arronte, 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 "Investigating VA's Management Of Veterans' Paper Records" Read

OIG CHALLENGE #3: FINANCIAL MANAGEMENT

Audit of VBA's Post-9/11 G.I. Bill Tuition and Fee Payments
9/30/2016 | 14-05118-147 | Summary |
Review of Alleged Waste of Funds at VHA's Madison VA Medical Center
9/30/2016 | 15-00650-423 | Summary |
Review of VBA's Special Monthly Compensation Housebound Benefits
9/29/2016 | 15-02707-277 | Summary |
Review of VA's Alleged Improper Termination of the e-Learning Task Order
9/19/2016 | 15-02776-240 | Summary |
Review of Alleged Waste of Funds at the VA Medical Center in Detroit, Michigan
8/9/2016 | 16-02729-350 | Summary |
Audit of VBA's Compensation and Pension Benefit Payments to Incarcerated Veterans
6/28/2016 | 13-02255-276 | Summary |

Review of VA's Compliance With the Improper Payments Elimination and Recovery Act for FY 2015
5/12/2016 | 15-04252-284 | Summary |
Review of VA's Compliance With the Improper Payments Elimination and Recovery Act for FY 2015
5/12/2016 | 15-04252-284 | Summary |
Review of Alleged Misuse of Hurricane Sandy Funds at VA New York Harbor Healthcare System
1/6/2016 | 14-04152-370 | Summary |
Audit of VA's Conference Management for Fiscal Year 2014
4/6/2016 | 15-01227-129 | Summary |
Review of Alleged Wasted Funds in VHA's Southern Arizona VA Health Care System
2/18/2016 | 15-02413-55 | Summary |
Audit of VHA's Non-VA Medical Care Obligations
1/12/2016 | 14-02465-47 | Summary |
Audit of VA's Financial Statements for Fiscal Years 2015 and 2014
11/16/2015 | 15-01708-36 | Summary |
Congressional Testimony 9/27/2016
Statement of Michael J. Missal, 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 "Investigating How VA Improperly Paid Millions To Incarcerated Veterans" Read

OIG CHALLENGE #4: PROCUREMENT PRACTICE
Review of VA's Award of the PC3 Contracts
9/22/2016 | 15-01396-525 | Summary |
Review of the Replacement of the Denver Medical Center, Eastern Colorado Health Care System
9/21/2016 | 15-03706-330 | Summary |
Review of Alleged Mismanagement of the Ambulette Services at the New York Harbor Healthcare System
8/18/2016 | 15-04945-331 | Summary |
Audit of VA's Green Management Program Solar Panel Projects
8/3/2016 | 15-03688-304 | Summary |
Review of Alleged Improper Contract Awards in OI&T's Service, Delivery, and Engineering Office
7/12/2016 | 15-04231-223 | Summary |
Audit of Modular Ramps Purchased by the Malcom Randall VA Medical Center, Gainesville, Florida
6/29/2016 | 15-04248-305 | Summary |

Review of Potential Inappropriate Split Purchasing at VA New Jersey Health Care System
4/26/2016 | 11-00826-261 | Summary |
Congressional Testimony 11/4/2015
Statement of Quentin G. Aucoin, Assistant Inspector General For Investigations, Office of Inspector General, Department of Veterans Affairs, Before The Subcommittee On Oversight And Investigations, Committee On Veterans' Affairs, and The Subcommittee On Contracting And Workforce, Committee On Small Business, United States House Of Representatives, Joint Hearing On "An Examination Of Continued Challenges In VA's Vets First Verification Process" Read

OIG CHALLENGE #5: INFORMATION MANAGEMENT

Review of Alleged Breach of Privacy and Confidentiality of Personally Identifiable Information at the Milwaukee VA Regional Office

9/15/2016 | *16-00623-306* | *Summary* |

Review of Alleged Contractor Information Security Violations in the Alaska VA Healthcare System

9/7/2016 | 15-01994-238 | Summary |

Review of Alleged Lack of Access Controls for VA's Project Management Accountability System (PMAS) Dashboard

5/9/2016 | *15-02459-260* | *Summary* |

Review of Alleged Lack of Access Controls for VA's Project Management Accountability System (PMAS) Dashboard

5/9/2016 | *15-02459-260* | *Summary* |

VA's Federal Information Security Modernization Act Audit for Fiscal Year 2015

3/15/2016 | *15-01957-100* | *Summary* |

Review of Alleged Violation of VHA's Datawatch Data Pump Server Software License Agreement

1/5/2016 | *14-04761-09* | *Summary* |

Review of Alleged Noncompliance With Section 508 of the Rehabilitation Act on MyCareer@VA Web Site

4/7/2016 | *15-02781-153* | *Summary* |

Review of Alleged Unauthorized Devices and Equipment on Networks at VHA's Southern Arizona VA Health Care System

1/7/2016 | *14-04979-11* | *Summary* |

Congressional Testimony 3/16/2016

Statement of Brent Arronte, Deputy Assistant Inspector, General for Audits and Evaluations, Office of Inspector General, Department of Veterans Affairs, Before The Subcommittee On Information Technology, Committee On Oversight And Government Reform, United States House Of Representatives, Hearing On "VA Information Technology And Cybersecurity Oversight" Read

APPENDICES

APPENDIX A: ABBREVIATIONS AND ACRONYMS

AD	Academic Detailing
ADA	Anti-Deficiency Act
AFGE	American Federation of Government Employees
AFR	Agency Financial Report
ALAC	Administrative and Loan Accounting Center
APG	Agency Priority Goal
ARRA	American Recovery and Reinvestment Act of 2009
BDD	Benefits Delivery at Discharge
BTP	Beneficiary Travel Program
C&P	Compensation and Pension
CAATS	Centralized Automated Accounting Transaction System
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
CMS	Centers for Medicare and Medicaid Services
CO	Contracting Officer
COLA	Cost of Living Adjustment
COR	Contracting Officer Representative
COTS	Commercial Off-the-Shelf
CRC	Colorectal cancer
CRISP	Continuous Readiness in Information Security Program
CSRS	Civil Service Retirement System
DATA Act	Digital Accountability and Transparency Act of 2014
DBQ	Disability Benefits Questionnaire
DMC	Debt Management Center
DIC	Dependency and Indemnity Compensation
DoD	Department of Defense
DRO	Decision Review Officer
eCMS	Electronic Contact Management System
ECST	Enterprise Cybersecurity Strategy Team
EFT	Electronic Funds Transfer
E-GOV	Electronic Government
EHR	Electronic Health Record
EP	End Products
ERM	Enterprise Risk Management
EVD	Ebola Virus Disease

ETS2	E-Gov Travel Service 2
EWL	Electronic Wait List
FAR	Federal Acquisition Regulations
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FBCS	Fee Basis Claims System
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FFS	Federal Financial System
FISCAM	Federal Information Systems Control Audit Manual
FISMA	Federal Information Security Management Act
FMBT	Financial Management Business Transformation
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management System
FPDS-NG	Federal Procurement Data System – Next Generation
FSC	Financial Services Center
FTE	Full-time Equivalent
FTF	Freeze the Footprint
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System
HR	Human Resources
HRA	Human Resources & Administration
HVA	High Value Assets
IA	Interagency Agreement
ICU	Intensive Care Unit
IHS	Indian Health Service
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payment Information Act of 2002
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
KM	Knowledge Management
LGY	Loan Guaranty
MCCF	Medical Care Collections Fund
MinX	Management Information Exchange
MMC	Major Management Challenge
MMC	Mobile Medical Center
MMWR	Monday Morning Workload Report
MOU	Memorandum of Understanding
MSO	Military Service Organization
NAC	National Acquisition Center
NAGE	National Association of Government Employees
NCA	National Cemetery Administration
NIST	National Institute of Standards and Technology
NOD	Notice of Disagreement
NVC	Non-VA Medical Care
NWQ	National Work Queue
OALC	Office of Acquisition, Logistics, and Construction
OCR	Office of Contract Review
OGC	Office of General Counsel
OIG	Office of Inspector General
OIT	Office of Information and Technology
OM	Office of Management
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSI	Opioid Safety Initiative
PAID	Personnel and Accounting Integrated Data
PAR	Performance and Accountability Report
PC3	Patient Centered Community Care
PCP	Primary Care Provider
PII	Personally Identifiable Information
PIV	Personal Identity Verification
P.L.	Public Law
PMAS	Program Management Accountability System
PMC	Pension Maintenance Center
POA&M	Plans of Actions & Milestones
PPBE	Planning, Programming, Budgeting and Execution
PP&E	Property, Plant & Equipment
PPA	Prompt Payment Act
PTSD	Post-Traumatic Stress Disorder
QA	Quality Assurance
QRT	Quality Review Team
RBPS	Rules Based Processing System
RO	Regional Office
RPO	Regional Processing Office
RVSR	Rating Veterans Service Representative
SAH	Specially Adapted Housing
SCA	Security Control Assessment
SCS	Specialty Care Services
SES	Senior Executive Service
SFFAS	Statement of Federal Financial Accounting Standards

SGLI	Servicemembers' Group Life Insurance
SMC	Special Monthly Compensation
SOP	Standard Operating Procedures
SSA	Social Security Administration
STAR	Systematic Technical Accuracy Review
STR	Service Treatment Record
SUD	Substance Use Disorder
TA	Traditional Aggregate
TBI	Traumatic Brain Injury
THP	Tribal Health Program
TOP	Treasury Offset Program
USB	Under Secretary for Benefits
USH	Under Secretary for Health
U.S.C.	United States Code
VA	Veterans Affairs
VAAR	VA Acquisition Regulation
VAMC	VA Medical Center
VARO	VA Regional Office
VATAS	VA Time and Attendance System
VBA	Veterans Benefits Administration
VBMS	Veterans Benefits Management System
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
VR&E	Vocational Rehabilitation and Employment
VSC	Veterans Service Center
VSCM	Veterans Service Center Manager
VSO	Veterans Service Organization
VSR	Veterans Service Representative

APPENDIX B: VA ONLINE

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
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/
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

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www.va.gov/finance/afr