Department of Veterans Affairs

Agency Financial Report

Fiscal Year 2020

ABOUT THE COVER

The cover art is the winning entry for the 2020 Veterans Day Poster Contest. The designer, Mr. Casey Brown, is a Marine Corps Veteran who served in the infantry and was deployed to Iraq. He volunteered at the Salt Lake City, Utah VA Medical Center (VAMC) and was hired by the Salt Lake City Fiduciary Hub as part of the Veterans Benefits Administration. Each year, the Veterans Day National Committee publishes a commemorative Veterans Day poster. The Committee selects a poster from artwork submitted by artists nationwide. It also distributes the winning design to VA facilities, military installations around the world and across cities and towns in our Nation. It then serves as the cover of the official program for the Veterans Day Observance at Arlington National Cemetery.

The theme for Veterans Day 2020 is: “Vision: Veterans in Focus.” All Veterans make a sacrifice to serve their country, whether physically, emotionally or by being away from their loved ones and missing important life moments. As the saying goes, hindsight is always 20/20. Looking back on centuries of Veterans’ service and sacrifices and what we have learned from the past, we must always maintain the vision for the future of Veterans. Putting the Veteran at the center on Veterans Day, we continue to honor all who served, while focusing on the needs of the next generation of Veterans.

Mr. Brown’s design was chosen the winner from over 100 entries.

He had this to say about his winning submission: “I wanted to express the beauty and rigidness of the camaraderie in military service. I would like others to see the life cycle of a Veteran. When we are young, we see others serving and have a hope for living up to the legacy made by the Veterans in our lives. That desire to serve grows. We opt to give our time and talents to the service of our country; it can be a struggle and sacrifice at times. We help others along the way, we ask for help from time to time. We turn back around and help those next in line. Then at the end, we get to look back and ask ourselves if we left this country better than we found it; if we chose others’ lives over our own.”

ABOUT THE AGENCY FINANCIAL REPORT

The Department of Veterans Affairs (VA) Fiscal Year (FY) 2020 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, 2019 through September 30, 2020. The AFR consists of three primary sections, as follows:

- *Management's Discussion and Analysis:* showcasing VA's mission, organizational structure and the dedicated work of VA employees in support of our Nation's Veterans. It provides an overview of financial results, summary-level performance information and management assurance regarding internal controls.
- *Financial Section:* detailing the VA's financial position as of the fiscal year ended September 30, 2020. VA's FY 2020 audited financial statements and footnote disclosures are presented in this section, along with the results of the independent auditor's report.
- *Other Information:* containing the Office of Inspector General's (OIG) VA Management and Performance Challenges a summary of financial statement audit and management assurances and Payment Integrity Information Act Reporting, among other requirements.

Pursuant to the Office of Management and Budget (OMB) Circular No. A-136, the Department chose to produce an AFR and an Annual Performance Plan and Report (APP&R). The FY 2020 APP&R will be provided along with the Congressional Budget Justification in March 2021 and will be available on the Department's website at www.va.gov/performance/.

FOR MORE INFORMATION

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

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

VA's social media pages:

https://www.facebook.com/VeteransAffairs

https://twitter.com/DeptVetAffairs/

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

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

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

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

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

VA is proud to announce that its FY 2019 AFR was awarded the Association of Government Accountants' (AGA) Certificate of Excellence in Accountability Reporting (CEAR) at a virtual ceremony held August 6, 2020. The CEAR is the highest form of recognition in Federal Government management reporting and FY 2019 is the first year in which VA has received this distinguished award. The CEAR Program was established by the AGA, in conjunction with the Chief Financial Officers Council and OMB to improve accountability through streamlined, effective reporting that clearly shows agency accomplishments with taxpayer dollars and the challenges that remain.

AGA

Certificate of Excellence in Accountability Reporting®

presented to the

U.S. Department of Veterans Affairs

in recognition of outstanding effort in preparing the Agency Financial Report for fiscal year 2019

Diane L. Dudley, CGFM, CPA
Chair, CEAR Board

Ann M. Ebberts, MS, PMP
Chief Executive Officer, AGA

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THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 24, 2020

I am pleased to present the United States Department of Veterans Affairs (VA or Department) fiscal year (FY) 2020 Agency Financial Report. This report provides complete and reliable financial and performance information that demonstrates our commitment to providing world-class benefits, medical and burial services to the millions of men and women who have served this country with honor.

This year, the Department responded aggressively to the unprecedented challenge posed by the coronavirus (COVID-19). VA launched into action to protect and care for Veterans, their families, health care providers and staff in the face of this emerging global public health risk and initiated a hiring campaign to attract medical professionals to work in its facilities across the country. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and the Families First Coronavirus Response Act (Families First), VA received $19.6 billion in funding, including $17.4 billion allocated to the Veterans Health Administration (VHA) to support VA's COVID-19 response. The Department also implemented several financial assistance measures, including notifying 240,000 Veterans that VA would suspend collection of debts.

While addressing this enormous challenge, I am proud to note that VA received an unmodified opinion for the 22nd consecutive year from our independent public accounting firm CliftonLarsonAllen (CLA). Despite the unmodified opinion, there are areas where we can continue to improve our financial management in FY 2021. VA is working diligently to address financial weaknesses and other areas identified for improvement. Please refer to the discussion of these weaknesses within the Management's Statement of Assurance.

Our mission, "To care for him who shall have borne the battle and for his widow and his orphan," is our primary focus, and I am committed to improving our financial controls and systems to support our mission.

Sincerely,

Robert L. Wilkie

MANAGEMENT'S DISCUSSION AND ANALYSIS

3D printing innovations deliver medical breakthroughs for Veterans

VA was an early adopter of 3D printing, using the technology for years to promote health care innovation and address individual Veteran health care needs. The benefits of 3D printing are limitless — from individually customized care, such as creating hand and foot orthotics, prosthetic limbs and reconstructive surgery, to more groundbreaking applications, such as the ability to accurately replicate a patient's heart, lung, spine, or aortic valve. Clearly, it has a profound impact on Veterans' lives.

VA's early investment in 3D printing technology allows the Department to innovate and improve Veteran care on an ongoing basis and permitted VA staff to quickly apply the technology to aid in VA's COVID-19 response. In response to the pandemic, VA coordinated a Memorandum of Understanding for open-source medical products with the Food and Drug Administration and the National Institutes of Health. Additionally, VA partnered with America Makes to rally health care 'providers and 3D printing organizations into rapidly innovating face mask designs during the pandemic.

Transforming a computer file into anatomical precision

The impact 3D printing can have on a Veteran's life and well-being is significant. Imagine if your physician discovered a huge tumor wrapped around your ribs and growing on your lung. Using a 3D-printed model derived from computerized tomography or magnetic resonance imaging scans and sophisticated computer software, your medical team can hold the model of your anatomy in their hands. Using the model as a visual aid for pre-surgical planning, they can see details they may not see in two-dimensional imaging. Models also help clinicians determine whether you can avoid an invasive surgical procedure and painful recovery.

Veterans across the country benefit from these custom 3D-printed health care solutions. They receive better health outcomes by being more informed and in control of their health care.

Building One Layer at a Time

Building solutions that meet unique Veteran challenges is a hallmark of VA's Office of Information and Technology's (OIT) support for VHA's 3D printing transformational technology. Nick Bogden, Enterprise Design Pattern Lead in OIT's Enterprise Program Management Office, leads a five-person team that delivers architecture and design innovation to achieve VHA-wide 3D printing capabilities.

When the 3D Printing Advisory Committee needed to increase use and access to the limited number of stand-alone 3D printers at VA hospitals two years ago, they reached out to Mr. Bogden and his team. The result? 3D Printing Enterprise Design Patterns (EDP). The EDP operational product provides a framework of capabilities and constraining principles to aid in the development, acquisition, and implementation of information technology (IT) systems and services for 3D printing.

"Our focus is to translate the requirements and business needs of the committee from a technology perspective and furnish an enterprise solution," Mr. Bogden explained. Network design and security, cloud-based 3D printing services and data security are the three key EDP pillars fundamental to advancing the current 3D printing landscape at VA.

Picture previous page: Tracy 3D printing innovations deliver medical breakthroughs for Veterans.

MISSION

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

VA carries out four specific missions to make good on that commitment: Veterans health care, Veterans benefits, national cemeteries and our fourth mission**.** VA's fourth mission," supported by all the Administrations, is to improve the Nation's preparedness for response to war, terrorism, national emergencies and natural disasters by developing plans and taking actions to ensure continued service to Veterans, as well as to support national, state and local emergency management, public health, safety and homeland security efforts.

Photo: President Lincoln's charge to care for Veterans and their families, on VA's Washington, DC building.

ORGANIZATION

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

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

Photo: The CARES Act allows borrowers with government-backed loans (including VA loans) to request special forbearance – an agreement between the Veteran and their mortgage servicer – where their servicer agrees to either delay payments or to accept partial payments for one or more months.

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.

Photo: VA's National Artificial Intelligence Institute (NAII) seeks to develop AI research and development capabilities as a means to support Veterans, their families, survivors and caregivers.

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

Photo: In August 2020, Acadia National Cemetery opened as a 6.22-acre VA National Cemetery located in Washington County, Maine. The cemetery serves the needs of more than 23,599 Veterans, spouses and eligible children within a 75-mile radius of nearby Machias.

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

Photo: The state of New Hampshire leadership, community business leaders and the VA Secretary's Center for Strategic Partnerships secured scarce Personal Protective Equipment (PPE) to be deployed to the VA clinical and first-responders workforce nationwide.

DEPARTMENT OF VETERANS AFFAIRS ORGANIZATIONAL STRUCTURE

On November 11, 2019, the Nation observed Veterans Day. Washington, DC events included commemorations at the National World War II Memorial, the National Observance at Arlington National Cemetery, and the Vietnam Veterans Memorial (pictured above).

A HISTORY OF VA

1776

Continental Congress encouraged enlistments during the Revolutionary War, providing pensions to disabled soldiers.

1811

Federal Government authorized the first domiciliary and medical facility for Veterans.

1862

Congress enacted legislation that authorized the president to purchase "cemetery grounds" to be used as national cemeteries "for soldiers who shall have died in the service of the country."

1866

Per a law signed by President Abraham Lincoln, the first national home opened near Augusta, Maine for all soldiers, regardless of race, who fought for the Union Army.

1873

All honorably discharged Veterans became eligible for burial in national cemeteries.

1917-1918

As the United States (U.S.) entered World War I, Congress established a new system of Veterans benefits, including programs for disability compensation, insurance, and vocational rehabilitation for the disabled. Congress tasked the Bureau of War Risk Insurance and the Public Health Service with operating hospitals specifically for returning Veterans.

By 1929

The Federal system of national homes had grown to 11 institutions that spanned the country and accepted Veterans of all American wars.

1930

Although services had been provided to Veterans since 1776, an agency was formed whose sole focus was to serve our Nation's Veterans. President Herbert Hoover signed legislation to create the Veterans Administration to "consolidate and coordinate Government activities affecting war Veterans." Brigadier General Frank T. Hines was named the first Administrator. He served in the role until 1945.

1930s

New national cemeteries were established to serve Veterans living in major metropolitan areas. Several of them, closely associated with battlefields such as Gettysburg, were transferred to the National Park Service because of the value in their historical significance.

1944

Congress enacted many new benefits for war Veterans, the most significant of which was the World War II GI Bill. From 1945 – 1966, one-fifth of all single-family residences built were financed by the GI Bill for either World War II or Korean War Veterans.

1946

Public Law 293 established the Department of Medicine and Surgery within VA, along with numerous other programs like the VA Voluntary Service. The law enabled VA to recruit and retain top medical personnel by modifying the civil service system.

1973

Public Law 93-43 authorized the transfer of 82 national cemeteries from the Department of the Army to the Veterans Administration.

1988-1989

The VA was elevated to a cabinet-level executive department by President Ronald Reagan and renamed the Department of Veterans Affairs. At the same time, VA's Department of Medicine and Surgery, was re-designated as the Veterans Health Services and Research Administration.

1991

The Veterans Health Services and Research Administration name changed to the Veterans Health Administration (VHA).

1998

President Bill Clinton signed the Veterans Programs Enhancement Act of 1998, changing the name of the National Cemetery System to the National Cemetery Administration (NCA).

Today

- **VHA:** The VA health care system has grown from 54 hospitals in 1930 to 1,600 health care facilities today, including 144 VA Medical Centers and 1,232 outpatient sites of care of varying complexity.
- **VBA:** VBA programs have a sweeping impact not only on the Veteran community, but also on the whole of American society. Over 5 million Service members (or their dependents) receive compensation each year.
- **NCA:** VA administers 151 national cemeteries through NCA. New cemeteries are in development.

VA BY THE NUMBERS

The infographic below presents key statistics on Veteran population and VA programs as of September 30, 2020. Collection and analysis of this data helps VA to support planning, analysis and decision-making activities. For additional information, please visit VA's National Center for Veterans Analysis and Statistics at https://www.va.gov/VETDATA/index.asp.

AGENCY PRIORITY GOALS, STRATEGIC GOALS AND OBJECTIVES

VA tracks performance based on the VA FY 2018-2024 Strategic Plan, which contains VA's goals, strategies and performance measures. This section presents the results of VA's FY 2021/FY 2019 APP&R, which shows how VA measures and monitors its activities against a long-range plan. The results presented in this section are derived from FY 2019 performance data, the most current available. Results for FY 2020 will be published in the FY 2022/FY 2020 APP&R posted at www.va.gov/performance/ in March 2021.

VA FY 2018 - FY 2024 STRATEGIC PLAN

MISSION STATEMENT: To fulfill President Lincoln's promise,
"To care for him who shall have borne the battle and for his widow, and his orphan".

STRATEGIC GOALS AND OBJECTIVES

Goal 1: Veterans choose VA for easy access, greater choices and clear information to make informed decisions.

Objective 1.1: VA understands Veterans' needs throughout their lives to enhance their choices and improve customer experiences.
Objective 1.2: VA ensures Veterans are informed of, understand, and can get the benefits, care and services they earned, in a timely manner.

Goal 2: Veterans receive highly reliable and integrated care and support and excellent customer service that emphasizes their well-being and independence throughout their life journey.

Objective 2.1: VA has collaborative, high-performing, and integrated delivery networks that enhance Veteran well-being and independence.
Objective 2.2: VA ensures at-risk and underserved Veterans receive what they need to end Veteran suicide, homelessness and poverty.

Goal 3: Veterans trust VA to be consistently accountable and transparent.

Objective 3.1: VA is always transparent to enhance Veterans' choices, to maintain trust and to be openly accountable for its actions.
Objective 3.2: VA holds personnel and external service providers accountable for delivering excellent customer service and experiences while eliminating fraud, waste and abuse.

Goal 4: VA will transform business operations by modernizing systems and focusing resources more efficiently to be competitive and to provide world-class customer service to Veterans and its employees.

Objective 4.1: (Agility) VA's infrastructure improvements, improved decision-making protocols and streamlined services enable VA to adapt to changing business environments and Veteran needs.
Objective 4.2: (Human Capital Management Modernization and Transformation) VA will modernize its human capital management capabilities to empower and enable a diverse, fully staffed and highly skilled workforce that consistently delivers world class services to Veterans and their families.
Objective 4.3: (VA IT/Cybersecurity) VA IT modernization will deliver effective solutions that enable VA to provide improved customer service and a secure, seamless experience within available resources in a cost-effective manner.
Objective 4.4: (Data Driven Decision Making) VA will institutionalize data supported and performance focused decision making that improves the quality of outcomes.

AGENCY PRIORITY GOALS (APGs)

Appeals Improvement and Modernization Act Implementation: To improve the claims and appeals process by implementing the new, streamlined framework authorized by the Veterans Appeals Improvement and Modernization Act of 2017 (AMA).

Community Care: To improve Veterans' health experiences by consolidating all VA-purchased care programs into one modernized community care program under the VA Maintaining Systems and Strengthening Integrated Outside Networks (MISSION) Act.

Veteran Suicide Prevention: To reduce the likelihood of Veteran suicide and overdose through timely intervention. Suicide prevention is VA's top clinical priority.

Veteran Customer Experience: To increase Veteran trust in VA by driving performance improvements in health care and benefits.

AGENCY PRIORITY GOALS (APG)

APGs are a mechanism to focus leadership priorities, bringing focus to mission areas where the Department needs to drive significant progress and change. The Government Performance and Results Act Modernization Act (GPRAMA) requires CFO Act agencies to select four to five APGs every 2 years and review performance on a quarterly basis to identify barriers to progress and make changes to implementation strategies. VA's APGs for the FY 2018-2019 cycle are defined on the previous page with the strategic goals and objectives that they support, mapped by icon. APG performance results are reported below.

APPEALS IMPROVEMENT & MODERNIZATION ACT IMPLEMENTATION

By February 2019, VA fully implemented the AMA and adjudicated decision reviews and appeals under the new appeals system while resolving the remaining legacy appeals. VA promulgated regulations, established procedures, created training materials, hired and trained personnel, implemented IT system changes and conducted outreach to implement the law.

COMMUNITY CARE

In June 2018, Congress passed legislation for community care reform; the VA MISSION Act was signed into law. VA's goal was to improve Veterans' health experiences by consolidating all VA-purchased care programs into one modernized community care program. By September 2019, VA increased the targeted percentage of Veterans who are satisfied with the community care they received from 73% to 79%.

VETERAN SUICIDE PREVENTION

In September 2019, VA reported that 85.5% of Veterans targeted through predictive modeling algorithms were receiving core recommended interventions, a significant increase from the baseline of 57%. In addition, VA and the Department of Health and Human Services Substance Abuse and Mental Health Services Administration developed community plans to end suicide of Veterans outside VHA care in 24 cities and 7 states.

VETERAN CUSTOMER EXPERIENCE

This APG stated that by September 2019, Veterans' positive responses would increase from 67% (September 2017) to 90% in response to the statement, "I trust VA to fulfill our country's commitment to Veterans." Although VA did not make the goal of 90%, outpatient scores for trust (72%), ease of experience (71%), effectiveness of interaction (76%) and emotion (73%) have all increased since 2017.

STRATEGIC GOAL 1:

Veterans choose VA for easy access, greater choices and clear information to make informed decisions.

PERFORMANCE RESULTS

To provide Veterans with better choices and improved access to benefits, care and services, VA must enhance our understanding of the Veteran experience at each phase of their life journey. To that end, VA establishes interactive relationships with Veterans prior to their release from active duty, during their transition to civilian life and thereafter.

The graphic at left presents the results of the 10 measures the Department currently uses to evaluate Goal 1 performance. The six off track measures are related to:

- *Veterans made aware of benefits through marketing efforts*: Our target audiences are learning about VA benefits and services through other sources not captured by the performance assessment, such as partnering organizations or directly with medical centers. Beginning FY 2020, the National Veterans Outreach Office revised the methodology to track Veteran benefit awareness. Data is collected from all access points, not just eBenefits, and OPIA in coordination with VEO is improving strategy, integration and measurement.
- *Integrated Disability Evaluation System (IDES) participants who have a proposed rating completed within the 20-day standard*: Program delays were primarily attributable to the termination of the secure access file exchange used by the Department of Defense (DoD) and VA. Through process improvements made during the third quarter, including updated guidance, collaborative tasking and close communication with the field and DoD, the IDES Program improved performance to a measure of 71% for the month of September 2019, 19% higher than the average for the year and exceeding the target.
- *Results of the VEO trust survey (four measures)*: VEO surveyed hundreds of thousands of Veterans across the country to obtain ranked responses to four statements. Since the inception of the survey in FY 2016, Veteran trust has risen from 60% to 72%. In order to drive an increase in trust, effectiveness, ease and emotion among Veterans, VEO has matured customer experience capabilities across VA, hardwired feedback into strategy and decision-making, delivered capabilities and tangible products with measurable impact and refined internal and external communications. In FY 2019, as VA matured its data science capability, the survey was used to predictively identify areas for improvement and to prescribe recommended courses of corrective action.

VEO Veteran Customer Experience Survey Leveraged from the Forrester Model
"I trust VA to fulfill our country's commitment to Veterans." (Trust)
"I got the care or service I needed." (Effectiveness)
"It was easy to get the care or service I needed." (Ease)
"I felt like a valued customer." (Emotion)

PERFORMANCE HIGHLIGHT

Of the four on track measures, one measure where VA has performed well and consistently exceeded the target is the percentage of Veterans served by a burial option within a reasonable distance (75 miles) of their residence. This increase represents NCA providing service to over 53,000 additional Veterans and enhances access for Veterans to make it easy to choose VA for their interment. The NCA Rural Initiative was established to address the issue of Veterans in less densely populated areas where the distance to a VA cemetery may exceed a reasonable distance. To maintain (or restore) service in high-density urban areas, the NCA Urban Initiative is placing columbaria at a cost significantly less and in a timeframe significantly shorter than would be required to construct a new facility.

PERFORMANCE IN ACTION

Community members of the Navajo Nation Tselani/Cottonwood Chapter attend a VA benefit claims event. Photo Credit: VA.

Native American Veteran benefits were at the center of a November 2019 Senate Committee on Indian Affairs hearing. Secretary Robert Wilkie told Congress there are two areas that can help Native American Veterans – expanding telehealth and more benefits events.

By November 2019, VA had hosted 30 claims events during the year, enabling more than 1,000 Veterans from 24 tribes to speak directly with VA representatives, get answers to benefits questions, file claims and receive same-day decisions.

"Our pledge at VA is to continue to work with tribal governments to face the unique challenges that accompany life of America's Native communities. It's our mission to make sure all Native Americans know that this VA belongs to them as well," Secretary Wilkie said. VA works with Indian Health Services to make sure Native American Veterans get the care they need.

Secretary Wilkie has traveled to North and South Dakota, Montana, Oklahoma, Alaska and Wyoming to meet with Native American Veterans, tribal leaders and caregivers.

In FY 2020, VA began tracking the number of Veterans attending VA-sponsored claims clinics in Indian Country as a performance measure under Goal 1.

STRATEGIC GOAL 2:

Veterans receive highly reliable and integrated care and support and excellent customer service that emphasizes their well-being and independence throughout their life journey.

PERFORMANCE RESULTS

GOAL 2: PERFORMANCE MEASURES FY 2019 RESULTS

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

The graphic at left presents the results of the 29 measures used to evaluate Goal 2 performance. The nine off track measures are related to:

- *Calls answered by the VBA National Call Center (NCC) within 2 minutes*: The target was not achieved due to a high agent attrition rate and performance issues with the Customer Relationship Management (CRM) tool. The NCC has implemented an improvement plan, which included an aggressive hiring strategy, business process improvements and system enhancements, and coordinated with OIT to address CRM system performance issues.
- *Housing vouchers allocated that have resulted in homeless Veterans obtaining permanent housing*: The primary reasons the target was not met were staffing vacancies and lack of affordable housing units. VA must improve: 1) hiring, to fully utilize the vouchers, and 2) landlord engagement, especially in communities where stock is limited, to secure housing.
- *VR&E class achievement rate*: VR&E is focusing on modernization initiatives that will support maintaining the counselor to Veteran ratio at 1:125, improving technology to reduce administrative burden and actively engaging Veterans through the lifecycle of their program.
- *Community care claims processed timely*: VHA is implementing a rigorous plan to reduce the claims backlog by increasing staff and contract support, addressing gaps in the automated processing system and transitioning customer service calls to the NCC.
- *Average improvement in mental health symptoms after start of treatment as measured by scores on the World Health Organization assessment:* VA is discontinuing this measure; however, VA continues to measure average improvement using the Short Form-12 assessment. VA met its target for improvement under this assessment.
- *Pension claims processing (four measures)*: In FY 2019, VA transitioned to a new workload management system that prioritizes processing of the oldest claims first, which has a short-term negative impact on this measure. VA will continue to leverage the new system to optimize distribution of claims and improve timeliness.

Impacted Pension Claims Processing Measures
National claim-based quality for pension claims
Veterans pension rating claims processed within 125 days
Survivor pension entitlement determinations processed within 60 days
Dependents Indemnity Compensation rating claims processed within 125 days

PERFORMANCE HIGHLIGHT

Of the 20 on track measures, one measure where VA has performed well and consistently exceeded the target is the percentage of Supportive Services for Veteran Families (SSVF) participants who were at risk of homelessness and were prevented from becoming homeless. SSVF is designed to rapidly re-home Veteran families and prevent homelessness for those at imminent risk. Funds are granted to organizations that assist low-income Veteran families by providing a range of services designed to promote housing stability. In FY 2019, VA announced $426 million in awards providing access to SSVF services and assisted over 105,000 individuals, including over 70,000 Veterans and over 20,600 children.

PERFORMANCE IN ACTION

Kimberly Braswell, nurse practitioner in the cardiology unit at the James A. Haley Veterans' Hospital in Tampa, Florida. Photo Credit: VA.

In FY 2019, the telehealth program exceeded its target with more than 909,000 Veterans receiving care via a VA telehealth modality, up 18% from FY 2018. VA telehealth has removed barriers to quality care, such as transportation time and cost, inclement weather, mobility and social stigma, particularly with mental health care.

VA Video Connect, one of VA's telehealth modalities, lets Kimberly Braswell (pictured above) ensure continuity of care for the Veterans she serves, which has proved especially important during the COVID-19 pandemic. VA Video Connect allows her patients to have secure, real-time video visits through a smartphone, computer or tablet.

Braswell estimates between 60% to 70% of her patients have switched to video appointments, many of them first-time users. She says some Veterans who were skeptical of being able to understand the new technology were surprised to see how easy VA Video Connect is to use. Age has not proved to be a barrier either — Braswell's oldest patient using VA Video Connect is 99 years old!

"Working in cardiology, our entire patient population would be in the higher vulnerability and higher risk group should they contract coronavirus. Therefore, it's very important to protect them from any potential exposures. You can see the Veterans' relief and happiness. They can connect to their providers and have their issues addressed without interrupting their care."

STRATEGIC GOAL 3:

Veterans trust VA to be consistently accountable and transparent.

PERFORMANCE RESULTS

VA's pledge to build lifelong, trusted relationships with its Veterans is the basis for delivering relevant and excellent benefits, care and services that enhance Veterans' lives. VA understands that earning Veterans' trust is the gold standard the Department aspires to achieve and is critical to our long-term success. How VA delivers on its promises is just as important as what it delivers. VA will earn trust and be the natural choice for Veterans by being accountable, being transparent about how the Department is performing and adhering to the core values with every interaction.

VA's Core Values	
I	**Integrity** - Act with high moral principle
C	**Commitment** - Work diligently to serve Veterans
A	**Advocacy** - Be truly Veteran-centric
R	**Respect** - Treat all with dignity and respect
E	**Excellence** - Strive for the highest quality

The graphic above presents the results of the 12 measures currently used to evaluate Goal 3 performance. The two off track measures are related to:

- *Reports (audits, inspections, investigations and other reviews) issued that identified opportunities for improvement and provide recommendations for corrective action:* Although OIG did not meet nominal report targets, it achieved a remarkable number of programmatic benchmarks through published report recommendations that will lead to qualitative improvements in VA programs and services. The 236 reports published by OIG in 2019 included 864 recommendations, which addressed a variety of VA operational topics including access, quality and timeliness of health care services, benefits accuracy and adjudication, stewardship of taxpayer resources, leadership and governance practices and IT systems. Beginning in FY 2020, this measure will capture the percentage of reports issued that identified opportunities for improvement and provide recommendations for corrective action, rather than the total number of reports issued.
- *Investigative cases that resulted in criminal, civil or administrative actions:* Although the OIG did not meet the nominal target for this measure in FY 2019, its investigative work yielded monetary benefits exceeding $336 million and encompassed a wide range of criminal and civil cases that presented unacceptable risks to Veterans or VA operations. To meet the target in FY 2020, the OIG Office of Investigations (OI) will carefully assess each allegation to determine the level of associated risk and conduct preliminary or developmental investigations, as appropriate. Where facts and circumstances reasonably indicate that a full investigation is warranted, the OI will initiate such investigation and submit its findings to the Department of Justice, state or local law enforcement offices, or to VA.

PERFORMANCE HIGHLIGHT

Of the 10 on track measures, one measure where VA has encountered challenges and worked diligently to rebound to meet the target is the accurate processing of disability compensation ratings. VA offers disability compensation to Veterans who became sick or injured while serving. Ratings are assigned based on the severity of the service-connected condition and used to determine the level of compensation the Veteran will receive.

VBA's Compensation Service is working diligently to drive quality and improve accuracy for Veterans. In FY 2020, VBA hired additional staff to perform quality improvement projects and a new team was created to conduct special focus reviews to better analyze the trend of compensation errors. These changes are Veteran-centric with the goal to focus on solutions to improve the quality, timeliness and delivery of benefits to Veterans and their families.

PERFORMANCE IN ACTION

A Service member bottle feeds a baby during Operation Babylift. Photo Credit: VA.

During the evacuation of Saigon in 1975, hundreds of Air Force security police traveled to Tan Son Nhut to assist in the rescue of Vietnamese orphans in an effort called Operation Babylift, a fact only recently confirmed by VBA and the Air Force Historical Research Agency (AFHRA) through newly discovered military records.

Clara Beheler, a Veterans Benefits Quality Review Specialist at the Roanoke, Virginia Regional Office, was working a claim for an Air Force Veteran who stated that he was sent to Vietnam in support of these operations. She was unable to verify participation based on the documents in his personnel file, service treatment records or through extensive online research. Beheler, however, was not deterred. She contacted Barry Spink, a researcher from AFHRA, to assist her in finding records. After an exhaustive archive search that lasted many months, Spink found records that confirmed participation of 296 personnel.

As a result of this find, the first claim was granted, but Beheler's team didn't stop there. With this newfound information, the team of records research specialists began awarding benefits to Veterans and survivors whose claims were impacted by discovering these important records. "Finding these records are life-changing for so many people," Beheler said. To date, retroactive claims have been awarded to 16 Veterans or survivors with nearly a half-million dollars paid.

STRATEGIC GOAL 4:

VA will transform business operations by modernizing systems and focusing resources more efficiently to be competitive and to provide world-class customer service to Veterans and its employees.

PERFORMANCE RESULTS

GOAL 4: PERFORMANCE MEASURES FY 2019 RESULTS

The cross-cutting objectives in this goal adapt the organization's behavior into four critical categories that will enable it to perform in an ever-changing business environment.

The Department will be better prepared to: make future choices about its strategic footprint (capital assets and construction); rapidly deploy human capital capabilities as requirements evolve; put in place an IT infrastructure that supports its Veteran engagement and delivery goals; and emphasize value analytics so VA makes smart, implementable and relevant business decisions.

VA's Four Critical Categories For an Ever-Changing Business Environment
Agility
Human Capital Management Modernization & Transformation
Information Technology / Cybersecurity
Data-Driven Decision Making

The graphic above presents the results of the 32 measures currently used to evaluate Goal 4 performance. Five measures are off track, four of which are related to cybersecurity. They are:

- *Construction projects accepted by VA as substantially complete in the quarter identified*: The target was not met due to challenges predicting when a project will get to the acceptance stage. VA continues to improve the forecasting of acceptance utilizing risk registers and integrated master schedules.
- *Intrusion detection and prevention*: VA did not meet this target due to several domains that are not administratively owned or managed by the Department's Cyber Security Operations Center. VA will move these to the va.gov domain to achieve compliance.
- *Percent of employees who receive Insider Threat training*: VA will increase outreach and education efforts across VA that target the entire workforce. Specifically, VA will provide training during new employee orientation.
- *Exfiltration and enhanced defenses*: This metric is intended to measure the organization's ability to monitor network communication to detect any unauthorized copying, transferring or retrieval of data from systems or servers. VA is pursuing additional capabilities through the implementation of the Continuous Diagnostics and Monitoring Program.
- *Hardware asset management*: VA views this metric in two parts: 1) discovery of hardware assets and 2) authorization and management of those hardware assets. VA can discover 95% of assets on the network; however, only a portion is centrally visible. VA manages approximately 40% of the network endpoints by policy enforcement. VA will work to increase its hardware asset management capabilities.

PERFORMANCE HIGHLIGHT

One Goal 4 measure where VA has progressed significantly in the past 2 years is the employee engagement index (EEI) score. The EEI is an engagement measure based on questions from the Office of Personnel Management (OPM) Federal Employee Viewpoint Survey. These questions assess the culture of engagement in the workplace.

Multiple efforts contributed toward progress in this measure. In 2019 the VA-wide Employee Engagement (EE) plan was developed and implemented. This plan included recommendations on policies, programs and initiatives relating to employee engagement at VA. Additionally, the VA Employee Engagement Council (EEC) membership was updated to ensure participation and input from field representatives and labor partners. EEC meetings are held quarterly for monitoring EE strategies and implementation, proposing EE initiatives and sharing leading practices.

PERFORMANCE IN ACTION

Lorrie Lollar-Ray, Air Force Veteran and vocational rehab counselor at Ralph H. Johnson VAMC. Photo Credit: VA.

Nearly one-third of all VA employees are Veterans, a Goal 4 measure for which VA is near target. Lorrie Lollar-Ray is an Air Force Veteran who now works for VA as a Vocational Rehabilitation Counselor. She describes how she overcame obstacles to find meaning in helping other Veterans.

"I came to work at the Ralph H. Johnson VA Medical Center under a Schedule A appointment (for people with certain disabilities) while I was in therapy myself for service-connected injuries. I was in mental health care and started with a sailing program to assist me with the isolation I had created in my life.

This job is fulfilling and personally satisfying. I assist Veterans who could very well be me. After the Air Force, I studied law in an effort to assist those at-risk or underprivileged. In my current capacity, I assist people with their barriers to employment. I love what I contribute to Veterans' lives, and I enjoy having meaningful work that allows me to communicate with each person individually to determine and overcome individual problems. The mission, vision and values of VA align with me personally because … I CARE."

ANALYSIS OF FINANCIAL STATEMENTS

BALANCE SHEET

The Balance Sheet provides a snapshot of the Department's financial position and comprises assets, liabilities and net position. The table below shows VA's key asset and liability components and the total change for each component over the prior fiscal year.

Balance Sheet Key Components

(dollars in millions)	2020	2019	$ Change	% Change
Assets				
Fund Balance with Treasury	$ 70,401	$ 58,306	$ 12,095	21%
General Property, Plant, & Equipment	28,110	27,164	946	3%
Accounts Receivable	5,134	6,087	(953)	-16%
Investments	4,781	4,498	283	6%
Other	3,565	3,250	315	10%
Total Assets	$ 111,991	$ 99,305	$ 12,686	13%
Liabilities				
Federal Employee and Veterans' Benefits (FEVB)	$4,008,469	$3,248,620	$ 759,849	23%
Non-FEVB Liabilities				
Accounts Payable	20,330	15,525	4,805	31%
Loan Guarantee Liability, Net	7,408	7,636	(228)	-3%
Other	7,756	7,474	282	4%
Total Non-FEVB Liabilities	35,494	30,635	4,859	16%
Total Liabilities	4,043,963	3,279,255	764,708	23%
Total Net Position	(3,931,972)	(3,179,950)	(752,022)	-24%
Total Liabilities and Net Position	$ 111,991	$ 99,305	$ 12,686	13%

ASSETS

Assets represent items owned by the Department that have probable economic benefits. The graphic at left depicts the composition of VA's total asset balance. As of September 30, 2020, the largest asset was fund balance with Treasury (FBWT) at $70.4 billion, an increase of $12.1 billion or 21% primarily due to:

- Emergency funding received in response to the COVID-19 pandemic (refer to page 24 for additional information); and,
- New legal authority for VA to compensate Veterans and survivors for service-connected disabilities under the Blue Water Navy Vietnam Veterans Act of 2019.

The second largest asset was property, plant and equipment (PP&E) at $28.1 billion, which is primarily composed of buildings, structures, equipment and internal use software (IUS) used to provide medical care to Veterans.

Accounts receivable was $5.1 billion, a decrease of nearly $953 million or 16% primarily due to collections totaling $600 million on an account receivable for excess contingency reserves in the Veterans' Group Life Insurance (VGLI) Program. $2.5 billion of the total $3.4 billion receivable remains and will continue to be transferred to the VA over a period of 4 years. Additionally, accounts receivable decreased due to a decrease in billable medical care activity, such as primary care appointments and community care consultations, as a result of COVID-19.

The other category includes Investments, cash, direct loans and loan guarantees, inventory and other assets. The increase of $315 million, or 10%, is primarily due to an increase in advances for major construction projects at VAMCs.

LIABILITIES

Liabilities represent probable future outflows or other sacrifices of resources as a result of past transactions or events. As of September 30, 2020, the largest liability was Federal employee and Veterans' benefits (FEVB) at $4 trillion or 99% of total liabilities, an increase of $759.8 billion or 23% over prior year. Compensation benefits compose more than 99% of this liability and represent amounts owed to Service members (or their dependents) who died or were disabled due to active military service-related causes. The liability is an estimate of the future cost to provide benefits to participants, expressed in today's dollars. The graphic at left presents the year-to-year increase in the FEVB liability from FY 2016 – FY 2020. Actuarial cost and the loss on actuarial assumptions drive these increases. Refer to page 22 for discussion of increases in actuarial cost and losses. For additional information, refer to Note 13 in the Financial Section.

The composition of the remaining liability balance is illustrated in the graphic at left. The Department's second largest liability is accounts payable at $20.3 billion, an increase of $4.8 billion or 31% primarily due to a change in accounting for Veterans community care (VCC) obligations. In FY 2019, VCC referrals were recorded using an obligation at payment model; thus, the obligations and associated accounts payable were not recorded until the claims were adjudicated. As a component of FEVB, VA estimated an incurred but not paid liability at the end of each period to recognize the cost of services incurred where claim

invoices had not yet been received, validated and paid. In FY 2020, VA determined that it lacked the authority to apply the obligation at payment model. As a result, the accounts payable balance increased as these amounts moved from the unfunded FEVB liability to the funded accounts payable liability. FY 2019 has been restated to reflect this change. For additional information, refer to Note 23 in the Financial Section.

Loan guarantee liability, net was $7.4 billion, a decrease of $228 million or 3% due to subsidy re-estimates resulting from updated model inputs that decrease the likelihood of VA covering defaulted guaranteed housing loans. The updated inputs relate to favorable housing market conditions and an associated improvement in loan performance. As these conditions improve, the likelihood that VA must cover defaults declines.

The other category includes debt, environmental and disposal liabilities and other liabilities. The balances have not fluctuated significantly compared to prior year.

CHANGES IN NET POSITION

The Statement of Changes in Net Position combines the net cost of operations with nonexchange sources of financing to arrive at a net position. Net position decreased by 24% from a deficit of $3.2 trillion in FY 2019 to a deficit of $3.9 trillion in FY 2020. The decrease is attributable to the increase in net cost of operations, discussed in the next section.

NET COST OF OPERATIONS

Net cost of operations is the cost incurred less any exchange revenue earned. The Statement of Net Cost is designed to show net cost separately for each of VA's Administrations: VHA, VBA and NCA. Indirect administrative program costs support Department operations not directly attributable to VHA, VBA or NCA and include the supply fund, general administration and the Board of Veterans' Appeals programs. In FY 2020, total net cost of operations for the Department was $987.1 billion, an increase of $567.5 billion or 135%, driven primarily by the loss on actuarial liability changes.

PROGRAM NET COST

The graphics below present program net cost by Administration, excluding actuarial, from FY 2016 – FY 2020. While VHA and VBA have experienced significant increases in net cost over prior year, NCA and indirect administrative net costs have remained relatively consistent.

VHA's net cost was $99.7 billion, an increase of $10.9 billion or 12% primarily due to an increase in community care payments and other medical expenses that align with the implementation of the MISSION Act and COVID-19 response activities.

Additionally, VHA's net cost increased due to an increase in full time equivalent employees to serve the medical needs of a growing population of enrolled Veterans and in response to the COVID-19 pandemic. The CARES Act provided supplemental funds that enabled VA to hire and retain staff to support pandemic response.

VBA's net cost (excluding actuarial) was $124.5 billion, an increase of $9.6 billion or 8% due to increases in compensation payments to Veterans and their beneficiaries. VA processed over 1.4 million more payments in FY 2020 than in FY 2019, as of September 30. Additionally, VBA continued to process claims with improved timeliness and accuracy, which resulted in approximately 155,000 more active beneficiaries in FY 2020 than in FY 2019.

ACTUARIAL COST & (GAIN)/LOSS

VA provides compensation, burial, education and VR&E benefits to eligible Veterans and beneficiaries. The liability for future benefit payments is calculated using an actuarial model (see discussion of FEVB liability on page 20). On a periodic basis, the liability is adjusted for changes in assumptions, which results in the recognition of actuarial cost and/or a (gain)/loss. The actuarial cost and (gain)/loss are composed of the elements below.

Actuarial Cost

- Interest on Liability Expense
- Changes in Experience (e.g., Veteran counts)
- Prior Service Cost
- Less: Amounts Paid

(Gain) / Loss

- Discount Rate
- Cost of Living Adjustments (COLA)
- Other Assumptions

The Veterans benefits actuarial cost was $157.8 billion, an increase of $2.1 billion or 1% over FY 2019. In FY 2019, VBA reported a significant increase in year-to-year actuarial cost, primarily due to changes in experience required due to a substantially larger number of Veterans and beneficiaries receiving compensation benefits. In FY 2020, actuarial cost remained consistent with prior year.

Net (gain)/loss from changes in actuarial assumptions was $602.7 billion, an increase of $544.7 billion due to assumption changes in the model used to estimate the liability. The most significant change in assumptions was related to disability ratings. The updated rates increase the likelihood of compensation recipients' transition into higher rating classes, thus increasing the liability. Additionally, the Veteran population table was updated to reflect current data.

BUDGETARY RESOURCES

The Statement of Budgetary Resources provides information on the sources and status of funding available to the Department. The primary sources of VA funding are appropriations from Congress and the unobligated balance from prior year budget authority. VA expends a substantial amount of its budgetary resources on medical service and care, compensation, pension, burial, education and VR&E benefits for Veterans, their beneficiaries and dependents.

Appropriations were $240.4 billion, an increase of $38.0 billion or 19% over FY 2019, primarily due to $19.6 billion in funding from the CARES and Families First Acts, as discussed on page 24. Additionally, appropriations increased to support the implementation of the MISSION Act. The MISSION Act provides eligible Veterans greater choice in where they receive care through integrated community care programs.

The stacked area graph below presents the composition of budgetary resources comparatively from FY 2016 – FY 2020 and illustrates that the increase in budgetary resources has been driven primarily by appropriations. The increase in appropriations was received to fund:

- The establishment and expansion of community care programs for health care provided to Veterans at non-VA medical facilities;
- Medical services provided at VA medical facilities resulting from an increase in the number of Veterans receiving care;
- Higher compensation costs resulting from increases in the number of Veterans and beneficiaries accessing and receiving these benefits;
- Major construction projects, including improvements and additions to existing medical facilities and construction of new facilities; and
- Emergency response to COVID-19 pandemic through the CARES and Families First Acts.

The rise in overall budgetary resources between FY 2019 and FY 2020 resulted in an increase of new obligations and upward adjustments totaling $22.3 billion or 10% over prior year primarily due to:

- MISSION Act costs related to clinical service delivery for community care, such as care coordination including referrals, eligibility verification, enrollment and the establishment of care networks;

- Purchases of PPE and medical equipment in response to the COVID-19 pandemic and in accordance with the CARES and Families First Acts; and,
- An increase in the number of compensation payments processed due in part to VBA's continued progress in processing claims with improved timeliness and accuracy.

Net outlays increased by $18.8 billion or 9%. The increase in net outlays was primarily attributable to the increase in budgetary resources, new obligations and upward adjustments.

IMPACT OF COVID-19

As the largest integrated health care system in the U.S. providing services to over nine million Veterans, VA was heavily impacted by the COVID-19 pandemic in FY 2020. In response to the pandemic, the Department received $19.6 billion in supplemental emergency funding from the CARES and Families First Acts. As depicted in the graphic at left, the funding was primarily allocated to the Medical Services Program, which received $14.3 billion or 73%. The remaining $5.3 billion was allocated to Information Technology Systems, Medical Community Care and other programs.

As of September 30, 2020, 38% of the total emergency funding had been obligated. These funds are available for obligation through FY 2021 for $19.557 billion in funding and through FY 2022 for the additional $72.5 million. As depicted in the graphic below, $3.9 billion or 27% had been obligated from the Medical Services Program as of September 30, 2020 to cover inpatient COVID-19 pandemic care, surge activities and national purchases of PPE and other equipment. $3.6 billion or 67% had been obligated from Information Technology Systems, Medical Community Care and other programs. Additional detail may be found in Note 25 in the Financial Section.

For additional information about VA's response to the COVID-19 pandemic and ways in which the Department is using its supplemental emergency funding to protect and care for Veterans, their families, health care providers and staff, visit https://www.publichealth.va.gov/n-coronavirus/. On a weekly basis, the Department publishes *VA's COVID-19 Response: By the Numbers*, which reports metrics across several categories including:

- Veteran & Virtual Care
- Veteran Engagement
- Support to Non-VA Nursing Homes
- Support to States & Other Agencies

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

On Wednesday, November 11, 2020, the Nation observed Veterans Day. President Trump, Vice President Pence and VA Secretary Wilkie observed the day with a traditional wreath laying at the Tomb of the Unknown Soldier at Arlington National Cemetery. This ceremony was followed by a wreath laying at the grave of World War II hero Audie Murphy in observance of the 75th Anniversary of the end of World War II.

MANAGEMENT'S STATEMENT OF ASSURANCE

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

November 24, 2020

The Department of Veterans Affairs (VA) management is responsible for managing risks and maintaining effective internal controls to meet the objectives of § 2 and § 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). VA conducted its assessment of risks and internal controls in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal controls over operations, reporting and compliance were operating effectively as of September 30, 2020, except for the following reported material weaknesses:

- Controls over Significant Accounting Estimates;
- Obligations, Undelivered Orders and Accrued Expenses;
- Financial Systems and Reporting;
- Information Technology (IT) Security Controls; and
- Entity-Level Controls, including Chief Financial Officer (CFO) Organizational Structure.

The Department noted noncompliance with the following:

- Federal Financial Management Improvement Act (FFMIA);
- FMFIA § 2 and § 4;
- Title 38 United States Code (U.S.C.) § 5315, *Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States* and 31 U.S.C. § 3717, *Interest and Penalty on Claims*;
- Anti-Deficiency Act (ADA); and
- Payment Integrity Information Act of 2019.

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

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

VA is working with Congress to enact a legislative change which will permit the continued use of obligating funds at the time of payment (obligate at payment) for VA community care claims covered under certain network and provider contracts. VA obligated funds at the time of payment during FY 2019 and FY 2020, without authorization, but has restated its FY 2019 financial statements, and corrected its FY 2020 balances to remove the effects of obligate at payment.

In July 2020 the VA Office of Management (OM) identified a data breach involving the personal information of approximately 46,000 Veterans. This data breach is currently under VA Office of Inspector General (OIG) investigation.

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

Sincerely,

Robert L. Wilkie

SUMMARY OF MATERIAL WEAKNESSES

(1) Controls over Significant Accounting Estimates: VA's financial statement auditor identified internal control deficiencies in the control environment related to the compensation, pension, burial and education actuarial estimates, along with quality control issues and errors in the analysis of the models. The VBA CFO's office continues to implement a Corrective Action Plan (CAP), which includes the VBA CFO's office taking steps to reduce the severity of the material weakness by updating models, policies, procedures, process narratives and training. Estimated completion date: FY 2021.

(2) Obligations, Undelivered Orders and Accrued Expenses: VHA has weaknesses in its design and implementation of controls over the Medical Community Care Program, specifically with transaction authorization and obligation, monitoring and timely liquidation of unfulfilled authorizations, reconciliations and related accrued expenses. The Office of Community Care (OCC) continues to lead the effort to develop and manage the CAP to address the VA community care material weakness identified by VA's auditors. The CAP includes:

a. refining and updating OCC's IBNR methodology whitepaper and financial policies to reasonably estimate unfunded liabilities;
b. refining and updating methodologies to reconcile claims data from source systems to FMS before data is used in OCC IBNR estimations;
c. enhancing VHA policies and procedures;
d. developing monthly consolidated reconciliations of obligations and expenditures recorded in Integrated Funds Distribution, Control Point Activity, Accounting and Procurement, Centralized Administrative Accounting Transaction System, Electronic Contract Management System and FMS for all open obligations to ensure the accounting information is valid and proper;
e. enhancing policies and procedures for monitoring and validating 1358 transactions to ensure recorded obligations and accrued expenses were not overstated; and
f. providing training.

VA obligated funds at the time of payment during FY 2019 and FY 2020, without authorization, but has restated its FY 2019 financial statements, and corrected its FY 2020 balances to remove the effects of obligate at payment. VA is working with Congress to enact a legislative change which will permit the continued use of obligating funds at the time of payment (obligate at payment) for VA community care claims covered under certain network and provider contracts. In the meantime, VA will update this CAP to address current year audit findings including the timely preparation of the model to estimate the amounts for obligations, undelivered orders and accrued expenses. Estimated completion date: FY 2021.

(3) Financial Systems and Reporting: VA's outdated legacy financial management systems are driving a myriad of financial reporting deficiencies, including overuse of journal vouchers, increased need for analytics and issues with intra-governmental activities. VA is developing a modernized financial management system to replace the legacy FMS. In addition, VHA continues to provide reports to the Veterans Integrated Service Networks (VISN) and stations on potential late capitalization of assets to proactively remediate late capitalization findings. Estimated completion date: FY 2025.

(4) Information Technology Security Controls: VA continues to have an IT material weakness in Agency-Wide Security Management Program; Identity Management and Access Controls; Configuration Management Controls; System Development and Change Management Controls; Contingency Planning; Incident Response and Monitoring; Continuous Monitoring; and Contractor Systems Oversight. The VA Enterprise Cybersecurity Program (ECSP) monitors and addresses components of the material weakness and OIG Notices of Findings and Recommendations (NFR) by evaluating, prioritizing, planning and executing approximately 40 cybersecurity projects each year. The project prioritization process directly incorporates the NFRs and aligns with the National Institute of Standards and Technology Cybersecurity Framework and Risk Management Framework. Since 2019, 21 projects reached their cybersecurity milestones, with direct implications for seven NFRs, including contingency planning and configuration management. Through ECSP, VA maintains a governance structure to enable risk-based decision-making and prioritization, engage stakeholders across the enterprise in support of accountability and ownership, and provide oversight of cybersecurity projects. These projects are part of the larger VA ECSP implementation plan designed to address the five distinct goals critical to evolving and maturing the overall VA cyber environment to achieve Federal Chief Information Officer priorities. The targeted completion year for most ECSP projects is FY 2021. Therefore, the CAP completion changed from FY 2020 to FY 2021 since many of the ECSP projects that address the OIG NFRs will not have addressed their NFR tangible outcomes. Estimated completion date: FY 2021.

(5) Entity Level Controls, including CFO Organizational Structure: VA's financial statement auditor reported a material weakness for the CFO organizational structure, noting VA operates under a decentralized environment, with a fragmented financial management and reporting structure. To address this material weakness, OM continues to facilitate communication and control over Department-wide CFO functions through the CFO council, and VA communicates audit findings and material weaknesses to all levels of the organization, with ownership and corrective actions being assigned to the most senior leaders in the program, demonstrating the commitment to quality improvement. Accordingly, the estimated completion date has been extended from FY 2020 to FY 2021. Estimated completion date: FY 2021.

SUMMARY OF MATERIAL NONCOMPLIANCE

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

(2) FMFIA § 2 and § 4: VA conducted its evaluation of financial management systems for compliance with FFMIA in accordance with OMB Circular A-123, Appendix D. Based on the results, VA's FMS does not substantially comply with Federal financial management systems requirements and application of the USSGL at the transaction level. OM developed a robust internal control assessment process to implement the requirements for full compliance with FMFIA and OMB Circular A-123, Appendix A, to include documentation of transactional-level testing to support the assurance statement. VA is developing a new accounting system, integrated Financial and Acquisition Management System (iFAMS), to replace FMS to comply with FMFIA § 4. Testing of iFAMS will be executed as it is incrementally deployed. OM continues to make significant progress integrating internal control functions with Enterprise Risk Management in the Office of Enterprise Integration. Estimated completion date: FY 2025.

(3) Title 38 U.S.C. § 5315, *Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States* and 31 U.S.C. § 3717, *Interest and Penalty on Claims*: In 1992, the then Acting Secretary of VA, determined that VA would not charge interest and administrative fees on delinquent Compensation and Pension debts, as required by 38 U.S.C. § 5315. VA continues to handle debts in accordance with its long-established policy. VA leadership is pursuing a legislative solution to assess interest and administrative cost charges at the VA Secretary's discretion by resubmitting a modification to the FY 2022 Legislative Review Panel. Estimated completion date: FY 2022.

(4) Anti-Deficiency Act: In FY 2019, VA identified an ADA violation regarding State Home obligations. OCC used the Medical Community Care (Fund 0140) appropriation instead of the Medical Services (Fund 0160) appropriation for State Home aid expenses. Corrective actions have already been implemented, as appropriations language in Public Law 116-94 (Further Consolidated Appropriations Act of 2020) dated December 20, 2019, removed the reference to State Home Services in the Medical Services Appropriation. Completed date: FY 2020.

In addition, VA is working with Congress to enact a legislative change which will permit the continued use of obligating funds at the time of payment for VA community care claims covered under certain network and provider contracts. VA obligated funds at the time of payment during FY 2019 and FY 2020, without authorization, but has restated its FY 2019 financial statements, and corrected its FY 2020 balances to remove the effects

of obligate at payment. VA is also examining whether there is an ADA violation related to this issue. Estimated completion date: FY 2021.

(5) Payment Integrity Information Act of 2019: In FY 2020, VA reported approximately $11.37 billion in improper payments. This was the second consecutive year reporting decreases in improper payments with a net reduction of $3.3 billion for FYs 2019 and 2020. VA continues to enact specific corrective actions to remediate root causes of improper payments and strategically strengthen program integrity while ensuring Veteran access to health care and benefits. VA developed detailed CAPs for each program to address the findings and deficiencies. Estimated completion date: FY 2024.

SUMMARY OF INTERNAL CONTROL ASSESSMENT

VA's Office of Business Oversight (OBO) oversees the internal control program and assists VA's major organizations in completing an internal controls assessment to support their annual statements of assurance. OBO developed an Internal Controls Assessment (ICA) tool for evaluating 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 the following 5 components of internal control: Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring. In FY 2020, VA assessed the following three distinct but overlapping objectives of internal control: operations, compliance and reporting.

In FY 2020, the Department required all Administrations and major Staff Offices to complete an ICA, identifying how the entity met the control objectives of each Green Book principle and concluding on the overall effectiveness of the principle, the control component and the system of internal controls. If deficiencies were identified, Administration or Staff Office management, 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 its ICA. The statement of assurance provides an informed judgment of the overall adequacy and effectiveness of internal control. OBO analyzed ICA submissions and statements of assurance to ensure the statements appropriately captured material weaknesses identified during the internal control assessment.

In FY 2020, OBO conducted OMB Circular A-123, Appendix A, Test of Design over specified business processes and key controls as well as developed maturity models within the risk assessment to identify high-, medium- and low-level control risks within the business cycles; however, was unable to complete a comprehensive assessment over all planned business processes. OBO focused its efforts on developing business process narratives at an enterprise level, documenting actual operations and identifying key financial controls or gaps in the design of controls.

FINANCIAL SYSTEMS FRAMEWORK

VA'S FINANCIAL MANAGEMENT SYSTEMS STRATEGY

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

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

CURRENT FINANCIAL MANAGEMENT SYSTEM FRAMEWORK

VA's existing financial and acquisition management systems consist of the core financial system, known as FMS, and the acquisition system, known as the Electronic Contract Management System (eCMS), along with several interfacing systems: Integrated Funds Distribution, Control Point Activity, Accounting and Procurement System (IFCAP); Veterans Information Systems and Technology Architecture (VistA); Management Information Exchange; and Centralized Automated Accounting Transaction System (CAATS).

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

FUTURE FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

The scope of the FMBT Program is focused on migrating VA from its legacy core FMS and eCMS to a commercial off the shelf (COTS) cloud solution, configured for VA as iFAMS, allowing VA to leverage the Software-as-a-Service (SaaS) model. This involves:

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

iFAMS will be deployed in a phased implementation approach, beginning with NCA in November 2020 and continuing across the Department until complete. In response to the COVID-19 pandemic, FMBT converted planning, training and testing activities to virtual events, successfully mitigating negative impacts on the program.

FORWARD-LOOKING INFORMATION

RISKS

Like every organization, VA faces risks to its ability to function at its most effective and efficient levels. As VA develops its enterprise risk management processes and begins formally and systematically surveying its environment, it has developed a risk profile that identifies the most significant risks it faces. There are 22 portfolios of risks listed in the profile, but the following are the top three risks VA faces:

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

PRIORITIES

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

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

The second priority is MISSION Act implementation. This landmark legislation will fundamentally change VA health care through its mandates to enhance service offerings based on robust market analyses of VA health care facility capacity and quality compared to commercially available health care companies. Using this data, VA will put in place the right combination of VA and locally offered services to best meet the health care needs of Veterans wherever they may be. The Act also asks VA to expand support to caregivers of Veterans. Our Veteran families and caregivers are pivotal partners for VA, and we will ensure that we provide them with the support and services they need to help us take care of our Nation's Veterans.

Replacing the aging electronic health record (EHR) system is the third priority for VA. The new EHR system will connect VA to DoD, private health care providers and private pharmacies to enable the seamless and secure transfer of Veterans' and Service members' sensitive health information. EHR will enhance the coordination of care to improve patient care and safety. With

the new EHR system, VA will change the way we do business and make the delivery of VA services more efficient, timely and focused on the health and safety of Veterans.

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

Cyber tips you should know before your next virtual doctor visit

These days, COVID-19 has all of us opting for telehealth or virtual appointments rather than visits to the doctor's office. The health care industry has seen a significant increase in telehealth visits as a result. Telehealth is a win-win for providers and patients, but there are some privacy and security risks that cyber providers must minimize to protect your sensitive patient data.

Make sure you have the equipment you need

- A phone line if the visit is audio only.
- Headphones.
- An internet connection.
- Video access through a smart phone, tablet, or computer with a camera.
- An app used by the provider to connect (be sure to download before your appointment).

The best setting for a virtual doctor's visit

- Find a quiet location in a well-lit area.
- If you are in a public place, make sure you have privacy via headphones so no one can steal your personally identifiable information (PII) or patient health information (PHI).
- Consider having a family member join you to take notes or raise possible questions and concerns if you forget.

Cybersecurity tips

- Your health information is your private information and it should remain private.
- A doctor's office will never ask you to text your PII or PHI. In most cases, nurses are calling the patient ahead of time to confirm information or switching to patient portals.
- Confirm the platform you are using for your appointment is compliant with the Health Insurance Portability and Accountability Act (HIPAA) – talk to your doctor about this when scheduling your appointment. You will not be the first person to ask this question, so do not be nervous.
- If you are concerned about your connection, ask the doctor's office what other HIPAA-compliant options you have. We have all been there where our internet goes wonky and we get cut off.
- If you are using an app for your visit, make sure it is up to date. Security measures have increased drastically since COVID-19.
- Ask the doctor to confirm they are in a private location for your visit. You are taking precautions and so should they!
- COVID-19 scams are increasing rapidly every day. The American Association of Retired Persons released a recent study showing that phone scams are extremely common right now. If a doctor's office calls you and asks for payment over the phone, verify it is them by calling them back with the number you have on file for them. A doctor's office will never text or email you for payment. Call to confirm how your doctor will send invoices – either an invoice in the mail or a notification in your patient portal.
- Just like before, always use proper methods to dispose of medication information and receipts. Never throw them away. Shred receipts and take the stickers off any prescription bottles before recycling or throwing away.

FINANCIAL SECTION

New York City VA helps care for remaining patients from United States Naval Ship Comfort

To help the United States Naval Ship Comfort close out its mission in New York City, remaining patients were transferred and are being cared for by VA New York (NY) Harbor Health Care System and James J. Peters "Bronx" VA Medical Center.

As part of VA's Fourth Mission to help community hospitals with humanitarian patients through the COVID-19 pandemic, VA received 12 patients over the past few days. Eleven humanitarian patients are now being cared for by VA health care providers in Brooklyn and Manhattan, while the Bronx has accepted a Veteran patient from the ship.

"As a community, we're working together to navigate the changing landscape during the pandemic and help when we have the opportunity," said director Martina Parauda, VA NY Harbor Health Care System. "Our team has thrived during the most demanding of times and are well-positioned to take these new patients in and help them."

The Bronx VA Medical Center shared a similar sentiment as they treat an additional Veteran patient transfer from the ship. The patient chose the facility, and the care team there was ready to assist.

"It's a privilege to accept this Veteran from the United States Naval Ship Comfort to our facility. We've been in communication with his family and are providing the care, compassion and resources to the patient and his loved ones during this difficult time," said Director Margaret B. Caplan, Bronx VA Medical Center. "We will always care for our Veterans and continue to make sure their health needs are met."

As New York City says goodbye to the naval hospital ship, the city can rest assured that their last remaining patients are receiving the high level of care they deserve during the COVID-19 crisis.

Picture previous page: New York City says goodbye to the naval hospital ship Comfort.

DEPARTMENT OF VETERANS AFFAIRS
ASSISTANT SECRETARY FOR MANAGEMENT
WASHINGTON DC 20420

November 24, 2020

The Department of Veterans Affairs (VA or Department) faced a monumental challenge in fiscal year (FY) 2020 responding to COVID-19. VA received two supplemental appropriations totaling approximately $19.6 billion under the Families First Coronavirus Response Act (Families First) and Coronavirus Aid, Relief, and Economic Security Act (CARES Act). VA used the emergency funding to administer over 650,000 tests nationwide, implement clinical screening at VA health care facilities, hire additional health care workers and execute its fourth mission by opening VA facilities to care for non-Veteran patients.

In FY 2020, VA continued its progress on replacing VA's legacy core financial and acquisition management systems with a modern, cloud-based system. This effort will increase the transparency, accuracy, timeliness and reliability of financial information, resulting in improved controls and fiscal accountability to American taxpayers. In August 2020, VA was awarded its first Association of Government Accountants' Certificate of Excellence in Accountability Reporting for the Department's 2019 Agency Financial Report, demonstrating our dedication to financial transparency and stewardship.

I reviewed the Report of the Audit of the Department of Veterans Affairs Consolidated Financial Statements for FY 2020 and 2019 and am proud to report that despite COVID-19 challenges, VA received its 22nd consecutive unmodified ("clean") audit opinion. I recognize VA continues to face several financial management challenges. The auditors' report identifies five material weaknesses related to controls over significant accounting estimates; obligations, undelivered orders and accrued expenses; financial systems and reporting; information technology security controls; and entity level controls including Chief Financial Officer organizational structure. Across the Department, we are diligently working to address these findings and recommendations. We express our appreciation to the Office of Inspector General and CliftonLarsonAllen LLP for their partnership in our mutual pursuit of financial excellence. I am proud of what VA's financial community accomplished in FY 2020 and am grateful to the men and women in VA's financial community, without whom none of this would be possible.

Sincerely,

Jon J. Rychalski

CONSOLIDATED BALANCE SHEETS *(dollars in millions)*		**(Reclassified)**
As of September 30,	**2020**	**2019**
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 70,401	$ 58,306
Investments (Note 5)	4,641	4,358
Accounts Receivable (Note 6)	25	9
Other	2,430	1,762
Total Intragovernmental	77,497	64,435
With the Public		
Cash (Note 4)	4	4
Accounts Receivable, Net (Note 6)	5,109	6,078
Direct Loans and Loan Guarantees, Net (Note 7)	953	1,397
Inventory (Note 8)	158	49
General Property, Plant, and Equipment, Net (Note 9)	28,110	27,164
Investments (Note 5)	140	140
Other	20	38
Total with the Public	34,494	34,870
Total Assets	**$ 111,991**	**$ 99,305**
Heritage Assets (Note 10)		
Liabilities		
Intragovernmental		
Accounts Payable	$ 1,436	$ 1,183
Debt (Note 11)	588	569
Other (Note 15)	1,936	2,483
Total Intragovernmental	3,960	4,235
With the Public		
Accounts Payable	18,894	14,342
Federal Employee and Veterans Benefits (Note 13)		
Veterans Benefits (Note 13)	3,998,134	3,238,260
Life Insurance Benefits (Note 17)	5,145	5,660
Federal Employee Benefits (Note 13)	5,190	4,700
Environmental and Disposal Liabilities (Note 14)	972	934
Loan Guarantee Liability, Net (Note 7)	7,408	7,636
Other (Note 15)	4,260	3,488
Total with the Public	4,040,003	3,275,020
Total Liabilities	**$ 4,043,963**	**$ 3,279,255**
Commitments and Contingencies (Note 18)		
Net Position		
Total Net Position – Funds from Dedicated Collections (Note 19)	3,966	4,293
Total Net Position – All Other Funds	(3,935,938)	(3,184,243)
Total Net Position	**(3,931,972)**	**(3,179,950)**
Total Liabilities and Net Position	**$ 111,991**	**$ 99,305**

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

*Please refer to Note 1.C. for additional information on the change in presentation of the Balance Sheet.

CONSOLIDATED STATEMENTS OF NET COST *(dollars in millions)*

For the Periods Ended September 30,	**2020**	**2019**
Net Program Costs By Administration		
Veterans Health Administration		
Gross Cost	$ 103,092	$ 93,418
Less Earned Revenue	(3,386)	(4,648)
Net Program Cost	99,706	88,770
Veterans Benefits Administration		
Gross Cost		
Program Costs	125,399	115,570
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	157,809	155,685
Less Earned Revenue	(927)	(673)
Net Program Cost	282,281	270,582
National Cemetery Administration		
Gross Cost	376	391
Less Earned Revenue	(1)	-
Net Program Cost	375	391
Indirect Administrative Program Costs		
Gross Cost	2,391	2,294
Less Earned Revenue	(377)	(456)
Net Program Cost	2,014	1,838
Net Program Costs by Administration Before (Gain)/Loss From Changes in Veterans Benefits Actuarial Assumptions	384,376	361,581
(Gain)/Loss From Changes in Actuarial Assumptions (Note 13)	602,720	58,033
Net Cost of Operations	**$ 987,096**	**$ 419,614**

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION *(dollars in millions)* **As of September 30, 2020**	**Funds from Dedicated Collections (Note 19)**	**All Other Funds**	**Consolidated Total**
Unexpended Appropriations			
Beginning Balance	$ -	$ 31,321	$ 31,321
Beginning Balance, As Adjusted	-	31,321	31,321
Budgetary Financing Sources			
Appropriations Received	-	236,797	236,797
Appropriations Transferred In/Out	-	142	142
Other Adjustments	-	(1,390)	(1,390)
Appropriations Used	-	(228,601)	(228,601)
Total Budgetary Financing Sources	-	6,948	6,948
Total Unexpended Appropriations	-	38,269	38,269
Cumulative Results of Operations			
Beginning Balance	4,293	(3,215,564)	(3,211,271)
Beginning Balance, As Adjusted	4,293	(3,215,564)	(3,211,271)
Budgetary Financing Sources			
Appropriations Used	-	228,601	228,601
Nonexchange Revenue	-	29	29
Donations and Forfeitures of Cash and Cash Equivalents	16	-	16
Transfers In/Out Without Reimbursement	(3,335)	3,520	185
Other Financing Sources (Nonexchange)			
Donations and Forfeitures of Property	78	-	78
Transfers In/Out Without Reimbursement	(49)	57	8
Imputed Financing	-	2,458	2,458
Other	-	(3,249)	(3,249)
Total Financing Sources	(3,290)	231,416	228,126
Net (Cost)/Benefit of Operations (Note 21)	2,963	(990,059)	(987,096)
Net Change	(327)	(758,643)	(758,970)
Cumulative Results of Operations	**3,966**	**(3,974,207)**	**(3,970,241)**
Net Position	**$ 3,966**	**$ (3,935,938)**	**$ (3,931,972)**

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION *(dollars in millions)* **As of September 30, 2019**	**Funds from Dedicated Collections (Note 19)**	**(Restated) All Other Funds**	**(Restated) Consolidated Total**
Unexpended Appropriations			
Beginning Balance	$ -	$ 37,780	$ 37,780
Beginning Balance, As Adjusted	-	37,780	37,780
Budgetary Financing Sources			
Appropriations Received	-	197,963	197,963
Appropriations Transferred In/Out	-	128	128
Other Adjustments	-	(908)	(908)
Appropriations Used	-	(203,642)	(203,642)
Total Budgetary Financing Sources	-	(6,459)	(6,459)
Total Unexpended Appropriations	-	31,321	31,321
Cumulative Results of Operations			
Beginning Balance	868	(3,000,198)	(2,999,330)
Beginning Balance, As Adjusted	868	(3,000,198)	(2,999,330)
Budgetary Financing Sources			
Other Adjustments	-	(6)	(6)
Appropriations Used	-	203,642	203,642
Nonexchange Revenue	-	133	133
Donations and Forfeitures of Cash and Cash Equivalents	24	-	24
Transfers In/Out Without Reimbursement	(3,841)	4,039	198
Other Financing Sources (Nonexchange)			
Donations and Forfeitures of Property	59	-	59
Transfers In/Out Without Reimbursement	(39)	39	-
Imputed Financing	-	3,043	3,043
Other	3,412	(2,832)	580
Total Financing Sources	(385)	208,058	207,673
Net (Cost)/Benefit of Operations (Note 21)	3,810	(423,424)	(419,614)
Net Change	3,425	(215,366)	(211,941)
Cumulative Results of Operations	**4,293**	**(3,215,564)**	**(3,211,271)**
Net Position	**$ 4,293**	**$ (3,184,243)**	**$ (3,179,950)**

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

COMBINED STATEMENT OF BUDGETARY RESOURCES *(dollars in millions)* **For the Period Ended September 30, 2020**	**Budgetary**	**Non-Budgetary Credit Reform Financing Account**
Budgetary Resources (Discretionary and Mandatory)		
Unobligated Balance from Prior Year Budget Authority, Net	$ 18,527	$ 8,972
Appropriations	240,404	-
Borrowing authority	-	22
Spending Authority from Offsetting Collections	7,371	4,431
Total Budgetary Resources	**$ 266,302**	**$ 13,425**
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	$ 244,599	$ 5,313
Unobligated Balance, End of Year:		
Apportioned, Unexpired Account	27,751	-
Unapportioned, Unexpired Accounts	(4,742)	8,112
Unexpired Unobligated Balance, End of Year	23,009	8,112
Expired Unobligated Balance, End of Year	(1,306)	-
Unobligated Balance, End of Year (total)	21,703	8,112
Total Status of Budgetary Resources	**$ 266,302**	**$ 13,425**
Outlays, Net		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 225,499	
Distributed Offsetting Receipts (-)	(7,105)	
Agency Outlays, Net (Discretionary and Mandatory)	**$ 218,394**	
Disbursements, Net (Total) (Mandatory)		**$ 1,084**

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

COMBINED STATEMENT OF BUDGETARY RESOURCES *(dollars in millions)* **For the Period Ended September 30, 2019**	**(Restated) Budgetary**	**Non-Budgetary Credit Reform Financing Account**
Budgetary Resources (Discretionary and Mandatory)		
Unobligated Balance from Prior Year Budget Authority, Net	$ 28,927	$ 11,070
Appropriations	202,402	-
Borrowing Authority	-	110
Spending Authority from Offsetting Collections	6,474	3,905
Total Budgetary Resources	**$ 237,803**	**$ 15,085**
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	$ 221,472	$ 6,116
Unobligated Balance, End of Year:		
Apportioned, Unexpired Account	17,897	-
Unapportioned, Unexpired Accounts	(4,636)	8,969
Unexpired Unobligated Balance, End of Year	13,261	8,969
Expired Unobligated Balance, End of Year	3,070	-
Unobligated Balance, End of Year (Total)	16,331	8,969
Total Status of Budgetary Resources	**$ 237,803**	**$ 15,085**
Outlays, Net		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 207,438	
Distributed Offsetting Receipts (-)	(7,864)	
Agency Outlays, Net (Discretionary and Mandatory)	**$ 199,574**	
Disbursements, Net (Total) (Mandatory)		**$ 2,150**

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

VA was created as an independent agency on July 21, 1930 and was elevated to a cabinet department of the Executive Branch of Government on March 15, 1989. The Department is organized under the Secretary, whose office includes a Deputy Secretary and a Chief of Staff. The Secretary has direct lines of authority over the Under Secretary for Health, 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

All VA component activities are included in VA's consolidated financial statements and the Combined Statement of Budgetary Resources. The consolidated financial statements meet the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994. The principal financial statements report the financial position and results of operations of VA, pursuant to the requirements of 31 U.S.C. § 3515(b). VA interacts with and is dependent upon the financial activities of the Federal Government as a whole. Therefore, the results of all financial decisions reflected in these consolidated financial statements are not the sole decisions of VA as a stand-alone entity. VA's fiscal year-end is September 30.

The Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity* requires information to be provided on related-party relationships. VA has relationships with many organizations from nonprofits to special interest groups that provide support to VA and advocacy for Veterans. However, none of VA's relationships is of such significance as to warrant separate or individual disclosure as specified in SFFAS No. 47.

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

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

C. BASIS OF ACCOUNTING

The principal financial statements are prepared in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board and OMB Circular No. A-136, *Financial Reporting Requirements*, as revised.

The consolidated financial statements include the Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position, which are prepared on an accrual basis of accounting.

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change will support the preparation and audit of the Government-wide Financial Report and will standardize the Balance Sheet across significant entities, increasing its usefulness to financial report users. Certain amounts in the prior period financial statements have been reclassified to enhance comparability with the current year's financial statements following VA's adoption of the new Balance Sheet format this year. These reclassifications had no effect on the previously reported net position. As a result, several line items have been amended on the Balance Sheet and the related notes to the financial statements. Comparative figures have been adjusted to conform to the current year's presentation.

The Statement of Budgetary Resources reflects the appropriation and consumption of budget and spending authority, and other budgetary resources before eliminations. To prepare reliable consolidated financial statements, transactions occurring among VA components must be eliminated. However, to remain consistent with the aggregate of the account-level information presented in budgetary reports, the Statement of Budgetary Resources is not consolidated but combined; therefore, elimination of intra-entity transactions is not permitted.

D. BUDGETS AND BUDGETARY ACCOUNTING

Budgetary accounting measures appropriation and consumption of budget/spending authority or other budgetary resources and facilitates compliance with legal constraints and controls over the use of intragovernmental funds. Under budgetary reporting principles, budgetary resources are consumed at the time of purchase.

The Statement of Budgetary Resources is the basic financial statement that reports total budgetary resources, status of budgetary resources and outlays. VA's budget authorities include appropriations, borrowing authority and spending authority from offsetting collections. Details by major accounts are shown in the Statement of Budgetary Resources in the Required Supplementary Information (RSI) section.

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

E. REVENUES AND OTHER FINANCING SOURCES

VA collects revenues for both nonexchange and exchange activities. Nonexchange revenue is an inflow of resources to VA that is a specifically identifiable, legally enforceable claim to cash or other assets, where VA does not give value directly in exchange for the inflow of the resources. It is recognized to the extent that collection is probable, and the amount is measurable. Examples include voluntary donations or payments in the form of penalties. Nonexchange revenue consists primarily of imputed financing, but it also includes forfeitures of property and transfers in/out without reimbursement.

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

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. 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 FBWT represents VA's right to draw funds from the Treasury for allowable expenditures. The balances in Note 3 are reconciled to Treasury and primarily consist of trust, revolving, special and appropriated funds.

H. INVESTMENTS

Investments are reported in Note 5 at cost, net of amortized premiums or discounts and accrued interest, 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.

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 receivables due from patients and insurance companies using the allowance method. The allowance is determined based on the contractual nature of the balance due and VA's historical experience with collection efforts including a rolling 12-month analysis. Uncollectible amounts are written off against the allowance for loss provision or contractual adjustment for medical care once VA determines an amount, or a portion thereof, to be uncollectible.

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

J. DIRECT LOANS AND LOAN GUARANTEES

Direct loan obligations and loan guarantee commitments made after FY 1991 are governed by the Federal Credit Reform Act of 1990 (Credit Reform Act). Note 7 disclosures are in accordance with SFFAS No. 2, *Accounting for Direct Loans and Guarantees*; SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees;* and SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*. Under the Credit Reform Act, the present value of the estimated net cash flows paid by VA must

be recognized as a subsidy cost in the year the loan is disbursed. 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, re-estimates of interest rates and application of loan technical/default provisions approved by OMB.

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

K. INVENTORY AND RELATED PROPERTY

Inventory and related property comprise inventory held for sale, operating materials and supplies and stockpile materials, as reported in Note 8.

Inventory held for sale consists of Veterans Canteen Service (VCS) retail store stock held for current sale. VCS provides retail merchandise, food and vending services across the country. Inventory held for sale is recorded at cost using the weighted-average cost method and expensed when sold.

Operating materials and supplies consist of medical and pharmaceutical supplies held by the Supply Fund. Operating materials and supplies are recorded at cost and expensed when transferred to VAMCs, regional offices or cemeteries.

Stockpile materials are strategic and critical materials held in reserve for use in national defense, conservation or national emergencies, per statutory requirements. VA stockpile

materials consist of caches of pharmaceuticals and medical supplies stored at designated treatment facilities. In FY 2020, in response to the COVID-19 pandemic and with the expectation that VA may be mandated to bolster stockpile material inventories in the near future, VA began recording stockpile materials to the Balance Sheet under the consumption method of accounting. Stockpile materials are recorded at cost and expensed when used or issued for use.

L. GENERAL PROPERTY, PLANT AND EQUIPMENT

VA has a significant construction program for medical facilities and national cemeteries. Construction project costs are recorded in construction Work-In-Process (WIP) accounts. The assets are transferred to either capitalized or noncapitalized PP&E, when placed in service. Construction projects completed in multiple phases are recorded as construction WIP until the project phase is placed in service. Personal property and equipment not meeting the capitalization criteria is expensed upon being placed in service. Buildings, individual items and software projects are capitalized if the useful life is 2 years or more. All capitalized property is depreciated on a straight-line basis.

Asset Category	Estimated Useful Life	Capitalization Threshold
Buildings	25 to 40 years	$1 million
Equipment	5 to 20 years	$1 million
Internal Use Software (IUS)	Varies	$1 million

IUS costs subject to capitalization are incurred during the software development phase. The capitalized costs are amortized in accordance with the planned lifecycle established during the software's planning phase. The useful life of IUS is determined on a per-project basis, no less than 4 years, and consistent with the solution's longevity as limited by legal, regulatory and/or contractual provisions.

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

Heritage assets which are part of PP&E are properties that possess one or more of the following characteristics: historical or natural significance; cultural, educational or aesthetic importance; or significant architectural characteristics. Historic heritage assets allow VA to meet its responsibilities under the National Historic Preservation Act to preserve Federal owned, administered or controlled historic resources in a spirit of stewardship for the inspiration and benefit of present and future generations. VA's heritage asset inventory is reported in Note 10.

M. OTHER ASSETS

Intragovernmental other assets consist primarily of advance payments to the U.S. Army Corps of Engineers for major construction projects. Public other assets consist of advance payments to medical schools under house staff contracts, along with grantees and beneficiaries.

N. ACCOUNTS PAYABLE

Accounts payable are amounts owed by VA for goods and services received. 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 the financial statements are prepared, the amounts owed are estimated. Accruals for Veterans community care programs serviced under third party

administered Federal Acquisition Regulation contracts are developed by estimating the liability for care authorized and received but not yet paid in the current fiscal year.

Accounts payable also include payables to Veterans such as scheduled compensation, pension and education benefits. Significant variances in accounts payable can occur from year to year depending on the timing of compensation and pension (C&P) benefit payments.

Intragovernmental accounts payable consists of amounts owed to other Federal Government agencies, primarily to Department of Labor (DOL) and OPM for employee benefits. The remaining accounts payable consist of amounts due to the public.

O. LIFE INSURANCE BENEFITS

Through VA, the Federal Government administers six life insurance programs (the first four programs below cover Veterans who served during World Wars I and II and the Korean Conflict eras, and are now closed to new issues):

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

Note 17 discloses liabilities for VA's life insurance programs in accordance with SFFAS No. 51, *Insurance Programs*.

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

The S-DVI and VMLI Programs are designed to provide insurance coverage to disabled Veterans at standard premium rates. Therefore, premiums do not cover the operating costs of those programs and appropriations are used to cover the funding shortfalls.

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

The insurance reserves for USGLI, NSLI, VSLI and VRI are reported as liabilities covered by budgetary resources, while part of the S-DVI and VMLI reserves are reported as liabilities not covered by budgetary resources. The S-DVI and VMLI Programs require annual appropriations as they are not self-supporting and have no assets for investments. A downward trend in reserve liabilities for World War II and Korean War Era Veterans exists due to the declining numbers of policyholders.

The below table includes components of the Life Insurance Liability Reserves Computation:

Program	Type of Plan	Table Used	Interest Rate
USGLI	Permanent Plan	American Experience Table	2.0%
NSLI	Permanent Plan	American Experience Table	3.0%
	Modified Plan	1958 Commissioner's Standard Ordinary (CSO) Basic Table	3.0%
	Paid up Additions using Dividends	2001 Valuation Basic Male (VBM) Table	3.0%
	Term Policies	2001 VBM Table	3.0%
VSLI	Permanent Plan	X-18 Table	2.5%
	Paid up Additions	2001 VBM Table	4.0%
	Term Policies	2001 VBM Table	4.0%
VRI	Basic Policy	J: 100% of the 1958 CSO Basic Table	3.5%
		JR: Varying percent of 1958 CSO Basic Table based on rating code	3.5%
	Paid-up Additions	J: 2001 VBM Table	3.5%
		JR: 1958 CSO Basic Table	3.5%
S-DVI	Permanent Plan	1941 CSO Table	2.5%
	5-year Term Policies	Varying percent of 1941 CSO Table	2.5%
	Term Policies Renewed for Age 70 and Over	1941 CSO Table	2.5%
VMLI	Mortgage Life	500% of the 1958 CSO Basic Table	2.5%

Policies in four of the administered programs are eligible for dividends: NSLI, USGLI, VSLI and VRI. The Secretary determines annually the excess funds available for dividend payment 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. Policyholders can elect to: receive a cash payment; prepay premiums; repay loans; purchase paid-up insurance; or deposit the amount in an interest-bearing account. In addition, insurance dividends that are left on credit or deposited with VA accrue interest at a rate that varies by fund relative to the fund's investment portfolio earnings. For FY 2020 and FY 2019, the interest rates range from 4.25% to 3.25%.

The reserve for dividends payable is an estimate of the present value of dividends accrued as of the valuation date. In accordance with GAAP, VA records only that portion of the estimated policy dividend that applies to the current reporting period as a dividend liability. The discount rates below, along with an appropriate accrual factor were used to calculate the dividends.

Program	FY 2020 Discount Rate	FY 2019 Discount Rate
NSLI	3.0%	3.0%
VSLI	4.0%	4.0%
VRI	3.5%	4.0%

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 few remaining USGLI policyholders are past program endowment age and receive a dividend based on average portfolio interest rates. For FY 2020 and FY 2019, the dividend interest rates were 2.15% and 2.33%.

In addition to the six life insurance programs VA administers directly, VA supervises the following programs:

(1) Service members Life Insurance Program (SGLI)
(2) Veterans Group Life Insurance Program (VGLI)
(3) Traumatic Injury Protection Program (TSGLI)

These programs provide coverage to members of the uniformed armed services, reservists and post-Vietnam Veterans and their families. All SGLI-insured Veterans are automatically covered under the TSGLI Program, which provides insurance payments to Veterans who suffer a serious traumatic injury in service. VA has a group policy with Prudential to administer these programs. SGLI and VGLI premiums are set by mutual agreement between VA and Prudential based on program experience.

VGLI premiums are paid by Veterans to Prudential directly. SGLI premiums are deducted from the Service member's pay by the DoD's applicable Armed Services component. The Defense Finance and Accounting Service remits collected premiums to VA, which are then transmitted to Prudential. Prudential records the premiums for the VGLI and SGLI policies and maintains investments in their accounting records independent from VA. Prudential holds reserves needed for claims and administration while the group policy is in effect. Further, a contingency reserve is used to account for adverse fluctuations in claims under the policy, as required by law.

Under Title 38, U.S.C. §§ 1971(e) and 1977(f), VA is responsible for assessing the contingency reserve balance held by Prudential. If and when the Secretary determines that the contingency reserve exceeds an adequate balance, Prudential will transfer the excess funds into VA's revolving fund for this program. VA is then responsible for investing the excess funds in Treasury securities.

SGLI and VGLI insurance liabilities are recorded by Prudential, as the company assumes the risk of loss on these programs per the terms and conditions of the group policy; thus, the liabilities are not reflected on VA's Balance Sheet.

DoD pays for any TSGLI claim costs in excess of premiums collected from Service members in accordance with Title 38, U.S.C. §§ 1980(e)(6) and (7). The Secretary determines the claim costs that are traceable to the extra hazards of duty in the uniformed services based on the excess mortality incurred by current and former SGLI-insured Service members above the expected mortality under peacetime conditions.

P. ANNUAL LEAVE

Federal employees' annual leave (reported in Note 15) is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates for leave that has been earned but not taken. Sick and other types of nonvested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not used, funding will be obtained from future financing sources, therefore, these liabilities are not covered by budgetary resources (reported in Note 13).

Q. VETERANS BENEFITS

Veterans benefits liability for compensation, burial, education and VR&E (reported in Note 13) are presented in accordance with SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates* and SFFAS No. 5, *Accounting for Liabilities of the Federal Government.*

COMPENSATION AND BURIAL

VA provides compensation benefits under Title 38, Part 2, Chapters 11 and 13, to Veterans who are disabled by military service-related causes. Burial benefits are provided to deceased Veterans' beneficiaries under Title 38, Part 2, Chapter 23. 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 impact the liability, such as the total number of Veterans, estimated future military separations, the number of Veterans and dependents receiving payments, discount rates, COLA, presumptive service conditions resulting in disability benefits coverage and life expectancy.

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

EDUCATION AND VR&E

For eligible Veterans, Service members and their dependents, VA provides four unique education/retraining programs as follows:

Program Name	Authorizing Statute	Eligibility Qualifications	Benefits
Post-9/11 GI Bill	Title 38, Chapter 33	Veterans with at least 90 days of aggregate service after September 10, 2001, individuals honorably discharged with a service-connected disability after 30 continuous days after September 10, 2001 or individuals awarded a Purple Heart on or after September 11, 2001, and honorably discharged after any amount of service. A child or surviving spouse of an active-duty service member who died in the line of duty on or after September 11, 2001, or a child or spouse to whom benefits are transferred by a qualifying Veteran or Service member.	Tuition and fees and a monthly housing allowance, yearly textbook and supplies stipend and one-time payment for relocation.

Program Name	Authorizing Statute	Eligibility Qualifications	Benefits
VR&E	Title 38, Chapter 31	Veterans and Service members transitioning to civilian employment with service-connected disabilities and an employment handicap.	Benefits paid can include a monthly subsistence payment, tuition, books and supplies.
Survivors' & Dependents' Educational Assistance (DEA)	Title 38, Chapter 35	Dependents of Veterans who are permanently and totally disabled due to a service-related condition or of Veterans who died while on active duty or as a result of a service-related condition.	Benefits are paid monthly based on course load and type of training.
Montgomery GI Bill-Active Duty (MGIB-AD)	Title 38, Chapter 30	Veterans and Service members who have at least 2 years of active duty and have had their pay reduced by $1,200 or meet other eligibility requirements.	Benefits are paid monthly based on course load, type of training, length of service, category and college fund eligibility.

The liability for future education and VR&E benefits is reported on VA's Balance Sheet at the present value of expected future payments and is developed on an actuarial basis. Various assumptions in the actuarial model, such as the total number of Veterans with entitlement, average usage of entitlement, the program stop and restart rate, the number of Veterans and dependents receiving payments and discount rates impact the amount of the liability.

Estimated liabilities for the Post-9/11 GI Bill obligations in the financial statements are measured on the academic year of August 1 to July 31 and are adjusted for known material changes. Since the Post-9/11 GI Bill dropout assumption rates are derived on an academic year basis, the estimated liabilities are measured on an academic year basis instead of a fiscal year basis. Estimated liabilities for all other education obligations in the financial statements are as of the end of the fiscal year based on June 30 beneficiary data that is adjusted for known material changes during the fourth quarter. The method used to measure the liabilities provides for consistency in the underlying relationship between discount rate and the other economic assumptions.

Periodically, VA refines its valuation techniques, or the application used to measure the present value of the actuarial liabilities. Changes in present value of the actuarial liabilities resulting from changes in valuation techniques or their application are treated as a change in estimate and accounted for on a prospective basis.

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

in the actuarial valuations, are dependent on the assumptions used. Actual results may differ due to actual experience deviating from the assumptions used.

MEDICAL CLAIMS

VA estimates a liability to recognize the cost of services incurred where claim invoices have not yet been received, validated, or paid. The projected liabilities do not include any administrative costs. Actual administrative costs incurred annually are included in the Department's net program costs shown in the accompanying Statement of Net Cost.

Additional information on the medical claims benefits liability is presented in Note 13.

R. FEDERAL EMPLOYEE BENEFITS

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 DOL and are ultimately paid by VA. DOL pays valid claims as they occur, which are billed to VA annually.

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to FECA. Workers' compensation comprises two components: (1) the accrued liability, which represents claims paid by DOL on behalf of VA through the current fiscal year (as part of the intragovernmental accounts payable), and (2) the actuarial liability for compensation cases to be paid beyond the current year (reported in Note 13 as part of the Federal employee and Veterans benefits).

DOL determines the actuarial liability using historical benefit payment patterns related to injury years to predict the future payments. DOL derives the average duration of income and medical payments by selecting the interest rate assumptions where projected annual payments are discounted to present value based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issue.

PENSION, OTHER RETIREMENT BENEFITS AND OTHER POSTEMPLOYMENT BENEFITS

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

VA's employees are covered under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). VA contributes according to both plan's requirements. CSRS and FERS are multiemployer plans administered by OPM. OPM maintains and reports information on plan assets and actuarial data for the accumulated plan benefits.

S. COMMITMENTS AND CONTINGENCIES

VA is a party in various administrative proceedings, legal actions and claims brought against it that may ultimately result in decisions, settlements or awards adverse to the Federal

Government. Certain legal matters to which VA may be a named party are administered by and, in some instances, litigated by the Department of Justice. In some cases, the loss amount that occurs may be paid from the Judgment Fund, which is maintained by Treasury. In the opinion of VA management and legal counsel, the ultimate resolution of proceedings, actions and claims, as disclosed in Note 18, will not materially affect the financial position or results of VA operations.

T. APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information. As of September 30, 2020, the impact of the outbreak of COVID-19 continues to unfold. As events continue to evolve and additional information becomes available, our estimates may change in future periods.

U. SUBSEQUENT EVENTS

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

NOTE 2. NON-ENTITY ASSETS

(dollars in millions)

As of September 30,	**2020**	**2019**
Intragovernmental		
Fund Balance with Treasury	$ 227	$ 192
Accounts Receivable	1,804	2,406
Total Intragovernmental	2,031	2,598
With the Public		
Accounts Receivable	64	54
Total Non-Entity Assets	**2,095**	**2,652**
Total Entity Assets	**109,896**	**96,653**
Total Assets	**$ 111,991**	**$ 99,305**

Non-entity assets are assets held by VA but not available to be used by VA. These relate primarily to state and local taxes included in FBWT, downward re-estimates for VA's Home Loan Program and amounts due to Treasury for medical costs billed to Veterans.

NOTE 3. FUND BALANCE WITH TREASURY

(dollars in millions) **As of September 30,**	**2020**	**(Restated)** **2019**
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 26,129	$ 16,647
Unavailable*	5,228	6,208
Obligated Balance Not Yet Disbursed	38,558	34,812
Deposit funds and clearing accounts	267	300
Unavailable Receipts Account	219	339
Fund Balance with Treasury	**$ 70,401**	**$ 58,306**

*This line item has been restated from the previous year's reported amount to align with the FY 2019 restatement. See Note 23, Restatements.

Total FBWT increased by approximately $19.6 billion, due to VA receiving additional funding during FY 2020 as a result of the Families First Act and the CARES Act. These funds are to be used by VA to prevent, prepare for and respond to the COVID-19 pandemic.

Obligated and unobligated amounts differ from the amounts reported on the Combined Statements of Budgetary Resources because budgetary balances are supported by amounts other than FBWT, such as investments. Additionally, some balances presented above as part of FBWT are excluded from VA's budgetary resources, such as deposit funds and clearing accounts.

NOTE 4. CASH

(dollars in millions) **As of September 30,**	**2020**	**2019**
Cash		
Canteen Service	$ 3	$ 3
Agent Cashier Advance	1	1
Total Cash	**$ 4**	**$ 4**

Cash reported above is unrestricted and is held for VA's use.

NOTE 5. INVESTMENTS

(dollars in millions) **As of September 30, 2020**	**Cost**	**Amortized (Premium)/ Discount**	**Interest Receivable**	**Investments, Net**
Federal Securities (Note 19)				
Special Bonds by Insurance Program				
Supervised Life Insurance Programs	$ 1,262	$ -	$ 2	$ 1,264
VRI	66	-	1	67
NSLI	1,946	-	16	1,962
USGLI	2	-	-	2
VSLI	1,222	-	11	1,233
Subtotal Special Bonds	4,498	-	30	4,528
Treasury Notes	113	(1)	1	113
Total	**$ 4,611**	**$ (1)**	**$ 31**	**$ 4,641**
Public Securities				
Trust Certificates (Loan Guarantee)	140	-	-	140
Total	**$ 140**	**$ -**	**$ -**	**$ 140**

(dollars in millions) **As of September 30, 2019**	**Cost**	**Amortized (Premium)/ Discount**	**Interest Receivable**	**Investments, Net**
Federal Securities (Note 19)				
Special Bonds by Insurance Program				
Supervised Life Insurance Programs	$ 300	$ -	$ 1	$ 301
VRI	84	-	1	85
NSLI	2,456	-	22	2,478
USGLI	2	-	-	2
VSLI	1,357	-	14	1,371
Subtotal Special Bonds	4,199	-	38	4,237
Treasury Notes	120	-	1	121
Total	**$ 4,319**	**$ -**	**$ 39**	**$ 4,358**
Public Securities				
Trust Certificates (Loan Guarantee)	140	-	-	140
Total	**$ 140**	**$ -**	**$ -**	**$ 140**

Federal securities, which comprise most of VA's Investments, are nonmarketable Treasury special bonds and Treasury notes. Special bonds, which mature during various years through 2035, are generally held to maturity unless needed to finance insurance claims and dividends. Amounts collected from supervised life insurance programs are invested in special bonds. None

of the special bonds are reclassified as available for sale or early redemption, nor are there any permanent impairments on these investments. Treasury notes help finance operations and events supported by the General Post Fund for the benefit of Veterans and their beneficiaries. Treasury notes are amortized using the effective interest method, while all other Federal Securities are purchased at face value and are not amortized.

Investments for the supervised life insurance programs are also dedicated collections (see Note 19). Treasury does not set aside assets to pay future expenditures associated with funds from dedicated collections. The cash receipts collected from the public for funds from dedicated collections are deposited in the Treasury and are used for general government purposes. Treasury security investments, discussed in Note 1 and presented in Note 5, are assets of funds from dedicated collections that provide the fund the authority to draw upon the Treasury for future authorized expenditures. Treasury securities held by a fund from dedicated collections are an asset of the fund and a liability of the Treasury, so they are eliminated in the consolidation of the Financial Report (FR) of the U.S. Government.

Public securities consist of Loan Guarantee Program investments in housing trust certificates. The market value of the securities does not differ from the net investment amount disclosed and the Public Securities do not require amortization.

NOTE 6. ACCOUNTS RECEIVABLE, NET

(dollars in millions)

As of September 30,	**2020**	**2019**
Intragovernmental Accounts Receivable	**$ 25**	**$ 9**
Public Accounts Receivable		
Medical Care	$ 2,991	$ 3,656
Contractual Adjustment and Allowance for Loss Provision	(1,697)	(1,997)
Net Medical Care	1,294	1,659
Compensation and Pension Benefits	1,736	1,705
Allowance for Loss Provision	(735)	(785)
Net Compensation and Pension Benefits	1,001	920
Education and VR&E Benefits	632	589
Allowance for Loss Provision	(366)	(286)
Net Education and VR&E Benefits	266	303
Excess Contingency Reserve Funds	2,460	3,112
Net Excess Contingency Reserve Funds	2,460	3,112
Other	221	164
Allowance for Loss Provision	(133)	(80)
Net Other	88	84
Total Accounts Receivable	8,040	9,226
Total Contractual Adjustment and Allowance for Loss Provision	(2,931)	(3,148)
Public Accounts Receivable, Net	**$ 5,109**	**$ 6,078**

Intragovernmental accounts receivable consist of amounts due for reimbursement of costs and lease payments receivable. These amounts are considered fully collectible; therefore, no allowance for loss provision is recognized.

VA established a receivable with Prudential for $3.4 billion for the VGLI Program in FY 2019. VA received total installments of $900 million and $300 million as of September 30, 2020 and 2019, respectively for VGLI. The full amount of the VGLI receivable is contractually guaranteed; therefore, no allowance for loss provision is recognized. In FY 2020 VA also established a receivable for $300 million of excess SGLI contingency reserve that is held by Prudential. The funds are expected to be collected in FY 2020 and FY 2021 by withholding SGLI premiums received from SGLI policy holders, reducing the amounts VA forwards to Prudential. Additional information on the VGLI transfers and the SGLI withholdings is contained in Note 17.

The significant decline in accounts receivable balances is primarily attributable to the negative impact of the COVID-19 pandemic on medical care activity. Medical operations experienced decreases in the volume of patient encounters, along with related billings. Despite that decrease in billings, allowance for loss amounts remained relatively consistent, as a result of the temporary pandemic-related suspension of medical care copayments. The impact on accounts receivable from the disruption in medical care activity may change as new information becomes available in future periods.

VA's accounts receivable as of September 30, 2020 and 2019, includes $146 million and $66 million, respectively, related to monitored criminal restitution orders, for which an estimate of net realizable value is currently undeterminable but considered negligible.

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES

VA operates the following direct loan and loan guarantee programs:

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

A. LOAN PROGRAMS

HOME LOANS

VA's Home Loan Program is the largest of the loan programs at VA. The Home Loan Programs are provided below and offer loan guarantees and direct loans to Veterans, Service members, qualifying dependents, and limited non-Veterans to purchase homes and retain homeownership with favorable market terms.

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

- Acquired loans are VA guaranteed loans in default that VA purchases from the private sector mortgage lender. VA subsequently services the loan directly with the Veteran after VA determines the Veteran can meet debt payments.
- Native American direct loans are special financing loans that enable Native Americans to purchase or construct a home on Federally recognized trust land.
- Under the Housing Guaranteed Loan Program, a loan may be made to an eligible Veteran borrower by an approved private sector mortgage lender. VA guarantees payment of a fixed percentage of the loan indebtedness to the holder of such a loan, up to a maximum dollar amount, in the event a default by the Veteran borrower results in a loss by the mortgage lender. If the mortgage lender acquires the property that had secured the guaranteed loan at the liquidation sale, the loan holder can elect to convey the property to VA, which then attempts to resell the property at the best possible price and terms.

VA operates in the broader mortgage marketplace. As a result, the VA housing program is affected by overall housing market conditions. Information available at this time is indicative overall that the current mortgage market is still demonstrating steady improvements. For the most part, VA and loan servicers will be better able to use foreclosure-resolution and avoidance tools to improve the outcomes of servicing efforts offered to borrowers with delinquent VA-guaranteed home loans.

Section 4022 of the CARES Act allows borrowers with a Federally backed loan to request forbearance of their loan payments for up 180 days with an option to request another 180 days. Consistent with the CARES Act, VA has placed a moratorium on all eviction and foreclosure actions, which is effective through December 31, 2020. The impact of this action is a decrease in the cash outflows for the year, mainly due to lower acquisition costs. Due to uncertainty regarding certain future economic factors, such as unemployment rate, home values and states' plans for re-opening certain sectors of the economy, along with the continued surge of COVID-19 cases, VA is unable to estimate the long-term impact of COVID-19 on VA's housing program at this time. As a result of the moratorium on evictions and foreclosures in FY 2020 which impacted the actual defaults, VA did not include the FY 2020 actual defaults when determining the default assumption used in the FY 2020 variable default model. VA determined that excluding the FY 2020 actual defaults created a more reasonable long-term estimate of the liability on the guaranteed loans. The liability on the guaranteed loans is further discussed at Note 7.F.

INSURANCE POLICY LOANS

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

LOAN SALE GUARANTEES

VA owns REO properties as a result of VA guaranteed loans that defaulted and have gone through the foreclosure process with the mortgage servicer. VA sells the REO property to a third-party owner and makes the direct loan. To reduce the administrative burden of servicing

these loans, VA has the authority to bundle these loans and sell them to a third-party investor (Trust) pursuant to a sale agreement.

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

B. LOANS RECEIVABLE

Loans receivable are secured by the underlying real estate and insurance policies, except for loans obligated prior to FY 1992.

For Direct Home Loans, interest income is accrued at the contractual rate on the outstanding principal amount. Interest continues to accrue on non-performing loans at the contractual rate. For terminated guaranteed loans made prior to March 1, 1988, interest income is accrued based on the outstanding loan amount. In accordance with 38 U.S.C. § 3713 & 3714, VA does not establish a receivable or accrue interest on home loans guaranteed on or after March 1, 1988.

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

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

The amount of new direct loans disbursed as of September 30, 2020 and 2019 was $90 million and $117 million, respectively.

LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY FROM DIRECT AND GUARANTEED LOANS

(dollars in millions) **As of September 30, 2020**	**Loans Receivable, Gross**	**Interest Receivable**	**Allowance for Loan Losses**	**Allowance for Subsidy Cost (Present Value)**	**Foreclosed Property**	**Value of Assets Related to Loans, Net**
Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method)						
Direct Home Loans	$ 1	$ -	$ -	$ -	$ -	$ 1
Defaulted Guaranteed Home Loans	36	-	(33)	-	-	3
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans	412	18	-	49	1	480
Defaulted Guaranteed Home Loans	4	-	-	-	279	283
Direct Insurance Policy Loans	181	5	-	-	-	186
Total Loans Receivable	**$ 634**	**$ 23**	**$ (33)**	**$ 49**	**$ 280**	**$ 953**

(dollars in millions) **As of September 30, 2019**	**Loans Receivable, Gross**	**Interest Receivable**	**Allowance for Loan Losses**	**Allowance for Subsidy Cost (Present Value)**	**Foreclosed Property**	**Value of Assets Related to Loans, Net**
Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method)						
Direct Home Loans	$ 1	$ -	$ -	$ -	$ -	$ 1
Defaulted Guaranteed Home Loans	9	-	(9)	-	-	-
Loans Obligated After FY 1991 (Present Value Method)						
Direct Home Loans	405	20	-	23	2	450
Defaulted Guaranteed Home Loans	4	-	-	-	731	735
Direct Insurance Policy Loans	206	5	-	-	-	211
Total Loans Receivable	**$ 625**	**$ 25**	**$ (9)**	**$ 23**	**$ 733**	**$ 1,397**

FORECLOSED PROPERTY

Prior to the foreclosure of property secured by a VA loan guarantee, VA obtains an independent property appraisal. Future cash flows are calculated based on the appraised selling price less amounts paid at foreclosure and estimated costs to carry the property. The amount recorded for foreclosed property is derived from the present value of these future cash flows.

Potential volatility in the U.S. housing market could change the estimates and assumptions used for these calculations in the future, which may impact the amounts reported and disclosed herein. There has been no change in the methodology for calculating the amount recorded for

foreclosed property and there are no restrictions on the use or disposition of foreclosed property for the periods ended September 30, 2020 and 2019.

As of September 30, 2020 and 2019, the number of residential properties in VA's inventory is 1,980 and 5,680, respectively. For both FY 2020 and 2019, the average holding period from the date properties are conveyed to VA until the date properties are sold was approximately 6 months. The number of properties for which foreclosure proceedings are in process is 19,547 and 47,058 as of September 30, 2020 and 2019, respectively. The decrease in foreclosure proceedings is primarily due to CARES Act provisions on forbearances and the moratorium on foreclosures.

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

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

SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES

(dollars in millions)

As of September 30,	**2020**	**2019**
Allowance balance as of October 1,	$ (23)	$ (29)
Subsidy expense for direct loans disbursed during the reporting years	-	(1)
Adjustments:		
Fees Received	-	-
Foreclosed property acquired	3	11
New Loans	2	5
Loans written off	(1)	(2)
Subsidy allowance amortization	2	(23)
Change in re-estimate approved by OMB	(26)	3
Total Adjustments	(20)	(6)
Ending balance of the subsidy cost allowance before re-estimates	(43)	(36)
Total subsidy re-estimates	(6)	13
Ending balance of the subsidy cost allowance	**$ (49)**	**$ (23)**

D. SUBSIDY EXPENSE

Subsidy expense represents the budgetary costs which are the present value of cash flows of Federal loan guarantees and direct loans, excluding all administrative costs. VA also reports revisions to subsidy expense, which are categorized as subsidy re-estimates.

VA uses a statistical model of economic data to estimate cash flow and subsidy expenses for VA home loan guarantees. The key inputs to the model are loan disbursements, claims, recoveries, mortgage rates, Treasury bond note yields, home price appreciation and borrower payments. VA updates the models with actual data and data assumptions every year. VA periodically upgrades and obtains an independent review of the models. The subsidy rates disclosed below pertain only to the current-year cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes re-estimates.

Due to foreclosure rate declines in recent years, the actuarial models projecting credit losses were updated in FY 2020, resulting in a negative subsidy rate and a corresponding negative subsidy expense for guaranteed housing loans.

Direct and Guaranteed Loans Subsidy Rates	Defaults, net of recoveries	Interest	Fees	All Other	Total Subsidy Rate
Veterans Housing Direct Acquired Loans	4.85%	13.89%	0.00%	-0.98%	17.77%
Veterans Housing Direct Vendee Loans	-0.65%	9.27%	0.00%	-0.11%	8.51%
Native American Housing Loans	0.00%	-8.35%	-0.50%	3.62%	-5.23%
Housing Guaranteed Loans	0.98%	0.00%	-1.29%	0.00%	-0.30%

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

(dollars in millions) As of September 30, 2020	Interest Differential	Defaults	Fees	Interest Rate Re-estimates	Technical Re-estimates	Total Subsidy Expense
Direct Home Loans	$ -	$ -	$ -	$ -	$ (6)	$ (6)
Guaranteed Home Loans	-	3,561	(4,648)	(91)	(1,081)	(2,259)
Loan Sale Guarantees	-	-	-	(6)	2	(4)
Total Subsidy Expense	**$ -**	**$ 3,561**	**$ (4,648)**	**$ (97)**	**$ (1,085)**	**$ (2,269)**

(dollars in millions) As of September 30, 2019	Interest Differential	Defaults	Fees	Interest Rate Re-estimates	Technical Re-estimates	Total Subsidy Expense
Direct Home Loans	$ (1)	$ -	$ -	$ 1	$ 12	$ 12
Guaranteed Home Loans	-	2,114	(1,984)	(104)	(2,140)	(2,114)
Loan Sale Guarantees	-	-	-	(7)	(1)	(8)
Total Subsidy Expense	**$ (1)**	**$ 2,114**	**$ (1,984)**	**$ (110)**	**$ (2,129)**	**$ (2,110)**

E. OUTSTANDING LOAN GUARANTEES

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

GUARANTEED LOANS OUTSTANDING

(dollars in millions) **As of September 30, 2020**	**Principal of Guaranteed Loans Made by Financial Institutions, Face Value**	**Amount of Outstanding Principal Guaranteed by VA**
Pre-FY 1992		
Home Loan Guarantees	$ 2	$ 1
Post-FY 1991		
Home Loan Guarantees	816,037	206,332
Loan Sale Guarantees	-	487
Total	**$ 816,039**	**$ 206,820**

(dollars in millions) **As of September 30, 2019**	**Principal of Guaranteed Loans Made by Financial Institutions, Face Value**	**Amount of Outstanding Principal Guaranteed by VA**
Pre-FY 1992		
Home Loan Guarantees	$ 9	$ 4
Post-FY 1991		
Home Loan Guarantees	712,307	179,674
Loan Sale Guarantees	-	602
Total	**$ 712,316**	**$ 180,280**

NEW GUARANTEED LOANS DISBURSED

(dollars in millions) **As of September 30, 2020**	**Principal of Guaranteed Loans Made by Financial Institutions, Face Value**	**Amount of Outstanding Principal Guaranteed by VA**	**Number of Loans Disbursed (in standard units)**
New Guaranteed Home Loans	$ 329,020	$ 82,253	1,107,646

(dollars in millions) **As of September 30, 2019**	**Principal of Guaranteed Loans Made by Financial Institutions, Face Value**	**Amount of Outstanding Principal Guaranteed by VA**	**Number of Loans Disbursed (in standard units)**
New Guaranteed Home Loans	$ 155,382	$ 38,523	558,696

F. LOAN GUARANTEE LIABILITIES

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

(dollars in millions) **As of September 30, 2020**	**Home Loans Post-FY 1991**	**Loan Sales Post-FY 1991**	**Home Loans Pre-FY 1992**	**Total**
Liability balances as of October 1, 2019	$ 7,254	$ 109	$ 273	$ 7,636
Total subsidy expense for guaranteed loans disbursed during the reporting years	(1,087)	-	-	(1,087)
Adjustments:				
Fees received	2,795	-	-	2,795
Foreclosed property acquired	(282)	-	(28)	(310)
Claim payments to lenders	(431)	(4)	3	(432)
Interest accumulation on the liability balance	169	5	-	174
Veteran liability debts	-	-	38	38
Changes in re-estimate approved by OMB	(219)	(11)	-	(230)
Total Adjustments	2,032	(10)	13	2,035
Ending balance of the liability before re-estimates	8,199	99	286	8,584
Total subsidy re-estimates	(1,172)	(4)	-	(1,176)
Ending balance of the loan guarantee liability	**$ 7,027**	**$ 95**	**$ 286**	**$ 7,408**

(dollars in millions) **As of September 30, 2019**	**Home Loans Post-FY 1991**	**Loan Sales Post-FY 1991**	**Home Loans Pre-FY 1992**	**Total**
Liability balances as of October 1, 2018	$ 8,393	$ 55	$ 274	$ 8,722
Total subsidy expense for guaranteed loans disbursed during the reporting years	130	-	-	130
Adjustments:				
Fees received	1,696	-	-	1,696
Foreclosed property acquired	(201)	-	(7)	(208)
Claim payments to lenders	(492)	(5)	-	(497)
Interest accumulation on the liability balance	174	6	-	180
Veteran liability debts	-	-	6	6
Changes in re-estimate approved by OMB	(202)	61	-	(141)
Total Adjustments	975	62	(1)	1,036
Ending balance of the liability before re-estimates	9,498	117	273	9,888
Total subsidy re-estimates	(2,244)	(8)	-	(2,252)
Ending balance of the loan guarantee liability	**$ 7,254**	**$ 109**	**$ 273**	**$ 7,636**

G. LOAN GUARANTEE MODIFICATIONS

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 are 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.

Loan servicers perform loan modifications under current laws without the need to modify executed subsidy estimates for existing loan guarantees from FY 1992 to 2019.

H. ADMINISTRATIVE EXPENSE

The administrative expense for direct and guaranteed loans for the periods ended September 30, 2020 and 2019 are $202 million and $176 million, respectively.

NOTE 8. INVENTORY

(dollars in millions) **As of September 30,**	**2020**	**2019**
Inventory Held for Sale	$ 15	$ 31
Operating Materials and Supplies	16	18
Stockpile Materials	127	-
Total Inventory and Related Property	**$ 158**	**$ 49**

In FY 2020, VA began recording stockpile materials to the Balance Sheet under the consumption method, resulting in the difference over prior year. For additional detail, refer to Note 1.K.

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

(dollars in millions) **As of September 30, 2020**	**Cost**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Land	$ 543	$ -	$ 543
Buildings	38,868	(21,418)	17,450
Equipment	3,688	(2,610)	1,078
Other Structures	5,675	(3,116)	2,559
Internal Use Software	4,753	(2,909)	1,844
Construction Work in Progress	4,636	-	4,636
Total Property, Plant, and Equipment	**$ 58,163**	**$ (30,053)**	**$ 28,110**

(dollars in millions) **As of September 30, 2019**	**Cost**	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Land	$ 536	$ -	$ 536
Buildings	37,362	(20,300)	17,062
Equipment	3,809	(2,672)	1,137
Other Structures	5,186	(2,899)	2,287
Internal Use Software	4,436	(2,605)	1,831
Construction Work in Progress	4,311	-	4,311
Total Property, Plant, and Equipment	**$ 55,640**	**$ (28,476)**	**$ 27,164**

(dollars in millions)	Acquisition Value	Accumulated Depreciation	Net PP&E
Property, Plant, and Equipment Balance as of October 1, 2019	$ 55,640	$ (28,476)	$ 27,164
Capitalized acquisitions	3,037	-	3,037
Dispositions	(514)	304	(210)
Depreciation expense	-	(1,881)	(1,881)
Balance as of September 30, 2020	**$ 58,163**	**$ (30,053)**	**$ 28,110**

The majority of general PP&E owned or leased by VA is used to provide medical care to Veterans. Multi-use heritage assets are recognized and presented with general PP&E in the basic financial statements and are further described in Note 10.

NOTE 10. HERITAGE ASSETS

VA classifies its heritage assets as art collections (including artwork, archives, historic medical equipment, medals and awards, furniture, archaeological materials and photographs); archaeological sites; buildings (including historic hospitals, quarters, lodges, warehouses, laboratories and chapels, but excluding multi-use buildings); monuments; non-buildings (including flag poles, structures, rostrums, gates and historic walls); and cemeteries. According to VA's policy for heritage assets, only developed sections of national cemeteries are classified as heritage assets. Changes in VA's heritage asset inventory balances generally result from field station condition assessment surveys, which identify items such as new collections or newly designated assets.

VA has 974 multi-use heritage assets that are included in general PP&E. Multi-use heritage assets have both operating and historic characteristics and are utilized predominantly in Government operations such as administration, engineering and maintenance.

See Deferred Maintenance and Repairs for additional information.

(in units) **As of September 30, 2020**	2020 Beginning Balance	2020 Increases	2020 Decreases	2020 Ending Balance
Archaeological Sites	11	-	(1)	10
Art Collections	42	-	(1)	41
Buildings	614	128	(79)	663
Monuments	1,359	47	(3)	1,403
Multi-Use Buildings in PP&E	1,196	22	(244)	974
Non-Buildings	1,054	30	(13)	1,071
Cemeteries, Soldier's Lots and Monument Sites	171	13	-	184
Total Heritage Assets in Units	**4,447**	**240**	**(341)**	**4,346**

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

NOTE 11. DEBT

(dollars in millions) **As of September 30, 2020 and 2019**	**Debt to the Treasury**	**Debt to the Federal Financing Bank**	**Total Other Debt**
Other Intragovernmental Debt, October 1, 2018	$ 535	$ 4	$ 539
2019 Net Borrowing	30	-	30
Other Intragovernmental Debt, September 30, 2019	**565**	**4**	**569**
2020 Net Borrowing	19	-	19
Other Intragovernmental Debt, September 30, 2020	**$ 584**	**$ 4**	**$ 588**

Debt to Treasury consists of amounts borrowed for the Direct Loan Program. Debt to the Federal Financing Bank consists of amounts borrowed for the Loan Guarantee Programs. Under both debts, VA has a 30-year term from the date of issuance with the exception of Vocational Rehabilitation which has a 2-year term from the date of issuance.

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

NOTE 12. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are unfunded liabilities that require Congressional action before budgetary resources can be provided. VA's unfunded liabilities are provided below.

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

(dollars in millions)		(Restated)
As of September 30,	**2020**	**2019**
Intragovernmental		
Workers Compensation (FECA)	$ 439	$ 443
Future Funded Expense - Contract Dispute Act	175	199
Total Intragovernmental	614	642
With the Public		
Veterans Benefits Payable (Note 13)*	3,998,134	3,238,260
Federal Employee Benefits Payable (Note 13)	5,190	4,700
Environmental and Disposal Liabilities (Note 14)	972	934
Insurance (Note 17)	1,753	1,620
Other (Note 15)	1,314	1,422
Total Liabilities Not Covered By Budgetary Resources	4,007,977	3,247,578
Total Liabilities Covered By Budgetary Resources*	34,867	30,465
Total Liabilities Not Requiring Budgetary Resources	1,119	1,212
Total Liabilities	**$ 4,043,963**	**$ 3,279,255**

*This line item has been restated from the previous year's reported amount to align with the FY 2019 restatement. See Note 23, Restatements.

**Please refer to Note 1.C. for additional information on the change in presentation of the Balance Sheet.

NOTE 13. FEDERAL EMPLOYEE AND VETERANS' BENEFITS LIABILITIES

The table below summarizes FEVB Liabilities reported on the Balance Sheet.

(dollars in millions)		(Restated)
For the Periods Ended September 30,	**2020**	**2019**
Compensation	$ 3,854,300	$ 3,122,700
Education and VR&E	133,116	105,887
Burial	8,800	7,100
Medical Claims Benefits*	1,918	2,573
Accrued Annual Leave	2,726	2,313
Workers' Compensation (FECA)	2,464	2,387
Total Federal Employee and Veterans' Benefits Liabilities	**$ 4,003,324**	**$ 3,242,960**

*This line item has been restated from the previous year's reported amount to align with the FY 2019 restatement. See Note 23, Restatements.

**Please refer to Note 1.C. for additional information on the change in presentation of the Balance Sheet.

A. COMPENSATION AND BURIAL

VA provides compensation and burial benefits to the following individuals:

(1) Dependents of eligible Veterans who died as a result of active military service-related causes;

(2) Eligible Veterans who are disabled as a result of active military service-related causes, and their dependents; and,
(3) Dependents of Service members who died during active military service.

Burial benefits, including burial flags, headstone or markers and grave liners for burial in a VA National Cemetery, or a plot allowance for burial in a private cemetery, are provided to Service members who died during active military service and Veterans who separated under other-than-dishonorable conditions.

VA also provides eligible Veterans and/or their dependents with pension benefits if the Veteran died, is over age 65, or is totally disabled, based on annual eligibility reviews. The pension program is not accounted for as a "Federal employee pension plan" under SFFAS No. 5; therefore, a future liability for pension benefits is not recorded due to differences between its eligibility conditions and those of Federal employee pensions. The present value of projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2020 and 2019, is $110.6 billion and $100.2 billion, respectively.

ASSUMPTIONS USED TO CALCULATE THE VETERANS' BENEFITS LIABILITY - COMPENSATION AND BURIAL

A liability is recognized for the present value of projected benefit payments to:

(1) Beneficiaries, including Veterans and survivors, currently receiving benefit payments;
(2) Current Veterans and survivors, who will become future beneficiaries of the compensation program; and,
(3) A proportional share of those on active military service as of the valuation date who are expected to be future Veterans and their survivors.

Discount rates at September 30, 2020 and 2019 were computed based on the average of the last 10-year quarterly spot rates provided by the Treasury. All calculations were performed separately by age of the Veterans for the Compensation and Burial Programs. COLA rates at September 30, 2020 and 2019 were computed based on the average of the last 10-year monthly Treasury breakeven inflation curve rates provided by Treasury.

For the Periods Ended September 30,	2020	2019
Discount Rate	3.23%	3.42%
COLA Rate	2.16%	2.23%

Life expectancies of beneficiaries collecting benefits from the Compensation program were based on the Mortality Experience Study of the same population between 2011 and 2015. Life expectancies of Veterans not yet collecting these benefits used in the calculation of the liability for future beneficiaries are based on mortality rates from the Office of Enterprise Integration's Veteran Population Projection Model. In addition, rates of benefit termination of beneficiaries due to reasons other than mortality are also reflected. The compensation projection only reflects benefits associated with military service through September 30, 2020.

The VA Compensation and Burial Programs are not defined benefit plans and have no plan assets set aside to fund future costs. VA funds the current year costs of Veterans service-related disability compensation and burial costs through its annual appropriations.

In FY 2019, VA recognized approximately $20.7 billion as prior service costs related to the Blue Water Vietnam Veterans Act of 2019 (P.L. 116-23), signed into law on June 25, 2019, which granted Veterans who served offshore of Vietnam, disability compensation for presumptive diseases that resulted from the exposure to Agent Orange. In FY 2020, VA recognized approximately $43.3 billion related to the expansion of the coverage related to the P.L 116-23.

In FY 2020, VA conducted in-depth experience studies to refine several assumptions that currently exists in the compensation and burial models. Specifically, VA enhanced the degree of disability transition rates, Veterans withholding lag and Veterans termination rates. The impact of these updated assumptions increased the compensation liability by approximately $415.8 billion as of September 30, 2020. This change is captured in the actuarial losses from assumption changes shown in the liability reconciliation schedule below. The degree of disability transition rates caused the largest change on the compensation liability balance. This factor measures the rate at which individuals transition from one combined degree of disability to another during one fiscal year. The experience study indicated there was an increasing degree of transition to higher levels of disability rating as a result of new disability conditions being rated, the worsening of an existing disability or a combination of both. These increases reflect a shift that has taken place over a number of years, as the assumption was last updated in FY 2011.

OTHER RELEVANT CONSIDERATIONS IN THE ESTIMATION OF THE COMPENSATION AND BURIAL LIABILITY

The VA Compensation and Burial Programs are unique and unlike any other in the Federal Government or commercial environment. As such, to develop the estimates VA uses certain data that is specific to the population of Veterans and Veterans' beneficiaries, which is not available from outside sources.

Further complicating the complexity of the estimates are variations that may occur from year to year and the myriad of factors incorporated in the estimates. In computing the liability, VA's actuaries must make assumptions about the future. When the actual experience differs from these assumptions, actuarial gains and/or losses will occur. There are two primary types of assumptions: economic assumptions that are used for modeling how time value of money affects the net cost estimations, and demographic assumptions that are used for modeling how participants' behaviors affect the amount and timing of benefits paid. As previously noted, key economic assumptions include the interest rate and COLA, while major demographic assumptions include mortality rates, expected amount of benefit use and benefit remaining.

Actuarial practice commonly involves the estimation of uncertain events and cash flows that will occur for many years after the valuation date. Since compensation benefits begin for a Veteran and can continue through their beneficiaries (i.e., survivors), the projection period for the compensation and burial model has a long projection period. The compensation and burial models have been explicitly modeled for the next 100 years to capture all significant projected liabilities for Veterans and Veterans' beneficiaries. The 100-year projection period can also increase the overall sensitivity of this model for certain assumption changes. This can have the effect of assumption updates producing large changes in the liability.

The estimates are based on multiple assumptions that are developed through analyses of experience studies. These assumptions are updated and prioritized based on what VA has determined to be most critical to ensuring the models reflect the best estimate of present value of future cash flows. Due to the resources required to conduct and analyze experience studies, resources must be allocated appropriately to complete those studies that have been determined to be critical. Priorities are also subject to deviations as factors that may affect benefit programs emerge requiring resource or focus shifts. For example, it was determined that in FY 2016 VA needed to recognize a long-term liability for the Veterans Education Program. As such, VA established a Veterans Education liability at that time. Since then, significant resources and efforts were spent to further develop and to refine the Veterans Education Program models and assumptions. With regards to the compensation and burial models, VA made an assumption update in the compensation counts beginning in FY 2016 and further refined that estimate in FY 2017 with an experience study resulting in a combined increase to the liability of $399 billion. In FY 2020, VA refined the disability transition rate assumption which resulted in a similar significant increase as is generally seen when major assumptions for the compensation liability are updated. In FY 2021, VA plans to conduct another experience study on the mortality rates assumption for Veterans who are not currently receiving compensation and burial benefits that will further enhance the accuracy of the compensation liability estimate.

The compensation and burial models will continue to be refined as additional analysis of the assumptions is completed and other relevant information becomes available in the future that can be used to enhance the estimates. The compensation and burial benefits liability estimates are based on experience studies containing relevant and reliable data and assumptions. As, such, VA considers these estimates as of September 30, 2020 to be reasonably accurate.

B. EDUCATION AND VR&E BENEFIT LIABILITIES

The present value of the Veterans Education Programs and VR&E benefit liabilities is presented by program in the following table.

(dollars in millions)

As of September 30,	**2020**	**2019**
Post-9/11	$ 85,720	$ 87,103
VR&E	17,036	13,968
DEA	29,972	4,601
MGIB-AD	388	215
Total	**$ 133,116**	**$ 105,887**

ASSUMPTIONS USED TO CALCULATE EDUCATION AND VR&E BENEFIT LIABILITIES

To calculate the present value of the Veterans Education Programs and VR&E benefit liabilities, actuarial assumptions were used including the discount rate based on 10-year average spot rates which are presented in the following tables. The number of years modeled are 62 years for Post-9/11, 18 years for VR&E, 65 years for DEA and 20 years for MGIB-AD, respectively. Post-9/11, VR&E and MGIB-AD use average annual benefit growth rates that are static rates generated from previous experience studies.

	2020			
	Post-9/11	**VR&E**	**DEA**	**MGIB-AD**
Discount Rate for New Enrollees	2.91%	2.31%	2.76%	-
Discount Rate for Existing Enrollees	2.92%	1.46%	1.27%	1.75%
	2019			
	Post-9/11	**VR&E**	**DEA**	**MGIB-AD**
Discount Rate for New Enrollees	2.99%	2.46%	-	-
Discount Rate for Existing Enrollees	3.08%	1.50%	1.28%	1.25%

VA estimates education and VR&E benefit liabilities for Service members and Veterans on an actuarial basis. The models have been in operation for 4 years and use data that is specific to the population, which is not available from outside sources. VA conducts analysis of the assumptions and relevant information, as compared to experience, to refine the models.

In FY 2019, VA developed a model for future new enrollees who are eligible for the Post-9/11 GI Bill that resulted in a liability of approximately $40.0 billion as of September 30, 2019. The group of eligible Veterans was based on the USVETS2017 data. In FY 2020, VA made enhancements to the model by using data from the Veterans Affairs/Department of Defense Identity Repository (VADIR data). The VADIR data adds to the level of precision because it contains information on Veterans who are eligible to enroll, including the Veterans' benefit levels and the types of benefits received. There were fewer eligible Veterans found in the VADIR population as compared to the population in USVETS2017. This change resulted in a decrease of $3.8 billion to the Post 9/11 GI liability.

Similar to FY 2019, potential data limitations were found to be inherent in the data being used to project for potential future enrollees for the VR&E and the Post 9/11 GI Bill Programs. These data limitations could lead to Veterans with dual entitlement in both programs' projections not being subject to any required constraints and potentially result in a misstatement of the liability estimates. To compensate for the potential misstatement, VA updated the accounting estimate for dual eligibility from FY 2019 to reduce the liability. To calculate this estimate, VA determined that 30% of the VR&E future new enrollees as of September 30, 2020 were also eligible for benefits under the Post 9/11 GI Bill. Of these potential enrollees, 31% had also used Post 9/11 GI Bill benefits. VA took the conservative approach and assumed that all dual entitlement Veterans first use all 36 months of the Post 9/11 GI Bill benefits and then switch to VR&E and use the remaining 12 months of benefits. As a result, VA reduced the liability by $761 million to account for the potential use of dual benefits. This was $39 million larger than the same reduction to the liability made in FY 2019. VA's interpretation of 38 U.S.C. § 3695 is that the use of benefits under VR&E limits the number of months of entitlement to education benefits at 48 months. This is consistent with current VA policies. There is a possibility that in the future VA's interpretation on the use of education benefits may change given the language in 38 U.S.C. § 3695. As such, any changes will be applied to VA policies and future liability estimates.

In FY 2019, an experience study was performed and a model was developed for future new enrollees for the VR&E Program which approximated $8.3 billion as of September 30, 2019. In FY 2020, VA conducted additional experience studies for the VR&E future new enrollees' assumptions related to the initial enrollment rate and replaced the assumption of a single

termination rate with an assumption of transition rates between statuses. These refinements increased the VR&E benefits liability by approximately $1.9 billion.

In FY 2019, the actuarial model for the DEA Program produced liability estimates for beneficiaries currently enrolled and had benefits remaining (i.e. existing enrollees). Due to the unavailability of required data, VA could not create an actuarial model for DEA future new enrollees. Instead, VA developed an accounting estimate of the liability using certain assumptions from the existing enrollees model and data from historical payment files. Based on this estimate, VA recognized a $1.9 billion liability for future new enrollees as of September 30, 2019. In FY 2020, an experience study was performed and a model was developed for future new enrollees for the DEA Program increasing the liability to $26.9 billion as of September 30, 2020. The future new enrollees represent beneficiaries who are eligible but have not yet enrolled in the DEA Program.

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

In FY 2021 VA plans to conduct experience studies on several assumptions for the Post 9/11 GI Bill liability model and will continue to enhance the Education and VR&E benefit liabilities models as appropriate. The Education and VR&E liability estimates are based on experience studies containing relevant and reliable data and assumptions.

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

RECONCILIATION OF VETERANS COMPENSATION, BURIAL, EDUCATION AND VR&E ACTUARIAL LIABILITIES

(dollars in millions) **As of September 30, 2019**	**Compensation**	**Burial**	**Education and VR&E**	**Total**
Liability at October 1, 2018	$ 2,949,100	$ 7,200	$ 65,669	$ 3,021,969
Expense:				
Interest on the Liability Balance*	103,800	300	1,501	105,601
Actuarial (Gain)/Loss:				
Changes in Experience (Veterans Counts, Status)*	121,200	(100)	12,651	133,751
Changes in Assumptions:				
Changes in Discount Rate Assumption	55,700	100	35	55,835
Changes in COLA Rate Assumption	(30,300)	(100)	3	(30,397)
Changes in Other Assumptions	(4,500)	-	37,095	32,595
Net (Gain)/Loss from Changes in Assumptions	20,900	-	37,133	58,033
Prior Service Costs*	20,700	-	-	20,700
Total Expense	266,600	200	51,285	318,085
Less Amounts Paid*	(93,000)	(300)	(11,067)	(104,367)
Net Change in Actuarial Liability	173,600	(100)	40,218	213,718
Liability at September 30, 2019	**$ 3,122,700**	**$ 7,100**	**$ 105,887**	**$ 3,235,687**

(dollars in millions) **As of September 30, 2020**	**Compensation**	**Burial**	**Education and VR&E**	**Total**
Liability at October 1, 2019	$ 3,122,700	$ 7,100	$ 105,887	$ 3,235,687
Expense:				
Interest on the Liability Balance**	106,800	200	3,816	110,816
Actuarial (Gain)/Loss:				
Changes in Experience (Veterans Counts, Status)**	107,700	1,300	9,400	118,400
Changes in Assumptions:				
Changes in Discount Rate Assumption	131,700	300	2,561	134,561
Changes in COLA Rate Assumption	(49,800)	(100)	(117)	(50,017)
Changes in Other Assumptions	493,000	300	24,876	518,176
Net (Gain)/Loss from Changes in Assumptions	574,900	500	27,320	602,720
Prior Service Costs **	43,300	-	-	43,300
Total Expense	832,700	2,000	40,536	875,236
Less Amounts Paid**	(101,100)	(300)	(13,307)	(114,707)
Net Change in Actuarial Liability	731,600	1,700	27,229	760,529
Liability at September 30, 2020	**$ 3,854,300**	**$ 8,800**	**$ 133,116**	**$ 3,996,216**

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

**The sum of these changes represents Veterans' benefits actuarial cost, excluding change in actuarial assumptions on the Statement of Net Cost for FY 2020.

It is VA's assessment that there will not be a significant impact on the compensation, burial and education estimates due to COVID-19. This assessment is based on analysis of information from the DoD Coronavirus Response website, review of new legislation and collaboration with VBA's benefit program offices. Using recent data on the COVID-19 cases, VA determined the existing model and associated assumptions, specifically the updated disability transition assumption, will adequately capture this potential update to the estimate. VA will continue to monitor the potential impacts of COVID-19 and assess the impact on the estimation models.

VA considered the following public laws related to COVID-19 in assessing the potential impact to the Veterans Education liability estimates:

1. The Student Veteran Coronavirus Response Act of 2020 (P.L. 116-140) has numerous provisions to protect students. This P.L. makes certain improvements in the educational assistance benefits administered by VBA in the case of changes to courses of education by reason of emergency situations, and for other purposes.

2. P.L. 116-128 allows the VA to treat certain programs of education converted to distance learning by reason of emergencies and health-related situations in the same manner as programs of education pursued at educational institutions. This authority applies during the period beginning on March 1, 2020 and ends on December 21, 2020.

C. VETERANS' BENEFITS - MEDICAL CLAIMS

VA provides care to Veterans and eligible dependents through community providers when necessary. Community care eligibility is dependent upon the availability of VA care, the needs and circumstances of individual Veterans and enrollment requirements which vary by program.

INCURRED BUT NOT REPORTED MODEL FOR MEDICAL CLAIMS BENEFITS

As disclosed in Note 1.Q., in order to recognize a liability for services incurred but not yet invoiced or paid, VA uses a standard actuarial model, which provides a framework for estimating complete versus incomplete incurred claims based on prior period claim lag patterns.

The actuarial liability is developed using monthly claims paid by program and service date, eligibility and enrollment data and authorization data.

The model is used to estimate a liability for programs that are not serviced under third party administered Federal Acquisition Regulation contracts.

D. FEDERAL EMPLOYEE BENEFITS

VA generates costs related to employee retirement, health insurance and life insurance benefit plans. OPM is responsible for the management and accounting of such plans and passes the expense, or imputed cost, on to VA. The following table summarizes the imputed cost reported by VA for its employees' benefit plans.

(dollars in millions)

For the Periods Ended September 30,	**2020**	**2019**
Civil Service Retirement System	$ (88)	$ 828
Federal Employees Health Benefits	2,397	2,096
Federal Employees Group Life Insurance	6	5
Total Imputed Expenses-Employee Benefits*	**$ 2,315**	**$ 2,929**

* The total imputed expenses – employee benefits, when combined with the imputed financing paid by other entities reported in Note 18, reconciles to the total imputed financing costs reported in the Statement of Changes in Net Position with the difference being Department of Homeland Security (DHS) imputed costs associated with cybersecurity services.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

VA has unfunded environmental and disposal liabilities in the amount of $972 million and $934 million as of September 30, 2020 and 2019, respectively. The majority of VA's unfunded environmental and disposal liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators and decontamination of equipment prior to disposal. Included in the total unfunded Environmental and Disposal Liabilities are the liabilities for friable asbestos removal of $178 million and $238 million, for September 30, 2020 and 2019, respectively; and nonfriable asbestos removal of $525 million and $430 million, for September 30, 2020 and 2019, respectively.

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

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

NOTE 15. OTHER LIABILITIES

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

(dollars in millions)

As of September 30, 2020	**Funded**	**Unfunded**
Intragovernmental		
Advances from Others and Deferred Credits	$ 68	$ -
Liability to the General Fund of the U.S. Government and Other Non-Entity Assets	1,868	-
Accrued Annual Leave*	31	-
Energy Savings Performance Contracts and Similar Unfunded Contracts	-	339
Accrued Payables	725	-
Accrued Salaries and Benefits	1,876	-
Contingent Legal Liabilities (Note 18)	-	975
Deposit and Clearing Account Liability	264	-
Other	50	-
Total Other Liabilities	**$ 4,882**	**$ 1,314**

(dollars in millions)

As of September 30, 2019	**Funded**	**Unfunded**
Intragovernmental		
Advances from Others and Deferred Credits	$ 23	$ -
Liability to the General Fund of the U.S. Government and Other Non-Entity Assets	2,460	-
Accrued Annual Leave*	25	-
Energy Savings Performance Contracts and Similar Unfunded Contracts	-	300
Accrued Payables	150	-
Accrued Salaries and Benefits	1,537	-
Contingent Legal Liabilities (Note 18)	-	1,122
Deposit and Clearing Account Liability	297	-
Other	57	-
Total Other Liabilities	**$ 4,549**	**$ 1,422**

*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.

**Please refer to Note 1.C. for additional information on the change in presentation of the Balance Sheet.

NOTE 16. LEASES

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 have equal payments over the lease term.

Operating real property leases generally consist of Veterans medical facilities and clinics, regional and district benefits offices and administrative facilities. For the period ended September 30, 2020, VA had 1,945 real property leases in effect consisting of approximately 28 million square feet and base annual minimum rental obligations of approximately $927 million. Of the operating real property leases, VHA accounts for 86%, VBA accounts for 9% and Indirect Administrative Program offices account for 5%. Real property leases generally have lease terms ranging from 1 to 50 years. Certain leases contain renewal, termination and cancellation options. Approximately 83% of VA leases are executed directly with third-party commercial

property owners (public third-party direct leases) with the balance of the leases executed by the General Services Administration (GSA) (intragovernmental leases) on behalf of VA.

VA executes occupancy agreements (OAs) with GSA, which charges rental rates for space that approximates commercial rental rates for similar properties. The terms of GSA OAs vary according to whether the underlying assets are owned directly by the Federal Government or rented by GSA from third-party commercial property owners. Some GSA OAs can be cancellable with varying periods of notice required (generally 4 to 6 months). Cancellation requires 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 until the occupancy by a replacement tenant covers the total rent obligation of VA.

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.

Due to the number of equipment operating leases and the decentralization of equipment lease records, VA does not present information on non-cancellable equipment leases.

VA's operating lease rental costs for the period ended September 30, 2020 are $972 million for real property rentals and $184 million for equipment rentals. The FY 2019 operating lease costs are $945 million for real property rentals and $183 million for equipment rentals.

The following table represents VA's projected future non-cancellable operating lease commitments.

(dollars in millions) **For the Years Ending:**	**GSA OAs**	**Third Party Direct Leases**	**Total Real Property**
2021	$ 199	$ 455	$ 654
2022	142	411	553
2023	134	380	514
2024	123	347	470
2025	116	317	433
2026 and Thereafter (in total)	436	2,353	2,789
Total Future Lease Payments (For Non-Cancellable Real Property Operating Leases)	**$ 1,150**	**$ 4,263**	**$ 5,413**

VA is a lessor of certain underutilized real estate properties within the Department under its Enhanced-Use Lease (EUL) Program authorized by Congress. Additional information on EULs is available in Note 24.

The EUL Program consists of 75 operational leases of land and/or buildings to the public and private sector. VA also has five projects with signed leases that are not yet operational as buildings are under construction. The leases related to NCA's leasing of excess land and buildings at cemeteries are more fully described in Note 20 under the caption, Public Exchange Transactions. The rental income recognized from the EUL Program and the NCA Leasing

Program is $2 million for each of the periods ended September 30, 2020 and 2019. The future rental income to be recognized over the next 5 years and thereafter approximates $71 million.

NOTE 17. LIFE INSURANCE BENEFITS

VA administers six life insurance programs: USGLI, NSLI, VSLI, VRI, S-DVI and VMLI, which are described in Note 1.O.

INSURANCE LIABILITY BALANCES

(dollars in millions) **As of September 30, 2020**	**Insurance Death Benefits**	**Death Benefit Annuities**	**Disability Income & Waiver**	**Reserve Totals**
NSLI	$ 1,401	$ 21	$ 6	$ 1,428
USGLI	-	1	-	1
VSLI	877	3	3	883
S-DVI	892	6	770	1,668
VRI	44	-	-	44
VMLI	246	-	-	246
Subtotal	3,460	31	779	4,270
Insurance Dividends Left on Credit or Deposit				684
Dividends Payable to Policy Holders				19
Unpaid Policy Claims				172
Insurance Liabilities Reported on the Balance Sheet				5,145
Less Liabilities not Covered by Budgetary Resources (Note 12)				(1,753)
Liability Covered by Budgetary Resources				**$ 3,392**

(dollars in millions) **As of September 30, 2019**	**Insurance Death Benefits**	**Death Benefit Annuities**	**Disability Income & Waiver**	**Reserve Totals**
NSLI	$ 1,821	$ 26	$ 7	$ 1,854
USGLI	-	1	-	1
VSLI	983	3	4	990
S-DVI	740	5	762	1,507
VRI	59	-	-	59
VMLI	246	-	-	246
Subtotal	3,849	35	773	4,657
Insurance Dividends Left on Credit or Deposit				794
Dividends Payable to Policy Holders				24
Unpaid Policy Claims				185
Insurance Liabilities Reported on the Balance Sheet				5,660
Less Liabilities not Covered by Budgetary Resources (Note 12)				(1,620)
Liability Covered by Budgetary Resources				**$ 4,040**

Unpaid Policy Claims primarily consist of insurance claims that are pending at the end of the reporting period and an estimate of claims that have been incurred but not yet reported, both of which are payable from the insurance funds.

SCHEDULE FOR RECONCILING LIFE INSURANCE UNPAID POLICY CLAIM LIABILITY

(dollars in millions) **As of September 30, 2020**	**Unpaid Claim Liability as of October 1, 2019**	**Claims Expenses**	**Less Payments to Settle Claims**	**Ending Unpaid Claim Liability Balance**
NSLI	$ 115	$ 462	$ (479)	$ 98
USGLI*	-	-	-	-
VSLI	32	138	(138)	32
S-DVI	29	122	(120)	31
VRI	4	16	(16)	4
VMLI	5	42	(40)	7
Total	**$ 185**	**$ 780**	**$ (793)**	**$ 172**

*Less than $.5

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

VA supervises two life insurance programs: SGLI and VGLI, which are described in Note 1.O. Within its revolving fund, VA holds excess funds that are not required to cover program liabilities held by Prudential but are available to support the SGLI and VGLI Programs. In September 2020, the Secretary determined that $300 million held by Prudential for SGLI were excess reserve funds that were no longer needed to sustain the adverse fluctuations of the program. VA notified Prudential that collection of the $300 million will occur in FY 2020 and FY 2021 by withholding SGLI premiums from the amounts forwarded by VA to Prudential. In June 2019, the Secretary also determined that $3.4 billion held by Prudential for VGLI were excess reserve funds that were no longer needed to sustain the adverse fluctuations of the program. As a result, Prudential and VA signed an agreement to transfer the $3.4 billion to VA over a period of 5 years. Through September 30, 2020, VA has received five installments totaling $1.2 billion.

A. CASH SURRENDER VALUE

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

(dollars in millions)

As of September 30,	**2020**	**2019**
NSLI	$ 1,353	$ 1,851
VSLI	852	982
S-DVI	725	681
VRI	43	60
Total	**$ 2,973**	**$ 3,574**

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

B. PROGRAM COSTS, PREMIUMS COLLECTED AND APPROPRIATIONS USED

(dollars in millions) **For the Period Ended September 30, 2020**	**Program Costs**	**Premiums Collected**	**Appropriations Used**
NSLI	$ 561	$ 39	$ -
VSLI	185	16	-
S-DVI	169	73	94
VRI	19	1	-
VMLI	38	7	31
Total	**$ 972**	**$ 136**	**$ 125**

(dollars in millions) **For the Period Ended September 30, 2019**	**Program Costs**	**Premiums Collected**	**Appropriations Used**
NSLI	$ 629	$ 51	$ -
VSLI	199	20	-
S-DVI	143	68	75
VRI	20	1	-
VMLI	116	6	34
Total	**$ 1,107**	**$ 146**	**$ 109**

C. INSURANCE IN-FORCE

The amount of insurance in-force represents 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 possibility that claims filed in any time period will equal the entire insurance in-force amount is remote. The supervised programs' policies and face value are not included in VA's liabilities because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. The following information provided under the supervised programs is unaudited.

	2020 Policies	2019 Policies	2020 Face Value	2019 Face Value
	(# of policies)		(dollars in millions)	
Supervised Programs (UNAUDITED)				
SGLI Active Duty	1,460,000	1,423,000	$ 557,608	$ 543,043
SGLI Ready Reservists	625,500	632,500	199,204	201,269
SGLI Post Separation	80,000	82,000	29,123	29,640
SGLI Family - Spouse	924,000	945,000	91,117	93,074
SGLI Family - Children	1,675,000	1,680,000	16,750	16,800
TSGLI*	-	-	208,550	205,550
VGLI	437,549	432,940	81,344	77,897
Total Supervised	5,202,049	5,195,440	1,183,696	1,167,273
Administered Programs				
NSLI	122,845	160,992	1,565	2,056
VSLI	70,113	80,504	1,045	1,189
S-DVI	278,709	279,112	2,933	2,934
VRI	4,881	6,299	50	66
USGLI**	4	6	-	-
VMLI	2,570	2,592	360	358
Total Administered	479,122	529,505	5,953	6,603
Total Supervised and Administered Programs	**5,681,171**	**5,724,945**	**$ 1,189,649**	**$ 1,173,876**

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

**USGLI has only four active policies remaining with a face value of less than $.5.

D. POLICY DIVIDENDS

The Secretary determines annually the excess funds available for dividend payment. Policy dividends for FY 2020 and 2019 were $41 million and $52 million, respectively.

NOTE 18. COMMITMENTS AND CONTINGENCIES

VA records a contingent liability of $975 million and $1,122 million for FY 2020 and FY 2019, respectively, for pending legal claims where losses are determined to be probable and the amounts can be estimated. The liability from existing medical malpractice and other tort claims is estimated using generally accepted actuarial standards and procedures. Estimates of future claim payments are discounted using Treasury spot rates as of August 2019 and 2018, respectively.

(dollars in millions)	Accrued	Estimated Range of Loss	
For the Periods Ended September 30, 2020	**Liabilities**	**Low**	**High**
Legal Contingencies			
Probable - Medical Malpractice and Other Torts	$ 722	$ 722	$ 722
Probable - Non-Tort	253	253	603
Reasonably Possible - Non-Tort		44	58
Total	**$ 975**	**$ 1,019**	**$ 1,383**

(dollars in millions)	Accrued	Estimated Range of Loss	
For the Periods Ended September 30, 2019	**Liabilities**	**Low**	**High**
Legal Contingencies			
Probable - Medical Malpractice and Other Torts	$ 774	$ 774	$ 774
Probable - Non-Tort	348	348	362
Reasonably Possible - Non-Tort		33	85
Total	**$ 1,122**	**$ 1,155**	**$ 1,221**

Additionally, as of September 30, 2020 and 2019, there are cases and claims not brought under the Federal Tort Claims Act, where there is at least a reasonable possibility that a loss may occur, for which the potential range of loss cannot be determined.

In 2019, the Court of Appeals for Veterans Claims (CAVC) issued a precedential order in a case concerning reimbursement of non-VA emergency treatment for non-service-connected conditions. The court certified a class of claimants in the matter and invalidated the related VA regulation on payment limitations and ordered VA to re-adjudicate previously denied reimbursement claims. In June 2020, the Department of Justice (DOJ) filed a protective notice of appeal in the U.S. Court of Appeals for the Federal Circuit. In August 2020, DOJ filed a request for an extension of time to file the government's brief. The final decision whether to pursue an appeal is still pending with the Solicitor General. Also, in 2019, the CAVC rendered a decision on a case that, if it stands, could grant certain Veterans who qualify for both MGIB and Post-9/11 GI Bill benefits an extra 12 months of eligibility. VA appealed this decision to the Federal Circuit in March 2020. All briefing has been completed and oral argument is scheduled for December 2020.

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

(dollars in millions)

For the Periods Ended September 30,	**2020**	**2019**
Fiscal Year Settlement Payments	$ 142	$ 119
Less Contract Dispute and "No Fear" Payments	(4)	(5)
Imputed Financing-Paid by Other Entities*	**$ 138**	**$ 114**

*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, 2020, will not materially affect operations or the financial position when consideration is given to the availability of the Judgment Fund appropriation to pay some court-settled legal cases.

Any payments due that may arise relating to canceled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990. The amount of unobligated and obligated authority relating to canceled appropriations for September 30, 2020 and 2019 is $879 million and $690 million, respectively.

In accordance with 38 Code of Federal Regulations (C.F.R.) § 17.36 (c), the Secretary makes an annual enrollment decision that identifies which Veterans, by priority, will be treated for that fiscal year based on funds appropriated, estimated collections, usage, the severity index of enrolled Veterans and changes in cost. While VA expects to continue to provide medical care to Veterans in future years, an estimate of this amount cannot be reasonably made. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For FY 2016 through FY 2020, the average medical care cost per year is $74.2 billion.

NOTE 19. FUNDS FROM DEDICATED COLLECTIONS

Funds from dedicated collections are individual funds with explicit authority to retain revenues and/or other financing sources not used in the current period for future use. VA's funds from dedicated collections consist of trust, special and revolving funds. Trust funds do not involve a fiduciary relationship with an individual or group, but are designated exclusively for a specific activity, benefit or purpose.

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

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

(dollars in millions)	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Balance Sheet as of September 30, 2020					
Assets					
Intragovernmental					
Fund Balance with Treasury	$ 91	$ 247	$ 63	$ 2	$ 403
Investments	4,528	113	-	-	4,641
Accounts Receivable	-	5	-	-	5
Total Intragovernmental Assets	**$ 4,619**	**$ 365**	**$ 63**	**$ 2**	**$ 5,049**
With the Public					
Cash	$ -	$ 2	$ -	$ -	$ 2
Accounts Receivable, Net	2,463	1,157	-	-	3,620
Direct Loan and Loan Guarantees, Net	186	-	-	-	186
Inventory	-	15	-	-	15
General PP&E	-	85	-	8	93
Total Assets	**$ 7,268**	**$ 1,624**	**$ 63**	**$ 10**	**$ 8,965**
Liabilities					
Intragovernmental					
Accounts Payable	$ 1	$ 4	$ -	$ -	$ 5
Total Intragovernmental Liabilities	$ 1	$ 4	$ -	$ -	$ 5
With the Public					
Accounts Payable	$ 23	$ 36	$ 1	$ -	$ 60
Federal Employee and Veterans Benefits	4,893	-	-	-	4,893
Other Liabilities	26	15	-	-	41
Total Liabilities	**$ 4,943**	**$ 55**	**$ 1**	**$ -**	**$ 4,999**
Net Position					
Total Net Position	$ 2,325	$ 1,569	$ 62	$ 10	$ 3,966
Total Liabilities and Net Position	**$ 7,268**	**$ 1,624**	**$ 63**	**$ 10**	**$ 8,965**
Statement of Net Cost for the Period Ended September 30, 2020					
Gross Program Costs	$ 512	$ 360	$ -	$ 1	$ 873
Less Earned Revenues	579	3,257	-	-	3,836
Net Cost/(Benefit) of Operations	**$ (67)**	**$ (2,897)**	**$ -**	**$ 1**	**$ (2,963)**
Statement of Changes in Net Position for the Period Ended September 30, 2020					
Net Position Beginning of Period	**$ 2,164**	**$ 2,056**	**$ 62**	**$ 11**	**$ 4,293**
Budgetary and Other Financing Sources	94	(3,384)	-	-	(3,290)
Net (Cost)/Benefit of Operations	67	2,897	-	(1)	2,963
Change in Net Position	**161**	**(487)**	**-**	**(1)**	**(327)**
Net Position End of Period	**$ 2,325**	**$ 1,569**	**$ 62**	**$ 10**	**$ 3,966**

(dollars in millions)	Insurance	Medical Care	Benefits	Burial	Funds from Dedicated Collections
Balance Sheet as of September 30, 2019					
Assets					
Intragovernmental					
Fund Balance with Treasury	$ 69	$ 373	$ 63	$ 2	$ 507
Investments	4,237	121	-	-	4,358
Accounts Receivable	-	5	-	-	5
Total Intragovernmental Assets	**$ 4,306**	**$ 499**	**$ 63**	**$ 2**	**$ 4,870**
With the Public					
Cash	$ -	$ 3	$ -	$ -	$ 3
Accounts Receivable, Net	3,114	1,523	-	-	4,637
Direct Loan and Loan Guarantees, Net	211	(1)	-	-	210
Inventory	-	31	-	-	31
General PP&E	-	78	-	9	87
Total Assets	**$ 7,631**	**$ 2,133**	**$ 63**	**$ 11**	**$ 9,838**
Liabilities					
Intragovernmental					
Accounts Payable	$ 5	$ 3	$ -	$ -	$ 8
Total Intragovernmental Liabilities	$ 5	$ 3	$ -	$ -	$ 8
With the Public					
Accounts Payable	$ 26	$ 55	$ 1	$ -	$ 82
Federal Employee and Veterans Benefits	5,409	-	-	-	5,409
Other Liabilities	27	19	-	-	46
Total Liabilities	**$ 5,467**	**$ 77**	**$ 1**	**$ -**	**$ 5,545**
Net Position					
Total Net Position	$ 2,164	$ 2,056	$ 62	$ 11	$ 4,293
Total Liabilities and Net Position	**$ 7,631**	**$ 2,133**	**$ 63**	**$ 11**	**$ 9,838**
Statement of Net Cost for the Period Ended September 30, 2019					
Gross Program Costs	$ 415	$ 599	$ -	$ 1	$ 1,015
Less Earned Revenues	311	4,514	-	-	4,825
Net Cost/(Benefit) of Operations	**$ 104**	**$ (3,915)**	**$ -**	**$ 1**	**$ (3,810)**
Statement of Changes in Net Position for the Period Ended September 30, 2019					
Net Position Beginning of Period	**$ (1,219)**	**$ 2,013**	**$ 62**	**$ 12**	**$ 868**
Budgetary and Other Financing Sources	3,487	(3,872)	-	-	(385)
Net (Cost)/Benefit of Operations	(104)	3,915	-	(1)	3,810
Change in Net Position	**3,383**	**43**	**-**	**(1)**	**3,425**
Net Position End of Period	**$ 2,164**	**$ 2,056**	**$ 62**	**$ 11**	**$ 4,293**

**Please refer to Note 1.C. for additional information on the change in presentation of the Balance Sheet.

NOTE 20. EXCHANGE TRANSACTIONS

A. EXCHANGE REVENUES

Exchange revenue consists primarily of medical revenue recognized when earned from other Federal agencies or the public as a result of costs incurred or services performed on their behalf. Medical revenue is earned by VA when services are provided and are billable to the first-party (Veterans) and third-party insurance companies. Under Chapter 17, Title 38, U.S.C., VHA is authorized to bill a Veteran's third-party health insurer for health care provided at VA and non-VA medical facilities. Generally, VA considers a Veteran's health care billable if the treatment is not for a service-connected disability.

Exchange revenue is usually based on the full cost associated with the goods exchanged or services performed. VHA has legislative exceptions to the requirement to recover the full cost to the Federal Government of providing services, resources or goods for sale. Under "enhanced sharing authority," VHA facilities may enter into arrangements for sharing facilities, contracts for services and contracts for use of equipment where reimbursement rates are negotiated in the best interest of the Federal Government.

B. PUBLIC EXCHANGE TRANSACTIONS

Under 38 C.F.R. § 17.101, reasonable costs are used to bill for reimbursable health care services, public workers' compensation, tort and no-fault or uninsured motorists' insurance cases. Under regulations issued pursuant to 38 U.S.C. § 1729, third-party payers may elect to pay VA's billed costs (less applicable deductible or copayment amounts) for the care and services provided to Veterans, or they may elect to pay VA an amount that it would pay to other providers for care and services in the same geographic area. 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 to account for the historical nature of the data being utilized. The billable amounts by service provided are developed based on the classification of services as inpatient, outpatient, professional, surgical or non-surgical. The nationwide average rates used to determine billable amounts for services provided for inpatient care are updated annually effective October 1, and nationwide average rates for billable amounts for outpatient and professional care are updated annually effective January 1. The updated charges are published by a Notice in the Federal Register and the charges are available on the VHA OCC website at https://www.va.gov/COMMUNITYCARE/revenue_ops/payer_rates.asp. Revenue earned but unbilled is estimated using historical average data. An allowance for contractual adjustments from insurance companies and uncollectible amounts is determined using historical average data.

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

(a) Furnished in error or based on tentative eligibility;
(b) For a medical emergency, workers' compensation (intragovernmental only) or humanitarian emergency;
(c) To pensioners of allied nations;

(d) For research purposes in circumstances under which the VA medical care appropriation is to be reimbursed by the VA research appropriation; and
(e) To beneficiaries of 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.

VA's Loan Guarantee Program collects certain fees that are set by law, such as, loan guarantee funding fees and loan guarantee lender participation fees. Rental fees are collected on a small number of properties during the period when the property is titled to VA.

NCA has the following exchange revenue activity:

- Leases of lodges at cemeteries to not-for-profit groups, for historic preservation and for office space at no cost. The 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.
- Agricultural licenses at cemeteries with private sector entities and a not-for-profit group. The private sector entities pay rental payments and the not-for-profit group is provided the license at no cost.
- A permit license to the Federal Aviation Administration.
- Annual fees from commercial entities for easements to access land.
- Leases of vacant land at cemeteries to local community-based entities at negligible cost.

NOTE 21. NET PROGRAM COSTS BY ADMINISTRATION

(dollars in millions) **For the Period Ended September 30, 2020**	**VHA**	**VBA**	**NCA**	**Indirect Admin**	**Total**
Intragovernmental					
Program Costs	$ 13,443	$ 965	$ 62	$ 504	$ 14,974
Less Earned Revenues	(87)	(344)	-	(218)	(649)
Net Intragovernmental Program Costs	**$ 13,356**	**$ 621**	**$ 62**	**$ 286**	**$ 14,325**
With the Public					
Program Costs	$ 89,649	$ 124,434	$ 314	$ 1,887	$ 216,284
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	-	157,809	-	-	157,809
Less Earned Revenues	(3,299)	(583)	(1)	(159)	(4,042)
Net Program Costs	**$ 86,350**	**$ 281,660**	**$ 313**	**$ 1,728**	**$ 370,051**
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	$ 99,706	$ 282,281	$ 375	$ 2,014	$ 384,376
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	602,720	-	-	602,720
Net Cost of Operations	**$ 99,706**	**$ 885,001**	**$ 375**	**$ 2,014**	**$ 987,096**

(dollars in millions) **For the Period Ended September 30, 2019**	**VHA**	**VBA**	**NCA**	**Indirect Admin**	**Total**
Intragovernmental					
Program Costs	$ 12,496	$ 864	$ 58	$ 473	$ 13,891
Less Earned Revenues	(68)	(375)	-	(258)	(701)
Net Intragovernmental Program Costs	**$ 12,428**	**$ 489**	**$ 58**	**$ 215**	**$ 13,190**
With the Public					
Program Costs	$ 80,922	$ 114,706	$ 333	$ 1,821	$ 197,782
Veterans Benefits Actuarial Cost, Excluding Changes in Actuarial Assumptions (Note 13)	-	155,685	-	-	155,685
Less Earned Revenues	(4,580)	(298)	-	(198)	(5,076)
Net Program Costs	**$ 76,342**	**$ 270,093**	**$ 333**	**$ 1,623**	**$ 348,391**
Net Program Cost by Administration Before Changes in Veterans Benefits Actuarial Liability Assumptions	$ 88,770	$ 270,582	$ 391	$ 1,838	$ 361,581
Net (Gain)/Loss from Actuarial Liability Assumptions (Note 13)	-	58,033	-	-	58,033
Net Cost of Operations	**$ 88,770**	**$ 328,615**	**$ 391**	**$ 1,838**	**$ 419,614**

NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

A. BORROWING AUTHORITY

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

	2020		**2019**	
(dollars in millions)	**Value**	**Interest Rate**	**Value**	**Interest Rate**
Home Loan Guarantee Program	$ 22	3.6%	$ 110	2.9%
Vocational Rehabilitation Program Direct Loans	-	3.3%	-	2.2%

B. PERMANENT INDEFINITE APPROPRIATIONS

VA has two permanent and indefinite appropriations to cover housing financial transactions and unexpected housing losses. They are: 1) The Veterans Housing Benefit Program Fund account, which covers all subsidy costs (i.e., costs to the Government for original subsidy and re-estimates subsidy) associated with loan obligations and loan guarantees committed since 1992 for Veterans housing benefits; 2) The Native American Veteran Housing Loan Program account, which covers all subsidy costs arising from Veteran Native American direct loan obligations.

VA's third permanent and indefinite appropriation, the Vocational Rehabilitation Loan Program, funds loan subsidy re-estimates.

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

The table below documents the material differences between the FY 2019 Statement of Budgetary Resources and the actual amounts reported in the FY 2021 Budget of the U.S. Government. The FY 2022 Budget of the United States with the actual FY 2020 Statement of Budgetary Resources amounts will not be available until February 2021. Once published, the FY 2020 actual data will be available on the OMB website, http://www.whitehouse.gov/omb/budget.

(dollars in millions) **For the Period Ended September 30, 2019**	**Budgetary Resources**	**New Obligations & Upward Adjustments**	**Distributed Offsetting Receipts**	**Net Outlays**
Actual Balances per the 2021 Budget of the U.S. Government	$ 248,316	$ 222,898	$ (3,834)	$ 209,593
Reconciling Items: *			**-**	**-**
Expired Unobligated Funds	3,070	-	-	-
Expired Prior Year Budget Authority	1,492	-	-	-
Medical Care Collection Fund - Copayments	-	-	(3,970)	-
Special Funds not in the U.S. Budget but in the SI	6	1	-	-
Offsetting Differences between the U.S. Budget and the SBR	-	-	(60)	-
Miscellaneous Differences	4	(3)	-	(5)
Restatement**	-	4,692	-	-
Per the 2019 Statement of Budgetary Resources	**$ 252,888**	**$ 227,588**	**$ (7,864)**	**$ 209,588**

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

**This line item has been restated from the previous year's reported amount to align with the FY 2019 restatement. See Note 23, Restatements.

D. USE OF UNOBLIGATED BALANCES OF BUDGET AUTHORITY

Within the Statement of Budgetary Resources, unobligated balances represents apportioned and unapportioned amounts of unexpired VA funds. It also includes expired authority which remains available for 5 additional fiscal years for recording and adjusting previously recorded obligations but cannot be used to fund new obligations.

Unobligated VA funds are available for use as defined in the 2020 Appropriation Act (P.L. 116-94) and the 2020 additional supplemental appropriations for the coronavirus pandemic (P.L. 116-127 and P.L. 116-136).

E. UNDELIVERED ORDERS AT THE END OF A PERIOD

(dollars in millions)			(Restated)	
As of September 30,	**2020**		**2019**	
	Paid	**Unpaid**	**Paid**	**Unpaid**
Intragovernmental Undelivered Orders	$ 2,434	$ 2,589	$ 1,765	$ 2,431
Undelivered Orders*	16	18,618	35	15,839
Total Undelivered Orders	**$ 2,450**	**$ 21,207**	**$ 1,800**	**$ 18,270**

*This line item has been restated from the previous year's reported amount to align with the FY 2019 restatement. See Note 23, Restatements.

F. LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

(dollars in millions)		(Restated)
As of September 30,	**2020**	**2019**
Unapportioned Amounts Unavailable for Future Apportionments*	$ 3,370	$ 4,333
Expired Authority	(1,306)	3,070
Total Unobligated Balances	**$ 2,064**	**$ 7,403**

*This line item has been restated from the previous year's reported amount to align with the FY 2019 restatement. See Note 23, Restatements.

G. CONTRIBUTED CAPITAL

For the years ended September 30, 2020 and 2019, General Post Fund donations totaled $94 million and $83 million, respectively.

NOTE 23. RESTATEMENTS

Prior to FY 2019, VA obligated VCC Program funds based on an estimate of the issued authorizations for treatment. This was determined to be an imprecise method of estimating obligations as many authorizations never resulted in services. To arrive at a more precise obligation balance at year-end, VA changed its methodology from an estimate based on authorization to an obligation at payment model, where obligations are recorded when the claims are adjudicated for all VCC programs. VA believed it had authority to record VCC obligations in this manner based on legal review and advice; however, in FY 2020 VA learned that it did not have the authority based on a subsequent legal review and advice to use the obligation at payment model for services obtained under Federal Acquisition Regulation (FAR) authority. FAR-based services must conform with the pre-FY 2019 method of recognizing obligations as required by the recording statue 31 U.S.C. § 1501.

To correct this, VA recognized an obligation for $4.7 billion for year-end FY 2019 based on referrals issued and orders delivered for contracts under the FAR authority. VA restated its FY 2019 Statement of Budgetary Resources and Statement of Changes in Net Position to ensure compliance and consistency in the application of 31 U.S.C. § 1501. The restatement increased new obligations and upward adjustments and decreased unapportioned, unexpired accounts on the Statement of Budgetary Resources. The restatement also impacted the appropriations used

and total financing sources lines on the Statement of Changes in Net Position. For year-end FY 2020, VA recognized an obligation based on referrals issued and orders delivered for contracts under the FAR authority in the amount of $5.0 billion.

When VA implemented the obligation at payment methodology in FY 2019, VA estimated an incurred but not paid liability at the end of each period to recognize the cost of services incurred where claim invoices have not yet been received, validated, or paid. VA used an actuarial model to estimate provider services incurred but not reported or paid and recognized an unfunded Medical Claims liability of $4.7 billion in FY 2019. Of this amount, $2.2 billion was attributed to delivered orders for contracts under the FAR authority resulting in an overstatement of the Federal employee and Veterans benefits liability and understatement of accounts payable on the Balance Sheet.

The restatement details are provided below for the Statement of Budgetary Resources and the Statement of Changes in Net Position, including the reclassification of liabilities on the Balance Sheet.

(dollars in millions)
Restated Balances as of September 30, 2019

	2019 As Previously Reported	Adjustments	2019 As Restated
Combined Statement of Budgetary Resources			
Status of Budgetary Resources			
New obligations and upward adjustments (total)	$ 216,780	$ 4,692	$ 221,472
Unobligated balance, end of year:			
Unapportioned, unexpired accounts	56	(4,692)	(4,636)
Unexpired unobligated balance, end of year	17,953	(4,692)	13,261
Unobligated balance, end of year (total)	21,023	(4,692)	16,331
Total Status of Budgetary Resources	**$ 237,803**	**$ -**	**$ 237,803**
Consolidated Statement of Changes in Net Position			
Budgetary Financing Sources			
Appropriations Used	(201,477)	(2,165)	(203,642)
Total Budgetary Financing Sources	(4,294)	(2,165)	(6,459)
Total Unexpended Appropriations	33,486	(2,165)	31,321
Budgetary Financing Sources			
Appropriations used	201,477	2,165	203,642
Total Financing Sources	$ 205,508	$ 2,165	207,673
Net Change	(214,106)	2,165	(211,941)
Cumulative Results of Operations	**(3,213,436)**	**2,165**	**(3,211,271)**
Net Position	**$ (3,179,950)**	**$ -**	**$ (3,179,950)**

(dollars in millions)
Reclassified Balances as of September 30, 2019

	2019 As Previously Reported	Adjustments	Adjustments for Option C Balance Sheet*	2019 As Reclassified
Consolidated Balance Sheet				
Liabilities				
With the Public:				
Accounts Payable	$ 12,161	$ 2,165	$ 16	$ 14,342
Federal Employee and Veterans Benefits (Note 13)				
Veteran Benefits (Note 13)	3,242,812	(2,165)	(2,387)	3,238,260
Total Liabilities with the Public	3,275,020	-	-	3,275,020
Total Liabilities	**$ 3,279,255**	**$ -**	**$ -**	**$ 3,279,255**

*In order to streamline the presentation of the Consolidated and Reclassified Balance Sheet, VA adopted OMB's Balance Sheet Option C format in FY 2020. This change resulted in a reclassification of several liabilities as shown in the above column "Adjustments for Column C Balance Sheet." This is included in the schedule to assist readers in reconciling to VA's published FY 2019 AFR.

The Department is currently seeking a change in legislation that will allow VA to record obligations for all VCC claims at the time of payment. The request will be included in VA's FY 2021 appropriation language. This method of accounting allows for more accurate and timely recording of VCC claims costs and supports improved delivery of medical care services to Veterans.

NOTE 24. BUDGET AND ACCRUAL RECONCILIATION

Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the Federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

In accordance with OMB A-136 guidance, the presentation of the budget and accrual reconciliation should exclude financing account activity for programs subject to the Federal Credit Reform Act (FCRA) beginning in FY 2020. As shown on the Statement of Budgetary Resources, net outlays represent budgetary outlays and do not include net disbursements of credit financing accounts. Treasury provided agencies with a revised crosswalk to align with the updated guidance. The presentation of the FY 2019 reconciliation below was changed accordingly.

(dollars in millions) **For the Period Ended September 30, 2020**	**Intra-governmental**	**With the Public**	**Total**
Net Operating Cost (SNC)	**$ 14,485**	**$ 972,611**	**$ 987,096**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation Expense	-	(1,881)	(1,881)
Property, Plant, and Equipment Disposal and Reevaluation	-	(210)	(210)
Year-End Credit Reform Subsidy Re-Estimates	1,181	-	1,181
Increase/(Decrease) in Assets:			
Accounts and Taxes Receivable, net	(441)	(968)	(1,409)
Loans Receivable, net	-	(22)	(22)
Other Assets	668	(18)	650
(Increase)/Decrease in Liabilities:			
Accounts Payable	(858)	(6,938)	(7,796)
Loans Guarantee Liability	-	(10)	(10)
Environmental and Disposal Liabilities	-	(38)	(38)
Federal Employee and Veterans Benefits	-	(757,684)	(757,684)
Other Liabilities	547	(773)	(226)
Other Financing Sources			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(2,458)	-	(2,458)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(1,361)**	**(768,542)**	**(769,903)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	2,978	2,978
Investments	283	-	283
Inventories and Related Property	-	109	109
Negative Subsidy Credit Reform	1,087	-	1,087
Effects of Prior Year Credit Reform Subsidy Reestimates	167	-	167
Total Components of Net Operating Cost Not Part of the Budget Outlays	**1,537**	**3,087**	**4,624**
Miscellaneous Items			
Year-End Credit Reform Upward Reestimate Accruals	621	-	621
Activity in Fund Types with no Budgetary Outlays	164	3,383	3,547
Distributed Offsetting Receipts	(7,105)	-	(7,105)
Other	(486)	-	(486)
Total Miscellaneous Items	**(6,806)**	**3,383**	**(3,423)**
Total Net Outlays			**218,394**
Budgetary Agency Outlays, Net (SBR)			
Budgetary Agency Outlays, Net			**218,394**

(dollars in millions) **For the Period Ended September 30, 2019**	**Intra-governmental**	**(Restated) With the Public**	**(Restated) Total**
Net Operating Cost (SNC)	**$ 13,352**	**$ 406,262**	**$ 419,614**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation Expense	-	(1,872)	(1,872)
Property, Plant, and Equipment Disposal and Reevaluation	-	(234)	(234)
Year-End Credit Reform Subsidy Re-Estimates	2,240	-	2,240
Increase/(Decrease) in Assets:			
Accounts and Taxes Receivable, net	(93)	3,515	3,422
Loans Receivable, net	-	(29)	(29)
Other Assets	515	(29)	486
(Increase)/Decrease in Liabilities:			
Accounts Payable*	(879)	(800)	(1,679)
Environmental and Disposal Liabilities	-	(8)	(8)
Federal Employee and Veterans Benefits*	-	(215,579)	(215,579)
Other Liabilities	960	(612)	348
Other Financing Sources			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(3,043)	-	(3,043)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(300)**	**(215,648)**	**(215,948)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	2,752	2,752
Investments	(384)	-	(384)
Inventories and Related Property	-	9	9
Negative Subsidy Credit Reform	4	-	4
Effects of Prior Year Credit Reform Subsidy Reestimates	135	-	135
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(245)**	**2,761**	**2,516**
Miscellaneous Items			
Year-End Credit Reform Upward Reestimate Accruals	161	-	161
Activity in Fund Types with no Budgetary Outlays	187	762	949
Distributed Offsetting Receipts	(7,864)	-	(7,864)
Other	146	-	146
Total Miscellaneous Items	**(7,370)**	**762**	**(6,608)**
Total Net Outlays			**199,574**
Budgetary Agency Outlays, Net (SBR)			
Budgetary Agency Outlays, Net			**199,574**

*This line item has been restated from the previous year's reported amount to align with the FY 2019 restatement. See Note 23, Restatements.

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

VA is engaged in various collaborative relationships with private sector entities in which the governance, roles and responsibilities were determined to produce a risk-sharing arrangement. These relationships are referred to as public-private partnerships (P3). While many of VA's relationships may be referred to as a P3, only those meeting the disclosure requirements outlined in SFFAS No. 49 are disclosed below.

(dollars in millions) **As of September 30, 2020**	**Actual Amount Received**	**Actual Amount Paid**	**Estimated Amount to be Received**	**Estimated Amount to be Paid**
EUL	$ 2	$ -	$ 71	$ 11
ESPC	-	63	-	966
UESC	-	33	-	29
Total	$ 2	$ 96	$ 71	$ 1,006

A. ENHANCED USE LEASES

VA's EUL Program allows VA to manage underutilized property through leasing arrangements with state or local governments or private sector organizations. 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 at fair value if receiving consideration. VA's previous EUL authority expired on December 31, 2011, and was reauthorized on August 6, 2012, effective January 1, 2012, under P.L. 112-154, Section 211, limited to supportive housing, and set to expire on December 31, 2023. The previous authority under which all current operational leases were executed allowed VA to enter into EULs for receipt of rental income or in-kind consideration, such as facilities, space, services or other forms of consideration, which is intended to further VA's mission to effectively serve Veterans.

The majority of the EUL projects serve to provide safe, affordable housing for Veterans and their families. The properties are leased to commercial real estate developers who finance, design, develop, construct, operate and maintain the property. The partner assumes all financial obligations and risks associated with the private development. In some instances, the developer must finance the development with public issue bonds. Under some EULs governed under previous authority, VA leases back space or services under favorable terms or at reduced costs.

Under the EUL Program, VA does not:

- Allow its underlying interest in the land or properties to be used as security for financing an EUL project,
- Provide any kind of guaranty for the purpose of private-party financing, or
- Approve any project-related financing that includes requirements that might deny, restrict or subordinate VA's right to terminate the EUL where the lessee has breached the contract and failed to cure.

VA may not unilaterally terminate an EUL for convenience but may agree to a mutual termination of the lease.

VA will only pursue termination of an EUL prior to the end of the lease term in the event of default, noncompliance or nonperformance by the lessee. When this occurs, VA does not owe or pay any fees, costs, expenses or penalties, and the lessee bears all risk.

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

Benefits to VA from the EUL Program include:

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

(dollars in millions) **As of September 30, 2020**	**Total Cumulative Funding by VA over life of Arrangement**	**Total Cumulative Funding by Private Sector over life of Arrangement**
EUL	$ 64	$ 1,694

B. ENERGY SAVINGS PERFORMANCE CONTRACTS AND UTILITY ENERGY SERVICE CONTRACTS

VA has entered into energy savings performance contracts (ESPC) and utility energy service contracts (UESC) to procure energy savings and facility improvements. These contract vehicles do not require up-front capital costs or special appropriations from Congress.

Federal agencies are authorized to enter into ESPCs under National Energy Conservation Policy Act (42 U.S.C. § 8287), as amended. An ESPC is a partnership between an agency and an energy service company (ESCO) to reduce energy, water and/or related operating costs and to assist agencies with upgrading aging infrastructure, systems and equipment. Upon conducting a comprehensive audit, the ESCO designs and constructs a project that meets the agency's needs and arranges financing to pay for the project. The ESCO guarantees that the improvements will generate sufficient energy cost savings to pay for the project over the term of the contract.

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

Authorized by the Energy Policy Act of 1992, P.L. 102-486 (codified as 42 U.S.C. § 8256), UESC is a limited-source contract between a Federal agency and its serving utility for energy and water-efficiency improvements and demand-reduction services, allowing Federal agencies to pay for the services over time, either on their utility bill or through a separate agreement.

UESCs also cannot exceed 25 years in duration. After a contract ends, VA retains all additional cost savings. Under UESCs, VA retains title to all installed capital goods, equipment and improvements. Under OMB Memorandum M-98-13 and M-12-21, ESPC and UESC repayments can be funded on an annual basis. Contracts can be terminated for convenience in part or in full. In the case of a termination, VA may be responsible for outstanding loan balances and early termination or payment fees. Measurement and verification of energy savings is required under ESPCs and UESCs.

The benefits of ESPCs and UESCs include:

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

(dollars in millions) **As of September 30, 2020**	**Total Cumulative Funding by VA over life of Arrangement**	**Total Cumulative Funding by Private Sector over life of Arrangement**
ESPC	$ 108	$ 624
UESC	102	72
Total	**$ 210**	**$ 696**

NOTE 26. COVID-19 ACTIVITY

In FY 2020, VA received supplemental appropriations of $60 million to respond to COVID-19 under the Families First Act; P.L. 116-127, which is available until September 30, 2022. VA also received $19.6 billion, under the CARES Act; P.L. 116-136, of which $12 million for the OIG is available until September 30, 2022, and the remaining $19.6 billion of funds are available until September 30, 2021. The appropriations have been allocated to the following programs:

Program	**Purpose**
Medical Services	To support increased demand for health care services at VA facilities and through telehealth, the purchase of medical equipment and supplies, testing kits and personal protective equipment. To support vulnerable Veterans through programs to assist homeless or at-risk of becoming homeless Veterans, as well as within VA-run nursing homes and community living centers. VA also provides support to the public during declared emergencies such as COVID-19. VA is currently authorized to provide care and certain health services for nonveterans.
Information Technology	To support increased telework, telehealth and call center capabilities, VA OIT switched to remote working environment for all non-health employees, increasing bandwidth to assist the delivery to health care, benefits services and financial management activities directly related to coronavirus, including the purchasing of devices to support, plan, execute and monitor resources needed to support a rapid pandemic response.
Medical Community Care	To support increased demand for care in the community, specifically emergency room and urgent care.
Medical Facilities	To support development of alternative sites of care and procurement of mobile treatment centers to meet the demand for health care services, improvements in security and non-recurring maintenance projects to existing infrastructure and utility systems at VA facilities.

Grants for Construction of Extended Care Facilities	To support modification or alteration of existing hospital, nursing home and domiciliary facilities in state homes to prevent, prepare for and respond to COVID-19.
Medical Support and Compliance	To increase outreach efforts to ensure Veterans know how and where to receive care and expand 24-hour operations of the crisis response and continuity of operations within VA's Office of Emergency Management (OEM). This includes overtime, travel and transportation of materials to enable OEM to manage the response to COVID-19.
General Operating Expenses	To provide additional software licenses and telework support for VBA staff, and to enhance cleaning and sanitation service contracts.
Office of Inspector General	To support oversight of VA's efforts to prevent, prepare for and respond to COVID-19.
Emergency Management	To expand and maintain 24-hour operations of Crisis Response and Continuity of Operations Plan implementation at various sites, and to expand cleaning and sanitation service in high traffic facilities.

The amounts received and used under each program are as follows:

(dollars in millions) **For the Period Ended September 30, 2020**	**Appropriations Received**	**Obligations Incurred**	**Remaining Available for Obligation**	**Appropriations Used**
Medical Services	$ 14,312	$ 3,924	$ 10,388	$ 2,856
Information Technology	2,150	1,176	974	689
Medical Community Care	2,130	1,969	161	1,969
Medical Facilities	606	313	293	220
Grants for Construction of Extended Care Facilities	150	-	150	-
Medical Support and Compliance	250	77	173	49
General Operating Expenses (VBA)	13	10	3	10
Office of Inspector General	12	10	2	7
Emergency Management (Gen Admin)	6	2	4	1
Total	**$ 19,629**	**$ 7,481**	**$ 12,148**	**$ 5,801**

As a result of the supplemental appropriations received from the Families First Act and the CARES Act, VA significantly increased spending for the following programs:

- Medical Services:
  - Medical care: A portion of the funds received are being used to hire new staff and to make sure existing personnel have the resources they need to deal with the evolving needs of VA's response to COVID-19. VHA has already hired more than 3,000 new employees using the supplemental funding. VA is also using these supplemental funds to purchase additional hospital beds, provide overtime pay and purchase needed supplies such as ventilators, pharmaceuticals and personal protective equipment.
  - Telehealth: Resources are being used to ensure that Veterans have access to telehealth equipment. VA has also entered into short-term agreements with telecommunications companies to deliver free or subsidized support for mental health services through a telehealth connection or VA's Video Connect service.
  - Homelessness: VA has been allocated funds to provide emergency housing and homelessness prevention assistance to very low-income Veteran families to mitigate the expected wave of evictions and potential homelessness that will

result from extensive unemployment. Resources for this program will also assist the Housing and Urban Development-VA Supportive Housing Program in placing Veterans in safe housing to isolate them from COVID-19. The Grant and Per Diem Program also received increased funding to provide transitional housing and supportive services to Veterans who need to be isolated for their safety or the safety of others.

- Medical Community Care: These resources are being allocated to support increased emergency care and referrals. In response to COVID-19, VA has been able to ensure approximately 60% of referrals to community network providers were fulfilled due to the 6,400 local urgent care providers that have contracted with VA. With large segments of the private sector health care system at limited capacity or closed, VA was able to stay operational.
- Information Technology: During the COVID-19 pandemic, VA OIT rapidly scaled bandwidth and capacity to enable the Department's remote workforce. VA staff utilized communications platforms such as Microsoft Teams, Zoom and SharePoint to facilitate planning, programming, budgeting, execution and financial management activities across VA. This enabled the VA organizations to effectively plan, execute and monitor the VA resources.

In addition to supplemental appropriations, VA also used budgetary resources from existing appropriations for COVID-19 activities. Obligations in the amount of $118 million were incurred in support of VA's COVID-19 response for costs including wages and salaries as well as acquisition, rental or hire of equipment, services, materials and supplies. Funds used were primarily from the Medical Services, Medical Facilities and Medical Support and Compliance Programs.

NOTE 27. RECLASSIFICATION OF THE BALANCE SHEET, STATEMENT OF NET COST AND STATEMENT OF CHANGES IN NET POSITION FOR FINANCIAL REPORT COMPILATION PROCESS

To prepare the FR of the U.S. Government, Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger (USSGL) account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost and Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

This note shows VA's financial statements and VA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2019 FR can be found at: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2020 FR will be posted to this site as soon as it is released, generally in January.

FY 2020 VA BS *(dollars in millions)*		Funds from Dedicated Collections	Funds From Dedicated Collections Elimination	All Other Funds Net of Elimination	Elimination Between All Other and Dedicated Collections	Line Items Used to Prepare FY 2020 Government-wide BS	
Financial Statement Line	**Amounts**					**Amounts**	**Reclassified Financial Statement Line**
Assets							Assets
Intragovernmental							**Intragovernmental**
Fund Balance with Treasury (Note 3)	70,401	403	-	69,998	-	70,401	Fund Balance with Treasury (Note 3)
Investments (Note 5)	4,641	4,641	-	-	-	4,641	Investments (Note 5)
Accounts Receivable (Note 6)	25	5	-	20	-	25	Accounts Receivable (Note 6)
Other	2,430	-	-	2,430	-	2,430	Other
Total Intragovernmental	**77,497**	**5,049**	**-**	72,448	**-**	**77,497**	**Total Intragovernmental**
With the Public							With the Public
Cash (Note 4)	4	2	-	2	-	4	Cash (Note 4)
Accounts Receivable, Net (Note 6)	5,109	3,620	-	1,489	-	5,109	Accounts Receivable, Net (Note 6)
Direct Loans and Loan Guarantees, Net (Note 7)	953	186	-	767	-	953	Direct Loans and Loan Guarantees, Net (Note 7)
Inventory (Note 8)	158	15	-	143	-	158	Inventory (Note 8)
General Property, Plant, and Equipment, Net (Note 9)	28,110	93	-	28,017	-	28,110	General Property, Plant, and Equipment, Net (Note 9)
Investments (Note 5)	140	-	-	140	-	140	Investments (Note 5)
Other	20	-	-	20	-	20	Other
Total with the Public	**34,494**	**3,916**	**-**	30,578	**-**	**34,494**	**Total with the Public**
Total Assets	**111,991**	**8,965**	**-**	103,026	**-**	**111,991**	**Total Assets**
Liabilities							**Liabilities**
Intragovernmental							**Intragovernmental**
Accounts Payable	1,436	5	-	1,433	(2)	1,436	Accounts Payable
Debt (Note 11)	588	-	-	588	-	588	Debt and Related Interest Payable (Note 11)
Other (Note 15)	1,936	-	-	1,936	-	1,936	Other (Note 15)
Total Intragovernmental	**3,960**	**5**	**-**	3,957	**(2)**	**3,960**	**Total Intragovernmental**
With the Public							**With the Public**
Accounts Payable	18,894	60	-	18,834	-	18,894	Accounts Payable
Federal Employee and Veterans Benefits (Note 13)							Federal Employee and Veterans Benefits (Note 13)
Veterans Benefits (Note 13)	3,998,134	-	-	3,998,134	-	3,998,134	Veterans Benefits (Note 13)
Life Insurance Benefits (Note 17)	5,145	4,893	-	252	-	5,145	Life Insurance Benefits (Note 17)
Federal Employee Benefits (Note 13)	5,190	-	-	5,190	-	5,190	Federal Employee Benefits (Note 13)
Environmental and Disposal Liabilities (Note 14)	972	-	-	972	-	972	Environmental and Disposal Liabilities (Note 14)
Loan Guarantee Liability, Net (Note 7)	7,408	-	-	7,408	-	7,408	Loan Guarantee Liability, Net (Note 7)
Other (Note 15)	4,260	41	-	4,219	-	4,260	Other (Note 15)
Total with the Public	**4,040,003**	**4,994**	**-**	4,035,009	**-**	**4,040,003**	**Total with the Public**
Total Liabilities	**4,043,963**	**4,999**	**-**	4,038,966	**(2)**	**4,043,963**	**Total Liabilities**
Net Position							**Net Position**
Total Net Position – Funds from Dedicated Collections (Note 19)	3,966	3,966	(14)	(3,319)	3,333	3,966	Total Net Position – Funds from Dedicated Collections (Note 19)
Total Net Position – All Other Funds	(3,935,938)	-	-	(3,932,535)	(3,403)	(3,935,938)	Total Net Position – All Other Funds
Total Net Position	**(3,931,972)**	**3,966**	**(14)**	(3,935,854)	**(70)**	**(3,931,972)**	**Total Net Position**
Total Liabilities and Net Position	**111,991**	**8,965**	**(14)**	103,112	**(72)**	**111,991**	**Total Liabilities and Net Position**

FY 2020 VA SNC *(dollars in millions)*		**Funds from Dedicated Collections**	**Funds From Dedicated Collections Elimination**	**All Other Funds Net of Elimination**	**Elimination Between All Other and Dedicated Collections**	**Line Items Used to Prepare FY 2020 Government-wide SNC**	
Financial Statement Line	Amounts					Amounts	Reclassified Financial Statement Line
							Non-Federal Costs
		797	-	373,294	-	374,091	Non-Federal Gross Cost
		797	-	373,294	-	374,091	Total Non-Federal Costs
							Intragovernmental Costs
		31	-	8,289	-	8,320	Benefit Program Costs
		-	-	2,458	-	2,458	Imputed Costs
Gross Costs	389,067	45	-	1,750	(63)	1,732	Buy/Sell Costs
		-	-	52	-	52	Purchase of Assets
		-	-	23	-	23	Borrowing and Other Interest Expense
		-	-	2,443	-	2,443	Other Expenses (w/o Reciprocals)
		-	-	(52)	-	(52)	Purchase of Assets Offset
		76	-	14,963	(63)	14,976	Total Intragovernmental Costs
Total Gross Costs	**389,067**	**873**	**-**	**388,257**	**(63)**	**389,067**	Total Reclassified Gross Costs
		(3,647)	-	(400)	-	(4,047)	Non-Federal Earned Revenue
							Intragovernmental Revenue
		(43)	14	(358)	69	(318)	Buy/Sell Revenue
Earned Revenue	(4,691)	(146)	-	-	-	(146)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		-	-	(180)	-	(180)	Borrowing and Other Interest Revenue
		(189)	14	(538)	69	(644)	Total Intragovernmental Earned Revenue
Total Earned Revenue	**(4,691)**	**(3,836)**	**14**	**(938)**	**69**	**(4,691)**	Total Reclassified Earned Revenue
Gain/Loss-Pension/ORB/OPEB Assumptions	602,720	-	-	602,720	-	602,720	Gain/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost	**987,096**	**(2,963)**	**14**	**990,039**	**6**	**987,096**	Net Cost

FY 2020 VA SCNP *(dollars in millions)*		Funds from Dedicated Collections	Funds From Dedicated Collections Elimination	All Other Funds Net of Elimination	Elimination Between All Other and Dedicated Collections	Line Items Used to Prepare FY 2020 Government-wide SCNP	
Financial Statement Line	**Amounts**					**Amounts**	**Reclassified Financial Statement Line**
UNEXPENDED APPROPRIATIONS							
Unexpended Appropriations, Beginning Balance	31,321	-	-	33,486	-	33,486	Net Position, Beginning of Period
		-	-	(2,165)	-	(2,165)	Prior Period Adjustment to Unexpended Appropriations
Appropriations Received	236,797	-	-	236,797	-	236,797	Appropriations Received as Adjusted
Other Adjustments	(1,390)	-	-	(1,390)	-	(1,390)	Appropriations Received as Adjusted
Appropriations Transferred In/Out	142	-	-	142	-	142	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
		(3,429)	-	-	3,429	-	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred In/Out	142	(3,429)		142	3,429	142	Total Reclassified Appropriations Transferred In/Out
Appropriations Used	(228,601)	-	-	(228,601)	-	(228,601)	Appropriations Used (Federal)
Total Unexpended Appropriations	**38,269**	**(3,429)**	**-**	**38,269**	**3,429**	**38,269**	
CUMULATIVE RESULTS OF OPERATIONS							
Cumulative Results, Beginning Balance	(3,211,271)	4,293	-	(3,217,729)	-	(3,213,436)	Net Position, Beginning of Period
		-	-	2,165	-	2,165	Prior Period Adjustment to Expended Appropriations
Appropriations Used	228,601	-	-	228,601	-	228,601	Appropriations Expended
Non-Exchange Revenues	107	78	-	-	-	78	Other Taxes and Receipts
		78	-	-	-	78	**Total Non-Federal Non-Exchange Revenues**
		-	-	29	-	29	Accruals for Agency Amounts to be Collected in a TAS Other than the General Fund
	8	(49)	-	57	-	8	Other Taxes and Receipts
		(49)	-	86	-	37	**Total Intragovernmental Non-Exchange Revenue**
Total Non-Exchange Revenues	115	29	-	86	-	115	Total Reclassified Non-Exchange Revenues
Transfers In/Out w/o Reimbursement – Budgetary	185	3,429	-	-	(3,429)	-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In
		(3,429)	-	-	3,429	-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-Out
		-	-	185	-	185	Expenditure Transfers-In of Financing Sources
		94	-	-	(94)	-	Expenditure Transfers-Out of Financing Sources
		94	-	185	(94)	185	Total Reclassified Transfers In/Out w/o Reimbursement – Budgetary (Federal)
Total Transfers-In/Out w/o Reimbursement – Budgetary	185	94	-	185	(94)	185	Total Reclassified Transfers-In/Out w/o Reimbursement – Budgetary
Other	(3,249)	-	-	(3,851)	-	(3,851)	Non-Entity Custodial Collections Transferred to the General Fund
		-	-	602	-	602	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund
		-	-	(3,249)	-	(3,249)	**Total Intragovernmental Other**
Total Other	(3,249)	-	-	(3,249)	-	(3,249)	Total Reclassified Other
Donations and Forfeitures of Cash and Cash Equivalents	16	16	-	-	-	16	Other Taxes and Receipts (Non-Federal)
Imputed Financing	2,458	-	-	2,458	-	2,458	Imputed Financing Sources (Federal)
Total Financing Sources	228,126	139	-	228,081	(94)	228,126	
Net Cost of Operations	**(987,096)**	**2,963**	**(14)**	**(990,039)**	**(6)**	**987,096**	**Reclassified Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	**(3,970,241)**	**7,395**	**(14)**	**(3,977,522)**	**(100)**	**(3,970,241)**	**Net Position – Ending Balance**
Total Net Position	**(3,931,972)**	**3,966**	**(14)**	**(3,939,253)**	**3,329**	**(3,931,972)**	**Total Net Position**

DEFERRED MAINTENANCE AND REPAIRS

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

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

VA facilities reported their cost estimates for deferred maintenance and repairs by performing periodic Facility Condition Assessment (FCA) Surveys, which are inspections of PP&E based on generally accepted methods and standards. These are consistently applied to assign condition ratings and estimate costs for each fixed asset to correct deficiencies. An independent interdisciplinary professional contractor team tours and evaluates approximately 6,000 VA buildings on a 3-year cycle, assessing all components. Building components assessed include architectural structural, mechanical, plumbing and electrical systems. Also included for assessment are capitalized, fully depreciated and noncapitalized elements of general PP&E, heritage assets and stewardship land. Each 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) and "F" (critical) is given an estimated correction cost and recorded in Deferred Maintenance and Repairs, except where deficiencies will be replaced by capital expenditures. See Notes 1, 9 and 10 for additional information on general PP&E and heritage assets.

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

(dollars in millions)	2020	2019
General PP&E	$ 12,187	$ 11,998
Heritage Assets	980	992
Total Deferred Maintenance and Repairs	**$ 13,167**	**$ 12,990**

SCHEDULE OF BUDGETARY ACTIVITY

DEPARTMENT OF VETERANS AFFAIRS
SCHEDULE OF BUDGETARY ACTIVITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2020
(dollars in millions)

	Veterans Health Administration						
	0140 Medical Community Care	0152 Medical Support	0160 Medical Services	0162 Medical Facilities	0172 Veterans Choice Fund	All Other Funds	VHA Total
Budgetary Resources							
Unobligated Balance from Prior Year Budget Authority, Net	$ (3,240)	$ 408	$ 4,346	$ 1,670	$ 1,863	$ 5,156	$ 10,203
Appropriations	17,336	7,924	67,619	6,709	-	11,091	110,679
Spending Authority from Offsetting Collections	-	48	132	20	-	419	619
Total Budgetary Resources	**$ 14,096**	**$ 8,380**	**$ 72,097**	**$ 8,399**	**$ 1,863**	**$ 16,666**	**$ 121,501**
Status of Budgetary Resources							
New Obligations and Upward Adjustments	$ 22,936	$ 7,774	$ 57,574	$ 7,002	$ 2,112	$ 11,143	$ 108,541
Apportioned, Unexpired Accounts	426	286	12,490	1,332	149	5,246	19,929
Unapportioned, Unexpired Accounts	(5,008)	-	-	-	(398)	-	(5,406)
Unexpired Unobligated Balance, End of Year	(4,582)	286	12,490	1,332	(249)	5,246	14,523
Expired Unobligated Balance, End of Year	(4,258)	320	2,034	64	-	277	(1,563)
Unobligated Balance, End of Year	(8,840)	606	14,524	1,396	(249)	5,523	12,960
Total Status of Budgetary Resources	**$ 14,096**	**$ 8,380**	**$ 72,098**	**$ 8,398**	**$ 1,863**	**$ 16,666**	**$ 121,501**
Outlays, Net							
Outlays, Net	$ 18,084	$ 7,557	$ 55,331	$ 6,444	$ 2,099	$ 9,389	$ 98,904
Distributed Offsetting Receipts	-	-	-	-	-	(3,326)	(3,326)
Agency Outlays, Net	**$ 18,084**	**$ 7,557**	**$ 55,331**	**$ 6,444**	**$ 2,099**	**$ 6,063**	**$ 95,578**
Disbursements, Net	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

(continues next page)

DEPARTMENT OF VETERANS AFFAIRS
SCHEDULE OF BUDGETARY ACTIVITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2020
(dollars in millions)

	Veterans Benefits Administration						
	0102 Compensation and Pensions	0137 Readjustment Benefits	4129 Veteran Housing Program	8132 Life Insurance Fund	0151 General Operating Expenses	All Other Funds	VBA Total
Budgetary Resources							
Unobligated Balance from Prior Year Budget Authority, Net	$ 2,329	$ 3,508	$ 8,758	$ 6	$ 215	$ 1,773	$ 16,589
Appropriations	110,457	14,065	-	526	3,138	408	128,594
Borrowing Authority	-	-	-	-	-	22	22
Spending Authority from Offsetting Collections	-	185	4,329	29	1,986	1,955	8,484
Total Budgetary Resources	**$112,786**	**$ 17,758**	**$ 13,087**	**$ 561**	**$ 5,339**	**$ 4,158**	**$ 153,689**
Status of Budgetary Resources							
New Obligations and Upward Adjustments	$111,895	$ 13,291	$ 5,181	$ 561	$ 5,124	$ 1,521	$ 137,573
Apportioned, Unexpired Accounts	245	4,467	-	-	72	2,368	7,152
Unapportioned, Unexpired Accounts	646	-	7,906	-	12	209	8,773
Unexpired Unobligated Balance, End of Year	891	4,467	7,906	-	84	2,577	15,925
Expired Unobligated Balance, End of Year	-	-	-	-	131	60	191
Unobligated Balance, End of Year	891	4,467	7,906	-	215	2,637	16,116
Total Status of Budgetary Resources	**$112,786**	**$ 17,758**	**$ 13,087**	**$ 561**	**$ 5,339**	**$ 4,158**	**$ 153,689**
Outlays, Net							
Outlays, Net	$110,124	$ 12,924	$ -	$ 625	$ 2,431	$ (470)	$ 125,634
Distributed Offsetting Receipts	-	-	-	(27)	-	(3,790)	(3,817)
Agency Outlays, Net	**$110,124**	**$ 12,924**	**$ -**	**$ 598**	**$ 2,431**	**$ (4,260)**	**$ 121,817**
Disbursements, Net	**$ -**	**$ -**	**$ 1,050**	**$ -**	**$ -**	**$ 34**	**$ 1,084**

(continues next page)

DEPARTMENT OF VETERANS AFFAIRS
SCHEDULE OF BUDGETARY ACTIVITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2020
(dollars in millions)

	NCA	Indirect Administrative Programs					VA
	Total	0142 General Admin	1122 Board of Veterans Appeals	4537 Supply Fund	All Other Funds	Total	TOTAL
Budgetary Resources							
Unobligated Balance from Prior Year Budget Authority, Net	$ 27	$ 62	$ 29	$ 457	$ 132	$ 680	$ 27,499
Appropriations	373	362	174	-	222	758	240,404
Borrowing Authority	-	-	-	-	-	-	22
Spending Authority from Offsetting Collections	1	364	-	1,103	1,231	2,698	11,802
Total Budgetary Resources	**$ 401**	**$ 788**	**$ 203**	**$ 1,560**	**$ 1,585**	**$ 4,136**	**$ 279,727**
Status of Budgetary Resources							
New Obligations and Upward Adjustments	$ 382	$ 717	$ 188	$ 1,130	$ 1,381	$ 3,416	$ 249,912
Apportioned, Unexpired Accounts	14	27	5	430	194	656	27,751
Unapportioned, Unexpired Accounts	-	-	-	-	3	3	3,370
Unexpired Unobligated Balance, End of Year	14	27	5	430	197	659	31,121
Expired Unobligated Balance, End of Year	5	44	10	-	7	61	(1,306)
Unobligated Balance, End of Year	19	71	15	430	204	720	29,815
Total Status of Budgetary Resources	**$ 401**	**$ 788**	**$ 203**	**$ 1,560**	**$ 1,585**	**$ 4,136**	**$ 279,727**
Outlays, Net							
Outlays, Net	$ 365	$ 304	$ 185	$ (3)	$ 110	$ 596	$ 225,499
Distributed Offsetting Receipts	-	-	-	-	38	38	(7,105)
Agency Outlays, Net	**$ 365**	**$ 304**	**$ 185**	**$ (3)**	**$ 148**	**$ 634**	**$ 218,394**
Disbursements, Net	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,084**

DEPARTMENT OF VETERANS AFFAIRS

OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Audit of VA's Financial Statements for Fiscal Years 2020 and 2019

AUDIT | REPORT #20-01408-19 | NOVEMBER 24, 2020

DEPARTMENT OF VETERANS AFFAIRS

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20001

November 24, 2020

MEMORANDUM

TO: Secretary of Veterans Affairs (00)

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

SUBJECT: Audit of VA's Financial Statements for Fiscal Years 2020 and 2019

1. The VA Office of Inspector General (OIG) contracted with the independent public accounting firm CliftonLarsonAllen LLP (CLA) to audit VA's financial statements as of September 30, 2020 and 2019, and for the fiscal years then ended. This audit is an annual requirement of the Chief Financial Officers Act of 1990. The results of CLA's audit are presented in the attached report.
2. CLA provided an unmodified opinion on VA's financial statements for fiscal year (FY) 2020 and FY 2019. CLA did, however, note material weaknesses in internal control and instances of noncompliance with laws and regulations.
3. Regarding internal control, CLA identified five material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The five material weaknesses are as follows:
   - Controls over significant accounting estimates
   - Obligations, undelivered orders, and accrued expenses
   - Financial systems and reporting
   - Information technology security controls
   - Entity-level controls including chief financial officer organizational structure
4. The information technology security controls material weakness has been reported for more than 10 years. Regarding the other material weaknesses, CLA has changed titling and elements over time, but in general, CLA has reported control deficiencies in these areas at least since FY 2016.

5. Regarding noncompliance with laws and regulations, CLA identified the following conditions:
    - 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 of 1996 (FFMIA), reported in part for more than 10 years.
    - Improvements needed in order to fully comply with the intent of the Federal Managers' Financial Integrity Act, reported since 2015.
    - Instances of noncompliance with Title 38 of the United States Code, section 5315, pertaining to the charging of interest and administrative costs, reported for more than 10 years.
    - Violations of the Antideficiency Act. VA reported one violation of the Antideficiency Act, Title 31 of the United States Code, section 1341 (a), in November 2020 and is examining whether another violation may have occurred. Five other potential violations, which are carried forward from prior years, are under further discussion with the Office of Management and Budget. CLA has reported actual or potential violations of the Antideficiency Act since FY 2012.
    - Noncompliance with the Improper Payments Elimination and Recovery Act for FY 2019, as reported by the OIG since 2012.
6. CLA is responsible for the attached audit report dated November 24, 2020, and the conclusions expressed in the report. The OIG does not express opinions on VA's financial statements, internal control, or compliance with FFMIA, nor does the OIG 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 2021 audit of VA's financial statements.

LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

Attachment

Independent Auditors' Report

Secretary
United States Department of Veterans Affairs

Inspector General
United States Department of Veterans Affairs

In our audits of the fiscal years 2020 and 2019 financial statements of the United States Department of Veterans Affairs (VA), we found:

- VA's financial statements as of and for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- Five material weaknesses for fiscal year (FY) 2020 in internal control over financial reporting based on the limited procedures we performed; and
- Five noncompliance matters in connection with our testing of provisions of applicable laws, regulations, contracts, and grant agreements for FY 2020.

The following sections discuss in more detail (1) our report on the financial statements, which includes an emphasis-of-matter paragraph related to the restatement of certain FY 2019 financial statement balances and required supplementary information (RSI)[1] and other information[2] included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (4) VA's response to our findings and recommendations.

Report on the Financial Statements

We have audited VA's financial statements in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). VA's financial statements comprise the consolidated balance sheets as of September 30, 2020, and 2019; the related consolidated statements of net cost, changes in net position, and the combined budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility

VA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing,

[1]The RSI consists of "Management's Discussion and Analysis", "Schedule of Budgetary Activity" and "Deferred Maintenance and Repairs", which are included with the financial statements.
[2]Other information consists of information included with the financial statements, other than the RSI, Financial Section, and the auditors' report.

measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including 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. *Government Auditing Standards* require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to the RSI and other information included with the financial statements.

An audit of financial statements 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 auditors' 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 of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, the United States Department of Veterans Affairs' financial statements present fairly, in all material respects, VA's financial position as of September 30, 2020, and 2019, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 23. Restatements, VA restated the FY 2019 Statement of Budgetary Resources obligated and unobligated balances and the related Appropriations Used balances reported in the Statement of Changes in Net Position. In FY 2020, VA determined that it did not have the authority to legally record certain obligations for its Veteran Community Care programs based on an obligate at payment model. This matter and the effect of the change to specific financial statement line items is disclosed in Note 23 of VA's financial statements. Our opinion on VA's financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with *Government Auditing Standards*, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audits of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

VA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. In addition, management has included references to information on websites or other data outside of the Agency Financial Report. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audits were conducted for the purpose of forming an opinion on VA's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

In connection with our audits of the VA's financial statements, we considered the VA's internal control over financial reporting, consistent with our auditors' responsibility discussed below. We performed our procedures related to the VA's internal control over financial reporting in accordance with *Government Auditing Standards*.

Management's Responsibility

VA management is responsible for (1) maintaining effective internal control over financial reporting, including 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; (2) evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)); and (3) providing an assurance statement on the overall effectiveness of internal control over financial reporting included in management's discussion and analysis (MD&A).

Auditors' Responsibility

In planning and performing our audit of VA's financial statements as of and for the year ended September 30, 2020, in accordance with *Government Auditing Standards*, we considered the

VA's internal control over financial reporting as a basis for designing 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 the VA's internal control over financial reporting or on management's assurance statement on the overall effectiveness on internal control over financial reporting. Accordingly, we do not express an opinion on the VA's internal control over financial reporting or on management's assurance statement on the overall effectiveness on internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of the VA's internal control over financial reporting. Given these limitations, material weaknesses and/or significant deficiencies may exist that have not been identified. However, during our audit, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, described below and in Exhibit A.

Controls Over Significant Accounting Estimates

The Veterans Benefits Administration (VBA) models used to estimate the compensation, education, and loan guarantee programs warrant management's continued focus.

Obligations, Undelivered Orders (UDOs), and Accrued Expenses

In FY 2020, based upon subsequent legal review, VA found it did not have the authority to legally record certain obligations for its Veteran Community Care programs based on an obligate at payment model which resulted in a restatement of certain FY 2019 financial statement balances. In addition, VA continues to have weaknesses that include the lack of sufficient reconciliations and monitoring activities to validate the accuracy and completeness of balances derived from its procurement process.

Financial Systems and Reporting

VA's legacy core financial management and general ledger system, FMS, has limited functionality to meet the current financial management and reporting needs. VA continues to record a large number of journal entries in FMS and uses manual processes, and reconciliations in order for VA to produce a set of auditable financial statements. Further, VA continues to have various financial reporting issues though improvements have occurred since the prior year in certain areas.

Information Technology Security Controls

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

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

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

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our FY 2020 audit, we identified deficiencies in VA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant VA management's attention. We have communicated these matters to VA management and, where appropriate, will report on them separately.

Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the VA's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the VA's internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

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

In connection with our audits of VA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our

auditors' responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance 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.

Management's Responsibility

VA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to VA, including ensuring VA's financial management systems are in substantial compliance with FFMIA requirements.

Auditors' Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to VA that have a direct effect on the determination of material amounts and disclosures in VA's financial statements, including whether VA's financial management systems substantially comply with the FFMIA Section 803(a) requirements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to VA. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed instances of noncompliance or other matters for FY 2020, in Exhibit B, that are reportable under *Government Auditing Standards*. In addition, as described in Exhibit B, our tests of compliance with the FFMIA Section 803(a) requirements disclosed instances in which VA's financial management systems did not substantially comply with (1) federal financial management systems' requirements and (2) the U.S. Government Standard General Ledger (USSGL) at the transaction level. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to VA. Accordingly, we do not express such an opinion.

Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

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 and recommendations included in the prior year's Independent Auditors' Report, dated November 19, 2019. The status of prior year findings is presented in Exhibit C.

VA's Response to Audit Findings and Recommendations

VA's response to the findings and recommendation identified in our report is described on page 37. VA's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
November 24, 2020

EXHIBIT A
Material Weaknesses

1. Controls over Significant Accounting Estimates

***Background*:**

VBA is responsible for administering various programs that provide financial and other forms of assistance to veterans, their dependents, and survivors. Three large benefit programs that require significant accounting estimates and impact VA's financial statements for FY 2020 reporting are (1) compensation, (2) education, and (3) loan guaranty programs. VBA has made some progress in the development and implementation of corrective actions to mitigate financial reporting risks for these programs. However, we continue to identify control deficiencies within VBA's modeling activities that require management's continued focus and strengthening of internal controls.

The primary education benefit programs are the Post- 9/11 GI Bill (Chapter 33), Montgomery GI Bill Active Duty (Chapter 30), Veteran Readiness and Employment (Chapter 31), and Survivor's and Dependents' Educational Assistance (Chapter 35), collectively referred to as education programs. The VBA Office of Financial Management (OFM) estimates the present value of future benefits for the compensation and education programs as of the end of the FY and reported a total liability of $3.987 trillion as of September 30, 2020.

VBA also manages VA's Home Loan Guaranty program that provides a guaranty to commercial lenders against losses from veterans' mortgage loan defaults. VBA uses complex econometric models to estimate future net cash flows to be paid by VA over the life of the loans and determine the cost of these guarantees on a present value basis for budgetary and financial reporting purposes. Ultimately, these models produce an estimate that is reported as the largest component of the Liability for Loan Guarantee (LLG) in the balance sheet. VBA's OFM, headed by VBA's CFO, is responsible for preparing the LLG estimate and maintaining the models and reported a total liability of $7.4 billion as of September 30, 2020.

Conditions:

VBA management is responsible for establishing a process for preparing accounting estimates, which should include relevant internal controls such as adequate review and approval of the estimate by appropriate levels of authority, and comparison of prior estimates with subsequent results to assess reliability of the process used to develop the estimate. VBA uses a variety of modeling techniques to estimate the liability for their compensation, education, and loan guaranty benefit programs. These models require updates and refinements to their inputs such as financial data, assumptions, and non-financial data (e.g. years of service). As previously discussed, VBA has made progress to correct certain control deficiencies within their modeling activities. However, the following weaknesses remain for significant accounting estimates:

A. <u>Veterans Benefits Actuarial Liability Estimate</u>
The veterans benefits liability balance reported at September 30, 2020 consists largely of VBA's compensation ($3.854 trillion) and education ($133 billion) liability estimates. The accuracy of those estimates are highly dependent on the relevancy and completeness of the underlying data and the assumptions used within the actuarial models. VBA management made certain updates and refinements to its actuarial models which resulted from the experience studies completed in FY 2020. These efforts remediated some prior year control weaknesses and improved the precision of the respective model outputs. However, additional efforts are needed to fully remediate the control weaknesses related to VBA's modeling practices. During our examination

of VBA's modeling activities for the compensation and education programs in FY 2020, we found the following:

1. Infrequent assumption updates, untimely experience studies, and continued refinements – VBA did not perform experience studies, which are necessary to update or develop new assumptions, on a sufficiently frequent and timely basis. We observed significant changes to management's estimate as a result of the refinements. Some of the key assumption updates and other refinements that occurred in FY 2020 and their effects are noted below:
    - Compensation – There was an increase of $443 billion due to the degree of disability transition rate assumption which had not been updated since FY 2011, and a decrease of $27 billion due to the veteran termination rates assumption, which had not been updated since FY 2009. Further, VBA's future timeline for certain planned assumption updates will not occur for ten years from the last update (i.e., new case rates for survivors, termination other than death for survivors, and compensation veteran mortality rates).
    - Education – VA recognized an increase of $27 billion for the development of the Chapter 35 future new enrollee portion of the liability and a decrease of $4 billion to the Chapter 33 future new enrollee model as a result of updating the population data source based on more recent data available. VBA plans to update certain key assumptions (e.g. quarterly initial enrollment distribution, initial enrollment rates, and number of years of initial enrollments) for Chapters 33 and 31 in FY 2021. Further, VBA management did not recognize the limitation of eligible participant's usage under two or more programs (Chapters 33 and 31) in its models which subsequently resulted in an on-top adjustment. These updates may result in a significant change in the estimated liability.

2. Delays in experience studies and model submissions – There were significant delays to complete and present the education experience studies to the auditors, including access to the underlying data and supporting documentation. The majority of the education experience studies were completed in the fourth quarter of FY 2020. These delays impacted the scheduled model submissions for timely review and examination by the auditors and placed undue risk on VA's financial reporting process related to the education program liabilities.

3. Data input, reconciliations, and look-back analyses need improvement – VBA is responsible for developing and implementing key controls around the activities associated with its modeling activities. We found that VBA does not proactively refine its modeling practices but rather places undue reliance on the independent auditors to identify control gaps and offer recommendations to remediate weaknesses. These control activities include (1) preparing and maintaining complete datasets, (2) performing proper reconciliations, and (3) performing look-back analyses to assess the accuracy and precision of the model outputs.

B. <u>Loan Guaranty Liability</u>

VBA's Housing Model summarizes historical data on activities related to the VA loan programs, estimates specific assumptions regarding the programs' future performance, and calculates future program cash flows. The model is comprised of two components: the Variable Default Model (VDM) and the Cash Flow Model. Even though VBA has improved some of the model deficiencies, the following still remain:

EXHIBIT A
Material Weaknesses

1. VDM model assumptions and specification
   - The VDM model is designed to estimate the probability of default at the loan cohort level. Specifically, cohorts are defined by the year of loan origination and the type of loan product. The lack of loan level modeling to include location, mark-to-market and other underwriting characteristics at the individual loan level creates potential for bias and/or inefficiencies in assumptions. Forecasting estimates using loan-level data would allow for more robust modeling and an increased precision in projecting the amount and timing of cash flows.
   - Inconsistency in the dependent variable was present in prior years but due to the change in the estimation period for FY 2020, the issue of inconsistent default definitions is resolved. The estimation period is based on activity year data from 1992 and after. However, the impact of the change to the current year's model accuracy was not assessed.
   - The cash flow model uses a moving average versus a predictive approach. Predictive models are able to factor in the fundamental drivers of the cash flows and cohort performance.
   - VBA switched the modeling approach from logistic regression to the fractional logistic regression approach, which is a theoretically accurate approach for cohort-level data. However, we noticed that VBA only assessed the impact of the change by comparing the future forecast under these two statistical approaches. VBA did not assess whether the change improved the accuracy of the model outcome.
   - The VDM model is likely to under-estimate the default rates for periods with default rates higher than the long-run average. We based this observation on our review of VBA's look-back testing of the model.

2. Internal control
   - The model documentation lacks information on management's rationale for certain decisions such as the rationale and/or justification used to switch the statistical approach, for example, by analyzing the impact of such switch to the model accuracy. Further, the economic rationale used by management for the selected model variables is not discussed within the model documentation.
   - VBA improved its documentation by defining the processes for engaging and involving senior leadership outside of the budget office within OFM for critical decisions and oversight over various loan guarantee subsidy modeling activities, including; model development, risk assessment, assumption development and review, and model validation. However, there is limited evidence that these control activities were implemented, and in some cases, approvals were not documented, although management represented those approvals were verbal.
   - There is inadequate evidence documenting that the cash flow model is tested for reliability by comparing estimated cash flows to actual cash flows and assessing model's ability to replicate program performance.
   - VBA management does not, but should, perform analytical activities such as decomposition analysis and sensitivity analyses of various macroeconomic scenarios and VDM model variables.

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

EXHIBIT A
Material Weaknesses

Criteria:

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

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

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

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

Cause:

A. Management did not ensure that the significant assumptions discussed above were updated in a timely manner for the compensation and education estimates, some of which is due to limited resources. In addition, management did not perform adequate analysis that compared actuals to estimates to identify potential improvements to the models. Also, there are data limitations (including time constraints) that pose challenges on the completeness and accuracy of the data inputs and underlying assumptions.

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

Effect:

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

Recommendations:

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

1. Strengthen the following practices regarding the compensation and education actuarial

models by continuing to:

a) Review and ensure the reasonableness of assumptions used and document the rationale behind these assumptions.
b) Update/refine the actuarial assumptions as relevant experience information becomes available. While model results are not equally sensitive to all assumptions, regular review and update of assumptions helps maintain model integrity.
c) Consider changes in conditions or programs that require further research and analysis to update the assumptions when necessary. Changes to the model assumptions/inputs should be clearly documented and supported.
d) Conduct the appropriate analyses and validation of data sources.
e) Perform sensitivity analyses to determine the effect of changes in the assumptions on these accounting estimates.
f) Refine the assumption update schedules in the policy and procedures document for the actuarial estimates.

2. Continue and expand look-back analyses on the compensation and education assumptions and other relevant factors used in the calculation as well as the total cost estimated to ensure accuracy of financial reporting.
   a) Compare estimates with subsequent results to assess the reliability of the assumptions and data used to develop estimates. Perform these analyses for more than one year to identify trends.
   b) Identify significant variances to be investigated and researched. For education programs, segregate those already enrolled versus new entrants and by each of the applicable programs and document the information in the analysis.

3. Include the following enhancements to the VA Home Loan Guaranty Modeling activities:
   a) Compare model accuracy generated by fractional logistic regression with alternative modeling methodologies every year to see whether it produces the optimal result.
   b) Switch to loan level data as input to the default model versus at a cohort level.
   c) Include variables at the loan level to account for underwriting characteristics, geographic specific house price appreciation, and mark-to-market loan-to-value.
   d) Switch from moving average to a predictive approach for the cash flow model.
   e) Follow the Federal Financial Accounting and Auditing Technical Release 3 (Revised): *Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform – Amendments to TR 3,* Appendix A: *Acceptable Sources of Documentation for Subsidy Estimates and Reestimates*.
   f) Implement a set of policies and procedures for a model risk management oversight and governance structure, with a control framework that defines the roles and responsibilities for program, budget, department and government stakeholders. Ensure implementation of those policies and procedures are evidenced with proper documentation and sign off.
   g) Conduct additional analysis to test the model performance variables and establish a monitoring mechanism in order to calibrate the model results in observation of economic downturn in the forecasting period.

2. Obligations, Undelivered Orders (UDOs), and Accrued Expenses

Background:

In FY 2019, VA implemented the obligation at payment (OAP) methodology whereby obligations for medical care obtained through the VA's Community Care programs were recorded in VA's financial system upon payment of claims. The Office of Management implemented the recording of these obligations in this manner after legal review and advice. Additionally, VA implemented a new actuarial model to estimate the cost of care provided by community healthcare providers to its veterans but not yet reported as of September 30, 2020. In FY 2020, subsequent legal review determined that obligations for care obtained through the Community Care programs under certain contracts required an obligation to be recorded upon authorization for care rather than upon payment. Henceforth, in the case of care ordered through certain contracts, VA had to revert to its previous practice of recording obligations when a veteran was referred (i.e., authorized) for healthcare services from community providers. However, VA has not made this change operationally as it has been pursuing legislation that will allow it to continue using the OAP methodology. As a result, VA has recorded an estimate for these obligations in its financial statements as an "on-top" adjustment.

The VA uses different feeder systems to record its obligation and expenditure activities for the non-Community Care programs. The use of the various feeder systems that are not fully integrated with VA's Financial Management System (FMS) requires strong internal controls to ensure that all transactions are recorded timely and accurately. In FY 2020, we continued to identify several weaknesses that include the lack of sufficient reconciliations of its feeder/subsidiary systems to FMS and monitoring activities to validate the accuracy and completeness of balances derived from its procurement process.

Conditions:

VA continues to have weaknesses in the following areas:

A. <u>Actuarial Models for Community Care Programs</u>
VA uses actuarial modeling techniques to estimate the costs of care provided to veterans and their dependents for which invoices have yet to be received at a point in time. These estimates are recorded in VA's financial records as a liability at June 30 and September 30 of each FY and represent incurred but not reported (IBNR) costs. During our examination of the actuarial model used to estimate the aforementioned liability, we found that the documentation for the IBNR model implemented by VA initially did not clearly describe important assumptions and judgements used to develop the IBNR liability. For example, VA initially did not provide sufficient documentation to support the appropriateness of the use of certain margins and trends. Also, VA initially did not provide an adequate explanation to describe the impact of a recently identified back log of claims and its impact on the IBNR assumptions. Further, VA did not consider the impact of the February 5, 2020 legal opinion which required VA to record obligations at the time of referral for certain types of contractual arrangements. Instead, VA relied on a potential change to legislative language that did not materialize in FY 2020. These observations led to misstatements of liabilities associated with Community Care programs at June 30, 2020.

Subsequently, VA developed a model to estimate the obligations required to be reported based on the February 5, 2020 legal opinion. This model estimated UDOs, and the model's output was used as the basis to correct certain obligation balances for FY 2019 and estimate certain

obligation balances at September 30, 2020. Initially, VA did not provide sufficient documentation to support that all transactions included within its UDO model for FY 2019 were related to activities associated with obligations incurred at the time of referral. Subsequently, VA provided an updated UDO model with all requested documentation and analysis to support its obligation balances at September 30, 2020. However, the UDO model and subsequent updates were not provided until after the end of FY 2020, which placed undue risk on VA's financial reporting process related to Community Care obligations.

With respect to VA's OAP methodology, further legal review of VA's current process for recording obligations at payment continues to be required in order to address an open inquiry from GAO dated March 19, 2020. The closure of the inquiry could impact the manner in which VA records all Community Care obligations for the current and prior fiscal years

Overall, VA placed undue reliance on obtaining a legislative change to allow OAP for all Community Care programs and did not adequately plan for an alternate outcome. As a result, the UDO model was developed in mid-October 2020 (after the fiscal year-end).

B. Non-Community Care Program Expenses and Related Obligations

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

VA continues to use VA Form 1358 "Obligation or Change in Obligation" (1358s) to record financial transactions related to procurement obligations during FY 2020. As of September 30, 2020, VA's obligations based on 1358s approximated $7.4 billion in FY 2020. VA approved the use of 1358s for 21 different types of transaction categories and they are integral to the operation of some of VA's programs. In most cases, 1358s bypass the conventional procurement controls by design, in order to support program circumstances or needs. We continue to identify 1358 transactions which were not closely monitored and validated by management to ensure recorded obligations and accrued expenses were not overstated. VA instituted an auto-accrual process based on open obligations to remediate the potential recording errors. However, the auto-accrual process can also cause errors, and it cannot replace active monitoring.

The monitoring activities used by VA to validate accounts payable and accrued balances must be strengthened. The estimates for the accrued balance amounts should be compared against actual payment data from FMS. A comprehensive look-back analysis or validation of its accrual methodology for its non-Community Care activity was not adequately performed for the majority of the FY which resulted in a significant manual adjustment of approximately $1.5 billion at year end to accurately report the Accounts Payable balance at September 30, 2020 and a $490 million manual adjustment to accurately report UDOs.

Consistent with our prior year observations, we found the following control deficiencies across VA from our sample testing that affect the accuracy of financial reporting related to the non-Community Care programs:

- Untimely liquidation of inactive UDOs – Delays ranged from nine months to three years.

EXHIBIT A
Material Weaknesses

- Untimely recording of contracts or modifications into the general ledger system (FMS) – Delays ranged from approximately two months to two years.
- Recording of obligations prior to contract execution – Obligations, including purchases through the National Acquisition Center (NAC), were recorded in FMS up to six months prior to the execution of the contracts or contract amendments.
- Over-obligation of funds – Recorded obligations exceeded the contract or purchase order amounts.
- Proper procurement procedures were not followed in obtaining goods or services – We identified a variety of exceptions.

Criteria:

See GAO's *Standards for Internal Control in the Federal Government* and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123) criteria in Material Weakness 1. Additionally, the FMFIA requires agencies to implement controls that ensure obligations and costs are in compliance with applicable laws and that revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Cause:

VA inappropriately recorded Community Care obligations under certain contracts at the time of payment instead of at the time of authorization of the health care services. The information technology system used to record VA's financial activities and events have significant system limitations that hinder its ability to accurately report the financial transactions. Further, VA is a highly decentralized organization accompanied by the lack of effective oversight and monitoring controls.

Effect:

These conditions led to inaccurate financial reporting, in both the prior year and the current year, with respect to obligations, accrued expenses, and UDOs which required manual adjustments to accurately report balances at September 30, 2020 as well as restatements to the Statement of Budgetary Resources and the Statement of Changes in Net Position for FY 2019.

Recommendations:

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

1. Record obligations at the time of referral as required by the February 5, 2020 legal opinion

2. Continue to monitor developments pertaining to the IBNR estimates, particularly due to the uncertainty of the pandemic and other factors. Therefore, management should continue to update or refine the assumptions and inputs used within the IBNR model based on further review of historical claim data and/or claim patterns. In addition, perform retroactive testing of the data in order to validate the methods selected and provide insight on margin and trend assumption development.

3. Continue efforts to develop and refine auditable methodologies for establishing and validating non-Community Care obligations and accruals.

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

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

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

7. Work with VA's Office of General Counsel to respond to GAO's request as well as other legal questions raised by the OIG that still need to be addressed.

3. Financial Systems and Reporting

Background:

An agency's financial systems and reporting are essential to prepare accurate and timely financial statements. VA implemented its legacy core financial management and general ledger system, FMS, in 1992 which now has limited functionality to meet the current financial management and reporting needs. VA utilizes a system application, the Management Information Exchange (MinX) system, to consolidate general ledger activities from FMS and create financial statements for external financial reporting. This process requires significant manual intervention and creates risks to the accuracy and completeness of financial reporting. VA is scheduled to deploy a new financial system in a series of phases over an extended period of time. The implementation and completion of this new system is critical in remediating the control weaknesses associated with VA's financial system reporting capabilities.

Conditions:

VA continues to refine its financial reporting practices. However, many of these issues have existed for years and require extensive efforts to change the current business processes, research legacy differences, and implement workarounds to resolve them. The majority of VA's financial systems and reporting control weaknesses stem from the antiquated financial management system and will remain until a more modernized system is implemented. Through FY 2020, VA's financial systems and reporting issues remain in the following areas:

A. <u>Lack of FMS Reconciliations with Subsidiary Systems</u>
VA has several legacy subsidiary systems that no longer meet the financial management system requirements and do not have a two-way interface with FMS. We reported these IT control

deficiencies in our prior year audit reports. VA does not perform comprehensive reconciliations between its feeder/subsidiary systems and FMS. Specifically, the reconciliations between the subsidiary systems where the financial transactions were initiated and FMS were either not performed, partially performed, performed decentralized, or performed manually. Consequently, VA's accounting and financial reporting is severely hindered by system and business process limitations. Historically, the subsidiary systems where the financial events are initiated are not always the systems that directly feed information into FMS, which continues to further exacerbate the reconciliation issues.

B. Extensive Reliance on the Use of Journal Vouchers (JVs)

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

C. Issues with Intragovernmental Agreements and Reconciliations

VA does not have a complete centralized repository for all active intragovernmental agreements to support and facilitate its transaction level research and reconciliation. Consequently, the accounts involving intragovernmental financial transactions, such as obligations, unfilled customer orders, and offsetting collections recorded in FMS, do not agree to the intra-agency agreement amounts. The VA intragovernmental differences by trading partner approximated $633 million as of June 30, 2020.

VA's FMS system has limitations which result in transactions mapped to the incorrect Federal or Non-Federal attributes as a default. FMS does not have the system functionality to meet the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting requirements. The high-volume, high dollar JVs are entered into MinX to adjust trading partner and general ledger attributes (including adding main account codes, changing "Fed and Non-Fed" attributes) in order for VA's trial balance submission to pass GTAS edits.

D. Recording of Prior Year Budgetary Recoveries

In FY 2019, VA designed and implemented an automated tool to assist with data cleansing efforts related to prior year recoveries transactions. In FY 2020, those efforts continued to result in improvements in remediating the budgetary recording errors associated with long standing system limitations. As a result, VA recorded material adjustments to correct errors in recoveries accounts for approximately $2.36 billion (absolute value) during the year.

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

VA continues to lack an effective centralized and consolidated process to properly report, reconcile, and monitor the outstanding unapplied deposit/clearing account activities relating to the $267 million reported in Note 3, Fund Balance with Treasury, to the financial statements. In the prior years, we found that VA could not provide a detailed report containing valid and outstanding transactions that still needed to be researched and applied to the proper account at year-end. This condition remained for FY 2020. The lack of a detailed report increases the risk that VA may

inappropriately reclassify transactions to the incorrect account and/or fund which increases financial reporting and budgetary funds control risks.

Criteria:

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

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

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

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

Cause:

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

Effect:

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

Recommendations:

We recommend that the Assistant Secretary for Management/CFO in coordination with the Veterans Health Administration (VHA) CFO and the VBA CFO:

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

of the modernization.

b) Establish a risk register for each of those systems and either prioritize system modernization or institute system fix efforts. Coordinate efforts with the Office of Information and Technology (OIT) and the relevant business offices to ensure complete and consolidated reconciliations between those subsidiary systems and the general ledger system are performed on a monthly basis.

c) Strengthen the FMS cumulative reconciliation with the subsidiary systems that includes performing complete and consolidated reconciliations between those subsidiary systems and FMS on a predetermined frequency basis (e.g., monthly) to support the accuracy and completeness of financial reporting.

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

3. Intra-governmental agreements and reconciliations:
   a) Comply with the reimbursable policy to provide the final agreement and continue to work to maintain and validate all intragovernmental agreements in the centralized repository to ensure that all agreements are current and contain all the required terms and conditions. Perform an inventory review of those agreements to:
      - Determine whether balances are recorded in FMS accurately.
      - Ensure that agreements in the repository reflect an active or closed status, identify obligation amounts separately from the agreement values, and ensure that values are supported by agreements or task orders released against the agreement.
   b) Continue to review closed agreements and determine whether these agreements need to be renewed, maintained in the repository, or archived.
   c) Produce reliable subsidiary trading partner reports with details at the transaction level that can be linked to the agreement level to facilitate management's review and reconciliation with the trading partner reporting in GTAS and in the financial statements. Any corrections made as a result of the research should be documented and recorded in FMS at the transaction level.
   d) Continue to strengthen VA's controls and processes as described in the Treasury Financial Manual Volume I, Part 2, Chapter 4700, Appendix 5, *Intragovernmental Transaction (IGT) Guide*, updated in June 2020, Section 2.3, for:
      - Authoritative Source Reconciliation
      - Material Difference Reports
      - Root Cause/Corrective Action Plan Process
      - Dispute Resolution Process
      - Measure IGT Activity/Scorecards (subsection 2.4)

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

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

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

4. Information Technology Security Controls

VA relies extensively on information technology (IT) system controls to initiate, authorize, record, process, summarize, and report financial transactions in the preparation of its financial statements. Many of VA's legacy systems have been obsolete for several years. For example,

EXHIBIT A
Material Weaknesses

VA's core financial accounting system, FMS, is coded in Common Business Oriented Language (COBOL) - a programming language developed in the late 1950s and VA's system employed at the medical centers - Veterans Health Information Systems and Technology Architecture (VistA) - was built in the late 1970s. Because of their age, legacy systems are more burdensome and costly to maintain, cumbersome to operate, and difficult to adapt to meet today's operational and security requirements. Internal controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud, and other illegal acts.

Our review of IT controls covered general and selected business process application controls across 24 selected VA medical centers, regional offices, and major data centers. We also reviewed controls over 24 selected financial and operationally significant systems and applications. Our testing this year was conducted remotely or virtually where feasible due to the restrictions in place surrounding the Covid-19 pandemic. 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.

We identified security improvements for activities and systems; however, weaknesses still persisted in FY 2020. Examples of VA improvements in its IT control environment include further implementation of system monitoring and logging tools and techniques. Additionally, in order to establish more consistent processes, VA continued centralizing some control functions that in prior years were dispersed across field offices. VA also has continued predictive scanning of its networks allowing for the identification of vulnerabilities across field offices. VA has also piloted passive vulnerability scanning for segments of the network typically isolated from normal scan activity. Further, VA implemented a new 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. Additionally, controls need to be applied in a holistic manner to information systems across VA in order to be considered consistent and fully effective. Accordingly, we continue to see information system security deficiencies similar in type and risk level to our findings in prior years and an overall inconsistent implementation of the security program. Moving forward, VA needs to ensure a proven process is in place across the agency. VA also needs to continue to address control deficiencies that exist in other areas across all VA locations.

We continue to find control deficiencies in Configuration Management, Access Controls, Security Management, and Contingency Planning domains. Most importantly, we continue to identify significant technical weaknesses in databases, servers, and network devices that support transmitting financial and sensitive information between VA's medical centers, regional offices, and data centers. This is a result of an inconsistent application of vendor patches and outdated system software that could jeopardize the data integrity and confidentiality of VA's financial and sensitive information. VA has made progress in deploying current security patches; however, older patches and previously identified vulnerabilities related to configuration weaknesses and outdated system software continue to persist on its networks. While some progress was made in these areas, VA needs to improve deployment of security patches, system upgrades, and system configurations that will mitigate significant security vulnerabilities and enforce a consistent 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 implementation and enforcement of an agency-wide information security program across the enterprise. Therefore, VA needs to improve its performance monitoring to ensure controls are operating as intended for all systems and 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 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 scan all of the devices connected to its networks with credentials and VA did not have a complete inventory of vulnerabilities. Thus, we could not verify that all VA 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 made progress in implementing controls to segment medical devices; however, we continued to identify instances where segmentation was not appropriately designed or configured for ensuring medical devices are properly segregated from other networks.
- Although VA continued to document and implement new baselines, weaknesses remain in the process for developing, approving, and implementing configuration baseline standards. Specifically, VA was in the process of reviewing its systems environment, identifying systems that did not have secure baseline configuration guides in place, and developing baseline configuration guides for those systems. In addition, VA did not consistently monitor compliance with its established configuration baselines.
- The process for developing and maintaining an accurate listing of software, hardware, and component inventory was not fully implemented throughout the enterprise.
- Change management procedures for authorizing, documenting, testing, and approving system changes were not consistently implemented for networks and mission-critical systems.
- VA did not employ automated mechanisms to prevent the execution of changes to systems prior to approval and did not consistently monitor for unauthorized changes across all system platforms.
- An agency-wide process was not fully implemented for identifying and removing unauthorized application software on agency systems. VA has made progress by expanding automated software monitoring and continues to work on implementing an enterprise wide continuous monitoring solution for unauthorized software.

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.

- Inconsistent reviews of user access resulted in numerous generic, system, terminated, and inactive user accounts that were not removed from the applications and networks. Several financial applications were identified with inadequate controls related to inactive accounts and segregation of duties. In addition, inconsistent exit clearance processes for employees contributed to a number of separated employees with active system user accounts or accounts that were not disabled timely.
- Proper completion of user access requests was not consistently performed to eliminate conflicting roles and enforce principles of least system privilege. In addition, technical access controls were not implemented in key financial applications to ensure access is based on defined roles and adequate segregation of duties.
- Monitoring of access for individuals with elevated application privileges was lacking within several major applications' production environments.
- Identification, notification, and remediation of security and privacy incidents were not consistently implemented to ensure incidents were resolved timely. In addition, network and application security event logs, which provide audit trails, were not consistently maintained, correlated and/or reviewed across all facilities and systems.

Security Management

- Security Control Assessments (SCAs) were not consistently performed for new systems gaining an Authority to Operate (ATO) and existing systems going through re-authorization. In addition, most SCAs were conducted by groups that were not independent of the systems they manage and did not consistently assess the effectiveness of the controls in place.
- Security and risk management processes were not consistently performed and documented within the new GRC tool. We identified instances of controls not being adequately documented, controls that were not assessed, and incomplete risk assessments.
- VA's system of record for background investigations was inaccurate. In addition, some personnel did not receive the proper level of investigation for their position sensitivity levels. Furthermore, the centralized method for monitoring the investigation status of contractors was newly implemented and did not track all contractors.
- Plans of Action and Milestones (POA&Ms) were not consistently updated to incorporate all known control weaknesses (i.e., those identified by SCAs), reflect changes to milestones, and documentation was inadequate to support closed actions.
- System interconnections were not consistently documented and were not always accurately reported within system and site inventories.

Contingency Planning

- There were instances of unplanned outages or disruptions where systems or services were not recovered within prescribed Recovery Time Objectives (RTOs).
- Contingency and Disaster Recovery Plans were not consistently tested or documented and did not identify critical system assets.

Criteria:

OMB Circular A-130, Appendix I, *Responsibilities for Protecting and Managing Federal Information Resources,* states that, "Federal agencies must implement information security

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

OMB 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;
- 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 at least annually;
- A process for planning, implementing, evaluating, and documenting remedial actions to address any deficiencies in the information security policies, procedures, and practices of the organization;
- Procedures for detecting, reporting, and responding to security incidents; and
- Plans and procedures for continuity of operations for information systems that support the operations and assets of the organization.

Cause:

Dispersed locations, continued reorganization, and diversity of applications have impacted facilities' and management's ability to consistently remediate IT security deficiencies across the enterprise. For example, VA's complex and disparate financial system architecture has resulted in a lack of common system security controls and inconsistent maintenance of IT mission-critical systems. Also, VA recently underwent a system boundary re-organization which aligned their main systems along area/district territories. This has created a new system boundary structure and VA system inventory, thus complicating the consistent application of an established

information security program. 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.

Effect:

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

Recommendations:

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

(Note: The notices of findings and recommendations provided to VA include the detailed recommendations to address the findings and therefore summary recommendations have been included here).

1. Implement improved mechanisms to continuously identify and remediate security deficiencies. Ensure security scans are performed with credentials on as many systems as possible and the subsequent vulnerabilities are remediated in a timely manner. Additionally, ensure systems are patched timely and unsupported versions of operating systems and software are removed or isolated to the extent possible.

2. Continue to implement controls that restrict medical devices from unnecessary access to the general network.

3. Ensure that all baselines are appropriately implemented, tested, and monitored for compliance with established VA security standards.

4. Fully develop a comprehensive list of approved and unapproved software. Implement automated continuous monitoring processes to identify and prevent the use of unauthorized software on agency devices.

5. Implement improved change control procedures to ensure the consistent documentation, testing, and approval of system changes for VA financial applications and networks.

6. Implement improved processes to ensure compliance with VA password policy and security configuration baselines on domain controls, operating systems, databases, applications, and network devices.

7. Implement improved processes for periodic reviews of system and application accounts to ensure appropriate access rights and remove generic and inactive accounts on systems

and networks. In addition, implement improved processes to ensure the proper completion of termination processes for separated personnel.

8. Implement improved processes to ensure the proper completion and retention of user access request forms that enforce principles of least system privilege. Implement technical access controls that will restrict user access based on defined roles and enforce adequate segregation of duties principles.

9. Strengthen agency-wide incident response procedures to ensure timely notification, reporting, updating, and resolution of computer security incidents. Improve processes for monitoring system audit logs of unauthorized or unusual activities and privileged functions across all systems and platforms.

10. Implement improved processes for reviewing and updating key security documentation and ensure security control implementation status and risks are accurately reported. Implement improved processes to ensure that an accurate up to date inventory of interconnections exists.

11. Strengthen processes to ensure appropriate levels of background investigations are completed. Formalize the position descriptions and the position risk designation methodology, and implement improved processes for establishing and maintaining accurate investigation data within an authoritative system of record for VA.

12. Implement improved mechanisms to ensure system owners, system stewards, and information system security officers follow procedures for establishing, tracking, updating, and closing POA&Ms.

13. Review and update existing contingency plans and operations to include critical information systems, components, business impacts, and detailed recovery priorities. Ensure contingency plans for all systems and applications are updated and tested in accordance with VA requirements.

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

Background:

The establishment and execution of an internal controls system is critical to meet an agency's operational, programmatic, and financial objectives. Entity-level controls have a pervasive effect on VA's internal control system and encompass the elements of control environment, control activities, monitoring, risk assessment, and information and communication. With respect to the control environment, management is responsible for establishing an organizational structure, assigning responsibility, and delegating authority to achieve the entity's objectives. As an agency's environment changes, the organization must adjust its practices to address new risks or threats and remediate recurring longstanding deficiencies. Also, organizations that establish effective controls can improve their efficiency in delivering value and achieving their strategic objectives.

VA's financial management structure is decentralized, with most of VA's budget authority and financial statement accounts under the operational control of its major administrations and offices. The reliability of VA's financial reporting as a whole is largely dependent on the quality of financial

management at these organizations. The Assistant Secretary for Management is VA's statutory CFO, as required under the CFO Act. The VA CFO has responsibility for establishing financial policy, systems, and operating procedures for all VA financial entities; providing guidance on all aspects of financial management; and producing VA's consolidated financial reports. VA administrations and other offices are responsible for implementing those policies and producing the financial information that the VA CFO's office consolidates.

Condition:

In FY 2020, VA continues to have serious control weaknesses throughout the organization with respect to internal controls over financial reporting. These weaknesses are primarily attributed to a decentralized and fragmented organizational structure for financial management and reporting; the lack of an effective, comprehensive, and integrated financial management system and a challenging IT environment; and the undue reliance placed on manual processes to identify or correct errors with financial information. Further, active involvement from VA's senior leadership is required to transform VA's operations into a more collaborative strategic structure to effectively mitigate the control weaknesses identified in this report.

A. Control Environment

The VA established the CFO Council to serve as an advisory committee to the VA CFO to address longstanding financial management control weaknesses. VA's internal controls over financial reporting continue to evolve in certain areas. However, we continue to identify weaknesses and areas for improvement. Specifically, we found the following:

- There were instances where VA lacked the coordination and collaboration between the agency's offices and business lines to ensure potential risks to financial reporting were identified, evaluated, and addressed. For example, we observed two instances where a lack of a comprehensive review of appropriation law language by the respective offices and business lines impacted the accurate recording of transactions to the general ledger. In one instance, VA failed to recognize that the anticipated "available until expended" language was not included for a FY 2020 appropriation. Consequently, VA incorrectly recorded the transactions to a no-year appropriation fund instead of a single year appropriation fund. In another instance that took place in FY 2017 and 2018, VA failed to recognize that a certain fund did not have the authority to pay for certain types of expenses which VA determined to be an Antideficiency violation this FY. Both instances displayed a lack of coordination and communication between the offices and business lines to identify, evaluate, and address these risks to financial reporting and compliance.
- During FY 2020, we continue to identify untimely resolution of significant matters that impacted accurate financial reporting. These matters were included in Material Weaknesses 1-3 of this report. Consistent with our prior year observation, VA's current governance structure does not include strong accountability controls for financial management at the enterprise level.

B. Control Activities and Monitoring

The control activities of an organization are the policies, procedures, and techniques that management uses to address operational, programmatic, and financial reporting risks. These activities require sufficient and descriptive documentation that is clear and concise to ensure that the appropriate steps are executed to achieve the desired objective. In addition, active monitoring by VA at the entity level and within each business line (e.g. VHA, VBA, and National Cemetery Administration) is critical to evaluating the design and effectiveness of the internal control system.

An effective monitoring system uses control activities such as regular management and supervisory reviews, reconciliation, automated tools, and other activities to identify deficiencies in need of corrective action. Overall, VA's risk assessment process should provide the principal basis for developing the appropriate responses to risks. However, we continue to report repeated weaknesses in VA's financial management and IT environment. VA has not effectively mitigated these weaknesses in a timely manner.

In FY 2020, we continued to identify deficiencies in control activities and monitoring at the entity level as identified in this report. These conditions have been discussed in detail in Material Weaknesses 1-4 and Noncompliance findings 1-2 and include the following:

- Incomplete documentation for all key significant business processes (called process narratives) affecting financial management that describe VA's most current key control activities
- Incomplete reconciliations for subsidiary/feeder systems to FMS (general ledger)
- Insufficient or inadequate development and execution of IT control activities
- Delays in implementing and documenting the UDO estimation methodology and performing reconciliations to ensure data completeness
- Delays in completing experience studies and submitting actuarial models for the education benefit programs
- Lack of a complete centralized repository for intragovernmental agreements
- Extensive use of journal vouchers due to system limitations
- Lack of a centralized and consolidated process to properly report, reconcile, and monitor the outstanding unapplied deposit/clearing account activities

Details can be found in the sections of this report describing individual material weaknesses and noncompliance with FFMIA and FMFIA. The resolution of these longstanding weaknesses requires senior management attention and VA-wide efforts and time to ensure consistent and focused implementation.

Criteria:

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

The CFO Act of 1990 stipulates the following:

Sec. 902. Authority and functions of agency Chief Financial Officers, states:
"a. An agency Chief Financial Officer shall—

1. report directly to the head of the agency regarding financial management matters;
2. oversee all financial management activities relating to the programs and operations of the agency;
3. develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which—
   A. complies with applicable accounting principles, standards, and requirements, and internal control standards;
   B. complies with such policies and requirements as may be prescribed by the Director of the Office of Management and Budget;

C. complies with any other requirements applicable to such systems; and
D. provides for--
   i. complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management;
   ii. the development and reporting of cost information;
   iii. the integration of accounting and budgeting information; and
   iv. the systematic measurement of performance;

4. make recommendations to the head of the agency regarding the selection of the Deputy Chief Financial Officer of the agency;
5. direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including-
   A. the preparation and annual revision of an agency plan to-- (i) implement the 5-year financial management plan prepared by the Director of the Office of Management and Budget under section 3512(a)(3) of this title; and (ii) comply with the requirements established under sections 3515 and subsections (e) and (f) of section 3521 of this title;
   B. the development of agency financial management budgets;
   C. the recruitment, selection, and training of personnel to carry out agency financial management functions;
   D. the approval and management of agency financial management systems design or enhancement projects;
   E. the implementation of agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control;
6. monitor the financial execution of the budget of the agency in relation to actual expenditures and prepare and submit to the head of the agency timely performance reports."

Cause:

VA has not adequately designed and placed the appropriate controls in operation to remediate the financial reporting risks associated with a decentralized reporting structure. Also, VA has a complex, disjointed, and legacy financial system architecture that cannot fully support financial management needs without significant manual intervention.

Effect:

The lack of an effective entity level control, including the decentralized reporting structure coupled with legacy system issues, has led to systemic and pervasive control deficiencies that impedes the Department's ability to process, summarize, and report reliable financial information in a timely manner. Also, VA may not fully comply with existing federal financial reporting guidelines and related laws, regulations, contracts, and grant agreements.

Recommendations:

We recommend that the VA Secretary and Deputy Secretary:

1. Provide the VA CFO office with authority to actively participate in:
   - Approving job descriptions and skill requirements for those who head VA components' financial management activities and operations.

- Selection and recommendation of those individuals.
- Their annual performance evaluation.

We recommend the VA Assistant Secretary for Management/CFO and CFO Council:

2. Work to develop a transparent, collaborative and accountable culture across organizational components by:
    - Openly sharing information regarding issues, root causes of issues/findings, analyses, and best practices.
    - Work with responsible parties to implement corrective actions to timely address and mitigate identified issues/risks.
    - Encourage communication and collaboration under the CFO's leadership to establish working level committees to resolve any identified accounting, financial management, and financial reporting issues.
    - Involve other stakeholders such as key leaders from acquisition, logistics, and asset management to collaboratively address financial management issues and develop risk mitigation strategies.
    - Provide the necessary financial management training and performance monitoring to continuously elevate the financial management capabilities and knowledge within VA.

3. Ensure that system modernization efforts address and support remediation of the material weaknesses and system deficiencies identified in this report, as well as meet all Federal system requirements.

EXHIBIT B
Noncompliance Findings

1. Noncompliance with FFMIA

Financial Management Systems

VA's legacy financial management system architecture is complex and disjointed, and no longer supports the stringent and demanding financial management and reporting requirements mandated by the Treasury and OMB. As discussed in Material Weakness 3, many of VA's legacy systems have been obsolete for several years. Because of their age, legacy systems are more burdensome and costly to maintain, cumbersome to operate, and difficult to adapt to meet today's operational and security requirements. VA continues to be challenged in its efforts to apply consistent and proactive enforcement of established policies and procedures throughout its geographically dispersed portfolio of legacy applications and systems. As a result, VA's financial management systems do not substantially comply with the Federal financial management systems requirements and the USSGL at the transaction level, as required by FFMIA Section 803(a). These conditions should be read in conjunction with all material weaknesses reported in Exhibit A, including Material Weakness 4 concerning the IT security control environment.

A. Federal Financial Management System Requirements

VA's core accounting system, FMS, was implemented in 1992. Since that time, Federal financial reporting requirements have become more complicated and the level of financial information required by Congress and other oversight bodies has become increasingly demanding and complex. Some of the effects of FMS' limited functionality are described in the Material Weakness 3. Due to these limitations, VA utilizes a separate accounting system application, 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 re-performed and re-entered in each period to produce VA's financial statements and GTAS trial balances. FMS' functionality limitations are exacerbated due to the age of FMS.

As reported in previous years, complete and consolidated reconciliations between FMS and the following subsidiary/feeder systems were not performed throughout FY 2020:

- *Electronic Contract Management System (eCMS).* eCMS is an intranet-based contract management system mandated by VA policy. Source documentation of all actions pertaining to open-market procurements over a certain threshold are required to be created and maintained in eCMS. However, VA does not utilize eCMS to electronically process the approval and reviews performed for its acquisitions. Obligation of funds and assignment of purchase order numbers are still performed in IFCAP.

  In addition, VA has not fully implemented a standard procurement file structure in eCMS to maintain acquisition documentation in a consistent and efficient manner. As a result, it was difficult at times to find acquisition documentation to support the procurement process followed by VA. The information in this system is incomplete and can be unreliable.

- *Veterans Health Information Systems and Technology Architecture (VistA).* VistA is VHA's decentralized system utilized for patient billing and collection transactions. Each medical center has its own instance of VistA that must be separately maintained and updated. VistA contains the detailed subsidiary records that support the FMS general ledger control accounts.

In the case of the Medical Care Collections Fund (MCCF), VistA does not provide management with the ability to effectively and efficiently monitor MCCF activities at the transaction level. In particular, although billing and collection functions have been centralized at the Consolidated Patient Accounting Centers (CPACs), CPAC personnel still cannot generate combined reports for all the facilities under their purview. Reports are generated separately for individual medical centers, which leads to inefficiencies in operations and revenue management. Further, a nationwide report at a sufficient level of detail cannot be generated. For financial reporting, MCCF revenues are recorded in FMS through a lump-sum journal entry based on station-by-station data. This complicates reconciliation of revenue transactions to collections and the supporting audit trail. In addition, as VistA is not able to produce a consolidated accounts receivable aging report at a sufficient level of detail, management does not have the tools to properly assess the reasonableness of its allowance for loss provision or perform a retrospective analysis to ascertain the reasonableness of its allowance methodology.

- *Integrated Funds Distribution Control Point Activity, Accounting and Procurement System (IFCAP)*. IFCAP is a module within VistA that is used by VHA, contracting officers, and other VA personnel to initiate and authorize purchase requisitions for goods and services, as well as to accumulate vendor invoices for payment. 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.

During our testing of JVs during FY 2020, we found multiple instances of system interface errors with the Insurance program's Lifepro system and FMS which resulted in errors in FMS general ledger account balances. For example, we found an interface error between Lifepro and FMS of $58 billion. The recorded error impacted four different general ledger accounts and resulted in an absolute error of $232 billion. Although VA management subsequently corrected the error, adequate application controls would prevent such errors.

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

- The Centralized Administrative Accounting Transaction System (CAATS)
- The Benefits Delivery Network (BDN)
- The Veterans Services Network (VETSNET)
- The interface from the Long Term Solutions (LTS) system to BDN is a one-way process. Education benefit payments were determined and processed in LTS and transferred through the system interface to BDN for payments by VBA. However, the payment data in BDN did not feed back into LTS to show the entire history from eligibility and entitlement determinations, to actual payment processed. No reconciliation is performed to ensure consistency of relevant data in both systems.
- The Education benefits for the various programs are processed using different applications (e.g., BDN, LTS, FOCAS (system used for Flight on the Job Training program), etc.), some of which do not interface with FMS. Further, due to the limited functionality of these systems, intensive manual efforts are necessary to adjudicate and process education benefits. These manual processes create additional inherent risk and leave room for error.

Moreover, certain subsidiary systems were not integrated with each other resulting in additional manual input that produced inefficiencies and manual errors. For example, for veterans who

submit applications for Education benefits through the VA Online Application System (VONAPP), the applications are scanned into the imaging system and then manually input into LTS for the processing of each initial claim. The lack of information interface from VONAPP to LTS creates additional inherent risk and leaves room for manual input error.

B. USSGL at the Transaction Level

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

- Certain USSGL transaction codes continue to be missing from FMS. For example, VA cannot record USSGL transaction code A118 in its financial system. As a result, a workaround is required to put anticipated funds apportioned into the proper account 4590 - Apportionments - Anticipated Resources - Programs Subject to Apportionment. The process is currently not being performed through a JV but is a hardcoded adjustment to the GTAS Bulk File which inherently increases the risk of misstatement in the VA financial statements.
- FMS does not allow for 6-digit USSGL account reporting as required by the Treasury Financial Manual.
- FMS is outdated and unable to keep up with the existing Treasury reporting requirements.
  - The existing FMS posting logic was not updated for all required Treasury account attributes established in the USSGL. In addition, mapping issues in FMS prevent accurate reporting of Federal and non-Federal attributes when a business event occurs. As a result, VA management needed to execute workarounds to compensate for FMS' system limitations. In addition, the FMS chart of accounts was modified to incorporate letters and numbers to classify Federal and non-Federal (i.e., public) transactions to meet GTAS reporting requirements.
  - FMS also lacks the appropriate edit checks to ensure the proper posting of intragovernmental transactions, which results in significant trading partner-related adjustments as part of its GTAS submission to the Treasury.
  - The FMS transactions used when recording investment activity erroneously hit USSGL 49XXXX series accounts. JVs were required to remove the impact of these errors
  - Account codes descriptions did not match the USSGL.
  - The FMS chart of accounts was not consistent with USSGL.

2. Noncompliance with FMFIA

The guidance established by OMB Circular A-136, *Financial Reporting Requirements*, identified the following assurances to be provided by management related to FMFIA:

- Effectiveness and efficiency of internal control over programmatic operations (FMFIA § 2)
- Conformance with financial systems requirements (FMFIA § 4)
- Effectiveness of internal control over financial reporting (FMFIA § 2)
- A summary of material weaknesses (FMFIA § 2), instances of non-compliance (FMFIA § 4), a summary of the assurance (unmodified, modified, or no assurance), and a summary of corrective actions to resolve the material weaknesses and instances of non-compliance

VA management continued in FY 2020 to strengthen VA Administrations' use of the Reporting Entity Assessment tool which supports the required assurances. The tool is used to assess VA-wide entity level risk and to consolidate various on-going assessment efforts throughout VA to increase efficiency. However, we found the following areas in need of improvement in order to fully comply with the intent of FMFIA:

- VA did not implement best practices to use transactional level testing to support the assurance statements at the individual reporting entity level, which ultimately support the Secretary's assurance statement.
- VA's internal control process was unable to fully remediate recurring material weaknesses and noncompliance matters. VA believes that some of the long-standing control weaknesses with their financial systems will be addressed through their system modernization efforts.
- VA did not perform tests of design and tests of effectiveness over key cycles such as Obligations and General Property, Plant, and Equipment in FY 2020.

3. Noncompliance with 38 USC 5315

VBA did not charge interest or administrative costs on delinquent payments for receivables outstanding over 90 days related to the compensation, pension, and education benefit programs. Historically, VA's long standing policy to not charge interest is based on a former VA Deputy Secretary's July 1992 instruction.

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 continues to be noncompliant with this requirement based on its long standing policy.

4. Actual and Potential Violations of the Antideficiency Act

ADA Violations:
VA reported one violation of the Antideficiency Act, 31 U.S.C. 1341 (a) on November 5, 2020. The Office of Community Care used the Medical Community Care (Fund 0140) appropriation instead of the Medical Services (Fund 0160) appropriation for the payment of State Home aid expenses during fiscal years 2017 and 2018.

Other Matters:
VA has five potential violations of the Antideficiency Act, which are carried forward from prior years and are under further discussion with OMB's Office of General Counsel. Also, VA is examining whether there is a potential violation of the Antideficiency Act, 31 U.S.C. 1341 (a) related to Obligation at Payment. VA's recording of obligations at the time of payment for care provided through certain contracts was determined to be inconsistent with the recording statute, which required obligations to be recorded for the full amount of legal liabilities at the time the obligation was incurred.

5. Noncompliance with Improper Payments Elimination and Recovery Act

On May 14, 2020, the VA Office of Inspector General reported that VA did not fully comply for FY 2019 with the Improper Payments Elimination and Recovery Act, 31 U.S.C. 3321 note.

EXHIBIT C
Status of Prior Year Findings

Our assessment of the current status of the findings from the prior year audit is presented below.

Type of Finding	***Fiscal Year (FY) 2019 Finding***	***Fiscal Year (FY) 2020 Status***
Material Weakness	Controls Over Significant Accounting Estimates and Transactions	Modified Repeat – See FY 2020 Material Weakness Finding 1
Material Weakness	Accrued Liabilities, Undelivered Orders, and Reconciliations	Modified Repeat – See FY 2020 Material Weakness Finding 2
Material Weakness	Financial Systems and Reporting	Modified Repeat – See FY 2020 Material Weakness Finding 3
Material Weakness	Information Technology Security Controls	Repeat – See FY 2020 Material Weakness Finding 4
Material Weakness	Entity Level Controls including Chief Financial Officer (CFO) Organizational Structure	Modified Repeat – See FY 2020 Material Weakness Finding 5
Noncompliance	Noncompliance with FFMIA	Repeat – See Noncompliance Finding 1
Noncompliance	Noncompliance with FMFIA	Repeat – See Noncompliance Finding 2
Noncompliance	Noncompliance with 38 U.S.C. 5315	Repeat – See Noncompliance Finding 3
Noncompliance	Actual and Potential Violations of the Antideficiency Act	Repeat – See Noncompliance Finding 4
Noncompliance	Noncompliance with Improper Payments Elimination and Recovery Act	Repeat – See Noncompliance Finding 5

OTHER INFORMATION

Army Veteran is unsung hero in COVID-19 battle

Army Veteran Kolan Glass is not a doctor or a nurse. Still, in the battle against COVID-19, he is one of the most critical employees at North Las Vegas VA Medical Center (VAMC). Glass is the primary housekeeper in the emergency department. After a Veteran has been released, Glass ensures the room is sanitized and prepared for the next patient.

"I clean every room as I would want it if I was the next patient to be staying in it," says Glass. "I sanitize each room with my full attention."

Using technology to ensure safety

Glass and his fellow housekeepers employ the latest technology to prevent infection. This includes a remote-controlled system that uses ultraviolet light to purify equipment, room surfaces and objects.

"Probably about 90 percent of us [housekeepers] are Vets," he says. "That means we talk and we don't panic. Sure, we're dealing with a pandemic, but we still have to get the job done and keep everybody safe."

Glass experienced first-hand how a viral outbreak can test the emergency department. In March, Glass came in contact with a COVID-19-positive patient. He and other employees were placed on a 14-day quarantine.

"I didn't get nervous," Glass says. "I understood it was a precautionary measure, but I was ready to get back to work."

Glass's supervisor recognizes his dedication and leadership.

"Even after he had to self-isolate from his family, and with the stress of waiting for testing results, he immediately picked up right where he left off," says Jesse Diaz. Diaz is chief of environmental management safety at North Las Vegas VAMC. "He's been very vocal in educating the staff and his housekeeping peers in his area. He wants to develop a partnership with the clinical staff and EMS to help reduce the chances of COVID-19 infecting or impacting others."

Picture previous page: North Las Vegas VA housekeeper and Army Veteran Kolan Glass protects Veterans in emergency department from risk of infection.

Department of Veterans Affairs
Office of Inspector General
Washington, DC 20420

FOREWORD

The Office of Inspector General's (OIG) mission is to serve veterans, their families, caregivers, and the public by conducting effective oversight of Department of Veterans Affairs (VA) programs. The OIG recommends advancements to VA services, processes, and systems that will improve the lives of veterans and make the best use of taxpayer dollars. Each year, the Inspector General provides an annual update to VA summarizing its top management and performance challenges identified by OIG work, as well as an assessment of VA's progress in addressing those challenges.

This year's major management challenges for VA continue to align with the OIG's strategic goals for addressing five areas of concern: (1) healthcare services, (2) benefits, (3) stewardship of taxpayer dollars, (4) information systems and innovation, and (5) leadership and governance. The OIG conducts extensive oversight of VA programs and operations in each of these five areas through independent audits, inspections, investigations, and reviews.

The challenges in these areas that VA must navigate in the fiscal year ahead have been identified by OIG personnel, other external oversight agencies and organizations, the veteran community, Congress, and additional stakeholders. They reflect the OIG's unwavering commitment to veterans, their families, and caregivers, and the VA leaders and staff who serve them.

The OIG recognizes the unprecedented challenges VA faces as it continues to deal with the COVID-19 pandemic. VA leaders and staff at all levels have worked tirelessly to continue to provide quality healthcare to millions of veterans, while treating those suffering from COVID-19 and protecting healthcare staff. The OIG commends all VA leaders and personnel who have continued to work through the COVID-19 pandemic promoting high-quality services and benefits to the nation's veterans and their families and caregivers.

MICHAEL J. MISSAL
Inspector General

OIG CHALLENGE #1: HEALTHCARE SERVICES

Under the best of circumstances, ensuring the quality of patient-centered care in VHA facilities and in the community is a tremendously complex and difficult endeavor for what is the largest integrated healthcare system in the nation.

Even before the pandemic, the OIG had identified challenges that require ongoing VHA focus on maintaining adequate staffing, quality assurance, and other functions central to its mission. The COVID-19 pandemic has presented unprecedented challenges to healthcare delivery nationwide, including significant stresses on VHA's system. The unpredictable and evolving nature of the coronavirus caused VHA to initially focus primarily on providing medical care to infected veterans while simultaneously protecting its employees from COVID-19.

The OIG has been monitoring and reporting on VHA's COVID-19-related efforts that include expanding screening and testing, limiting access to facilities and vulnerable patient populations (such as community living centers/nursing homes), using telehealth and alternative care delivery, and providing personal protective equipment (PPE) and other supplies to personnel that help curtail the spread of the virus.

In this next fiscal year, VHA will have to continue to provide primary and specialty care to veterans while dealing with the impact of COVID-19. This includes ensuring primary and specialty care reaches veterans despite the delivery system adjustments made for COVID-19 and ensuring mental health services reach vulnerable veterans.

It is critical that hospitals have effective core services that promote quality care and patient safety and ensure key operations are running efficiently. These range from ensuring clean and safe environments to having adequate staff with needed expertise. During the OIG's March 2020 inspections of VHA's response to the pandemic, many leaders acknowledged low inventory of PPE for staff, and the inspection teams noted deficiencies in several facilities' screening processes and access controls.

VHA also has ongoing challenges in the provision of quality healthcare. As noted in the OIG's recently published comprehensive healthcare inspection reports, VHA providers continue to struggle with managing patients on long-term opioid therapy in the areas of behavioral risk assessments, urine drug screenings, informed consent, and follow-up evaluations to review the effectiveness of the medication regimen. These issues are significant in light of the continued opioid epidemic where veterans may find themselves with issues such as dependence, tolerance, abuse, and accidental overdose.

VHA also continues to be challenged with privileging processes whereby each facility's service chiefs and Executive Committee of the Medical Staff are tasked to make practitioners' privileging recommendations that are required to be based on focused and ongoing professional practice evaluations. Clinical privileges need to be specific and based on the individual practitioners' clinical competence, and the ongoing monitoring of privileged practitioners is essential to confirm the quality of care delivered.

Why This Is a Challenge.

VA operates over 1,200 medical facilities and has more than 9.2 million enrolled veterans. Ensuring timely and quality care was a significant challenge even before the COVID-19

pandemic, and serving veterans while maintaining a healthy workforce in the midst of the pandemic is difficult.

Healthcare systems may have well-developed plans for regional disasters such as weather events, but even the most thoughtful and comprehensive emergency management plans can be decimated by a global pandemic that infects massive numbers of patients, depletes equipment supply chains, exhausts available healthcare staff and has exacted an unimaginable toll on those infected and their families. In addition to straining its mammoth healthcare system, the pandemic has called VA into service for its "fourth mission" of supporting national, state, and local emergency management, public health, and safety efforts. As of June 30, 2020, VA had provided to others more than 235,000 pieces of PPE including gowns, gloves, masks, and face shields, according to its COVID-19 Pandemic Weekly Report. VA had also deployed personnel to more than 45 states to help local governments and facilities combat COVID-19, and opened the doors of its facilities to nonveterans needing critical care.

Although VA has taken extraordinary measures, the pandemic response has stressed weak points in a range of systems and practices, many of which have been previously identified by the OIG.

What the Department Needs to Do.

VA must take the necessary steps to maintain a healthy and productive workforce, ensure adequate testing and supplies of PPE are available, and make certain that safety protocols and practices for staff and patients consistently reflect the most current guidance and identified promising practices. Sharing what works is extremely important. The July 2020 OIG report on the department's response to the pandemic highlights that there are constantly emerging lessons learned.

Other aspects of patient safety that have recently been identified cannot be put on hold. These include quality management, credentialing and privileging of care providers, oversight of a surge of new hires, medication management, and the tracking of suspicious deaths.

Finally, VA must continue to engage with the most vulnerable veterans to ensure they receive the continuing care they require. VA has taken steps to engage the community in its suicide prevention and mental health initiatives. The veteran community, particularly individuals who have experienced posttraumatic stress disorder and the isolating effects of the pandemic, will need VA's continued attention on leveraging quality resources going forward.

VA Management's Response
VA acknowledges the challenges in healthcare service that the Department is facing, especially regarding COVID-19. In response to COVID-19 and other hiring needs, VHA activated broad hiring initiatives targeting the occupations and locations with the greatest need, as well as emergency deployments of staff to hard-hit areas. In March, VA released a strategic response plan for COVID-19 and guidance to assist the field in designing and deploying localized response plans. Additionally, VA released guidance to minimize the risk of infection for residents in VA community living centers, spinal cord injury and disorder units and blind rehabilitation centers.

Further, VA added screening and access guidance for VA facilities and developed a COVID-19 test that may be used when access to external testing is constrained. VA expanded telehealth and video telecare to shift care from a face-to-face model with its inherent risk of COVID-19 exposure to focus on virtual appointments covering primary care, mental health and specialty care. VA worked to secure personal protective equipment and supplies from manufactures that meet Food and Drug Administration regulations from around the world.

Lastly, VHA enhanced targeted strategies for identifying and reaching Veterans at increased risk for suicide and mental health challenges, as well as enhancing efforts to bolster operational protocols to ensure continued operation of its mission in the face of increasing demand and potential risks for staff who work in close proximity.

OIG CHALLENGE #2: BENEFITS FOR VETERANS

Starting March 19, 2020, VA regional offices were closed to the public. By leveraging telework, available information technology resources and other strategies, VBA has been working to administer nearly $125 billion in funding for federally authorized benefits and services to eligible veterans, caregivers, their dependents and survivors. In the next fiscal year, as offices are deemed safe to reopen, staff will need to continue to navigate safety measures while finding new ways of performing routine tasks. They must also work through the identified backlog of medical examinations, claims, and other matters while balancing ongoing demands. The pandemic's effect on education, training and the economy will be felt by veterans nationwide who have applied for a wide range of benefits. Similarly, the demand for healthcare benefits is expected to remain high.

Eligible veterans, their families, and caregivers must receive proper benefits and services in a timely manner. The OIG has made a range of recommendations that will need to be implemented through the coming fiscal year to advance expeditious and accurate VBA decision-making and processes for delivering benefits.

Challenges include addressing previously identified recurring deficiencies such as inadequate planning for systems or process changes; mismanagement of backlogs; vague guidance for disability claims medical examinations processing and disability claims decisions; unclear definition of roles and responsibilities for local or regional oversight; lack of controls; and limited information technology (IT) functionality, which contributes to inefficiencies and inaccuracies.

As a result of these recurring issues involving VBA's processes, compounded by COVID-19 demands, staff have significant challenges ahead maintaining the accuracy and timeliness of essential claims and conducting appeals-related activities.

Why This Is a Challenge.

Recent OIG reports have identified significant challenges in VBA's attempts to deliver accurate and timely claims decisions and appeals. Failures in guidance, training, quality assurance, and systems have been well-documented, particularly in regard to particularly complex claims. For example, one recent report found problems with processing errors including improper evaluations, missed secondary conditions, and evaluations based on inadequate medical examinations for veterans submitting claims for disabilities related to conditions of the spine.

The OIG has also reported on inadequate oversight of contracted disability exam cancellations. The MISSION Act requirement to deliver more community care has also taxed VA processes and procedures, and the OIG has reported on mismanaged appeals of non-VA care claims and non-VA emergency care claims.

The COVID-19 pandemic has complicated benefit determinations by reducing VA resources available to conduct in-person medical examinations. This was compounded by the hesitancy of veterans to get the exams needed to determine their level of benefits because of the in-person requirement.

In April 2020, VA suspended its in-person medical disability examinations for its Compensation and Pension Program. On May 28, 2020, VA resumed the in-person exams where doing so was considered safe. As of July 4, 2020, VBA reported more than 425,000 pending disability compensation and pension claims with more than 168,000 pending for more than 125 days since receipt.

Some of the exams were shifted to telehealth, but many of the compensation and pension medical examinations cannot be completed virtually. During the pandemic, VBA increased the number of authorized compensation and pension exam disability benefit questionnaires that could be completed by telehealth from 16 to 29. Another tool implemented by VBA to assist with reducing the medical examination backlog is the use of acceptable clinical evidence exams. This process allows latitude to those who make decisions related to disability claims to use current medical evidence already associated with the veteran's VA medical records.

Although VA has reported a dramatic uptick in the use of telehealth, a significant backlog for in-person appointments will likely persist because of the imbalance between capacity and demand for telehealth appointments, the inability to perform many types of healthcare services without person-to-person contact, and information technology-related issues that limit some patients' abilities to obtain service via telehealth.

VA must also continue to address increased claims following the implementation of the Blue Water Navy Act of 2019 on January 1, 2020, which extended the presumption of herbicide exposure, also known as Agent Orange exposure, to nearly 90,000 veterans who served as far as 12 nautical miles from the shore of Vietnam between January 9, 1962, and May 7, 1975, and have since developed one of 14 conditions related to exposure.

As VA continues to manage the effects of the pandemic on its facilities and staff, veterans have become less hesitant to report for in-person exams, safety measures have been put in place, and protocols have been communicated. VA has steadily increased the number of compensation and pension exams it has processed and, according to senior VA leader testimony to Congress, VA has reprogrammed funds, freeing up more overtime availability to process the exams. VA has also proposed legislation to Congress that would allow some flexibilities for other medical professionals besides doctors to conduct the exams, such as nurse practitioners. This would allow VA to expand its capacity to process the exams, according to VA senior leaders.

What the Department Needs to Do.

The OIG has made many recommendations in recent years related to improving the accuracy and timeliness of VBA's claims decisions and appeals processes. According to feedback from VBA personnel, some of the issues have occurred because production standards to address backlogs and timeliness have had the unintended consequence of sacrificing accuracy of the disability claims process. This may require investments in staff, systems, and other resources. Many of the root causes are at the senior leadership level, where recommendations include conducting focused analyses to assess the accuracy of claims processes and implementing policy and systems that improve the efficacy of the program, implementing plans to provide consistent oversight and training through national performance and training plans, and updating the rating schedules, procedures manuals, and disability benefits questionnaire forms. With the many challenges presented by the pandemic on top of previously identified obstacles to achieving its goals, VBA must develop a plan that addresses timeliness, accuracy, and quality assurance.

VA Management's Response
VBA appreciates the management challenges identified by OIG and will continue to work in partnership to address OIG's valued findings. VBA is dedicated to providing accurate and timely service to Veterans; reducing the claims backlog to 77,162 as of March 31, 2020. However, due to the COVID-19 pandemic and the resulting delays with in-person examinations and obtaining federal records, VBA's claims backlog increased to 198,425 claims as of July 31, 2020. In response, VBA shifted operations and processes virtually and continued to process claims whenever possible using evidence of record or tele-C&P examinations. As in-person examinations resume, VBA expects the backlog to decrease and timeliness to improve. VBA has also implemented various process improvements to ensure accurate and timely benefits delivery. VBA's training program has undergone extensive reviews of its methodologies and frequency of delivery, as well as updates to program content. VBA also continues to work toward updating the entire VA Schedule of Rating Disabilities to increase medical accuracy, and further align rating criteria with the actual impairment experienced by Veterans. To date, VBA has successfully updated over half of the pending body systems and the remaining updates are in process. VBA continues to make progress on its legacy appeals elimination efforts. VA estimates that legacy appeals, excluding a small number of returning remands, will be resolved by December 2022.

OIG CHALLENGE #3: STEWARDSHIP OF TAXPAYER DOLLARS

The OIG has consistently identified procedures and strategies for improving the responsible use of VA-appropriated funds, including sound and closely monitored procurement practices and the need for internal controls that reduce the risk of fraud, waste, and misuse of resources. When funds are wasted or misused, valuable resources are diverted from benefiting veterans, their families, and caregivers.

As described below, the OIG has identified costs due to delays or mismanagement of IT systems. Tax dollars have also been wasted or misused because of a lack of internal oversight and poor planning within programs. As with the areas of concern previously discussed, the pandemic has stressed systems further and required that some controls be circumvented to adjust to emergency conditions. While certainly understandable, the impact has created additional challenges for VA that will be felt for some time.

To assist with the response to the COVID-19 pandemic, Congress passed the CARES Act, which provided $19.6 billion in supplemental funding for VA. However, even before the pandemic, VA's size and complexity of operations made effective budget management extremely challenging. VA's financial management system is over 25 years old and has functional limitations well-documented in OIG reports. The pandemic is intensifying long-standing challenges and delaying initiatives intended to remediate these problems, including financial management reforms and the transformation of business processes.

Also, while VA has numerous initiatives to curb fraud, waste, and abuse, the pandemic is creating novel opportunities for bad actors, particularly because of the need to facilitate rapid purchases of essential goods and services. As VA has struggled to expand its supply chain fast enough to curtail the spread of COVID-19, many companies—some nefarious and some neophytes—have sought contracts for PPE and other medical supplies worth millions of dollars that they cannot fulfill. Some of these potential fraudsters have been identified by VA leaders and referred to the OIG, underscoring the challenges for VA to be vigilant in a chaotic environment. For example, in one of the first and largest COVID-19-related fraud cases brought to date, OIG investigators collaborated with other law enforcement authorities to arrest a Georgia resident for attempting to sell millions of nonexistent respirator masks and other PPE totaling over $750 million to VA in exchange for large upfront payments.

Why This Is a Challenge.

As reported in the most recent Semiannual Report to Congress, the Federal Financial Management Improvement Act (FFMIA) requires all agencies covered by the Chief Financial Officers Act to implement financial management systems that substantially comply with three essential requirements: (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the United States Standard General Ledger at the transaction level. The law further requires that the head of the agency annually assess and the agency auditor report whether the agency's financial management systems substantially comply with the law's essential requirements. Accordingly, the VA OIG is required to report instances and reasons when VA has not met the intermediate target dates established in the VA remediation plan to bring VA's financial management system into substantial compliance with FFMIA.

The Audit of VA's Financial Statements for Fiscal Years 2019 and 2018 reported the following, including some findings that represent long-standing unmet challenges:

- VA did not substantially comply with federal financial management systems requirements and the United States Standard General Ledger at the transaction level under FFMIA, which has been repeatedly reported in part for more than 10 years.
- VA did not fully comply with the intent of the Federal Managers' Financial Integrity Act, which has been reported by the OIG since FY 2015. Improvements are needed.

- VA did not comply with the Improper Payments Elimination and Recovery Act for FY 2018, as reported by the OIG since 2012.

These conditions are primarily due to the complex and disjointed architecture of VA's legacy financial management system, which has difficulty meeting increasingly demanding financial management and reporting requirements. VA continues to be challenged in consistently enforcing established policies and procedures throughout its geographically dispersed portfolio of legacy applications and systems.

With respect to fraud, waste, and abuse, the combination of millions of dollars in emergency spending, the need for expedited contracts for medical supplies and other life-saving resources, and the ingenuity and speed at which those who would capitalize criminally on the pandemic adapt, creates a trifecta of high-risk conditions. In such a context, VA is vulnerable to various fraud schemes, including contract and procurement fraud, bribery and kickback schemes, and internal issues such as employee theft and the improper reporting of overtime.

Even before the pandemic in fiscal years 2019 and 2020, the OIG investigated hundreds of instances of fraud, bribery, theft, and False Claims Act violations, resulting in judicial actions that involved hundreds of millions of dollars in VA monetary benefits. The most recent Semiannual Report to Congress reported investigative actions that impacted $209 million in monetary benefits.

What the Department Needs to Do.

VA will need to ensure that duties for purchasing, approving, and receiving goods and services do not remain with a single individual and that reasonable efforts are made to monitor expedited transactions. Compliance with this and other VA policies remains essential even in emergency situations. As the Information Systems and Innovation section discusses below, delays and changes in implementing new systems have implications for effective financial management that can only be addressed through comprehensive and coordinated planning. Additional engagement with community and third-party administrators of VA programs also requires continuous monitoring and access to other systems' data or reports for verification purposes.

On numerous recent occasions, VA has referred suspicious activity to the OIG for investigation, with noteworthy outcomes. Continued, quick handoffs between VA and the OIG, as well as the use of the OIG's predictive analytics of procurement and claims data, will help address criminal activity and other misconduct arising during and even beyond the pandemic.

VA Management's Response
VA acknowledges the stewardship challenges the Department is facing related to the financial management systems. VA is committed to resolving the financial management system weaknesses and has continued implementing corrective actions through a major improvement initiative to replace and modernize the antiquated systems. This effort will increase the transparency, accuracy, timeliness and reliability of financial information, resulting in improved financial controls and fiscal accountability to American taxpayers in accordance with FFMIA. In response to the COVID-19 pandemic, VA coordinated with stakeholders to revise the implementation timeline for deployment of the new financial system

at NCA. The extension provides additional time for workforce readiness activities and training and mitigates resource constraints.

VA also acknowledges challenges related to fraud, waste and abuse during the acquisition process. Being intentional stewards of taxpayer dollars requires an integrated enterprise approach to the transformation of business systems. This approach not only includes technology but encompasses developing and applying proven acquisition best practices that include harnessing technology to drive behavior changes, providing updated functionality and capability for VA employees, and assuring our first priority of quality customer service leading to measurable results. VA continues to implement corrective actions over the acquisitions process to assure application of proven programmatic business practices. These practices aim to improve program outcomes and a quality return on the investment of taxpayer dollars.

OIG CHALLENGE #4: INFORMATION SYSTEMS AND INNOVATION

The challenges associated with information systems and innovation strongly affect VA's ability to conduct its programs and services. The provision of timely and quality health care and benefits for veterans and other eligible individuals discussed above, for example, depends in large part on the functionality, effectiveness, and ease of use of underlying systems. The OIG has amassed many reports and recommendations that assess and propose enhancements to VA's infrastructure systems, including IT and data security. Through findings and report recommendations, the OIG highlights practices that promote quality standards that can be implemented throughout VA, particularly those that effectively use program planning, budget forecasting, and other predictive tools.

For example, the OIG has identified multiple systems that lack the functionality or proper controls to ensure that large backlogs, errors, inefficiencies, and obstacles to information sharing are minimized or redressed. Some challenges center on the planning and execution of new IT systems and transitioning from legacy systems, while others also involve patterns of user abuse or mistakes that can go largely undetected for long periods. Decentralized oversight, unrealistic timelines, inadequate engagement of all stakeholders and end users, and minimal testing for some systems have plagued IT projects. Delays, changes in direction and even vendors, and user resistance all carry steep costs to VA. The OIG has detailed recurrent issues that run through reports on the GI Bill implementation, changes to systems affecting benefits to eligible veterans, medical appointment scheduling, payments for care in the community, medical supply and equipment inventory, financial management, electronic healthcare waiting lists, and police information management. These are among the many systems for which the OIG has published recommendations related to frequently encountered challenges.

Perhaps the most visible and challenging of these is VA's Electronic Health Record Modernization (EHRM) Program, one of the largest IT projects in government history. The OIG has been conducting early oversight of VA's efforts because of the tremendous cost and scale of the effort. In addition to the almost $10 billion contract, VA estimates another $6.1 billion will be needed for program management and infrastructure-related costs. Of this amount, approximately $4.3 billion is for program infrastructure and the remaining $1.8 billion is estimated for program management. The infrastructure cost estimates, however, do not cover

some of the physical upgrades to the individual healthcare facilities, which are to be funded by VHA.

In addition to EHRM, VA considers the implementation of the Defense Medical Logistics Standard Support (DMLSS) System as a solution to an inefficient, poorly functioning $10 billion supply chain. The VA Logistics Redesign Program Office's goal is to implement the DMLSS System to modernize VA's supply chain, establish an integrated IT system to support business functions and supply chain management, and address the system's many identified supply chain deficiencies. As with EHRM, interoperability with VA systems and holistic changes to business processes will be significant hurdles to VA's implementation of the DMLSS System.

The OIG also has focused on these and other IT initiatives because prior modernization efforts by VA have failed in important ways. The OIG has identified VA's information management as a major management challenge since 2000 because VA has a history of not always properly planning, overseeing, and implementing updates to its critical IT investments. Moreover, the GAO previously reported that these prior efforts have cost VA over a billion dollars.

Why This Is a Challenge.

Challenges to implementing new technologies across a decentralized and complex system are numerous. For example, unrealistic deadlines and inadequate planning are symptomatic of trying to be responsive to identified needs and demonstrate progress without addressing identified and emerging problems. Shortcuts often result in costly delays and complications. For EHRM implementation VA-wide, challenges are intensified by VA's need to coordinate and collaborate with DoD, as well as to modernize VA's aging infrastructure to accommodate the new system. OIG reports demonstrate that failures in oversight, planning, and coordination have already affected plans for the new system's roll out.

COVID-19 has delayed VA's implementation of the electronic health record as healthcare providers are largely unavailable to assist in developing and testing parts of the new system. Secretary Wilkie announced the delay in an April 3, 2020, letter to congressional leaders. Nevertheless, VA continues to make some progress. On April 18, 2020, the Federal Electronic Health Record Modernization Program Office, VA, and the DoD launched a joint health information exchange, which modernized data-sharing capability, enhancing both departments' ability to securely exchange records with community healthcare partners. In addition, VA has shifted the schedule of sites scheduled to go live with the new electronic health record system to account for what has been developed to date and the ongoing impacts of COVID-19.

What the Department Needs to Do.

The OIG recognizes the significant level of effort and commitment required by VA to manage and facilitate the implementation of the massive and complex electronic health record system, including the tremendous work already conducted by VA staff.

In preparation for the new electronic health record system's deployment at VA healthcare facilities, significant upgrades are needed to VA's infrastructure. The department should establish an infrastructure-readiness schedule for future deployment sites that incorporates lessons learned from DoD and from VA's initial effort at Mann-Grandstaff VAMC in Spokane, Washington. VA should continue to reassess the enterprise-wide deployment schedule to

ensure projected milestones are realistic and achievable, and that training is effective and evaluated. VA should fill infrastructure-readiness team vacancies until optimal levels are attained. Failure to redress identified issues puts VA at risk for additional failures, breakdowns, and delays when deploying the new electronic health record system nationwide in the years to come.

With respect to the implementation of DMLSS, VA needs to conduct appropriate testing to ensure business processes are appropriately implemented and data access and transfers are effective.

The long-standing and repeat areas of weakness identified in VA technology projects require across-the-board improvements in project planning, scheduling, the calculation of associated costs, user and stakeholder engagement, leadership, security, and infrastructure enhancements, and other areas where the OIG has repeatedly recommended corrective actions.

VA Management's Response
VA recognizes that information technology modernization is critical to improving VA's performance to better serve Veterans, their families, caregivers and survivors while being good stewards of taxpayer dollars. VA continues to drive aggressive progress to modernizing system infrastructure while improving processes to ensure technology projects are delivered on schedule and within budget. With respect to the Defense Medical Logistics Standard Support (DMLSS) System, VA started implementation at sites nationwide beginning with the Captain James A. Lovell Federal Health Care Center (FHCC) in August 2020. Prior to go-live at the FHCC, the DMLSS team conducted business process testing to validate the DMLSS functional processes. The testing demonstrated that the DMLSS business processes worked as designed but revealed data transfer anomalies that are in the process of remediation. Based on this finding, the DMLSS Team and VA Logistics Redesign Office will implement stronger data mapping oversight of implementation at upcoming sites. With respect to infrastructure upgrades needed for deployment of the new electronic health record system, VA acknowledges the challenges highlighted by the OIG and commits to implementing the action plan developed in response to the original report published by the OIG. VA's plan includes an Infrastructure Readiness schedule that accounts for lessons learned from the Department of Defense deployment.

OIG CHALLENGE #5: LEADERSHIP AND GOVERNANCE

The VA has many dedicated leaders who are committed to providing the best possible services to veterans, often under very stressful conditions. However, many emergent problems have arisen and some problems that are pervasive and persistent have gone unaddressed because of frequent turnover or vacancies in key positions and failures in leadership, including lack of accountability, poor governance, and misconduct by individuals in positions of trust. The challenge of maintaining stable and effective leadership cuts across all areas of concern previously discussed. The OIG has identified frequent changes (and lapses) in leadership and

workforce or staffing issues as major management challenges to VA in providing veterans with timely access to quality care.

Why This Is a Challenge.

VA governance and oversight is often decentralized. Oftentimes, there are multiple offices that oversee aspects of a particular initiative or function within VA. The policy office may, for example, develop guidance or even training, but oversight, quality control, and staffing may be handled by others. Oversight roles and duties are often misunderstood, and guidance may be vague, conflicting, or simply in too many different places to navigate. Reorganizations and realignments of offices and responsibilities can further confuse matters. Information critical to operations may not be well-documented, shared, or used for decision-making.

What the Department Needs to Do.

Leaders need to take on persistent problems and establish clear lines of authority that promote accountability for accuracy, efficiency, and effectiveness in carrying out responsibilities.

A good example of how VA has overcome past staffing challenges is its expedited hiring during the pandemic. Yet VA has experienced chronic shortages of healthcare professionals since at least 2015. VA's inability to adequately recruit, onboard, and retain clinicians and support staff, particularly in specific service areas, reflects problems with competitive pay, widespread shortages in some professions or positions, unfavorable leadership and work climate, inadequate planning, and other factors.

What remains to be seen is whether the department can resolve persistent issues. While the pandemic has provided new resources and initiatives for hiring, the hiring push also happened against the backdrop of record highs in unemployment nationally. Many of the problems previously reported related to staffing will likely continue after the pandemic has ended. The OIG has repeatedly called for VHA to develop additional comprehensive staffing models that address national needs while supporting flexibility at facilities. This approach would help ensure taxpayer dollars are invested in delivering the highest quality of care to veterans as promptly as possible. These staffing models, however, cannot be completed without accurate data. In reports on VA's self-reported staffing data, the OIG found that VA and some of its medical facilities were unable to provide accurate numbers of vacancies. Focusing on serving the individual and aggregate needs of veterans in different geographic areas and using that understanding to develop comprehensive staffing models will help VA achieve more efficient and targeted hiring and retention practices. Additional recommendations call on VHA to refine and formalize its position categories for clinical and nonclinical staff across all facilities.

VA Management's Response
VA is committed to addressing this challenge and in FY 2020 the Office of Human Resources and Administration/Operations, Security and Preparedness (HRA/OSP) developed and implemented corrective actions to support the Department, which will continue in FY 2021. An Executive Resources Board (ERB), co-chaired by the Assistant Secretary, HRA/OSP, is accountable for executive-level governance to include position management, performance

management, merit staffing, leadership development, succession planning and executive pay. The Corporate Senior Executive Management Office (CSEMO) has been utilizing the National Announcement strategy for Medical Center Director positions to enable every Veterans Integrated Service Network (VISN) Director to review the best qualified candidates against the vacancy requirements. This strategy improves executive time-to-hire by weeks and allows VISNs to collaborate on hiring selections.

As noted above, human capital leadership and governance has been amplified during the COVID-19 pandemic. The Office of the Chief Human Capital Officer (OCHCO) demonstrated the effectiveness of centralized policy and governance side-by-side with the human resources (HR) servicing offices in VHA, VBA and NCA. OCHCO implemented weekly communications, problem-solving and external engagement to resolve human capital issues in real-time and mitigate challenges that could have impacted VA's ability to maintain a safe workforce and meet its mission.

VA continues to work to improve employee engagement and retention. The Stay Touchpoint initiative is being diffused across VHA to reduce voluntary separation rates. HRA/OSP also continues to work with the administrations and the Office of Congressional and Legislative Affairs on legislative proposals to improve hiring, competitive pay and retention of healthcare professionals. Along with the Office of Management (OM), HRA/OSP also co-chairs a governance council for Human Resources Information Technology (HRIT) to ensure investments are focused on modern enterprise HRIT systems to improve the experience of HR professionals, managers and employees.

HRA/OSP's Manpower Management Services (MMS) is working to improve the accuracy of vacancy data reports by occupation (Section 505, MISSION Act). Ongoing position validation and enhancements to human capital systems will yield greater accuracy and reporting of funded and unfunded vacancies. VHA's Office of Productivity, Efficiency and Staffing (OPES) continues to lead the development of staffing models for clinical professions. Since 2007, OPES has been developing staffing management tools, systems and studies to optimize clinical productivity in support of clinical excellence, access and safe and compassionate care.[3]

[3] VHA Directive 1065(1), *Productivity and Staffing Guidance for Specialty Group Provider Practice* requires VAMCs to use the OPES standards to inform resource decisions for their specialty provider group practices. When practices are out of range (high/low) VAMCs should develop and implement remediation plans to improve specialty physician group practice productivity.

RELATED REPORTS:

Selected Related Reports from fiscal year 2020 (with a comprehensive list of publications available at www.va.gov/oig):

Related Report	Challenge #1	#2	#3	#4	#5
Review of Veterans Health Administration's COVID-19 Response and Continued Pandemic Readiness	X	X			X
OIG Inspection of Veterans Health Administration's COVID-19 Screening Processes and Pandemic Readiness [for] March 19–24, 2020	X				X
Facility Oversight and Leaders' Responses Related to the Deficient Practice of a Pathologist at the Hunter Holmes McGuire VA Medical Center in Richmond, Virginia	X				X
Inadequate Emergency Department Care and Physician Misconduct at the Washington DC VA Medical Center	X				X
Inadequate Oversight of the Medical/Surgical Prime Vendor Program's Order Fulfillment and Performance Reporting for Eastern Area Medical Centers	X		X		X
Audit of VA Medical Center Management of Medical Supply Inventories	X		X	X	
Equipment and Supply Mismanagement at the Hampton VA Medical Center, Virginia	X		X	X	
Expendable Inventory Management System: Oversight of Migration from Catamaran to the Generic Inventory Package	X		X	X	
Inadequate Oversight of Contracted Disability Exam Cancellations		X			X
Accuracy of Claims Decisions Involving Conditions of the Spine		X			X
VHA Did Not Effectively Manage Appeals of Non-VA Care Claims	X			X	X
Non-VA Emergency Care Claims Inappropriately Denied and Rejected	X				X
Disability Compensation Benefit Adjustments for Hospitalization Need Improvement		X			
Audit of VA's Financial Statements for Fiscal Years 2019 and 2018		X	X	X	
VA's Compliance with the Improper Payments Elimination and Recovery Act for Fiscal Year 2019			X		
Fiscal Year 2019 Risk Assessment of VA's Charge Card Program			X		

Related Report	Challenge #1	#2	#3	#4	#5
Overtime Use in the Office of Community Care to Process Non-VA Care Claims Not Effectively Monitored	X				X
Insufficient Oversight of VA's Undelivered Orders			X	X	X
VA Improved the Transparency of Mandatory Staffing and Vacancy Data					X
Critical Care Unit Staffing and Quality of Care Deficiencies at the Charlie Norwood VA Medical Center Augusta, Georgia	X				X
Deficient Staffing and Competencies in Sterile Processing Services at the VA Black Hills Healthcare System, Fort Meade Campus South Dakota	X				X
FY 2019 OIG Determination of Veterans Health Administration's Occupational Staffing Shortages	X				X
Staffing and Vacancy Reporting under the MISSION Act of 2018, June 25, 2019					X
OIG Determination of Veterans Health Administration's Occupational Staffing Shortages for Fiscal Year 2018, June 14, 2018	X				X
Deficiencies in Infrastructure Readiness for Deploying VA's New Electronic Health Record System	X			X	
Review of Access to Care and Capabilities during VA's Transition to a New Electronic Health Record System at the Mann-Grandstaff VA Medical Center Spokane, Washington	X			X	

Related Congressional Testimony	Challenge #1	#2	#3	#4	#5
Statement of Inspector General Michael J. Missal, Department of Veterans Affairs, Before the Committee on Veterans' Affairs, U.S. House of Representatives, Hearing on Critical Impact: How Barriers to Hiring at VA Affect Patient Care and Access, September 18, 2019	X				X
Statement of Deputy Inspector General David Case, Office of Inspector General, Department of Veterans Affairs, Before the Subcommittee on Technology Modernization, Committee on Veterans' Affairs, U.S. House of Representatives: Hearing on "Getting It Right: Challenges with the Go-Live of Electronic Health Record Modernization", March 5, 2020	X			X	

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 2020 AFR.

Audit Opinion	Unmodified				
Restatement	Yes				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Controls Over Significant Accounting Estimates	1	-	-	-	1
Obligations, Undelivered Orders and Accrued Expenses	1	-	-	-	1
Financial Systems and Reporting	1	-	-	-	1
IT Security Controls	1	-	-	-	1
Entity Level Controls including CFO Organizational Structure	1	-	-	-	1
Total Material Weaknesses	5	-	-	-	5

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Modified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls Over Significant Accounting Estimates	1	-	-	-	-	1
Financial Systems and Reporting	1	-	-	-	-	1
Total Material Weaknesses	2	-	-	-	-	2
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Modified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
GAO High-Risk List	1	-	-	-	1	-
Obligations, Undelivered Orders and Accrued Expenses	1	-	-	-	-	1
Entity Level Controls including CFO Organizational Structure	1	-	-	-	-	1
Total Material Weaknesses	3	-	-	-	1	2
Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform, except for the below nonconformance					
Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IT Security Controls	1	-	-	-	-	1
Total Nonconformances	1	-	-	-	-	1

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
System Requirements	Lack of compliance noted	Lack of compliance noted
Accounting Standards	No lack of compliance noted	No lack of compliance noted
USSGL at Transaction Level	Lack of compliance noted	Lack of compliance noted

PAYMENT INTEGRITY INFORMATION ACT REPORTING

In FY 2020, VA successfully reduced overall reported improper payments by $620 million or 5% and is reporting five programs below thresholds despite challenges in obtaining documentation due to COVID-19. This is VA's second consecutive year of reported reductions. Less than 8% (about $890 million) of VA's reported improper payments represent a monetary loss and VA continues to prioritize reducing improper payments. VA's Payment Integrity Information Act and high priority program reporting can be found at https://paymentaccuracy.gov/.

FRAUD REDUCTION REPORT

In FY 2020, VA continued to improve its efforts to combat fraud. The following sections provide additional information about VA's fraud reduction efforts, established strategies and activities.

VA'S FRAUD REDUCTION EFFORTS

VA's OIG reported $100.5 million in confirmed fraud in FY 2020. VA implemented financial and administrative controls and improved use of Federal risk management principles to manage fraud risks in major programs.

IMPLEMENTATION OF FINANCIAL AND ADMINISTRATIVE CONTROLS AND THE FRAUD RISK PRINCIPLE (STANDARDS FOR INTERNAL CONTROLS)

The GAO Standards for Internal Control in the Federal Government require management to assess fraud risk by considering the potential for fraud when identifying, analyzing and responding to risk. To comply with these standards, VA Administrations and Staff Offices complete an annual assessment that includes assessing the adequacy of their fraud risk management processes. VA Administrations and Staff Offices submit evidence to support their assessment to VA's Office of Business Oversight (OBO), identify any deficiencies and create corrective action plans. OBO elevates reported deficiencies to VA management.

IMPLEMENTATION OF OMB CIRCULAR NO. A-123, WITH RESPECT TO MANAGING FRAUD RISK AND IDENTIFICATION OF RISK AND VULNERABILITIES TO FRAUD

In alignment with OMB Circular No. A-123 guidance with respect to managing fraud risk, VA uses a comprehensive risk survey questionnaire that scores responses based on 10 fraud risk factors. The assessment enables VA to identify the extent to which programs are susceptible to fraud and pinpoint the programs at highest risk. In FY 2020, VA worked with the highest fraud risk programs from prior-year assessments and required those programs to identify their top fraud risks and mitigation plans. OBO shared the assessment results with Administrations for vetting and distribution to VA Enterprise Risk Management for inclusion in VA's risk register.

VA identified risks and vulnerabilities to fraud in VA's major programs and established strategies and procedures to mitigate those risks as described below.

PAYROLL

VATAS is a web-based, centralized and standardized timekeeping system that helps reduce risk and vulnerabilities to fraud in payroll. With more than 400,000 users, VATAS has a robust Help Desk team comprised of subject matter experts to support stations and users across the country. This support, along with a myriad of tools, desktop reference guides, instructional videos and a searchable knowledgebase on the VATAS SharePoint site, facilitates the

timeliness and accuracy of timesheet processing in accordance with policy and improves the delivery of approximately $1.7 billion in payroll each pay period.

Having a centralized timekeeping system provides the agency both greater insight through surveillance capabilities and enhanced reporting tools to help identify trends as well as risks and potential fraud in payroll processing. In FY 2021, VATAS will be migrated to the VA cloud-based environment which will allow for improved responsiveness and reporting while creating an improved platform for launching system enhancements enforcing VA payroll policy. The VA workforce is educated on the proper use of VATAS and the abundance of training and support ensures VATAS can provide increased oversight and the reduction of fraud risk.

In FY 2018, FSC began offering optional payroll operational services to VA facilities. This optional approach standardizes processes and ensures proper governance over employee pay. Surveillance capabilities and additional security enhancements are in place to mitigate entry points for fraud, waste and abuse (FWA). Training on payroll operations is performed biweekly to ensure any new laws, legislation and/or policy updates are understood and updated in payroll protocol.

BENEFICIARY PAYMENTS

VBA's Counter-Fraud teams identify FWA activities using advanced analytics and investigatory techniques to protect Veterans' benefits payments and the integrity of the agency. As of September 2020, VBA investigated 2,522 cases where Veterans had their benefits redirected. Of $3.6 million in actual or attempted benefits theft, the VBA teams prevented or recovered $1.9 million, equating to an increased recovery rate from approximately 48% in FY 2019 to approximately 63% in FY 2020. This coincided with a significant decrease in month-to-month fraud since summer 2019. The team worked with va.gov and the Defense Manpower Datacenter to deploy new identity verification and authentication capabilities, helping bring an average of over 500 cases per month down to just over 100 in FY 2020. The team also applied its persistent monitoring capabilities to protect over $660 million in Blue Water Navy payments issued since the beginning of calendar year 2020.

GRANTS

In FY 2020, OBO assessed VHA Homeless Veteran Grants to determine if they were being used as intended and administered in compliance with current legislation. OBO conducted Grant Per Diem and Supportive Services for Veteran Families Grantee reviews to (1) determine if Grantee costs were allocable, allowable and reasonable in accordance with OMB directives; (2) ensure services were being provided to Veterans as prescribed by program requirements; (3) confirm compliance with expense thresholds and program cap requirements; and (4) review Grantee fiscal operations to determine if effective internal controls and fraud risk management existed.

LARGE CONTRACTS

OALC updated and is implementing a fraud risk management framework, focusing on subcontracting and compliance with legislative and Federal Acquisition Requirements. The framework consists of resources and tools that will assist VA contracting officers in monitoring compliance that include limitations on subcontracting and other subcontracting requirements. In addition, the framework includes internal controls to identify and prevent fraud along with

various approaches to assess potentially fraudulent activities. The framework will be fully implemented by the end of second quarter FY 2021.

CHARGE CARDS (PURCHASE AND TRAVEL)

The FSC tracks and analyzes charge card transactions through development and use of a full range of analytic methods, such as data collection, data integration, data profiling and use of predictive models/forensic accounting methods. These audits and data analyses gather transactional data from card charges to identify spend patterns, anomalies and usage violations that enable the Department to identify and correct deficiencies and make programmatic changes to mitigate risk and prevent future violations. Results of all analyses and OMB Circular No. A-123 compliant audits are provided to VA executive leadership and program managers for distribution to oversight bodies for business process improvements.

ESTABLISHED STRATEGIES, PROCEDURES AND OTHER STEPS TO CURB FRAUD

VA continues to take a data analytics-driven approach and is leveraging partnerships with internal and external stakeholders to reduce fraud risks across the Department.

OCC's Department of Program Integrity (DPI) Program Integrity Tool (PIT) data repository has a new terminal data feed from the Community Care Reimbursement System (CCRS). DPI is currently validating CCRS data files for claim line scoring and incorporation into a bidirectional feed with PIT. The bidirectional feed from CCRS and the Electronic Claims Adjudication Management System (eCAMS) will be critical tools for predefined fraud reduction business logic inventory, called J-Rules, used as prepayment edits and in post-payment fraud detection. Leveraging the consolidated repository of business rules will ensure all claims processing data is centralized for scoring and reviewed for fraud prior to payment. Furthermore, these system feeds will expand the data repository with new information to perform analysis and provider outlier detection across programs. This information is critical to collaboration efforts with our Third-Party Administrators and partnering with the VA OIG.

OM, as the office responsible for internal control oversight, has dedicated resources to perform in-depth reviews of internal systems, processes and controls to identify and address vulnerabilities in financially impacted systems. OM's increased efforts for fraud prevention and detection aim to address the constantly evolving nature of fraud and attacks that exploit both technology and people to steal Government resources. OM is implementing a multi-pronged approach that includes: delivering fraud awareness training to VA's financial community; reviewing and assessing internal policies and internal controls against industry reported fraud schemes to determine if VA controls adequately mitigate fraud risks; and developing a more robust internal audit function to continuously review financial systems and activities to ensure adequate internal controls to fight fraud.

Other VA steps to curb fraud included our continued partnership with Health and Human Services Centers for Medicare and Medicaid Services (CMS). VA and CMS implemented the computer matching agreement to share provider screening information, which will protect VA patients and health care funds. VA and the Defense Health Agency strengthened our partnership in FY 2020 by analyzing claims data and exploring options for coordinating benefits for dual eligible individuals to reduce fraud.

REAL PROPERTY

VA REAL PROPERTY PORTFOLIO

VA has a vast holding of diverse capital assets consisting of VA-owned buildings and real estate, VA-leased buildings, EULs and sharing agreements pertaining to capital assets.

The following table summarizes VA's recent capital asset inventory holdings.

	Owned Assets					Leased Assets	
	Bldgs.	Historic Bldgs.	Building Sq. Ft	Vacant Sq. Ft	Land Acres	Operational Leases	Lease Sq. Ft
VHA	5,655	2,119	153,012,050	6,040,969	16,393	1,663	19,104,655
VBA	16	-	815,322	-	33	182	4,559,239
NCA	596	143	1,289,749	60,712	23,076	5	17,187
Staff	10	1	1,771,034	-	193	108	3,565,966
VA Totals	**6,277**	**2,263**	**156,888,155**	**6,101,681**	**39,695**	**1,958**	**27,247,047**

Data Source: VA Capital Asset Management System

VHA assets are predominantly clinical in nature, such as hospitals, outpatient buildings and research facilities. VHA also has supporting buildings, such as office buildings and warehouses, necessary to fulfill the VHA mission. VBA's assets are predominantly service delivery space, including both Veteran facing space and internal space for VBA to deliver benefits and process claims. NCA manages most of VA's land assets to support cemetery operations, and also has several types of buildings providing support space for public-facing services, administration and maintenance. The number and composition of assets in the VA portfolio is constantly changing in response to VA's needs and priorities.

REDUCE THE FOOTPRINT

In accordance with OMB Memorandum M-20-03, Implementation of Agency-wide Real Property Capital Planning, VA has implemented a suite of strategies to manage the office and warehouse space necessary to provide service to Veterans. VA most recently submitted its Reduce the Footprint (RTF) implementation plan to OMB and GSA covering the FY 2020 through FY 2024 time period. As VA continues to work with OMB and GSA to pursue aggressive disposal and reuse opportunities in support of RTF, the results of these efforts will be publicly available at the following website: https://www.performance.gov/real-property-metrics/.

FEDERAL REAL PROPERTY PROFILE

VA submits its portfolio data to the Federal Real Property Profile (FRPP) annually to provide a point in time picture of VA's capital assets. The public dataset from the FRPP is available at the following link: https://www.gsa.gov/policy-regulations/policy/real-property-policy/asset-management/federal-real-property-profile-frpp/federal-real-property-public-data-set.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990 (the Inflation Adjustment Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. The table below depicts the covered civil monetary penalties that are under VA's purview.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
Veterans' Benefits Improvement and Health-Care Authorization Act of 1986, as amended	False Loan Guaranty Certifications	1986	2020 (via regulation)	The greater of (a) two times the amount of Secretary's loss on the loan, or (b) another appropriate amount not to exceed $23,331	VBA/Loan Guaranty	Federal Register 85 (02/07/2020): 65551-65552
Program Fraud Civil Remedies Act of 1986, as amended	Fraudulent Claims or Statements	1986	2020	$11,665	All VA Programs	Federal Register 85 (02/07/2020): 65551-65552

In February 2020, VA published a regulation in the Federal Register, reflecting the Federal Civil Penalties annual inflation adjustment for FY 2020. VA will also publish an updated regulation in the Federal Register, reflecting the Federal Civil Penalties annual inflation adjustment for FY 2021. Per the law, VA will update their penalty rates in the Federal Register annually by January 15th.

GRANT PROGRAMS

Pursuant to the OMB Uniform Guidance in 2 C.F.R. § 200.343(b), recipients of grants and cooperative agreements must liquidate all obligations incurred under their awards within 90 days after the end of the period of performance, unless the awarding agency authorizes an extension or program-specific statutes specify a different liquidation period.

VA is required to disclose the number of awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by 2 years or more prior to September 30, 2020. The summary of this information is disclosed in the table below.

CATEGORY	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	10	15	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	14	0	0
Total Amount of Undisbursed Balances	$427,219	$0	$0

Although VA planned to have all grants closed out by September 30, 2020, the Department's response to COVID-19 became a priority, causing a reduced focus on the closeout of older grants. This shift in priority, in addition to a leadership change, has caused the State Home Construction grant office not to meet the September 30, 2020 goal for closeout. State Home Construction comprises 3 of the grants with undisbursed balances, totaling $200,966.

Additionally, the Adaptive Sports grant office is awaiting actions from grantees preventing those grants from being closed. Adaptive Sports comprises 11 of the grants with undisbursed balances, totaling $226,253.

APPENDIX

Kidney transplant program restores Veterans' quality of life

Like many Americans, Army Veteran Raymond Phillips suffered from chronic kidney disease, requiring him to undergo dialysis treatments multiple times a week. This grueling treatment schedule kept him tied to his home outside of Pittsburgh and prevented him from spending quality time with his seven grandchildren and two great-grandchildren.

That all changed last summer when Phillips, 78, and his son Chris, 46, participated in the Kidney Paired Donation (KPD) transplant program at the James J. Peters VA Medical Center in the Bronx, NY.

While Chris was willing to serve as a living donor for his father, he was not a match. That is when Raymond's VA care team stepped in to connect him with the Organ Procurement Transplantation Network's (OPTN's) KPD program. Through this program, the father and son were able to match with two other pairs of incompatible people to exchange matching kidneys.

Freed from dialysis and the side effects of chronic kidney disease, Phillips can now travel to visit his son and spend time with his family.

"I haven't felt this good in ten or fifteen years," he said. "All the nurses, doctors and [licensed practical nurses] at the James J. Peters VA Medical Center in the Bronx were fantastic. I couldn't have asked for a better team."

VA Partnership with UNOS

For more than 50 years, the VA Transplant program has provided Veterans with lifesaving services and lifelong care at each of the VA's eighteen transplant centers nationwide — six of which specialize in kidney transplants.

This three-way kidney swap was possible through the James J. Peters VA Medical Center's partnership with the United Network for Organ Sharing (UNOS), the non-profit that serves as the nation's transplant system. Many kidney patients can wait ten years or more for a conventional kidney transplant from a deceased donor. But just three years after his diagnosis, Mr. Phillips has a new kidney that may last the rest of his life.

More than 600,000 Veterans enrolled in VA health care receive treatment for chronic kidney disease each year. KPD transplants represent the best clinical option for Veterans because kidneys from living donors last longer and remove the need for dialysis almost immediately after surgery. Because transplant patients enter the program with a willing donor, it also means they often receive a transplant much faster than they would otherwise.

Several additional pairs of Veteran kidney patients and living donors are enrolled in the OPTN KPD program through a partnership with VA transplant centers in the Bronx, Pittsburgh, Houston and Iowa City.

For more information on the VA Transplant program, visit https://www.va.gov/health/services/transplant/. To learn more about the OPTN KPD program, visit www.unos.org/transplant/kidney-paired-donation.

Picture previous page: VA and UNOS partner to support KPD. Army Veteran Raymond Philips with his son Chris and the medical staff at the James J. Peters VA Medical Center.

Acronym	*Definition*
ADA	Anti-Deficiency Act
AFHRA	Air Force Historical Research Agency
AFR	Agency Financial Report
AGA	Association of Government Accountants
AMA	Veterans Appeals Improvement and Modernization Act of 2017
APG	Agency Priority Goal
APP&R	Annual Performance Plan and Report
ATO	Authority to Operate
BDN	Benefits Delivery Network
C&P	Compensation and Pension
CAATS	Centralized Automated Accounting Transaction System
CAP	Corrective Action Plan
CARES Act	Coronavirus Aid, Relief and Economic Securities Act
CAVC	Court of Appeals for Veterans Claims
CCRS	Community Care Reimbursement System
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
C.F.R.	Code of Federal Regulations
CLA	CliftonLarsonAllen
CMS	Centers for Medicare and Medicaid Services
COBOL	Common Business Oriented Language
COLA	Cost-of-Living Adjustment
COTS	Commercial Off the Shelf
COVID-19	Coronavirus Disease 2019
CP&E	Compensation, Pension, Burial and Education
CPAC	Consolidated Patient Accounting Center
Credit Reform Act	Federal Credit Reform Act of 1990
CRM	Customer Relationship Management
CSEMO	Corporate Senior Executive Management Office
CSO	Commissioner's Standard Ordinary
CSRS	Civil Service Retirement System
DATA Act	Digital Accountability and Transparency Act
DEA	Survivors' and Dependents' Education Assistance
DMLSS	Defense Medical Logistics Standard Support
DoD	Department of Defense
DOJ	Department of Justice
DOL	Department of Labor
DPI	Department of Program Integrity
eCAMS	Electronic Claims Adjudication Management System
eCMS	Electronic Contract Management System
ECSP	Enterprise Cybersecurity Program
EDP	Enterprise Design Patterns
EE	Employee Engagement
EEC	Employee Engagement Council

Acronym	*Definition*
EEI	Employee Engagement Index
EHR	Electronic Health Record
EHRM	Electronic Health Record Modernization
ERB	Executive Resources Board
ERM	Enterprise Risk Management
ESCO	Energy Service Company
ESPC	Energy Saving Performance Contracts
EUL	Enhanced-Use Lease
Families First Act	Families First Coronavirus Response Act
FBWT	Fund Balance with Treasury
FCA	Facility Condition Assessment
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FEVB	Federal Employee and Veterans' Benefits
FFMIA	Federal Financial Management Improvement Act
FHCC	Federal Health Care Center
FISMA	Federal Information Security Modernization Act
FMBT	Financial Management Business Transformation
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management System
FR	Financial Report
FRPP	Federal Real Property Profile
FSC	Financial Services Center
FWA	Fraud, Waste and Abuse
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPRAMA	Government Performance and Results Act Modernization Act
GRC	Governance, Risk and Compliance
GSA	General Services Administration
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
HIPAA	Health Insurance Portability and Accountability Act
HR	Human Resources
HRA/OSP	Office of Human Resources and Administration/Operations, Security and Preparedness
HRIT	Human Resources Information Technology
I CARE	Integrity, Commitment, Advocacy, Respect, Excellence
IBNR	Incurred But Not Reported
IDES	Integrated Disability Evaluation System
ICA	Internal Controls Assessment
iFAMS	Integrated Financial and Acquisition Management System
IFCAP	Integrated Funds Distribution, Control Point Activity, Accounting and Procurement System
IGT	Intragovernmental Transaction
IT	Information Technology

Acronym	*Definition*
ITFMOS	Information Technology Financial Management and Oversight Service
IUS	Internal Use Software
JV	Journal Voucher
KPD	Kidney Paired Donation
LLG	Liability for Loan Guarantee
LTS	Long Term Solution
MCCF	Medical Care Collections Fund
MGIB-AD	Montgomery GI Bill Active Duty
MinX	Management Information Exchange
MISSION	Maintaining Systems and Strengthening Integrated Outside Networks
MMS	Manpower Management Services
NAC	National Acquisition Center
NCA	National Cemetery Administration
NCC	National Call Center
NFR	Notice of Findings and Recommendations
NSLI	National Service Life Insurance
OA	Occupancy Agreements
OAP	Obligation at Payment
OBO	Office of Business Oversight
OCC	Office of Community Care
OCHCO	Office of the Chief Human Capital Officer
OEM	Office of Emergency Management
OFM	Office of Financial Management
OI	Office of Investigations
OIG	Office of Inspector General
OIT	Office of Information and Technology
OM	Office of Management
OMB	Office of Management and Budget
OPEB	Other Postemployment Benefits
OPES	Office of Productivity, Efficiency and Staffing
OPIA	Office of Public and Intergovernmental Affairs
OPM	Office of Personnel Management
OPTN	Organ Procurement Transplantation Network
P.L.	Public Law
P3	Public-Private Partnerships
PHI	Patient Health Information
PII	Personally Identifiable Information
PIT	Program Integrity Tool
POA&M	Plan of Action and Milestones
PP&E	Property, Plant and Equipment
PPE	Personal Protective Equipment
PYR	Prior Year Recovery

Acronym	*Definition*
REO	Real Estate Owned
RSI	Required Supplementary Information
RTF	Reduce the Footprint
RTO	Recovery Time Objective
S-DVI	Service-Disabled Veterans Insurance
SaaS	Software-as-a-Service
SCA	Security Control Assessment
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SGLI	Service members' Group Life Insurance
SSVF	Supportive Services for Veteran Families
TFM	Treasury Financial Manual
Treasury	U.S. Department of Treasury
TSGLI	Service members' Group Life Insurance Traumatic Injury Protection
U.S.	United States
U.S.C.	United States Code
UESC	Utility Energy Service Contracts
UNOS	United Network for Organ Sharing
USGLI	United States Government Life Insurance
USNS	United States Naval Ship
USSGL	U.S. Standard General Ledger
VA	Veterans Affairs
VADIR	Veterans Affairs/Department of Defense
VAMC	VA Medical Center
VATAS	VA Time and Attendance System
VBA	Veterans Benefits Administration
VBM	Valuation Basic Male
VCS	Veterans Canteen Service
VEO	Veterans Experience Office
VETSNET	Veterans Services Network
VGLI	Veterans' Group Life Insurance
VHA	Veterans Health Administration
VI&I	Veterans' Insurance & Indemnities
VISN	Veterans Integrated Service Network
VistA	Veterans Information System and Technology Architecture
VMLI	Veterans' Mortgage Life Insurance
VONAPP	VA Online Application System
VR&E	Veteran Readiness and Employment
VRI	Veterans Reopened Insurance
VSLI	Veterans Special Life Insurance
WIP	Work-in-Process

What Information Do You Need?
VA's Home Page
VA's AFR Submission and Strategic Plans
VA's Budget Submission
Health Care in VA
Managing My Health as a Veteran
Medical Research in VA
Clinical Training Opportunities and Education Affiliates
Office of Rural Health
Public Health
Health Promotion and Disease Prevention
Employment
VA Benefits
Education Benefits for Veterans
Insurance for Service members and Veterans
Veteran Readiness and Employment
Disability Compensation for Veterans
Pension Information for Veterans and Survivors
Educational and Vocational Counseling
Dependent and Survivor Benefits
Dependency and Indemnity Compensation
Home Loans
eBenefits
Vow to Hire Heroes
Burial and Memorial Benefits for Veterans
Opportunities for Veteran-Owned Small Businesses
Minority Veterans
Women Veterans
Survivors Assistance
Operations, Security and Preparedness
Recently Published VA Regulations
VA's Social Media Sites
Human Resources and Administration
Reports, Surveys, or Statistics Regarding the Veteran Population

What Information Do You Need?
Freedom of Information Act
Privacy Policy Information
VA Directives and Handbooks
Energy Management Program Service
Center for Faith-based and Neighborhood Partnerships
Homelessness Info
VA Transition Assistance Program

Memorial services held at the Vietnam Veterans Memorial
in Washington, DC on Veterans Day 2019.

www.va.gov